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Two different kinds of empirical cross-section studies of modern American homelessness have arrived at apparently contradictory conclusions. Studies that take as their unit of observation homelessness rates in different cities have generally found that housing market conditions have large effects, while population composition—the size of the mentally ill population outside of state psychiatric facilities, for instance, or the extent of poverty–uusally does not. By contrast, studies that take individuals as their unit of observation find very weak effects for housing market conditions of the cities where the individuals find themselves, and strong effects for individual characteristics. The two types of studies seem to be giving contrasting policy advice: city-level studies say reduce rents and increase vacancies, individual-level studies say work on pathology and poverty.

I will argue that the two sets of results are complementary, not contradictory, by showing a very simple model of homelessness that implies both kinds of results (and also implies that both varieties of regression are misspecified). As simple as this model is, it still has some important implications for policy design. These implications will be the subject of the second half of this paper.

1. A MODEL

Consider a set of cities $i - 1, ...C$,each with population n (this mitigates weighting problems). Each individual j in city i is either at risk of homelessness or not. "Risk of homelessness" depends on such individual-level characteristics as mental illness, poverty, substance abuse, weak family ties, tastes for independence, skills in living outdoors, and so on. We assume that "risk of homelessness" is a binary variable (either you are at risk of homelessness or you are not), perfectly observable to the econometrician, and denote $m_{ij} = 1$ if person j in city i is at risk; $m_{ij} = 0$ otherwise. Write $m_i = \sum_j m_{ij}$ as the size of the at-risk population in city i.

We model the housing market in each city even more simply. There are a fixed and immutable number of houses $(n - H_i)$ in city i. We also assume that H_i is perfectly observable to the econometrician (who may have to use rent, vacancy, and rent control variables in order to observe it).

Homelessness arises when at-risk individuals cannot find places to live.Specifically, there are two types of cities: those in which the housing shortfall is smaller than the at-risk population; and those in which it is larger. The former we call "housing-rich" cities, the latter we call "housing-short" cities. We denote the set of housing-rich cities as

People who are not at-risk never become homeless.

In housing-rich cities, the number of at-risk people who become homeless is

Let $h_{ij} = 1$ if person j in city i is homeless; $h_{ij} = 0$ otherwise, and $\sum_j h_{ij} = h_i$. Then on a city level we have

(1) eqnarray h$_i = \min[H_i, m_i]$

On an individual level we have eqnarray $\Pr(h_{ij} = 1) = 0 \quad if \quad m_{ij} = 0$

or

(2) $\Pr(h_{ij} = 1) = m_{ij} \min(H_i/m_i, 1)$.

Like all models, this one is a gross over-simplification. The key assumption is that being homeless is not just a matter of being *either* the wrong kind of person *or* in the wrong kind of place; rather, it depends on being *both* the wrong kind of person and in the wrong kind of place.

2. ECONOMETRIC RESULTS

Equations (1) and (2) describe homelessness on a city level and on an individual level, respectively, under our model, but these are not the equations that have been estimated in the literature. In this section, we studied simplified versions of the equations that have actually been estimated. We show that the estimates derived from these equations tell us little about homelessness, but much about the relationship between

For tractability, we confine our attention to OLS estimates.

A. City-Level Estimates

The usual equation estimated in studies with city-level observations can be thought of as

(3) $h_i = \alpha^c m_i + \beta^c H_i + \epsilon_i^c,$

where the last term are i.i.d. mean zero errors. We omit an intercept in the belief that a city without either at-risk individuals or any kind of housing shortage would have no homelessness.

