The Role of Government in Shaping Cities: An Analysis of the Causes of Suburbanization and Inner City Decay in the United States during the 20th Century

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During the 20th century, the urban environment of many cities in the United States changed dramatically from a densely populated, pedestrian-oriented urban form to a more geographically spread-out, more sparsely populated automobile-centric form. The effects of certain government interventions within the real estate and home mortgage industries greatly accelerated the rate at which suburbanization occurred, leading to a suburbanized urban form more quickly than a natural market likely would have. In particular, land use regulations created by local governments, preferential lending policies enacted by the Federal Housing Administration and Veterans Administration, and the subsidization of highway construction by the U.S. Department of Transportation worked in tandem to reshape American cities towards a more suburban character, which led, significantly, to the decline of central cities within metropolitan areas across the United States.

I. INTRODUCTION

The process of suburbanization is a frequent topic of discussion among urban planners and economists. Conservatives and libertarians often argue that suburbanization is the result of free markets in urban development that serve consumer demands. They claim that consumers prefer the low-density development style typical of suburban sprawl, and contend that urban planners who advocate for smart growth or "new urbanism" only get in the way of consumer preferences (Gordon & Richardson, 1997). These advocates of suburbanization defend sprawl as a low-cost form of urban growth, asserting that the amount of open land in the United States implies that concerns over sprawling urban areas are irrelevant ("The Truth About Urban Sprawl," 1999). Unfortunately, these proponents of suburban sprawl have a rather distorted view of how urban development markets work in the United States.

Many sectors of the economy in the United States are subject to some form of government intervention, and the urban development market is no different. The most commonly observed form of government influence in urban development has been tain styles of development and sections of society, or to certain forms of transportation (Jackson, 1985, p. 208). These two key sources of intervention, zoning laws by local governments and preferential subsidies created by the federal government, are among the most significant elements that have shaped urban development over the past century. These policies continue to assert their influence over the urban form of American cities in the present day.

While the desire for more space among certain people was a contributing factor in the process of suburbanization and the decay of inner cities in many American metropolitan areas during the 20th century, these particular forms of government influence worked in tandem to substantially strengthen the rate at which this process of deconcentration occurred. For some of these policies, the effect of increasing dispersion in the urban environment was intentional (Jackson, 1985, p. 216). For others, it was an unforeseen consequence of well-intended, yet poor attempts at controlling the complex and dynamic process of urban development.

II. THE HISTORY OF ZONING LAWS AND THE DESIRE FOR A MORE HARMONIOUS CITY

At the turn of the 20th century, America's large cities were chaotic places. Streets were bustling with life, with new and exciting forms of transportation meeting the old. Older horse-drawn carriages and trolleys came together with newer automobiles, electric streetcars, and trucks to jostle for room among the sea of pedestrians in the arteries of the city. New forms of architecture and building techniques were rapidly competing for space in the city with old methods as well—towering steel skyscrapers began to dominate the cast-iron skyline in cities like New York in the early 20th century. In New York, these new developments in building styles worried many residents, who feared that these structures would block light and air—elements—considered to be crucial to physical health at the time—from entering street space (City of New York, 2011). New mixtures of building uses juxtaposed throughout large American cities resulting from new industrial processes further intensified anxiety. In Manhattan, new, ugly warehouses and dirty factories were encroaching upon fashionable, cleaner parts of town, such as the shops of Fifth Avenue, in addition to neighborhoods

of tenements that were filled with an influx of new immigrants (City of New York, 2011).

The fear of an increasingly disorderly urban environment reached a fever pitch after the construction of the Equitable Building in 1915—a 42-story, 538-foot tall office building, the largest in the world at the time—which towered over its neighbors in lower Manhattan, casting them in a massive seven-acre shadow (City of New York, 2011). Soon after, the City of New York responded by passing the first-ever zoning law in the country, the Zoning Ordinance of 1916. This law did not limit the height of buildings, but rather required a certain portion of the building to be set back further at certain intervals of height as determined by a formula (Dolkart, 2003, p.23). As time went on, New York continuously amended the Zoning Ordinance of 1916 to allow for further control, with the intent to create a more harmonious urban environment (City of New York, 2011).

The Zoning Ordinance of 1916 established a new trend among city governments across the country, as each sought to establish lot setback and height requirements of their own. As zoning laws spread, cities ambitiously experimented with the extent of their power over building style, height, and use, creating predetermined areas for specific lot uses and densities—all with the desire to create a more pleasant, orderly urban environment. Eventually, many cities in the United States created zoning controls with dozens of classifications of uses, typically restricting lots to single uses and creating sections of segregated residential, commercial, and industrial areas at varying densities within cities (Duany, 2001, p.10).

