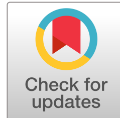

Homelessness and Inequality

By Mary Cleveland*

Abstract. Homelessness and housing insecurity in the United States are not so much a housing problem or a poverty problem as a visible sign that growing wealth inequality has left millions of people unable to earn enough to afford adequate housing. The classical economists David Ricardo and Henry George linked wealth inequality by arbitrage to unequal income and wages. The greater the inequality of wealth, the greater the inequality of income and the lower the wages at the bottom. Neoclassical economics has largely obscured this relationship. Consequently, proposals from both conservatives and liberals to address homelessness focus narrowly on housing. Ultimately, reducing wealth inequality requires national tax reform and a return to vigorous antitrust enforcement. However, cities can reduce local inequality by making property tax assessments uniform, or, better yet, by shifting to taxing land only.

Introduction

Homelessness begins as a local problem. At the local level, it arises from the interplay of individual and community choices. In any community in the United States, most people live in privately provided housing. The poorest residents may be "housing insecure," which means they have difficulty every month paying the rent and meeting other expenses. In a crisis—a lost job, a sick child, a fight with a spouse—they may choose to shelter themselves in ways that the community considers unacceptable. "Choice" may seem a cruel term, but such individuals do choose among limited alternatives. Besides sleeping on a bench in the train station, or in a car, they can double up with friends, go to a local shelter (if there is one), or leave town.

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In 2018, there were some 38.1 million people, almost 12 percent of the U.S. population, below the federal poverty line; presumably, most of these people are "housing insecure" (Semega et al. 2019: Figure 7). Some 568,000 of such people, about 1.5 percent, were counted as homeless on one night in January 2019 (Henry et al. 2020). Most of them receive some form of federal or state public assistance: Social Security for seniors, Social Security Disability, Medicare, Medicaid, Food Stamps, or child support (Temporary Assistance for Needy Families), Since the crisis of 2008, funding for services to poor people has been drastically cut, and states often skim federal aid intended for localities in order to fill holes in state budgets (Hatcher 2016).

The community makes choices, too. Public officials can decide how vigorously to enforce ordinances against sleeping in the park or on church steps. They can decide whether or not to provide public shelters or authorize charities to provide shelters. They can choose zoning and code rules for housing, and decide how vigorously to enforce those rules. Do they allow only single-family housing or multiple? Do they set minimum size for rooms and require windows in each? (Tiny middle-class Japanese apartments would be illegal in most of the United States.) Do they forbid more than two unrelated individuals to live together? Do they engage in or tolerate racial discrimination? Most local governments restrict supply, for reasons ranging from esthetics to keeping down property taxes by trying to exclude families with school-age children.

The more local officials restrict supply, the more expensive they make housing, and the more they worsen local wealth inequality—the gap between property owners and non property owners. In effect, local officials enable local property owners to act as monopolists. The wider the wealth gap, the more likely that some impoverished residents will choose the bench in the train station or the shelter in the church basement. Or they may accept a one-way ticket out of town, hoping for a friendlier reception elsewhere.

Clearly, at the local level, "housing insecurity" and "homelessness" are poverty problems. But how is that poverty problem linked to inequality? Has it become worse as inequality has increased nationally?

Can solutions to "housing insecurity" and "homelessness" make much headway if they do not address inequality?

At a regional or national level, the relation between wealth and homelessness is not obvious. A long-forgotten model from classical economics demonstrates that wealth inequality in general physically limits poor people's access to decent working and living conditions, lowering the wages they can earn and putting them at risk of homelessness. This relationship requires some explaining as it is not obvious from statistics. Moreover, the classical economists used different terminology.

While statistics clearly show that both wealth and income inequality have been increasing nationally since the 1980s, statistics on poverty and homelessness are sketchy, and definitions are sometimes ambiguous. It does appear that homelessness broadly defined has been increasing at least since national statistics began in 2007. Desmond's (2016) bestseller *Evicted* paints a shocking picture of conditions among the "housing insecure."

In confronting homelessness, conservatives and liberals both focus on what seems obvious: there is a lack of housing. They also agree on the one approach that has clearly proved effective: providing free, permanent supportive housing for mentally or physically ill, substance-abusing chronically homeless people. Beyond that, conservatives and liberals propose different remedies. Conservatives emphasize freeing local housing markets from stifling regulation. Liberals emphasize coercing markets to increase the supply of "affordable" housing by various means, including rent control and obstacles to "gentrification." Such approaches amount to treating symptoms. They do not address the larger problem that, due to growing inequality, a substantial portion of U.S. residents are housing insecure in that they cannot easily afford minimal housing.

Ultimately, reducing wealth inequality requires national tax reform and a return to vigorous antitrust enforcement. However, cities can, to some degree, reduce local inequality by making property tax assessments uniform and shifting to taxing land only.

Inequality in Classical Economics

For Adam Smith, inequality was just a fact, rooted in history. Society obviously fell into three classes: landlords, capitalists, and workers. Landlords, a tiny noble minority, owned most of the land, having obtained titles primarily by conquest or grants from the king. They received "rent"—unearned income—for the mere fact of ownership. Capitalists, another small minority found mostly in cities, earned profit or interest from investing in manufacturing and trade. Laborers, the bulk of the population, earned wages, assumed to be "subsistence"—just enough to survive and reproduce.

What we would call homelessness was just a fact. The laboring class included "sturdy beggars," a term for able-bodied men who supposedly chose to beg or wander around instead of working—equivalent perhaps to present-day "unemployed." By the early 18th century, the satirical illustrator William Hogarth regularly featured "sturdy beggars" as well as mentally ill or elderly people or alcoholics who slept outdoors. In the 19th century, Charles Dickens often included poor and dispossessed characters in his novels. Their condition seemed natural, if deplorable.

David Ricardo offered the beginning of an economic theory of inequality, based on land characteristics rather than just ownership. He observed that land and other natural resources varied dramatically from place to place, both in terms of richness of soil and access to desirable locations. The most valuable land was not farmland, but land in the middle of big cities. Clearly, landlords could and did charge higher rent for better land. But how much more? For a farmer looking to rent some land, it made no sense to pay more for superior land than the *difference* between his profit on superior land and his profit from land he could cultivate for free—that is, marginal land. For the landlord, it made no sense to charge less than what the rational farmer would willingly pay. Hence the "law of rent": the rent of a given parcel of land depends on the difference in quality between it and marginal land. In proposing the law of rent, Ricardo discovered *arbitrage*: the idea that people continually make economic choices by comparing alternatives. Moreover, in functioning markets, people's choices *at the*

margin, in turn, determine prices. The laws of supply and demand depend ultimately on arbitrage.

