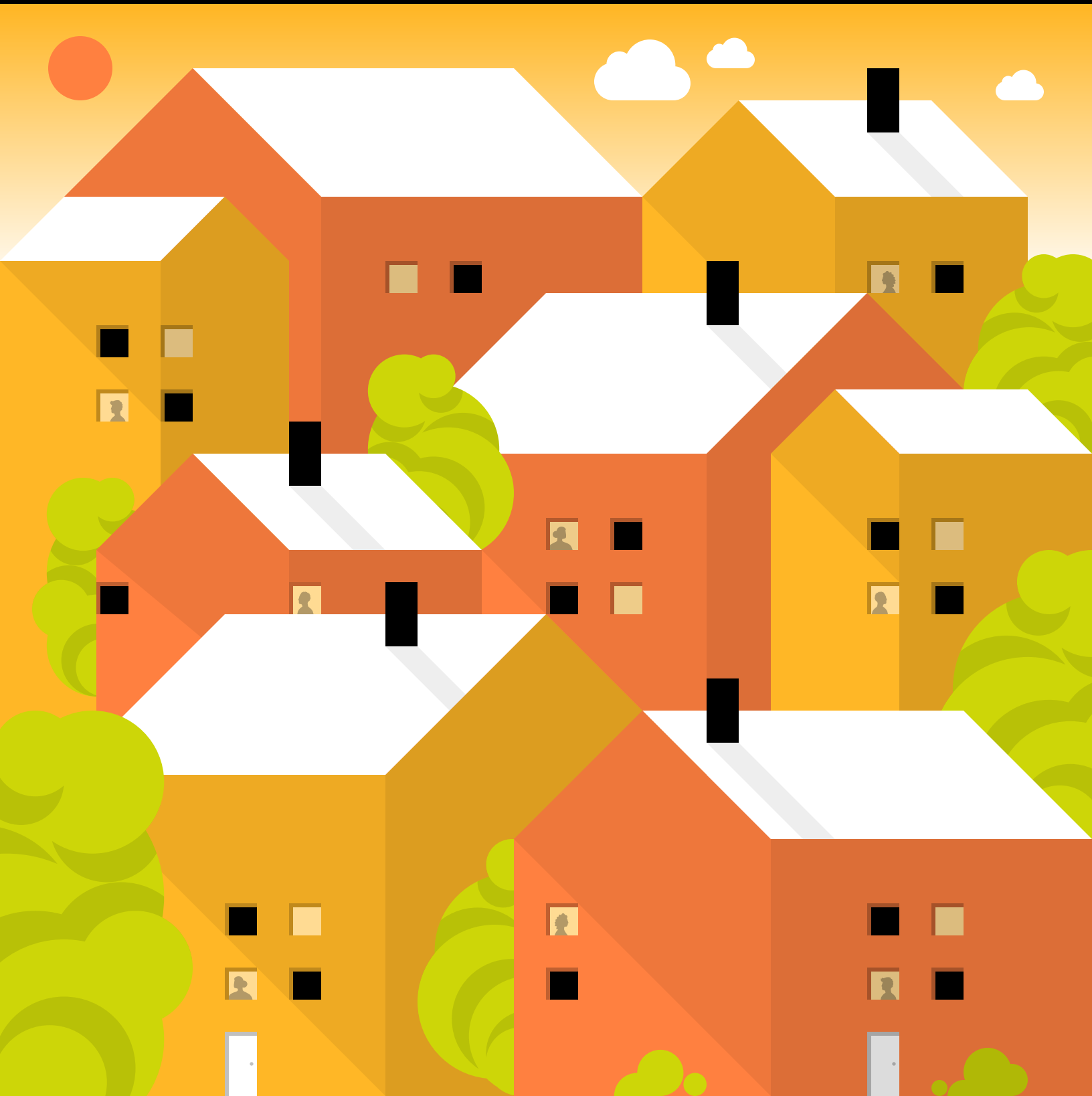


OUR HOMES, OUR FUTURE

Economists Are Rethinking Rent Control

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For nearly the entirety of the second half of the 20th century, economists, of which I'm a card carrying member, have ruled over public policy. Their ideas, often simple, yet profound, could make or break policy, and therefore people's lives. They told a simple and captivating story: "free" markets were efficient. Markets were fair. And markets were much, much smarter than policymakers who were mere mortals.

