

Keen Business Minds at McKinsey Say Wealth Causes Homelessness



By Alex Berezow, PhD — May 11, 2018



Credit: Storyblocks [1]

I once asked a Seattle businessman what he thought of consultants. "They borrow your watch to tell you what time it is," he said coldly.

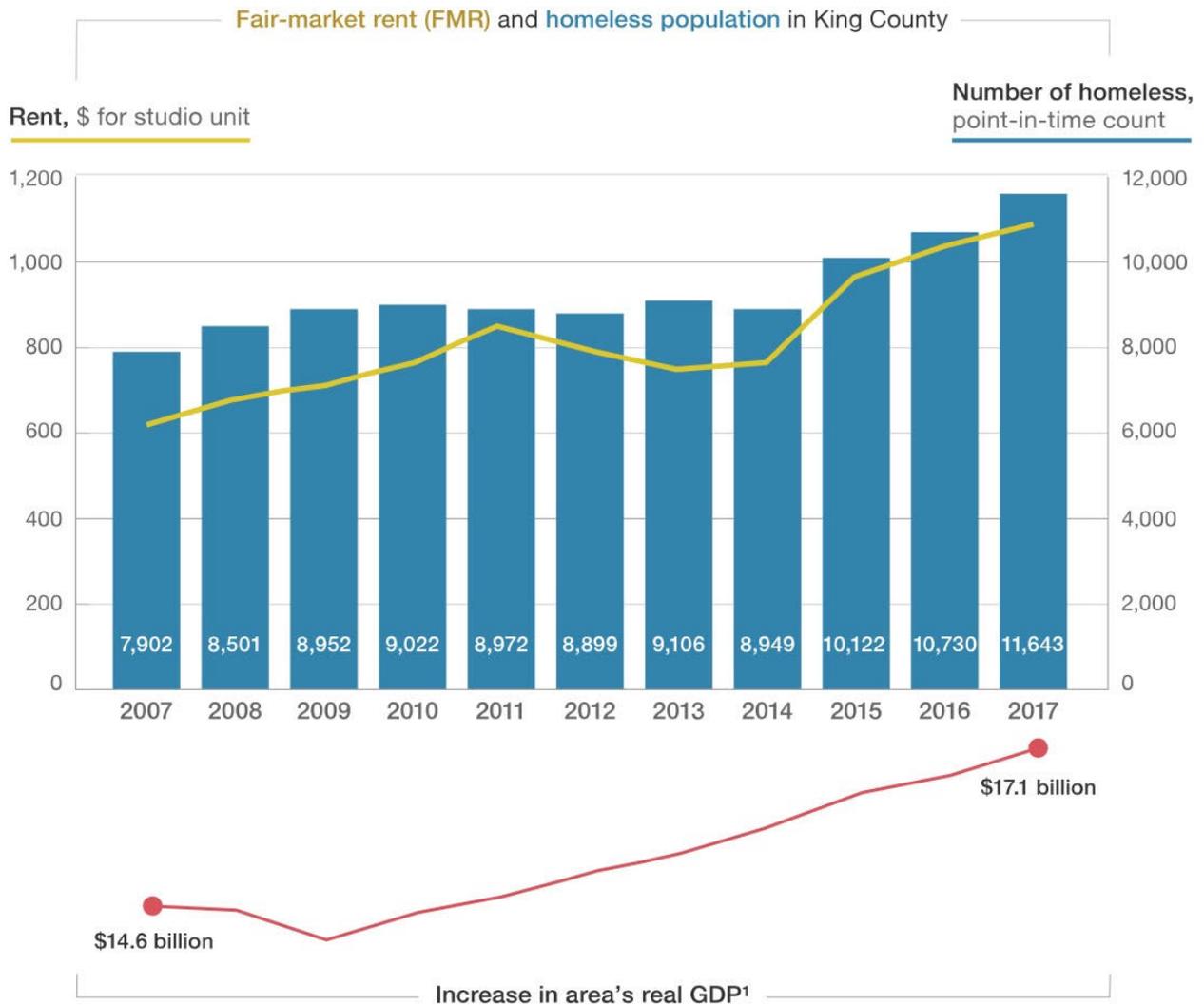
That's not an uncommon sentiment. Despite that, management consulting is roughly a [\\$140-billion industry globally](#) [2]. And McKinsey is widely considered the gold standard. People who work for McKinsey receive a golden ticket to top jobs at nearly any firm in the world.