Ricardo and his good friend Thomas Malthus still assumed that "subsistence" explained the level of wages. Based more on class prejudice than evidence, Malthus claimed that the more food was available to the working classes, the faster they would breed. Only vice, hunger, disease, and death would keep their numbers in check, at just the point of starvation.

For Ricardo, the law of rent held an ominous implication. As Malthus pointed out, unchecked human populations could increase exponentially. Yet the supply of cultivable land was obviously limited. From the law of rent, it followed that as population grew, food cultivation would be forced onto lower and lower fertility land. Consequently, ever more rent would accrue to the landlords as the difference increased between the best land and the worst land in cultivation. Eventually, food cultivation would be forced onto such poor quality land that crops would fail, peasants would starve, and society would collapse. This dismal prediction led Ricardo to support abolishing the Corn Laws—tariffs on imported grain. Influenced by Ricardo, Karl Marx also developed a theory in which growing immiseration of the working class, now by capitalists, would eventually lead to collapse—and usher in a brave new era of working-class rule.

The collapse predicted by Ricardo, Malthus, and Marx never happened, for many reasons, including the fact that new technology improved food production much faster than population could grow. But the ideas of Malthus and Marx remain popular to this day.

The American Henry George ([1879] 1962), the last of the classical economists, published *Progress and Poverty*, which quickly became a worldwide bestseller. In brief, George argued that inequality and poverty were not natural, but the consequence of highly unequal ownership of land. George accepted Ricardo's law of rent, but rejected the classical subsistence theory of wages, as well as the Malthusian hypothesis that attributed workers' poverty to their propensity to overbreed. He pointed out that as people become more prosperous, they voluntarily restrict the size of their families—a process that became known as the "demographic transition." Following Adam Smith, he

argued that larger and denser populations could be much more productive, due to the division of labor. Most important, George developed a "law of wages," based on *arbitrage*, directly linking inequality of wages to inequality in ownership of land.

George ([1879] 1962): Bk III, Ch. 6) argued that just as the rent of a particular piece of land is determined by the difference between it and marginal land, wages likewise depend *by arbitrage* upon what workers could earn working for themselves on marginal land with minimal tools. That is, no worker will accept a lower wage than he can earn working for himself on land freely available, and no employer need offer more than that. Like the other classical economists, George recognized that workers earn a range of wages depending on skill. But the opportunities available on marginal land set the base or marginal wage. George makes it quite clear that marginal land is not unproductive land, but merely the least productive land available at a particular time and place. George's law of wages is effectively a corollary of Ricardo's law of rent. The productivity of marginal land simultaneously sets the base for rent of superior land and the minimum base or marginal wage.

George then took an innovative leap: he tied marginal land and the marginal wage to inequality. He observed that large landowners preferentially held the best quality land and often held that land out of use. Or they underused it by improving it less than would a small landowner. George attributed this land withholding to "speculation" but also simply to the inability of absentees to manage property effectively. The withholding of good land had a dire consequence: it pushed the margin out onto lower quality land—land that was less fertile, or further from transportation centers. It followed that the more unequal the ownership of land, the lower the marginal wage of an economy.

In summary, the classical economic model of inequality, developed by Ricardo and completed by George, holds that inequality in the ownership of land drives inequality both in economic rent and wage income by forcing economic activity onto less productive locations. Based on this model, George campaigned with considerable success for countering inequality with a tax on land values. (He learned this

idea from Adam Smith, who, in turn, learned it from the Physiocrats—a group of 18th-century French economists.)

Ricardo's and George's Inequality in Modern Terms

The ideas that Ricardo and George presented in the 19th century require some translation into modern concepts in order to be comprehensible today.

First, by "land," the classical economists meant not just the earth's surface but all natural resources. (Some neoclassical economists still trivialize classical economics by assuming "land" merely means farmland.) When "privatized," natural resources yield rent, unearned income, to their owners. Today, "land" would include valuable resources like the broadcast spectrum or geo-synchronous satellite orbits. By capital, the classics meant valuable manufactured physical things, durable like buildings, or short-lived like inventories. Modern neoclassical economics lumps together as "capital" natural resources, manufactured assets, and paper claims like stocks and bonds. People often forget, when speaking of corporations, that stocks and bonds simply represent shares in the ownership of real natural resources and manufactured assets. Consequently, the modern distribution of personal wealth still boils down to ownership of physical assets, directly in the form of houses and indirectly through paper claims. In modern language, George's model means that the greater the inequality of wealth, the greater the inequality of both earned and unearned income.

Second, by combining natural resources with manufactured assets in the single analytic category of "capital," modern neoclassical economics has lost the concept of the margin of production on land, that is, the least productive land freely available and still worth using—the key to Ricardo's and George's model of inequality. This is what land economists call the *extensive margin*. Mainstream textbook economics recognizes only an *intensive margin*. Suppose a manufacturer has to decide how many workers to hire. She will add workers, increasing the labor-intensity of her operation, until the contribution of the last worker just equals the wage. That is the intensive margin. George, of course, recognized the intensive margin, arguing that both the

extensive and intensive margin were determined simultaneously by arbitrage throughout an economy.

Third, by recognizing only the intensive margin, neoclassical economics gives us an economic model essentially unanchored to physical reality or to inequality in ownership of natural resources and manufactured assets. It cannot connect inequality of wealth to inequality of wages. Hence, neoclassical economics resorts to a series of ad-hoc explanations for growing inequality, including the notion that most workers' skills have simply not kept up with modern technology. James Galbraith (2016) has thoroughly debunked all these explanations.

Finally, because conventional neoclassical models omit time and space, they assume that economic adjustments happen instantaneously. There's an old joke: "An economist walking down a street, spots a hundred-dollar bill on the sidewalk. 'That's impossible,' he exclaims, 'if it were real, someone would already have picked it up.'" But arbitrage takes time. In particular, older people are reluctant to leave family and friends for better economic opportunities elsewhere. Young adults are most likely to move. Consequently, inequality and other conditions vary widely among U.S. cities and metropolitan areas. It follows that local policies can and do have significant impacts.

Finding the Extensive Margin and the Marginal Wage

Ricardo's and George's model depends on a "freely available" extensive margin to set the marginal wage. Where is that extensive margin? All land today nominally belongs to private or public owners. But when land is poorly policed, as is often the case with public land and relatively low-quality private land, it becomes open to marginal economic activities. In Adam Smith's day, the nobility employed gamekeepers on their hunting estates in a futile effort to keep poor peasants from poaching rabbits. Today, the U.S. Park and Interior Services struggle to keep intruders from poaching valuable trees or planting marijuana crops. There is marginal private land in declining inner-city areas where landlords simply abandon crumbling buildings—proof that the land values are zero. Here, furtive characters deal drugs and fence stolen merchandise. Slum landlords trade rent

for work like painting, cleaning, and minor repairs. As documented in Edin and Lein's (1997) classic *Making Ends Meet*, poor single mothers engage in a variety of ill-paid or in-kind, off-the-books work, notably cleaning and babysitting.

