FEDERAL EXPENDITURES FOR HOUSING AND URBAN REDEVELOPMENT

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The other members of this panel are preeminently equipped to discuss the quantitative aspects of the subject at hand. While I have not seen their papers, I am sure they have discussed fully the causes for Federal intervention in the housing and urban fields, the extent and methods used in the intervention, and the effects of it. Their papers will be required reading for students of the subject for a long time to come.

May I, therefore, content myself with a more modest role, and discuss, not how much even, or how, but rather why, and why not?

It has been more than 25 years since the Federal Government moved vigorously into the housing field through the creation of the Home Loan Bank Board, and it may be pertinent to ask whether the reasons which caused the Congress to act as it did still warrant continuation of past policies. And it may be pertinent to ask whether the situations which have developed during these last 25 years would suggest further changes in the direction and extent of Federal intervention.

The private home-mortgage structure of the twenties supported a far greater volume of homebuilding in relation to the economy than have the federally aided systems devised during the thirties and forties. The private system of the twenties, however, failed over much of the United States during the early thirties. It failed in large part because of failures in short-term credit institutions, and because a large proportion of home mortgages were either callable on demand, or were made by institutions whose liabilities were subject to payment on short notice.

When banks began to get into trouble they started calling their mortgages. But home mortgages are essentially long term, not demand debt. That meant a failure of the system. When banks began to run into trouble, shareholders in savings and loan associations in many parts of the country demanded cash. But the assets of savings and loan associations were long-term debt, not demand debt. So trouble spread.

The Home Loan Bank System was created to: (1) Provide a central credit system for institutions which make mortgage loans, (2) improve mortgage techniques, (3) insure shareholders and depositors in member institutions, and (4) provide backstop protection through the credit of the United States Government.

It is obvious that a central credit system is badly needed. Home mortgage credit is much more readily available in much of New England than in much of California, for instance. But the Home Loan Bank Board has not lived up to the responsibility of equalizing credit between districts. It has relied upon short-term borrowing in the money markets and short-term loans to members. It has helped to even out season demands, but it has not faced up to regional or even to cyclical needs.

A step in the direction of a better regional plan has been taken recently in permitting savings and loans to buy an interest in mortgages made by other savings and loans. But this still limits the financing of savings and loan home mortgages basically to savings secured through savings and loan institutions. It does not permit the use of new savings mediums, such as pension funds. The Home Loan Bank Board is acting basically as it did 20 years ago. Its entire philosophy should be reviewed to see whether it should not become, or permit member institutions to form, an active and effective institution for the tapping of long-term funds for distribution to institutions making long-term home mortgages. Twenty-five years is a long time to wait for this.

It is very possible that savings and loans could form a better institution for themselves privately than the Home Loan Bank System could form for them. But whether it is done privately or by an instrument of the Federal Government, I believe a thorough basic overhaul of the present system of providing credit to savings and loans is in order.

The second duty of the Home Loan Board System, to improve mortgage techniques, has been accomplished in part, and ignored in part. The amortized loan is now accepted, and operating procedures, appraisal practices, and so forth, are being improved. But more basic matters are being allowed to drift. For instance. in the early days of the System extensive studies were made of foreclosure laws. These laws were drawn in many States so as to protect equities from the effects of the economic and financial collapse of 1930–32. But they add to the cost and the risk of mortgage lending, so result in higher interest rates during prosperous times. Much was done also on the subject of closing costs. Closing costs may exceed downpayment requirements in some instances. Steps taken by Federal institutions such as the FHA and VA to cut downpayments may be nullified, in part at least, by increases in closing costs. Work on this subject appears to have been suspended.

Another omission is the failure to adjust mortgage terms so that savings and loans can compete with FHA mortgages. Competition can be healthy. The FHA and the VA have shown that most homeowners are as honest when they make 90-percent loans as when they make 75-percent loans. Studies I made for the President's Committee on Home Building and Home Ownership in 1931 indicated that for the area studied most 75-percent savings and loan mortgages made during the twenties had been followed by seconds. The practice of financing with 90-percent loans did not originate with the FHA. It is an old custom. But by holding savings and loans to 75-percent mortgages the system forces savings and loans either to deal with families who can put up an equity of 25 percent or to loan to families who are making second mortgages.

