

FEDERAL EXPENDITURES FOR HOUSING AND URBAN REDEVELOPMENT

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Federal policy in the field of housing and urban redevelopment is off the track. It is off the track because the officials responsible for housing policy have ignored the basic objectives set forth in the two most relevant laws—the Employment Act of 1946 and the Housing Act of 1949.

At first glance, these two laws may seem to have little in common. But closer examination reveals that they have established as basic national policy two sets of objectives which are complementary and mutually reinforcing. The goals of the Employment Act of 1946 are “maximum employment, production, and purchasing power.” The objective of the Housing Act of 1949 is “the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family” which, the Congress said, would contribute to “the advancement of the growth, wealth, and security of the Nation.” Both laws, therefore, have as their fundamental aim the betterment of the welfare of all Americans.

The goals of these two acts are mutually reinforcing because the achievement of each would contribute to the other. Maximum employment, production, and purchasing power will provide the wherewithal needed for people to obtain good housing. For every American family to have the opportunity to obtain a decent home will require a high level of residential construction which in turn would be a major element in permitting a high level of total economic activity.

It is not too harsh to say that we have in America today a badly misdirected policy and program in the field of housing and urban redevelopment. I use the term “misdirected” in two ways. They are misdirected in the sense that they are not aimed at the proper objective. They are also misdirected because housing programs and policies have been formulated and are being administered without regard to the basic housing needs of the American people.

The officials responsible for housing policy have forgotten that housing is first and foremost for the people who live in the houses. Of course, it provides a livelihood to the craftsmen who build the houses and incomes to builders, financial institutions, real-estate firms, producers and suppliers of building materials and others who derive their incomes directly or indirectly from residential construction. Certainly, this important economic aspect of the housing industry as a provider of employment and income cannot be ignored. But above all, consideration must be given to the direct satisfactions American families derive from the homes in which they live.

It is almost unbelievable, but true nonetheless, that the Federal Housing and Home Administrator has said not once but on numerous occasions that it is not the responsibility of the Housing and Home Finance Agency to try to determine the housing needs of the American people. Despite the clearly stated objective of the Housing Act of 1949, the Administrator has adamantly maintained that housing needs are not his concern. Apparently he neither knows nor wants to know how many houses must be built each year in order to assure every family the decent home which is the objective laid down by the Congress in the 1949 act. Since he does not know and refuses to attempt to find out how many houses are required, the Administrator cannot properly determine what kind of houses are most needed, in what price range, in which communities, or provide the answers to the other key questions needed for an effective housing policy.

This can only mean therefore that housing programs and policies are adopted without regard to housing needs. Of course, if the Administrator's purpose is to ignore housing needs in the development of housing policy, it is very convenient for him not to know what the housing needs are. On the other hand, recognition that housing policy must be geared to housing needs requires, first, analysis of the extent of housing needs.

HOUSING NEEDS

Whether judged by the test of past performance or by the criterion of future needs, there can be no doubt that the current rate of residential construction falls woefully short of meeting even minimum requirements. It is estimated that in 1957 there will perhaps be 950,000 housing starts. This is far less than in any postwar year since 1949. As compared with peak postwar years, it is 32 percent less than the 1,396,000 units started in 1950 and 28 percent less than the 1,329,000 units started in 1955.

As a matter of fact, it is only slightly more than the 937,000 units started in 1925 when United States population was only 116 million as against 171 million in 1957. On a per capita basis, the current rate is only about three-fifths of the 1925 rate.

Historical performance is an important, but by no means the sole, test of the adequacy of current housing activity. Even more significant is a comparison of current housing starts with known future needs.

Unfortunately, the latest available figures on the condition of the housing supply are now some 7 years old, but there is no reason to believe that there are less than the 15 million substandard dwelling units the census takers found in 1950. On the contrary, the relatively low level of housing construction since 1950 gives good reason to believe that by now we have even more than the 15 million substandard units we had in 1950.

In 1955, Prof. William L. C. Wheaton, of the University of Pennsylvania, made a careful study of future housing needs which has gained widespread acceptance among housing experts. Professor Wheaton estimated that, if during the years 1955-60 housing construction were at a rate of about 2 million units a year, from 1960 to 1965 at an annual rate of approximately 2.3 million units, and thereafter until 1970 at a rate of 2.4 million units a year, 5 million of the

15 million substandard units in use in 1955 would still be occupied in 1970. On the other hand, if the 1955-60 rate were only 1.2 million units and the 1960-70 rate 1.4 million units, 17 million families would be living in substandard units in 1970, 2 million more than in 1955.

