

# Housing I: Eviction and Causal Effects of Place

September 26, 2016

## 1 Plan for the module

### Meeting I: Eviction and Interventions

- Eviction, causal effects of place, current low-income housing policies
- Raises reasons to intervene and centralize/regulate

### Meeting 2: Centralization

- How best to ration?
- Even if not rationing, still need to match dynamically

### Meeting 3: Regulation

- Empirics: Rent control, new construction, land use
- Theory: correcting externalities, assigning property rights

## 2 Eviction

- We want to understand evictions, both formal (when a sheriff with a court order forcefully moves people out) and informal ones (when a landlord takes the door off, etc).
  - The federal government does not do a good job tracking evictions (especially informal ones) and even sources that exist on formal evictions (e.g., court records) tend to be incomplete and lack detail, limiting our understanding of the nature and extent of eviction.
  - Through his eponymous book and research, Matt Desmond has catapulted eviction into the national spotlight
  - Combines ethnography with survey data
  - They launched the Milwaukee Area Renters Study (MARS), which is the first rigorous study on eviction in a major city. (They interviewed 1100 tenants between 2009-2011.)
  - Side note: MARS implements some interesting and clever survey strategies tailored to understanding eviction better, especially given that those being studied are by nature more transient and hard to track down, which was part of the reason for its success. (They had a rate of over 80% respondents.) As a result, it has influenced the American Housing Survey.
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- Quantitative analysis strengthened by anecdotal evidence that eviction is far more pervasive than previously thought
- Huge welfare consequences, poorly understood

What we think we know now:

- Eviction is very, very common. 1 in 8 *per year* in Milwaukee (involuntary displacements)
  - Find that informal evictions are twice as common as formal ones, and there wasn't much evidence of the former prior to this study
  - Predominantly affects the most vulnerable
    - poorest households
    - African Americans, Hispanic renters
    - Women
    - Families with children
    - Specifically black women, who face a 1/5 odds of being evicted at some point in their lives: "Poor black men were locked up. Poor black women were locked out."
  - The main cause of eviction is difficulty paying rent (as opposed the narrative of "bad tenants" who are misbehaving or engaging in crime)
  - Qualifying for government housing assistance is not the biggest problem. These programs can have very long waits (median wait time is 18 months for vouchers and 9 for public housing, for instance!)
  - Low income families often spend more than 50% of their income on housing (under 30% is not considered a burden) and fraction of low income families spending such a high fraction of their income on housing has been increasing: 10% increase since 1991.
  - A quarter of low income families dedicate over 70% of their income on housing!
  - Worst affordable housing crisis since the 1960s, with the reasons being
    - rising rent/utility prices
    - stagnant wages
    - lack of funding for government housing assistance programs, with most of it going to homeowners (e.g., tax breaks on mortgages), thus helping middle+ income families. Over 2/3 of families below poverty line do not receive any assistance at all.
  - Eviction appears to have big consequences:
    - Argues unaffordable housing and resulting instability is a catalyst for a cycle of poverty
    - Health: mental and physical
    - Economic: job loss, costs of moving, losing your stuff
    - Housing and neighborhood quality for future homes
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- Biggest effects may be on the kids

Takeaways:

- Great example of how an unregulated private market can have serious problems
- The magnitudes of these effects are still an open question. Still, combination of anecdotal and quantitative evidence is quite convincing.
- Externalities, frictions, redistribution
- The externalities are:
  - Kids get hurt (even if parents care about their kids, society cares more!)
  - Landlords create congestion in housing market by evicting people
  - Frictions
  - Search costs are high. e.g, it takes time to find a new place
  - Two-sided asymmetric information. Landlords and tenants don't know everything about each other
  - Redistributive
- We have high social welfare weights on those affected
- Willingness/ability to pay to stay in an apartment should not be the only factor.

Best policy solution is unclear. Some ideas:

- Pay more attention to housing/eviction in the poverty debate since more government funding is needed
- Give poor people more money
- Focus on renters than homeowners for current government assistance programs
- Ideas to provide legal assistance to tenants (NYC, which has more regulations protecting renters, sees lower rates of eviction compared to other major cities)

### 3 Causal Effects of Place

Surprisingly, credible evidence is pretty recent. For a long time, it seemed like people cared a lot about where they lived, but it didn't affect economic or social outcomes. Now we think it matters a lot, especially for kids.

