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Politics, Policy, and Markets: Coalitions and Inequality in Federal Housing Provision,
1945-2000

By

Jessica Schirmer

A dissertation submitted in partial satisfaction of the
requirements for the degree of

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in

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in the

Graduate Division

of the

University of California, Berkeley

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Abstract

Politics, Policy, and Markets: Coalitions and Inequality in Federal Housing Provision, 1945-2000

By

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Doctor of Philosophy in Sociology

University of California, Berkeley

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This dissertation seeks to explain gaps in federal housing policy and the loss of public capacity in housing and urban development since the 1970s amid growing unmet need for affordable housing. The key questions I ask are: What are the institutional constraints on federal housing policy in the United States? How have changes in politics and institutions associated with financialization contributed to the loss of public capacity in housing and urban development since the 1970s? Based on analysis of administrative, legislative, and real estate industry archives and the secondary literature on housing markets, I argue that federal housing policy shifted from supply to demand-side strategies following changes in the dominant housing policy coalition from a liberal-builder to a financialized policy coalition. The financialized policy coalition provided a weaker basis for aligning private interests with public goals, linking economic and social policy, or otherwise expanding federal housing provision for groups left out.

The weak federal response to affordable housing was not preordained. The New Deal provided a rationale for federal intervention in housing markets based on market-failure in low-cost housing production. Following World War II, liberal policymakers, labor, and housing advocates advocated for expanding federal housing supports to low- and moderate-income households through direct federal loans for moderate-income cooperative and rental housing. In the 1960s and early 1970s, a liberal-builder coalition comprised of liberal policymakers, home builders, labor, mayors, and local officials advocated for expanded federal credit and subsidies for developers to build low-cost housing and tools, incentives, and support for local governments to facilitate the development of low-cost housing, mitigate urban inequality, and promote balanced development. If federal policy initiatives to develop affordable alternatives to commercial housing production for low- and moderate-income households and build on longstanding partnerships with the homebuilding industry and local governments to advance federal

policy goals had found lasting success, they could have preserved a federal role in housing production and provided tools to address affordable housing and urban inequality today.

Federal policymakers, with the backing of the liberal-builder coalition, expanded federally subsidized housing production and federal urban aid in the 1960s and early 1970s. However, the federal government's key partners—home builders and mayors—thwarted federal policy initiatives to overcome weak oversight mechanisms and rationalize the allocation of federally subsidized housing and federal urban aid because their market and political strategies reflected and reinforced their primary priorities in subdivision development and the commercial redevelopment of central cities, respectively. Moreover, at key moments, segments of the real estate industry whose interests were threatened by production-oriented housing policy, such as Realtors, and proponents of conservative macroeconomic policy, including the Federal Reserve, blocked the development of new credit facilities and subsidies for moderate income housing, further marginalizing racial minorities and the poor by restricting the development of alternatives to subdivision development on the urban fringe and commercial redevelopment of the urban cores that had excluded and displaced marginalized groups.

Beginning in the 1970s, however, the liberal-builder coalition's capacity to influence policy declined as the economic conditions it depended upon crumbled and the institutional locus of federal credit support shifted from Congress and federal housing agencies to large financial institutions, the government-sponsored enterprises, and the Federal Reserve. In response to political gridlock over how to respond to economic and mortgage market crises, federal policymakers adopted market-stabilizing policies that expanded passive federal support for the mortgage market. The housing finance and real estate industries adapted to new opportunities and challenges associated with financialization, financial volatility, and deteriorating affordability by consolidating and offering more segmented products.

In the 1980s and 1990s, a financialized policy coalition replaced the liberal-builder coalition as the dominant housing policy coalition. The financialized policy coalition preserved a federal role in mortgage markets and sanctioned federal low-income housing programs, but it cemented a shift away from production-oriented federal policy. A new policy consensus prescribed a dual federal role in meeting the needs of low-and-moderate-income households through credit and subsidizing housing for the poor at prevailing market rates. However, the new nexus of finance and real estate aligned interest-rate sensitive finance and real estate interests behind restrictive fiscal policy to balance their prioritization of liberal monetary policy. Consequently, in the 1990s and 2000s, a new, more diverse generation of first-time home buyers faced more barriers and a less affordable housing market than previous generations and federal subsidies have not scaled with the need for them among either low-and-moderate income households or the poor, perpetuating inequality in homeownership, housing attainment, and economic security.

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For dad, in memory of his kindness and love

Chapter 1: Introduction

In the United States, the largest category of federal housing subsidy, tax benefits for homeowners, primarily benefits the affluent, while the majority of the poor lack access to federal housing supports (Kingsley 2017; Tax Policy Center 2020; Ventry 2010). Unlike other low-income supports, housing assistance is not an entitlement and only about one in four eligible households receive it, resulting in long waiting lists and severe housing cost burdens among the poor (Lynch and Falk 2020). While the poor experience the most severe consequences of gaps in federal housing provision, federal aid also does relatively little for most low- and moderate- income (LMI) households, who largely do not benefit from either housing assistance or tax benefits (Schwartz 2014; Tax Policy Center 2020).

The inadequacy and inequity of federal housing supports has become starker and more consequential amid income polarization and rising rent and home prices in recent decades (Albouy, Ehrlich, and Liu 2016). Yet, housing affordability and the federal role in housing were absent from national politics until recently. Even after the foreclosure crisis, media and policymakers' attention turned to financial reform and health care reform, not housing (Bendaoud and Marmor 2020). The failure to address the housing needs of the working poor and low- and moderate-income households is particularly puzzling because these groups are typically thought of as deserving in the context of US social policy. Despite a difficult budget climate, other federal supports for low-income workers have expanded in recent decades (Tach and Edin 2017).

Housing did not always have such low political salience in national politics. From the 1930s through the 1960s, the federal role in housing was the subject of political debate, partisan divides, and racial conflict (Davies 1966; Hirsch 2000; Mollenkopf 1983; Thurston 2018). Reform proposals aimed to increase the supply of decent, affordable housing; ameliorate gaps in housing provision for very low-income and moderate-income households who earned too much to qualify for public housing, but too little to afford market-rate housing; and address growing concerns with the adequacy of neighborhood services, access to jobs, and racial segregation (Davies 1966; Mollenkopf 1983:73; Radford 1996). In the 1930s, progressive reformers sought a large non-commercial housing sector to house low- and middle-income Americans, modeled on the social housing sector in Europe (Radford 1996). In the 1940s and 1950s, Democrats proposed new federal credit support for middle-income cooperative housing. While middle-income financing proposals failed, policymakers approved new federal credit programs that provided financing to developers to build college housing, elderly housing, and middle-income housing in areas designated for urban renewal (Davies 1966; Mollenkopf 1983:73). In the 1960s, policymakers established national housing goals, which, for the first time, set a target and timeline for the elimination of substandard housing, an expanded commitment to subsidized housing, and the first subsidized housing programs that did not require local government initiative or approval. During Nixon's first term in office, HUD Secretary George Romney presided over an ultimately unsuccessful effort to use the new federal credit and urban grant programs to desegregate the suburbs (Bonastia 2000, 2006; Taylor 2019). Many of the proposals failed, but some were implemented

with modifications. By the end of the long 1960s, the federal role in housing and urban development had grown to encompass a bevy of direct and indirect programs (Gelfand 1975; Hays 2012). The possibility of an expanded commitment to building subsidized housing promised to provide residents of substandard housing in the inner-city with better housing options and access to areas experiencing economic growth outside of the central city. It also promised to mitigate the tendency toward race and income segregation in metropolitan areas (Hays 2012; von Hoffman 2013). But that did not come to pass.

Since the 1970s, the federal government has virtually abandoned its efforts to promote balanced metropolitan development, mitigate residential segregation, or even stimulate residential construction (Biles 2011; Carliner 1998; Hays 2012; Shlay 2006). This shift reflects a profoundly circumscribed federal role in housing production, urban development, and fair housing from what was practiced, debated, and attempted in the past (Bonastia 2006; Pritchett 2008). R. Allen Hays (2012) characterizes the federal role in housing since the 1970s as “neither total abandonment, nor re-commitment”, noting “the level of effort displayed in the 1970s was never restored” (Hays 2012:viii). Why has the federal response to affordable housing been particularly weak, even for groups typically deemed deserving in the contest of U.S. social policy? What explains the decline of public capacity in federal housing and urban development policy since the 1970s?

This dissertation provides a historical and institutional perspective on gaps in federal housing provision and the decline of public capacity in housing and urban development since the 1970s. I argue that, for much of the twentieth century, federal housing policy, including federal credit and low-income housing, focused on increasing housing production, particularly low-cost housing production. Production-oriented federal policy provided a basis for linking economic and social goals and aligning public and private interests with an expanding federal role in housing and urban development. Since the 1970s, however, the dominant federal housing policy coalition shifted from a liberal-builder coalition to a financialized policy coalition following changes in the relationship between the public and private sector that undermined the capacity of the public sector to pursue social goals through private housing finance and homebuilding. Although the financialized policy coalition preserved a federal role, it provided a weaker basis for engaging key actors outside of the federal government in expanding low-cost housing production or otherwise expanding federal housing provision to groups left out due to new institutional dependencies that cut the public sector out of allocative decisions and the alignment of interest-rate sensitive constituencies behind a new policy consensus prioritizing fiscal restraint to balance liberal credit and monetary policy.

My account traces the rise of a financialized policy coalition in federal housing and urban development policy to incremental policy change and a path dependent process of industry adaptation and interest redefinition. In response to market crises in the 1970s and political gridlock over how to respond, federal policymakers incrementally liberalized federal credit support. Key partners for federal housing policy outside of the federal government, including financial institutions and home builders, adapted their market and political strategies in response to financial volatility, deteriorating affordability, and new opportunities for complementarities between finance and real

estate. Critically, the private housing industry came to rely on financial institutions and passive federal support, for access to finance capital, rather than a politically brokered public-private housing finance system. In the absence of a reinvigorated public-private partnership to build low-cost housing, the private homebuilding industry has transformed from a mass-producer of “naturally affordable” housing to an increasingly concentrated industry that produces new housing for a smaller share of Americans. The concentration of the private housing industry on affluent segments of the housing market and other profit-making activities has resulted in the loss of a potentially effective policy demander for production-oriented federal housing and urban development policy.

Existing explanations for the particularly weak federal response to affordable housing focus on housing exceptionalism—the view that housing is a uniquely contentious policy area because of racial discrimination in housing, the dominance of the private sector, and the singular prioritization of homeownership. While acknowledging these constraints on policy, my account identifies coalitional possibilities and additional institutional constraints on policy related to the relationship between the public and private sector and the character and composition of the private housing industry itself that are key to understanding the decline of public capacity since the 1970s. My account also contributes to debates about the origins and nature of post-1970s political shifts that have focused on the turn to the market and financialization by highlighting the political and institutional linkages between financialization and the loss of public capacity, the importance of unintended consequences and incremental policy change for explaining durable political shifts, and the coalitional basis of political and policy change.

In the following sections, I first show that the United States stands out in its failure to address the housing needs of low- and moderate-income households—a problem I call the missing middle—and discuss the implications this has had for the market-oriented housing delivery system. I then review existing explanations for the weak housing safety net, which treat subsidized housing as a particularly contentious or unpopular aspect of the safety net and show that they cannot account for either the missing middle or the loss of public capacity in federal housing and urban development policy since the 1970s. Finally, I introduce my argument about how the public role and private actors in housing have shifted and how these changes have undermined public capacity to influence the private housing industry and therefore constrained reform before concluding with summaries of the remaining chapters.

The Missing Middle

The shortfall in housing assistance and inequitable homeowner tax benefits have received increased attention in recent years (Desmond 2016, 2017). Yet, the hole in federal housing policy for low- and moderate-income households has not received as much attention as it should, given its importance for addressing one of the most intractable housing problems—the shortage of affordable housing. I argue that the “missing middle”—low and moderate-income households that earn too much to qualify for housing assistance, but not enough to afford decent housing in private market—is a longstanding feature of the two-tiered approach to housing provision in the United States. In this section, I introduce the missing middle and show why it is key for understanding

the role of federal policy in the contemporary housing affordability crisis. Namely, federal support for high levels of residential construction and the filtering of older housing once occupied by more affluent households to lower-income household once provided for some of the needs of this group, but there are signs that filtering is not as effective as it once was, with consequences for the missing middle and households further down the economic ladder. Moreover, the persistence of the missing middle in federal housing policy suggests that constraints on federal housing policy may go beyond the perceived “deservingness” of beneficiaries of social supports that has played such a prominent role in welfare politics and retrenchment.

The Missing Middle in US Housing Provision

The United States never developed a broadly targeted social housing sector comparable to those found in Europe (Radford 1996). In Europe, “social housing” refers to government owned and operated housing, much like public housing in the United States, but unlike in the United States, this sector has traditionally been open to low- and moderate-income households. Even when compared with other homeownership-oriented, dual-rental market societies, the assisted-housing sector in the United States is particularly small and targeted to the poor.¹ For instance, in the UK, 18% of households reside in social housing compared to less than 5% in the US (Andrews, Sánchez, and Johansson 2011; Scanlon, Whitehead, and Arrigoitia 2014). While the median income of social housing residents in the UK is 60% of the national average, it is much lower in the US, where the majority of assisted households (80%) have income less than 40% of national median income (Schwartz 2014:169, 238).

New Deal legislation establishing public housing imposed rigid constraints on the program, including maximum income thresholds set at 20% below the income required to afford decent, market-rate housing, maximum per-unit cost restrictions, limitation of sponsorship to local governments, and restriction to areas designated for slum clearance (Friedman 1968; McDonnell 1957; Radford 1996). Despite these constraints and a number of failures with high-rise public housing by the 1960s, public housing has provided decent low-cost housing to millions of Americans, and still does, with long wait lists that testify to its continued value, but it never reached more than 1-2% of the housing stock (Goetz 2013).

In the absence of a large non-commercial housing sector, the United States has historically relied on the filtering down of older housing to supply the vast majority of low-cost housing. The general idea of filtering is that lower-income households move into units previously occupied by higher-income households. Harris (2013) traces the rise of filtering down to the 1920s when commercial builders ceased building for low- to moderate income groups (Harris 2013). In contrast, in the late nineteenth and early twentieth century, low- to moderate- income groups might save to obtain a down payment for a mortgage, build their own house, or rent-to-own (Daunton 1990). Limited access to low-cost, long-term mortgage financing limited access to homeownership. At the onset of

¹ Dual-rental markets are characterized by a small, residual social housing sector that is targeted to the poor and tightly regulated and a weakly regulated private rental market (Stephens 2017).

the Great Depression, 40% of households owned their homes—low in comparison to the homeownership rate upwards of 65% following World War II, but still high compared to other nations at the time (Green and Wachter 2005). Other housing options were problematic. tenements packed workers in the industrial cities into over-crowded and sometimes dangerous living conditions, sparking a progressive movement for building regulations (Lubove 1963). Harris (2013) attributes the shift in residential construction to higher income groups in the 1920s to a complex set of changes that include rising construction costs, attributable to both inflation and building regulations; changing tastes; and the rise of the mortgage bond, which made it easier to raise large sums of money for real estate investment (Harris 2013).

Because the US has traditionally relied on the filtering down of older housing built for higher income households to supply the vast majority of housing for low- and moderate-income, as well as poor households, the quantity and quality of residential construction over a decade or decades, is an important determinant of the supply, cost, and quality of housing for the missing middle, as well as those further down the economic ladder.^{2, 3} Consequently, the missing middle has manifested in varying ways over time. Following World War II, a second round of residential construction for the “common man” occurred. From 1945 through 1960, the most typical home built was a modest starter home (Lane 2015). The post-World War II building boom entrenched racial inequality by excluding African Americans and other minorities from formal mortgage markets and new suburbs, but housing conditions of all groups improved as a result of high rates of construction and the filtering of older housing to low-income and minority households that remained in the city (Boustan and Margo 2013a). The post-World War II building boom was made possible by federal credit agencies and a host of direct and indirect supports, including advance financing for subdivision developers, tax benefits for homeowners, and federal funds for highways and water and sewer infrastructure (Hanchett 2000; Jackson 1985; Quinn 2019; Weiss 1987).

Since the 1980s, the continued efficacy of filtering as a strategy for the delivery of low-cost housing has come increasingly into question. In a landmark work titled *The Maze of Urban Housing Markets*, housing economists Jerome Rothenberg and George Galster, and co-authors conceptualized the limits of filtering in terms of the segmentation of the housing market and the “cross-price elasticity of demand” (Jacobus 2019;

² For an alternative perspective on the potential for ‘price-fixing’ in rental markets with concentrated ownership see Gilderbloom and Abbelbaum.

³ The rate of loss of affordable housing is also a key determinant of housing affordability (Shinn and Gillespie 1994; Stone 1993). Between 1970 and 1989, three-quarters of unsubsidized units affordable to renters in the bottom income quartile were lost (Shinn and Gillespie 1994:507). To some extent, the loss of older housing is inevitable and desirable to the extent that it is inefficient or outdated (ARH, 21). Whether the loss of older housing leads to a shortage of affordable housing, rising housing costs, and rising housing cost burdens depends upon the rate at which new housing is added to the stock and the rate at which older housing filters down to lower-income households. Of course, the loss of low-cost housing raises legitimate concerns about displacement, particularly in the context of gentrification and neighborhood racial segregation. My point is to highlight the interrelationships among the rate of loss of older stock, new residential construction and the supply and cost of housing and in the context of a housing delivery system that relies on the filtering down of older housing.

Rothenberg et al. 1991). They found that housing markets are highly segmented into distinct quality and price categories in which prices can move independently. While filtering does occur from one segment to the other, the amount of filtering depends on how close the cost of the segment in which the housing is added to the segment in question and the extent to which price changes affect demand.⁴ For this reason, the decline of residential construction, and starter homes, in particular, have been a cause for concern among housing market observers.

Rising Housing Stress among Low- and Moderate-Income Households since the 1970s

In recent years, housing market observers and policymakers have recognized that high housing costs and shortages of affordable housing once thought to be limited to a few elite, coastal metros have expanded to metropolitan areas throughout the country in areas that offer “significant economic opportunity” (Dougherty 2020; Parrott and Zandi 2021; U.S. Department of Housing and Urban Development 2021). Policymakers link rising housing prices to an inadequate supply of housing, particularly entry-level homes for new home buyers, starting in the 1970s, and worsening following the 2007-2008 Great Recession (Bernstein et al. 2021; Freddie Mac 2021). In this section, I first show that housing stress for low and moderate-income housing has increased since the 1970s. Then, I show that rising housing stress for low- and moderate-income households is associated with rising housing costs and declining housing production, particularly of low-cost homes.

Housing cost burdens have become more prevalent among both renter and homeowner low-and moderate-income households since the 1970s (Nelson 2003:A-6; Watson et al. 2020).⁵ The Department of Housing and Urban Development defines households spending more than 30% of income on housing as moderately burdened and households spending more than 50% of income on housing as severely burdened.⁶ The incidence of moderate housing cost burden among low-income renters nearly doubled from 1978 to 2017, increasing from 22% to 41% (Nelson 2003:A-6; Watson et al. 2020). While severe housing cost burdens remain less common among low-income renters, severe housing cost burdens grew about 6-fold, so that, by 2017, 10% of low-income renters were severely housing cost burdened, compared to 1.5% in 1978. Low-income homeowners experienced somewhat lower rates of housing cost burden but saw even more rapid increases in exposure to housing cost burdens since the 1980s, attenuating differences in exposure to housing cost burdens across homeowners and renters with similar incomes. In 2017, the median lower middle class household was housing cost

⁴ Another concern about filtering is that when housing filters down the price does not decrease to the point of affordability for the in-moving family, resulting in rising housing cost burdens (Zuk and Chapple 2016). This is a different problem with a different solution than the efficacy of filtering question.

⁵ There is no single standard for defining “low” or “moderate” income. Given that researchers adopt varying definitions, I report the conventions adopted by each study and provide context to facilitate comparison where possible.

⁶ The convention for income is gross (pretax) income from wages and salaries; self-employment income, Social Security or railroad retirement income, public assistance or welfare payments are excluded. Housing cost includes rent or mortgage payment and utilities.

burdened, spending 40% of income on housing (Schuetz 2019). Housing cost burdens also increased markedly for moderate-income (80-120% AMI) renters and homeowners, from 4% and 2% in 1978 to 23% and 24% in 2017, although severe housing cost burdens remained rare (Nelson 2003:A-6; Watson et al. 2020).

For low- and moderate- income households with mortgages, even severe housing cost burdens are not uncommon. At the height of the housing boom, 15% of homeowner households with mortgages had severe housing cost burdens and another 23% were moderately burdened (Schwartz and Wilson 2008:5). Black and Hispanic mortgaged households had higher rates of burden than white mortgaged households, with 48% and 53% burdened, respectively, vs. 35% of white households (Schwartz and Wilson 2008:5). In 2020, 24% of Federal Housing Administration borrowers were severely housing cost burdened (FHA 2020). While rising cost burdens vary across regions, they are not limited to elite coastal metropolitan areas. From 1980 to 2019, the prevalence of severe housing cost burdens for low-income owner households with mortgages increased in the greater metropolitan areas of Houston, Chicago and San Francisco (from 10% to 13% in Houston; 9% to 24% in Chicago, and 12% to 49% in San Francisco; IPUMS USA, Author's calculations).

Yet, housing cost burden alone is not a sufficient measure of housing stress because households may trade off desired housing characteristics, such as size, location, and cost (Schuetz 2019). Schuetz (2019) found that more than 10% of households had very long commutes (greater than 1 hour) in the top 25% of metros ranked by home prices. Long-distance commutes also add to the effective cost of housing. One analysis estimated that households earning between 50 and 100 percent of Area Median Income spent 59% of income on housing and transportation costs combined (Hickey et al. 2012). Taking transportation costs into consideration also suggests that low-cost, low-density metro's like Houston compare less favorably than higher-cost, high-density metro's in terms of moderate-income affordability than one might otherwise assume (Hickey et al. 2012).

Although housing policy scholars often treat housing affordability as a problem of inadequate income, analyses of housing market trends suggest that rising housing costs have contributed to deteriorating affordability (Desmond 2016; Schwartz 2014). Since the 1970s, housing costs have increased 40% faster than the price of other goods, with some estimates as high as 120% (Albouy et al. 2016). For the period from 1970 through 2000, Quigley et al. (2004) find "most decreases in affordability are attributable to higher rents, not lower incomes" (Quigley and Raphael 2004:202). Between 2000 and 2010, rents continued to increase, with inflation-adjusted median asking rent increased 21% in the Midwest and 37% in the Northeast, while inflation-adjusted median incomes rose 7% for households headed by an individual with a high school education or less (Desmond 2018:166). The same pattern holds for home prices. For instance, while the African American median wage fell by one percent in both the 1970s and 1980s, the average home price grew by 43 percent and 8 percent across each decade (Rothstein 2017:181).

At the same time, residential construction has lagged population growth and shifted to affluent and single-family segments of housing market. Nationwide, housing starts as a share of the population have declined since the 1970s and have been

particularly weak since the 2007-2008 Great Recession (Bernstein et al. 2021; Myers, Park, and Cho 2021).^{7,8} Freddie Mac (2021) estimates the share of entry-level homes in new construction— defined as homes less than 1,400 square feet— declined from 40% in the early 1980s to around 7% in 2019 (Freddie Mac 2021). From 1973 to 2007, the size of new single-family homes grew from a median of 1,535 square feet to 2,277 square feet (Schwartz 2014). Dwyer (2009) shows that the growth in large homes was associated with an increase in the share of affluent households among new home buyers (Dwyer 2009). Reflecting on the US housing regime’s reliance on filtering, Dwyer (2008) observes the increasing mismatch between housing needs and what is built raises questions about the “capacity of the housing regime to meet the future needs of an increasingly diverse population” (Dwyer 2008:161).

As a result, homeownership has stagnated and become more stratified by income among younger cohorts, while stark racial gaps remain (Bogardus Drew 2015; Forrest and Hirayama 2015; Myers et al. 1992). By 2019, the homeownership gap between low-income and upper income 35–44-year-old households was 27 percentage points, up from 11 percentage points in 1980 and 5 percentage points in 1960 (IPUMS USA, Author’s calculations). Gaps in homeownership for minority and low-income households are concerning in the context of US housing provision because homeownership has been the principal vehicle for attaining security of tenure and a cornerstone of wealth-building and economic security.

Explaining the Housing Affordability Crisis

In contemporary policy debates, the dominant explanation for rising housing prices in high-cost metropolitan areas is that local regulations have limited the supply response to housing demand. The premises of this argument are that (1) local regulations limit the amount of housing that gets built and increase the cost of residential construction and (2) if local governments made enough land available for residential construction, they would drive down the cost of land and allow the market to respond to a larger share of demand (Glaeser and Gyourko 2003; Glaeser, Gyourko, and Saks 2005; Gyourko and Molloy 2015). Local regulations may limit the density of housing, such as large-lot or single-family zoning; restrict the supply of land available for development, such as restrictions on building in wetlands; or increase the cost of developing land, such as requiring infrastructure upgrades, like sewers and sidewalks.

The notion that local land use regulations impose costs and can be misused for exclusion is plausible and well-documented (Danielson 1976). However, evidence about the relationship between local land use regulation and *aggregate* residential construction

⁷ Housing starts in the 1990s and 2000s matched the 1970s in absolute terms (1.1 and 1.2 million average annual starts vs. 1.14 million), but were lower per capita due to population growth continued (about 42,000 average annual starts per million population vs. 53,000 in the 1970s) (Dietz 2020).

⁸ Federal Reserve Chairman Jerome Powell attributed the weak homebuilding recovery following the 2007-2008 Great Recession to a “perfect storm.” The National Association of Home Builders attributed the lack of a homebuilding recovery following the Great Recession to “the five Ls: lack of labor, lots/land, lumber/materials, lending for builders, and laws/regulatory burdens” (Dietz 2020).

and housing prices is not as clear cut as the current debate sometimes suggests (Landis 2021; Logan and Crowder 2002; Pendall et al. 2018). The disconnect between the intuitive appeal of the argument that local land use regulations constrain the supply and increase the cost of housing and the available evidence lies partly in the methodological difficulty of gauging the effect of a single factor on an outcome that is determined by a host of other factors that are difficult to control. Evidence for the causal role of local land use regulation comes primarily from cross-sectional studies which find a correlation between local land use regulation and high home prices (Glaeser and Gyourko 2003; Glaeser et al. 2005; Gyourko and Molloy 2015). But the direction of causality can easily move in the opposite direction—places with high home prices tend to be most effective at restricting development. It is possible that local land use regulations, on average, are not very effective at restricting development. Urban political economy theories suggest that land-based entrepreneurs are the most influential forces in local land use decisions. Some studies have found that local land use restrictiveness increases following an uptick in development, suggesting that local regulations may have limited efficacy in restricting development because they are behind the curve (Logan and Crowder 2002). Recent studies suggest that local land use regulations are actually more variable and less universally restrictive than one might expect (Pendall et al. 2018). Moreover, the spread of rising housing prices and housing shortages once thought to be limited to a few elite, coastal metros to metropolitan areas throughout the country in areas that offer “significant economic opportunity” suggest the need to consider factors beyond local land use regulations (Dougherty 2020; Parrott and Zandi 2021; U.S. Department of Housing and Urban Development 2021).

The focus on local land use regulation is also problematic because it reinforces the framing of housing as a strictly local problem. This overlooks the fact that states have constitutional authority over land use and municipal incorporation (Weir 2000). Moreover, the federal government has historically influenced how state and local government wield their power to regulate development and municipal incorporation. The current regime of hyper-fragmented local land use came into being as a result of federal policymakers and private developers designing land use and housing finance institutions aimed at building “credit-worthy” communities that banks could accept as the collateral for long-term loans (Weiss 1987). Thus, although, an alternative land-use regime would no doubt be an integral component of a meaningful response to affordable housing and urban inequality, the focus on local land use regulation too often elides the critical role of the federal government, states, and the underwriting logics and private interests that have historically undergirded local land use regimes.

The Decline of Production-Oriented Federal Housing Policy and the Weak Federal Response to Growing Need for Affordable Housing

Despite rising housing stress linked to a shortage of affordable housing and declining low-cost housing production, federal policy has shifted away from a focus on housing production toward a dual focus on expanding access to mortgage credit and, with less success, rental assistance for the poor. The shift away from production-oriented federal policy has been well-documented in low-income housing policy, where

policymakers shifted a growing share of federal support from subsidized housing development to rental assistance beginning in the 1970s (Johnson 2016; Orlebeke 2000). The following chapters document a parallel shift away from production-oriented policy in federal credit programs, as well as federal policy initiatives to better coordinate federal credit and subsidies, on one hand, and, housing and urban development, on the other. Chapter 2 examines how New Deal federal credit and public housing legislation both aimed to increase low-cost housing production in response to the perceived failure of the commercial housing market to produce an adequate supply of low-cost housing meeting minimum standards. Chapter 3 analyzes how federal policy initiatives in the 1960s and 1970s to expand and coordinate federal credit and low-income housing policy underwrote expanded subsidized housing production. Both Chapters 2 and 3 show that production-oriented federal policy targeted a broad segment of low-and-moderate income households because they presented the most feasible target group for expanded production. Chapters 4 and 5 document how, beginning in the 1970s, the focus of federal policy shifted from away from housing production, federal credit and low-income housing policy diverged, and policymakers abandoned efforts to coordinate housing and urban development policy. Instead, federal policymakers adopted a dual focus on expanding access to mortgage credit and subsidizing housing at prevailing market rates.

At the same time, the federal supports synonymous with the middle class—tax benefits for homeowners—have shifted toward the affluent over this period. Tax benefits for homeowners include the Home Mortgage Interest Deduction, property tax deduction, and capital gains exclusion for proceeds from the sale of a home. The Home Mortgage Interest Deduction and the property tax deduction originated as features of the original federal income tax law that attracted little attention and are thought to have been included to simplify tax administration. After World War II, the expansion of the income tax to a “mass tax”, rising prosperity, and expanding homeownership in subsequent decades caused the homeowner tax deductions for mortgage interest and property tax to increase in volume and significance (Howard 1997). A third tax benefit, the exclusion of capital gains tax on home sales was introduced in 1951 to encourage homeowners to “trade up” and move to new housing (Ventry 2010).

Although tax expenditures for homeowners have always been regressive because they exclude renters and are more valuable for high-income homeowners, they have become increasingly regressive since the 1970s. In 1981, legal scholar Joan Williams observed, “From being a relatively shallow subsidy to a large proportion of average Americans, from the working poor on up, homeowners' deductions have now become a deep subsidy to a minority of well-to-do Americans” (Ventry 2010:268). The number of households itemizing deductions dropped from 47% to 25% over the course of the 70s due to reforms aimed at simplifying the tax code by increasing in the standard deduction (Ventry 2010). The number of households that itemized declined across all income brackets, but they declined more steeply for lower-income households. Consequently, the benefits of tax deductions became more skewed toward affluent households. Despite reforms that aimed to curtail itemization, homeowner tax benefits continued to grow in the 1970s from 4.65 billion to \$31 billion because they provided high-income households relief from rising mortgage interest rates and inflation (Ventry 2010:268). In the 1980s,

tax reform aimed at simplifying the tax code, eliminating loopholes and cutting taxes, once again made tax benefits for homeowners more regressive by curtailing itemization but leaving homeowner deductions intact (Ventry 2010:275). This pattern was repeated with the 2017 Tax Cuts and Jobs Act. The number of households claiming the HMID declined from 20% in 2017 to 8% in 2018 (Tax Policy Center 2020). Consequently, the benefits of this provision were further concentrated among affluent households. In 2020, 90% of the HMID went to households earning more than \$100,000 annually—approximately the top third of households by income—, while 62% went to households earning more than \$200,000 (U.S. Congress 2020).

Tax credits and rental assistance have not compensated for the decline of tax benefits for homeownership for low- and moderate-income households. Low-income rental assistance remains largely restricted to very low-income households through eligibility restrictions and need-based priorities. For example, the Section 8 voucher program is limited to households earning less than 50% of Area Median Income (AMI), with set asides for households earning less than 30% of AMI.⁹ The Low-Income Housing Tax Credit (LIHTC) income eligibility limit is slightly higher at 60% AMI (Schwartz 2014:169, 238). Consequently, very low-income households (0-50% AMI), who make up 26% of all households, are the primary beneficiaries of federal rental assistance (about 80%). In contrast, LMI households (50-120% AMI), who make up 33% of all households, received 20% of low-income rental assistance— the majority of which goes to households qualifying as low-income (50-80% of AMI) (Figure 1). In 2021, 63% of federally assisted renters had incomes less than \$15,000— well below the eligibility threshold for assistance of approximately \$30,000 (50% of the national median income of \$60,336 in 2017)—and the vast majority had incomes less than \$25,000 (84%). (U.S. Department of Housing and Urban Development 2022).

State and local governments have not closed the gap in housing supports for low- and moderate-income households. Some states provide below-market rate financing and down payment assistance, but uptake has remained small in scale for a number of reasons, principally the fact that financing subsidies fail to address the cost of housing and therefore fail to address the need for affordable housing where it is most needed (Schwartz 2014).

In summary, the missing middle and the shift away from production-oriented federal housing policy are both overlooked but important aspects of the puzzle of the weak federal response to affordable housing and decline in public capacity since the 1970s. Federal support for housing production, high rates of residential construction, and filtering once provided a partial response to the problem of low-cost housing supply, but there are signs that filtering is not as effective as it once. Any explanation for the weak federal response to affordable housing must account for the shift away from federal policy initiatives targeting housing production and the missing middle.

⁹ Federal standards define low-income households as those earning less than 80% AMI, while households earning less than 50% AMI and 30% AMI are considered very low-income and extremely low-income, respectively (Schwartz 2014).

Race, Real Estate, Privatism, and Housing Exceptionalism in Explanations for the Weak Federal Response to Affordable Housing

Existing explanations for the weak federal response to affordable housing emphasize the linkage of race, real estate and federal policy and the dominance of the private sector in housing. It is common for housing policy observers to conclude that these distinctive features of housing make it an inherently weak policy area—a view that I refer to as housing exceptionalism. I argue, however, that housing exceptionalism adopts too deterministic a view of housing and urban policy development policy. Moreover, while existing arguments identify important institutional constraints on policy, I argue that they can't fully account for the pattern of policy development outlined above, including shifting policy paradigms and the durable loss of public capacity since the 1970s.

Race, Real Estate, and Federal Policy

Many scholars argue that the weak federal response to affordable housing owes to the association of low-income housing policy with racially-minoritized groups and the opposition of suburbanites to policies that raise the specter of racial integration. For instance, political scientists argue that the association of low-income housing with aid for racial minorities saps public support and makes low-income housing policy particularly vulnerable to attacks and retrenchment (Bendaoud and Marmor 2020; Slessarev 1988). Benadoud and Marmor (2020) attribute the political weakness of housing assistance to its “weak constituency, racial connotation and low public concern” (Bendaoud and Marmor 2020:900). These arguments suggest that racialized perceptions of deservingness undermine support for low-income housing policy. Notably, these accounts have focused upon the political weakness of low-income housing and posited racialized perceptions of deservingness as an additional factor undermining support for programs that are already weak and marginalized because they are perceived as benefitting a small fraction of the population and are therefore remote from the personal concerns of the majority.

Yet, the perceived remoteness of housing assistance for most white households stems from the racialization of housing markets and federal policy. As with social policy more broadly, the association of federal policy with race dates to the New Deal. From the 1930s through the 1960s, federal housing policy codified racial discrimination in underwriting guidelines for federal mortgage insurance and local public housing and urban renewal practices that entrenched residential segregation (Hirsch 1998; Katznelson 2005). Consequently, federal policy initiatives to expand low-income housing policy in the 1960s coincided, overlapped, and were ultimately linked with federal efforts to improve economic and political opportunity for African Americans, the civil rights movement, and the federal response to urban unrest in American cities (von Hoffman 2013; Quadagno 1994). Quadagno (1994) argues that the association of low-income housing policy with civil rights and federal efforts to improve economic and political opportunity for African Americans during the critical period of state-building in the 1960s made it vulnerable to a politics of white backlash, characterized by skepticism about the ability of the federal government to address social problems and a belief that federal

intervention would, paradoxically, contribute to greater unrest and dependency (Quadagno 1994).

