New Deal Housing Too Costly for the Poor

It Knifes Private Industry While Missing Own Goal

By LAURENCE BURD

"I SEE A THIRD of the nation ill housed."

The President made this statement in his second inaugural address on Jan. 20, 1937.

A few months later the administration had plunged head first into the housing business. Supposedly the government intended to build houses to house some of the ill housed third. Supposedly it would give a decent shelter to those whose incomes prevented them from paying more than slum rent rates.

Hence the United States Housing authority set up by the housing act of 1937 had two chief purposes:

First, to clear away slums, and,

Second, to build "decent, safe, and sanitary dwellings for families of low income."

These things were to be done largely with federal funds.

Slum clearance and low-cost housing were thus the apparent objectives; cleanliness and health instead of filth and disease for millions of present slum dwellers. Rents low enough so that those who had not known bathrooms or even inside toilets or central heating or refrigeration or green grass could have these facilities.

Few have disputed that these are admirable aims. But many are raising the question of whether the aims are being carried out. The government has already spent or contracted to spend nearly a billion dollars on housing for initial buidling costs alone. The Public Works administration spent 134 million, and the United States Housing authority has already arranged to spend 800 million dollars more.

Will this billion dollars help the slum dwellers? Will it help the "stimulation of business activity," a third stated objective of the housing act? Is government housing doing the job that it was intended to do?

Many real estate men, congressmen, taxpayers, and slum dwellers themselves say that the answer is "No."

They say that the federal housing program is neither slum clearance nor low-cost housing. They say that government building, with its billion-dollar subsidy, is knifing private residential construction in the back.

They argue that the billion-dollar cost is only the first installment of a program for the squandering of taxpayers' money. If the program continues at its present pace billions more will be taken from taxpayers' pockets to subsidize housing.

They say that the American people are not getting their money's worth—that they are paying a billion dollars for one thing and getting something else.

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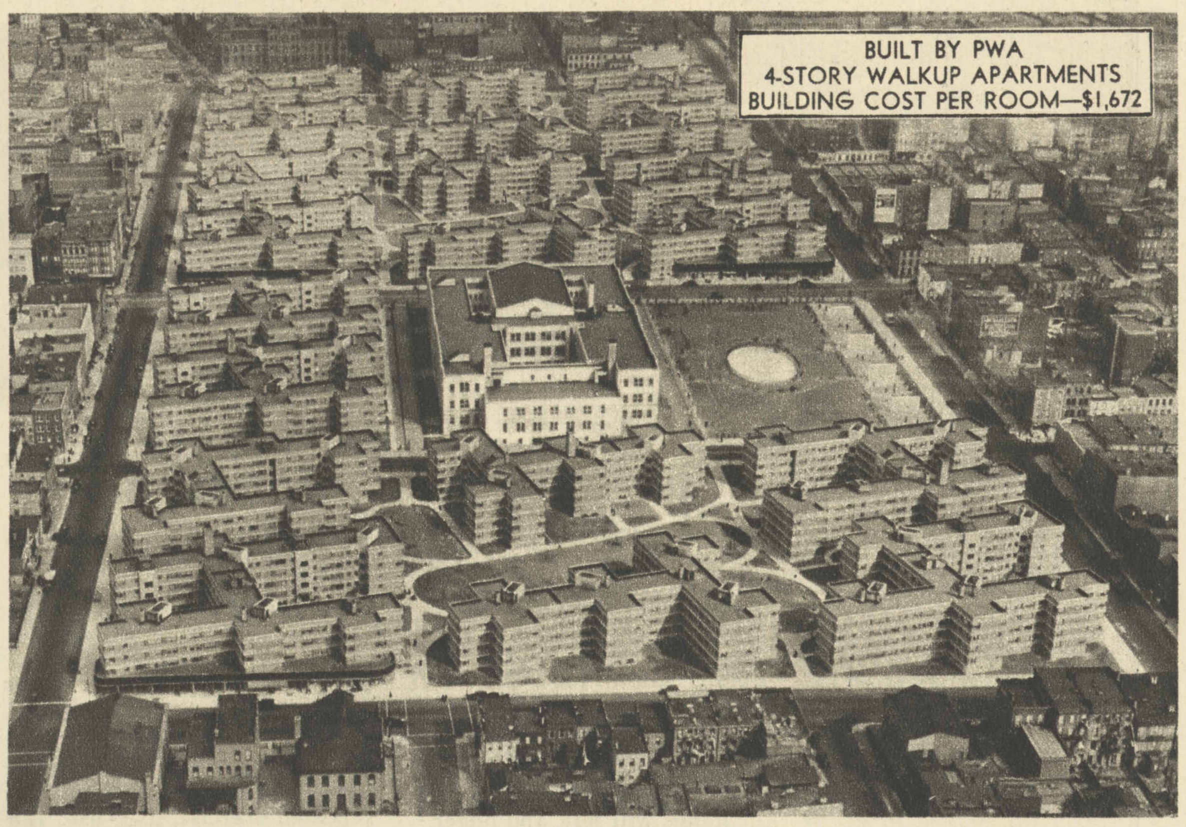
Just why is the government's housing program under such a barrage of hostile cross-firing? Here are some of the things that the critics have found:

1. Rents on federal housing projects are so high that only the so-called middle income groups can afford to pay them. This leaves the truly "ill housed" families just as ill housed as they ever were.

2. The cost of federally built dwellings is extravagantly high for a project that is supposed to be "low-cost" housing. Architects hired by the government have been more interested in high fees than in low-cost houses. They receive more if the houses are more elaborate, and so are interested in making them fancy. Contractors, too, are interested in building high-priced dwellings to increase their incomes, and it is difficult for the involved government administrative machinery to curb this tendency. Many modern conveniences and frills, including electric refrigeration, electric stoves, and recreation rooms, are provided. The middle income families that move in have facilities far better than those of the less lucky middle income families that are not admitted but whose taxes help to pay for the projects.

The average estimated cost for each family unit now under construction by the USHA is $5,520. A study by another government agency, the Federal Housing administration, shows that the average cost of privately built homes insured by the FHA is only $5,384.

3. The high costs of federal housing are paid for out of taxpayers' pockets. Although the actual financing takes the form of a loan by the USHA to the local housing authority, the government immediately turns around and pays subsidies to the local authority. These subsidies, which run for sixty years, are large enough to enable the local



Williamsburg housing project in New York, land for which was bought at $4.30 a square foot. (Tribune photo.)

Knickerbocker Village, a privately financed New York project, built at 23 per cent lower cost per room than federal project.

housing authority to repay its debt with interest. In sixty years the subsidies will total two and one-half times the original cost of the projects.

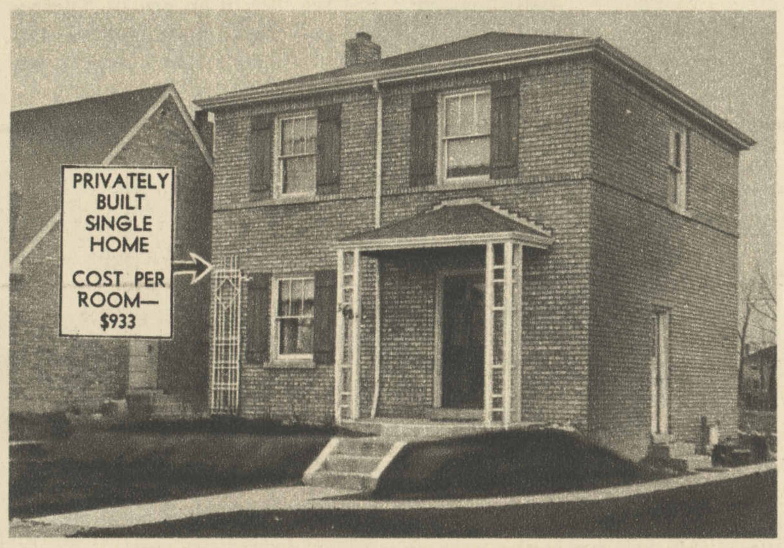
4. At the present rate of building costs and subsidies the USHA cannot begin to make any real dent in either slum clearance or rehousing without saddling a crushing tax load on the people. The initial cost of housing for 150,000 families is estimated at $888,000,000. If 5,000,000 families were rehoused by the USHA—and this number is little more than half the families with incomes in the lower third—it would cost the federal government more than sixty billion dollars in subsidies. This is one and a half times our present national debt.

5. Federal housing projects are boosting local as well as federal taxes. In cities where the USHA builds the projects are tax exempt, and the cities receive only a small service charge instead of taxes. This charge runs less than one-sixth the tax rate actually paid by property owners on comparable private properties. Cities must make up the tax loss from their taxpayers' pockets—from private tenants and landlords and home owners.

6. Private builders, who in competition only with each other would find it profitable to build new dwellings, have been stopped short by government competition. They cannot profitably meet the scale of rentals that the government charges the middle income groups, because the federal projects are subsidized. Private builders must get back in rent their cost of construction. They must also get enough to pay local taxes. In government building the cost is charged up to today's taxpayers or to the deficit—that is, tomorrow's taxpayers. The local taxes are charged to other local taxpayers.

