

3-1 Should You Give Money to Homeless People?

by Derek Thompson

Giving money to the homeless is an economic crisis of the heart. It involves a tug-of-war between the instinct to alleviate suffering and the knowledge that a donation might actually encourage the anguish of the poor.

We're all familiar with our mothers' reasons not to empty our pockets for beggars*. "The best help is a shelter, not a dollar," she's told us. "They'll only use it on [something bad] anyway!"

The studies seem to back up mom, to a degree. One report from the Department of Housing and Urban Development found that six out of ten homeless respondents admitted problems with alcohol or drugs. Given the likelihood of self-reported bias, the actual number could be even higher. Studies on homeless income find that the typical "career panhandler" who dedicates his time overwhelmingly to begging can make between \$600 and \$1,500 a month. But since panhandlers often have no way to save their money, they have a good reason to spend most of their day's earnings quickly. This creates a tendency to spend on short-term relief, rather than long-term needs, which can feed this dependency on alcoholic relief.

The Case for Giving

What do economists say about the instinct to help the homeless? (For these purposes, I'm ignoring the altruism factor, the idea that if giving 50 cents makes us feel good then it's an inherently justifiable donation.) Some argue that giving cash to cash-needy people is the most efficient way to spend it. Indeed, the Congressional Budget Office has stated explicitly that the most efficient government stimulus targets the poorest Americans. And who's poorer than a homeless person? What's more, if you donate to a charity, there are administrative costs and time lags. If you put your money in the hands of a beggar, however, it's fast, easy, and guaranteed to be spent immediately.

But the fact that beggars are likely to spend their money quickly is also the problem. Food stamps are considered highly effective government spending. But they're earmarked for food. Unemployment benefits can go a long way. But recipients have to prove that they're looking for work. A dollar from your hand to a homeless person's has no such strings attached.

But what would happen if we provided both money and strings? Good magazine found a British non-profit that identified 15 long-term homeless people, asked what they needed to change their lives, and just bought it for them. Some asked for items as simple as shoes, or cash to repay a loan. One asked for a camper van. All were given 3,000 pounds and a "broker" to help them manage their budget. Of the 13 who agreed to take part, 11 were off the street within a year, and several entered treatment for addiction.

The lesson: The homeless often need something more than money. They need money and direction. For most homeless people, direction means a job and a roof. A 1999 study from HUD asked homeless people what they needed most: 42 percent said help finding a job; 38 percent said finding housing; 30 percent said paying rent or utilities; 13 percent said training or medical care.

But What Should You Do?

Organizations can do more for the needy than we can with the change in our back pocket. But does that mean we shouldn't give, ever?

The consistently entertaining economist Tyler Cowen worries that giving to beggars induces bad long-term incentives. If you travel to a poor city, for example, you'll find lots of beggars by touristy locations. If the tourists become more generous, the local beggars don't get richer. They only multiply. Generous people attract more beggars. Cowen writes: "The more you give to beggars, the harder beggars will try. This leads to what economists call 'rent exhaustion,' which again limits the net gain to beggars . . . If you are going to give, pick the poor person who is expecting it least."

I'm certain that there are some cases in which donations to an especially needy beggar are justified. But the ultimate danger in panhandling is that we don't give to every beggar. There's not enough change in our purses. We choose to donate money based on the level of perceived need. Beggars know this, so there is an incentive on their part to exaggerate their need, by either lying about their circumstances or letting their appearance visibly deteriorate rather than seek help.

If we drop change in a beggar's hand without donating to a charity, we're acting to relieve our guilt rather than the underlying crisis of poverty. The same thing applies to the beggar who relies on begging for alcohol. In short, both sides fail each other by being lured into a fleeting sense of relief rather than a lasting solution to the problem of homelessness.