The political marginalization and vulnerability of low-income housing policy—and indeed the activist state and anti-poverty policy more broadly—owing, in no small part, to the historic racialization of federal social programs dating to the New Deal provides one potential explanation for the weak federal response to affordable housing and the loss of public capacity in housing and urban development. As an argument for the durable shift in politics, it suggests that backlash politics rewarded politicians who criticized activist government and sanctioned those that embraced it. This could potentially explain the shift away from production-oriented policy because production-oriented policy confronts the question “where are the poor to live?” more directly than either expanding credit access or rental assistance, while leaving patterns of neighborhood segregation untouched.

While Quadagno provides a highly plausible potential explanation for the durable shift in federal housing and urban development politics and policy since the 1970s, it’s not clear whether the linkage of race and activist government provided a decisive constraint on the federal role in housing and urban development policy. A strong interpretation of Quadagno’s argument would suggest that the link between race and low-income housing policy prohibited expanding the federal role in housing development. I adopt a milder interpretation, which holds that the linkage of race and social policy presented a constraint that federal policymakers aiming to expand the federal role had to contend with. In the chapters that follow, I examine the fate of federal policy efforts to expand the federal role based on economic rationales and policies that would have incentivized regional cooperation, rather than mandate it, that could have preserved a federal role. Examining policy failures provides further insight into additional institutional constraints operating in housing and urban development and how they interacted with those stemming from the racialization of housing.

Another dimension of the linkage of race and housing policy is the post-World War II development of the suburbs and their influence in local and national politics. Urban historians have documented white suburbanites’ use of local land use laws to maintain racial exclusion in the decades following World War II (Freund 2007; Kruse 2005; Lassiter 2006; McGirr 2001; Sugrue 1996). Freund (2007) persuasively argues that hidden, racially discriminatory federal support for suburbanization encouraged white suburbanites to view homeownership and suburban neighborhoods in racial terms and, ultimately, to justify segregation to protect their property values (Freund 2007). Although historians have dedicated less systematic attention to suburbanites’ role in national politics than in local politics, ample evidence supports the widely held view that the post-World War II development of the suburbs gave rise to an influential voting bloc committed to the preservation of local autonomy.

More recent contributions to the literature on race and housing policy emphasize how the federal government’s excessive reliance on private financial and real estate industries to implement federal housing and urban development policy has undermined federal policy efforts to expand homeownership and low-income housing to minorities and the poor (Robinson 2020; Taylor 2019). Taylor (2019) argues the federal

government's effort to expand access to homeownership for African Americans and the poor by partnering with the private real estate industry rested upon a liberal view of markets as engines of choice and meritocracy free from discrimination, or otherwise amenable to legal and civil efforts to root it out (Taylor 2019). In reality, the private real estate industry profits from racial segregation. Given these perverse incentives, federal policy efforts that expand homeownership by expanding access to credit, but otherwise rely on the prerogatives of the private finance and real estate industries and leave the broader context of starkly racially segregated neighborhoods intact have predictably perverse outcomes.

Thus, scholars have established the importance of race for housing policy along several dimensions, including the impact of the perceived deservingness of beneficiaries on support for federal programs, the politics of suburban exclusion and local autonomy, and the incentives and strategies of the private finance and real estate industries. Yet, many questions about the implications for federal housing and urban policy development remain unanswered. Given the interrelated nature of federal efforts to advance racial equality and improve housing opportunities for low- and moderate-income households and the poor since the 1960s, how did federal policymakers design housing and urban development policy to attract support and avoid opposition? How did the private housing industry respond and adapt to new federal policy initiatives in civil rights and affordable housing?

Institutional Constraints on Housing and Urban Development Policy

Welfare state scholars and political sociologists have identified macro- and meso-level institutional constraints on housing policy, including the dominance of the private sector, the credit-welfare state trade-off and the institutional weakness of federal housing agencies. Welfare state scholars have long argued that housing is the “wobbly pillar” of the welfare state (Torgersen 1987). Even in the most universalistic welfare states, the decommodification of housing has been more limited and less stable than other policy areas (Harloe 1995; Torgersen 1987). Comparative scholars attribute housing's status at the “margins of the welfare state” to three factors (Harloe 1995:2). First, housing's status as property means that proposals which challenge private property rights are likely to face more serious challenges in capitalist societies than proposals to socialize education, health care or pensions. Second, private market provision of housing predates and is more extensive than private provision in other policy areas, like education, health, and pensions, where the alternative to public provision is more likely to be no provision at all. Consequently, government-provided housing has been seen as “direct and dangerous competitor” with the private housing industry. Third, housing's status as a capital asset means that it can be borrowed against. Consequently, some form of private market provision has been financially feasible for most of the population, under “normal” conditions (Harloe 1995:536–37).

Institutional constraints associated with the dominance of the private sector in housing are most applicable to government-owned and operated housing. They are less useful for explaining the limits of government support for market-based provision and rental assistance which have been the dominant response to housing issues in the United

States. Moreover, political and economic sociologists argue that cultural processes mediate the boundary between state and non-state, suggesting the formal status of a program as public or private is never as straightforward or uncontested as more reified distinctions suggest (Mayrl and Quinn 2016, 2016). This perspective suggests analysts must attend to how political entrepreneurs frame policies and how these frames become entrenched or contested to explain policy outcomes in relations to their compatibility or contradiction with existing market logics and actors.

The dominance of credit and homeownership in the United States provides another macro-level institutional constraint on housing policy. Comparative welfare-state scholars have long noted that federal housing policy in the United States prioritizes homeownership by virtue of its institutional complementarity with the US's credit-centric, consumption-oriented growth regime in the United States (Prasad 2012; Reisenbichler 2021, 2022). One important constraint this imposes on policy is the credit-welfare state tradeoff. Liberal credit policy leads to weak welfare states because it offers an alternative path to individualized welfare, which undermines support for universalistic social programs and encourages tax resistance (Crouch 2009; Prasad 2012). While the credit-welfare state trade-off theorizes a linkage between credit and homeownership and weak welfare states writ-large, some scholars have proposed that this institutional feature is particularly impactful for housing policy. For example, Ross (2015) traces the failures of American housing provision to growth liberals' mistaken belief that "securitized homeownership would prove to be a panacea for class and racial inequality" (Ross 2015:13). Similarly, in a critique of the promotion of low-income homeownership in the 1990s and 2000s, Shlay (2006) argues, "The elevation of low-income homeownership to its current status has deflected political attention away from other policies for affordable housing" (Shlay 2006:527). These arguments suggest that an overly rosy view of the prospects of homeownership in the United States may lead policymakers and their constituencies to favor policies that rely too much on expanding homeownership by expanding credit over more pragmatic, but less popular and well-supported policies like rental assistance or subsidized housing production.

The credit-welfare state tradeoff highlights potential fiscal and path dependent constraints on housing and social policy. First, homeownership and privatized welfare heighten support for political appeals for tax resistance and undermine public support for universalistic public programs, undermining the fiscal and political basis for public policy. Second, the dominance of homeownership as a means of asset-based welfare may distract policymakers and their constituencies from more pragmatic policies that meet baseline needs for affordable housing, but don't provide the ideal of self-reliance and security that Americans' associate with owning a home, and ideally, a single-family home with a yard.

While the credit-welfare state tradeoff highlights important features of the political and institutional context of housing policy in the United States, the inverse relationship it posits between credit and the safety net is not well-suited to explain variation in policy outcomes over time in the context of one credit-welfare regime. In the case of federal housing and urban development policy, federal policymakers expanded both credit and subsidized housing in the 1960s and 1970s. Since the 1970s, however, the

policy paradigm has shift from a focus on housing production to a dual focus on expanding access to mortgage credit and subsidizing rent at prevailing market rates. The shift away from more production-oriented policy is even more puzzling in light of the traditional role of federal housing policy, recognized by comparative welfare states scholars, as a tool of stimulative economic policy.

Thus, macro-level accounts of institutional constraints based on the dominance of the private sector in housing and the dominance of credit and homeownership in the American context specify important constraints and grooves of federal policy. Yet, they are not well-suited to explain the pattern of federal housing policy development market by an ebb and flow of federal effort that appears to be related to changing policy paradigms.

Other scholars emphasize the institutional weaknesses and vulnerabilities of federal housing agencies, stemming from their reliance on private actors, market logics that naturalize the effects of racist investment logics, and conflicting policy goals (Bonastia 2006; Robinson 2020). For Bonastia, an agency provides a “disadvantaged home” for a policy when, “the mission in question is secondary and may conflict with other missions, and the agency encompasses other programs with a tendency toward mismanagement or a policy legacy that contradicts the mission in question” (Bonastia 2004:24). Bonastia argues that scandals associated with the Federal Housing Administration (FHA) provided the Nixon administration with political cover to impose a moratorium on housing and urban development programs in 1973. The “institutional homes” argument offers a provocative and original interpretation of the divergent fate of civil rights enforcement in housing, compared to education and employment, by suggesting that an independent agency tasked with enforcing fair housing could have had more success than HUD, particularly if it went beyond HUD’s efforts to punish localities that prohibited subsidized housing by establishing and enforcing a standard for zoning laws and municipal incorporation (Bonastia 2004:39,40). Does HUD’s “institutional weakness” also explain the weak housing safety net? If so, is HUD’s institutional weakness rooted in conflicting mandates to increase production and affirmatively further fair housing?

To understand why HUD has not been an effective proponent of expanding the housing safety net since the 1970s, I argue that we need to shift the focus from “institutional homes” to “institutional embeddedness.” Institutional embeddedness refers to HUD’s position in the network of governance, public agencies and private entities responsible for channeling investment into housing and urban development. From the vantage of institutional embeddedness, HUD’s institutional weakness stems from the fact that the agency has been usurped in its former role of channeling financing and subsidy for housing and urban infrastructure by the government-sponsored enterprises, financial institutions, and a host of passive federal supports.

Social Movements, Ideas, and the Decline of Public Capacity Since the 1970s

Another set of potential explanations for the pattern of federal housing and urban development policy comes from the literature on the decline of public capacity since the 1970s. Political sociologists have studied the loss of public capacity since the 1970s

under the rubric of the rise of neoliberalism and the rise of financialization, which has been linked closely with the depoliticization of policy tools for economic management. In this section, I evaluate whether existing arguments about the loss of public capacity since the 1970s, rooted in conservative social movements and the depoliticization of economic management associated with financialization and a self-limiting set of ideas about the desirability or feasibility of public intervention in markets, can explain shifts in housing and urban development policy. I argue that arguments rooted in social movements are not well-suited to explain the durable loss of public capacity in housing and urban development policy since the 1970s, and, while arguments about the depoliticization of economic management provide a potential explanation for the loss of public capacity in housing and urban development, they under-specify how changes in economic policy tools and ideas redefined interests outside of the federal government and led to durable shifts in politics and policymaking.

Political sociologists trace post-1970s changes in policymaking to how private and public actors responded to economic crises in the 1970s, respectively. Prasad (2006) argues that neoliberal policies, including tax cuts, welfare retrenchment, and deregulation, were more successful in the United States than France or Germany because they were more popular in the American context (Prasad 2006). While the corporatist regimes and centralized administrative states of Europe adopted consensual policies aimed at advancing national prosperity, policymaking in the United States has been more volatile, resulting in “adversarial” policies that “create conflict between business and state, or that aim to redistribute from rich to poor” (Prasad, ASA symposium). Adversarial policies, such as progressive taxation, high corporate tax rates, aggressive regulation, and targeted welfare policy, create opportunities for political entrepreneurs to enact significant changes by leveraging catalytic events to turn disaffected groups—business groups and middle-class taxpayers—into new electoral coalitions. Consequently, “The American experience is not one of an overarching pro-market consensus, but of swings toward and away from pro-market policies” (Prasad 2006:31).

Conservative social movements rooted in business mobilization are not likely to explain changes in housing and urban development policy. The relationship between the federal government and the real estate and housing finance industry has not been adversarial, but, in fact, highly supportive. For example, when the Nixon administration imposed a moratorium on subsidized housing in 1973, the private housing industry opposed the move and lobbied unsuccessfully for the reinstatement of below-market interest rate mortgage support (Chapter 4).

The political mobilization of suburbanites could explain shifts in federal housing and urban development policy if suburban voters’ antipathy to federal policy drove policymakers’ withdrawal or the broader tax revolt constrained revenue. Indeed, some analysts have linked key policy changes to policymakers’ efforts to avoid controversy over the infringement of suburban autonomy and property rights (Bonastia 2006). As discussed above in relation to constraints on the linkage between race and real estate, I adopt a moderate view of these constraints and suggest the available evidence suggests that suburban political mobilization constrained, but did not derail the federal role in housing and urban development (Chapter 3). Moreover, Prasad’s characterization of

American policymaking as highly open to policy entrepreneurs and social movements that bring new ideas and frames to policymaking is not well-suited to explain the durable loss of public capacity since the 1970s. The open and competitive view of American politics suggests that we might have expected to see a resurgence of assertive federal power.

In contrast, Krippner (2011) traces the loss of public capacity since the 1970s to policy elites' "turn to the market" in an effort to subvert growing demands on the state and avoid blame—policy developments closely linked to the rise of financialization (Krippner 2011). Krippner shows that policymakers found indirect ways of directing monetary policy they did not have to take responsibility for. Another example that is highly relevant to housing policy is how policymakers failed to enact credit allocation policy in the 1970s. In this case, policymakers expected the turn to the market to enforce economic austerity, but, instead, credit expanded.

Policy elites' "turn to the market" to avoid blame for adverse economic and distributive outcomes provides a plausible explanation for shift in federal housing and urban development policy. By shedding responsibility for the supply, quality, and cost of housing, federal policymakers could have parted with a great burden. Yet, this argument fails to specify how policymakers' turn to the market and the subsequent financialization of the economy led to a durable loss of public capacity to respond to growing need for affordable housing. Krippner suggests two possibilities. One possibility is that that credit expansion solved the economic problems that led to increasing demands on the state. Krippner suggests that credit expansion allowed policymakers to, "dissolve emerging political tensions into what for the moment appeared to be a return to prosperity" (Krippner 2011:141). Yet, this argument would anticipate a resurgence of federal assertiveness in economic management following the 2007-2008 Great Recession, but that did not come to pass.

Another possibility is that policymakers' turn to the market institutionalized a self-limiting set of ideas about the relationship between the state and markets. The turn to the market removed economic questions "from the realm of active decision to the realm of fate where the exercise of human agency is neither possible nor desirable" (Krippner 2011:145). While self-limiting ideas about economic management could plausibly explain the turn away from production-oriented federal housing policy, they don't explain the pattern of inadequate and inequitable federal housing supports.

The following section argues that changes in policy coalitions and institutional constraints associated with public-private provision explain shifting paradigms and loss of public capacity in federal housing and urban development policy. It further traces changes in the coalitional politics of federal housing policy to incremental policy change and path dependent processes of industry adaptation and interest redefinition following the liberalization of credit support and financialization in the 1970s. Subsequent sections discuss implications for the possibilities and pitfalls of expanding housing provision through the public-private welfare state and the nature and origins of the loss of public capacity since the 1970s.

Data & Methods

The data for this study come from administrative, industry, and legislative archives and the secondary literature on housing markets. I visited the National Archives in College Park, Maryland; the Lyndon Baines Johnson Presidential Library in Austin, Texas; the Richard Nixon Presidential Library in Yorba Linda, California; the Ronald Reagan Presidential Library in Simi Valley, California; the National Association of Realtors Library in Chicago, Illinois; and the National Association of Home Builders Library in Washington, D.C. I targeted my research by linking questions about gaps in federal housing policy, shifting paradigms, and loss of public capacity discussed above to specific periods and events. I used historical process tracing to investigate policy failures and legislative compromises and to identify and explain “suppressed historical alternatives,” that could provide insight into the conditions and constraints that have influenced the development of the federal role in housing and related aspects of urban affairs (McCarthy 2014).¹⁰ The conceptual framework discussed in the following section provided further guidance to my research questions, hypothesis development and data collection.

Of course, some materials proved particularly useful. Policy planning taskforce reports at the LBJ library provided insight into the policy vision and political strategy behind Great Society housing and urban development policy. Internal memos and published reports from the Nixon and Reagan Libraries provided insight into the importance of economic challenges and macroeconomic policy for how policymakers and the Executive branch, in particular, approached housing in the 1970s and 1980s. Internal memos about policy vision and strategy in housing finance, low-income housing, and urban affairs provided a counterpoint to the Johnson administration’s approach, offering a more detailed picture of the way policymakers approached these issues than was available in the secondary literature. Industry reports from the NAR and NAHB libraries provided insight into housing market and real estate industry trends, as well as the real estate industry’s shifting policy priorities. Finally, legislative archives provide a wealth of context and background information, as well as insight into patterns of support and opposition for various policy proposals.

Federal Housing Policy Coalitions, Shifting Policy Paradigms, and Institutional Change in Two-Tiered Federal Housing Policy

The divided welfare state provides a useful starting point for analyzing institutional constraints on federal housing policy. The New Deal established what historian Gail Radford has aptly called two-tiered housing policy, comprised of market-based federal support for the middle class and public housing for the poor (Radford 1996). Since then, housing policy scholars have identified the dual and unequal structure of American federal housing policy as a constraint on the development of federal housing policy, and indeed, American social policy more broadly, by virtue of the central role of

¹⁰ McCarthy (2014) uses “suppressed historical alternative,” adapted from Barrington Moore, to denote a path not taken in the development of policy and politics, specifically one whose realization was more possible than contemporary conventional wisdom would suggest.

homeownership in provided asset-based welfare for the middle-class majority (Bendaoud and Marmor 2020; Quinn 2019). Market-based federal supports for middle class housing are hidden, uncontested, and defended by both private providers and middle-class beneficiaries. Public housing and the rental assistance policies that superseded it as safety net policies provide a means-tested, publicly funded alternative to market-based housing provision that is visible, contentious, and vulnerable to attack because it is perceived as benefitting the few at the expense of the many.

Explanations for change over time in two-tiered, or divided, policy areas, like federal housing policy, have focused on the role of timing, sequencing, and exogenous events. For example, Jacob Hacker (2002) attributes the divergent fate of old age pensions and national health insurance in the United States to the timing of adoption of public benefits relative to private benefits (Hacker 2002). Because Social Security originated prior to the expansion of private pensions, proponents of private pensions developed a complimentary relationship to Social Security. In contrast, the development of private employer-provided health benefits prior has meant that proposals for national health insurance compete with private benefits and meet with resistance from private providers and their beneficiaries.

While the battle between public and private benefits and sequencing capture important constraints and distributional features of American federal housing policy, existing perspectives posit a deterministic set of institutional constraints and under-theorize the relationship between the public and private sector in markets for social provision, as well as policies that extend public benefits through the private sector. Thus, they cannot explain the decline of production-oriented housing policy and loss of public capacity in housing and urban development since the 1970s.

Theories of institutional change in systems of social provision provide a useful conceptual framework for analyzing change in federal housing and urban development over time. Scholars of institutional change have emphasized the importance of coalitions and incremental policy change for institutional change in systems of social provision (Thelen 2009). The focus has traditionally been on how private actors, mainly business and labor, leverage institutions to advance their interests, sometimes in unexpected ways that the designers of institutions would not anticipate or condone (Hacker and Pierson 2011; Hacker, Pierson, and Thelen 2015). I adapt theories of institutional change to two-tiered federal housing policy. In this context, federal policy initiatives to expand housing provision depend upon how policy and institutions align public and private interests and economic and social goals, and conversely, prevent them from diverging or coming into conflict. Although it's theoretically possible to align private goals with public priorities distinctive features of markets for social provision and American political institutions make it difficult to maintain a balance between private and public priorities. Specifically, I argue that the dominant federal housing policy coalition shifted from a liberal-builder coalition to a financialized policy coalition following the rise of a new nexus of finance and real estate.

In the 1960s, growth liberals forged a liberal-builder coalition that leveraged long-standing partnerships between the federal government and the private homebuilding industry, on one hand, and local governments, on the other, to expand low-cost housing

production for low- and moderate-income groups. Thus, the liberal-builder coalition built on the alignment of economic and social goals, and public and private interests, characteristic of growth liberalism, to expand the federal role in housing and urban development. Policy innovation centered on coordinating federal credit and urban aid to the mutual benefit of both private industry and municipal partners to increase low-cost housing production and promote balanced metropolitan development.

In the 1970s, however, economic crises undermined the liberal-builder coalition. Rising interest rates had a particularly significant impact on housing because both homebuying and homebuilding depend on large amounts of credit and a shifting investor demand for higher-yield investments undercut the supply of low-yield mortgages, creating credit shortages. Preserving the public-private partnership for housing and urban development, and growth liberalism more broadly, would have required expanding the public role in housing—and the economy more broadly. Congressional Democrats proposed expanding public capacity in various ways. However, the Nixon and Ford Administrations used executive veto power to prevent an expansion of institutional capacity to respond to inflation (Chapter 4).

Following the failure to expand public capacity to manage the economy, federal policymakers adopted temporary measures that liberalized support for the conventional mortgage market to alleviate acute mortgage market crises. Specifically, the federal government increased mortgage purchases of conventional, non-government-insured mortgages, which aimed to increase the funds available for issuing new mortgages. The expansion of passive federal support for the mortgage market through emergency relief attracted Wall Street to housing finance in the 1970s. Reflecting heightened concerns about the stability of mortgage markets, federal policy prioritized stabilizing mortgage markets in contrast to the more proactive market-making role it played during the New Deal and again in response to new challenges during the Great Society.

The rise of a market-mediated housing finance system triggered a process of industry adaptation and interest redefinition that ultimately reinforced the shift to market-stabilizing policies and mitigated against the re-emergence of market-making policies. In order to survive challenging economic conditions and the withdrawal of the state as an active partner, real estate developers have become more concentrated and specialized. The market for new residential construction has become smaller and more targeted to affluent home buyers and renters (Dwyer 2008, 2009). Instead of relying solely on increasing the volume of housing production for growth, the private housing industry has access to a range of strategies, including portfolio diversification, finance, and land speculation for growth and profit (Wissoker 2016). The concentration of the private housing industry on affluent segments of the housing market and other profit-making activities has resulted in the loss of a potentially effective policy demander for construction- oriented and low- and moderate-income housing supports.

In the 1970s, and 1980s, a financialized policy coalition replaced the liberal-builder coalition as the dominant housing policy coalition. The financialized policy coalition promoted a dual role for the federal government in housing, which consisted of insuring an adequate supply of mortgage credit and subsidizing housing for the poor. In contrast to the liberal-builder coalition, the financialized policy coalition prescribed the

separation of economic management from social goals, which would be met through separate policies. At the same time, the financialized policy coalition elevated fiscal restraint to a new policy consensus, by aligning the interests of the real estate industry with the interests of the financial industry in stimulative monetary policy and restrictive fiscal policy. Thus, despite political support for housing subsidies for the poor, in theory, the financialized policy coalition's prioritization of fiscal restraint to balance liberal credit and monetary policy mitigated against the development federal policy initiative for universal housing assistance. Consequently, the financialized policy coalition preserved access to mortgage credit for households that could afford the rising cost of housing and credit, but targeted subsidies did not keep up with rising housing costs.

By centering shifting paradigms and coalitions, this account explains features of the development federal housing and urban development policy that are not well-explained by other explanations for the weak federal response to affordable housing, including the decline of production-oriented policy and persistence of gaps for the missing middle. It also provides an explanation for the durable loss of public capacity in federal housing policy and urban development policy by identifying a shift from a liberal-builder coalition that provided a basis for aligning private interests with public goals to a financialized policy coalition whose interest conflict with expanding the federal role in housing.

Chapter Summaries

Chapter 2 describes the nature and origins of the public-private partnership for housing and urban development that emerged in the 1930s and crystallized in the 1940s and 1950s. It argues that the outcome of debates about the federal role in housing and urban development following World War II was neither total abandonment nor commitment. On one hand, the private housing industry succeeded in restricting public housing. On the other hand, federal credit programs and fiscal support provided an alternative vehicle for expanding residential construction and mortgage markets.

Chapter 3 analyzes the possibilities and pitfalls of reform within the framework of the public-private partnership for housing and urban development during the highwater mark of liberal activist government in the 1960s. It shows that the Great Society was a period of housing policy innovation that aimed to address gaps in provision and ameliorate the tendency toward sprawl and urban decline, by examining several policy proposals that either failed or were significantly altered during the policy-making process, including financing and income-based rent supplements for moderate-income rental housing and state and metropolitan housing agencies with regional governance of housing and urban development. It identifies private housing industry divides over the subsidization of new vs. existing housing, private housing industry resistance to state and regional governance of local land use, and norms of meritocratic housing attainment as factors that limited the effectiveness of federal policy initiatives for housing and urban development but did not completely derail reform.

Chapter 4 explains how policymakers responded to the economic crisis of the 1970s in ways that imposed new constraints on liberal policymaking, in general, and housing and urban development policy in particular. First, it shows how policymakers

failed to expand public capacity to manage the economy in response to the crisis through the case of credit allocation policy. Then, it describes how persistent struggles with inflation undermined the public-private partnership for housing and urban development. Finally, it describes how policymakers' turn to emergency relief to avoid acute shortages of mortgage credit had unintended consequences, including the rise of a new nexus of Wall Street and real estate and the transformation of the private housing industry. Chapter 5 summarizes the main argument, analyzes developments in federal housing policy since the 1970s that bring the story up to the present, and discusses the implications of the dissertation for the literatures on federal housing policy, the loss of public capacity since the 1970s, and expanding social provision through the public-private welfare state.

Chapter 2: Federal Housing Policy and the Missing Middle

During the New Deal, federal policymakers established what historian Gail Radford (1996) has called two-tiered federal housing policy, consisting of market-based federal support for the middle class and public housing for the poor (Radford 1996). New Deal policy struggles for a broad, non-commercial housing sector ended when policymakers opted to impose constraints on public housing, including cost caps and means-tests, that insured it would never play more than a marginal role in meeting the housing needs of Americans. Following World War II, however, the United States and other developed nations embarked on a period of state-building and modernization. How did federal policymakers leverage and adapt two-tiered housing policy to meet post-WWII housing needs? Were they successful? Why or why not?

Existing narratives of federal housing policy development suggest that the New Deal set the blueprint for federal housing policy in the 1930s until the Great Society ushered in a new period of experimentation, innovation, and policy struggle over the incorporation of groups that had been excluded from federal housing provision in the 1960s (Hays 2012). They also suggest that, although marred by racial discrimination and exclusion of minorities and the poor, the decades following World War II proved an unqualified success in meeting the housing needs of the white middle and working class (Jackson 1985). Evidence for this view comes from the persistence of federal policies and programs established during the New Deal, the uneven success of federal market supports for the middle class and public housing, and rising homeownership rates, amid growing racial and economic city-suburb divides. While existing narratives capture key trends and adverse impacts on marginalized groups, they overlook others due to a relative lack of attention to federal housing policy struggles in the 1940s and 1950, compared to the “big bangs” of policymaking during the 1930s and 1960s.

This chapter argues that federal policy initiatives to increase low-cost housing production, particularly for the missing middle—low-and-moderate income households perceived as falling into a gap between public and private provision—are an important but overlooked dimension of federal housing policy struggles in the 1940s and 1950s. Although federal policy initiatives for a broad, non-commercial housing sector, such as those that Catherine Bauer and the Labor-Housing Conference advocated in the 1930s, remained marginalized, federal housing policy initiatives for low-cost housing production combined consumption-driven economic growth goals and social goals for ensuring an adequate supply of minimum standard housing. Liberal policymakers, labor, and housing advocates contested the adequacy of commercial housing markets in response to housing market trends, including low rates of rental housing development and the decline in single-family housing starts in the late 1950s, particularly, low-cost single-family homes.

The rationale for federal intervention in housing markets rooted in market failure constrained federal policy initiatives to a relatively minimal conception of housing adequacy in terms of supply and physical adequacy, but also allowed for a range of possible responses, through federal credit and subsidization, that could potentially improve housing supply, adequacy, and ownership opportunities for low- and moderate-income households. While federal policymakers enacted mortgage liberalization and tax

benefit proposals, other proposals that could have more effectively addressed housing issues for the missing middle, including direct federal loans for cooperative and rental housing for low- and moderate-income households and raising the income eligibility threshold for public housing, failed due to institutional features of two-tiered provision, including contentious politics of allocation and principle-agent problems associated with policymakers' reliance on actors outside of the federal government. At the same time, housing's relationship to macroeconomic policy came into conflict with the rise of restrictive monetary policy in the late 1950s, highlighting additional constraints on federal housing policy initiatives due to the role that housing plays as a tool of economic stimulus.

Post-World War II federal housing policy struggles over how to increase the supply of low-cost housing for the missing middle highlight long-standing challenges associated with ensuring an adequate supply of minimum-standard housing in market-based housing systems like the United States. Comparative housing scholars acknowledge the importance of government policy for housing supply, but housing supply policy has not been a central focus of scholarship on federal housing policy in the United States (Fahey and Norris 2011). This chapter also identifies several institutional features of federal housing policy that explain the persistence of housing supply challenges and the missing middle stemming from the federal government's reliance on indirect mechanisms to induce actors outside of the federal government to provide low-cost housing and the economic stimulus function of housing in the context of macroeconomic policy.

The first section analyzes the New Deal rationale for federal intervention in housing and the possibilities and constraints that New Deal housing legislation established for future federal policy initiatives. The second section analyzes the context, motivation, and outcome of post-World War II federal housing policy struggles aiming to increase housing production for the missing middle. I then evaluate the partial success of post-World War II housing markets and policy in improving housing conditions for ordinary Americans, alongside their deficiencies and adverse consequences, before concluding by discussing the implications for federal housing policy struggles in the 1960s and late twentieth century discussed in subsequent chapters.

New Deal Federal Housing Policy: Credit, Subsidy, and Low-Cost Housing Development

At the dawn of the New Deal, the idea of market failure in low-cost housing development—that the housing market was incapable of producing low-cost housing of adequate supply or quality—had gained acceptance among housing reformers and policy elites. In the late nineteenth century and early twentieth century, the housing reform movement had advocated building regulations to eliminate substandard and unsanitary housing. By the 1920s, however, the housing reform movement's goals had shifted to government-assisted low-cost housing development, citing the inability of the unassisted market to provide adequate low-cost housing (Hunt 2013). Housing reformers reached this conclusion from their experience losing a hard-fought battle against the intractable slums of the early twentieth century industrial city. Another factor contributing to this

conclusion, in the 1920s, was a shift, apparent by the end of the decade, away from building for low- and moderate-income households (Harris 2013; Radford 1992).

The Great Depression led to a collapse in housing, mortgage, and residential construction markets that afforded an opportunity to expand a federal role in housing. But how and to what end? In 1932, the President's Conference on Housing and Homeownership convened business and civic elites to answer this question. Although the mechanisms of permanent federal housing programs had not yet taken shape, the goals and some of the basic strategies had crystallized—long-term, low-interest loans and large-scale development to facilitate homeownership and the construction of low-cost housing on outlying land (President's Conference on Home Building and Home Ownership 1932a, 1932b). The conference reflected major ideas shaping policy at the time and provided a framework for New Deal housing legislation. The following sections describe how New Deal housing finance and public housing policy were each embedded in this policy vision for facilitating low-cost housing development, relied on incentives to direct the voluntary action of groups outside of the federal government that were critical for implementing the policies, and how the need to appeal to these groups' interests and capacities shaped the design and scope of the policies.

New Deal Housing Finance: Making a Commercial Mortgage and Construction Market for Low-Cost Housing Development

The signature New Deal housing finance legislation was the National Housing Act of 1934. It created the Federal Housing Administration (FHA) to administer a system of federal mortgage insurance for sales and rental housing and property repair loans. FHA would insure lenders against loss if a borrower defaulted on their mortgage by charging premiums and fees to establish an insurance reserve fund. NHA also provided for the formation of national mortgage associations authorized to buy and sell FHA mortgages, providing a secondary mortgage market.

FHA is most closely associated with expanding access to mortgages on terms favorable to the borrower, and thereby, making homeownership a more attractive financial proposition, as well as more accessible to wider range of households. By insuring only long-term, amortized, low-down-payment loans, it made buying homes less risky and costly. The American mortgage, as it would come to be called, eliminated the need to rely on short-term loans that would have to be re-financed and the use of high interest second and third loans (Semer et al. 1985).

But the goals of the NHA went beyond mortgage markets and homeownership. In fact, the 1934 National Housing Act defined its goals in terms of housing conditions: "An Act to encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes" (Semer et al. 1985). From 1934 to 1956, FHA offered better terms for new construction than existing housing, reflecting the construction-oriented nature of New Deal housing finance programs (Semer et al. 1985).

In particular, following the vision laid out in the 1932 President's Conference, FHA leveraged its central role channeling credit into housing, to influence not only lending practices but also residential development patterns through the inclusion of building standards and neighborhood planning requirements in its underwriting criteria.

FHA's Land Planning Division promulgated large-scale subdivision development practices and encouraged their extension to the development of small, low-cost houses (Weiss 1987). FHA underwriting guidelines promulgated rigid land use and building codes designed to maintain the value of homes, which served as collateral for unprecedented, long-term loans (Whittemore 2013). These guidelines precluded a mix of rental and owner-occupied housing and adopted racially discriminatory criteria precluding the insurance of mortgages in racially mixed neighborhoods (Jackson 1985).

By 1940, the federal partnership with private housing finance and home building had succeeded in re-starting residential construction and securing advances in low-cost residential construction of single-family homes.

"The single long-term, amortizing mortgage established by the FHA became popular throughout the country and largely replaced the old method of multiple mortgage-financing (first, second and third mortgages), particularly in financing new homes. The minimum technical standards and requirements developed by the FHA for residential properties are widely recognized as largely responsible for improving the quality of design, construction, and subdivision planning in the private home building field. FHA mortgage financing terms—with moderate interest rates, small down payments, and provision for equal monthly payments—greatly reduced the monthly cost of home purchase and encouraged the building industry to concentrate on production of moderate-priced small homes. These homes were then within the buying range of a much broader proportion of American families than had previously been considered eligible for new-home buying (Economy Housing Program Memoranda 1943:94)."

FHA's success and popularity owed in no small part to its linkage of long-term, low-interest financing to large-scale building techniques. Marc Weiss (1987) has shown how the FHA provided an "administrative fix" that enabled real estate developers specializing in large-scale subdivision development, who had self-styled themselves "community builders" to adapt residential development techniques they had developed for affluent communities to a broader range of households.

FHA's efforts to stimulate low-cost private rental housing were less successful, despite persistent Congressional support (Glock 2016). One important factor was the absence of an institutional actor capable of responding to the incentives the policy offered and the lack of adequate credit facilities. The regional bond houses that financed rental housing prior to the Depression had collapsed, and rental housing investors lacked a national, federated housing finance and real estate organizations (Quinn 2019).

Another important factor was the opposition of savings and loans to the development of alternative sources of housing finance during the New Deal. Housing finance proposals that were more amenable to financing rental housing were defeated in the lead up to the enactment of the 1934 National Housing Act. The Roosevelt administration's original proposal for the National Housing Act authorized national mortgage associations to originate loans, as well as buy and sell mortgage loans originated by other institutions (Steagall 1934:11). The motivation behind national mortgage associations was to finance low-cost, rental housing. A congressman from New York echoed this perception in his remarks on the House floor: "national mortgage associations are the only bodies which will have the resources to handle and service at low cost first mortgages ... providing better housing at low cost for the industrial workers in our large cities" (Glock 2016:295). The Banking and Currency Committee struck national mortgage associations and provisions for insurance of low-cost housing projects

from the legislation during committee in response to opposition from the savings and loan industry. Urban liberals successfully fought to have Title III and low-cost housing projects restored to the act, but a revised Title III limited national mortgage associations to buying and selling mortgage originated by other institutions (U.S. Congress 1934).

In summary, construction-oriented federal policy plausibly linked the interests of home builders, banks, and local governments to the goal of improving housing conditions for ordinary Americans. However, contentious politics of allocation among financial industry interest groups limited the expansion of credit for housing in ways that favored specialized housing finance institutions and single-family housing.

Public Housing: Creating a Compensatory System of Non-Commercial Housing

New Deal legislation also established subsidized, non-commercial housing through the Public Works Administration (PWA) and, later, federal aid to local housing authorities (LHA's) to build public housing with grants and financial backing from the United States Housing Authority (USHA). The National Industrial Recovery Act (NIRA) of 1933 created the PWA and specified a program of "construction, reconstruction, alteration, or repair under public regulation or control of low-cost housing and slum-clearance projects" (Radford 1996:89).

