No Room at the Inn: Housing Policy and the Homeless

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Lest some reader of the foregoing paragraphs think I condemn the motives which prompt charity let me disclaim that! It is not generous impulses, not charity itself, to which I object. What I do deplore is the short-sightedness which keeps us forever tinkering at a defective spigot when the bung-hole is wide open. If we were wise enough to seek and find the causes that call for charity there would be some hope for us.¹

Gradually, it is becoming clear that the problem of the “new homeless” is not primarily caused by personal pathologies such as mental illness or alcoholism. Homelessness is primarily an economic problem: in large metropolitan areas, many households simply cannot find affordable housing at the bottom of the rental market. As a result, they are forced onto the streets. In the face of cutbacks in social programs by the Reagan Administration, concerned citizens are calling on governments, at all levels, to do more to help the homeless.

While I share some of the reasoning of this emerging consensus about the issue of homelessness, I also part company with it at key points. My thesis is that homelessness is primarily caused not by per-

¹ T. JOHNSON, MY STORY 43 (1911) (autobiography of reform mayor of Cleveland).
sonal pathologies, but by housing market pathologies. The problem in housing markets is primarily one of supply, not demand. The cause of the recent wave of homelessness is not inadequate economic demand, or poverty, but inadequate supply of housing for the low income segment of the market. Government policy, far from being part of the solution, has been a primary cause of homelessness, especially in recent years. Therefore, we do not simply need more money for homeless housing policy; we need to radically reform our housing policies across the board.

My argument can be advanced through a syllogism that I hope to prove in succeeding sections:

1. Homelessness is primarily caused not by personal deficiencies, but by structural problems in metropolitan housing markets.
2. As a housing market problem, it is primarily a matter of inadequate supply, not inadequate economic demand.
3. A major cause of the inadequate supply of low income rental housing in large metropolitan areas with expanding service economies is the unintended effects of government policies.
4. Q.E.D.: to solve the problem of homelessness, it is not enough simply to spend more money on shelters; instead, housing policies, at all levels of government, must be redirected.

I. HOMELESSNESS: FROM PERSONAL PATHOLOGY TO STRUCTURAL PROBLEM

Beginning about 1980, homeless people became more visible on the streets of urban America. While estimates of the number of homeless persons vary, there is little doubt that homelessness increased significantly beginning in the late 1970s and that this trend has continued in the 1980s. The evidence shows that the “new homeless” differ in important ways from the previous residents of skid row. Previously, the homeless were primarily older white males who frequently suffered from alcoholism. In contrast, many of the new homeless are children or females. They are the working poor or the recently unemployed, and a higher percentage are from racial minority groups. The new homeless have a surprisingly high level of education, and many come

2. Research on the earlier denizens of skid row contradicts the popular image of them as hopeless alcoholics. While alcoholics represented a larger percentage of the population of skid row than in the rest of the city, they still were only a small minority of the homeless population. See generally C. HOCH & R. SLAYTON, THE NEW HOMELESS AND THE OLD (forthcoming).
from middle-class backgrounds. While some are chronically homeless, many have been homeless for only a short time.3

Survey evidence shows that the vast majority of the new homeless do not have any especially debilitating condition. This evidence contradicts explanations that rely on personal characteristics of the homeless population. Explanations based on personal pathology also suffer from an inability to explain historical change. It does not make sense to attribute the recent rise in homelessness to a sudden upsurge in the number of people who are unable to cope with life for personal reasons.

One way to salvage the personal pathology explanation is to argue that the number of individuals with personal pathologies did not suddenly increase, but the number of them on the streets did. In other words, the deinstitutionalization of mental patients caused homelessness. Surveys of the homeless have found, however, that only a minority has ever been in psychiatric hospitals.4 Moreover, most deinstitutionalization occurred in the late 1960s, well before the rise of the new homeless.5 Finally, studies have shown that in earlier years ex-mental patients found housing, however inadequate; only in recent years have they been forced out onto the streets in greater numbers.6

Clearly, it is necessary to focus on the structures that individuals find themselves in, not on the individuals themselves, if we are to adequately explain the recent rise in homelessness. Perhaps the major structural explanation of homelessness focuses on inadequate income, or poverty, due to the changing job structure in cities. The transformation of urban economies from industrial to service functions, the argument goes, is creating a "missing middle" in the income distribution, with jobs falling in either the high or the low ranges.7 Analyses of


5. COALITION FOR THE HOMELESS, supra note 4, at 29.

6. Ropers, supra note 3, at 10-11; see also COALITION FOR THE HOMELESS, supra note 4, at 30-31.

homelessness frequently focus on poverty as a precipitating factor.\textsuperscript{8} Indeed, there is a great deal of circumstantial evidence linking rising poverty to homelessness: income polarization in service economies, increased female-headed households, high unemployment in cities and among the minority population, and increased levels of poverty in general.

In addition, many examinations of homelessness emphasize the effect of cuts in government benefits for the poor, such as the falling real value of AFDC benefits and the termination of disability benefits.\textsuperscript{9} Overall, the problem seems to be that many households simply lack sufficient income to afford decent housing. Statistics show that many households, especially lower income rental households, are paying an increasing percentage of their income on housing.\textsuperscript{10} Others cannot afford any housing. In short, the problem seems to be inadequate income.

