

RESOURCE DISTRIBUTION EFFECTS OF
NEW YORK CITY RENT CONTROL PROGRAMS

by

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I. INTRODUCTION

Rent control regulations are often used as the textbook example to illustrate the impacts of price regulations. This analysis generally concludes that rent controls lead to a substantial misallocation of resources and may adversely alter the distribution of economic resources. In spite of the limited quality and quantity of empirical evidence on these impacts, economists (including several Nobel Prize recipients¹) of almost all political persuasions believe that rent controls seriously misallocate resources and do little to alter the distribution of economic resources. Not surprisingly, proponents of rent control regulations, such as Gilderbloom (1980), dismiss this position by noting that it is not based upon thorough empirical evidence and that any such evidence is based on outdated regulations rather than the more sophisticated rent control regulations which are currently in use. They further claim that these "new style" rent controls significantly improve the economic status of the poorest members of society.

Unfortunately rent control proponents are correct in asserting that the opposition to rent controls is supported by limited empirical evidence drawn exclusively from studies of the more stringent, "old style" types of rent controls. For example, Olsen's (1972) hallmark empirical study utilized 1968 data for New York City and is of questionable relevance for evaluating New York City's current rent control standards (adopted in 1969 and modified in 1971). This paper attempts to partially fill this void by evaluating the relative resource distribution effects of New York City's "new" rent control laws. The second section briefly sketches New York City's "old" and "new" rent

¹See Friedman and Stigler (1946), Hayek (1972) for discussions by Nobel prize winners. Further, liberal Nobel Prize recipient Gunnar Myrdal has also voiced strong opposition to rent control regulations.

control statutes. It is noted that the breadth of the current regulations makes it impossible to meaningfully calculate either the efficiency costs or absolute resource distribution effects of the "new" regulations. The data and general methodology are described in the third section while section four presents the main empirical results. It is demonstrated that low income and older renters tend to gain the most from rent controls. Further, it is noted that renters covered by the "old style" rent controls tend to be the most favored population. Not surprisingly, it is found that this group tends to have substantially longer residency periods. Contrary to the assertions of many economists, no adverse racial influences are discovered. Finally, it is noted that the distribution of economic resources tends to be more equal in the presence of New York City's current rent control statutes. The paper concludes with a brief summary.

II. NEW YORK CITY RENT CONTROLS

The "old style" rent controls began in New York City in November, 1943 when rents for all rental units in the city were frozen at their March, 1943 levels as part of the U.S. Emergency Price Act of 1942. These rent controls were intended to prevent any "speculative, unwarranted, and abnormal" rent increases which might be caused by a wartime housing "emergency".² The federal enabling legislation was altered by the Federal Housing and Rent Act of 1947 which exempted units built after February 1947 from all future rent controls. However, New York City continued to control the rents of virtually

²Emergency Housing Rent Control Law, N.Y. Session Laws 1950, Chapter 250, Section 3.

all apartments constructed prior to 1947.³ In 1950 the federal enabling legislation expired and was replaced by the New York State Emergency Housing Act of 1950. By the late 1950's New York was the only state in the United States which still had rent controls.

In response to growing political differences between the State and New York City, the Emergency Housing Act of 1962 provided New York City with the power to administer its own rent control legislation through the Rent Control Division of the New York City Department of Housing Preservation and Development. In 1969 the City introduced the so-called "new style" rent controls by extending rent controls, under a different administrative body, to units constructed after February, 1947 and to any previously decontrolled units in buildings with more than five units. These newly controlled units (generally referred to as stabilized units) were administered jointly by the Rent Guidelines Board, the Rent Stabilization Association, and the Conciliation and Appeals Board while previously controlled units (commonly referred to as controlled units) continued to be administered by the Rent Control Division.

In 1971 the Vacancy Decontrol Law amended the "new style" sector by providing for the decontrol of all controlled ("old style") and stabilized ("new style") units after a change in tenancy. However, this law was basically rescinded when the Emergency Tenant Protection Act of 1974 ended the decontrol of vacated stabilized units and required stabilization for controlled units vacated in buildings with more than five units. Thus, New York City's current rent control statutes are a mixture of "old style"

³The 1947 legislation allowed decontrol of "voluntarily" vacated units in buildings for one or two families.

