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An Overview of Political and
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HOUSING POLICY IN THE UNITED STATES:
AN OVERVIEW OF POLITICAL AND
ECONOMIC THOUGHT

By

Timothy Michael Stewart

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ABSTRACT

HOUSING POLICY IN THE UNITED STATES
AN OVERVIEW OF POLITICAL AND
ECONOMIC THOUGHT

By

Timothy Michael Stewart

Housing is an integral part of the urban system. Today Federal housing policy strongly influences State, Regional and Local decisions regarding urban planning.

→ This thesis is an attempt to summarize the complex evolution of Federal housing policy from 1607 through the passage of the Housing and Community Development Act of 1974. Primarily, attention is given to Federal housing policies which effect low income persons.

Central themes, such as the conflict between housing use value and housing exchange value, and the strong American heritage of private property ownership, have been explored.

The thesis concludes that America's housing problem will not be solved until all Americans have a legal right to decent, safe and sanitary housing.

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* * * * *

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". . . We will continue to have slums, no matter what we may do at any particular time, unless we do raise incomes. . . . We will have slums so long as we have private corporations fixing prices on everything the slum dweller has to have in order to eek out his miserable existence. Our systems calls for just such things as slums and economic slaves."

--Senator Borah
United States Senate
August 2, 1937

CHAPTER I

INTRODUCTION, ORGANIZATION AND METHOD

Introduction

Purpose

The purpose of this study is to trace the evolution of Federal housing policy from 1607 when no formal housing policy existed through the passage of the Housing and Community Development Act of 1974, the most comprehensive housing program in the history of the United States. The study is directed towards establishing an overview of the evolution of Federal housing policy.

Today, there is a massive array of Federal laws which might appropriately fit under the title of Federal housing policy. The Federal Reserve Board, the national banking system, the Internal Revenue Code, the Environmental Protection Agency, The Energy Administration, as well as the Department of Housing and Urban Development, all directly influence what might be generally called Federal housing policy. The investigation of the evolution of each of these influential forces on housing policy is beyond the scope of and intent of this study. With notable exceptions, the focus

of this study is upon the Federal government's role as provider in developing low and moderate income housing.

This study is not intended to provide a detailed description of the specific subsidy programs of the Federal government nor is it intended to evaluate the quality of housing developed under different subsidy programs. It does focus upon the evolution of housing policy and also seeks to identify common themes which have appeared during the evolution of Federal housing policy.

An Overview of Federal Housing Policy

There are three common elements which have been present during the evolution of Federal housing policy. The first is the nature of housing and the value attached to housing units by society. The second is the American dream of private property ownership. And the third element is the unsatisfied housing need of America's poor.

The nature of housing. Housing may be defined and described from a number of different perspectives: to the anthropologist, the housing unit of a particular culture will reflect the meanings, values and beliefs of the culture; to the psychologist, a housing unit may be considered as an extension of the inhabitant's self; to the architect, a housing unit may be a good or bad work of functional art; to the capitalist, a housing unit is a means to a profit;

yet to the people who live in the house, it is more, it is a hearth, a place of love and joy for family and friends.¹

Each housing unit has a dual value. It has use value and it has exchange value.² In general terms, the utility of a house determines its use value. The number or supply of houses and demand for houses determines its exchange value. Use value in a house corresponds with the human need for shelter. The exchange value of a house corresponds to the laws of the marketplace. The ideal situation occurs when the need for housing is satisfied by the supply of houses. However, this occurrence is rare. The inequitable distribution of income, population fluctuations, technological innovations and changes in capital formation and availability continually divorce the demand for housing from the need for housing. Thus, while the supply and demand laws of the marketplace may function properly, the exchange value of housing rarely corresponds with housing need.

The dual aspects of value in each housing unit sometimes complement and often contradict each other.

¹The various perspectives of an object, in this case a house, is based upon: Sanford Farness "Ecological Basis for Planning" (unpublished lectures, School of Urban Planning and Landscape Architecture, Michigan State University, Fall 1974).

²For a further explanation see Karl Marx, Capital, vol. 1, chapter 1, trans. from the fourth German edition of Eden and Cedar Paul (New York: J. M. Dent and Sons, Ltd., 1974).

They have been the source of continual frustration for social reformers seeking to satisfy human housing need and for entrepreneurs seeking to maximize profit. For example, in the Committee Hearings of the Michigan Legislature on redlining during the summer of 1977, neighborhood and community organizations argued for the adoption of the criteria of use value in neighborhood investment while the Savings and Loan Associations and financial interests argued for the criteria of exchange value. Each group was correct from their subjective view of housing, yet the contradiction in values seemed at times to be insurmountable.

The dual aspects of housing value has been the source of continual frustration for governmental leaders in developing housing policy. As a result, Federal housing policy has been developed for two purposes. One purpose is to satisfy the housing need of people while the other purpose is to enhance the exchange value of housing and promote private profit. The contradiction between housing use value and housing exchange value is deeply engrained in Federal housing policy.

Housing and private property in America. Housing in its barest state is a commodity--really no different than a coat or a car. It differs from most commodities, however, because its location is almost always permanently fixed to a parcel of land. When an individual considers

owning a house, he or she inevitably includes the land as an integral part of the home ownership package. Only recently have alternative modes of home ownership, such as condominiums and mobile homes, separated land ownership from the concept of home ownership in America.

The ideal of private land and home ownership is deeply tied to the American heritage and can be traced to the American revolution. As a colony of the British monarchy, America was subjected to the same legal system of entailments and primogeniture in land ownership which had served the British ruling class. After the American revolution, the traditional concepts of land ownership dramatically changed and the concept of widespread ownership of land was a central force in the formation of the United States Constitution. For example, Thomas Jefferson's way to a good and safe government was to decentralize the governance of the nation "until it ends in the administration of every man's farm by himself."³

The ideal of private property and home ownership in the history of Federal housing policy is not without its contradictions however. While Jefferson spoke of good and safe government and the virtues of private property

³Letter from Thomas Jefferson to Joseph C. Cabell, 1816 in Leonard D. Abbott, ed., Masterworks of Government, vol. 3 (New York: McGraw-Hill Book Company, 1974), pp. 82f.

ownership, slaves worked his farm and cared for his home. Today, millions of poor Americans do not control the resources to buy a home and are disenfranchised from the American dream of home ownership.

Housing and America's surplus population. The American Industrial Revolution created a surplus population⁴ in the labor force who were displaced from their work by machines. This segment of the American population has traditionally been housed in the worst units in America's housing stock because of low incomes. The Federal housing policy has failed to recognize or grant a legal right to the surplus population for basic shelter.⁵

⁴As used in this paper, surplus population means all unproductive individuals including the unemployed and those on welfare or other forms of public relief. The concept of surplus population was initially put forth by David Ricardo, Principles of Political Economy (London, 1821), with the argument that machinery not only produced commodities but also produced a "redundant population" which had been set free by machines. Marx, Chapter 23, expands Ricardo's principle by arguing that ". . . it is capitalist accumulation itself that constantly produces . . . a population larger than suffices for the average needs of the self-expansion of capital, in short, a surplus population." See also Paul M. Sweezy, The Theory of Capitalist Development (New York: Modern Reader Paperbacks, 1970).

⁵Basic shelter needs are culturally relative. For example, a tent would meet the basic shelter needs of a nomadic culture, but would certainly be considered as a substandard housing form in twentieth-century America. Basic shelter needs, as used in this paper, is defined as shelter which provides physical and mental warmth, security and other physical features necessary to maintain the health of the residents at a price which enables the residents to satisfy other basic human needs such as food, clothing, education and transportation.

Each low income housing program of the Federal government has attempted to satisfy the basic housing needs of the surplus population. During the debate on the first major low income housing program in 1937, Senator Borah of Idaho touched upon the contradictions of adequately housing the surplus population in a capitalist economy when he stated that:

. . . We will continue to have slums, no matter what we may do at any particular time, unless we do raise incomes. . . . We will have slums so long as we have private corporations fixing prices on everything the slum dweller has to have in order to eek out his miserable existence. Our system calls for just such things as slums and economic slaves.⁶

While the housing policies of the Federal government have matured in the forty years since Senator Borah made his statement, the contractors of housing America's poor have not. David Harvey explains:

. . . It is a general characteristic of ghetto housing that if we accept the mores of normal, ethical, entrepreneurial behavior, there is no way in which we can blame anyone for the objective social conditions which we all are willing to characterize as appalling and wasteful of potential housing resources. It is a situation in which we find all kinds of contradictory statements "true." Consequently, it seems impossible to find a policy within the existing economic and institutional framework which is capable of rectifying these conditions.⁷

⁶U.S., Congressional Record, 75th Congress, 1st Session, 1937, vol. 81, part 7, p. 7967.

⁷David Harvey, Social Justice and the City (Baltimore: The John Hopkins University Press, 1973), p. 140.

Organization of the Paper

This paper is organized in five separate parts or chapters. This section, Chapter I, is the introduction. Chapter II covers the Federal housing policies in the years 1607-1937, before the massive intervention by the Federal government into housing markets. Chapter III, housing policies between 1937-1960, address the initial Federal housing programs. The years between 1960-1974 are covered in Chapter IV of this study. Finally, Chapter V is the summary and conclusion.

Method of Research

"It is," said Albert Einstein, "the theory which decides what we can observe."⁸ The method of research utilized in this paper can best be described as an historical study. Three sources of information are utilized: The professional experiences of the author, academic literature and primary source government documents.

Practical Experiences

It has been the fortunate experience of the author to have two distinct and almost opposite professional

⁸Quoted by Michael Harrington, The Twilight of Capitalism (New York: Simon and Schuster, 1976), p. 18.

positions.⁹ One position, as a tenant organizer, viewed housing from a use value perspective. The other position, as an employee of a lender, viewed housing from an exchange value perspective. Each of these positions has seasoned the author in the political, social and economic contradictions of housing needs and markets. Professional literature, including publications of the tenants rights movement and the real estate industry have been routinely reviewed in the normal course of these two positions. The professional experiences gained in each of these two positions have heavily influenced the perspective of this paper.

Academic Literature

There is an abundance of academic literature available on the broad subject of Federal housing policy. The amount of literature multiplies almost infinitely when Federal housing policy is considered within the context of the evolution of the economic and social history of the United States.

The works of Anthony Downs, Brian Boyer, Leonard Downie, Jr., Henry Aaron, Timothy McDonnell, Nathaniel Keith and perhaps most influentially Chester Hartman and

⁹Between 1972-1974 the author was employed by a grass roots community organization as a tenant organizer; from 1975 to the time of this writing (1978), the author has been employed with a State Housing Finance Agency.

Charles Abrams have been utilized for factual knowledge directly related to Federal housing policy.

A number of other works, not directly related to housing but appropriate for the subject, have also been utilized. Included in this group are the works of such authors as David Harvey, James O'Connor, Paul M. Sweezy, Gabriel Kolko, John Friedman, James Weinstein, William Manchester, David Wallechinsky and Irving Wallace, Arthur M. Schlesinger, Theodore Roszak, and Michael Harrington. While the specific works of each of these scholars may or may not have dealt directly with housing, each contributed to the historical perspective necessary for understanding the evolution of housing policy within the larger political economy of the United States.

Primary Sources

The third area of data used in this study has been primary source government documents including the Congressional Record, Public Papers of the Presidents of the United States and the Annual Reports of the Comptroller of the Currency.

CHAPTER II

FEDERAL HOUSING POLICY 1607-1937

The Federal policies toward housing and land underwent massive changes between 1607 and 1937. These changes generally reflected the general social and economic policy of the times and may be divided into the following seven eras:

STAGES OF EARLY AMERICAN HISTORY¹

<u>ERA</u>	<u>DATES</u>	<u>NATIONAL ECONOMY</u>
I	1607-1776	Colonial Mercantile Capitalism
II	1776-1825	National Mercantile Capitalism
III	1825-1850	Industrial Capitalism
IV	1850-1880	Finance Capitalism, Phase I
V	1880-1910	Finance Capitalism, Phase II
VI	1910-1933	Finance Capitalism, Phase III
VII	1933-1937	Cooperative Capitalism

Through the first six eras, the United States Government did not actively intervene in the production of low and moderate income housing. This task was left almost entirely to private means. But during the great Depression of the 1930s, this passive role dramatically reversed itself.

¹Christopher Tunnard and Henry Hope Read, American Skyline (New York: The New American Library, 1956).

Colonial Mercantile Capitalism, 1607-1776

The first settlers in America were motivated by one of two factors, religious freedom or land and riches. The first settlement in America, Jamestown, was organized and financed by the Virginia Company of London, a joint stock company motivated by profit. The company recruited settlers who agreed to work for the company for seven years without compensation as pay for their passage. At the end of the seven years, the settler was free to work for himself.² In what would later become Plymouth, Massachusetts, a group of Separatists from the English Church known as Puritans settled to establish their own community and practice their own religion.³

As time passed, English, Scottish, and Dutch settlers populated the American coast. Many, if not most, of these settlers were indentured servants. Under an early policy of the Virginia Company, each settler who paid passage received a "headright" of fifty acres of land.⁴ Wealthy investors often paid the passage of servants who

²John M. Blum et al., The National Experience: A History of the United States to 1877 (New York: Harcourt, Brace and World, Inc., 1968), pp. 14f.

³Ibid., pp. 20f.

⁴Ibid., p. 17.

then worked on the investors for a specified number of years and a percentage of the profit.⁵

The early settlers faced many hardships including the lack of food and shelter. Restrictive housing laws were common and accepted. For example, in Plymouth Colony in 1626, a law was passed which stipulated that the roofs of new houses should not be thatched, but roofed with either board or pole and the like.⁶ In New Amsterdam (New York City) in 1648 wooden and plastered chimneys were outlawed and after a major fire in Charleston, in 1740, an act was passed which stated that "all buildings should be brick or stone, that all 'tall' wooden houses must be pulled down by 1745, and that the use of wood was confined to window frames, shutters and to interior work."⁷ Caves were a popular shelter for many early American settlers and in 1685 an effort was made to close Philadelphia's caves.⁸

The government intervention in the housing of the early American settlers was limited to restrictions

⁵Ibid.

⁶Glenn H. Beyer, Housing and Society (New York: The Macmillan Company, 1965), p. 448.

⁷Ibid. The quotation is attributed to Thomas J. Wertenbaker, The Old South: The Foundation of American Civilization (New York: Scribner and Sons, 1942), p. 276.

⁸Charles Abrams, The Future of Housing (New York: Harper and Brothers, 1946), p. 4.

of construction material, housing type and quality. The government was also instrumental in providing the infrastructure for housing, such as streets.⁹

The new mercantilist philosophy, which allowed the state a strong role in community relationships and especially private property rights, was paramount in the early American settlements. When labor shortages brought high construction costs in Massachusetts, wage controls were placed on the building trades with penalties imposed for violations against both giver and taker.¹⁰ With the American Revolution, however, a great change would come over the popular attributes towards property rights.

