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## Not Apples to Oranges: Silicon Valley's Growth and Homelessness

Home to booming tech giants like Google and Apple, Silicon Valley is still not exempt from a common urban issue: homelessness. Just in 2019, Bay Area Council Economic Institute reported that the overall area's "homeless crisis ranks among the worst in the United States." Why is this the case? When the Gold Rush transformed into the "Tech Rush," the new gold became a coveted career in the Bay Area. The demand for homes has thus skyrocketed in recent years. Lured by the status and salary a Silicon-Valley career can bring, starry-eyed programmers remain undeterred by rising rents; the demand for homes is inelastic. For reasons detailed later in this paper, the supply of homes is also inelastic. If left unchecked, this unique combination will substantially harm the economy, as well as society. Thus, the government should interfere.

Firstly, why *should* anyone care? Even without considering ethics, there still stands a significant reason: "negative externality." In economics, it occurs when an activity generates costs to those not directly involved. Thus, there is a marginal *social* cost. For example, as the homeless population grows, government funding for assistance programs must grow as well. The government then will either remove funding from other programs or raise taxes, leaving some (including other markets) disgruntled. Additionally, those who can't find housing may leave in a mass exodus, thus depriving companies of talent and shops of regular business (Uhler, Brian and Garosi, Justin). Evidently, homelessness has a negative domino effect on all of society.

Once one has accepted the crisis, the question of inelastic supply naturally follows. Why doesn't the quantity supplied change with changes in price? ECON-111 provides an explanation: if the quantity demanded is higher than the quantity supplied at the current price, then there is excess demand (a shortage). Consumers will compete, driving the price higher until it reaches

equilibrium. Shifting the supply curve rightwards will only decrease the price. Outside of theory, one can look to government policy. Though the "Wild West" has more free land than other cities with high homelessness rates (like New York), laws may "[create] fiscal [incentives]...to favor new commercial development over residential construction" (Buhayar, Noah, and Cannon, Christopher). Thus, sellers have no wish to build more homes; supply is inelastic.

To more easily examine the issue in an economics context, the negative externality of homelessness can be reinterpreted as the positive externality of homes. With the magnitude of the positive externality subtracted from the cost of production, homes' overall benefit exceeds the cost. However, the equilibrium quantity is currently less than optimal. The market is inefficient; it is not capturing all of the available benefit. Thus, it experiences deadweight loss (loss in total surplus). How can the government encourage the inelastic supply curve to shift rightwards until it reaches the optimal quantity? It should incentivize residential construction through subsidies, with magnitudes equal to the magnitude of the positive externality.



Homes in Silicon Valley
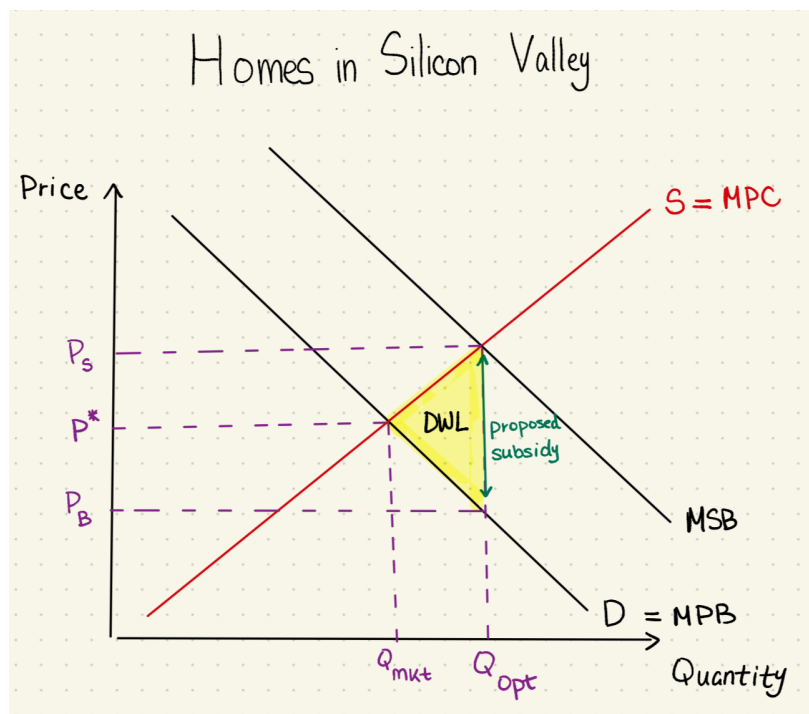
"Money doesn't come from trees," some may argue. "Should we raise taxes? Cut other programs?" Those would be the final resorts; first, the government can reconsider its current policies. More specifically, money funding hostile architecture (which prevents lingering in public spaces) and other anti-homeless policies can instead fund the proposed subsidies. Though both target the homeless crisis, anti-homeless policies too often target a "symptom" and sweep the larger issue under the rug to fester. Subsidies for residential construction would target an aspect of the cause itself. Thus, they may be more effective at providing the ideal situation for current and potential residents alike.

Admittedly, this is easier said than done, and inelastic supply is only one of the many factors of homelessness in the Bay Area. However, a subsidy would be the only effective solution. A tax, on the other hand, would decrease the equilibrium quantity; as the optimal quantity of homes currently lies above the equilibrium quantity, a tax would only increase the pre-existing deadweight loss. Since supply is inelastic, one can additionally conclude that rent control in the form of price ceilings or floors will be hard-pressed to have the desired impact.

In conclusion, the negative externality of homelessness is a great strain on society and the economy. In the same vein, the positive externality of homes is underutilized. If an area is effectively locked in a "stalemate" (such as Silicon Valley's inelastic demand and supply) while operating under the optimal quantity, the home market will generate a significant deadweight loss. Thus, the government should incentivize residential construction with subsidies. When the supply curve shifts to the right, the market will operate at the optimal quantity; more people will be housed. The market is efficient once more, and Silicon Valley has taken one step towards solving its homeless crisis.

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