(controlled units) and "new style" (stabilized units) rent controls, and a small uncontrolled sector.

Stegman (1982) reports that in 1981 72.2 percent of New York City's occupied units were rented. Approximately 19 percent of these units (which were not in public housing) were under "old" controls, 19 percent were in the uncontrolled sector, and 62 percent were under the "new style" controls. Stegman (1982, Table 4-14) also reports that the "old style" units are disproportionately located in Manhattan.

The key distinction between the "new" (or stabilized) and "old" (or controlled) rental sectors relates to the procedures used in adjusting rents. Simply stated, the "old style" laws operate from a presumption that no rent increases are appropriate while the "new style" regulations assume that some rent increases are necessary in order to adjust for cost increases.⁴ The underlying philosophy of the "old style" regulations is that strict government control of rents is essential in order to restrain the greed of landlords. In contrast, the philosophy of the "new style" regulations is that "unlike the wholly government operated rent control statutes and regulations, the rent stabilization system combines industry self-regulation with supervision and control by both government and public bodies."⁵ While both types of controls attempt to grant "appropriate" cost induced rent increases and desire "fair rates of return" for landlords, it seems accurate to say that the "old style" laws generally allow more modest and less frequent rent increases than the "new style" rent regulations. For example, Stegman (1982) indicates that

⁴See Stegman (1982), Chapter 2 for a more complete description of the details of these controls.

⁵New York City Conciliation and Appeals Board, Tenants and Owners' Rights and Duties Under the Rent Stabilization Act, (undated), pp. 2-3.

rental unit operating costs have risen notably more than the rental increases allowed by either the "old" or "new style" rental regulations during the seventies.

III. DATA AND METHODOLOGY

The data employed in this study are 3212 observations from the 1981 New York City Housing and Vacancy Survey. To be included in this study the unit had to be a non-publicly supplied, occupied rental unit in New York City with an annual rent to income ratio less than 50 percent,⁶ and have usable answers for all of the variables used in this study. Unfortunately, homeowners (including co-ops) are excluded from the sample because no information was available about either their annual housing costs or their property value.⁷ This means that the empirical results must be interpreted as being conditional on being a renter.

Table 1 displays the sample means for several of the key variables in this study. This sample somewhat underrepresents the free sector and overrepresents both the "new" (stabilized) and "old" (controlled) rent control sectors.

Since the primary focus of this study is the change in the distribution of economic resources induced by the rent control laws currently used in New York City, a measure of the gain from receiving a controlled apartment is required. One alternative, developed by DeSalvo (1971) and Olsen (1972), is to measure the consumer surplus derived by residents of units which are

⁶The rent to income ratio was used to eliminate incorrectly keyed answers.

⁷If property value information had been available the expenditure capitalization method developed by Linneman (1981) could have been used to estimate annual housing expenditures for homeowners.

TABLE 1: NEW YORK CITY SAMPLE MEANS (1981)

	<u>ALL OBSERVATIONS</u>	<u>CONTROLLED OBSERVATIONS</u>	<u>STABILIZED OBSERVATIONS</u>	<u>FREE OBSERVATIONS</u>
Age of the Head	45.6	61.7	42.3	41.9
Family Size	2.2	1.9	2.2	2.5
Family Income	18,580.5	12,529.0	15,607.1	14,024.4
1 if Single Female	0.35	.47	.42	.44
1 if Single Male	.26	.21	.25	.20
1 if Two or More Members	.39	.32	.33	.36
1 if Black Head	.19	.14	.21	.26
1 if Puerto Rican Head	.10	.06	.16	.16
1 if White Head	.64	.76	.55	.53
1 if Other Race Head	.07	.04	.08	.05
1 if Controlled ("old style")	.23			
1 if Stabilized ("new style")	.68			
1 if Free	.09			
Observations	3212	746	2186	280

subsidized with the below-market rents mandated by the various rent control statutes. Olsen (1972) used data from the 1968 Housing and Vacancy Survey to estimate consumer surpluses under the "old" law by using information on rents in the unconstrained market in conjunction with a set of elasticity assumptions. Unfortunately, the current set of rent controls has virtually eliminated any truly unconstrained rental market in New York City. For example, only 9 percent of the sample rental units have rents which are neither controlled ("old style") or stabilized ("new style"). Further, these units are basically in small (5 units or less) old structures (built prior to 1947). In view of the small and highly selected nature of the unconstrained market it is unlikely that these transactions provide accurate information about the rents which the regulated units would command in the absence of rent controls. Therefore, no attempt is made here to analyze the distribution of benefits using measures of consumer surplus.