National Mercantile Capitalism, 1776-1825

After the American Revolution, a dramatic change in attitude towards property rights swept America. The old English system of primogeniture and entailment which emphasized perpetual land holding by a privileged class was replaced in theory at least by a freehold system of land ownership which emphasized widespread landholding by common people.¹¹

⁹Ibid., p. 5.

¹⁰Ibid.

¹¹Ibid., pp. 6f.

This new attitude was incorporated into the philosophy of the Constitution of the United States and was also evident in other governmental policies towards land.

The popular view was that government lands represented sterilized wealth and should be handed over to individual exploitation without delay. Their aim, though not always fulfilled, was to put small holdings into the hands of the people.¹²

Land Acts were passed by the United States Government in 1800 and 1804 to encourage the settlements of western lands between the Appalachian Mountains and the Mississippi River. The 1800 Act offered land for sale in individual tracts of 320 acres with a 25 percent down payment and four years of credit.¹³ Due to the large size of the minimum lot and the relatively high down payment, the Act stimulated a great deal of land speculation.¹⁴ Congress eased the situation in 1804 when it reduced the minimum tract to 160 acres at \$1.62 per acre.¹⁵ Thus, an individual could obtain a farm for an initial down payment of \$64.80. The Land Act of 1800 perhaps represented the first indirect Federal housing subsidy.

¹² Ibid., p. 5.

¹³ Blum et al., pp. 169f.

¹⁴ Marshall Swelser, The Democratic Republic, 1801-1815 (New York: Harper and Row, 1968), pp. 134ff.

¹⁵ Ibid.

The government's intervention into housing markets during this era was limited to local code regulations and land subsidy of the Federal government. The housing codes were only adopted in certain areas and were tailored to meet local needs. The Federal land policy was limited to individuals who had at least some capital. The Federal, state and local governments ignored the housing situation of slaves and indentured servants along with others at the bottom of the social and economic ladder.

In 1801, approximately one-sixth of the American population were black slaves.¹⁶ While most slaves lived in shelters which at a minimum protected their health, some slave quarters were primitive. In North Carolina, for example, 20 slaves were forced to live in the following "house":

. . . A square pen, made of pine poles, with large cracks through which one might thrust his doubled fist . . . no shutter to the door; the top would not shed water; . . . no chimney . . . no floor. . . The fire was in the middle of the house . . . nothing like as good as the ordinary stable.¹⁷

The Federal government was not in a position to regulate, control or influence housing conditions. The power of the government in domestic matters was so limited during this era,

¹⁶ Ibid., p. 21.

¹⁷ Robert S. Starborn, Industrial Slavery and the Old South (London: Oxford University Press, 1970), p. 61.

That President Jefferson spent sleepless nights over the government's legal right to acquire a piece of real estate known as the Louisiana Territory. There could, therefore, be no fear of regulation of privately owned real estate from the Federal quarter, even if such sentiment had existed on that level.¹⁸

Industrial Capitalism, 1825-1850

The industrial revolution caused a massive migration from rural areas to the industrializing urban areas. This increased dramatically the price of urban real estate and created some of the worst housing conditions in the history of the United States.

Between 1820 and 1850, the population of New York City increased by 319 percent.¹⁹ This massive influx of people from both the rural areas and from across the sea caused a sharp increase in the demand for urban land and led to massive profits for landowners and financiers. For example, John Jacob Astor amassed between \$20,000,000 and \$40,000,000 in real estate on the Island of Manhattan from about 1815 to 1848.²⁰ Astor's deathbed message was simply:

¹⁸ Abrams, p. 6.

¹⁹ Tunnard and Reed, p. 206.

²⁰ Ibid., pp. 67f.

Could I begin again, knowing what I know now and had money to invest, I would buy every square foot of land on the Island of Manhattan.²¹

Profits from speculation in land were never greater.

With the extremely high demand for land in New York City as well as other urban areas throughout the country, and the practical absence of minimum legal requirements for housing, capital naturally sought its maximum return "by intense overcrowding and the most economical construction consistent with human forbearance."²²

Thousands of Irish and German immigrants crossed the ocean in the hope of realizing the American dream of land ownership only to find the reality of the sweatshop and the slum tenement. There were no Federally sponsored public programs to assist or protect these new Americans. Often the immigrants were swindled out of whatever savings they had upon arrival at such ports as Boston, Baltimore, Philadelphia, and most importantly, New York. As early as 1817, these intolerable conditions generated public protest. In that year, a New York City health inspector assailed the "mercenary landlords" for overcrowding their tenements for profit.²³ This era was characterized by a spirit of free

²¹ Ibid.

²² Abrams, p. 7.

²³ Ibid.

enterprise in which the private investor was allowed to maximize his profit without regard to the social pathology created by his enterprise.

Finance Capitalism, Phase I,
1859-1880

The major event during this era was the American Civil War during the years 1861-1865. Although much of the South was devastated by the war, the Northern industrial cities were unaffected. The industrialization and urbanization of these areas continued, as did the development of slums and poor health conditions. During this era, the state intervened in the housing markets in two ways, each an extension of an earlier policy. The first was through local housing code enactment in New York City. The second was a Federal Land Act which subsidized land ownership and the development of Western lands.

Each of these reforms was perhaps motivated by a new school of economic thought, originating in Europe which challenged the sanctity of the free market and private ownership.

European economists had set the intellectual framework for blaming poverty upon the landowner. Malthus, Ricardo and Mill had come to view the landowner as occupying a special position. . . . One envisaged the unremitting upsurge of population and the continuous reduction of farm products with which to feed them. Another saw land as

draining of the combined effort of capital and labor. Mill saw landlords growing richer as it were in their sleep without working, risking or economizing.²⁴

Whether the outcry against slums was the direct result of these new economic philosophies or whether it was simply a common universal reaction caused by a humane concern for the slum dweller, is a matter of speculation beyond the scope of this study. The industrial revolution caused the growth and development of slum conditions in both Europe and the United States. On each continent these conditions led to a change in attitudes towards property and the right of private ownership. Some years later, this new economic philosophy would be advocated by an American, Henry George:

What is the reason for this overcrowding of cities? There is no natural reason. Take New York, one-half of its area is not built upon. Why, then, must people crowd together as they do there? Simply because of the private ownership of land. There is plenty of room to build houses and plenty of people who want to build houses, but before anybody can build a house a blackmail price must be paid to some dog in the manger.²⁵

The movement for social reform spawned legislative commissions, pamphlets, books and reports which attacked the poor living conditions of the urban industrial workers. In

²⁴ Ibid.

²⁵ Henry George, "The Crime of Poverty," Our Land and Land Policy (New York: Doubleday, Page and Company, 1911), p. 215, in Abrams, p. 8.

New York City, in 1867, the Tenement House Act was passed in the hope of reforming the existing housing conditions.²⁶ This Act had some beneficial impacts upon overcrowding, sewage, light and ventilation, but fell short in eliminating the major housing problem of market inequities.

Another major housing reform of this era, also adopted in New York City, was the development of the "dumbbell tenement." In 1879 an engineering journal arranged a competition for the best design of a tenement house on the standard New York lot, 25' x 100'. The judges included an architect, a college professor, the President of the New York Board of Health and two ministers.²⁷ The winning design, in the shape of a dumbbell which allowed for increased windows and ventilation was based primarily on economic considerations, and since the dumbbell tenement "achieved maximum income by crowding the maximum number of human beings onto a narrow lot,"²⁸ it was selected. The design, however, was criticized by the New York Times and would later be outlawed by the City of New York.²⁹

The Federal government also became indirectly involved in housing markets during this era. In 1862,

²⁶ Beyer, p. 450.

²⁷ Abrams, pp. 8f.

²⁸ Ibid.

²⁹ Ibid.

The Homestead Act was passed. This Act granted free farms of 160 acres to citizens who would occupy and improve the land for five years. While the Act was not fully implemented until after the Civil War, it provided a "subsidy" to families who were willing to move west.

This legislation had a double purpose: to hasten the development of the nation's neglected resources, and to serve as a form of Federal work relief for persons who found the going too hard at home.³⁰

This Act was supplemented by the Timber Culture Act of 1873 and the Desert Land Law of 1877 which granted free or low priced land to the average American.³¹ As with the earlier land acts, these acts stimulated speculation and fraud.³²

Finance Capitalism, Phase II, 1880-1910

This era has been characterized by American historians as the "Progressive Era" in which liberal governmental attitudes reformed the rules of the marketplace. During this period of time, the urbanization of the country continued. Masses of Italian, Czechoslovakian, Hungarian, German, Jewish, Irish, Swedish, Norwegian, Greek, Japanese,

³⁰ Arthur M. Schlesinger, The Rise of Modern America 1865-1951 (New York: The MacMillan Company, 1951), pp. 30f.

³¹ Ibid.

³² Ibid.

Polish and Canadian immigrants flooded into American cities.³³ Among other problems, these new Americans faced extreme housing problems. Some American industrialists constructed homes for their workers in company towns, but the "great mass of urban workers lived in privately owned tenement houses operated strictly for profit."³⁴ The extremely high demand for land and shelter continued to cause overcrowding, high rents and unhealthy housing conditions.

In 1883 a hotly debated Senate resolution to investigate slums in 16 cities was introduced to Congress. The central issue was whether the United States Government could constitutionally spend money to investigate slums.³⁵ Following the lengthy justification of the constitutionality of the investigation by the Commissioner of Labor, \$20,000 was authorized to study slums in four cities.³⁶

The investigation produced little new information about slums. The facts obtained in the investigation included the number of saloons per number of inhabitants,

³³ Tunnard and Reed, p. 208.

³⁴ John Garrety, The New Commonwealth, 1877-1890 (New York: Harper and Row, 1968), p. 190.

³⁵ Beyer, p. 453.

³⁶ Ibid.

number of arrests, the distribution of males and females, the proportion of recent immigrants, the degree of literacy, the number of voters, the occupations of the slum dwellers, their earnings and the condition of their health.³⁷ The final report also included this description of a "bad" tenement.

A structure of the poorest class. A basement room was unfurnished except with a stove, a keg of stale beer, and boxes used for seats. Around the former were huddled four men and three women, four others being in the room. . . . The proprietor of this room (which was 14½ by 10 feet in extent) takes from eight to twelve lodgers at night. . . . Another room, the darkest in the house, is occupied by two Italian men and three women. In only four rooms was there anything like a family organization. . . . In this house are 14 rooms, occupied by 72 persons.³⁸

In contrast to this "bad" tenement, an "average" tenement was described as:

This building is six stories high. Its middle rooms throughout receive almost no daylight. In one room servant girls out of employment find board at 10 cents per night. On the fourth floor in a rear room lives a widow, who takes in five boarders. On the sixth floor lives a laborer, his wife and four children. . . . In this house live 90 persons, of these 17 are men, 36 women, and 37 children.³⁹

³⁷ Ibid.

³⁸ Garrety, p. 190.

³⁹ Ibid., p. 191.

While the information generated by the Senate investigation of 1883 contained nothing new about the cause of slums, it did establish the extremely important precedent of Federal intervention into local housing conditions.

At the local level, pressure continued for housing code enactment. For example, in New York City a number of housing code laws were passed between 1880 and 1910.⁴⁰ However, many of the provisions of these acts proved unenforceable. For example, an 1887 law was declared unconstitutional. The unanimous opinion of the District Court stated in part:

There is no evidence that the presence and distribution of water . . . will conduce to the health of the occupants . . . if tenants require it, self interest and the rivalry of competition are sufficient to secure it. . . . A conclusion contrary to the present decision would involve the essential principle of the species of socialism under the regime of which the individual disappears and is absorbed by a collective being called the "state,"-- a principle utterly repugnant to the spirit of our political system, and necessarily fatal to our form of liberty.⁴¹

The attitude of the District Court reflected the prevailing social belief that the right of an individual to satisfy basic human needs was subserviant to the right of a property owner.

⁴⁰ Beyer, pp. 451f.

⁴¹ Health Department of New York v. Rector, etc. of Trinity Church in the City of New York, quoted in Beyer, p. 451. Three years later the constitutionality of the question was upheld by the Court of Appeals.

The most significant housing code passed during this era was New York's Tenement House Act of 1901. The Act contained provisions for fire protection, light, ventilation, minimum room sizes, sanitary requirements and specifically defined terms such as "court," "shafts" and "public halls" for use in legal defense of the Act.⁴² While New York was the undisputed leader in passing housing codes, other cities including Boston, Philadelphia and Chicago also passed housing related laws during this era.⁴³

The inhumane conditions of the slums, coupled with the growing radical economic philosophies, continued to generate social reform movements in industry, labor and the social environment, such as housing. These reform movements culminated in the policies and programs of the Progressive Era (1900-1918). The original impetus for many of the reforms came from those at or near the bottom of the American economic structure.⁴⁴ However, in this era of reform,

business leaders sponsored institutional adjustment to their needs, and supported political ideologies that appealed to large numbers of people of different social classes in order to gain, and retain, popular support for their entrepreneurial activity. In the Progressive

⁴² Beyer, p. 452.

⁴³ Ibid., pp. 452f.

⁴⁴ James Weinstein, The Corporate Ideal and the Liberal State, 1900-1918 (Boston: Beacon Press, 1968), p. ix.

Era, and ever since, corporate leaders did this by adapting to their own ends the ideals of middle class social reformers, social workers and socialists.⁴⁵

Another factor inherent in the social reform movement of this period was "the nearly universal belief among political leaders in the basic justice of private property relations."⁴⁶ This basic moral value ultimately established limits upon the "realistic" solutions to social problems,⁴⁷ "few reforms were enacted without the tacit approval, if not the guidance, of the large corporate interests."⁴⁸

Housing, and the problems of the cities, were not left untouched by the Progressive Reformers. In 1908, President Theodore Roosevelt appointed The President's Homes Commission which was charged with investigating the improvement of existing houses, elimination of unsanitary and alley houses, social betterment and building regulations. The Commission's President was General George M. Sternberg and its members included William H. Baldwin, Frederick L. Siddons, Prof. George W. Cook, Whitefield McKinley, Miss Mabel T. Boardman, Mrs. Thomas T. Gaff, James Bronson

⁴⁵ Ibid., p. xiii.

⁴⁶ Gabriel Kolko, The Triumph of Conservatism (Chicago: Quadrangle Books, 1963), p. 3.

⁴⁷ Ibid.

⁴⁸ Weinstein, p. ix.