To understand the estimates for (3), it is helpful to think about two auxiliary regressions. These are the two linear relationships between

(4) $m_i = B^m H_i + \varepsilon_i^m$

(5) $H_i = B^H m_i + \varepsilon_i^H.$

Assume we have estimated these two equations by OLS, obtaining coefficient estimates $\widehat{B}^m$ and $\widehat{B}^H$ and residuals (e_i^m) and (e_i^H) in the process. It is easy to show that both coefficient estimates will be positive, and that $\widehat{B}^m \widehat{B}$

Then after much calculation we can write the OLS estimates of the coefficients in (3) as

(6) $(arrayl\widehat{\alpha}^c$

where summations without arguments are over the entire ste of cities. It is easy to prove that both coefficient estimates are nonnegative. Either coefficient estimate may be greater than one, although this is unlikely, and we can prove that at most one of them is greater than one:

Pr*oposition* 1: It is impossible for both $\widehat{\alpha}$

Proof of proposition 1: Suppose $\widehat{\alpha}^c \succ 1$. We will show $\widehat{\beta}^c \prec 1$. Since $(1 - \widehat{B}^m$

Similar reasoning leads to the conclusion that $\widehat{\beta}^c > 1$ implies $\widehat{\alpha}^c < 1$. *QED*

To understand (6), first think about what happens if the set S is empty: if $H_i < m_i$ in all cities. Then $(arrayl\widehat{\alpha}^c$

Symmetrically, if the set R is empty $(arrayl\widehat{\alpha}^c$

In general, then, (6) shows that if most cities are in set R, and the difference $(m_i - H_i)$ is great, then the coefficient on housing market characteristics will be large and the coefficient on population characteristics will be small. Since most studies of this type reach this conclusion, what they are telling us is that most cities are in set R.

Such a conclusion does not strain intuition. Most estimates on the national level of the number of severely mentally ill people, the number of substance abusers, the number of extremely poor people, place their numbers well in excess of the number of homeless people. We should not be surprised if the same were true for the most part on the local level as well. Alternatively, if we interpret people who have actually been homeless at any time in the past several years as having the individual characteristics that place them at risk of homelessness, then the standard results about turnover also imply that the number of people at-risk is substantially greater than the homeless population.

B. Individual-Level Estimates

The usual equation estimated in studies with individual-level observations can be thought of as

(7) $h_{ij} = \alpha^I m_{ij} + \beta^I H_i + \epsilon_{ij}^I,$

where the last term are i.i.d. mean zero errors.

As with the city-level estimates, understanding these estimates is helped by focussing first on three auxiliary equations:

(8) $H_i m_i = A^R + B^R H_i + E_i^R \quad i \in R$

(9) $1 = A^S + B^S H_i + E_i^S \quad i \in S$

(10) $h_i m_i = A + BH_i + E_i \quad i \in R \smile S$

where (10) is clearly the pooled version of (8) and (9).

Starting with the unpooled equations is more convenient. We estimate all these equations by weighted least squares, with the weight on each city being the square root of its at-risk population.

Equation (9) is trivial; the estimates are obvious: $(arraylA^S$

Equation (8) is considerably more complex. It has no obvious solution, and I am aware of no theory that predicts values for the coefficients. Two simple atheoretical stories give opposite predictions: if the same proportion ρ of at-risk people are homeless in every city in R,

(11) eqnarray $(arraylA^R$

where all summations are over the set R.

Usually, since (H_i/m_i) is positive and less than one in set R, while H_i is a large positive number (considerably greater than one, that is), you would expect that $A^R > 0$ and $B^R < 1$, but this result is difficult to prove with complete generality. We can prove two somewhat weaker propositions: namely, that if population characteristics matter at all, then the coefficient on housing markets is very small; and that if the sample includes enough people at risk, then the coefficient on housing markets is less than one. This is significant because for cities in R, in city-level regressions the coefficient on the housing market is always one.

Pr*oposition* 2: If $A^R \geq 0$, then $B^R < 1\overline{H}$

Proof: Let over-bars denote weighted means in R. Since a regression line goes through the sample's weighted centroid $\overline{(Hm)} = A^R + B^R \overline{H}_R andso B^R = \overline{(Hm)} - A^R \overline{H}_R <$

Pr*oposition* 3: Let μ denote the smallest m_i in R. If μ is sufficiently large, then $B^R < 1$.

