The Story of the Suburbs: How the State Destroyed Our Cities and Segregated Society

By

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Abstract:

This paper seeks to explain the creation and dominance of suburbia in the United States from a historical and socio-economic perspective. The phenomenon is shown to be caused by significant state intervention in various markets such as housing, banking, and automobiles. The data and research presented confirm the validity of Austrian theories of state intervention and market distortion. First, we will discuss the historical emergence of suburbia before the intervention. Second, we will describe the particular state policies that introduced perverse incentives into the aforementioned markets. We will then discuss the impacts of these policies on cities and the systematic victimization of their inhabitants. Finally, we will discuss the overall social and economic repercussions of this suburban subsidization.
It has become conventional wisdom throughout academia that the emergence of suburbia during the 20th century has created – or perpetuated - a great deal of social strife in the United States. The rise of the suburban dominion has, on no small scale, contributed to the stark racial segregation that has persisted throughout the postwar era. The taxes required for such an endeavor have drained untold resources from the urban population to finance suburbia’s largess. The socio-economic organization of the suburban landscape stifles the sense of community and cuts Americans off from one another, leading to a litany of social and psychological pandemics. Below, I will show that the natural process of suburbanization that began to take place in the prewar United States was appropriated by the federal government and used as a means of enriching entrenched interests and propagating racist policies. The state has, over the course of roughly a century, enacted legislation and enforced policies that have subsidized and artificially invigorated the growth of suburbia at the expense of the vibrancy and livelihood of American cities and their inhabitants. The major ramifications of this phenomenon will also be discussed.

To begin to understand what suburbia is and how it came about, we must first embark upon a journey through history. Prior to the 1920s, non-rural real estate had to be developed within reasonable walking distance of
mass transit.¹ Cities were physically centralized and harbored ethnically diverse populations. The lower and middle classes lived and worked in very close proximity to one another, and residential and commercial buildings were evenly dispersed amongst one another.² However, as big cities became increasingly populated and unsanitary, the upper class quickly developed a desire to escape the noise and dirt of the city to the peace and quiet of the hinterlands. In fact, at the outset of the 20th century large portions of Long Island were quickly bought up and renovated by the wealthy New Yorkers who built lavish estates to seclude themselves from the riff-raff while remaining in close proximity to Manhattan.³ Elsewhere, in smaller cities and towns, “suburbs” were primarily slums.⁴ Suburbia began in the US not as a bastion of the middle class, but as a refuge for the wealthy.

However, the allure of suburban life was not solely for the well-to-do. As early as the late 19th century, developers who built estates for the rich outside the largest cities also began building affordable housing for the middle class.⁵

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¹ Kenneth T. Jackson, Crabgrass Frontier: The Suburbanization of the United States (New York: Oxford University Press, 1985), pg. 189
² Ibid., pg. 15
⁴ Kenneth T. Jackson, Crabgrass Frontier: The Suburbanization of the United States (New York: Oxford University Press, 1985), pg. 25
⁵ Ibid., pg. 29
Then, beginning in the 1920s, the Federal Reserve’s newly created Federal Open Market Committee inflated the money supply by an unprecedented 60%, fueling a frenzied housing and stock boom that capitulated with the 1929 stock market crash. Historian Kenneth Jackson notes that from 1928 through 1933, the construction of residential property fell by 95 percent, while expenditures on home repairs plummeted 90 percent. As people began to default on their mortgages the eviscerated homebuilders industry, and the worsening depression, seemed to give legitimacy to those who claimed the federal government must step in to improve the housing situation. As we will see, special interests used the opportunity to lobby the state for housing and highway programs that benefited them at their smaller competitors’ and taxpayers’ expense.

