

Robbing Peter to Pay Paul? The Redistribution of Wealth Caused by Rent Control

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One-slide Summary

- Narrative: St. Paul voters approved a strict rent control referendum in 11/2021, but it didn't seem to benefit low-income people as much as higher-income people.
- Causal question: Where did rent control cause property values to fall most?
- Strategy: Estimate BG-level price effects and use imputed average income of owners and renters to see who had largest price effects
- Findings: Landlords from higher-income tracts than renters.
Relative to nearby towns, St. Paul property values decrease, especially:
 1. Large rental properties
 2. Tenants live in higher-income block groups
 3. Tenants live in whiter or more college-educated BGs
- Robustness: Compelling! Robust to border sample, other MW cities as downtown-effect placebos, alternate estimators, event studies, sample selection tests...

Why this exercise is really neat

- Perverse redistribution key RC question. Think how differently voters would feel if knew the redistribution is ineffective/goes the wrong way.
- Popular rent control complaint is that because it's not means-tested, not uncommon for tenants to be making more than landlords.
- SF RC Board survey found that 25%+ of RC tenants were making \$100k+ in early 2000s (stopped administering survey...)
- Small Oakland landlord renting to MDs
- Massachusetts 1994 election billboards: *Small* Properties of America
- Don't generally observe tenant/owner income

1. How much do relative effects matter?

- Can all agree: goal of RC is to improve housing affordability, esp. for low-income people with high housing-cost burden.
 - Paper says several times things like “in contrast to the **stated** goals of the rent control law, we find the largest transfers of wealth are received by renters with the highest incomes.”
 - But also “**Unstated** in the law, but implied, is the intention that the costs of rent control should be borne by higher income households, presumably the owners of rental real estate.”
1. Clearly this is evidence of poor targeting. Is targeting the goal of RC?
 2. Does the paper show evidence of wrong-way redistribution?

Poor targeting vs. failure of policy?

- Diff. between poorly targeted and not fulfilling its intended purpose.
- Why do some policymakers and voters love RC relative to means-tested housing welfare like rent vouchers?
- Fast, operates at scale, costs are off-budget, stops displacement of incumbent voters, paid by LLs (who have recently experienced windfall)
- So is the fact that rent control helps *all* renters a feature or a bug?
- Open question. Not targeted by design or pragmatism?
- If pragmatism, useful to highlight unintended consequences.
- If a feature, then income gradient of benefits may be less imp

Is Peter really being robbed here?

- Title suggests that the redistribution is somehow perverse here: low-income owners/renters subsidizing high-income owners/renters.
- No evidence this is case:
 - Landlords estimated to have significantly higher avg income than renters
 - Low-income renters clearly benefitting, just not as much as high-income renters.
- In utility terms, might insurance and slower rent growth still be more valuable for lower-income (i.e., credit constrained, higher MU) renters?
- If policy improves 10th percentile but 50th even more, should we not do it?
- Water distribution example—if thirsty people are served, does non-thirsty people getting relatively more water mean program should be shut down?

2. Conflict of Interest Question

Los Angeles, CA 90089-1422. E-mail: kenneth.ahern@marshall.usc.edu. Kenneth Ahern discloses that he has ownership interests in real estate in California covered by rent control. He has no ownership interest in real estate located in Minnesota.

- In equilibrium, I have never really been worried about an author's conflict of interest. Analysis seems above board! Plus, great that the conflict is disclosed! Really not trying to be a jerk.
- And yet, thought experiment: if someone had \$100k in FB stock, how would we view a paper by them concluding that capping Big Tech dividends harms poor people? Even if disclosed...
- Seems unfair to make Kenneth divest to write this paper.
- Then what to do? Some response could be useful?
- Ultimately replication will be key. Great that data seems publicly available.

Conclusion

- Just because rent control isn't means tested, doesn't mean that it doesn't have distributional implications!
- Significant and immediate property value effects in St. Paul
- Battery of compelling robustness exercises
- Transfer is on average from higher-income owners to lower-income renters
- Targeting seems poor in property value terms, less clear in utility terms