Proof: Consider the expression $Z = \sum m_i H_i (H_i - \overline{H}_R) where all summations are over i \in R$. Since the (weighted) variance of H_i, which is eqnarray $\sum m_i (H_i - \overline{H}_R)^2 = \sum m_i [H_i (H_i - \overline{H}$

Let R_1 denote the subset of R where $H_i \geq \overline{H}$

Let m_1 denote the smallest value of m_i in R_1 and m_2 denote the largest value of m_i in R_2. Note that $\mu \preceq m_k, k = 1, 2$. Then eqnarray $Z_1 = \sum_1 H_i (H_i - \overline{H}_R) m_i = \sum_1 H_i (H_i -$

From algebra, it is easy to derive that $B^R = 1 - \sum m_1 \Delta [X_1 + X_2], where \Delta = \sum m_i \sum m_i H_i^2 - (\sum m_i H_i)^2 > 0. Thus B^R < 1$. *QED.*

Now consider equation (10), which is the same as equations (8) and (9) except that the two sets of cities are pooled. Let (A^x, B^x) denote the intercept and the slope respectively of the line between the (weighted) centroids of the cities in R and the cities in S. Then eqnarray $B^x = 1 - \overline{(H/m)}_R \overline{H}_S -$

The slope of the pooled equation (10) is a weighted average of the slopes of the two sets, B^R and B^S, and the slope "between the sets,"

Finally, an alternative way of estimating (10) is directly, through the usual formulas. This gives us

(12) $(array l A$

Having examined the auxiliary equations, we turn to (7), the individual-level equation we are interested in. The usual OLS formula gives

(13) $(array l \widehat{\alpha}^I$

$\sum n H_i^2 \geq \sum m_i H_i^2$,

with strict inequality if at least one person is not at risk of homelessness.

The intuition behind this correspondence is that the weighted city-level equation (10) recovers the same coefficients as the individual-level equation (7) with the sample restricted to the at-risk population (with the intercept in (10) being the coefficient on at-risk status in restricted (7)). The dependent variable in (10) is the probability of being homeless if you are at risk; the independent variable is the housing gap. The same is true for equation (7) restricted to the at-risk population. Unrestricted equation (7) just adds in the population that is not at risk, but none of this population is homeless.

Thus, since the lower right component of the first matrix affects only the denominator in the expression for $\widehat{\beta}^I$, we see unambiguously that $| \widehat{\beta}^I | < | B | with the extent of the difference being greater the greater the number of not-at-risk people in the sample (weighted by H_i^2)$. Since in the large sample case, $B < 1$,

The reason for the attenuation of housing market effects in the unrestricted sample is also simple to understand. The housing market has no effect on people who are not at risk; they are never homeless. Thus pooling the at-risk population with the population not at risk reduces the average effect of the housing market.

As for the coefficient $\widehat{\alpha}^I$ of individual characteristics, the sign of the difference with A is ambiguous, since the lower right component enters into both the numerator and the denominator. If no cities are in set S (which makes the coefficient on population characteristics disappear in the city-level regressions), $\widehat{\alpha}$

Thus the results in the literature–with individual-level observations, population characteristics matter and housing markets don't; the opposite with city-level observations–are consistent with a world in the simple-minded theoretical model holds, most cities are in set R, and in those cities the housing gap is roughly proportional to the size of the at-risk population.

This is not, however, the major conclusion I wish to draw from this exercise. Rather, the major conclusion for researchers is that they should think more carefully about the interaction between individual and market characteristics, and not just let the sets of variables "fight it out for themselves." For policy, the conclusion is similar: interaction matters.

3. HOUSING POLICY

If the interpretation I am giving to the empirical studies is correct, or anywhere near it, then in most cities, housing determines how many people are homeless, although individual characteristics determine who is homeless. Policies that affect how housing markets work should therefore be helpful in reducing homelessness.

