How Damaging Were French Rent Controls Between 1914 and 1948?

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Abstract

The Hollande administration supported the tightening of controls on residential rents in Paris and other French cities. History sheds light on the wisdom of this policy. Between the two World Wars, France had highly restrictive nationwide rent controls. Numerous economists, including Paul Samuelson, have asserted that these interwar measures severely impaired the production and maintenance of rental housing in France.

Sociologist Loïc Bonneval has emerged, since 2011, as the primary scholarly defender of French rent controls. Bonneval’s analysis is based largely on a valuable study that he and François Robert made of the archival records of a property management firm in Lyon. Bonneval asserts, in particular, that rent control had only a minor effect on the profitability of owners’ interwar investments in Lyon apartment buildings.

Bonneval’s research is commendable in many respects. But his analysis is not persuasive. Many of his and Robert’s Lyon findings support the prevailing economic view that rent control damages the functioning of housing markets and impairs tenant mobility. Their data indicate that the rents received by owners of Lyon apartment buildings, and the value of those buildings, dropped by about 90%, in real terms, between 1914 and 1948. Real estate developers and landlords responded by building less and reducing expenditures on repairs. The quantity and quality of France’s housing stock in the late 1940s was worse than in peer nations. Interwar rent controls significantly contributed to these outcomes.
François Hollande, at the start of his 2012 campaign for the French presidency, issued a manifesto that promised new legal limitations on increases in residential rents. France then had a mild system of rent controls that protected a sitting tenant from a large rent increase, but did not regulate what a landlord could charge an incoming tenant. The French loi ALUR, enacted in 2014 at the urging of Housing Minister Cécile Duflot, implemented Hollande’s pledge. It authorized the imposition of ceilings to prevent a residential rent from significantly exceeding prevailing rents in a neighborhood, and extended these protections to both sitting and incoming residential tenants. In August 2015, the City of Paris began to apply these measures, and, in February 2017, the City of Lille followed suit.

France has a long history of rent control. Between 1914 and 1948, French law imposed an ever-changing, but generally ever-stricter, set of controls on residential rents. Commentators have commonly offered exaggerated assessments of the effects of these controls. Among the critics, Paul Samuelson, recipient of the second Nobel Prize in Economics and advisor to President John F. Kennedy, was particularly negative. In an interview in 1999, Samuelson offered French interwar rent controls as a prime example of mistaken lawmaking:

...[W]hen one considers problems like rent control, where you’d like to sponsor Robin Hood in favor of the poor, you realize that the whole country of France had no residential building between World War I and World War II, primarily for the reason of permanent rent controls. That did not achieve the good life for the poor at the expense of the rich. Rent control created deadweight loss.¹

¹ Samuelson on Economics and Behavior, Dec. 25, 2009, available at http://www.pbs.org/newshour/making-sense/samuelson-on-economics-and-beh/ (referring to an interview “about a decade ago”). In his best-selling textbook, Samuelson makes somewhat less rash claims: “... France had practically no residential construction from 1914 to 1948 because of rent controls. If new construction had been subjected to such controls after World War II, the vigorous boom in French residential building since 1950 would never have taken place.” PAUL SAMUELSON, ECONOMICS, 8th ed. (1970), p.372.
Samuelson exaggerates. As I will show, French rent controls likely reduced housing production in France during the interwar period by at least 50 percent, but they hardly ended production entirely.

In 1948, the new Fourth Republic enacted a law that eventually eliminated most of France’s interwar rent controls. A leader of the reform effort seems to have been Eugène Claudius-Petit, the Minister of Reconstruction and Urbanism. Shortly after the passage of the reform, Claudius-Petit gave a speech to explain his motivations. To show why real-estate development had ceased being tempting to investors, Claudius-Petit asserted that, in 1948, French households had spent seven times more on tobacco than they had spent on rent. This also appears to be an exaggeration. According to one government source, the typical rent burden of a French household did fall from 15%–20% in 1914 to 2% in 1948. But Claudius-Petit’s figures implied that a French household would have been spending a seventh of its income on cigarettes, an implausible figure.

The focus of Bertrand de Jouvenel, another critic of rent control, was the shortage of housing vacancies in France in 1948:

Young couples must live with in-laws, and the wife’s major activity consists in watching out for deaths. Tottering old people out to sun themselves in public gardens will be shadowed back to their flat by an eager young wife who will strike a bargain with the

2 The 1948 law slowly eased rent controls on most existing buildings and exempted newly constructed structures altogether.

