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The Twenty First Century Homestead Act

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A Homestead Act for the 21st Century

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Executive Summary

The goal of the 21st century Homestead Act is to counteract the longstanding legacy of racially discriminatory housing policies by revitalizing distressed communities through public investment. The basic structure of the program is a wholesale transfer of land to residents who meet certain criteria. Accompanied by a holistic plan at the city level to revitalize the community through public investments in infrastructure and jobs, this proposal would benefit people who live in select small and medium-sized cities that are experiencing high vacancies.

Introduction

In order to close the racial wealth gap, many efforts are required, including reparations, progressive tax policies, school reform, and the curbing of corporate power. This proposal targets one element of racial inequality—the legacy of redlining and housing segregation. Discriminatory laws passed by federal, state, and local officials mandated segregation and exclusion that contributed to an intergenerational gap in wealth, opportunity, and general well-being.[1] Housing is a powerful lever that affects other aspects of inequality: For most Americans, their home is their largest asset, and for those who do not own a home, it is their greatest expense.[2] The goal of the 21st century Homestead Act is to use public funds to stimulate wealth accrual for residents of LMI communities. Yet the program is specifically designed with a focus on community wealth first; therefore, it attempts to avoid the exclusionary gentrification patterns caused by previous revitalization plans.

Housing is a powerful lever that affects other aspects of inequality: For most Americans, their home is their largest asset, and for those who do not own a home, it is their greatest expense.

Starting with the New Deal's mortgage programs, the federal government invested in white home ownership. That initial investment has compounded exponentially over four generations and continues to affect racial disparities in home values. In turn, this affected the quality of public schools and infrastructure, access to credit, and lifetime health and earnings.[3] The New Deal's unique mixed economy credit programs had a dual legacy: While public sector economic planning led to unprecedented wealth creation and economic equality in white communities, these robust credit markets created a racial caste system that cemented economic inequality for Americans of color for generations.

The proposal described in this paper is both inspired by the New Deal credit programs and also intends to remedy their racially discriminatory legacy. In other words, it intends to use the tools of public financing to remedy a history of race discrimination in public subsidies. Just as segregation and poverty can lock in and perpetuate disadvantage, so too can revitalization lock in a virtuous cycle of wealth, community building, and public infrastructure. The unique success of the federal government's New-Deal-era mortgage programs was that once Congress put the credit mechanisms in place and made the initial federal investments, the system was able to operate successfully and without further intervention. Over time, the federal government programs that created robust and profitable mortgage markets—as well as the racial wealth gap—became invisible.

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Redlined communities have yet to recover from their purposeful exclusion from mortgage credit programs: 74 percent of communities redlined in the 1930s are low-income communities today, and 64 percent are still minority neighborhoods. Other formerly redlined areas are now gentrified neighborhoods with their former residents displaced to surrounding areas. The only federal programs designed to revitalize these distressed communities have been anti-poverty efforts like Section 8 housing, or they have been tax credit incentives for corporations or developers to invest in the area. Aside for a smattering of small, local initiatives, none of these recent or historic housing programs have been geared toward building wealth for the individuals and communities themselves, nor have they involved robust public investment. Direct capital infusion is the most efficient means to build wealth, and only the federal government has the ability—i.e., the power—to provide these much-needed funds. As historic capital investments in long-term credit arrangements like New Deal Era credit funds have demonstrated, it is possible to invest capital in such a way as to build wealth for individuals and communities without harm to the public. Just as federal housing policies and capital investment contributed to the racial wealth gap, both can help diminish it.[4]

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THE GREAT DIVERGENCE OF INEQUALITY IN AMERICA'S REGIONS AND CITIES

The federal government must recognize that rising inequality has a distinct geographical dimension. Due to a convergence of factors, such as the decline of manufacturing work, globalization, the economic dominance of the finance and tech sectors, and the legacy of discriminatory housing, a large wealth and opportunity gap has emerged between US regions and cities. Today where a child is born determines her future life span, salary, future poverty, career opportunity, likelihood of ending up in prison, and her general life outcomes more than nearly any other indicator, including her level of education.[5] Children growing up poor are 5 times more likely to die of accidents and much more likely to have serious chronic illnesses. Growing up in poverty exposes children to toxic chemicals and repeated stress and trauma that can make permanent changes to a person's brain structure and function. In some cities, a child born to a family earning a median income will have access to a good school and opportunities for economic mobility while a child born to that same family in a different city will not.[6] A typical man in Fairfax, Virginia, will live 15 years longer than a typical man in Baltimore, Maryland—just 60 miles away. These gaps increase every year, and they threaten to devastate once-thriving American cities.[7]

Though wealth and opportunity are still a matter of geography, the zones of opportunity have shifted. Formerly redlined neighborhoods are now gentrifying inner cities.[8] As wealthy residents have moved back into a few super-cities, former residents, who earn less income and hold less wealth, have been priced out due to skyrocketing rents and pushed out to neighboring suburbs.[9] Due to a historic lack of homeownership, the windfall gains of gentrification have not gone to the formerly redlined populations occupying these neighborhoods. Investors benefit from the tailwinds of gentrification, buying up lower priced properties, redeveloping, and selling to wealthy professionals. Public investments in revitalization, such as new parks, large-scale housing grants, public transportation, and improved schools, also provide public benefits to the new residents of the gentrified areas. As these urban spaces have become prohibitively expensive, their former residents have been pushed out of these cities toward neighboring suburbs. Remedies to tackle the racial wealth gap must ensure that as neighborhoods improve due to increased investments, it is the historically marginalized residents that retain the benefits, which include increased employment, public services, and school performance.