A simple alternative measure of the gain from the existing set of rent control laws is to calculate the relative subsidy associated with renting a given unit under the alternative control regimes (controlled, stabilized, free). This is accomplished by regressing the gross annual rent of a unit in some base control category on a variety of housing traits, and then comparing the actual rent with the rent implied by the base rent regression. For example, suppose a given unit actually rents for \$500 and is controlled ("old style"), while the hedonic rent regression for the stabilized ("new style") population indicates that the unit would rent for \$600 if it were stabilized. This means that the rental subsidy for this controlled unit relative to stabilization is \$100. This relative rental subsidy represents an upper bound estimate of the relative benefit of receiving a controlled unit because consumers will not generally value the \$100 rental subsidy as highly

as a \$100 cash grant. However, Olsen and York (1982) note that the simple correlation between rental subsidy and the value of the subsidy is quite high. The relative estimates obtained by this methodology contain a further upward bias to the extent that "key money" or other front end payments schemes are utilized by landlords.

Since New York City's stabilized rental housing sector is both the largest and most diverse sector, it is the most logical sector to use as the sample for estimating the base hedonic rent equation. Thus, the base rental equation is defined by the hedonic regression

$$(1) \quad R_i \text{ (given } i \text{ is stabilized)} = R(\hat{b}; Z_i)$$

where R_i is gross annual rent of the i^{th} unit, \hat{b} is the estimated vector of regression parameters for the stabilized population, and Z_i is the vector of housing traits for the i^{th} unit. The rental subsidy, relative to being stabilized, for any unit is simply the difference between its actual rent and the rent predicted for the unit by this stabilized sector hedonic rent regression

$$(2) \quad \text{SUBSIDY}_i = \hat{R}_i - R_i^A$$

where \hat{R}_i is obtained by evaluating $R(\hat{b}; Z_i)$ for the unit's Z_i vector and R_i^A is the unit's actual gross annual rent. If the estimated rental subsidy is positive (negative) it means that if the unit were stabilized, rather than its actual control status, its rent would rise (fall) by the amount of the subsidy. A zero subsidy implies that the unit is treated equivalently to the average stabilized unit.

In order to evaluate the distribution of the relative benefits from New York City's current rent control laws one can analyze various aspects of

SUBSIDY. For example, the relative rental subsidy can be used to divide the population into net relative gainers (SUBSIDY>0) and net relative losers (SUBSIDY<0)

$$(3) \quad \text{GAINER}_i = \begin{cases} 1 & \text{if } \text{SUBSIDY}_i > 0 \\ 0 & \text{if } \text{SUBSIDY}_i < 0 \end{cases} .$$

The probability of being a net relative gainer can then be parameterized as (for example) a logistic function of a vector of socioeconomic characteristics

$$(4) \quad \text{Prob}(\text{GAINER}_i=1) = L(\hat{\gamma}; X_i)$$

where $\hat{\gamma}$ is the estimated logit parameter vector and X is the vector of socioeconomic traits.

In order to evaluate the determinants of the conditional relative benefit of the current set of rental regulations, the subsidy can be regressed on a vector of socioeconomic characteristics

$$(5) \quad \text{SUBSIDY}_i (\text{for } i \text{ with control status } k) = S(\hat{\alpha}; X_i)$$

where k = controlled, stabilized, and free; and $\hat{\alpha}$ is the estimated parameter vector. Similarly, the unconditional relative benefit of the current set of rent control laws can be estimated through a regression of the relative rental subsidy (for the entire sample) on the vector of personal characteristics

$$(6) \quad \text{SUBSIDY}_i = f(\hat{B}; X_i) .$$

This regression reflects the combined information about the relative gain of one control category relative to another as well as the likelihood of realizing the alternative control categories.

