

Home sweet home

Understanding Homelessness

ERIC HIRSCH

How should we count homeless people? That is, once we decide that homelessness is a problem, how do we decide how big a problem it is? The US Department of Housing and Urban Development (HUD) has a technical definition, but it leaves out many who ought to be considered homeless, particularly doubled-up people, who are staying with family or friends because they have nowhere else to go. Also neglected are people staying temporarily at motels who may not have enough cash to last to the end of the month. Finally, it neglects those who face imminent discharge from foster care systems, jails or other institutions without a place to go home to. A reasonable definition of homelessness ought to include all of these people because none of them have a safe, dependable place to call home.

Deciding how to count homeless people is also complicated. Most counts are based on shelter use, which obviously misses the people who avoid shelters. It also leads to the irony that creating new shelters can lead to a measured "increase" in homelessness, since the new shelter may be a marginally better living situation for some who are doubled-up or living on the street. By the same token, eliminating a large shelter, as was recently done in Rhode Island, can lead to a "decrease" only because the displaced may wind up in places where they cannot be counted (see graph on page 2).

Another problem involves whether the count should be a "point in time" count on one particular night or should focus on a longer time period, a week, a month, or a year? A point in time count may miss people who do not wish to be counted, people illegally doubled-up or living in abandoned buildings. Other counts are done with surveys of homeless service sites such as soup kitchens, drop-in centers, and outreach programs, though these will still miss



many. Counts over a lengthy time period—a week, month, or year—are better because they make it more likely that nearly all of the homeless are counted. Those who are doubled-up or living unsheltered outside often use the shelter system at some point during the year and therefore are more likely to be counted as part of the homeless population. In colder climates, homeless people are obviously more likely to use the shelter system in the winter. However, with a count over a longer time period, there must be a good way to insure that people are not counted more than once.

Nationally, homelessness became a prominent issue due to the increase in the number of homeless people in the 1980s. The best analysis of the existing national data estimates on any given night in 1980, about 125,000 were homeless, while by 1987, the number had grown to 400,000.¹ Careful estimates by Martha Burt indicate another increase to just over half a million on a given night by the late 1990's. She estimated around 3.5 million were homeless at some point during the course of a year by then.²

The homeless are hard to count but there are a lot of them, and the numbers are growing fast.

These estimates do not include the doubled-up, the institutionalized, or those temporarily using cheap motels. It is particularly difficult to estimate the size of the doubled-up or "couch homeless" population since revealing your living circumstances can lead to eviction. Hoback and Anderson have suggested using data from the Census Bureau's American Community Survey (ACS) to estimate the number of couch homeless. The ACS includes information on the relationships in each household, and though the couch homeless would be part of a residual category ("other non-relative"), they argue that the numbers are good enough to use.³ For the U.S. in 2006, these estimates add just over 3 million people to the homeless population.

¹Christopher Jencks, *The Homeless*, Harvard University Press, 1994.

²Burt *et al.*, *Helping America's Homeless*, Urban Institute, 2001

³Alan Hoback and Scott Anderson, "Proposed Method for Estimating the Population of Precariously Housed," National Coalition for the Homeless, 2007.

There have been significant increases in the number of homeless persons in Rhode Island over the last eighteen years. Counting only those who have used a shelter at least one night during a particular year, the homeless population has fluctuated as shown in Figure 1. From the 3,500 to 5,500 range in the 90s, the number has shot up in the last seven years with 6,773 using shelters last year.⁴

These figures may not account for the doubled-up population however. People may remain in doubled-up situations for long periods without using the state's shelter system. Using the ACS data, an estimated 11,279 people were doubled-up during 2006 in Rhode Island. Another source of data is the state Department of Education, who counted 707 homeless children in the state's public schools, including 374 in shelters, 246 doubled-up, 53 in hotels and motels, and 11 unsheltered in the 2006-2007 school year (and 23 unknown).

What Causes Homelessness? A good explanation for homelessness must account for the rise in homelessness in the 1980s. Popular explanations have tended to blame homeless people themselves. On his way out of office, President Ronald Reagan suggested that homeless people lived on the street by choice and that many of them were former patients freed by ACLU lawsuits from state mental institutions who had then walked away from shelters.⁵ Others blame substance abuse and suggest that most homeless persons are alcoholics and drug addicts.