Not all housing policies, however, are guaranteed to ameliorate homelessness, and some that do may so exacerbate other problems that recommending them would be foolhardy. In this section, I will try to figure out the advantages and disadvantages of some frequently discussed housing policies, and of some that are not so frequently discussed.

Unfortunately, most of the current empirical studies shed very little light on this question. That is because the housing market variables they find important in explaining homelessness–generally, vacancy rates and some measure of rents—are endogenous themselves, just like homelessness. (Even what might be thought of as policy variables–public housing stock, for instance, in Burt's [1992] study–are probably best thought of as endogenous, given the process through which U.S. public housing got built.) These regressions tell us only that the underlying exogenous forces that change vacancy rates and rents usually move in ways that change homelessness in the predicted fashion. (Park (1997), for instance, shows how certain types of exogenous shifts both increase homelessness and decrease vacancy rates.) That past exogenous shifts have usually been of this type does not imply that all exogenous types must be of this type. A policy of, say, "reverse rent control"–mandating very high rents for very shoddy apartments–would probably increase both homelessness and vacancy rates, even though the two rates usually move in opposite directions. Policies that increase vacancy rates or decrease rents won't necessarily decrease homelessness: more detailed analyses are needed.

(The same can be said, obviously and more strongly, for policies that decrease the incidence of pathologies that are often associated with homelessness, but those policies are not the subject of this talk.)

The individual-level studies, on the other hand, tell us that many homeless people differ from most other Americans. This is important for the design of policies. Policies designed with the average citizen in mind may not work for many homeless people.

Heterogeneity within the general population and within the homeless population matters because the bundle we call housing is serves many different and even conflicting purposes. Housing shelters people and their animal companions from cold, rain, snow, and excessive heat. It protects their clothing, food supplies, money, TVs, furniture, and financial records from weather, marauding animals, and unfriendly humans. It washes bodies, dishes, and clothing, and captures the resulting sullage. It gives children a place to play and adults a place to garden, have parties, or use a Nordic track. It gives sick people a place to recuperate and to store their medicines. It is where mail is delivered and phone calls come. It provides electrical, gas, water, cable, and internet connections, and parking spaces for cars. Cats get vantage points from which to survey the world, and cooks get ovens and stoves. Houses carry rights, too: their inhabitants get to vote in local elections, send their kids to local public schools, play on municipal tennis courts, borrow books from the local library, object to variances within 200 feet. Where your house is located is also a major determinant of how long you spend commuting, what type of kids your children play with, and how often your parents ask you to take them to the doctor.

Different people value different aspects of this bundle differently. The aspects of this bundle that homeless people care most about for themselves, the aspects we care most about for them, and the aspects the average American cares most about for herself are not necessarily the same.

Ignoring these differences is probably the major reason why section 8, the largest expansible housing program for poor people, is less than an optimal weapon for combatting homelessness. Examining why in more detail is the subject of the next subsection. Subsection B then examines housing programs more appropriate for this task.

A. Section 8

The Section 8-Existing Housing program (hereafter "section 8") is the single largest housing program for poor people in the U.S. today, housing about 1.5 million households, and while supply-side programs like public housing and section 236 house more households in total, most projects in these programs represent commitments made a long time ago. If U.S. housing programs for poor people were to expand, the most likely vehicle would be section 8.

Such a hypothetical expansion could reduce homelessness in two different ways. it could either provide housing to people who would otherwise be homeless, or it could reduce relevant rents so that finding housing would be easier for people who would otherwise be homeless. We have some evidence on each of these causal pathways, and none of it is particularly encouraging.

On the first question, the most recent evidence finds that very few people with the characteristics of homeless people currently live in subsidized housing. This is one of Early's (1998) major findings. Similarly, Crews (1996) shows that people who live in subsidized housing would in the absence of subsidies probably be living in very similar housing, although they would be paying more for it.

