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# THE ROLE OF THE FEDERAL GOVERNMENT IN HOUSING

*By* PAUL F. WENDT

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WASHINGTON, D. C.

# The Role of the Federal Government in Housing

By PAUL F. WENDT

In this study Dr. Paul F. Wendt, Professor of Finance, University of California at Berkeley, traces the evolution of Federal housing policies and programs and evaluates specific programs in terms of their contribution to the solution of the Nation's housing problems.

Dr. Wendt is a consultant on housing, valuation and investments and for the last seven years has been engaged in developing a curriculum in real estate at the University of California and carrying on real estate research. He is a member of the American Institute of Real Estate Appraisers and former Vice President of the American Finance Association. He is the author of the book *Real Estate Appraisal* published in January of this year.

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*By PAUL F. WENDT*

NO. 460 IN THE SERIES "NATIONAL ECONOMIC PROBLEMS"

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## ACKNOWLEDGMENT

The task of evaluating federal housing policy within the compass of a few pages has proven a difficult challenge. Few areas of public policy involve more important economic problems and such wide disagreement. The author confesses to a strong personal leaning in favor of reliance upon private enterprise in the housing field. There is no dearth of literature presenting opposing viewpoints.

Particular acknowledgment is due to Miles Colean and to Leo Grebler, whose writings have been drawn upon heavily in the historical review of the evolution of federal housing policies. Although the views of these and many others are cited to substantiate portions of the author's judgments, the responsibility for the conclusions of the study is his alone.

# THE ROLE OF THE FEDERAL GOVERNMENT IN HOUSING

## I

### INTRODUCTION

FEDERAL HOUSING policies and programs have shifted in their emphasis, expanded and contracted, as various aspects of the housing problem commanded public attention in the United States over the past quarter century. During this period the federal government created an extensive array of governmental agencies charged with administering its housing programs.

Wide disagreement exists as to the proper scope of federal activities, the wisdom of government housing policies, and their administration. Many local governmental officials exert strong pressure to obtain federal support for public housing programs which they feel will be popular with important segments of the voting population. Others resist federal public housing programs as un-American and socialistic. Real estate and homebuilder groups support some federal housing programs strongly, yet vigorously oppose public housing and other special features of federal housing policy. The public, looking back upon an impressive postwar home building record, is confused by contentions of opposing groups that GI financing benefits have resulted in higher home prices to veterans, that liberal housing finance policies are a major contributor to postwar inflationary trends in the economy, and that unprincipled promoters have been the chief beneficiaries of FHA's liberal lending policies.

It is the purpose of this study to trace briefly the evolution of federal government housing policies and programs and to evaluate specific programs in terms of their contribution to the solution of the nation's housing problems.

## II

### EVOLUTION OF GOVERNMENT HOUSING POLICIES

IT CAN BE fairly asserted that the federal government has so extended its powers in the housing field that today it exercises a large element of control over the volume of residential construction, the type, location and size of housing units constructed, residential mortgage loan terms, the planning of new and the re-planning of older residential areas. It has been pointed out that each of these steps in widening federal housing activity has had its special justification in the circumstances of the times.<sup>1</sup>

#### *Origins of Federal Intervention in Housing*

The first action by Congress in the housing field was the appropriation of \$20,000 to finance a survey of slums in large cities in 1892.<sup>2</sup> Since then emphasis in federal housing policies has shifted with the problems of the times. The post-World War I housing shortage gave rise to pressure upon Congress for liberalized home mortgage credit. During the years from 1933-1941, principal emphasis was upon the stimulation of residential construction as a cure for the depression. During the war years from 1942-1945, government policy was in the main directed toward the provision of emergency war housing and the control of rents and building materials required in the war effort. The housing problems of veterans of World War II absorbed principal attention in the years immediately following World War II. During the past few years, following the Korean War, the federal government has been seeking to establish a long-range housing policy, while, it seems, waiting for another emergency to dictate an immediate program. It will be useful to review briefly the principal developments

during these periods as a means to a better understanding of federal housing policy.

Following World War I, several states experimented with a variety of inducements to housebuilding activity. The state of New York initiated a program of tax exemption for new rental construction, Wisconsin passed legislation permitting municipalities to lend funds to housing corporations, the North Dakota legislature authorized direct homebuilding by the State, and California made state funds available for home loans to veterans. Between 1915 and 1931 central mortgage banks of various types were established in New York, California, Florida, Massachusetts, and Ohio.<sup>3</sup>

The creation of the Federal Land Bank System in 1916 established as a principle the direct use of federal funds and the extension of Treasury aid to privately owned mortgage lending institutions. Bills were repeatedly introduced in the Congress during the 1920's and 1930's providing for the establishment of a central mortgage bank. The Federal Home Loan Bank System was finally created in 1932, following a conference on homebuilding and home ownership called by President Hoover in the previous year.

#### *Federal Housing Programs in the Great Depression*

The rising tide of foreclosures on farms and urban properties following the crash in 1929-30 brought about a gradual weakening of mortgage lending institutions and soon resulted in a situation with which existing federal agencies could not cope. The Home Owners Loan Corporation, the Federal Farm Mortgage Corporation, and the RFC Mortgage Company were created during 1933 and 1934 to arrest the foreclosure trend and bolster weakened mortgage lending institutions.

The National Housing Act of 1934 established the Federal Housing Administration, designed to stimulate new mortgage lending by insuring private lenders against loss on new mortgage loans, and the Federal Savings and Loan Insurance Corporation, modeled after the Federal Deposit Insurance Corporation. The Farm Security Administration was established in the Department

of Agriculture in 1936 and provided for the granting of 40-year loans at 3.5 percent interest for tenant purchase of farms. The program of its predecessor, the Resettlement Administration, which had undertaken the development of garden city communities for urban workers, was soon abandoned by the Farm Security Administration.

Direct federal aid for residential construction was provided in the Emergency Relief and Construction Act of 1932, which empowered the RFC to make loans to state-regulated limited-dividend corporations. Although Knickerbocker Village in New York was the only project actually authorized within the first year, several states passed legislation providing for participation in the program.

The National Recovery Act of 1933 provided for the "construction, reconstruction, alteration or repair under public regulation or control of low-rent housing and slum clearance projects," and transferred the housing powers of the RFC to the new Public Works Administration.

The PWA attempted to operate through granting 25- to 35-year loans up to 85 percent of value at four percent interest to limited-dividend corporations. When only seven projects were underway at the end of a year's time, the PWA abandoned the above scheme of operation in favor of a plan under which the federal government acquired land and retained title to the housing. From the date of the start of this policy (February, 1934) to November 1937, when the Housing Division of PWA was succeeded by the United States Housing Authority, 49 developments, comprising 21,441 dwelling units and costing \$129.5 million, were initiated by the PWA. During this period, the improvement of housing was an objective secondary to the use of housebuilding as a cure for the depression. As a result, long-term plans were constantly in conflict with short-run goals for stimulation of employment. Critics of the program pointed to the relatively high unit costs for PWA housing and attributed these to a "mania for durability."<sup>4</sup>

Following the passage of the United States Housing Act in 1937, the functions of the Housing Division of PWA were trans-

ferred to the United States Housing Authority. According to the provisions of this legislation, construction, ownership, and operation of public housing properties were to be under the jurisdiction of local housing authorities. The USHA was empowered to make loans to these authorities representing 90 percent of the cost and to pay annual subsidies which were usually sufficient to meet the carrying charges on the loans. Local governments were required to contribute annual amounts equal to 20 percent of federal contributions, which were usually in the form of property tax abatement. Because obligations of local housing authorities were exempt from federal income taxation, local housing authorities were able to offer their own obligations, secured by a virtual federal guaranty of principal and interest, at rates lower than those at which the federal government could borrow.

The present structure of federal agencies and policies in the housing field was virtually complete by 1937. World War II and its postwar period were to witness a broadening of the federal government's powers and an extension of its activities within this basic framework established during the depression years.

#### *Housing Policies and Programs in World War II*

Observers have pointed out that by 1940 improved economic conditions had dulled the demand for further federal intervention in the housing field and a trend toward withdrawal of government influence in real estate finance was evident. The Federal Land Bank System and the Federal Home Loan Bank System were achieving status within the framework of private financial enterprise. The FHA was operating without further direct federal appropriations and was looked upon as an instrumentality of government designed to serve the private mortgage lenders. The Home Owners Loan Corporation and the Federal Farm Mortgage Corporation were in the process of liquidation, while the ambitious housing programs of the PWA and the Resettlement Administration during the mid-depression years were looked upon as unnecessary and visionary. Meanwhile, private interests in the mortgage finance, building and real estate fields had organ-

ized in opposition to the threat of public housing and Congress had refused requests for additional authorizations for the United States Housing Authority to expand its program.

War preparations in 1941 and 1942 caused a rapid reversal of these trends. Public housing expenditures approximated \$1 billion in three years, about four times the total for the two preceding years. Much of this public residential construction was authorized under the Lanham Act of 1940, providing for temporary housing to shelter war workers. The National Housing Act was amended in 1941 and 1942 to provide for insurance of mortgage loans on new ownership and rental housing for war workers up to 90 percent of current costs. These more liberal terms resulted in substantial increases in FHA-insured loans in the early years of World War II.

