Planned Abandonment: The Neighborhood Life-Cycle Theory and National Urban Policy

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Abstract

This article discusses the history and political economy of the neighborhood life-cycle or “stage” theory, an evolving real estate appraisal concept used as a basis for urban planning decisions in the United States. The life-cycle theory was revived by the U.S. Department of Housing and Urban Development after the urban riots of the 1960s and used by local planners to encourage the “deliberate dispersal” of low-income and African-American urban neighborhoods, followed by the eventual reuse of abandoned areas.

Postriot urban policy can be understood as a dialectical process of social change. “Triage” planning was used to depopulate areas of social unrest. Conflict over the neighborhood life-cycle theory changed the politics of urban renewal, leading to a greater focus on redlining. Community-based development became an alternative to planned abandonment, directing public and private resources into redlined areas.

Keywords: Neighborhood; Real estate; Urban planning

Disparate patterns of metropolitan growth and decline in the United States are the legacy of economic racism, decisions on industrial locations, and the suburban bias of federal highway and housing programs (Bluestone and Harrison 1982; Jackson 1985; Wilson 1987, 1996). These disparities have been exacerbated by the neighborhood life-cycle theory, an evolving real estate appraisal concept used as a basis for urban planning decisions. Planners constrained by fiscal and political conditions have used this theory to encourage the “deliberate dispersal” of the urban poor, followed by the eventual reuse of abandoned areas (Downs 1973b). The life-cycle theory was challenged by community groups in the U.S. manufacturing core region (the cities of the Northeast and Midwest) that organized against mortgage redlining—the refusal of financial institutions to make loans in specific geographic areas. These groups argued that the future of an urban neighborhood depended not on its stage in a race-based life cycle of inevitable decline, but on whether residents had access to financial resources within an environment of community control. This article analyzes the history and political economy of the neighborhood life-cycle or “stage” theory and presents community-based development as an alternative.

The neighborhood life-cycle theory and national urban policy

The urban economists Edgar M. Hoover and Raymond Vernon outlined a five-stage process of neighborhood development in a 1959 study for the Regional Plan Association of New York, a powerful corporate-sponsored planning organization (see table 1). Their report concluded that the general pattern of neighborhood change was characterized by an inevitable trend toward decline, "often associated with the spread of districts occupied by more or less segregated ethnic and minority groups" (Hoover and Vernon 1959, 196). Although limited to New York, their analysis influenced urban renewal planning across the country. The Housing Act of 1959 authorized municipalities to prepare federally funded plans for a citywide community renewal program to determine the spatial allocation of resources and renewal strategies for different types of neighborhoods. The community renewal program reflected a shift in federal policy from project-specific and area-specific support to ongoing citywide renewal planning (Real Estate Research Corporation [RERC] 1974b).

Before this, the life-cycle theory had been incorporated into the neighborhood risk-rating system and underwriting policies used by the Home Owners' Loan Corporation (HOLC) and the Federal Housing Administration (FHA). As a result, until the urban riots of the 1960s, FHA refused to finance existing housing in neighborhoods where African Americans lived (Bradford 1979; Jackson 1985). Before joining this federal agency as its chief underwriter in 1936, land economist Frederick Babcock wrote an important textbook, *The Valuation of Real Estate*, that urged real estate appraisers to analyze what he called the "future histories" of neighborhoods:

> A residential district seems to go through a very definite and inevitable course of development when not affected by forces which can entirely change its use. This cycle is characterized by the gradual decline in quality of people through the years accompanied by population increases and the more intensive residential use of ground. (Babcock 1932, 75)

Babcock described cycles of decline for five types of residential neighborhoods, each resulting in an "inevitable ultimate condition" of either "a poor, blighted, or decadent district," or even worse, a district of "a slum character" (1932, 76). Racial change in a neighborhood could result in "very rapid decline" of property values (Babcock 1932, 91). Babcock then added language about the inevitability of neighborhood decline to the FHA *Underwriting Manual*, which was amended in 1949 to include antidiscrimination statements, but continued to use these concepts of neighborhood analysis in rating location risk:

Table1. **The Stages of Neighborhood Change: The Evolution of the Life-Cycle Theory, 1935 to 1975**

U.S. Home Owners' Loan Corp. residential security maps (1935)	U.S. Home Owners' Loan Corp. *Waverly: A Study in Neighborhood Conservation* (1940)	Edgar M. Hoover and Raymond Vernon *Anatomy of a Metropolis: The Changing Distribution of People and Jobs within the New York Metropolitan Region* (Regional Plan Association of New York, 1959)	Real Estate Research Corporation *The Dynamics of Neighborhood Change* (U.S. Department of Housing and Urban Development, 1975)
First Grade "A" Area (green) Well-planned, homogeneous population	*First Stage* New residential construction	*Stage 1* Single-family residential development	*Stage 1: Healthy* Homogeneous housing and moderate to upper income, insurance and conventional financing available
Second Grade "B" Area (blue) Completely developed, stable	*Second Stage* Normal use and maintenance	*Stage 2* Transition to higher density, apartment construction	*Stage 2: Incipient Decline* Aging housing, decline in income and education level, influx of middle-income minorities, fear of racial transition
Third Grade "C" Area (yellow) In transition and decline from age, obsolescence, lack of restrictions, lower household incomes and housing values, lack of homogeneity	*Third Stage* Age, obsolescence, structural neglect	*Stage 3* Downgrading to accommodate higher density through conversion and overcrowding of existing structures, spread of ethnic and minority districts	*Stage 3: Clearly Declining* Higher density, visible deterioration, decrease in white in-movers, more minority children in schools, mostly rental housing, problems in securing insurance and financing
Fourth Grade "D" Area (red) Final stage of decline, mostly low-income rental housing, "undesirable population"	*Fourth Stage* Falling investment and rent values, neglect of maintenance, district-wide deterioration	*Stage 4* Thinning-out or "shrinkage" characterized by population loss and decline in housing units	*Stage 4: Accelerating Decline* Increasing vacancies, predominantly low-income and minority tenants or elderly ethnics, high unemployment, fear of crime, no insurance or institutional financing available, declining public services, absentee-owned properties
	Fifth Stage Slum area with depreciated values, substandard housing, social problems	*Stage 5* Renewal through public intervention, redevelopment and replacement of obsolete housing with new multifamily apartments	*Stage 5: Abandoned* Severe dilapidation, poverty and squatters, high crime and arson, negative cash flow from buildings

> Neighborhoods tend to decline in attractiveness over a substantial period of time, as the original residents are succeeded by others from lower economic levels. Transition, therefore, gradually results in poorer maintenance of properties and lower owner-occupancy appeal. (FHA 1967, paragraph 71603.7)

The *Underwriting Manual* also acknowledged that “some lenders have excluded entire cities from their lists of acceptable areas” (FHA 1938, paragraph 920). The agency devised a method of analyzing the economic base of cities and metropolitan regions that would supplement the risk ratings assigned to specific neighborhood locations. This “economic background rating” considered industrial employment trends and diversification, cyclical changes in the economy, and special factors such as the presence of a tourist destination, political capital, or educational center within a metropolitan area. The *Underwriting Manual* concluded that “single-industry areas are usually extremely hazardous,” (FHA 1947, paragraph 1506(5)) and federal economic background ratings favored cities with a growing population and diversified economy.