Two objections can be raised the Early and Crews results. The first is that they apply to all subsidized housing programs, not just section 8 (although section 8 is big enough that if it were substantially different from the other programs the results would be unlikely to be so strong). The second objection is that the results reflect the current environment where access to section 8 and other housing subsidies is severely rationed. Perhaps only people with great skills in maneuvering through bureaucratic systems succeed in obtaining subsidies now; if section 8's were plentiful enough to be virtually (or actually) an entitlement for those who qualified, bureaucratic lambs like the homeless could obtain them, not just the bureaucratic sharks who obtain them now.

Both objections can be answered with somewhat older data, from the Experimental Housing Allowance Program (EHAP) of the 1970s and 1980s. EHAP was a social experiment (one of the oldest) designed to test various provisions and consequences of what became section 8. In parts of EHAP (the demand experiments), randomly selected low-income households were offered a subsidy on terms very similar to section 8 without any rationing or bureaucratic hoops to jump through; in other parts of EHAP (the supply experiments), similar allowances were made available to *all* qualifying households in two metropolitan areas. If bureaucratic rationing were the major force keeping people like the homeless out of section 8, then EHAP would have shown high participation levels.

But it did not. In the relevant demand experiments, only 45% of households participated and received benefits in Phoenix, 30% in Pittsburgh. In the supply experiments, 42% of households participated in Green Bay, Wisconsin, and 34% in South Bend, Indiana. Participation in all cases was especially low among the poorest households and among one-member households. Nor did the program spur large improvements in housing quality. In order to receive benefits, households had to live in apartments that met certain structural requirements, but a majority of those who received benefits were already living in such high quality housing units before the program started. Of the rest , most were living in units that required only modest repairs (Straszheim, 1981). The EHAP results thus support Early and Crews; universalizing section 8 is unlikely to reach many homeless people.

The reason is easy to see from the design of the program. Households in section 8 have to live in apartments that meet a series of technical standards for structural integrity; in return for doing so, their rent is limited to 30% of their income, and the government pays the landlord the difference between what the household pays and fair market rent. (Technically, these are the rules for section 8 certificates, not vouchers. The rules for vouchers are slightly different, but not materially so. Vouchers are essentially a simple cash reward for living in an apartment that meets standards.) If you would otherwise be paying more than 30% of your income as rent, as many poor households do, section 8 is a monetary reward for living in an apartment that meets structural standards. If you would otherwise be paying less than 30% of your income as rent, as some poor households do (and all households do when they are homeless), then section 8 is an opportunity to live in an apartment that meets structural standards for less than doing so would normally cost you.

The gain from participating in section 8, then, is the opportunity to live in an apartment that meets structural standards; that much is the same for everyone. For households who would otherwise be paying more than 30% of their income in rent, there is also the opportunity to reduce rent payments. Offsetting these benefits of participation are costs: households who would otherwise be paying less than 30% of their income in rent must give up some of the non-housing goods they would otherwise be consuming; households whose current units don't meet the standards must incur the costs of search and moving; these households must also give up the non-structural advantages that induced them to live in their current location.

The EHAP results tell us that for many poor households these costs were quite large, and the value they placed on the structural characteristics incorporated in the HUD standards was quite small. EHAP has been criticized because the short time frame, especially of the demand experiments, may have added to the relative costs of physical relocation and so held down participation rates more than a permanent program would have, and homeless people today might have lower costs of physical relocation than many of the EHAP households. But there is little reason, in light of the Early and Crews results, to think that a great deal has changed.

Indeed, compared with other people with the same income, the homeless have shown themselves to be relatively more concerned with independence, autonomy, location, and non-housing consumption, and relatively less concerned with the structural characteristics HUD worries about.[1] Expanding section 8 would no doubt house some otherwise homeless people, but optimism is not warranted that it would house large numbers of homeless people directly.

Could an expansion of section 8 do the same job indirectly, by driving down rents for the lowest qualities of housing and so making conventional housing more affordable for otherwise homeless people? This seems likely. Expanding section 8 will improve the quality of housing that some households consume, and thus reduce demand for some lower qualities of housing. In standard filtering models, this reduces demand and hence price at all qualities of housing below that which households left. Supply responses (more maintenance of higher qualities of housing, more abandonment) offset these first-order effects, but the offset is not complete.