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HYPER-VACANCIES IN DISTRESSED CITIES: A UNIQUE OPPORTUNITY

While homes in certain cities are priced only for the extremely wealthy and exclude everyone else, other cities are in distress due to an overwhelming number of abandoned homes.[10] Over 12 million homes are unoccupied in declining cities across the country.[11] This state is known as "hyper-vacancy," which means that the housing market no longer functions and that vacancies in these cities "may continue to grow indefinitely."[12] Once a city tips into decline, properties in the area lose value and residents flee or are submerged in underwater mortgages and failing businesses. Blighted homes lead to higher crime, environmental hazards, business flight, and diminished public infrastructure. These communities have also lost their social fabric. Many commentators have lamented the steady decline of community cohesion and civic participation over the last several decades. The goal of this proposal is to create the conditions necessary for grassroots community growth. Increased home ownership, renewed infrastructure, public spaces like parks and libraries, and well-funded schools can work together to increase the likelihood of creating thriving communities.

As the federal government considers ways to remedy the large gap in American cities in the future, it should consider a practice with precedent. Starting in the 1860s, the federal government gave 160-acre tracts of land to homesteaders to occupy and develop the land. Over 270 million acres of land, about 10 percent of the total land of the country, was given to about 1.5 million white families to own and to occupy.[13] It must be said that the land was already being used by Native Americans. Moreover, homesteaders and the generations that followed overgrazed the land, exhausted the soil with monocultures, dammed rivers, and otherwise changed a natural landscape in unsustainable ways. Thus, the Homestead Act, like the New Deal, had a dual legacy. On the one hand, it transformed the American landscape and building intergenerational wealth for the white families who were able to benefit from the subsidies. On the other hand, it was exploitative, extractive, and caused a century or more of economic depression and suffering for those whom were displaced or excluded. We must learn from the mistakes of the past and remedy these historic tragedies.

Today, several American cities have an outsized number of abandoned and vacant properties. For example, Gary, Indiana, has 25,000 vacant homes, covering over 50 percent of available homes; Philadelphia, Pennsylvania, has 40,000 vacant lots; and Detroit, Michigan, has more than 120,000 homes and 21 square miles of vacant land in 2017.[14] Detroit's abandoned properties, if combined, would be the size of Manhattan, New York.[15] Certain cities including Baltimore, Maryland, Dayton, Ohio, St. Louis, Missouri, Trenton, New Jersey, and Buffalo, New York, have entered a state of hyper-vacancy. Homes in these distressed communities sell at a fraction of their former values—usually under $10,000. These houses are often purchased by outside investors attempting to flip the property quickly or milk it as an absentee landlord. These conditions hasten the decline of distressed areas—real estate markets are broken, outside investors are buying and holding the scraps, and the social and economic fabric of the community falls apart.

These conditions, however, also present an opportunity for the federal government. The large numbers of abandoned homes in failing cities can be viewed as a unique investment. While low property values harm residents, they also make it much less costly to buy with public funds in order to transform a city. When local markets are broken, federal programs are uniquely capable of providing a jolt. There are some cities that already beyond the point of recovery due to an irrevocable change in market conditions such as the loss of a major industry that built and sustained the economy of the area. However, other distressed cities can be revived through targeted public investments aimed to jumpstart local markets. These are the cities that will be the targets of this proposal. Many families have remained rooted in these cities amidst distressed market conditions. Some stay due to personal or family ties; others because of limited options. Without intervention, current trends could lead to even further geographic inequalities. On the one hand, housing costs in super-cities like San Francisco and New York will continue to be exclusionary for all but the very wealthy; the rest of the country will contain pockets of poverty in declining cities with broken housing markets and lack of public investment and opportunities. Those who cannot afford or choose not to live in super-cities will continue to struggle to find work, housing, and affordable quality education. The purpose of this proposal is to infuse public funds in a few select small and midsized cities to counteract this trend. This proposal's principle aim is to remedy the effects of historic redlining, but the proposal will not be race-specific. Funds will be available to any distressed community regardless of its racial composition, provided the city has a credible revitalization proposal.