The actual average annual rate of housing starts thus far for the period 1955-57 is probably about 1.1 million units. Current predictions for 1958 indicate no marked pickup from present low levels. Thus, there is little reason to anticipate that housing construction will greatly exceed an average annual rate of 1.1 million units for the 5-year period 1955-59. If this judgment is borne out by the actual record it would mean that even with some increase in residential construction activity during the decade 1960-70, in excess of 17 million substandard units would still be occupied in 1970.

As a matter of fact, housing experts generally agree that only a housing construction rate of 2 million units a year or more will significantly reduce the number of substandard units in use. If housing construction were maintained at that rate from 1955-65¹ and 2.4 million units from 1965-70, then the number of substandard units in use in 1970 would be about 5 million. This is still a sizable number but some 10 million less than the current volume of occupied substandard housing.

There can be no doubt that the economy can easily support annual construction of 2 million houses. In 1925, residential expenditures amounted to about 6.5 percent of gross national product. Current residential construction expenditures are at an annual rate of about \$15 billion. With construction of 2 million units a year, this amount would be approximately doubled. The \$30 billion annual rate of residential construction expenditures would be about 6 percent of a \$500 billion gross national product. With gross national product now at an annual rate of \$434 billion, certainly the average annual gross national product between now and 1965 should be well over \$500 billion. Thus, an annual housing construction rate of 2 million units between now and 1965 would by no means result in a distortion of the economy.

I have devoted this much attention to consideration of the overall volume of housing requirements to emphasize the fact that the current rate of housing construction will have to be about doubled during the next 10 to 15 years if we are going to effect a sizable improvement in the living conditions of millions of families now living in substandard housing.

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There is not the slightest possibility that the housing construction rate can be expanded to anything like 2 million units a year under the housing programs currently in effect. This is because a doubled rate of housing construction can be achieved only if a large volume of the houses built are within the financial reach of low- and middle-income

¹ Since the 1955-57 rate has been far below this level, about 2.4 million units a year would have to be built during 1958-65 to bring the average for the decade up to 2 million.

families. Instead, as a staff report of the Senate Subcommittee on Housing has aptly described the current situation, "the housing industry [has reached] a point where it is serving primarily the upper income groups."²

For many years organized labor and others who have urged an expanded and improved housing program have recommended legislation which would provide the tools needed to meet the housing needs of low- and middle-income families now unable to obtain homes within their means. In testimony before congressional committees considering proposals for new housing legislation, we have pointed out again and again that virtually no houses are being built that low-income families can afford and that while some middle-income families have purchased new houses, they have had to assume far higher charges than they could meet without curtailing other essential family expenditures. For example, consider the terms currently in effect, having been set during the first session of this Congress in connection with the modified downpayments for FHA-insured houses. Under these terms, the total monthly charges (including taxes, maintenance, and utilities) the homeowner must pay for a \$15,000 house (the current average price of new houses) is \$133.³ This requires an annual income of about \$8,000. This is higher than the incomes of more than 80 percent of all families in 1956. In other words, only 20 percent of all American families have incomes big enough to afford to buy the average house supplied on the market today.

This is not the appropriate occasion to set forth in detail the recommendations of the AFL-CIO, for housing legislation. As the foregoing analysis indicates, however, these recommendations have focused on programs which would fill the gap in current housing programs and particularly provide the opportunity for low- and middle-income families to obtain homes within their means. The major features of such a program are:

1. A large-scale, low-rent public housing program for low-income families.
2. Low-cost loans for cooperative, sales, and nonprofit rental housing for middle-income families.
3. A comprehensive slum clearance and urban redevelopment program to wipe out urban blight and facilitate general city rebuilding.

Despite contentions to the contrary, this kind of a program directed toward meeting the Nation's total housing requirements would involve only a very modest direct outlay by the Federal Government.

FEDERAL EXPENDITURES REQUIRED FOR HOUSING REDEVELOPMENT

Unlike many of its expenditures for other programs, the Federal Government's direct outlay for housing and related programs is quite small and nowhere near as large as the figures shown in the Federal budget for expenditure authorizations for housing programs. For example, the new spending authority in the budget for fiscal 1958

² Staff report to the Subcommittee on Housing of the Senate Committee on Banking and Currency, January 24, 1957, p. 5.