Given its reputation, one would expect that its reports are smart and insightful. But a recent analysis from McKinsey on homelessness in Seattle is jaw-dropping in its naivete and lack of sophistication.

McKinsey Concludes that Wealth Causes Homelessness

Exhibit

Rent increases in Seattle's King County show a **strong correlation with homelessness**.



¹Real GDP for January 1 of each year, measured in 2009 dollars, not seasonally adjusted.

Source: Fair-market rents and point-in-time (PIT) count from US Department of Housing and Urban Development; King County 2017 PIT count administered by All Home; US Federal Reserve Economic Data

McKinsey&Company

Seattle is in the grips of a homelessness crisis. The city is growing wildly, driven largely by Amazon and other tech firms. Wealth has poured into the city. At the same time, the homeless population has exploded. Therefore, McKinsey **concludes** [3], wealth causes homelessness. They even have a nice correlation to prove it. (See graph.) As GDP goes up, so does homelessness. Case closed.

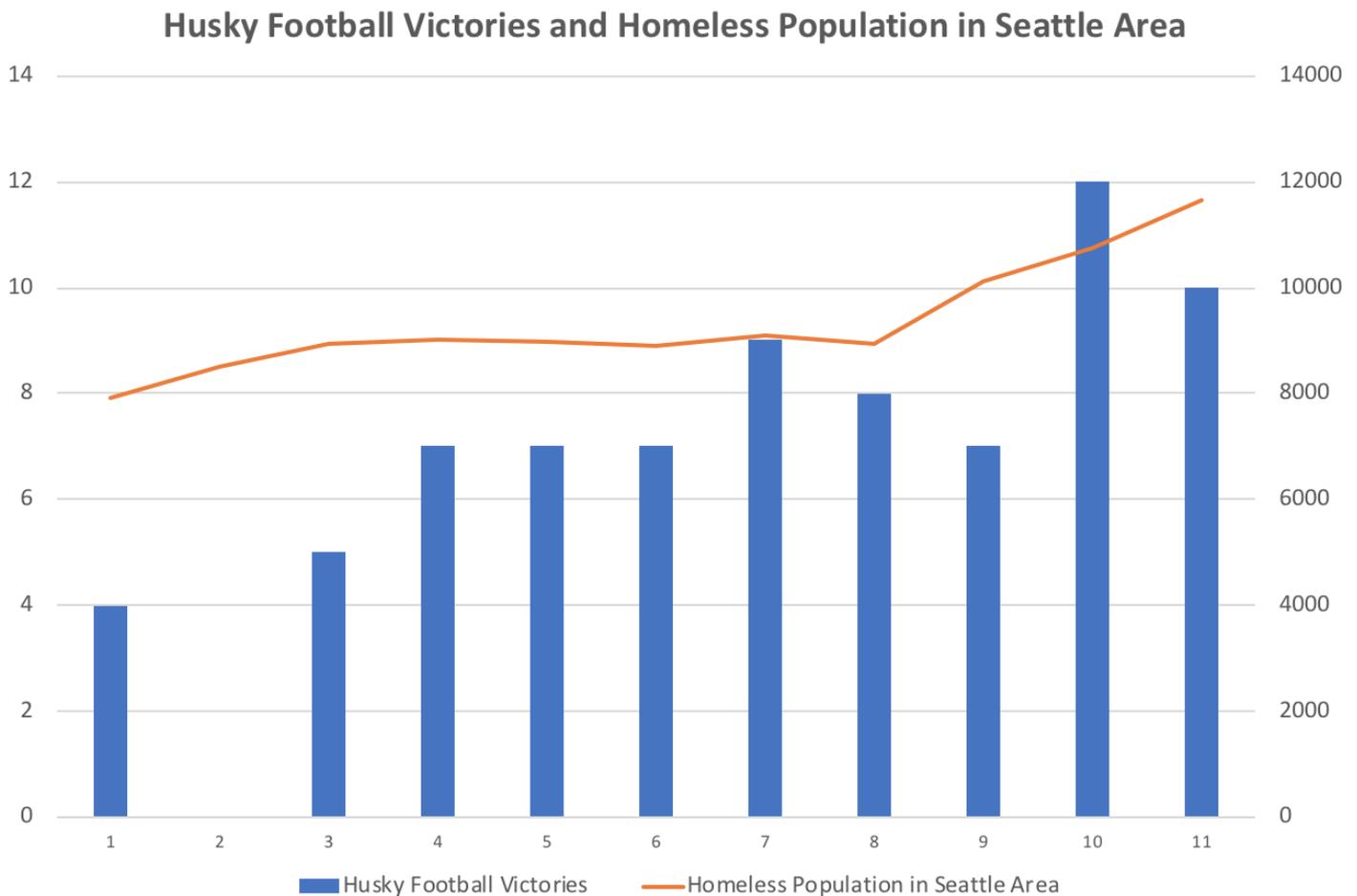
The only problem with that conclusion is that it's insane. There are three major reasons.