The weakness of structural explanations of homelessness that focus on inadequate demand, or income, is that they cannot explain the timing or the geographical distribution of the new homeless. The poverty rate was higher in previous periods, such as the 1950s, yet homelessness was never the acute problem then that it is today. Unemployment peaked in 1982 and has since declined, yet homelessness increased rapidly during this period. Clearly, some states, such as Mississippi, have higher poverty rates and unemployment, yet they do not have especially severe homeless problems. Homelessness is concentrated in large metropolitan areas with dynamic and growing white collar economies.

The poverty explanation is too simple. To say that poverty is the cause of homelessness is almost a tautology: the homeless could be defined as those who lack sufficient resources to purchase housing on the private market. To argue that poverty is the cause of homelessness is like arguing that water in the lungs is the cause of drowning. Of course water is the cause of drowning; the problem is how did the water overwhelm that particular individual at that particular time.

The problem today is not to explain why people are poor but to explain "why their poverty takes the distinctive form of having no place

\textsuperscript{8} Hopper & Hamberg, \textit{supra} note 4, at 17-20.

\textsuperscript{9} \textit{Id.} at 27; see \textit{generally} M. Cuomo, \textit{1933-1983 - NEVER AGAIN: A REPORT TO THE NATIONAL GOVERNORS' ASSOCIATION} 47-50 (July 1983); Ropers, \textit{supra} note 3, at 24.

\textsuperscript{10} Hopper & Hamberg, \textit{supra} note 4, at 21.
to live."\textsuperscript{11} I will argue here that it is not poverty, or inadequate demand, that is the proximate cause of homelessness, but inadequate supply of housing. The problem lies not in the general class structure of capitalist society but in the pathologies of metropolitan housing markets, caused to a great extent by government policies. Putting this another way, if tomorrow the poor were suddenly given a significant increase in their incomes, the problem of homelessness would not go away. While market theory assumes that supply automatically meets demand, this is not true in metropolitan housing markets today.

The proximate cause of homelessness is not poverty-induced, inadequate demand, but inadequate supply of low income housing. Evidence for the shortage of low income housing abounds. Vacancy rates in New York, San Francisco, and Boston in recent years have averaged one percent to two percent (five percent is considered normal); increasingly, families are forced to "double up" to find housing.\textsuperscript{12} At a time when an increasing number are seeking low cost housing, the supply of low-rent housing is shrinking. Nationwide, from 1974 to 1983, the supply of low-rent housing units fell eight percent and it is projected to decline another twenty-seven percent by the year 2003.\textsuperscript{13} The gap between supply and demand is especially severe in large metropolitan housing markets. A study of twelve cities from the late 1970s to the late 1980s found that while the number of poor people increased thirty-six percent, the number of rental units they could afford decreased thirty percent.\textsuperscript{14} Contrary to market theory, at the same time that rents have been going up, the supply of rental units has been going down. In New York City for example, between 1982 and 1985, a period of rapidly inflating rents, the number of rental units actually declined 36,000.\textsuperscript{15}

The causes of the shortage of low income rental housing are numerous. Part of the problem is the abandonment and eventual demolition of low income housing in central cities. Contagious abandonment in deteriorating neighborhoods, whether due to landlord neglect, fires, or

\begin{itemize}
\item \textsuperscript{11} Id. at 13.
\item \textsuperscript{12} Id. at 29.
\item \textsuperscript{13} See generally P. Clay, \textit{At Risk of Loss: The Endangered Future of Low Income Rental Housing Resources} 24 (1987).
\item \textsuperscript{14} Wright & Lam, \textit{Homelessness and the Low Income Housing Supply}, 17 Soc. Pol'y. 48, 51 (1987); see also Coalition for the Homeless, \textit{supra} note 4, at 9.
\item \textsuperscript{15} Sternlieh & Hughes, \textit{Demographics and Housing in America}, 41 Pop. Bull. 1, 31 (Jan. 1986).
\end{itemize}
other causes, is a major problem. In the nation as a whole, however, in recent years the rate of abandonment has fallen an estimated fifty percent from the rate in the 1950s and 1960s.\textsuperscript{16} In New York City, the number of units lost to abandonment declined from approximately 31,000 units per year from 1970 through 1981 to approximately 23,000 units in 1985.\textsuperscript{17} At the same time that abandonment was declining, however, the number of homeless was swiftly increasing.

While abandonment is part of the problem, more pertinent to the rise of the new homeless in recent years is the increased competition for inner-city housing.\textsuperscript{18} This, in turn, is related to the transformation of cities from centers of industry to centers of high level white collar employment. The shortage of low income housing is intimately related to the economic restructuring of American cities.\textsuperscript{19} In many cases, housing in central cities has been torn down to make way for office and commercial functions. One author estimated that "almost half of the nation's post-1950 gain in office employment and construction was captured by the downtowns of our large cities."\textsuperscript{20} It is well documented that the urban renewal programs of the 1950s and 1960s tore down more housing than they replaced.\textsuperscript{21}

