

URBAN REDEVELOPMENT AND HOUSING

(Summary of Proposed Federal Program)

Among the first of the needs of this country for large peace-time capital outlays is the need centering around urban redevelopment and housing. More specifically, it is the need for the replanning, the rehabilitation, and in large measure the rebuilding of our towns and cities; but this should be coupled with the production of great numbers of "decent, safe, and sanitary" dwellings, both for sale and for rent, to families of moderate-to-low income as well as to slum dwellers. Heretofore, the anticipated cost of the whole job, whether privately or publicly financed, has assumed such proportions that few have been prepared to contemplate undertaking it in its entirety. Now, however, we are beginning at last to realize that "a nation can afford anything it can produce;" and there is no doubt of our capacity, material and organizational, to perform everything necessary to make our urban communities what they ought to be.

In its efforts to deal with the problem in recent years, the Federal Government has approximated success only in the field of financing home ownership. Four other aspects of the over-all problem may now be considered susceptible to immediate attack:

1. Elimination of slums and blighted areas as the first step in urban redevelopment (organization for the acquisition of properties to commence at once; actual acquisition and demolition or rehabilitation later, when post-defense readjustment begins);
2. Rationalization of the residential construction industry (great research and experimental agency to be established at once);

3. Stimulation of the production, by private enterprise, of housing for rent to families of moderate-to-low income (legislation enlarging the functions of FHA to be passed as soon as possible and the program started);
4. Public housing for defense, and for relief when necessitated by slum clearance or otherwise (immediate re-examination of USHA program).

Administrative Set-Up

Of such far-reaching importance is the job to be done and so definite the need for co-ordination, that a special and somewhat unusual administrative set-up is proposed as follows:-

That there be created for the purpose a new agency, functioning directly under the President alongside the Federal Works Agency, the Federal Loan Agency, and the Federal Security Agency. It should be established as a corporation, with some such name as the "Central Urban Redevelopment Agency (CURA)." Under it should be three subsidiary corporations, all bound together through interlocking directorates as outlined below. The first of these would be the "National Laboratory for Housing Research (NLHR)", created at once and given a mandate to discover ways and means to modernize and improve the efficiency of the residential construction industry. The second would be the "Federal Housing Administration (FHA)", transferred from the Federal Loan Agency and re-constituted as a corporation, with its functions enlarged to stimulate the production of rental housing by private enterprise. The third subsidiary would be the "United States Housing Authority (USHA)", transferred from the Federal Works Agency.

Thus, to initiate and carry on a comprehensive program of urban redevelopment and housing, there would be four corporations (CURA and its subsidiaries NLHR, FHA, and USHA), operating together as a new Federal agency. To maintain the necessary co-ordination, the heads of the four corporations should constitute the board of directors of each corporation. All four should be under the chairmanship of the Administrator of the parent CURA who, as is customary in the case of four-man boards, would have the "casting" vote. In all administrative matters not involving decisions of major policy, the head of each corporation would exercise full authority and responsibility, subject only to the supervision of the Administrator of the CURA.

Consideration should be given to changing the name of the Federal Housing Administration to the "Housing Insurance Authority (HIA)"; and of the United States Housing Authority to the "Public Housing Authority (PHA)".

Planning: Precondition of Federal Aid

The quid pro quo of Federal financial aid in the elimination of slums and blighted areas should be the initiation by the city of a program of extensive replanning and rebuilding. The first step to this end, and the primary condition for Federal aid, would be the creation of a competent planning commission or other appropriate organization, adequately endowed with powers extending over the entire metropolitan district. Practically everywhere this would require new and far-reaching State legislation and possibly some State constitutional amendments, the incentive for which would be large contributions of Federal funds.

Definite conditions should be prescribed in the Federal legislation as to the kind of powers to be granted the municipalities, although of course the legal methods would have to be left to the separate States. In general terms the State legislation should include:

- (1) Greatly extended home-rule powers of the cities, specifically the power to acquire land, by condemnation where necessary, not only for traditional public purposes but for any purpose whatever that promotes the general welfare. (The intention would be for the city to acquire not only slum and blighted areas but land around the outskirts as well, to be held for future use. Probably the "Model City Charter" of the National Municipal League, as now being revised, would provide adequate home-rule powers.)
- (2) Authorization for the planning organization itself as an integral part of the municipal government.
- (3) Specific authorization to give the planning body power to formulate (but not necessarily to administer) zoning ordinances, building codes, and regulations for subdivision platting.