7. With all its ballyhoo, the USHA is actually not clearing the slums on many projects. It has found from the experience of the PWA's $134,000,000 housing experiment, which preceded the USHA, that it is cheaper to build on vacant land. The PWA also found that single projects in the midst of slum areas proved undesirable locations for those who were supposed to be cut loose from the slum atmosphere by government housing.

The housing act of 1937 calls for "equivalent elimination" of slum dwellings when government projects are built on vacant land, but this elimination may be delayed indefinitly where a scarcity of low-cost housing is shown.



(Photo courtesy the builder, Harry M. Quinn, Chicago.)

Privately financed six-room brick and steel home built in Chicago for $5,600, including 33x125-foot lot.

The critics contend that if slum clearance by the government requires the high costs, the tax exemptions, and subsidies running into billions of taxpayers' money, then slum clearance is not a job for the government. Slum clearance and low-cost housing are two different propositions, but the government has tried to scramble them both in one skillet, real estate men say.

Most slum areas in cities such as Chicago are regions which from the viewpont of location are intrinsically valuable and are worth rehabilitation. Business men know this, and that is why many of them favor reconstruction of these areas with private capital on some such plan as the "public service building corporations" being proposed by the Chicago Building congress. Because of their high intrinsic values, slum properties are too expensive to be suitable for government "low-cost" housing projects. Truly low-cost housing can be built more economically where land is cheaper.

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Paul D. Angell, secretary of the Chicago Building congress and member of the housing and blighted areas committee of the National Association of Real Estate Boards, is one of the many real estate leaders who propose that the government abandon its present scrambled policy and go in for low-cost housing that will actually reach down to the families whose incomes are so low that they cannot pay private landlords for a decent place to live.

"The objects of government charity under the prevailing system of public housing," Angell says "are those who earn on an average between $100 and $150 a month and receive housing accommodations superior to those who earn twice as much or more, while those who really deserve charity and public aid are left to their fate.

"Might it not be more reasonable to suppose that the province of government aid in housing should be confined to meet the needs of the poor, the unfortunate, and the unemployable members of our population? To provide them with sanitary living quarters at the expense of the government, either through direct subsidies as rent contributions or indirect subsidies by way of tax exemption, is clearly justified. But the government is missing these people entirely. Its 'low-cost' housing has become high-rent housing compared with the means of the ones who need it most."

What are the actual costs and actual rent charges on housing projects administered under federal government supervision?

All federal housing is now handled by the USHA, but the only ones yet completed were built originally by the PWA. Constructed as so-called self-liquidating projects, they have turned out to be 100 per cent nonliquidating, for the entire cost of $134,000,000 was written off by the government as a loss.

The average over-all cost for the PWA's 21,656 dwelling units, which averaged 3.5 rooms each, was $6,189 a unit. Contrast this with the four private housing projects which were built about the same time in Washington, D. C., and insured by the Federal Housing administration. The latter had an average cost of $4,690 a dwelling unit. *The per room cost was 30 per cent lower than on PWA.*

Although PWA costs were written off the books, rents being charged by the USHA to cover operating expenses alone on these projects are too high to reach the needy among the lowest income groups. This is obvious from a comparison of the incomes of those now living in the projects with the incomes of the lower third of the population. It is also apparent from a study of rent schedules that most slum dwellers could not afford to pay what the government charges.

One-third of the families in this country have incomes of less than $780 a year, or $65 a month, according to a study for 1935-'36 by the national resources committee. Of course, not all of the lowest one-third are in the city slums, but the committee found that this group with incomes under $780 included all classes of families living in all kinds of communities—factory wage earners and farmers alike.

Case studies of federal housing units show that these low income families cannot pay the rents charged. For example, government operation of the Logan Fontenelle Homes in Omaha, Neb., was studied by the Building Owners and Managers' association of Omaha. The association found that:

Rent schedules were $24 a month for three-room apartments, $28 for four rooms, and $31.70 for five rooms. Under the USHA maximum limitations families with incomes as high as $96 a month could be admitted to three-room units in the Omaha project, and families with incomes up to $158 were eligible for five rooms. Incomes of $65 to $121 monthly fall in the nation's middle third income group, and those of $121 and higher in the upper third.

A large number of tenants in the Omaha units had incomes of between $100 and $150 a month—in the middle and upper income thirds instead of the lower third.

The project paid to the city of Omaha, instead of local taxes, a fee of $2,500 for 1938. Local assessors and appraisers estimated that the property in private hands would have been taxed $45,000.

Families moving into the new apartments had 125 children altogether, and the sudden increase in attendance at the neighborhood school so overcrowded school facilities that the board of education advised that a new school must be built at Omaha citizens' expense.