More important than changing land uses is the gentrification of inner-city housing markets near concentrations of high level service sector employment in central business districts. A 1981 study estimated that every year 2,500,000 persons are involuntarily displaced from their homes. "Rent increases are the single largest cause of displacement."\textsuperscript{22} Displacement is greatest in inner-city neighborhoods with attractive historic brickframe housing stock close to jobs in the central business district. The movement of high income professionals into such neighborhoods is called gentrification. Gentrification has today

\begin{itemize}
  \item \textsuperscript{16} Id. at 31.
  \item \textsuperscript{17} COALITION FOR THE HOMELESS, supra note 4, at 6.
  \item \textsuperscript{18} Abandonment and gentrification are not mutually exclusive processes; in fact, they reinforce one another. Gentrification, for example, siphons off people and investment from other neighborhoods and helps precipitate the process of contagious abandonment. See generally Marcuse, Abandonment, Gentrification and Displacement: The Linkages in New York City, in GENTRIFICATION OF THE CITY 153 (1986).
  \item \textsuperscript{19} See generally Adams, Homelessness in the Industrial City, 21 URB. AFF. Q. 527 (1986).
  \item \textsuperscript{20} Ganz, Where has the Urban Crisis Gone?, 20 URB. AFF. Q. 456 (1985).
  \item \textsuperscript{21} SEN. COMM. ON BANKING, SUBCOMM. ON HOUSING AND URB. AFF., REPORT ON THE CENTRAL CITY PROBLEM AND URBAN RENEWAL POLICY 56 (1973).
  \item \textsuperscript{22} LeGates & Hartman, Displacement, 15 CLEARINGHOUSE REV. 230, 236 (1982).
\end{itemize}
replaced urban renewal as the main cause of displacement. Under gentrification, affordable rental housing is pulled off the market by rent increases and by conversion of rental units to condominiums. Peter Marcuse estimates that 25,000 to 100,000 persons in New York City are displaced each year, directly or indirectly, by gentrification. 23

The conversion of single room occupancy (SRO) hotels to luxury housing for the urban gentry is a documented cause of homelessness. In New York City between 1970 and 1983, the number of SRO units dropped eighty-nine percent, from 127,000 to 14,000. 24 The City of Chicago estimated that 18,000 SRO units were converted, abandoned, or destroyed between 1973 and 1984. 25 The pattern is the same across the country: the supply of low rent housing in central cities is dwindling as units are converted to luxury housing for the new urban professionals.

In short, the proximate cause of the new homelessness of the 1980s is an acute shortage of low income rental housing related to the restructuring of American cities into centers of high-level service-sector employment. The demand for housing has shifted as households have become smaller and the job structures of central cities have changed. Traditionally, the supply of housing is thought to respond slowly to changes in demand because housing is such a "lumpy" and expensive good. In the best of circumstances, metropolitan housing markets will have trouble adapting to rapidly changing demand.

Beyond this criticism of inflexible supply, however, left-wing critics charge that private housing markets simply will not serve one segment of demand at all: the poor. As one critic asked rhetorically: "Does not the private market in fact cause much of the recent growth of homelessness through skyrocketing rents, gentrification and the conversion to other use of marginal buildings?" 26 The problem with this attack on the free market, however, is that the free market is a myth. The government is everywhere involved in housing. But contrary to the conservative view that government interventions have overwhelmingly helped the poor, overall, government policy, however well-in-

23. Marcuse, supra note 18, at 172.
25. C. Hoch & R. Slayton, supra note 2, at 245.
tended, has primarily benefited the well-to-do and exacerbated the problem of homelessness.

II. FEDERAL HOUSING POLICY: THE TRICKLE DOWN APPROACH

Federal housing policy can be broken down into two basic components: spending programs targeted to help poor renters and various incentives aimed at the middle class and designed to expand new home construction. An analysis reveals that the incentives for middle class homeowners have far exceeded the resources devoted to spending programs for the poor. Advocates of homeowner subsidies argue that even the poor benefit from these programs. The argument is a variation of the trickle down theory of supply side economics: new home construction in the suburbs eventually benefits everyone because the poor are able to move into better housing left behind by middle class households that moved into new homes in the suburbs.

Over the years, the government's commitment to a trickle down approach, based on expanding the construction of single-family homes, has taken many forms. When new home construction came to a virtual standstill during the Great Depression, the federal government took decisive actions that forever changed the housing industry. The creation of the Home Owners Loan Corporation (HOLC) in 1933 was a key action because it introduced and perfected the long-term mortgage with uniform payments spread over the life of the debt.27 Other government actions helped funnel investment into new home construction. The creation of the Federal Housing Administration (FHA) in 1934 insured lenders against default of mortgages and helped restore confidence in the mortgage market. The Veterans Administration (VA) also guaranteed a large number of mortgages after World War II. As part of the reform of the banking system in the United States in the 1930s, tax exemptions were granted for savings and loan associations and mutual savings banks on condition that they invest heavily in housing.28 In addition, the federal government took a number of actions over the years, beginning with the creation of the Federal National Mortgage

27. Previously mortgages were short, about five years, and required a balloon payment at the end that made it impossible for families of moderate means to afford to borrow money to buy a home. K. JACKSON, CRABGRASS FRONTIER: THE SUBURBANIZATION OF THE UNITED STATES 196 (1985).

Association (Fannie Mae) in 1934, to create a secondary market for home mortgages and thereby increase liquidity in housing investment.

The overall effect of these actions was to stimulate the construction of new single-family homes on the suburban periphery of metropolitan areas. Importantly, most of these subsidies went to new home construction, not the rehabilitation of older structures in central cities. In some cases, there was outright discrimination against older cities by federal officials running these programs. Many other federal programs subsidized the construction of new homes in the suburbs, including the Interstate Highway Act (1956) and federal grants for new sewer and water systems.

In the 1970s, the complex array of financial incentives for housing investment began to unravel. FHA and VA mortgage guarantee programs began to recede and move into financially riskier segments of the market. Savings and loans came under severe pressure due to higher interest rates, and deregulation opened them up to nonhousing investment. As a result, S&Ls began to move out of the mortgage market. In general, deregulation has ended the sheltered position of housing finance.

