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*The Suburbanization
of the United States*

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Federal Subsidy and the Suburban Dream: How Washington Changed the American Housing Market

A nation of homeowners, of people who won a real share in their own land, is unconquerable.

—PRESIDENT FRANKLIN D. ROOSEVELT

For at least the past two centuries, the easy availability of housing and land has distinguished the United States from other nations of the world. In 1920, when the Census Bureau announced that more than half the American population lived in urban areas, what was really unique about the United States was not the size of its huge cities, but the extent of their suburban sprawl; not the number of its workers, but the proportion of its commuters; not the height of its skyscrapers, but the proportion of its homeowners. Suburbanization had become a demographic phenomenon as important as the movement of eastern and southern Europeans to Ellis Island or the migration of American blacks to northern cities.¹ The appeal of low-density living over time and across regional, class, and ethnic lines was so powerful that some observers came to regard it as natural and inevitable, a trend "that no amount of government interference can reverse."² As a senior Federal Housing Administration (FHA) official told the 1939 convention of the American Institute of Planners: "Decentralization is taking place. It is not a policy, it is a reality—and it is as impossible for us to change this trend as it is to change the desire of birds to migrate to a more suitable location."³

Despite such protestations, there are many ways in which government largesse can affect where people live. For example, the federal tax code

encourages businesses to abandon old structures before their useful life is at an end by permitting greater tax benefits for new construction than for the improvement of existing buildings. Thus, the government subsidizes an acceleration in the rate at which economic activity is dispersed to new locations.⁴ Similarly, Roger Lotchin has recently begun important research on the significance of defense spending to the growth of Sunbelt cities since 1920. Military expenditures have meanwhile worked to the detriment of other areas. Estimates were common in the late 1970s that Washington was annually collecting between \$6 billion and \$11 billion more in the New York area than it was returning in expenditures, and the gap widened during the Reagan years as even larger proportions of the national budget was devoted to defense.⁵

On the urban-suburban level, the potential for federal influence is also enormous. For example, the Federal Highway Act of 1916 and the Interstate Highway Act of 1956 moved the government toward a transportation policy emphasizing and benefiting the road, the truck, and the private motorcar.⁶ In conjunction with cheap fuel and mass-produced automobiles, the urban expressways led to lower marginal transport costs and greatly stimulated deconcentration. Equally important to most families is the incentive to detached-home living provided by the deduction of mortgage interest and real-estate taxes from their gross income. Even the reimbursement formulas for water-line and sewer construction have had an impact on the spatial patterns of metropolitan areas.⁷

The purpose of this chapter is to look at the impact of federal housing policies on how and where Americans live. More specifically, I seek to determine whether the results of such policies were foreseen by a government anxious to use its power and resources for the social control of ethnic and racial minorities. Has the American government been as benevolent—or at least as neutral—as its defenders have claimed?⁸

Government and Housing Before 1933

*never
beneficial
neutral*

Although housing involves the largest capital costs of any human necessity, for the first three centuries of urban settlement in North America the provision of shelter was not regarded as an appropriate responsibility of government—whether that body was a colonial assembly or a state legislature, a town meeting or a city council, a Parliament in London or a Congress in Washington. Local governments occasionally outlawed wooden dwellings and thatched roofs in city centers in the seventeenth century,⁹ and New York City passed restrictive housing laws as early as 1867, but the selection, construction, and purchase of a place to live

was everywhere regarded as an essentially individual problem. Prior to the 1930s, federal involvement was limited to a survey of slum conditions in large cities in 1892, the creation of a Federal Land Bank System in 1916, and the construction of munitions and arms workers' housing during World War I.¹⁰

This last and potentially most important shift came in June 1918, a full year after the United States had entered the war, when Congress appropriated \$110 million to begin two separate programs for housing war workers—the Emergency Fleet Corporation of the United States Shipping Board and the United States Housing Corporation. Although the two agencies operated differently, their purposes were similar: to provide residences for heads of households migrating to industrial areas in order to produce weapons for the European conflict. But because this war emergency effort began only five months before the Armistice, it resulted in only a few developments—Yorkship Village in Camden, New Jersey; Atlantic Heights in Portsmouth, New Hampshire; Union Park Gardens in Wilmington, Delaware; and several subdivisions in Bridgeport, Connecticut; Chester, Pennsylvania; and Kohler, Wisconsin—and most of them were not completed until after the war.¹¹

The reason for the delay in beginning the programs was the general belief that homeownership promoted incentives to thrift and the lingering suspicion that subsidized rental units would be socialistic. Senator Albert Fall of New Mexico, for example, warned of "an insidious concerted effort . . . to socialize this Government of ours, to overturn the entire Government of the United States." Senator Fall need not have worried. Less than 25,000 units were built in the entire nation under both programs. Although initially leased to their occupants, the houses were sold to private developers soon after the cessation of hostilities. By the early twenties, Washington was out of the housing business.

The first federal housing effort in the United States, therefore, was neither the result of a conscious effort to help the poor nor of an increased reform spirit. It was, as Charles Abrams wrote, "an exercise of the war power, not the disputed general welfare power." But it did demonstrate that Washington could intervene in a sacred sphere of private enterprise without falling victim to the dreaded Marxist demons. And the quality of the product was often quite good. Yorkship Village and Union Park Gardens, for example, were models of town planning. In Yorkship Village, winding and short straight streets led to an octagonal town square. The brick and stucco houses were placed in short rows and their broken roof lines avoided the monotony of the typical Philadelphia facade. In Union Park Gardens, the stylish row and duplex units featured steeply pitched roofs, staggered setbacks, and variation among house styles.¹²

As the United States returned to "normalcy" in the 1920s, the federal government adopted a hands-off policy with regard to housing. "Home, Sweet Home" remained a cherished ideal, of course, and the Department of Labor occasionally sponsored an "Own Your Own Home Week" to publicize the housing campaign of the National Association of Real Estate Boards. But the mechanics of construction and acquisition were left to the marketplace. As Senator William Calder of New York argued: "The Government is an organizer to govern, not to build houses or operate mines or run railroads or banks."

Not until the advent of the Great Depression in 1929 did the American attitude toward government intervention shift in a fundamental way. The prolonged and mammoth economic catastrophe is too well known for elaboration here, but it inflicted crippling blows on both the housing industry and the homeowner. Between 1928 and 1933, the construction of residential property fell by 95 percent, and the expenditures on home repairs fell by 90 percent. In 1926, which may be taken as a typical year, about 68,000 homes were foreclosed in the United States. In 1930 about 150,000 non-farm households lost their property through foreclosure; in 1931, this increased to nearly 200,000; in 1932, to 250,000. In the spring of 1933, when fully half of all home mortgages in the United States were technically in default, and when foreclosures reached the astronomical rate of more than a thousand per day, the home-financing system was drifting toward complete collapse. Housing prices predictably declined—a typical \$5,000 house in 1926 was worth about \$3300 in 1932—virtually wiping out vast holdings in second and third mortgages as values fell below even the primary claim. Moreover, the victims were often middle-class families who were experiencing impoverishment for the first time.¹³

Theorizing that the predicament of the real-estate and construction industries was acting as a drag on the rest of the economy and believing that homeownership was "both the foundation of a sound economic and social system and a guarantee that our country will continue to develop rationally as changing conditions demand," Herbert Hoover convened the President's National Conference on Home Building and Home Ownership in 1931. More than four hundred specialists took part, including twenty-five fact-finding committees and six auxiliary groups. The avowed purpose of the meeting was to support homeownership for men "of sound character and industrious habits."¹⁴ In an address at the opening session, President Hoover gave expression to this national preference for the private house:

I am confident that the sentiment for home ownership is so embedded in the American heart that millions of people who dwell in tenements,

apartments, and rented rooms . . . have the aspiration for wider opportunity in ownership of their own homes.¹⁵

To the Iowa farm boy whose road to wealth and the White House led through the corporate boardrooms of Manhattan, it was obvious that "Nothing makes for security and advancement more than devotion to the upbuilding of home life."