³ This assumes an effective 5¼ percent interest rate (5¼ percent plus ½ percent FHA mortgage insurance premium) and 25-year amortization period.

for the Housing and Home Finance Agency and its constituents (Federal Housing Administration, Public Housing Administration, Urban Renewal Administration, Federal National Mortgage Association, etc.) is \$1.2 billion. Even this is by no means an excessive amount. Actually, it is only 1.7 percent of the total Federal budget.

However, in terms of actual permanent outlays by the Federal Government, the amount is far less. In fact, the only items of any consequence in the fiscal 1958 budget for housing programs involving permanent Federal outlays are only two. One represents about \$50 million in grants for slum clearance and urban renewal to cover the writedown of the cost of slum sites to be cleared for rebuilding. The other represents \$95 million in grants to cover the difference between economic rents in low-rent public housing and the amounts the low-income families living in public housing can afford to pay. As compared with these small permanent outlays, there are such items in the budget as the \$600 million for mortgage purchases by FNMA, \$388 million for short-term public housing construction loans, \$289 million for college housing loans, and \$297 million for urban renewal loans. These items required expenditure authorizations and appeared as such in the budget.⁴ These expenditures, however, are reimbursable. They represent reimbursable interest-bearing loans. In the long run they mean revenue rather than outlay to the Federal Government.

Thus far, I have been discussing expenditures for current programs. However, as I have indicated, we are urging the necessity of doubling the current rate of residential construction. What implications would this have for Federal expenditures?

Again, we must distinguish between appropriations which may be for reimbursable revenue-producing loans and actual permanent Federal outlays. Assuming that the major features of the housing program we have recommended were adopted, Federal expenditures for housing and urban redevelopment would still not loom very large either as a percent of the total Federal expenditures, or certainly as a percent of gross national product. Let me indicate some figures which are intended to be illustrative rather than a precise forecast of the future cost of housing programs.

The three main features of the housing program we have recommended are low-rent public housing, low-cost loans for middle-income housing, and urban redevelopment and slum clearance. Let me take these up in order.

If beginning in 1958 and for the next decade we were to build 200,000 low-rent public housing units a year, the average annual expenditure (exclusive of reimbursable expenditures) of the Federal Government required would be less than \$500 million. It would range from about \$115 million to \$120 million in 1958 to about \$900 million in 1957.

A program of low-cost loans for middle-income housing with the interest rate covering the cost of money to the Government plus the cost of administering the program would involve no nonreimbursable expenditure by the Government. Therefore, even assuming that such a program were to operate entirely on a Federal direct-loan basis, the actual cost to the Federal Government would be zero.

⁴ Since some of these funds were authorized in earlier years, only part of them represent new expenditure authorizations in fiscal 1958.

The present authorization for urban renewal capital grants to cover the writedown cost of slum sites to be redeveloped is \$250 million a year. The President's Advisory Committee on Government Housing Policies and Programs has estimated that the total cost of clearing the 5 million units requiring demolition would be about \$15 billion. If the Federal Government were to meet two-thirds of this cost, its share would be \$10 billion. Assuming the job were to be completed in 20 years, certainly a very modest goal, the Federal Government would have to spend \$500 million a year for this purpose.

Thus, the comprehensive housing and urban redevelopment program we have recommended would cost something like \$1 billion a year on the average during the next 10 or 15 years. The amounts would be somewhat smaller during the earlier part of this period and somewhat larger later on. This is certainly not too high a price to pay to assure American families the opportunity to obtain decent homes in well-planned cities and towns in which we could all be proud to live and work.

The suggested amount of \$1 billion a year compares with the \$3.6 billion a year the Federal Government will be spending under the new highway program. Another way of appraising Federal expenditures of \$1 billion a year for housing redevelopment programs is to compare this amount with total Federal expenditures. If Federal expenditures keep pace with the growth of the economy, the estimated average gross national products during the next 10 years of at least \$500 billion would require average annual Federal expenditures of some \$80 billion to \$85 billion. Federal expenditures for housing averaging \$1 billion a year during this period would represent a maximum of $1\frac{1}{4}$ percent of Federal expenditures.

Thus, by any relevant test, there can be no doubt that we can well afford the housing and urban redevelopment program America needs. The frantic cries of inevitable mammoth Federal expenditures which are always raised when proposals are made for comprehensive housing and urban redevelopment programs must be recognized as irrelevant and diversionary. Housing and redevelopment programs should be considered on their merits. There can be no doubt that we can afford to launch—indeed we cannot afford not to go forward with—the programs which will meet the Nation's housing needs. For by meeting our housing and redevelopment requirements, we will also strengthen our economy and improve the living conditions of all Americans.