Reynolds, S. W. Woodward, T. C. Parsons, Emmett S. Adams, P. J. Brennan and William F. Downey.⁴⁹

The investigation touched upon many aspects of the "home life" of workers ranging from constipation to usury. The Commission recommended a number of reforms specifically for the District of Columbia, but it did not hide the fact that its recommendations could be generalized to the national level. Among the housing reforms proposed by the Commission were the concepts of slum clearance, interest subsidies and code enforcement.⁵⁰

The Commission specifically recommended that,

. . . these poor creatures should not be driven to desperation; we should see to it that means are available to effect their temporal, physical, and moral welfare. . . . A little government aid extended to these unfortunates in the form of a loan to build them habitable dwellings would tend immensely toward their uplifting and improvement. . . . All unsightly and unsanitary property should be condemned and purchased by the Government, improved in a uniform manner, and inexpensive and healthful habitations erected for the poor, who could rent or purchase these homes on installment plans at low rates of interest. . . . Should this be done, all would be benefited. . . . The money expended on such homes would return in the form of regular monthly payments, and this in turn could be used for the continuance and spread of the good work of elevating the masses.⁵¹

⁴⁹ U.S., Congress, Senate, Reports of the President's Homes Commission, 60th Congress, 2nd Session, 1909, Cover.

⁵⁰ Ibid., pp. 318-322.

⁵¹ Ibid., p. 320.

The Commission's Report also stated that the average gross return to the owner of urban slum housing varied between 9 percent and 35 percent.⁵² The Commission attacked the practice of charging "exorbitant rents from the poorer classes" as being "manifestly unfair" but did not recommend any changes to the system of private land ownership.⁵³

The proposals outlined in the President's Homes Commission's Reports were never implemented. This failure to act may be partially attributed to the prevailing belief in private property ownership which still dominated the collective American mind. The intervention of the Federal Government in the housing markets of America would not serve the owners of real estate in general, and slum housing in particular, even though decent housing was required for people to "keep well and capacitated for work."⁵⁴ Gabriel Kolko has summarized the Progressive Era as follows:

No socially or politically significant group tried to articulate an alternative means of organizing industrial technology in a fashion that permitted democratic control over centralized power, or participation in routine, much less crucial decisions in the industrial process. No party tried to develop a program that suggested democracy could be created only by continuous mass involvement in decisions that affected their lives. . . . The Progressive Era was characterized by a

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Ibid., p. 109.

paucity of alternatives to the status quo, a vacuum that permitted political capitalism to direct the growth of industrialism in America, to shape its politics, to determine the ground rules for American civilization in the twentieth century, and to set the stage for what was to follow.⁵⁵

Thus, while there was a significant reform movement among many local governments during this period of American history, no radical change in the right of property ownership, or the right to decent and safe shelter, was proposed. Private property remained the highest right. Human rights were subserviant.

Finance Capitalism, Phase III, 1910-1933

Finance capitalism, the national economic system, was dominated by an increase in mass production during the period between 1910-1933.⁵⁶ Urbanization of industrial areas continued even though the rate of immigration from Europe declined.⁵⁷ The two most significant events of the era were World War I and the failure of the national economy.

World War I marked the first intervention by the Federal Government in America's housing market. Pressed by the lack of adequate housing for defense workers, the Council of National Defense recommended to Congress that

⁵⁵ Kolko, p. 305.

⁵⁶ Tunnard and Reed, p. 209.

⁵⁷ Ibid.

Federal appropriations be used to construct housing for these workers.⁵⁸ Congress responded with two actions. It authorized the United States Shipping Board and Emergency Fleet Corporation to provide housing for shipyard workers through loans to subsidiaries of the shipbuilding firms, and it authorized \$100 million for direct construction of defense housing by the newly created United States Housing Corporation.⁵⁹ The Housing Corporation spent some \$52 million in the production of about 6,000 units for the families of defense workers and 7,000 dormitory accommodations for single defense workers.⁶⁰

Aside from the precedent established for direct Federal intervention in housing construction, neither of these programs significantly impacted later Federal housing policies and programs. In fact, following the War, housing developed under each of these two programs was either sold or destroyed.⁶¹

⁵⁸ U.S., Department of Housing and Urban Development, Housing in the Seventies, pp. 1-5.

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

The Great Depression: The
End of Finance Capitalism

The Great Depression of the early 1930s was a primary cause of a massive Federal intervention in the housing market. The government intervened to halt foreclosures; encourage house construction, mortgage lending and repair; and lent money for homes.⁶² "But no fundamental policy on real estate or housing governed its actions."⁶³ Each of these actions was simply a reaction to a massive dysfunction of the economic structure.⁶⁴

Herbert Hoover had outlined the commonly held purpose of government, prior to the economic collapse, in his 1928 campaign for the Presidency. "The sole purpose of government," said Hoover, "is to bring about a condition of affairs favorable to the beneficial development of private enterprise."⁶⁵ Hoover also stated:

The poor house is vanishing from among us. We have not reached our goal, but given the chance to go forward with the policies of the past

⁶² Abrams, p. 11.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ David Wallechinsky and Irving Wallace, The People's Almanac (Garden City, N.Y.: Doubleday and Company, Inc., 1975), p. 274.

years, we shall soon with the help of God be in sight of the day when poverty will be banished from this Nation.⁶⁶

Either God didn't help or Hoover was wrong. Eight months after Hoover took office, on October 24, 1929, a seller's panic hit America's stock market. During the next three days stocks dropped \$40 to \$60 per share.⁶⁷

The depression in the economy during the years 1929-1934 is reflected in the Annual Reports of the Comptroller of the Currency. In 1929, the Comptroller, J. W. Pole blamed the failure of many small country banks on ". . . the trend of business in general toward larger operating units, with stronger capital funds and more experience and highly trained management." But Pole also warned:⁶⁸

If in the free course of business the country bank cannot successfully operate . . . the obligation and responsibility is upon the Government of the United States.⁶⁹

This statement by Pole in 1929 put forth the concept that the government was responsible for insuring that the free enterprise system survived.

⁶⁶ Nathaniel Keith, Politics and the Housing Crisis Since 1930 (New York: Universe Books, 1973), p. 18.

⁶⁷ Wallechinsky and Wallace, p. 226.

⁶⁸ United States Government, Annual Report of the Comptroller of the Currency, 2 December 1929, p. 1.

⁶⁹ Ibid., p. 4.

In 1930 Pole observed that the "failures have not abated"⁷⁰ and blamed the continued failures upon the movement of private capital out of the national banking system and into the state and private banks which were ". . . relatively less effective as an instrumentality of the Federal Government."⁷¹ Pole again made legislative recommendations which would strengthen the Federal role in banking.

By 1931, Pole admitted the following:

. . . The economic developments of the past 12 months have given no occasion for alteration of the substance of those recommendations, but have rather created a more urgent necessity for the proposed legislation.⁷²

By the end of 1932, Pole had resigned as Comptroller of the Currency and was replaced by F. G. Awalt, who stated the following in the report of 1932:

. . . The banking business continued to reflect the economic depression from which the country has suffered during the past three years. . . . During the past year, however, the banking situation became acute owing to heavy depreciation of all values, to large foreign withdrawals of gold, and a widespread movement towards the hoarding of currency.⁷³

⁷⁰ United States Government, Annual Report of the Comptroller of the Currency, 1 December 1930, p. 2.

⁷¹ Ibid., p. 5.

⁷² United States Government, Annual Report of the Comptroller of the Currency, 7 December 1931.

⁷³ United States Government, Annual Report of the Comptroller of the Currency, 5 December 1932, p. 1.

The Hoover Administration failed to act. Despite the fact that housing production was 69 percent per year less than the average housing production for the years 1922-1928, Hoover refused to acknowledge the seriousness of the problem.⁷⁴ Rather than directly intervening in housing markets, Hoover called together the White House Conference on Home Building and Home Ownership in December of 1931, which in typical Hoover style, was not sponsored by the government, which paid no expenses but rather by private industry.⁷⁵ The central issue of the Conference was to "facilitate the ownership of homes . . . [and to] protect the owners of homes."⁷⁶ At the opening of the Conference, the President commented to the 3,000 delegates in a speech which was covered by both N.B.C. and C.B.S. radio:

I am confident that the sentiment for homeowners is so embedded in the American heart that millions of people . . . have the aspiration . . . for home-ownership. . . . This aspiration penetrates the heart of our national well being. . . . We know that as yet [home ownership] is not universally

⁷⁴ Keith, p. 17.

⁷⁵ United States Government, Catalog of Public Documents of the 72nd Congress, 1 July 1931-30 June 1933 (Washington, D.C.: Government Printing Office, 1935), p. 1953.

⁷⁶ United States Government, Public Papers of the Presidents of the United States, Herbert Hoover, 1931 (Washington, D.C.: Government Printing Office, 1976), p. 572.

possible to all. We know that many of our people must at all times live under other conditions.⁷⁷

In response to the depression, Hoover made the following comment:

We have in normal times, through savings banks, insurance companies, the building and loan associations, and others, provided abundant and mobile financing for 50 percent of the cost of the home through the first mortgage. Our chief problem in financing relates to those . . . whose initial resources run only 20 or 25 percent.⁷⁸

The Conference was attended by the private home builders industry as well as members of government and covered such topics as local building programs, planning, zoning, housing technology, mortgage credit and housing rehabilitation. Hoover's Secretary of Commerce and Secretary of the Interior jointly chaired the meeting. At certain points, the Conference reports touched upon the issue of Federal intervention into the free housing market. Secretary of the Interior Ray Hyman Wilbur stated in the foreword of one of the reports that:

If business, financial and industrial groups fail to take the task in hand . . . it seems likely that American cities will be forced to turn to European methods of solution to this problem through subsidization by State and municipal treasuries.⁷⁹

But Hoover's faith in the free market economic system precluded the option of governmental intervention in the

⁷⁷ Ibid., pp. 572-573.

⁷⁸ Ibid., p. 575.

⁷⁹ Keith, p. 20.

private housing market even though the economic situation continued to deteriorate. In 1932, for example, wages were 60 percent less than they had been in 1929.⁸⁰ In Detroit, 3,000 people were demonstrating for jobs at the Ford River Rouge Plant when police opened fire and killed four.⁸¹ In Toledo, Ohio, there were open riots for food.⁸² This social discontent was reflected in the polling place in 1932 when the Socialist Party received 884,000 votes, its highest vote count ever.⁸³

The Great Depression radically shook the social, intellectual and economic framework of the United States. The firm belief in the right of property ownership which had grown since 1776 was now openly questioned by many Americans. The failure of the marketplace would end the clear division between free enterprise and government.

Cooperative Capitalism, 1933-1936

The Great Depression influenced a fundamental change in the basic structure of the American economic system. The

⁸⁰ Wallenchinsky and Wallace, p. 226.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Samuel Lubell, "The Roosevelt Coalition: Revolt of the City" in The Growth of American Politics, vol. 2, Since the Civil War, eds. Frank Gatell et al. (New York: Oxford University Press, 1972), p. 319.

government, which many had believed to be the arbitration between free enterprise and the public good, now became a full partner with private enterprise in the operation of the American economy. The New Deal legislative reforms of Franklin Roosevelt's Administration would become the principle economic foundation for the modern American society.

The first major legislative reforms related to housing and in response to the Great Depression, however, were actually implemented by Congress and the President before Franklin Roosevelt took office. In 1932, the Relief and Construction Act and the Federal Home Loan Bank Act were both passed. Both did too little, too late, to halt the downward crashing economy.

The Relief and Construction Act of 1932 established the Reconstruction Finance Corporation. The purpose of the RFC was to stimulate the flow of capital by making loans to such financial institutions as banks, insurance companies and railroads.⁸⁴ The RFC received \$500 million in direct Federal capital and was authorized to sell debentures up to \$1.5 billion.⁸⁵ As part of this massive infusion of public monies into the private economy, \$25 million was allowed for an experimental slum clearance and public housing program.⁸⁶

⁸⁴ Keith, p. 21.

⁸⁵ Ibid.

⁸⁶ Abrams, p. 214.

Under this legislation, RFC was authorized to make self-liquidating loans for the construction of housing for low income families or for the reconstruction of slum areas. Only one such loan was made for urban housing, in the amount of slightly over \$8 million for the Knickerbocker Village development in New York City.⁸⁷

The Federal Home Loan Bank Act of 1932 sought to save the American banking system which was near collapse, by establishing 12 regional Federal Home Loan Banks. These 12 banks were centrally supervised by the Federal Home Loan Bank Board.⁸⁸ The Act came too late and in 1933 the banking system in the United States collapsed.⁸⁹ The collapse began in Michigan when the Governor closed all state banks on February 13, 1933.⁹⁰ Panic swept across the country and the incredible sum of \$1,630 million was withdrawn from banks in cash over the next few weeks.⁹¹

On March 4, 1933 Franklin Roosevelt was sworn in as the President of United States and two days later closed all banks in the country.⁹² Five days after Roosevelt assumed the Presidency, Congress passed the Emergency

⁸⁷ Keith, p. 22.

⁸⁸ Ibid.

⁸⁹ United States Government, Annual Report of the Comptroller of the Currency, 1 January 1934, p. 1.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

Banking Act which gave the Executive Branch control over banks for the protection of depositors.⁹³

In the first 100 days following Roosevelt's inauguration, Congress passed a series of sweeping legislative reforms which began the New Deal and marked the beginning of the partnership between government and business. Two of these reforms related directly to housing. They were the Banking Act of 1933 and the Home Loan Act of the same year.

The Banking Act of 1933 established the Federal Deposit Insurance Corporation which insured the deposits of the small investor against loss should the bank default.⁹⁴ The intent of this insurance was to restore confidence in the banking system in specific and the economy in general. This restored confidence, it was reasoned, would dispell fears about a complete economic collapse and stimulate the flow of credit and capital into such ventures as house construction.

The Home Loan Act of 1933 created the Home Owners Loan Corporation which sought to stop the massive foreclosures of home mortgages which were occurring throughout

⁹³ Ibid.

⁹⁴ U.S., Department of HUD, Housing in the Seventies, pp. 1-7.

the country.⁹⁵ The HOLC sought to end investor panic and smooth the growing social unrest caused by the foreclosures by issuing emergency, long-term, self amortizing loans for the refinancing of defaulted or foreclosed homes.⁹⁶ In the first three years of its operation, the HOLC refinanced 20 percent of all owner occupied, non-farm housing units in the country.⁹⁷ The total principle value of the mortgages exceeded \$3.1 billion.⁹⁸ Nathaniel Keith, former President of the National Housing Conference writes,

The HOLC operation prevented a total collapse in home financing and, by freeing funds frozen in defaulted mortgages, permitted lending institutions to begin new mortgages. The repayment pattern set by HOLC on its refinanced mortgages was also a great influence in modernizing mortgage lending practices, in contrast to the crazy-quilt of multiple short term loans which had prevailed during the twenties.⁹⁹

Arthur M. Schlesinger, Jr. later commented on the HOLC:

. . . by enabling thousands of Americans to save their homes, it strengthened their stake both in the existing order and in the New Deal. Probably no single measure consolidated so much middle class support for the administration.¹⁰⁰

⁹⁵ The HUD Report, Housing in the Seventies, reports that in 1933 home mortgage foreclosures had reached an average of 1,000 per day.

⁹⁶ Keith, p. 24.