At the same time, however, as generalized incentives for housing investment were being dismantled, tax breaks for homeowners mushroomed. Tax incentives for homeownership refer primarily to the ability of homeowners to deduct mortgage interest and property taxes from personal income for federal tax purposes. Stanley Surrey calls tax incentives "tax expenditures" because they deny the federal government income tax revenues and cost the government money, just as surely as if it had collected the revenues and spent them. In the 1970s and 1980s, as mortgage interest rates soared and inflation pushed families into higher tax brackets, homeowner tax expenditures have become the dominant housing program in the United States. In 1986, for example, homeowner deductions totalled 42.4 billion dollars; direct outlays for all housing spending programs for the poor totalled only

29. K. JACKSON, supra note 27, at 190-218.
10.0 billion dollars.33 As Figure 1 shows, homeowner deductions have been rising at a much faster rate than all federal spending for subsidized units under the Department of Housing and Urban Development (HUD).

![Graph showing homeowner deductions, inflation, and assisted housing payments from 1975 to 1986.](http://openscholarship.wustl.edu/law_urbanlaw/vol35/iss1/4)

FIGURE 1: Homeowner deductions and assisted housing payments, in billions of dollars. 

The rationale for subsidies for new home construction is the trickle down theory, or what housing analysts call "filtering theory."34 The idea is that as new homes are built on the urban periphery, higher income households move into them, leaving behind their old housing for comparatively lower income households. A chain of moves is set in motion outward from the center of the city until those at the very bottom move into housing left behind near the city's center. At the end of the filtering chain, housing is left vacant and abandoned.

Filtering theory accurately describes metropolitan housing markets from the end of World War II to the 1970s. The system of incentives for new home construction worked well. Between 1945 and 1965, 27.2 million units were financed and constructed.35 The homeownership

34. See W. Grigsby, Housing and Public Policy 99-103 (1963).
rate increased from 43.6 percent of all families in 1940 to 65.6 percent in 1980. In most metropolitan areas, new construction exceeded household formation resulting in an overall surplus of abandoned housing units. The benefits of new home construction in the suburbs did filter down to the poor, who occupied the relatively spacious structures left behind by the middle class who fled to the suburbs. Conditions in inner city neighborhoods were often dangerous and poor families lacked the resources to maintain the older houses; nevertheless, the physical qualities of housing for the urban poor consistently improved during this period. According to the United States Bureau of the Census, the percentage of units that needed major repairs, lacked plumbing, or were overcrowded consistently declined from 1940 to 1980.36

Filtering theory provides a justification for the regressive bias of American housing policy. Because homeowner tax deductions increase with the value of the mortgage and in higher tax brackets, the benefits go overwhelmingly to higher income households. For example, ninety-five percent of the benefits go to those above the median family income. In 1979, 85.6 percent of families making over 100,000 dollars benefited from the tax subsidy at an average of 3,320 dollars; only .4 percent of families below 5,000 dollars benefited from the subsidy at an average saving of 104 dollars.37 Regardless of the regressive distribution of homeowner subsidies, however, if housing tax expenditures increase the total supply of housing, some housing will filter down to the very poor, and everyone will benefit.

For a number of reasons, however, the filtering theory has collapsed in the past decade. First, new housing starts have declined from the halcyon days of the 1960s. While the federal government is massively subsidizing homeowners, this subsidy is not an effective way to increase the supply of housing. As a demand-side subsidy, homeowner tax expenditures may only bid up the price for existing housing instead of encouraging new construction, especially in inflationary times.

Not only has the overall rate of expansion declined, the expansion is concentrated in the luxury market on the suburban periphery. Consequently, the filtering chain has lengthened to the point that few benefits


ever trickle down to the urban poor. "While the total number of freshly built single-family houses sold last year [1986] rose by 9% from 1985, sales of new homes priced at $150,000 or more went up 49%."38 With substantial tax advantages in homeownership, housing has become a prime investment for upper income households which engage in "house-hogging": consuming more housing than they need in order to benefit from housing as an investment in the "post-shelter society."39 As the homeowner and rental markets have become increasingly compartmentalized, the chances of the benefits of higher income single-family housing filtering down to benefit the poor has decreased.40 The tax advantages of homeownership have "creamed off" the middle class from the rental market. The median income of renters fell from sixty-five percent of homeowners in 1970 to fifty-five percent in 1979.41 The 1987 tax reform took away advantages of rental housing investment, such as the ability to deduct paper losses created by super-fast depreciation. Rental housing, especially at the low end, is no longer an attractive investment. Supply is lagging. "Nonsubsidized, non-luxury rental housing is the weakest sector of national housing production."42

The collapse of filtering also has to do with the changing job structures of central cities and the resulting gentrification of inner-city housing. As young professionals who work in the central business district move into older neighborhoods to fix up historic homes, they occupy housing that previously would have filtered down to the poor. While some studies of gentrification indicate that most of the gentry have moved from other areas within the city, recent evidence suggests that cities are becoming popular places for young professionals who previously would have lived in the suburbs.43 According to 1986 census estimates, New York, Boston, and San Francisco have gained population since 1980—reversing a continuous trend of population losses from 1950 to 1980. Moreover, the number of households is increasing

40. Adams, supra note 19, at 545.
41. Hopper & Hamberg, supra note 4, at 21.
42. P. CLAY, supra note 13, at 23.
faster than population, putting additional pressure on available housing stock.