Marginal activities also happen on the sidewalks of nice Manhattan neighborhoods like mine. Here, booksellers, artists, and disabled veterans can set up shop without a license. Umbrella salesmen pop up like mushrooms when it rains. Dirty, ragged people collect aluminum cans for recycling, or panhandle with "homeless" signs on major corners on Broadway.

The actual or imputed earnings of these marginal workers should give some indication of the imputed marginal market wage on marginal land. There is little data. Most street-level drug dealers earn only enough to cover the cost of their own use, all the while risking violence or arrest (Reuter et al. 1990). A diligent can collector in San Francisco, starting at night when the bars close, can earn as much as $30 to $50 a day (Mayyasi 2013). A recent survey of the "informal" sector found part-time employed respondents averaged over $600 a month off the books, while unemployed respondents averaged over $300 a month, in both cases with huge variation (Bracha and Burke 2017). Since some of these respondents engage in online selling, they obviously have more skills than can collectors.

By arbitrage, an imputed marginal wage should equal the wage after all costs for the worst formal-sector jobs—minimum wage without benefits for part-time workers, less than 130 hours a month, minus taxes and transportation costs. At the new minimum wage of $12 an hour, that is less than $1,560 a month gross or maybe $1,300 a month net, after deduction of payroll tax and transportation. That is the maximum for 130 hours a month—provided the minimum wage is enforced, which often does not happen, especially in the food service industry. It is still within the range of the most hardworking can collectors.

In any case, to afford housing, workers earning marginal wages in or out of informal markets clearly need additional income, public or from family and friends. Obviously, the immediate cause of "housing insecurity" is low wages.

U.S. Wealth and Income Inequality, Poverty, Unemployment, and Rent Share of Income

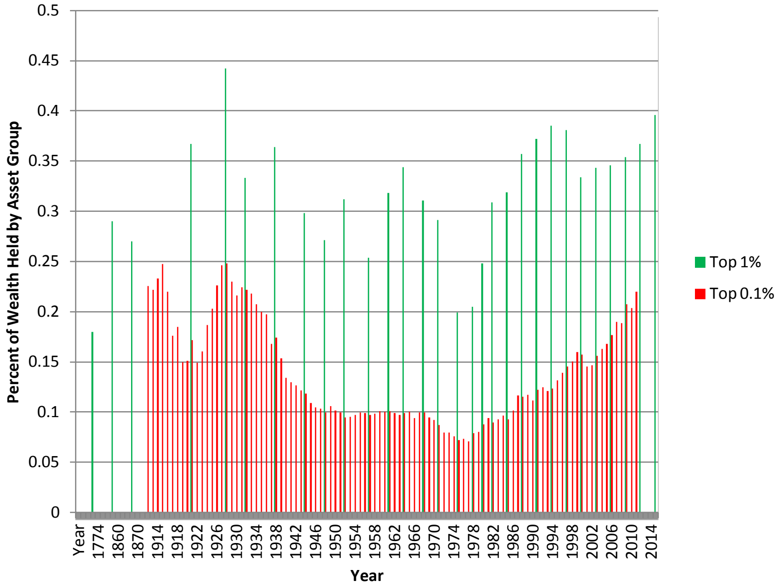
George's model predicts that as inequality of wealth increases, so should inequality of income and wages. Wealth inequality in the United States dropped from a high in the 1920s to a low in the mid-1970s and has risen inexorably ever since. (See Figure 1.) Income inequality has followed a similar path. (See Figure 2.)

Other statistics are less definitive. The federal poverty level in 2020 is $12,760 a year (about $1,060 a month) for one person; $26,200 a year (about $2,200 a month) for a family of four. That is in the same range as part-time at minimum wage and the best earnings of off-the-books workers. Since 1980, U.S. poverty rates have remained fairly steady, with upticks during recessions followed by slow declines. However, as Figure 3 shows, the number in poverty has declined substantially since 2014 (U.S. Census Bureau 2020). These figures should be interpreted cautiously as they depend on time series of prices that are adjusted for inflation. The Consumer Price Index notoriously failed to pick up the bubble in home prices leading to 2008, as it includes only estimated rental costs.

U.S. unemployment rates have bounced up and down with the economy, but, as Figure 4 shows, they have enjoyed a long decline since 2010 (U.S. Bureau of Labor Statistics 2019). Unemployment figures do not include discouraged workers, informal market workers, or part-time workers who would like full-time jobs. They also do not reflect the fact that many employed people have accepted much lower wages than they once received, even while they face ever-rising medical costs.

A new report from Harvard on housing from 2001 to 2018 finds that, among households in 2018 with income under $15,000, over 80 percent are "cost burdened"—paying over 30 percent of income on rent and utilities, and over 70 percent are "severely cost burdened"—paying over 50 percent. The number has declined slightly since 2018. However, among households with income from $15,000 to $30,000 and in higher groups, the cost burden has significantly increased over the whole period. Overall, a quarter of all renters paid more than 50 percent of their income. (See Figure 5.) The Harvard report cites

Figure 1
Wealth Held by Top 1 percent and Top 0.1 percent of U.S. Households, 1774–2016



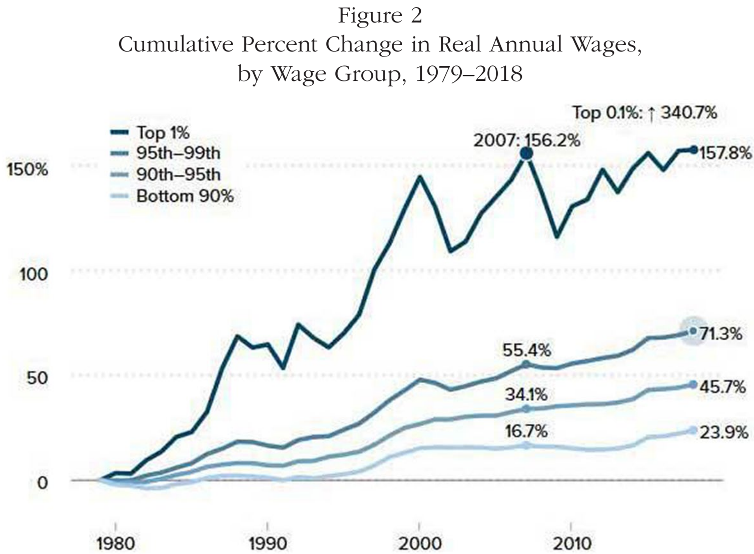
Sources: For data on wealth of top 1 percent for 1774, 1860, and 1870: Shammas (1993), based on data and discussion in Avery and Kennickell (1991); Jones (1980); Soltow (1975, 1989); Steckel (1990); and Wolff (1987). For data on wealth of top 1 percent for 1922–1989: Wolff (1996). For data on wealth of top 1 percent for 1992–2013: Wolff (2014). For data on wealth of top 1 percent for 2016: Wolff (2017). For data on wealth of top 0.1 percent: Dataset from DataFig1-6-7b in Main Table, http://gabriel-zucman.eu/uswealth/. From Saez and Zucman (2016), Appendix B-1.