⁹⁷ Ibid.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

The National Recovery Act was also part of the blitz of social reform legislation to be passed in Roosevelt's first 100 days. The Act established the Public Works Administration which was intended to stimulate the economy by funding government sponsored jobs. One socially useful product of this make work program was to build low income housing. The Housing Division of the PWA was established in the fall of 1934. Under this program, the PWA acquired the land, let contracts for the construction of the housing to private builders and then operated the project after completion.¹⁰¹ The program was structured so that 45 percent of the total development cost of the housing was a direct Federal grant. The remaining 55 percent was a 3 percent loan amortized over 60 years. The debt service on the loan and the operating expenses of the development were paid by the rent of the tenants.¹⁰² The program encountered legal problems in 1935 when the Federal District Court in Louisville, Kentucky found that the use of Federal condemnation powers to acquire private property for housing use was not a valid "public purpose" under the welfare clause of the Constitution and declared the PWA's Housing program unconstitutional.¹⁰³

¹⁰¹ Keith, p. 28.

¹⁰² Ibid.

¹⁰³ Ibid., see also United States v. Certain Lands in the City of Louisville, Jefferson County, Kentucky, 1935.

While the New Deal had similar legal problems with other programs, enough of Roosevelt's programs were implemented for the Comptroller of the Currency to declare in 1934, "There is little evidence remaining of the collapse of March, 1934 of the banking structure of the Nation. The entire system has been rebuilt."¹⁰⁴ The Nation still faced a severe economic depression, however, and the Roosevelt Administration would continue to request and receive from Congress social reform legislation which would save the basic structure of cooperative capitalism.

The National Housing Act of 1934

The National Housing Act of 1934 created the Federal Housing Administration and the Federal Savings and Loan Insurance Corporation in an additional move by the Roosevelt Administration to restore confidence to the depressed economy and to stimulate the flow of credit and capital.

The FHA was empowered to issue and insure the same type of long term, low interest mortgages for all housing which had been made available on defaulted or foreclosed homes by the HOLC. The cost of the program was "passed through" to the purchaser of the home in the form of a mortgage insurance premium which was included as part of

¹⁰⁴ United States Government, Annual Report of the Comptroller of the Currency, 31 October 1934, p. 1.

the mortgage's monthly mortgage payment. The mortgage lender, in return for the sharply reduced risk of lending money for home mortgages, extended the term of the mortgage to 20 years and reduced the equity, or downpayment, to 10 percent of the total mortgage needed to build or buy a home. Large-scale rental housing was also encouraged by requiring only a 20 percent equity investment by the builder.¹⁰⁵ The FHA plan satisfied almost everyone.

The mortgagee is insured by the government, so it takes no chance. The government is secured (theoretically) by the premium, so (theoretically) it takes no chance either. The builder gets his money from the mortgage proceeds and the 10% down payment is additional. The only person uninsured is the owner who gets the house and more obligations than he is aware of. The low equity requirement has been the new siren song to lure a new crop of owners formerly unable to buy homes. The transaction is hinged upon whether the buyer can raise the 10%, not upon his ability to maintain the payments.¹⁰⁶

The new system of mortgage insurance was enthusiastically received by the business community. In fact, then Secretary of Commerce Henry Wallace recommended that the FHA system should be extended to small business.

The bankers were particularly enthusiastic. If all lending could be underwritten by the government while the profits of the lenders remained unimpaired as under the current FHA formula, banking would be the world's most pleasant enterprise.¹⁰⁷

¹⁰⁵ Abrams, p. 217.

¹⁰⁶ Ibid., p. 233.

¹⁰⁷ Ibid., see footnote.

The Housing Act of 1934 also established the Federal Savings and Loan Insurance Corporation. The purpose of the FSLIC was to protect the small depositors of the savings and loan institutions in the same way which the FDIC protected depositors in Federal national banks.

The Roosevelt Administration also responded to the Great Depression by forming the Resettlement Administration (R.A.) in 1935. The intent of the R.A. was to acquire land outside of populated areas and form entirely new communities. The urban slum population could then relocate to these new communities, allowing clearance of the slums.¹⁰⁸ The program was never fully implemented due to many problems including the infringement upon free enterprise.

The primary intent of each of these early New Deal reforms was to stabilize and stimulate the depressed economy and only indirectly aimed at satisfying the housing needs of the American people. There was an attitude to expend massive amounts of Federal dollars to assist the economic recovery. However, this massive infusion of public capital and credit was coupled with a concern for the social aspects of the expenditures.¹⁰⁹ But the social aspects of the programs took a secondary priority to the objective of economic

¹⁰⁸ Arthur M. Schlesinger, The Coming of the New Deal (Boston: Houghton Mifflin Company, 1958), p. 370f.

¹⁰⁹ Ibid., p. 214. Secretary of Labor Perkins was the primary advocate of the public good in expenditure of funds.

stimulation. The expenditures and programs of the New Deal as they related to housing took the form of a partnership between the government and private enterprise which has developed over the years to become what James O'Connor has called the Social-Industrial Complex.¹¹⁰

¹¹⁰ James O'Connor, The Fiscal Crisis of the State (New York: St. Martins Press, 1973).

CHAPTER III

FEDERAL HOUSING POLICIES 1937-1960

Cooperative Capitalism, 1937-1960

The Cooperative Capitalism established by FDR's New Deal legislation would serve as the basic economic foundation for the United States until the early 1960s.¹ The primary initiative of the Federal government in the area of housing during this period was the Public Housing Program, established by the National Housing Act of 1937. Other housing acts, most notably the Acts of 1949 and 1954, would alter some program requirements and expand the Federal role into urban revitalization and urban renewal. But the basic program for satisfying the housing needs of America's surplus population would be the Public Housing Program.

The National Housing Act of 1937

In 1937 the depression still held its grip upon the nation's economy. Despite the fact that 3.25 million people

¹In the early 1960s the Nation would experience a second crisis, the revolt of the cities, which would again cause extreme modifications to the structure of the political economy.

were employed by the Federal Government in public works programs, unemployment was still high.² "The total value of construction contracts awarded was 55 percent below the record 1927-28 year."³ The early New Deal reforms had not broken the depression in the economy and additional governmental intervention was initiated.

As with the development of any major law, the process whereby the National Housing Act of 1937 evolved into law was lengthy and complex. The primary force behind the passage of this landmark law was provided by a group of social reformers who for many years had advocated governmental intervention into the free housing market on behalf of the low paid members of society. Their efforts in gaining approval for the Act, however, were only successful after the collapse of the economy and during a time when the government was seeking various ways to stimulate the economy. It is extremely dubious that the Housing Act of 1937 would have been passed if there had not been a crisis in the society at large.

The genesis of the National Housing Act of 1937 can be traced back to the Public Housing Conference of

²United States Government, Annual Report of the Secretary of Commerce, 1936, p. xii.

³United States Government, Annual Report of the Secretary of Commerce, 1937, p.

1931.⁴ The PHC called for Federally sponsored housing programs for low income people. They met with little success. In the following year, the same group expanded their membership and incorporated themselves under the title of the National Public Housing Conference (NPHC). The NPHC included newspaper writers, religious and civic leaders as well as minority organizations.⁵ Included among this group was Edith Elmer Wood, author and acknowledged housing expert.⁶ The NPHC had strong political allies in such persons as Mrs. Franklin Roosevelt and Senator Wagner of New York.⁷

In 1933, another organization, the National Association of Housing Officials, was organized as a governmental service organization concerned with housing and housing needs.⁸ In the following year of 1934, a third housing advocate group, the Labor Housing Conference, was organized. The LHC was set up by the Pennsylvania State Federation of Labor. Catherine Bauer, an expert on European

⁴Mary Simkhovitch and Helen Alfred, both social workers, were primarily responsible for organizing the PHC.

⁵Timothy McDonnell, The Wagner Housing Act: A Case Study in the Legislative Process (Chicago: Loyola University Press, 1957), p. 55.

⁶Ibid.

⁷Ibid.

⁸Ibid.

housing and critical writer and researcher in the field of architecture and housing was appointed as Director.⁹

Both the NPHC and the LHC would serve as strong advocates for public housing legislation over the next several years while the NAHO would indirectly serve the effort by providing current information on Federal deliberations to its members.

Opposing the mood of social reform in Federal housing advocated by these three groups were four powerful and well organized lobby groups. The National Association of Real Estate Boards, the United States Building and Loan League, the National Retail Lumber Dealers Association and the Chamber of Commerce of the United States.¹⁰ Each of these organizations opposed Federal intervention in the free housing market. However, these same organizations which opposed Federal intervention for the public housing had supported the Federal intervention into the housing finance market.¹¹

⁹Ibid., pp. 58-59.

¹⁰ Ibid., p. 60.

¹¹ Morton Boafish, Executive Vice President of the United States Building and Loan League, had been an active participant in the development of the HOLC Act of 1933 and served as an original member of the Federal Home Loan Bank Board. Herbert U. Nelson, Executive Vice President of the National Association of Real Estate Boards, participated in the HOLC Act of 1933 and the National Housing Act of 1934, see McDonnell, p. 61.

The group of reform minded "housers" of the National Public Housing Conference, the National Association of Housing Officials and the Labor Housing Conference squared off against the representative of private industry from the National Association of Real Estate Boards, the United States Building and Loan League, the National Retail Lumber Dealers Association and the Chamber of Commerce of the United States in the political battle over public housing in the United States.

Evolution of the Housing Act
of 1937

The first draft of what would become the United States Housing Act of 1937 was completed in January 1935 by the original founders of the housing reform movement, Simkhovitch and Alfred. The ranking member of the Senate Committee on Banking and Currency, Senator Robert Wagner of New York, agreed to sponsor the legislation. Wagner, with the aid and assistance of his legislative assistant, Leon Keyserling, would spend much of his time, advocating, negotiating and politicking the passage of this basic bill over the next two-and-one-half years.

In the same session of Congress, Representative Ellenbogen, a liberal New Dealer from Pittsburgh, introduced a similar public housing bill in the House. Neither

bill received serious consideration for passage in that session of Congress.¹²

During the next year, Wagner, Ellenbogen and the "Housers" were to jointly draft a public housing bill. In this same period of time, the coalitions for and against public housing were developing. The American Federation of Labor, Building Traders Department, endorsed the concept of public housing primarily because such legislation ". . . will furnish employment to those engaged in the building and construction industry."¹³ The actual AFL resolution "stipulated the necessity of union laborers working at union rate of wages,"¹⁴ as a condition for its support.

In this same period of time, President Franklin D. Roosevelt was independently considering alternative ways of priming the economic pump through housing subsidies. FDR's ideal housing program was one of home ownership. Timothy McDonnell reports from a personal interview with Representative Ellenbogen that ". . . it was the President's idea that each family should have its own little home. He was opposed to families living in large multi-unit dwelling projects."¹⁵

¹² McDonnell, pp. 88-114.

¹³ Ibid.

¹⁴ Ibid., p. 119. This provision is still included in all Federally sponsored housing production programs; see Bacon-Davies Wage Act.

¹⁵ Ibid., p. 129.

This opposition to the public housing concept by the President was a major obstacle for the advocates of the public housing legislation. However, after persistent efforts by the "housers," a labor position expressing opposition to "garden cities" and a fear by city politicians of losing constituents to the suburbs, the President withdrew his opposition to the concept of multi-family rental units.¹⁶

The opposition to the public housing legislation was led by the National Association of Real Estate Boards (NAREB). In 1935 the President of NAREB submitted a report to the Board of Directors which said in part,

One of the distinguishing marks of our American civilization is a widespread ownership of land which is the bulwark of a democratic form of government. . . . The necessities of the emergency should not cause government to take such actions to discourage ownership. . . . Housing should remain a matter of private enterprise and private ownership.¹⁷

The NAREB also developed "the Neighborhood Improvement Act, a Suggested State Statute for the Protection and Improvement of Neighborhoods Through Action of Property Owners."¹⁸

The Chamber of Commerce of the United States organized a housing committee in November 1935. The Chamber's

¹⁶ Ibid.

¹⁷ Ibid., pp. 138-139.

¹⁸ Ibid., p. 139.

position on housing was that "re-employment of a permanent character was the desired objective, and this could be accomplished only through the orderly expansion of economic activity, including house building."¹⁹

Two other anti-housing organizations were active in opposing public housing. In November of 1935 the National Retail Lumber Dealers Association passed a resolution at its annual meeting protesting governmental intervention in housing production. The United States Building and Loan League was also carefully watching the development of public housing legislation and quietly lobbied for modifications and revisions.²⁰

On April 20, 1936 the Senate Hearings on the Wagner Housing Bill, S. 4424, began. Opponents and supporters of the bill blocked to the hearings to state their opposing views. The fundamental political question underlying the hearings was that of governmental intervention in a private enterprise. Monsignor John A. Ryan, a supporter of the legislation touched upon the root cause of inadequate housing when he stated, "If all the wage earners of the land had steady employment at decent wages, America would have no serious housing problem."²¹ Ryan then stated that

¹⁹ Ibid., p. 141.

²⁰ Ibid., p. 140.

²¹ Ibid., p. 181.

since this was an impossibility, it was the government's duty to provide adequate housing.

Opponents of the bill argued that housing was not a serious problem, and that other measures such as tax reform could be used to provide low income housing.²² On June 16, 1936 the Wagner Housing Act was passed in the Senate by the vote of 42 yeas, 24 nays, and 30 not voting.²³ However, the Ellenbogen Bill in the House did not fair as well, being killed in the House Committee on Banking and Currency.²⁴

The year 1936 was a presidential campaign year. Senator Wagner wrote the housing plank for the Democratic party:

(6) We maintain that our people are entitled to decent, adequate housing at a price they can afford. In the last three years the federal government, having saved more than two million homes from foreclosure, has taken the first steps in our country to provide decent housing for people of meager incomes. We believe every encouragement should be given to the building of new homes by private enterprise, and that the government should steadily extend its housing toward the goal of adequate housing for those forced through economic necessities to live in unhealthy and slum conditions.²⁵

The Republicans, on the other hand, opposed governmental intervention in housing, hysterically denounced nearly all

²² Ibid., pp. 179-189.

²³ Ibid., p. 207.

²⁴ Ibid., pp. 210-234.

²⁵ Ibid., pp. 236-237.

of Roosevelt's reforms, and launched a crusade to "save the country from Socialism."²⁶ The final outcome of the election was not even close; Roosevelt carried every state in the union except Maine and Vermont with 523 electoral votes to Alfred Landon's 8.²⁷

Riding on the coattails of the social reform mandate of the Presidential election, the public housing bill was re-introduced in both the House and the Senate. A compromise version of the bill was again sponsored by Wagner in the Senate, but Representative Henry B. Steagall, Chairman of the House Committee on Banking and Currency, was the new primary sponsor in the House. While the public pressure lobby groups were continuing their fight for influence over the bill, there was substantial dissent within the Roosevelt Administration concerning the actual provisions of the act.

