Defending the Slumlord

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*Day 22 of Robert Wenzel's* [*30-day reading list*](http://www.economicpolicyjournal.com/2012/06/30-day-reading-list-that-will-lead-you.html) *that will lead you to become a knowledgeable libertarian, this article is excerpted from* [Defending the Undefendable](http://mises.org/document/3490/Defending-the-Undefendable)*. An MP3 audio file of this article, read by Jeff Riggenbach, is* [*available for download*](http://media.mises.org/mp3/audioarticles/4522_Block.mp3)*.]*



"Let's see, I have a nice three-room apartment on the upper West Side … No, no Madam, not a speck of lead paint on the woodwork … it's been all chewed off."

To many people, the slumlord — alias ghetto landlord and rent gouger — is proof that man can, while still alive, attain a satanic image. Recipient of vile curses, pincushion for needle-bearing tenants with a penchant for voodoo, perceived as exploiter of the downtrodden, the slumlord is surely one of the most hated figures of the day.

The indictment is manifold: he charges unconscionably high rents; he allows his buildings to fall into disrepair; his apartments are painted with cheap lead paint, which poisons babies; and he allows junkies, rapists, and drunks to harass the tenants. The falling plaster, the overflowing garbage, the omnipresent roaches, the leaky plumbing, the roof cave-ins and the fires, are all integral parts of the slumlord's domain. And the only creatures who thrive in his premises are the rats.

The indictment, highly charged though it is, is spurious. The owner of ghetto housing differs little from any other purveyor of low-cost merchandise. In fact, he is no different from any purveyor of any kind of merchandise. They all charge as much as they can.

First consider the purveyors of cheap, inferior, and secondhand merchandise as a class. One thing above all else stands out about merchandise they buy and sell: it is cheaply built, inferior in quality, or secondhand. A rational person would not expect high quality, exquisite workmanship, or superior new merchandise at bargain rate prices; he would not feel outraged and cheated if bargain rate merchandise proved to have only bargain rate qualities. Our expectations from margarine are not those of butter. We are satisfied with lesser qualities from a used car than from a new car. However, when it comes to housing, especially in the urban setting, people expect, even insist upon, quality housing at bargain prices.

But what of the claim that the slumlord overcharges for his decrepit housing? This is erroneous. Everyone tries to obtain the highest price possible for what he produces, and to pay the lowest price possible for what he buys. Landlords operate this way, as do workers, minority group members, socialists, babysitters, and communal farmers. Even widows and pensioners who save their money for an emergency try to get the highest interest rates possible for their savings.

According to the reasoning that finds slumlords contemptible, all these people must also be condemned. For they "exploit" the people to whom they sell or rent their services and capital in the same way when they try to obtain the highest return possible.

But, of course, they are not contemptible — at least not because of their desire to obtain as high a return as possible from their products and services. And neither are slumlords. Landlords of dilapidated houses are singled out for something that is almost a basic part of human nature — the desire to barter and trade and to get the best possible bargain.

The critics of the slumlord fail to distinguish between the desire to charge high prices, which everyone has, and the ability to do so, which not everyone has. Slumlords are distinct, not because they want to charge high prices, but because they can. The question that is therefore central to the issue — and that critics totally disregard — is why this is so.

What usually stops people from charging inordinately high prices is the competition that arises as soon as the price and profit margin of any given product or service begins to rise. If the price of Frisbees, for example, starts to rise, established manufacturers will expand production, new entrepreneurs will enter the industry, used Frisbees will perhaps be sold in secondhand markets, etc. All these activities tend to counter the original rise in price.

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If the price of rental apartments suddenly began to rise because of a sudden housing shortage, similar forces would come into play. New housing would be built by established real estate owners and by new ones who would be drawn into the industry by the price rise. Old housing would tend to be renovated; basements and attics would be pressed into use. All these activities would tend to drive the price of housing down, and cure the housing shortage.

If landlords tried to raise the rents in the absence of a housing shortage, they would find it difficult to keep their apartments rented. For both old and new tenants would be tempted away by the relatively lower rents charged elsewhere.

Even if landlords banded together to raise rents, they would not be able to maintain the rise in the absence of a housing shortage. Such an attempt would be countered by new entrepreneurs, not party to the cartel agreement, who would rush in to meet the demand for lower priced housing. They would buy existing housing and build new housing.

Tenants would, of course, flock to the noncartel housing. Those who remained in the high-price buildings would tend to use less space, either by doubling up or by seeking less space than before. As this occurs it would become more difficult for the cartel landlords to keep their buildings fully rented.

Inevitably, the cartel would break up, as the landlords sought to find and keep tenants in the only way possible: by lowering rents. It is, therefore, specious to claim that landlords charge whatever they please. They charge whatever the market will bear, as does everyone else.

An additional reason for calling the claim unwarranted is that there is, at bottom, no really legitimate sense to the concept of overcharging. "Overcharging" can only mean "charging more than the buyer would like to pay." But since we would all really like to pay nothing for our dwelling space (or perhaps minus infinity, which would be equivalent to the landlord paying the tenant an infinite amount of money for living in his building), landlords who charge anything at all can be said to be overcharging. Everyone who sells at any price greater than zero can be said to be overcharging, because we would all like to pay nothing (or minus infinity) for what we buy.

Disregarding as spurious the claim that the slumlord overcharges, what of the vision of rats, garbage, falling plaster, etc.? Is the slumlord responsible for these conditions?

Although it is fashionable in the extreme to say "yes," this will not do. For the problem of slum housing is not really a problem of slums or of housing at all. It is a problem of *poverty* — a problem for which the landlord cannot be held responsible. And when it is not the result of poverty, it is not a social problem at all.