Note 1: Long-term data show that wealth was concentrated in all periods of U.S. history but highest in the 1920s and since 1980. Variations suggest policy can have an impact.

Note 2: The graph shows that the richest 1/1,000 of U.S. adults held approximately half as much wealth as the richest 1/100. *Even among the wealthiest households*, there is extreme concentration of wealth, which is the most enduring cause of poverty and homelessness.

Note 3: Income and wage rates have followed a similar trajectory over the course of the past century. The 2018 estimates from Saez (2020) show the top 0.01 percent with over 5 percent of income, even more than the estimated peak in 1929.

Figure 2
Cumulative Percent Change in Real Annual Wages,
by Wage Group, 1979–2018

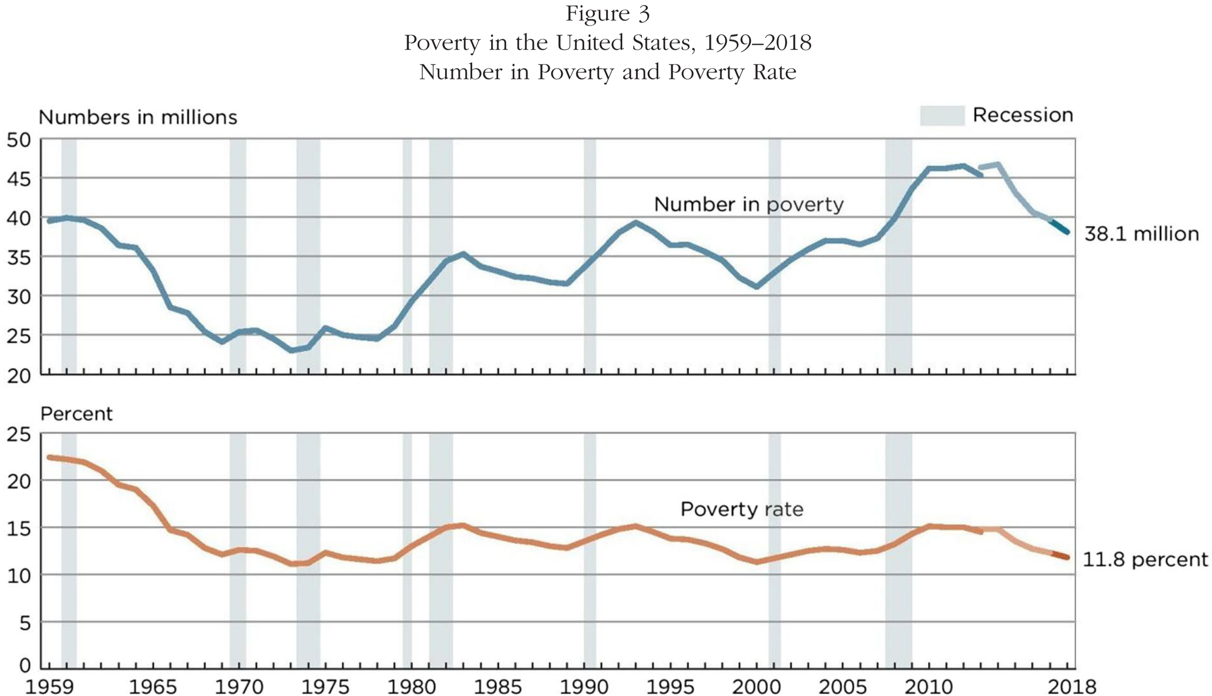


Source: Mishel and Kassa (2019: Figure A), on *Working Economics Blog* of Economic Policy Institute, www.epi.org/blog/top-1-0-of-earners-see-wages-up-157-8-since-1979/. Data from Economic Policy Institute (2019). Original data from Kopczuk, Saez, and Song (2010) and microdata from Social Security Administration.

a 2017 American Housing Survey that 1.9 percent of renters reported being threatened with eviction over the previous three months, and 2.7 percent with income less than $30,000 reported recent eviction threats (Joint Center for Housing Studies of Harvard University 2020: 4–5).

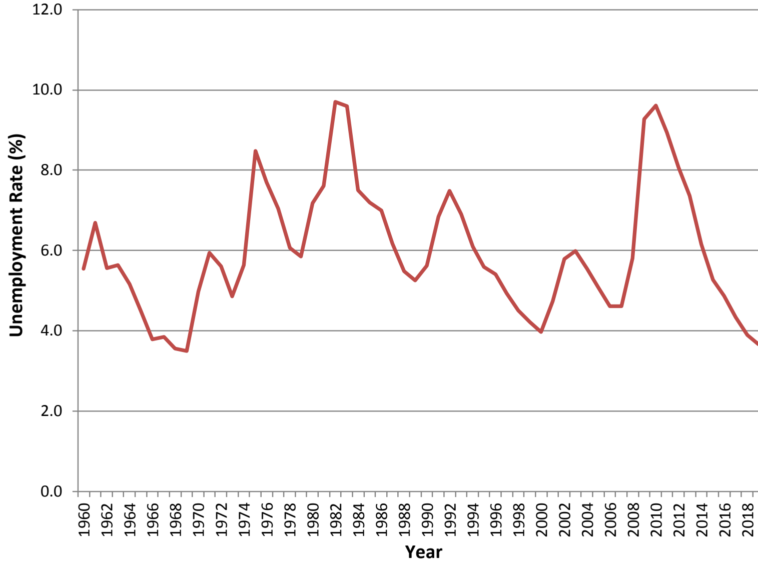
Many things have changed over the 40 years since inequality began to rise. Technology has changed, health care has improved, some social services may have improved, at least until the 2008 crash. Overall, the economy has been improving at least since 2014, even if most of the gains went to the top. Consequently, an increase in inequality does not necessarily mean that conditions at the bottom have grown absolutely worse since then.

Figure 3
Poverty in the United States, 1959–2018
Number in Poverty and Poverty Rate



Source: Semega et al. (2019). (U.S. Census Bureau).
Note: Data after 2013 are based on redesigned income questions.