The program would involve planning of a character and on a scale heretofore unknown in this country. Covering the whole metropolitan district, its scope would include virtually everything connected with the physical layout of the urban community. To facilitate and further such planning, the Central Urban Redevelopment Agency should have its own planning division, whose operations would be of a general supervisory character. But even these operations should be subject to still more general supervision, by the National Resources Planning Board, which would prescribe the national and regional framework within which the detailed planning should be carried out.

The city, along with its application for specific aid, would submit its plan for the long-term future development of the entire urban community, accompanied by data to justify all assumptions as to future changes. Such data and the plans themselves would be examined in Washington, and perhaps (when the facilities are created) in the appropriate regional offices. Suitable aid would be extended, where necessary, to enable the municipalities to produce plans satisfactory from all relevant points of view. (For further discussion, see annexed memorandum I.)

Elimination of Slums and Blighted Areas

The specific proposal would be for the acquisition by the city of all the real property in a clearly defined slum or blighted area with the view to eventual removal or rehabilitation of the structures. The land acquired in the process would be a by-product of the job of civic sanitation: in the matter of its subsequent use it would be deemed to have cost nothing.

Decision as to acquisition, as well as to future kind of use, should be by the city planning organization; not by the local housing authority, because the considerations involved would be broader than housing alone. Actual use of the land, as will appear presently, should be left to others. Thus, slum-clearance would not be legally tied to housing.

Upon approval by the appropriate agencies in Washington of all aspects of a proposal to acquire property, the Government should be pre-

pared to advance funds for the entire cost of acquisition. Possibly repayment of the principal might be required, along with a share of the subsequent net proceeds from the property, if any, in lieu of interest. In view of the fiscal position of most cities, however, there are strong reasons, either for giving them the money outright in consideration of a drastic overhauling of their tax structures, or for requiring them only to pay over a share of such net proceeds as may result from leasing or other disposition of the property. (See annexed memorandum I.)

The Central Urban Redevelopment Agency should be set up as early as possible, in order that the States and the towns and cities might proceed at once with the necessary legislation and the organization of their part of the program. By the time the defense emergency is over, the whole administrative set-up should be functioning, with a great deal of land already acquired (or under option or with condemnation proceedings well under way), so that large operations of demolition and construction could be started without delay. To initiate the program the CURA should be given adequate legal powers and an initial appropriation (or authority to borrow on Government credit) of about \$500 million, or possibly double this amount.

Housing Production Research

It is a matter of common knowledge that residential construction is our most backward industry. With few exceptions, it is a small-scale handicraft business. Its inefficiencies and excessive costs result from

monopoly prices of materials, from unwarranted distribution costs of materials, from a multiplicity of labor and subcontractor organizations, and from the rackets and conspiracies permeating it.

Conceivably, of course, the industry might be able eventually to rationalize itself (although it hasn't during the long period of revolutionary change in other industries). But if we wish to avoid waiting, for nobody knows how long, until some pioneer struggles through to a solution, the Federal Government will have to step in and help,

To this end, the National Laboratory for Housing Research, suggested above, should be created and given an initial appropriation of about twenty million dollars. This sum should remain available until used up and should be replenished if and when necessary. The mandate of the Laboratory should be to continue operations until a solution on a full commercial scale is found of the problem of mass production of good low-cost dwellings, both for rent and for sale. It should engage the ablest structural engineers and architects to be found, and its operations should consist not only of laboratory experiments (in several different regions) but of the construction of sufficient numbers of dwelling units of various kinds to show the industry how to solve the organizational and technical problems involved.

It should cut courageously through the maze of material manufacturers, distributors, subcontractors, and stultifying rules of labor in the industry. Where necessary, to obtain fair prices for large quantities of materials delivered directly from factory to site, it should

be prepared to build its own manufacturing plants. To labor it should pay good wages, on the basis of collective bargaining; but there should be tolerated no jurisdictional disputes or other obstacles to efficient and economical production.