The conference made four recommendations that pointed to a new direction in federal housing policy and provided a boon to speculative builders, appliance manufacturers, and automobile companies: (1) the creation of long-term, amortized mortgages;¹⁶ (2) the encouragement of low interest rates; (3) the institution of government aid to private efforts to house low-income families; and (4) the reduction of home construction costs. And the conference closed with a warning: "This committee is firmly of the opinion that private initiative taken by private capital is essential, at the present time, for the successful planning and operation of large scale projects. Still, if we do not accept this challenge, the alternative may have to be government housing."¹⁷

With support from the National Association of Home Builders, which insisted that contractors could not provide affordable houses at moderate cost without government assistance and—simultaneously—the freedom to build those houses as they wished, the Hoover administration tried to encourage homeownership in two ways. On July 22, 1932, the President affixed his signature to the Federal Home Loan Bank Act (Public Law 304) to establish a credit reserve for mortgage lenders and thus to increase the supply of capital in the housing market. But it was not designed to give help in cases of emergency distress and was able to give aid only where the risk was slight. The American public did not immediately perceive that, bureaucratic rhetoric aside, loans were only to go to families that did not need federal help, and within the first two years of the law's operation, 41,000 applications for direct loans were made to the banks by individual homeowners. Exactly *three* were approved. Although we should not minimize the satisfaction that those three families received from this evidence of federal compassion, their own good fortune was not sufficient to reverse the downhill slide of housing conditions. Public Law 304 was ineffective, and conditions became appreciably worse.¹⁸

A second measure, the Emergency Relief and Construction Act of 1932, also proved inconsequential. It empowered the Reconstruction Finance Commission to

make loans to corporations formed wholly for the purpose of providing housing for families of low income, or for the reconstruction of slum areas, which are regulated by state or municipal law as to rents, capital structure,

rate of return, and areas and methods of operation, to aid in financing such projects undertaken by such corporations which are self-liquidating in character.¹⁹

Unfortunately, the legislation required the states to exempt such limited-dividend corporations from all taxes, and at the time only New York had such authority. As a result, Knickerbocker Village in New York City was the only project initiated under the legislation.

The Greenbelt Town Program

It remained for Franklin D. Roosevelt and his Democratic majority to develop successful new initiatives in housing. One of the freshest efforts of the New Deal was the Greenbelt Town Program. Inspired by Rexford G. Tugwell and administered by his Resettlement Administration (RA), the program was explicitly intended to foster deconcentration. Tugwell wanted to build ideal "greenbelt" communities based upon the planning theories of England's Ebenezer Howard, a turn-of-the-century visionary who was as appalled by traditional suburbs as much as he was by urban slums. Limited to 10,000 people, Tugwell's communities were to be characterized by decent housing and a high level of social and educational services and were to be surrounded by a belt of open land to prevent sprawl. As Tugwell explained it, "My idea was to go just outside centers of population, pick up cheap land, build a whole community, and entice people into them. Then go back into the cities and tear down whole slums and make parks of them."²⁰

The Greenbelt Town Program came under vigorous conservative attack, however. A proposed New Jersey community never even made it off the drawing board, and the three garden communities that were built—Greenbelt in Maryland, Greenhills in Ohio, and Greendale in Wisconsin—were hurt by excessive construction costs and never served as models for future metropolitan development. The RA itself was scrapped by Congress in 1938.

Two other innovations of the New Deal—the Home Owners Loan Corporation and the Federal Housing Administration—were to have a more lasting and important impact upon the suburbanization of the United States.

The Home Owners Loan Corporation

On April 13, 1933, President Roosevelt urged the House and the Senate to pass a law that would protect the small homeowner from foreclosure,

relieve him of part of the burden of excessive interest and principle payments incurred during a period of higher values and higher earning power,²¹ and declare that it was national policy to protect homeownership. The measure received bipartisan support. As Republican Congressman Rich of Pennsylvania, a banker himself, remarked during the floor debate:

I am opposed to the Government in business, but here is where I am going to do a little talking for the Government in business, because if aid is not going to be extended to these owners of small homes the Government will have to get into this business of trying to save their homes. The banker dares not loan for fear the depositor will draw out his deposit; then he must close his bank or the Comptroller of the Currency will close it for him.²²

The resulting Home Owners Loan Corporation (HOLC) signed into law by FDR on June 13, 1933, was designed to serve urban needs; the Emergency Farm Mortgage Act, passed almost a month earlier, was intended to reduce rural foreclosures.²³

The HOLC replaced the unworkable direct loan provisions of the Hoover administration's Federal Home Loan Bank Act and refinanced tens of thousands of mortgages in danger of default or foreclosure. It even granted loans at low-interest rates to permit owners to recover homes lost through forced sale. Between July 1933 and June 1935 alone, the HOLC supplied more than \$3 billion for over one million mortgages, or loans for one-tenth of all owner-occupied, non-farm residences in the United States. Although applications varied widely by state—in Mississippi, 99 percent of the eligible owner-occupants applied for loans, while in Maine only 18 percent did so—nationally about 40 percent of eligible Americans sought HOLC assistance.²⁴

The HOLC is important to history because it introduced, perfected, and proved in practice the feasibility of the long-term, self-amortizing mortgage with uniform payments spread over the whole life of the debt. In the nineteenth century, a stigma attached to the existence of a mortgage; well-established families were expected to purchase homes outright. After World War I, however, rising costs and increasing consumer debt made the mortgage a more typical instrument for the financing of a home. Indeed, housing became extraordinarily dependent on borrowed money, both to finance construction and to finance the final purchase. During the 1920s, a boom period in home building, the typical length of a mortgage was between five and ten years, and the loan itself was not fully paid off when the final settlement was due. Thus, the homeowner was periodically at the mercy of arbitrary and unpredictable forces in the money market. When money was easy, renewal every five

or seven years was no problem. But if a mortgage expired at a time when money was tight, it might be impossible for the homeowner to secure a renewal, and foreclosure would ensue. Under the HOLC program, the loans were fully amortized, and the repayment period was extended to about twenty years.²⁵

Aside from the larger number of mortgages that it helped to refinance on a long-term, low-interest basis, the HOLC systematized appraisal methods across the nation. Because it was dealing with problem mortgages—in some states over 40 percent of all HOLC loans were foreclosed even after refinancing—the HOLC had to make predictions and assumptions regarding the useful or productive life of housing it financed. Unlike refrigerators or shoes, dwellings were expected to be durable—how durable was the purpose of the investigation.