3 Claudius-Petit is quoted as having said, <Dans l’état actuel des lois la construction des immeubles n’est plus une entreprise tenante : c’est ainsi qu’en 1948 25 a 30 milliards seulement ont été consacrés aux loyers tandis que les Français ont dépensé 204 milliards pour leur tabac >. LE MONDE, March 8, 1949, p.4.

4 John W. Willis, A Short History of Rent Control Laws, 36 CORNELL L. REV. 54, 82 (1950) (asserting that French households were paying 2% of their income for rents in 1948, compared to 15-20% in 1914, and citing La Crise du Logement et la Legislation des Loyers, NOTES DOCUMENTAIRES ET ETUDES, No. 1028, p. 4 (Direction de la Documentation, Paris, December 1, 1948).
janitor, the concierge, so as to be first warned when the demise occurs and to be first in at the death. Other apartment chasers have an understanding with undertakers.\(^5\)

Although strict rent controls unquestionably do foster housing shortages, de Jouvenel’s depiction of “a wife’s major activity” seems fanciful. Waiting in a park for frail oldsters to return home is an exceptionally time-consuming way of identifying where the elderly reside. It would be far simpler, for example, to watch patrons exiting from a boulangerie. De Jouvenel’s own account of events indicates that the title of his critical essay, “No Vacancies,” was overstated. And, instead of conjuring up fanciful scenarios, he would have been more persuasive had he shown that printed advertisements for apartments had fallen in number.

If critics of rent control have tended to exaggerate, so have its defenders. In 2011, Loïc Bonneval, a professor of sociology at Lyon 2, published an essay in Métropolitiques to challenge what he called the academic “consensus” on the history of French rent controls. He later incorporated those remarks into a book co-authored with François Robert.\(^6\) The Bonneval and Robert book reports the results of their study of the records of a firm that managed a large number of apartment buildings in Lyon from 1870 to 1968. In both works, Bonneval’s most original and controversial claim is that the Lyon data cast doubt on the notion that rent control impairs the profitability of landlords’ investments, and, implicitly, therefore does not dampen housing production.

Bonneval warrants praise for many of his and Robert’s accomplishments. Their empirical study of Lyon apartment buildings is a valuable addition to the store of knowledge about rent control. Bonneval also invariably takes admirable care when he describes the positions of the many scholars with whom he disagrees. And the Bonneval and Robert book is a goldmine of citations to sources on this important chapter in the


economic and political history of France. Their work is likely to stimulate more scholarly work on a relatively neglected topic in urban history.

But the Bonneval analysis is unpersuasive in many respects. Most of the evidence in the Bonneval and Robert book supports, rather than contradicts, the standard economic critique of rent regulation. Moreover, Bonneval method of measuring the profitability of a landlord’s investment is unsound.

Many of Bonneval and Robert’s Findings Support Conventional Economic Predictions about the Negative Effects of Rent Control

Rent controls appear in different forms. Relatively strict controls, like France’s during the interwar period, are conventionally referred to as “first generation” controls. These controls can confer benefits on some individuals, especially tenants already in residence. Rent controls tend to transfer wealth from landlords to tenants, and may also enhance tenants’ peace of mind. Critics of rent controls are not blind to these potential benefits, but traditionally contend that the costs of rent controls typically exceed their benefits. Samuelson’s statement that rent controls lead to “deadweight loss” reflects this perspective. Figure 1, which presents the classical economic analysis of the effects of rent controls, graphically portrays this deadweight loss. Critics of rent controls also commonly assert that there are more efficient, and better targeted, ways of aiding deserving tenants.

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Effects on the volume of new housing produced. Here are the words of Paul Krugman, a Nobel Laureate in economics, and a left-of-center columnist for the New York Times:

The analysis of rent control is among the best-understood issues in all of economics, and — among economists, anyway — one of the least controversial. In 1992 a poll of the
American Economic Association found 93 percent of its members agreeing that “a ceiling on rents reduces the quality and quantity of housing.”

It is important to reemphasize that French interwar rent controls were not only stringent, but also ever-changing. Bonneval’s article reports a tally of 36 different decrees and laws in the period between 1919 and 1936. How would this rapid turnover of legal rules affect the plans of a prospective developer of a new apartment building? Even if the building would be exempt from rent controls under today’s laws, the developer would have to worry that it would not remain exempt tomorrow.