#1. It doesn't make sense. George Orwell is quoted as saying, "There are some ideas so absurd that only an intellectual could believe them."¹ This is one of those ideas.

The authors of the report clearly failed to answer a very basic question that we teach to elementary school kids: [Does my answer make sense?](#) ^[4] Obviously, it does not. Wealth is a cure for homelessness, not a cause of it.

If wealth causes poverty -- a self-contradictory statement if there ever was one -- then why are poor countries so desperate to become wealthier? If McKinsey's reasoning holds, we should do everything we can to keep poor countries poor. We don't want to create more homeless people, after all.

#2. Correlation is not causation. It's frankly ridiculous that this needs to be said. Just because A correlates with B does not mean A causes B. To prove the point, here's a correlation ($r = 0.71$) between the number of victories by the University of Washington's Husky football team and the number of homeless people in the Seattle area.²



Look at the shocking increase in the last two years: The Huskies won 12 and 10 football games. Is it really a coincidence that the homeless population spiked at the same time? According to McKinsey's logic, probably not. The solution to homelessness may require UW to win fewer football games.

#3. Many of the real causes of homelessness are uncomfortable to discuss. Homelessness is not caused by wealth. Instead, the [Salvation Army](#) ^[5] lists the following as the primary causes of

homelessness:

- Poverty
- Unemployment
- Lack of affordable housing
- Poor physical or mental health
- Drug and alcohol abuse
- Gambling
- Family and relationship breakdown
- Domestic violence
- Physical and/or sexual abuse

The McKinsey report discusses affordable housing, but once again, misses the mark³. Housing costs in Seattle are astronomical not just because of high demand but because of restrictive zoning policies that artificially cap the housing supply. The [vast majority of the land](#) ^[6] zoned for residential units are occupied by single-family homes. Terrible zoning policies are just as much (if not more) to blame as high demand. Besides, when a family is priced out of Seattle, they move away. They don't pitch a tent on the street.

Let's hope that the analysis McKinsey does for Fortune 500 companies is of better quality.

Notes

(1) He didn't actually say that, but what he did say is [very similar](#) ^[7].

(2) Incredible, I know. The Huskies went winless in 2008. Thanks a lot, Tyrone Willingham.

(3) For more information on how Seattle has messed up affordable housing, see this [post](#) ^[8] by Roger Valdez.

COPYRIGHT © 1978-2016 BY THE AMERICAN COUNCIL ON SCIENCE AND HEALTH

Source URL: <https://www.acsh.org/news/2018/05/11/keen-business-minds-mckinsey-say-wealth-causes-homelessness-12945>

Links

[1] <https://www.storyblocks.com/stock-image/homeless-man-in-the-street-h0itfs5b-j3b9bfob>

[2] <https://www.statista.com/statistics/466460/global-management-consulting-market-size-by-sector/>

[3] <https://www.mckinsey.com/featured-insights/meeting-societys-expectations/booming-cities-unintended-consequences>

[4] <https://www.acsh.org/news/2017/04/14/no-vegetable-oil-wont-make-girls-lazy-tv-watching-diabetics-11133>

[5] <http://www.salvationarmy.org.au/en/Who-We-Are/our-work/Homelessness/Why-are-people-homeless/>

[6] <https://www.seattletimes.com/business/real-estate/amid-seattles-rapid-growth-most-new-housing-restricted-to-a-few-areas/>

[7] <http://p4b.blogspot.com/2010/10/orwell-on-intellectuals.html>

[8] <http://www.seattleforgrowth.org/crosscut-seattle-times-hand-big-win-job-tax-advocates/>