

know the environmental hype that elected Jimmy Carter are likely to repeat history. They almost did in 2000.

When speaking of President Carter, who may correctly be viewed as the gray eminence of global gloom, Sabin exhibits his innate reluctance to criticize greens, even when they are (as they usually are) profoundly wrong. How else to explain the following passage summing up Carter's energy ineptitude:

Carter's belief [was] that demand for oil would outstrip production in the early 1980s. If action wasn't taken, he said in one speech, the world's entire proven reserves of oil could be gone by 1990. Viewed through a later lens, Carter's fears about looming shortages appear exaggerated.

“Appear”? How about “were”?

For me, the take-home lesson in *The Bet* is that a guy can make a pretty good living by shorting apocalypse futures.

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The Great Rent Wars: New York 1917–1929

Robert M. Fogelson

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Economic shocks in an unregulated textbook world are managed through the price system. During gluts, prices fall and the least efficient firms lose wealth and exit the market. The result is that supply falls and demand increases. Eventually a new equilibrium is reached in which prices increase toward marginal cost and risk-adjusted returns to firms equal the cost of capital. During shortages, prices rise, existing firms receive rents, and new firms enter the market. The result is that supply increases and demand falls. Eventually a new equilibrium is reached in which prices decrease toward marginal cost and risk-adjusted returns to firms fall to equal the cost of capital.

In *The Great Rent Wars: New York 1917–1929*, Robert M. Fogelson expands my one paragraph, antiseptic, economist's account to over 400 pages and describes in great detail housing-market shocks in New York City during and following World War I. First some stylized facts. From 1903 to 1916, NYC experienced an unprecedented

expansion of rental housing supply. Four hundred thousand units were built, and, by 1916, 40 percent of all apartments were built after 1903. During this time, even though the population grew by a million and 40,000 old tenements were demolished, the vacancy rate grew and rents fell.

From 1917 through the late 1920s, the expansion of supply ended. Initially WWI regulations stopped residential construction. After the war, everyone expected a construction boom, but it did not occur because materials and labor costs rose faster than tenants' willingness to pay. Construction costs rose 50 percent from 1913 to 1918. By 1920 the vacancy rate was 0.3 percent. Rents rose dramatically, and tenants resisted with rent strikes. Landlords responded with eviction attempts.

The remainder of the book describes how the state legislature wrestled with these events. The conflicts and arguments from 100 years ago about the pros and cons of market intervention are very similar to what we hear today. Some argued for tax incentives and reduced down payments to increase housing supply. Others proposed to increase supply by modifying the Tenement House Act of 1901 to make converting single-family houses into apartments cheaper. Fire departments and tenement reformers predictably opposed such modifications because they would result in unacceptable (for them) fire-safety risks. Future mayor and then congressman LaGuardia thought public housing was the answer. Real estate developers opposed LaGuardia, arguing that they couldn't compete against taxpayer-subsidized housing and that public housing was unconstitutional.

In 1919, the New York state legislature altered laws governing property rights and the regulation of housing. Tenants were given the right to 40 days notice of lease termination. In addition, the 1901 tenement law was amended to allow single-family homes to be converted more easily into apartments. The banking law was amended to reduce down payments from 60 percent of property value to 40 percent.

In 1920, the legislature passed a series of bills giving courts the right to allow tenants to pay their existing rent if the courts deemed a new rent unreasonable. Landlords couldn't just evict a tenant because they were "undesirable" and couldn't cut off services to tenants who were paying below-market rents. New buildings were exempt from these laws. The attempt to control economic rents

(through price controls for existing units) while preserving market forces at the margin (through exemption of new construction) is remarkably similar to the policies enacted by Congress in 1973 and 1975 in reaction to the oil price shock of 1973—that is, putting price controls on “old oil” while keeping world market prices for “new oil” and imports.

Property owners argued that the new laws were unconstitutional. In April 1921, the U.S. Supreme Court upheld Congress’s emergency rent control for the District of Columbia and New York state’s emergency rent laws. Justice Oliver Wendell Holmes, writing for the majority, said that if the legislature has the power to regulate building heights (a 1909 decision involving Boston, *Welch v. Swasey*), it also has the power to regulate building rents. As described by Fogelson, the dissent from Justice Joseph McKenna reads very much like a Cato amicus brief today:

“Why is it the solicitude of the police power of the state of New York to keep from competition an apartment in the City of New York?” To say that it is to supply homes to the homeless “does not satisfy” because all the laws do is keep one tenant in and another out. This they do by withdrawing “the dominion of the property from its owner, superseding the contracts he confidently made under the law then existing and subjecting them to the fiat of subsequent law.” “If such an exercise of government is legal, what exercise of government is illegal? Houses are necessary, but other things are as necessary. May they too be taken from the direction of their owners and disposed of by the government?”

The remaining chapters of the book explain in great detail the difficulties faced by the courts that implemented the emergency rent laws. How were judges supposed to figure out a reasonable rent when the landlords said they were not earning a sufficient return and the tenant said they were not able to pay more? What was a “fair rent” under abnormal conditions? The system jammed up under the strain of these issues, and, by August 1921, 10,000 tenant-landlord cases were scheduled for trial in the Bronx second district court alone.

Judges responded by implementing the judicial equivalent of public utility rate regulation. In August 1921, a New York Court of Appeals ruled that a fair return was 10 percent of market value or less and net income was gross rent minus expenses including depreciation.

The emergency statutes were extended in 1922 and 1924. But the beginning of the end also started in 1924 when the U.S. Supreme Court struck down the District of Columbia emergency rent control system because the Court considered the emergency to be over. In 1926, New York's laws were extended one more year to apartments that rented for less than \$20 a room per month. In 1927, the extension was for apartments that rented for less than \$15 a room. The laws expired June 1, 1929.

This book reinforces in great detail some central lessons of applied microeconomics. First, never intervene in particular markets to remedy what are essentially distributional issues rather than market failures. The administrative nightmare of implementing the emergency rent laws in New York was directly analogous to the complexity of oil price controls in the 1970s. Second, the intellectual arguments for and against market intervention are remarkably constant over time. During some eras market arguments win while during others intervention arguments prevail. Shortages of necessities such as housing and energy, even if they are caused by other perverse policies, often result in the acceptance of interventionist policies. In all, Fogelson's book is an occasionally interesting, if a little too exhaustive, history of the predictable effects of microeconomic intervention.

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