Little has been done to take advantage of what the FHA and VA experience has taught us. The probability of loss on a well-built, located, and priced house bought by a healthy family able to afford the monthly costs are so slight as to warrant a question as to whether or not modification of laws and rules so that conventional as well as

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federally aided financing can take care of the needs of these families may not be in order. Having the legal right to make higher loans would not mean that all conventional lenders would have to make such loans. But it would enable those able and willing to do so to enter the market. The resulting competition would be good for the FHA, the conventional lenders, and for borrowers.

Another basic shortcoming in mortgage lending operations lies in the failure to develop and promote the use of techniques for market analysis. A great deal was done in this field in the late twenties and early thirties. The HOLC did a moderate amount of work on the subject, and the FHA for a time did good work in this area. But the war, and the postwar boom made such analysis seem less necessary. Now that the sellers market has gone the subject of market analyses should hold high priority in any institution concerned with home mortgage financing. This is as true of the FHA as the Home Loan Bank Board.

The third responsibility assumed by the Home Loan Bank is the insurance of depositors and shareholders. This has been adequately done, though the price charged may be excessive. But it has not been done imaginatively. The purpose of insurance is the encouragement of the flow of savings to home lending institutions and the discouragement of unplanned or panic withdrawals. Now that savings are flowing more and more to pension funds, it should be made possible for these pension funds to put the savings now flowing through them back into the home-investment field with ease and with security. The simplest way to do this is through long-term loans, amortized or not as the needs of the institutions require to savings and loans. These loans, being senior to the rights of depositors or stockholders, would have to be paid off in case an insured saving and loan ran into trouble. Therefore such a loan would have excellent protection. It would have the equivalent of insurance by an instrumentality of the United States Government. Its protection would be at least equal to the protection offered those buying public-housing bonds backed by the United States Government.

But the Home Loan Bank Board has asked the Congress to withdraw the protection such loans would now have. The very fact that the Board has asked that this protection be withdrawn means that pension funds and others will hesitate to make long-term loans to savings and loans for home-mortgage purposes.

If savings and loans are to keep abreast of the times they must adjust to new savings trends, including the growth of pension funds. The Board does not act as though it recognizes this and has offered no method for adjusting to this new development. It has even tried to destroy one existing method that would make this adjustment possible.

One of the greatest dangers this country faces is the lack of competition for governmental agencies. They tend to ossify the moment they are created. They are created because of a given set of situations at a given time, and they tend to continue to prepare to meet those same situations for ever after. The problems are so complex that voters can do nothing about them and they are so technical that the Congress may be almost helpless, as for instance on what can be done to help direct the flow of pension funds to mortgage institutions. Industry has learned how to discourage and to get rid of ossified institutions by means of competition. Some similar device is needed for governmental institutions. At times competition itself can be used, as for instance to some degree the FHA was in competition with the VA. That helped keep both institutions on their toes. The encouragement of a private Home Loan Board system, the setting of mortgage limits for savings and loans which more nearly match those of the FHA, the creation of citizens advisory groups (which in effect is what this panel is) to recommend changes to the Congress and the Home Loan Bank, might help keep the Board more sensitive to the changing needs of changing times.

This problem is not unique with the Home Loan Bank Board and no slur is meant upon the Board or its members. Unwillingness, or hesitancy to accept the need for changing with the times, is an occupational hazard for any group of dedicated men who take an important office for a short period. How can they learn in a few months or years that both basic and superficial changes are needed? In the case of the Home Loan Bank Board, I believe basic changes in policy are needed.

The fourth function of the System, that of providing backstop protection, is of psychological importance. As long as this protection is available it probably will not be needed. The protection should be kept as hazard insurance.

The Home Loan Bank System developed into a system serving largely savings and loan associations. This was unfortunate. But in view of the fact that commercial banks and insurance companies particularly were not willing or able to use the system, it was felt advisable to set up a system which they could and would use. The FHA was the result.

