

Housing, Homelessness, and Segregation



NEWS UPDATE

- The last year has seen a spike in violence against the homeless: a beheading; a sleeping man lit on fire in the staircase of an apartment complex; an attack by four youths on a sleeping woman. Beyond these, however, are dozens of daily acts of violence. What they have in common is that the victims are homeless. Advocates for unhoused people say violence against them is increasing (Kyle Swenson, *The Washington Post*, January 24, 2022).
- Wood Street Commons is a community of homeless people in Oakland, California. For many who live there, the camp has become a place where people help each other, feel accepted, and are able to progress in life at their own pace. “I came here to kill myself,” said one camp resident. “But instead, I found community. I found love. I found hope.” Yet the community has its detractors, including those who view the unhoused with unabashed contempt. They don’t like the idea that these people, including many who may have once made bad choices, should get to plan out their lives and their residences. The solutions are complicated, but their voices must be heard (Amelia Rayno, “The Unhoused Ought Not be Left Unheard,” Editorial, *Minneapolis Star Tribune*, February 6, 2022).

PURPOSE

This chapter continues our focus on topic of equity, and it is the second among the chapters on social issues and government social programs. Unlike other Western industrialized countries, our nation does not have an adequate safety net for the poor, and housing is no exception. This chapter will help students understand that our housing programs are underfunded and insufficient to meet the needs of the poor; and homelessness, high rental payments as a share of income, overcrowded and substandard housing, and foreclosures and evictions are the outcomes. And, since inequality in wealth distribution is inimical to the well-being of African Americans who have been the victims of redlining and other racist housing practices, vast differentials in home-ownership rates perpetuate poverty and inequality. Segregation itself has negative ramifications in terms of educational quality, healthy food, transportation, employment, crime, air and water quality, and a host of other issues. Appendix 6–1 presents information on the mechanics of buying a house, Appendix 6–2 assesses a simultaneous increase in demand and decrease in supply of housing in a single graph (something avoided in the main text), and Appendix 6–3 follows up text material on rental ceilings with other examples of price ceilings.

WHAT'S NEW?

1. Housing activists and style guides are now suggesting we avoid the term “the homeless,” as it is considered derogatory. I’ve used other terms, including “houseless,” “unhoused,” and “people without a home.” I am comfortable referring to homeless people but not “the homeless.” You may wish to explain this to your students.
2. The coronavirus brought forth new challenges for housing, including the closure of shelters and the evictions and foreclosures upon those who lost their jobs and incomes. The opening statement provides a stark description of the homeless crisis that ensued. The 2020 housing crisis was much different from the housing crisis of 2007–2008, and the federal moratorium on evictions and foreclosures and other housing policies during the pandemic were limited in their effectiveness.
3. There is an extended discussion of the implications of unequal distribution of wealth (homes and property), and how this impacts racial and ethnic minorities; and there is renewed discussion of the relation between segregated housing and low standards of living.
4. The housing policies of former President Trump consisted of spending cuts and ending the affirmative action enforcement portion of the Fair Housing Act. In announcing the latter, Trump used racist rhetoric to suggest that low-income people (code for Blacks) would move into low-cost housing, thereby lowering housing values and increasing crime. He also used racist language against refugees hoping to settle in various U.S. communities.
5. The new housing policies of President Biden consist of spending increases and resumption of the affirmative action component of housing policy just referenced. Biden sought to address housing needs in the American Rescue Plan, the bipartisan physical infrastructure bill, and the human infrastructure bill (Build Back Better).
6. Once again, the *Viewpoint* section reveals recent policy perspectives of the economic left and the economic right. These policies address government housing programs, homeless shelters, rental ceilings, affirmative action, and the mortgage interest deduction of the federal personal income tax.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Our students seem quite concerned about homelessness, though they may think in simplistic terms of merely providing more shelters. Explain how more stable long-term policies are important, especially if homeless people are to overcome other impediments besides homelessness. Remind your students that the multifaceted problems experienced by many of our citizens (mental illness, disability, addiction, ...) cannot be effectively addressed until the person has stable housing.
- You may want to encourage your students to watch the movie *The Pursuit of Happyness*, which portrays a somewhat realistic example of homelessness (but a fairly unrealistic outcome). Please don't let students place too much faith in the happy outcome of the movie, since despite being accurate, it is quite unlikely.