While planners are responsible for helping improve living standards in modern cities, these increasingly stringent regulations on the built environment affected the density of cities: they restricted the creation of new residential, commercial, and industrial space, ultimately acting as a production quota upon new supply within the development markets of cities. This limitation in density drove up the cost of real estate in the inner city in the process; before the invention of extensive zoning laws, developers could create higher density developments to counteract higher property values found in inner cities.

As zoning restrictions increased in their complexity and extent of control over inner city areas, constructing new developments on the edges of cities became an increasingly attractive alternative for developers. While it was still possible to build profitable high-density developments in certain cases in inner cities, the prospect of lobbying for zoning variances—usually requiring lengthy hearings with often-dubious results—was not feasible for the marginal developer. Zoning regulations became a deterrent to continued intensive development of the inner city.

III. PREFERENTIAL FEDERAL SUBSIDIZATION OF THE AMERICAN DREAM

While local governments inadvertently began to drive up the price of real estate in inner cities and to spur new development in suburban areas through zoning controls in the early 20th century, several initiatives at the federal level beginning around the same time greatly accelerated the process of suburbanization in American cities. In particular, two New Deal agencies, the Federal Housing Administration and the Home Owners' Loan Corporation, along with the Veterans Administration, monumentally changed the shape of American cities.

The Great Depression dealt a near-fatal blow to the real estate market in the United States. Between 1928 and 1933, the construction of residential real estate fell 95 percent (Jackson, 1985, p. 193). By the spring of 1933, half of all residential mortgages in the United States had defaulted; more than 1,000 homes were being foreclosed per day (Jackson, 1985, p. 193). Housing prices had plummeted an average of 33 percent between 1926 and 1933 (Jackson, 1985, p. 193). With thousands of families losing their homes on a daily basis to underwater mortgages, President Roosevelt implored Congress to pass legislation to ease the financial burden of homeowners.

On June 13, 1933, the Home Owners' Loan Corporation Act was signed into law. This new agency, the Home Owners' Loan Corporation (HOLC), refinanced over a million financially troubled homes with new, low interest mortgages by 1935 (Rose, 2010, p. 9). While the HOLC only accepted loan applications for two years, it was significant for introducing and perfecting a new mortgage payment structure: its mortgages were self-amortizing, with uniform payments stretched over long payment periods, typically around 20 years (Jackson, 1985, p. 196). This was a radical departure from the structures of mortgages available to homebuyers before, which were short term (typically 5-10 years) and ended with large, lump-sum payments (Report of the Federal Home Loan Bank Board, 1933).

The HOLC's other significant legacy, however, was not as progressive. During the two-year window in which the HOLC accepted refinancing applications, over 1.8 million homeowners sought help (Rose, 2010, p. 9). Due to the massive volume of applications and the limited capital that they had, the HOLC created a standardized system for evaluating the worthiness of applications—the HOLC was interested in determining which homes would last the lifespan of the long mortgages and retain their value. In order to create a rating system for homes, the HOLC appraisers divided cities by neighborhoods, and surveyed each neighborhood using a questionnaire that considered

the occupations, income, and ethnicity of residents (Jackson, 1985, p. 197). They also considered the age, type of construction, price range, sales demand, and general condition of the homes in each neighborhood. Neighborhoods then were rated on a grading scale with traditional letter grades from A through D, where "A" signaled good condition with high property values and "D" the worst (Jackson, 1985, p. 197).

By its very nature, the grading system discriminated against minorities and inner city neighborhoods. A neighborhood could only earn an "A" rating if appraisers found it to be "new, homogeneous, and in demand"—meaning the neighborhood was newly built, featured a homogenous population of middle-class, white, Christian Americans, and had real estate prices reflecting reasonable desirability (Jackson, 1985, p. 197). Dense neighborhoods, no matter their condition, were considered undesirable, and the presence of even one Jewish or immigrant family would be grounds for marking an otherwise "A" neighborhood as a "B". "B" neighborhoods were "still desirable," but considered to be "on the decline" in value in the future. "C" neighborhoods were "definitely declining," featuring older housing stock and lower property values. "D" neighborhoods were considered to feature the worst housing stock possible. African-American neighborhoods were almost exclusively marked "D," regardless of the actual condition of the housing stock present (Jackson, 1985, p. 198).