The National Housing Agency was created in 1942, combining the Federal Home Loan Bank Board, the Federal Housing Administration, the United States Housing Authority (with name changed to Federal Public Housing Authority) and other wartime housing agencies. The War Production Board granted authority to this agency in 1942 to "program" (i.e., determine the location, amount, price range, proportion of rental to sale, and type of ownership) all residential construction. During this period, all building materials were made subject to price controls and allocations regulations and housing rents were controlled by the Office of Price Administration. Under this system of comprehensive controls the role of private mortgage lenders and homebuilders was reduced to that of aiding in the achievement of government-determined goals.

#### *Post-World War II—Housing the Veteran*

Wartime migration of workers to urban centers combined with high marriage rates of the war years to result in a serious housing shortage following World War II. As a result, the emergency powers employed by the federal government during World War II were continued in the immediate postwar period to channel mortgage credit, materials, and labor into the production of housing for veterans. Federal legislation to aid in this objective

included the Servicemen's Readjustment Act (1944), the Veterans' Emergency Housing Act (1946), the Price Control Extension Act (1946), and the Housing and Rent Act of 1947.

The Servicemen's Readjustment Act, or the "GI Bill of Rights," as it came to be known, provided the basis for the 100-percent veteran's home loan. Since the Veterans Administration initiated its loan guarantee program in mid-1944, it has underwritten over 4 million home loans with a principal amount of \$30.3 billion. At the end of 1954, VA-guaranteed loans accounted for approximately 25 percent of the total mortgage debt on one- to four-family nonfarm homes in the United States. During the first seven months of 1955, VA-guaranteed loans equalled 24 percent and FHA-insured loans equalled an additional 10 percent of a record high total of over \$5½ billion in loan recordings.

The Veterans' Emergency Housing Program provided for the extension of wartime emergency powers over housing and their delegation to the Office of Housing Expediter, who also assumed the direction of the National Housing Agency. Veterans were accorded priority over rental or purchase of newly completed housing accommodations and the RFC was given authority to grant loans and subsidies for the encouragement of the production of building materials and prefabricated housing. In the same year, federal controls were re-established over rents and prices by the Price Control Extension Act of 1946.

The Veterans' Emergency Housing Program failed to accomplish its main objective: to generate rapidly a high volume of housing production. As a result, most of the emergency powers granted to the Housing Expediter were repealed by the Housing and Rent Act of 1947. This Act retained the principle of veterans' preference for occupancy of new housing units and extended the Title VI program under the National Housing Act. The Act permitted voluntary rent increases and provided for decontrol of rents as of February 1948. Eventually, provisions for gradual decontrol of rents by a variety of methods were contained in the Housing Act of 1949 and controls were not finally and completely removed until their expiration in 1954.

Paralleling these postwar developments on the federal level,

28 states adopted veterans' housing programs supplementing federal activities. These programs varied considerably, with some providing for state and local subsidies to veterans for purchase of homes and farms, while others provided for publicly owned temporary or permanent housing for veterans. Approximately a dozen states (including New York, which also controlled commercial rents) enacted residential rent control laws.

From this brief review it can be seen that the general trend toward broad participation by the federal government in housing, which had started during the depression and had been extended to a dominant position during World War II, was continued in the immediate post-World War II years.

### *Groping for a Long-Range Federal Housing Policy*

As the emergency features of the federal government's housing policy receded in importance, attention was increasingly drawn to the need for a long-term federal government housing policy.

Many of the key features of federal housing policy of the thirties originated in the recommendations of "The President's Conference on Home Building and Home Ownership," held in December 1931. President Hoover keynoted one of the major recommendations of this conference in his address at the opening meeting:

I am confident that the sentiment for home ownership is so embedded in the American heart that millions of people who dwell in tenements, apartments, and rented rows of solid brick have the aspiration for wider opportunity in ownership of their own homes.

Over 30 fact-finding and correlating committees participating in this conference representative of government, finance, and industry, formulated recommendations on virtually every aspect of the housing problem. Among the key recommendations which were influential upon federal housing policy were the following:

1. Replacement of the short-term by the long-term amortized mortgage;
2. Provision of more certain and regular flow of long-term housing credit at lower interest costs;

3. Supplementation of private enterprise with governmental aid in solving the housing problems of low-income families in blighted areas;
4. Cost reduction in housebuilding through encouraging large-scale operations.

The influence of these findings upon government housing policy is reflected in the statement of purpose of the National Housing Act, passed in 1934, "to improve nationwide housing standards, provide employment and stimulate industry; to improve conditions with respect to home mortgage financing, to prevent speculative excesses in new mortgages investment, and to eliminate the necessity for costly second mortgage financing by creating a system of mutual mortgage insurance." <sup>6</sup> Other objectives of this Act were "The realization of a greater degree of stability in residential construction" and the "promotion of a freer flow of mortgage funds into and out of securities based on residential properties." <sup>6</sup>

The federal housing policy which has evolved since the 1930's has been based upon the following principles:

1. Basic recognition of housing as a problem of federal government concern;
2. Acceptance of the ideal of individual home ownership as a major goal of federal housing policy;
3. Emphasis upon mortgage finance terms and mortgage institutions as principal avenues to the achievement of wide home ownership;
4. Acceptance of slum clearance as a cooperative venture by federal and local governments;
5. Provision of public housing for low-income groups as an aid in clearance of slums and as a useful employment stimulus.

In his State-of-the-Union message to Congress on January 5, 1949, President Truman called attention to the fact that "five million families were still living in slums and firetraps" and that "three million families share their homes with others." <sup>7</sup> In passing the Housing Act of 1949 the Congress set forth as a national housing objective ". . . the realization as soon as feasible of the

goal of a decent home and a suitable living environment for every American family . . ." and described the policy to be used in attaining that objective as follows:

- (1) Private enterprise shall be encouraged to serve as large a part of the total need as it can;
- (2) Governmental assistance shall be utilized when feasible to enable private enterprise to serve more of the total need;
- (3) Appropriate local public bodies shall be encouraged and assisted to undertake positive programs of encouraging and assisting the development of well-planned, integrated residential neighborhoods, the development and redevelopment of communities, and the production, at lower costs, of housing of sound standards of design, construction, livability, and size for adequate family life; . . .<sup>8</sup>

In its report to President Eisenhower in December 1953, the President's Advisory Committee on Government Housing Policies and Programs expressed general agreement with the broad housing policies established in the Housing Act of 1949 and recommended that housing objectives be realized through long-established federal housing programs. Among the more significant of the recommendations of this Committee, which included strong representation from the mortgage finance and homebuilding industries, were the following:

1. Increased federal grants and loans to local communities for slum clearance and extension of FHA loan insurance to older areas;
2. Continuance of federally subsidized low-rent public housing with specific provisions for priorities in occupancy for low-income families displaced by slum clearance, rehabilitation or public works;
3. Liberalization of terms (increase term of loan and maximum amount of loans) for FHA Title I loans for modernization or repair to existing houses;
4. Formation of a privately owned National Mortgage Marketing Corporation with original capital stock of \$50 million subscribed by lenders eligible to use its facilities (the balance of

- subscriptions required to be subscribed by the Federal Home Loan Banks);
5. Two-year experimentation with 100-percent 40-year FHA loans up to limited dollar amounts;
  6. Reorganization of federal housing activities under a single Administrator with clear supervisory authority.<sup>9</sup>

### III

#### EVALUATION OF GOVERNMENT HOUSING PROGRAMS

CLEARLY, there are various bases for evaluating federal housing programs. Many would hold that the over-all effect of government housing programs upon the economy as a whole is of overwhelming importance. Others might consider that the influence of housing programs upon the institutions of private property, the structure of the housebuilding industry and costs, patterns of family and community life, or the form of metropolitan communities are the major factors to be considered. Viewing the problem more narrowly, some might contend that the evaluation of the government's housing policy should be made in terms of long-run accomplishment in reducing densities and improving the quality of the national housing inventory. Much of the controversy over federal housing policy is obviously due to differences in the yardsticks employed in evaluation.

Although the long-run goals of federal housing policy have changed relatively little during the past quarter century, it has been seen that short-run goals shifted as problems of combating the depression gave way to those of winning World War II and providing homes for veterans. It is proposed to evaluate federal housing programs here in the light of their contribution toward the long-run housing goals set forth in the National Housing Act of 1934 and in the Housing Act of 1949. It must be recognized that these long-run goals have been considered by some to be of secondary importance during World War II as well as at other times during the Great Depression and post-World War II housing emergency.

Principal attention will be given to the summary of accomplish-

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ment of government housing programs under the headings of Mortgage Lending, Public Housing and Slum Clearance. These have represented the keystones of government housing policy since the 1930's and the features of long-run policy over which the greatest controversy has arisen.<sup>10</sup> The accompanying diagram outlines the major housing programs administered in 1953 by the Housing and Home Finance Agency. Changes were made in the relationship of the Home Loan Bank Board and Federal National Mortgage Association to the HHFA and in the organization and name of the Slum Clearance and Urban Redevelopment activities of HHFA. Certain minor phases of the federal housing programs were also abolished by the Housing Acts of 1954 and 1955 as recommended by the President's Advisory Committee on Government Housing Policies and Programs.