These explanations don't work very well. Most drug addicts, alcoholics, and most of those affected by serious mental illness have permanent places to live. The timing of deinstitutionalization and trends in substance abuse do not fit with the trend in the increase in homelessness. Most of the closings of state mental institutions

⁴Winters are cold here, so for Rhode Island at least, nearly all homeless people who live on the street also use shelters at least some of the time. A study by the author showed that on the average, those who spent at least one night unsheltered in 2002-2003 also spent 139 nights in a shelter during that year. (Hirsch, Irene Glasser, William Zywiak, *A View from the Street*, Rhode Island Foundation, 2004.) The sheltered population found in that study was diverse, including 3,103 single adult males, 1,983 single adult females, of whom 711 were mothers and 1,558 children. Having no income and high housing costs were the two most reported reasons for homelessness. Adult shelter clients were extremely poor; 38% had no income and another 23% made less than \$5,000 during the year.

⁵New York Times, December 23, 1988.

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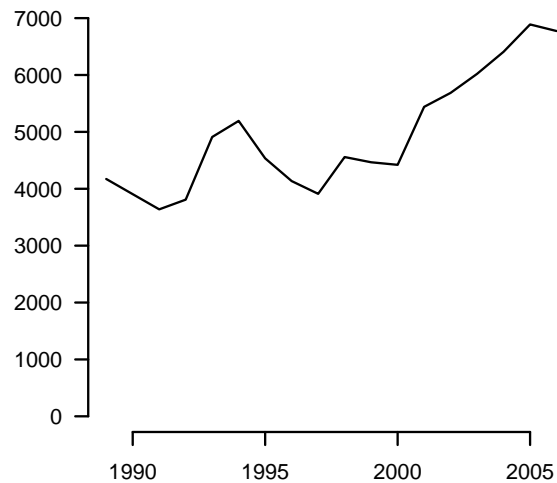


Figure 1: The number of different people who used a RI homeless shelter at least once during the year. Note that the state closed the Welcome Arnold shelter in March 2007, which may be responsible for the recent downturn (see discussion of counting on page 1). (Source: RI Emergency Food and Shelter Board, Annual Shelter Reports 1989-2007.)

took place between 1955 and 1975, while the increase in homelessness began after 1980. The trend in abuse of alcohol and illegal drugs has been down since the mid-70s, not up.⁶ And the homeless population includes many mothers and children; it is simply too diverse to point to causes like mental illness or substance abuse as the primary cause of the condition. Rhode Island shelter surveys (see footnote 4) have shown the one factor

that tends to be a common link between homeless people is very low income. And very low income makes you homeless because most housing depends on your ability to pay for it.

Two key factors led to the rise of homelessness in the last twenty-five years: an increase in income inequality; and the failure of government, particularly the federal government, to pick up the slack by creating or subsidizing affordable housing. Table 1 shows the familiar pattern of rising income inequality from the late 80s to the mid-2000s in both Rhode Island and the nation as a whole in constant 2005 dollars. The rich got richer, by 36% in the U.S. and a 43% in our state, while the middle class moved up by 13% and 14% and the poor gained 11% in the U.S. as a whole but actually lost 5% of their buying power in Rhode Island.

Brendan O'Flaherty's economic model in *Making Room*:

⁶Brendan O'Flaherty, *Making Room: The Economics of Homelessness*, Harvard, 1996.

Mental illness and drug abuse don't explain the high numbers, even if they can explain some individual cases.

the Economics of Homelessness shows why housing production became more concentrated at the top of the production scale. Developers built trophy homes in the suburbs and expensive condos and luxury apartments in the cities as income shifted upward in the 80s and 90s. The demand was high and the profit margins are high at the top end of the market. Builders found themselves fully occupied without needing to serve the lower parts of the market. They did not build homes or multi-family buildings for the poor. Just as important, they did not build homes or apartments

for the middle class. This has generated homelessness over time since the poor generally live in middle-class homes

A more likely culprit is income polarization and the structure of the housing market.

that get old and then filter down to them. Without new construction of middle-class units, the existing apartments available to the poor deteriorated. As units were removed from the stock, the prices on the remaining units were bid up. Other factors that prevent the construction of inexpensive housing include high construction costs, high land costs, restrictive building codes and zoning restrictions, such as large lot mandates and bans on manufactured homes.

Restricted supply plus rising demand for lower rent apartments has resulted in a dramatic rise in rents. In 1980, the average rent in the state was \$161 per month.⁷ For 2008, the estimate for the average two-bedroom apartment is \$1,211 per month for the Providence-Fall River metro area.⁸ In order to afford the typical two-bedroom apartment, a family would have to earn \$48,440 per year. This assumes that the family is able to spend 30% of their income on their housing. The actual annual income available to Rhode Island's average renter household is \$30,315.⁹ The apartments available to the working and middle class renters are simply too expensive.