These concerns were restated by real estate economist Homer Hoyt in his influential 1939 FHA study, *The Structure and Growth of Residential Neighborhoods in American Cities*. Six years later, in a paper presented to the Mortgage Bankers Association of America, Hoyt (then the director of economic studies for the Regional Plan Association of New York) argued that the advantages possessed by the Northeast, such as natural resources (coal and iron), rail transportation, and water, were increasingly outweighed by the problem of physical blight and the outmigration of whites and low-wage industries (1945).[1]

HOLC, created by the federal government in 1933 to refinance mortgages falling into delinquency and default during the Great Depression, used a multistage neighborhood classification system (later adopted by the FHA) to analyze underwriting risk (see table 1). Four color-coded categories distinguished four stages of neighborhood development, ranging from first-grade *green* (“well-planned”) to fourth-grade *red* (“characterized by detrimental influences to a pronounced degree”).[2] In a 1940 model neighborhood conservation study of the Waverly section of Baltimore prepared for the Federal Home Loan Bank Board, HOLC described a “constant life cycle” for

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[1] In 1930, the Northeast and Midwest accounted for 59 percent of the national population. But by 1994, 60 years after the FHA was created, these regions had received only 29 percent of the dollar amount of all FHA-insured, single-family home mortgage lending.

[2] See the HOLC residential security maps in HOLC City Survey Files, Record Group 195, National Archives, Washington, DC.

urban neighborhoods in which newly built areas gradually declined in physical condition and economic value over time (HOLC 1940; Weiss and Metzger 1994). This cycle could be reversed by demolition or by conservation and rehabilitation at an early stage of decline (see table 1).

These federal housing policies accommodated the biased practices of the real estate and financial industries. During the 1920s, the National Association of Real Estate Boards added Article 34 to its Code of Ethics, prohibiting realtors from moving African Americans into white neighborhoods (Helper 1969; Mohl 1997). The research director of this powerful trade group was later named the first chief economist of the FHA (Weiss 1989). In New York, the Mortgage Conference was organized in 1933 (during the economic crisis) by the largest institutional real estate lenders in that city to establish industry lending standards and distribute market information. In 1946, the conference was sued by the Justice Department (the first real estate antitrust action under the Sherman Act) for engaging in a discriminatory conspiracy to deny loans to minorities, among other violations. (A consent decree was reached two years later.)[3]

The neighborhood life-cycle theory also informed urban planning studies such as the 1942 Chicago Land Use Survey, a project directed by Homer Hoyt (then research director of the Chicago Plan Commission) and advised by James Downs of RERC, who represented the Chicago Real Estate Board (Chicago Plan Commission 1942). RERC was formed by Downs in 1931 and conducted field surveys of block-level racial change in Chicago neighborhoods (Downs 1960, 1968). The Chicago Real Estate Board advised realtors to sell or rent housing to African Americans only in blocks *contiguous* to areas that were already predominantly African American (Helper 1969). After the Supreme Court ruled that municipal racial zoning ordinances and then race-restrictive land covenants were unconstitutional (in 1917 and 1948, respectively), block-level analysis was increasingly used by the real estate industry. In 1955, the Mortgage Bankers Association of America reported that the mortgage banking industry continued to treat African Americans as a group risk (McEntire 1960).

By then, RERC was a powerful force in the federal urban renewal program, advising public housing and urban renewal agencies across the country. In 1953, the company prepared a plan for the Englewood shopping district on Chicago's South Side (the Perimeter Plan) that was put forth as a national model for neighborhood commercial centers (Nelson and Aschman 1954; RERC 1953). The Housing Act of

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[3] *United States of America v. The Mortgage Conference of New York, et al.*, Civil Action No. 37–427, U.S. District Court, Southern District of New York (1948), Case Files, National Archives—Northeast Region, New York.

1954 then expanded the urban renewal program to include commercial redevelopment as well as neighborhood conservation (Weiss 1985; Weiss and Metzger 1994). As housing and redevelopment coordinator for the city of Chicago, James Downs planned the construction of high-rise public housing complexes (Hirsch 1983). He was a trustee of the University of Chicago (a key actor in urban renewal planning), and his son-in-law David Stahl became Richard J. Daley's deputy mayor. Richard Nelson of RERC wrote the 1957 textbook *Real Estate and City Planning* with Frederick Aschman, executive director of the Chicago Plan Commission. They developed a "community desirability" rating (based on a weighted score of local economic and land use indicators) that was similar to the FHA's economic background ratings and that could be used by investors and planners to determine real estate lending and location decisions (Nelson and Aschman 1957).

RERC was the principal adviser to the Chicago Central Area Committee, comprised of executives from the leading corporations and financial institutions headquartered in the downtown Chicago Loop (Banfield 1961). This company was also highly regarded by the national real estate industry, whose trade associations were then headquartered in Chicago. These included the National Association of Real Estate Boards and its affiliates, the American Institute of Real Estate Appraisers, the Institute of Real Estate Management, and the National Institute of Real Estate Brokers; the United States Savings and Loan League and its affiliate, the Society of Residential Appraisers; the Mortgage Bankers Association of America; and the National Association of Building Owners and Managers. James Downs authored or contributed to industry textbooks sponsored by the Institute of Real Estate Management and the Mortgage Bankers Association of America and was a spokesperson for the National Association of Real Estate Boards.[4]

In 1963, RERC completed the citywide plan for the federally funded community renewal program of Chicago (1963b, 1963c). This study, *Economic Analysis of Housing and Commercial Property Markets in the City of Chicago, 1960–1975*, was written by Anthony Downs, the

[4] During the early 1960s, RERC evaluated loan applications and conducted property appraisals for the Central States, Southeast, and Southwest Areas Pension Fund of the International Brotherhood of Teamsters. This controversial fund (headquartered in the Chicago Loop) financed casino/hotel development and other high-risk real estate projects in Nevada and across the Sunbelt that involved organized crime (James and James 1965; Sale 1975; Scott 1996). The Teamsters would become the largest labor union in the country and a dominant force in the trucking industry, and Central States (which was repeatedly investigated for illegal practices) would become the nation's largest private pension fund. In 1963, as RERC completed a national urban renewal market study for the federal government (1963a), Central States bailed out Webb & Knapp, a huge real estate company that was a leading national investor in the federal urban renewal program.

son of RERC chairman James Downs. The younger Downs had received a Ph.D. in economics from Stanford University in 1956. His dissertation outlined the rationale for public choice theory, which assumes that economic benefits are maximized by unregulated self-correcting markets, while political decisions are motivated by narrow self-interest (Downs 1957).[5]

Anthony Downs studied the racial block maps of neighborhood change in Chicago that RERC had compiled and used these data to conceptualize a framework for citywide urban renewal planning that would have national ramifications (1960, 1968). According to Downs, “the whole market was totally affected by race,” and previous city planning studies had not emphasized this enough.[6] In two essays written for *Land Economics* during 1960–61, he argued that in Chicago

> nonwhite expansion nearly always occurs on the edge of a giant ghetto and usually (though not invariably) involves increases in density and decreases in income and occupational-status in the transition neighborhoods. (1960, 187)

The resulting decline in property values could be prevented only by attracting the white middle class back to the city. According to Downs,

> Middle-income and upper-income white families will not move into central cities in any large numbers unless cultural (not racial) homogeneity of local neighborhoods can somehow be reconstituted. (1961, 316)

He believed that in the short-term, the only effective way to counter the trend of white flight to the suburbs would involve

> creation of a truly massive urban renewal program supported by the federal government. Such a program would have to be so large that whole neighborhoods of high-school-district size would be demolished and replaced by newly-constructed developments occupied by middle-class residents who would initially establish high standards and maintain them henceforth. (Downs 1961, 317)

This analysis was used to build support for the “New Town Intown” concept developed by planners such as Harvey Perloff at the University of Chicago (Perloff 1966; Perloff et al. 1975). To accommodate some of the demands of the civil rights movement, Downs argued that the new neighborhoods should be racially integrated but remain middle class, that housing opportunities for African

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[5] For a critical discussion of public choice theory, see Kuttner 1996.