#### MORTGAGE LENDING

Greater stability in the flow of residential mortgage funds, longer terms, higher loan-value ratios and lower interest rates have represented major long-term goals of federal housing programs. The implementation of these programs through the Federal Housing Administration, the Federal Home Loan Bank System, and the Veterans Administration has resulted in a tremendous expansion in home mortgage debt, with substantial proportions guaranteed or insured by the federal government. Prior to World War II, approximately one-sixth of the mortgage debt on nonfarm one- to four-family homes was insured or guaranteed by the federal government. By the fall of 1955, the total home mortgage debt had increased to approximately \$86 billion, of which about 37 percent was government underwritten. (\$23.1 billion was VA-guaranteed and \$13.9 billion was FHA-insured.)

During the 1920's the average loan covered about 50 percent of the value of the house with a few savings and loan associations lending as high as 75 percent. Bank and insurance company conventional loans approximated three to six years in duration, while savings and loan companies extended mortgage loans to six to twelve years.<sup>11</sup> A study of typical mortgage terms on new homes in 15 metropolitan areas during the last half of 1949 re-

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vealed that mortgage loans had an average duration of 22 years, with the initial equity averaging about 26 percent of the average loan of \$8,410. One-quarter of the loans required no down payment.<sup>12</sup> Although the data do not permit accurate statistical comparison, it is generally acknowledged that interest charges on first mortgage loans 30 years ago ranged from six to eight percent, which compares with average terms of five to six percent in most areas during the post-World War II years.<sup>13</sup>

There can be little doubt that federal agencies have had an important part in bringing about these structural changes in the mortgage market. Viewing the first decade of federal activity in the home mortgage market, economists generally agreed that: the HOLC had been effective in checking foreclosures and in bailing out financial institutions holding frozen mortgages; the FHA had been effective in encouraging home ownership, improving mortgage lending practices and procedures, reducing mortgage interest rates, raising the quality of new home construction and facilitating the regional flow of mortgage funds; and that the Federal Home Loan Bank System had performed a useful function in encouraging improved business practices by member institutions.<sup>14</sup>

Developments in the post-World War II housing market, however, have raised serious questions as to the long-term influence of federal government mortgage credit policies upon lending practices, mortgage interest rates, stability in residential construction, and residential building costs.

### *Effect on Lending Practices*

Since the inauguration of the HOLC in 1933, the federal government has gradually assumed a larger share of the risk associated with mortgage credit and has progressively widened its supervision over the individual loan transaction. Under government housing policies many home buyers have acquired homes with no equity whatsoever, and lenders are in a position to shift the entire burden of risk on government insured and guaranteed loans to the federal government.

During much of the post-World War II period the Federal

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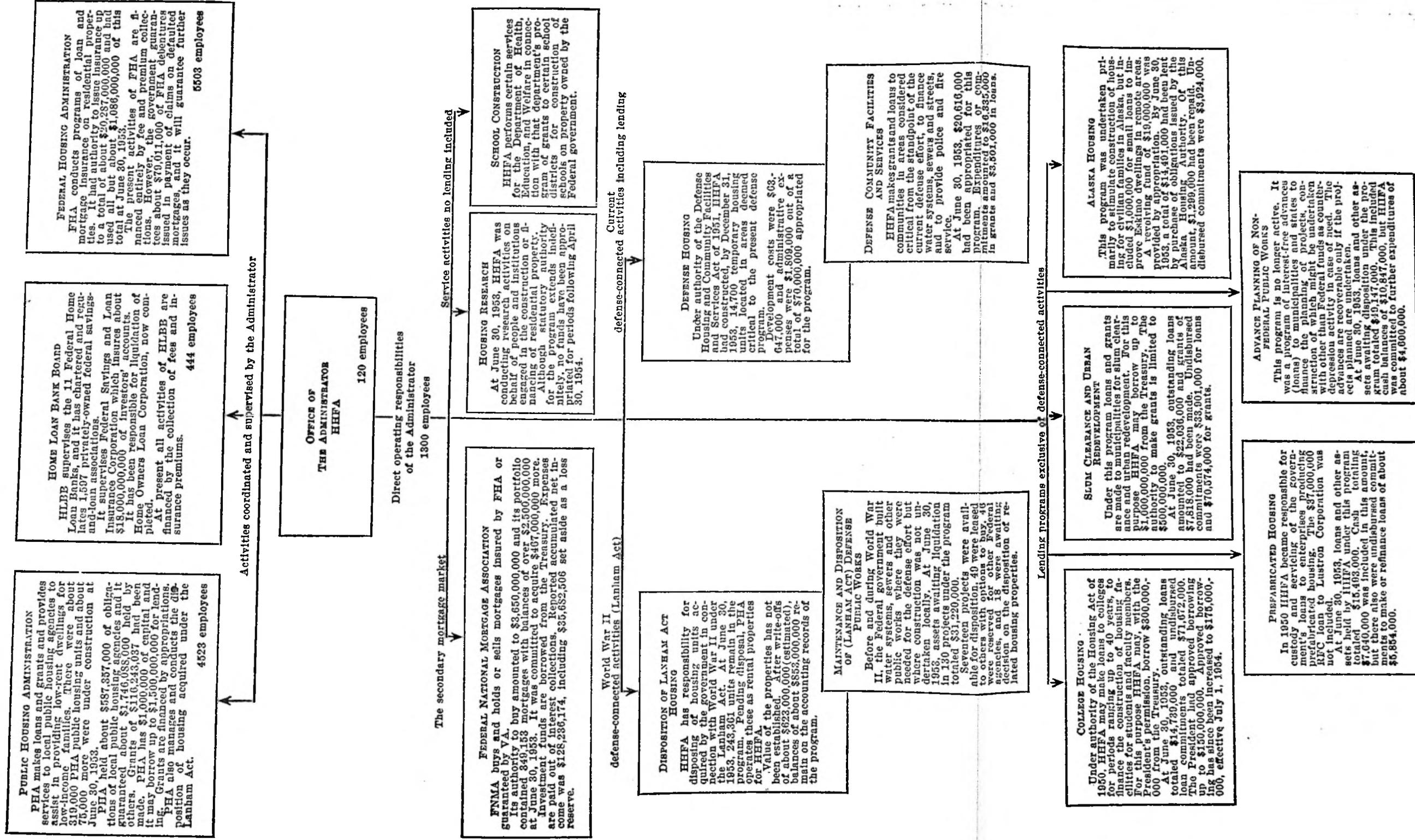
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# MAJOR HOUSING PROGRAMS ADMINISTERED IN 1953 BY THE HOUSING AND HOME FINANCE AGENCY



National Mortgage Association ("Fannie Mae"), designed as an auxiliary to the private secondary mortgage market, served instead as a primary market and dumping ground for original mortgage paper not acceptable in the private mortgage markets. These policies encouraged laxity in private mortgage lending practices. Public confidence in the integrity of government appraisals has been substantially reduced as a result of the post-war liberality of VA appraisals and the FHA "608" scandals.

#### *Effect on Mortgage Interest Rates*

The availability of mortgage credit still varies widely among different geographical areas and over time. Striking evidence of this was at hand from 1951-1955 when the dearth of mortgage funds in certain areas was widely publicized. It has been increasingly apparent during recent years that, barring direct government lending (or its counterpart under the "Fannie Mae" prior commitment policies of 1949-1953), borrowers on mortgages must compete in the money markets with other demands for funds. Nor is it clear that interest costs have been reduced in recent years as a result of FHA and VA home-loan programs. The effect of the postwar practice of "discounting" government-insured and guaranteed loans has generally been to add the amount of the discount to the cost and selling price of the home with the end result that the borrower usually pays interest on a larger loan.<sup>15</sup> The influence of government policies on consumers' costs is explored further below.

#### *Effect on Stability in Housebuilding*

The maintenance of stability in residential construction is part of the general problem of achieving stability in the construction industry and in the economy as a whole. It is not feasible to explore the general problems of economic stability here. Many have pointed out, however, the key importance of stabilizing residential and other construction.<sup>16</sup>

In addition to the use of general fiscal measures to achieve stability in construction, the following specific policies have been recommended:

1. Programming of public construction to offset periods of reduced private construction activity;
2. Variations in down-payment requirements, maximum home mortgage amortization periods and interest rates on FHA and VA insured or guaranteed loans to reduce housing demand during boom periods and stimulate it during periods of low housing demand;
3. Synchronized credit policies by the Federal Home Loan Bank System in its relations with member institutions.<sup>17</sup>

It is not necessary to review the post-World War II housing boom in great detail in order to conclude that these general precepts of a stabilization policy have not been pursued. FHA and VA loan terms have been consistently liberalized as the boom in residential construction has pursued its course, with the result that loan-value ratios have been raised and amortization periods gradually lengthened. The volume of Federal Home Loan Bank advances to member institutions has steadily increased over the past decade, the record balance outstanding in mid-1955 exceeding \$1 billion, more than twice the amount outstanding in 1949. The policies of the Federal National Mortgage Association have served to expand housing demand during periods of peak housing production of recent years. Wholesale prices of building materials and residential building costs have risen by approximately 30 percent during the period from 1947 to June 1955, according to data published in the *Construction Review*. Meanwhile, public and private construction have continued an almost uninterrupted rise.

Commenting on the immediate post-World War II policies, a leading housing economist concluded:

All that can be said with a degree of confidence is that recent governmental policies have done nothing to prevent fluctuations as great as, or even greater, than, those observed in previous periods. They have certainly contributed to the sharp increase in building costs and in prices of new as well as existing houses.<sup>18</sup>

Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System, uttered this warning in November 1947:

One of the most inflationary factors—perhaps the most inflationary single factor—in the present situation is excessively easy mortgage credit for housing . . .