Given the problems in the private sector, it is reasonable to expect the federal government to step up to the plate and provide subsidized housing or public housing. This has not happened. Federal budget authority for affordable housing (in constant 2004 \$s) was \$98 billion in 1978 but only \$29 billion in 2006. Over the same time period, the tax expenditure (in constant 2004 \$s) for homeowners, (the mortgage interest deduction) increased from just under \$40 billion to over \$120 billion.¹⁰ From 1976 to 1982 the federal government built more than 755,000 public housing units. As the homelessness crisis deepened, only 256,000 units were constructed between 1983

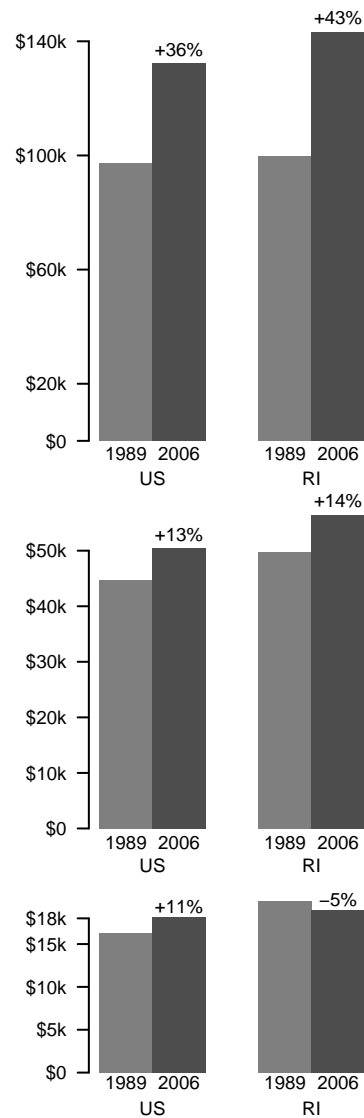


Figure 2: The change in the average annual incomes of the top, middle and bottom quintiles of income, expressed in 2005 dollars. Around 1987-1989, the average income of the top fifth of RI earners was around \$99,773, in 2005 dollars. In 2004-2006, the average was up to \$143,211. (Source: Jared Bernstein et al, *Pulling Apart*, Center on Budget and Policy Priorities, 2008.)

and 1996. And since 1996, there has been no new funding for public housing whatsoever.¹¹

The federal government's main program to help poor people afford housing is called the Section 8 program. It provides vouchers for poor household to use in private rental units. Section 8 sets a tenant's rent at 30% of his or her household income, or a bit more under some circumstances, and the federal government makes up the difference to the landlord. The main problem here is the

⁷Rhode Island Housing Consolidated Housing Plan, 1995.

⁸Department of Housing and Urban Development, 2008.

⁹U.S. Census, American Community Survey, 2006.

¹⁰Cushing Dolbeare, "Changing Priorities: The Federal Budget and Housing Assistance 1976-2005," Nat'l Low Income Housing Coalition.

¹¹Western Regional Advocacy Project, "Without Housing: Decades of Federal Housing Cutbacks, Massive Homelessness, and Policy Failures," 2006.

lack of sufficient vouchers to meet the need. Worse, the program does not address the housing production issue at all; it depends on a private market that is simply not providing enough low to moderate rent apartments. This has led to long or even closed waiting lists for Section 8 vouchers, nationally and in Rhode Island.

In the absence of an adequate low-income housing production policy, the federal government has created policies to address homelessness, the result of their failure. The McKinney Homeless Assistance Act of 1987 served

There isn't enough Section 8 funding, but there aren't enough inexpensive apartments, either.

homeless people by subsidizing emergency shelters, transitional housing, job training, primary healthcare, education for homeless children, and some limited permanent housing options. The initial funding level was \$712 million while 2008 funding, focusing more on permanent housing, is at \$1.56 billion. (Adjusted for inflation.) This is not a lot of money in a \$2.6 trillion budget, especially when the money is spread out over 50 states and over millions of people affected by homelessness or vulnerable to homelessness.

Can We End Homelessness in Rhode Island?

Given the fact that the private sector is not building low- or even middle-income housing and the federal government has not picked up the slack, we are left with state or local level action. Until recently the state provided no help; there was not even a state level housing-related agency until the Housing Resources Commission was founded as an advisory commission to the governor in 1998. The state depended on a quasi-public agency, Rhode Island Housing, to funnel increasingly inadequate federal housing dollars to Rhode Island residents.