There was a lot to love in the story. We simply had to take regulations away, even from essential markets like housing and education, and let the market deliver. If we could take that leap of faith, we'd be handsomely rewarded. Indeed the famed conservative 20th century economist Milton Friedman cut his political teeth applying this very argument in his frontal assault on rent control, [published](#) with fellow future Nobel Laureate George Stigler in 1946 by the Foundation for Economic Education.

Together, they argued persuasively that while rent control policies may be well-meaning, they were responsible for many of the ills plaguing people at the time, ranging from a lack of affordable housing options to rampant inequality in the housing sector. Release the fetters of government regulation and the market would ensure that housing units would be "*immediately* available for rent at *all* levels [emphasis added]." And with that, they set off an "intellectual movement" that dismantled hard-won support for rent control measures—measures that were designed to tackle the *real world* problems of "rent profiteering," affordability, and housing insecurity that markets had already proven incapable of addressing. (And that's OK, we shouldn't expect markets to be a cure-all).

Yet, when it comes to rent control, the data and real-world experiences have not been terribly kind to Friedman, nor the economics profession who lambasted it for that matter. Indeed, economics is in the midst of an empirical revolution challenging many core ideas the profession had previously "solved." And while we're still in early days, it seems the profession's anti-rent control stance is well poised to be the next piece of "conventional wisdom" to tumble.

To illustrate this, let's take a brief moment to talk about another idea that everyone knew was supported by well-intentioned policymakers and advocates, but unfortunately had perverse effects: the minimum wage. Nearly every Econ 101 student learns that minimum wages are a bad idea. After all, they're the classic example of a price floor, which is a policy where the government meddles in a well-functioning market by setting a minimum price (in this case for labor), thereby obstructing the perfectly competitive market. Many low-wage workers are then paid the minimum wage, which may be higher than they would receive absent the policy. As a result, workers receiving the minimum wage get a higher wage than they "are worth" while at the same time unemployment is generated as there is a mismatch between the number of people who want to work, which increases, and the number of employees the bosses are looking to hire, which declines. Together, this results in what economists call a "deadweight loss" and society, not to mention the unemployed, is worse off for it. Good intentions, but bad outcomes. (This story and outcome are analogous to other forms of price controls, like rent control, though rent control is an example of a price ceiling which limits the rent increase landlords can force onto tenants.)

It's a damning story. But it's also a lie.

Decades of [empirical](#) work demonstrate that minimum wage laws do not generate job losses. Nor does the policy hurt low-wage workers, as many economists claimed. Instead, minimum wage legislation does exactly what policymakers and advocates intended: it raises the wage and [income](#) of hard-working people. Full stop.

Now, rent control policies are, to be honest, a bit messier than minimum wage policies. There are many dimensions to rent control policies. Policymakers need to determine the rate at which rent is regulated, whether or not there are limitations on what units are covered by the rent regulation, if there are exceptions that allow landlords to raise the rent above the allowed limit, and much, much more. It's easy to write effective policies that keep the rent affordable and help tenants stay in their home; but it's also easy to write poor policies—often the result of political compromise—that do indeed lead to the perverse outcomes that opponents latch onto. Yet the story here is essentially the same: Econ 101 theorizes that rent control is bad not because cutting edge empirical work has demonstrated rampant negative outcomes following the passage of rent control, but because toy models that have been debunked time and time again say so. Thus, we're left asking, what can modern economics, including our empirical and theoretical advances, *actually* tell us about rent control and the role it may have in building a more equitable and well-functioning housing landscape as policymakers seek to guide markets to socially tolerant outcomes?