More than half of the current unprecedented volume of mortgage lending is sponsored by the Federal Government under legislation enacted by Congress.<sup>19</sup>

In rebuttal to critics of federal housing policy many argue that:

1. Rising population and real incomes of recent years and the prospects for further increases will require stable production of housing at levels even above those thus far achieved in the post-World War II period;
2. Overproduction of new housing is desirable and should be offset by a large-scale program to remove substandard housing, thus maintaining the demand for new housing and accelerating the filtering mechanism.

Few would question that rising incomes of the postwar years have contributed to the maintenance of high levels of residential construction. Most would contend, however, that the federal government, as a result of its over-stimulation of post-war mortgage credit, has weakened its ability to augment housing demand during the period of reduced family formation which is in prospect for the next five years and that substantial retirements of substandard housing will probably be necessary to maintain production at current levels of over 1 million nonfarm dwelling units per year. Unless the prospects for retirement of existing substandard housing improve greatly, it is feared that the familiar pattern of increased vacancies, declining rents and decreased housing demand will become evident and that residential building will continue its merry up and down course without moderating influences from the federal government's housing policy.<sup>20</sup>

#### *Costs of Federal Mortgage Credit Programs*

Total costs of the mortgage lending programs of the federal government fall in two classifications:

1. Current outlays for administration and losses;
2. Estimated future losses from insurance and guaranty programs.

Current administrative costs for the Federal Housing Administration insurance program are paid from mortgage insurance fees, while the operating costs for the Federal Home Loan Bank System are met from income from advances to member institutions and from investments. The Government Operations Committee of the House of Representatives reported in 1955 that appropriations for the Veterans Administration home loan guaranty program had totaled \$525,211,000 for the nine-year period ending June 30, 1953.<sup>21</sup>

It is impossible to predict with any accuracy the ultimate costs to the federal government of a program involving government insurance and guarantee of approximately \$25 billion in mortgage loans.<sup>22</sup> It is generally agreed, however, that FHA insurance reserves are inadequate to provide for losses which might ensue in a period of sharply declining home prices.<sup>23</sup> Attention has also been drawn to the fact that the Veterans Administration has made no provision for losses in connection with its guarantee of approximately \$9 billion on home mortgage loans.<sup>24</sup> In addition to contingent liabilities under the VA and FHA programs, the federal government may also, in times of stress, have an implicit obligation to support the insurance by the FSLIC of some \$19 billion in depositors insured accounts with savings and loan companies, against which the insured institutions maintained average reserves of approximately 6.8 percent in 1953 and the Federal Savings and Loan Insurance Corporation maintained reserves of approximately .68 percent.<sup>25</sup>

The Federal National Mortgage Association owned over 350,000 mortgages with outstanding principal balances of approximately \$2.6 billion in August 1955. Current income from mortgages held is sufficient to cover current operating expenses. Herculean assumptions regarding future income and price levels and rates of dwelling depreciation would be necessary to forecast future losses to the federal government on "Fannie Mae's" holdings.

It must be concluded that no one knows the costs of the federal government's mortgage credit programs. It is equally clear, however, that the liabilities of the federal government under these

programs are large indeed and that the magnitude of costs cannot be measured in terms of the loss experience during recent years of record prosperity and rising price levels.

#### *Effect of Federal Mortgage Credit Programs on Residential Building Costs*

Reduction in housebuilding costs has been a major long-run objective of federal housing policy. But residential construction cost indexes have increased over 60 percent since the close of World War II, exceeding the rise in both wholesale and retail price indexes. The average construction cost of new single-family homes started in the United States has approximately doubled over the past decade, reflecting in part the trend toward larger home construction. Average monthly mortgage payments in new FHA-insured homes increased from approximately \$46 per month in 1946 to approximately \$68 per month in 1954.<sup>26</sup>

Federal officials have recognized publicly that one collateral effect of increasing liberality in mortgage credit terms during recent years has been to contribute to the increase in building costs and home prices.<sup>27</sup> In the light of the available evidence it must be concluded that whatever may have been the other beneficial effects of the federal government's mortgage credit policy, it has certainly failed to achieve any reduction in housebuilding costs.<sup>28</sup>

#### *Who is Subsidized by Federal Mortgage Credit Programs?*

To the extent that the over-all effect of federal mortgage credit programs has been to raise efficiency in housebuilding, lower interest charges, and provide a better house at a lower cost, it may be claimed that the consumer has received a subsidy measured by the cost to the government of these programs. It has been noted above, however, that the stimulation of housing demand through government insured or guaranteed mortgage loans has in recent years resulted in rising interest and building costs, larger mortgage loans, higher monthly payments, and higher house prices. These are borne by the customer. Some

would argue that consumer incomes have also risen proportionately and that the consumer is still better off. Others point out that the veteran or civilian mortgage loan borrower can always default in the event of a decline in home values and yet has the advantage of the equity owner as long as housing prices and costs continue to rise.

Since housing prices have risen almost continuously since the federal government commenced its participation in the mortgage credit field, it is evident that most consumers who took advantage of government programs to acquire equity in a home have probably benefited financially. One author has concluded that the over-all effect of the federal government's post-World War II programs has been to raise the housing standards of veterans and to give home buyers the option of holding substantial amounts of liquid assets while going into debt to buy a home.<sup>20</sup> It appears much too early to draw conclusions as to the ultimate financial benefits or costs to consumers which may result from participation in government-insured or guaranteed loans. On the nonfinancial side, it might be argued that consumers have benefited generally because of the expansion in home ownership.

Federal mortgage lending programs have subsidized the operations of mortgage lenders and housebuilders, with collateral benefits to title companies, real estate brokers and others who benefit from rising prices and high market turnover. Lending risks on insured and guaranteed loans are small and loan volume has reached record proportions. Meanwhile, the large-scale builder has become almost completely dependent upon the availability of long-term government-insured or guaranteed mortgage credit to maintain output in recent years.<sup>30</sup>

Final conclusions as to the extent to which consumers have been subsidized by federal programs must await the aftermath of the present building boom. It can be stated with much greater assurance, however, that the government-induced housing boom has been a good thing for profits in the mortgage lending, real estate and residential construction industries, and for postwar business prosperity.

## PUBLIC HOUSING

The President's Advisory Committee on Government Housing Policies and Programs concluded in its report in December 1953 that:

It must be recognized that certain of our families, because of their low-income status, are unable to pay the costs of good housing. Also, any speedup in activity designed to cure urban blight will almost surely aggravate the conditions faced by these families and minority groups. Some form of public subsidy is required to meet this problem . . . The Committee is therefore recommending that the program of subsidized low-rent public housing as enacted by the Congress in the Housing Act of 1949 be continued . . .<sup>31</sup>

Substantially similar conclusions have been reached by many congressional committees over a period of years.<sup>32</sup>

In spite of the very general agreement on the nature of the low-income housing problem, the public housing issue has been the subject of long and bitter controversy for almost two decades. Arguments over the government's public housing program have revolved around the following questions:

1. How large a segment of the population of the United States is unable to rent or purchase private housing of acceptable standards?
2. Will the construction of public low-rent housing deter investment in privately owned rental housing?
3. Is it socially, economically and politically desirable to segregate low-income groups in subsidized, publicly-owned housing?
4. Should the government provide *new* housing to the lowest income groups in society?
5. What should be the relative responsibilities of federal versus state and local governments in housing low-income groups?

*Question 1: How large a segment of the population of the United States is unable to rent or purchase private housing of acceptable standards?*

The segment of the population which will require federal housing subsidies will depend upon general economic conditions,

the standards of acceptable housing quality established, the proportions of incomes assumed to be spent for housing, the production volume and rent levels in private housing, and mortgage finance terms available on new and used housing. The range of estimates possible under varying assumptions regarding the above factors is extremely wide. Proponents of public housing have claimed that over one-third of the total number of families in the United States require subsidized public housing. Others have estimated that extension of the generous postwar veterans' mortgage credit terms to consumers generally would have brought *new* housing within reach of over 80 percent of the urban families in the nation.<sup>33</sup>

Developments over the past decade and a half illustrate the important influence of rising incomes in solving the housing problems of low-income groups. The report of the Senate Committee on Banking and Currency accompanying the Housing Act of 1949 pointed out that 19.7 percent of urban families had money incomes in 1947 of less than \$2000, while 30.3 percent had incomes of less than \$2500. According to estimates published in the *Survey of Current Business* for March 1955, only 6 percent of nonfarm families in the United States had incomes in 1953 of less than \$2000 and only 15 percent had incomes below \$3000. *Fortune* predicted in November 1955 that median family incomes in the United States would rise from \$4000 per year in 1955 dollars to \$8000 per year by 1980. Irrespective of the question of the accuracy of such a prediction, it can be concluded that the postwar rise in incomes has greatly reduced the need for low-income housing subsidies and that a gradual rise in real incomes over the years ahead will most certainly effect further reductions.<sup>34</sup>

*Question 2: Will the construction of public low-rent housing deter investment in privately owned rental housing?*

Proponents of public housing claim that it does not compete with privately owned housing because the law provides that the upper limit of rentals in public housing must be 20 percent below

rents in "decent, safe and sanitary" privately owned housing units. They cite evidence to show that private investors are not building new rental units for low-income groups and that rentals in existing private housing are above those which low-income families can afford. It is also contended that public housing is designed and constructed by private business and hence public housing will prove of long-run benefit to private business.<sup>35</sup>

Opponents of public housing have been equally insistent that direct investment by government in rental housing acts as a deterrent to private investment in rental housing for middle- and low-income groups. They point out that low-income groups traditionally live in housing built for occupancy by higher income groups and made available through the filtering process. Dramatic evidence of the persistence of such a force is at hand in any large city in the nation.

