

THE COSTS OF REBUILDING AMERICAN CITIES  
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What is the American city of the future going to be like? It is going to be just what we make it. Never in history have we had a greater challenge and a greater opportunity to do a good job. Never have we been in more of a position to bungle it and do a bad job. America is the world's pioneer in peacetime urban renewal for two reasons: first, our cities have grown so fast and topsy-like that they need renewal on a larger scale than in any other country, and second, for probably the first time in history we have the financial and technical means to do the job -- if we want to do it.

We can be proud of the fact that we have achieved the highest standard of living the world has ever known and even have it within our grasp to almost completely eliminate poverty within the next generation. Eight years of living, working, and traveling abroad in modern and ancient countries, in democracies, and in dictatorships, in mystic and feudalistic countries, has impressed me with the fact that, by and large, we also have a greater sense of social responsibility and respect for the dignity of the individual and equality of opportunity than any other country in the world.

Having said the positive about our country, I want to look at some of the negative. The "ugly American" doesn't just refer to persons. It refers to our cities. As far as our cities are concerned, we are, esthetically speaking, a pretty insensitive fatalistic herd of sheep, who are ready to accept litterbugged highways, rusty old auto junk yards, unsightly and unnecessary utility wires and poles in front of our most beautiful homes, screaming billboards and gaudy neon signs, dilapidated and deteriorating residential and commercial slums, maddening noises and bumper-to-bumper traffic congestion, polluted air that isn't fit to breath for man nor beast -- all without seriously challenging the fact that it doesn't have to be so. If we don't do something about it, our city of the future will be even less fit to live in. We can run away from our ugly cities to the suburbs, but we can't run away from the problems of our cities.

Too many of us are either callous and indifferent to these problems, or are profiting too much by their continuation, or simply feel that the solutions are too expensive and complicated to be tackled. As a student of comparative economic systems, including the Soviet economy, for a number of years -- incidentally a trip last year to the Soviet Union convinced me that they are the world's most colossal bluffers and we on the other hand don't know our own strength and are the most easily bluffed -- I feel that if our own economic and social system ever fails, it will be because of the indifference and selfishness of our people and our interest groups who refuse to compromise whether they be laborers, farmers, veterans, old age groups, minorities, government officials, or businessmen, including savings and loan people. Having insulted and annoyed you, I would like respectfully to discuss some areas where this industry, of which I am proud to be a member, can be of great usefulness if we are to reverse these trends and halt the decay of American cities before we end up with such a mess that there will be no solution short of destroying them and starting all over again or of abandoning them like the old ghost mining towns of the west and moving on to new locations.

#### CHANGING CITY WALLS

Essentially the city, as we now know it, is over 5,000 years old. Until recently, however, with few exceptions, there was a limit to the size and functions of the city. The medieval walled city was a complete, compact unit. It served a useful protective function for its citizens, and it could be strategically located and remain useful as long as it did not grow too fast or was not destroyed by war or fire. Buildings were built to last, and a sort of natural urban renewal, a process of replacement and repairs, kept the city from getting too run down.

The industrial revolution changed all this. The world's population has trebled in the last century and will probably do so again in the century ahead. Technological advances no longer make it necessary to keep the majority of our population on the land raising food and fiber. Automobiles make it possible to live and work at far distant points and live in metropolitan cities or their suburbs. In

our own lifetime America has changed from a rural to an urban economy where 70 per cent of our people now live in cities. Unfortunately, our political organizational units of local, state, and federal government have not yet adjusted to this fact, and rurally-oriented state and federal legislatures and provincially-minded local governments have not faced up to the realities of what needs to be done if life in our cities is to be natural, or normal. The Kansas wheat farmer is infinitely better represented politically than his more numerous middle income city cousin. In fact, I never cease to be amazed that the federal government has paid out more subsidy for a single crop, potatoes, than it has for all its urban renewal and housing programs put together.

It would be a mistake to assume that governments -- federal, state, or local -- could solve all urban problems, even if there were some assurance they had the right answers, which I'm afraid they don't. In a democracy, it is the responsibility of all the citizens -- not just their elected or appointed officials -- to help in the solution of our problems -- in this case, those of the city. This is where I think the savings and loan industry has a duty as well as an opportunity.

