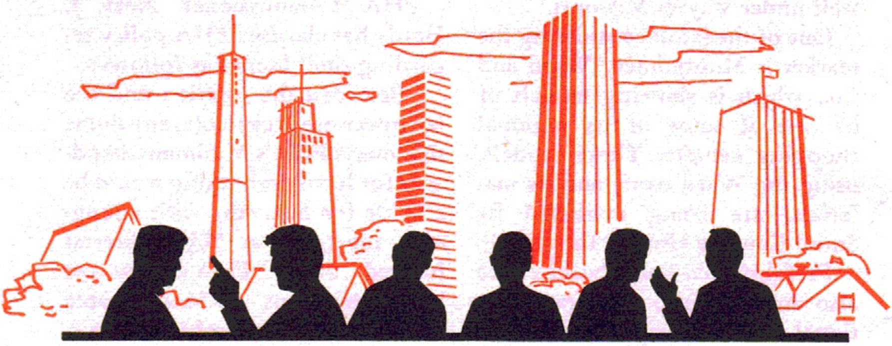
A frank appraisal of the problems of and our business' role in . . .



REBUILDING OUR CITIES

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WHAT WILL the American city of the future be like?

It is going to be just what we make it. 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 those in any other country; second, for the first time in history we have the financial and technical means to do the job—if we want to do it.

The "ugly American" doesn't just refer to persons; it refers to our cities as well. If we don't do something about them, our cities of the future will be even less fit places in which to live than those of today.

In our lifetime America has changed from a rural to an urban economy; 70% of our people now live in cities. Unfortunately, our local, state and federal governments 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 must be done if life in our cities is to be natural and normal.

However, it would be a mistake to assume that governments—fed-

Condensed from an address before the 1961 convention of the United States Savings and Loan League, in Chicago.

eral, state or local—could solve all urban problems, even if they had the right answers. All citizens have a responsibility to help solve these problems. And the savings association business has a duty as well as an opportunity to help reverse the present trend and halt the decay of American cities.

We have made great progress in housing in this country and can be proud of our business' role in helping 60% of our families to acquire their own homes.

We cannot be as proud, though, of the fact that despite all our progress the 1960 census revealed that one-fifth of America's housing was in a dilapidated or deteriorating condition. And some people just can't afford better housing at today's prices; these people, I believe, will require public help in some form.

We should be aware that slums are not confined to the big cities; often those in smaller urban communities are just as bad or worse. In fact, 44% of the urban renewal projects in the United States are in communities with populations of less than 50,000.

Haphazard strip zoning, fringe area shacks housing minorities and farm laborers, and absent or poorly enforced building and housing codes have resulted in serious problems. Land speculation and rapid, unplanned growth in our American cities have contributed heavily to the development of slums by causing artificial increases in land values. High land prices—not just high costs of financing or building, or restrictive labor practices—are probably the number one handicap to building in the United States today.

Our unfair and unwise tax policies have aided land speculation as well as the growth of slums. The tax dollar is unfairly divided among federal, state and local government levels; but even more unfair and unwise are 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.

What shall we do to improve our housing and our cities? Here are a few immediately available tools with which to work:

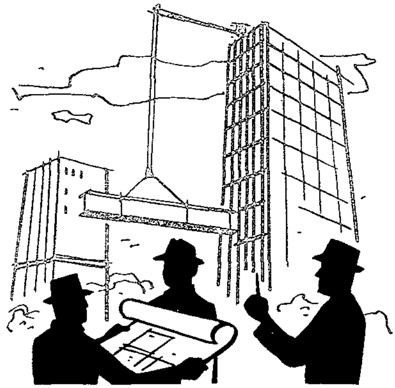
In my own state of California there is under study a proposed constitutional amendment which would allow local option on differential taxing of land and improvements. This would be one way of penalizing slum ownership and rewarding home improvement without the use of extensive federal government subsidies and other programs. Estimates of the cost of doing the job by subsidy alone are so astronomically high as to be impossible.

Code enforcement is another important tool, but it never will be effective until the profit is taken out of slums by taxation. 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.

Looking at the broad picture, I would like to suggest these requirements for the next decade if our housing and cities are to be built and rebuilt properly.

