• Understanding Homelessness

• Combatting Homelessness
<table>
<thead>
<tr>
<th>GVRD Homeless Counts: 2002-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheltered</td>
</tr>
<tr>
<td>Unsheltered</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

There is more homelessness than there was.

In 1990 you could count the homeless on a few hands.
### Homelessness Facts: 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>% of all homeless</th>
<th>% sheltered</th>
<th>% unsheltered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth under 19</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth 20-24</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Young-looking</td>
<td>24%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Seniors 65+</td>
<td>3%</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>White</td>
<td>53%</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>Aboriginal</td>
<td>17%</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>&lt;1 month</td>
<td>15%</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>&gt;1 year</td>
<td>40%</td>
<td>34%</td>
<td>66%</td>
</tr>
</tbody>
</table>

**Homelessness in 2011**
• There’s more than there was.
  – at least 2500 homeless people in the GVRD
• Lots of shelter deprivation
• Correlated with
  – drug addiction, mental illness, family breakdown, poverty, Aboriginal origin, etc
• But, none of those things are new, so why is there so much homelessness now?

Homelessness
• Strongest predictors of income
  – age and education.
• Gender
  – used to matter a lot to wages, now it matters a little.
  – still matters a lot for hours (income=hours*wages).
• Ethnicity, race
  – used to matter a lot, now it matters a little for most
  – Aboriginal people are staggeringly poor.
• Immigration
  – Used to matter a little, now it matters a lot
• Market for rental shelter is different
  – Collateralised with damage deposits
  – Not much price variation
    • 90 10 ratio for a 1bdr in Vancouver is about 3
    • For clothing, this would be like 100
  – Lower limits on quantity and quality
• People cannot afford shelter at these prices, even though they can afford food and clothing.
• Homelessness is a range of conditions
  – sleeping rough, on the street, unsheltered, shelter deprived, bad shelter, crowded
  – serious long lasting consequences
    • Mental and physical illness
    • Loss of skill and employability
    • Social isolation, exposure to violence
• Why are people outside the rental market
  – Why do people rent zero when the consequence are so grave?
Variation in homeless populations across cities and over time is driven by
- High rents
- Low incomes
  - See Quigley and Raphael 2003

Bad events happen to people everywhere, but they result in homelessness mainly when the person has low income and faces high rents. See O’Flaherty 2005.
Why are rents so high: the supply-side

– Federal government gave up on building subsidized housing beginning in the 1980s and finally killed it good in the early 1990s.
– Provincial government gave up in 2000s.
– Building boom in Vancouver overbuilt a lot of rental stock, replacing it with condos.
– So, we got a big contraction in the supply of rental shelter for low-income people.
Why are rents so high: the demand-side

- Vancouver is nice, nicer than it was, and this niceness increases demand and gets priced into land.
- Vancouver is more of a productivity hub than before, so productive people, who have high incomes, are attracted here, and they bid up the price of land.
- Vancouver is a spot that foreigners use to park their real-estate holdings, bidding up the price of land.
- Gangsters use property transactions to launder money, which increases property flipping.
• Rent control is the opposite of a solution.
  – It results in fewer units and more inequality.
• Current law favours building owned accommodation. Shift towards favouring rentals
  – E.g., require that spaces be occupied (analogous to squatter laws), which could put up to 10% of the downtown units into the rental market.
  – E.g., one could require that multi-building developments have rental-only buildings.
  – E.g., one could relax restrictions on quality of publicly-built rental housing
• Problem is **low supply of rental housing for low-income people.**
  – We need more rental units for low-income people.

• Solutions are:
  – Publicly-built rental housing
    • Costs money
  – Privately-built publicly-subsidized rental housing
    • subsidies can be in the form of density bonuses
• Incentive effects
  – If you build subsidized housing that nonpoor people want, they will take it. It is hard to keep them out.