As a responsible segment of the business community we owe it to the nation as well as to ourselves to participate as individuals and as businessmen in trying to help provide solutions to the growing problems of urbanism. We have made great progress in housing in this country and can be proud of our industry's role in helping 60 per cent of our families to acquire their own homes. This tends to assure a stable society, political moderation, and a respect for individual dignity and opportunity.

#### CENSUS REVEALS BLIGHT

We cannot be as proud, though, of the fact that with all our progress the 1960 census reveals that one-fifth of our housing is in a dilapidated or deteriorating condition.

In the savings and loan industry we are probably more aware than in other trade associations or interested groups of the complexity of the problem of separating sociological need for housing from the private effective economic market demand. Stated another way, we know only too well that some people just can't afford better

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housing at today's prices. For this segment of the population, and it is rather considerable and includes many elderly persons, members of minorities, broken families, and others unable as well as those unwilling to work -- not all of them "relief chiselers" by any means -- some form of public subsidy may be unavoidable. I think most reasonable people agree on the necessity for some form of subsidy for the lowest income groups. They just don't agree on what form it should take and who should get it -- the tenant, the owner, the developer, the builder, or the financing institution.

I see nothing incompatible in being at the same time in the savings and loan business, chairman of a city housing authority, and past president of the National Association of Housing and Redevelopment Officials which is the professional organization, trying to raise the sights and broaden the horizon of staff people and non-paid citizen commissioners of a thousand American communities that have housing authorities and five hundred that have urban renewal agencies. When we in private industry can provide decent, safe, and sanitary housing for families with incomes under \$3,000 a year -- which is roughly what is eligible for public housing in my community -- then the need for subsidy will have disappeared and our public housing should be sold and the authorities liquidated. Meanwhile, they have a useful, though unpopular and unglamorous function to perform, and nothing is gained by berating them and pointing out their shortcomings which are equally obvious to those of us who have seen both sides of the picture.

But not all our slums are in housing. American cities have all too many deteriorating commercial and industrial properties and parcels of improperly used land. Nor are slums just confined to the big cities. Often those in smaller urban communities are just as bad or worse. 63 per cent of the cities and 44 per cent of the urban renewal projects in the United States today are in cities that have populations of less than 50,000.

Haphazard strip zoning, fringe area shacks housing minorities and farm laborers in communities like my own, and the absence of or lack of enforcement of proper building and housing codes have resulted in serious problems. Rapid unplanned

growth in our American cities and land speculation have contributed heavily to developing slums by causing artificial increases in land values. High land prices, and not just high costs of financing, building, or restrictive labor practises, are, in my opinion probably the number one handicap to building in the United States today.

### PROPERTY TAX IS STUPID

Our unfair and stupid tax policies have aided and abetted land speculation as well as the growth of slums. We all know there is an unfair division of the tax dollar between the levels of federal, state, and local government. But what is even more unfair and unwise, in my opinion, is our tax policies in relation to land and improvements. Cities subsidize slums by undertaxation and penalize improvements by overtaxation. Local governments subsidize land speculation by underassessing and undertaxing underused land while the federal government benefits speculators and slum landlords by giving them income tax breaks. Ownership of slum real estate is one of the most lucrative investments in the United States today -- if your conscience doesn't bother you and if you don't mind letting your fellow taxpayers pick up the tab for the problems you help to create.

In my own state of California there is under interim study a proposed Constitutional Amendment (ACA43) which, if passed by referendum, would allow local option on differential taxing of land and improvements. This would be one way of penalizing slum ownership and rewarding home improvement without the use of extensive federal government subsidies and programs which are still only a drop in the bucket in meeting problems of slum clearance and urban renewal. Estimates of the cost of doing the job by subsidy alone -- in Chicago it is taking almost \$100 million to clear one square mile -- are so astronomically high as to be impossible. (Incidentally, one of the most famous urban renewal project of all time was in Chicago -- the great Chicago fire.) Someone said our trouble now is that we don't give the fires half a chance. Code enforcement is another step but will never be effective until the profit is taken out of slums by taxation. Fairer, and just more consistently applied local

tax policies, still yielding the same total revenues, would be at least one reasonable tool. In short, high land costs, which are the big bottleneck to building low and middle income housing, could be brought down, and a considerable part, if not all, of the slums could be eliminated by more courageous use of tax policy at the local level without the need for federal subsidy.