To the extent that private investors consider that publicly owned low-rent housing will be available at rentals competitive with used private housing, investors will probably restrict new investment in rental housing for either middle- or low-income groups. (It should be recognized, of course, that such investment decisions could readily be altered by a program such as the former Section 608 FHA loan insurance program, which permitted many investors to "mortgage out" on apartment projects.) Although it is not possible to prove by statistical evidence that public housing deters private investment in rental housing, it appears quite obvious that any decision to invest in housing for present or future occupancy by low-income groups would be adversely affected by direct government participation in furnishing low-rent housing.

Moreover, experience has shown that the provision of new housing of high standards to the lowest-income sectors of the population at subsidized rents frequently leads to demands by the middle-income segments of the population for subsidized housing of equal or better standards.<sup>36</sup> Thus the entrance of the government into the low-rent sector of the housing market may foreshadow government competition with private investment in the middle-income housing market as well.

*Question 3: Is it socially, economically and politically desirable to segregate low-income groups in subsidized, publicly owned housing?*

Public housing literature is replete with pictures of happy children at play in public housing projects and bright contrasts of "before and after." Increasingly, however, public housing is becoming regarded as a new type of ghetto. One writer has said:

... little thought is given on how to fit those whom Shaw called "the undeserving poor" into the picture. Public housing is not the answer. Public housing is for the deserving poor, and not for all of them because public housing must not, by any fell circumstance, have a vacancy. There must be a long waiting list of deservers, so that management—and the politician too, perhaps—can have a threat for the recalcitrant tenant. And the undeserving poor do not want to live in a "project" anyway, if they can scratch together enough to go their own unregenerate way. There are people—not counting the "unsocially minded"—who just do not like to live in rabbit warrens . . .<sup>37</sup>

Others have pointed out that the combination of bureaucratization in public housing management, restrictions upon earnings and initiative of occupants and the fact that "inadequate personalities and problem-type persons tend to accumulate in public housing" supports the view that "public housing has been and is still characterized by a confusion in its basic objectives."<sup>38</sup>

Extensive research will be required to secure complete answers to this, which may be the most fundamental question in the whole public housing controversy. Experience over two decades with federal public housing seems to prompt the answer—There must be a better way!

*Question 4: Should the government provide new housing to the lowest income groups in society?*

This question is basic to the problem of participation of the federal government in low-rent housing. Traditionally, the housing needs of low-income groups in the United States have been provided through the filtering-down of used homes formerly occupied by middle- and upper-income groups. Viewed over the

long term, this system has resulted in higher housing standards in the United States, measured in terms of size of dwelling units, density of occupancy and availability of sanitary facilities, than prevail in any other nation.<sup>39</sup> Few would disagree with the proposition that *if* high volumes of new housing are produced for the upper- and middle-income segments of the population, and *if* the filtering mechanism functions efficiently in causing the removal of the lowest quality of housing from the inventory, the housing standards of the low-income groups will be raised. This is essentially the manner in which the automobile market serves the various income groups requiring cars.

When the United States Housing Act was passed in 1937 the volume of new private residential construction had been severely limited for almost a decade and the prospects of large-scale slum removal through normal market processes appeared slight indeed. The public housing legislation passed in 1937, which has been the basis for subsequent laws, assumed the continuance of these trends and provided for federal loans and annual contributions to local public housing agencies for slum clearance and publicly owned low-rent housing.

The post-World War II building boom has established that high levels of private housing production can be achieved through government sponsored mortgage loan and other fiscal measures. It is also true that a collateral result of large-scale residential, commercial, and public building has been to bring about a high rate of removal of older dwellings. It is generally acknowledged, however, that few local governments have used their powers fully to raise physical and occupancy standards in housing with the result that overcrowding persists in substandard housing in the United States.<sup>40</sup> It can be argued, therefore, that the filtering process is working in some measure at the present time and can be made to function even more efficiently by government action to require the removal of substandard housing and prohibit overcrowding. This has important implications for federal public housing policy.

It was contended above that direct public investment in subsidized public housing deters private investment in remodeling or

improvement of housing which might be in competition with public housing. It has also been suggested that the logical result of the furnishing of new housing of high standards to the lowest-income groups is to encourage middle-income groups to demand housing subsidies. It would seem to follow that participation of the federal government in a low-rent public housing program is not a supplement to the efforts of private enterprise in housing, but a deterrent. As will be seen in more detail below, many avenues remain through which the government can encourage private investment in housing for low-income families and remove housing unfit for occupancy.

*Question 5: What should be the relative responsibilities of federal versus state and local governments in housing low-income groups?*

Congress sounded the keynote which continues as the guide for low-rent public housing policy in the opening section of the 1937 Act:

It is the policy of the United States to promote the general welfare of the nation by employing its finances and credit to assist the several states and their political subdivisions to alleviate present and recurring unemployment and to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe and sanitary dwellings for families of low income in rural or urban communities which are injurious to the health, safety and morals of the citizens of the nation.<sup>41</sup>

The dire fiscal straits of state and local governments during the depression and the fact that the federal public housing program was conceived primarily as an employment stimulus account for the fact that all but five states enacted legislation to permit municipalities to build and operate public housing with the aid of the federal government during the 1930's.

Most people agree that federal control of local housing policies is undesirable. Federal housing statutes provide for local initiative, responsibility and ownership of federally aided public low-rent housing. Experience has demonstrated that the control by the federal government of annual grants to municipal housing authorities along with the control exercised through interpreta-

tion of contract provisions with local housing agencies result in considerable supervision by the federal government over local public housing policies.<sup>42</sup>

Most states have been unwilling to appropriate funds to meet the housing needs of low-income groups and have been content to have the national government assume this burden. State aided housing programs have been initiated in Connecticut, New Jersey, Massachusetts and New York.<sup>43</sup>

Calling attention to the neglect by local and state governments of their basic responsibilities in housing, the Commission on Intergovernmental Relations, made up of representatives of the Congress, state and local governments, federal and other agencies, recommended that

. . . State governments assume considerably increased responsibility for meeting housing needs which are beyond the combined resources of private initiative and local units of government.<sup>44</sup>

The Commission on Organization of the Executive Branch of the Government commented as follows on recent housing legislation:

The Housing Act of 1954 could mark the beginning of one of the most significant shifts in governmental viewpoint ever accepted by the Congress of the United States. The man who heads the HHFA after its effective date must concern himself as a manager, with the entire problem of planning the Nation's cities on a national basis. . . .

The task force is apprehensive over the trend of these developments which threaten to reduce further and further the fields in which individual American citizens will have responsibility for and influence over the conduct of their personal and home town affairs.<sup>45</sup>

Personal opinions regarding the relative responsibilities of federal versus state and local governments for providing housing vary widely. The author agrees with the conclusions of the Commission on Intergovernmental Relations that "Federal aid for low-rent housing and slum clearance originated because of

the inability or unwillingness of the municipalities, but more generally the unwillingness of States, to meet and solve their problems,"<sup>46</sup> and that "a positive program at the State level would reduce municipal demands upon the National Government." It would seem to be a fair prediction, however, that few states will initiate such programs as long as the federal government shows willingness to appropriate funds for local low-rent housing subsidies.

Strong arguments can and have been made in support of federal public housing. The program strikes directly at the root of the housing problem of low-income groups by providing housing of acceptable standards to needy families. Although there is room for argument over the number of families requiring housing subsidies, it is clear that substantial numbers of low-income families are not able to afford private housing of acceptable standards.

It has been seen, however, that strong bases exist for the arguments of those opposed to federal public housing. Provision of new publicly owned housing to low-income groups undoubtedly deters private investment in new or rehabilitated housing for these groups. Federal housing subsidies to special low-income groups segregated in publicly owned housing provide an all too attractive springboard for local politicians. Further, the isolation of subsidized low-income and minority groups in public housing appears undesirable from the social point of view. The provision of new housing to the lowest income groups in society has already brought about demands for similar housing subsidies by middle-income groups. Federal supervision is a necessary accompaniment to federal housing subsidies. Extension and continuance of federal subsidies will encourage the undesirable and unmistakable trend for state and local governments to shift responsibilities for housing low-income groups to the federal government.

The federal public housing program falls far short of an ideal solution to the problem of housing low-income groups. In view of its obvious shortcomings it is surprising that no wide-scale experimentation with other solutions to the problem of housing

low-income families has been tried since the inauguration of the federal public housing policy in 1937. In part this is a result of the failure of state governments to assume their share of responsibility in solving this problem. Alternative possibilities for approaching this problem are numerous and include the use of capital grants, property and income tax subsidies, encouragement of cooperatives, rent certificates, and family income subsidies.