➤ *Controversy*

- Students may harbor stereotypes about homeless people: they choose to be homeless; they are happier being homeless; they are alcoholics, addicts, or mentally ill; and they are older people. Are there other stereotypes? Please stress the rising significance of homeless families with children.

- Our students might be surprised to learn the extent of housing segregation that exists in the U.S. today. In this, they are no different from much of our society in thinking that discrimination and segregation were eliminated during the Civil Rights period. Please stress the ramifications of segregation for education, employment, and healthy lifestyles.

➤ *Economic Theory and Models*

- The supply and demand model is used in multiple ways in the text and in two of the appendices. The text models include 1) different increases in demand in two counties in the Twin Cities, resulting in differing housing price increases, 2) a long-term trend of a decreasing supply of low-cost rental housing, and 3) a long-term trend of a rising demand for low-cost rental housing. The latter two trends have occurred together, but we've avoided the practice of shifting more than one curve per graph in the text. It is clear the rental price will increase, but the change in the quantity of rental housing is ambiguous and depends on the relative shifts of the two curves. Appendix 6–2 presents a single graph with the simultaneous shift in both demand and supply.
- Our students, like the rest of the public, do not understand the ramifications of rental ceilings. They view them as useful tools for keeping rents from rising too high. Reinforce the key aspects of the graph: 1) do not shift any curves, 2) label the equilibrium (E) within the graph and the equilibrium price (P_0) and equilibrium quantity (Q_0) along the respective axes (the text uses numerical examples), 3) place a price ceiling (P_C) below the equilibrium price on the price axis, and 4) label the resulting quantity demanded (Q^D) and quantity supplied (Q^S) along the quantity axis. Explain how the outcome is a shortage of rental housing, and that the poor and minorities may well be the ones who suffer most as a result.
- The procedures and ramifications of rental ceilings are useful for generalizing about the impact of price ceilings in other markets. You and your students will probably find Appendix 6–3 on price ceilings very useful in the real world, especially with current issues involving high drug prices and gasoline prices.

➤ *Data and Terminology*

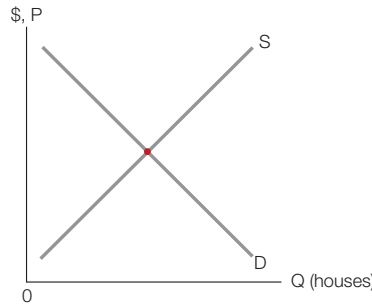
- As the text went to print, most housing data were available through 2019 only, and did not yet include the impact of the 2020 housing crisis and pandemic. You may wish to check with the Census Bureau at www.census.gov to see if 2020 and subsequent data are available, and if so, whether the percent of owner-occupied housing continues to rise and home ownership remains widely disparate for people of different races and ethnicity.
- Data are updated for median housing prices and median gross rents, both as shares of median household income. Both have increased dramatically, making housing less affordable.
- Data are shown for the index of dissimilarity, and students are taught how to calculate this index.

➤ *Fundamentals*

- Inequality and poverty are perpetrated by the lack of wealth in the form of home ownership.
- Racial inequity is also perpetrated by practices of zoning, redlining, other forms of housing discrimination, and the lack of wealth in the form of homeownership. Remember that wealth begets wealth.