The population growth has been largely caused by employment growth in the downtown service sector. According to a study by the San Francisco Planning Commission, a new employee is generated for every 250 square feet of office development, and forty percent of all employees reside in San Francisco. Based on such a formula, San Francisco calculated the pressure placed on the low and moderate income housing stock by office development. This formula was used to develop a “linkage” ordinance that requires developers to contribute to affordable housing as a condition of building in San Francisco.\footnote{Gruen, \textit{A Cast Study of the San Francisco Office/Housing Linkage Program}, in \textit{Downtown Linkage} 42, 44 (1985).} Boston, Santa Monica, and other cities have also passed linkage policies.

The result of the new pressures on inner-city housing stock is a kind of whiplash in the filtering chain. This whiplash effect is promoted by federal government policies. Federal policies such as Historic Preservation Tax Credits, Urban Development Action Grants (UDAGs), and the Community Development Block Grant (CDBG) have been used to promote gentrification.\footnote{C. Hartman, D. Keating \& R. LeGates, \textit{Displacement: How to Fight It} ch. 12-13 [hereinafter C. Hartman]; see generally Marcuse, \textit{supra} note 17, at 174.} The Reagan Administration loosened CDBG targeting regulations, making it easier for cities to use block grant funds to promote gentrification.\footnote{Housing and Dev. Rep. (BNA), May 25, 1982, at 1081-82.} In addition, the Reagan Administration rescinded Executive Order 811, President Carter's antidisplacement order.

Once again, however, the most important federal housing policy is tax breaks for homeowners. At first glance, it would appear that homeowner tax expenditures should help solve the homeless problem, not worsen it. After all, the arguable proximate cause of homelessness is an inadequate supply of rental housing. Homeowner tax incentives, by reducing the cost of homeownership, funnel additional resources into the housing sector, increasing the supply of housing. According to filtering theory, the benefits of new home construction should trickle down to benefit the poor. In a period of rapid growth, the benefits of encouraging single-family home construction did trickle down to benefit the poor by opening the inner-city rental market as middle class families vacated apartments to own their own homes in the suburbs. The benefits of the homeowner tax breaks, however, are increasingly...
bottled up in the upper income homeowner market. In fact, by encour-
aging the conversion of inner-city rental units to luxury condomini-
ums, homeowner tax incentives have exacerbated the homeless
problem. 47

III. FEDERAL SPENDING PROGRAMS: FROM SUPPLY TO DEMAND

Since the New Deal, the federal government has taken responsibility
for increasing the supply of affordable housing through such programs
as public housing and various subsidies for private development of
rental housing. In recent years, however, funding for these programs
has declined. More importantly, federal spending programs have
changed from a supply-side to a demand-side approach. The federal
government is abandoning its historic commitment to increase the sup-
ply of affordable housing and is beginning to treat the housing problem
as simply an income problem. The demand-side approach not only
ignores the primary cause of homelessness but, by bidding up rents,
will actually worsen the problem.

Federal spending programs have always had limited ability to affect
supply. The most direct intervention is public housing. To prevent
public housing from competing with the private sector, however, the
original Wagner-Steagall Act (1937) required that no units were to be
built without destroying "dwellings substantially equal in number to
the number of newly constructed dwellings provided by the project." 48
In any case, public housing has never posed much of a threat to the
private sector because it contains only about one percent of the housing
stock. In general, while federal spending programs are well targeted to
the poor, only about five percent of the population benefits from all low
income housing programs put together.

While federal spending on low income housing programs tradition-
ally is low, it sank even lower in the Reagan Administration. Funding
for HUD low income housing programs fell from 30.17 billion dollars
in 1981 to 9.97 billion dollars in 1986. HUD-subsidized housing starts
have fallen even more precipitously, from 183,011 in 1980 to 17,080 in
1986. 49

47. Goetze, The Housing Bubble, in WORKING PAPERS 44-52 (1981); Lauber, Con-
dominium Conversions: A Reform in Need of Reform, in LAND REFORM, AMERICAN
48. Friedman, Public Housing and the Poor, in PROBLEMS IN POLITICAL ECON-
49. This includes funds for "substantial rehabilitation" of rental units. Unfortu-
Housing starts have fallen more than funding because of a shift in spending priorities from the supply side to the demand side. Federal programs that subsidize the production of new units have been replaced by federal programs that subsidize consumers (section 8 existing and the new voucher program). Federal subsidies to stimulate rental housing production usually require that the owner rent to low income families for a specified number of years. These requirements make it prohibitively expensive to rehabilitate SRO units—which have proven to be a viable alternative at the bottom of the rental market. Easterbrook, Housing: Examining a Media Myth, ATLANTIC, Oct. 1983, at 20.

50. Federal subsidies to stimulate rental housing production usually require that the owner rent to low income families for a specified number of years. These requirements are running out. Phillip Clay estimates that “as many as half the assisted units are on a course to be lost to low and moderate income use in the next decade.” P. CLAY, supra note 13, at 18. In short, there is a time bomb ticking in many large cities where these assisted units are concentrated. If governments do not intervene to diffuse it, the homeless problem could get much worse in years ahead.

51. See PRESIDENT'S URBAN REPORT, supra note 36, at 11.
Social and economic policy should be kept strictly separate, with social policy targeting the very poor and interfering as little as possible with market priorities.

