FEE Foundation *for* Economic Education

RENT CONTROL

The zombie idea that never dies.

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As 2026 looms, it brings with it an anniversary worth noticing: eighty years since Milton Friedman and George Stigler published *Roofs or Ceilings?*, the very first pamphlet of the newly founded Foundation for Economic Education (FEE). The year was 1946. World War II had just ended, America faced rapidly shifting housing markets, and policymakers embraced rent control as a supposedly necessary intervention to protect tenants from rising prices.

Eighty years later, rent control is back.

Across the world—from New York to Berlin, Barcelona, and Mexico City—politicians have resurrected the idea in response to the anxieties of younger generations priced out of their neighborhoods. Campaigns like "Freeze the Rent," championed in places like New York by figures such as Zohran Mamdani, have made rent control fashionable again in political discourse.

But if the idea has been resurrected, then one of its earliest and most powerful refutations deserves resurrection, too.

In *Roofs or Ceilings?*, Friedman and Stigler famously contrasted two episodes in the history of San Francisco:

- In 1906, after the earthquake and fires destroyed half the city's housing stock, rents were allowed to rise. No lasting shortage developed.

- In 1946, with only a modest increase in housing demand after WWII, the city suffered a severe housing shortage, precisely because rent controls prevented prices from adjusting.

The lesson they drew was clear. Price controls paralyze the mechanism that allocates scarce resources.

Rent control is a subset of price controls. While its supposed goal is sympathetic—the desire to make housing affordable—it fails for a simple reason: it prevents prices from doing the job they exist to do.

Prices are signals. They convey information about scarcity, preferences, and trade-offs. A rising rent is not merely a burden on tenants. It also sends a message to everyone involved in the housing market. To builders, it says, "Build more—devote more land, labor, and capital to housing." To tenants and prospective tenants, it says, "Housing is becoming scarce—adjust, economize, take in more roommates, move to a smaller apartment, or consider alternative locations."

When rents are capped artificially below equilibrium:

- Landlords want to supply fewer units at the controlled price.
- Tenants want to rent more units at that price.
- The gap between quantity demanded and quantity supplied becomes a shortage.

If the price system is a communication network, rent control turns down the volume and adds static. The result is miscommunication, misallocation, and frustration on both sides of the market.

The empirical literature on rent control is large and points in the same direction. Kholodilin (2024) reviewed more than a hundred studies and found consistent patterns across cities and decades. Rent control reduces the supply of rental housing, distorts the allocation of space, and leads to visible deterioration in building quality. Rents in uncontrolled units rise as demand shifts toward the parts of the market still available. Residential construction slows, and mobility declines as tenants hold on to regulated units. Rent control transfers wealth to a group of incumbent tenants who happen to hold onto their regulated units, but the gains to these lucky occupants do not offset the costs imposed on those who search for housing and find nothing available.

An influential study on rent control is the paper by Diamond, McQuade, and Qian (2019), which exploits a quasi-experimental expansion of rent regulation in San Francisco. They find that the policy triggered a substantial withdrawal of rental units from the market: landlords responded by converting roughly 15% of the newly controlled units into condominiums, redeveloping them, or occupying them themselves. This contraction in the regulated segment of the market had consequences far beyond those units. As supply shrank, displaced demand shifted toward the uncontrolled part of the housing stock. The result was a citywide increase in rents of about 5%—an effect that only makes sense when we step outside a narrow, partial-equilibrium perspective and consider the housing market as an interconnected system. When rent control makes one segment less attractive to landlords, demand spills over into other segments, driving up prices for everyone else. Meanwhile, the tenants who remained in regulated units became significantly more stationary: the study finds that turnover fell by 10 to 20%, as households stayed put to preserve the benefits of their below-market rent.

Seinfeld even captured this distortion: the characters scan obituaries hoping to find a newly vacated rent-controlled apartment—a point highlighted by economist Alex Tabarrok in the video below:

Rent control eliminates price competition—but competition itself does not disappear. It merely shifts to non-price dimensions. Glaeser and Luttmer (2003) show the scale of the misallocation created by this shift: they estimate that "21% of New York renters live in units with more or fewer rooms than they would occupy in a free-market city." And as Alchian and Allen (2018) emphasize, once prices are prevented from performing their allocative role, landlords inevitably fall back on nonmoney criteria such as "gender, marital status, age, creed, color, pet ownership, eating and drinking habits, personalities, and so forth." Shortages increase undesirable types of discrimination. Minorities and outsiders lose the ability to counteract a landlord's bias by offering a higher rent. When prices cannot adjust, personal characteristics take on a larger role in determining who gains access to scarce housing.

Rent control discourages repairs and maintenance, effects that remain invisible in the short term but accumulate as time passes. Quality declines as landlords lack incentives to fix problems in their buildings. A new coat of paint or a roof repair can be costly, and these costs cannot be recovered when rents are capped. Investment in improvements pays only when prospective tenants are able to reward those improvements through higher bids. The policy acts like a slow-moving bacterium that spreads through the market and rots housing from the inside.

The long-term answer to housing scarcity is an increase in supply. Cities need more homes, more density, and more opportunities for private builders to respond to demand. Zoning laws should be eased because they restrict alternatives for housing with no clear social benefit. Long permitting processes slow down projects that could lower rents for thousands of people. Bryan Caplan's recent book *Build, Baby, Build* develops the YIMBY position: building more housing is the way to make housing affordable in the long run.

Housing abundance requires investment, legal room to build, and a regulatory framework that allows supply to adapt. Affordable cities are produced through construction and the free market, not through price ceilings.