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Slum housing with all its horrors is not a problem when the inhabitants are people who can afford higher quality housing, but prefer to live in slum housing because of the money they can save thereby.

Such a choice might not be a popular one, but other people's freely made choices that affect only them cannot be classified as a social problem. If that could be done, we would all be in danger of having our most deliberate choices, our most cherished tastes and desires characterized as "social problems" by people whose taste differs from ours.

Slum housing is a problem when the inhabitants live there of necessity — not wishing to remain there, but unable to afford anything better. Their situation is certainly distressing, but the fault does not lie with the landlord. On the contrary, he is providing a necessary service, given the poverty of the tenants.

For proof, consider a law prohibiting the existence of slums, and therefore of slumlords, without making provisions for the slum dwellers in any other way, such as providing decent housing for the poor or an adequate income to buy or rent good housing. The argument is that if the slumlord truly harms the slum dweller, then his elimination, with everything else unchanged, ought to increase the net well-being of the slum tenant.

But the law would not accomplish this. It would greatly harm not only the slumlords but the slum dwellers as well. If anything, it would harm the slum dwellers even more, for the slumlords would lose only one of perhaps many sources of income; the slum dwellers would lose their very homes.

They would be forced to rent more expensive dwelling space, with consequent decreases in the amount of money available for food, medicines, and other necessities. No. The problem is not the slumlord — it is poverty. Only if the slumlord were the cause of poverty could he be legitimately blamed for the evils of slum housing.

Why is it then, if he is no more guilty of underhandedness than other merchants, that the slumlord has been singled out for vilification? After all, those who sell used clothes to Bowery bums are not reviled, even though their wares are inferior, the prices high, and the purchasers poor and helpless. Instead of blaming the merchants, however, we seem to know where the blame lies — in the poverty and hopeless condition of the Bowery bum.

In like manner, people do not blame the owners of junkyards for the poor condition of their wares or the dire straits of their customers. People do not blame the owners of "day-old bakeries" for the staleness of the bread. They realize, instead, that were it not for junkyards and these bakeries, poor people would be in an even worse condition than they are now in.

Although the answer can only be speculative, it would seem that there is a positive relationship between the amount of governmental interference in an economic arena, and the abuse and invective heaped upon the businessmen serving that arena. There have been few laws interfering with the "day-old bakeries" or junkyards, but many in the housing area. The link between government involvement in the housing market and the plight of the slumlord's public image should, therefore, be pinpointed.

That there is strong and varied government involvement in the housing market cannot be denied. Scatter-site housing projects, "public" housing and urban renewal projects, and zoning ordinances and building codes, are just a few examples. Each of these has created more problems than it has solved. More housing has been destroyed than created, racial tensions have been exacerbated, and neighborhoods and community life have been shattered.

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In each case, it seems that the spillover effects of bureaucratic red tape and bungling are visited upon the slumlord. He bears the blame for much of the overcrowding engendered by the urban renewal program. He is blamed for not keeping his buildings up to the standards set forth in unrealistic building codes that, if met, would radically worsen the situation of the slum dweller. Compelling "Cadillac housing" can only harm the inhabitants of "Volkswagen housing." It puts all housing out of the financial reach of the poor.

Perhaps the most critical link between the government and the disrepute in which the slumlord is held is the rent control law. For rent control legislation changes the usual profit incentives, which put the entrepreneur in the service of his customers, to incentives that make him the direct enemy of his tenant-customers.

Ordinarily the landlord (or any other businessman) earns money by serving the needs of his tenants. If he fails to meet these needs, the tenants will tend to move out. Vacant apartments mean, of course, a loss of income. Advertising, rental agents, repairs, painting, and other conditions involved in re-renting an apartment mean extra expenditures.

In addition, the landlord who fails to meet the needs of the tenants may have to charge lower rents than he otherwise could. As in other businesses, the customer is "always right," and the merchant ignores this dictum only at his own peril.

But with rent control, the incentive system is turned around. Here the landlord can earn the greatest return not by serving his tenants well, but by mistreating them, by malingering, by refusing to make repairs, by insulting them. When the rents are legally controlled at rates below their market value, the landlord earns the greatest return not by serving his tenants, but by getting rid of them. For then he can replace them with higher-paying non-rent-controlled tenants.

If the incentive system is turned around under rent control, it is the self-selection process through which entry to the landlord "industry" is determined. The types of people attracted to an occupation are influenced by the type of work that must be done in the industry.

If the occupation calls (financially) for service to consumers, one type of landlord will be attracted. If the occupation calls (financially) for harassment of consumers, then quite a different type of landlord will be attracted. In other words, in many cases the reputation of the slumlord as cunning, avaricious, etc., might be well-deserved, but it is the rent control program in the first place that encourages people of this type to become landlords.

If the slumlord were prohibited from lording over slums, and if this prohibition were actively enforced, the welfare of the poor slum dweller would be immeasurably worsened, as we have seen. It is the prohibition of high rents by rent control and similar legislation that causes the deterioration of housing. It is the prohibition of low-quality housing by housing codes and the like that causes landlords to leave the field of housing.

The result is that tenants have fewer choices, and the choices they have are of low quality. If landlords cannot make as much profit in supplying housing to the poor as they can in other endeavors, they will leave the field. Attempts to lower rents and maintain high quality through prohibitions only lower profits and drive slumlords out of the field, leaving poor tenants immeasurably worse off.

It should be remembered that the basic cause of slums is not the slumlord, and that the worst "excesses" of the slumlord are due to governmental programs, especially rent control. The slumlord does make a positive contribution to society; without him, the economy would be worse off. That he continues in his thankless task, amidst all the abuse and vilification, can only be evidence of his basically heroic nature.