The primary opposition within the Administration came from the Secretary of the Department of Treasury, Henry Morgenthau, who held the economic theory that money for appropriations should come directly from tax revenue. He did not favor bond issues by government agencies, nor

²⁶ Wallechinsky and Wallace, p. 298.

²⁷ Ibid.

did he favor a plan which would commit the government to payments over a long period of time.²⁸

In lieu of the proposed method of financing public housing which included bond issues and fixed annual contributions to local authorities, Morgenthau favored an outright capital grant as the means to lower rent.²⁹

Morgenthau's proposal was not without considerable merit. A capital grant would have been much cheaper in the long run and the administrative cost of implementing such a program would have been tiny compared to the cost of administration for yearly payments. The supporters of the bill countered with the argument that Morgenthau's plan was politically impossible because Congress would not be willing to appropriate such a large initial capital outlay to start up the program. Morgenthau lost. The Wagner-Steagall Housing Bill included provisions for long-term annual contributions and authority to incur indebtedness.³⁰

After additional debate the Senate passed the United States Housing Act on August 6, 1937 by vote of 64 in favor, 16 in opposition, and 15 not voting.³¹ After

²⁸ McDonnell, pp. 274-275.

²⁹ Ibid., pp. 276-277.

³⁰ Ibid., pp. 274-306.

³¹ Ibid., pp. 338-339. McDonnell's total is quoted from The Congressional Record, 4 August 1937, 8179. It is also one vote short from the total number of eligible Senate seats.

amendment by the House Committee on Banking and Currency and substantial debate on the floor, the House passed the bill on August 18, 1937 with 275 in favor, 86 in opposition and 70 not voting.³²

Since the House had amended the bill, a joint House-Senate Committee was formed to reconcile the differences. On August 23, 1937 both the Speaker of the House and the President Pro Tempore of the Senate signed House Concurrent Resolution 26 and on September 1, 1937 President Roosevelt signed the housing bill which made the United States Housing Act of 1937 law and formed the foundation for all future housing legislation related to the production and subsidy of low income housing.³³

While the primary actors involved in the passage of the National Housing Act of 1937 were indeed concerned with the health and welfare of the low income population, the primary purpose of the Act was to stimulate the economy. In fact, the Act stated that it was the policy of the United States ". . . to assist the several States and their political subdivisions to alleviate unemployment and to remedy the unsafe and unsanitary housing conditions."³⁴ The combination of economic stimulation with housing production

³² Ibid., pp. 379-387.

³³ Ibid., pp. 401-402.

³⁴ Ibid., p. 429.

programs was deeply engrained in the purpose of the Act and would serve as a precedent for Federal housing policy.

The Public Housing Program

The Public Housing Program³⁵ developed by Congress combined Federal financing with local responsibility and a private builder/developer. Each of these parties assumed specific roles in the development of low rent public housing.

The local role. If a local community desired public housing, it would first have to create a municipal corporation called a Local Housing Authority (LHA) that would develop, manage and own the units. The local community would also be required to abate real estate tax and at the same time agree to provide full services. The local community would issue a bond for the financing of the development.

The Federal role. The Federal role in development of public housing would be limited to imposing certain regulations and standards upon the local community and developer, and most importantly to making cash payments to the LHA. The cash assistance would pay the principle and interest of the locally issued bond. The operating expenses of the development would be paid by the tenant.

³⁵ For a detailed analysis and evaluation of the Public Housing Program see National Center for Housing Management, Inc., Report of the Task Force on Improving the Operation of Federally Insured or Financed Housing Programs, vol. 2, Public Housing (Washington, D.C.: National Center for Housing Management, Inc., 1972).

The regulation imposed by the Federal Government included such things as insuring the payment of the prevailing wage rate to local craftsmen.

The private role. Private contractors, architects and subcontractors would be hired by the LHA to actually construct the units.

World War II

As in the first World War, the second World War generated Federal housing programs for the production of war housing. In 1941 the first special purpose FHA program, "Section 603," was created. The next year "Section 608" was enacted. These programs provided mortgage insurance on liberal terms to developers of housing in "critical defense areas."³⁶

The War was also the stimulus of another significant housing action. In 1942, using his emergency war powers, President Roosevelt created the National Housing Agency. This new agency centralized all Federal housing authorities under a single administration.³⁷

Following the War, the country experienced a critical housing shortage due to the shutdown of nearly all

³⁶ Housing in the Seventies, pp. 1-11.

³⁷ Ibid.

residential construction during the war years and the low level of housing production in the 1930s. To combat this shortage and as part of a broad package of benefits enacted for veterans, Congress created the Veterans Administration housing program.³⁸

The Housing Act of 1949

The Housing Act of 1949 was the result of a three year debate on the form and content of housing legislation. The philosophical foundation for the Act, however, was outlined by John B. Blanford, administrator for the National Housing Agency, in 1944.

There is nothing inconsistent between the proposition that private enterprise should serve as much of the housing need that it possibly can and the proposition that public housing should serve the housing need that private enterprise does not serve. If we reject either of the two propositions, we reject either the goal of decent housing for all Americans, or the principle of maintaining our system of private enterprise and utilizing it to the maximum extent. We cannot afford to reject either the principle or the goal. A balanced program, with public assistance supplementing private enterprise to meet the whole need, will in the long run benefit private enterprise.³⁹

Following the war, the country was engaged in a bitter debate about Communism. The population was also

³⁸ The Veterans Administration was part of the Serviceman's Readjustment Act of 1944 (Housing in the Seventies, pp. 1-11).

³⁹ Blanford, "Housing Principles for America," speech to the National Committee on Housing, March 9, 1944, quoted in Keith, p. 49.

moving from the city to the suburbs. Each factor would influence the formation and passage of the Housing Act of 1949.

In the debate of the Act, conservatives battled liberals on the "Americanism" of the Act. For example, Congressman Frederick Smith of Ohio stated that "nothing can be more authoritarian or Communistic than political ownership or control of human shelter."⁴⁰ In defense of the "Americanism" of the Act, a Senator Maybank stated,

. . . The bill would aid and strengthen private enterprise. It recognizes that private enterprise must be relied upon to do most of the housing job and should be helped to serve most of the need than it now does. The bill would protect private enterprise against any competition from public housing and would give it maximum opportunity to participate in the rebuilding of the slum areas.⁴¹

While the anti-Communistic fervor was growing, Americans were on the move from the cities to the suburbs. Between 1940 and 1950 the population in the central cities increased by 13 percent. In that same period of time the suburban population increased by 35 percent.⁴² One factor for the general growth of both city and suburb was the return of war veterans and the formation of new families.

⁴⁰ U.S., Congressional Record--House, 81st Congress, 1st Session, 1949, vol. 95, part 4, 8147.

⁴¹ U.S., Congressional Record--Senate, 81st Congress, 14 April 1949, 4583.

⁴² Tunnard and Reed, pp. 182-183.

This increase in households coupled with the lack of housing production during the war years created a seller's housing market in which housing demand grossly exceeded housing supply.

The National Association of Real Estate Boards, who were greatly profiting from the housing shortage, supported the conservative attack on the Housing Act of 1949 as Communistic. The attack was so strong that President Truman listed 19 organizations which supported the bill and declared in response to the conservative challenge that "insofar as this argument is intended seriously, it is false. H.R. 4009 will strengthen, not weaken, private enterprise."⁴³

The Housing Act of 1949 was signed into law on July 15, 1949 by President Truman. While it greatly expanded the Federal role in cities by motivating an urban redevelopment and slum clearance program, the Public Housing program established in 1937 was the primary vehicle for providing government sponsored housing. The bill is perhaps most famous for establishing the much quoted national housing goal that "the general welfare and security of the nation require. The realization as soon as feasible of the goal of a decent home and suitable living environment for every American family."⁴⁴

⁴³ Keith, pp. 96f.

⁴⁴ Ibid., pp. 91f.

Although the public housing program of the 1949 Act was the basic method with which to reach this goal, the Act authorized only enough funds to develop 675,000 units over a period of the next five years.⁴⁵ The provisions of the bill also served to protect private enterprise by limiting the eligibility of tenants in three ways. First, the upper rental limits were set at a level 20 percent below the level at which private enterprise was supplying decent housing on the private market. Second, the discrimination against welfare families in admission was prohibited. Third, maximum income limits for admission to and continued occupancy in the project were established. This caused the eviction of families which had improved their financial position. While the Housing Act of 1949 established a National housing goal, it also dictated that the public housing program was to be a poverty housing program available only to those families at the very bottom of America's social and economic hierarchy.

The Housing Act of 1954

The Housing Act of 1954 furthered the development of the cooperative capitalist structure of the National economy by modifying the existing housing legislation and

⁴⁵ Housing in the Seventies, pp. 1-13.

providing some new programs. However, the basic program for providing low income housing for America's surplus population was still the public housing program created in 1937.

President Eisenhower, the first Republican President to hold office since the birth of cooperative capitalism in the early 1930s, established in 1953 a Committee on Government Housing Policies and Programs. The Committee reviewed existing housing and urban development law, particularly the urban development programs established by the 1949 Act, and recommended certain changes and modifications. The urban development program had come under increasing criticism for "bulldozing" the slums without replacing the housing stock. The Committee addressed this criticism by recommending a new mortgage insurance program to generate housing credit and production in urban renewal areas.⁴⁶

The Housing Act of 1954 was developed primarily from the recommendation of the Committee on Government Housing Policies and Programs. The new Act modified existing legislation in a number of ways. It mandated that a "workable program" including a Master Plan be adopted by localities undertaking urban renewal projects; created Section 220 which allowed the Federal National Mortgage Association to liberalize insurance terms for

⁴⁶ Ibid., pp. 1-14f.

urban renewal areas; created Section 221 which liberalized mortgage insurance for providing housing for displaced persons; restructured "FANNIE MAE" and amended the Federal National Mortgage Charter Act which divided FNMA into three parts: Secondary Market Operations, Special Assistance Function (VA and FHA), and management and liquidation functions; and created Section 701, for comprehensive planning assistance, research and demonstration.⁴⁷

The Housing Act of 1954 was influenced by the "FHA Scandal" also called the "608 Scandal." The scandals involved fraud on the part of the local builders who would state that the cost of development was higher than the actual cost. When a mortgage was issued, the developer would simply pocket the difference between the real cost and the mortgage amount. When a mortgage of this nature foreclosed, the government found itself holding a note which did not reflect the true value of the property. To remedy this situation the 1954 Act required that the builder submit a "cost certification" which obligated the developer to certify the actual cost of development.⁴⁸

Aside from the special purpose 220 and 221 programs, the Act did not change the public housing program which

⁴⁷ Keith, pp. 114f; see also Housing in the Seventies, pp. 1-16f.

⁴⁸ Keith, pp. 116f.

remained the primary program for constructing low income housing. Under the Republican Administration, however, this program was never highly favored and the allocation for public housing in the 1954 Act "was absurdly out of balance with the actual housing needs of the poor."⁴⁹

Housing Acts 1955-1960

The Housing Acts of 1956 and 1957, the Emergency Housing Act of 1958 and the Housing Act of 1959 massaged the earlier housing legislation. Each Act reflected the fiscal conservatism of the Eisenhower Administration which took an uncooperative stance on the cooperative capitalist economy. For example, in the debate of the Emergency Housing Act of 1958, which sought to stimulate the slackening construction industry in particular and the economy in general, Eisenhower stated that,

. . . the legislation ignores the responsibility and ability of private enterprise to function without imposing a direct burden on the Federal purse. It has been a fixed policy of this Administration, and should be the consistent purpose of the Federal government, to seek in every way to encourage private capital and private investors to finance in competitive markets the myriad activities in our economy, including housing construction. This legislation contains provisions that are wholly inconsistent with that policy and with the philosophy of the free enterprise system that has made this nation strong.⁵⁰

⁴⁹ Ibid., p. 116.

⁵⁰ Ibid., p. 126.

Eisenhower eventually signed the legislation which caused a 12 percent gain in private housing construction for 1958 over 1957 and served to stimulate the economy.⁵¹

The only new housing production program for low income Americans during this period from 1955-1960 was Section 202 of the Housing Act of 1959. This new program provided direct loan authority for elderly housing.

The majority of housing law passed between 1955 and 1960 was concerned with amending the existing public housing program of 1937 and the urban renewal program of 1949. There was no new Federal initiative in providing new programs to meet the housing needs of America's surplus population.

Summary: Cooperative Capitalism,
1933-1960

The relationship between the Federal government and private industry in matters related to housing changed radically between the years of 1933 and 1960. The Federal role in capital formation and the mortgage markets was acceptable by business and the citizenry alike. Local housing conditions, once purely the domain of local government, was not a legitimate role of the Federal Government.

⁵¹ Ibid., p. 127.

Federal expenditures for direct housing and community development subsidies as well as activities in the secondary mortgage market played an increasingly important role in the management of the economy. Yet for all this activity in housing markets, the philosophy of free enterprise and the rights of property ownership prevailed and the separation of government and private enterprise was clearly maintained.

CHAPTER IV

FEDERAL HOUSING POLICIES AND PROGRAMS

1960-1974

The Federal posture towards housing between 1960 and 1974 underwent a transformation similar in scope to the radical change in attitude towards housing generated by the Great Depression. This change was strongly influenced by the racially based urban riots. The social trauma caused by this unrest expanded even further the role of the Federal Government in matters related to housing.

The Housing Act of 1961

When John F. Kennedy assumed the Presidency the economy, which was in a mild recession due to the tight Eisenhower budget, was his major concern. In 1961 private housing starts had declined 18 percent from the previous year and one out of every six construction workers was unemployed.¹ There were eight million families with incomes of less than \$2,500 and seven million more who

¹Nathaniel Keith, *Politics and the Housing Crisis Since 1930* (New York: Universe Books, 1973), p. 141.

had incomes between \$2,500 and \$4,000.² In response to this mild economic crisis, Kennedy submitted the Housing Act of 1961 to Congress.

In his message to Congress on the bill, Kennedy states that the bill would assist the economy "by helping private market processes work more effectively."³ Kennedy also outlined his Administration's policy for cities:

Our policy for housing and community development must be directed towards the accomplishment of three national objectives: First, to renew our cities and assure sound growth of our rapidly expanding metropolitan area. Second, to provide decent housing to all people. Third, to encourage a prosperous and efficient construction industry as an essential component of general economic prosperity and growth.⁴

Kennedy urged that

a nation that is partly ill housed is not as strong as a nation with adequate housing. . . . To achieve our Nation's housing goals, to meet our appropriate Federal responsibilities and to aid private and local efforts and at the same time helping to combat the present recession while furthering long term growth, I commend this program to Congress and urge its prompt consideration and enactment."⁵

The Housing Act of 1961 was passed by Congress. It expanded both the public housing program of 1937 and

²United States Government, Hearings Before Committee of the Banking and Currency, Senate, 87th Congress (Washington, D.C.: Government Printing Office, 1961), p. 8.