The PWA Housing Division's experience testifies to the challenge of finding sponsors for low-cost housing. Under the original terms of the NIRA, PWA could offer loans for up to 70 percent of the cost of a project at 4 percent interest amortized over thirty-five years. It could also make capital grants to public bodies for 30 percent of the cost of a project (Radford 1996:99). The PWA Housing Division solicited applications for low-interest loans and grants for low-cost housing, but the agency received a disappointing pool of applications. The head of the PWA, Harold Ickes, was under pressure to implement the program rapidly to realize the promised economic benefits of new construction, decided the agency would build housing itself (Radford 1996:93).

From 1933 to 1937, the PWA Housing Division sponsored 58 housing developments containing approximately 25,000 units in less than four years (Radford 1996:91). The projects PWA built were physically like market produced apartments, but had more amenities such as nursery schools, outdoor play areas, libraries, social rooms, and athletic fields. They offered better quality housing than residents could afford in the existing market where housing might have physical problems related heating plumbing or other structural issues or be crowded. One resident of Harlem River Homes was quoted as saying "We're lucky to be here. We're sure lucky. It's a lot better than where we were or where most folks live" (Radford 1996:170). In the best case, the achievement of PWA Housing was to build modest but appealing housing for people who had low incomes relative to other Americans.

The 1937 Wagner Act established a permanent public housing program. Under the terms of the program, the federal government entered into contracts with local housing authorities to cover 90 percent of the cost of land acquisition and development of public housing. Local government contributions were frequently in-kind, including property tax abatement. Rents were expected to cover the operation and maintenance of public

housing until operating subsidies for public housing were introduced in 1969 (Hunt 2013; Meehan 1979).

Public housing provided a deep subsidy, enabling low rents, but several constraints limited the expansion of the program. Opponents of the program, as well as Democrats interested in ensuring the program directed scarce federal resources to households most in need, succeeded in imposing several constraints on the program in the difficult legislative struggle over enactment. These include restriction of sponsorship to local governments, income limits, requiring the equivalent elimination of units designated for slum clearance, and construction cost limits (Hunt 2005b; Radford 1996). While legislative constraints on public housing have commonly been attributed to conservative and real estate industry opponents, who were public housing's staunchest opponents during legislative struggles over enactment and in subsequent federal and local struggles, revisionist scholarship has argued that divides among liberals over targeting scarce federal dollars were equally important and that, despite legislative compromises, the public housing program survived relatively intact (Hunt 2005b). As evidence for the latter point, Hunt (2005) cites the optimism of public housing's leading proponents that legislative constraints could be overcome through regulatory and other loopholes during implementation.

The challenges that public housing faced during implementation, including difficult battles over siting and maintaining the quality of housing over time are worth emphasizing. As Hunt (2005) suggests, they highlight how public housing's constraints stemmed not only from mobilized opposition and legislative constraints, but also from the program's competition with a broader program of privately provided homeownership (Hunt 2005b). Yet, it would be a mistake to wave away the impact of mobilized opposition and legislative constraints. Staunch opposition registered at many points, from the selection of federal housing officials sympathetic to the real estate industry's position on public housing to local struggles over siting (Fisher 1959; Friedman 1968; Goetz 2013; Hirsch 2006).

The constraints on public housing are best understood as a product of the combination and interaction of diverse constraints stemming from competition with the private sector, mobilized opposition from the real estate industry, moderate liberal's preferences for using public housing for slum clearance and housing the poor, and the interests and capacity of local governments themselves. First, conservative and real estate industry opposition insured that federal resources for public housing would be limited and remain under scrutiny. In response to the fact that federal funds for public housing would be limited, moderate liberals imposed rigid income restrictions to direct scarce resources to those most in need (Hunt 2005b; McDonnell 1957). Although well-intentioned, income restrictions created operational challenges and contributed to the inadequacy of rents for maintenance in the out years (Goetz 2013). Second, although local governments retained considerable autonomy in siting decisions and the equivalent elimination rule, which required localities to demolish as much housing as they built, was abandoned, the primary financial incentive for local governments to participate was the opportunity to obtain federal financing for slum clearance. Slum clearance eliminated urban areas with service costs that exceeded their revenue-generating capacity. In the

absence of this incentive, local governments lacked incentives to build public housing because they would be adding to their service costs without adding to their tax bases (Fisher 1959; Meehan 1979).

In summary, the conjunction of conservative and real estate industry opposition and moderate liberals' effort to maximize the allocation of scarce federal resources to the poor resulted in rigid income and cost constraints on public housing. Perhaps a more profound limitation of public housing, however, lies in its reliance on local governments to sponsor public housing, whose primary incentive for participating in the program was limited to slum clearance. Thus, the institutional constraints stemming from New Deal federal housing policy are rooted in the federal government's struggle and uneven success to build capacity to finance and build low-cost housing through dual partnerships with the private real estate and housing finance industries, on one hand, and with municipal governments, on the other.

With the outbreak of World War II, the federal government re-directed federal housing efforts to defense housing. Advocates of non-commercial housing competed with real estate industry representatives to influence defense housing along the lines they envisioned for the future development of American housing. According to Kristin Szylvian (2000), proponents of non-commercial housing initially succeeded in building innovative projects. Following the reorganization under the National Housing Act of 1942, however, the war housing program pivoted from the construction of permanent to temporary housing—the course supported by “homebuilding, real estate, and banking interests and their allies in Congress,” who were also significantly involved in coordinating defense housing from the beginning (Szylvian 2000). Thus, by the end of World War II, the battle between public and private housing was settled for the latter, in no small part, due to the ability of the decentralized housing industry and federal housing finance agencies to coordinate federal policy and local action. The test for post-World War II federal housing policy would be whether it could build enough capacity to finance and build low-cost housing through a primary partnership with the private real estate and housing finance industries, and, secondarily, with municipal governments.

Post-World War II Economic Planning and Comprehensive National Housing Policy

As World War II ended, concerns about recession and accommodating the needs of returning veterans for jobs and housing prompted economic planning efforts. In this context, policymakers debated comprehensive national housing policy for the first time, including the division of labor between private and public housing. For example, in the 1940s, Congress and the Truman administration debated comprehensive housing legislation, which attempted to define housing need and identify the policy tools and mechanism that would address them. This set a precedent for the development of omnibus housing legislation that continued until housing finance policy split from low-income policy again in the 1980s. This strategy forced opponents of particular provisions who did not want to delay other policies to accept compromises, which frequently entailed authorization for public housing, but also included special assistance for financing FHA programs for low- and moderate-income households and providing relief

to the housing industry more generally during periods of credit stringency through FNMA's authority, in the 1950s.

The dominant liberal housing policy vision that emerged followed the lines laid out by housing reformers, federal housing officials, and community builders in the 1920s and 1930s—large-scale development and liberal mortgage terms would facilitate low-cost housing development, bringing the cost of new housing within reach for most households. For low- and moderate-income families, policymakers liberalized mortgage lending terms, making it possible to finance a home purchase with less money down. A compensatory system of locally administered slum clearance, urban renewal, and public housing would eliminate older, substandard housing, as it accumulated in cities— via what was understood as a natural process of deterioration— and provide housing for working poor families unable to afford adequate commercial housing, even on the new terms afforded by liberalized mortgage markets.

Two new additions to the federal housing policy menu emerged in the 1940s and 1950s— grants for slum clearance and direct loans providing long-term, low-cost credit for the development of housing for special groups, including veterans, college students and the elderly. Democrats, including the Truman administration and a cross-regional coalition of congressmen in the 1950's, proposed direct loans and an independent financing agency to provide mortgages for cooperative and rental housing for low- and moderate-income households, citing concerns about the affordability and practicality of single-family home ownerships for all LMI families, but opposition from conservatives, the real estate industry, and the Federal Reserve led to their abandonment.

Federal housing policy struggles in the 1940s and 1950s reveal important boundaries for housing provision through the submerged state that go beyond the widely recognized exclusion of the poor from market-based systems of provision. Namely, the capacities and interests of the providers tasked with carrying out federal policy—in this case, home builders, specialized housing finance institutions, banks, and local governments— limit the scope of reform. At the same time, the central role of housing as a tool of macroeconomic policy was a blessing and curse. On one hand, conservatives who wanted the government to be less involved in housing finance refrained from drastic retrenchment because they were unwilling to risk a recession, while in power. On the other hand, direct loans and independent financing agencies that could have advanced non-commercial housing options were abandoned, in large part because of the perceived threat they posed to the Federal Reserve's ability to curb inflation and prevent the economy from over-heating when needed. Housing's linkage to the growth regime required a delicate balance. In this context, the capacities and interests of the providers tasked with carrying out federal policy—in this case, home builders, specialized housing finance institutions, banks, and local governments— exerted significant influence over the boundaries of provision through their investment decisions and business strategies, as well as their selective political mobilization in defense and expansion of credit and subsidization.

Mortgage Liberalization and the Middle Market

Post-World War II proposals for comprehensive national housing policy reflected the dominant consensus about the interrelationship of the supply, cost, and quality of housing and the hitherto market failures of low-cost housing most strikingly apparent in the slums. The Special Subcommittee on Housing and Urban Redevelopment, chaired by Sen Robert Taft (R-OH), which began meeting in 1944, defined the objective of federal housing policy to be, “an adequate supply of decent housing” (U.S. Congress 1945b:3).

Federal policymakers considered expanding the market for residential construction to the so-called “middle-market” or “no-man’s land” critical for realizing the economic and housing benefits policymakers hoped to achieve through federal housing policy, and it was a logical next step given the present gap in policy to address the needs of moderate-income households. The Truman administration estimated that 38% of annual housing production should target households in the “middle-market,” who could afford \$20-\$40 per month in housing costs (U.S. Congress 1945a:85). The Secretary of the National Housing Agency, John Blandford, told Congress, “The further opening up of the middle-market area to privately financed housing would be the greatest single contribution toward meeting the housing challenge confronting us all. In the first place, this middle-market housing would broaden the market for new housing, which in the past has been largely restricted to the upper section of the family income pyramid. If this mass market for new homes is not opened up, we cannot reasonably expect to maintain for long periods of time a large volume of postwar housing construction, required to provide the necessary outlets for productive employment of our human material and financial resources. Secondly, this middle-market housing would get us out of the dilemma in which we presently find ourselves, whereby low-income families find a satisfactory formula for their needs through public housing, while there are still lacking adequate tools to meet in substantial volume the needs of middle-income families” (U.S. Congress 1945a:88).

To reach the middle-market, Sen. Taft’s committee proposed to liberalize mortgage terms for financing the construction of moderate-cost housing, including increasing the maximum loan-to-value ratio for single family homes, rental housing, and mutual ownership projects, extending the maximum amortization period, and expanding the advance commitments builders could receive for the construction of low-cost housing. Increasing loan-to-value and amortization period promised to broaden new housing markets by increasing households’ debt-carrying capacity. Advance commitments meant that builders could build homes with less upfront capital, lowering their financing costs, and making the construction of low-cost homes more lucrative than it otherwise would be. The administration also proposed protections for home buyers and rental housing investors, including a homebuying guarantee and yield insurance. In introducing these financing incentives, policymakers hoped to both expand the range of household incomes for which it was economically feasible to build new housing and, by

doing so, entice developers to build for the housing for the middle-market (U.S. Congress 1945a:85–100).¹

Notably, however, this housing was not meant to be of high quality or to uphold impressive design qualities. This is evident in reference to “minimum standard” housing throughout federal housing legislation. Senator Taft told the housing committee, “I feel very strongly that in every respect we can there should be a special incentive to build the cheapest kind of house that can be built... I think that is the key to the solution of the housing problem, as I see it” (U.S. Congress 1945a:93).

The comprehensive national housing policy proposal also included an expanded public housing program that would sponsor 500,000 units over 4 year and a new program of slum clearance grants that would aid local governments in the acquisition of sites for housing or the clearing of sites of predominately residential character (U.S. Congress 1945b:21). Senator Taft explained his support for public housing to his colleagues by citing the federal interest in ensuring, “minimum standards of housing... are available for all members of the community” and explaining that alternatives were unworkable.

Conservative and real estate industry opposition to public housing prevented the enactment of the Taft Committee’s proposal, which became the Wagner-Ellender-Taft bill, for years. The W-E-T bill passed the Senate in 1946, but the House Banking and Currency Committee, chaired by Rep. Jesse Wolcott (R-MI) refused to send the bill to the House, where it would have passed (Biles 2011:26–27; Davies 1966:47–49). Divided government prevented passage of comprehensive housing legislation in 1947 and 1948 because Republicans overwhelmingly opposed public housing (Davies 1966:65). Despite staunch opposition to public housing from the real estate industry, Republicans, and rural congressman, the legitimacy of the established need for decent low-cost housing and the lack of viable alternatives made it difficult to deflect the issue. Republicans created a joint committee to postpone action on TEW bill until 1948, which ultimately recommended exactly what the TEW bill had (Davies 1966:67). President Truman criticized the Republicans for obstructionism of popular housing reform in his 1948 reelection campaign and “housing reform served as an important issue in the populist campaign that returned Truman to the White House” (Biles 2011:28).

Democrats allowed mortgage liberalization and secondary mortgage market support provisions that benefitted the private housing industry to pass separately in 1944, 1946, and 1948, angering some stalwart public housing proponents, including Senator Robert Wagner (D-NY) (Huthmacher 1968). In 1944, Congress enacted the Serviceman’s Readjustment Act, which authorized the VA to guaranty mortgage for returning veterans’, lowering required down payments and the cost to buy. In 1946, the Veteran’s Emergency Housing Act extended FHA programs insuring mortgages with liberal terms for the construction of rental and sales housing for veterans. In 1948, Congress enacted liberalized mortgage terms for FHA and yield insurance for rental housing, raising max

¹ Secretary Blandford acknowledged, “there is no serious problem in taking care of the top income groups, who can pay more than \$40 a month. In fact, in this area, the real problem is to guard against speculative overbuilding” (U.S. Congress 1945a:86–87).

loan-to-value to 95% for lower cost homes, 90% for multifamily, and increasing maximum dollar limits (Milgram 2003; Semer 1976).

The W-E-T bill was enacted in 1949 after another contentious struggle, authorizing 810,000 units over five years along with urban renewal (Szylvian 2013). In a reflection of how unified Democratic support for housing legislation depended upon deference to local autonomy in matters of race, Republicans attempted to kill the bill by proposing an amendment that would have outlawed discrimination on the basis of race or ethnicity in any of the housing sponsored by the bill. Northern liberals who supported civil rights legislation, such as Sen Paul Douglass (D-IL), voted down the amendment to prevent the housing bill from losing the support of southern Democrats and facing another defeat (Biles 2011:29–30). Racial segregation remained the rule in public housing until a 1954 court ruling prohibited discrimination on the basis of race in housing (Meehan 1979). Subsequently, demographic change in the population of public residents entrenched racial residential segregation in public housing (Goetz 2013; Meehan 1979).

The success of Democrats' strategy of linking public housing to urban renewal to shore up support for public housing was short-lived. In 1954, mayors, business interests, and moderate policymakers united in support of expanding support for urban renewal and minimizing public housing. The Housing Act of 1954 effectively relegated public housing to a marginal program by reinstating the equivalent elimination rule which limited a city's public housing funding to the number of units eliminated through slum clearance, conditioning public housing funds on a plan for commercial redevelopment, and expanding federal support for large-scale commercial redevelopment (Flanagan 1997).

Residential Construction in the Early Post-World War II Boom

In the first decade following World War II, relatively low-cost single-family housing development on the suburban fringe boomed. In 1949, the median income of FHA new home buyers was 122% of household median income, down from 174% of household median income in 1940 (Federal Housing Administration 1940, 1949). Architectural historians' characterize the 1940s as the decade of the “minimum house” a house of about nine hundred to one thousand square feet, with a living room, kitchen, one bath, and two or three bedrooms, and its buyers as the “newly affluent working class” (Jacobs 2015; Lane 2015).

The expansion of low-cost mortgage credit on liberal terms was essential for the post-World War II boom in low-cost single-family subdivision development. Non-farm residential mortgage debt doubled from \$24.3 billion in 1945 to \$55.2 in 1950— a growth rate that would be replicated in the first half of the 1950s, continue at a slower rate in the second half of the 1950s and reach \$150 billion (Carter et al. 2006a). The average duration and LTV of an FHA mortgage increased from 19 years, 78% LTV in 1946 to 25 years, 89% LTV in 1959 (Carter et al. 2006b).

Federal selective credit programs played an important role in both increasing the acceptance of the long-term, fully amortized mortgage and in financing residential construction. The FHA-VA share of new housing starts reached a high of 41% in 1955 (Congressional Research Service 1969:12–13). In areas where alternative credit resources

were scarce, federal credit programs were particularly important. Wendt et al. (1951) estimate the FHA oversaw 80% of homes built in the Bay Area in 1950 (Wendt and Rathbun 1951).

Yet, even in the decade of the “minimum house,” the newly built suburbs skewed toward the upper half of the middle class. A 1950 survey of residents of Levittown Long Island found that 62% had white collar jobs and 38% had blue collar jobs (Cohen 2003:200). Perhaps reflecting the still relatively high financial bar for the purchase of a new home, in 1949, only 12% of FHA new home buyers had incomes less than the median national income (Federal Housing Administration 1949).

The newly built suburbs were also racially exclusive. Neither the 1948 Supreme Court ruling outlawing racially restrictive covenants nor the landmark 1954 decision overturning the doctrine of “separate but equal” altered the pattern of racially exclusive development on the suburban fringe. Federal credit programs relied on private mortgage builders and lenders to implement federal policy and federal administrators interpreted the implications of legal rulings outlawing discrimination narrowly, deflecting their application to FHA and VA’s guaranteed loan programs (Hirsch 2006; Katznelson 2005). The most prominent post-World War II developer, William Levitt openly touted his policy of excluding African Americans. In 1960, none of the 82,000 residents of Long Island Levittown was black (Jackson 1985:241).

A deficit of new housing opportunities on the suburban fringe put greater pressure on urban housing to meet the needs of the rapidly urbanizing African American population in northern and midwestern American cities. Yet, the anemic production record of public housing and the shifting focus of urban renewal from slum clearance and re-housing the poor to commercial redevelopment after 1954 never provided a substantial source of new housing (Flanagan 1997). By resulting in the demolition of more housing than it built, urban renewal exacerbated the housing shortage for racial minorities and the poor (Biles 2000).

At the same time, rental and multifamily housing production was a major gap in the postwar private residential construction market. This was the case in the recovery in the 1930s, as well as the period following World War II (Figure 2.1). Nationally, multifamily housing starts (three or more units) made up 13% of housing starts in the first decade following World War II, down from 34% in the housing boom following World War I. As housing market observers have noted, several contingent, historical factors contributed to the rise of single-family housing in the after-World War II.² Yet, the under-production of rental housing in the post-World War II period also has institutional dimensions. Namely, the public-private housing finance and urban development system failed to solve the collective action problems associated rental housing production, as it had for single-family, owner-occupied housing.

² Jackson (1985) attributes the low rate of rental housing production in the decades following World War II to over-building during the 1920s, demographic shifts in housing demand, and changes in transportation associated with the rise of the automobile and developing road and highway infrastructure that enabled low-density living for a wide range of households (Jackson 1985).

An FHA program financing rental housing for veterans demonstrates the constraints that investors' preferences and mortgage financing requirements placed rental housing production. From 1942 through 1950, the program, known as Section 608, insured 465,680 units—three times as many as Section 207, FHA's original mortgage insurance program, over a much briefer span. As with Section 207, rental project sponsors had to consent to FHA supervision, but investors were allowed to borrow more than 100% of cost of a project, thereby eliminating the requirement to invest and risk some of their own capital (Bartke 1966; Milgram 2003).

Congress ended 608 abruptly over scandals that came to light where investors inflated the cost of projects and collected windfall profits from the loan. The Committee on Banking and Currency concluded, "[Section 608] made a very substantial contribution towards providing badly needed rental housing in the period during and after World War II... But we are not prepared to accept the premise that adequate rental housing cannot be made available to the American people except when unconscionable profits are realized through abuses and irregularities in the program" (Bartke 1966). The investigation identified instances of fraud, including, conflict of interest, failure of high-ranking officials to report irregularities, and blank forms, but the controversy centered on the pervasive use of "mortgaging out." Mortgages were not supposed to exceed 90 percent of estimated cost, but an investigation found that most 608 mortgages exceeded project costs. Excess mortgage proceeds were distributed to shareholders of the holding corporation in violation of FHA rules that distributions could be made out of earnings only (Bartke 1966).

Despite the consternation of members of Congress, observers familiar with apartment finance were not alarmed by prevailing practices in Section 608. Miles Colean, the first federal administrator of FHA's Rental Housing Division, argued that "mortgaging out" was central to Section 608's success, and no large-scale rental housing construction program would be successful without. According to Colean, all previous multifamily mortgage insurance programs had been "flops," because they expected apartment investors to make "high risk-low reward" investments, which were an undesirable business proposition when they could choose from alternatives that include "low risk-low reward" investments, such as government bonds, or high risk-high reward investments (Colean 1955). In another favorable analysis of Section 608, Charles Haar (1960), a housing finance expert and Professor of Law at Harvard University, pointed out that the success and controversy of Section 608 illustrated a tension that arose in government action working through risk capitalism (Haar 1960). How much incentive was required, and how much was acceptable, to "get the donkey to move"?

A comparison of the investment requirements and dilemmas of owner-occupied and rental housing development illustrates the key role that the home buyer played in the success of the post-WWII expansion of privately financed, speculative housing development for the mass-market. In the case of for-sale housing, the home buyer played two important roles. First, they provided up-front investment equity and absolved the developer from taking on the risks associated with long-term property ownership. Consequently, in contrast to rental housing developers, subdivision developers could limit their up-front capital investment, realize quick returns, and avoid exposure to risks

associated with long-term property ownership. Second, the home buyer— and the real estate and banking professionals tasked with looking out for their interests— also provided a check against the excessive profit-taking on the part of home builders. Since the future residents of rental housing were more remote from financial and development transactions, their interests were poorly represented in the process. Consequently, federal policymakers were weary of providing rental housing developers with full financing for new developments and their concerns were, at least in some instance, warranted.

The failures and partial successes of market-based supports for low-cost housing production kept housing on the federal agenda in the 1950s. The next section analyzes the emergence and reception of proposals for direct federal loans for moderate-income cooperative housing. As construction costs and home prices increased over the course of the 1950s, calls for the federal government to do more to help low and moderate-income groups obtain housing drew more adherents. However, opposition from conservatives, the real estate industry, and economic officials tasked with managing the economy placed constraints on the development of new federal supports for moderate-income housing.

Direct Loans, Interest Groups, and Macroeconomic Policy

Shortly after the enactment of public housing and urban renewal in the Housing Act of 1949, Congress turned with renewed interest to proposals to aid moderate income housing. Sen. Burnett Maybank, echoed a widely held sentiment that this group represented a “big gap in our present housing program” (Szylvian 2015:152). By June 1949, a total of 19 middle-income cooperative bills had been introduced in Congress. Several Republican Senators introduced bills calling for direct loans for housing for middle-income groups. Senator John Sparkman’s (D-AL) bill calling for direct, long-term low-interest loans to housing cooperatives emerged as the forerunner. Sparkman’s commitment to the cause stemmed from his desire to “increase the supply of affordable rental housing for veterans and wage earners and make it easier for them to become home owners” (Szylvian 2015:154). Labor, veterans’ organizations, and religious organizations supported Sparkman’s bill. But the proposal faced strong opposition from real estate industry groups, who had a friend in the Chairman of the House Banking and Currency Committee, Jess Wolcott (R-MI). It also stoked fears among fiscal conservatives. The Washington Post declared opposition on the grounds of fiscal restraint, declaring that, in all probability, a subsidy would be involved (Szylvian 2015:154).

Seeing too much opposition to direct loans for middle-income housing cooperatives, Sparkman withdrew the proposal. Aiming to develop a better proposal, Sparkman traveled with a contingent of other congressman and public and private housing leaders to Northern Europe to study cooperative housing models. When they returned, Sparkman and other Democratic colleagues proposed a Cooperative Corporation to offer loans and technical assistance to housing cooperatives in place of direct loans. The Truman administration approved of the “fiscally self-sustaining” concept. When President Truman announced his support for Sparkman’s Cooperative Corporation in his 1950 Annual Message to Congress, he, “explained that now that the “groundwork for relieving the plight of lower-income families” had been laid by the

Housing Act of 1949, it was time to address the needs of struggling middle-income families” (Szylvian 2015:156).

Sparkman’s Cooperative Corporation proposal failed to mollify the opposition. Unsurprisingly, real estate industry groups remained staunchly opposed. They would be subject to the most direct potential risk from a non-commercial housing alternative. The real estate industry delivered the typical litany of opposition to government intervention, and also argued there was no unmet need or demand among the groups targeted (Szylvian 2015:159). The proposal was dealt a devastating blow, however, when Thomas McCabe, the Chairman of the Federal Reserve Board opposed it on the grounds that it would likely contribute to inflation. McCabe, and the Washington Post, which echoed his concerns, recommended FHA financing (Szylvian 2015:158).

The Truman administration and labor lobbied for Sparkman’s middle-income housing cooperative proposal, but Republicans in northern states did not break ranks to support it, as they had hoped, and a block of southern Democrats voted against it (Szylvian 2015:162). In its place, the Housing Act of 1950, expanded FHA support for cooperative housing mortgages by creating Section 213.

In the mid-1950s, Democrats in Congress revived proposals for extending federal credit programs for moderate-income housing in the context of slow-down in residential construction. In 1956, Sen. Herbert Lehman (D-NY) introduced legislation establishing a National Mortgage Corporation that would “make and service loans to help moderate-income families, non-profit cooperatives and corporations to build middle-cost houses [40 years at the government’s cost to borrow]” (Labor’s Daily 1956). Housing and Home Finance Agency Secretary Albert Cole called it an “undisguised anti-private enterprise bill” (Dale 1958). Herbert’s proposal failed but ongoing problems with residential construction and the Eisenhower administration’s limited response led to a resuscitation of the proposal the following year. In December 1956, the administration announced that it had “reached the end of its rope” with helping the housing industry (CQ Almanac 1958). The National Housing Conference, an organization of local officials and housing administrators promoting public housing, accused the Eisenhower Administration of “failing to come to grips with the two-year housing decline which has seen construction sink to the lowest level in nine years” (Viorst 1957). Sen. Joseph Clark (D-PA) introduced a bill to assist families of moderate income and the aged to buy or rent new homes. The bill would create a National Mortgage Corporation within the HHFA and authorized it to make up to 1 billion in loans (New York Times 1957b). The National Mortgage Corporation would make “long-term, low-interest loans for sales, cooperative and nonprofit rental housing” for middle-income families (New York Times 1957a). Provisions for the National Mortgage Corporation appear to have not made it out of the Housing Banking and Currency Committee (CQ Almanac 1958).

Direct loans for moderate-income cooperative rental housing, and federal housing credit policy, more generally, fit within a broader framework of growth liberalism. The resistance they engendered can be understood in the context of the partisan politics of surrounding economic growth. Robert Collins (2000) situates the ascendance of growth liberalism in the context of partisan politics and the Cold War. Growth liberals, like Leon Keyserling, advocated an unrelenting pursuit of growth and full employment. Keyserling

and other notable growth liberals, like AFL-CIO president George Meaney, were strong backers of the National Housing Conference's drive to expand public housing and moderate-income housing options (National Housing Yearbook). In contrast, however, Republicans, including President Eisenhower and his advisors considered the battle against inflation "never-ending" and preeminent. Consequently, they viewed new federal housing credit proposals and the growth of existing ones with concern. The return of Republicans to presidential power in 1953 brought a renewed emphasis on economic stability and inflation (Collins 2000). The Eisenhower administration's attempt to re-organize the federal role is discussed in the following section.

Proposals that could have provided more credit, on better terms, for moderate-income cooperative and rental housing failed, in part, because influential actors opposed them on the grounds that they would create new demands on the nation's credit in ways that circumvented the competition for private capital that enforced a level of discipline on aggregate borrowing through the pricing of loans by banks and other lenders. Fiscal conservatives, federal officials tasked with managing the economy, and mainstream media outlets gave credence to the perceived threat of inflation associated with relatively direct federal lending to finance new housing. Of course, other groups that were competing for credit, including home builders, Realtors, small businesses, and state and local governments, also would have good reason to question the special credit facilities and direct loans for moderate-income proposals.

Other important factors that likely limited the success of policies that could have provided access to more and better loans for moderate-income alternatives to single-family housing were the lack of a well-defined target group for the policy and an institutional actor with the capacity to lobby for them and/or translate the policy into action. Evidence for the importance of these factors is given by the enactment of federal direct loans for special groups, including farmers, college students, and the elderly. The provisions of direct loan programs for rental housing for special groups compared favorably with those available for rental housing more broadly. For example, in 1950, Congress authorized a program of direct federal loans to colleges for student and faculty housing. The program offered favorable loan terms of 40 years and a maximum interest rate of 1 percent above the Treasury rates equivalent to the full project cost. In 1955, Congress liberalized the mortgage terms for the college housing program, offering 50 year loans at .25 percent above the Treasury rate, and again in 1965, Congress lowered the interest rate to 3% (Milgram 2003). The college loan program grew over the course of the 1950s and 1960s; between 1950 and 1966, Congress increased the authorization for the revolving loan fund seven times and lowered it once. By 1969, 3,143 college loans issued through the program, worth more than \$3.5 billion, had built 808,443 housing units (U.S. Congress 1969).

New Uses of Federal Credit? FHA, FNMA, the Re-Housing Market, and Stratified Inclusion

Federal policymakers continued to pursue comprehensive housing policy in the 1950s. In 1953, President Eisenhower convened the President's Committee Advisory Committee on Government Housing Policies and Programs to develop a new framework

for federal housing policy that would bring greater balance between the twin goals of providing housing for the American people and maintaining a “sound a growing economy.” One of the Eisenhower administration’s major goals was to reduce the inflationary impact of federal housing credit on the growing economy (Saulnier 1991). The recommendations for doing so included privatization of the Federal National Mortgage Association and giving the President the authority to regulate mortgage terms. While Eisenhower sought to limit and increase executive control over federal housing credit in the name of macroeconomic management, he did not depart from assumption of federal leadership in housing provision, and for low- and moderate-income families, in particular. Other major recommendations included an expansion of urban renewal grants for slum clearance, federal credit support for small-scale urban rehabilitation, and a general extension of FHA to existing housing (Hunt 2005a).

Although opponents of public housing had long argued that the ‘filtering’ down of older housing was sufficient to provide housing for low-income households, Republicans’ shift to advocating the use federal credit programs to finance existing housing, and thereby, facilitate this process, marks a new rhetorical and policy development. Mortgage liberalization for existing housing provided an alternative to the emphasis on low-cost housing development that prevailed in federal housing policy in the 1930s and 1940s and remained the preferred option of Democrats in the 1950s, who continued to favor pro-growth economic policies and downplayed the risks they posed for inflation.

President Eisenhower’s attempts to exert executive control over federal housing credit generally failed (Saulnier 1991). The Housing Act of 1954 included the FNMA Charter Act, which separated three functions of FNMA: (1) secondary market operations; (2) special assistance; and (3) management and liquidation. The upshot of the FNMA Charter Act was that it moved special assistance financing on the federal ledger. Although it kept financing of market-rate mortgages off the books, it moved FNMA’s portfolio of market-rate mortgage on the books (Haar 1960). From 1957 to 1959, FNMA spent over \$2.5 billion to offset an economic downturn (Cole 1979). In the second half of his Presidency, Congress used omnibus housing legislation to thwart Eisenhower’s attempts to reign in federal housing credit programs. Eisenhower had to, “accept features not to his liking in order to obtain others that were vitally necessary” because he lacked the line item veto that he repeatedly asked for (Saulnier 1991:157).

Proposals for the re-direction of FHA toward urban rehabilitation and existing housing were more successful. The Housing Act of 1954 liberalized mortgage terms for existing housing, bringing them into greater conformity with new housing— in effect changing from a maximum LTV of 80% to 95%, graduated w/ higher downpayment requirements for lower cost homes (U.S. Congress 1954). It also introduced new selective credit programs for the purchase and construction of housing in urban renewal areas (von Hoffman 2008). In the late 1950s, FHA’s mortgage insurance activity shifted toward existing housing, a trend that would continue in subsequent decades. Consequently, FHA’s post-war influence in residential construction peaked in the late 1940s (Figure 2.2).

The rise of a rehousing market and FHA’s turn to existing housing helped ease access to credit for lower-income buyers of existing homes. However, the withdrawal of

federal credit programs from housing production foreshadowed an increasingly stratified housing market. Federal withdrawal signaled a triumph of already dominant strands of privatism and localism in matters of housing production. Following the Supreme Court's prohibition of racial restrictive covenants in 1948, suburban communities adopted new tools of exclusion through zoning and urban redevelopment with impunity (Cohen 2003:216). At the same time, federal efforts to bolster private investment housing rehabilitation never materialized (von Hoffman 2008). Investors and developers retained the preference for large-scale suburban subdivision development. Consequently, housing opportunities for the black middle class remained limited to older housing that "trickled down" to them from neighborhoods adjacent to black communities (Hirsch 2006:56). Racial and economic divides between central cities and their suburbs grew increasingly stark (Cohen 2003:212–13).

The Achievements, Conditions, and Limits of Post-World War II Housing Production

By the end of the 1950s, Americans' housing conditions and opportunity had improved according to the broad, but best available data. From 1940 to 1960, the number of households with incomplete plumbing declined from 45% to 16% and the number of crowded households declined from 20% to 11% (Schwartz 2014:29).³ While racial disparities remained, improvements in housing quality were experienced across racial lines. From 1950 to 1970, substandard housing—dilapidated or lacking complete plumbing—declined from 61.2% to 8.5% for urban African Americans and from 18.2% to 2.4% for urban White households; overcrowding dropped to 18% and 6% for black and white urban households, respectively (Heilbrun 1974:255). While uneven gains in homeownership exacerbated racial inequality in homeownership, African Americans' gains in homeownership from 1940 to 1960 were greater than at any time since. From 1940 to 1960, the African American homeownership rate increased 18 percentage points from 19% to 37%, while the white homeownership rate increased 19 percentage points from 45.7% to 65% (U.S. Census 1940, 1960). African American homeownership increased 8 percentage points from 1960 to 1980 and 2 percentage points from 1980 to 2000 (Boustan and Margo 2013b).

High rates of residential construction were critical for housing gains in the 1940s and 1950s. The National Commission on Urban Problems (1969) credited the high rate of home building and subsequent filtering with the decline in substandard housing and crowding in metropolitan areas. Three homes were built for every two households formed in the 1950s. Critically, housing starts in the 1950s were high enough to offset the net change in the housing stock—including not only starts, but also demolitions and conversions—even though housing demolitions in the 1950s were twice as high as the

³ The incidence of substandard housing and crowding continued to decline in the 1960s and 1970s, until both measures were under 5%, where they remained roughly stable through 2000 (Schwartz 2014:29). From 1960 to 2000, the incidence of substandard housing and crowding improved at similar rates across groups, but large disparities remained (Amin and Mariam 1987; Blank 2001).

level estimated for the first half of the twentieth century—25% vs. 11% (National Commission on Urban Problems 1969).

Federal credit programs were critical for enabling the post-World War II housing boom, but income gains and low-interest rates, made possible by restrictive financial regulation and the United States' dominant economic position in the global economy, were equally critical. Income gains were critical for realizing housing gains without significant increases in housing cost burdens. Stone (1993) finds that the incidence of shelter poverty, which measures poverty when the cost of housing is taken into account, declined in the 1940s and 1950s due to improved incomes and lower costs for non-shelter goods, while “actual housing expenditures from the Census and consumer expenditure surveys, rose substantially more than average incomes for low- and moderate-income people” (Stone 1993:108). A study of filtering similarly concluded that rising income was critical for the process to contribute to improved housing supply and cost (Grigsby 1963).