Finally, various distributional characteristics of the relative benefits

of rent control can be evaluated. For example, one can examine whether (and to what extent) the distribution of income is more equitable than the distribution of economic resources defined as the sum of income and the relative rental subsidy.

In sum, the 1981 New York City Housing and Vacancy Survey data can be used to analyze a variety of issues relating to the distribution of the relative benefits of the current rent control laws currently in use in New York City. However, it must be remembered that these calculations are conditional upon being a renter and that they do not reflect the impacts of landlord gains and losses across the income distribution.

IV. EMPIRICAL RESULTS

The rent an apartment would rent at if it were a stabilized unit, \hat{R}_i , was obtained by applying the estimated hedonic price structure for the stabilized sector to the unit's vector of housing characteristics.⁸ The hedonic price structure for the stabilized sector was specified as a two equation rental price structure: one for Manhattan and another for the other four boroughs combined. Since the hedonic results are generally consistent with previous hedonic rental price studies they are not reported here.⁹ For Manhattan the R^2 of the hedonic equation was .50 while the R^2 for the other boroughs was .46. These R^2 values compare favorably to those found in hedonic studies from

⁸Specifically, the log of gross annual rent was regressed on: borough dummies, measures of unit dilapidation, building age, building height, the number of units in the building, type of heating, elevator service, a set of neighborhood characteristics, the number of rooms and bedrooms, a set of pest related variables, and a set of variables measuring the condition of the structure. The rent was then predicted as the antilog of this equation times the $e^{-.5\sigma}$ adjustment factor, where σ is the standard error of the hedonic equation.

⁹These results are, of course, available upon request.

other cities and samples.

Table 2 displays several summary statistics of the relative subsidy from rent controls in New York City (in 1981). The average subsidy is approximately \$209, or about 1.1 percent of average income. The fact that more than 60 percent of the population experiences a positive relative subsidy indicates a somewhat skewed distribution. Not surprisingly the largest relative benefits are realized by residents of units subject to the "old style" rent controls. Specifically, the average annual subsidy of those residing in controlled units is over \$800 higher than that for residents in either the stabilized or free sectors. This represents a subsidy of 6.8 percent of their average income! Further, many more residents of controlled units tend to receive positive relative subsidies than for either of the other sectors (81 percent versus 55 percent versus 62 percent for the controlled, stabilized, and free sectors respectively).

Table 3 displays a comparison of the socioeconomic characteristics of the relative beneficiaries (SUBSIDY>0) of New York's rent controls versus the relative losers (SUBSIDY<0). Several noteworthy facts are immediately apparent. First, those who relatively benefit from the current rent control scheme in New York tend to have substantially lower family incomes than those who are relative losers. This suggests that rent controls tend to benefit those with relatively low incomes. This conclusion must be viewed with caution, however, due to the fact that the average income among losers is only slightly below the overall mean income for New York.

A second noteworthy distinction between the relative winners and losers is that the winners tend to be considerably older. This result, along with the significantly longer tenancy duration, must be interpreted with care as it may simply reflect that one queues to get these bargains while they are young

Table 2: New York City Relative Subsidy Summary

	<u>MEAN SUBSIDY</u>	<u>MEAN SUBSIDY AS % OF MEAN INCOME</u>	<u>% WITH SUBSIDY > 0</u>
All Observations	\$208.70	1.12	61.7
Controlled Sample	\$850.06	6.78	80.6
Stabilized Sample	\$24.79	0.16	55.2
Free Sample	\$47.49	0.34	62.1

Table 3: COMPARISON OF THE RELATIVE SUBSIDY BY SUBSAMPLES

	<u>SUBSIDY₁ > 0</u>	<u>SUBSIDY₁ < 0</u>
Age of Head	49.0	40.0
Family Size	2.1	2.3
Family Income	\$16,167	\$22,465
% Single Females	37.7	30.1
% Single Males	25.7	27.2
% Two or More Adults	36.6	42.7
% Black	18.1	20.7
% Puerto Rican	10.6	9.7
% White	63.8	64.5
% Other Races	7.5	6.1
% Stabilized	60.9	79.6
% Controlled	30.3	8.6
% Free	8.8	11.8
Duration of Tenure (in Years)	11.7	5.5
Observations	1982	1230

in order to realize the benefits as one ages. Nonetheless this result indicates that elderly renters disproportionately tend to realize relatively larger contemporaneous gains from rent controls.