This in effect was an insurance system which for a fee protected approved purchasers of mortgages underwritten by the FHA against significant loss. It was also a system for encouraging minimum standards of structural and community design and construction. The system was a lifesaver in the midthirties. It helped make mortgage investments a form of liquid assets. It made them safe and reputable. It encouraged the flow of funds back to home mortgage financing. And it, like the Home Loan Bank System, encouraged the use of amortized mortgages. With the passage of time it encouraged smaller and smaller downpayments and demonstrated that such payments need not be a hazard to the borrower or lender.

Times have changed greatly in the twenty-odd years since the FHA was created. Possibly the changed times warrant changes in the approach of the FHA.

The lack of competition, or its equivalent, is just as great a threat to the FHA as it is to the Home Loan Bank System. In the early days any standards were apt to be better than none, and the FHA aided the home-building industry greatly by setting standards. But once the standards are set, they tend to stay set. But the world does not. It is possible that the FHA should be encouraged to underwrite a good deal of research in structural architecture, engineering, and community design. The Building Research Advisory Board of the National Academy of Sciences could be used effectively for this purpose. This would help the FHA keep abreast of changes, rather than resist them, as it has tended to do from time to time. The very success of the FHA in making its mortgages respectable has discouraged progress. Why should a bank or insurance company investigate insured mortgages? They are insured, aren't they? So private initiative in improving standards has been discouraged. The builder's job is to build to FHA standards—no better, no worse. Why should he try to make improvements? He can't get a bigger price or mortgage.

There are at least three possible ways of helping this situation. One has been mentioned—make the Home Loan Bank System more competitive. If a builder had the option of using the savings and loan system or the FHA system, the FHA staff would have more reason to stay alert.

A second method might be the creation of a private competitive insurance system. But this would require State legislation which would permit financial institutions to buy private as well as publicly insured small-downpayment mortgages. The advent of the FHA system was a signal for stopping progress on State mortgage legislation. Progress was made at the Federal, more than at the State level. Why bother with 48 States, just shift to the FHA and save trouble. Any significant private insurance system would have to get wide State acceptance or come under the Federal umbrella. The first alternative would be difficult.

A third approach would involve a shift in the nature of FHA insurance. If instead of guaranteeing the entire mortgage, the FHA were to require the mortgagees to share part of the loss, the mortgagees might have an incentive for making good loans on their own responsibility. The $100 deductible automobile policy is a well-known type of insurance. A 5-percent loss deductible mortgage insurance policy might encourage lenders to be alert to improve their practices.

Other methods might work better. But the problem of how not to discourage initiative while maintaining the principle of insurance, is with us.

The stimulation of home building was the major responsibility of the FHA at the beginning. Insurance of mortgages on existing structures was of minor moment. But now that about $2 of mortgage debt is incurred on old houses for each $1 on new houses, the financing of old houses is at least as important as the financing of new ones. Two old houses change hands each year for each new one purchased. The new market cannot be maintained if the old one is not well handled. This problem is acknowledged. Its solution may require both changes in legislation, and increased interest on the part of the FHA staff. It may well be that the FHA should become as interested in urban rehabilitation as in urban growth. The problem here in 1957 is not the problem it was in 1937.

Another basic change in home-building practices has occurred in the last 2 or 3 decades, which needs to be matched by a change in FHA tactics. In the early years the FHA pushed new building in the suburbs of the big cities. But home building is moving to the smaller towns, and even to rural areas. The FHA staff system is not adapted to this wide scattering. Operating methods more akin to those used by the VA may be needed to solve this problem. This need too is recognized by the FHA. It is trying out solutions. It should be encouraged, or possibly pushed to experiment vigorously to the end that FHA facilities may be more generally available.

In the early days of FHA the interest rates it would accept were set high enough to encourage home financing. Now they are set low enough to discourage financing. They are set so low as to offer little, if any, inducement for money to go to the sections of the country with above average rates—the West, the Mountain and Southern States, for instance. The result is a tendency for FHA financing to be emphasized in the lower interest areas. It was originally hoped the FHA would encourage the flow of funds to areas needing it most. This cannot happen unless the rate is attractive. Control over home mortgage interest rates cannot be achieved by limiting rates on FHA. The money will go where it will bring the best return. It will go where the free market is most rewarding. If that means A. T. & T. stock, or Fairfax County School bonds, that is where the money will go. If all interest rates were controlled, controlling FHA might not penalize housing. But when FHA rates are singled out, the result is a restriction on home mortgages.