The 1982 President's Commission on Housing developed the specific arguments for housing vouchers. From 1940 through the 1970s, the supply of housing in the United States either kept pace or exceeded household formation, and the condition of the housing stock continually improved. The main problem, they argued, was no longer supply but affordability: families are paying a higher and higher proportion of their income on rent. Housing policy should be designed to help people, not build projects. Housing vouchers, unlike earlier federal housing programs, are fully portable because they are tied to people and not to buildings. They enable people to move about in the free market in response to changing job opportunities and neighborhood conditions. "Moreover, because of the enormous cost of housing families in newly constructed buildings, vouchers enabling the poor to use the existing rental market make it possible to house more than twice as many families for the same outlays." 52

There are many problems with the arguments for vouchers. 53 First, there is evidence that in recent years the overall condition of housing has not improved. While overall supply is adequate to meet demand, serious mismatches between supply and demand exist in large metropolitan areas, as evidenced by the homeless problem. In addition, while the physical condition of American housing is quite good, comparatively, housing satisfaction also depends on the condition of the neighborhood, safety, and access to services such as education, recreation, and shopping. Surveys show that dissatisfaction with neighborhood conditions is a continuing problem in American housing. 54 Vouchers do nothing to improve neighborhoods and do not address the mismatch between supply and demand in crowded metropolitan housing markets.

In 1970, the federal government began the Experimental Housing Assistance Plan (EHAP), one of the country’s largest and most expen-

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54. Salins, Toward a Permanent Housing Problem, 85 THE PUB. INTEREST 22, 29 (1986).
sive social science experiments. At a cost of $160 million dollars, 30,000 low income households were subsidized with vouchers at 12 sites across the country. The goal was to test, in relatively controlled settings, the effects of vouchers on supply and demand and to evaluate various administrative mechanisms. The research showed that only about one-fourth of the allowance payment was used to obtain better housing; for the most part, the housing voucher was equivalent to an income supplement.\textsuperscript{55} While the evidence indicated that the vouchers did not cause inflation in housing costs, they also caused little or no measurable increase in housing supply.

The EHAP supply experiment was conducted in two regional housing markets, Green Bay, Wisconsin, and South Bend, Indiana. The latter was a relatively "tight" housing market. More recent experience in New York City with the Reagan Administration's housing voucher program shows what happens in very tight metropolitan housing markets. Three of every four vouchers distributed in New York are returned because the holder cannot find an affordable apartment that meets federal quality standards. As of April 1987 the New York City Housing Authority had been able to utilize less than twenty-five percent of the vouchers assigned to it. Joseph Shuldiner, general manager of the New York City Housing Authority, said that the main problem with the voucher program is that it does not create new housing. "In places like New York where there clearly is not enough housing, this stuff ain't going to help," said Mr. Shuldiner.\textsuperscript{56}

In short, the federal government is abandoning its historic mission of increasing the supply of low and moderate income housing. This comes at a time when the supply of affordable housing is falling far behind demand in advanced service sector cities undergoing rapid gentrification. Not only do housing vouchers not increase supply, there is evidence that what is essentially an incomes approach causes inflation in rents.\textsuperscript{57} Housing markets are notoriously slow to respond to in-

\textsuperscript{55} See Hartman, supra note 53, at 370.

\textsuperscript{56} Depalma, \textit{Are Rent Vouchers a Boon or a Bust?}, N.Y. Times, Nov. 1, 1987, § 8, at 2.

\textsuperscript{57} Netzer, \textit{Income Strategy and Housing Supply}, in \textit{HOUSING URBAN AMERICA} 605, 606 (1980). In New York, the Cuomo Administration has pursued an incomes approach to housing that suffers from the same problem. Since coming to the office, Governor Cuomo has raised the shelter allowances twice for AFDC recipients, for a total income increase of 51%. "Yet the actual beneficiaries are not the poor, whose Food Stamps decrease one dollar for every three dollars increase they receive in rent allotments. The real beneficiaries are landlords who raise their rents in direct response
increased demand with increased supply because of the lumpiness of the product, the lag time in production, and the scarcity of available land. Unfortunately, local government policies have played a major role in hindering supply from keeping pace with demand.

IV. LOCAL GOVERNMENT POLICY: THE BANEFUL EFFECTS OF REGULATION

Historically, state governments have played a minor role in housing. In recent years, however, in response to the vacuum created by the withdrawal of the federal government, they have begun to take the initiative. Indirectly, however, states have always played an important role in housing through the powers they have given to local governments. The police power of the local state, and the power this implies over land use, has been used powerfully to shape regional housing markets. While the original intentions may have been progressive, the final effects were regressive. Specifically, local building regulations, housing codes, and zoning laws have worsened the homelessness problem.

Building and housing codes were first enacted during the progressive period around the turn of the century. Designed to upgrade housing to higher standards, these regulatory efforts were prompted by the concern of middle class reformers about the deplorable conditions of urban slums portrayed by muckrakers such as Jacob Riis. Building codes established minimum standards for new construction, and housing codes mandated that existing housing be brought up to minimum standards.

Basic standards to control the social costs of substandard housing and protect people’s health and safety made sense. Often, however, these codes went beyond basic standards to legislate middle class norms of living for the poor. Before the progressive period, entrepreneurs supplied housing for the very poor in the form of flop houses and cage hotels (similar to SROs). While these accommodations may have been offensive by middle class standards, they were nevertheless better than living on the streets. Beginning in the 1920s, however, entrepreneurs began to withdraw from providing housing for the very poor unless government subsidies were provided. “Thus, housing reform had

to each shelter allowance increase.” T. Funicello & S. Schram, Paper Presented at the Northeastern Political Science Association Meeting (1987). In other words, research has shown that in tight housing markets increasing the demand of poor people for housing only feeds inflation in rents; it does not improve housing or increase its supply.

http://openscholarship.wustl.edu/law_urbanlaw/vol35/iss1/4
two contradictory effects, that of improving the quality of housing for the poor, while reducing its availability." Building codes increased the cost of new construction, often beyond what was necessary for health and safety, thus helping to move the bottom of the rental market out of the reach of the very poor. Recent research indicates that strict enforcement of housing codes can lead to displacement of the poor, who cannot afford the increased rents necessary to cover the repairs, thus reducing the supply of low income housing.