Although it is not possible to explore these in detail here, it may be concluded that experimentation on the state level with alternative solutions should be encouraged to the end that state and local governments can meet their responsibilities to the indigent of society without counterbalancing the forces of private enterprise that are working toward the solution of the same problem. Much can be learned from examining the experience of other nations which have tried various solutions to the housing problem.<sup>47</sup>

#### SLUM CLEARANCE, URBAN REDEVELOPMENT AND RENEWAL

Cities undergo constant change with growth and shifts in economic functions, obsolescence, and changes in technology. The development of great cities has resulted from a continuous and dynamic succession of land uses through public and private investment. It is in the nature of this process that segments of cities will be old and worn out at any given time and that inevitably some cities will decline in area and importance. The problem of urban slums and blight arises when the processes of renewal through private investment appear to be permanently interrupted. It has long been recognized that any realistic program for the improvement of urban housing would require a broad-scale attack upon this problem.<sup>48</sup>

##### *Causes of Slums and Blight*

The problems of urban blight go far beyond the consideration of housing low-income families living in slums, and their causes must be sought in the complexity of factors affecting urban real estate investment. One of the underlying causes of the interruption of the urban renewal process is found in the serious finan-

cial problems which have plagued American cities and in the fact that cities have relied so heavily upon real estate as the basis for municipal revenues. Allied to this is the cumulative obsolescence which has occurred in streets, transportation services, schools and other public facilities within cities. Undoubtedly the tremendous stimulus to home ownership through federal mortgage insurance programs has combined with the forces of industrial and commercial dispersion to direct residential investment to ownership housing in outlying areas beyond the reach of the central city taxes. A third basic cause of slums is to be found in the conditions of housing shortage which have prevailed in many of our large cities for almost half a century. These conditions have had particular impact upon racial minorities and low-income groups with less residential mobility than others.

As a result of housing shortages, landlords have received continuous incomes from substandard properties; city officials have failed to establish and enforce minimum housing standards, and the slums endure. The imposition of federal rent controls during World War II and its aftermath and their continuance in some cities and states reduced maintenance standards in urban rental housing and deterred new investment or renovation of substandard housing.<sup>49</sup> Another obstacle to the functioning of the renewal processes is to be found in the diversity of property ownership in cities and in the fact that owners hold out for high prices in the expectation of the growth of new commercial or residential areas.<sup>50</sup>

The attack on the problem of slums and blight has been complicated not only because of its complexity but because of the wide differences in point of view of those concerned with the problem. Professional "housers" view slums primarily as an arena for public housing:

Comprehensive redevelopment, . . . could never become a reality in most localities without a continuous public housing program on a major scale.<sup>51</sup>

Downtown merchants support urban redevelopment in order to draw population and purchasing power back to the central city.

Investors and property owners view it as a means of bolstering property values and municipal finances but are strongly opposed to public housing. City planners look upon urban redevelopment as a golden opportunity to achieve more rational land use in central areas of cities. Recently homebuilding and real estate groups have mobilized strongly behind urban renewal as a means of revitalizing the filtering processes in housing and forestalling public housers. These differences in viewpoints have prompted the comment that: "Seldom has such a variegated crew of would-be angels tried to sit on the same pin at the same time."<sup>52</sup>

#### *Federal Aid for Slum Clearance and Redevelopment*

It was noted above that the entry of the government into the field of local slum clearance was primarily a pump priming measure during the Depression and that accomplishment was negligible. The Housing Act of 1937 approached the problem of urban blight as a housing problem alone and sought to remove slums by requiring that a substandard dwelling be eliminated for every low-rent public housing unit built. This "equivalent elimination" doctrine has served to link slum clearance with federal public housing ever since the passage of the 1937 Act.

In the Housing Act of 1949 the Congress recognized that a comprehensive attack upon the slum problem must be broader than was possible under a public housing program alone and provided for participation by private enterprise in the redevelopment of slum areas. The Act authorized the HHFA to make loans up to \$1 billion and grants up to \$500 million to localities to assemble land, clear slums, and make the areas available for redevelopment by either public or private enterprise.

The Housing Act of 1949 continued the former emphasis upon the provision of public housing in redevelopment by requiring that adequate housing must be made available to all families displaced by redevelopment projects under the Act. The standards of "adequacy" in terms of quality, location, and rentals were such that they could be satisfied only by public housing in most localities. In order to link public housing more closely with

federal redevelopment, the Act required that (except in the case of veterans for a five-year period) admission to low-rent housing should be restricted to families coming from substandard dwellings and that families displaced by redevelopment should be given preference for admission to public housing in each locality.<sup>53</sup>

In setting up an "Urban Renewal Fund," the Housing Act of 1954 liberalized the conditions under which the HHFA could make advances, loans and grants to communities for planning and carrying out urban renewal and set forth the criteria to be used by the Administrator in determining whether or not a city had undertaken a "positive program" for the prevention of blight and a "workable program" for dealing with slums and blight.<sup>54</sup> The 1954 Act continued the limitation in former laws that occupancy of new public housing be limited to displacees from governmental redevelopment or to families coming from substandard dwellings.<sup>55</sup>

Acting upon the recommendations of The President's Advisory Committee on Government Housing Policies and Programs, Congress also provided for FHA insurance of long-term loans for the rehabilitation of existing dwellings and construction of new dwellings in urban renewal areas in the Housing Act of 1954. (Sections 220-221.) Critics have pointed out, however, that these and other federal programs for encouraging rental housing construction have proven abortive.<sup>56</sup>

The main features of the federal government's current program for aiding in slum clearance and urban renewal are:

1. Federal capital grants to local redevelopment agencies to aid in the acquisition of land for redevelopment in the amount of two-thirds of the difference between acquisition cost of the land and its value for sale for future development (net project cost);
2. Federal loans and technical aid for surveys, plans and other assistance to local governments in the elimination of slums and blighted areas;
3. Encouragement of the adoption of "positive" and "workable" programs for the prevention and elimination of slums and

blight through the requirement of such programs as a condition for receiving federal assistance;

4. Emphasis upon relocation of former slum dwellers as a major feature of any federally aided redevelopment plans.

It was reported as of June 1955 that 99 urban redevelopment projects had reached the project execution stage in the nation, 104 were in the final planning stages and 94 were in preliminary planning stages and that two-thirds of the states had enacted legislation authorizing local public agencies to undertake slum clearance and urban redevelopment projects.<sup>57</sup>

The use of eminent domain to facilitate assembly of land for redevelopment is the most important single factor encouraging new private investment in slum and blighted areas. Based upon experience thus far, it appears that the scheme for federal and local subsidies to permit the sale of land at less than cost of assembly is not so large a factor in inducing private investment in redevelopment as many believe.<sup>58</sup> The subsidies appear less attractive when the obligations of purchasers set forth in the Housing Act of 1954 are considered.

The success of urban renewal programs, by common agreement, depends upon the encouragement of large-scale private investment in rental housing.<sup>59</sup> In the light of this it is discouraging that federal housing policies generally have failed to attract private investment in rental properties. A critic points out that:

The whole FHA rental housing experience, including the aftermath of investigation, accusation, blacklisting and general hubbub, is a perfect example of missing the main point . . . The problem of equity investment in rental property is not one of getting the money in but of getting it out.<sup>60</sup>

The lack of a consistent long-range program to attract private capital to investment in rental housing has resulted in the practical elimination of federal mortgage insurance as a feature in financing rental housing property since the days of the "608."

The consistent attempt upon the part of federal and local government officials to include public housing construction in redevelopment plans as a solution to the relocation problem has

served further to discourage private investment in rehabilitation or construction of new rental housing in these areas.

*Relocation—The Great Dilemma*

Opinions vary widely as to the need for low-income housing in central areas. Supporting arguments are usually based upon the need for housing close to place of employment and for maintaining labor supply and purchasing power in the central city. The restrictions upon the movements of minority racial groups are also cited as a major reason for providing housing for minorities in areas of present location. Those opposed to the policy of providing housing for low-income groups in downtown areas point out that it is financially unsound to use high-cost land for low-income housing, that the high densities which result are undesirable for family living, and that the use of land in central areas for low-income housing precludes more productive uses.

Clearly, no categorical resolution of these opposing arguments is feasible and conditions will vary widely in individual cities. This author concludes, however, that the basic premise of the federal government's slum clearance and redevelopment policy—namely, that slum dwellers should be relocated in new, low-income housing on high value land close to downtown areas—is unsound and may be an obstacle to the solution of the over-all problem of urban renewal.

What then is the solution to the housing problems of slum dwellers? If a rehabilitation program is made to work and if cities pursue a vigorous policy of code enforcement, many present slum dwellers will be able to occupy living accommodations in or near present locations. Those displaced by removal of substandard housing must "filter up" into used housing vacated by other income groups. Viewed in this light, the key requirement for successful relocation of slum dwellers is the maintenance of high production levels of new ownership and rental housing and the furtherance of rehabilitation.

Housing the indigent is primarily the responsibility of State and local governments. In view of the conspicuous lack of success in the federal low-income housing program, experimentation

with alternative types of subsidies and housing appears warranted. The solution to the problem of minority housing is in many ways the key to progress in relocation and in turn to accomplishment of urban renewal. Like Caesar's ghost, the minority housing problem haunts the policy makers. If racial tolerance is limited to government-owned housing, the range of solutions is a narrow one.

## IV

### SUMMARY AND RECOMMENDATIONS

RATIONAL LONG-RUN objectives for federal housing policy were generally agreed upon prior to the 1930's. Evaluation of the success of federal housing programs is made difficult by the fact that shifting short-run objectives have assumed prime importance during the past quarter century. Emphasis in housing policy during the depression was upon creating employment. Long-run housing objectives were subordinated during World War II to the wartime aims of conserving materials, controlling rents, and housing war workers. Following World War II the long-run objectives of stability and cost reduction were put aside in order to meet the emergency of housing the veteran. Events of recent years point to the need for a re-orientation of housing policies and an appraisal of present federal housing programs.

