

Comment on Franz Hubert: Rent control: Academic analysis and public sentiment

Bo Söderberg*

Hubert presents in brief an interesting historical overview of rent control (RC) and proposes a simple, but very useful, framework for distinguishing two different classes of RC; the harder wartime types of RC generally fall under his “forced transfer model”, whereas softer second-generation types correspond to his “regulated tenure model”. I find his presentation highly relevant for putting the Swedish experience in perspective, demonstrating that the current legal framework for the rental housing market—contrary to what is sometimes argued in the internal Swedish housing policy debate—is definitely an example of RC. The Swedish RC corresponds in most respects to the regulated tenure model, but as rents are *de facto* (though indirectly) fixed below the market rent (at least in attractive sub-markets), it also has one of the important characteristics of the forced transfer model.

Hubert’s main thesis is that for a couple of reasons, the gap between economists’ analyses of RC and the layman’s perception of the issue is not likely to be bridged. In particular, economists are concerned with incomplete contracts, information inefficiencies and long-term effects, whereas the layman tends to focus on short-term effects, and stresses that there is limited rationality among tenants and that some groups may not be able to defend their own interests. He concludes that economists need to take public sentiment with respect to RC more seriously. Further research is necessary to understand both the arguments once used for supporting the introduction of a certain RC and the current arguments for not phasing it out and replacing it with some other, possibly more efficient, policy.

The “revisionism on rent control” has, according to Hubert, resulted in some rigorous arguments in favour of different regulations. Three examples are discussed. In one respect, these analyses cannot be questioned; they are theoretically correct given the limitations of

* Bo Söderberg is associate professor in the Department of Infrastructure at the Royal Institute of Technology, Stockholm.

the model used and the assumptions concerning the market studied. However, Hubert argues that academic attempts to identify possible desirable effects of RC are of limited importance, as long as they do not address whether RC characteristics manage to solve the particular problems they are explicitly aimed at solving or the problems that actually concern the public.

Hubert's conclusions are very reasonable. More empirical knowledge about the true arguments for RC is likely to make a much greater difference to the possibilities of eventually improving the efficiency of regulated rental housing markets than would more agreement among economists, on theoretical grounds, on shortcomings and benefits of RC.

Among other things, it would be interesting to identify sub-groups among tenants with respect to their attitudes to the various attributes of an RC, their aversion to different risks in the housing market and the importance of the search and transaction costs they face. A natural complement to such attempts would be to develop alternative solutions to the specific housing market problems that concern the public. There are several instruments that can be borrowed from general financial economics and modified to suit the needs of players in the housing market, including insurance contracts (e.g. against future rent increases) and options (e.g. to renew a lease under certain conditions). Hubert's suggestion that public sentiment should be taken seriously is of course applicable to any such alternative solution.

The Swedish rental housing market regulations are particularly poor in terms of the variety of contractual arrangements available—in fact they do not even provide participants with the possibility to sign lease contracts with different, fixed, lease lengths. I am therefore convinced that there are numerous efficient new contractual arrangements yet to be “invented”, once the public attitudes to housing market problems are better understood. One would also expect the tenants' and landlords' association as well as insurance companies and other financial institutions to be interested in supporting the development of solutions that meet their respective needs.