Figure 4
U.S. Unemployment Rate, 1960–2019



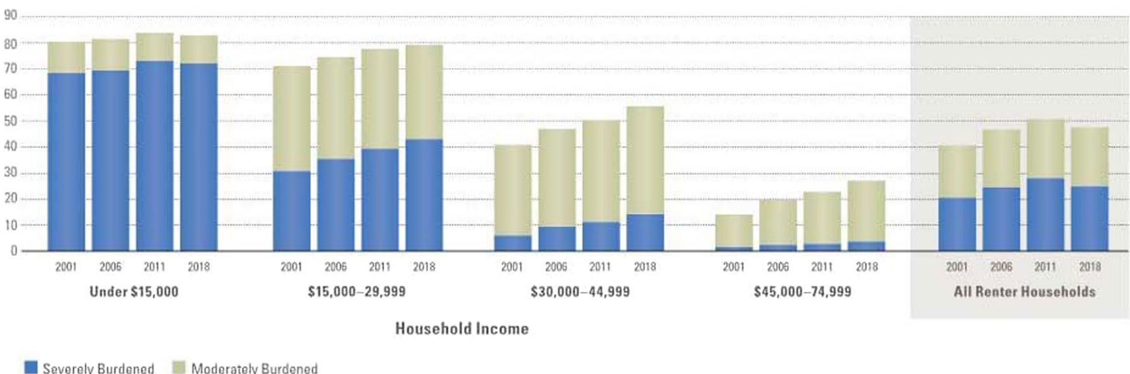
Source: U.S. Bureau of Labor Statistics. (2019).

Making Sense of Homeless Numbers

Homelessness became a major public issue in the United States in the 1980s. In 1987, President Reagan signed the only federal homelessness legislation, the McKinney Vento Act, which has since then provided funding for homeless shelters, soup kitchens, and other services.

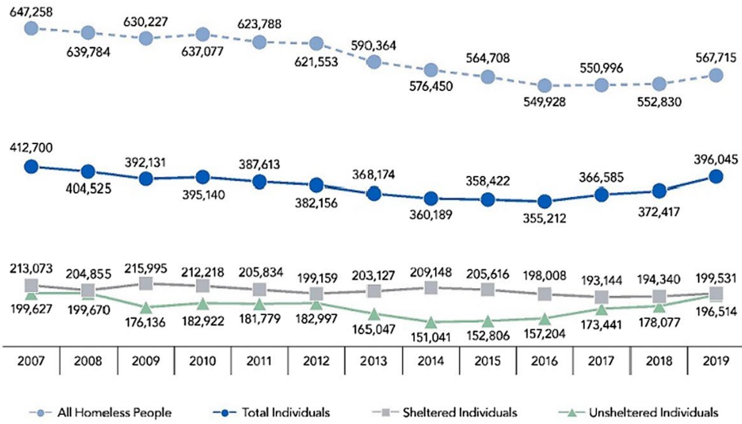
An official annual federal count of homelessness on one night in January by the U.S. Department of Housing and Urban Development did not begin until 2007. The 2019 Point-in-Time (PIT) estimate puts U.S. homelessness at about 570,000, down about 12 percent from 647,000 in 2007, with a small increase between 2018 and 2019. (See Figure 6.) Around 63 percent of homeless were in homeless shelters, and the other 37 percent—just over 200,000—were unsheltered on streets, in cars, parks, or abandoned buildings. People in shelters

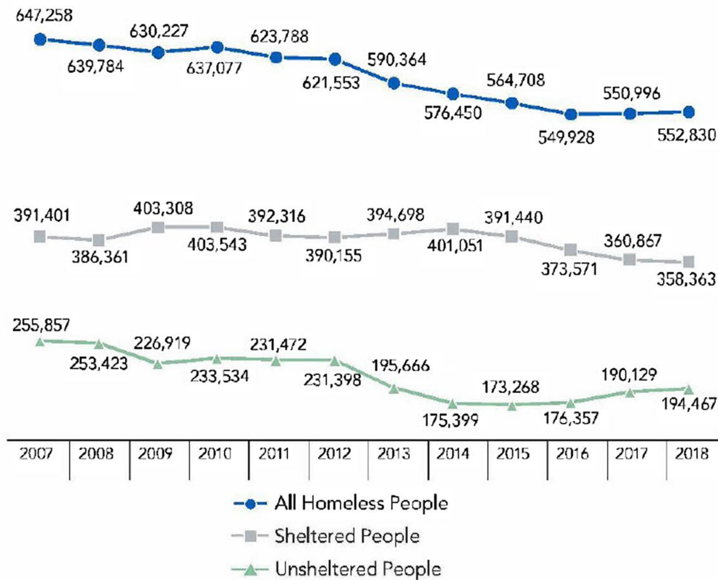
Figure 5
Despite Overall Improvement After 2011, Renter Cost-Burden Rates for Most Income Groups Have Been on the Rise
Share of Renter Households with Cost Burdens (Percent)



Source: Joint Center for Housing Studies of Harvard University, *America's Rental Housing 2020* (2020: 4). https://www.jchs.harvard.edu. All rights reserved.

Figure 6
Point-in-Time Estimates of People Experiencing Homelessness, 2007–2018





Source: Henry et al. (2020: 10). (U.S. Department of Housing and Urban Development).

are split roughly between single individuals, mostly men, and members of families, mostly women with children. Homelessness varies across states, being higher in major cities on the West Coast and in the Northeast. Almost half the unsheltered homeless population lives in California; the largest rates of sheltered homeless are in Boston, New York City, and Washington, DC (Henry et al. 2020).

The National Coalition for the Homeless defines three types of homelessness. *Chronic* homeless persons are older, hard-core unemployed, suffering from mental and other disabilities as well as substance abuse. They live permanently in the shelter system. *Episodic* homeless persons are younger, chronically unemployed, also suffering from mental and other disabilities as well as substance abuse. They shuttle in and out of homelessness. *Transitional* homeless persons, mostly young, enter the shelter system for a brief time following a disaster and do not return. They make up the vast majority of people experiencing homelessness at some time in their lives—far more people than the well over half a million who show up in the one-night point-in-time count (National Coalition for the Homeless 2016). Most of the 12 million or so people below the poverty line are presumably at risk of homelessness. (As a poor college student without a family, my husband spent nights on a park bench until he found a position as a live-in babysitter.)

In the last 10 years, some major cities have begun to provide the chronically homeless with "permanent supportive housing" or PSH, that is, free apartments in buildings with built-in social services (U.S. Interagency Council on Homelessness 2014). In theory, though not always in reality, PSH will save on net costs of hospital and police involvement with these troubled people. By getting chronically homeless people off the streets and out of shelters, PSH may also significantly reduce the official homeless count. Between 2007 and 2019, PSH beds increased from about 38,000 to 144,000, slightly more than the decrease in the homeless count over the same years.