Improvement in the flow of mortgage funds into housing, the stimulation of home ownership and the raising of residential construction standards appear to be the most significant accomplishments of federal housing programs since the entry of the federal government into this field in the early thirties. The achievement of these objectives, however, has been offset by significant failures in other phases of federal housing policy and by basic weaknesses in federal mortgage finance programs. Indications are that postwar housing policies have not contributed to long-term stability in residential construction or to cost reduction. Excessive liberality in mortgage finance terms has contributed to general inflationary tendencies in the economy and has resulted in price rises in the residential market. Generally, federal mortgage insurance programs have failed to encourage private rental construction over any sustained period. Many hold

that the overstimulation of ownership housing has resulted in an imbalance between rental and ownership housing and has encouraged irrational patterns of urban growth.

The federal government has progressively assumed a larger share of the risk associated with mortgage credit and of the responsibility for directing the flow of credit into government approved programs. Federal programs under which neither the borrower nor the lender share in any of the risk on loans secured by residential property do not contribute to sound mortgage finance. The dual system of FHA and VA insurance and guaranty is costly and inefficient and has led to a breakdown in the integrity of federal appraisal policies.

Housing for the indigent and for minority racial groups presents major problems. Attention is drawn to the key importance of raising family incomes as a contribution to the solution of these problems. State and local governments have shifted the basic responsibility for housing low-income groups to the federal government, which entered this field during the depression in order to stimulate employment. One undesirable result of this shift has been to freeze policy into a federal mold and limit experimentation by states with alternative solutions to the problem. The federal public housing program appears forthright on its face as a solution to the problem of housing the indigent and provides one solution to the special problems of minorities. Two decades of experience, however, indicate that it acts as a deterrent to private investment and to the functioning of the private housing market and that it has undesirable social, economic, and political effects. In the author's opinion, solution to the low-income problem calls for primary reliance upon private enterprise, aided and encouraged through governmental subsidies. The federal public housing program which has been in effect for two decades fails to meet these qualifications.

Urban renewal requires a revival of public and private investment. The critical financial problems of cities, high taxes, physical obsolescence, and the lack of incentives to invest in rental housing have been major obstacles to new investment in cities. The chronic housing shortages brought about by the

breakdown in investment and the special housing problems of low-income groups have resulted in an appalling neglect by cities in the enforcement of housing standards. The removal of slums and substandard housing is, however, the keystone of the nation's housing program, since the future of our cities, the continuance of high levels of production of new housing, and the improvement of the housing conditions of low-income groups rest squarely upon progress in urban renewal.

Until recent years, federal programs in slum clearance and redevelopment failed to recognize that the problem of urban renewal is much broader than the low-income housing problem alone. Preoccupation with high-density federal public housing as a solution to the problem of urban slums has accounted in substantial part for the lack of significant progress in this area. The basic premise of federal redevelopment policy that slum dwellers should be relocated in new housing in central areas of cities requires re-examination.

The statement of national housing policy in the Housing Act of 1949 states that "private enterprise shall be encouraged to serve as large a part of the total need as it can." If it is assumed that the housing needs of slum dwellers are to be satisfied through the functioning of the private housing market, it can be expected that they will occupy rehabilitated or other used housing. It follows that federal policy, therefore, should encourage continued high levels of private new house construction, revision of federal mortgage insurance programs to increase new rental housing construction, rehabilitation of old rental housing, and vigorous programs of code enforcement and slum removal. Housing for those who cannot afford decent private housing is primarily a state and local problem. Experimentation on these levels with alternative solutions to the housing of the indigent and low-income minority groups should accompany the above federal programs.

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<sup>3</sup> Colean, *op. cit.*, p. 91.

<sup>4</sup> Miles Colean, *American Housing—Problems and Prospects* (New York: Twentieth Century Fund, 1947), p. 277. For a rebuttal to the above criticisms, see Nathan Straus, *The Seven Myths of Housing* (New York: Alfred A. Knopf, 1944), chapter VI.

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<sup>6</sup> William H. Husband and Frank Ray Anderson, *Real Estate Analysis* (New York: Irwin, 1948), p. 421.

<sup>7</sup> Housing and Home Finance Agency, Third Annual Report, 1949, p. 81.

<sup>8</sup> *Public Law 171*, 81st Congress, July 15, 1949, Section 2, "Declaration of National Housing Policy."

<sup>9</sup> Among other specific recommendations were: that the FHA and VA work out an interagency agreement for FHA to take over technical functions of VA home loan guaranty program, including valuation and appraisal, market analysis, property inspection, construction standards, etc.; that a Federal Home Loan Board be newly established in place of the present Home Loan Bank Board, responsible for the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the newly recommended National Mortgage Marketing Corporation; elimination of a number of federal programs administered by the Housing and Home Finance Agency, including Housing Research, Prefabricated Housing Loans, College Housing and School Construction programs, Programming of Defense Housing, Federal National Mortgage Association (Fannie Mae),

International Housing Activities, Alaska Housing Program, and others; merger of the group insurance accounts now maintained under the FHA mutual mortgage insurance system into a single insurance fund.

Most of the recommendations of this committee were enacted into law by the Housing Act of 1954. Maximum terms of loans, however, were restricted to 95 percent and 30 years. In addition, the provision for the formation and capitalization of the Federal National Mortgage Association in the Housing Act of 1954 differed from the recommendations in that the Secretary of the Treasury was authorized to subscribe to \$21,000,000 of preferred stock, with the remainder of capital funds accumulated by requiring each mortgage seller to make capital contributions. The control of the Federal National Mortgage Association was vested by the Act of 1954 in a Board of Directors headed up by the Housing and Home Finance Administrator. It remained for the Housing Act of 1955 to provide for the separation of the Home Loan Bank Board from the jurisdiction of the Housing and Home Finance Agency.

<sup>10</sup> Owing to limitations of space, the farm mortgage activities of the Farm Credit Administration are not discussed. A review of the status of these programs is included in Commission on Organization of the Executive Branch of the Government, *Task Force Report on Lending Agencies* (Washington, February, 1955), pp. 155-65. Federal Rent Control, an important feature of World War II housing policy is also excluded from discussion. Studies which have subjected federal rent control policies during World War II to critical examination include: Leo Grebler, "Implications of Rent Control Experience in the United States," *International Labour Review*, April, 1952, pp. 1-24; Paul F. Wendt, "Effects of Federal Rent Control," *The Appraisal Journal*, January, 1950, pp. 3-14.

<sup>11</sup> Federal Reserve Bank of St. Louis, *Monthly Review*, September, 1953, November, 1955.

Albert Heeley Schaaf, *Federal Interest Rate Policy on Insured and Guaranteed Mortgages*, Unpublished doctoral dissertation in Economics, University of California, 1955, pp. 10-12.

<sup>12</sup> Sherman J. Maisel, *Housebuilding in Transition* (Berkeley and Los Angeles, University of California Press, 1953), Table 40, p. 366.

<sup>13</sup> Schaaf, *op. cit.*, Chapters II and III.

Federal Reserve Bank of St. Louis, *Monthly Review*, September, 1953.

United States Savings and Loan League, *Savings and Loan Fact Book*, 1955, pp. 24-25.

Richard U. Ratcliff, *Urban Land Economics* (New York: McGraw Hill, 1949), chapter 9.

<sup>14</sup> *Ibid.*

<sup>15</sup> Federal Reserve Bank of St. Louis, *Monthly Review*, November, 1955.

*New York Times* "Scandal Feared in Housing Loans Patman Charges Buyers are 'Being Gouged' because of Mortgage Discounts," November 6, 1955.

Leo Grebler, *The Role of Federal Credit Aids in Residential Construction*, National Bureau of Economic Research, Occasional Paper 39, p. 53. Grebler found that federal credit aids since the middle "Thirties" "have probably accelerated the decline in residential mortgage interest rates and the liberalization of other contract terms, but that these advantages were at least partially cancelled by price effects."

<sup>16</sup> Leo Grebler, "Stabilizing Residential Construction—A Review of the Post-War Test," *American Economic Review*, Vol. XXXIX, No. 5, September, 1949, pp. 898-910.

Miles L. Colean and Robinson Newcomb, *Stabilizing Construction: The Record and Potential* (New York: McGraw-Hill, 1952).

*Federal Reserve Bulletin*, December, 1947 "Inflationary Aspects of Housing Finance," Statement by Marriner S. Eccles before the Joint Committee on the Economic Report, Special Session of Congress, November 25, 1947, pp. 1463-65.

<sup>17</sup> Grebler, *op. cit.*, pp. 898-99. See also, Colean and Newcomb, *op. cit.*, Chapter X.

<sup>18</sup> Grebler, *op. cit.*, p. 909. See also pp. 901-02.

<sup>19</sup> *Federal Reserve Bulletin*, December, 1947, Statement by Marriner S. Eccles before the Joint Committee on the Economic Report, Special Session of Congress, November 25, 1947. "Inflationary Aspects of Housing Finance," pp. 1463-65.

<sup>20</sup> Steps to control the flow of funds into residential construction were taken by the Federal Reserve Board, the Federal Home Loan Bank Board, the FHA, and the VA in mid-1955. By November, 1955, the FHA, VA, and FHLB were already taking steps to modify the impact of these restraining measures and expressing confidence that controls would be eased in early 1956 (*New York Times*, November 6, 1955, Section 8 R, "Minor Steps Set on Credit Policy.")

