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The Links Between Income Inequality, Housing Markets, and Homelessness in California

Homelessness has increased dramatically in California over the past two decades, and it remains at historically high levels. Although no one believes that there is a single, simple cause for the growing number of people living on the streets, explanations generally fall into two categories. One emphasizes the debilitating personal habits and attributes of many of the homeless—alcoholism, crack cocaine addiction, and mental disorders—as well as changes in social policy toward these illnesses (for example, the large-scale deinstitutionalization of the mentally ill in the last quarter of the 20th century). The other category emphasizes problems with the housing market—rapidly rising rents, the declining number of low-income rental units in the housing stock, and deceleration in federal housing programs.

In *Homelessness in California*, John Quigley, Steven Raphael, and Eugene Smolensky empirically test the proposition that growing income inequality—working through the housing market—is the root cause of the increase in homelessness. Income inequality has grown substantially in California over the past two decades—a trend well-documented by Deborah Reed and her coauthors in *The Distribution of Income in California* (1996). The growing dispersion of California's income distribution suggests that there may be a direct link to homelessness.

Reed's study shows that the growing gap between rich and poor has been driven more by deteriorating incomes among the poor than by rising incomes at the top of the income distribution. The argument presented by O'Flaherty in *Making Room: The Economics of Homelessness* (1996) is that those near the lower end of the income distribution, whose incomes have fallen relative to others, move out of better-quality housing, enter the lower-quality market, and bid prices up at the low end. The resulting higher rents suggest that there will be more homelessness, because those with very low incomes can no longer afford housing and are forced onto the streets—either that or they *choose* homelessness, preferring to spend their meager income on other goods.

Testing the Theory

Quigley, Raphael, and Smolensky use four datasets (two national and two California-specific) to examine various factors that affect homelessness. They find, for example, that higher rents, lower vacancy rates, and warmer climates are associated with greater homelessness. To examine more closely the links between income inequality and homelessness, they look at the relationship between rent and household income in a number of locations. They find that the greater the disparity between rents and incomes (i.e., as rents move higher and incomes move lower), the greater the incidence of homelessness. To explore this issue further, they use a simulation model to determine how homelessness changes in response to changes in income distribution. When they decrease the average income of households in the lowest fifth of the renter distribution by 20 percent, they find sizable increases in the homeless population.

Policy Interventions

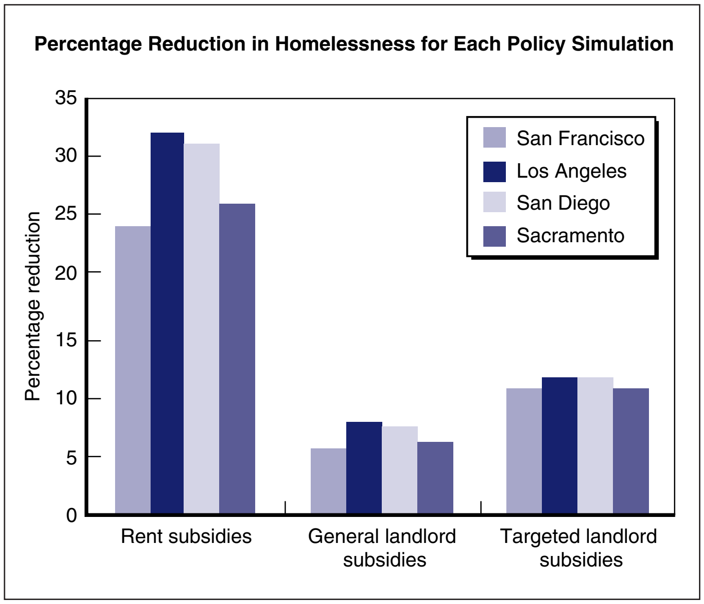
Quigley, Raphael, and Smolensky also assess the extent to which policy interventions in the housing market can lower homelessness rates. Several historical trends suggest possible, politically feasible options. One trend in federal programs has been to move away from new construction of public housing toward more flexible and intensive use of privately built housing. This means that affordable housing is not supplied directly by the federal government but must be provided from the lower end of the existing housing stock. At the local level, governments are less likely to provide public assistance through the direct expenditure of tax dollars and are more likely to lower assessment rates and property tax rates on lower-quality housing to encourage landlords to maintain rather than abandon the property to demolition. A further trend has been a persistent shift away from subsidizing rental units and toward directly subsidizing poor tenants. One example is the federal tenant-based Section 8 program, which provides housing vouchers to low-income households to cover the portion of rent that exceeds some preset proportion of income (currently 30 percent) in units available on the open market.

The study uses simulation models to explore how homelessness in the four largest metropolitan areas in California is affected by three policy interventions in the housing markets: rent subsidies (similar to those currently provided under Section 8) to all low-income households, targeted maintenance subsidies to landlords who supply low-end or "barely-standard" housing, and a general maintenance subsidy to all landlords, regardless of the quality of the unit. As shown in the figure, the simulation results predict powerful effects from a voucher program. The landlord programs (costing the same as the voucher program) also decrease homelessness, but only by about one-third as much. However, if the objective is to extend the life of the low-quality housing stock (as a hedge against a future increase in homelessness), the most effective approach would be the targeted maintenance program. This program would decrease demolition by 11 to 16 percent, whereas the general maintenance and rent subsidies programs would have only a small effect upon demolition.

Conclusions

The results of this study point to growing income inequality as a contributing factor in the growth of homelessness in California after 1980: Inequality has increased the demand for and price of the lowest-quality housing, forcing out the lowest-income renters.

The authors note that most of the benefits of the policy responses identified above would go to low-income households who are not homeless. Although targeting the homeless specifically might seem potentially more cost-effective, the homeless are ill defined, small in number by any definition, widely dispersed, and hence virtually impossible to target. Moreover, not all of the homeless would be responsive to such interventions. The major policy conclusion of the study is that local governments should evaluate the potential to make low-quality housing more affordable and thereby, largely as a by-product, reduce homelessness. Federal and state governments could provide assistance by enlarging the Section 8 program and by compensating local governments for lost revenues when they offer tax benefits to landlords who effectively defer the removal of habitable units from the very low end of the housing stock.



Providing vouchers to tenants generates a larger reduction in homelessness than programs of equal total cost that subsidize landlords.

This research brief summarizes a report by John M. Quigley, Steven Raphael, and Eugene Smolensky, Homelessness in California *(2001, 114 pp., $12.00, ISBN 1-58213-036-1). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This project was supported by PPIC through an Extramural Research Program contract.*

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