The National Association of Home Builders (NAHB) asserted itself as an influential lobbying operation. They insisted that contractors were incapable of providing affordable housing without government assistance. The Hoover Administration, already hard at work prolonging and exacerbating the Great Depression, submitted to the NSHB’s policy recommendations and passed the Federal Home Loan Act of 1932, which established a reserve of credit for mortgage lenders and inflated the supply of accessible capital to the housing market. Because the new funding was only intended for low-risk borrowers,

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and very few people were considered to be “low risk” during the depression, the program was completely ineffective.⁸

After FDR assumed control of the White House, he too committed himself to addressing the housing situation as part of his New Deal program intended to revive the economy. In 1933, Roosevelt signed the Emergency Farm Mortgage Act and the Home Owners Loan Corporation (HOLC) Act. The former was intended to reduce rural foreclosures, while the latter was designed to assist urban concerns. HOLC replaced Hoover’s Federal Home Loan Act as the federal provider of loans to prospective homeowners. Between 1933 and 1935, it granted over one million mortgages, which comprised 10 percent of all owner-occupied, non-farm residences in the United States. About 40 percent of eligible Americans applied for HOLC subsidies. HOLC loans were fully amortized and the repayment period was twenty years, which was hitherto unheard of.⁹ The HOLC program was the first full-scale program to directly subsidize homeownership among the American people.

The HOLC also changed the housing market in a different way. Because it was engaged in issuing mortgages to many high-risk borrowers, it became necessary for the HOLC to establish housing appraisal standards so it could evaluate the risk of offering mortgages in a given neighborhood or

⁸ Ibid., pg. 194
⁹ Ibid., pg. 196-197
community. After conducting comprehensive evaluations of cities and dividing them into separate neighborhood classifications, the HOLC began to use a cut-and-dry, bureaucratic method of assessing the risk of a loan. However, this process was ill-conceived and caused large-scale “redlining” of certain neighborhoods based on the density, age, and/or ethnicity of the inhabitants. African-American neighborhoods were uniformly given the lowest ranking, as were areas one would expect to find among the riskiest, like vandalized or unkempt neighborhoods. The private sector lenders followed the government’s appraisal methods, causing home prices to largely conform to the discriminatory policies. African-Americans and others living in redlined neighborhoods saw their property values decline, as did neighborhoods with a growing influx of African-American residents. It was in this manner that racism was institutionalized in the American housing market. This process would continue until at least 1970.¹⁰

Other major sources of subsidies that influenced the emergence of suburbia were the Federal Housing Act of 1934, which created the Federal Housing Administration (FHA) and the Federal National Mortgage Association (Fannie Mae), as well as the GI Bill, which was signed into law in 1944 as the troops prepared to return home. The GI Bill created the Veterans Administration (VA), which functioned largely in the same capacity as the FHA. Veterans were now able to acquire subsidized mortgages with no

¹⁰ Ibid., pg. 195-203
money down. Fannie Mae (and later Ginnie Mae) made it easier to transfer bank credit across the nation, influenced the banking industry, and subsidized mortgage lending in order to promote homeownership. The FHA insured eligible, private, long-term mortgages that were worth up to 93 percent of the property value, making down-payments over 10 percent pointless. All loans were fully amortized and the length of each was extended to thirty years. The FHA (and later the VA) eliminated the risk of lending by absorbing the private lenders’ losses. Interest rates fell as a result, which increased the demand for more single-family housing.11

The FHA, however, was also responsible for adopting the appraisal methods of the HOLC. The FHA perpetuated the racist policies of its predecessor and favored white, homogeneous neighborhoods over communities of mixed or minority ethnicities. It refused to guarantee the loans of the latter so-called “high-risk” Americans.12 Instead, it focused on low-risk, sparsely populated areas with newer houses. In other words, the FHA favored suburban over urban areas. Also, FHA policies favored new construction over renovation of existing buildings. Loans for household repairs were far smaller than mortgages for new dwellings, leading many families to decide to move to the suburbs instead of renovating their urban areas.