Anticipation of changes in these underlying economic conditions led housing market observers to raise concerns about the ability of existing housing policy tools to continue to advance national housing goals. The National Commission on Urban Problems (1969) cautioned that the conditions that gave rise to the high rate of residential construction in the 1950s, including the wartime backlog and improved mortgage terms, were not likely to be replicated in the future, “short of comparable new stimulants to home purchases” because, “This easing process would seem to be near its limits” (National Commission on Urban Problems 1969:71). The commission's concerns echoed the concerns of prominent housing observers at the end of the 1950s about how changing economic and market conditions would impact housing. William Grigsby, the father of modern housing economics, wrote at the end of the decade, “The question now is whether the record of recent years can be expected to be duplicated or exceeded in the years ahead. For how long and to what extent can the stimulative action of rising incomes and shifting preferences (to homeownership) counterbalance the depressant effect of increasing vacancies and price and rent declines? If the forces which tend to retard new construction become relatively more important, special effort will be required to enable the private market to bring a larger supply of adequate housing to lower-income families” (Grigsby 1963:172). Grigsby was principally concerned with whether filtering of older housing would enable the improvement of housing for low-income households that remained in substandard housing. However, this quote also eloquently captures the theoretical limits of a commercial market for new housing in supplying adequate housing for all households. If housing prices decline or plateau, new construction may slow before enough new housing is built to allow for the adequate housing of all families who need it. For this reason, at the start of the 1960s, Charles Haar (1960) suggested that continuing to expand residential construction, and thereby, access to standard housing, and homeownership would require subsidy and more a more directive role for federal credit programs in the housing market, noting how expectations for interest rates to continue to rise meant that, “manipulation of the credit trio has gone as far as it can down the income ladder” (Haar 1960:302). The following chapter turns to how federal policymakers addressed the housing needs of low- and moderate-income households in the 1960s, when changing economic conditions, alongside a host of new housing

challenges related to the location of low-cost housing relative to jobs and racial residential segregation came to the fore.

Conclusion

In the 1940s and 1950s, federal housing policy remained an area of active public concern and debate. Although the adoption of two-tiered housing policy precluded the development of a universalistic housing program analogous to those that developed in Europe, it did not foreclose the development and expansion of a federal role in housing. The New Deal bequeathed a rationale for federal intervention in housing markets rooted in market failure in mortgage, homeownership, and residential construction markets. In response to concerns about the supply and cost of housing for low- and moderate-income households, liberal policymakers, labor, and housing advocates proposed direct federal loans for cooperative and rental housing and raising the income eligibility threshold for public housing. Moderate policymakers and the real estate industry proposed mortgage liberalization and tax benefits for property owners.

Mortgage liberalization and tax benefits for developers and property owners faced little opposition, but they were limited in how much they could improve the supply and cost of housing due to reliance on equity investments from homeowners or investors and their inability to mitigate rising interest rates. Although direct loans for cooperative and rental housing addressed concerns about the contribution of rising interest rates to housing costs, the private housing industry and the Federal Reserve joined conservative policymakers in opposition to new credit facilities for cooperative housing. While Republican opponents of pro-growth macroeconomic policy did not offer alternative housing production strategies, they proposed and enacted legislation to liberalize mortgage terms for existing housing. Federal policies that actively promoted the “rehousing” market implicitly leveraged existing home equity to stimulate the housing market, providing a more modest economic stimulus and less egalitarian approach to housing markets than growth liberals advocated. Thus, partisan and ideological divides over pro-growth macroeconomic policy constrained the development of new credit facilities for housing that could have limited the impact of rising and volatile interest rates on the housing market and increased low-cost housing production.

The post-World War II housing market improved housing conditions for a broad swath of Americans directly through new home purchase and indirectly through the filtering of older housing. Yet, improvement in housing conditions came at the expense of racial exclusion, growing racial and economic city-suburb divides, and higher housing costs, made possible by rising incomes and the declining costs of other goods. Weak rental housing production throughout the period compounded blocked housing opportunities for minorities in the suburbs.

Policy struggles over how to increase the supply of low-cost housing in the 1940s and 1950s highlight constraints on housing provision in the context of two-tiered housing policy that go beyond the widely recognized tendency toward weak support for housing safety net policies for the poor and alternative, universalistic approaches to housing provision (Bendaoud and Marmor 2020; Hacker 2002). In both tiers of federal housing policy, federal policymakers rely on indirect mechanisms to channel the capacities and

interest of actors outside of the federal government toward federal policy goals. Two additional constraints operate in this context. First, private or local actors may not take-up federal incentives. In response, policymakers may increase incentives or create new organizations in their place. However, the federal government's private partners—or their competitors—may oppose enhanced incentives or the creation of new actors based on their competitive and interdependent relationships to providers. Thus, a contentious politics of allocation constrains policymakers' agency in indirect or associational policy. Second, policymakers may impose rigid requirements on programs that operate through indirect mechanisms to prevent waste or abuse. Although well-intentioned, rigid requirements may have unintended consequences that undermine federal policy goals. This tendency is particularly strong when federal policymakers are allocating federal resources understood to be scarce, such as direct subsidies (public housing) and when the absence of third parties overseeing private partners creates a principal-agent problem that makes federal programs potentially vulnerable to abuse (private rental housing). These two forces—contentious politics of allocation and constraints stemming from policymakers' efforts to provide oversight—explain the persistence of the “missing middle” despite policymakers' efforts to close gaps in housing provision.

This chapter also highlights the role of a type of path dependence that has received less attention in studies of policymaking in recent years. The most common applications of path dependence to studies of policymaking in recent years have focused on whether policies generate feedback mechanisms that mobilize beneficiaries to defend them in the face of attack (Pierson 1995). In contrast, this type of path dependence operates in a more subtle and, perhaps more pervasive, way to shape what material and symbolic resources are available for future policy struggles. For example, the expansion of homeownership in the decades following World War II created a new resource that policymakers could tap into to stimulate the housing market—existing home equity. This type of path dependence is analogous the branching off that occurs in markets for the adoption of new technologies and that some economists posit as a core organizing principle of the economy, in contrast to orthodox homeo-static theories of macroeconomics (Arthur 1994). Attending to the path dependent nature of market-based systems of social provision highlights tendencies that may call for a policy response to prevent the divergence of the interests of private providers and the intended beneficiaries of federal policy.

The failures and partial successes of federal policy initiatives to increase the supply of low-cost housing in the 1940s and 1950s suggest that the success of future federal housing policy initiatives would depend on the ability of reformers to bridge gaps in mortgage, homeownership, and housing production markets and institutionalize a liberal approach to macroeconomic policy, or otherwise develop new tools to manage the economy without relying on restrictive monetary policies that constrained housing. When policymakers addressed housing in the 1960s, they confronted these unsolved problems, as well as the social and political consequences of increasingly stark racial and economic city-suburb divides.

Chapter 3: Inclusive Growth Liberalism, Federalism, and Federal Housing Policy Innovation in the 1960s

By the 1960s, urban and housing analysts had come to believe that two-tiered housing policy, consisting of market-based federal housing supports for the middle class and public housing for the poor, contributed to a dynamic of suburban expansion and urban decline that exacerbated metropolitan fragmentation and racial segregation and undermined the vitality and livability of the American metropolis, with the heaviest burdens falling on racial minorities and the poor. Over the course of the 1960s early 1970s, federal policymakers presided over a significant expansion of federally subsidized housing production, particularly through incentives for the private sector to build more low-cost housing outside of the central city, as well as increased federal aid to cities. By the 1980s, however, federal policymakers had retrenched federally subsidized housing production programs and federal urban aid. What policy vision and political strategy drove housing and urban development policy innovation and experimentation in the 1960s and early 1970s? Why was its legacy so fleeting? What is the significance of the failure of Great Society housing and urban development policy to transform the politics of housing?

This chapter argues that, in the 1960s, growth liberals adopted a two-pronged strategy in response to housing and urban problems associated with growing metropolitan fragmentation and segregation and the resulting spatial mismatch of jobs and housing in the context of the suburbanization of jobs and market-rate housing production. Up until that point, federal agencies had provided developers and home buyers with credit but offered no help with either land assembly or direct subsidies. In contrast, the federal government provided local governments with authority and subsidies for a narrow set of land and housing development activities—slum clearance and public housing. Yet, local governments lacked incentives, authority, and resources to engage in urban planning and development outside of the narrow scope of slum clearance and urban renewal. Growth liberals proposed to scale up federal credit and subsidies for developers and households, on one hand, and to give local governments tools, incentives, and flexibility to promote low- and moderate-income housing production and balanced metropolitan development, on the other. I refer to this policy strategy as “inclusive growth liberalism” to denote the linkage of economic and social policy goals—namely, low-cost housing production, mitigating urban inequality, and promoting balanced metropolitan development—through markets embedded in public institutions governing the allocation of key resources for housing as the hallmark of the policy vision that drove Great Society housing and urban development policy.

The political strategy underlying inclusive growth liberalism entailed scaling up and better coordinating longstanding partnerships between the federal government and the private home building industry, on one hand, and the federal government and local governments, on the other. To enact legislation and implement federal policy, growth liberals relied on a liberal-builder coalition comprised of labor, home builders, mayors and local officials. Each of these groups leveraged sophisticated national lobbying organizations and federated organizations amenable to influencing Congress. Labor and

home builders provided strong support for federally subsidized housing production and lent their support, and, in some cases, lobbying strength to enact federal aid for cities. Mayors and local officials provided strong support for federal urban aid, and housing production policies that increased housing opportunities for the middle class in cities and encouraged suburbs to take their fair share of low-income housing. A coalition of conservatives, southern Democrats, and Realtors imposed some constraints on federally subsidized housing production. Opponents restricted rent supplements for moderate-income rental housing production to very low-income households and imposed a local government approval requirement. By restricting a more flexible and effective housing subsidy mechanism, these restrictions undermined the workability and financial viability of federally subsidized housing programs in later years.

Despite some setbacks, by the end of the 1960s, the liberal-builder coalition had succeeded in expanding federally subsidized housing production and federal urban aid. Yet, policies enabling and incentivizing state and local governments to take a more proactive role in building and facilitating the low-cost housing development failed or remained underdeveloped. At the same time, the expansion of federally subsidized housing production and urban aid created new operational, oversight and coordination challenges. In response, federal policymakers debated national urban policy proposals that aimed to build local capacity to advance federal policy goals. An innovative policy proposal for a metropolitan housing block grant could have addressed some of the operational and oversight concerns associated with federally subsidized housing production programs and strengthened local capacity to advance national policy goals for balanced metropolitan development. Although the metropolitan housing block grant proposal appealed to the interests of home builders and mayors, they did not rally behind it, opting instead to support policies that more narrowly advanced their primary interests in central city redevelopment and subdivision development, respectively. Following the failure of national urban policy and federal credit policy failures and developments discussed in the next chapter, federal policymakers facing a stalemate over the direction of federal housing policy enacted the Housing and Community Development Act of 1974, which inaugurated a more limited federal role in housing production and abandoned the promotion of balanced metropolitan development.

Although Great Society housing and urban development policies premised on inclusive growth liberalism were only partially successful, they, nonetheless, provide insight into liberal policy efforts to address affordable housing in an institutional context defined by what Elisabeth Clemens (2006) has called the Rube-Goldberg state (Clemens 2006). Clemens notes that federal policymakers, limited by fragmented political authority, have had to rely on indirect mechanisms to induce other forces into taking desired actions. Such indirect mechanisms include matching grants to local governments, federal credit support, and tax expenditures (Quinn 2019). In housing, perhaps more than any other policy area, such indirect mechanisms predominate due to both the dominance of the private sector and the complex nature of housing provision as both an asset and service dependent upon the delivery of effective provision of local services and the health of local economies.

This chapter argues that Great Society housing and urban development policy illustrates the central role that the promotion of low-cost housing production for low- and moderate-income households through credit and cooperative federalism have played in liberal policy efforts to address affordable housing. Rooted in macroeconomic policy goals centering equitable growth, this policy strategy enabled growth liberals to forge a broad coalition to expand the federal role in housing in the 1960s and early 1970s. In addition to its macroeconomic and coalitional foundations, Great Society housing and urban development policy adopted an innovative approach to checks and balances that would be provided by developers of low-cost housing and newly empowered local officials. The success of this strategy depended upon setting goals and extending adequate incentives in the form of both resources and flexibility. While proponents circumvented some constraints imposed by opponents, policymakers had mixed success setting goals and maintaining flexibility. In particular, opponents undermined the success of federal policy by prohibiting moderate-income household's eligibility for federally subsidized housing. The divergent interests of groups supporting a federal role in housing in central city redevelopment (mayors) and subdivision development (home builders) led to a rejection of flexible block grants to local governments for building and facilitating low-cost housing production and promoting balanced metropolitan development.

This account contributes to debates about the nature and significance of housing and urban development policy in the 1960s and early 1970s. Existing accounts have examined elements of housing and urban development policy in this period as cases of anti-poverty policy and institution-building measures (Pritchett 2008; Quadagno 1994). Yet, the predistributive, or market-making, component of Great Society housing and urban development policy, apparent in the focus on low-cost housing production and low and moderate-income households, has been underappreciated.

This chapter also identifies additional constraints on federal policymaking associated with the post-World War II fragmented metropolitan political geography. Prior accounts of Great Society housing policy have identified the impact of suburban resistance to racial integration channeled through suburban congressman on federally subsidized housing legislation (Quadagno 1994). This account identifies additional constraints resulting from the ways in which key groups—home builders and mayors—defined their interests in response to the fragmented metropolitan political geography in ways that limited the adoption of innovative policy proposals that could have preserved a federal role in housing production and promoting balanced metropolitan development.

The first section describes the parallel development of housing and urban development policy during the 1960s. It first describes the housing and urban development challenges policymakers faced. Then, it outlines the policy vision and coalitional strategy that growth liberals adopted. It then describes the partial success, curtailment, and failures of the legislative process and sums up the achievements and setbacks by the end of the 1960s. The second section describes how new frontier of federal credit programs continued to serve as an impetus and key tool for national urban policy proposals in the 1970s because federal credit programs provided “carrots” that federal policymakers could balance with “sticks”, such as planning and cooperation

requirements attached to federal assistance, to encourage the development of local public-private capacity to build housing and govern urban development.

The Liberal-Builder Coalition, the New Frontier for Federal Credit Programs and Low-Cost Housing Production

On the eve of the Great Society, policymakers, local officials, and urban analysts were growing increasingly concerned about housing and urban conditions in metropolitan areas (Biles 2011; Pritchett 2008; Von Hoffman 2010). From 1950 to 1960, the population in the suburbs increased 60%, while older cities in the Northeast and Midwest saw populations decline. While the middle class exited cities for the suburbs, poor newcomers, including African Americans, Latino immigrants, and Appalachian whites, arrived in cities in a process of ongoing urbanization. As a result, cities saw populations in need of housing and other services increase while their tax bases declined (Biles 2011:82–83).

New Deal federal housing policy provided a narrow set of tools to local governments for slum clearance and public housing with a disappointing housing production record. Following World War II, mass suburbanization and the growing suburbanization of jobs further complicated housing problems. Faced with mounting housing needs, growing metropolitan fragmentation, and the disappointing production record of public housing, policymakers and stakeholders looked to develop complementary housing programs (Von Hoffman 2010; Wurster 1957).

The policies that came to dominate the era were a new frontier of federal credit programs aimed at promoting housing production for low- and moderate-income households, launched by growth liberals. These policies used the traditional federal credit apparatus of mortgage insurance and secondary mortgage market support, but they diverged from traditional federal credit programs by (i.) combining federal credit support and subsidies to expand housing production for a broader swath of the income distribution and (ii.) promoting other urban policy goals, such as balanced metropolitan development and urban rehabilitation.

Growth liberals forged a broad coalition with home builders, labor, mayors, and local officials to enact legislation and implement policy, which I refer to as the liberal-builder coalition, to denote the distinctive incorporation of production-oriented market actors into a coalition with more traditional liberal interest groups. The homebuilding industry was central to implementing the policies and their trade association, the National Association of Home Builders, played a critical role in drafting and garnering support for legislation. The post-World War II homebuilding industry was comprised of small to medium-sized subdivision developers who coined themselves “community builders” and a closely affiliated and overlapping network of materials suppliers, construction contractors, and savings and loans, on which the majority relied for financing (Davies 1958; Weiss 1987). Although the builders themselves operated on a local or, occasionally, regional, basis, they were effectively organized to engage in federal policymaking and implementation through membership in the National Association of Home Builders— a federated organization comprised of local associations. By the 1950s, NAHB had 100 affiliated local associations and thousands of builders. Through its Associate Membership

program, financial institutions, materials producers, and other core industry firms could also join the organization. Federal action in housing during and following World War II provided the impetus for NAHB's development as an effective lobbying organization. At the close of World War II, NAHB's policy priorities included speeding the production and distribution of materials to builders, opposing price controls, opposing public housing, and improvements in mortgage finance, such as lowering downpayment requirements and approval of a lease-option form of purchase, "all designed to permit builders to supply an unprecedented volume of housing for the lower income groups" (National Association of Home Builders 1955).

The home builders' prioritization of liberal credit policy and a strong residential construction market made them a natural partner for growth liberals, who shared a preference for liberal credit to promote economic growth and create jobs. Although the home builders remained aligned with the rest of the housing industry and conservatives in opposing the principle of federal housing subsidies at the start of the 1960s, cracks in the solid dividing line between the pro- and anti- public housing coalition had already begun to emerge. At the same time, the home builders' experiences with deep recessions in homebuilding in the late 1950s and growing concern about a secular shift toward less housing production with the end of the post-World War II housing boom prompted a new receptiveness to joining with liberals whose plans included expanding federal housing subsidies.

Liberal policymakers' efforts to partner with the private housing industry, particularly the home builders, are evident in rhetorical appeals throughout the period. The 1960 Democratic Party Platform proposed a renewed and expanded partnership with both the home building industry and local governments to build low-cost housing. In a message to Congress on Housing and Urban Development, President Kennedy followed up on the appeal to the home builders, citing the drop in homebuilding in the last year and its impact on the overall economy and urban development, before explaining, "the housing market today is basically different from that of only a few years ago. There is no longer an enormous backlog of economic demand which can be released simply by providing ample credit. Credit devices must now be used selectively to encourage private industry to build and finance more housing in the lower price ranges to meet the unfilled demands of moderate-income families. It is these families who offer the largest and the most immediate potential housing market, along with those of still lower incomes who must rely on low-rent public housing" (CQ Almanac 1961). In addition to illustrating the new and important role for federal credit programs in housing and urban policy that would remain highly salient throughout the 1960s and early 1970s, by justifying the administration's policies in terms of a secular decline in effective demand in the housing market, the President made the case for the complimentary relationship between an expanded federal role in housing and the home builders' own interests. Indeed, Bernard Boutin, Deputy Director of the Office of Economic Opportunity with prior experience in business, advised the senior officials in the White House that the homebuilding industry was at cross-roads: "[In the decade after World War II] Almost anyone could go into the homebuilding game, do a reasonably good job of providing shelter and find a ready customer willing to buy his product... With the adjustment in the boom period starting in

the late 1950s, builders... had to be more sophisticated.[eg. rise in multifamily starts, “planned residential development”]” (Boutin 1965). With weak recoveries in housing starts coming out of recessions in 1961 and 1965 and a trend toward building for the “middle and upper middle class market,” the housing industry looked in need of a new public-private partnership (Boutin 1965).

Liberal policymakers also used their control over federal credit programs to shore up their coalition. In 1961, Congress made FHA mortgage insurance subject to an annual appropriations process, rendering federal mortgage insurance, which the private housing industry, and home builders, in particular, relied upon, a bargaining chip that liberal policymakers could use to leverage home builder support for omnibus housing legislation (National Association of Real Estate Boards 1964). This provision remained in force until it was abandoned in the 1980s.

Labor required much less convincing to support liberal housing and urban development policies. Labor’s interest in job creation, a strong residential construction market, and improving housing opportunities for low- and moderate-income households made them a natural partner for growth liberals. Since the New Deal, labor had aligned with liberals to advocate for public housing, liberal credit and monetary policy that eases access to credit, public credit facilities, and financing for moderate-income cooperatives (Botein 2007; Radford 1996). The new frontier of federal credit programs was a natural extension of labor’s longstanding commitment to liberal macroeconomic policy and expanding opportunity for the middle class.

Mayors’ interests also aligned well with an expanded federal role in housing urban affairs. Since the New Deal, mayors, organized under the aegis of the United States Conference of Mayors, have advocated for expanding federal aid to cities and workers (Flanagan 1999). After 1954, mayors developed new alliances with downtown business interests and federal policymakers to promote the redevelopment of central business districts (Flanagan 1997). By the 1960s, however, mayors moved again toward traditional liberal policies aiding the poor, without necessarily abandoning their commitment to commercial redevelopment (Biles 2011:98). Given that they were increasingly home to a large share of the urban poor to which federal policymakers were devoting increasing attention and resources, they were key partners for the federal government in the 1960s. Mayors also wanted the suburbs to take their fair share low-income housing and never gave up on wooing the middle class back to the city (Bonastia 2006).

The New Frontier of Federal Credit Programs

The new frontier for federal credit programs evolved through the enactment of several omnibus housing and urban development bills, including the Housing Act of 1961, the Housing and Urban Development Act of 1965, and the Housing and Urban Development Act of 1968. Early iterations targeted non-profit or limited-dividend project sponsors to develop moderate-income rental housing as a component of local urban renewal efforts. The first such program was a mortgage interest subsidy program for moderate-income rental housing, called 221(d)3, based on a program in New York called Mitchell Lama and enacted in the Housing act of 1961. Apartments could be built by nonprofit sponsors or private developers willing to take a limited profit and had to be

located in urban renewal areas. The subsidy mechanism was a Below-Market Interest Rate (BMIR) loan. In addition, the federal government provided financing indirectly through federal mortgage insurance and secondary mortgage market support. Fannie Mae (a government corporation until it was spun off in 1968) bought the full project mortgage at market rate and absorbed the loss between that rate and the 3% (Von Hoffman 2010).

Despite enthusiasm from the bill's proponents, 221(d)3 failed to increase low-cost housing production. Policy design, including fixed, shallow subsidies paired with maximum per-unit cost made the program less workable due to rising construction costs and restrictions on site selection and contributed to low production (Biles 2011:96). In addition, Section 221(d)3 was only available for new housing built in a designated urban renewal area. This limited project sponsor's access to more affordable sites, which were generally located in more outlying areas. Housing Secretary Robert Weaver explained his decision to limit 221(d)3 loans to urban renewal areas to his friend and fellow housing expert, Catherine Bauer, by noting that he believed it would generate less resistance from Congress, presumably over fears of racial integration, provide housing opportunities for residents of urban renewal areas, and outlying sites would not be utilized without additional policy tools to render them available (Von Hoffman 2010:33).

Thus, when the Johnson Administration charted a path forward for housing and urban development policy, it aimed to improve and expand incentives for the private housing industry to build low-cost housing. The Johnson administration embraced rent supplements. Under the rent supplement proposal, the federal government entered into contracts with project sponsors to pay the difference between the economic cost of rent and 25% of tenants' income. Consequently, the amount of subsidy for each unit would vary with household incomes and would be higher for households with lower incomes. The federal government would also provide sponsors with mortgages at market rates through FHA 221 mortgage insurance. The administration targeted moderate-income households and limited eligibility to special groups with housing needs, including those the elderly, disabled, those residing in substandard housing, and displaced by government action, with eligibility planned to expand to include all low- and moderate-income households (Von Hoffman 2009; Weaver 1968).

President Johnson made the rent supplement proposal a centerpiece of his message on housing and urban development, calling it the "most important crucial new instrument in our effort to improve the American city" (Johnson 1965). In presenting rent supplements to Congress and the public, the administration highlighted its potential to provide housing for households in a broad moderate-income range that lacked good alternatives, as well as the advantages of rent supplements over existing fixed subsidy mechanisms, which required households to move out when their incomes increased and could not accommodate households within a broad range of incomes (U.S. Congress. 1965:167).

Rent supplements were a part of the administration's bid to scale up federally subsidized housing production. In 1964, President Johnson convened a Task Force on Metropolitan and Urban Problems in order to address the problems that urbanization posed for public policy. The Task Force brought intellectuals from outside of the administration together to chart a broad a comprehensive response to metropolitan, urban

and housing problems and it provided a rationale and guiding principles for liberal policy efforts to address housing and urban development in the 1960s and early 1970s. The Task Force argued that the federal government should play an increasing role in sharing the cost of newly constructed and rehabilitated housing and settled on combining federal credit support and subsidies to developers and local governments as the most promising approach. The final report argued that, “Even given increased innovation and new guidelines in building and zoning codes, ... a fairly substantial segment of the overall housing need will require positive Federal aid in a variety of forms for the foreseeable future,” estimating that at least 300,000, or 15% of housing starts, should be subsidized annually from 1965 through 1970 (Wood 1964:23). The call for scaling up federally subsidized housing production responded to constrained housing choices for racial minorities, the poor, and moderate-income households, noting that noted that African Americans, lower-income households, and newcomers to the city are, “too often forced to settle in the older, dilapidated central portions of the urban community,” while moderate-income groups are “often forced to settle outside [central cities] whatever their preferences for types of housing and social environment” (Wood 1964).

Significantly, rent supplements would not be restricted to inner-city sites slated for slum clearance and urban renewal by local officials, opening opportunities for building subsidized housing on vacant land in outlying areas where the land-assembly and large-scale development would be easier and less expensive (Von Hoffman 2009; Weaver 1968). The elimination of reliance on local government voluntarism also raised hopes that rent supplements could exceed the dismal production record of public housing. Since the enactment of public housing in 1937, federally subsidized housing production had depended upon local governments to initiate low-cost housing development in connection with slum clearance and urban renewal—restrictions designed to limit competition with commercial housing. The legal scholar, Robert Ellickson, championed the rent supplement proposal for opening up federally-subsidized housing to private sponsors, explaining that the program promised to, “eliminate local authorities as intermediaries between the welfare recipient and his patrons in the federal government” (Ellickson 1967).

By pairing credit and a flexible subsidy, the Johnson administration hoped to attract the support of the private housing industry and local officials. Yet, the new frontier of federal credit was one part of a multi-faceted plan to retool the federal role in urban development that broadly involved the following goals: (i.) a shift from commercial redevelopment to urban residential rehabilitation; (ii.) new programs to encourage diversity and balance on the suburban fringe through credit for private developers and local governments to undertake such development, as well as grants and credit to local governments and non-profit agencies to undertake such development; and (iii.) renewed emphasis on the relationship between transportation and land-use development including implementation of planning requirements in existing legislation (Wood 1964). In addition to pairing federal credit support and operating subsidies to stimulate housing production, another key policy tool was federal block grants to municipalities that could be used flexibly by jurisdictions according to locally determined and federally approved plans.

Rent supplements received strong support from home builders, labor, and advocates for senior citizens. The President of the National Association of Home Builders (NAHB), Perry Willits testified to the home builders' commitment to the program, telling Congress: "[with rent supplements] the productive capacity of the private homebuilding industry can-for the first time-be applied on a broad front, to build for families of lower income" (U.S. Congress. 1965:549). The AFL-CIO voiced its support for rent supplements as a way to address the gap in federal supports for households with income too high to qualify for public housing, but too low to afford decent market-rate housing. The Housing Committee Secretary of the AFL-CIO, Boris Shishkin, testified, "The problem of housing for moderate-income families, and especially for those caught in the so-called no-man's land or "gap" between the eligibility for public housing and the financial ability to obtain good private housing in the market, has been of great and active concern to the AFL-CIO for more than 15 years" (U.S. Congress 1965:484). Yet, labor preferred mortgage subsidies over rent supplements because a shallow subsidy provided greater stimulus to housing production, albeit while serving a narrower-range of moderate-income households. The AFL's housing expert explained, "If the same amount of funds directed to rent supplements (\$4.7 billion over 40 years to produce 500,000 units) were re-directed to lowering the interest rate from 4 $\frac{3}{4}$ to 3%, it would be possible to build twice as many units (1.2 million), but the former would reach people with much lower income" (U.S. Congress 1965:514). The National Council of Senior Citizens strongly backed rent supplements because it found existing subsidy mechanisms did not provide a deep enough subsidy for many senior citizens living on fixed incomes (U.S. Congress 1965:366).

The rent supplement proposal also generated controversy over its promotion of racial and economic integration and moderate-income subsidies. Opponents included suburban and Southern representatives, conservatives, and Realtors. Rent supplements raised the specter of racial integration more directly than past housing programs by virtue of policy goals and design, as well as the progress of civil rights legislation at the federal level in the years since passage of the Housing Act of 1961. Scholars have attributed suburban and Southern representatives' opposition to rent supplements and Congressional restrictions principally to this fact (Quadagno 1994; Von Hoffman 2009). Although federal housing officials held a dim view of the possibility of advancing racial integration through the rent supplement program alone, aspects of program design and the advance of Executive orders and legislation prohibiting racial discrimination in housing in intervening years played into the perception that the program threatened existing white neighborhoods in the suburbs. President Kennedy had issued an executive order prohibiting racial discrimination in public housing in 1961 and Title IV of the 1964 Civil Rights Act required open housing in all new housing receiving federal credit support (Quadagno 1994:100). Moreover, in contrast to the Section 221(d)3, rent supplement projects were not restricted to urban renewal areas.

The concept of federal subsidies for moderate-income households also attracted opposition from conservatives, representatives from low-cost parts of the country, like the South, and Realtors. Rent supplements elicited particularly potent opposition from Republicans and Southern Democrats, even compared to other federal programs. Their

concerns centered on cost, fairness, and impact on household's incentives to thrift and home ownership. Notably, moderate-income subsidies elicited outrage toward the program's perceived disregard for norms of meritocratic housing attainment and middle-class self-sufficiency. The minority report of the House Committee on Banking and Currency raised concerns that rent supplements extend a benefit to some taxpayers at the expense of others and would weaken Americans' incentive to improve their own housing, and specifically, to own a home (Patman 1965:176–84). In an article titled, "Paying Other People's Rent," New York Times columnist Arthur Krock argued that the program embodied a political philosophy favoring, "egalitarian socio-economy, irrespective of individual merit, with subsidies financed by the ambitious, the industrious, and the worthy" (Krock 1965:36). Supporters countered that the program would be limited to households unable to afford standard housing in the private market. Nonetheless, the difficulty of defining the programs' target group and communicating the need for the program continued to dog proponents in the acrimonious debate.

Congressional representatives from low-cost parts of the country, like the South, balked at subsidies for households that would be perceived as relatively affluent in their own districts. Representatives from the South balked at the income limits because it would be difficult to explain to their constituents why someone making \$8,000 in New York needed a subsidy. As the Secretary of the Department of Housing and Urban Development, Robert Weaver explained, "congressmen didn't like to go back home and say that a family making \$8,000 a year would get some sort of help, you see, because \$8,000 in New York was about comparable to about \$4,000 in his district as far as costs were concerned" (Weaver 1968). Given wide gaps in cost-of-living across the country, constituents in low-cost regions perceived the income limits for high-cost parts of the country as giveaways to affluent Northerners. While policymakers attempted to leave income thresholds undefined in legislation and in preliminary rulemaking, they became a flashpoint in debates and a political liability for Secretary Weaver when draft guidelines were published.

Realtors also fought against rent supplements for moderate-income households. In congressional testimony, representatives of the National Association of Real Estate Boards attacked rent supplements for moderate-income households with the same incendiary language they had used to attack public housing, calling the program "a fantastic effort to make America's great middle class dependent upon a Big Brother for shelter" (Chicago Daily Defender 1965). Realtors argued the program would lead to an exponential increase in demands on the state, warning Congress, "it must be prepared to eventually extend rent supplements to treat equitably all families whose housing costs exceed 20 percent of family income... [The rent supplement program] will set a level-20 percent ... and the implication is that the Federal Government should pay everything above that. This scares us to death. I mean it seems to us to open every area to all, every person would be taught or would come to believe that it was wrong for them to pay more than 20 percent for housing, and that the Government should pay the excess. We just believe this is dangerous and bad" (U.S. Congress. 1965:891). Indeed, Realtors had some reason to fear rent supplements. Federal subsidies for moderate-income rental housing threatened Realtors' core business selling existing homes. NAHB and NAREB were on

the same side of most policy questions—both were primarily concerned with insuring a steady supply of low-cost mortgage credit, for instance—, but the housing lobby organizations split over rent supplements because they promised to expand the market for newly constructed housing, and thus benefit home builders, but could compete with the lower-cost resale homes that Realtors sold.

The unified opposition of Republicans and defections from Southern Democrats setup a difficult legislative battle. NAHB lent its considerable lobbying strength and worked closely with the Johnson administration to enact rent supplements. Congressional staff close to legislative negotiations credited NAHB with, “swinging southern Democratic votes in the House that were originally considered lost” – a political dividend from the fact that home builders were important to the “political economic power structure” in the South and well-acquainted with their elected officials (Lilley 1971). In the contentious debate leading up to its passage, however, Congress redirected the rent supplement program from moderate-income to public housing eligible households.¹ The following year Congress limited appropriations and imposed a local government approval rider the following year (Congressional Quarterly 1966; Quadagno 1994; Von Hoffman 2009).

In the summer of 1967, the Johnson administration began developing another piece of comprehensive housing and urban development legislation that would become the 1968 Housing and Urban Development Act. Following Martin Luther King’s assassination, a summer of urban unrest, and mounting pressure from Johnson’s political rivals in Congress, the Johnson administration set out to deliver an appropriately bold response to housing and urban conditions (von Hoffman 2013; Quadagno 1994). Again, the administration turned to a combination of federal credit and subsidies for developers and households to encourage low-cost housing production outside of the inner core of central cities. This time, however, the Johnson administration favored mortgage interest-rate subsidies over rent supplements, despite having touted the advantages of rent supplements over interest subsidies just a few years earlier. Why did administration officials shift from rent supplements back to mortgage subsidies as the primary mechanism for incentivizing the private sector to build low-cost housing, despite have touted their benefits a couple of years earlier?

In a memo to top officials, the White House requested, “the program that produces the most housing (at the lowest rents) at the least possible giveaway to the industry” (Lapman 1967). The administration’s top housing official, Secretary Weaver, told the White House that the rent supplement program could not be rapidly expanded, even if it were possible to get Congress to significantly increase appropriations, because of cost and tenant income limits that circumscribed the types of units that could be

¹ Realtors quickly threw their support behind the program once it was redirected to the poor. In fact, representatives of the Realtors led the way in calling for the compromise. Ultimately, the Realtors considered the 1965 Housing and Urban Development Act a win in the fight against public housing. Executive Director of NAREB, wrote to the membership, “As a result of this legislation it can be said that the day of government ownership of housing should now begin to draw to a close” (Realtor’s Headlines 1965).

produced and who could occupy them. Moreover, the re-direction of rent supplements to poor families created a new dilemma. The groups with the inclination to serve poor families (i.e. churches, civic groups, and unions) lacked the capacity, skills, and resources to develop and manage housing. For this reason, he advised against making the rent supplement programs the central policy tool in the administration's effort to incentive the private sector to build low-cost housing. Instead, Weaver recommended modified public housing, tax incentives, and subsidized interest rates to expand the federal housing effort for low income families (Califano 1967; Weaver 1967). It appears, then, that the administration hoped that subsidized mortgages would attract less scrutiny of eligibility rules that permitted moderate-income households in subsidized housing. Indeed, Hays (2012) argues that the administration switched to mortgage subsidies in the hope of blunting the sharp opposition that the rent supplement proposal had drawn by "[burying] its income limits in the subsidy mechanism" (Hays 2012:109).

The ploy to "bury" the moderate-income subsidy debate in an indirect subsidy mechanism was partially successfully. The centerpiece of the subsidized housing provisions of the 1968 Housing and Urban Development Act was the Below-Market Interest Rate program, which included two new FHA programs, Section 235 and Section 236, that provided mortgage interest subsidies to developers to build low-income owner-occupied and rental housing. Congress set maximum income thresholds for home buyers and renters at 35% above the public housing income limits in an area—higher than the public housing limit imposed on the rent supplement program in 1965, but less flexible than the Administration's proposal to leave to the HUD Secretary to regulate eligibility. The Republican-backed amendment codifying income limits passed against opposition from the Administration and NAHB. CQ reported (1969) that it may have helped insure Republican support by giving them an opportunity to vote against "subsidizing moderate income families" (CQ Almanac 1969:25).