With care and extraordinary attention to detail, HOLC appraisers divided cities into neighborhoods and developed elaborate questionnaires relating to the occupation, income, and ethnicity of the inhabitants and the age, type of construction, price range, sales demand, and general state of repair of the housing stock. The element of novelty did not lie in the appraisal requirement itself—that had long been standard real-estate practice. Rather, it lay in the creation of a formal and uniform system of appraisal, reduced to writing, structured in defined procedures, and implemented by individuals only after intensive training. The ultimate aim was that one appraiser's judgment of value would have meaning to an investor located somewhere else. In evaluating such efforts, the distinguished economist C. Lowell Harriss has credited the HOLC training and evaluation procedures "with having helped raise the general level of American real estate appraisal methods."²⁶ A less favorable judgement would be that the Home Owners Loan Corporation initiated the practice of "red lining."²⁶

This occurred because HOLC devised a rating system that undervalued neighborhoods that were dense, mixed, or aging. Four categories of quality—imaginatively entitled First, Second, Third, and Fourth, with corresponding code letters of A, B, C, and D and colors of green, blue, yellow, and red—were established. The First grade (also A and green) areas were described as new, homogeneous, and "in demand as residential locations in good times and bad." Homogeneous meant "American business and professional men." Jewish neighborhoods, or even those with an "infiltration of Jews," could not be considered "best" any more than they could be considered "American."²⁷

The Second security grade (blue) went to "still desirable" areas that had "reached their peak," but were expected to remain stable for many years. The Third grade (yellow or "C") neighborhoods were usually described as "definitely declining," while the Fourth grade (red) neigh-

hoods were defined as areas "in which the things taking place in C areas have already happened."²⁸

HOLC assumptions about urban neighborhoods were based on both an ecological conception of change and a socioeconomic one. Adopting a dynamic view of the city and assuming that change was inevitable, its appraisers accepted as given the proposition that the natural tendency of any area was to decline—in part because of the increasing age and obsolescence of the physical structure and in part because of the filtering down of the housing stock to families of ever lower income. Thus physical deterioration was both a cause and an effect of population change, and HOLC officials made no attempt to sort them out. They were part and parcel of the same process. Thus, black neighborhoods were invariably rated as Fourth grade, but so also were any areas characterized by poor maintenance or vandalism. Similarly, those "definitely declining" sections that were marked Third grade or yellow received such a low rating in part because of age and in part because they were "within such a low price or rent range as to attract an undesirable element."²⁹

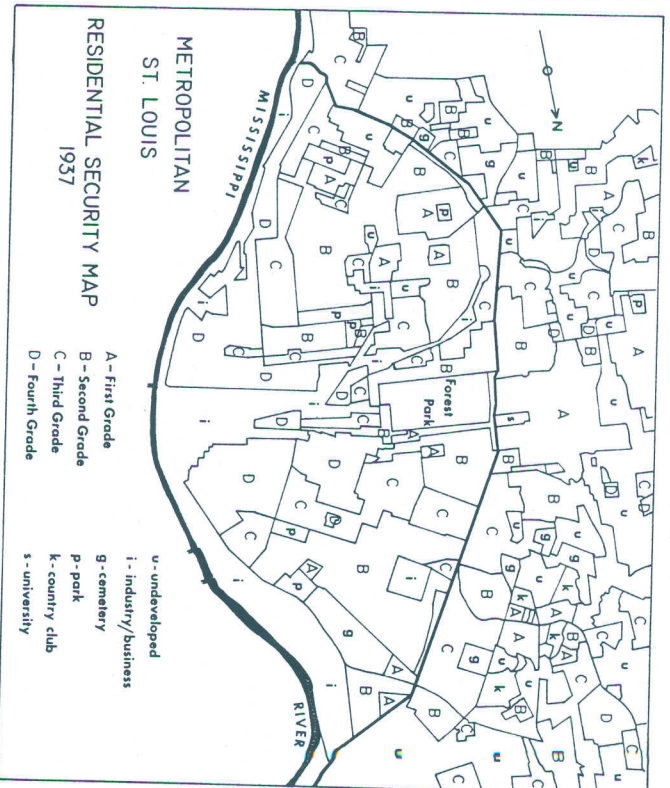
The Home Owners Loan Corporation did not initiate the idea of considering race and ethnicity in real-estate appraisal. Bigotry has a long history in the United States, and the individuals who bought and sold houses were no better or worse than the rest of their countrymen. Realtors were well aware of the intense antagonisms which attended the attempts of middle-class black families to escape from ghetto areas, and their business practices reflected their observations. Indeed, so common-place was the notion that race and ethnicity were important that Richard M. Hurd could write in the 1920s that the socioeconomic characteristics of a neighborhood determined the value of housing to a much greater extent than did structural characteristics. Prominent appraising texts, such as Frederick Babcock's *The Valuation of Real Estate* (1932) and *Michael's Appraising Manual* (1931), echoed the same theme. Both advised appraisers to pay particular attention to "undesirable" or "least desirable" elements and suggested that the influx of certain ethnic groups was likely to precipitate price declines.³⁰

This notion was codified and legitimized in the 1930s by Homer Hoyt and Robert Park at the University of Chicago. Developing a model of neighborhood change, Hoyt in particular showed that values declined as a function of the lowered status of residents and that the introduction of blacks into a neighborhood would first raise prices (the first black families had to pay a premium to break the color barrier) and then precipitate a drastic decline. In 1939 he systematized his theories in an influential study, *The Structure and Growth of Residential Neighborhoods in American Cities*.³¹

The HOLC simply applied these notions of ethnic and racial worth to real-estate appraising on an unprecedented scale. With the assistance of local realtors and banks, it assigned one of the four ratings to every block in every city. The resulting information was then translated into the appropriate color and duly recorded on secret "Residential Security Maps" in local HOLC offices. The maps themselves were placed in elaborate "City Survey Files," which consisted of reports, questionnaires, and workpapers relating to current and future values of real estate.

Because the Home Owners Loan Corporation and the Federal Housing Administration did not normally report data on anything other than a countywide basis, the St. Louis area was selected as a case study. There, the city and county were legally separated in 1876 (see Chapter 9), so the government had no alternative to city/suburb reporting. In addition, an even older industrial city, Newark, was selected because of the availability of a unique FHA study.

The Residential Security Map for the St. Louis area in 1937, as FIGURE 11-1 indicates, gave the highest ratings to the newer, affluent sub-



urts that were strung out along curvilinear streets well away from the problems of the city. Three years later, in 1940, the advantage of the periphery over the center was even more marked. In both evaluations, the top of the scale was dominated by Ladue, a largely undeveloped section of high, rolling land, heavily wooded estates, and dozens of houses in the \$20,000 to \$50,000 range. Horses cantered through woodlands and glades on forty miles of bridle paths. In 1940 HOLC appraisers noted approvingly that the area's 4,535 acres, criss-crossed by streams, were "highly restricted" and occupied by "capitalists and other wealthy families." Reportedly not the home of "a single foreigner or negro," Ladue received a First grade (green) rating. In 1985, it remained private and preppy, *the* place in the St. Louis area for the rich, the powerful, and the socially elite to live.³²

Other affluent St. Louis suburbs like Clayton, University City, and Webster Groves were also marked with green and blue on the 1937 and 1940 maps, indicating that they, too, were characterized by attractive homes on well-maintained plots, and that the appraisers felt confident about the safety of mortgages insured there. And well they might have been. In University City, almost 40 percent of the homes had been valued at more than \$15,000 in 1930, while in Clayton the comparable figure was an astounding 72 percent (see Appendix A-11). Such statistics simply reflected the fact that for decades St. Louis's wealthier families had been forsaking the knolls and bluffs overlooking the Mississippi River and the mansions of the once fashionable Central West End for the elegant country style of the suburbs.