In 2001, the first state housing program was created, the Neighborhood Opportunities Program (NOP). It has provided over 1,000 units using \$36 million in state funds, targeting disabled single adults and families with a single wage earner at the minimum wage. State dollars were used to bridge the gap between federal program rents and what low-income clients could actually afford to pay. In 2005, the Office of Housing and Community Development was created, providing for the first time in many years, an actual state department for housing issues. In 2006, voters passed a \$50 million housing bond to target middle-income renters and homeowners. These funds have built 245 apartments and homes so far.

The problem here is that state programs do not have the resources to address the level of need. Recall that 35,000 renters spend more than 50% of their income on rent. Also realize that 195,000 (48%) of the state's 406,000 households make less than \$50,000 per year,

which is about the income needed to afford the typical two-bedroom apartment. Housing needs in Rhode Island are in the tens of thousands of units, not the thousand or so that NOP has managed to piece together.

The only real solution to homelessness and to the housing crisis for low-income people in the state is for the federal government to re-enter the housing production and rehabilitation field in a major way. In 2007, the House of Representatives passed the National Housing Trust Fund legislation. With the introduction of the bill in the Senate in recent months, this may become a reality. The Fund would produce 1.5 million low-income housing units in the next ten years. Around 75% of those units would be for households making less than 30% of the area median income.¹² In Rhode Island that would represent 5,000 units for the 57,000 households making under \$15,000 per year.¹³ These units would be affordable for the useful life of the property and the Fund would receive revenue from excess Federal Housing Agency and Ginnie Mae funds, thus avoiding any increase in the federal deficit. Adding thousands of low rent units to the housing market might also have the beneficial effect of reducing rents in the market as a whole since demand for such units would be reduced.

To be continued: Can the Housing First approach help end chronic homelessness in Rhode Island? ■

¹²National Low Income Housing Coalition, 2008.

¹³U.S. Census, American Community Survey, 2006.

The high end of the market

The phenomenon of high-end demand crowding out low-end production isn't limited to housing. Cars provide another ready example. In 1979, an average car cost around 23 weeks of an average wage. Now it's about 27 weeks (Data from Comerica Bank of Detroit). What's the difference? Some blame regulations and expensive emissions control equipment. But it's just as likely that cars are expensive only because car companies can sell them that way. Car companies make more money from expensive cars, so that's all the incentive they need.

During trade negotiations in the early 1980s, Japan "voluntarily" agreed to limit its car exports to the US. With a fixed quota of cars to export, companies like Toyota responded by only sending us the expensive, high-profit models. As a result, car prices rose from 23 weeks of average wage in 1979 to almost 30 by 1986.

This kind of market segmentation is a routine consequence of the operation of free markets. For cars, jewelry or washing machines, the consequences are not devastating, even if they contribute to making life more challenging for all of us. For markets in housing and food, however, it's clear that certain market outcomes (homelessness, famine) are not acceptable. If we want to avoid them, some market regulation is unavoidable. —TS

BOOK REVIEW

Rationing the irrational

Predictably Irrational

Dan Ariely, HarperCollins, 2008, 280 pages

WHY DO YOU DO WHAT YOU DO? Do you act on impulse, or do you weigh your alternatives and rationally choose the one that leads to the best of the possible outcomes? What? You say you don't always act rationally? Too bad for economists. To a surprising extent, the currently dominant "neo-classical" theories of economics depend on you and me acting rationally most of the time.

At first blush, this seems, well, irrational. Look around you, and you'll see plenty of wacky economic behavior: people buying an expensive name brand over an identical generic item, buying a bigger house than they can afford, driving to work when the bus would be cheaper, and so on. Different strokes for different folks, right? But not all the decisions we observe our friends and family making can be accommodated by talking about differences in consumer preferences. Some are plainly, well, stupid. All you have to do is look around to wonder whether a science that depends on assumptions of rationality deserves to be called a science at all.

Unfortunately, rationality is a two-headed monster that you can't just brush away. You can try, but you get argument from both heads. One points out that there isn't any real substitute for rational behavior. That is, without rationality, there is no systematic way to analyze mass behavior, and without a systematic way to analyze people's behavior, haven't we trashed any possibility of principled economic analysis? Should economists just pack it in and look for work washing dishes?

And while you're worrying about the conundrum posed by the first head, the other argues that an economics based on rationality may be deeply flawed in important ways, but it does make some pretty good predictions about market behavior. You can't just discount those predictions by saying people aren't rational.

So what do we do about this? No one really knows. In fact, this conflict has been an important puzzle for the economics profession for at least the past cen-

tury or so. Some schools of economics put a lot less stress on these considerations than others, but these are the less mathematically-inclined schools. Generations of mathematically-inclined economists—lulled to sleep in their cradles with tales of the supply-and-demand genie—aren't going to give up their equations so easily. So without a systematic answer to the question, and with fair results from the neo-classical models, most economists have felt free to ignore the whole issue.

