

Causes of Homelessness, and Policy Responses

Krishna Pendakur

Professor of Economics

Simon Fraser University

Homelessness

- 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?

Has Poverty Changed?

- 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 ($\text{income} = \text{hours} * \text{wages}$).
- Ethnicity, race
 - used to matter a lot, now it matters a little for most
 - still a lot for African- and S. Asian-origin people.
 - Aboriginal people are staggeringly poor.
- Immigration
 - Used to matter a little, now it matters a lot

Events Cause Poverty

- Bad events
 - Marital breakdown
 - Loss of social networks
 - Illness
 - Mental illness
 - Criminal victimisation and violence
 - Incarceration
 - Deinstitutionalisation, asyla, prisons
- Bad events are correlated with gender, age, Aboriginal origin.

Homelessness is not just Poverty

- 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, cont'd

- 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

Causes of Homelessness: Evidence

- 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.

High Rents

- Why are rents so high: the supply-side
 - Condo Act of mid 1970s made it easier for builders to build apartment buildings intended for owning residents.
 - 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.

High Rents, cont'd

- 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.

Policy Action: Laws

- Rent control is the opposite of a solution.
 - It results in fewer units and more inequality.
- Current law favours building owned accomodation. Shift towards favouring rentals
 - E.g., one could 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

Policy Action: Public 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

Public Housing, cont'd

- 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 Oreopoulos 2006

Policy Action: Minimum Wages

- 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 less legal 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.

Minimum Wages, cont'd

- 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 the minimum wage to, eg, \$10-hour would likely have 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.

Policy Action: Income Transfers

- 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 to just some people.
- In Canada, we have lots of income transfers, including child benefits, welfare, climate action credits, energy incentives, tons of stuff.

Policy Action: Child Transfers

- 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.

Child Transfers, cont'd

- *targeting* allows for bigger transfers given the budget
- 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
- National Child Benefit Supplement (NCBS)
 - up to \$150/child. This is real money.
 - Most provinces, including BC, eat this federal money. Some let it go directly to families.

Child Transfers, cont'd

- 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, for families under \$20k with 2 kids are about \$5k/year.
- Child transfers have been successful.

Policy Action: Welfare

- Aimed at the *very* unfortunate.
- *Very* low support rate of \$600-\$1100/month depending on family size.
 - Less than $\frac{1}{2}$ LICOs.
- Byzantine and bureaucratic.
 - Take-up rate is less than $\frac{1}{2}$ of legal eligibles.
- Some ties to other social and health services.
- Some earnings are allowed.
 - implicit surtax rates are typically 50%.

Welfare, cont'd

- 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.

Policy Action: Tax Increases

- Many of these policies cost public money
 - except minimum wages and other legal changes, which cost private money.
- 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 43.7% in 2009.
- 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%.
 - see Silamaa and Veall 2001

Taxation = Expenditure

- 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.

Readings

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