Choices made by housing-insecure people and their communities also affect the homeless count. If a more punitive town regularly jails homeless people for sleeping on sidewalks, that reduces the count. If a poor town does not enforce housing codes, such people may

live out of sight by crowding into dangerous rundown housing—also reducing the count. On the other hand, if a town tolerates tent encampments and provides decent shelters, it may seem to have a serious homeless problem. That may help explain why states in the old South show lower homeless counts than relatively generous, tolerant California and Massachusetts.

The National Alliance to End Homelessness (2018) provides further statistics for the decade 2007 to 2017. Note that this period includes the collapse of the mortgage bubble in the 2007–2008 years, which led to the spike in official poverty rates, followed by a slow decline. The period covers the relatively homeless-friendly Obama administration, and the beginning of the less friendly Trump administration. During this time:

- In most states, permanent supportive housing increased, as did emergency shelter capacity.
- The number of poor, renter households paying 50 percent or more of their income toward housing increased by about 20 percent.
- The number of families living doubled up with family and friends increased 30 percent.

These numbers suggest that, even while official rates of homelessness, poverty, and unemployment have declined since 2007, living conditions may still have deteriorated for the population of poor people at risk of homelessness.

Evicted

Matthew Desmond's (2016) Pulitzer-Prize-winning bestseller, *Evicted: Poverty and Profit in the American City*, gives us the closest look we are likely to see of life among the episodically homeless on the urban economic margin. Desmond, a sociologist, spent over two years living among poor renters in Minneapolis, first in a south side trailer park occupied primarily by whites, and then in the north side black inner city. In both places he interviewed and followed several tenants as they moved through the process of eviction, in some cases multiple

times. He also followed a remarkable black woman slumlord. The book fully deserves its acclaim for its sympathetic depiction of the lives of individuals already suffering from poverty, mental or physical illness, addiction, and harsh and arbitrary treatment by public authorities as they struggle to avoid and then recover from evictions or other loss of housing.

As Desmond points out, most of the very poor like his subjects live in private rental housing, not in public housing or shelters—though they reluctantly resort to shelters in an emergency. All his subjects receive some form of public assistance: child welfare benefits, Social Security Disability, food stamps, and, sometimes, emergency rent assistance —all subject to being cut off for some infraction like failing to show up for a meeting with an agency representative. Some of them live doubled- or tripled-up with others, sometimes three generations in one apartment. Some of them work part time for wages, or do odd jobs in the informal market. Eighty or more percent of their incomes go for rent, with the result that they easily get behind on the rent and utilities. Desmond describes conditions in some of the apartments, mostly in two- to four-unit buildings: grimy carpets, clogged pipes, broken appliances, holes in windows and walls. Sometimes, tenants lose apartments not for falling behind on the rent, but because the city condemns the property. Landlords tolerate tenants staying behind on the rent for long periods; they seem to make an implicit bargain with tenants: we will not immediately evict you, but, in exchange, you will not complain about conditions. In effect, landlords provide substandard housing at a discounted rent.

The eviction axe falls soonest and hardest on single women with small children, especially in the northern black slum. Desmond follows a woman with two boys as they are pushed from one dreadful apartment to another with stopovers in a shelter. The older boy has behavior problems, possibly because he attends several different schools each year. The younger boy has asthma, necessitating frequent trips to the emergency room. Landlords especially dislike children, both because they may cause damage, for example, by throwing a toy down the toilet, and because they bring authorities' attention to the property. Landlords dislike single women too, because if they

complain of abuse by a boyfriend, that also attracts the unwelcome attention of authorities. Tenants rarely show up in court to challenge eviction proceedings, even when they might have a good claim that their apartments were not habitable. They may be ignorant of their legal rights, or intimidated, or lack childcare, or afraid of losing time from work.

Desmond's subtitle, *Poverty and Profit in the American City*, seems to suggest that slumlording is a very profitable enterprise. The limited data he presents, on close examination, do not necessarily support the case. Slum rents are not significantly lower than rents for middle-class housing, which seems perverse and unfair. However, slumlords face higher costs, including the cost of collecting rent, of constant small repairs, and fines for violating codes. The also face higher risks, such as the risk of having a property condemned and demolished, or destroyed by fire or flood without compensating insurance. Still the question lingers, why will tenants pay the same price for rundown housing as the going price for decent housing in better neighborhoods? Answer: these are not middle-class tenants. Slumlords accept tenants with few or no background checks, tenants with a criminal history, or a drug history, or a history of evictions. Slumlords give month-to-month leases, without the protections built into formal leases in better neighborhoods.

Desmond provides data on the owner of the trailer park, "Tobin." Tobin bought the trailer park, with its 131 rundown trailers in a bad neighborhood, for $2.1 million in 1995, and paid it off in nine years. After property taxes, water bills, regular maintenance, staff salaries, advertising, vacancies, and eviction costs, Desmond figures Tobin took home roughly $447,000 each year, approximately 21 percent return. However, the true return should be considerably smaller taking into account the depreciation of the trailers, unreported expenses paid in cash, and substantial risk. At the time Desmond wrote, a local alderman was trying to shut down the park and forced Tobin to engage more "professional" management—leading Tobin to sell out and retire. Moreover, a big chunk of that $447,000 is Tobin's own imputed wage for his intensive hands-on management, further reducing the real return on the capital he put in.

Desmond gives no such accounting for his lady slumlord "Sherrena." She has built her business buying one small property at a time until she owns over a dozen. Her properties are not valuable, and most of that value is in the buildings. One snowy night, a fire severely damages a two-unit building, killing a child and rendering two families homeless. Sherrena plans to use the insurance money to buy another property, abandoning the damaged one—proof that the land is worthless. Sherrena and her husband "Quentin" make enough to live in a nice house, drive a fancy car, and take occasional short vacations to Caribbean resorts. Like Tobin, they rely heavily on their own tenants and informal market laborers to make low-quality repairs. As does Tobin, they keep close tabs on every tenant. Rent collection is super labor-intensive: at the beginning of the month, when tenants have just received their assistance checks, Sherrena and Quentin drive around to the properties, barge in, and demand the rent, sometimes bargaining for partial payments or payments as labor, for example, painting an apartment. Quentin carries a gun; confrontations with tenants can get ugly. There are often drug-related killings in the neighborhood. In short, slumlording in a poor black neighborhood is not for the faint of heart.

By the principle of arbitrage, Tobin and Sherrena, as smart, hard-working, hands-on entrepreneurs on marginal territory, should be making about the same as they would working for a corporation as middle managers. The question is not how much money they are making as slumlords but rather why that is a viable profession. It is also a measure of the level of inequality and racism today that a talented businesswoman like Sherrena should be stuck in such a nasty corner.