At the other end of the scale in St. Louis County were the rare Fourth grade areas. A few such neighborhoods were occupied by white laborers, such as "Ridgeview" in Kirkwood, where the garagelike shacks typically cost less than \$1500. But the "D" regions in the county were usually black. One such place in 1937 was Lincoln Terrace, a small enclave of four- and five-room bungalows built in 1927. Originally intended for middle-class white families, the venture was unsuccessful, and the district quickly developed into a black neighborhood. But even though the homes were relatively new and of good quality, the HOLC gave the section (D-12 in 1937, D-8 in 1940) the lowest possible grade, asserting that the houses had "little or no value today, having suffered a tremendous decline in values due to the colored element now controlling the district."³³

In contrast to the gently rolling terrain and sparse settlement of St. Louis County, the city had proportionately many more Third- and Fourth-grade neighborhoods, and more than twice as many renters as homeowners. As FIGURE 11-1 indicates, virtually all the residential sections

along the Mississippi River or adjacent to the central business district received one of the two lowest ratings. This harsh judgement was in part a reflection of their badly deteriorated physical character. Just a few years earlier, the City Plan Commission of St. Louis had made a survey of 44 areas surrounding the business section. Only about 40 percent of the 8,447 living units had indoor toilets, and the tuberculosis morbidity rate was three times that of the city as a whole. As the St. Louis Regional Planning Report pessimistically concluded in 1936:

The older residential districts which are depreciating in value and in character constitute one of the most serious problems in this region. They can never be absorbed by commercial and industrial uses. Even if owners wished to build new homes within them, it would be inadvisable because of the present character of the districts.³⁴

Although HOLC appraisers marked down such neighborhoods because of true slum conditions, their negative attitudes toward city living in general also affected their judgements. The evaluation of a white, working-class neighborhood near St. Louis's Fairgrounds Park was typical. According to the description, "Lots are small, houses are only slightly set back from the sidewalks, and there is a general appearance of congestion." Although a city lover might have found this collection of cottages and abundant shade trees rather charming, the HOLC thought otherwise: "Age of properties, general mixture of type, proximity to industrial section on northeast and much less desirable areas to the south make this a good fourth grade area."³⁵

As was the case in every city, any Afro-American presence was a source of substantial concern to the HOLC. In a confidential and generally pessimistic 1941 survey of the economic and real-estate prospects of the St. Louis metropolitan area, the Federal Home Loan Board (the parent agency of the HOLC) repeatedly commented on the "rapidly increasing Negro population" and the resulting "problem in the maintenance of real estate values." The officials evinced a keen interest in the movement of black families and included maps of the density of black settlement with every analysis. Not surprisingly, even those neighborhoods with small proportions of black inhabitants were usually rated Fourth grade or "hazardous."³⁶

Like St. Louis, Newark, New Jersey, has long symbolized the most extreme features of the urban crisis. In that troubled city, federal appraisers took note in the 1930s of the high tax rate, the heavy relief load, the per capita bonded debt, and the "strong tendency for years for people of larger incomes to move their homes outside the city." The 1939 Newark area Residential Security Map did not designate a single neigh-

borough in that city of more than 400,000 as worthy of an "A" rating. "High class Jewish" sections like Weequahic and Clinton Hill, as well as non-Jewish areas like Vailsburg and Forest Hill all received the Second grade, or "B." Typical Newark neighborhoods were rated even lower. The well-maintained and attractive working-class sections of Roseville, Woodside, and East Vailsburg were given Third-grade or "C" ratings; the remainder of the city, including immigrant Ironbound and every black neighborhood, was written off as Fourth grade or "hazardous."³⁷

Immediately adjacent to Newark is New Jersey's Hudson County, which is among the half-dozen most densely settled and ethnically diverse political jurisdictions in the United States. Predictably, HOLC appraisers

TABLE 11-1
Distribution of HOLC Loans in Essex County (Newark), New Jersey and Shelby County (Memphis), Tennessee According to Neighborhood Classifications, 1935-1936

Classifications	Essex County		Shelby County	
	Number	Percentage	Number	Percentage
A—Best	685	10.2%	129	4.7%
B—Still Desirable	1,975	29.3	752	27.6
C—Definitely Declining	2,156	32.0	1,003	36.8
D—Hazardous	1,917	28.5	843	30.9

SOURCE: Compilations made from HOLC and FHA Reports in Record Group 195, National Archives.

had decided by 1940 that Hudson County was a lost cause. In the communities of Bayonne, Hoboken, Secaucus, Kearny, Union City, Weehawken, Harrison, and Jersey City, taken together, they designated only two very small Second grade areas and no First grade sections.³⁸

The Home Owners Loan Corporation insisted "There is no implication that good mortgages do not exist or cannot be made in Third and Fourth grade areas." And, as TABLE 11-1 indicates, strong evidence indicates that the HOLC did in fact issue mortgage assistance impartially and make the majority of its obligations in "definitely declining" or "hazardous" neighborhoods. This seeming liberality was actually good business because the residents of poorer sections generally maintained a better pay-back record than did their more affluent cousins. As the Federal Home Loan Bank Board explained: "The rate of foreclosure per 1000 non-farm dwellings during 1939 was greater in St. Louis County than in St. Louis City by about 2 and one half to 1. A partial explana-

tion or causation of this situation is the fact that County properties consist of a greater proportion of units in the higher priced brackets."³⁹ The damage caused by the HOLC came not through its own actions, but through the influence of its appraisal system on the financial decisions of other institutions. During the late 1930s, the Federal Home Loan Bank Board circulated questionnaires to banks asking about their mortgage practices. Those returned by savings-and-loan associations and banks in Essex County (Newark), New Jersey indicated a clear relationship between public and private "red lining" practices. One specific question asked: "What are the most desirable lending areas?" The answers were often "A and B" or "Blue" or "FHA only." Similarly, to the inquiry, "Are there any areas in which loans will not be made?" the responses included, "Red and most yellow," "C and D," "Newark," "Not in red," and "D areas." Obviously, private banking institutions were privy to and influenced by the government's Residential Security Maps. And the pattern of discrimination was continued until at least 1970 by the Federal Home Loan Bank Board, whose examiners routinely "red lined" postal zip codes in which the symptoms of racial change and falling values were observed.⁴⁰

Even more significantly, HOLC appraisal methods, and probably the maps themselves, were adopted by the Federal Housing Administration.

The Federal Housing Administration

No agency of the United States government has had a more pervasive and powerful impact on the American people over the past half-century than the Federal Housing Administration (FHA). It dates from the adoption of the National Housing Act on June 27, 1934. Designed by Winfield Riefler, Miles Lanier Colean, Frances Perkins, Mariner Eccles, Averell Harriman, and Henry Wallace to meet President Roosevelt's desire for at least one program that could stimulate building without government spending and that would rely instead on private enterprise, it was intended "to encourage improvement in housing standards and conditions, to facilitate sound home financing on reasonable terms, and to exert a stabilizing influence on the mortgage market." The primary purpose of the legislation, however, was the alleviation of unemployment, which stood at about a quarter of the total work force in 1934 and which was particularly high in the construction industry. As the Federal Emergency Relief Administrator testified before the House Banking and Currency Committee on May 18, 1934:

The building trades in America represent by all odds the largest single unit of our unemployment. Probably more than one-third of all the unemployed are identified, directly and indirectly, with the building trades. . . .

Now, a purpose of this bill, a fundamental purpose of this bill, is an effort to get the people back to work.⁴¹

The FHA effort was later supplemented by the Servicemen's Readjustment Act of 1944 (more familiarly known as the GI Bill), which created a Veterans Administration (VA) program to help the sixteen million soldiers and sailors of World War II purchase a home after the defeat of Germany and Japan. Because the VA very largely followed FHA procedures and attitudes and was not itself on "the cutting edge of housing policy," the two programs can be considered as a single effort.