As a theoretical proposition, this conclusion is fairly robust, appearing in several different models with very different flavors (e.g., Ohls (1975), Rothenberg et al. (1991), Anas and Arnott (1997)). It has never been tested empirically in the U.S., however. The EHAP supply experiments were designed to do so, but participation was so small, and the increases in housing quality so meager, that any price adjustments the experiments caused were too small to detect.

Such empirical non-results do not give us much reason to believe that expanding section 8 will have a big impact on prices. Thus both directly and indirectly, large expansions of section 8 are likely to have some positive impact, but that impact is likely to be modest.

B. Alternatives to Section 8

Section 8 is not the only way to run a housing policy, and expanding section 8 is not the only way to try to reduce homelessness. This subsection will consider some alternatives, most of which have received relatively little attention in recent years.

Supply programs differ from section 8 in only a few ways, none of which make them particularly attractive. Like section 8, they are rent-gap programs that offer housing that meets standards of structural quality. They differ from section 8 in offering participants less locational choice, and costing governments more.

For comparing the other programs we are interested in, a small model can help. Suppose households care about structural quality S and other goods X, both of which are priced at one. All households have Cobb-Douglas utility $\alpha \ln S + (1-\alpha)\ln X but differ in the importance they place on structural quality \alpha \in [0,1]$ and in income y. Thus a housed household in no program has utility U(y)=E(α) + $\ln y where E(\alpha) = \alpha \ln \alpha + (1-\alpha)\ln(1-\alpha) is the entropy of \alpha.$

A homeless household experiences some low level of structural quality s and spends all its income on other goods. Thus $U_h(y) = \alpha \ln s + (1-\alpha)\ln y, and so a household is homeless if \ln y \leq \ln s - 1 \alpha E(\alpha). Figure 1 illustrates. Homeless households have either low income or weak preferences for structural quality or both.$

Alternatively, section 8 offers a fairly high level of structural quality

The binary choice between section 8 and homelessness is simple and independent of income. A household chooses section 8 over homelessness if and only if $\alpha \geq \alpha = \ln \rho \ln \rho + \ln s \Sigma$.

Combining these comparisons yields figure 3. In figure 3 we see that section 8 reduces homelessness only among very poor households with very strong tastes for structural quality–households in the region EHAP told us was not densely populated. Thus far we have merely recapitulated subsection A.

One alternative to section 8 is a rental subsidy program: poor but housed households get a subsidy equal to some percentage of the rent they pay. There is precedent for such a program–this is essentially the form of America's largest housing program, homeowners' tax preferences–and it was tested in EHAP. Participation in the rental subsidy programs was almost twice as high as participation in the section-8-like variant in Phoenix, considerably more than twice as high in Pittsburgh (Straszheim, p. 122).

In our little model, let the rate of subsidy be $(1-p) < 1$. Then the condition for homelessness becomes

$$\ln y \leq \ln s + \ln p - 1$$

which is illustrated in figure 4, where the shaded region represents people removed from homelessness by this program. The program causes a uniform downward shift in the boundary between homelessness and housing. A rental subsidy thus reduces homelessness among people who have weak preferences for structural quality (or more concretely, preferences no weaker than most poor people).