CLASSROOM EXERCISES

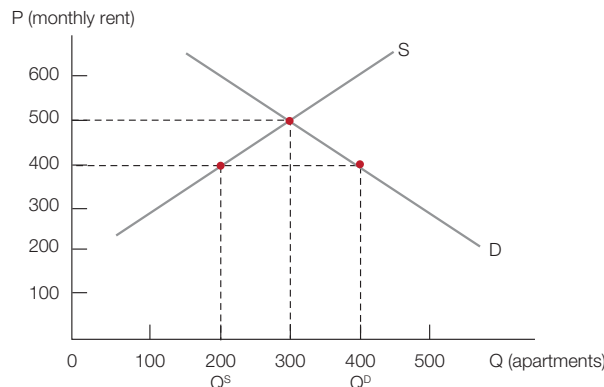
1. Consider the local market for housing below and label the equilibrium point E within the graph. Label the corresponding equilibrium price (P) and quantity (Q) along their respective axes. Shift the curve to show what happens if a major employer closes its factory in this town. [Shift the demand curve backward.] Label the new equilibrium point E' within the graph and label the new equilibrium price (P') and quantity (Q') along their respective axes. What will be the effect on the equilibrium price of housing? [Decrease] On equilibrium quantity of housing? [Decrease].



2. Use supply and demand to assess the implications of the arrival of a new big box store in the town. (The impact of big box stores is controversial, with some saying they drive out local business and others saying they bring in shoppers.) What do your students think?
3. What is the equilibrium rent in the rental market described below? [\$600] How does a rental ceiling of \$400 interfere with the rationing function of price? What is the quantity of rental units demanded [$Q^D = 800$] and supplied [$Q^S = 500$] at the price ceiling?

<u>Quantity Demanded</u>	<u>Monthly Rent</u>	<u>Quantity Supplied</u>
200	\$1,000	800
400	\$800	700
600	\$600	600
800	\$400	500
1,000	\$200	400

4. Assume a rental ceiling of \$400 is imposed on the rental market below. Label the quantity demanded (Q^D) and quantity supplied (Q^S) along the quantity axis. [$Q^D = 400$ and $Q^S = 200$.] What is the effect of the rental ceiling? [There is a shortage of 200 units.] Explain how the rental ceiling interferes with the rationing function of price. [If rent could increase to \$500, quantity supplied would increase to 300 and quantity demanded would decrease to 300. The shortage would disappear, and the market would clear.]

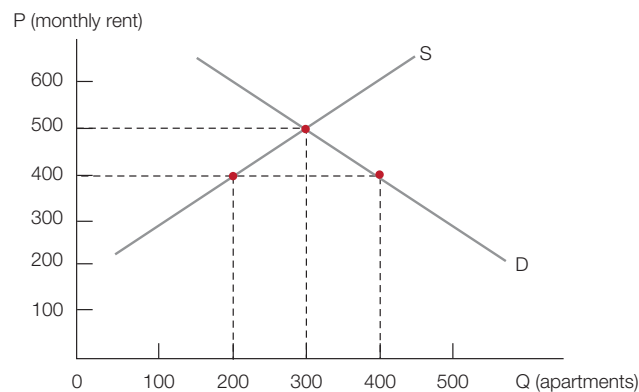


SAMPLE TEST QUESTIONS

Multiple Choice Questions

- Which of the following is true of home ownership?
 - About 65% of housing units are owner-occupied.
 - Home ownership rates have generally been increasing since 1960.
 - Home ownership varies considerably by race and ethnicity.
 - All of the above**
- Which of the following is true about the sales price of a house relative to household income?
 - It has largely risen since 1970.**
 - It dropped dramatically in 2007 amid the housing crisis.
 - It dropped dramatically in 2020 amid the coronavirus pandemic.
 - All of the above
- Which of the following is true about the rental price of a home relative to household income?
 - It has largely risen since 1970.**
 - It dropped dramatically in 2007 amid the housing crisis.
 - It dropped dramatically in 2020 amid the coronavirus pandemic.
 - All of the above
- The city council of College Town imposes rent controls to stop the increase in rent that has occurred over the past year. The likely results of this are a:
 - decrease in discrimination.
 - shortage of rental units.**
 - rapidly growing surplus of rental housing
 - rising rent on rental units.
- The government provides housing subsidies to middle- and upper-income families by:
 - allowing them to live in public housing projects.
 - allowing families to deduct mortgage interest payments from income assessed for income tax purposes.**
 - issuing rental vouchers to them.
 - providing them zero-interest loans.
- Which of the following is true of public housing programs?
 - Management is usually better than in the private sector.
 - They often result in a high concentration of low-income individuals within certain areas.**
 - They are generally better maintained than private sector units.
 - All of the above
- Critics of public housing argue that it:
 - often concentrates poverty into certain areas of a city.
 - benefits the construction industry at least as much as low-income families.
 - is difficult for poor families to move into because waiting lists are so long.
 - all of the above**

