

Comment on Edward Glaeser: Does rent control reduce segregation?

Tommy Bengtsson*

Does rent control reduce segregation? The question that Glaeser asks, based on US experience, is also important for Sweden, since segregation is not only high but has also increased during the last decade. Today, it is in particular an ethnic segregation, which also has socio-economic characteristics, that is the problem and not so much a concern for economic segregation, as in the 1930s to the 1960s, or demographic (age) segregation, as in the 1960s to 1980s. In 1998, more than every fifth foreign-born person lived in areas with less than 70 per cent of the population born in Sweden (Socialstyrelsen, 2001). In the Stockholm region, for example, 40 per cent of those born in Ethiopia, Somalia, Lebanon, Syria, Turkey, Iraq, or Iran lived in areas characterized not by a dominance of a single ethnic group but the absence of persons born in Sweden or other Nordic countries. Typical for these areas is very low income levels, which deteriorated even further during the first part of the 1990s. The situation is similar not only in other large cities in Sweden, such as Gothenburg and Malmö, but in many medium sized cities as well. The problem is not an agglomeration of non-Nordic citizens as such, but that it sharpens social problems and tends to widen the distribution of welfare. And in particular, it is the neighbourhood segregation that is a problem and not so much segregation at the city level, which we experienced more in the 1960s to 1980s, and which Glaeser also discusses.

The question asked by Glaeser is relevant to Sweden not only because segregation is a substantial problem but also because we have a long tradition of rent control. The Swedish housing policy stems from the 1930s and rent regulations and subsidised loans were introduced in the 1940s as part of a welfare policy aimed at increasing the standard of living for each and everyone. Thus, the housing policy was not directed towards special social groups, like in many other European countries, but was general. This policy was supplemented by a system of housing allowances, designed to take care of the particular

* *Tommy Bengtsson is professor at the Department of Economic History at Lund University.*

problems of low-income groups and the retired. Still, both the quantity and quality of housing were considered inadequate and subsidised governmental loans were given to the communities and channelled into community owned companies (*allmännyttan*). The goal was to build one million residences within a short period of time. As a result of the “One Million Program”, new suburbs with high-rise buildings were built around the large cities.¹ In the late 1960s, rent regulations were replaced by a system where the rents were based on utility value. The utility values were set equal to the rents in the houses provided by the public housing sector. Thus, private landlords could not charge higher rents than the publicly owned companies despite differences in subsidies. This system created few incentives for new construction, or for repairs and improvements of existing houses. Due to the economic bust of the 1990s, the building sector collapsed and today, there is a large excess demand. The government has therefore sought to force the local communities to develop new programs for housing. Altogether, Sweden does not only face problems with segregation but also has a long tradition of rent and housing regulations and Glaeser's questions are indeed relevant.

Glaeser presents both theoretical and empirical arguments that rent control does not solve the problem with segregation. At best, it makes it possible for low-income groups to live in certain areas of high-income cities. One negative outcome of rent regulation is that it eliminates incentives to improve housing quality. Another is that welfare gains could be negative because rent control creates immobility—people tend to keep their residences longer than they otherwise would. The benefits therefore go to the elderly, instead of to young families in need of housing, thereby creating a non-optimal allocation of resources. This is perhaps true for the US, but the gains from making it possible for people to keep their residence are, from a Swedish perspective, by no means negligible. Furthermore, experience from Malmö, for example, shows that in a few years, areas dominated by the elderly can turn into areas dominated by young families. Glaeser's

¹ The One Million Program (*miljonprogrammet*) is the popular name for the government's ambition to construct one million new homes between 1964 and 1975 (the end of the Golden Age in modern Swedish economy). Ernst Michanek was the person who formulated the concept in a work from the mid-1960s (*Resultat och reformer*, 1964). The result was new suburbs, located around the main cities (Stockholm, Gothenburg and Malmö) and larger regional cities. Often huge, concrete blocks of flats were rapidly erected.

main point is, however, that the empirical evidence of positive effects of rent control on integration is rather weak and that the alternatives are better.

Sensible regulation of new constructions, which means reduction of the barriers that block new construction in expensive areas, is a better policy according to Glaeser. The major problem, at least from a Swedish perspective, is that new construction in attractive areas also tends to be expensive. The profits for constructors from building expensive houses are simply higher than those from building inexpensive ones, which tends to drive up prices for housing. Other factors that induce price increases are the detailed rules that regulate house construction and the lack of competition in the building material market. Glaeser's favourite instrument, which he regards as a universally applicable system is, however, not de-regulation of new constructions but a system of housing vouchers that makes it possible for the poor to move to richer areas.

Systems for housing vouchers that allow people to move out of low-income areas have been used in the US since 1974. Experiments with various kinds of vouchers have been carried out. While the positive effects for the individuals that receive housing vouchers are indisputable, I am questioning their effect on segregation. The way I see it, Glaeser is confusing the definition of *each* with *everyone*. To use a metaphor, *each* person who steps up on a chair in a big crowd on a square gets a better view but if *everyone* steps up on a chair, the sight is not improved for anyone. The voucher system, like the chair, is a good instrument for each individual poor person that is part of it, as shown by Glaeser, but it is not an instrument for erasing segregation. The reason is that the people that are replacing those that moved out of low-income areas are low-income people as well, not average or high-income groups, and thus segregation will remain. Only if it involves everyone in low-income areas, and the poor areas are then demolished or possibly improved would it reduce segregation, but even then would the voucher system not prevent the emergence of new segregated areas. Vouchers given to a certain limited number of poor to live in rich areas could work fine, but not if they were given to the many low-income people living in the houses of the "One Million Program". This is also why the voucher system is not a system for preventing overall segregation, but for improving the standard of living situation of individuals. Thus, the problems with housing segregation cannot be solved by a voucher system and the Swedish experi-

ence with housing allowances—which just like vouchers are money targeted to housing consumption—is an excellent proof of this, as segregation is high and has even increased during the 1990s, despite a voucher-like system enacted for decades.

What can we then do to prevent the negative effects of segregation? To begin with, we must not forget that there are positive effects as well—immigrants have voluntarily moved to areas populated by countrymen to improve their social setting. Still, the negative ones dominate and Sweden has recently experimented with programs directed towards highly segregated areas, starting in 1998 (Blommanpengarna) and continuing within a program directed at the large cities (storstadssatsningen). These programs focus on schools for children and adults and special units to find jobs for immigrants, given their specific skills. While the first evaluations were highly negative, more recent ones have been positive. I think that these programs should be allowed to continue and develop and then be evaluated again. They are much more beneficial to the individual and less costly for society than allowing the low degree of labour force participation, the high degree of sickness absence and early-life retirement among immigrant groups to prevail.

If one wants to look for an alternative to vouchers, would it not be better to “simply” give the flats in the segregated areas to the people who live there or, in other words, turn the publicly owned houses into condominiums in order to give incentives for quality improvements? That way, they would become more attractive and would allow the owner to invest and raise the standard, thereby possibly making the area more attractive and less segregated.

References

Social Rapport (2001), Socialstyrelsen, Stockholm.

Resultat och reformer (1964), SAP:s politiska handlingslinjer, Stockholm.