[6] Anthony Downs, interview by author, tape recording, March 27, 1995, Washington, DC.

Americans in traditionally white areas should be expanded, that financing should be made available to encourage them to buy single-family homes, and that the goal of full employment should be pursued to reduce rising unemployment rates in central cities and among African Americans.

But the 1963 Chicago community renewal plan warned that the projected expansion of the low-income population in the city would lead to turnover in neighborhoods and downgraded housing, particularly in rental properties, and weaken the commercial districts in these areas. The study said:

> Whenever a substantial income drop accompanies population transition, a general decline in the physical condition of the neighborhood is almost inevitable.…In essence, the resources of the area have declined and the buildings therein must decline concomitantly.…When these neighborhoods become sufficiently blighted to qualify for complete clearance, then urban renewal can completely renovate them. (RERC 1963b, 86)

RERC concluded that this process was not unique to Chicago. The company then became a leading adviser to the U.S. Department of Housing and Urban Development (HUD), the new federal cabinet agency established in 1965–66.

Postriot urban policy

In 1967, Anthony Downs was named to the National Commission on Urban Problems (known as the Douglas Commission) and was the leading consultant to the National Advisory Commission on Civil Disorders (known as the Kerner Commission); he repackaged many of the ideas from his Chicago community renewal study and *Land Economics* articles into a special issue of *Daedalus* on urban policy (Downs 1968). Both presidential commissions were chaired by allies of Chicago's Mayor Daley. Downs became the prinicipal consultant to the Kerner Commission after the mass firing of staff social scientists by Victor Palmieri (the deputy director of the commission), who rejected their controversial report on the riots titled *The Harvest of American Racism* (Kopkind 1971; Lipsky and Olson 1977).

In his article for *Daedalus* titled "Alternative Futures for the American Ghetto," Downs construed "ghetto" as a racial, not an economic, concept that described the tendency of African Americans regardless of income to live in segregated neighborhoods within central cities. While advocating the goal of racial integration, Downs outlined what he called the "law of dominance," which argued that middle-class whites would support integration only if they remained in the numerical majority and maintained "cultural dominance." The creation of integrated neighborhoods should start "inside-out" in the central city through an "integrated-core strategy" using "large-scale urban renewal" and "managed integration" that would limit the African-American population in these neighborhoods to "a significant minority" (Downs 1968). Much of this article had appeared as "The Future of the Cities" chapter in the Kerner Commission report, except for the discussion of the law of dominance and the integrated-core strategy. Also, the Kerner Commission report had conceptualized racial ghettos to include only "low-income, disadvantaged" African Americans (U.S. National Advisory Commission on Civil Disorders 1968).

The urban rioting of 1966–67 led the FHA to redirect its lending programs to neighborhoods that were redlined, but these initiatives were undermined after 1968 by foreclosure and eviction policies and widespread corruption and fraud by HUD officials, realtors, contractors, and mortgage bankers (Boyer 1973; Metzger 1999a). In a March 1972 speech to the powerful Detroit Economic Club, HUD secretary George Romney signaled the retreat from these postriot changes in FHA programs. There was a media storm in Detroit over HUD corruption, and the Romney speech was given a week after an important national meeting in Chicago of community groups from across the country that were organizing against redlining by financial institutions and federal housing fraud ("1,600 from Ethnic Groups" 1972). In his speech, Romney outlined the five-stage neighborhood life cycle of decline, arguing that "the process of abandonment and neighborhood decay, and the related out-migration may be the essential step to make available large blocks of cleared central city areas for large-scale redevelopment within the new metropolitan system."[7]

Anthony Downs repackaged these ideas in his 1973 book *Opening Up the Suburbs* and subsequent planning reports for HUD and the National Urban Coalition, formed in 1967 as an adjunct to the Kerner Commission (1973a, 1973b, 1975, 1976).[8] Downs argued that

> new means of comprehensively "managing" entire inner-city neighborhoods should be developed to provide a more effective means of withdrawing economic support from housing units that ought to be demolished. (1973b, 135)

[7] Remarks prepared for delivery by George Romney at the Detroit Economic Club luncheon, Cobo Hall, Detroit; March 27, 1972. Folder FG–24 HUD, White House Central Files, Subject Files, Confidential Files, 1969–74. Box 20, Richard M. Nixon Presidential Materials Staff, National Archives at College Park, MD.

[8] On the National Urban Coalition and postriot urban policy, see National Urban Coalition, "Statement on the Abandonment and Need for Revitalization of Our Cities," January 25, 1972. Confidential Subject Files, 1966–1973. Record Group: Office of the Mayor (John V. Lindsay). Subgroup: Office of the Secretary, Box 20, Folder 244, Municipal Archives of the City of New York.

During 1972, the FHA stopped making loans to areas with heavy foreclosure activity, and HUD instead proposed a "greenlining" program that would target FHA loans to moderate-income neighborhoods with less perceived risk, where local government would commit to expand public services. There were some in the Nixon White House who worried that this redlining/greenlining strategy might violate the 1968 Fair Housing Act.[9] But the Nixon administration was criticizing the HUD programs of the late 1960s as a failure, and the national HUD moratorium of 1973–74 (simultaneous with the Watergate investigation) stopped all subsidized FHA lending. After the Housing and Community Development Act of 1974, the redlining/greenlining strategy was reformulated as "triage" planning through the new Community Development Block Grant Program, coupled with the national expansion of a repackaged Neighborhood Housing Services (NHS) program. This strategy would target federal block grants and conventional private loans to moderate-income neighborhoods identified by the five-stage life cycle outlined by George Romney in 1972 and later presented in more detail (with explicit reference to real estate theories of "racial infiltration") by RERC (Ahlbrandt and Brophy 1975a; Downs 1975; RERC 1975).

Table 1 compares the five-stage neighborhood life-cycle process developed by HUD in the 1970s with other conceptualizations of the life cycle. RERC's life-cycle model could be distinguished in three important ways: First, it did not include renewal or revitalization as a built-in stage of the neighborhood life cycle. RERC designed a method, much like the neighborhood risk-rating system used by the HOLC and later the FHA, to classify different areas for public policy purposes, in this case to determine Community Development Block Grant spending decisions, which then would be expected to affect the trend of decline. Second, RERC revived the use of real estate "infiltration" theories that defined racial change and lower household incomes as predictors of decline at each stage of the life-cycle process. Third, RERC distinguished abandonment as the final stage of decline.