A more important cause of the imbalance between supply and demand in large metropolitan housing markets is the exclusionary practices of suburban governments. The rationale behind zoning is to prevent incompatible uses from damaging each other. Zoning controls limit the damage resulting from market failures, specifically, the effect of negative externalities in urban real estate development, such as the noise or traffic congestion caused by a factory. While zoning controls have often been used for such valid purposes as preventing the construction of a fat-rendering plant adjacent to homes, zoning controls also have been used to limit the mobility of people, not the use of land. The most relevant zoning regulations for our purposes are those that

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59. C. HOCH & R. SLAYTON, supra note 2, at 106.

60. E. BANFIELD & M. GRODZINS, GOVERNMENT AND HOUSING IN METROPOLITAN AREAS 93-98 (1958); S. SEIDEL, HOUSING COSTS AND GOVERNMENT REGULATIONS: CONFRONTING THE REGULATION MAZE ch. 5 (1978); Coldwell & Kau, The Economics of Building Codes and Standards, in RESOLVING THE HOUSING CRISIS 57 (M.B. Johnson ed. 1982).

61. Local government regulation raises the question of the effect of rent control on homelessness. Conservatives argue that rent control dissuades entrepreneurs from investing in housing and promotes abandonment of marginal housing. C. HARTMAN, supra note 45, at 563-64; P. SALINS, THE ECOLOGY OF HOUSING DESTRUCTION: ECONOMIC EFFECTS OF PUBLIC INTERVENTION IN THE HOUSING MARKET 64 (1980). Based on regression analysis, one study even concluded that rent control is "the single most important factor for predicting homelessness." Tucker, Where Do the Homeless Come From?, 22 N.Y. PERSP. 2 (1987). Defenders argue that rent control simply limits windfall profits by landlords and does not suppress new construction or contribute to abandonment. See generally Achtenberg, The Social Utility of Rent Control, in HOUSING URBAN AMERICA 459; Bartelt & Lawson, Rent Control and Abatement in N.Y. City: A Look at the Evidence, in CRITICAL PERSPECTIVES ON HOUSING 180 (1986). This is not the place to sort out the complex issues in the rent control debate. Suffice it to say, however, that rent control basically views the housing problem as rooted in the fact that tenants are paying too much for housing. If the view here is correct, that homelessness is primarily caused by an inadequate supply of low income housing, then, at best, rent control does not address the homeless problem. At worst, if conservatives are correct that rent control suppresses investment in housing, it may even contribute to homelessness.
create zones which limit residential development, prohibit multifamily construction, or require minimum lot and house sizes.62

The deleterious effects of exclusionary zoning controls can be clearly seen in the New York metropolitan region. Michael Danielson and Jameson Doig summarize the situation in Westchester County:

In 1952, Westchester was zoned for 3.2 million people; nineteen years later upzoning had reduced the county's residential capacity to 1.8 million . . . Over half of all the land in Westchester's towns—which encompass most of the county's undeveloped acreage—was zoned for lots of two acres or more by 1968. In Westchester, apartments could be built on almost 5 percent of the 55,000 acres of all land zoned for residential use in cities and villages, but on less than 1/2 of 1 percent of the 198,000 acres assigned to residential use in the less-intensely settled towns where most future development would occur.63

It should be noted that Westchester County, one of the wealthiest counties in the nation, had 3,660 homeless people in shelters in 1987, half of them children.64

Suburban municipalities are driven to exclude on the grounds that admitting low income families will swell service demands, especially for education, without providing commensurate increases in the tax base. Moreover, if cities can restrict new construction, or limit it to only the most expensive single-family homes on large lots, then existing owners, whether of homes or rental units, will see property values rise: if supply is prevented from keeping pace with demand, prices will increase.

While the effect of suburban exclusionary controls is indirect, in the long run it is significant. If cities prohibit multifamily construction and limit single-family construction to the luxury end, the filtering chain is lengthened to the point where it is doubtful that the benefits of suburban construction ever trickle down to the inner-city poor. In addition, exclusionary controls exaggerate urban sprawl, thus increasing commuting times and encouraging some members of the professional middle class to abandon the suburbs and compete with the poor for scarce inner-city housing.


64. Schmitt, Ordeal for Homeless Students in Suburbs, N.Y. Times, Nov. 16, 1987, § 2, at 1, col. 2.
The driving logic behind the deleterious actions of local governments is the desire to enhance the local tax base, relative to service demands, in competition with neighboring governments. The idea is to attract the rich and repel the poor. Under the so-called NIMBY syndrome ("not in my backyard"), all local governments oppose low income housing, especially subsidized housing. Central cities are no exception, with neighborhoods loudly protesting public housing or shelters for the homeless.

On the other hand, many central city governments have aggressively promoted the gentrification process. The result has been to promote displacement of the poor and reduce the supply of low income rental units. In New York City by 1983, the J-51 tax abatement program for housing rehabilitation had given away 1.66 billion dollars in subsidies. As of 1987, New York City had given 551 million dollars in tax abatements for new residential construction under the 421a program. In both programs, the bulk of the subsidies went to luxury housing in Manhattan. Perhaps the most famous, or infamous, example is the 70 million dollar abatement received by Donald Trump for his Trump Tower on Madison Avenue. One bedroom units in the Trump Tower start at 4,000 dollars, and three bedroom units start at 15,000 dollars—a month! Both of New York's residential tax abatement programs fueled the destruction of SRO hotels, discussed earlier as a prime cause of homelessness. In addition, local governments have used their control over federal grant programs, such as CDBG and UDAG, to promote the conversion of scarce low income housing to luxury condominiums and rental apartments.