MTO is the classic study:

- Offered vouchers to public housing residents.
  - Covered 5 major US cities during 1990s (Boston, NYC, Baltimore, Chicago, LA)
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- Two treatment groups:
  1. Regular voucher offer
  2. Experimental voucher: must use in low-poverty neighborhood and given mobility counseling
- Take-up was lower in experimental voucher group (48%) than regular voucher group (63%)

Here's what we know as of 2013:

- Large gain in subjective well-being
- Health gains for adults: obesity, diabetes, mental health
- Better neighborhood quality (lower-poverty rates)
- Bigger change in experimental voucher group, not surprising
- They report no impact on:
  - Economic self-sufficiency for adults
  - Educational achievement of children
- Some evidence that boys were adversely affected, girls positively affected

Then Raj Chetty linked MTO to the tax data!

- This allows us to look at adults' outcomes for those who moved as children.
- Young kids: higher earnings, educational attainment, non-single-parentness
- Adolescents: small or negative effects
- Argue that exposure duration matters for outcomes
- Consistent with quasi-experimental work comparing siblings in families that move
- Conclusion: (1) Positive effects on children are linear in exposure time, with fixed cost of moving, (2) These programs could pay for themselves (with eventual income taxes from children who improve income as a result)

## 4 Discussion

- Economics has a strong free market history and bias. Economics mostly studies markets that are decentralized and uses prices to determine who gets what. Start with empirical facts on why the market isn't working, what would go wrong if we allocate in the normal free market way. Either we're not using centralized allocation and we might want to, or there already exists a system, and why isn't it working?
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- Econ has gotten better at documenting why markets don't work well: need to be centralized or regulated. First question to ask: in low-income housing, where is the market not working, what is the root cause? Possible causes why the market might fail for low-income housing. (1) Externalities: someone takes an action where they don't pay the cost or internalize the benefit to society as a whole. People care who they live near, what their neighbors are doing, these sorts of externalities. (2) Transaction frictions or costs: too costly to match buyers/sellers properly in a decentralized market. (3) Information friction: if buyers and sellers have information then the market could unravel. Desmond's work on eviction documents this. Search can be costly; centralization is helpful for that. (4) Welfare for a person might not have to do with their willingness to pay. These frictions are present, but the solutions aren't obvious. In these readings, what are the root problems and what might the solutions be? (A friction is anything that prevents a market from working the way it would in a full-information zero-transaction-cost setting.)
  - Housing is not as highly regulated as, for instance, schools. This is partially because a lot of housing is privately paid for.
  - Some key questions in housing policy that weren't exactly mentioned: given a fixed set of resources, how should we allocate them? Do we make housing a priority at all? Why is it not a priority? Econ POV, first question is why don't we just give people more money? What is special about housing that, if we just want to redistribute, why don't we just have a more generous tax and transfer system? One question to keep in mind is, we're worrying about housing stuff, but is that really the problem? Or is the problem that people are poor and don't have enough money to get what they need in the market?
  - Controlling for income is not the same as controlling for how budget-constrained you are. Families with kids might have to spend on immediate needs of the kids instead of rent.
  - Why didn't try to have large scale public housing projects? Likely because of slums 40-50 years ago. Section 8 housing assistance didn't exist until the 70s. Main driver of low-income assistance is the low-income tax credit which didn't exist until 1986. When housing authorities build new housing now, they build lower-density and mix income. Old larger developments are being torn down and replaced with new smaller mixed-income developments.
  - If the government provides goods, we only want to give it to people who we really want to help, so what quality would we make these goods then?
  - A lot of the eviction articles were at least as much about handling shocks to wealth than actual budget. To ask what's the socially optimal outcome or reduce bad outcomes, focusing on the people who aren't able to handle shocks to income/wealth would be at least as important as trying to rank people by income or budget. A traditional CS model would likely focus less on robustness to volatility.
  - Explanation of restricting choices, given that people are optimizing for themselves, is either (1) we have a better picture than they do, (2) they couldn't implement the solution because, maybe, landlords wouldn't let them live there, or (3) something else.
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