<sup>21</sup> Commission on Organization of the Executive Branch of the Government, *Task Force Report on Lending Agencies*, February, 1955, p. 148.

<sup>22</sup> *Ibid.*, p. 99.

<sup>23</sup> The President's Advisory Committee on Government Housing Policies and Programs, *A Report to the President of the United States*, December, 1953, pp. 34-39, 85-89.

Hearings before a Subcommittee of the Committee on Banking and Currency, United States Senate, 84th Congress, 1st Session, Housing Act of 1955, pp. 388-89 "Recommendations on FHA." It should be noted that the FHA mortgage insurance plan also provides for issuance of long-term debentures in case of foreclosure.

<sup>24</sup> The President's Advisory Committee on Government Housing Policies and Programs, *op. cit.*, pp. 64-65.

<sup>25</sup> Commission on Organization of the Executive Branch of the Government, *op. cit.*, pp. 123-25.

<sup>26</sup> U. S. Department of Labor and U. S. Department of Commerce, *Construction Review*, November, 1955, pp. 6, 21.

*Sixteenth Annual Report of the Federal Housing Administration*, December 31, 1949, p. 42.

<sup>27</sup> Albert M. Cole, *Address before the Realtor's Washington Committee of the National Association of Real Estate Boards, New York, November 5, 1955.*

See also Marriner Eccles, *op. cit.*

<sup>28</sup> It is not possible to explore here the effects of the federal government's programs to encourage prefabrication and standardization in housebuilding and the influence of such programs on building costs. Studies of the structure of costs in the housebuilding industry for recent years have shown that economies of scale resulted in high profits for most tract builders during the immediate postwar years. Increasing competition among tract builders in recent years has probably resulted in the passing on of a larger share of the economies of large-scale production to the buying public. See Maisel, *op. cit.*

<sup>29</sup> Daniel B. Rathbun, "Liquid Assets: A Neglected Factor in the Formulation of Housing Finance Policies," *Journal of Finance*, December, 1952, pp. 546-58.

"The Veterans' Home-Loan Program: Success or Failure," *The Appraisal Journal*, July, 1954, pp. 400-408.

<sup>30</sup> The extent of federal subsidy to builders in some federal pro-

grams was dramatically brought out in the *Hearings before the Senate Committee on Banking and Currency, 83rd Congress, "Housing Act of 1954, FHA insurance provisions," April 19-24, 1954.*

<sup>31</sup> The President's Advisory Committee on Government Housing Policies and Programs, *A Report to the President of the United States*, December, 1953, p. 2.

<sup>32</sup> Committee on Banking and Currency, 81st Congress, 1st Session, Housing Act of 1949, Report No. 84, p. 15.

*Supra*, p. 11, President's Conference on Home Building and Home Ownership, 1931.

<sup>33</sup> Sherman J. Maisel, "Policy Problems in Expanding the Private Housing Market," *American Economic Review*, Papers and Proceedings of the Sixty-Third Annual Meeting, May, 1951, p. 601.

<sup>34</sup> It is impossible to achieve any general agreement on the number of families requiring housing subsidies. Housing needs vary widely with the size of families, and the availability of private housing varies with the locality. In using the above family income distributions, it is important to note that older persons are prevalent in low-income groups and that over half of the nation's families in the lowest income quintile had no children. (*Survey of Current Business*, March, 1955, pp. 20-21). It should also be recognized that the proportion of income spent for housing varies widely. Although 25 percent is considered a permitted maximum by most mortgage lenders, consumers on the average spend only about 12 percent of incomes for housing. (*Survey of Current Business*, September, 1955, p. 26). The most difficult problem in estimation is that involving the standards of acceptable housing quality. If it is assumed that all low-income families require *new* housing equivalent to permanent low-rent public housing in standards, an estimate of the percentage of families requiring subsidies might be as high as 20 percent. If, on the other hand, it is assumed that low-income families can be suitably housed in used private housing, the estimated proportion of low-income families requiring subsidies might be as low as five percent. For a discussion of some of these questions, see Chester Rapkin, "Can the American Family Afford an Adequate Home," *Marriage and Family Living*, May, 1955, pp. 138-42.

<sup>35</sup> Nathan Straus, *The Seven Myths of Housing* (New York: Knopf, 1944), chapter IX.

<sup>36</sup> Final Report of The Mayor's Committee for Better Housing of The City of New York, September, 1955, pp. 5-6.

<sup>37</sup> Henry S. Churchill, "What Kind of Cities do We Want," in *The Future of Cities and Urban Redevelopment* (Chicago: University of Chicago Press, 1953), p. 47.

<sup>38</sup> H. Warren Dunham and Nathan D. Grundstein, "The Impact of a Confusion of Social Objectives on Public Housing: A Preliminary Analysis," *Marriage and Family Living*, May, 1955, No. 2, pp. 103-13.

<sup>39</sup> Harald Dickson and Paul F. Wendt, *Housing Characteristics of the United States and Sweden 1930-46*, Supplement to Land Economics, May, 1950.

<sup>40</sup> Miles L. Colean, *Renewing Our Cities* (New York: Twentieth Century Fund, 1953), chapter 3.

<sup>41</sup> *Public Law 412*, 75th Congress, September 1, 1937.

<sup>42</sup> Delmont K. Pfeffer, *Public Housing*, A lecture at the Graduate School of Banking of the American Bankers Association, June 20, 1951, Rutgers University, p. 8.

<sup>43</sup> New York City Housing Authority, *Twentieth Annual Report 1934-1954*.

The Commission on Intergovernmental Relations, *A Report to the President for Transmittal to the Congress*, June, 1955, p. 224.

<sup>44</sup> The Commission on Intergovernmental Relations, *op. cit.*, pp. 226-27.

<sup>45</sup> Commission on Organization of the Government, *op. cit.*, p. 29.

<sup>46</sup> *Ibid.*, p. 227.

<sup>47</sup> Wendt and Dickson, *op. cit.*, pp. 26-28.

<sup>48</sup> House Document No. 532, 82nd Congress, 2d Session, *Your Congress and American Housing, The Actions of Congress on Housing from 1892-1951*.

<sup>49</sup> Paul F. Wendt, "Effects of Federal Rent Control," *The Appraisal Journal*, January, 1950, pp. 3-14.

New York City Housing Authority, *Nineteenth Annual Report, 1952*. This report cites the fact that 240,510 more apartments were completed in New York in the decade of 1920-30 than between 1930 and 1952.

*Saturday Evening Post*, September 3, 1955, "Maybe it is Rent Control that is Discouraging New Home Builders," p. 12. Editorial.

<sup>50</sup> Miles L. Colean, *Renewing Our Cities* (New York: Twentieth Century Fund, 1953), chapter 4.

<sup>51</sup> Coleman Woodbury and Frederick Gutheim, *Rethinking Urban Redevelopment*, Urban Redevelopment Series, No. 1 (Chicago: Public Administration Service, 1949), p. 13.

See also Nathan Straus, *The Seven Myths of Housing*, Chapter IV.

<sup>52</sup> Catherine Bauer, "Redevelopment: A Misfit in the Fifties," in *The Future of Cities and Urban Redevelopment*, Edited by Coleman Woodbury (Chicago: University of Chicago Press, 1953), p. 9.

<sup>53</sup> Housing and Home Finance Agency, *The Relationship Between Slum Clearance and Urban Redevelopment and Low-Rent Public Housing* (Washington, HHFA, 1950).

<sup>54</sup> *Public Law 560*, 83rd Congress, 2d Session, Sections 100-101.

<sup>55</sup> "Housing law: after long labor, a mouse," *House and Home*, September, 1955, pp. 39-40.

<sup>56</sup> Miles Colean, "Impotency of FHA Policies on Apartment Finance," *Architectural Forum*, June, 1955, pp. 110, 111, 162.

<sup>57</sup> U.S. Housing and Home Finance Agency, Urban Renewal Administration, *Urban Renewal Project Characteristics*, June 30, 1955, Washington, HHFA p. 55, Table 1.

U.S. 83rd Congress, 2d Session, Hearing Before the Committee on Banking and Currency, House of Representatives on H. R. 7839, Housing Act of 1954, Testimony of Hon. James W. Follin, p. 127. Currently cities are experiencing a surge in public and private investment. It is notable, however, that most of the new investment is in commercial and public buildings rather than in rental housing. Federal loans, grants, and technical aid and local redevelopment agencies have undoubtedly played an important part in encouraging this new investment. See *Time*, December 5, 1955, "Rebirth of the Cities," pp. 25-28.

<sup>58</sup> Ferd Kramer, "The Role of Private Enterprise in Urban Redevelopment," *The Mortgage Banker*, October, 1950, pp. 5-6.

<sup>59</sup> The President's Advisory Committee on Government Housing Policies and Programs estimated that the cost of removing an estimated 5 million substandard dwelling units requiring demolition would probably equal \$15 billion and that at the rate of clearance then current it would take over 200 years to do the job. In addition to costs of removal, it was estimated that public improvements required would equal an additional \$9 billion. These estimates do not include the costs of rehabilitation or construction of the dwelling units themselves. *Op. cit.*, pp. 110-111.

<sup>60</sup> Miles L. Colean, "Impotency of FHA Policies on Apartment Finance," *Architectural Forum*, June, 1955, p. 110.

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