When the free financing of new construction is hindered, this results in reducing new construction and thereby supporting the price of old housing. If enough new housing is not available, families must turn to the existing stock. Curtailing new construction means also that the fewer new homes can command higher prices. And as about two old houses are bought for each new one sold, forcing up the price of existing property means that the larger number of buyers of these houses also have their costs raised. Consequently an increasing percentage of the available credit goes to finance old, a decreasing percentage of a smaller quantity is available for new.

This point does not seem to have been recognized by the administration. Uptown tends to speak as though holding down new house building is deflationary. Most housing costs are but little affected by moderate increases in the volume of home building. Other markets set the price for building components and for labor.[1] Cutting home building may actually increase the cost to the buyers, whether it cuts costs to builders or not. So cutting the volume of new construction can add to new house prices, as well as push up the price of old houses.

If money which went to bid up the price of equipment in late 1956, for instance, had gone to support more home building, the price of equipment might not have risen as much and the price of houses might have risen less. What was termed deflationary action—holding down mortgage funds—may have freed money for really inflationary effects.

Many other questions could be raised. For instance, the FHA should promote local market analysis. Some of the questions not raised here may be even more significant than the questions listed. But I hope that enough have been raised to suggest that a thorough rethinking of the position of the FHA in the housing economy, and in the Federal system, may be in order.

This leaves the most basic question to last, urban growth and urban renewal. New housing must fit in to the growth of cities. In order to grow properly, a city must provide well-integrated efficiently designed and located water, sewer, telephone, power, streets, police, schools, utilities, and services. The factories and commercial establishments and housing areas must complement each other effectively.

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[1] An adequate supply of houses makes it more difficult to charge high prices.

Housing must fit in to facilities planned and built by private and public groups over which the home builders have no control and about which they may have all too little knowledge. It is as though a department manager in a factory had to guess what materials would reach him from time to time, whether or not he would have power or water, and what the owners of the factory would expect him to turn out. There is all too often no effective overall planning or synthesis in city growth. Consequently houses may be built without adequate utilities, a sound industrial base, or adequate schools despite the best efforts of the subdivider. Conversely, in some communities houses may be built by men indifferent to the planning that is going on, and without much if any reference to it. In either event housing suffers.

The Federal Government began to move into this general field of urban growth and rehabilitation in the early days of the PWA and the Public Housing Division of the Department of the Interior. Public work was considered a hopeful device to stimulate economic activity and reduce unemployment. Public housing was one of the types of construction which it was believed the Federal Government could initiate within cities. Urban redevelopment got into the picture because slum clearance was tied to the public housing program from the first. Demolition of existing substandard slum units was required as a premise for aid in building new public housing.

Public housing had the triple objective at the start of (1) creating employment; (2) creating good housing for families who happened be living in slums because they were unable to pay rents which would command minimum acceptable housing; and (3) eliminating slums almost as a byproduct. Provision of decent housing and of employment were considered more important than getting rid of slums. Even at the outset it was not made mandatory to replace demolished slum houses with new housing on the same site. But it was not found politically expedient at the start to use cleared slums for other than housing for displaced families. Families were to be rehoused and employment generated with slum elimination as an incidental but important byproduct.

The method on which the greatest hopes were focused was the creation of a Public Housing Authority. Local housing authorities were made eligible for subsidies to build and operate housing of at least specified minimum standards as early as 1934. Occupancy of such houses was to be limited to families with defined substandard incomes. Public housing was a major innovation of the thirties along with social security, pensions, control of the stock exchange, insurance of bank and of savings and loan deposits, and insurance of high ratio debt to value and amortized home mortgages. But it is one of the few major institutional innovations of the thirties which did not catch on.

