

REVIEWS/COMPTES RENDUS

RENT CONTROL: MYTHS and REALITIES. Walter Block and Edgar Olsen, editors. The Fraser Institute, Vancouver, 1981; 335 pages. \$7.95.

Rent Control is an unabashed political tract, designed to generate political pressure against existing rent control legislation. There are fifteen chapters, four of which have appeared in print elsewhere and most of which provide histories of rent controls in other countries.

The perspective is one-sided and single-minded, with the authors generally subscribing to a SIST (Single-Insidious-Source Theory) - in this case, that difficulties in housing markets where there are rent controls are due solely to rent controls. Many of the authors also explicitly subscribe to the more general SIST that any market breakdown is due to government interference: "Entrepreneurial unscrupulousness is a function of the degree of government control" (p. 300).

The longest-running SIST is Friedman-Stigler's 1946 article comparing San Francisco's housing shortages in 1906, after the earthquake and fire, with 1946, after the war. They claim there was no shortage in 1906, when the market was allowed to function, and serious shortages in 1946, when controls existed. They conveniently ignore other important factors which effectively supplanted the market in 1906. Had the market been the primary allocating mechanism in 1906, prices would have skyrocketed and incredible hardship been imposed. But the market was obviously replaced by a compassionate response, with people in the thousands sharing their houses with others. What this article shows is that a non-selfish general reaction can be an effective substitute for the market mechanism, not that the market mechanism works and a controlled market does not. Economics is too complex to be explained by a SIST - even when touted by prominent economists.

Rent Control engages in hyperbole and over-kill. As noted in the book, most economists ("competent" economists (p. 285)) would agree that rent controls alone will not solve a long-term housing shortage. However, one does not need this book to prove the point; most introductory economics texts do it in two or three pages. Of course, these analyses assume competitive markets (the authors refer to "free" rather than private markets) and they seem unable to see that imperfect markets could generate conditions wherein price

controls would lead to an expansion, not a contraction, of supply by forcing a horizontal marginal revenue curve on to oligopolists. Instead we are told that the "undeniable existence of market imperfections has absolutely no implication for the efficacy of rent control!" (p. 286).

As is often the case with ardent defenders of a mythical free enterprise system, the market takes on a sanctity above all others. It is given the authority of the laws of gravity, with references to "natural equilibrium" levels and to "natural" vacancy rates (p. 253). To some, it is inconceivable that there could be any other motivating force than the greed of the market where resources and goods are distributed rationally" (p. 181). And the alleged freedom of the market is confused with political freedom, so that a removal of controls is called a "return to liberty" (p. 194). One author claims that property rights have been recognized since "time immemorial" and that they are "the very backbone of western civilization" (p. 300). Obviously, enthusiasm for market gets in the way of reality on occasion.

The analysis is faulty, or at least incomplete, in a number of places. For instance, the authors fail to recognize that assuming competitive markets would lead to a prediction of lower land prices and a supply curve shift with controls. In Appendix A, the author tries to deal with one "sophisticated" rent control argument, but the counter-argument is unconvincing, even on its own terms.

There are also many inconsistencies among authors and occasionally even within a given article. We are given examples of voter rejection of controls (pp. 17ff) but are told that they are highly popular (p. 285). Despite a frequent chanting of terms like free market and free prices, we find that property tax cuts would not be passed on to tenants (p. 20), as would be expected in a competitive market. One author claims that controls will only encourage tenants to use more housing and thereby exacerbate the housing shortage (p. 61); another contends that controls will not work because tenants will not use more space, which is given as the reason for having controls (p. 111). There are also inconsistent claims about the impact of controls and decontrol on inflation (pp. 60, 102, 109).

The book is poorly edited, particularly with respect to the discussion of the effects of rent controls. The articles are very repetitious, detailing the same effects on labour mobility, housing quality, and shortages. Nonetheless, two articles do demonstrate that rent controls and government interference on the supply side of the housing market can be effective in achieving housing goals (pp. 215, 272). There are occasional statements without supporting documentation, and references to empirical work without footnotes. Some authors refer to data as a singular noun, which is nit-picking, but should have been picked up by the editors.

Finally, while a few of the authors claim to be concerned with the provision of housing for the poor, the book offers very little in the way of alternatives to rent controls. There are a few references to the need for income redistribution, but no strong argument is presented. Moreover, while rent control is harmful in the long run, there may still be a case for controls under boom town conditions, such as Halifax and St. John's are likely to experience with the short-run boom that offshore oil will bring. Without controls, the influx of oil workers and executives will drive up rents and put severe pressures on existing tenants, few of whom are likely to receive compensating, or any, benefits from the oil boom. The hardship that such a market solution would bring to many could not, by any stretch of the imagination, involve "rents that are mutually satisfactory to both tenant and landlord" (p. 250). Nor would these high market rents attract significant new housing construction, since the peak in demand will last only a few years before falling to close to the pre-boom level. On the other hand, rent controls would protect existing tenants but not discourage the oil workers' mobility. The pressure would then be on the oil companies to solve the housing problem, internalizing the externality. However, if you were to believe *Rent Control* you would not believe that an uncontrolled market could ever create hardships, or that short-term controls might have a role to play in mitigating the hardships.