Between 1934 and 1968, and to a lesser extent until the present day, both the FHA and the VA (since 1944) have had a remarkable record of accomplishment. Essentially, they insure long-term mortgage loans made by private lenders for home construction and sale. To this end, they collect premiums, set up reserves for losses, and in the event of a default on a mortgage, indemnify the lender. They do not build houses or lend money. Instead, they induce lenders who have money to invest it in residential mortgages by insuring them against loss on such instruments, with the full weight of the United States Treasury behind the contract. And they have revolutionized the home finance industry in the following ways:

Before the FHA began operation, first mortgages were limited to one-half or two-thirds of the appraised value of the property. During the 1920s, for example, savings and loan associations held one-half of America's outstanding mortgage debt. Those mortgages averaged 58 per cent of estimated property value. Thus, prospective home buyers needed a down payment of at least 30 percent to close a deal. By contrast, the fraction of the collateral that the lender was able to lend for an FHA-secured loan was about 93 percent. Thus, down payments of more than ~~40 per cent were unnecessary.~~⁴²

Continuing a trend begun by the Home Owners Loan Corporation, FHA extended the repayment period for its guaranteed mortgages to twenty-five or thirty years and insisted that all loans be fully amortized. The effect was to reduce both the average monthly payment and the national rate of mortgage foreclosure. The latter declined from 250,000 non-farm units in 1932 to only 18,000 in 1951.

FHA established minimum standards for home construction that became almost standard in the industry. These regulations were not intended to make any particular structure fault-free, nor even to assure the owner's satisfaction with the purchase. But they were designed to insure

with at least statistical accuracy that the dwelling would be free of gross structural or mechanical deficiencies. Although there was nothing innovative in considering the quality of a house in relation to the debt placed against it, two features of the system were new: first, that the standards were objective, uniform, and in writing; second, that they were to be enforced by actual on-site inspection—prior to insurance commitment in the case of an existing property, and at various fixed stages in the course of construction of new housing. Since World War II, the largest private contractors have built all their new houses to meet FHA standards, even though financing has often been arranged without FHA aid. This has occurred because many potential purchasers will not consider a house that cannot earn FHA approval.⁴³

In the 1920s, the interest rate for first mortgages averaged between 6 and 8 percent. If a second mortgage were necessary, as it usually was for families of moderate means, the purchaser could obtain one by paying a discount to the lender, a higher interest rate on the loan, and perhaps a commission to a broker. Together, these charges added about 15 percent to the purchase price. Under the FHA (and later Veterans Administration) program, by contrast, there was very little risk to the banker if a loan turned sour. Reflecting this government guarantee, interest rates fell by two or three percentage points.⁴⁴

These four changes substantially increased the number of American families who could reasonably expect to purchase homes. Builders went back to work, and housing starts and sales began to accelerate rapidly in 1936. They rose to 332,000 in 1937, to 399,000 in 1938, to 458,000 in 1939, to 530,000 in 1940, and to 619,000 in 1941. This was a startling lift from the 93,000 starts of 1933. After World War II, the numbers became even larger, and by the end of 1972, FHA had helped nearly eleven million families to own houses and another twenty-two million families to improve their properties. It had also insured 1.8 million dwellings in multi-unit projects. And in those same years between 1934 and 1972, the percentage of American families living in owner-occupied dwellings rose from 44 percent to 63 percent.⁴⁵

Quite simply, it often became cheaper to buy than to rent. In 1939, for example, four hundred six-room houses were built just north of Wilmington, Delaware, in an FHA-backed development called Edgemoor Terrace. Using the tract techniques that would later be popularized by the Levitt organization after World War II—standardized models and lot sizes, routinized construction methods, and furnished models—the Wilmington Construction Company was able to offer the home for \$5,150. The FHA mortgage guarantee meant that purchasers needed only \$550 for a down payment and an incredible \$29.61 monthly charge for twenty-

five years to the bank. Advertisements for Edgemoor Terrace emphasized that it was cheaper to buy a new suburban home there than to rent a comparable structure in the city.⁴⁶

Many developments in the United States could equal Edgemoor Terrace for value, and the new economic inducements to homeownership were essentially the same everywhere. Long Island builder Martin Winter recalled that in the early 1950s families living in the Kew Gardens section of Queens were paying about ninety dollars per month for small two-bedroom apartments. For less money, they could and often did, move to the new Levittown-type developments springing up along the highways from Manhattan. Even the working classes could aspire to homeownership. As one person who left New York City for suburban Dumont, New Jersey, remembered: "We had been paying \$50 per month rent, and here we come up and live for \$29 a month. That paid everything—taxes, principal, insurance on your mortgage, and interest." Not surprisingly, the middle-class suburban family with the new house and the long-term, fixed-rate, FHA-insured mortgage became a symbol, and perhaps a stereotype, of the American way of life.⁴⁷

Unfortunately, the corollary to this achievement was the fact that FHA programs hastened the decay of inner-city neighborhoods by stripping them of much of their middle-class constituency. In practice, FHA insurance went to new residential developments on the edges of metropolitan areas, to the neglect of core cities. This occurred for three reasons. First, although the legislation nowhere mentioned an antiurban bias, it favored the construction of single-family projects and discouraged construction of multi-family projects through unpopular terms. Historically, single-family housing programs have been the heart of FHA's insured loan activities. Between 1941 and 1950, FHA-insured single family starts exceeded FHA multi-family starts by a ratio of almost four to one. In the next decade, the margin exceeded seven to one. Even in 1971, when FHA insured the largest number of multi-family units in its history, single-family houses were more numerous by 27 percent.⁴⁸

Second, loans for the repair of existing structures were small and for short duration, which meant that a family could more easily purchase a new home than modernize an old one. The legislation required FHA to exercise more controls over rental than over sales housing, a circumstance that reflected the bias against non-owner-occupied structures. One part of the 1934 act was an embryonic authorization for mortgage insurance with respect to rental housing in regulated projects of public bodies or limited dividend corporations. Almost nothing was insured until 1938, and even thereafter the annual insurance for rental housing exceeded \$1 billion only once between 1934 and 1962.⁴⁹

The third and most important variety of suburban, middle-class favoritism had to do with the "unbiased professional estimate" that was a prerequisite to any loan guarantee. Required because maximum mortgage amounts were related to "appraised value," this mandatory judgment included a rating of the property itself, a rating of the mortgage or borrower, and a rating of the neighborhood. The aim was to guarantee that at any time during the term of the mortgage the market value of the dwelling would exceed the outstanding debt.⁵⁰ The lower the valuation placed on properties, the less government risk and the less generous the aid to the potential buyers (and sellers). The purpose of the neighborhood evaluation was "to determine the degree of mortgage risk introduced in a mortgage insurance transaction because of the location of the property at a specific site." And unlike the Home Owners Loan Corporation, which used a similar procedure, the Federal Housing Administration allowed personal and agency bias in favor of all-white subdivisions in the suburbs to affect the kinds of loans it guaranteed—or, equally important, refused to guarantee. In this way, the bureaucracy influenced the character of housing at least as much as the 1934 enabling legislation did.⁵¹

The Federal Housing Administration was quite precise in teaching its underwriters how to measure quality in residential areas. Eight criteria were established (the numbers in parentheses reflect the percentage weight given to each):

- Relative economic stability (40 percent)
- Protection from adverse influences (20 percent)
- Freedom from special hazards (5 percent)
- Adequacy of civic, social, and commercial centers (5 percent)
- Adequacy of transportation (10 percent)
- Sufficiency of utilities and conveniences (5 percent)
- Level of taxes and special assessments (5 percent)
- Appeal (10 percent)

Although FHA directives insisted that no project should be insured that involved a high degree of risk with regard to any of the eight categories, "economic stability" and "protection from adverse influences" together counted for more than the other six combined. Both were interpreted in ways that were prejudicial against heterogeneous environments. The 1939 *Underwriting Manual* taught that "crowded neighborhoods lessen desirability," and "older properties in a neighborhood have a tendency to accelerate the transition to lower class occupancy." Smoke and odor were considered "adverse influences," and appraisers were told to look carefully for any "inferior and non-productive characteristics of the areas surrounding the site." The agency endorsed restrictive zoning

and insisted that any single-family residence it insured could not have facilities that allowed the dwelling to be used as a store, an office, or a rental unit.⁵²

Obviously, prospective buyers could avoid many of these so-called undesirable features by locating in suburban sections. In 1939 FHA asked each of its fifty regional offices to send in plans for six "typical American houses." The photographs and dimensions were then used for a National Archives exhibit. Virtually all of the entries were bungalows or colonials on ample lots with driveways and garages.

