Causes of Homelessness, and Policy Responses

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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 (\(\text{income} = \text{hours} \times \text{wages}\)).
- 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 accommodation. 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 Oreopoulous 2006
Policy Action: Minimum Wages

- Minimum wages define a lower limit to legal wages paid to workers.
- BC has the lowest in Canada
- 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 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 ½ LICOs.
  – Lower than Fraser Institute subsistence thresholds. See Sarlo 2008.
• Byzantine and bureaucratic.
  – Take-up rate is around ½ 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 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%.
    • 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 (see, especially, Frank 2007)
Readings

- **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)