There is, though, a small but growing underground of "behavioral economics" and Dan Ariely, a researcher at MIT, is a proud member. His new book, "Predictably Irrational" makes a strong case that people are irrational, but in fairly systematic ways. For example, when ordering dinner at a restaurant, what you order *and* how much you'll report enjoying it seems to depend on whether you hear everyone else's order first. (People who hear other orders first typically feel pressure to order their second or third choice.) Adding a third option to a menu of choices can radically change the appeal of the other two options by providing a point of comparison. Sexual arousal makes decisions about birth control reliably less responsible by... well never mind.¹⁴

One of my favorite of Ariely's experiments involved selling Lindt truffles at 15¢ and Hershey Kisses at 1¢. Limited to one chocolate per customer, about 73% chose the truffle. The second time Ariely ran the experiment, the truffles were 14¢ and the Kisses free. The difference in price (the important variable in standard economic analysis) is exactly the same as before, but the popularity was reversed, and 69% preferred the Kiss this time. Clearly the power of FREE!!! is greater than the power of price differential.

Ariely is a funny man, with interesting thoughts about people's motivation, and it's a great good time following him through the voluminous evidence he's gathered to make his points. He has spent a lot of time, not just selling candy, but administering taste tests, pretending to be a waiter in order to spy on customers and conducting fake drug trials to see if price had an effect on the efficacy

¹⁴You'll have to buy the book for details of this one. Suffice to say it involved a plastic-wrapped laptop.

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of pain killers.¹⁵ Ariely has written an engrossing book, with many opportunities to reflect on the wisdom of our own choices of careers, houses, and lovers.

In the end, though, Ariely is after bigger game, and it's not clear that he's bagged any. For example, though he's got a ton of evidence that people can be predictably irrational, it's not perfectly clear what the impact is or should be on economics as we understand it. Making the connection between his work and the theoretical underpinnings of economics is left for someone else to work out. Fair enough, but I'd have enjoyed knowing his opinion of whether that theoretical underpinning should be scrapped or just revisited in light of these findings.

Second, it's not clear from the research presented here whether the stakes matter. That is, it's one thing to show that people aren't strictly rational in their choice of chocolates at a stand, and another to show that they aren't rational in their choice of things that matter more: a job, a mortgage or a spouse. He shows some evidence from higher-stakes settings, but it's not nearly as convincing as the low-stakes chocolate and lemonade experiments.

More important still, there is another critique of rationality that Ariely's work doesn't touch. That is, in high-stakes economic decisions, people may be completely rational but their lives and value systems are far more complex than most economic models can possibly capture, and these limit their decisions in mysterious ways.

An interesting example of this comes from research about why school choice programs have been a failure. Beloved by conservative education reformers, these programs would open public schools to competition for students by allowing students a choice of schools to attend. Sadly, they have seldom lived up to their hype, largely because few people take the choices they're offered. Under No Child Left Behind, around 3.5 million school children

are eligible to leave their failing school, but in practice less than 3% actually have.

Courtney Bell, a researcher at the University of Connecticut interviewed several dozen parents in a medium-size midwestern city with school choice policies in place, and learned that decisions are a two-part process. First you figure out what are the alternatives and then you choose one. She found that the range of choices deemed appropriate by parents differed considerably by social and economic class: wealthier parents considered a wider variety of schools, and poorer parents tended to consider only a few, chosen with very different criteria in mind. However, when choosing among the schools in the choice sets, the considerations were similar among all the groups of parents, and fairly logical besides.¹⁶ That is, the decisions are rational, but in a confusing and undiagrammed world, choices don't come as simply as chocolates on a table or selections from a menu. Selecting the alternatives to choose among is a complex business and depends on a person's background and circumstances in subtle ways. It's easy to call others' decisions irrational, but it's not necessarily true.

Real-world choices aren't just items on a menu. You have to find them first, and your decisions depend on that.

But even if Ariely's work doesn't provide a new formulation of economics, and may not even get to the heart of that problem, it is a highly entertaining look deep into our own selves. After all, what are we except the manifestations of a million decisions we've made in our lives? Clues about how we make decisions are clues about who we are, and it's always fun to learn more about that. ■

¹⁶Bell, Courtney, *All Choices Created Equal? How Good Parents Select 'Failing' Schools*, National Center for the Study of Privatization of Education, Teachers College, Columbia University, 2005 working paper. http://www.ncspe.org/publications_files/OP106.pdf

¹⁵It did. A \$2.50 per tablet price makes a Vitamin C tablet into a more effective pain killer than the same tablet for 10¢.

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