Another example is found in Chicago, where PWA money was used to build three projects—the Jane Addams houses, the Julia C. Lathrop homes, and the Trumbull Park homes. These are now administered by the Chicago Housing authority under an agreement with the USHA.

Under the CHA rules for admission the legal limits on eligible families range from those with incomes of $765 a year to those with $2,332. The median income per family is actually $1,275, based on figures at time of admittance. Practically all of the 2,414 families were admitted in 1938. The median figure means that half the families get more and half the families get less than $1,275 a year.

According to the bureau of labor statistics, 32 per cent, or nearly one-third, of the families in Chicago have incomes under $1,250, and 16.2 per cent, or about one-sixth, receive less than $750.

Thus the one-sixth of Chicago families who are apparently most in need of low-rent housing are ineligible for admittance to the government's "low-cost" projects. And nearly one-half the families admitted by the CHA have incomes that place them above the lowest one-third group.

The rents in effect for the Chicago projects make them out of sight for the most ill housed families. A three-room unit costs $23.70 a month, including utilities and janitor service; four rooms rent for $27.50, and five rooms for $31.50. The per room rental is from $7.90 to $6.30.

Real estate men point out that the authority is now forced to charge these high rents because the government built elaborate projects that are expensive to operate.

—WHAT THEY ARE—

PWA The Public Works administration, a federal agency, spent $134,000,000 from 1933 to 1937 on "low-cost" housing projects. Federal housing projects are now financed by the USHA.

USHA The United States Housing authority, established in 1937. It lends to local housing authorities up to 90 per cent of a proposed housing project and makes further annual contributions.

CHA The Chicago Housing authority, a local authority, with officials appointed by the mayor. It has leased from the PWA and now operates in Chicago three housing projects built by PWA.

FHA The Federal Housing administration, a government agency authorized to insure up to 3 billion dollars of private home mortgages to protect the lender. It does not lend money.

In comparing private rents with rents on the government projects in Chicago, Newton C. Farr, vice president of the National Association of Real Estate Boards, said recently:

"I have checked a group of nine buildings for the management of which I am responsible. These buildings provide living accommodations for the same type of people that it was proposed to accommodate in the federal projects. The buildings are old, but they are clean and sanitary. They are not in slum areas. In these nine buildings there are 909 rooms, which are rented at an average rental of $6.90 a room. These buildings are all subject to real estate taxes."

(Paul Stone photo.)

Miss Elizabeth Wood, executive secretary, CHA.

Angell estimates that rentals on government housing projects would have to be 100 per cent higher than the present rate if the projects were not subsidized by the federal government and exempted from taxes by local bodies. Private landlords are thus trying to buck a 100 per cent subsidy.

In buying slum properties for clearance and rebuilding under PWA projects the federal government was often a lavish spender. The price of slum land bought for the Williamsburg houses in Brooklyn amounted to $187,000 an acre, or $4.30 a square foot.

This and other instances of extravagance in PWA land buying prompted congress in setting up the USHA to limit the cost of land bought for USHA projects to $1.50 a square foot. That would mean a limitation of $65,340 an acre, which could hardly be called low-cost land. An idea of the coming results of the USHA program now in process may be found in reports by Nathan Straus, administrator.

Straus has reported that the average land cost for the first 141 projects contracted for by the USHA is less than 75 cents a square foot, or about one-half the maximum set by law. The estimated average cost of USHA housing units now being built is $5,520. This is lower than the PWA's dwelling unit cost of $6,189, but is still $136 a unit higher than the average cost of all privately built, FHA insured homes in the country.

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Senator Millard Tydings (D., Md.) pointed out in a recent speech on the floor of the senate that the USHA is building a Baltimore "low-cost" housing project at a cost of $6,354 per dwelling unit, according to USHA estimates.

"In other words, we are building in Baltimore city, for people of the lowest possible income, houses which cost more per family unit than 90 per cent of the houses in Baltimore city cost," Tydings said, "and the people who live in these government-constructed houses are to be exempt in whole or in part from local taxation and are to have an average of $215 per family per year paid as part of their rent for sixty years in the future."

Straus says that direct comparisons between USHA costs and costs of private homes are unfair, "because the total cost of a public housing project includes many items of benefit to a city's government and to its social and economic welfare, which are practically never encompassed by a private housing development."

In answering the opponents of local tax exemption for federal projects Straus says in effect that the tax loss to the city is slight and that gains to the city from the new project are many.

"In the average community benefiting by our present program," Straus says, "the maximum local cost in the form of tax exemption would deprive the city of only two-tenths of 1 per cent of its annual tax revenue.

(Continued on page nine.)