The unchecked forces of redlining and metropolitan decentralization, combined with the urban rioting of the 1960s, the dismantling of the federal War on Poverty programs, and the federal housing scandals after 1968, left many cities overwhelmed by abandoned buildings. There were an estimated 100,000 abandoned housing units in New York by 1970, 36,000 in Philadelphia by 1973, 15,000 in Detroit by 1974, 10,000 in St. Louis by 1971, and 5,000 in Baltimore by 1970 (Public Technology 1977). The Housing and Community Development

[9] Memo: Ed Harper to John Ehrlichman. Meeting with Undersecretary Van Dusen, April 5, 1972. Folder FG–24 HUD, White House Central Files, Subject Files, Confidential Files, 1969–74. Box 20, Richard M. Nixon Presidential Materials Staff, National Archives at College Park, MD.

Act of 1974 accommodated and accelerated this trend of urban abandonment, reallocating federal urban renewal moneys to benefit the suburbs and the Sunbelt, transforming these programs into a Community Development Block Grant to states and localities and repealing requirements that cities contribute local matching funds (Hays 1995).

Anthony Downs viewed housing abandonment as the macroeconomic outcome of new suburban housing construction that exceeded demand (new household formation) in metropolitan areas and triggered an inefficient filtering or trickle-down process whereby some households in poor urban areas moved into adjacent low- and moderate-income neighborhoods, leaving behind vacant and abandoned dilapidated housing in the urban core (1973a, 1973b, 1981, 1990).

Public choice theory also informed a 1974 RERC advisory report for HUD, *Future National Policies Concerning Urban Redevelopment*, which recommended that "federal regulations imposed upon community development revenue sharing should be reduced to as small a set as possible" and "there should be no requirement that any specific percentage of all funds be spent in blighted or low-income neighborhoods" (RERC 1974a, in U.S. House of Representatives Committee on Banking, Finance, and Urban Affairs 1979, 102). The five-stage life cycle could then be used to implement triage planning strategies that targeted federal funds to neighborhoods where there was a moderate decline in property values but not yet a clear downward trend of population loss, housing abandonment, and increasing poverty (Downs 1975). Triage was a controversial decision method used in the military to prioritize actions during an emergency. This was a departure from the Model Cities and War on Poverty strategy of spending federal money in the poorest areas and was part of a trend described as "cutback planning" by Herbert Gans (1975).[10]

Anthony Downs used the planning methods of the RAND Corporation, the powerful think tank of the military-industrial complex, formed after World War II by a leading defense contractor. This private research company was an important consultant to the Pentagon and gained increasing influence over domestic policy during the 1950s and 1960s (Dickson 1971; Smith 1966). RAND sponsored Downs's 1967 book *Inside Bureaucracy* and inspired domestic planning think tanks such as Resources for the Future and the Urban Institute.[11] In Chicago, RAND developed population projection

[10] Also see Kolodny 1983; Marcuse, Medoff, and Pereira 1982; and Weiler 1983.

[11] Downs was described as the "Herman Kahn of the cities" (Kopkind 1971, 241). (Kahn was a prominent and controversial RAND consultant.) On the RAND Corporation and planning theory, see Friedmann 1987.

techniques that RERC used with racial block maps and realtor interviews to forecast neighborhood racial transition (RERC 1968).[12] In New York, RAND established a center to conduct contract research for the administration of Mayor John Lindsay, who was vice chairman of the Kerner Commission.[13]

Downs was also influenced by the decision scientist Charles Lindblom, who quoted RAND economist Charles Hitch at length in an important 1959 article (Lindblom 1959). Hitch later became president of Resources for the Future, which established a Committee on Urban Economics headed by Harvey Perloff (the New Town Intown planner) and sponsored research by urban economist Edgar M. Hoover (who developed the five-stage neighborhood-change model for the Regional Plan Association of New York) and Detroit triage planner Wilbur Thompson (Hoch 1969). William Gorham then became president of the Urban Institute, which was formed in 1968. He had previously worked at RAND and then at the Pentagon, where he became an expert in the planning-programming-budgeting system of Robert McNamara (Dickson 1971). Anthony Downs was later named a life trustee of the Urban Institute.

Charles Lindblom argued that planners should use political strategy to package combinations of policies that would be formulated on the basis of past experience. The most effective and desirable strategy would be the package that achieved the widest agreement among those involved in the policy making process (Lindblom 1959). RAND pioneered the use of systems analysis and "scenario writing" in strategic planning; these were used by Downs in the Kerner Commission report to outline and forecast alternative futures for American cities. Downs repackaged the neighborhood life-cycle theory as part of a larger urban policy and economic growth agenda that included the goals of racial and economic integration, urban redevelopment and suburban residential construction, affordable housing, and balanced development patterns in metropolitan areas.

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[12] This report was prepared for the Chicago Board of Education, which hired RERC in 1967 to update the demographic analysis in its 1963 community renewal program study and predict population and enrollment trends in public and parochial schools. The president of the school board was Frank Whiston, a real estate executive and past president of the National Association of Building Owners and Managers, then headquartered in Chicago. Whiston was named school board president in 1964, after civil rights groups in Chicago organized a boycott of the public schools in October 1963 to protest school conditions in African-American neighborhoods.

[13] "PPBS Development Project: Guidance to the Joint Teams," Subject Files, 1966–1973. Record Group: Office of the Mayor (John V. Lindsay). Box 85, Folder 1607, Municipal Archives of the City of New York. Michael B. Teitz, "Housing," in the New York City RAND Institute, *First Annual Report* (October 1970), Confidential Subject Files, 1966–1973. Record Group: Office of the Mayor (John V. Lindsay). Subject Group: Office of the Secretary, Box 16, Folder 187, Municipal Archives of the City of New York.

The RERC life-cycle model accommodated "racial infiltration" theories by encouraging planners to downgrade neighborhoods where African Americans lived. This might defuse the long-standing opposition of the real estate industry to fair housing by assuring realtors and investors that open housing would not require them to change their perceptions of investment risk in lower-income and African-American urban neighborhoods. It also might accomplish goals of social control after the urban riots by depopulating low-income African-American neighborhoods that were viewed as areas of potential rioting.[14] This would protect the value of real estate investments in the central business districts. According to Senator Fred Harris of the Kerner Commission, Lyndon Johnson and J. Edgar Hoover believed that the riots were caused by a "conspiracy" of outside agitators.[15] National civil rights leaders such as Whitney Young and the Reverend Martin Luther King Jr. criticized federal policies and predicted summer rioting in 1966 and 1967, and King named potential riot cities ("Young Says Ingredients Remain" 1966; "King Warns Cities" 1967). The Poor People's Campaign of 1967–68 (organized by King), the Black Panther Party, Students for a Democratic Society, and other groups organized the urban poor. Hoover considered this a threat to national security (Scott 1996).[16]

Anthony Downs's 1973 book *Opening Up the Suburbs* argued for the "deliberate dispersal" (129) of the urban poor and the resettlement of central cities by the middle class, a strategy embraced in the Housing and Community Development Act of 1974. The legislative language called for "the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income." According to Downs, this would serve the interests of the American middle class by "protecting against possible violence and urban disruption" (1973b, 176). Organized labor would benefit from the jobs

[14] On urban planning as social control, see Marcuse 1986 and Yiftachel 1998.