Two sources indicate that levels of housing production during the interwar period were far lower in France than in Germany or Britain. According to an article by David Le Bris in *Le Monde*, 1 million dwelling units were constructed in France between 1914 and 1948, as opposed to 4 million each in Germany and Britain. Brian Newsome cites a French government document reporting housing production for a narrower period, 1919-1939. According to Newsome’s source, 1.5 million housing units were produced in France during 1919–1939, as opposed to 4.0 million in Germany and 3.7 million in Britain. Le Bris and Newsome both assert that rent controls were significantly responsible for France’s relatively anemic rate of interwar housing construction.

In their book, Bonneval and Robert cite many scholarly assessments, published between roughly 1920 and 1960, of the effects of French rent controls. During the 1920s, the cited scholars generally were willing to attribute the dearth of French housing production entirely to rent controls. Later, however, many commentators were open, as they should have been, to considering the influence of other possible causal factors. While the falloff in housing production seems not to have been as dire as Paul Samuelson

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9 Le Bris does not indicate the source of the figures he reports.


11 BONNEVAL & ROBERT, pp. 16-17, footnotes 22-23.
supposed, the available statistics support an estimate that France’s stringent interwar rent controls reduced, probably at least by half, the quantity of new housing produced.\textsuperscript{12}

\textit{Effects on the maintenance of housing.} Economic theory predicts that rent controls will reduce landlords’ outlays for housing maintenance. Because landlords’ rental receipts fall, controls pinch them financially. More important, when rent controls are strict, a landlord has little incentive to spend on maintenance because tenants are inclined to stay in residence anyway in order to continue to benefit from the controlled rents.

Prior to the founding of INSEE in 1946, reliable statistics on trends in the quality of French housing were not collected. Alain Jacquet, the chief of the housing division at INSEE, has provided a snapshot of French housing conditions in 1954, the first year for which INSEE had good data. Jacquet documents the trend in the availability of certain plumbing facilities—an easy to tally feature of housing quality—during selected years beginning in 1954.\textsuperscript{13}

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<tr>
<td>Baignoire ou douche</td>
<td>10,4</td>
<td>28,9</td>
<td>47,5</td>
<td>70,3</td>
<td>84,7</td>
<td>93,4</td>
<td>98,4</td>
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<tr>
<td>W.-c. intérieur</td>
<td>26,6</td>
<td>40,5</td>
<td>54,8</td>
<td>73,8</td>
<td>85,0</td>
<td>93,5</td>
<td>98,3</td>
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These data suggest that, in 1954, on the order of 10\% of French housing units had a full complement of interior plumbing fixtures. In the same year, the comparable figure for Sweden was on the order of 40\%, and, in the United States, a bit over 70\%.\textsuperscript{14}

\textsuperscript{12} In addition, under rent control the matching of available housing units with tenant households tends to be poor. See Edward L. Glaeser & Erzo F.P. Luttmer, \textit{The Misallocation of Housing Under Rent Control}, 93 AM. ECON. REV. 1027 (2003).

\textsuperscript{13} Alain Jacquot, \textit{Cinquante ans d’évolution des conditions de logement des ménages}, \textit{Données sociales - LA SOCIÉTÉ FRANÇAISE édition} 2006, p.467.

\textsuperscript{14} Alex Anas et al., \textit{The Swedish Housing Market}, in \textit{HOUSING MARKETS AND HOUSING INSTITUTIONS}, Björn Härsmann & John Quigley eds., at 31, 60 (1991). The U.S. estimate is an
To what extent were rent controls, as opposed to other factors, such as war and occupation, responsible for the relatively poor condition of French housing after 1945? Jacquet asserts that rent controls were a significant part of the story:

les mesures de blocage des loyers prises au lendemain de la première guerre n’incitaient pas les bailleurs à procéder à des travaux d’entretien et d’amélioration. Le parc de logements était devenu ancien, vétuste et restait inconfortable.”