12 Kenneth T. Jackson, Crabgrass Frontier: The Suburbanization of the United States (New York: Oxford University Press, 1985), pg. 207
homes. This artificially increased demand for new housing in the suburbs, which was quickly provided by the booming homebuilders industry. Older residencies in the inner-city were left to rot.\textsuperscript{13} Interestingly, this tendency for older buildings to be left unused and in disrepair echoes a phenomenon seen in socialist countries, wherein central planners were unable to identify unused buildings and allocate them to new, productive uses.\textsuperscript{14}

In addition to the already monumental degree of government interference in the housing market, other laws were also passed to provide incentives to own one’s own home and move out of the city. For instance, after amendments to the Federal Housing Act in 1937 and 1941, homeowners were permitted to deduct their mortgage interest from their taxes. This tax incentive made homeownership far cheaper than renting and provided even further incentive for those who could abandon the city to do so and purchase a home in the suburbs.\textsuperscript{15} In addition, Title VI of the Housing Act eliminated a longstanding industry requirement that homebuilders have


customers lined up before they could receive loans to start building. This accelerated the rate at which homebuilders could construct new homes.\textsuperscript{16}

What were the immediate results of these measures? On one hand, the inner cities were rapidly being drained of their middle-class population, which meant that declining tax revenues and property values were creating urban decay as taxes rates were raised and employers gradually followed their employees out into the periphery. The FHA also favored single-family homes to multi-family units, which were detested in the suburbs by those who opposed bringing in lower-income residents and risking a decrease in property values. From 1941 to 1950, FHA-guaranteed single-family starts outnumbered multi-family starts by nearly 4-to-1. Throughout the following decade, that ratio would climb to over 7-to-1.\textsuperscript{17}

\textsuperscript{16} Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, \textit{Suburban Nation} (New York: North Point Press, 2000), pg. 122-123

\textsuperscript{17} Kenneth T. Jackson, \textit{Crabgrass Frontier: The Suburbanization of the United States} (New York: Oxford University Press, 1985), pg. 206-207
Figure 3 demonstrates the extent to which single-family housing starts dominated the industry, and the degree to which the efforts of the federal government created a monumental increase in the production of new housing. The giant spike following the GI Bill’s passage is staggering to behold.

Law professor Michael Lewyn summarized the result of these policies as follows:

“[A] white home buyer who wished to stay in his old neighborhood had to seek conventional mortgages with higher down payments and shorter terms, whereas the same purchaser, by the simple act of buying a new house in the suburbs, could get a cheaper FHA-insured mortgage. In other words, the FHA essentially bribed middle-class homebuyers to move to the suburbs. FHA lending policies were based on a self-fulfilling prophecy: The FHA claimed that it could not insure urban mortgages because cities were doomed and then made sure that this was the case by luring middle-class homeowners away from the cities.” 19

Whites left the cities in droves because the suburbs offered a better life due to the enormous degree of suburban subsidization. In fact, such subsidies are even more widespread than one may imagine. Even such policies as flat-rate postage stamp prices and water usage bills force the inner-city population to subsidize their wealthier suburban neighbors. 20


Easily the most famous of these new white, suburban communities was Levittown, New York. Built by William Levitt and his homebuilding company between 1947 and 1951, Levittown represented the suburban ideal. Levitt’s Ford-esque, assembly-line efficiency gave him the ability to charge rock-bottom prices for modular suburban homes that housed many war veterans and their fledgling families. Levitt was unsure whether the government subsidies he had helped lobby for as part of the NAHB were going to be effective enough to create the demand he desired, so the first homes were rented out in 1947. Levitt was also guilty of racist behavior himself, having maintained a persistent policy of refusing to allow non-whites to move into his developments. Unsurprisingly, it didn’t take Levitt long to realize that the subsidies he had secured did in fact stimulate enough demand to turn a profit. He began selling his homes outright in 1949. Levittown continues to this day to serve as the stereotypical suburban town, evoking images of white picket fences and relentless conformity.21

Ostensibly to address the growing problems associated with an exploited, urban underclass, the federal government began to fund public housing projects for the poor. In reality, the state housing only made matters worse.