• Redistributive effects
  – There are poverty spillovers: poor neighbours make you more poor, especially for kids.
  – So, socially/economically mixed buildings may be good.
  – See Oreopoulous 2006
• Incomes are determined by markets.
• Markets have nothing whatsoever to do with justice or deservingness.
  – Therefore, we do not deserve our income, we just get it.
  – Distributive justice is distinct from market rewards.
  – Taxation is not unjust. Its only problem is that it changes incentives.
• Markets *might* generate efficiency
  – good uses of resources
• Markets do not generate equity
• To get equity and fairness, we need intervention by government.
• Intervention takes money, which requires taxation.
• Taxation changes incentives to do stuff.
• Markets *might* generate efficiency, but there is no reason to expect equity.
• Anti-poverty policy is redistributive. That is the point.
  – Think through the redistributive effects.
  – Think through the incentive effects.
  – Evidence matters. Theory does not tell you everything.
• Minimum wages define a lower limit to legal wages paid to workers.

• Redistributive Effects
  – They do not cover all employment, and make employers want to hire fewer low-wage workers.
  – So, potential redistribution is some low-wage workers make more money, others make less money.
  – Employers of low-wage workers either make lower profits and/or charge more to customers.
  – Consumers pay more for stuff.

Policy: Minimum Wages
• Incentive Effects
• Firms might hire less labour.
  – The evidence suggests that, at low levels,
    • the employment effects are very small,
    • consumers pay the bill.
    • See David Card The Economics of Minimum Wages.
  – Raising it to $10.25-hour likely had no effect on employment of low-wage workers.
  – In contrast, European evidence suggests that at higher levels, minimum wages affect the demand for labour.
  – Eg, at $25 per hour, there is a noticeable decrease.
• Income Transfers
  – We write people a lot of cheques. It is very easy. CRA uses tax credits.
    • *Refundable* credits can be had regardless of whether or not taxes are paid by a person.
    • *Nonrefundable* credits are taken off tax bills.
    • *Universal* transfers to everyone.
    • *Targeted* transfers to just some people.

• In Canada, we have lots of income transfers, including child benefits, welfare, climate action credits, energy incentives, tons of stuff.
• In-kind transfers
  – Canada transfers a lot of income. Other countries mostly transfer things.
  – USA has food stamps and rent vouchers.
  – UK and much of Northern Europe have subsidized and social housing.
  – Everyone except the USA has subsidized and universal health care.
• Incentive effects
• high *implicit tax rates*
  – Remember the Guaranteed Annual Income for Need (GAIN) idea?
  – top up income to the GAIN level
  – No country does this anymore---why?
  – *Implicit* 100% tax on earnings
  – earn a dollar, but total income doesn’t rise: GAIN is a top-up.
• Redistributive effects
• universality vs targeting
• The Universal Child Care Benefit is $100/month/child under 6 for every family.
  – So, it is hugely expensive: 2 million children get $2.4 billion/year.
• The Canada Child Tax Benefit (CCTB) targets only low-income families with income <$37,885
  – about $100/month/child under 18.
  – about 1 million children get about $1 billion/year
• targeting allows for bigger transfers given the budget

• targeting implies implicit taxes
  – CCTB reduces your benefit by $2 for every $100 above $37,885
  – equivalent to 2% extra tax on income between $38k and about $98k
  – small 2% surtax over a big range
• National Child Benefit Supplement
  – up to $150/child. This is real money.
  – lower threshold: you get it all if family income is less than $21,287
  – implicit extra tax rate is 12% (1 kid), 23% (2 kids) or 33% (3 kids).
  – these are high surtaxes: regular tax rates at this level are 20.7%.
  – family of 5 with $21k faces 53% tax rate
    • Highest regular tax rate is 43.7%
    • Working more hours looks a bit crazy