[15] The comments of Fred Harris are from "The Kerner Report: Twenty Years Later" (sound recording, the Johnson Foundation, 1988). In July 1967, President Johnson asked the Kerner Commission to determine "if there has been planning or organization in any of the riots" (U.S. National Advisory Commission on Civil Disorders 1968, 201). The California study commission on the 1965 riot in the Watts section of Los Angeles was chaired by businessman John McCone, previously the director of the Central Intelligence Agency.

[16] According to Downs, he and others on a secret presidential task force on cities (formed after the Watts riot) also made predictions about urban rioting in a report completed in early 1967 but suppressed by Lyndon Johnson (1998). RERC was highly regarded by the Chicago Crime Commission (which worked closely with the FBI) and the RAND Corporation (which advised the Pentagon). In the Kerner Commission report, Downs did not endorse the large-scale community-based rebuilding program proposed by Young of the National Urban League and the Chicago Freedom Movement of 1966 (led by the Reverend Martin Luther King Jr.).

created by redevelopment and housing construction, while metropolitan decentralization would increase the demand for services such as trucking. As a product of the Chicago real estate industry, Downs brought industry theories of race and neighborhood change into the mainstream of national urban policy. But his simultaneous advocacy of integration might appeal to moderate civil rights leaders, and his support for expanded federal housing assistance programs might win favor from the broad spectrum of housing groups that were constituencies of HUD (Downs 1973a). In particular, his four-pronged strategy of increasing federally assisted housing production, using the life-cycle theory to warn of investment risk in central-city neighborhoods, targeting most new construction to the suburbs, and then achieving racial and economic integration on a small scale to ensure the cultural dominance of middle-class whites, might appeal to real estate trade groups that had opposed fair housing.

Local planners could use the neighborhood life-cycle theory with triage planning to assemble land for redevelopment, an increasingly difficult task because of high land costs (an ongoing problem), federal funding cuts and municipal fiscal crises, and organized opposition to slum clearance. Instead of defining areas as already blighted and then acquiring land through eminent domain, redevelopment planners could use the life-cycle theory with triage to depress land values and accelerate the abandonment of privately owned property in neighborhoods marked for decline. Tax-delinquent property could be acquired by local government through tax foreclosure and then transferred to new owners for reuse (Olson and Lachman 1976). Triage would reduce or eliminate financial compensation to neighborhood property owners and avoid the expense and controversy of relocating households and small businesses. Elected officials could then target resources to the moderate-income neighborhoods that delivered political support. Planned abandonment would shift the conflict over urban renewal from the high-profile issues of government spending and direct displacement to the difficult to define (or prove) concept of redlining.

In New York, housing planner Roger Starr endorsed triage as part of a “planned shrinkage” strategy that he believed would make the delivery of city services more cost-efficient (1976). Starr was quoted by George Sternlieb and James Hughes of Rutgers University in a 1977 congressional paper that warned planners of “the permanence of decay”:

> Every city has had a permanent slum, and I would simply withdraw all housing construction efforts from certain areas.…We can demarcate these areas and concentrate housing investments in other areas where they can accomplish something for the people who are living there. (U.S. House of Representatives Committee on Banking, Finance, and Urban Affairs 1977, 17)

The 1968 HUD-funded community renewal plan for New York grouped neighborhoods into nine categories, and when the Community Preservation Corporation was organized during the New York fiscal crisis and HUD moratorium in the early 1970s by the largest real estate lenders in the city, the multifamily housing finance consortium targeted two neighborhoods that were defined by the community renewal plan as areas of moderate rehabilitation and conservation (Metzger 1999b; New York City Planning Commission 1968). Washington Heights (mostly white and Hispanic) and Crown Heights (working-class Jewish and Caribbean) were adjacent to poorer black areas (Harlem in upper Manhattan and Bedford-Stuyvesant in central Brooklyn) with more severe problems of housing decay. Abandoned property in these poorer areas and the South Bronx would later be redeveloped for new moderate-income housing construction through the New York City Partnership, organized by corporate leaders after the fiscal crisis (Orlebeke 1997).

The cities of Cleveland, Milwaukee, and Rochester used RERC's neighborhood-classification system to establish priorities and make community development funding decisions (Cannon, Lachman, and Bernhard 1977; Liebschutz 1983; Olson and Lachman 1976).[17] Researchers at the Center for Urban Policy Research at Rutgers University urged other cities to do the same (Hughes and Bleakley 1975; Sternlieb and Burchell 1973). The Rutgers researchers featured the RERC life-cycle model in a HUD working paper that informed the Housing and Community Development Act of 1974 (HUD 1974; Sternlieb and Hughes 1976). In 1977, the RERC life-cycle theory was prominently featured in a HUD information bulletin distributed by a national task force of urban planners (Public Technology 1977).[18] The influence of this theory was evident that year in congressional amendments that permitted localities to use Community Development Block Grants "to induce higher-income persons to remain in, or return to, the community" (legislative language cited in Keating and LeGates 1978, 709).

In 1978, the U.S. General Accounting Office (GAO) (advised by Rutgers planner George Sternlieb) reported to Congress that the

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[17] Downs viewed Cleveland as the prototype for large American cities, and the 1982 Brookings Institution book that he coauthored, *Urban Decline and the Future of American Cities*, used the Cleveland metropolitan area in an economic model to test the local impact of six different policy packages (Bradbury, Downs, and Small 1981, 1982). Cleveland city planning director Norman Krumholz championed "equity planning" (described as "opportunity planning" by Downs) to accomplish socioeconomic redistribution (Krumholz and Forester 1990).

[18] This report was sponsored by the Community and Economic Development Task Force of the Urban Consortium, a coalition of urban governments representing the 28 largest cities, as well as six urban counties.

process of housing abandonment could be explained by the five-stage life-cycle model of decline as it was outlined in this federal report, starting with "healthy neighborhoods [that] contain a homogenous population in terms of race, income, education, and jobs," progressing downward with "accelerating ethnic change" and the influx of low-income households to abandoned neighborhoods (GAO 1978, 4). Meanwhile, studies by RAND advised HUD that population movement was the most important determinant of metropolitan and regional economic development (HUD 1980; U.S. President's Commission for a National Agenda for the Eighties 1980; Vaughan 1977).

The neighborhood life-cycle theory has important weaknesses and flaws that are inherent in the concept and its origins in the real estate industry. Its racial bias assumes that an increasing number of African Americans of any income group launches a process of decline and decay, unless white middle-class residents choose to move back to the area. The locational advantages of specific neighborhoods, as well as any unique physical planning, structural, or historical attributes, are precluded by demographic shifts. Overlooked in this typology is the role of industrial abandonment in neighborhood change. The urban historian John Bauman assessed the planning studies of the federal community renewal program in Philadelphia after the 1964 riot in North Philadelphia:

> Rather than tie housing decay to the erosion of the city's industrial base, the community renewal data attributed the housing crisis to the disproportionately large share of black, low-income families who were segregated and heavily reliant on health and welfare services. (Bauman 1987, 189)

Stephanie Greenberg argued that in Philadelphia, racial change typically occurred in areas adjacent to abandoned factory sites that formerly employed working-class ethnic immigrants who lived nearby (1981). After manufacturing plants closed or relocated, these neighborhoods were depopulated and then became areas of African-American settlement, accommodating this expanding minority population that faced racial discrimination in housing and labor markets.