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Kenneth Jackson notes:

“The result [...] of the public housing program [...] was to segregate the races, to concentrate the disadvantaged in the inner cities, and to reinforce the image of suburbia as a place of refuge for the problems of race, crime, and poverty. By every measure, the Housing Act of 1937 was an important stimulus to deconcentration.”

The new Housing Act established a United States Housing Authority (USHA) for the purpose of funding and subsidizing housing projects within smaller communities. The law left it up to the local municipalities to decide whether they were to participate in the program. As would be expected, most suburban areas rejected the offer. Public housing decreases property values, and the NIMBY (Not In My Back Yard) movement has always been strong in the suburbs, where homeowners have a strong incentive to maintain the value of their property. As a result of widespread NIMBYism, the only areas willing to apply for public housing money were the cash-strapped inner-cities. This greatly exacerbated the urban decay already underway in these areas. Public housing projects are known to lead to higher crime rates and lower educational opportunities. This helps perpetuate a vicious circle in which poor, minority Americans are trapped within the inner cities because of scarce job opportunities, poor education, high crime, police

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victimization perpetuated by the "War on Drugs," and a lack of automobile transportation needed to sustain a job in the suburbs. The existence of public housing also deters middle-class families from moving back into the city. No parents wish to expose their children to the abysmal education systems or crime-ridden streets of many American cities.

The ultimate effect of the 1937 Housing Act was to create a permanent urban underclass in the federally-financed public housing projects, which greatly worsened the plight of the urban poor and further cemented the segregation already present in society before the so-called “aid” took place. Even worse, programs such as this have historically been self-perpetuating. It is politically impossible to dismantle the public housing system after so many have become dependent on it for basic shelter.  

Still, the policies that maintain the status quo do not stop there. In the 1920s, the State Zoning Enabling Act was passed, which allowed states and municipalities to establish their own zoning and land use regulations. Once again, NIMBYism sought to ensure that “undesirable elements” remained as far away from the suburbs as possible. Such measures as minimum lot sizes and the prohibition of apartment buildings served to keep housing prices high enough to deter any paupers from settling in the suburbs, as they had

traditionally done.²⁴ It remains illegal in most places to mix housing types within a given zone, a policy which further divides the American people by class and wealth.²⁵

Moving on, a major consideration in the explanation for the emergence of suburbia and the explanation of segregation is the establishment of federally subsidized roads and highways. The major agitators for such spending were unsurprisingly those who stood the most to gain from it. The trucking industry, from large corporations to small, independent firms, lobbied extensively for a highway system based on general taxation. They opposed gas taxes and usage tolls because those methods force drivers to pay more for maintenance than those who do not utilize the roads. Virtually all roadbed damage of highways is caused by heavy trucks. Effective lobbying also led to the elimination of weight restrictions, which meant the truckers could pay less for the highways despite the damage wrought by higher axle loads. Today, only around half the revenue of the highway trust fund is paid by the trucking industry. Private automobile users pay the rest, including the 20% paid by general taxation.²⁶

²⁵ Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, Suburban Nation (New York: North Point Press, 2000), pg. 48
Likewise, homebuilders supported subsidized roadways because they lowered the marginal cost of transportation, which facilitated the sprawl their industry thrived on. Automobile companies, for obvious reasons, were also big supporters of the federal highway plans. General Motors even based its “Futurama” exhibit at the 1939 New York World’s Fair off a stylized conception of an interstate highway system.27

The Federal Road Act of 1921 laid the groundwork for the federal provision of roads, by allocating funds to match state contributions to a program to build 200,000 miles of roads. Since general taxation paid for this and most other federally subsidized roadways back then, those who rode the mass transit systems in urban areas, like streetcars or buses, subsidized those who use the subsidized roads with their automobiles. Once again, we find an instance of urban-dwelling lower-income Americans subsidizing the suburban lifestyle.28

Government regulations also reduced the ability of city-goers to find inexpensive transportation. The Public Utility Holding Company Act of 1935 (PUHCA) restricted utility companies from competing across state lines and forbade them from owning mass transit companies. In those days, it was common for utility companies to own their own electric streetcar lines.