To answer this, I want to focus on the potential effects of rent control on housing supply and also to look at the idea that rent control creates winners and losers, and ultimately results in a smaller social surplus for society—i.e. overall, the idea that we are collectively worse off for implementing rent regulation measures. But first, it's important to highlight that the housing market, just like the labor market for that matter, is *not* a perfectly competitive market where tenants can freely enter and exit the market and always have a large swath of options available to them at different price and quality points as Friedman and Stigler claimed in their anti-rent control pamphlet. Instead, it's a landscape rife with market power and real-world complications.

In economists' toy model of the rental sector there are some extraordinarily subtle, yet powerful, assumptions, assumptions like transactions are seamless and costless—yet we all know moving is extraordinarily expensive, with [average](#) local moves running around \$2,000 and long-distance moves clocking in at nearly \$5,000, and can often pull us away from the schools, jobs, and social networks we rely on for our well-being—there are lots of “sellers” (i.e. landlords) in the market offering properties at all sorts of different price and quality points at all times, and no single landlord, or group of landlords, has any form of market power to set prices. Instead, prices are determined purely by supply and demand in the market. In reality, none of this is true, and the implications for renters, and the effects of rent control policy, are huge.

Recent research has [studied](#) rental markets from coast to coast, and has found that the deployment of modern algorithmic pricing, which the [Justice Department](#) has argued is a form of collusion, has resulted in the price gouging of tenants by landlords and a reduction in occupancy rates. In other words, landlords are effectively reducing the availability of rental supply to maximize profits and harm tenants. Recent [empirical](#) work suggests the rent hikes from this type of collusion amount to an extra \$53 in rent per unit per month, amounting to a straight-up redistribution of resources

from tenants to landlords. Other recent [work](#) accounting for the market power of landlords over tenants finds that landlords are able to raise the price of an apartment by 9%–25% above and beyond what the rent would be absent landlord power, thus further burdening tenants and generating more inequality and market inefficiencies. Accounting for landlord market power flips the narrative on rent control; rather than it being an inefficient policy attempting to correct a well-functioning market, rent control becomes a policy precisely to balance market power, reduce inequality, and enhance efficiency.

What about the elephant in the room, housing supply? First, let me be crystal clear: there are no reasonable arguments to be made that rent control will reduce housing supply. None. Now, it's true that poorly designed rent control may reduce the rental housing stock by encouraging owners to [convert](#) their apartments to condos, however that's a radically different story than reducing the overall housing stock, which is the argument often made by opponents. Nevertheless, the empirical research is clear that rent control does [not](#) negatively affect housing supply. In fact, some studies which focus on the long-term impacts actually find that rent control is associated with an [increase](#) in housing supply. Even upon the repeal of rent control, which according to the neoclassical theory should result in an increase in housing supply, we see [no significant changes](#) to housing supply. In short, the data demonstrate that rent control simply doesn't affect supply.

But does rent control create winners and losers? Yes. But that's the point. Rent control is largely a regulation on the outsized power wielded by landlords. By taming landlords' market power, rent control does indeed reduce the economic rents they're able to extract from tenants. This is similar in many respects to the government creation of the modern day 30-year mortgage which built the American middle class, which essentially implements rent control for homeowners, and was [created](#) to help minimize economic rent extraction from financial institutions of homeowners. In short, rent control helps level the playing field, ensuring landlords continue to earn a reasonable return while tenants have better protections which allow them to stay in their home, resulting in a large swath of [long-term benefits](#) to both the tenants and the communities they live in.

Rent control by itself is not a silver bullet capable of solving our housing woes. The problems plaguing the housing sector—widespread rent burden, housing insecurity, a dire lack of affordable and well-maintained housing options, and more—are longstanding and severe. Building an equitable housing sector that prioritizes *home* will indeed require rent control as a key piece of the housing policy puzzle, but will also necessitate major investments in social housing, zoning and regulation changes, and more. Yet it's time for us to rethink rent control and come to terms with the data which support it as a common sense approach to start righting the ship. As the great early 20th century economist John Maynard Keynes said, "When the facts change, I change my mind. What do you do, sir?"

Download the full report *Our Homes, Our Future: Building the Power to Win Rent Control for Stable Communities*, here: <https://www.policylink.org/resources/publications/our-homes-our-future>

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