The 1960 census estimated there were 11.5 to 16.5 million dilapidated or deteriorating housing units. Figuring $3,000 per house for rehabilitation, or $9,000 to build a minimum new urban house excluding land costs, we are talking about expenditures of well over $100 billion. ACTION (American Council To Improve Our Neighborhoods) also estimates that it would cost about $100 billion, spread over a 10-year period, to wipe out slums.

Currently, remodeling is estimated at $6 billion a year. Actual



"total" rehabilitation probably would require double that rate.

Concentrating on urban renewal, it is estimated that in the next decade the federal government will put about $6 billion into the renewal program and local governments will invest $2 billion. Every dollar the federal government invests ultimately generates an estimated $6 to $15 of private investment. Taking the higher figure, 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 associations. Federal expenditures must act as a catalyst to the private investment which still must do the bulk of the job.

The success of the program of rebuilding our cities will depend on the incentives offered to private enterprise on investments as well as on public subsidies. I'm not suggesting unwise or marginal investments; there is plenty of room for safe and profitable investment in the future American city, and the task is within the realm of economic feasibility.

Can we afford the cost of rehabilitating our American cities? I think the answer is "yes"—provided we want to. An ACTION study estimates that by increasing our investment rate in urban renewal by 2%, from 10% to 12% of the gross national product, with a normal rate of growth in GNP the job could be done in a generation without cutting into other fields of expenditure. As an economist I am satisfied that the economic capacity is there.

New housing for the next 10 years, due to new family formation, upgrading, slum clearance, code enforcement and the like, should be in the neighborhood of 17 to 20 million housing units—a potential $275 billion worth of housing.

The savings association business has financed 40% of the mortgages of the country in the recent past. If the demand for mortgage credit for the 17 to 20 million houses in the next 10 years is estimated at $175 to $200 billion, 40%, or $80 billion, would have to be supplied by the savings and loan business—almost double the $45 billion supplied in the past 10 years.

But we must have more than a financial interest in housing and cities. We need to support the home building industry and architects in their efforts to build a less expensive yet more imaginative house. 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. We should consider local governmental expenditures and their role in shaping our future life in the city.

The problems are urgent, and as potential commission members on urban renewal agencies and housing authorities you have a great deal of practical experience and know-how to contribute. I would encourage active participation and leadership in such civic affairs. We all have good reason to be interested in helping to shape the housing and the cities in which our children and grandchildren will live when the year 2000 rolls around.

The dictionary is the only place where success comes before work.

—Elmer G. Leterman

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promises changes on the mortgage front as well. Commercial banks say they intend to enter the home mortgage markets to put their savings funds to work. The question to be asked is: "Are the savings associations going to let the bankers into the market?"

Savings associations have increased their share of home mortgage lending nationally from 31% in 1950 to 44% in 1961. We should be very jealous of this market position and should be as competitive as necessary to keep the commercial banks from moving into our market and taking away any of these hard-earned gains. Bankers should not be led to believe that they can walk into local markets and pick off the best loans simply by asking for them. They should understand that keen competition awaits their efforts.

Since mortgage markets are not expected to be expanding rapidly over the next few years, any major gains will have to come from declines in someone else's market share. One way to achieve above-average success in such markets is to seek out those pockets of demand where loans can be made with some degree of success and insulation from the more severe forces of competition. Moving early with favorable market trends demands superior knowledge of the market, geographically, by product class and every other way.

The new and intensely competitive markets of the middle 1960s call for what amounts to a revolution within the savings association business. A new model economy demands modern-minded leadership. Savings association leaders must tie their decisions to market facts more closely on both the savings and lending sides of the business. As our business in community after community attracts more than half of the over-the-counter savings dollars and lends more than half of the home mortgage funds, we are coming to realize that we have crossed a very significant bridge in our markets and community responsibilities. The simple expedient of opening one's door for business will no longer guarantee success. Intensive cultivation of today's market in all its aspects will be demanded. The best techniques of scientific operation and organization are no longer luxuries for aggressive associations in our competitive markets.

Directors interested in the long-run progress of their institution in their community should encourage rather than deter forward thinking. If in 1970 we are to house adequately and at minimum cost today's youngsters, then the groundwork, in terms of efficient and effective institutions, should begin now. ■