In summary, this is a political tract that landlords will love.

Michael Bradfield
Department of Economics
Dalhousie University

Newfoundland: From Dependency to Self-Reliance. Economic Council of Canada; Minister of Supply and Services, Ottawa, 1980; 196 pages. \$10.95.

Although a sequel to *Living Together*, *Newfoundland: From Dependency to Self-Reliance* is a much more realistic document, recognizing the existence of the market imperfections. It is sympathetic to the human realities behind the economic phenomena. *Newfoundland* contains useful background information and occasional insights. Nonetheless, it has inherited a number of problems and weaknesses.

Chapter 1 is a quick and sanitized history of Newfoundland, but conveys considerable information. It downplays the exploitation of Newfoundlanders, although it mentions some of the major corporate rip-offs. Totally ignored are the Beothuks and their slaughter by such stalwarts as Donald Smith, of the Bay and CPR fame.

Chapter 2 describes the shift in the urban network in Newfoundland. The level of urbanization is less than 60 percent, compared to

the Canadian average of over 75 percent. Nonetheless, the Council feels that the shift from the bays to the peninsulas provides the base for agglomeration economies, a phenomenon in which the Council puts a great deal of weight.

Chapter 3 deals with the disparities between Newfoundland and the rest of Canada, with market and personal incomes per capita lower by 56 and 44 percent respectively. Wage rates are only 15 percent lower; much of the disparities come from fewer people of working age, lower participation rates, greater seasonality of employment, and higher levels of unemployment. The official measures underestimate unemployment by 10 percentage points in Newfoundland, but only by 2 percentage points in Canada. The report attempts to account for the differences in wages through sex, age, schooling, and hours and weeks worked. Some of these figures are questionable; even if accepted, they do not account for quite half of the 1971 differences between Newfoundland and Canada. Social statistics, such as lower rates of suicide and divorce, are cited as evidence that the economic disparities do not reflect welfare disparities accurately. But, despite their ability to cope, Newfoundlanders are clearly not as well off as the average Canadian.

Chapter 3 also discusses the role of governments and notes the heavy reliance on the sales tax as a revenue source (28 percent of provincial sources; under 15 percent for all provinces). The importance of federal transfers is emphasized, even though this is similar to their importance to the Maritime Provinces and they provide less than half of the provincial government's revenues. Although Newfoundland is Canada's largest producer of iron ore, deals made with the mining companies mean that the provincial government "collects more money from taxing tobacco than minerals" (p. 36). They conclude that "the attempt to alleviate unemployment has produced some of Newfoundland's worst industrial disasters and left the province with a heavy burden of debt" (p. 44).

Chapter 4 analyses the pervasive unemployment and migration in Newfoundland and the informal means of dealing with hardship. Because of the importance of fish processing, even the manufacturing sector suffers from seasonality, exacerbated, in the Council's opinion, by unemployment insurance regulations. Nonetheless, their surveys indicate that the unemployed in Newfoundland do want to work and will go further to get a job than would their counterparts in Ontario. They recognize that migration is not the answer to Newfoundland's problems, because it affects the size of the local market and aggregate demand. (They ingeniously claim that "mobility comes naturally to a people whose ancestors moved regularly to exploit a shifting fishery" (p. 16).)

Productivity and Industry Performance are the focus of Chapter 5, one of the weakest but most interesting chapters. The weakness

stems from both the productivity measure chosen and the theoretical base. The former confuses the concepts of productivity and efficiency, the latter perpetuates errors made in *Living Together* (see Bradfield, [1] for a critique).

The Council's primary measure of productivity is output per worker. If output per worker is lower in Newfoundland than in Ontario, Newfoundland is considered to be less productive. However, the profit maximizing firm will use relatively more of the cheaper input. If capital is the same price in two regions, O and N, but labour is cheaper in N, then the firms in N should use a given technique more labour intensively. Under these conditions the firms in N can produce more cheaply (efficiently) than those in O. But the firms in N will have lower productivity when this is measured as output per worker.

This confusion of productivity and efficiency shows up in the comparison of the cost of building a standardized concrete wall. It costs more to build in Newfoundland than in Ontario and it is inferred that this reflects an unwillingness to adopt a new technique, reusable forms. However, the data indicate that labour and form materials cost less in Newfoundland. What makes the wall more expensive is the cost of the concrete, which would presumably not change significantly with a switch in pouring forms. Hence, to conclude that construction could be more "efficient" with a change in technology is totally unjustified.

The theoretical basis for the productivity discussion relies very heavily on the assumption that "larger markets . . . produce agglomeration economies" (p. 17). The evidence of Newfoundland indicates that the primary productivity gain would be in capacity utilization. It would be better to drop references to agglomeration economies and refer directly to capacity utilization. If increased capacity utilization is the goal, then a different range of options is available than those important for generating agglomeration economies.