Stimulation of Private Enterprise

From experience with rental housing under Section 207 of the National Housing Act, it is clear that the production and ownership of rental property, when encumbered with high percentage mortgages, cannot be other than highly speculative. (See annexed memoranda II and IV.) Since under Section 207 it is not possible to hold out the hope of profits commensurate with the risks, the only practicable alternative is unencumbered ownership by investors seeking moderate but stable returns. The principle of this was embodied just after the first World War and later extended in legislation by the State of New York, permitting life insurance companies to construct or otherwise acquire and own and operate housing for rent -- not only in New York but in any State whose laws do not conflict (there are very few conflicts). Only one important company has thus far done anything substantial under the New York law; but its experience during nearly 20 years has caused it recently to construct an immense project of over 12,000 dwellings at a cost of over 50 million dollars.

Other great companies domiciled in New York have apparently been unwilling to undertake the entire risk of such transactions. If, however, they could be protected against loss and guaranteed even a very

low return, there is good reason to believe (on the basis of what many of them have said in private discussions) that they would go ahead under the New York law, not only in that State but elsewhere. With the movement started, all the States would be likely soon to pass legislation clearing the way, not only for life insurance companies but also for savings banks, trust estates, foundations, and other holders of savings, to take advantage of the opportunities offered for safe investment.

Those opportunities could be created by an amendment to the National Housing Act that would entail probably less risk to the Government than now attaches to mortgage insurance under Section 207. The amendment would authorize FHA to insure recovery of substantially all of the original investment and a net annual return of, say, 2 per cent for a period of something like thirty years. Technical details of the scheme have already been worked out, in a fashion pronounced workable by representatives of a number of large institutions. (See annexed memorandum IV.)

If the scheme were put into effect at once, it would round out the program proposed above for the elimination of slums and blighted areas. The cities, when they came into possession of land, would stand ready to lease it on reasonable terms for use in accordance with the master plan, and private enterprise would be given an unprecedented opportunity.

Sometimes, no doubt, the housing development would consist of the rehabilitation of existing structures, while in other cases new

dwellings would be built. In some instances, too, the housing would be built on vacant land, perhaps in the suburbs, rather than in cleared slum or blighted areas. FHA experience, though not large in scale, has demonstrated that projects consisting of single family houses -- the kind of rental accommodations most needed -- can be made sound and profitable investments.

Desirable projects would be called to the attention of institutional investors -- "sold" to them -- by developers and builders animated by anticipation of profits from the construction job, which would be distinct from subsequent ownership.

The real owners would have strong incentives to obtain considerably better net earnings than the guaranteed minimum of 2 per cent; but, being public institutions, they would not be likely to attempt any profiteering.

Public Housing

As now organized, the USHA combines the banking function with the subsidizing function. This has resulted in widespread misunderstanding of its financial operations. In England, the two functions are entirely separate, and a somewhat similar scheme has been successfully operated without the public criticism prevalent in this country.

It is suggested that a similar separation of functions be made here. The banking function might be left to the choice of the local housing authorities, which would have the pledge of subsidy adequate to

warrant low interest rates, among a number of private institutions. As a last resort, they might call upon the Federal Loan Agency; or, if deemed desirable, the loans might be made by the CURA -- on the present USHA basis, but in a manner entirely different from the advances for the elimination of slums and blighted areas. At all events, the USHA would be responsible only for granting the subsidy. This would then be recognized as the only real cost of the public housing to the Federal Government -- which is indeed the case now, although not generally so understood.

During the current emergency, the principal function of the USHA should be to collaborate with the local authorities, in areas where private enterprise cannot be relied upon to do the job, for the production of defense housing. With the administrative set-up proposed above, it would be in a position to make most of its immediate operations fit into and further the long-range policy developed by the Central Urban Re-development Agency.

Before large-scale operations are resumed, a thorough re-examination should be made:- (1) of the construction standards of the housing, (2) of the term of amortization of the capital cost, and (3) of the feasibility of rehabilitation of existing structures as well as production of new ones. (See annexed memorandum III.)

In carrying out the comprehensive program here suggested with respect to housing, all possible emphasis should be given to what

might be described as the two ends of the chain of related problems:--
the clearance of slums and blighted areas and the rationalization of the
building industry. Pressure would thus be created, both upon private
enterprise and upon local government, to provide adequate numbers of
dwellings of the kinds that are needed; and at the same time the incentives
and the financial mechanisms for the purpose would be ready at hand.

With respect to the broader aims of the program, a systematic
beginning would be made at once to correct the well nigh unendurable
situation into which most of the cities have drifted. To complete the
whole job will be at all events a matter of years, but it can and
should be pursued as rapidly as the men and materials not needed or
employed on other jobs are able to do it.