• Most provinces, including BC, eat this federal money. Some let it go directly to families.
• universal programs
  – are easier to sell, but more expensive
• targeted programs
  – are hard to sell, but cheaper
  – can be snuck in
  – need high implicit tax rates to be cheap
  – are large, total of UCB, CCTB, NCBS, GSTC, for families under $20k with 2 kids are about $5k/year.
• Child transfers have been successful.
• Aimed at the very unfortunate.
• Very low support rate of $600-$1100/month depending on family size.
  – Less than ½ LICOs.
• Byzantine and bureaucratic.
  – Take-up rate is less than ½ of legal eligibles.
• Some ties to other social and health services.
• Some earnings are allowed.
  – implicit surtax rates are typically 50%.
• Incentive effects
  – education and work are massively discouraged except at a very small scale.
  – implicit tax rates are much higher than those associated with federal child transfers.

• Redistributive effects
  – benefit rates are extremely low, and are below plausible “survival” levels.
  – Sarlo’s 2007, 2008 Fraser Institute studies suggest that single individuals need at least 50% more money than current benefit rates just to survive.
• Our tax system is redistributive
  – Rich people pay a larger share of income in tax than do poor people (Except for the very rich, of course.)

• Tax rates have dropped for both rich people and poor people over the last 15 years.
  – Big declines in marginal tax rates for rich people
    • 56% in 1994 to 45% in 2008.

• Tax cuts reduce revenue
  – by about \( \frac{3}{4} \) the size of the tax cut
  – Eg, a 20% tax cut results in 15% less revenue
• Governments balance their books in the long term, so total taxes=total expenditure.
• We choose our tax rates.
• Statements about affordability are equivalent to statements about desirability.
• We have been cutting tax rates, and therefore expenditure (rates), for 15 years.
• Maybe it is time for tax rate increases on rich people.
• Many of these policies cost public money
  – except minimum wages and other legal changes, which cost private money.

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  – Big declines in marginal tax rates for rich people
    • 56% in 1994 to 43.7% in 2010.

• Tax rates determine revenue.
  – BC’s 20% tax cut resulted in about 15% less revenue personal tax revenue.
  – A tax increase of 20% raise would revenue by about by about 15%.
    • Silamaa and Veall 2001; Saez, Slemrod & Giertz 2011

Policy: Tax Increases
We tax lots of things: labour income, capital income; people, firms; consumption, savings.

Taxing stuff that flees is a losing game, and should be played mainly by the highest-level tax authority.

- Capital and firms are more mobile than people and consumption
- Feds should tax capital and firms, so that provinces don’t engage in inter-jurisdictional tax competition.

Capital income is taxed at half as much as labour income.

- Tax consumption, especially luxuries
- Tax capital income like labour income, though adjust for inflation
- Tax all income at higher rates, so that we can get out of lotteries etc.
• Minimum wages
  – the jury is out: $10 an hour would have little effect on small business incomes and the employment of low-wage workers.

• Tax rates have been declining for 15 years: it is time to raise them on rich folks.
  – Rich people have no special right to their money, they are mainly just lucky.
  – The revenue can be used to reduce poverty.
• Poverty begets poverty, so some things have a big impact
  – Reducing child poverty
  – Reducing the incidence of long-term poverty
  – Reducing homelessness
• Health-care expenditures have swamped all others since the 1980s.
  – Some redirection is in order.
• We have extensive transfers to households with children.
  – Vast majority of intended households receive the transfers, along with some unintended.
  – Expand these programs.
• We gave up on building public housing.
  – Spend real money on building housing for low-income people.
  – Change laws to encourage, or subsidize, rental shelter.


• **Low-Income Cutoffs**: Statistics Canada, “Low Income Cut-offs for 2004”, Cat # 75F0002MIE---No. 004, [http://www.statcan.gc.ca/pub/75f0002m/75f0002m2006004-eng.pdf](http://www.statcan.gc.ca/pub/75f0002m/75f0002m2006004-eng.pdf)

• **Child benefits in Canada**: [http://www.cra-arc.gc.ca/E/pub/tg/t4114/t4114-08e.pdf](http://www.cra-arc.gc.ca/E/pub/tg/t4114/t4114-08e.pdf)