In a book published in 1944, Marie-Madeleine Pitance, a Lyon resident, compared housing conditions in Lyon with those in Geneva. Her eye-witness report supports the consensus view that rent controls adversely affect housing maintenance.15 Most tellingly, Bonneval and Robert themselves agree that French apartment buildings generally suffered from a lack of maintenance during the interwar period.16 In their latest pertinent publication, they and their co-authors report private expenditures on the whitening of facades in two specific apartment buildings in Lyon. Prior to 1914, the management company hired a contractor to whiten these facades roughly every five years. During the interwar years, private outlays on these acts of maintenance ceased altogether.17

Impairment of tenant mobility. De Jouvenel asserts that rent controls reduce the number of vacant apartments. Bonneval and Robert’s data powerfully affirm this exact effect in Lyon.18 When housing options are few, for example, a young couple may have to live with in-laws, a worker may have to refuse a job offer in a distant location, and a grandparent may have to decline to move closer to children and grandchildren. Moreover,


15 MARIE-MADELEINE PITANCE, LA CRISE DE LA CONSTRUCTION D’HABITATION A LYON, 22-25, 139 (1944). In Lyon, “Les meilleures constructions se sont sallies et dégradées; les appartements, sauf, évidemment, ceux que les locataires ont fait réparer, sont en très mauvais état.” Id. at 23:

16 BONNEVAL & ROBERT, pp. 120-22.


18 BONNEVAL & ROBERT, figure on p.125.
even when apartment vacancies exist, rent controls tend to deter a tenant from giving up the benefits of a controlled rent. Many studies in France and elsewhere confirm that rent controls have lock-in effects.¹⁹

Bonneval and Robert’s own data indicate that annual tenant turnover in Lyon fell from about 10% per year before 1914, to about 5% per year in the 1920s and 1930s.²⁰ While acknowledging this falloff, they are reluctant to regard the trend as troublesome. They hypothesize, for example, that lowering the turnover of residents might enhance a neighborhood’s solidarity.²¹ This is an intriguing possibility, but far from a certainty. A nation’s level of social capital appears to be positively, not negatively, correlated with its rate of residential mobility.²²

Poisoning the landlord-tenant relationship. Another line of criticism of rent controls is sociological. Even in the absence of rent control, a landlord-tenant relationship is unlikely to be as warm as one of the friendliest commercial relationships, such as a regular patron’s interactions with the staff at a café or boulangerie. A residential tenant is likely to have to pay a large monthly amount to receive a mostly impersonal service, namely, the right to occupy a given dwelling unit. And the quality of that unit is likely to decline as the building ages. Nonetheless, in the absence of residential rent control, a landlord and a tenant, recognizing their mutual interdependence, are likely to make some effort at being cordial to one another.

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²⁰ Bonneval & Robert, p.132.

²¹ Pp.132-33. This view is reminiscent of arguments in Margaret Jane Radin, *Residential Rent Control*, 15 PHIL. & PUB. AFF. 350, 368–71 (1986), one of the most thoughtful defenses of rent regulation.

The enactment of strict rent controls, however, tends to engender mutual bitterness. The landlord is likely to regard the controls as unjust. If a tenant is indeed worthy of financial assistance, the landlord understandably might think that taxpayers in general, and not the landlord alone, should finance tenant aid. This is the method of, for example, France’s system of housing vouchers (l’aide à la personne). In any event, a landlord is likely to respond to strict controls by reducing cost-justified outlays for building maintenance. Those landlord responses in turn understandably anger tenants, who increasingly suffer from shabby surroundings and broken-down equipment. Bonneval and Robert commendably include a discussion of landlord-tenant relations, in which they note that these relationships became increasingly formalized during the interwar period.23

Bonneval’s Dubious Choice of a Measure of Trends in Profitability

What is the best measure of the “profitability” of an investment in a capital asset, such as an apartment building, work of art, or share of stock? In conventional speech, assets that rise in value after purchase are regarded as having been profitable, while those that fall in value are regarded as unprofitable. These conventional linguistic usages are consistent with the standard method that economists use to value capital assets. The owner of an asset anticipates receiving both a flow of monetary returns associated with the asset, and also sale proceeds when the asset is sold. The market value of an asset is the sum of all these anticipated future payments, discounted to present value.

This standard economic approach provides a straightforward method for measuring the effect of French rent controls on the profitability of a landlord’s building. The enactment of rent controls would cause buyers and sellers of apartment buildings to lower their expectations about both future net rental income and also the prices that could be obtained when an apartment building was resold. These anticipated falloffs would be negatively capitalized into the prices of apartment buildings.24 To determine the effects of

23 BONNEVAL & ROBERT, p.123.

24 Bonneval and Robert’s book indicates a downward trend in landlords’ real rental income during the interwar years. See, e.g., the figure at p.88, showing the trend over time in real
French interwar rent controls on landlords’ profits, the most pertinent evidence therefore is time-series data on trends in the value of apartment buildings, adjusted for both inflation and floor-area.