Even though the HOLC's rating system favored white, Christian, middle-class American suburban neighborhoods, the HOLC was rarely preferential, and often lent more to "C" and "D" neighborhoods than "A" and "B" neighborhoods in order to help the neediest homeowners (Jackson, 1985, p. 202). The HOLC's neighborhood appraisal system was the first of its type and was widely considered to be a vast improvement in real estate appraisal at the time, despite its discriminatory metrics (Jackson, 1985, p. 202). This legacy would prove to set an unfortunate precedent in federal lending policy. The Federal Housing Administration and the Veterans Administration would later adopt real estate appraisal systems with nearly identical rating systems, and actually use them as a guideline for discriminatory lending policy (Jackson, 1985, p. 203).

The Federal Housing Administration (FHA) was created with the purpose of reducing unemployment during the Great Depression by stimulating the housing industry. By acting as an underwriter for lenders willing to comply with its terms, the FHA injected a substantial amount of liquidity into the housing market. Any mortgages issued by participating lenders that defaulted would be covered by the agency. To qualify for coverage from the FHA, lenders had to be willing to loan up to 93 percent of a property's value to the prospective buyer, and offer a self-amortizing mortgage with a payment period of 25-30 years. Such lending terms were unheard of in the home mortgage industry, but banks gladly adopted these terms as the guaranteed insurance against default provided by the FHA greatly reduced the cost of business. The FHA was the first national mortgage insurance program of its type, so lenders quickly adapted to its policies. Because of the decreased risk provided by the FHA, interest rates on mortgages fell by two to three percentage points on average (Jackson, 1985, p. 205).

The combination of long-term payment plans, low interest rates, and an overall high amount of credit offered to each potential homebuyer through FHA-backed loans made the cost of homeownership drop considerably, and made the program wildly popular. From 1937 to 1941, housing starts increased by 86 percent; in total, 41 percent of all home loans created in the 1940s were underwritten by the FHA. The program often made the cost of homeownership cheaper than renting—as Jackson notes in *Crabgrass Frontier*, middle-class families in large cities often moved out to newer, FHA-backed suburban developments, as FHA-backed mortgages were typically half the cost of rent in the inner city (1985, p. 207).

Unfortunately, the program gave great preference to the construction of new suburban homes over the renovation of previously built housing stock in inner cities. The FHA was notable for being the first mortgage insurer to impose standardized structural guidelines, and it was often easier for a developer to ensure their projects were up to par if they were started from scratch, as making and inspecting renovations to older buildings were rather costly. Additionally, the FHA had very stringent regulations on loans provided to rental properties, discouraging landlords from seeking FHA-backed loans for their developments. The combination of structural guidelines and loan requirements created an implicitly preferential lending policy geared towards the construction of suburban, single-family homes. Between 1941 and 1950, the FHA favored single-family projects over multi-family projects by a ratio of four to one; this number would grow to over seven to one in the following decades (Jackson, 1985, p. 206).

Even if an inner-city landlord were willing to bear the cost of the regulations imposed by the FHA on rental properties, it would be very difficult for them to acquire a FHA-backed loan. In order for the property to receive a properly valued mortgage, the final requirement for a FHA-backed mortgage was an "unbiased professional estimate" of the property. Like the HOLC, the FHA used a purportedly objective rating system for neighborhoods that, in reality, was heavily based on race, social class, and development style. Unlike the HOLC, the FHA made this rating system an integral part of its underwriting decision process. Dense inner-city neighborhoods and any neighborhoods with populations of minorities were discriminated against. The FHA's 1939 *Underwriting Manual* stated that "crowded neighborhoods" and "older properties" were of lesser desirability, and openly encouraged lenders to maintain "racially harmonious"

neighborhoods through restrictive covenants to preserve property value (Jackson, 1985, p. 207). Additionally, the FHA eventually created a set of regulations requiring certain lot setbacks, lot sizes, house widths, and even specific distances from other homes, which further increased the difficulty of securing financing for renovation or redevelopment of a traditional inner-city dwelling (Jackson, 1985, p. 208). The combination of these discriminatory lending policies and building regulations made the redevelopment of urban neighborhoods with FHA-backed funding virtually impossible.