8. Assume that the fair market rent on a modest apartment in River City is \$500. A low-income family that earns \$1,000 a month and qualifies for the housing (rent) voucher program must spend 30 percent of its income on rent. If the family rents a two-bedroom apartment for \$500, what would its subsidy be?
- \$210
 - \$240
 - \$200**
 - \$150
9. Suburb A has an index of dissimilarity of 20, while City A has an index of dissimilarity of 75. This means that:
- City A is less racially segregated than Suburb A.
 - City A is more racially segregated than Suburb A.**
 - Neither the city nor the suburb is segregated.
 - Both the city and the suburb are extremely segregated.
10. Assume the local government puts a rental ceiling of \$400 on the housing market below. What would be the effect?



- More poor families can rent apartments.
 - A surplus of 200 apartments.
 - A shortage of 200 apartments.**
 - A shortage of 100 apartments.
11. Rapidly growing economies tend to affect housing markets in which of the following ways?
- Supply decreases, and the price of housing plummets.
 - Demand increases, and the average price of a house rises.**
 - Demand increases, but the average price of housing decreases.
 - Supply may shift, but not demand.
12. Rental ceilings:
- cause housing shortages.
 - increase the likelihood of discrimination.
 - can cause landlords to decrease maintenance of rental units.
 - all of the above**

13. Assume your city has the following two districts. The percentage of African Americans and white Caucasians are as shown. What is the index of dissimilarity?

<u>District</u>	<u>% African American</u>	<u>% Caucasian</u>
A	40	60
B	80	20

- a. 10
 b. 20
 c. **40**
 d. 60
14. In the text discussion of two counties in the Twin Cities area:
- a. demand for housing in the two counties is remarkably identical.
 b. **demand for housing in the county near Prince's estate (Paisley Park) is relatively high.**
 c. the price of housing is identical.
 d. all of the above
15. In 2020:
- a. **the median price of housing increased greatly.**
 b. median income increased greatly.
 c. the median price of housing relative to median income dropped considerably.
 d. all of the above
16. During the 2007–2008 housing crisis,
- a. abundant credit encouraged mortgage lenders offer subprime mortgages.
 b. lenders increased their use of adjustable-rate mortgages (ARMs).
 c. many homeowners suffered foreclosure of their homes.
 d. **all of the above**
17. During the early years of the coronavirus pandemic:
- a. many people sought to buy larger or nicer homes.
 b. many foreclosures were avoided due to a federal ban.
 c. shortages of materials and tradespeople slowed the construction of new houses.
 d. **all of the above**
18. Segregation can occur due to:
- a. redlining.
 b. zoning restrictions.
 c. restrictive housing covenants.
 d. **all of the above**
19. The American Rescue Plan:
- a. **was intended to help people amid the coronavirus pandemic.**
 b. was enacted with an almost equal number of Republican votes as Democratic votes.
 c. restored our economy from the 2007–2008 housing crisis.
 d. all of the above

20. President Biden:
- added an equity leadership team at the Department of Housing and Urban Development.
 - reaffirmed support for homeless services for LGBTQ people.
 - provided funding for housing in Tribal communities.
 - all of the above**
21. An effective housing policy would:
- place limits on subprime lending.
 - avoid rental ceilings
 - expand Section-8 housing or similar types of policy
 - all of the above**
22. Those on the economic right:
- generally oppose affirmative action in housing.
 - generally support only minimal government involvement in housing programs.
 - support market-oriented interventions, such as vouchers, over more extensive government involvement.
 - all of the above**
23. (*Appendix 6–2*) A simultaneous increase in the demand for houses and a decrease in the supply of houses will always cause a:
- rise in price.**
 - rise in quantity.
 - fall in quantity.
 - shortage.
24. (*Appendix 6–3*) An interest rate ceiling:
- is a form of a usury law.
 - is a form of a price ceiling.
 - causes a shortage of loanable funds.
 - all of the above**
25. (*Appendix 6–3*) A perfectly inelastic supply curve means that:
- the quantity available does not change regardless of price.**
 - the price of a good doesn't change, regardless of what happens to the quantity supplied.
 - a price ceiling will result in a surplus.
 - all of the above