Bonneval, in his article in *Métropolitiques*, provides no data of this sort. But his book with Robert does. A figure in that book indicates that, between 1913 and 1948, the real value of apartment buildings in Lyon and Paris fell by roughly 90%. An independent analysis by Thomas Piketty reports a similar 90% drop during the interwar period. Bonneval and Robert’s graph also shows that building values recovered sharply in Paris and Lyon during the 1950s and 1960s, following the reform of rent control in 1948. Rent controls, of course, were not the only factors that influenced landlords’ profits during the pertinent years. But the trend in the values of French apartment building over time is exactly that predicted by conventional economic theory.

An example featuring an individual building demonstrates the doubtfulness of Bonneval’s choice of a measure for the profitability of an investment. The numbers in the table below have been adjusted to wash out the effects of inflation. The table reflects the 90% falloff in building values just mentioned.

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rental income, including for commercial properties; see also p.92, which states that rents in 1948 were at most one-fifth of their real value in 1914. Bonneval’s article confirms that building prices reflected the capitalization of anticipated net rents: “. . . les prix des immeubles se sont ajustés à ceux des loyers.”

25 See BONNEVAL & ROBERT, figure at p.153, which draws on Jaques Friggit’s studies in Paris and the authors’ own findings in Lyon.

Bonneval concludes that this building was as “profitable” in 1948 as it had been in 1913. His measure of profitability is “le rendement locatir (ratio loyer/prix).” The “lecture” inserted below the table in his article states that the pertinent ratio is that for a buyer at the time of a building’s sale. Under this approach, the profitability of the building featured in the table would call for a comparison of the rental income in 1948 (1,000) to the building’s value in 1948 (20,000), not to the building’s value in 1913 (200,000). The author’s rent/price ratio essentially measures, in a given year, the market rate of return that investors in real estate are currently seeking. In the example provided, this rate of return is 5% in both 1913 and 1948. That is the basis for the authors’ assertion that rent controls have little or no effect on profitability.

Economic theory has nothing obvious to say about the effects of rent controls on the rates of return that buyers of apartment buildings would seek. Economic theory does predict, however, that strict rent controls would reduce landlords’ net rental incomes and thus the values of their buildings. In the example given, between 1913 and 1948, the landlord lost 90% in both building value and net rental yield, consequences that Bonneval and Robert’s own data affirm.

Another example serves to underscore the doubtfulness of Bonneval’s metric for profitability. Imagine that you have deposited a sum of 1000 euros in a savings account in a bank, and the bank has promised to pay you 5% interest per annum on the account balance. Soon thereafter, the bank erroneously reduces the amount in your account by 90%. The account balance is now only 100 euros. When you ask the bank to correct the error, a bank clerk replies that your account is just as profitable as it always was, because, although your balance is smaller, you will still be earning 5% on it. Is that a plausible way to appraise the profitability of your dealings with the bank?

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<tr>
<th>Year:</th>
<th>1913</th>
<th>1948</th>
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<tr>
<td>Market value of apartment building</td>
<td>200,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Net rental income in that year</td>
<td>10,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Rate of net return if bought for market value in that year</td>
<td>5%</td>
<td>5%</td>
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<tr>
<td>Rate of net return in 1948 on 1913 market value</td>
<td></td>
<td>0.5%</td>
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Bonneval and Robert deserve praise for having stimulated scholarly interest in the history of French rent controls. An understanding of that history will help illuminate the wisdom of the rent controls recently imposed in Paris and other cities. These contemporary controls are milder, and therefore will generate fewer costs than the strict controls that most worry economists. But the mildness of the recent controls also means that they will generate fewer benefits. And the standard economic critique gives no weight to the administrative burdens that rent controls create for private actors such as real estate firms, and public institutions such as courts. Paris’s recent controls also are puzzling from a standpoint of distributive justice. The controls confer their highest monetary benefits on tenants who have signed the most expensive leases in the most expensive neighborhoods. Are these the tenants most deserving of aid?
Bibliography


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