In the life-cycle theory (as restated by Anthony Downs), the stages of decline consist of a series of described events or indicators (known as "descriptors") in response to population shifts. The emphasis on individual household decisions as the most important variable in neighborhood change leads to the central position of the white middle class, which enjoys a wider range of choices because of its comparative advantages in wealth, access, and political power. African Americans who possessed the resources to leave areas marked for decline were rarely able to recover their investments because of falling property values caused by redlining and abandonment. Those who left triaged areas often moved into nearby neighborhoods. Housing market discrimination might then inflate housing values in these neighborhoods, where homeownership was further undermined by unethical realtors aided by the FHA's "fast foreclosure" policies. These outer-ring city neighborhoods or inner-ring suburbs were sometimes resegregated, and real estate appraisal theories might combine with housing market discrimination to repeat the downward cycle, except where there was "managed integration" (Keating 1994).

Those who remained in triaged neighborhoods were mostly the poorest, who lived in public housing or dilapidated privately owned buildings. Loans were unavailable, major employers had closed shop, schools and services were inadequate, and crime and violence often flourished (Wilson 1987, 1996). Physical abandonment created an environment conducive to the trafficking and consumption of narcotics, criminal violence, illegal dumping, arson for profit, and high-cost financial services in redlined areas (Taylor and Harrell 1996). By precipitating the abandonment and demolition of low-income housing, triage would increase the ranks of the urban homeless (Marcuse, Medoff, and Pereira 1982).

Marxist economists have recognized the importance of capital investment flows in determining spatial patterns of neighborhood gentrification and the resulting displacement of low-income renters (Harvey 1983; Smith and Williams 1986). But this analysis is limited by its failure to consider the changing political economy of urban renewal, the way triage planning was used to landbank property in areas of manufacturing abandonment, and the postriot dialectic of HUD. Postriot U.S. urban policy can be understood as a dialectical process of social change, whereby a conflicting thesis and antithesis are resolved through a new synthesis (Castells 1983). The urban riots of the 1960s erupted in redlined areas. The redlining thesis was eventually acknowledged by the FHA and then the Douglas Commission report of 1968, which stated:

> There was a tacit agreement among all groups—lending institutions, fire insurance companies, and FHA—to block off certain areas of cities within "red lines," and not to loan or insure within them. (U.S. National Commission on Urban Problems 1969, 101)

The changing policies of the FHA after the riots were the antithesis to this thesis, financing homeowners in redlined low-income and African-American neighborhoods. The subsequent foreclosure and abandonment of FHA homes in the post-1968 housing scandals might then be used as evidence to support the neighborhood life-cycle theory of decline. This abandonment accelerated the depopulation of inner-city neighborhoods, which might also accomplish goals of social control after the riots. The cities with the most single-family housing abandonment (such as Detroit, Chicago, Philadelphia, Cleveland, and

Brooklyn) were also areas of African-American radical organizing and police brutality after the riots.[19]

During the HUD moratorium, Senators Philip Hart of Michigan and Alan Cranston of California sponsored legislation to create a new federal agency similar to the HOLC, which had refinanced urban homeowners facing eviction during the Depression. This $385 million five-year program would be separate from HUD and managed by an "aggressive, idealistic" staff ("Hart Seeks Housing" 1974). Senator Walter Mondale of Minnesota joined Hart and Cranston in sponsoring this proposal, known as the Abandonment Disaster Demonstration Relief Act (U.S. Senate Committee on Banking, Housing, and Urban Affairs 1975). During the 1960s, Hart and then Mondale were key sponsors of federal fair housing legislation. But during Watergate, Democratic senators were excluded from White House negotiations to change HUD programs.[20]

Triage planning then became the synthesis of the redlining thesis and postriot FHA antithesis. The federal Community Development Block Grant Program and NHS were designed to geographically target resources to moderate-income urban neighborhoods identified by the five-stage HUD life-cycle model, which conformed to real estate appraisal theories used by financial institutions and investors, as well as to the changing political and fiscal environment for urban policy (Ahlbrandt and Brophy 1975a; Downs 1975; GAO 1978; Hughes and Bleakley 1975; Public Technology 1977; RERC 1975; Sternlieb and Hughes 1976). In a 1973 study prepared for national real estate trade associations, Anthony Downs endorsed the expansion of subsidized private housing production through the FHA to accomplish deliberate dispersal (1973a). But the Nixon administration excluded Downs from HUD housing research activities during Watergate, and the federal housing legislation of 1974 instead emphasized housing allowances through the Section 8 rental subsidy program.[21]

The challenge to redlining

> What for so long has been considered a natural phenomenon—change in neighborhoods, deteriorating cities—are not natural. It's

[19] This federal housing foreclosure and abandonment was most extreme in Detroit. See Metzger 1999a.

[20] Memo: Dana G. Mead to President Nixon. Congressional reactions to housing options, September 11, 1973. Folder FG–24 HUD, White House Central Files, Subject Files, Confidential Files, 1969–74. Box 20, Richard M. Nixon Presidential Materials Staff, National Archives at College Park, MD.

[21] Michael Moskow, interview by author, tape recording, June 3, 1994, Evanston, IL.

> a plan and somebody's making a lot of money out of changing neighborhoods (Gale Cincotta, Chicago neighborhood leader, quoted in "1,600 from Ethnic Groups" 1972, 29).

After World War II, cities such as Chicago and Pittsburgh became important laboratories for urban renewal (Metzger 1999b). Mayors David Lawrence in Pittsburgh and Richard J. Daley in Chicago forged partnerships with corporate leaders and successfully lobbied for federal housing and urban renewal programs. But as chairman of the President's Council on Equal Opportunity in Housing (appointed by John F. Kennedy in 1963), Lawrence was unable to expand this mandate to include private housing financed by conventional mortgage lenders.

In Pittsburgh, Citizens Against Slum Housing was organized by Dorothy Richardson and other low-income African-American women in the Central North Side to protest urban renewal. The Pittsburgh Regional Planning Association (chaired by powerful banker Richard King Mellon) had proposed demolishing all of the existing structures on the entire Central North Side (including a section later designated as a national historic district) for "replanning" as a neighborhood unit (Pittsburgh Regional Planning Association and Pittsburgh City Planning Commission 1954). The Central North Side was also excluded from the areas designated for assistance by the housing affiliate of Mellon's Allegheny Conference on Community Development (ACTION-Housing 1963).

ACTION-Housing—then advised by Edgar M. Hoover, who developed the five-stage model of neighborhood change for the Regional Plan Association of New York in 1959 (see table 1)—instead targeted the Perry Hilltop neighborhood, a white middle-income area adjacent to the Central North Side. This plan was based on the neighborhood conservation approach used in the Hyde Park–Kenwood neighborhood near the University of Chicago. Richardson and Citizens Against Slum Housing argued that the Central North Side was redlined. Jane Jacobs had described this as "credit blacklisting" in her book, *The Death and Life of Great American Cities* (1961). After the 1968 riot in Pittsburgh, Richardson worked with city officials, ACTION-Housing, local foundations, and S&Ls to create NHS, a resident-controlled, coordinated program that would preserve and rehabilitate the Central North Side through high-risk home repair lending, code enforcement, public improvements, conventional home mortgage lending, and low-income homeownership.