Contrary to the assertion by Ault (1981, p.61) that "the truth of the matter is that ... rent control promotes racial discrimination," the relative benefits of rent controls appear to fall fairly neutrally with respect to race. In fact, white households are slightly more likely than non-whites to relatively lose from rent controls.

These sample proportion tendencies with respect to a household being a relative gainer from rent controls ($SUBSIDY > 0$) were parameterized via a logit specification. Table 4 presents the mean partial derivatives of the logit specification of the probability of being a gainer from rent controls.¹⁰ These results summarize the information displayed in Table 3 in an "other things constant" framework.

Three results are particularly noteworthy in the "other things constant" framework and provide the same insights as were obtained from the sample means. First, there is a sizable and significant positive impact of age on the probability of gaining from rent control. Secondly, the logit results confirm the strong negative effect of family income on the probability of receiving a positive relative subsidy. Finally, although some race effects are found they are of limited significance and do not indicate systematic preferential treatment of white households. Taken together these logit results clearly indicate that the distribution of relative gains from current rent controls is not neutral with respect to socioeconomic characteristics of the renters.

¹⁰The logit parameters are available upon request.

Table 4: THE PROBABILITY OF GAINING FROM RENT CONTROL

	<u>MEAN DERIVATIVE*</u>	<u>ABSOLUTE t-VALUE**</u>
Age of Head	.0076	12.96
Family Size	-.0109	1.30
Family Income (Per \$1000)	-.0068	8.77
1 if Single Female	.0370	1.54
1 if Single Male	.0134	0.51
1 if Black Head	-.0261	1.07
1 if Puerto Rican Head	.0350	1.11
1 if Other Non-White Head	.0747	2.01

* Evaluated at $P(\text{SUBSIDY} > 0) = .62$.

** Absolute t-value of the logistic parameter.

Further evidence of the non-neutrality of New York's rent control statutes is obtained by examining the determinants of the size of the relative subsidy. The first column of Table 5 displays the subsidy regression results for the entire New York City renter sample. Age of the head, family size, and family income all exert significant (at standard confidence levels) influences with respect to the unconditional relative subsidy. The relative benefit, not conditioned on control status, rises at a decreasing rate with respect to the age of the head for all relevant ages.¹¹ This result suggests that the benefits of rent control are disproportionately realized by those who migrate relatively infrequently as it is well known that older households seldom move.¹² The unconditional relative subsidy declines with family size for all families with more than two members. Similarly, the unconditional relative subsidy significantly declines with family income up to \$154,000. However, the unconditional relative subsidy fails to exhibit any significant pattern with respect to either family composition or race of the head. In fact, the point estimates indicate that whites fair poorly under rent controls relative to minorities.

One notable aspect of the unconditional relative subsidy regression (column 1) is that the R^2 is only .18. In the absence of measurement and specification errors, this low R^2 suggests that for the most part the incidence of rent control subsidies is largely random. Alternatively stated, this low R^2 value is consistent with the assertions of many analysts that rent controls are at best a very imprecise mechanism for redistributing economic

¹¹The turning point is at 96.6 years of age.

¹²See, for example, Graves and Linneman (1979).