In an attempt to standardize such ideal homes, the Federal Housing Administration set up minimum requirements for lot size, setback from the street, separation from adjacent structures, and even for the width of the house itself. While such requirements did provide light and air for new structures, they effectively eliminated whole categories of dwellings, such as the traditional 16-foot-wide row houses of Baltimore, from eligibility for loan guarantees. Even apartment-house owners were encouraged to look to suburbia: "Under the best of conditions a rental development under the FHA program is a project set in what amounts to a privately owned and privately controlled park area."⁵³

Reflecting the racist tradition of the United States, the Federal Housing Administration was extraordinarily concerned with "inharmionous racial or nationality groups." It feared that an entire area could lose its investment value if rigid white-black separation was not maintained. Bluntly warning, "If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes," the *Underwriting Manual* openly recommended "subdivision regulations and suitable restrictive covenants" that would be "superior to any mortgage."⁵⁴ Such covenants, which were legal provisions written into property deeds, were a common method of prohibiting black occupancy until the United States Supreme Court ruling in 1948 (*Shelley v. Kraemer*) that they were "unenforceable as law and contrary to public policy." Even then, it was not until 1949 that FHA announced that as of February 15, 1950, it would not insure mortgages on real estate subject to covenants. Although the press treated the FHA announcement as a major advancement in the field of racial justice, former housing administrator Nathan Straus noted that "the new policy in fact served only to warn speculative builders who had not filed covenants of their right to do so, and it gave them a convenient respite in which to file."⁵⁵

In addition to recommending covenants, FHA compiled detailed reports and maps charting the present and most likely future residential locations of black families. In a March 1939 map of Brooklyn, for ex-

ample, the presence of a single, non-white family on any block was sufficient to mark that entire block black. Similarly, very extensive maps of the District of Columbia depicted the spread of the black population and the percentage of dwelling units occupied by persons other than white.⁵⁶ As late as November 19, 1948, Assistant FHA Commissioner W. J. Lockwood could write that FHA "has never insured a housing project of mixed occupancy" because of the expectation that "such projects would probably in a short period of time become all-Negro or all-white."⁵⁷

Occasionally, FHA decisions were particularly bizarre and capricious. In the late 1930s, for example, as Detroit grew outward, white families began to settle near a black enclave adjacent to Eight Mile Road. By 1940 the blacks were surrounded, but neither they nor the whites could get FHA insurance because of the proximity of an "inharmionous" racial group. So in 1941 an enterprising white developer built a concrete wall between the white and black areas. The FHA appraisers then took another look and approved mortgages on the white properties.⁵⁸

The precise extent to which the agency discriminated against blacks and other minority groups is difficult to determine.⁵⁹ Although FHA has always collected reams of data regarding the price, floor area, lot size, number of bathrooms, type of roof, and structural characteristics of the single-family homes it has insured, it has been quite secretive about the location of these loans. For the period between 1942 and 1968, for example, when FHA had a vast influence on the suburbanization of the United States, the most detailed FHA statistics cannot be disaggregated below the county level.⁶⁰

Such data as are available indicate that the neighborhood appraisals were very influential in determining "where it would be reasonably safe to insure mortgages." Indeed, the Preliminary Examiner was specifically instructed to refer to the Residential Security Maps—whether these were HOLC maps or new FHA maps with the same designations cannot be determined—in order "to segregate for rejection many of the applications involving locations not suitable for amortized mortgages." The result was a degree of suburban favoritism even greater than the documentary analysis would have suggested. Of a sample of 241 new homes insured by FHA throughout metropolitan St. Louis between 1935 and 1939, a full 220 or 91 percent were located in the suburbs. Moreover, more than half of these home buyers (135 of 241) had lived in the city immediately prior to their new home purchase. That FHA was helping to denude St. Louis of its middle-class residents is illustrated by an analysis of the HOLC Residential Security Map. As might be expected, the new

suburbanies were not being drawn from the slums or from rural areas, but from the Second grade or "B" areas—generally sound but aging housing in middle-class neighborhoods of the central city.

A detailed analysis of two individual subdivisions in St. Louis County—Normandy and Affton—confirms the same point. Located just northwest of the city limits, Normandy is now a school district comprising twenty-five small neighborhoods. In 1937 it was made up of new five- and six-room houses costing between \$4,000 and \$7,500. Exactly 127 of these houses were sold under FHA-guaranteed mortgages in 1937 and 1938. One hundred of these purchasers (78 percent) moved out from the city, mostly from the solid, well-established blocks between West Florissant and Easton Streets.

Never a wealthy area, Affton was on the opposite, or southwest, edge of St. Louis. Although it boomed after World War II as a middle-income alternative for returning veterans, it was the scene of considerable residential construction in 1938 and 1939. Of sixty-two families purchasing FHA-insured homes in Affton during these years, fifty-five were from the city of St. Louis. Most of them simply came out the four-lane Gravois Road from the southern part of the city to their new plots in the suburbs.

For the period since 1942, detailed analyses of FHA spatial patterns are difficult. But a reconstruction of FHA unpublished statistics for the St. Louis area over the course of a quarter of a century reveals the broad patterns of city-suburban activity. As TABLE 11-2 indicates, in the first twenty-seven years of FHA operation (through December 31, 1960), when tens of thousands of tract homes were built west of the city limits, the county of St. Louis was the beneficiary of more than five times as much mortgage insurance as the city of St. Louis, whether measured in number of mortgages, amount of mortgage insurance, or per capita assistance.

One possible explanation for the enormous city-county disparities in these figures is that the city had very little room for development, that the populace wanted to move to the suburbs, and that the periphery was where new housing could most easily be built. But in the 1930s, many more single-family homes were constructed in the city than in the county. Moreover, more than half of the FHA policies traditionally went to *existing* rather than *new* homes, and the city had a much larger inventory of existing housing than did the county in the period before 1960. Even in terms of home-improvement loans, a category in which the aging city was obviously more needy, only \$44 million went to the city, while about three times that much, or \$112 million, went to the county through 1960. In the late 1960s and early 1970s, in the wake of periodic urban rioting

TABLE 11-2
Cumulative Total of FHA Home Mortgage Activities and Per Capita Figures
for Ten Selected United States Counties, 1934-1960

Jurisdiction	Cumulative Number of Home Mortgages, 1934-1960	Cumulative Amount of Home Mortgages, 1934-1960	Per Capita
			Home Amount of Mortgages, as of January 1961*
St. Louis County, Missouri	62,772	\$558,913,633	\$794
Fairfax County, Virginia	14,687	190,718,799	730
Nassau County, New York	87,183	781,378,559	601
Montgomery County, Maryland	14,702	159,246,550	467
Prince Georges County, Maryland	15,043	144,481,817	404
St. Louis City	12,166	94,173,422	126
District of Columbia	8,038	66,144,612	87
Kings County (Brooklyn), New York	15,438	140,330,137	53
Hudson County, New Jersey	1,056	7,263,320	12
Bronx County, New York	1,641	14,279,243	10

*The per capita amount was derived by dividing the cumulative amount of home mortgages by the 1960 population.