Alternatively, think about an unrestricted grant of $(D-1)y$ dollars to anyone who is conventionally housed–a reward for not being homeless, proportional to your income. The condition for homelessness becomes $\ln y \leq \ln s - 1\alpha E(\alpha) - 1\alpha \ln D which is illustrated in figure 5. Since the last term shrinks (in absolute value) as \alpha$ grows, the boundary shifts down more for low

Do we see anything in the current policy mix that looks like rewards for non-homelessness (just as we see homeowners' tax preferences resembling rental subsidies)? Most providers implicitly recognize this idea by bundling many non-housing services with the structural quality that they offer homeless people. In the model, the important thing about D was not that it was cash, but that it was not structural quality. Instead of cash, providers today generally offer things like food, mental health services, counselling, substance abuse treatment, and case management services, but the idea is the same. Cash may be more of an inducement to leave homelessness per dollar of program budget, but offering services helps resolve a screeing problem my simple model ignores. Everyone likes cash, but a higher proportion of homeless than non-homeless people find, for instance, substance abuse treatment something they value (personally, I don't find substance treatment very attractive, since I don't abuse substances, other than chocolate; but I like cash). One might also argue that services like substance abuse treatment are more valuable to people whose earning abilities are greater, and thus who have higher income.

Considering an income-invariant reward for leaving homelessness presents greater algebraic challenges in our Cobb-Douglas model. Such a reward provides a greater percentage boost in income to homeless people whose incomes are lower and so whose values of α are higher. One cannot unambiguously conclude that such a program would concentrate more on otherwise homeless people with low α than a comparable rent subsidy program.

Of course, there is no reason why rental subsidies and non-homelessness rewards cannot be combined. In fact, the combination of the two was Olsen's policy recommendation in (1981).

These simple non-section 8 subsidy programs are not panaceas. They have many problems: how to phase out the subsidies, how to preserve work incentives (although the income-contingent reward may be a work incentive on net), how to reduce collusion, how to judge their effects on more fundamental grounds like fairness and efficiency rather than simple efficacy in reducing homelessness. The market effects of these programs in a filtering model also need elaboration. Olsen, and I, to a lesser extent, have made some progress on these questions, but not an awful lot–understandably, since they do not seem to be on anyone's agenda, except a few crank economists'.

A final set of policies are closely related to these subsidies, but they are so extremely neoclassical that no one to my knowledge has suggested them. These are Pigouvian subsidies. The US government presumably is interested in encouraging people to consume housing because it believes that many people, left to their own devices, would not buy enough. This applies both to homeless people, for whom it provides physical shelters, and wealthier people, for whom it provides tax shelters.

But remember that housing is a bundle, an extraordinarily heterogeneous bundle. It is very difficult to believe that all components of the bundle provide the same kind of external benefits. I can think of many good reasons why the government should encourage you to provide space for your child to do her homework, but I can think of few reasons why it should encourage you to have a two-car garage or a marble fireplace.

Similarly, with homeless people, it is plausible to argue that other people benefit when they do not inhabit transportation terminals and parks; when their children experience stable home and school environments and have adequate safe, quiet space to study and to play; when they are less susceptible to contagious diseases; when they can participate without shame in the life of the community. It is less plausible to argue that others gain, or gain as much, when otherwise homeless people have less breakable faucets or sounder roofs or wider stairways. But if we subsidize "housing," we subsidize all these things.

The great wisdom of section 8, in this view, is that chose deliberately the parts of the bundle that were to matter. The only things it did wrong were to pick the wrong parts of the bundle, and to use quantity rules rather than price rules. A good Pigouvian scheme would correct these problems. Figuring one out would take a lot of work, but, especially when you consider homeowners' tax preferences, a lot is at stake.

Just as service providers have anticipated the arguments of crank economists in their design of income-contingent rewards for non-homelessness, so too they seem to have grasped the idea that some components of the housing bundle are more important to the public than others are. Providers emphasize what they do to make homeless people well-functioning members of society, not how great their windows are.

4. SUMMARY

The outstanding feature of this paper is that it is totally derivative. Everything I have said somebody else said before, usually more felicitously.