Table 5: RELATIVE SUBSIDY REGRESSIONS

	ENTIRE SAMPLE	CONTROLLED SAMPLE	STABILIZED SAMPLE	UNCONTROLLED SAMPLE
Constant	-345.49 (186.67)	666.75 (534.01)	-221.70 (234.37)	-747.17 (650.83)
Age of Head	32.25 (7.15)	3.40 (17.35)	29.07 (9.21)	79.34 (29.17)
(Age of Head) ²	-0.167 (0.071)	0.058 (0.149)	-0.192 (0.095)	-0.707 (0.307)
Family Size	56.94 (58.79)	-88.90 (120.17)	74.02 (77.321)	73.53 (155.45)
(Family Size) ²	-13.66 (8.66)	11.24 (17.81)	-16.65 (11.80)	-19.93 (18.99)
Family Income	-0.037 (0.002)	-0.023 (0.007)	-0.039 (0.003)	-0.071 (0.008)
(Family Income) ²	1.192×10^{-7} (1.026×10^{-8})	1.672×10^{-7} (8.577×10^{-8})	1.475×10^{-7} (1.556×10^{-8})	1.948×10^{-7} (2.417×10^{-8})
1 if Single Female	79.25 (52.64)	141.58 (98.15)	49.84 (64.22)	72.35 (185.34)
1 if Single Male	56.49 (58.72)	207.26 (114.49)	35.94 (70.51)	-146.56 (212.94)
1 if Black Head	3.49 (52.52)	73.41 (105.87)	-8.39 (63.63)	5.19 (159.48)
1 if Puerto Rican Head	54.01 (67.48)	244.35 (154.14)	52.51 (78.32)	-133.63 (234.89)
1 if Other Non-White Head	49.82 (78.00)	408.05 (181.26)	22.88 (89.82)	193.51 (280.69)
R ²	.18	.10	.13	.23

Standard errors in (•)

resources.¹³ Of course, both measurement and specification errors are present in this analysis and therefore one can only say that at least 18 percent of the resource redistribution accomplished through rent controls is systematic.

The second, third, and fourth columns of Table 5 display the relative subsidy regressions conditional on control status. Generally the conditional relative subsidy results are similar to those for the unconditional relative subsidy. However, several results deserve special mention. First, the subsidy received by those in controlled ("old style") units increases at an increasing rate with age of the head. Further, the gains are negative for families with fewer than four members in the controlled sector while for the other sectors the gain is negative for family sizes over two. Also race effects are more pronounced in the controlled sector than in the other sectors. However, once again the data indicate that whites tend to be treated unfavorably by the rent control system. Although the sign pattern of the income effect is the same for all three sectors, the turning point for the controlled sector is much lower than that for the other sectors. Specifically, families with incomes in excess of \$68,800 experience increased relative subsidies as income increases while the comparable values for the stabilized and uncontrolled sectors are \$132,200 and \$182,200 respectively. Of course, since there are few observations at these high income levels, care must be exercised in interpreting these different turning points as evidence of relatively favorable treatment of those with very high incomes in the controlled ("old style") sector. Finally, the lowest R^2 value is found for the controlled sector. Since this is the sector which yields the largest positive benefits, suggesting that most of this redistribution is randomly

¹³See, for example, Block (1981) and Friedman and Stigler (1946).

distributed among those with controlled units.¹⁴

One of the key social questions raised by rent control statutes is whether they lead to a more equitable distribution of economic resources. The subsidy regressions indicate that "other things constant" the subsidy tends to diminish with income. However, other systematic components were also found which could reduce and even reverse this effect on the distribution of economic resources. Therefore, direct examination of the distribution of economic resources is necessary to evaluate this question.

Table 6 presents the sample cumulative frequency distributions of two alternative measures of economic resources: (1) family income; and, (2) family income plus the relative rent control subsidy. These alternative distributions are essentially identical for the 70 percent of the population with resources in excess of \$11,000. However, at the lower tail these distributions are different. Specifically, the lower tail of the income distribution is "pushed" upward by the rent control subsidy. For example, 5 percent of the households have incomes under \$5,000 while only 1.2 percent have "income plus subsidy" amounts below this cutoff. This difference is large when it is remembered that the sample average subsidy was only about \$200. The data indicate that the largest subsidies are systematically being received by those with incomes below the 30th percentile and therefore a more equitable distribution of economic resources results from these rent control standards.

This more equitable resource distribution is summarized in Table 7 which presents some simple comparative summary statistics for these alternative measures of economic resources. Although the means of these distributions

¹⁴This interpretation once again assumes no measurement or specification errors.