SOURCE: These calculations are based upon unpublished statistics available in the Single Family Insured Branch of the Management Information Systems Division of the Federal Housing Administration.

when the federal government attempted to redirect monies to the central cities, the previous imbalance was not corrected. Figures available through 1976 show a total of well over \$1.1 billion for the county and only \$314 million for the city. Thus, the suburbs continued their dominance.⁶¹

Although St. Louis County has done very well in terms of per-capita mortgage insurance in comparison with other areas of the nation, the Mississippi River city was not an isolated case of suburban favoritism. In Essex County, New Jersey, FHA commitments went in overwhelming proportion to Newark's suburbs. And in neighboring Hudson County, residents received only twelve dollars of mortgage insurance per capita through 1960, the second lowest county total in the nation after the Bronx (TABLE 11-2).⁶²

The New Jersey data reveal that the most favored areas for FHA mortgage insurance were not the wealthiest towns. Rather, the most likely areas for heavy FHA activity were those rated Second grade or "B" on the Residential Security Maps. In 1936 about 65 percent of new housing units in suburban Livingston were accepted for insurance; for Caldwell



FIGURE 11-2. New Home Mortgages Accepted for Insurance by the Federal Housing Administration in Essex County, New Jersey in 1936. Each dot represents one mortgage accepted for insurance.
source: Record Group 31, National Archives.

and Irvington, also solidly middle-class, the percentages were 59 and 42 respectively. In more elite districts, like South Orange, Glen Ridge, Milburn, and Maplewood, however, the FHA assistance rates were about the same as they were for Newark, or less than 25 percent. Presumably, this occurred because the allowable price limit for FHA mortgage insurance was originally \$20,000, and also because persons who could afford to live in such posh neighborhoods did not require government financing.⁶³

Even in the nation's capital, the outlying areas were considered more appropriate for federal assistance than older neighborhoods. FHA com-

mitments at the beginning of 1937 in the District of Columbia were heavily concentrated in two peripheral areas: between the United States Soldiers Home and Walter Reed Hospital in white and prosperous northwest Washington, and between Rock Creek Park and Connecticut Avenue, also in northwest Washington. Few mortgage guarantees were issued in the predominantly black central and southeastern sections of the district. More importantly, at least two-thirds of FHA commitments in the metropolitan area were located in the suburbs—especially in Arlington and Alexandria in Virginia and Silver Spring, Takoma Park, Chevy Chase, University Park, Westmoreland Hills, and West Haven in Maryland. Perhaps this was but a reflection of a dire FHA prediction in 1939 about the future of the capital city: "It should be noted in this connection that the "filtering-up" process, and the tendency of Negroes to congregate in the District, taken together, logically point to a situation where eventually the District will be populated by Negroes and the surrounding areas in Maryland and Virginia by white families."⁶⁴ Following a segregationist policy for at least the next twenty years, FHA did its part to see that the prophecy came true; through the end of 1960, as TABLE 11-2 indicates, the suburban counties received more than seven times as much mortgage insurance as the District.

For its part, the Federal Housing Administration usually responded that it was not created to help cities, but to revive home building, to stimulate homeownership, and to reduce unemployment. And it concentrated on convincing both the Congress and the public that it was, as its first Administrator, James Moffett, remarked, "a conservative business operation."⁶⁵ The agency emphasized its concern over sound loans no higher than the value of the assets and the repayment ability of the borrower would support. And FHA was unusual in the vast array of Washington programs because of its record of earning a small profit for the federal government.⁶⁶

But FHA also helped to turn the building industry against the minority and inner-city housing market, and its policies supported the income and racial segregation of suburbia. For perhaps the first time, the federal government embraced the discriminatory attitudes of the marketplace. Previously, prejudices were personalized and individualized: FHA exhorted segregation and enshrined it as public policy. Whole areas of cities were declared ineligible for loan guarantees; as late as 1966, for example, FHA did not have a mortgage on a single home in Camden or Paterson, New Jersey, both declining industrial cities. This withdrawal of financing often resulted in an inability to sell houses in a neighborhood, so that vacant units often stood empty for months, producing a steep decline in value.⁶⁷

Despite the fact that the government's leading housing agency openly exhorted segregation throughout the first thirty years of its operation, very few voices were raised against FHA red-lining practices. Between 1943 and 1945, Harland Bartholomew and Associates, the nation's leading urban planning firm, prepared a master plan for Dallas. Criticizing FHA for building "nearly all housing" in the suburbs, the company argued that "this policy has hastened the process of urban decentralization immeasurably." In 1955 Columbia Professor Charles Abrams pointed a much stronger accusatory finger at FHA for discriminatory practices. Writing in 1955, the famed urban planner said:

A government offering such bounty to builders and lenders could have required compliance with a nondiscrimination policy. Or the agency could at least have pursued a course of evasion, or hidden behind the screen of local autonomy. Instead, FHA adopted a racial policy that could well have been culled from the Nuremberg laws. From its inception FHA set itself up as the protector of the all white neighborhood. It sent its agents into the field to keep Negroes and other minorities from buying houses in white neighborhoods.⁶⁸

Not until the civil-rights movement of the 1960s did community groups realize that red lining and disinvestment were a major cause of community decline and that home-improvement loans were the "lifeblood of housing." In 1967 Martin Nolan summed up the indictment against FHA by asserting, "The imbalance against poor people and in favor of middle-income homeowners is so staggering that it makes all inquiries into the pathology of slums seem redundant." In the following year, Senator Paul Douglas of Illinois reported for the National Commission on Urban Problems on the role of the federal government in home finance:

The poor and those on the fringes of poverty have been almost completely excluded. These and the lower middle class, together constituting the 40 percent of the population whose housing needs are greatest, received only 11 percent of the FHA mortgages. . . . Even middle-class residential districts in the central cities were suspect, since there was always the prospect that they, too, might turn as Negroes and poor whites continued to pour into the cities, and as middle and upper-middle-income whites continued to move out.⁶⁹

Moreover, as urban analyst Jane Jacobs has said, "Credit blacklisting maps are accurate prophecies because they are self-fulfilling prophecies."

In 1966 FHA drastically shifted its policies with a view toward making much more mortgage insurance available for inner-city neighbor-

hoods. Ironically, the primary effect of the change was to make it easier for white families to finance their escape from areas experiencing racial change. At the same time, the relaxed credit standards for black applicants meant that home improvement companies could buy properties at low cost, make cosmetic improvements, and sell the renovated home at inflated prices approved by FHA. Many of the minority purchasers could not afford the cost of maintenance, and FHA had to repossess thousands of homes. The final result was to increase the speed with which areas went through racial transformation and to victimize those it was designed to help. The only people to benefit were contractors and white, middle-class homeowners who were assisted in escaping from a distress position.⁷⁰

In the 1930s, the Federal Home Loan Bank Board, the Home Owners Loan Corporation, and the Federal Housing Administration were churning out in rapid-fire succession by a government anxious to reduce unemployment and to provide a way for the home buyer to compete with large corporations for credit. The savings-and-loan industry's mandate was to encourage homeownership by taking the savings of small depositors and lending them out as mortgages. Washington, in turn, eased the risk to the system by insuring the mortgages through the Federal Housing Administration (and the deposits through the Federal Savings and Loan Insurance Corporation). When necessary, the government oiled the system by making additional low-cost funds available to lenders via the Federal Home Loan Bank Board.

