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Examining policies to reduce homelessness using a general equilibrium model of the housing market

Erin T. Mansur,[a,c] John M. Quigley,[a,b] Steven Raphael,[b,*] and Eugene Smolensky[b]

[a] *Department of Economics, University of California, 549 Evans Hall #3880, Berkeley, CA 94720-3880, USA*
[b] *Goldman School of Public Policy, University of California, 2607 Hearst Avenue, Berkeley, CA 94720-7320, USA*
[c] *School of Management and School of Forestry and Environmental Studies, Yale University, 135 Prospect Street, New Haven, CT 06520-8200, USA*

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Abstract

In this paper, we use a general equilibrium simulation model to assess the potential impacts on homelessness of various housing-market policy interventions. We calibrate the model to the four largest metropolitan areas in California. We explore the welfare consequences and the effects on homelessness of three housing-market policy interventions: extending housing vouchers to all low-income households, subsidizing all landlords, and subsidizing those landlords who supply low-income housing. Our results suggest that a very large fraction of homelessness can be eliminated through increased reliance upon well-known housing subsidy policies.

JEL classification: H2; H3; R2

Keywords: Homelessness; Housing-market simulation; General equilibrium

* Corresponding author.
E-mail address: raphael@socrates.berkeley.edu (S. Raphael).

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1. Introduction

The specter of homelessness is perhaps the most visible social problem in contemporary US metropolitan areas. Since the early 1980s, cities throughout the country have experienced sustained increases in the numbers of visibly homeless and in the numbers of individuals seeking temporary shelter in public and privately-run facilities. While estimates of the incidence of homelessness vary considerably, the most careful research (Burt [1] and Culhane et al. [2]) suggests that those who are homeless on any night account for one to two tenths of a percent of the total population (or roughly 250,000 to 500,000 people). Research on individual cities, however, indicates that a much larger population experiences a spell of homelessness over a given year (perhaps one percent of the population, or 2.5 million people), implying a dynamic homeless population with substantial turnover.

Discussions of the determinants of homelessness often emphasize explanations based on personal problems and changes in mental health policy at the expense of economic factors. The most popular explanation of homelessness posits that mental illness, alcohol abuse, drug use, and changes in their treatment by society are the principal determinants of homelessness (Jencks [3] and Rossi [28]). The alternative economic explanation argues that increases in housing costs relative to personal income drive low-income households out of the housing market and into the streets and shelters (O'Flaherty [4]). Assessing the relative importance of these distinct hypotheses is vital to designing policy responses to homelessness since the appropriate response to a problem originating in the housing market may differ considerably from the response to a problem caused by changes in mental health policy and patterns of drug use.

In a companion paper (Quigley et al. [5]), we analyzed statistical models relating the incidence of homelessness to metropolitan and regional measures of housing costs and availability, extending the empirical analysis of Honig and Filer [6] to more comprehensive data sets. The results confirmed the importance of housing-market conditions in affecting homelessness.

Those results motivate this paper that seeks to assess the effectiveness of policy interventions in the housing market in reducing homelessness. The evidence we present on this issue is purely theoretical, yet it can help illuminate the very ambiguous empirical evidence on the effects of policy interventions. Results reported by Cragg and O'Flaherty [7] suggest that the provision of homeless shelters may induce more homelessness. Regression estimates of the effects of housing subsidy policy on homelessness suggest that the availability of subsidized housing has no effect on homelessness (Early [8]); reduces homelessness if sufficiently targeted (Early and Olsen [9]); or actually increases homelessness (Troutman et al. [10]). None of these empirical findings are based upon a complete structural model of the housing market.