PUHCA made this impossible. As a result, many companies became unprofitable. PUHCA reduced competition and further increased dependency on the automobile. General Motors and other corporations bought up many streetcar enterprises and replaced them with loud, smog-belching buses.\textsuperscript{29}

After increasing spending on federal highways to $4.6 billion in 1950, Eisenhower created a commission of industry insiders to formulate the future of America’s highway system. Their recommendations ultimately became the Interstate Highway Act of 1956.\textsuperscript{30}

The Interstate Highway Act dictated that federal funds collected from gasoline taxes would be used to fund 90% of the highway system, with the states and municipalities paying the remaining 10%. The Act ultimately laid down 41,000 miles of interstate highway. Unfortunately, the federal government’s attempt to revitalize the cities through highways had failed. Urban decay had persisted and urban traffic congestion often became worse as more and more highways were added to the transit system. \textsuperscript{31}

In 1966, the new highway system and the FHA’s new policy of focusing on inner cities proved disastrous. New FHA loans resulted in many of the remaining white families leaving the city with subsidized mortgages.

\textsuperscript{29} Kenneth T. Jackson, \textit{Crabgrass Frontier: The Suburbanization of the United States} (New York: Oxford University Press, 1985), pg. 170, 191
Meanwhile, looser credit standards for the urban poor made it simple for firms to renovate slums and resell them for higher prices that the urban population couldn’t afford. At the end of the day, the poor were once again left with nothing as the more affluent among them continued to flee to the suburbs.\footnote{Kenneth T. Jackson, \textit{Crabgrass Frontier: The Suburbanization of the United States} (New York: Oxford University Press, 1985), pg. 214-215; Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, \textit{Suburban Nation} (New York: North Point Press, 2000), pg. 153}

The state of the inner city continued to decay in the midst of all the taxation and discrimination to which these areas were subjected. As the cities deindustrialized, jobs vanished even more quickly while stifling taxation and regulation prevented new commerce from emerging. A significant part of the urban economy went underground. \footnote{Mark Gottdiener and Ray Hutchison, \textit{The New Urban Sociology}, 3rd ed. (Boulder, CO: Westview Press, 2006), pg. 119-120.} Small-scale manufacturing returned to the city in the form of black market operations that constructed cheap knock-offs of designer fashion for sale on the streets. The drug industry also provides employment and income for many urban poor, but the illegality of these activities invites police brutality and incarceration, which breaks up families and suppresses wealth creation. Inadequate public schooling and misguided welfare handouts discourage nuclear families, smother the potential of upward mobility, and help perpetuate a permanent underclass of abused, uneducated poor.
Now that we have seen the deleterious effects of state intervention on cities, we will now explore the unintended consequences of a bloated suburbia. The suburbs, it turns out, are not all they are cracked up to be. Zoning laws and sparsely populated areas discourage the formation of genuine neighborhood communities.\textsuperscript{34} Suburbanites in the newly built Levittown and other “bedroom communities” quickly found that only way they could meet friends in the suburbs was through their children. Children would make friends at school, and the parents would meet and hopefully become friends as well.\textsuperscript{35} The extended family was severed from normal social interaction. In the suburbs, children would grow up surrounded only by their parents, siblings (if any), and a randomly assorted group of children at school. Social critics claim that suburbia stifles individualism and damages children in particular.\textsuperscript{36} Because the suburbs are organized around the use of the automobile, children, who must now depend on their parents for virtually all social interaction outside of school, are forced to either constantly beg for a parent to provide transportation or find unsupervised fun elsewhere. This “cul-de-sac kid” phenomenon is described brilliantly in \textit{Suburban Nation}:

“What is not [...] good for children, however, is the complete loss of autonomy they suffer in suburbia. In this environment where all

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\textsuperscript{34} Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, \textit{Suburban Nation} (New York: North Point Press, 2000), pg. 50-51
\textsuperscript{36} Kenneth T. Jackson, \textit{Crabgrass Frontier: The Suburbanization of the United States} (New York: Oxford University Press, 1985), pg. 243-244
activities are segregated and distances are measured on the
odometer, a child’s personal mobility extends no farther than the edge
of the subdivision. Even the local softball field often exists beyond the
child’s independent reach. […] Dependent always on some adult to
drive them around, children…are unable to practice at becoming
adults.” 37

Having been unable to develop a sense of individual responsibility
during their childhood, many young people have found that they lack the
necessary social skills to live productively on their own. Perhaps as a result,
teenage suicide rates are significantly higher in suburbs than in cities.38

On the opposite side of the dependency coin are the parents. After a
long day (which probably includes two trips through heavy traffic due to
over-utilized, state-owned roads) parents are often too exhausted to ferry
their children and their friends around town. This creates a great deal of
stress for parents as they become frustrated with their own self-perceived
substandard parenting. Should they then decide to make further sacrifices
for their children, parents must also cope with high transportation costs,
which are four times as high for a typical American than for a typical

37 Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, Suburban Nation (New York: North Point
Press, 2000), pg. 116
38 Ibid., pg 120
European, despite the fact that gasoline is four times as expensive in Europe.\textsuperscript{39}

As mentioned above, another unfortunate phenomenon involving the suburban lifestyle is the dependency on automobiles. Michael Lewyn describes the crisis:

“Americans live in areas where autos are a daily necessity not because of free choices made in a free market but because of government policies that have made daily life without a car impossible for many drivers. It logically follows that American auto dependency is an unfunded mandate analogous to the thousands of pages of federal regulations contained in the federal register and that most auto-related spending is a form of indirect taxation just as much as if government enacted a law requiring consumers to spend [their money] on automobiles.”\textsuperscript{40}

Indeed, according to Duany et al, government subsidies for highways and parking alone make up between 8 and 10 percent of GDP, which amounts to at least $5,000 per car per year. These expenses are ultimately

\textsuperscript{39} Ibid., pg. 126.
borne by the population as a whole, whether one drives or not, through higher prices and taxes.\textsuperscript{41} The authors summarize their position as follows:

“...subsidized automobile use is the largest violation of the free-market principle in the U.S. fiscal policy. Economic inefficiencies in this country due to automotive subsidization are estimated at $700 billion annually...” \textsuperscript{42}

The dependency on highways also has the effect of diverting almost all transportation funds to service the highways at the expense of mass transit, which could help those who cannot afford automobiles find jobs and lift themselves from destitution. Without some method of bringing jobs back to the inner cities, there is little hope for the urban underclass.

We have now seen a brief glimpse of the waste and decay wrought by government planning. The programs and policies mentioned above constitute a negative-sum game in which all parties lose in the long-run, but many entrenched interests gain enormously in the short-run. This is why the system has not been changed and the reality reflected within this paper remains unknown and obscure to all but those who bother to do the research. We must immediately strive to repeal the destructive legislation and restore the free market mechanism. This is the only way to correct the socio-economic landscape and align it with the true desires of the American

\textsuperscript{41} Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck, \textit{Suburban Nation} (New York: North Point Press, 2000), pg. 94
\textsuperscript{42} Ibid., pg. 96-97
consumer. Although Jackson was correct when he wrote that “there is no reason to assume that the suburban trend would not have continued in the absence of direct federal assistance,” there is also no reason to assume that it would have mutated into anything like the twisted abomination that lies before us today. The only conclusion that can be made is to stop the exploitation of the urban poor and allow market forces to correct this injustice.

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References