In the course of accomplishing its mission, the HOLC developed real-estate appraisal methods that discriminated against racial and ethnic minorities and against older, industrial cities. But HOLC extended aid without regard for its own ratings and met the needs of a variety of families and neighborhoods. The Federal Housing Administration cooperated with HOLC and followed HOLC appraisal practices. But unlike the Home Owners Loan Corporation, FHA acted on the information in its files and clearly favored homogeneous subdivisions over industrial, aging, or heterogeneous neighborhoods.

From the perspective of the suburbs, but not most cities, the system worked remarkably well from 1933 until the late 1960s. As returning World War II veterans sought homes to raise their families, the government financed large tracts of houses on the periphery. Thus, the main beneficiary of the \$119 billion in FHA mortgage insurance issued in the first four decades of FHA operation was suburbia, where almost half of all housing could claim FHA or VA financing in the 1950s and 1960s. And as the percentage of families who were homeowners increased from

44 percent in 1934 to 63 percent in 1972, the American suburb was transformed from an affluent preserve into the normal expectation of the middle class.

Not only did FHA help move mortgage funds from the cities to the suburbs, but two other housing innovations from Washington, the Federal National Mortgage Association (popularly known as Fannie Mae) and the Government National Mortgage Association (popularly known as Ginnie Mae), made possible the easy transfer of savings-funds out of the cities of the Northeast and Middle West and toward the new developments of the South and West. Fannie Mae essentially created a standardized mortgage instrument that all states recognize, and on which banks and other institutions lend. "Mortgage funds can now move freely across the country to where needed," according to official doctrine. A typical result was that savings banks in the Bronx invested only about 10 percent of their funds in the 1970s in the borough and only about 30 percent in New York State. The rest went for investments elsewhere in the country, a result that would not have been possible except for Fannie Mae.⁷¹

Any serious indictment of federal lawmakers and federal officials for the miserable state of many American cities must take cognizance of two important points. First, and most obviously, it is hazardous to condemn a government for adopting policies in accord with the preference of a majority of its citizens. As novelist Anthony Trollope put it in 1867: "It is a very comfortable thing to stand on your own ground. Land is about the only thing that can't fly away." FHA helped to build houses, and where they were put was less important than that they were built. For more than a century, Americans have had a strong affinity for a detached home on a private lot. Obviously, some popular measures, such as gun control, are not adopted because of special-interest lobbies. But suburbanization was not willed on an innocent peasantry. Without a substantial amount of encouragement from the mainstream of public opinion, the bureaucrats would never have been able to push their projects as far as they did. The single-family house responded to the psychic value of privacy or castlehood. In fact, suburbanization was an ideal government policy because it met the needs of both citizens and business interests and because it earned the politicians' votes. It is a simple fact that homeownership introduced equity into the estates of over 35 million families between 1933 and 1978. The tract houses they often bought may have been dismissed as hopeless by highbrow architectural purists, but they were a lot less dreary to the people who raised families there and then sold to new families at a profit.

Federal housing policies were also not the *sine qua non* in the mushrooming of the suburbs. Mortgage insurance obviously made it easier for families to secure their dream houses, but the dominant residential drift in American cities had been toward the periphery for at least a century before the New Deal, and there is no reason to assume that the suburban trend would not have continued in the absence of direct federal assistance.

The lasting damage done by the national government was that it put its seal of approval on ethnic and racial discrimination and developed policies which had the result of the practical abandonment of large sections of older, industrial cities. More seriously, Washington actions were later picked up by private interests, so that banks and savings-and-loan institutions institutionalized the practice of denying mortgages "solely because of the geographical location of the property." The financial community saw blighted neighborhoods, as physical evidence of the melting-pot mistake. To them, cities were risky because of their heterogeneity, because of their attempt to bring various people together harmoniously. Such mixing, they believed, had but two consequences—the decline of both the human race and of property values. As Mark Gel-fand has observed, "Given the chance, bankers would do for their business what they had already done for themselves—leave the city."⁷²

St. Louis illustrates the dilemma of many cities. Partly as a result of federal housing policies which have enabled the white, middle-class population to settle in the county, the city of St. Louis had become by 1984 a premier example of urban abandonment. Once the fourth largest city in America, the "Gateway to the West" is now twenty-seventh, a ghost of its former self. In 1940 it contained 816,000 inhabitants; in 1980 the census counted only 453,000. Many of its old neighborhoods have become dispiriting collections of burned-out buildings, eviscerated homes, and vacant lots. Although the drone of traffic on the nearby interstate and vacant lots is constant, there is an eerie remoteness to the pock-marked highways. The air is polluted, the sidewalks are filthy, the juvenile crime streets. The air is polluted, and the remaining industries are languishing. Grimy warehouses and aging loft factories are landscaped by weed-grown lots of adjoining half-used rail yards. Like an elderly couple no longer sure of their purpose in life after their children have moved away, these neighborhoods face an undirected future.⁷³

A particularly telling statistic is that, after Chicago, St. Louis is the nation's leading exporter of used bricks. Piled beside the railroad tracks that hug the Mississippi River, the great stacks of weathered bricks are destined to become parts of restoration projects in Atlanta or patios in

Houston. It is the supreme indignity. Having lost more than 300 factories in the 1970s to the Sunbelt, St. Louis itself is now being carted away.

The situation in the Mississippi River metropolis is more serious than that in most other cities, but the same broad patterns of downtown decline, inner-city deterioration, and exurban development so evident in St. Louis are actually typical of the large population centers of the United States. This same result might have been achieved in the absence of all federal intervention, but the simple fact is that the various government policies toward housing have had substantially the same result from Los Angeles to Boston. The poor in America have not shared in the postwar real-estate boom, in most of the major highway improvements, in property and income-tax write-offs, and in mortgage insurance programs. Public housing projects were intended to redress the imbalance. Unfortunately, as we shall see, it did not work out that way.

12

The Cost of Good Intentions: The Ghettoization of Public Housing in the United States

If a healthy race is to be reared, it can be reared only in healthy homes; if infant mortality is to be reduced and tuberculosis is to be stamped out, the first essential is the improvement of housing conditions: if drink and crime are to be successfully combated, decent sanitary houses must be provided. If "unrest" is to be converted into contentment, the provision of good houses may prove to be one of the most potent agents in that conversion.

—KING GEORGE V
April 11, 1919

The long-term, low-interest mortgage was not the only federal housing innovation of the New Deal. More controversial was the attempt to meet the need of the poor for adequate shelter. The result, if not the intent, of the public housing program of the United States was to segregate the races, to concentrate the disadvantaged in inner cities, and to reinforce the image of suburbia as a place of refuge for the problems of race, crime, and poverty. By every measure, the Housing Act of 1937 was an important stimulus to deconcentration.

Prior to the 1930s, housing reform in the United States meant the improvement of slum conditions through the establishment of minimum standards of ventilation, sanitation, and density. New York City's pioneering codes of 1867, 1879, and 1901, each of which established progressively higher legal requirements for dwelling units, were illustrative of this trend, as were the ideas of the nation's preeminent nineteenth-century-housing reformers, Lawrence Veiller and E. R. L. Gould, both of whom opposed housing subsidies and the actual public construction