With the creation of two new Below-Market Interest Rate programs, federal policymakers continued experimenting with incentives to private developers and households aimed at increasing the production of low-cost housing. The new BMIR programs adopted several features designed to increase housing production. The BMIR program for rental housing, Section 236, replaced the popular, but sluggish Section 221(d)3 program enacted in 1961. Section 236 offered a deeper subsidy that the Section 221(d)3 program, bring rates down to 1%, compared to the 3% in the earlier program. By lowering rates, federal policymakers hoped to lower development costs, rents, and increase the number of households for whom new housing would be affordable and available. The subsidy mechanism was still not as deep as that of the rent supplement program, which keyed annual federal subsidies to the gap between project rents and household income. To provide some flexibility to project subsidies, the 1968 HUD act also increased appropriations for rent supplements and Section 236 projects were eligible to have up to 20 percent of units received rent supplements (Hays 2012:109). At the same time, with the introduction of Section 235, policymakers added an owner-occupied housing component to their efforts to scale up low-cost housing production for the first time. Section 235, similarly provided mortgage subsidies that brought the cost of financing for newly constructed low-cost housing down to a fixed 1% rate. Like past

subsidized housing programs, non-profit, cooperative, or limited dividend corporations were eligible to sponsor projects (confirm- true for 235, as well as 236). Under 235 and 236, policymakers also loosened underwriting criteria applied to traditional FHA programs requiring the government agency to limit underwriting to economically viable projects (von Hoffman 2013:183).

The 1968 HUD Act also introduced new off-budget financing mechanisms for federal credit support for subsidized housing production, as well as the mortgage market more broadly, which circumvented contentious budget politics, thereby removing one potential veto point. Specifically, the legislation privatized part of the Federal National Mortgage Association (FNMA or Fannie Mae), retained part of it as a government-owned corporation, which became the Government National Mortgage Association (GNMA or Ginnie Mae), and provided several measures designed to facilitate Fannie Mae's ability to finance the purchase of government-insured mortgages from private lenders and the re-sell them, including authorizing Ginnie Mae to guarantee mortgage-backed securities issued by Fannie Mae (Quinn 2017).

The federal government established Fannie Mae in the 1930s to increase the use of FHA insurance and facilitate the movement of capital for housing investment from capital-rich to capital-poor parts of the country (Jones and Grebler 1961; Quinn 2019). Fannie Mae does this by buying and sell FHA and VA mortgages. Federal policymakers also turned to Fannie Mae to purchase mortgages that the government designated should be made for specific public purpose, and to guarantee the availability of financing for them, rather than to leave it up to the private market. The Housing Act of 1954 reorganized the different functions of FNMA into separate branches and changed how they were financed. The upshot of was that it moved special assistance financing on the federal budget, but it kept SMO financing off the books; both the special assistance and the SMO portfolio would be on the books (Haar 1960:121).

Federal policymakers' move to privatize FNMA in 1968 moved the SMO portfolio off-budget, even as the federal government retained regulatory oversight of the organization through its charter. Special Assistance Programs technically remained on the federal budget, but federal policymakers adopted a work-around that permitted the federal government to finance mortgages for subsidized housing production programs, including Section 235 and Section 236, at a loss, while keeping the full-value of the loan off the federal budget. In what became known as the "Tandem Plan", Ginnie Mae would purchase mortgage from lenders and then sell the mortgages to the newly privatized Fannie Mae at a loss. In this way, congressionally appropriated funds for subsidized housing programs could go further than they otherwise would if GNMA held the mortgages on its books (Lapin 1968). The mortgage subsidy of BMIR programs would be recorded annually, like rent supplements, rather than all at once, as it was when the federal government purchased a mortgage. Thus, the secondary mortgage market provisions of the 1968 Act set the stage for private investors to play a larger role in financing subsidized housing production programs via the federal mortgage market support agencies developed to support the government-insured mortgage market since the New Deal, including federal mortgage insurance and secondary mortgage market support.

In summary, Great Society policymakers succeeded in expanding federally subsidized housing production for a somewhat broader groups of low-income Americans than those eligible for public housing. New programs enlisted the private sector—non-profit and for-profit—to build federally subsidized housing by linking credit and subsidies. The limited flexibility and workability of mortgage subsidies led federal policymakers to introduce rent supplements as an alternative subsidy mechanism. However, conservative, segregationist, and housing industry opponents of federally subsidized housing restricted eligibility for rent supplements to very low-income households with the consent of the bill’s supporters. Income, cost, and local approval constraints limited the workability of the rent supplement program, prompting federal policymakers to return to the less flexible mortgages subsidies, which had been found to be more vulnerable to rising construction costs, less conducive to promoting income-mix, and less effective at allocating subsidy. The subsidized mortgage programs authorized in the 1968 HUD Act (Section 235 for owner-occupied housing and Section 236 for rental housing) were not restricted to urban renewal areas designated for slum clearance by local officials nor did they rely on local approval, creating an opportunity to expand housing opportunities for minority and low-income groups in a broader range of urban neighborhoods and the suburbs (Table 3.1).

The Federal-Local Partnership

Growth liberals, partnering with housing reformers, proposed new policy tools and incentives for local governments to build and facilitate low- and moderate-income housing in omnibus housing and urban development legislation in the 1960s. These proposals came in three types: (1) funding for state and local governments to buy and hold land for housing and critical infrastructure; (2) categorical grants-in-aid that offset the cost of providing specific services; and (3) block grants allocated for broader policy goals, like urban redevelopment or low- and moderate-income housing. In the case of block grants, local governments were frequently required to submit plans for the use of funds specifying how they would meet federal requirements and advance federal policy goals

Funding for state and local land banking failed due to weak support and strong opposition. The Housing Act of 1961 included funding for local governments to buy land for future development. When the bill reached Congress, however, the land banking provision was dropped. (Biles 2011:94–96). The original proposal for the Housing Act of 1965 again proposed federal credit support for public entities to acquire and develop land for community facilities and housing, as well as federal financial assistance to state land development agencies (Johnson 1965). Yet, the proposal attracted “opposition from many groups and support from virtually none” (Congressional Quarterly 1966:64). Instead of funding local governments to buy land on which they would contract with developers to build housing, Congress enacted a new FHA insurance program for land acquisition and development (Congressional Quarterly 1966; Von Hoffman 2009). In the 1968 HUD Act, federal efforts to expand local capacity to furnish appropriate and affordable sites for low-cost housing production continued the trend toward private sector incentives and away from local land banking in earlier federal proposals. A new program guaranteed

bonds developers issued to finance the acquisition of land for the development of new communities that provided a substantial share of low- and moderate income housing (CQ Almanac 1969; von Hoffman 2013:184).

The weakening of proposals for large-scale land development and a proactive role for state and local governments in land use and planning and was a blow for housing reformers hoping to increase housing production and promote racial integration. HUD Secretary Robert Weaver, like many planners and housing advocates of the time, believed that large-scale land development might help create racially integrated neighborhoods (Von Hoffman 2009:9). In his first book, analyzing the development of racial residential segregation in northern cities, Weaver (1948) identified three forces contributing to racial segregation in housing: (1) racial prejudice; (2) acceptance of high-income whites' exclusionary practices; and (3) fear among residents of transitional neighborhoods that the entrance of any non-white family will bring an influx of non-white residents, lead to overcrowding, physical deterioration, white flight, and loss of property values (Weaver 1948:359). Thus, Weaver understood housing shortages, the intense competition for space they created, and racial segregation as mutually reinforcing phenomena. The ultimate solution to these problems was to abandon the concept of "separate areas for racial groups in America" (Weaver 1948:360). To hasten and complement this goal, Weaver recommended a federal housing program focused upon building large-scale, well-planned open occupancy, mixed-income communities complete with social and economic amenities: "It is only through the construction of [well-planned, adequate communities] that the trend toward single-class, [racially] restricted neighborhoods can be reversed" (Weaver 1948:360). For Weaver, a public role in the, "planning and building of housing for a broader range of income groups" was an essential component of improving minority housing opportunities (Weaver 1948:311).

Categorical grants-in-aid for community facilities were more successful than state and local land banking laws. The federal government provided local governments funds for a desired action, such as building water or sewer infrastructure, often on the condition that the local government made a matching contribution. Categorical grants-in-aid for urban development aimed to improve the urban environment by facilitating urban redevelopment, rehabilitation, transportation and other urban infrastructure, but they lacked strong mechanisms to promote balanced metropolitan development, and, in some cases, arguably exacerbated urban inequality. For example, Congressman shored up support for the Housing Act of 1961 by increasing funding for federal loans for community facilities such as water and sewer utilities, which benefitted small towns in the South experiencing growth and development, and secured support from a majority of Deep South Democrats (Von Hoffman 2010:36). In 1965, the Johnson administration proposed incentives to metropolitan area planning and cooperation through the extension of federal assistance with planning requirements attached (Johnson 1965). However, the Housing Act of 1965 scaled up federal aid to local governments for community facilities, but did not mandate metropolitan planning (Congressional Quarterly 1966). Similarly, the 1968 Act authorized funding for water and sewer facilities and planning grants, but did not make one a condition of the other (CQ Almanac 1969; von Hoffman 2013:184).

Block grants held great appeal to cash-strapped local governments. In contrast to matching grants, they do not require a matching contribution and allow local governments greater flexibility in how the money is spent. Consequently, they are generally applicable to inducing local governments to take desired actions that may conform to a specific policy goal but require greater local flexibility in implementation. Urban renewal was the largest block grant program in the post-World War II period. Although urban renewal technically mandated a local contribution, the other features of the program—flexibility to achieve a broadly-defined policy goal— qualify it as block grant. Omnibus housing legislation in the 1960s consistently expanded support for urban renewal. The Housing Act of 1961 expanded urban renewal funding and relaxed its requirements for spending on non-residential development (Von Hoffman 2010:36). The Housing Act of 1965 added \$2.9 billion for urban renewal (Congressional Quarterly 1966). The 1968 Act authorized \$1.4 billion for urban renewal and \$1 billion for Model Cities (CQ Almanac 1969; von Hoffman 2013:184).

Federal urban aid to state and local governments for social welfare, education, and housing and community development made up a growing share of federal outlays and local budgets over the course of the 1960s and early 1970s. From 1960 to 1973, grants in aid to state and local governments grew from 6.4% to 26.8% of federal outlays. By 1977, one in four dollars in local spending came from the federal government. Although urban aid for housing and community development paled in comparison to larger expenditures on income security, health and general services, housing and community development grants made up the fastest growing share of federal urban aid outlays, growing from \$214 million in 1961 to \$3.3 billion in 1972, about half of which went to traditional public housing and urban renewal, while the other half went to newer rehabilitation, planning, or community facilities grants (Judd and Kopel 1978).

By offering local governments millions of dollars for urban redevelopment, public housing, water and sewer infrastructure critical for urban development, and community facilities, the growth of federal grants-in-aid over the course of the 1960s reflected a growing alliance of the federal government with both central cities and newly developing suburbs. Yet, financing and incentives for local governments to engage in either proactive land and housing development or planning on a metropolitan scale remained underdeveloped. The divergent fate of federal urban aid for state and local land acquisition and categorical and block grants can be traced to the pattern of support and opposition of key interest groups in the policymaking process (Table 3.2). Federal loans and grants for local officials to engage in land acquisition and development provoked strong resistance from the private homebuilding industry. While not all groups supported categorical grants-in-aid benefitting newly developing suburbs and broad purpose block grants benefitting central cities, they did not elicit strong opposition from any of the key interest groups.

By the early 1970s, the provisions of the 1968 HUD Act ushered in a level of federally subsidized housing production that has not been matched before or since. From 1969 to 1972, federally subsidized housing starts averaged 349,425 annually—18% of 1.8 million average annual total starts for the period. By comparison, federally subsidized housing starts did not exceed 4% of total starts in the first four years of the 1960s (U.S.

Department of Housing and Urban Development 1974:86). Much of the increase in subsidized housing production came from the new private sector programs, but public housing production increased as well. Average annual public housing starts grew from 31,605 in the first half of the 1960s to 87,315 in the years immediately following the enactment of the 1968 HUD Act (Figure 3.1). Moreover, increased subsidized production coincided with gains in non-subsidized housing production—from 1 million annual non-subsidized starts from 1965 to 1968 to 1.5 million non-subsidized starts from 1969 to 1972, suggesting that subsidized housing production and other production-oriented policies supported an increase in total housing production (Figure 3.2).

The occupants of the new housing built under the programs were diverse and had low incomes, but they had higher incomes than those who occupied public housing and thus constitute a segment of the missing middle. They concentrated in the lower-end of the lower-middle income range—most occupants of Section 235 and Section 236 had incomes below the 35th percentile of the national average, but 5% Section 236 and 19% Section 235 residents were middle income (i.e. an income range encompassing the 35th and 60th percentile of the national income \$8,000- \$12,000) (Schechter 1973:1). Minorities groups were represented at parity with their make-up of the population or slightly over-represented. African Americans made up 22% and 20% of households in Section 235 and Section 236, respectively.

The new federally subsidized housing production programs contributed to balanced metropolitan development by opening up housing opportunities for low-income and minority groups in the suburbs. Two studies found that Section 235 and 236 had increased the movement of African Americans to the suburbs (U.S. Department of Housing and Urban Development 1974:103–4). A study of Section 236 in Washington D.C. found that housing projects located in the suburbs contributed to racial dispersion. For projects located in the suburbs, a larger share of new project residents were Black than the surrounding areas. In the sample of projects the study reviewed the share of residents who were Black ranged from 0 to 82% and the share of residents in the surrounding Census tract who were Black ranged from 1 to 25%. In contrast, projects located in the central city contributed to racial concentration because their racial composition contributed to already high levels of racial concentration in central cities. Another study found that Section 235 and 236 contributed to racial and economic dispersion, particularly for African Americans in the West, Southwest, and Mid-Atlantic regions. It found that 18% of African Americans moving into subsidized housing in the regions under study moved from the central city to the suburbs, compared to 7% nationwide (U.S. Department of Housing and Urban Development 1974:103–4).

The new subsidized production programs were not immune to the problems in the broader housing market, including racially segregated building patterns and a dual housing market for whites and African Americans. In an analysis of the Section 235 low-income homeownership program, the U.S. Commission on Civil Rights found “the traditional pattern of separate and unequal housing markets for majority and minority families is being repeated in the operation of Section 235” (U.S. Commission on Civil Rights 1971:vii). The Commission surveyed the program in four metropolitan areas—Little Rock, AK; Denver, DO; St. Louis, MO; and Philadelphia, PA. In Little Rock and

Denver, where most of the new housing was being built, new housing was largely reserved for white families and minority families purchased older, existing homes. In the St. Louis and Philadelphia, where minorities were more likely to gain access to new subdivisions, they were in subdivisions reserved for minority occupancy. The Commission attributed segregation in 235 to real estate brokers and builders steering minority buyers to minority neighborhoods (U.S. Commission on Civil Rights 1971:ix). Rather than abandon the program, however, the Commission saw greater advantages in keeping the program and improving its operation. Noting that “most of the 235 housing was of good quality, superior to that in which the buyers had previously lived” and the private housing industry practices that perpetuate segregation would not be alleviated by dissolving the program, the Commission recommended that HUD address segregated building and buying patterns by opening regional offices that could advise low-income households on the assisted housing available in the area and collect data on the impact of programs on racial and ethnic concentration (U.S. Commission on Civil Rights 1971:89).

Inclusive Growth Liberalism and Policy Struggles over National Urban Policy at the Twilight of the Great Society

By the end of the 1960s, the question of whether the federal government had a role in housing and urban affairs had been settled. On one of the traditionally most contentious questions, a 1968 survey of decision-making elites in federal low-income housing policy, including the heads of key Congressional committees and interest groups across the political spectrum, found unanimous agreement that the federal government should “intervene in the housing market in order to aid low-income families obtain housing” (Wolman 1971:176). A majority also agreed that the federal government should “devise policies to achieve social and racial integration at the neighborhood level” (Wolman 1971:176).²

While the 1968 HUD Act succeeded in scaling up federally subsidized housing production, a number of basic challenges remained unresolved and new ones emerged from the operation of the private subsidized housing production program that were in many ways related to the absence of a national urban policy. These issues included how to prevent federally subsidized housing programs from falling prey to fraud, abuse, and exacerbating racial segregation; how to mitigate stark urban inequality between cities and suburbs; and how to reverse tendencies toward metropolitan fragmentation and racial and economic residential segregation. In a 1969 essay titled “Toward a National Urban Policy,” Daniel Patrick Moynihan, a poverty and urban policy expert who formerly served in the Kennedy and Johnson administrations before President Nixon appointed him the chair of his Urban Affairs Council, provided a clear-eyed analysis of the challenges metropolitan fragmentation posed for federal policy. Following World War II, “economic incentives and social desires combined to produce a fractionating process that

² Policy elites who opposed federal policies promoting social and racial integration included half of Congressman surveyed, reflecting “the intensity of the issue in the mass public as well as the overrepresentation of Southerners among the Congressional decisionmakers,” as well as half of the groups. Two of five housing industry groups opposed federal racial integration policy and three reported not taking a position because opinion within their organizations was divided (Wolman 1971:176–77).

made it ever more difficult to collect enough power in any one place to provide the rudiments of effective (municipal) government” (Moynihan 1969:7). Moynihan (1969) called on federal policymakers to increase the capacity of local governments for “independent, effective, and creative action” (Moynihan 1969:12). To do this would require not only addressing the fiscal deficits facing cities, but also, in Moynihan’s words establishing, “an effective incentive system-comparable to profit in private enterprise, prestige in intellectual activity, rank in military organization-whereby to shape the forces at work in urban areas in such a way that urban goals, whatever they may be, are in fact attained” (Moynihan 1969:7).

Yet, questions about the strategy the federal government should take to enact its role in housing and urban affairs remained unsettled. In their efforts to build local capacity to achieve federal policy goals, federal policymakers faced tradeoffs between flexibility and workability, on one hand, and oversight and accountability, on the other. Some proponents of expanding federal urban aid advocated a “no-strings-attached” approach, in which the federal government would provide local governments with funds to meet local needs and leave it to them to decide how to use them. Some promoted this approach based on an ideological preference for limiting federal power, but others simply believed it was more workable to empower local officials with the fiscal resources to solve problems and leave it to their constituents to hold them accountable for how the funds were spent. For example, Joseph McMurray, a former Congressional staffer and New York City housing Commissioner, in a study sponsored by the home builders, which they ultimately declined to incorporate into their federal policy platform at the time, proposed giving discretion to local authorities for the spending of federal subsidies, which would include subsidies to private builders to produce low-or-moderate income housing, subsidies to landlords to rehabilitate properties, rent certificates, or public housing. The approach emphasized private enterprise, but was open public housing (McMurray 1960; Von Hoffman 2010). The advantage, from McMurray’s perspective, was that it would permit adaptability to local needs and put public and private housing, “in a kind of competition with one another at the local level” (Von Hoffman 2010:22).

Yet, few stakeholders invested in mitigating urban inequality and promoting balance metropolitan development were willing to turn federal resources over to local governments with so little oversight. The exclusion of minorities and the poor from local power structures led policymakers, in some cases, to adopt an alternative approach which funded private actors outside of the local governments, sometimes for the express purpose of challenging formal local power structures. This strategy, which became known as “creative federalism” was most closely associated with the Office of Economic Opportunity’s community action program in the 1960s (Hays 2012). Categorical grant-in-aid programs allocated funds which could only be used for certain well-defined purposes, like primary education or water and sewer infrastructure projects that ostensibly facilitated housing production by offsetting the cost of housing and urban development for growing communities in outlying areas. Block grants with more amorphous purposes, like urban renewal and Model Cities, typically required local governments to submit plans for how they would use funds, which federal agencies then reviewed and approved.

Another approach beginning with 1966 Demonstration and Model Cities Act was to require review of local plans by regional bodies (Biles 2011; Pritchett 2008).

In response to advances and persistent challenges in housing and urban affairs, federal policymakers debated diverse proposals for national urban policy in the early 1970s, which ranged from general revenue-sharing to metropolitan housing block grants. What all these proposals had in common was an attempt to define what the appropriate federal response was to the emergence of metropolitan fragmentation, urban inequality, and racial residential segregation—in short, the urban crisis. Given suburban resistance to racial and economic integration, what were the prospects for national urban policy to preserve a federal role in housing production and even advance balanced metropolitan development?

The liberal-builder collation provided a potentially viable coalition for advancing national urban policy promoting balanced metropolitan development. Pro-growth groups, including labor and home builders, supported a stronger federal role in low-income housing (Wolman 1971:179). Home builders increasingly opposed short-sighted anti-growth local land use regulations (Danielson 1976). Mayors persistently advocated for increased federal resources for local governments to build and rehabilitate low-cost housing. Local officials also supported the dispersal of low-income households and addition of moderate-income housing options in central cities (Bonastia 2006).

The liberal-builder coalition's potential to advance national urban policy was tested by a 1971 metropolitan housing block grant proposal that could have advanced local capacity to facilitate low-cost housing development, improved the efficacy of federally subsidized housing programs, and aligned the homebuilding industry and local officials behind a strong federal role in housing and balanced metropolitan development. Following extensive study of issues in housing and urban development over two years, the House Subcommittee on Housing proposed to establish state and metropolitan housing agencies tasked with assessing regional housing needs, developing regional housing goals and plans to meet them that would be used to allocate federal support for low-income housing, including public housing and the new FHA below-market interest rate programs. Thus, local elected officials would be given broad authority to determine the mix and allocation of federal supports needed to address housing needs on a regional basis (Braestrup 1972a; Herbers 1972b; C. on B. and C. U.S. Congress 1971). HUD would review these plans to determine that they were compatible with national goals, such as “(1) providing housing opportunities for all, particularly low- and moderate-income individuals and families, (2) providing greater access to places of employment and (3) providing housing in conjunction with basic community facilities and services” (C. on B. and C. U.S. Congress 1971:60). The proposal made communities' eligibility for community development block grant funds contingent on participating in the metropolitan housing agency.

The metropolitan housing block grant proposal addressed growing concerns that federally subsidized housing programs lacked adequate oversight, fell prey to reproducing segregated building patterns, and generally placed, “too much emphasis on housing as such at the expense of the larger urban environment” by providing incentives to state and local governments to engage in metropolitan housing planning, the

development of low-cost housing, and participate in a regional institution where conflicts that arose around the siting of housing could be adjudicated (The Washington Post 1972). One housing policy observer described the proposal as “designed to achieve dispersal of low-income and moderate-income housing without “forced integration” by the Federal Government... to retain local control yet encourage more dispersal of low-income units” (Herbers 1971a). Notably, the proposal made innovative use of an economic rationale for dispersal of low-income housing, suggesting, “there should be some method of changing the housing patterns so that the poor would not be forced to live in isolation from the jobs and other opportunities ... [The idea] is for housing opportunities to follow the path of growth” (Herbers 1971a). Thus, the metropolitan housing block grant proposal struck a middle-of-the road approach relative to legal challenges to exclusionary zoning and land use policies and the Nixon administration’s embrace of local autonomy in the allocation of federal resources.

The metropolitan housing block grant proposal concept received broad support, especially for its goal of rationalizing the administration of federal housing programs and aligning housing and urban development policy. Traditional liberal housing advocacy groups, urban planners, the National Governors’ Conference and the AFL-CIO voiced unequivocal support for the proposal and called for its swift enactment. HUD Secretary Romney was barred from publicly supporting the committee’s proposal over the administrations’ bill but worked behind the scenes to support it (Herbers 1971b, 1972b).

The groups that would be most closely involved in implementing the policy—home builders, mayors, and local officials—lauded the goals set out in the proposal for coordinating housing and urban development programs on a metropolitan-wide basis and advancing balance metropolitan development, but they ultimately did not rally behind the proposal, opting instead to advocate continuation and expansion of existing housing and urban programs. The President of the National Association of Home Builders, John Stastny, objected that the proposal would place federally subsidized housing production programs, “into the hands of the very same officials who now use zoning, land use controls and other devices to defeat the production of low and moderate income housing” and would, therefore, “add greatly to the difficulties of both home builders and HUD in achieving the housing production goals (U.S. Congress 1971b:1259). Thus, the home builders viewed skeptically the federal effort to build local capacity by conditioning highly sought after urban development funds on participation in low- and moderate-income housing programs. Although not a part of the home builders’ public objection, another important factor was home builders’ preference to control the siting of housing, including low-cost housing production. Builders participating in the new mortgage subsidized programs had tended to concentrate their participation in the owner-occupied program, build on vacant land, and perpetuate segregated building patterns. The metropolitan housing block grant would have given local officials and HUD control over the siting of federally subsidized housing, resulting in decisions that would have contravened the home builders’ preference for the type and location of housing found most profitable and expeditious to build (U.S. Commission on Civil Rights 1971; U.S. Congress 1971b:1280, 1971a:378; U.S. Department of Housing and Urban Development 1974).

Mayors and local housing officials similarly supported the goals of the committee's bill in principle but opposed it over concerns about workability rooted in a dim view of the prospects for advancing their interests and national housing goals through the metropolitan housing agency. Representatives from the National League of Cities and the U.S Conference of Mayors objected that central cities would be outvoted on metropolitan housing councils by suburban representatives determined to avoid providing housing for minorities and the poor. Instead, mayors urged HUD to take a more assertive role pushing low-income housing in the suburbs. Mayors and local housing officials also raised concerns that the proposal would take scarce federal housing funds needed in the city and allocate them to the suburbs. In the context of stark racial, economic, and fiscal city-suburb divides, entertaining the long-range prospects for metropolitan coordination of housing and urban development and balanced metropolitan development was a dim prospect compared to the immediacy of the challenges they faced.

Thus, metropolitan fragmentation shaped the interests and preferences of key partners outside of the federal government in ways that undermined support for national urban policy. First, it led mayors and local officials to define their interests on a city-wide, rather than a metropolitan basis and in opposition to suburban local governments—who, no doubt, already defined themselves in opposition to the cities. Second, it led both mayors and home builders to stake out workarounds that allowed them to circumvent constraints placed on their capacity by exclusionary suburban local governments and central cities dependent upon commercial redevelopment, which then undermined reversals of these policies. For instance, home builders relied on vacant land in outlying areas to circumvent suburban resistance.

The metropolitan housing agency proposal did not make it out of the House Subcommittee on Housing and Congress subsequently failed to enact omnibus housing and urban development legislation for a third year in a row. Democratic leadership urged the committee to jettison the metropolitan block grant proposal on the grounds that it was too controversial to take-up in an election year if voters associated them with racial and economic integration of the white suburbs. Political sensitivity was high following the contentious school busing debates (Braestrup 1972b; Herbers 1972b). In a private, executive session, the 14-member Subcommittee on Housing voted to eliminate metropolitan housing agencies from the bill, opting instead to require all federally-subsidized housing get approval from local governments (Braestrup 1972b). The abandonment of metropolitan housing block grants sapped support from Democrats concerned about continuing existing housing programs largely on their current basis. In addition, populist Democrats, including the Chairman of the House Banking and Currency Committee, Wright Patman, were also disappointed by the bill's failure to deal adequately with the problem of rising interest rates and their contribution to housing costs (Herbers 1972a).

The stalemate in housing and urban development legislation meant that when Congress resumed consideration of housing and urban development legislation in 1973 it was after President Nixon imposed a moratorium on all federally subsidized housing and urban development programs, citing FHA scandals. In fact, the legislative stalemate,

amid FHA scandals and growing concerns about the operation of the programs, may have emboldened the President to impose a moratorium. Following the moratorium, Congressional liberals split among those advocating a return to existing policy and those promoting a local housing block grant, in lieu of the metropolitan block grant. Local housing block grants would have given localities discretion over how to spend local housing funds, including whether to use them for new construction or excising housing, grants or loans, low- or moderate-income housing. House Democrats negotiated with the Nixon administration to ensure passage of legislation and restore federal housing and urban development funding that had been impounded for 18 months (CQ Almanac 1975).

The 1974 Housing and Community Development Act ended an era of growth in federal urban aid, federally subsidized housing production, and experimentation with innovative federal policy initiatives to build local capacity and promote balanced metropolitan development that defined federal housing and urban development policy struggles in the 1960s. It consolidated ten categorical urban development grant programs into a single Community Development Block Grant Program (CDBG). Communities could use CDBG funds for a broad range of urban development activities that encompassed the programs it replaced, including urban redevelopment, relocation assistance, water and sewer infrastructure, or housing rehabilitation. The combination of consolidation of larger programs that were once aimed more at central cities and low-income services and allocation based on need-based formulas rather than applications meant that a larger share of federal urban aid could flow to less disadvantaged communities and a wide-range of activities that might not directly address urban development or low-income needs. The program required local governments to submit housing assistance plans specifying how they would address urban blight and provide for the low-income housing needs in their communities. Unlike the metropolitan housing block grant proposal, however, it did not require communities to plan for metropolitan area-wide housing needs (CQ Almanac 1975; Judd and Kopel 1978). Suburban communities would not be expected to accommodate their fair share of low-income housing and could claim community development block grant funds without doing so.

For housing, federal policymakers replaced the panoply of public and private subsidized housing programs offering financing and annual assistance contracts for rental assistance or mortgage subsidies with Section 8 rental assistance. Section 8 authorized the federal government to enter rental assistance contracts with housing authorities for tenants occupying existing housing (Section 8 Existing Housing) or developers for units in newly constructed or substantially rehabilitated low-income housing (Section 8 New Construction & Substantial Rehabilitation). The construction of federally-subsidized housing under Section 8 was subject to local control—a condition that the FHA-administered mortgage subsidy programs had avoided.

By imposing rigid constraints on how local authorities and developers could use federal housing funds and establishing a weak link between federal urban aid and national housing goals, federal policymakers lost the opportunity to leverage pro-growth interests to build local capacity and promote balance metropolitan development through the liberal-builder coalition. In tandem with parallel changes in the linkage of federal credit support and low-income housing discussed in the next chapter, this led to the

abandonment of federal policy initiatives aimed at mitigating the contribution of local governments and urban development to urban inequality, racial segregation, and uneven metropolitan development.

Conclusion

By the 1960s, a decline in housing production and the disappointing production record of public housing led many to conclude that two-tiered federal housing policy had reached its limits. The private housing industry began to reconsider its position on federal housing subsidies and ally with liberal politicians who advocated liberal monetary and fiscal policy. Given the disappointing production record of public housing, even the staunchest public housing supporters looked for ways to expand low-cost housing in ways that would be less embattled, costly and segregating. At the same time, the suburbanization of jobs, growing spatial mismatch between jobs and low-cost housing stock, and rise of metropolitan fragmentation overlaying stark racial and economic city-suburb divides provided a rationale for developing policies that would expand low-cost housing outside of the deteriorating cores of central cities, mitigate urban inequality, and promote more balance metropolitan development.

In response, growth liberals in the Kennedy and Johnson administrations forged a broad liberal-builder coalition that combined traditional liberal interest groups, including labor and local officials, with production-oriented segments of the private housing industry, the home builders, to expand and coordinate the federal role in housing and urban development. A key plank of their policy vision was a new frontier of federal credit programs that combined federal credit support with rent and mortgage interest subsidies to scale up low-cost housing production. Another essential component of their policy vision was to develop incentives and local capacity to facilitate low-cost housing production, mitigate urban inequality, and promote balance metropolitan development using the “carrots” and “sticks” of cooperative federalism.

In the 1960s, the liberal-builder coalition succeeded in expanding subsidized housing production and enacting the first national housing goals in the late 1960s and early 1970s. Federal policymakers also greatly expanded urban aid, but the development of incentives and local capacity to build and preserve low-cost housing lagged. Much of the expansion in federal urban aid came in the form of categorical grants that were amenable to narrow policy goals and policy-logrolling, but weakly incentivized or contravened regional cost-sharing and cooperation.

In the early 1970s, federal policymakers debated national urban policy proposals to mitigate urban inequality, promote balance metropolitan development, rationalize and simplify federal urban aid and improve the operation of federally subsidized housing programs. Federal policymakers considered a metropolitan housing block grant proposal that could have incentivized local officials and developers to build and facilitate low-cost housing production according to metropolitan housing plans and preserved a federal role in housing production and urban development. Home builders, mayors, and local officials did not rally around the proposal, however, because they perceived the racialized metropolitan political geography of stark city-suburb divides as limiting its workability and opted, instead to define their interests and political strategies around those

constraints, rather than challenge them. Eventually, federal policymakers enacted legislation that streamlined and simplified federal urban aid and federally subsidized housing production. Although the legislation conditioned consolidated community development block grant funds for local governments on the development of local housing assistance plans, it diminished the scope of the federal role in housing and urban development and provided weak incentives for local officials and the private housing industry to build and facilitate low-cost housing, mitigate urban inequality, and promote balanced development.

Following the national urban policy failures discussed in this chapter and parallel credit allocation policy failures discussed in the next chapter, federal housing policy shifted away from predistributive policy. Jacob Hacker defines predistributive policy as policies that, “shape the distribution of income and opportunity in a society that are distinct from simply taxing and providing benefits” (Hacker, Jackson, and O’Neill 2013; O’Neill 2020). Classic examples of predistributive policies include rules governing the economy, particularly labor and financial markets, which favor either workers or corporations (Hacker et al. 2013; Hacker and Pierson 2011). The rise and fall of the new frontier of federal credit and national urban policy demonstrates the importance of federal credit programs for low-cost housing production and cooperative federalism for predistribution in housing. In practice, this has meant a shift away from federal policy initiatives shaping and targeting housing production, the missing middle, and balanced metropolitan development. This perspective broadens the traditional focus in critiques of federal housing policy on inadequate and inequitable redistributive policy, including tax benefits for homeowners and the underfunding of housing assistance for low-income renters (Desmond 2016, 2017). The takeaway is not that predistribution is more important than redistribution, but to attend to the ways that predistribution sets limits on the scope of redistribution and, therefore, merits equal attention.

This chapter also provides a new perspective on how the post-World War II metropolitan political geography contributed to the failure Great Society housing and urban development policy (Weir 2005). Existing accounts cite grassroots suburban resistance to racial integration and the influence of suburban and Southern Congressional representatives in key legislative failures to account for how race undermined Great Society housing and urban development policy (Quadagno 1994; Von Hoffman 2009). This chapter suggests that the post-World War II metropolitan political geography defined by metropolitan fragmentation, urban inequality, and racial residential segregation shaped not only the politics of white suburbanites, but also the key groups that the federal government partnered with to implement federal policy—home builders, mayors, and local officials. Mayors and local officials were saddled with the nation’s most significant social challenges; they came to rely on federal urban aid and regard state and suburban officials with suspicion. Home builders, who, ironically, had contributed to the creation of racialized metropolitan geography, regarded suburban local governments as unresponsive to the indirect cues of cooperative federalism and rejected federal policies aimed at promoting metropolitan housing planning. While these responses by key groups within the liberal-builder coalition are, in part, justified by the political realities of the metropolitan political geography and suburban resistance to racial integration, they also

reflect how the groups defined their own interests— in central city redevelopment and subdivision development, respectively— in ways that accommodated and reproduced the racialized metropolitan political geography.

Finally, the chapter identifies some of the strategies that federal policymakers used to navigate the constraints on policy stemming from linkages of race, housing, and federal policy. Federal housing policy entrepreneurs attempted to avoid direct challenges to neighborhood racial segregation. For example, as this chapter has shown, leading housing experts, including HUD Secretary Robert Weaver, cognizant of the contentious nature of racial integration of existing neighborhoods advocated for policies that would work indirectly to mitigate racial segregation, such as new large-scale open occupancy communities; challenging spatial, rather than neighborhood segregation by promoting metropolitan housing planning on the basis of jobs-housing linkage; and reforming incentives for the private housing industry and local officials that exacerbated the tendency to racial and economic segregation. The indirect strategies they devised illustrate the interrelationships among federal housing production policy and more controversial policy goals for racial integration. Unfortunately, these policy efforts failed due to strong opposition and weak support from mobilized groups invested in private control of land development and central city redevelopment. Thus, their fate illustrates how privatism and interest group politics have constrained policies that could have helped to mitigate racial and economic divides in housing.

Chapter 4: Financialization, Growth Coalitions, and Federal Housing Policy Since the 1970s

In the 1970s and 1980s, federal policymakers abandoned national housing production goals and ended traditional, deeply subsidized housing production programs. Since then, both federal credit and low-income housing policy have shifted from supply- to demand-side strategies—meeting the housing needs of low- and moderate- income households through credit and poor households through rental assistance, respectively. While demand-side strategies enjoy a degree of bipartisan acceptance, they have only been partially implemented, as evidenced, most notably, by the underfunding of rental assistance. What explains the paradigm shift in federal housing policy since the 1970s and what can it tell us about the limited success of federal policy in meeting growing need for affordable housing?