Table 6: CUMULATIVE RESOURCE FREQUENCY DISTRIBUTIONS

	<u>FAMILY INCOME</u>	<u>FAMILY INCOME + SUBSIDY</u>
0 - \$2,999	0.2	0.0
3,000 - 4,999	5.0	1.2
5,000 - 6,999	10.7	8.5
7,000 - 8,999	19.3	18.8
9,000 - 10,999	31.2	31.2
11,000 - 12,999	42.0	41.8
13,000 - 14,999	49.8	50.7
15,000 - 16,999	57.4	57.9
17,000 - 18,999	63.9	64.4
19,000 - 20,999	70.3	70.7
21,000 - 22,999	74.2	74.5
23,000 - 24,999	77.1	78.5
25,000 - 26,999	81.4	82.0
27,000 - 28,999	83.6	84.4
29,000 - 30,999	86.9	87.0
31,000 - 32,999	88.3	88.9
33,000 - 34,999	89.5	90.9
35,000 - 36,999	92.1	92.3
37,000 - 38,999	93.1	93.4
39,000 - 40,999	94.6	94.6

Table 7: COMPARATIVE RESOURCE DISTRIBUTIONS

	<u>Minimum</u>	<u>Maximum</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>Coefficient of Variation</u>
Family Income	\$1,700	\$350,00	\$18,581	\$15,913	.856
Family Income + SUBSIDY	\$3,668	\$350,120	\$18,789	\$15,621	.831

are \$208 dollars apart, the minimum "income plus subsidy" level is almost \$2000 higher than the minimum income! Further, the "income plus subsidy" resource measure has a lower standard deviation by almost \$300. Combining these facts yields a smaller coefficient of variation for the "income plus subsidy" resource measure which is almost 3 percent less than that for income.

While these results represent upper bound measures of the resource transfers associated with rent control and therefore must be interpreted with care (for reasons already described), they do suggest that these regulations tend to induce a more equitable resource distribution. Whether these transfers are merited or not is beyond the scope of this paper. However, the subsidy regression results indicate that the targeting efficiency of these transfers is questionable. Further, the social efficiency costs of these regulations may be substantial as they involve both the administrative costs of rent controls and the misallocation of resources induced by these laws. One of these resource misallocations relates to non-optimal residential mobility which may be caused by rent controls. Table 8 displays the regression coefficients for the impacts of rent control status on tenancy duration (in years). The omitted sector in this regression is the free sector. The tenancy duration in the stabilized and free sectors are essentially the same while the tenancy duration for the controlled is 12 years greater than the other sectors! This result is consistent with the earlier finding that the average relative subsidy in the controlled sector was about \$800 higher than those for the other two sectors. Alternatively stated, each \$100 of relative annual rental subsidy induces about a 1.5 year increase in tenancy duration. Of course, other efficiency costs are also induced by these laws but the current legal state makes it difficult to arrive at meaningful estimates of these costs as it is difficult to know whether the observations are on either a supply or demand curve.

Table 8: DURATION OF TENANCY REGRESSION EFFECTS WITH
RESPECT TO RENT CONTROL STATUS*

	<u>COEFFICIENT</u>	<u>ABSOLUTE t-VALUE</u>
Stabilized	-0.35	0.86
Controlled	12.00	24.97

*The regression also includes: age of head, family size, family income, marital status, and race. The free sector is the base category. Complete results available upon request.

V. SUMMARY

This paper summarized the history of New York City's "temporary" rent controls. It was noted that the current rent controls are substantially different in both form and substance than the "old style" controls introduced in World War II. An examination of these laws indicated that it was impossible to calculate either the deadweight loss or consumer surplus transfer resulting from the current laws. However, a measure of the relative subsidy induced by the current rent controls was developed and applied to a 1981 sample of New York City households. It was discovered that the primary beneficiaries of these laws reside in the "old style" rent control units. The relative subsidy from these laws tended to go to those who were relatively old and to those with low incomes. Contrary to assertions by economists, no notable racial effects were found. Further, an evaluation of the distribution of economic resources inclusive of rent control subsidies indicated a slightly more equitable distribution of economic resources results from the current regulations. However, most of the distribution of rent control subsidies appears to be random. Finally, the subsidies induce efficiency losses including non-optimal mobility behavior. This was substantiated by an analysis of tenancy durations which revealed that those with the largest gains tended to reside in their residence considerably longer.

It remains an unanswered question whether this more equitable distribution of economic resources is sufficiently improved to justify the efficiency costs. Similarly, it is unclear whether this equalization is as great as that envisioned by proponents of rent controls. However, this study does indicate that the income distribution consequences of rent controls (at least current versions of these laws) are not as adverse as is commonly asserted by rent control opponents.

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