In Chicago, where RERC's 1963 citywide community renewal plan was suppressed by Mayor Daley, the Coordinating Council of Community Organizations boycotted the public schools and in 1966 joined the Reverend Martin Luther King Jr. to create the Chicago Freedom

Movement, which organized poor African-American areas as a "Union to End Slums." Their immediate demands were that realtors support open housing and that financial institutions make

> public statements of a non-discriminatory mortgage policy so that loans will be available to any qualified borrower without regard to the racial composition of the area, or the age of the area, a policy that takes into account years of discrimination against Negro borrowers. ("Program of the Chicago Freedom Movement," in Garrow 1989, 104–05)

The Chicago Freedom Movement also called for special private loan funds to convert installment contracts (used to finance housing in racially changing neighborhoods) into conventional homeowner mortgages, federal fair housing legislation, and an expanded federal supervisory role to encourage nondiscriminatory lending by federally insured banks and savings institutions. A plan that advocated large-scale community-based development, metropolitan planning to expand economic and housing opportunity, and equalized city-suburban school spending was adopted. This would result in an "open and just city" ("Program of the Chicago Freedom Movement," in Garrow 1989, 102). Local religious leaders then brokered a compromise agreement with Mayor Daley and business executives, who made modest pledges to oppose discrimination in housing and mortgage lending (Anderson and Pickering 1986).

Community groups in Chicago continued to organize against blockbusting, "panic peddling," redlining, property abandonment, and urban renewal (Metzger 1999b). These organizations began to form coalitions and organized a national housing conference in 1972. This gathering in Chicago included groups from 38 states and 75 cities that were organizing against federal housing scandals, financial redlining, and triage planning. Also that year, South Shore National Bank announced its intention to relocate out of Chicago's South Side. It was one of several community banks headquartered in outlying neighborhood commercial districts. South Shore was a middle-class lakefront community south of the University of Chicago and close to the steel district. During the 1960s, the area changed from mostly white to over two-thirds African American.

A group of investors (led by the Pritzker family of Chicago) applied for regulatory approval to buy and relocate this bank in their new Illinois Center redevelopment project in the downtown Loop. Despite the higher-than-average incomes of new African-American residents, RERC concluded that South Shore was no longer a profitable market and could not generate a sufficient base of deposits (1972). The bank and other financial institutions were redlining South Shore, and a local community group organized to oppose the regulatory application. Their protest was upheld by federal banking regulators, and the bank was sold to a group of social investors in 1973. The new owners transformed the institution and made it the catalyst for the physical and economic revitalization of the area. Indeed, it became a model for similar initiatives across the country (Metzger 1999b; Taub 1994).

But branch closings and bank relocations in Chicago and other cities were accelerating after the urban riots. By 1977, six wards on Chicago's South and West Sides (with a population of approximately 400,000, more than 10 percent of the city total) had no bank or S&L offices ("Financial Facilities" 1977). The federal Home Mortgage Disclosure Act and Community Reinvestment Act (CRA) were designed to generate competition among financial institutions to make loans and operate branches in redlined areas, which were historically underserved because of discriminatory practices and perceptions of risk that were industrywide and reduced competition (Metzger 1999b). As Kenneth McLean, staff director of the Senate Banking Committee, explained:

> The problem is that if all banks come to the same conclusion, that we better not make a loan in this neighborhood because it's headed for decline, then their collective actions become a self-fulfilling prophecy....We were looking for a way to break that vicious spiral....We wanted to convince bankers that these neighborhoods are viable. One way of demonstrating that the neighborhood is viable is to have an aggressive, activist community organization that believes in the future of the neighborhood, and is willing to put its own neck on the line and fight for credit.[22]

Community groups affiliated with ACORN (Association of Community Organizations for Reform Now) and National People's Action (headed by Gale Cincotta), and community development corporations in cities across the country have used these federal laws to rebuild their neighborhoods (Metzger 1999b; Squires 1992). Bank lending in redlined areas is coupled with subsidies from both government and financial institutions, as well as other investment support. Financial regulation, instead of the five-stage neighborhood life cycle, creates the context for community-based planning.[23] Financial investments are based more on social needs criteria than on the unregulated free market of public choice theory. As Peter Marcuse observed:

> The lending institution itself is faced with bearing some of the costs of property decline in the depressed area. The lender may merely have to make somewhat riskier loans, or loans with somewhat lower return relative to risk, than it would be able to make elsewhere. (1979, 553)

[22] Kenneth McLean, interview by author, tape recording, April 14, 1994, Washington, DC.

[23] On neighborhood lending agreements negotiated through the CRA, see Schwartz 1998 and Weiss and Metzger 1988.

These community-based development strategies, when combined with location incentives, metropolitan planning, and aggressive enforcement of fair housing, fair lending, and equal employment opportunity laws, can level the playing field of economic integration among African-American, white, Hispanic, and mixed urban and suburban neighborhoods (Harrison and Weiss 1998; Sclar and Hook 1993).

Competing theories

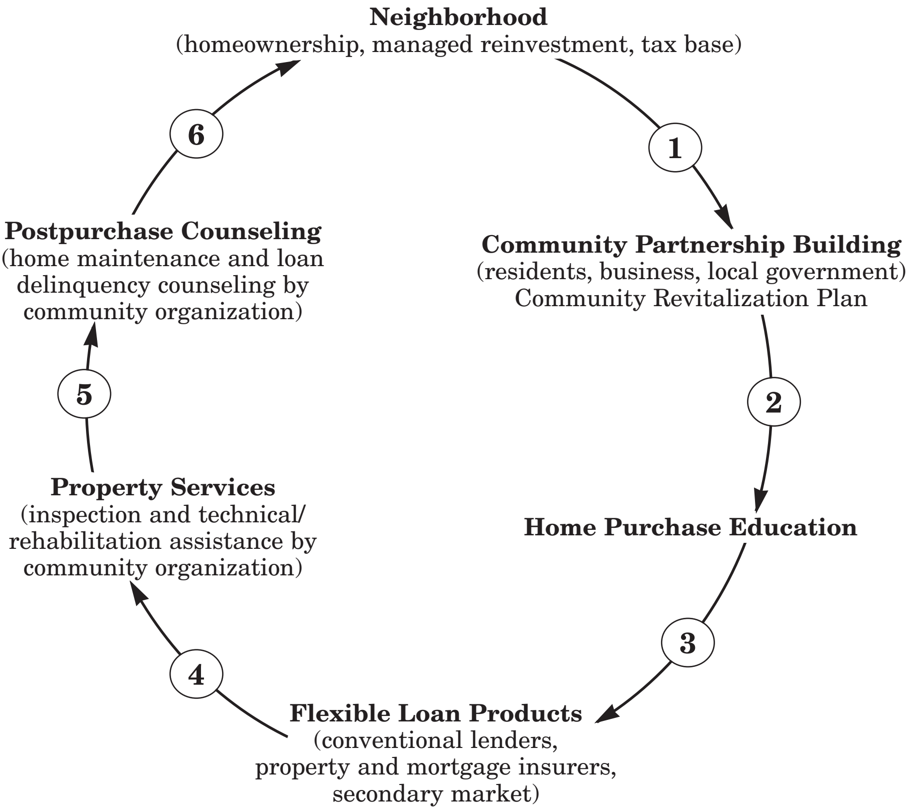
The NHS concept that originated on the Central North Side of Pittsburgh was replicated in other cities by federal financial regulators, the Ford Foundation, and HUD, after it was repackaged by RERC as a viable strategy to reverse the five-stage neighborhood life cycle of decline (see table 1). This model was prominently featured in a report of the Mortgage Bankers Association of America that touted the NHS strategy. This report (prepared by a task force that included First Federal Savings and Loan of Chicago, an important RERC client) stated, "The allegation that neighborhood deterioration is caused by lenders…is a simplistic and erroneous conclusion" (Mortgage Bankers Association of America Redlining Task Force 1976, 3). The HUD evaluation of the Pittsburgh program used the life-cycle theory (Ahlbrandt and Brophy 1975a, 1975b), and one of the authors (writing in *The Mortgage Banker*) warned against "credit allocation legislation" such as the CRA:

