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Housing in the Seventies

A Report of the National Housing Policy Review

U.S. Department of Housing
and Urban Development

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This report—*Housing in the Seventies*—is the product of the National Housing Policy Review, an intensive six-month effort begun in March 1973. The report was the basis for the housing policy recommendations included in President Nixon's message to the Congress of September 19, 1973.

The comprehensive 1973 review undertook to analyze and assess the Federal Government's role—past, present, and future—in meeting the Nation's housing needs. This report recounts the history of Federal involvement in housing; explains the programs that evolved; assesses the cost-effectiveness of those programs; describes the housing activities of State and local governments; and outlines patterns of housing production and finance and the structure and technology of the housing industry. A supplement containing some of the technical and background papers produced for the National Housing Policy Review also is being published.

This is the final version of *Housing in the Seventies*. An interim edition, in draft form, was published in October 1973 and given limited distribution.

A handwritten signature in black ink, reading "James T. Lynn". The signature is fluid and cursive, with a long horizontal stroke at the end.

James T. Lynn

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Introduction

Historical Perspective

From very modest beginnings barely 40 years ago, the influence of the Federal Government on the ways Americans build, finance, manage, and maintain their housing has grown dramatically. Today there is not a single significant aspect of the vast, diverse, and complex housing market that is not affected by governmental action in one form or another.

This phenomenon is particularly remarkable when one considers that for more than a century and a half—from agrarian times through the transition to an industrialized and increasingly urban society—the Federal Government had left the problem of housing up to the individual and the private market. This attitude changed in the mid-1930's, primarily as a result of the Great Depression. From that point on, hardly a year went by when Congress did not pass some new form of housing legislation.

In the 1930's, Congress made two fundamental policy decisions that remain basically intact to this day. The first was the complete restructuring of the private home financing system through the creation of the Federal Housing Administration (mortgage insurance); the Federal Home Loan Bank Board and Bank System (savings and loan industry); such institutions as the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation (insurance on deposits of commercial banks, mutual savings banks, and savings and loan associations); and, finally, the Federal National Mortgage Association (secondary mortgage market). Creation of these institutions—resulting in the acceptability of the long-term, low downpayment, fully amortizing mortgage and a system to provide a large flow of capital into the mortgage market—are probably the most significant achievements of

the Federal Government in the housing area.

The other fundamental policy decision in the same decade was the concept of Government-subsidized housing for low income families. Although the public housing program authorized in 1937 was intended primarily as a means of stimulating employment and clearing slums, it nonetheless marked the first time that Federal funds were used to finance new housing construction for the less fortunate.

In the years that followed, many Federal housing and housing-related programs were added to the statute books, spurred by the 1949 enactment of the national goal of "a decent home and suitable living environment for every American family." A number of mortgage insurance programs were added, conferring special benefits on such groups as veterans, farmers, the elderly, and those displaced by other Government programs. Those programs, in turn, were followed by new subsidized mortgage insurance and subsidized direct loan programs benefiting the elderly and the poor.

In 1968 Congress found "that the supply of the Nation's housing is not increasing rapidly enough to meet the national housing goal, established in the Housing Act of 1949, of the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family." To meet that goal, Congress established a production schedule "within the next decade of the construction or rehabilitation of 26 million housing units, 6 million of these for low and moderate income families," and enacted a further set of programs to assist in meeting the production schedule for low and moderate income families. These new programs conferred further special benefits—including deeper subsidy assistance for home ownership and rental housing—on residents of

rural areas and declining inner city neighborhoods, and on lower income families.

The Suspension and the Study

The Nation is now at midcourse in the decade-long schedule laid out in the Housing Act of 1968, so the time is appropriate to take stock of where we have come from and where we are going in meeting the Nation's housing needs.

For the years 1969 through 1972, the Federal Government committed subsidy support to provide housing assistance to an additional 1.6 million American families of low and moderate income. This represents more subsidized housing assistance than the total provided by the Federal Government during the entire 34-year history of our national housing program before this Administration. This Administration, in response to the 1968 legislation, also has underwritten high-risk mortgages on more than 150,000 units in inner city neighborhoods—a record achievement.

But these achievements have not been without their drawbacks. The subsidized housing programs enacted in 1968 have developed many basic inequities: Comparable subsidy benefits are not being provided for all those with comparable problems; many moderate income families do not; and millions of people with incomes only slightly above those of program beneficiaries live in units older and poorer than those subsidized with their tax dollars.

The programs have turned out to be very expensive: The estimated total cost over the next 40 years to the Federal Government, including taxes forgone, will be \$86 billion. At the same time, the programs are very wasteful. They too often cost the Federal Government more than action by the private sector would cost to produce the same services. Even those of

the income levels intended to be served place a smaller value on these programs than their cost to the Federal Government.

Indeed, the problems became so widespread and so troubling that early last year President Nixon instituted a reassessment of all Federal efforts in the housing field. At the same time, the President suspended the operation of the principal subsidized housing programs.

In his March 8, 1973, State of the Union Message on Community Development, President Nixon stated: "One of my highest domestic priorities this year will be the development of new policies that will provide aid to genuinely needy families and eliminate waste."

HUD Secretary James T. Lynn instituted the National Housing Policy Review, to be directed as a first priority by the Assistant Secretary for Policy Development and Research, ~~Michael H. Moskow~~, to review and evaluate existing housing programs, identify alternative approaches, and develop policy recommendations for the Nation's future housing policy. The study was designed to focus on the following: (1) The current roles of the Federal Government in housing and housing finance: Are they complementary or conflicting? What have been the effects of these roles? How efficiently have they been performed? (2) What should be the role of the Government in housing and housing finance? (3) What changes in policy and programs are necessary to achieve the appropriate role of the Government in housing and housing finance?

Every effort has been made to make the housing study as thorough and comprehensive as possible. The study has embraced the housing activities of the 11 Federal agencies that operate in this policy area, and the corresponding legislation drafted over the years by 12 congressional committees that write laws substantially affecting housing. The study has consid-

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ered the roles played in housing production and finance by the Federal Government, the regulatory agencies, and private institutions and organizations.

More than 100 analysts worked on the review. They were drawn from the Departments of Agriculture; Commerce; Health, Education, and Welfare; Housing and Urban Development; Labor; and Treasury; and from the Veterans Administration, the Federal Reserve Board, the Federal Home Loan Bank Board, and the Office of Economic Opportunity, as well as from the academic community. The Office of Management and Budget, the Council of Economic Advisers, and the Domestic Council also participated in the study. Emphasis was placed on the development of as much

original data as possible within the existing time constraints.

At the same time, efforts were made to work as closely as possible with Members of Congress who are knowledgeable in this field, and with the staff members of congressional committees. Similarly, extensive consultations were held with public and private interest groups that have contributed their expertise and energies to this difficult policy area over the past years.

In addition to publishing a request for views in the Federal Register, written requests for comments or assistance were directed to 125 organizations. More than 500 documents and letters were received, thoroughly analyzed, and incorporated into the review.