In the early 1980s, housing economists pointed out that the main US housing programs for poor people had two major problems: they were targeted at a constituency that had unusually strong tastes for certain parts of the housing bundle, and those parts were not really the greatest public concern. For instance, Ed Olsen wrote: "I believe the major shortcoming of the housing allowance schemes that have been tried is that, among equally situated families, those in the poorest housing have the lowest participation rates. . . . [T]he worst housed families have the lowest participation rates under a minimum standards housing allowance program because the design of the program ensures that families with the weakest preferences for the housing characteristics covered by the standards receive the smallest benefits." (1981, pp. 369-70, 371} John Quigley and Eric Hanushek wrote: "As particular requirements become more binding, and as less upgrading by eligible households is induced, a housing allowance program incorporating restrictive standards looks more like a general welfare or income transfer program, with eligibility based on household tastes for a given type of housing. The inequities of past housing programs, determined by supply constraints on available units, are replaced by inequalities determined by housing tastes." (1981, p.187)

Empirical studies of current homelessness have been accompanied by what appear to be conflicting stories, but most seem to be consistent with what the early 1980s housing economists were implying: when housing markets tightened, there would be no safety net for poor people who for one reason or another did not place great value on the parts of the housing bundle that section 8 emphasized.

When service providers have tried to deal with homelessness in the last two decades, they have come to the same conclusions that the housing economists came to. As a result, they have designed "anti-section 8" housing programs that remedy many of the deficiencies the housing economists identified. I suspect that Ed Olsen and John Quigley think that nobody listened to them in 1981, but in fact Ellen Baxter and Ralph Nunez and Mary Brosnahan and Martin Osterreich and even Mitch Snyder have acted as if they were listening.

If this were a fairy tale, I would stop here with, "And they all lived happily ever after." Unfortunately, it's not. Indeed pretending that all is well in a prosperous country with the volume of homelessness the US is experiencing would require a tremendous act of make-believe. Economists have much to teach service providers about the advantages, both practical and ethical, of universalism and indirect provision. Service providers have much to teach economists about democracy and how it requires programs whose effectiveness the public can judge without running selection corrections on their home computers.

But that is not today's topic.

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NOTE

1. This statement, as well as the subsequent model, presumes a single unified housing market in each city. People with the same income have the same choice sets. The only reason why people with the same income would wind up in different housing is that they have different tastes.

Such a Walrasian model of housing markets may have serious problems; households with the same income may have different choice sets. Two problems are particularly important.

One problem is race. People of different races may face different markets. Before 1970 or so, the consensus among economists was that African-Americans had to pay more for housing of the same structural quality. If this were still the case, then holding tastes and income constant. African-Americans would be more likely to participate in section 8, more likely to be homeless in the absence of section 8, and more likely to be removed from homelessness by section 8.

There is no consensus that African-Americans have paid higher prices for structural characteristics after about 1970 (if anything, there is a weak consensus in the opposite direction). The consensus about current markets is that African-Americans are constrained in their choice of housing, that most houses they can choose are of lower structural quality than most houses whites can choose, and are in neighborhoods of markedly lower non-structural quality. In this case, it is possible that finding an apartment that meets section 8 standards imposes higher costs on African-Americans, and the rent formula does not compensate for these costs. In order to secure an apartment that meets section 8 standards, African-Americans may have make greater sacrifices in terms of search effort or in terms of forgone locational advantages (like propinquity to friends, relatives, jobs, or mass transit). Then section 8 would be less attractive and helpful to African-Americans, relative to both unsubsidized housing and to homelessness.

The second problem is refusals by landlords to rent to people whose non-racial characteristics signal problem tenancies. Some landlords may not want mentally ill people, substance abusers, or mothers with small children, for instance. Again, as with African-Americans, people whom landlords dislike may have to invest more in search or sacrifice more non-structural aspects of housing in order to get an apartment that meets section 8 standards. Section 8 is less attractive to them, in the same way that it would be if they had weaker tastes for structural quality.

In the text, I will continue to assume that people vary only in tastes, not in opportunities, because this assumption is less controversial, easier to state, briefer, and more in keeping with traditions in the literature. But readers who think that variation in opportunities is systematic and important can easily substitute language they find more agreeable. Such a substitution will only strengthen most of the arguments in this paper.