After World War II, the Veterans Administration (VA) began to insure the mortgages for soldiers returning home from the war with policies almost identical to that of the FHA, further enhancing the federal government's role in subsidizing single-family suburban homes for white, middle-class Americans. From 1944 to 1952 alone, the VA backed almost 2.4 million home loans (Herzog, 2009, p. 22). Private firms who entered the mortgage insurance industry often modeled their policies after those used by the FHA and the VA, leading the entire home mortgage industry to begin inadvertently favoring new suburban development for decades to come.

This preferential lending policy induced by both private and public mortgage insurers, in conjunction with land use regulations, dealt a severe blow to inner city neighborhoods. Urban neighborhoods were legally bound by zoning laws to retain their character, yet were unable to enjoy the same easy credit for development that existed for the development of single-family housing found in suburban areas. For those who could qualify for FHA or VA-backed mortgages in the middle of the 20th century, the choice between living in the inner city, with high rent, decaying structures, and increasingly difficult to acquire mortgages, or living in newly built single-family suburban housing with subsidized mortgages, was an easy decision. White, middle-class America was given the gift of single-family housing in suburban areas at very low costs largely due to the policies of the Federal Housing Administration and Veterans Administration.

Preferential lending for white, middle-class Americans in single-family housing was not the only federal initiative that encouraged suburbanization, however. The federal government also heavily subsidized the transportation network required by automobile-centric suburban sprawl. The Federal Highway Act of 1916 and the Interstate Highway Act of 1956 moved the Department of Transportation towards a policy of favoring the automobile and freeway as the dominant form of transportation. The Interstate Highway System provided over 42,000 miles of roadway across the United States and cost over $114 billion at completion, an amount 335 percent over the original estimated cost. Despite going so far over budget, only 2,900 miles of the highway system collects tolls, meaning 93 percent of the system is provided at no direct cost to the motorist (Weiss, 2008). This massive subsidy provided a great incentive for Americans to become motorists and move into suburbs.

The effects of massive subsidization for both highway and suburban home construction through federal policy were dramatic. Between 1950 and 1990, the aggregate population of central cities in large, metropolitan statistical areas as defined by the U.S. Census (with 1950 borders held constant) declined by 17 percent, while the total overall population for the same metropolitan statistical areas increased by 72 percent (Baum-Snow, 2006, p. 1). According to Baum-Snow (2006), had the federal government not created the interstate highway system, populations in the city centers of large, metropolitan statistical areas would have increased by 8 percent during the same period, and would have increased by another 3 percent if other limited access highway systems outside of the interstate highway system had not been constructed either (p. 22).

IV. THE NEGATIVE FEEDBACK LOOP CREATED BY SUBURBANIZATION

With the establishment of local land use regulations, preferential federal subsidization of home mortgages based mostly on race and development style, and federal subsidization of highway networks, the inner city was guaranteed a slow death as the middle class was selectively drawn out into suburban sprawl. As poverty became more concentrated within urban cores, inner city governments struggled to maintain their services. Tax revenues for inner cities declined as suburbs often were built outside the jurisdiction of the local governments of inner cities, while demand for local government services in inner cities rose because of increasing poverty (Downs, 1997, p. 385, as cited in Pack, 1994). The quality of public schools deteriorated, crime proliferated, and the demand for general welfare services grew (Downs, 1997, p. 379, 384). Inner city public bureaucracies created to tackle these issues grew increasingly inefficient with time; as Kretzmann & McKnight argue, such institutions behave like monopolies, and like other monopolies, they are interested in maintaining their own power and creating dependence in their clients rather than creating true welfare (as cited in Downs, 1997, p. 385). These social issues intensified the middle class desire to flee the inner city for the suburbs, and further contributed to the demise of the inner city.

Ironically, some libertarian-minded economists and policy analysts, recognizing the social problems of inner cities and the inefficiency of inner city government institutions, have argued that they are a major reason for consumer preference of suburban sprawl (Miller, 2003). Unfortunately, what they don't realize is that extensive government intervention on a variety of levels within urban development markets has led to the shameful state of inner cities across the United States, and created the current

scenario in which suburban sprawl is often "preferred" by middle class consumers.

The amount of low-density development present in the United States was not generated by a natural process in the urban development market. Suburban sprawl is largely a byproduct of multiple forms of government policy. The extent of suburbanization created could not have been reasonably predicted by the government agencies responsible for these interventionist policies, due to the complex nature of urban development and the fragmented system of government in the United States. If conservatives and libertarians who ostensibly prefer market liberalization want to be consistent in their policy recommendations, they ought to argue for the end of such government interventions within urban development and distance themselves from suburbanization, rather than valiantly defend it.

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