³Ibid.

⁴Ibid.

⁵Ibid.

the urban renewal program of 1949. The most important aspect of the Housing Act of 1961 was a provision which allowed a rent supplement for the operation of public housing units inhabited by elderly persons. Previously the public housing projects debt service was the only subsidy.

Additionally, the 1961 Act established a subsidized below market interest rate mortgage insurance program to address the recession by stimulating moderate income rental housing development.⁶ These programs, however, did not replace the public housing program as the primary housing production program for low income people since they were aimed at the moderate income housing market.

Civil Rights and Social Unrest

In February 1960, a group of black students sat down at the lunch counter of a Woolworth's store in Charlotte, North Carolina, to protest the segregation of facilities

⁶The Act authorized the following programs:
Section 221 (d) (2) Mortgage Insurance Program for the acquisition, construction or rehabilitation of one to four family homes by owner occupants;
Section 221 (d) (3) Market Interest Program for financing the construction or rehabilitation of housing by public agencies, investor-sponsors, limited dividend housing associations, or non-profit groups for moderate income ownership or low income rental;
Section 221 (d) (4) Construction or rehabilitation of multi-family rental units for moderate income families by profit motivated sponsors.

throughout the South. This protest might mark the beginning of a decade of protest, social unrest and violence in America. The following year, "Freedom Riders" traveled throughout the South and gained national attention as they were molested, attacked, beaten and often killed.⁸

The Civil Rights Movement gained momentum throughout the next years. James Meredith was admitted to the University of Mississippi under court order and guarded by U.S. marshals.⁹ In 1963, 200,000 people gathered near the steps of the nation's capital to hear Dr. Martin Luther King, Jr., proclaim that

Now is the time to raise from the dark and desolate valley of segregation to the sunlit path of racial justice. . . . There will be neither rest nor tranquility in America until the Negro is granted his citizenship rights.¹⁰

The next month a church in Birmingham, Alabama was fire bombed and four black girls were killed.¹¹

The "long hot summer" of 1964 was named after the riots which swept several major U.S. cities including New York, Rochester, Philadelphia, and Chicago.¹² In

⁷Wallechinsky and Wallace, p. 244.

⁸William Manchester, The Glory and the Dreams (Toronto: Bantam Books, 1975), pp. 937-944.

⁹Wallechinsky and Wallace, pp. 246f.

¹⁰Ibid.

¹¹Ibid.

¹²Ibid., p. 248.

the summer of 1965 riots erupted in Watts and Montgomery, Alabama;¹³ in 1966 violence swept the streets of Cleveland, Chicago, Brooklyn, and five other major cities across the United States.¹⁴

The black population in America was becoming increasingly militant. Stokley Carmichael, of the Student Nonviolent Coordinating Committee, called for "Black Power," which was an attempt to organize the black movement into a political framework. Carmichael stated that "to ask Negroes to get in the Democratic party is like asking Jews to join the Nazi party."¹⁵ Each summer riots continued to explode across the country. In the summer of 1967 the cities of America were in a state of seige. Violence erupted in 127 cities with the worst occurring in Detroit (43 dead; 5,000 arrested) and Newark (26 dead; 1,397 arrested).¹⁶ In April 1968, Martin Luther King was murdered. The Black Panther Party which had been formed in 1966 as "an armed revolutionary socialist organization" was becoming increasingly popular.¹⁷

¹³ Ibid.

¹⁴ Ibid., p. 251.

¹⁵ Ibid.

¹⁶ Ibid., p. 252.

¹⁷ Ibid., pp. 253f.

The massive tide of social unrest in the 1960s may be attributed primarily to the fact that the black population occupied a much greater per capita percentage of the nation's surplus population. For example, in December of 1967, a report by the Census entitled "Social and Economic Conditions of Negroes" showed that 46 percent of the black population had incomes of less than \$3,300 compared with 12 percent for whites; 7.3 percent of the black population was unemployed compared with 3.4 percent for whites; and that 29 percent of the black population lived in substandard housing compared with 8 percent of the white population.¹⁸

The social crisis created by this unrest would generate a series of sweeping reform legislation unmatched since the Great Depression of the 1930s.

Kennedy's Civil Rights Initiative

Perhaps the most permanent impact which the Kennedy Administration had upon Federal housing policy was in the area of Civil Rights. Kennedy issued Executive Order 11063 which outlawed discrimination in government assisted housing projects. The Order, still in effect today, drew lukewarm reviews from both ends of the political spectrum. The private housing industry was dissatisfied because it

¹⁸ Ibid., pp. 252f.

violated the freedom to buy and sell to whomever they chose. Civil Rights organizations were dissatisfied with the Order because they felt it should include all housing, not just Federally assisted housing.

The second civil rights action taken by Kennedy was his appointment of Robert C. Weaver, a black, to the post of Administrator for the Housing and Home Finance Agency. Weaver thus became the first black to head a major Federal agency. The appointment was received coolly by right wing members of Congress and was applauded by black organizations and liberal groups. It also caused a problem for Kennedy in creating a Cabinet level department of housing.

In April of 1961 Kennedy proposed the creation of the Department of Urban Affairs and Housing. Kennedy announced that Weaver would be the Department's first Secretary. Nathaniel Keith, President of the National Housing Conference at the time, maintains in his book Politics and the Housing Crisis Since 1930 that the failure of Congress to approve the Department was directly related to the racial prejudice against a black being appointed as the first Secretary.

Social unrest would not subside after Kennedy's assassination and it would develop into the primary cause of housing legislation during the Johnson Administration.

The Housing Act of 1964

President Johnson had always been a supporter of Federal assisted low income housing programs. In fact, in 1937 as a freshman member of the House of Representatives, he had applied sufficient pressure on the United States Housing Authority to secure approval of the first public housing project in the country for Austin, Texas, in his Congressional District.¹⁹

Johnson's Great Society Programs were extremely ambitious. In a special message to Congress on Housing and Community Development on January 27, 1964, he stated,

Our nation stands today at the threshold of the greatest period of growth in its history.

By 1970, we shall have to build at least 2 million new homes a year to keep up with the growth of our population. We will need new classrooms, uncounted miles of new streets and utility lines, and an unprecedented volumn of water and sewage facilities. We will need stores and churches and libraries, distribution systems for goods, transportation systems for people and communications systems for ideas.

Above all, we need more land, new housing, and orderly community development. For most of this population growth will be concentrated in the fringe areas around existing metropolitan communities.²⁰

The year 1964 was a Presidential election year and Johnson was determined to win the Presidency in his own

¹⁹ Public Papers of the Presidents of the United States, Lyndon Johnson, 1965, p. 862.

²⁰ Ibid., p. 234.

right. As such, housing proposals were tempered by Barry Goldwater's challenge from the conservative right. However, the Housing Act of 1964 was proposed by Johnson and passed by Congress. The Act extended public housing programs by authorizing an additional 37,500 units and also extended the urban renewal program by authorizing an additional \$725 million. There were two other important aspects of this bill. First, subsidies were authorized for the operation of family public housing units. Second, the Act amended the Urban Renewal statute to authorize Section 312, a new program of 20 year, 3 percent loans to property owners or tenants in urban renewal areas to finance rehabilitation required to make the property conform to the local housing code or to carry out the objectives of the urban renewal plan.²¹

Upon signing the Housing Act of 1964, Johnson commented,

I believe that we have a commitment to assure every American an opportunity to live in a decent home, in a decent and safe neighborhood. . . . This bill carries forward our continued effort to eradicate slums and blight in our cities to assure decent housing for those least able to find it . . . to help our communities grow in orderly directions and avoid further blight and assure lasting beauty.²²

²¹ Housing in the Seventies, pp. 1-22f.

²² Public Papers of the Presidents, Johnson, 1965, p. 1029.

The Housing Act of 1964 did not change public housing and urban renewal, the two basic programs of Federal intervention in free housing markets. The Act provided no new major thrust in Federally sponsored low income housing programs.

Johnson's landslide victory over Barry Goldwater would provide L.B.J. with a popular mandate to carry forward with his Great Society Programs, many of which would deal specifically with housing.

Department of Housing and Urban
Development Act of 1965

One of the first proposals put forth by Johnson after his Presidential victory was Kennedy's proposal for a Cabinet level department for housing and community development. The Department of Housing and Urban Development Act 1965, was supported by most liberal organizations, the AFL-CIO, municipal and county associations, and the National Association of Home Builders. Opponents to the Act included the National Association of Real Estate Boards, the United States Chamber of Commerce, the Mortgage Bankers Association of America, the National Lumber and Material Dealers Association and the Life Insurance Association of America.²³

President Johnson commented that the Department of HUD Act,

²³ Keith, p. 165.

. . . will give private industry an opportunity and an incentive to build for our future needs and to overcome our present failure. . . . Today we are taking the first step toward organizing our system for a more rational response to the pressing challenge of urban life.²⁴

The Housing and Urban Development
Act of 1965

The Housing and Urban Development Act of 1965 marked a significant development in the growing partnership between government and private industry in the development of low income housing. The Act created two new subsidy programs, rent supplement and Section 23, subsidized families eligible for public housing in privately owned housing. One stated purpose of utilizing privately owned housing was to avoid the growing negative stigma which had become associated with highly concentrated public housing development.

The rent supplement program authorized Federal payments for the difference between 25 percent of a family's income and the rent for privately owned housing built with FHA mortgage insurance. The tenant would contribute 25 percent of his or her income towards rent. The government would pay the rest. To qualify, a tenant had to meet public housing income limits and asset limitations and also meet one of the following: (1) displaced by government action; (2) 62 years of age or older; (3) handicapped; (4) living

²⁴ Presidential Papers of the Presidents, Johnson, 1965, pp. 712, 786.

in substandard housing; or (5) living in housing damaged by natural disaster.²⁵

The second new program was the Section 23 leased housing operation in which local housing authorities were authorized to lease units in privately-owned existing structures and make them available to eligible low income families. The usual public housing assistance was made available by HUD so that the local authority would pay the economic rent to the owner without charging the tenant more than the usual public housing rent.²⁶

The rent supplement provision of this bill drew heavy criticism from the traditional supporters of public housing such as the Public Housing officials and also from suburban legislators who feared an influx of blacks into their communities.²⁷ Supporters of the rent supplement program included most liberal organizations, the National Association of Home Builders, the AFL-CIO, the Mortgage Bankers Association of America and the American Bankers Association.²⁸

²⁵ Housing in the Seventies, pp. 1-23.

²⁶ Ibid.

²⁷ Keith, pp. 162f. The bill originally contained no provision for local approval of rent supplements but was later amended so that local approval would be required to implement the program.

²⁸ Ibid., p. 163.

In 1965, President Johnson's attitude towards housing was clear:

Many elements mattered to the success and stability of our American society . . . education . . . health . . . jobs . . . equality. . . . But legislation and labors in all of these fields can never succeed unless and until every family has the shelter and the security, the integrity and the independence, and the dignity and decency of a proper home.²⁹

Johnson also stated that "at the very bottom of all that we do is the effort to protect, under the conditions of the modern world values as old as this nation and the civilization from which it comes."³⁰

The adoption by the Federal government of the rent supplement program was a progressive step in the institutionalization of the partnership between government and private industry. This program would serve to satisfy the housing needs of America's surplus population while at the same time supporting or subsidizing the exchange value of privately owned housing units. In Johnson's words, it was "the first step towards organizing our system for a more rational response to the pressing challenge of urban life."³¹

²⁹ Presidential Papers of the Presidents, Johnson, 1965, p. 862.

³⁰ Ibid., p. 240.

³¹ Ibid., p. 986.

Demonstration Cities and Metropolitan
Development Act of 1966

The Demonstration Cities and Metropolitan Development Act of 1966,³² also known as the "Model Cities" program, was an attempt by the Federal Government to reverse the decline of older urban areas by creating demonstration projects in various cities to set a standard for urban revitalization. The Act authorized grants to city demonstration agencies to plan, develop and conduct programs which would improve the physical environment, increase the supply of housing, and provide educational and health services vital to health and welfare. The Act delegated nearly all decision making power to the local level and eventually produced very little housing.

The Douglas Commission and
the Kaiser Commission

The urban riots of the 1960s led to the creation of two Presidential Commissions which would have a profound impact upon the direction and expansion of Federal housing programs. In 1967, President Johnson created the National Commission on Urban Problems as well as the President's Committee on Urban Housing.

³² For an extremely detailed account of the evolution, intent and implementation of this Act see Charles M. Haar's Between the Idea and the Reality (Boston: Little, Brown and Company, 1975).

The National Commission on Urban Problems was chaired by Paul H. Douglas, former Senator (1948-1966) from Illinois. The Commission came to be known as the Douglas Commission. Its task was to recommend "solutions, particularly those ways in which the efforts of the Federal Government, private industry, and local communities can be marshaled to increase the supply of low cost decent housing."³³ The Commission's prime recommendation was to direct the Nation's housing effort to the poor, a group which the Commission found had been neglected in the Nation's housing endeavors to that time.³⁴

The President's Committee on Urban Housing, known as the Kaiser Commission after its industrialist chairman, Edgar F. Kaiser, was appointed with a charge to "find a way to harness the productive power of America . . . to the most pressing unfulfilled need of our society--that need is to provide the basic necessities of a decent home and healthy surroundings for every American family now imprisoned in the squalor of the slums."³⁵ Among its many recommendations the Commission called for the establishment of a ten year goal of 26 million new and rehabilitated housing units, including at least six million for lower income families.³⁶

³³ Housing in the Seventies, pp. 1-25.

³⁴ Ibid., pp. 1-25f.

³⁵ Ibid.

³⁶ Ibid.

The recommendations of both the Douglas and Kaiser Commissions would play an important role in the formation and passage of future housing legislation including the landmark Housing and Urban Development Act of 1968.

The Housing and Urban Development
Act of 1968

The HUD Act of 1968 was the most important housing act since the passage of the original housing law in 1937. It created a number of new housing programs, most notably Sections 235 and 236 which would by 1971 account for 56.6 percent of all directly subsidized new construction units.³⁷

The urban riots which had swept the country were the primary motivation behind the act which was consistent with the recommendations of the Douglas and Kaiser Commissions. It also furthered the development of the partnership between government and business. In March 1968, Johnson addressed members of the Joint Savings Bank-Savings and Loan Committee on Urban Problems: "We want to welcome you here as partners of ours in this great venture of trying to do something to rebuild our cities. . . ." ³⁸ Included among his audience were Henry Ford II, Chairman of the National

³⁷ Anthony Downs, Federal Housing Subsidies: How Are They Working? (Chicago: The Real Estate Research Corporation, October 1972), p. 20.

³⁸ Presidential Papers of the Presidents, Johnson, 1965-1969, p. 345.

Alliance of Businessmen and Paul Austin, President of Coca Cola.³⁹ Johnson went on to state: "We have seen what frustrations among people and what decay in the cities can do. We saw it in Newark. We saw it in Watts. We saw it in Detroit."⁴⁰

Johnson clearly outlined his philosophy towards housing in this same speech.