Existing explanations of change in federal housing policy since the 1970s focus on past policy failures, policy learning, and changes in the nature of housing problems (Erickson 2009; Orlebeke 2000; Schwartz 2014). While evidence exists to support each of these claims, they overlook political contestation involved in key policy changes, as well as the socially constructed nature of policy learning, policy outcomes, and housing problems themselves. Yet, both the lessons drawn from past policies and the nature of complex social problems like affordable housing remain subject to competing interpretive frames, with varying ideological and political alignments. Existing accounts also fail to highlight and explain the broad-scale retrenchment of the federal role in low-cost housing production since the 1970s. Because they focus on changes in low-income housing programs, existing accounts overlook changes in the contribution of federal credit programs to low-cost housing production and the relationship between federal credit programs and low-income housing programs.

This chapter examines underappreciated political and institutional determinants of federal housing policy change. Specifically, it traces a shift in the coalitions, actors and ideas that drive federal housing policymaking. From the 1930s through the 1960s, a liberal-builder coalition dominated federal housing policymaking. The liberal-builder coalition advanced policies that linked social goals, such as improving housing conditions and economic mobility, to national economic goals, such as promoting economic growth, employment, and economic stability as well as the private interests of the real estate industry. Housing production provided a vehicle for linking social and economic goals, as well as public and private interests. Since the 1970s, however, a financialized policy coalition has replaced the liberal-builder coalition as the dominant housing policy coalition. The financialized policy coalition mandates the separation of economic and social policy; prioritizes liberal credit, monetary policy, and fiscal constraint to promote economic growth and stability; and prescribes targeted subsidies to meet housing needs for very-low-income and poor households. The new federal housing policy framework stimulates housing demand, but constrains housing supply by increasing housing costs, financial volatility, and home builder consolidation. As a result, targeted subsidies for low-income housing must “run to stay in place” in a market where asset inflation contributes to rising land and housing costs. Yet, the financialized policy coalition’s

commitment to fiscal restraint to balance liberal credit and monetary policy mitigates against the possibility of a broad coalition to expand the supply and demand-side subsidies needed to address affordable housing.

The chapter is divided into three sections. The first section examines policy struggles over how to respond to new economic and financial challenges in the 1970s. In this context, sustaining and expanding the federal role in housing and urban development would have required new fiscal and monetary policy tools to manage the economy. Strikingly, the liberal-builder coalition fought for distributional macroeconomic policy, an approach that embraced credit allocation and financial regulation to advance national economic and social goals. However, they did not overcome opposition from financial elites, economic officials, the Federal Reserve, and the Nixon administration who promoted financial deregulation, technological development, competition, and targeted subsidies as an alternative answer to economic and financial challenges.

The second and third sections examine how policymakers managed economic and market crises in the 1970s and 1980s and the implications for housing policy. The second section examines the motivations for President Nixon's moratorium on subsidized housing production and the consequences of separating federal credit support from subsidized housing production in the 1974 Housing and Community Development Act. The third section examines how, to manage mortgage market crises, federal policymakers expanded liberal credit policy. Liberal credit policy provided developers and home buyers access to credit, but it did not address the growing affordability squeeze in mortgage and housing markets, nor did it eliminate cyclical fluctuations in the supply and cost of mortgage credit. At the same time, a new nexus of finance and real estate emerged, and the real estate and housing finance industries adapted to the opportunities and challenges associated with financial volatility, deteriorating affordability, and financialization.

This chapter contributes to our understanding of federal housing policy change since the 1970s; post-1970s shifts in American political economy; and the role of growth coalitions in mediating social provision in the context of privatized welfare. First, it identifies the retrenchment of subsidized housing production and production-oriented credit support as a key feature of post-1970s federal housing policy change and attributes the decline of federal support for housing production to the rise and fall of growth coalitions and economic ideas, rather than policy failures, backlash, or public opinion. Second, it identifies a "suppressed historical alternative" through which the institutional basis for production-oriented federal housing policy and, indeed, a growing federal role in housing and urban development, could have been preserved, as well as the importance of growth coalitions and path dependence in sustaining changes in economic and social policy ideas and policy. Third, this chapter extends accounts of the distributional implications of growth coalitions. Sociologists and political scientists have demonstrated the utility of growth regime models for explaining policy and redistributive outcomes across societies (Prasad 2012; Reisenbichler 2021). This chapter shows that intra-class and cross-class coalition dynamics play an important role in the distributional consequences of growth regimes even within the consumption-oriented U.S. growth regimes.

1. Growth Coalitions and Economic Ideas: Policy Struggle over Distributional Macroeconomic Policy

In the 1970s, inflation, unemployment and low growth posed new challenges for households, housing developers, and economic policymakers. Households faced rising costs of living, rising unemployment and deteriorating job quality. For some households, women's increased workforce participation and homeownership provided a coping strategy and a hedge against inflation (Myers 1985; Myers et al. 1992). However, households that could not benefit from these strategies, either because they had already maximized their potential for workforce participation or could not afford the rapidly rising cost of homeownership, saw their economic well-being deteriorate. At the same time, developers faced periods of tight credit, in which credit became scarce or unavailable and rising costs of land and credit. Yet, federal policymakers struggled to respond, contending with an economy that confounded traditional tools of Keynesian demand management, as they had evolved after World War II. With prices rising, policymakers balked at deploying traditional tools of economic stimulus to address unemployment. At the same time, policymakers were reluctant to apply constraint through tax increases or monetary policy out of concern it would exacerbate low growth and unemployment (Dubofsky 2013; Stein 2010). This section examines how policymakers responded to the new economic challenges of the 1970s and the consequences for housing and urban development policy.

The economic challenges facing households, housing developers, and policymakers in the 1970s had roots in global economic and international financial market developments that challenged American dominance in trade and finance. It is instructive to unpack the distinct political and economic crises of the era, which included crises in international trade and finance, macroeconomic management, and mortgage markets, and the interrelationships among them to understand the tradeoffs policymakers faced in how to respond (Figure 4.1). First, the United States faced a crisis in its dominance in international trade and financial markets when countries whose economies had been devastated by World War II, such as Germany and Japan, expanded their economic capacities. As a result, the U.S. faced new competitors in global trade and developed a trade imbalance, importing more goods than it exported abroad. At the same time, the rise of global economies posed a challenge to dollar dominance, which had upheld the global economic system, and the United States' dominance in it since World War II. Dollar dominance was a central concern for American businesses, banks and policymakers because it conferred advantages to American businesses in global trade and underwrote geo-political dominance by giving the United States a high level of influence in the global financial system, lowering the federal government's cost to borrow, and aligning the system-maintenance interests of its international partners with the health of the American economy and currency (Florida 1986a; Stein 2010).

Economic competition from abroad contributed to slow growth and rising unemployment. Compounding these challenges, new domestic economic problems posed a crisis of economic management because the confluence of inflation, unemployment and low growth confounded traditional tools of Keynesian demand management, on which American economic policymakers had come to rely. In the years since World War II,

American Keynesianism had evolved into an elaborate technocratic economic stabilization mechanism that relied upon demand management and counter-cyclical policy to encourage investment during recessions and prevent the economy from overheating during periods of rapid growth, rather than a broader concept of economic management that would have relied on policies such as planning, industrial policy, and price regulation (Carter 2020; Stein 2010). Stagflation left policymakers in a bind because, as Dubofsky (2013) explains, “With prices rising, economists and policy makers balked at applying Keynesian stimulus in the form of loose money, reduced taxes, or increased public spending to stimulate additional demand and boost employment” (Dubofsky 2013). The tools of post-war American Keynesianism had reached their limits.

The development of domestic and international financial markets also challenged the system of bank regulations put in place during the New Deal to limit banks’ competition for savers’ funds, keep the cost of credit low, and check excessive risk-taking in financial markets by increasing competition among banks (Krippner 2011). The resulting financial volatility hit mortgage markets particularly hard because “the volume of mortgage credit is a sort of residual, in that home buyers can obtain only that volume of credit which remains after the more volatile and persistent demands of corporations have been satisfied” (U.S. Congress 1971c:8). Mortgages are unattractive investment due to their relatively low interest rates, long-terms, and as of the 1960s, limited liquidity, or ease with which investors can buy or sell them in response to changing market conditions. Rising interest rates made fixed-interest American mortgages particularly unappealing to investors.

In the 1966 credit crunch, total housing starts declined from 1,485,000 units in 1965 to 1,197,000 in 1966, the lowest level since 1957. (U.S. Congress 1971c:24–27). The most immediate cause of mortgage credit crises was small savers’ shifting their funds from specialized housing finance institutions to banks offering money market funds. Yet, technological development that lowered the costs to serve small savers and competitive pressures associated with international financial markets ultimately drove banks’ pursuit of a growing share of savers’ funds (Commission on Financial Structure and Regulation 1972).

By the late 1960s, there was a growing consensus among public and private stakeholders that the federal government would have to take steps to address the effects of tight credit and high interest rates on housing. But policymakers faced a bind. Measures that increased the flow of credit to housing had to redirect it from other sectors, or risk contributing to inflation by increasing the aggregate demand for credit. For example, using Treasury borrowing to finance a national housing bank would increase aggregate demand for credit and contribute to inflation if federal borrowing was not offset in other areas. Alternatively, they could allocate credit to housing with regulation or incentives, but again, they could only avoid contributing to inflation if the measures they adopted withheld a compensating amount of credit from other uses. Extended periods of tight credit and constrained policy choices for how to respond exemplify how the economic challenges of the 1970s strained systems of economic management.

In the United States, two competing perspectives on how to respond emerged that mobilized distinct growth coalitions and had opposing ideological affinities. Liberal

policymakers, labor, and housing developers argued that new economic challenges necessitated new forms of financial regulation and public investment to advance national economic goals for growth, economic stability, and job creation, an approach that I call distributional macroeconomic policy to highlight how it built on and extended post-war American Keynesianism. In contrast, financial elites, economic officials, the Federal Reserve, and the Nixon administration promoted financial deregulation, technological development, and competition as an answer to tight credit; fiscal restraint as an answer to inflation; and expansion of targeted subsidies as an answer to growing financial challenges for households at the bottom of the income distribution. The remainder of this section examines the competing policy visions of proponents of distributional macroeconomic policy and financial deregulation; the legislative stalemate that resulted; and its consequences for growth liberalism and housing and urban development policy in the 1970s and 1980s.

Distributional macroeconomic policy had three components: (1) creating markets for social provision; (2) combining social programs, like income stabilization and subsidized housing, with counter-cyclical economic stabilization; and (3) financial, economic, and market regulation promoting national economic goals for economic growth, stabilization, and job creation. In some respects, proposals for distributional macroeconomic policy were a radical departure from the *laissez-faire*, commercial Keynesianism that won out in the United States mid-way through the New Deal (Brown 1995; Weir and Skocpol 1985). In practice, however, federal policy already deviated from the *laissez-faire* ideal and reforms spanned a spectrum from continuing traditional implicit or cyclical economic strategies to deeper institutional changes to the structure of macroeconomic management. Housing is a case in point. Housing and urban development programs are a natural tool of distributional macroeconomic policy because of their capacity to stimulate investment in the built environment, jobs, and consumption. New Deal housing policymakers seized on this fact when they created the federal housing finance agencies to encourage residential construction and construction employment (Jackson 1985; Quinn 2019). Housing is thought to have played a role as an “automatic stabilizer” in the post-war economy, dampening economic fluctuations by expanding when the economy slows down and contracting when it heats up and prices and interest rates rise (Krippner 2011; Quinn 2019). Housing and urban development programs—and the private housing industry and home buyers that relied on them—depended upon financial regulation and federal credit programs to keep interest rates low and bring the cost of housing into line with what households could afford. The highwater-mark of subsidized housing development in the United States—the implementation of the 1968 HUD Act during the first Nixon administration—similarly worked on the principle of expanding the market for new residential construction and homeownership and providing relief to the housing industry and home buyers during periods of tight credit.

Public and private stakeholders debated distributional macroeconomic policy reforms throughout the 1950s and 1960s. The Commission on Money and Credit, established in 1957, exemplifies how distributional macroeconomic reforms occupied groups ranging from large corporations and financial institutions to labor. The Committee on Economic Development, an organization representing dominant segments of corporate

leadership, formed the Commission to investigate the adequacy of monetary and fiscal institutions for meeting national economic goals, including reasonable price stability, low levels of unemployment, and growth, enshrined in various pieces of legislation including the Full Employment Act of 1946 (Commission on Money and Credit 1961). The Commission included prominent representatives of business and finance, as well as labor, academics, and former public officials, and involved extensive research and deliberation resulting in several accompanying volumes. In its final report, “Money and Credit: Their Influence on Jobs, Prices, and Growth,” the Commission acknowledged a growing federal role in managing an increasingly complex economy and called for greater coordination of monetary and fiscal policy to make federal policy more responsive to fluctuations in the economy, and therefore, more effective at maximizing growth and employment and balancing these goals with stability. This would involve a greater role for the President in managing the economy in a dynamic way. President Kennedy praised the Commission’s final report and recommended its proposals to grant the President stand-by authority to temporarily change income taxes and capital expenditures and to improve unemployment compensation systems (Aliber 1972).

The Commission on Money and Credit exemplifies a moderate, middle-of-the-road approach to distributional macroeconomic policy. More stridently liberal and progressive variants called for proactive economic management, ranging from industrial planning to targeting investment and setting benchmarks for national economic goals. In an extended dissent to the Commission’s final report, H. Christian Sonne argued that the Commission had failed to address the most pressing problem— how to encourage long-term growth through “deliberate, continuing, constructive measures” including “large scale programs which require cooperation between the public and private sectors of the economy”, rather than continuing to rely on “shot in the arm,” counter-cyclical measures (Commission on Money and Credit; 5). To this end, labor, the housing industry, and urban liberals advocated for more far-reaching distributional macroeconomic policy reforms, including national economic goals, financial regulation aligned with economic and social priorities, and direct low-interest federal loans for social priorities like housing and infrastructure. For example, the Commission on Mortgage Interest Rates, a bipartisan group of members of Congress and 5 members appointed by President Johnson, embraced national economic targeting, specifying that an additional 1% of national GNP should flow to housing investment. This approach aligned with the national housing goals and expansion of subsidized housing embodied in the 1968 Housing and Urban Development Act, which the Commission cited as part of the rationale for its policies. If private funds for housing were lacking, the Commission recommended Social Security reserve and other trust funds as a potential source (Commission on Mortgage Interest Rates 1969; Keith 1973).

In contrast, financial elites, economic officials, the Federal Reserve, and, ultimately, the Nixon and Ford administrations, advocated financial deregulation in response to the market crisis of the 1970s. The most comprehensive statement of this approach came from the 1971 Report of the Commission on Financial Structure and Regulation, known as the Hunt Commission, which recommended removing interest ceilings on deposit accounts, as well as geographic and asset restrictions, allowing thrifts

to diversify their portfolios beyond mortgages to include more lucrative consumer loans and short-term lending (Florida 1986c, 1986b; Krippner 2011). In contrast to proponents of distributional macroeconomic policy, the Commission opposed the use of financial regulation to change investment patterns, arguing that such an approach would be inefficient. Instead, the Commission expressed faith that financial deregulation would remove barriers to credit access for the industries and groups clamoring for it. Increased competition among banks, combined with technological advancements in both administrative and technical aspects of financial services and underwriting, would make credit both abundant and low-cost over the long-term (Commission on Financial Structure and Regulation 1972).

While the Commission opposed incorporating social goals into financial regulation, they did not oppose the idea that the federal government had a role to play in meeting social goals. The Commission granted “in the event that mortgage financing is not adequate to achieve national housing goals, Congress should provide direct subsidies to consumers,” explaining “direct subsidies avoid the warping of financial institutions, they are visible, and they are less inflationary than agency borrowings” (Henderson 2013:142). In other words, the question of economic and social priorities would have to be politicized, rather than negotiated among elites and interest groups with varying alignments with these priorities, as it had been during the New Deal.

Proponents of financial deregulation included financial elites leading the largest banks and multinational corporations, whose particular interests would be advanced by interest rate and asset power deregulation, high-ranking policymakers who prioritized preserving the dominance of the dollar abroad, and conservative policymakers who opposed distributional macroeconomic policy on ideological grounds. Although the plan involved a significant degree of deregulation, it was a selective deregulation that removed restraints on bank competition without removing any of the privileges and administrative requirements that accompanied federal deposit insurance (Peltzman 1972). Thus, the plan involved a move toward universal financial intermediation—the process of transferring money from people who have extra funds to people seeking credit, typically performed by banks—, rather than a return to the *laissez-faire* banking environment of the 1930s. Where credit markets fell short, the legislature would subsidize social needs.

The Nixon and Ford administrations attempted to implement financial deregulation but faced a resistant legislature (Henderson 2013:143). At the time, every major interest group was opposed to the removal of regulation of interest rates on consumer savings accounts. For banks, it kept the cost of funds low. For thrifts, the home builders, and labor, it provided a degree of protection from the outflow of funds (Krippner 2011). It was only after several more years of rising interest, financial volatility, and significantly, and the liberalization of federal support for the conventional mortgage market, discussed in the succeeding sections, that federal policymakers enacted sweeping financial deregulation in 1979.

Significantly, policymakers also failed to enact new distributional macroeconomic policy tools in the critical period of the late 1960s and early 1970s. The highwater market for attempts to enact distributional macroeconomic policy came in 1969. In 1969, policymakers considered several distributional macroeconomic policy proposals,

including proposals to create a national mortgage bank or urban development bank (Title V) to make direct loans for low and moderate-income housing at rates as low as 6% (HR 13694; HR14639); to encourage pension funds to invest in government backed low and moderate-income housing; to require the Federal Reserve Board to take the effect of its actions on the mortgage market into account; and to carry out the recommendations of the Commission on Mortgage Interest Rates, which tapped government trust funds as a source of capital to meet national housing goals (CQ Almanac 1971). The Senate Banking and Currency Committee approved a bill that included Sen. Proxmire's proposal to mandate the Federal Reserve to provide low-cost funds to the Federal Home Loan Bank Board in a 9-7 vote. The proposal was significant because it would have given the Federal Reserve a broader mandate to manage the flow of credit across sectors, making it possible to mitigate the effects of inflation on housing without contributing to inflation, and potentially setting a precedent for a more fine-grained approach to macro-economic management that could address the tendency for the benefits and costs of monetary and fiscal policy to be unevenly distributed.

Ultimately, however, in a pattern that would be repeated throughout the Nixon and Ford administrations, when Congress passed a proposal that advanced distributional macroeconomic policy in response to mortgage market crises, President Nixon threatened to veto the bill. From the President's perspective, an ongoing call on Federal Reserve funds, could conflict with the Federal Reserve's ability to maintain price stability in the service of dollar dominance and the President's broader economic program to fight inflation by constraining aggregate demand. In a letter to John Sparkman (D-AL), the Chairman of the Senate Banking and Currency Committee, Nixon cited the Federal Reserve's responsibility for maintaining dollar dominance to explain his opposition to the Committee's proposal: "it would divert the Federal Reserve's attention from its responsibilities of maintaining and defending the integrity of the dollar," explaining that if the Federal Reserve did not sell a compensating amount of Treasury bills, its action in support of housing would become "an engine of inflation" (Nixon 1969, 1970). The President expressed support for the goal of "helping low- and moderate income families to obtain housing at costs they can afford," but argued that if Congress believed additional help was needed, "it should face the issue squarely by voting the needed subsidies in the Budget and then taking whatever additional steps are needed to secure the funds by cutting other expenditures or raising taxes" (Nixon 1969, 1970).

While one might argue that Nixon proposed addressing housing through appropriations precisely because it would create roadblocks, the President demonstrated his willingness to expand targeted subsidies on several occasions. For example, Nixon proposed and Congress enacted an alternative plan, which provided for FNMA to purchase mortgages at a discounted rate and time-limited interest subsidies to middle-income families to bring the mortgage rate down to 7% (\$105 million for 300,000 a year) (Keith 1973:216). While the President accepted targeted subsidies, he believed it was important to control them because controlling federal spending and reducing the deficit was the primary strategy in his anti-inflation policy. For this reason, the President voiced principled support for on-budget over off-budget subsidies because the latter were more

difficult to control, though he would later violate this principle under pressure to provide deeper relief to the housing industry (Realtor's Headlines 1970).

In summary, federal policymakers debated, but did not enact distributional macroeconomic policy proposals to align fiscal and monetary policy with national economic and social goals and expand public capacity to mitigate inflation and promote growth and employment. As a result, in the 1970s and 1980s, federal policymakers had limited tools to direct the nation's private capital resources according to need, or, at the very least, limit the impact of the competition for credit on housing. This insured that credit availability and inflation would remain a super-ordinate policy problem for the next decade.

While prior accounts of the failure of credit allocation and eventual success of financial deregulation in the 1970s emphasize policymakers' desire to avoid responsibility for distributive outcomes and the influence of large financial institutions (Florida 1986b, 1986c; Krippner 2011), a fuller explanation for the competing proposals, legislative stalemate, and compromises described here can be found in how distinct growth coalitions mobilized competing ideas about the relationship between economic and social policy under the strains of new economic and geo-political challenges. Nixon consistently framed his resistance to distributional macroeconomic policy in terms of his economic program, which prioritized combatting inflation, and maintaining the dominance of the dollar abroad—two interrelated issues because inflation eroded the value of the dollar and made it less appealing as the preferred reserve currency of overseas investors. Yet, President Nixon and other public and private stakeholders who rejected proposals to incorporate social priorities, like an adequate supply of decent, affordable housing, into financial regulation and economic policy did not necessarily reject social responsibilities. Instead, they believed economic and social policies should be handled by separate policies. Specifically, monetary policy should promote national economic goals through competition and technological development, while fiscal policy should address social priorities through targeted subsidies. They further prioritized keeping targeted subsidies on budget to control their growth and prevent them from conflicting with the economic stabilization functions of monetary policy. Ironically, it was the decision to politicize social priorities and hence make them hyper-visible, rather than to de-politicize, or hide them, that left compensatory social programs vulnerable to political attacks and retrenchment in subsequent decades. As will be discussed in the next chapter, what the framers of this new order didn't anticipate was how persistent financial volatility, inflation, and, later, the interests of the finance and real estate actors under this regime would come into conflict with this vision of a universal, efficient financial system and compensatory political-fiscal-redistributive policy.

2. Severing Social and Economic Goals: Inflation, Nixon's Subsidized Housing Production Moratorium, and the Separation of Federal Credit Policy from National Housing Goals

Although Congressional Democrats' bid to create new tools to address economic challenges and advance national economic goals failed, from 1969 to 1973, subsidized housing production programs continued to provide relief to the housing industry and low-

and moderate-income home buyers and renters alike in the context of tight credit and high interest rates. Below-market interest rate programs for low-income homeownership and rental housing (Section 235 and Section 236) provided access to credit and relief from high interest rates. In 1972, they were responsible for 25% of housing starts (New York Times 1972).

In 1973, however, President Nixon abruptly imposed a moratorium on subsidized housing production programs in January 1973, calling the programs, “inequitable, wasteful, and ineffective in meeting housing needs” (Bonastia 2006:123). In the years leading up to the moratorium, HUD had been plagued by scandals involving “fast-buck” housing speculators who bought up older homes in declining neighborhoods, fixed them up with cosmetic repairs, and sold them at inflated values, bribing FHA Inspectors and appraisers along the way” (Karmin 1973). The administration argued that the abuses found in the programs justified a program freeze and announced HUD would conduct a comprehensive review of federal housing policy to determine its future course.

Several months later, following the completion of HUD’s review of federal housing policy, Nixon announced that experts had determined “the root cause of the problem” was “a lack of income”—not a lack of decent affordable housing— and “the most promising way to achieve decent housing for all our families at an acceptable cost appears to be direct cash assistance” (Nixon 1973). Accordingly, the President proposed to convert federal subsidies for subsidized housing production to a program of rental assistance that would be phased in, but was, in theory designed to be an entitlement.

The administration’s stated reason for issuing a moratorium on subsidized housing production was unconvincing because, as defenders of the aborted programs pointed out, abuses were concentrated in FHA’s unsubsidized mortgage insurance programs and in particular cities, including Philadelphia, Chicago, and Detroit (Bonastia 2006:123). The administration’s bold declaration that housing problems in the 1970s were “income problems” was an over-simplification of expert opinion summed up in HUD’s own review and one that housing and civil advocates flatly rejected at the time. Why, then, did the President expend significant political capital to impose a moratorium on subsidized housing production shortly after his re-election?

Favorable public opinion toward low-income housing assistance, federal responsibility, and production-oriented programs vs. housing allowances challenges the idea that a backlash against a federal role in housing drove the decision. A 1973 HUD-sponsored nationally representative survey found that 79% of Americans said, “providing housing assistance for low-income families,” was very important or somewhat important. A majority (66%) also believed the federal government (vs. state or local government) had a general mandate to provide assistance to low and moderate-income Americans. Finally, larger margins favored “building housing projects primarily for low-income families” (66%) and providing mortgage subsidies to help low-income families buy their houses (66%) than either “providing a rent supplement to allow low income families to live in government-financed housing projects which are occupied mainly by moderate income families,” (49%) or giving low income families a housing allowance (50%) (Louis Harris and Associates, Inc. 1974).

Under the guise of pragmatism, the Nixon administration's hardline against subsidized housing production reflected an effort to align the federal role in housing with the administration's major economic and social policy agendas—the anti-inflation program and New Federalism. The anti-inflation program aimed to address the nation's economic and market challenges by prioritizing price stability, which would be achieved by curtailing federal spending growth, balancing the federal budget, and reducing aggregate demand. New Federalism aimed to devolve as much responsibility for meeting household and societal needs to individuals, the private sector, and state and local governments, as possible (Conlan 1998; Lubar 1974). In discussing the roots of New Federalism, scholars have identified conservative principles of limited government and perceived failures of activist government and big government liberalism in the 1960s (Conlan 1998; Hays 2012). In the remainder of this section, I argue that what New Federalism offered, more specifically, —that was not necessarily explicitly stated, but apparent from the policies it advanced and their more detailed private justifications— was a rejection of the use of federal policy to advance economic and social goals through public-private partnership and cooperative federalism, in favor of a vision of social policy limited to post-tax redistribution and that the economic challenges of the 1970s and the anti-inflation program that the President positioned as the answer provided an opportunity to advance it.

Internal administration documents reveal the connection between the moratorium on subsidized housing production and the Nixon administration's statecraft. In a memo that received praise from one of Nixon's top housing advisors, Tod Hullin, Assistant Secretary for HUD, Sheldon Lubar, elaborated how the principles of New Federalism applied to housing policy. Secretary Lubar explained that the goal was “getting the Federal Government out of the retail housing business—and into meeting the wholesale needs of all the people on a broad scale” (Lubar 1974). Lubar was referring to the expansion of subsidized housing production in the late 1960s and early 1970s, particularly the convergence of federal credit programs and low-income housing that was a hallmark of liberal housing policy innovation in the 1960s, embodied in the below-market interest rate subsidized housing production programs that grew rapidly in the early 1970s (Chapter 3). Lubar went on to argue that the below-market interest rate programs had “overburdened” FHA and threatened to undermine the agency's success. This was a problem because, in Lubar's view, FHA was still needed to insure homes for low- and moderate-income households, as well as middle-income households during periods of tight credit. In other words, FHA must be freed up to perform the important role it played stabilizing the mortgage market. Lubar recommended that the appropriate federal role in housing was to focus on the aggregate stability of the mortgage market and to address the needs of low-income households separately through cash assistance: “the housing situation will be improved by measures which improve the condition of the mortgage market in general, and the interests of the consumer in particular... for those low-income persons not reached by any of these measures, we have identified a system of direct cash assistance as the most promising approach” (Lubar 1974:10–11). This version of what it meant to adapt federal housing policy to the 1970s differed from the simplified version offered to the public. In particular, it reveals the primacy of deep concerns about

mortgage market stability as well as the finances of low-income households and widely held, but contested, ideas about their causes and possible solutions.

Another important motivation for the moratorium on subsidized housing production that was absent from the administration's public justification was the tension between the subsidized housing production programs and the President's anti-inflation program. In a 1971 report to Congress on progress toward national housing goals, the Administration warned that continuing subsidized housing production under current economic circumstances risked contributing to the "the continuing general inflationary psychology that is keeping the interest rates at elevated levels" (White House 1971:22). While high interest rates made the below-market interest rate subsidized housing production programs popular with home buyers and developers, their efficacy in blunting the impact of high interest rates on housing made them counter-productive to the administration's goal of fighting inflation by constraining aggregate demand.

The liberal-builder coalition mobilized in opposition to the moratorium on subsidized housing production. Urban liberals, labor, the housing industry, and housing and civil rights argued that that federally subsidized housing programs were working well in most cases, could be improved with administrative reforms, and were needed to ensure an adequate supply of housing in the right places (Downs 1972; U.S. Congress 1974). The President of the National Association of Home Builders, Gregory Martin, remarked that abandoning subsidized housing production programs would make the United States, "the only Nation in the Western World without a significant production element in its program to help house those who cannot afford adequate housing on their own" (U.S. Congress 1973:857). Housing and civil rights groups opposed the administration's bid to make housing allowances the "the major mechanism for housing assistance," and equation of housing problems to "income problems." In testimony before Congress, John B. Williams, President of the National Association of Housing and Redevelopment Officials, and Executive Development of the Redevelopment Agency for the City of Oakland, argued, "to describe national housing needs solely in terms of an income problem is oversimplifying the issue... Equally important is federal housing assistance designed to replace slums and blighted housing ..., and to directly provide new housing opportunities for all families in conjunction with employment opportunities in new growth areas and new communities" (U.S. Congress 1973:1280).

In defiance of the moratorium on subsidized housing production, the Senate passed a bill with \$500 million in new funds for below-market interest rate subsidized housing production programs (CQ Almanac 1975:347). However, the administration threatened to veto any bill that restored funding to the frozen subsidized housing production programs. Eventually, House Democrats negotiated with the administration to pass the Housing and Community Development Act of 1974, which, among other provisions, replaced the subsidized mortgage production programs with Section 8, which included a New Construction and Substantial Rehabilitation component and an Existing Housing component that would provide rental assistance to tenants residing in the private rental market, independent of any rehabilitation or new construction activity.

While Section 8 preserved a federally subsidized housing production program, it severed the connection between economic and social goals that liberal policymakers had

hoped to achieve with the below-market interest rate programs for subsidized housing production and homeownership. In contrast to below-market rate interest programs, Section 8 offered rental assistance contracts to developers of low-cost housing, but provided neither guaranteed access to financing nor mortgage interest subsidies—a major draw and cost-savings for developers and households alike in the prior programs. Instead, developers would secure financing through the private mortgage market. Thus, while the Nixon administration failed to either eliminate subsidized housing production or institute universal housing assistance, it succeeded in reversing the convergence of federal credit and national housing production goals by severing the connection between federal credit support and subsidized housing production. As a result, high interest rates for the remainder of the 1970s and early 1980s would throttle subsidized housing production and market-rate housing production alike, as they were supposed to under the administration's anti-inflation program. In theory, the federal government could cover rising costs with rental housing assistance contracts, and to some extent, it did, but statutory cost and appropriations limits placed limits on how much rental assistance contracts could compensate for rising credit and other costs.

3. Redirecting Federal Credit Policy from National Housing Goals to Mortgage Market Liquidity and Stabilization: Mortgage Market Crises, Liberal Credit Policy, and the New Nexus of Finance and Real Estate

To appease the private housing industry and provide home buyers and developers relief from tight credit, federal policymakers liberalized credit policy, expanding federal mortgage purchases and guarantees from government-insured (FHA and VA) to conventional (non-government-insured) mortgages; increasing the volume of federal mortgage purchases, guarantees and re-sales to investors; and relaxing lending requirements like maximum interest rates on FHA and VA loans, to make more money available for mortgages (Table x). For example, the Emergency Home Finance Act of 1970 expanded federal secondary mortgage market support to the conventional (non-government insured) mortgage market, authorizing FNMA to purchase conventional mortgages, creating the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and giving it authority to issue mortgage-backed securities backed by conventional mortgages (Janssen 1971; Klamann 1970). FNMA had previously been limited to the purchase of government-insured FHA- and VA-loans.

From 1970 to 1974, the Nixon administration acquiesced to liberal mortgage credit policy as a concession to the housing industry following the administration's hardline against distributional macroeconomic policy and subsidized housing production. When President Nixon announced that his administration would not resume subsidized housing production programs, the President announced a plan to provide immediate relief to the housing industry in the form of \$2.5 billion of Federal Home Loan Board advances and \$3 billion for GNMA to purchase government-insured mortgages through a renewed "tandem plan" for unsubsidized mortgages (McBee 1973; The Washington Post 1973). Again, in 1974, the country experienced a housing downturn even more severe than the 1966 and 1969 slumps. (Tomasson 1974). The Nixon administration authorized federal

housing agencies to purchase over \$13 billion of mortgages from lenders to free up funds for new loans.

Neither liberal nor conservative policymakers championed liberal credit policy. For example, Democrats criticized the Emergency Home Finance Act for failing to provide more direct aid to prospective home buyers; subsidizing high interest rates to the benefit of lenders, and failing to improve the supply of mortgage funds, saying, “It is a lenders’ business-as-usual bill-with some added sweeteners for the finance industry and continued astronomically high interest rates for the home buyer” (U.S. Congress 1970:20–22). For Republicans, like President Nixon and President Ford, it violated their commitment to fight inflation by constraining aggregate demand. This concern was partially addressed by relying on mortgage purchase, guarantees, and resales in the 1970s. But conservative’s antipathy to liberal credit policy remained strong, as evidence by the Reagan administration’s attempt to fully privatize the government-sponsored enterprises and FHA, ending the special privileges the agencies enjoy. Federal policymakers overcame their antipathy to liberal credit policy, in part, by framing it as temporary, as the emergency legislation of the 1970s suggests.

Despite hopes that liberal credit policy would be temporary, it was not. In fact, the need for federal backing of the mortgage market only grew following financial deregulation and the sharp rise in interest rates in the late 1970s and early 1980s. In response, federal policymakers expanded incentives for banks and investors to buy mortgages, and insured that government-sponsored agencies and federal guarantees would continue to play a central role in the mortgage market (CQ Almanac 1984; Gotham 2006; Immergluck 2011; Ross 2015).

Liberal credit policy solved the most pressing problem for the private housing industry—the availability of credit—but left the most pressing problem for low- and moderate-income households—the cost of credit and housing—unresolved. The Executive Vice President of the Mortgage Bankers’ Association, Oliver Jones explained that federal mortgage market relief reduced uncertainty about the availability of credit, insuring, “Credit would be available, but like every other thing we buy today, its cost will be higher” (Jones 1974). A representative of the National Association of Realtors also criticized federal policymakers’ failure to address, “the fundamental problem of bringing interest rates down to the point where the average prospective home buyer can afford a home” (Los Angeles Times 1974). In 1978, representatives of the National Association of Home Builders told Congress that home ownership had become “even more illusory for many Americans”, noting the median price of a new home doubled from \$24,700 to \$51,700 between 1968 and 1978 (U.S. Congress, “National Housing Goals”, 1978: 8). In multifamily housing, as well, they noted “supply had not kept pace with demand” because “rents for multifamily housing have not kept pace with the escalating costs” (U.S. Congress, “National Housing Goals”, 1978: 8). Their conclusions were echoed by the 1982 President’s Commission on Housing, which acknowledged that in the 1970s, homeowners benefitted from rising housing prices, but home buyers took on more debt or were priced out of homeownership as home prices and interest rates “rose much faster than the rate of increase in personal incomes” (President’s Commission on Housing 1982:xxv) (Figure 4.2). In addition, the Commission concluded that rental housing

continued to “[suffer] from a seriously inadequate rental stream,” referring to the concentration lower-income people in rental housing and the gap between the cost to operate and maintain housing and what low-income households could afford to pay for rent (President’s Commission on Housing 1982:xxv).