A confusion of aims helped prevent housing from becoming an important activity in most communities. Slum elimination in itself is very expensive. It became obvious at the start that rehousing could be provided much more favorably by selecting new building land in outlying sections than by buying heavily used land in the center of cities. But the program never faced up to the fact that housing was but one aspect of urban life, and that land cleared of slum structures might be much better used for other than housing purposes. Public housing was kept tied to slum clearance, but slum clearance was not made an integral part of city planning and development. The program became an expensive piecemeal operation. It was an operation which even when aided with large Federal subsidies applied to housing for underprivileged families could not deal with the many factors causing general urban blight nor the factors causing economic distress and congestion in most American cities.

Public housing did not clear slums, nor did it provide neighborhoods that met American standards. It tended to provide ghetto communities for low to middle income groups and increasingly for minority groups. And it tended to provide high density, high rise apartments with little or no private outdoor space. Projects tended to be large, standardized, monotonous and institutional. They were designed as islands which turned their backs to surrounding neighborhoods, thus adding to their institutional appearance and nature and emphasizing the stigma attached to the charity that was being given the occupants.

Another factor, the return of high employment, also helped because public housing to fail as a housing operation. The pressure of unemployment that made public housing seem imperative in the early thirties lost some of its potency with a return of generally high income. In 1935 there were nearly 25 million households with annual incomes below $4,000 (in 1955 dollars). By 1955 the number had shrunk to about 21 million households and by 1960 it is expected to be below 20 million. The number with incomes under $3,000 (1955 dollars) dropped from about 20 million in 1935 to 13 million in 1957. These 13 million are primarily farm families and old nonfarm families, young families just getting started, and families having difficulties, a good proportion of which are temporary, such as temporary sicknesses or temporary unemployment, and families of minority races. The number of families of low income who would be basically aided by public housing as such is becoming smaller and smaller, except for those of the minority races.

This generalization that the number needing housing and is declining definitely does not apply to families of minority races—Puerto Ricans, Negroes, Mexicans, and others. The families of these races often are not able to get adequate housing in the private market and must rely heavily on public housing.

These failures of public housing were augmented by the method set up for encouraging slum clearance and public housing—the creation of public housing authorities dependent on Federal assistance. Final power remained centralized in Washington. Local initiative was not encouraged, and adaptation to local problems, or the development of novel methods which would satisfy conditions peculiar to individual communities, was made difficult. In addition, as the law is written, the greater the cost or the greater the loss in any project, the greater amount subscribed or underwritten by the Federal Government. This can encourage expensive projects rather than the most useful ones or those which would make the greatest use of total resources available. It puts a premium on the ability of local officials to live within the rules and yet get the most from Washington year by year, and to stretch out the operation so as to get funds over as many years as possible.

Public housing and slum clearance failed, also, because little was done to get at the roots of the problem. New slums were created as fast or often faster than old ones were demolished because conditions encouraging slums were not removed. The programs did not attack the conditions particularly likely to encourage slums such as the growth or migration of transportation and of business. If traffic, for instance, grows to the point where it makes properties undesirable for good residential uses or for other purposes for which it had been used, or if business conditions encroach on residential neighborhoods, there may not be enough incentive to maintain properties, and neighborhoods may decay during this transitional period. Effective metropolitanwide planning for any handling of transportation is, therefore, one of the many things necessary to any checking of the growth of slums.

But effective metropolitanwide or even citywide planning and execution of plans to fight blight is difficult to achieve, among other reasons, because urban political organizations encourage decay of cities. Cities must operate economically as a regional entity, but politically they tend to be broken into center cities and peripheral cities, with overlapping jurisdictions within and overlapping responsibilities between the cities. Even if groups within one city were able to organize so as to create a more efficient milieu for urban rehabilitation, they would find almost insuperable handicaps in getting other jurisdictions to cooperate with them.

With such an amphorous, yet complicated, situation, it takes tremendous forces to change the status quo. For instance, land values and prices tend to be based on current and anticipated income. Almost universally poor enforcement of housing and other codes makes high-density occupancy possible. This density creates high incomes even though these incomes are based on illegal use. Assessments are based to some extent on these high incomes. Any effort to buy these properties through a slum elimination program must be matched by great sums of money. The worse the slum, the higher the price may be.