Desmond makes two substantial policy proposals. First, low income people should have a right to free legal representation not only in criminal cases but also in civil cases like evictions. Second, there should be a universal housing voucher program. The first proposal makes excellent sense, assuming it could be funded when public defender systems are already desperately inadequate. A feasible program of universal housing vouchers would require addressing a number of

related problems, starting with who would pay for the vouchers and how.

The Supply of Housing

In confronting homelessness, conservatives and liberals both focus on what seems obvious: a shortage of housing. They also agree on providing free permanent supportive housing for chronically homeless people. Beyond that, conservatives and liberals propose different remedies. Conservatives, as represented by President Trump's Council of Economic Advisors, emphasize freeing local housing markets from stifling regulation. Liberals emphasize coercing markets to increase the supply of "affordable" housing, by various means, including rent control and obstacles to "gentrification."

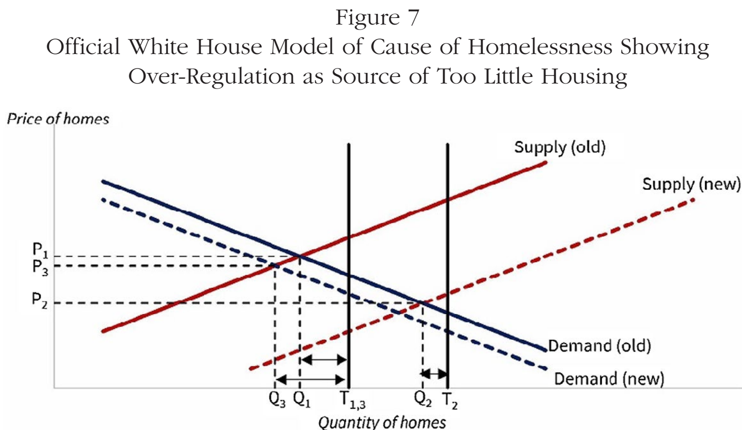
A report by President Trump's Council of Economic Advisors takes a conventional "supply and demand" framework, treating the housing and the people in an area as a single market, with an artificial shortage due to bad policy. They analyze the "major causes" of homelessness by considering, "(i) the higher price of housing resulting from overregulation of housing markets; (ii) the conditions for sleeping on the street (outside of shelter or housing); (iii) the supply of homeless shelters; and (iv) the characteristics of individuals in a community that make homelessness more likely." They provide a simple supply and demand diagram. They report:

> We simulate the impact of deregulation on homeless population sizes in individual metropolitan areas. To do so, we rely on estimates of the ratio of home prices to home production costs produced by Glaeser and Gyourko (2018). We assume that deregulation would reduce prices until reaching production costs, and then translate these lower home prices into lower rents. Finally, we use estimates of the response of homelessness to rents to simulate the impact of deregulation on homeless populations. We find that for the 11 metropolitan areas with housing regulations that drive home prices significantly above home production costs (which contain 42 percent of the United States homeless population), deregulation would reduce homelessness by an average of 31 percent. Homelessness would fall by 54 percent in San Francisco, 40 percent in Los Angeles, and 23 percent in New York City. Overall homelessness in the United States would fall by just under 72,000 people, or 13 percent. (U.S. Council of Economic Advisors 2019: 5)

Figure 7 shows the supply and demand approach. There are many problems with it, starting with the assumption that "overregulation" is the dominant cause of high housing prices, and that the effect of this overregulation can be measured by the difference between cost of housing production and home prices. (What about the cost of location? What is the production cost of slum housing?) In economically vibrant areas like the San Francisco Bay Area, unjustified regulation surely raises the cost of housing, ranging from large-lot zoning in the suburbs to density limitations in cities, including rules for the maximum height of buildings, the minimum size of apartments, and number of unrelated persons allowed together in an apartment. NIMBY ("Not in My Back Yard") attitudes remain a powerful force, even among those concerned with social justice and the environment. (Fortunately, there is a growing YIMBY "Yes in My Back Yard" backlash in California [Dougherty 2020].) But in cities like Detroit, where owners are abandoning houses on a large scale because they cannot afford to maintain them, it makes no sense to blame overregulation. Detroit still has homeless people: 10,744 in the 2018 count (Detroit Continuum of Care 2018).

For all that, the report by the Council of Economic Advisors concludes that ending "overregulation" to increase total supply only

Figure 7
Official White House Model of Cause of Homelessness Showing Over-Regulation as Source of Too Little Housing



Note: P denotes the price of a home. Q denotes the quantity of homes (expressed in terms of number of people housed). T denotes the total population. The number of homeless people is represented by the difference between T and Q.

Source: U.S. Council of Economic Advisors (2019: 5).

produces a projected 13 percent reduction in homelessness—and that would surely take years to accomplish.

According to the report, after overregulation, the second cause of homelessness is the supply of decent homeless shelters. These accommodations decrease the demand for private housing and hence increase the size of the sheltered homeless population, as is evident in Boston, New York, and Washington, DC. The report concludes: "While shelter is an absolutely necessary safety net of last resort for some people, right-to-shelter policies may not be a cost-effective approach to ensuring people are housed" (U.S. Council of Economic Advisors 2019). The report does not suggest an alternative.

Homelessness activists, like the National Coalition to End Homelessness, implicitly reject the economic assumption that the entire local housing market is tied together by arbitrage up and down the scale, such that new housing for middle and upper classes will allow more housing to "trickle down" to poor tenants. They focus on the perceived lack of "affordable housing." The term was defined in the Cranston-Gonzalez National Affordable Housing Act (1990: § 12745) as "rent that does not exceed 30 percent of the adjusted income of a family whose income equals 65 percent of the median income for the area." By this formula, affordable housing rents for no more than 19.5 percent of the median family income in an area. The term begs questions, such as: What is the appropriate area? An apartment that was "affordable" in Manhattan, where the median family income in 2018 was $80,419, would be unaffordable in Brooklyn, with a median family income of $63,925 (U.S. Census Bureau 2020).

There have been many approaches to increasing the supply of "affordable" housing. In the 1950s and 1960s many cities built large complexes of public housing, only to reduce funding for maintenance, let them crumble, and eventually to demolish the worst of them. There are still limited "Section 8" and other subsidies for construction of low-rent housing, mostly for seniors. About 2.2 million people received Section 8 vouchers in 2018 (Center on Budget and Policy Priorities 2019). Both New York and San Francisco rely heavily on rent control, which limits rent increases regardless of the income of the occupant. New York City now strictly limits landlords' ability to upgrade housing

to make it suitable for higher paying tenants. Developers of new housing are required to set aside a portion of units at "affordable" rents. Because all such programs restrict supply, they create a very tight market in low-rent units. That is great for people who do not need to move: primarily poor and middle-class elderly people, and, with rent control, some wealthy people as well. But tight supply harms young people who need to move to find work, and especially harms "episodically" homeless people like Desmond's subjects. Rent-controlled landlords get choosy about their tenants, while tenants become less likely to complain or leave due to bad conditions.