Although liberal credit policy resolved the most existential threat for the housing industry—access to credit—, persistent inflation, deteriorating affordability, and financial volatility created winners and losers within the real estate and housing finance industries, as well. While real estate brokers, mortgage brokers, and banks saw their fortunes grow, home builders, commercial residential developers, and savings and loans experienced volatility and were forced to adapt to new conditions. Real estate brokers benefitted from rising home prices and a booming home sales market because they increased their commissions. Similarly, mortgage brokers and banks benefitted from the growth of mortgage securitization, mortgage originations, mortgage re-financing and home equity loans that accompanied the rise of financial volatility and the asset-based economy (Kendall and Fishman 1996).

In contrast, persistent inflation, deteriorating affordability, and financial volatility created a mix of new challenges and new opportunities for home builders and commercial developers. Financial volatility led to successive waves of corporate consolidation in the home building industry (Goodkin 1974; Wissoker 2016). At the same time, inflation created lucrative opportunities for existing homeowners and developers and lenders who would cater to them, even as it exacerbated the affordability squeeze for low- and moderate-income home buyers and renters. Home builders adapted by shifting more of their business to serve affluent or second-time home buyers and corporate consolidation (National Association of Home Builders 1977). Savings and loans also saw their profitability continue to erode until the savings and loan collapse of 1989. This had knock-on effects for the community building model of mass housing production because S&L’s financed a large share of construction and commercial residential loans.

As a result, by the end of the 1980s, federal credit support for housing had been transformed from two circuits into one that centered upon mortgage securitization, government-sponsored enterprises, and large banks and financial institutions. The mortgage securitization industry became a highly lucrative industry that all of the major banks participated in—in fact, it drove the vertical integration of banks in the 1990s—, and up until the years immediately preceding the Great Recession, the GSE’s remained the dominant issuers of mortgage-backed securities (Fligstein 2021). The share of mortgage originations that were securitized increased from under 10% in 1974 to 60% by 1986 (Sellon and VanNahmen 1988). While banks dominated the new centralized housing finance system, the GSE’s play a critical role in the mortgage securitization market by removing credit risk, creating standards, and lowering the financing costs of mortgage securitization (Sellon and VanNahmen 1988). In contrast, throughout much of the twentieth century, federal credit support for housing consisted of two circuits—one made up of specialized housing finance institutions and another comprised of federal secondary mortgage market support through which the federal government purchased and sold mortgages in response to changing market conditions, to facilitate access to mortgage capital in credit scarce parts of the country, and to support the development of

new credit instruments, through entities like the Reconstruction Finance Mortgage Corporation and the Federal National Mortgage Association, including mortgages for rental housing and urban rehabilitation (Quinn, Jones). With the rise of mortgage securitization, the federal role in the mortgage market became both more expansive and more indirect.

In summary, in the 1970s, liberal credit policy entered a new phase. In response to mortgage market crises resulting from persistent financial volatility, inflation, and disintermediation, or the movement of funds out of specialized housing finance agencies, federal policymakers expanded the scope and volume of federal secondary mortgage market support. The expansion of secondary mortgage market support provided relief to the housing industry and home buyers who could afford to buy homes despite the unmitigated affordability squeeze for households, but it was a step away from the broader program of economic management and credit allocation that the liberal-builder coalition advocated and failed to enact in the late 1960s and 1970s, as well as the *de facto* distributional macroeconomic features of federal credit programs for housing as they evolved in the decades following World War II. By providing mortgage guarantees independent of distributive or economic goals, it severed the connection between federal credit support and national housing goals as well as counter-cyclical macroeconomic management. As we shall see in the following chapter, federal policymakers struggled to regulate the allocation of credit in the new housing finance system because it was beholden to volatile financial markets. By providing a way to meet the needs of the housing industry, homeowners, and affluent households, it fragmented the liberal-builder coalition that had supported both credit expansion and subsidized housing production in the 1960s and 1970s. As a result, the coalitional basis for subsidized housing production dissolved, and with it, a critical source of support for expanding federal support for low-income housing.

The new nexus of finance and real estate also had important consequences for the synthesis of economic and social policy in the late-twentieth century. The dependence of large sectors of the economy on easy access to low-cost credit through volatile financial markets and the inability of elected officials to directly address interest rates made public and private stakeholders extremely sensitive to fiscal decisions perceived as impactful for the workings of financial markets, increasing the appetite of many stakeholders for fiscal austerity. While this tension between price stability and growth was a long-standing feature of economic policy debates, the increasing reliance on liberal credit and monetary policy to boost aggregate demand and provide stimulus to a lagging economy beginning in the 1970s, raised the stakes for ensuring price stability through fiscal policy. As will be discussed in the following chapter, the policy preferences of banks were an important part of this shift. While banks traditionally derived profits from the difference between the interest rate they charged to debtors and the interest rates paid to depositors, modern banks' reliance on volume-based financial transaction fees and leverage—borrowing to finance investments—requires liberal credit and monetary policy, even though price stability remains a dominant concern, owing to banks' parallel interest in preserving the value of their assets (Braun 2022). Thus, modern banks' new preference for low interest rates or “easy money” conflicts with their interest in maintaining price stability, which

had traditionally made them a “hard money” constituency, meaning that they favor conservative monetary and fiscal policy. Since the 1980s, banks have squared the circle by pairing easy money with rigid adherence to fiscal constraint. With housing and mortgage markets tied to banks, the real estate industry followed closely behind.

Conclusion

This chapter began by showing that liberal policymakers, home builders, and labor advocated for innovative economic policies in response to new economic challenges in the late 1960s and 1970s. These policies would have preserved the economic and political basis for production-oriented federal housing policy by expanding public capacity to promote economic growth and stability. Although these policies had significant political support, they were not successful. Financial institutions, banking officials, and conservative policymakers argued instead for economic and financial policies that prioritized competition and technological development, preferring separate social policies to address distributive issues through targeted subsidies to households. Although the preferred policy solutions of the liberal-builder coalition failed, the preferred solutions of the banks for limiting federal intervention to a federal backstop for banks and targeted subsidies failed as well due to liberal and housing industry opposition. Liberal credit policy—specifically, the liberalization of secondary mortgage market support for the conventional mortgage market—emerged as a compromise solution.

Liberal credit policy provided relief to the housing industry and home buyers who could afford to buy homes despite the unmitigated affordability squeeze for households, but it did not mitigate persistent inflation, deteriorating housing affordability, or financial volatility. As a result, home builders and commercial developers grew more concentrated and segmented their offerings for luxury and affordable markets. At the same time, the expansion of liberal credit policy amid inflation, deteriorating affordability, and financial volatility resulted in a shift in the institutional locus of credit support from Congress and federal housing agencies to banks and government-sponsored enterprises and transformation of finance and real estate industries. The new nexus of finance and real estate aligned the interests of the real estate industry with the interests of the financial industry in stimulative monetary policy and restrictive fiscal policy.

The next chapter examines the consequences of these developments for the coalitional politics of federal housing policy. In the 1970s and 1980s, market conditions and new interest alignments made subsidized housing production and production-oriented federal credit support vulnerable to retrenchment. Following retrenchment, a new financialized policy coalition emerged to shape the federal role in housing in the 1990s and 2000s that prescribed a dual approach to the housing needs of low- and moderate income and poor households through credit liberalization for first-time home buyers, rental assistance for poor renters, tax credits for low-income rental housing production and preservation, respectively. Yet, the financialized policy coalition’s commitment to fiscal restraint to balance liberal credit and monetary policy mitigates against the development of a broad liberal-business coalition to expand subsidies needed to address affordable housing in the context of rising housing costs. Consequently, the financialized

policy coalition offers a contradictory basis for advancing housing goals through public-private partnership.

This chapter contributes to our understanding of the retrenchment of the federal role in housing as well as the shift from supply to demand-side strategies since the 1970s by showing how changes in the institutional embeddedness of federal housing policy in macroeconomic policy in the 1970s led to the fragmentation of the liberal-builder coalition responsible for expanding subsidized housing production in the 1960s. Existing accounts of the declining federal role in housing since the 1970s point to policy failures in high-rise public housing and the below-market-interest program; white and conservative backlash to redistributive social programs, in general, and neighborhood-based opposition subsidized housing, in particular; and changes in the nature of housing problems from predominately issues of supply and quality to affordability (Erickson 2009; Orlebeke 2000; Quadagno 1994; Schwartz 2014). While evidence exists to support each of these explanations, the rise and fall of economic ideas and growth coalitions in response to new economic challenges in the 1970s provides a more comprehensive explanation for the durable shift in federal housing policy from supply to demand-side strategies and, as will be elaborated in the following chapter, the parallel loss of reform momentum in federal housing and urban development policy. Moreover, as the account of the historical policy-making process presented here suggests, the processes through which federal policymakers and industry stakeholders made sense of housing problems and possible solutions was shaped and constrained by economic ideas, particular interests, and institutional constraints.

This chapter also contributes to our understanding of post-1970s shifts in American political economy by identifying the severing of economic and social policy as a key shift associated with the decline of supply-side strategies in federal housing policy, as well as the loss of reform momentum in housing and urban development policy and declining political fate of growth liberalism, more broadly. It further suggests that path dependent changes in coalitional politics associated with financialization have sustained the shift from the New Deal Order to neoliberalism. While scholars have highlighted the importance of neoliberal economic ideas prioritizing free markets in shaping policy in the late twentieth century and their affinity with financialization (Duménil and Lévy 2004; Krippner 2011), the severing of economic and social policy during the economic crisis of the 1970s that preceded the rise of neoliberalism, the role of growth coalitions in cementing the success of new economic ideas, and the relationship of both of these developments to austerity by virtue of the contradiction between the reliance on liberal credit and monetary policy to sustain economic growth and the prescription to rely on post-tax redistribution to fill gaps in household needs that are poorly met by the market have been underexamined.

Finally, this chapter extends theories that link the U.S.'s credit-driven, consumption-oriented growth regime to distributional outcomes. Political scientists have noted the growing role of the federal government in mortgage markets since the 1970s, the role of growth coalitions in cementing that role, and the interrelationship of housing and mortgage markets with the US's consumption-oriented growth regime (Reisenbichler 2022). For example, Reisenbichler (2022) argues that the United States expanded federal

support for the mortgage market and homeowner tax expenditures in the late twentieth and twenty-first century because housing and mortgage markets drive economic growth in the United States. Expanding federal support for housing and mortgage markets is of a piece with long-standing federal support and a credit-driven, consumption-oriented growth coalition that dates at least to the early twentieth century, and is associated with a credit-welfare state tradeoff that saps support for the welfare state (Prasad 2012; Quinn 2019). Since the 1970s, however, the consumption-oriented growth regime centered upon housing in the United States has taken a decidedly dysfunctional turn. Whereas liberal credit policy stimulated economic growth in the 1930s through 1960s primarily by stimulating residential construction and expanding homeownership, the same economic gains were achieved in later years by stimulating housing demand, driving up housing prices and increasing the wealth of homeowners (Cohen 2003; Quinn 2019; Schwartz 2009). This chapter extends critiques of the distributional consequences of the credit-driven consumption-oriented growth regime since the 1970s by highlighting the decline in residential construction and shift in homebuilding from low-and moderate income to affluent households associated with private housing industry adaptations to new economic challenges and opportunities.

Chapter 5: Conclusion

Scholars have developed an extensive menu of explanations for the underdevelopment of the American welfare state, including Americans' individualist and anti-statist values, the political weakness of labor and political strength of business, the persistence of racial discrimination and race-based social, economic, regional and spatial divides, and state-centered accounts which take account of America's fragmented political institutions, lack of a strong centralized administrative state, and decentralized administration, resulting in decentralized authority and administrative capacity (Amenta, Bonastia, and Caren 2001; Skocpol 1992; Weir and Skocpol 1985). While these explanations provide a strong foundation for understanding the political and institutional forces that have constrained the development of the American welfare state, they also reflect a central focus on income maintenance policies related to the classical understanding of the function of the welfare state in terms of the decommodification of labor (Esping-Andersen 1990).

In the last three decades, students of the public-private welfare state have expanded the scope of the welfare state literature to include a host of policies that work through indirect mechanisms to induce private, state, and local actors to achieve policy goals, ranging from providing health insurance to offering loans and providing services (Hacker 2002; Howard 1997; Mettler 2011; Morgan and Campbell 2011; Quinn 2019; Thurston 2018). Housing, healthcare, and higher education have all benefitted from increased attention in the public-private welfare state literature. While these policy areas contribute to the decommodification of labor, they do so less directly than income maintenance programs and have several additional functions related to economic opportunity, security, and wealth-building. They also play a growing role in the economy and individual and household well-being in post-industrial society. Consequently, it is important to understand the distinct conditions and constraints associated with expanding social provision through the public-private welfare state.

Existing accounts identify several constraints on the expansion of social provision that stem from the public-private welfare state. Notably, private provision saps support for more universalistic programs and means-tested compensatory alternatives to market-based provision (Hacker 2002; Mettler 2011). The literature has had little to say however, about the conditions and constraints associated with expanding social provision through the public-private welfare state beyond the widely recognized challenges with transparency and accountability, which have met with varying degrees of failure and partial success (Eaton and Weir 2015; Morgan and Campbell 2011).

This dissertation has offered evidence that coalitions, economic ideas, and incremental policy change mediate the extent to which two-tiered housing policy constrains federal policy initiatives to expand housing provision. From its inception during the New Deal, both "tiers" of two-tiered federal housing policy—federal support for mortgage markets and public housing—focused on improving housing conditions for ordinary Americans by increasing low-cost housing production that met minimum standards. The focus on housing production both stemmed from and reinforced a linkage between federal housing policy and economic policy goals to stimulate growth and create

jobs. Following World War II, low- and moderate-income households perceived as falling into a gap between public and private provision—a group that I call the missing middle—provided an impetus and a battleground for policy entrepreneurs seeking to expand housing provision through the public-private welfare state. While proposals to expand public housing met with concerted opposition from conservatives and the real estate industry, a diverse array of proposals to expand and improve private housing provision for the missing middle had a chance at success. Liberal policymakers, labor, and housing advocates proposed direct loans for cooperative moderate-income housing. Although the real estate industry opposed third-way policies, they posed less of a conflict with conservative principles than public housing, given the emphasis on private ownership and self-help. However, economic officials opposed the development of new credit facilities for moderate-income housing because they would contravene their efforts to maintain economic stability through the manipulation of monetary policy. Consequently, direct loans for cooperative and moderate-income housing failed, while mortgage liberalization and tax benefits aimed at improving private housing provision for the missing middle succeeded because they faced no opposition. Although a coalition of proponents of conservative macroeconomic policy and the real estate industry blocked liberal federal policy initiatives in the 1940s and 1950s, conflicts over the Federal Reserve’s response to interest rate volatility in the late 1950s and growing problems with weak demand in housing and construction markets created opportunities for the real estate industry for join forces with liberal policymakers in subsequent decades.

In the 1960s, federal housing policy entrepreneurs faced the unresolved challenges of gaps in two-tiered federal housing provision alongside new challenges stemming from the rise of metropolitan fragmentation, stark racial and economic segregation across city-suburb divides, and the spatial mismatch of jobs and low-cost housing arising from the suburbanization of jobs. This time, rather than seek a third way, liberals worked through the existing housing finance and development industries. Growth liberals in the Kennedy and Johnson administrations forged a liberal-builder coalition comprised of labor, home builders, mayors, and local officials to expand the federal role in housing and urban development by scaling up and better coordinating longstanding partnerships between the federal government and the private housing industry, on one hand, and the federal government and local governments, on the other. The policy vision entailed scaling up federal credit support for low-cost housing production and, for the first time, linking credit support to mortgage interest and rent subsidies. It also entailed building the capacity of local governments to build and facilitate low-cost housing, mitigate urban inequality and promote balanced metropolitan development. Although Realtors joined conservatives, suburban Congressman, and southern Democrats in blocking direct federal subsidies for moderate-income households, the liberal-builder coalition succeeded in increasing federally subsidized housing production, setting the first national housing goals, and increasing federal aid to cities.

In the early 1970s, in response to persistent and growing challenges stemming from the underdevelopment of local capacity, liberal congressman proposed a metropolitan housing block grant proposal that could have incentivized local governments to cooperate in the development and implementation of metropolitan

housing plans, rationalized the allocation of federal housing and urban development resources, and provided much needed checks and balances for the many local public and private actors responsible for implementing federal programs. The proposal failed, however, in part, because the groups that the federal policymakers relied upon to help enact and implement housing and urban development policy—home builders and mayors—did not line up behind it because they regarded regional governance as unworkable and undesirable and they defined their interests narrowly in terms of subdivision development and central city redevelopment, respectively, which they perceived could be advanced more directly through dedicated credit, subsidy, and federal oversight mechanisms. Following the failure of the metropolitan housing block grant proposal, key liberal policymakers struck a compromise with the Nixon administration that provided a weak oversight mechanism but resulted in a return to localism in federally subsidized housing programs.

In the 1970s, economic and market crises severely impacted the housing industry and home buyers through rising interest rates, credit shortages, and deteriorating affordability. In addition to weak local capacity to advance housing and urban development policy goals, the liberal-builder coalition faced challenges from an alternative coalition of policy elites in debates about how to respond to new economic challenges. The liberal-builder coalition advocated for distributive macroeconomic policy, which would have given policymakers new tools to manage the economy, could have mitigated the impact of volatile interest rates on home builders, mortgage markets, and home buyers, and provided an institutional basis to preserve the federal role in housing production. However, large financial institutions, the Federal Reserve, and the Nixon administration opposed the development of new tools to manage the economy. Instead, they argued that the appropriate response to credit shortages was financial deregulation, which would allow markets to more effectively regulate credit and, through competition and technological development, improve the supply of low-cost credit. To address deteriorating affordability, they prescribed targeted subsidies to households. Throughout the 1970s, in lieu of either the distributive macroeconomic policy approach or subsidized laissez-faire approach, federal policymakers expanded federal secondary mortgage market support in a series of emergency relief measures.

The expansion of indirect, passive support for the mortgage market solved the most pressing problems for the housing industry and gave households that could afford it access to credit at prevailing rates, but it did not address the problems that deteriorating affordability and financial volatility posed for the housing industry and home buyers. Subsequently, the housing finance and homebuilding industry adapted to new opportunities and challenges by growing more concentrated and segmented in their market strategies. At the same time, the institutional locus for housing finance shifted from specialized housing finance institutions, federal housing agencies, and Congress to large financial institutions, government-sponsored enterprises, and the Federal Reserve. Thus, a process of industry adaptation and interest redefinition further undermined the coalitional basis for a federal role in housing production and urban development.

The following two sections bring the story up to the present by analyzing developments in federal housing policy since the 1970s. The first section discusses the

politics of the retrenchment of federally subsidized housing production in the 1980s. The second section describes the rise of a financialized policy coalition as the dominant housing policy coalition since the late 1980s. Subsequent sections discuss the implications this dissertation for the boundaries of federal housing policy, the nature and origins of the loss of public capacity since the 1970s, and the public-private welfare state.

The Retrenchment of Federally Subsidized Housing Production, 1973-1983

In the 1970s and 1980s, persistent inflation, deteriorating affordability, and financial volatility undermined the efficacy of federally subsidized housing production programs. In response, federal policymakers abandoned national housing production goals and retrenched subsidized housing production—the hallmarks of liberal housing policy from the 1930s through the 1960s. The first move toward retrenchment of the federal role in housing production came in 1978 when Congress decided not to renew the national housing goals established ten years earlier. The 1968 HUD Act had established national housing production goals for market-rate and subsidized housing production, targeted to eliminate sub-standard housing in 10 years. Notably, it was the first- and only-time policymakers enacted legislation that adopted a plan and timeline to realize the goal established in 1948 for decent housing for all. The National Association of Home Builders, AFL-CIO, US Conference of Mayors, and the Low-Income Housing Coalition testified in support of the goals, recalling the coalition of builders, labor and housing advocates that backed the 1968 HUD Act (U.S. Congress 1978). The case in support of national housing goals recalled the linkage of economic and social policy that was the hallmark of distributional macroeconomic policy. For example, representatives of NAHB supported the principle of “a legislative system that establishes objective criteria for allocating our available National resources” (U.S. Congress 1978:4). Rejecting arguments that equated any policy that could add to aggregate demand as inflationary, the AFL-CIO adopted a more fine-grained view of economic management, arguing that failing to overcome supply bottlenecks was contributing to inflation in housing prices and rents. If the housing production goals established in the 1968 HUD Act could be relied upon as a reliable benchmark, they indicated a continued need for a federal response to ensure an adequate level of housing production, particularly low-cost housing production remained. In 1978, the nation had fallen short of housing production goals established ten years earlier, meeting 82% of the total production goal— 66% if the 4 million mobile homes added in the decade were excluded— and 45% of the subsidized housing goal (2.7 million vs. 6 million) (U.S. Congress 1978:1).

Republicans, economists, and housing and economic officials in the Carter administration opposed renewal of national housing production goals. For conservatives, the rejection of national housing goals was principled; they saw them as a manifestation of government overreach (U.S. Congress 1978:261). For economists and administration officials, however, the reasons were more pragmatic. Carter’s HUD called the idea of goals “unrealistic”, noting that they might come into conflict with other economic priorities, like fighting inflation (Brodsky 1978). Economists raised concerns that subsidized housing finance—the primary policy tool for advancing national housing goals— came at the expense of offsetting new private units, citing a study that found

“government attempts to make mortgage finance easier and cheaper have had little or no effect on the amount of housing and construction activity” and suggested that the benefits of a reduction in market-wide interest rates would exceed the benefits of subsidized housing (National Association of Home Builders 1979).

As the AFL-CIO’s counterargument suggests, claims about the impact of subsidized housing production on inflation were rooted in widely held, but contested economic ideas. In the late 1970s, influential interest groups, like the AFL-CIO and the National Association of Home Builders still argued for distributional macroeconomic policy to advance national economic and social goals. Administration officials who viewed subsidized housing production as inflationary may have done so based on their rejection of the policies required to offset their effects on principled terms or their pragmatic assessment that the comprehensive approach to implement them effectively, would be lacking. Similarly, economists’ assessments were valid, but not unassailable given the host of assumptions that methodologies relying on imagined, but un-observed counterfactuals rely. At the same time, economists’ critique of the efficacy of subsidized housing production in the economic context of the late 1970s raised a legitimate concern. The persistence of inflation and financial volatility raised the cost and limited the efficacy of subsidized housing production. The below-market interest rate programs, and in fact the liberal approach to market-oriented housing production they were based on, assumed easy access to stable, low-interest rates and rising incomes to offset the cost of high rates of new residential construction that the American system of housing provision required to produce an adequate supply of housing through market-rate residential construction and filtering.

The problems that high interest rates posed for housing affordability and liberal housing policy strategies worsened significantly in the late 1970s and early 1980s. Following Federal Reserve Chairman Paul Volcker’s decision to raise interest rates sharply to combat inflation, mortgage interest rates climbed as high as 17.5% and construction unemployment reached 20%-- the highest on record since the late 1940s (U.S. Congress 1983b:147). Ironically, the Volcker shock aimed to fight the very same economic conditions that it exacerbated. In theory, rising interest rates would cool demand throughout the economy. In practice, the Volcker shock, by applying a blunt instrument, had disproportionate effects on low-wage workers by driving demand down so much that it broke unions and forced wage concessions—a strategy that was not a part of the public messaging around monetary policy, but was acknowledged privately.

To provide relief to home buyers and home builders, Republican Senator Richard Lugar (R-IN) introduced a bipartisan bill, with support from the private housing industry, labor, and a majority of Congress, which would provide subsidies to middle income families to buy new homes. Under a concept of “Combined Growing Equity with Limited Recapturable Assistance,” the federal government would front part of the interest of a family’s mortgage for five years, allowing the family to pay down some of the principle and accumulate equity before shouldering the full cost of interest. When the family sold the home, part or all the subsidy, may be “recaptured” by the federal government. The mortgage subsidy would reduce the cost of the mortgage by as much as 4 percentage points (i.e. if rates were 14%, buyers would pay 10%). The plan to make \$1 billion

available in the first year and \$5 billion over 5 years aimed to aid 370,000 to 450,000 families. Targeting the assistance to newly constructed homes would assist both home buyers and the construction industry. Sen. Lugar argued that the plan struck a balance between supporting the President's economic program and the need to "take the offensive against unemployment" (Lugar 1982).

The Lugar bill passed the Senate in a 69 to 23 vote, but President Reagan issued a veto, which the House failed to override by 17 votes (CQ Almanac 1983). The President argued that by increasing federal spending and driving the federal government deeper into debt, the bill, aimed at aiding the housing industry, would, paradoxically, make "the housing recession worse" (Reagan 1982). The President also argued that it would be unfair to bailout one sector and that housing showed signs of recovering on its own, thanks to the course toward fiscal austerity his administration had charted: "The key to sustaining this upturn is lower interest rates. This, in turn, depends on public confidence that the Congress will control Federal spending and reduce Federal deficits—thus leaving an adequate supply of funds for housing and business investment" (Reagan 1982).

Contrary to the President's confident pronouncement of the legislation's counterproductive impact, White House staff questioned whether OMB had over-estimated the bill's impact on interest rates and under-estimated its potential impact on construction (Costs of the Lugar Proposal 1982). In contrast to official statements about the importance of "public confidence" in the government's fiscal prudence, top economic officials, including the Treasury Secretary and Budget Director, were privately, more specifically, concerned that providing a bailout for the housing industry would send the wrong signal to "financial markets" whose expectations and behaviors were seen as key to ending the economy's inflationary spiral (Housing Memoranda 1982). At the same time, the President's decision was also in tune with liberal elite public opinion about the importance of curtailing federal spending. The New York Times opposed the Lugar bill out of fears that it would undermine the drive to combat inflation (New York Times 1982).

In lieu of legislation providing relief to home buyers and developers, a loosening of monetary policy and executive actions liberalizing access to financing for home buyers and developers eased access to credit and provided relief (National Journal 1982). The housing industry withdrew support for federal mortgage interest relief the following year, citing improved conditions thanks to Reagan administration moves which eased access to credit (Harney 1982). At the same time, the administration's anti-tax and anti-regulatory fervor provided alternative bases for common cause with the housing industry. The administration's signal tax bill, the Economic Recovery and Tax Act of 1981, increased tax breaks for rental property owners (Link 1982). NAHB partnered with HUD to identify regulatory barriers to affordable housing (Reagan Administration Initiatives for Housing 1982). The Reagan administration also increased the FHA interest ceiling to 12 ½% and exempted tax exempt revenue bonds from state and local bond caps (Harney 1982).

The decisive moment in the retrenchment of the federal role in housing production, however, came with the retrenchment of traditional deeply subsidized housing production programs in the early 1980s. Housing and urban development

programs, “suffered deeper cuts after 1981 than any other part of the federal budget”, with HUD’s budget authority reduced by two-thirds from \$30 billion in the Carter’s 1981 budget to \$7.9 billion in 1985 (Biles 2011:267; Hays 2012:225). Within HUD, housing was particularly vulnerable—HUD’s expenditures were reduced 85 percent for assisted housing and 29 percent for CDBGs (Biles 2011:278). From 1981 through 1987, appropriations for federally assisted housing programs dropped from \$31.9 billion to \$9.4 billion (CQ Almanac 1988). Low-income housing starts bore the brunt of the cuts. Housing starts for all low-income housing programs (public housing, Section 8 NC/SR, Section 202 and Section 235) fell from 183,000 units in 1980 to 119,000 in 1983 to 42,000 in 1984 and 28,000 in 1985 (Biles 2011:267).

Subsidized housing was unpopular at the time spending cuts were enacted, but public opinion is an inconsistent guide to the ultimate success of budget cuts across policy areas in the 1980s. Cuts to subsidized housing, community development programs, and highway grants were similarly unpopular at the time, with 66%, 67%, and 72% of Americans in favor of cuts, respectively (U.S. Congress 1981:192). Yet, community development programs and highway grants survived relatively unscathed, while subsidized housing production was gutted (Biles 2011).

As political scientists have noted, the mobilization of constituencies in defense of programs determined which federal programs survived retrenchment in the 1980s (Pierson 1995; Slessarev 1988). Although the home builders had supported the funding of subsidized housing production throughout the 1970s, they were willing to sacrifice private subsidized housing programs in the 1980s. The housing industry presented opposition to the administration’s second round of budget cuts, but their criticism focused on the Administration’s plans to curtail FHA insurance, VA guarantees, and GNMA mortgage backed securities (U.S. Congress 1982b:62); and to a lesser extent on plans to terminate subsidized housing projects already in the pipeline and the administration’s commitment to tax reductions despite their impact on the deficit (U.S. Congress 1982a:154).

The private housing industry’s weak support for subsidized housing production in the 1980s can be traced to the declining importance of subsidized housing as a share of housing starts, the separation of federal credit support from subsidized housing in 1974, and the rise of alternative forms of financialized credit support. By the 1980s, subsidized housing accounted for a smaller share of housing starts than it had at its peak in the early 1970s. Section 8 starts accounted for 9% of housing starts in 1979, whereas 25% of starts were subsidized in 1972 (New York Times 1972; U.S. Department of Housing and Urban Development 1980). Although the Carter administration restarted subsidized housing production, Section 8 New Construction made up a declining share of assisted housing production over the course of the Carter administration, while public housing made up a growing share, so that they were about even in fiscal year 1981 (Hays 2012:152). At the same time, Section 8 New Construction did not have much appeal to builders in the context of tight credit and rising interest rates because it offered no guaranteed access to financing. In a letter to a Congressional Appropriations Committee, the President of NAHB explained, “One of the major problems with the Section 8 program has been the inability of builders to secure financing for proposed projects” (Hart 1976). As discussed

in the previous section, the 1974 legislation creating Section 8, had adopted a Nixon administration proposal to end specialized federal credit assistance for low-income housing, reducing the appeal to developers during periods of tight credit.

While home builders looked to subsidized housing less and less, federal credit assistance constituted a large and growing support for the housing industry over the course of the 1970s, and particularly after financial deregulation began in earnest in 1979. A smaller share of starts was FHA or VA financed by 1979—15% compared to 34% in 1970. However, the expansion of GSE-purchase authority to conventional loans shifted the locus of federal credit assistance from federal mortgage insurance to the secondary mortgage market. By 1978, 25% of new mortgage originations were financed by government-backed mortgage securities in 1978 (Henderson 2013:383–84). By 1980, secondary market sales were responsible for half of the value of all mortgage originations (49.2%) and secondary market purchases were “almost exclusively” undertaken by GSEs (Henderson 2013:385–86). Accordingly, home builders focused on lobbying the Reagan administration to expand support for federal credit assistance.

At the same time, mayors and local housing officials similarly appealed to Congress to protect their core programs, which included community development block grants and public housing operating subsidies, respectively. The President of the National Association of Housing and Redevelopment Officials (NAHRO), Clayton Jones, told Congress, “We have agreed to sacrifice some housing development funds for operating needs, while we know there is a crying need for housing production in this country” (U.S. Congress 1982c:1170). The Council of Large Public Housing Authorities was formed to prevent the federal government from shedding responsibility for the maintenance of existing public housing in response to the administration’s first round of budget cuts in 1981 (U.S. Congress 1982c:1231). Notably, public housing operating subsidies survived Reagan-era budget cuts relatively unscathed (\$1.1 billion in 1981 to \$1 billion in 1986) (Biles 2011:267).

Due to its failure to mobilize key provider constituencies, subsidized housing production was vulnerable to spending cuts in the 1980s. Declining popular and policymaker support also had to do with concerns about rising costs associated with the program. Policymakers and media coverage exhibited concerns about the cost of subsidized housing, relative to the small number of households it served (Slessarev 1988). In 1978, the Government Operations committee noted that on the basis of recent reports by the General Accounting Office and two studies by the Congressional Research Service, “traditional public housing may be less costly in the long run than [Section 8 New Construction]” and planned to ““monitor carefully” the cost and effectiveness of the subsidy program in the coming years” (CQ Almanac 1979). When Congress debated housing appropriations for fiscal year 1981, the Section 8 rental subsidy program “came under sharp attack for its skyrocketing costs” (CQ Almanac 1981). Indeed, the House Committee on Banking explained, “high and rising costs per family served have made the new and substantial rehabilitation component of the program targets of criticism... The long-term costs of these contracts are shown as budget authority and thus appear as especially large and vulnerable components in one-year federal budget documents. Given the mounting concern over rapidly rising Federal Government outlays and the reluctance

of many to accept the hard fact that residential construction (whether subsidized or not) has become very expensive, the Committee determined that a less costly alternative to the Section 8 program must be found to house our low-income families and to respond to the rental housing crisis that is affecting all families who cannot afford or do not choose to buy a home.” (U.S. Congress 1983a:52). Inflation and concerns about federal spending magnified ongoing concerns about high per-unit costs for Section 8.

The Financialized Policy Coalition, the Divergence of Federal Credit and Low-Income Housing Policy, and the Underfunding of Low-Income Housing Programs

In the 1990s and 2000s, inflation abated, and federal policymakers resuscitated federal housing policy from the nadir it reached during the first Reagan administration, but they adopted a new, more limited vision of the federal role in housing production and a dual approach to meeting the housing needs of the missing middle and the poor. The dominant housing policy framework of the 1990s and 2000s addressed the needs of the low- and moderate-income households through credit and the needs of the poor through rental assistance and moderate— as opposed to deep or shallow— capital subsidies for low-income housing production. In contrast, the dominant housing policy framework of the 1930s through 1960s aimed to increase housing production for low- and moderate-income households through both federal credit and compensatory low-income housing policy. This section examines the new paradigm for federal housing policy and its origins in institutional shifts in federal credit policy and mortgage markets, the new nexus of finance and real estate, and the financialized policy coalition that shaped housing policy in the 1990s and 2000s.

Following Reagan-era budget cuts to federally subsidized housing programs, the Senate Subcommittee on Housing and Urban Development appointed the National Housing Task Force to chart a new agenda for America’s housing policy. The National Housing Taskforce identified the nation’s housing problems with three groups—the homeless, those who are at risk of becoming homeless because they struggle to afford housing, and first-time home buyers facing steep cost barriers to buying their first home (National Housing Task Force 1988:4–6). The Task Force departed from the 1974 and 1982 reports of the Nixon and Reagan administration, which had argued that the federal role in housing production had run its course (President’s Commission on Housing 1982; U.S. Department of Housing and Urban Development 1974). Unlike the commissions and legislation of the 1960s, however, it did not recommend a broad program for subsidized housing production; link it to expanding residential construction markets, homeownership, or economic mobility; or identify complimentary changes in regional governance needed to realize affordable housing goals (National Commission on Urban Problems 1969; President’s Committee on Urban Housing 1969). Instead, the Task Force adopted a more circumscribed vision of the federal role in low-cost housing production as one tied to the redevelopment of disinvested urban areas and redressing rising rates of loss in the low-cost housing stock (National Housing Task Force 1988). In this respect, the Task Force returned to a vision of subsidized housing development that had animated the linkage of public housing and urban renewal in the 1930s through 1950s.

To address the nation's housing needs, the Task Force recommended a new permanent block grant for low-income housing, tax credits for investment in low-income housing, rental assistance to low-income households, and lower down-payment requirements and interest rates for households facing barriers to homeownership. The only policy recommendation for increasing the development of housing for low- and moderate-income households was for local governments to relax land use regulations (National Housing Task Force 1988).

The National Housing Task Force provided the blueprint for federal housing policy in the 1990s and 2000s, including the 1990 National Affordable Housing Act, which expanded the Low-Income Housing Tax Credit and created the HOME block grant for low-income housing, and the Clinton and Bush administration's prioritization of expanding access to home ownership by easing access to credit (Erickson 2009; Shlay 2006). Ultimately, the Task Force hoped that the sum of several incremental changes to federal policy would be greater than their parts—seeding and encouraging the development of local capacity to identify local housing needs and marshal the resources to meet them. Indeed, local adaptation was built into the policy framework. However, the dual approach to credit and subsidy was also built into the policy framework through both omission of alternatives and statutory restriction on how localities could use federal subsidies. Why, then, did federal policymakers adopt a circumscribed approach to housing production and dual approach to meeting the needs of low- and moderate-income and poor households?