In testifying before both the Senate and House Currency and Banking Committees this past session of Congress I also supported the idea that people making home improvements be allowed a reasonable deduction, like a business, from their income tax for such improvements. I know these and other suggestions sound like crackpot reformism to those content with the status quo or who might feel their own ox is being gored, but I still think they are worth looking into. In fact, as an economist, I think our economy is seriously handicapped by the fact that our jerry-built tax system, not just in relation to property taxes, is so stupid that business decisions are being made right and left, not on the basis of whether they are good for the business or for the best interests of the economy as a whole, but on the basis of tax considerations alone. That is really the "tail wagging the dog" in my book.

#### MAGNITUDE OF THE JOB

To come back to the central problems: how to improve our housing and our cities. "Natural" renewal of old houses and buildings is no longer fast enough unless you completely accept the "trickle down" theory that sub-standard housing is good enough for a large segment of our population.

To keep the estimates from going off into the stratosphere -- any honest economist hates nothing worse than to be asked to make a prediction for the future; he can't even figure out what happened in the past -- I would like to suggest conservative requirements for the next decade if our housing and cities are to be properly built and rebuilt.

The census estimated  $11\frac{1}{2}$  to  $16\frac{1}{2}$  million dilapidated or deteriorating housing units. What it would take to rehabilitate or tear them down is anybody's guess. Figuring \$3000 per house for rehabilitation or \$9000 to build a minimum new urban

house excluding land costs, we are talking about theoretical but improbable expenditures of well over \$100 billion. ACTION's estimate is also that it would cost about \$100 billion spread over a ten-year period to wipe out slums. Currently remodeling is estimated at \$6 billion a year. Actually "total" rehabilitation would require probably double that rate. We have been spending around \$20 billion a year for private residential construction, but most of that, as you know, is for new housing. 98 per cent of our inventory is old housing, and much of the standard housing could stand modernization and improvement.

New housing for the next ten years, due to new family formation, upgrading, replacing demolitions from urban renewal, slum clearance, highway construction, code enforcement, fire and disaster and the like, should be in a magnitude of 17 to 20 million housing units. That should mean a potential \$275 billion worth of housing that should be built and financed in the next ten years.

Community facilities -- sewer, water, hospitals, libraries, and the like that need to be built and rebuilt will cost anywhere from \$200 billion to \$300 billion in the next ten years. Add the cost of roads, -- estimated at \$100 billion for the next decade -- schools, \$70 billion, and other public buildings, and you have brought the total probable construction -- about two-fifths of which should be residential -- to around \$500 billion for the next ten years -- equal to about the Gross National Product for 1960. Some estimates run to double this amount for total renewal, but when we consider that the present rate of spending for all construction is only in the magnitude of \$50 billion a year, the \$100 billion a year goal may be high.

How is this all going to be financed? Leaving out the school and road and highway programs, and concentrating on urban renewal, it is estimated the federal government will put about \$6 billion into the program, and the local governments will invest \$2 billion. Private enterprise and the raw land will probably require another \$8 billion investment in the Title I, the Urban Renewal, or slum clearance program. Estimates vary that for every dollar the federal government invests, ultimately it generates from 6 to 15 times that investment privately. Taking the higher figure,

in this case, the \$6 billion I just mentioned should result in about \$90 billion of capital investment in urban renewal. This will have to come primarily from insurance companies, banks, and savings and loan associations. As I said before, the federal expenditure isn't a drop in the bucket and doesn't mean a thing unless it acts as a catalyst to the private investment that still has to do the bulk of the job. The argument isn't whether public or private expenditures are to be made. We need both. The success of the program of rebuilding our cities will depend on both the magnitude of incentives offered to private enterprise on investments as well as of public subsidies. It's time we grew up and quit name calling and criticizing on both sides of the public and private enterprise argument. The job to be done is too great and too urgent.

I'm not suggesting unwise or marginal investments. In the savings and loan industry our first duty has to be always to protect our depositors' savings, and it would indeed be a sad day if we ever forgot that -- but some means will have to be devised, and some have already been devised, to guarantee or underwrite by governmental action that part of the investment that is unsafe or unprofitable compared with alternative private investments. Nor can interest rates be manipulated by simply wishing for them to go down. The money market is much too complex for that in a predominantly free enterprise system.