Chapter 5 and Appendix B provide fascinating data on the performance of particular industries. They show that Newfoundland has mixed performance relative to Ontario. While Ontario generally does better, the evidence is not unequivocal.

Chapter 6 deals with the fishery, particularly managing the fishery to reduce overfishing. There are recommendations for the introduction of stinting, the sale of fish landing rights, with some sensitivity for the need to protect particular groups, such as native people and inshore fishermen. Also cited is the need for independent quality control in the fishery which could expand potential markets and might also provide higher prices for the fishermen.

Mines, Forests, Agriculture and Hydro are discussed in Chapter 7. The mines and forests have been controlled by a few companies which extracted massive concessions from desperate provincial

governments. In 1975-76 the government "received a scant 1.3 percent of the total value of mineral production; in contrast, the Saskatchewan government got 26 percent (p. 109). This is as close as the Council is able to bring itself to recognizing that market imperfections may only be overcome in the public interest by significant government interference. However, it is recommended that a forest strategy be developed "in consultation with the large forestry companies and small sawmills." How realistic is it to believe the large companies will voluntarily become part of the solution when the public interest conflicts with the companies' interests? There is extensive discussion of the losses Newfoundland is incurring with the long-term, low cost Churchill contract, noting that the forgone revenues exceed the total of equalization and unemployment insurance payments and DREE expenditures. They conclude that Newfoundland's mineral, forest and hydro potential will do little to solve the province's unemployment problems.

Chapter 8 is a useful discussion of offshore oil. Most important are the warnings that the employment impact of oil is likely to do little to solve Newfoundland's unemployment problem. Oil will pull workers from other industries and damage other exports' competitiveness due to oil's exchange rate effect. This "Kierans Effect" could be diminished greatly by intelligent federal action. To the extent that the oil development uses Canadian resources, we do not need foreign financial investment. It is a point worth making, as it is not obvious that the federal government understands it.

There will be a number of costs to offshore development, including housing and other bottlenecks. Rent controls are dismissed too hastily (p. 141). The Council's suggestion that municipalities increase the supply of serviced land does not seem feasible, unless the oil companies were required to provide some "up-front" money to assist. More practical is the suggestion that a land speculation tax be introduced.

Chapter 9 deals with various scenarios of employment for the '80s. One of the dilemmas of their analysis is that increasing productivity through new technology may keep industries competitive, but at the cost of lower employment. This leads to a relatively pessimistic conclusion:

Even with favourable developments in natural resources and productivity improvement, there remains such a large potential for an increase in the labour force participation rate that even large increases in the number of jobs will not likely be matched in the 1980s by a comparable reduction in the unemployment rate; however, extensive job creation efforts could reduce substantially the existing underemployment or hidden unemployment and add considerably to family incomes (p. 148).

The report ends on an optimistic note, but it rings hollow.

An implicit ideology occasionally emerges, such as referring to "natural" economic forces (p. 14) as if the workings of our economic system were impersonal, immutable forces akin to the tide and the wind. Unemployment insurance payments are described as "generous" (pp. 52,56) which seems to be an overstatement, since the average support paid (\$109.44 per week, October, 1980) does not support a family of two at the poverty level.

The report tends to overemphasize the impact of unemployment insurance on unemployment. Some of the evidence is subjective and inconclusive. While the report frequently claims that the effect of unemployment payments is "significant," they clearly mean "statistically significant" since their own studies indicate an impact of "about 0.9 percentage point" (p. 62), out of a total unemployment rate of 25 percent!

Problems are raised, but ignored in the recommendations. Cod blocks rather than processed fish are exported because of U.S. tariffs, but no recommendations are made about negotiating tariff reductions. Many markets are monopolistic or monopsonistic, but the analysis seems to assume competitive markets or to accept the imperfections. In a number of places, their concern about the disincentives of unemployment insurance and other transfers begs for a discussion of the guaranteed income as an alternative. This is not advocated because "we do not expect it to be adopted" (p. 150). That is hardly the way to stimulate public debate or government thinking!

In summary, *Newfoundland* is worth reading, appendices, dissenting letters, and all. As with any economic study, one must keep the assumptions are conventional, so are the analyses and recommendations. Nonetheless, it is a better report than *Living Together*, which may say something for the Economic Council's ability to increase its productivity. Finally, a word of warning: this type of report is not meant for academics. Its analysis is almost totally implicit; the evidence is often impressionistic rather than statistical. This can make for frustrating reading for the academic, who should go to the eighteen background studies which would provide the grist for his mill.

References

1. Bradfield, Michael. "Living Together: A Review," *Canadian Public Policy*, III, 4 (1977), 504-509.
2. Economic Council of Canada. *Living Together: A Study of Regional Disparities*. Ottawa: 1977.

Michael Bradfield
Department of Economics
Dalhousie University