Neither conservatives or liberals address the big question: why such a large fraction of the U.S. population, at least the 12 percent below the miserable family poverty line of $26,000 a year, are paying 50 percent or more of their incomes for inadequate housing, leaving them at risk of eviction and a stint in a shelter.

Increasing Poor People's Ability to Pay for Housing

All the subjects of Desmond's study received public benefits. This supplemental income enabled them to pay, barely, for the miserable private housing they occupied between evictions and stints in shelters. As Desmond observed, rents for this housing were equivalent to rents for middle-class housing in much better condition elsewhere in the city. Assuming this supplemental income came from federal and state sources outside the city, then it would have increased the amount of money on offer throughout the city, by arbitrage nudging up rents higher on the scale. That, in turn, would have nudged up the land values of the city's private landlords. In short, much of the benefit of the supplemental income would have spread by arbitrage beyond the immediate poor beneficiaries.

Desmond proposes a system of universal housing vouchers. The idea has many virtues. It recognizes that all citizens have a basic right to housing. After all, Desmond writes, if mortgage deductibility benefits the middle and upper classes, why not something for the poor as well? Housing vouchers would eliminate much of the arbitrary bureaucracy that determines who qualifies for assistance and who does not, as well as the stigma of relying on aid. Implementation, however,

raises many questions, such as: What other income supplement programs would vouchers replace? Would landlords be limited in additional rent they charged and how would such a limit be enforced? With Section 8 vouchers, tenants pay 30 to 40 percent (depending on location) of their income as rent and the federal government pays landlords the difference between that and estimated local market rent—a paperwork-heavy procedure. A universal housing voucher system could be vastly more expensive than vouchers targeted only to the qualified poor. Who would pay for it and how? If the money came from outside the city, it would drive up rents throughout the city just as surely as does public assistance.

Homelessness and Inequality

In any city, the population and housing stock are fixed in the short run. By arbitrage, the wealthiest and most favored people will select the best housing, and the poorest and least favored must accept the worst housing or end up periodically homeless. Owners of the best rental housing have first pick of tenants; owners of slums take what they can get. Arbitrage from top to bottom will set prices and quality of housing through the range. The degree to which home buyers or tenants are favored depends not only on their ability to pay, but also the perceived interest and prejudices of housing sellers or landlords, with minority women with small children at the bottom of the hierarchy. Regulatory efforts to reserve a larger share of housing for low-rent tenants will mostly help stable elderly people at the expense of younger, more mobile people.

It follows that the only way to enable poor residents to bid successfully for more and better housing is *to reduce richer residents' ability to bid for that housing!* Following Ricardo's and George's logic of arbitrage, that means reducing residents' inequality of wealth and income.

Reducing inequality may seem remote from tackling homelessness. At the national level, it means reversing income and corporate tax breaks for the top 1 percent of income earners and reforming the most regressive national tax—the payroll tax that supports Social Security and Medicare. It means returning to vigorous anti-trust enforcement to break up the monopolies that have taken over

the U.S. economy. It means providing universal free health care. At the state level, it also means reversing policies like corporate subsidies at taxpayer expense.

Fortunately, because housing stock and population change only slowly, it is possible to address inequality at the local level. To put it differently, if a town provides relatively decent services to its poorer residents—as do cities like New York—it will not be quickly flooded with new claimants for services.

Start with a local example. Just south of Central Park in Manhattan lies Billionaires Row along 57th Street, where some dozen or so new residential "supertalls" pierce the sky (Horsley 2015). Most of the luxury apartments in these buildings will not even be occupied by their absentee owners. For the owners, many of them foreign, this is just a safe place to park some wealth, or sometimes a means to launder dubious income by paying cash. Such people epitomize Henry George's observation that the wealthy underuse good land. As empty mausoleums of wealth, the buildings contribute nothing to the neighborhood to compensate for the prime locations they occupy. Yet New York City property tax policy favors these monstrosities over ordinary apartment buildings that house hundreds of poor and middle-class people—by assessing apartment buildings at 40 percent of market value and condominiums only at 15 percent or less, as the most valuable condominiums in Manhattan are grossly underassessed. A "radical property tax proposal"—uniform assessments—is now under consideration in New York State following a lawsuit challenging current practice (Fitzsimmons et al. 2020). Such reform would greatly reduce local New York City inequality.

Mason Gaffney (1971) has observed that richer people consume disproportionately more housing. That is, if I'm twice as rich as you, I will occupy much more than twice the value and square footage of housing. A reduction in local inequality can create more housing *without new construction*, as those at the top shrink their footprint while landlords at the bottom spruce up abandoned units. Consider my Upper West Side neighborhood, which was originally built in the 1920s as luxury five-story townhouses. When the neighborhood declined in the 1950s and 1960s, townhouses were cut into apartment

buildings with 10 modest rent-controlled units, two to a floor. Now that wealth has returned, billionaires are reconverting apartments to single-family townhouses. Imagine if those supertalls on 57th Street downgraded from one unoccupied super-luxury unit per floor to six mere-luxury owner-occupied units per floor!

There is more. Henry George proposed to remedy inequality by shifting taxes onto land values, a policy that has been adopted in various parts of the United States and around the world. Taxing land values is more progressive than taxing all property and much superior to the regressive sales tax. Moreover, taxing land values gives owners a strong incentive to develop vacant or rundown property. For a period in the 1920s and 1930s, New York City gave a tax holiday to new construction while raising taxes on land values. New York's tax experiment in the 1920s produced a huge boom in new middle-class housing in Brooklyn and Queens (Gaffney 2006). In short, by shifting their tax system more onto land values, cities can both reduce local inequality and encourage construction of new environmentally-friendly housing at higher density. That tax shift would take cities a step towards reducing local poverty and homelessness.

As a final step, revenues from a land tax could be applied to providing uniform per capita housing vouchers, as rent vouchers for tenants, and property tax credits for owner-occupants. No credits for absentee owners of pieds-a-terre or corporate apartment owners!

Conclusion

Homelessness and housing insecurity in the United States are not so much a housing problem or a poverty problem as a visible sign that growing wealth inequality has left millions of people unable to earn enough to afford adequate housing. The classical economists David Ricardo and Henry George linked wealth inequality by arbitrage to unequal income and wages. The greater the inequality of wealth, the greater the inequality of income and the lower the wages at the bottom. Neoclassical economics has largely obscured this relationship. Consequently, proposals to address homelessness from both conservatives and liberals focus narrowly on housing. Ultimately, reducing wealth inequality requires national tax reform and a return to vigorous

antitrust enforcement. However, cities can reduce local inequality by making property tax assessments uniform or, better yet, shifting to taxing land only.

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