I think for the first time the American business community is realizing that there is a part to be played and it is playing. . . . You can't exist unless you can get your money back with a little profit to pay for you work. I don't expect you to be unsound. I expect you to be prudent because if you are not we are all in trouble.⁴¹

In addition to the 236 Interest Reduction program, the Act also included the 235 interest reduction program for homeownership, provisions to insulate the secondary mortgage market from the business cycle, a liberalization of credit terms on market rate mortgage loan insurance for households in high risk areas or with poor credit, expanded funding for the public housing program and other provisions related to urban renewal.⁴²

³⁹ Ibid.

⁴⁰ Ibid., p. 345.

⁴¹ Ibid., p. 347.

⁴² Anthony Downs, "The Successes and Failures of Federal Housing Programs," in The Great Society: Lessons for the Future, eds. Eli Ginzberg and Robert M. Solow (New York: Basic Books, 1974), p. 134.

Upon signing this historic legislation, President Johnson stated:

It has been a long time in coming. . . . The journey began more than three decades ago with President Franklin D. Roosevelt's conviction that a compassionate and farsighted government cannot ignore the plight of the ill housed, or the ill-fed or the ill clothed. . . . Today, we are going to put on the books of American law what I genuinely believe is the most farsighted, the most comprehensive, the most massive housing program in American history. . . . This legislation can be the Magna Carta to liberate our cities.⁴³

The Act aided private industry in meeting the housing needs of America's surplus population by directly subsidizing the private development and ownership of rental housing under the Section 236 program.

The Section 236 Program

The Section 236 was intended to subsidize moderate income families and, when coupled with rent supplement, to subsidize low income families. It was an interest reduction program for multiple rental housing. The Federal Government would subsidize the interest on a mortgage down to 1 percent. Thus, if the interest on a mortgage were 7.5 percent, the Federal Government would pay the owner the equivalent of 6.5 percent. The tenant would then pay the remaining amortization cost of principle and 1 percent interest and

⁴³ Presidential Papers of the Presidents, Johnson, 1968-1969, p. 865.

operating expenses. Ownership under the program was limited to nonprofit, Cooperative and Limited Dividend Housing Association (LDHA) sponsors.

Effects of the HUD Act of 1968

The Housing and Urban Development Act of 1968 had a significant impact upon America's housing market. The percentage of subsidized housing units increased from 5.04 percent of the total housing starts during the years 1964-1967, to 18.56 percent of the total housing starts in the four years (1968-1971) after the passage of this Act.⁴⁴

The HUD Act of 1968 had both positive and negative effects upon housing use value and housing exchange value in America. In the four years following the passage of the Act, 1,224,760 directly subsidized housing units were created. This Federal housing initiative assisted those families in housing need satisfaction but also had some negative effects upon some urban areas.

The Act changed the basic underwriting used in subsidized housing production. In multifamily housing under Section 236, market need was used as standard underwriting criteria. This was a subtle but dramatic change from the conventional practice of establishing market

⁴⁴ Downs, p. 15.

demand.⁴⁵ In the single family insurance programs, the criteria of "economic viability" was changed to a criteria of "acceptable risk."⁴⁶ Both of these changes were in response to the urban housing need which surfaced during and after the riots.

In cities such as Detroit, these two factors had an enormous impact upon the housing market. By basing real estate investments upon need and acceptable risk rather than demand and economic viability, the government effectively created a false market.⁴⁷ Brian Boyer has reported that during the years of 1968 through 1972, "central city housing prices increased 200 to 300 percent."⁴⁸ A strong argument could be made that the false housing market created by Federal housing policy was a major contributor to the continued deterioration of some central cities such as Detroit.

⁴⁵ Demand can be quantified, i.e., how many people are able and willing to spend \$X for Y. Need, on the other hand, is insatiable, i.e., if I "need" \$15,000 to live today, I could easily "need" \$20,000.

⁴⁶ "Economic viability" in general terms is synonymous with prudent business judgment. If a project's value is expected to depreciate faster than the mortgage, it is not economically viable. "Acceptable risk," on the other hand, was never clearly defined.

⁴⁷ Personal interview with Malcolm Profit, Multifamily Housing Representative, Department of Housing and Urban Development, Detroit Area Office, June 1977.

⁴⁸ Brian Boyer, Cities Destroyed for Cash (Chicago: Follett Publishing Company, 1973). In this study, Boyer investigates this phenomenon and attributes the destruction of housing markets to fraud, corruption and the structure of government housing programs.

The Housing and Urban Development
Act of 1969

The Housing and Urban Development Act of 1969 did not contain any new housing programs. It did, however, contain some important revisions to the existing programs and also extended the funding proposed by the HUD Act of 1968.

The most important provision of the 1969 Act was what has come to be known as the Brooke Amendment. It was named after Senator Edward Brooke of Massachusetts, a liberal Republican and the Senate's only black. The amendment limited rents for public housing units to a maximum of 25 percent of a family's annual income and provided for additional subsidies to accomplish this provision.⁴⁹

Operation Breakthrough

President Nixon had appointed George Romney, former Governor of Michigan, as Secretary of the Department of Housing and Urban Development. While Romney expressed skepticism about meeting the housing goals which had been established by the HUD Act of 1968, he promised a major effort to apply mass production techniques to the field of housing. The program was named Operation Breakthrough. Romney described the program:

⁴⁹ Keith, p. 206.

Breakthrough is concerned with innovative technology in housing production, but it is really much more than that. What we are trying to do is focus not only technological ingenuity but the whole complex of modern industrial management on each stage of the problem: the identification of markets; the identification and more efficient use of land; the design of the product and its environmental situation; its production; and its financing and distribution to the consumer.⁵⁰

Operation Breakthrough was unsuccessful. The major problems included variations in the local building codes, opposition from the trade unions, the high cost of transportation of the units and faulty construction techniques.⁵¹

Emergency Home Finance Act of 1970

Housing was not on the Nixon Administration's list of top priorities. The Administration was more concerned with limiting Federal expenditures while at the same time fully funding the Viet Nam war. In 1970, non-subsidized housing starts were 33 percent below the 1968 level.⁵² This decrease in housing production created a crisis in the real estate industry. Nixon's response to the crisis was that "some needed Federal programs simply will have to be postponed so that we live within our means. The need to regain early control over inflation is paramount. . . ." ⁵³

⁵⁰ Ibid., p. 204.

⁵¹ Ibid., pp. 204f.

⁵² Downs, p. 15.

⁵³ Keith, p. 212.

The housing production crisis, however, was causing severe problems for the real estate industry. Louis R. Borba, President of the National Association of Home Builders testified before the House Banking and Currency Committee that,

I cannot overemphasize my alarm and frustration with the current situation. It is appalling to note that the housing and mortgage finance situation continues to deteriorate and the industry drifts toward irreparable damage even though the Congress has responded to the current crisis with significant legislation. . . . It is almost beyond belief that we can allow an industry that has proven to be a great national resource aimed at solving a basic human need for the country to be crippled so seriously.⁵⁴

The Emergency Housing Act of 1970 was drafted to meet the housing crisis despite the strong opposition by the Administration. Dr. Arthur Burns, Chairman of the Federal Reserve Board, stated that,

We do not favor tapping Federal Reserve Credit for the support of a restructuring of credit flows, no matter how worthwhile the immediate objective may be. Special purpose lending by the Federal Reserve for housing would be likely to lead to demands for other types of special lending as well.⁵⁵

However, the Emergency Housing Act of 1970 was passed by Congress and reluctantly signed by President Nixon. The Act authorized \$105 million a year for three years, enough to subsidize about 300,000 units per year and

⁵⁴ Ibid., p. 213.

⁵⁵ Ibid., p. 214.

increase the percentage of subsidized housing starts from 13.1 percent in 1969 to 29.4 percent in 1970.⁵⁶

The Housing and Urban Development
Act of 1970

The Nixon Administration also submitted to political and economic pressure in 1970 by signing into law the Housing and Urban Development Act of 1970. The Act increased the urban renewal budget and included appropriations and authorizations for crime insurance and research for housing technology and urban growth and community development. Nixon first vetoed the bill in August 1970, but after persistent efforts by Congress, reconsidered a redraft of the bill which he signed on December 31, 1970.⁵⁷

The Nixon Housing Moratorium

The Nixon Administration's attitude towards Federal Housing Programs soured during the next two years. In his 1973 radio address on the State of the Union Message on Community Development, Nixon stated that,

⁵⁶ Downs, p. 15.

⁵⁷ Keith, p. 221.

In the field of housing, we must stop programs that have been turning the Federal Government into a nationwide slumlord. One of my highest domestic priorities this year will be the development of new policies that eliminate waste and target aid to genuinely needy families.⁵⁸

Nixon issued a moratorium, effective January 5, 1973, on all Federally subsidized housing development programs. Nixon justified this moratorium in part by stating,

. . . The needy have not been the primary beneficiaries of these programs; that the programs have been riddled with inequities; and that the cost of each unit of subsidized housing has been too high.⁵⁹

Nixon offered a massive study of Federal Housing Programs to serve as the bases of a new Federal housing policy. The report, Housing in the Seventies, was initially released to Congress on October 6, 1973 and covered such topics as the Federal Government's role in housing, indirect Federal housing activities, housing finance, subsidy programs, housing activities of the state and local governments, housing consumption, structure and technology in the housing industry, and the cost of housing.⁶⁰ The study found that,

⁵⁸ Public Papers of the Presidents of the United States, Richard Nixon, 1973, Washington, 1975, p. 166.

⁵⁹ Ibid., p. 175.

⁶⁰ U.S., Department of Housing and Urban Development, Housing in the Seventies, October 6, 1973.

Government subsidized housing programs contain structural problems that result in considerable program inequities and inefficiencies. Certain problems could be rendered through legislative changes. However, legislative correction of one problem would often tend to aggravate or create others. More importantly, while administrative changes would marginally improve the efficiency and equity of production programs, serious problems of inefficiency and inequity inherent in using production as the basic approach would remain.⁶¹

The report would serve as the justification for new Federal housing program based upon Nixon's "New Federalism," which returned power from the Federal Government to the local units of government. The new housing strategy had three parts: mortgage credit, low income housing, and community development.

The systematic boom and bust cycles of the availability of mortgage credit was also identified by the report as a serious problem for potential home buyers. To solve the problem of fluxuating capital availability and interest rates, Nixon proposed to increase the incentives for savings and loan associations to finance housing construction; provide interest rate assistance to Federally insured borrowers; increase the amount of mortgages eligible for Federal insurance, permit home buyers to pay market level interest rates and be eligible for Federal insurance; authorize more flexible repayment plans for Federally insured mortgages;

⁶¹ Ibid., pp. 4-22f.

establish a mortgage interest tax credit; and encourage private mortgage insurance companies.⁶²

Nixon was highly critical of low income housing production programs because they had,

. . . produced some of the worst housing in America . . . heavily concentrated [poor people] . . . arbitrarily selected only a few low income families to live in Federally supported housing, while ignoring others . . . offered subsidized housing on a take it or leave it basis. . . .⁶³

As an alternative, Nixon proposed a system of cash assistance explaining that the root problem of poor housing was not the lack of housing, but the ability to pay for it.⁶⁴

The third area of Nixon's new housing policy was community development. Nixon stated:

Simply providing Federal housing assistance to families without proper regard for the condition of the neighborhood as a whole too often results in unmet expectations for the families. Added burdens for the municipality and a waste of taxpayers' dollars.⁶⁵

The Nixon Administration's attitude towards Federally sponsored housing challenged the policy of Federally sponsored low income housing development. The new attitude emphasized cash assistance to low income families rather than subsidy of low income housing production.

⁶² Presidential Papers of Richard Nixon, 1973,
pp. 800-806.

⁶³ Ibid., p. 807.

⁶⁴ Ibid.

⁶⁵ Ibid., p. 811.

The Housing and Community Development
Act of 1974

The Housing and Community Development Act of 1974 was hailed to be the most comprehensive housing and community development legislation ever enacted in the history of the United States. It was signed into law on August 22, 1974 by President Ford within two weeks of his taking the Oath for the Presidency. The 120 page omnibus bill contained eight titles ranging from comprehensive planning to community development block grants; from housing assistance plans to the extension of the Government National Mortgage Association and Federal National Mortgage Association.

The Act had been four years in development. In March 1970, the Nixon Administration had introduced into the Senate the Housing Consolidation and Simplification Act. This Act never received serious consideration but it did initiate the concept of restructuring the Department of Housing and Urban Development and of consolidating Federal Housing Policy in general. In the next year, 1971, five separate bills were introduced and debated in Congress. By 1973 these five bills had been consolidated into two and in 1974 the Act was passed.

There were many forces involved with the development and passage of the Act. These forces included: groups and individuals who sought to "cash out" the housing production element and provide direct cash payments as a housing

subsidy; the real estate industry who sought a strong housing production role of the Federal Government; the Local Housing Authorities who sought extension and expansion of the public housing program; local communities who sought a simplified means of receiving Federal assistance; state housing finance agencies who sought a strong state role in housing production, the Federal bureaucracy who sought job security and power; as well as the Nixon Administration who sought local control under "The New Federalism"; and Congress which represented the various other special interest groups. The final act was influenced by each of these power groups.

The Act strongly reflected the Nixon Administration's philosophy to return power to the local level of government. Under Title I, a Community Development Block Grant (CDBG) replaced the urban renewal program as well as categorical grants for various components of urban development such as water and sewer and open space. The amount of the CDBG was based upon a formula which considered such items as poverty, age of housing stock, and population for that community.

One requirement of the Community Development Block Grant Program is for the local community to develop a Housing Assistance Plan (HAP). The philosophic basis of the HAP was for each local community to identify its housing

problems and outline a plan to meet their local housing need. As such, Title II of the Act, "Assisted Housing established the legal requirements for each HAP. The local community was required to identify: (1) condition of existing housing stock; (2) housing need, including those individuals and families who could be "expected to reside" in the local community if housing opportunities were available; (3) both one and three year goals for meeting the housing need by type, i.e., family, large family and elderly; and form, i.e., new construction or substantial rehabilitation.

Title II also modified and extended such existing housing programs as the public housing program, Section 202 Direct Loan Program for the elderly, the Section 235 interest reduction home ownership program, and the Section 236 interest reduction multifamily rental program. The title also established Section 8, a new housing assistance program specifically designed for the CDBG program.

The Section 8 Housing Assistance Program could be utilized for both new, rehabilitated and existing housing. The program was similar to the Rental Assistance Program in that the tenant would contribute 25 percent of his or her income towards the rent of an approved housing unit with the Federal Government paying the balance. Thus, if a tenant's income were \$400 per month and the rent for an approved unit were \$300 per month, the tenant would pay

\$100 ($\$400 \times 25\% = \100) toward the rent and the Federal Government would pay the balance of \$200.