There is still plenty of room for safe, and profitable investment, in the future American city and the task is within the realm of economic feasibility. But can we afford the cost of rehabilitating our American cities? I think the answer is "yes" -- provided we want to. At present, it could come only by cutting down somewhere else. According to Dyckman and Isaacs in their study "Capital Requirements for Urban Development and Urban Renewal" for the ACTION organization, our expanding economy could afford it. They estimate that increasing our investment rate in urban renewal by 2 per cent, from 10 to 12 per cent of the Gross National Product, with a normal rate of growth in GNP the job could be done within a generation without cutting into other fields of expenditure. As an economist I am satisfied that the economic capacity is there.



The savings and loan industry has financed 40 per cent of the mortgages of the country in the recent past. If the demand for mortgage credit for the 17 to 20 million houses for the next ten years is estimated at \$175 to \$200 billion, 40 per cent, or \$80 billion, would have to be supplied by the savings and loan industry, as against \$45 billion actually supplied the last ten years. This means we would have to be able to supply about double the financing we have in the past decade.

### CIVIC, NOT JUST FINANCIAL INTEREST

But I think our interest in housing and cities has to go far beyond a financial interest. We could well take a broader look at what needs to be done. We need to support the home building industry and architects in their efforts to build a cheaper yet more imaginative house. The basic house of today is no different than it was 50 years ago. Our automobiles certainly aren't the same as they were 50 years ago. If only a part of the 70 per cent of the people who could afford better housing than they are now living in went out and upgraded their houses, or acquired even a second house in a vacation area like they buy a second car, the enlarged market possibilities for all concerned would be enormous. We should encourage responsible and competent builders to pay more attention to building middle income housing in the cities, not just in the suburbs.

We should encourage city officials in their efforts to renew the central core of our cities. A tree with an unhealthy trunk is dying. Maybe we should encourage the planners to reconsider the whole problem of what kind of a city we need in the future. Maybe it will have to have a series of cores or strip or satellite cities because people aren't about to walk, and it's getting impossible to drive and park downtown in most of our big cities. (The Europeans criticize us saying that we'd take the car even to go to the bathroom if we could get it through the door.) Our traffic and mass transit problems and air pollution problems are crying out for solutions. We can't just sit there and expect "George to do it." Too often we elect or appoint city officials and then expect them to do it all, feeling as if with our taxes we've bought a 50-yard line ticket to the football game and now enjoy the right --

without any responsibility -- to just sit there and criticize the quarterback for every mistake that occurs whether it's his fault or not. I feel somewhat strongly about this as a non-paid citizen commissioner who has taken a beating from both sides.

It is estimated that maybe two-fifths of our local expenditures have to be for "unproductive" purposes, that is, not directly paying out capital investments like streets, public buildings and the like. We have to become interested in how these expenditures are made, what impact they will have on the future "productive" side, and what they will do to shape our future life in the city. We also have to remember that if the aim of the economy and of government activity isn't to promote the welfare and well-being of the individual, we are just wasting our time. Actually, we are making remarkable progress in urban renewal in many of our American cities, both large and small. The best programs are invariably in cities where everybody, including savings and loan people, is taking an active interest and pride in them.

This past year as president of the National Association of Housing and Redevelopment Officials I have tried to encourage the members of that association to take a broader look beyond their day to day problems. I have tried to tell them something about our own problems in the private home financing industry and of the need for inter-association cooperation. I have tried to encourage them in further education and professionalized training of their members, in the need for more research to deal more intelligently with the problems we face at the federal, state and local levels in exercising the catalytic role in the governmental housing program, which will be 25 years old next year and in the urban renewal program which is a mere infant, though lusty -- being only 10 years old.

To you, as colleagues in the savings and loan industry, I would respectfully suggest that a broader look would also be in order. I appreciate the opportunity of being allowed to present this message as one who has worked on both sides of the fence. We can't just stand on the side lines and criticize those who are trying to get things done. The problems are urgent. Things could get worse before they get

better. As potential commissioner members of urban renewal agencies and housing authorities, we have a great deal of practical experience and know-how to contribute. I would encourage you to such active participation and leadership in civic affairs. Even if you do not, as just plain citizens, with a sense of social responsibility have good reason to be interested in helping to shape the housing and the city our children will live in when the year 2,000 rolls around.

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Lived, worked, and traveled abroad eight years. Written numerous articles on  
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Past year testified in Washington before Senate and House Currency and  
Banking Committees on Housing Act of 1961. Also Sacramento State  
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