> There is virtually no evidence that financial institutions begin the disinvestment process.…Regardless of the availability of private financing, decline occurs as a consequence of normal market forces. (Ahlbrandt 1976)

As a voluntary, collaborative program grounded in the life-cycle theory, NHS gained legitimacy with the financial and real estate industries and won bipartisan congressional support for national replication (Metzger 1999b).

In Chicago, NHS agreed to target lower-income African-American neighborhoods and develop programs for rental housing rehabilitation and HUD-owned abandoned homes, instead of just conventional homeownership and home repair. After Congress strengthened the Home Mortgage Disclosure Act and the CRA (through the S&L bailout of 1989), the national NHS network (now known as NeighborWorks®) developed the "full-cycle" lending model to explain its lower-income homeownership strategy. This ongoing neighborhood lending cycle begins with community organization and planning, followed by consumer education, flexible mortgage financing, and community-based building rehabilitation services and home maintenance counseling (see figure 1).

Figure 1. **The NeighborWorks® Full-Cycle Lending Model**



Source: Neighborhood Reinvestment Corporation 1995.

But triage planning gained renewed interest after the rioting in southern California and New York during 1991–92 and with the bipartisan drive to balance the federal budget.[24] Anthony Downs argued that "stagnant and declining neighborhoods…are mainly black" (1994, 70) and that Hispanic and Asian immigrants were key to revitalizing urban neighborhoods:

> If the federal government wants to focus resources on inner-city improvements…this does not mean spending funds only on the

[24] The racial infiltration aspects of the neighborhood life-cycle theory were challenged by the Justice Department in a civil rights lawsuit against the real estate appraisal industry in 1976–77. This lawsuit led to changes in the industry textbook, but a special section on redlining that was added to the revised edition of this textbook was later dropped from subsequent revisions (American Institute of Real Estate Appraisers 1978; Appraisal Institute 1996). See *United States of America v. the American Institute of Real Estate Appraisers of the National Association of Realtors, the Society of Real Estate Appraisers, the United States League of Savings Associations, and the Mortgage Bankers Association of America*, 442 F. Supp. 1072 (N. D. Ill., 1977).

> most destitute neighborhoods. More likely to succeed would be targeting the aid on inner-city neighborhoods one or two steps up from the bottom of the socioeconomic ladder. (1994, 103)[25]

Although this strategy was similar to what Downs had recommended to HUD during the 1970s, he attributed it to Franklin Raines, then the vice chairman of Fannie Mae, the HUD-regulated government-sponsored enterprise that (with Freddie Mac) became the leading source of funds for housing finance after the collapse of the S&L industry (Downs 1994). Downs's ideas about race and neighborhoods were reprinted by Fannie Mae chairman James Johnson in his book on homeownership (1996). At the time, Johnson was also chairman of the Brookings Institution, where Downs had been a research fellow since the late 1970s. From 1996 to 1998, Franklin Raines was director of the Office of Management and Budget, where he helped balance the federal budget, and then succeeded Johnson at Fannie Mae.

Housing economist George Galster joined the Urban Institute, where he studied housing discrimination. Like Downs, Galster had concluded that financial disinvestment was a response to neighborhood housing decline and subsequent population succession to low-income households:

> These changes can signal financial institutions that it is now prudent to reduce the flows of mortgage and home improvement loans into the area. (1987, 25)

The American Bankers Association commissioned Galster to write a white paper on the problem of lending discrimination. His advice was grounded in public choice theory:

> Even if adverse impact [of redlining] were found, a bank may successfully defend itself by showing that the policy having the impact meets a legitimate business interest and that there is no reasonable alternative for meeting this interest that avoids the adverse impact. (Galster 1991, 25)

David Rusk, formerly the mayor of Albuquerque, New Mexico, and the son of former Secretary of State Dean Rusk, became a prominent adviser to local planners and foundations, arguing that "rebuilding inner cities from within has not happened" and that "ghettos can only become bigger ghettos" (1993, 44, 47).[26] The postriot empowerment zone program (authorized in the 1993 federal tax legislation) designated only six urban zones, with a population equal to 12 percent of

[25] Also see Rybczynski 1995 and Temkin and Rohe 1996.

[26] On David Rusk and the community development grantmaking of the Pittsburgh foundations, see Metzger 1998.

the total population living in "extreme poverty" census tracts (tracts with a poverty rate of at least 40 percent) in the 100 largest central cities (GAO 1996; Kasarda 1993). By 1990, the annual appropriations of federal Community Development Block Grants had dropped by 57 percent (in constant 1987 dollars) from 1978, despite the increase in urban poverty during this period (Urban Institute 1995).[27]

The ownership of homes, rental property, and other real estate is the principal source of individual wealth in the United States and is used to pursue social mobility and middle-class status (Edel, Sclar, and Luria 1984; Gans 1982; Jackson 1985; Weiss 1987).[28] The neighborhood life-cycle theory and triage planning have undermined this system by accommodating the discriminatory consequences of racial infiltration and the trends of urban housing abandonment. This has accelerated disinvestment in low-income and minority neighborhoods, exacerbating disparities in wealth, the wasteful consumption and desertion of urban land, and outward suburban sprawl.

Financial regulation is not enough to resolve these problems, but the location and investment decisions of financial institutions are important determinants of whether urban planning succeeds or fails. The regulation of this investment through the CRA and other financial controls, catalyzed by community-based development initiative, can support a more efficient and equitable pattern of metropolitan development that reduces the fiscal costs and socioeconomic disparities created by sprawl by directing investment to areas where services and infrastructure already exist.

This is in contrast to public choice theory, which argues that urban disinvestment is the inevitable outcome of market forces and population movements. Federal regulators concerned about credit allocation have been reluctant to delay or deny bank regulatory applications under the CRA. Despite this, the law has leveraged financial investment into lower-income and minority urban neighborhoods that otherwise might not have received it. Community development corporations have packaged this financing with other subsidies to rebuild their neighborhoods (Metzger 1999b).

[27] In 1989, three-fourths of these funds were spent in "poverty" census tracts where at least 20 percent of the population lived below the poverty line. The number of these tracts within the 100 largest central cities grew by 63 percent between 1970 and 1990, and the population of these tracts grew by 2.3 million (Kasarda 1993).

[28] Home equity, rental property, and other real estate comprise over one-half of the net worth of all American households and even more for African-American and Hispanic households (Eller 1994; Eller and Fraser 1995). But according to one estimate, lending discrimination and lower appreciation in home values will cost the current generation of African-American households $82 billion in lost wealth (Oliver and Shapiro 1995).

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