In conclusion, some city governments address the causes of the homeless problem by aiding in the construction of low income housing, usually with federal grants. On balance, however, the actions of local governments have made the homelessness problem worse. Homeless people have become urban pariahs, shunned by governments less concerned with helping the disadvantaged and more concerned with pro-

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The tragic visibility of the homeless captured the attention of policy elites. Unfortunately, policy attention has been focused on the most visible expression of the housing problem, not its underlying causes. The recent change in rhetoric from "bums," "derelicts," and "wino" to the "homeless" has recast the issue in moral terms. While bums have only themselves to blame, the homeless are victims—the deserving poor. Homelessness defines the problem in a welfare context, not in the context of basic social and economic policy. To place highest priority on sheltering the homeless is to treat the problem after it has already occurred, to put in place a social safety net that can catch people after they have fallen between the cracks. The shelter system being created for the homeless, however, is like putting pots and pans around a living room to catch the dripping water without trying to plug the leaks in the roof.

Shelterization is a shortsighted and expensive policy response. New York State and New York City have led the way in funding shelters for the homeless. New York City officials estimate that the city will spend 543 million dollars in city, state, and federal funds for its shelter system in 1987. In 1986, the system sheltered more than 50,000 people at one time or another—more than the population of Santa Fe, New Mex-
Without addressing the underlying causes of homelessness, the shelter system may only become an endless sump for government revenues.

While motivated by a commendable sense of compassion, at best the shelter system provides temporary relief; at worst it perpetuates dependency and resignation among the homeless. The main problem with the shelter system is that it primarily addresses the physical needs of the homeless, not their social needs. Homelessness is more than the lack of physical shelter; it is detachment from society, detachment from the web of human relationships that integrate a person into the economy and society. Without these ties, we are not fully human. From this viewpoint, a person can be homeless even if he or she has adequate shelter. The shelter system segregates the homeless as fundamentally different from the rest of us, cutting them off from society. Following the NIMBY syndrome, neighborhoods object to having shelters placed in their midst. Even if shelters provide expensive social services, they promote dependency by placing the homeless in a vulnerable situation where their needs are met by professional caretakers, not by their own actions. Ironically, while governments are funding vast shelter systems, their own policies subsidize the destruction of SROs and other low income housing alternatives where many of those presently occupying shelters were able to satisfy their physical and social needs by their own actions.

The politics of compassion has succeeded in passing unprecedented government funding for the homeless. This shelter system is essentially charity, which I do not oppose. Even if housing policy were reformed tomorrow, it would take years for the supply of affordable housing to meet demand. In the meantime, shelters would be needed. And, of course, there is a small percentage of the homeless who will never be able to care for themselves. Shelterization, however, cannot take the place of a serious attack on the causes of the problem. Social welfare professionals are being set up to become fall guys for what is essentially a housing problem. If the causes of the problem are not treated, the shelter system will become more and more expensive until it will become politically impossible to meet even the bare physical needs of the homeless. At that point, there will be, indeed, "no room at the inn."

If this analysis is correct, the general direction housing policy must take is clear. The homeless problem is caused primarily by inadequate supply, not inadequate demand (or simple poverty). The supply problem is rooted in the transformation of cities from centers of industry to centers of high-level service employment. Subsidizing demand, in the form of housing vouchers, does not address the underlying shortage of low-rent housing. Federal spending programs for the poor must be targeted on increasing affordable rental housing, especially in tight metropolitan housing markets. In addition to shifting from a demand to a supply approach, housing policies should be targeted to places, not to people. Each year, in large cities with growing homeless populations, hundreds of thousands of potentially sound housing units are destroyed due to contagious abandonment. Programs should be targeted to save our existing housing resources. To accomplish this goal, comprehensive programs are needed that go beyond the physical aspects of housing to address the quality of life in the neighborhoods, including such social problems as drugs, crime, and, above all, unemployment. All this will require more intervention in markets, not less.

On the other hand, because many government policies help cause the problem, not cure it, part of the solution lies in withdrawing the government from market intervention and its broad array of misguided policies. Instead of helping those who need it the most, many policies protect the privileged position of entrenched housing interests, thereby hindering the ability of regional housing markets to adapt to changing needs—especially the needs of low income renters. Progress on the homeless problem, then, requires that we dismantle those policies that have helped cause the problem: tax incentives targeted to the wealthy homeowners, suburban zoning regulations designed to keep out low income rental housing, central city economic development policies that boost gentrification without regard to displacement—to name only a few.

The primary obstacles to solving the homeless problem are rooted in politics, however, not policy analysis. The regressive nature of United States housing policy has more to do with the power of interest groups than with the machinations of a ruling class. Our political system has been described as “broker state,” or a system of interest group liberalism. The fragmented nature of the state allows easy access by interest groups that capture portions of state power for their own

advantage. United States housing policy has developed willy-nilly as various interests (homeowners, suburbanites, urban gentry) have entrenched themselves in different policy arenas. The result is a rigidified housing system that is incapable of meeting the needs of the politically powerless. We know what needs to be done; what is lacking is the political will to do it.