

The New York Times

Reckonings; A Rent Affair

By PAUL KRUGMAN JUNE 7, 2000

Economists who have ventured into the alleged real world often quote Princeton's Alan Blinder, who has formulated what he calls "Murphy's Law of economic policy": "Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently." It's flip and cynical, but it's true.

Consider, on one side, really tough issues -- where there are plausible arguments on both sides, where nobody really knows how to measure the tradeoffs. Should Microsoft be broken up and, if so, how? Should Britain adopt the euro? Let's ask the economists! And those economists who are prepared to express strong opinions on such inherently ambiguous questions command rapt attention.

On the other side, consider an article that appeared in yesterday's New York Times, "In San Francisco, Renters Are Supplicants." It was an interesting piece, with its tales of would-be renters spending months pounding the pavements, of dozens of desperate applicants arriving at a newly offered apartment, trying to impress the landlord with their credentials. And yet there was something crucial missing -- specifically, two words I knew had to be part of the story.

Not that I have any special knowledge about San Francisco's housing market - in fact, as of yesterday morning I didn't know a thing about it. But it was immediately obvious from the story what was going on. To an economist, or for that matter a freshman who has taken Economics 101, everything about that story fairly screamed those two words -- which are, of course, "rent control."

After all, the sort of landlord behavior described in the article -- demanding that prospective tenants supply resumes and credit reports, that they dress nicely and act enthusiastic -- doesn't happen in uncontrolled housing markets. Landlords don't want groveling -- they would rather have money. In uncontrolled markets the question of who gets an apartment is settled quickly by the question of who is able and willing to pay the most. And so I had no doubts about what I would find after a bit of checking -- namely, that San

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San Francisco is a city where a technology-fueled housing boom has collided with a draconian rent-control law.

The analysis of rent control is among the best-understood issues in all of economics, and -- among economists, anyway -- one of the least controversial. In 1992 a poll of the American Economic Association found 93 percent of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing." Almost every freshman-level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand. Sky-high rents on uncontrolled apartments, because desperate renters have nowhere to go -- and the absence of new apartment construction, despite those high rents, because landlords fear that controls will be extended? Predictable. Bitter relations between tenants and landlords, with an arms race between ever-more ingenious strategies to force tenants out -- what yesterday's article oddly described as "free-market horror stories" -- and constantly proliferating regulations designed to block those strategies? Predictable.

And as for the way rent control sets people against one another -- the executive director of San Francisco's Rent Stabilization and Arbitration Board has remarked that "there doesn't seem to be anyone in this town who can trust anyone else in this town, including their own grandparents" -- that's predictable, too.

None of this says that ending rent control is an easy decision. Still, surely it is worth knowing that the pathologies of San Francisco's housing market are right out of the textbook, that they are exactly what supply-and-demand analysis predicts.

But people literally don't want to know. A few months ago, when a San Francisco official proposed a study of the city's housing crisis, there was a firestorm of opposition from tenant-advocacy groups. They argued that even to study the situation was a step on the road to ending rent control -- and they may well have been right, because studying the issue might lead to a recognition of the obvious.

So now you know why economists are useless: when they actually do understand something, people don't want to hear about it.