The rise of a financialized housing policy coalition, comprised of the real estate industry, financial institutions, centrist policymakers, and low-income housing advocates, as the dominant housing policy coalition helps to explain key features of the new housing policy paradigm in the 1990s and 2000s. The equation of the housing needs of the missing middle with access to mortgage credit reflects the real estate and housing finance industry's core interest in moving marginal buyers into the housing market by increasing their debt-carrying capacity and providing interest subsidies for the sale of existing homes. At the same time, the new approach to subsidized housing production reflects the interests of several new dominant actors in federal housing policy—commercial real estate developers, government-sponsored enterprises and financial institutions. First, commercial real estate developers with growing business interests in urban redevelopment came to prominence in urban real estate and federal policy in the 1980s and 1990s. James Rouse, a home builder famous for master-planned residential developments who pioneered mixed-use commercial development in the 1970s and 1980s, co-chaired the National Housing Task Force with David Maxwell, the CEO of Fannie Mae. Rouse had founded the Enterprise Foundation to use for-profit models, technical assistance, and loans to develop affordable housing after his experience assisting a church group develop affordable housing in a neighborhood where he was engaged in commercial development (Erickson 2009:54–56). Subsidies for affordable housing development supported the urban redevelopment goals of commercial real estate developers, like Rouse.

Second, government-sponsored enterprises, Fannie Mae and Freddie Mac, were newly dominant players in the housing finance. Perennial concerns with defending their

privileged status by demonstrating their social purpose made opportunities to invest in affordable housing politically advantageous (McLean and Nocera 2011). The GSE's became important investors in LIHTC housing and mortgage revenue bonds issued by state housing finance agencies, which provide below-market interest financing to moderate-income home buyers (Professional Builder and Remodeler 1992). Third, affordable housing development provided a safe investment opportunity for investors drawn to the real estate market in the 1970s and 1980s. Real estate investment provided an attractive hedge against inflation compared to other securities because the value of real estate increased at a comparable rate while inflation eroded the value of other securities (Goodkin 1974). By subsidizing equity investment in affordable housing and providing safe investment opportunities, the Low-Income Housing Tax Credit facilitated the movement of institutional investors into real estate at a time when it was advantageous for them to do so.

The aspects of the new housing policy framework most important to the interests of the dominant actors within the financialized policy coalition have been more successful than those that were more peripheral to their interests. For example, the Low-Income Housing Tax Credit has grown, but the rental assistance and block grants for low-income housing remain underfunded (Biles 2011).

In addition to providing inadequate political support for low-income housing programs, the financialized housing policy coalition mitigated against the expansion of housing subsidies by promoting fiscal constraint to reduce the federal deficit and lower interest rates. With the support of the finance and real estate industries, President Clinton proclaimed that his economic policies—centered on deficit reduction—would improve housing affordability by lowering interest rates and boosting earnings (Cisneros 1993; Stegman 1995). HUD Secretary Henry Cisneros received applause at the annual meeting of the National Association of Home Builders in 1993 when he promised commitment to deficit reduction, and in particular, spending cuts (Cisneros 1993). Cisneros told the builders that the President's deficit reduction strategy was part of an “investment strategy” because “you can't create conditions for long-term investment and productivity in America [with a deficit projected to grow]” (Cisneros 1993). With mortgage interest rates tied to capital markets, industry stakeholders considered deficit reduction the greatest priority. By the end of the 1990s, the National Association of Home Builders attributed the decline in interest rates to successful “reduction in federal spending and bloated federal deficits” under Reagan, Bush, and Clinton (with support of the home builders) and the “artful monetary policies” of Federal Reserve Board Chairman Alan Greenspan (National Association of Home Builders 1999). Finance and real estate industry trade associations, including the American Bankers Association, America's Community Bankers, the Mortgage Bankers Association of America, and the National Association of Realtors, supported housing programs with the caveat that they would have to be “cost conscious” (National Association of Home Builders 2000).

Severe budget constraints amid rising housing costs caused the expansion of housing assistance to slow to a crawl in the 1990s and 2000s. Most low-income spending is classified as mandatory, meaning the amount is “a function of eligibility and payment rules established in authorizing laws” (Lynch and Falk 2020:ii). Housing is alone among

low-income assistance programs in being funded through a discretionary budget process, which means that funding is controlled through the annual appropriations process. Moreover, the 1990 Budget Enforcement Act exacerbated the institutional weakness of subsidized housing by establishing annual spending caps for discretionary and non-discretionary spending after 1995. The design of annual spending caps after 1995 meant that increases in defense spending could be offset by recissions from allocated but unspent housing funds (Joyce and Reischauer 1992). This occurred from 2001 through 2006 when Congress “cancelled nearly \$13 billion of previously appropriated but unspent HUD funds and has recycled the funding back into HUD programs” in order to reduce the amount of new appropriations needed to continue operating housing programs (Rice and Sard 2007:4–5). Rent increases in the voucher program have also squeezed scarce federal housing funds. For example, the Obama administration requested increased funding levels for HUD, but the full increase was needed to cover increased rents for households receiving rental assistance (CQ Almanac 2017). As a result, policymakers and advocates who support subsidized housing have been busy fighting for funds to renew contracts and to preserve existing subsidized housing.

In summary, the financialized housing policy coalition kept housing on the national in the 1990s and 2000s, but it offered a contradictory basis for advancing housing goals through public-private partnership compared to the liberal-builder coalition. Liberal credit policy could only go so far before rising housing prices exceeded the fundamentally limited debt-carrying capacity of households, as they did in the housing crash. Rising housing costs have also meant that low-income housing has had to “run to stay in place” in a severely constrained budget environment.

The Boundaries of Federal Housing Policy in the United States

This dissertation identifies several institutional constraints on federal housing policy associated with the federal government’s reliance on indirect mechanisms to encourage private and local actors to meet federal housing policy goals and the embeddedness of systems of housing provision in broader systems of financial and macroeconomic management. First, federal policymakers face stark tradeoffs between flexibility and workability and oversight and accountability when designing policies that work through indirect mechanisms. To ensure federal resources are used to advance federal policy goals, they may impose rigid requirements. Although they may be well-intentioned, federal restrictions may limit the uptake and workability of programs. For example, although the private housing industry opposed making public housing available to low-and-moderate-income households, liberal policymakers also resisted raising income eligibility levels in the 1930s and 1940s to insure scarce federal resources were allocated to the neediest. Income-based restrictions reserved scarce public housing units for the households most in need, but also created operational challenges for local housing authorities, who had to evict tenants when their income exceeded income thresholds and limited the utility of public housing for local officials eager to lure the middle class back to the city. Subsequently, public housing was redefined in terms of a limited program for rehousing households displaced by urban renewal activities.

Federal policy initiatives to stimulate moderate-income rental housing also exemplify tradeoffs of oversight and workability. Following World War II, federal policymakers required sponsors of private rental housing to invest some of their own capital in rental housing projects because, without it, they could not ensure the private investor had enough “skin-in-the-game” to ensure the long-term success of the project. Yet, contemporary housing observers noted that the equity investment requirement limited investor interest in rental housing development because investors were not interested in tying up funds in long-term investment with low-reward and high-risk. Further evidence that weak mechanisms to ensure accountability and oversight have constrained federal housing policy comes from the fact that House Democrats withdrew support for continuing high-volume subsidized housing production programs in 1974 following the failure to enact metropolitan housing block grants that would have allocated federally subsidized housing according to metropolitan area plans and provided a degree of oversight to insure the federal resources were spent where they were needed and did not contribute to racial residential segregation.

The history of federal housing policy is also rife with examples of federal programs that have adversely impacted racial minorities and the poor due to the racist practices and particular interests of private and local actors that the federal government relies upon to implement federal policy. The literatures on redlining and urban renewal document the two most important cases (Hirsch 1998; Jackson 1985; Katznelson 2005). This suggests that housing policy analysts should attend to the implicit or explicit tradeoffs between flexibility and workability and oversight and accountability in federal housing programs and their distributive and political consequences. I discuss these further below in the context of possibilities for expanding social provision in the public-private welfare state.

Second, contentious politics of allocation have further constrained federal policy initiatives that extend incentives to private actors to build low-cost housing. Contentious politics of allocation interfere with federal policy initiatives when groups that compete with the federal government’s private partners resist the expansion of federal credit and subsidies that could put them at a disadvantage. Examples include policy failures for a central mortgage bank in the 1930s and 1950s and a national urban development bank in the 1960s. In each case, specialized housing finance institutions and large financial institutions opposed the development of special credit facilities for government-insured housing, rental housing, and urban infrastructure projects that would provide privileged access to low interest loans for designated social purposes. Another example of contentious politics of allocation is the failure of federally subsidized rental housing production for moderate income households and redirection of rent supplements to very low-income households with the support of Realtors. Thus, federal policymakers not only face limits from weak accountability mechanisms, but also face opposition from mobilized groups in their efforts to expand relatively indirect policies that otherwise would fly under the radar.

Finally, housing’s relationship to macroeconomic policy has placed limits on federal policy initiatives at key moments. As mentioned earlier, from its inception during the New Deal, federal housing policy has been intimately linked to economic policy goals

to stimulate growth and create jobs. While this bolstered federal policy initiatives during periods of recession, it undermined federal housing policy initiatives when concerns about inflation and economic stabilization came to fore and macroeconomic policy regimes favored restrictive macroeconomic policy or economic stabilization. In the 1950s, policy proposals to provide direct federal loans and new credit facilities for moderate-income cooperative and rental housing failed because they faced opposition, not only from conservatives and the real estate industry, but also from Federal Reserve officials who argued new credit facilities for housing would undermine the central bank's ability to use monetary policy to manage the economy. It was important that high interest rates impacted housing and slowed down the economy. If housing had direct access to financing on better terms than traditional banks made it available, that process would be impaired. In the late 1960s and early 1970s, federally subsidized housing production programs came into conflict with the Nixon administration's anti-inflation policy, making them a target for retrenchment. Thus, traditional opponents of a federal role in housing—hardline conservatives and the real estate industry—have frequently found allies among fiscal conservatives and economic officials who prioritize economic stabilization over economic growth and job creation in their approach to economic policy.

Taken together, weak oversight mechanisms, contentious politics of allocation, and conservative macroeconomic policy coalitions, explain why federal policymakers failed to close the gap in two-tiered housing policy for the missing middle from the 1930s through the 1960s, despite some partial successes. Since the 1970s, however, federal housing policy initiatives have been less ambitious. The following section discusses the argument about change since the 1970s and its implications for theories about the nature and origins of the loss of public capacity since the 1970s.

Coalitions, Ideas, Financialization, and the Loss of Public Capacity Since the 1970s

This dissertation has also sought to explain the loss of public capacity in housing and urban development policy since the 1970s. The case of housing and urban development policy confirms established theoretical claims in several ways. The economic crisis of the 1970s marks a turning point, defined by the failure of alternative responses to new structural economic and social problems. The shift from a politically brokered to a market-mediated housing finance system exemplifies the turn to market since the 1970s. Since then, a new policymaking consensus rejects a public role in shaping housing production, mortgage markets, and urban governance, in favor of indirect, passive support for mortgage markets and a diminished public role in housing production and financialization have been mutually reinforcing.

Yet, the findings from this dissertation also suggest that existing theories should be refined in at least three ways. The first concerns the origins and nature of the loss of public capacity. Existing theories suggest that policy elites turned to the market to avoid blame for economic outcomes and adopted self-limiting economic ideas about the feasibility and desirability of public intervention in markets to justify new indirect practices of economic management (Krippner 2011). Thus, the loss of public capacity since the 1970s consists of the failure to develop new policy tools to manage the economy and the loss of political will to do so, particularly among policy elites, in the

context of increasing, conflicting demands. However, this account has shown that the shift from a politically brokered to a market-mediated housing finance system occurred because policymakers liberalized credit support for the conventional mortgage market in a series of “emergency” relief measures to avoid acute mortgage market crises in the context of political gridlock over how to respond to economic and mortgage market crisis. Failure to do so would have had a cascading set of consequences for the economy and their constituents. While the phrase “avoid blame,” suggests a cold political calculation, a more accurate phrase might be “avoid calamity.” What this points to is the significance of continuities between weak public capacity before and after the 1970s. Specifically, the federal government’s total reliance on the private sector in key areas of social provision—housing and mortgage markets—left few alternatives to expanding indirect, passive support for the mortgage market in response to economic and market crises. This suggests that building public capacity is not only a matter of new ideas and political will but would also require an alternative approach to ensuring access to key resources for the housing industry and households.

The second concerns how ideas matter for the loss of public capacity. Existing accounts emphasize policy elites’ embrace of self-limiting ideas about the feasibility and desirability of public intervention in markets. Self-limiting ideas remove economic questions “from the realm of active decision to the realm of fate where the exercise of human agency is neither possible nor desirable” (Krippner 2011:145). However, this dissertation has shown that, in the 1960s and early 1970s, competing economic ideas were rooted in competing coalitions of public and private actors with different ideas about the relationship between economic and social policy. Moreover, since the 1970s, the finance and real estate industries have been significant proponents of self-limiting ideas about public intervention in mortgage markets, as well as the economy more broadly, while they defend the continuation of indirect passive federal support for mortgage markets. Thus, analysts should look beyond the role of policy elites and intellectuals to policy coalitions in the rise and, perhaps more importantly, the durability of new ideas.

The third concerns the implications of financialization for redistributive social policy. Existing theories suggest a couple of indirect mechanisms through which financialization might undermine social policy. First, they identify a general loss of trust in public intervention among policy elites and the public associated with the depoliticized forms of economic management that accompany financialization, which may undermine support for all public programs. Second, they suggest that credit expansion may serve as a kind of salve that alleviates demand for social policy (Krippner 2011:141). However, this dissertation identifies a more direct contradiction between the financialization and redistributive social policy. Namely, the financialized policy coalition aligns interest-rate sensitive finance and real estate constituencies behind restrictive fiscal policy to balance liberal credit and monetary. Although the dominant housing policy coalition supports housing assistance in theory, their prioritization of fiscal restraint undermines the chance of a broad coalition to expand housing assistance to fill gaps in household needs that are poorly met by the market.

Expanding Social Provision in the Public-Private Welfare State

The findings of this dissertation also have implications for the conditions for expanding social provision through the public-private welfare state, as well as some of the distinct challenges. The first concerns the nature of coalitions that can form across proponents of public and private provision. Existing literature posits competing coalitions for public and private provision. Proponents of private provision vigorously oppose public programs that compete with private provision, but public programs that compliment private provision face less concerted opposition and may even be well-tolerated. For example, proponents of private health insurance, private health care providers and the vast network of doctors and beneficiaries who benefit from it have vigorously opposed proposals for national health insurance at key junctures (Hacker 2002; Quadagno 2005). In contrast, the complimentary relationship between Social Security and private pensions owing the development of private pensions as a supplement for Social Security, has meant that proponents of private pensions don't view it as a threat (Hacker 2002). In the case of federal housing and urban development policy, the politics of public housing fit the classic dynamic of resistance posited in the literature for programs that provide an alternative to private provision. However, subsequent federally subsidized housing programs exhibit variations on the complimentary relationship that can form among proponents of public and private provision. In the 1960s and early 1970s, proponents of private housing provision advocated for the expansion of federally subsidized housing production programs. Since then, however, proponents of private housing provision have sometimes joined proponents of public provision in defending federal low-income housing programs, but they have not worked together to expand them. The shift from a reinforcing to a stagnant dynamic between coalitions for public and private provision followed policy shifts that made federal low-income housing programs less relevant for private providers and expanded alternative market-based sources of support for private housing provision, as well as changes in the market strategies and policy priorities of the private housing industry itself. This suggests that under some conditions proponents of private provision may support and benefit from the expansion of a public role. At the same time, public programs that work through the private sector may lack sufficient support or momentum to scale.

Higher education provides another variation on public and private coalitional dynamics. Public and private providers in higher education compete, but their competition has not given rise to the vigorous opposition proponents of private provision have posed to the development of a public option in housing or health care. The structure of the sector—the private higher education sector is dominated by non-profit institutions and higher education is a less competitive, slower-changing market—may explain the divergence. It is also notable, however, that due to the non-profit status of most private higher education institutions and design of federal support, public and private colleges and universities qualify for a similar set of public supports, including tax exemption, research grants, tuition assistance, and federally backed student loans, some of which they compete for on relatively equal terms, which may limit the degree to which private higher education views public higher education as a threat (Fain and Lederman 2015; Mettler 2014). Thus, there are two pathways to expanding housing provision in the

public-private welfare state—the complimentary-reinforcing path taken by federally subsidized housing programs in the 1960s and Medicare or the competitive-collegial path of the higher education sector.¹

The second concerns how policy coalitions are embedded in broader growth coalitions and economic contexts. Existing literature posits the ties between public and private coalitions and parties and other economic actors in terms of their ideological and class bases (Hacker 2002; Howard 1997; Quinn 2019). Yet, this account suggests that coalitions are also embedded in broader economic contexts and have the potential to ally with other influential groups and parties based on their alignments on macroeconomic policy. This has important implications for how we evaluate the expansion of the public-private welfare state following World War II, as well as the conditions and constraints for policy coalitions today. For example, while the post-WWII expansion of private benefits has been interpreted as a conservative project, this account emphasizes its roots in growth liberalism. This suggests that analysts should attend to the broader coalitions and economic projects in which contemporary policy initiatives are embedded.

The third concerns the social basis of the public-private welfare state and its distributional consequences. Existing theories interpret the social basis of the welfare state in terms of class or risk coalitions (Baldwin 1990; Esping-Andersen 1990). Yet, this dissertation has shown that when housing policy was rooted in quality-of-life concerns—about helping people obtain a minimum standard of living and establishing goals for quality of life in American cities— from the 1930s through the 1960s, it incorporated a broader range of concerns and groups. Since then, in important respects, housing’s welfare and economic functions have been split and this broader vision for urban development aligned with a public purpose has been lost. This suggests that elusive, but recurring notions of the good life, provide an alternative basis organizing social provision and may be an important component of the conceptualization of policy and politics in areas like housing.

¹ Mettler (2014) notes a decline in public support for public colleges and universities since the 1970s, suggesting less competitive dynamics between public and private provision are not a guarantee of strong public capacity (Mettler 2014). Yet, the growing role of financialization in the management of colleges and universities may also contribute to changes in policy coalitions and politics in higher education in ways that have yet to be examined (Eaton 2022).

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Appendix: Tables and Figures

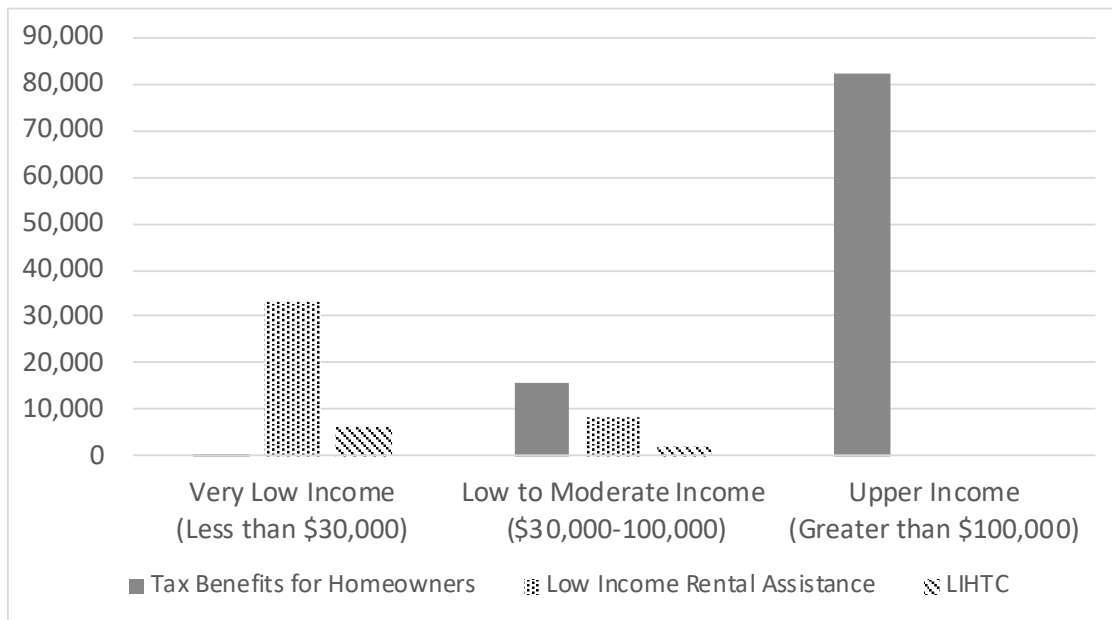


Figure 1. Federal Housing Supports by Income for Very Low, Low to Moderate-, and Upper-Income Households, 2017 ¹

¹ Sources: Lynch, Karen E., and Gene Falk. 2020. Federal Spending on Benefits and Services for People with Low Income: FY2008-FY2018 Update. Congressional Research Service. U.S. Congress, Joint Committee on Taxation. 2017. Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020: 32, 44. Notes: Estimates of tax benefits for homeowners include the home mortgage interest deduction and property tax deduction (U.S. Congress 2017). Estimates of low income rental assistance include all HUD-funded programs, including the Housing Choice Voucher Program, public housing operating subsidies, public housing modernization, CDBG, and HOME Investment partnership (Lynch and Falk 2020). Shares of low income rental assistance and LIHTC for very low vs. low-to-moderate households were weighted based on estimates of tenant income profiles as follows: 18% of HUD rental assistance allocated to LMI households; 25% of LIHTC allocated to LMI households (Schwartz 2014: 145). Estimates of income distribution by area median income are author's calculations ; Watson, Nicole, Barry L. Steffen, Marge Martin, and David A. Vandenbroucke. 2020. *Worst Case Housing Needs: 2019 Report to Congress*. U.S. Department of Housing and Urban Development.

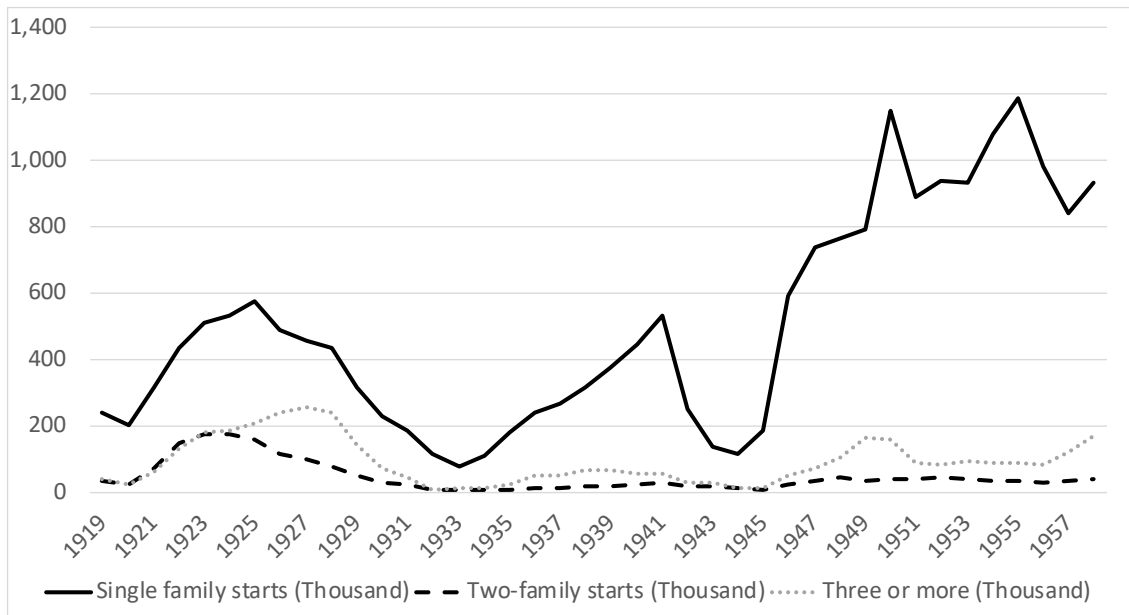


Figure 2.1 Housing Starts by Building Type: One, Two- and Three or more-Unit Structures, 1919-1957 (Thousands)²

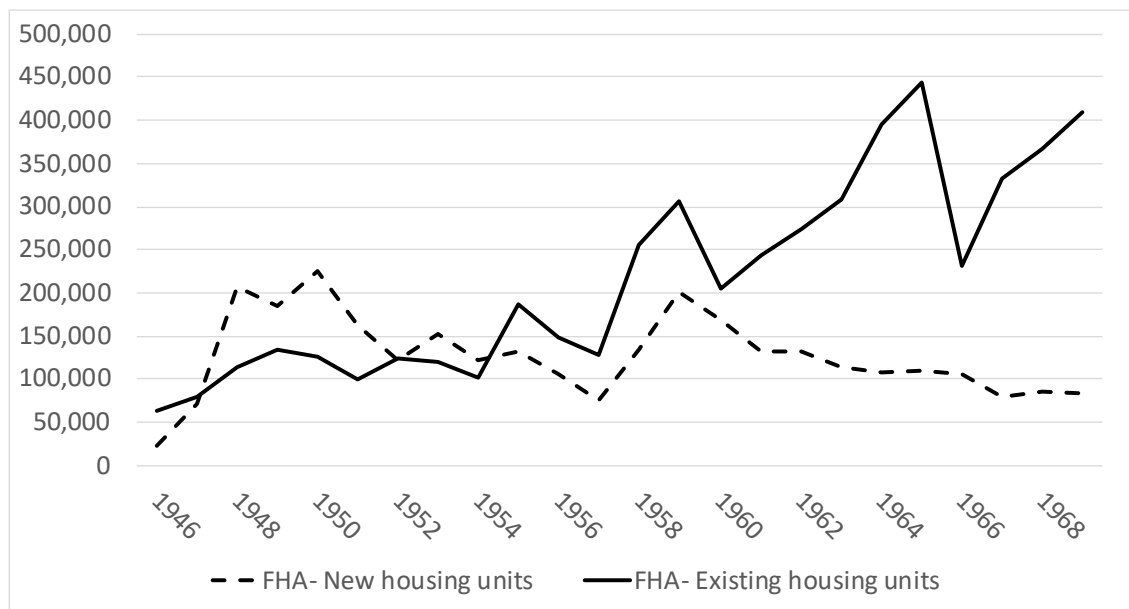


Figure 2.2: FHA New and Existing Units Insured, 1946-1969³

² Source: Carter, Susan B., Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright, eds. 2006. "Residential Construction, Dc510-530." in *Historical Statistics of the United States (Online)*. Cambridge University Press.

³ Source: Carter, Susan B., Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright, eds. 2006. "Residential Mortgages, Dc1105-1121." in *Historical Statistics of the United States (Online)*. Cambridge University Press.

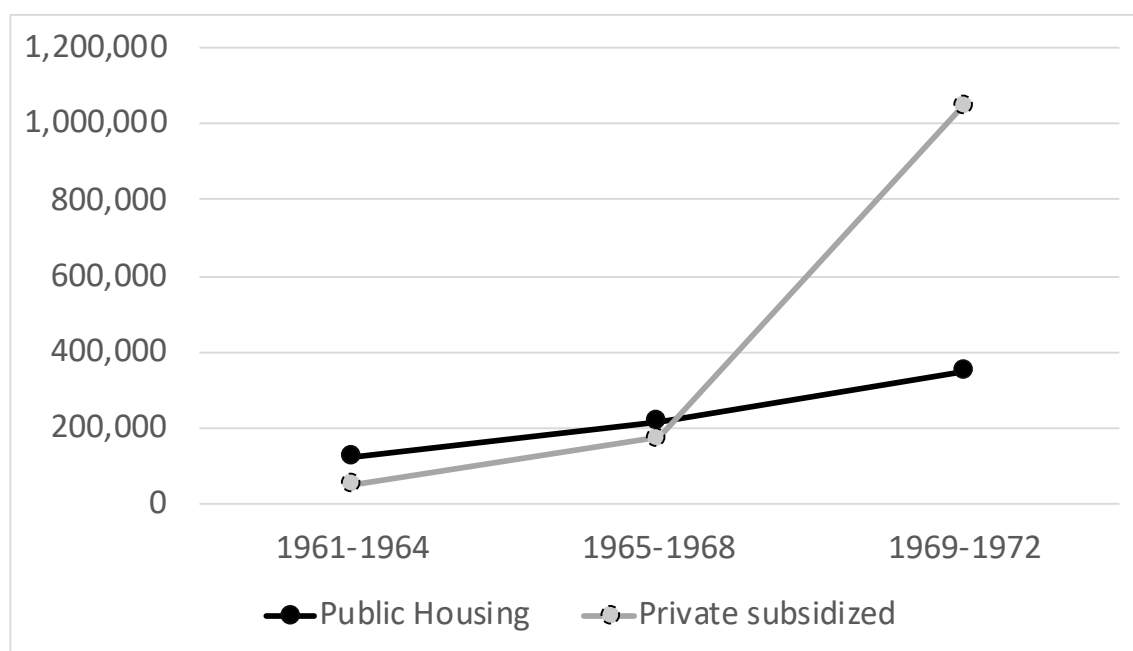


Figure 3.1 Public Housing Starts and Private Subsidized Housing Starts, 1961-1972.⁴

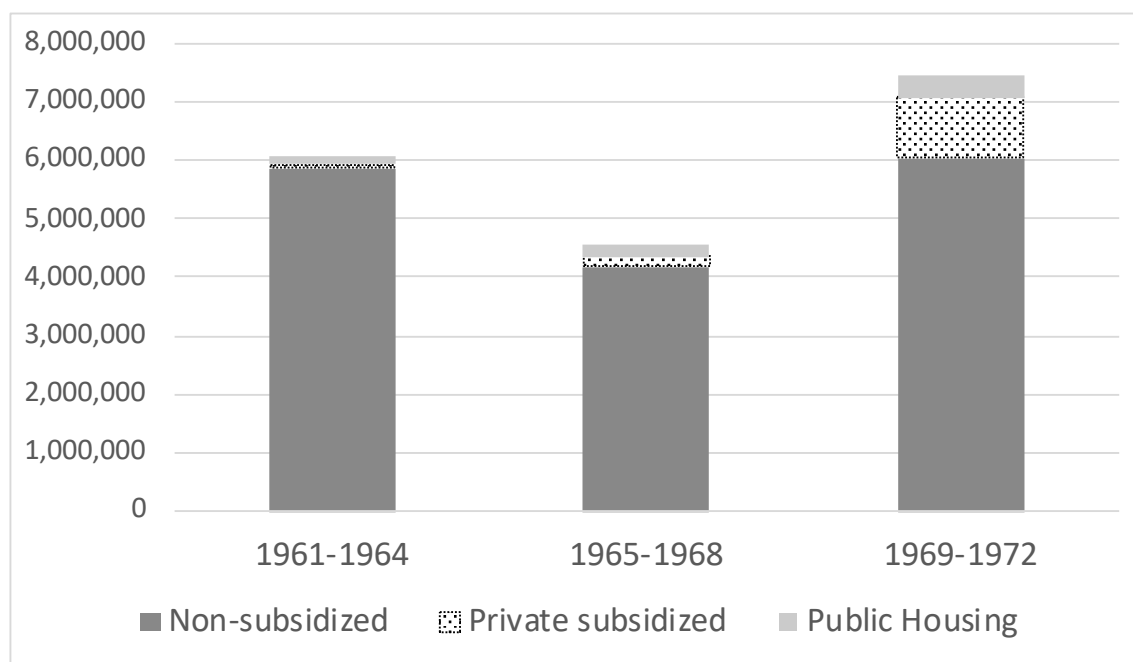


Figure 3.2 Non-subsidized, Private Subsidized and Public Housing Starts, 1961-1972.⁵

⁴ Source: U.S. Department of Housing and Urban Development. 1974. *Housing in the Seventies*. Washington: U.S. Government Printing Office: 85.

⁵ Source: U.S. Department of Housing and Urban Development. 1974. *Housing in the Seventies*. Washington: U.S. Government Printing Office: 85.

Subsidy Mechanism	Target	Support	Opposition
Mortgage interest subsidy (Section 221(d)3; Enacted Housing Act of 1961)	Moderate-income rental housing in urban renewal areas	Homebuilders Realtors Labor Mayors Local officials	
Rent supplements (Proposed Housing and Urban Development Act of 1965)	Moderate-income rental housing	Homebuilders Labor Mayors Local officials	Realtors
Rent supplements (Enacted Housing and Urban Development Act of 1965)	Very low-income rental housing with local government approval	Homebuilders Realtors Labor Mayors Local officials	
Mortgage interest subsidy (Section 235/236, Enacted Housing and Urban Development Act of 1968)	Low-income rental and owner-occupied housing	Homebuilders Realtors Labor Mayors Local officials	

Table 3.1 FHA Federally Subsidized Housing Production Programs

Policy	Support	Opposition
Federal loans and grants for state and local governments to acquire land for future housing and infrastructure development (Eg. new towns, new communities, new subdivisions proposals)	Labor Governors Mayors Local officials	Homebuilders Realtors
Categorical grants-in-aid (Eg. water and sewer grants)	Homebuilders Realtors Labor Governors Mayors Local officials	
Broad purpose block grants (Eg. urban renewal)	Labor Governors Mayors Local officials	Homebuilders Realtors

Table 3.2 Federal Urban Aid Programs

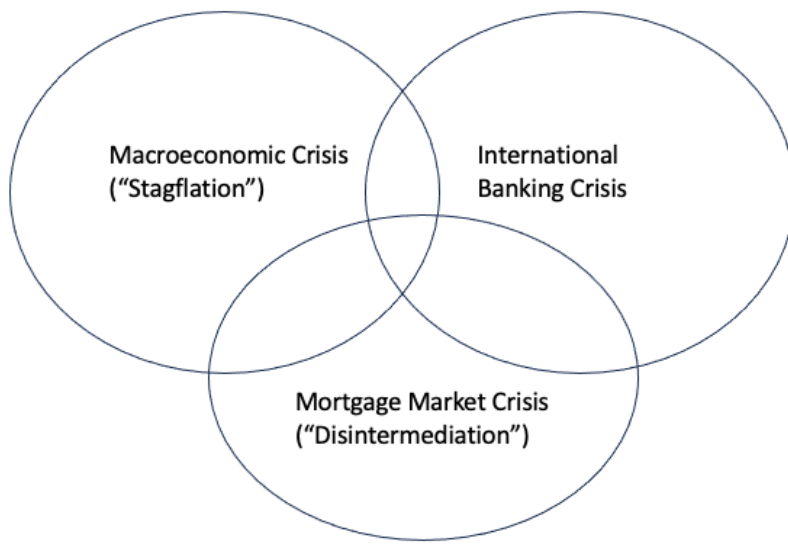


Figure 4.1 The Poly-crisis of the 1970s

The Costs of Homeownership

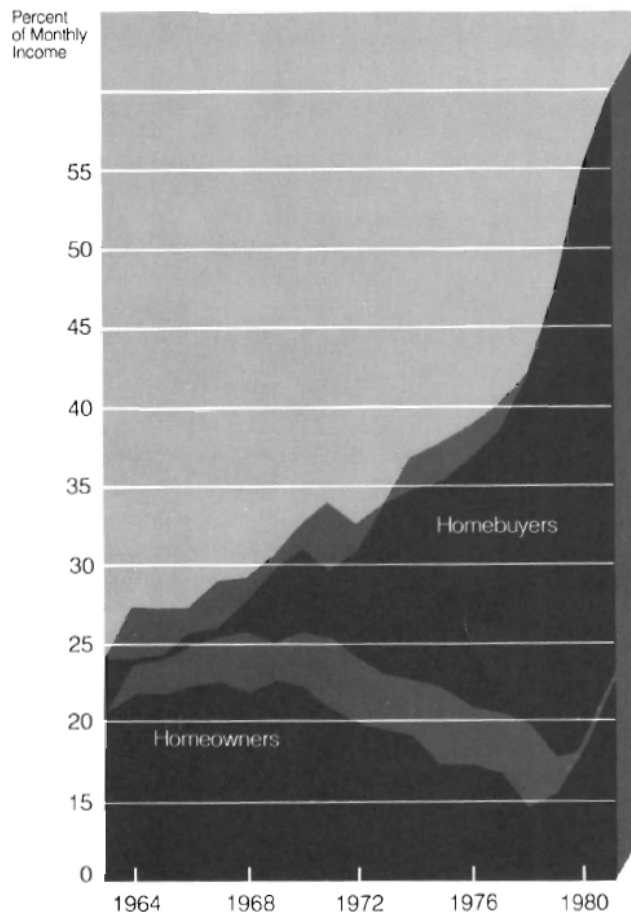


Figure 4.2 Source: President's Commission on Housing. 1982. *The Report of the President's Commission on Housing*. Washington: President's Commission on Housing: U.S. G.P.O; xxv.