The major difference between the new construction/substantial rehabilitation program and the existing Section 8 program was that under the new construction/substantial rehabilitation program, the subsidy would stay with the unit. Under the existing program the subsidy would stay with the tenant who would then be free to operate in the marketplace and change units if the quality decreased or if a better unit became available.

Title III of the Act, "Mortgage Credit Assistance," extended and amended various mortgage insurance programs and also increased the maximum mortgage amount for any price of property.

Comprehensive planning, Title IV, of the Housing and Community Development Act of 1974 extended with modifications the Comprehensive Planning Assistance Program (Section 701 of the Housing Act of 1954). The modifications included (1) the clarification of eligible units of government; (2) restates the purpose of Federal planning assistance which included: development of a comprehensive plan, improvement in management capabilities of local governments, and development of a policy-planning-evaluation capacity by local governments; and (3) included the requirement that a land use element be included in any comprehensive plan.

Title V of the Act, Rural Housing, extended with modifications the housing programs of the Farmers Home Administration and the Department of Agriculture.

Title VI, Mobile Home Construction and Safety Standards, recognized the growing importance of the role of mobile home in housing Americans by authorizing HUD to work with the Attorney General in establishing national standards for mobile home safety.

Title VII, Consumer Home Mortgage Assistance, modified the regulations governing the activities of the Federal Savings and Loan Association, the Federal Home Loan Bank Board, mortgage finance agencies, national banks and the Federal credit unions to provide more flexibility in lending.

Title VIII, the catch-all section of the Act, modified the national housing goal to emphasize existing housing; extended with modifications the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Government National Mortgage Association; establish a National Institute of Building Sciences; encourage urban homesteading; authorized solar energy demonstrations; and authorized HUD research of special housing for the elderly and handicapped.

The Housing and Community Development Act of 1974 was a major step forward in the rationalization of providing

housing for low and moderate income families. The Act strongly endorsed the concept of local control of housing issues but also assisted the national mandate for equal housing opportunities. The system of the entire CDBG and HAP program was one of local rights and responsibilities. A local community had the "right" to receive CD funds if it met its responsibility to provide housing assistance to those in need.

In theory, at least, this system would work well. In reality, local self interest on the part of many local communities would inhibit its implementation.

Summary: Federal Housing Policies
and Programs, 1960-1974

The urban riots of the 1960s generated a radical change in Federal housing policies and programs. The philosophy that Federal Government was responsible for domestic problems, which had been born in the New Deal years, was again applied to the issues raised by the urban unrest. The Federal role in housing during this era was greatly expanded.

In 1961, a total of 42,087 new units were directly subsidized by the Federal Government. This was 3.3 percent of the total number of housing starts in the country.⁶⁶ By 1970, however, this number had increased to 430,990 newly

⁶⁶ Downs, p. 15.

constructed subsidized housing starts which was 29.4 percent of the total number of housing starts in the country.⁶⁷

This massive intervention by the Federal government had dual beneficiaries. The obvious beneficiaries were the tenants who received a subsidized unit. The other beneficiary was the real estate industry, including builders, sponsors, owners, managers, and financiers who profited from the subsidized housing construction.

This era also included a moratorium on the construction of Federally subsidized housing units and the passage of a comprehensive housing law which sought to rationalize the entire structure of the Federal housing delivery system.

⁶⁷ Ibid.

CHAPTER V

SUMMARY AND ISSUES

The Four Major Eras of Federal Housing Policy

Federal housing policy has evolved through four separate and distinct stages from 1607 when the first English settlers carved crude shelters out of the Virginia wilderness to the passage of the Housing and Community Development Act of 1974. Each of these changes was the result of a major social or economic crisis.

Pre-Revolutionary War, 1607-1776

Before the American revolution there was a widespread and powerful belief in the communal good. Individual rights were subservient to the public good. This attitude was partially due to the mercantile philosophy of strong national purpose which had been adopted from the European culture and partially due to scarcity of goods and materials which promoted collective actions. Charles Abrams has stated that during this period the "rigorous treatment of property rights was justified when the general

good was felt to be at stake."¹ If an individual did not concur with the collective decision, he was free to set out on his own to establish his own community.

Early America, 1776-1933

The American revolution was more than the gaining of independence from England. It also marked a radical change from the prevailing philosophy of land ownership. A new spirit of rugged individualism became the dominant cultural belief. Private ownership of land by the ordinary or common individual was encouraged by the government and played an important role in both attracting immigrants from Europe and in settling the West. This era is fondly remembered as the age of normalcy in America when the government's role was extremely limited in domestic policy and the rights of the individual were jealously guarded.

The spirit of rugged individualism of the era had serious implications for those at the bottom of the socioeconomic ladder. The marketplace was king and those without adequate resources suffered extensively. Housing need satisfaction was based, for the most part, upon the private marketplace. While the government protected the rights of private property, it assumed little responsibility for human needs such as housing.

¹Charles Abrams, The Future of Housing (New York: Harper and Brothers, 1946), p. 5.

Federal Intervention, 1933-1960

The crisis of the Great Depression caused another radical change in the Federal policy towards housing in particular and the economy in general. The rules of the economic game, including the laws related to housing, were changed to protect the status quo. The Federal Government became somewhat responsible for the health of the economy and the welfare of the people. The spirit of rugged individualism was gradually replaced by a cooperative relationship between the government and the private sector in maintaining the nation's economic health and providing for special needs such as housing.

The Social Industrial Complex,
1960-"?"

The cooperative capitalist economic structure which had been established as a result of the Great Depression would be modified by the crisis of the urban riots in the sixties. The new structure was a more mature economic system of partnership between government and the private sector.

There was a massive wave of reform laws related to housing enacted in response to the urban crisis. The primary emphasis of these laws was to meet social needs such as housing by heavily subsidizing profit motivated sponsors. In this era, the policy of Federal intervention in private

markets by providing subsidized profits to meet social needs has been accepted by the American business community and generally by the population.

Contradictions in Federal Housing Policy

There are a number of contradictions or opposing forces which plague Federal housing policy.

Housing Use Value vs. Housing Exchange Value

As discussed in Chapter I, each housing unit possesses a dual value: use value which corresponds with housing need satisfaction and exchange value which corresponds with market forces. Federal housing policy has consistently failed to recognize and acknowledge the distinction between these opposing housing values. The result of this failure has caused confusing and often opposing housing policies.

For example, the primary objective in many of the housing acts since 1949 has been to satisfy housing need and use value, i.e., "a decent home and suitable living environment." But the administrative criteria for meeting this housing need has often been based upon housing demand and exchange value, i.e., marketability and demand. The underlying contradiction in Federal housing policy has been that the goal is to meet housing use value while the

implementation is based upon exchange value. This does not mean that Federal housing programs have totally failed to meet some of America's housing need by expanding resources available for housing. However, the programs have fallen short of their goal to adequately house all Americans, because they have been based upon housing exchange value rather than housing use value.

This contradiction is currently surfacing again in the debates surrounding "redlining" and urban reinvestment. At one extreme the use value of existing urban housing is hailed as supreme. At the other extreme, investment in declining urban areas may be considered unacceptable because of the risk of failure and loss of exchange value. The contradiction between housing use value and housing exchange value in Federal housing policy is a prime area for further study.

Private Property and the Public Good

Closely parallel to the contradiction of housing use value and housing exchange value is the conflict between the rights of private property ownership and the public good. America has a strong heritage in the rights of private property ownership. It also has had a history of substandard housing. Much of this substandard housing has been privately owned for profit. The contradiction

between decent housing for all Americans and the right of individual Americans to receive a profit from private ownership of inadequate housing is deeply ingrained in Federal housing policy and is also an area which will require further study.

Future Issues in Federal Housing Policy

Federal housing policy is an evolutionary process subject to multiple pressures from the private real estate industry, financial institutions, trade unions, local and state government, consumers and taxpayers. Housing laws, subsidies, regulations and public attitudes continually change. There are currently a number of specific housing questions being debated in political circles. Included in this debate are the following questions:

Should the Federal Government Subsidize Housing?

The Federal Government subsidizes housing through the tax laws and direct payments. These subsidies provide economic stabilization and stimulation as well as housing assistance. The Federal Government has traditionally used housing as a means to promote the nation's economic health. This tradition dates back to the first major Federal housing production law passed in 1937 and continues today. The social disorders of the sixties brought the added purpose

of relieving social discontent to Federal housing law. Unless alternative means can be found to manage the economy and pacify potential social discontent, it is likely that Federal housing subsidies in some form will be continued.

What Form Should Federal Housing Subsidies Take?

The Carter Administration in 1977-78 is giving serious consideration to the concept of "cashing out" the subsidized housing production programs. This means, in effect, that the subsidy dollars spent for subsidized housing construction would instead be spent directly on a welfare type housing subsidy.²

The strongest support for this change in housing policy is from the Federal Office of Management and Budget. Opposition is led by the National Association of Home Builders. The OMB has criticized production subsidies because they are expensive and they provide too much assistance to too few families. President Carter seemed to agree with this philosophy in the summer of 1977 when he asked,

The basic question is, should you provide very nice homes for a few families in our country or should you give many poor people additional income so that the average quality of their housing should be improved for millions of

²The Section 8 existing program, at the time of this writing in its second year, is the prototype for this system.

people? . . . This is a matter that will have to be addressed, I would say, in the next 12 months.³

Opponents of the concept of cashing out housing subsidies argue that this policy would mean less housing, higher rents, fewer jobs, and an increase in slums and blight.

This policy question is not new. Under the Nixon Administration, the same proposal was advanced and defeated by a strong coalition of real estate interests headed by NAHB.

This policy question, and especially the position of the NAHB, clearly illustrate the radical change in attitude from 1930 to the present day. Federal intervention in housing markets was strongly opposed by the real estate industry in the thirties. Today, the Federal Government is proposing to shift housing subsidies back into the free market, and the real estate industry is strongly urging against this proposed change.

Where Shall Housing Assistance
Be Located?

Given the limited amount of resources available for housing subsidies, should the emphasis be placed on inner city or suburban housing assistance? There are strong

³Don Loomis, "U.S. May End Housing Subsidies," House and Home 52 (October 1977): 10f.

positive and negative arguments for both inner city and suburban positions.

If the inner city is emphasized, new housing will be assisted but by concentrating large numbers of low income families in the inner city, there may be a negative impact upon real estate values. If the suburbs are emphasized, low income families will be dispersed on a regional basis but the local need of the inner city will not be addressed. Suburban communities are likely to rebel against the influx of poor people.

This situation is perhaps more politically explosive than the bussing issue. Generally, local inner city politicians will support inner city development and suburban politicians will oppose suburban development. This would seem to mandate a clear consensus that inner city housing assistance will prevail. However, the Federal attitude as expressed by Secretary of Housing and Urban Development Patricia Harris, at the time of this writing, is that suburban development will be emphasized.

Why is the Federal attitude opposed to the consensus of both inner city and suburbs? The view from the national level may be that the high concentrations of poor people in cities could generate a strong political force for change in society. This would be a clear threat to the status quo which would be unacceptable to Federal officials. Whether

the Carter Administration backs the politically explosive position of Secretary Harris is a matter of time. This too would be an interesting and useful study.

The Right to Decent Housing

No American has ever had the right to decent housing. The American legal system protects the rights of private property but excludes the right to a job, food and shelter. As such, most Federal housing programs have emphasized the exchange value of a subsidized housing unit as well as its use value.⁴ Federal housing programs are not designed solely to meet housing need. They are also designed to generate a private profit for the real estate, finance and construction industries.

These powerful special interest groups exert much more influence over the design of Federal housing programs than do the people who need the housing units. Chester Hartman comments:

In the absence of a national housing policy . . . to satisfy social need [italics mine], special interest groups in finance, construction and real estate have virtually taken over the housing system at all legislative and administrative levels, locally and nationally.⁵

⁴The notable exception is the public housing program which is primarily use value oriented.

⁵Chester Hartman, Housing and Social Policy (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1975), p. 172.

The problem of housing America's surplus population will not be solved, in the opinion of the author, until each citizen has the legal right to decent shelter. If past history is an indication, this radical change to the existing system of housing law will only occur with a major crisis in the political economy.

APPENDIX

APPENDIX

MAJOR FEDERAL LEGISLATION AND EXECUTIVE
ORDERS AUTHORIZING HUD PROGRAMS

NATIONAL HOUSING ACT, 1934 (Public Law 73-479) (P.L. 73-479)

Title I: Property Improvements

Section 2: Mobile Homes (Loan Insurance)
Property Improvement (Loan Insurance)

Title II:

Section 203: Homes (One-to-Four-Family) (Mortgage Insurance)
Section 203(h): Disaster Housing
Section 203(i): Outlying Area Properties
Section 203(k): Major Home Improvements (Loan Insurance)
Section 307: Multifamily Rental Housing (Mortgage Insurance)
Mobile Home Parks (Mortgage Insurance)
Section 213: Cooperative Housing (Mortgage Insurance)
Section 220: Urban Renewal Housing (Mortgage Insurance)
Section 221(h): Major Home Improvements (Loan Insurance)
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Section 221(d)(4): Rental Housing (Market Interest Rate) for Low- and Moderate-Income Families (Mortgage Insurance)
Section 222: Homes for Servicemen (Mortgage Insurance)
Section 223(e): Housing in Declining Neighborhoods (Mortgage Insurance)
Section 231: Senior Citizen Housing (Mortgage Insurance)
Section 232: Nursing Homes and Intermediate Care Facilities (Mortgage Insurance)
Section 233: Experimental Housing (Mortgage Insurance)
Section 234: Condominium Housing (Mortgage Insurance)
Section 235: Interest Supplements on Home Mortgage
Section 236: Interest Supplements on Rental and Cooperative Housing Mortgages
Section 237: Mortgage Credit Assistance for Homeownership Counseling Assistance for Low- and Moderate-Income Families
Section 240: Purchase of Fee Simple Title (Mortgage Insurance)
Section 241: Insured Supplemental Loans on Multifamily Housing Projects
Section 242: Nonprofit Hospitals (Mortgage Insurance)

Title III: Government National Mortgage Association

Title VIII:

Section 809: Armed Services Housing for Civilian
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Section 810: Armed Services Housing in Impacted Areas
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Title XI: Group Practice Facilities (Mortgage Insurance)

Title XII: Urban Property Protection and Reinsurance

U.S. HOUSING ACT OF 1937 (P.L. 75-412)

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Low-Rent Public Housing

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HOUSING ACT OF 1949 (P.L. 81-171)

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Part 1: Community Development Training

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ACT, 1965
(P.L. 89-174)

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EXECUTIVE ORDER 11246

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Equal Employment Opportunity

DEMONSTRATION CITIES AND METROPOLITAN DEVELOPMENT ACT OF
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Title X:

Sections 1010 and 1011: Urban Research and Technology

HOUSING AND URBAN DEVELOPMENT ACT OF 1968 (P.L. 90-448)

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