This is symbolical. Bad meat is condemned and no price is offered for it. Bad housing tends not to be condemned but to demand a high price.

Social, business, and political organizations will not be changed overnight. In order to improve the situation, however, it must become profitable to eliminate both the blight and its causes, and resources for this must be available. Included in the factors to be attacked are the following: poor city government, overlapping political jurisdictions, lack of resources and power on the part of cities, lack of regional planning authority, lack of uniform regional building codes, poor traffic and parking planning and facilities, failure to integrate zoning, planning, and traffic engineering, inflated land values, high real estate taxes, dispersed ownership and liens, racial prejudices, air pollution, and lack of enforcement of minimum standards of structures and of occupancy.

This list of handicaps to a healthy city growth, and to slum clearance, could be expended readily. However, it is already long enough to indicate how difficult it is to strengthen urban health, and to attack the basic causes of blight, and of slums.

The fact that cities are creatures of States, and that most States are rural minded contributes further to the difficulties. Unless and until city governments are given adequate authority by State governments, most city problems will remain insolvable. It is because of conflict of interest between States and cities that cities are turning to the Federal Government. The vacuum must be filled.

Public housing failed in general because it did not get at the cause of the difficulties it was designed to help. It failed in part because of the way the program was set up, and in part because of the basic weakness in municipal governmental organization.

But in one important respect public housing has been helpful—that of aiding minorities. Even here public housing does not get at the reasons why minorities need aid. Public housing officials may be almost helpless to get at the reasons which make it impossible for many minority groups to get decent housing, and so forces them to substandard properties. Municipal officials may want to enforce housing occupancy and building code ordinances and regulations but find themselves frustrated by an inability to find decent housing for those living in quarters they would like to condemn. Or municipal officials may find themselves prevented from condemning substandard properties or getting them raised to minimum standards by the political power of those earning high monetary returns from slum quarters. If minorities had free access to decent housing, slum properties would be much less attractive to them and the return on slum properties would be much less attractive to owners.

Public housing therefore can alleviate, but not solve the housing problems of minorities. It has not reduced slums and may not be able to unless and until the conditions which drive people to the slum and which make slum ownership attractive are reduced and possibly eliminated. It is a palliative, but one which must be kept until all groups of the population, both racial and income, can have access to suitable quarters, particularly if it is to serve a high employment economy.

Because public housing was not solving the problem, and because States and localities were not solving the problems, the Federal Government moved into the broader field of urban renewal. It is unfortunate that this had to occur but it may be an inevitable development. If States cannot give their cities a fair opportunity to grow, these communities will turn to the Federal Government. This is not a matter of party politics. The Vermont farmer outvotes a city worker just as effectively in Montpelier as does the farmer in Georgia when the ballots are counted in Atlanta. This is an economic matter. Rural counties and townships do not want to give up any rights and powers they have in the East or West or North or South. So metropolitan communities are left with mazes of jurisdictions—sometimes literally over a thousand jurisdictions to a metropolitan area. With all the maze of jurisdictions there is not enough power. But there is too much confusion.

The HHFA is moving into the vacuum, as something must. It is giving help for the development of long-range plans. This gives some hope that the help will not simply go down the drain. It is aiding in a metropolitan fashion, as distinguished from supporting would-be independent local jurisdictions.

This is a tremendously important problem. If the Federal Government moves in effectively, State progress may be checked, as was the case in mortgage legislation when the FHA got going. If the

Federal Government does not move in, the cities may become almost hopelessly clogged and confused quagmires. Of the two alternatives, Federal intervention may offer the fewer evils and the more hope.

This is not basically a matter of fiscal relations. The problem goes much deeper. It is a matter of adapting basic governmental organizations to the growing urban nature of our economy. No matter how well we may build our houses, if our cities become quagmires, progress in housing becomes mythical.

The most important housing problem before the Federal Government, I submit, is what guidance it can give, and what it can do to encourage States and local governments to accept their responsibilities, and then, what residual responsibility the Federal Government should take. To the extent States and localities cannot move, and quickly, the Federal Government will be forced to move to fill the void. For the future of this country is largely an urban and suburban future.