True / False Questions

- Non-Hispanic whites have the highest homeownership rate. (T)
- African Americans have the lowest homeownership rate. (T)
- Redlining occurs when mortgages are unfairly denied to minorities in certain neighborhoods. (T)
- A proper way to assess the real price of homes is to consider the sales price relative to median household income. (T)
- A subprime mortgage is a mortgage for someone who doesn't meet the standard borrowing requirements. (T)
- An adjustable-rate mortgage is defined as one with changing borrowers. (F)

7. President Obama used economic policy to take our economy from recession to the longest expansion in U.S. history. (T)
8. By 2021, housing was scarce and prices were high. (T)
9. The price of rental housing relative to median annual income has steadily declined since 1980. (F)
10. Gentrification refers to the purchase of housing largely by older men (gentlemen) with high levels of income. (F)
11. The median price of new housing has generally risen less rapidly than median household income since 2000. (F)
12. Rental ceilings cause shortages of housing. (T)
13. Rental ceilings decrease the likelihood of discrimination in housing markets. (F)
14. A criticism of public housing is that it displaces private housing. (T)
15. The extent of housing segregation is measured by the index of dissimilarity. (T)
16. A housing (rent) voucher pays the difference between the fair market rent on an apartment and 30% of the low-income family's income. (T)
17. An advantage of demand-side, rather than supply-side, housing subsidies is that they serve to increase the private supply of low-income housing. (T)
18. Housing segregation has been virtually eliminated in the United States. (F)
19. The mortgage interest deduction is a subsidy that goes mainly to low-income families. (F)
20. The introduction to the chapter is about the death of homeless people who were ordered to shelter in place during the coronavirus pandemic. (T)
21. Urban renewal and gentrification have decreased the supply of affordable housing for low-income U.S. families. (T)
22. Large shares of African Americans live in central cities, yet they make up small shares of the population in suburbs. (T)
23. Residential segregation contributes to problems of unequal access to good jobs and education. (T)
24. The amount the government spends on housing assistance for low-income people is larger than the value of the mortgage income deduction. (F)
25. A major U.S. housing problem is unaffordability. (T)
26. The share of owner-occupied housing is now higher than in 1960. (T)
27. The homeownership rate of African Americans is well below the national average. (T)
28. Redlining" is the practice of denying mortgages in certain minority neighborhoods. (T)
29. "Gentrification" is the conversion of low-cost apartments into middle- and upper-middle-income housing. (T)
30. Economists generally conclude that rental ceilings are an ideal policy to help low-income renters. (F)
31. Donald Trump sought to increase government funding for low-income housing assistance. (F)
32. Donald Trump sought to extend the "affirmatively furthering" aspect of the Fair Housing Act. (F)
33. The poor are probably those harmed most by rental ceilings. (T)
34. Section-8 housing, like public housing, is inadequately funded to meet the needs of the poor. (T)
35. (*Appendix 6-1*) Mortgage insurance protects the lender if the borrower defaults on the mortgage loan. (T)
36. (*Appendix 6-1*) Expenses paid at the time a loan is finalized and the title is conveyed to the buyer are called closing costs. (T)

37. (*Appendix 6-1*) An ARM is an associated retirement mandate. (F)
38. (*Appendix 6-3*) An interest rate ceiling results in a shortage of loanable funds. (T)
39. (*Appendix 6-3*) A ceiling on football tickets cannot cause a shortage because there is a constant number of seats supplied. (F)

Critical Thinking Questions

1. How is housing segregation related to the problems of poverty, unequal access to quality education, unemployment, and a clean and safe environment?
2. How might the existence of the mortgage interest deduction affect the purchase of a home? What about two homes?