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This proposal is inspired by a history of innovative federal policy and financing retooled to meet a modern problem. In order to revitalize a whole city, the program must be holistic and not piecemeal. Providing a land grant without ensuring that the community is thriving will just saddle the grantees with undesirable property. A new ecosystem must be created, and only large-scale public investment can bring that about.

I. Overview of Proposal: A Homestead Act for the 21st Century

The 21st Century Homestead Program uses property grants to build wealth in communities that have been excluded from past and present public investment. It would also be a means of counteracting the great divergence in American cities, the lack of affordable quality housing, and the problem of hyper-vacancy. In order to spur revitalization, an initial investment of government capital will be used to buy, transfer, and restore a large cluster of abandoned properties in a city. Like the New Deal era credit programs, such as the Government Sponsored Enterprise (GSE) mortgage programs, the Federal Housing Act (FHA) or the Export-Import Bank of the US, the public investment will be a revolving credit fund that will become self-sustaining on the secondary markets after an initial public investment. The aim of this program is to jumpstart a housing revival by financing the improvement of public infrastructure and creating the conditions for continued market investments and growth.

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The program will be federally funded and administered locally by a designated homestead office for the purpose of community revitalization. A special purpose public trust will purchase a critical mass of abandoned properties in a target city. The homes will be given through an absolute grant to qualified residents with a condition, enforced through a forgivable lien, to hold and improve the property for 10 years. A homestead grant for property improvements will accompany the property grant. In the spirit of the original Homestead acts and the New Deal mortgage programs, this program will require a large initial grant and investment from the federal government that will yield returns for the federal government, communities, and individuals. Cities will compete for these grants based on the feasibility of their revitalization plan, which will include investments for employment, infrastructure, and public resources.

II. How It Works

CHOOSING PILOT CITIES

Cities will place bids through the Department of Housing and Urban Development (HUD) for comprehensive financing provided by a newly established Homestead Fund. A HUD taskforce of community leaders, academics, and policy experts will select the pilot cities. Each city's bid will include details, such as a holistic revitalization plan (including a plan for employment, public schools, higher education, and/or technical training), a financial plan for long-term sustainability, and the amount of grant requested. As a part of its proposal, each city will offer their vacant properties held in land banks and propose the purchase or takings of a sufficient number of other blighted and abandoned properties. Finally, each city's proposal must outline a plan to purchase and transfer the properties to "modern homesteaders." If abandoned properties have been purchased by outside investors not currently occupying them, the city may use its eminent domain powers to take the properties for public use and provide the purchasers just compensation. Once the HUD taskforce selects the pilot cities, the cities will deliver the majority of abandoned and blighted homes into a land bank, which is a public trust created to acquire, maintain, and repurpose abandoned or foreclosed properties.[16] A special purpose trust will purchase the properties held in the land bank with a grant from the Homestead Fund. The public trust will be administered by HUD and will have a limited charter.

The HUD taskforce will promote regional diversity in choosing homestead cities and consider factors, such as available employment, new employment to be created, public spaces, the amount of land and property available, the magnitude of affordable housing needs, the prospect of revitalization, community participation in the plan, and the environmental effects of revitalization. Special consideration will be paid to green revitalization plans relying on wind, solar, or other renewable and sustainable sources of energy.

ELIGIBILITY

An eligible grantee will be a resident who has less than the area median income (AMI) over the last five years *and* is 1) a current resident of the pilot area who has lived in the area for a period of at least three years during the previous decade; or 2) a current resident of any historically redlined or racially segregated area or a resident of such an area for at least three years over the previous decade. Homesteaders will be granted the land as a fee simple grant, which is an absolute ownership of the land, with a 10-year forgivable lien to promote the rehabilitation of the home and its use as a primary residence. Notably, the entire value of the home's appreciation is enjoyed by the homeowner. This is unlike a community land trust program, which can be effective for assuring affordable housing but cannot lead to wealth creation because it prohibits transfer of ownership.

PROPERTY RENOVATION

The Homestead Fund will also pay for home improvements. The city or municipality will receive all necessary funds to be used for property improvements and public infrastructure projects. Cities requesting improvement funds must demonstrate that they will be using the most up-to-date green technology; that they will be using local contractors and minority owned businesses for the renovations; that they will accompany improvements with public facilities like parks, libraries, schools, and recreation facilities; and that they will be using the most cost-effective means of improvement. The city will designate a homestead contractor's office to be operated as a public agency in the city or municipality to oversee development. All contracts will be reviewed by the homestead task force. The Office of Inspector General (OIG) at HUD will review construction costs and inspect construction periodically and report any issues to the Government Accountability Office (GAO). Additional funds will be subject to clean inspection reports. Cities can also elect to simply transfer the properties to qualified residents without improvements. In this situation, the Homestead Fund will provide homesteaders with a guaranteed home improvement loan to cover all initial improvements and maintenance for 10 years. Back taxes owed on properties will also be paid by the Homestead Fund.

Along with the land grant, homesteaders will receive a low-cost mortgage loan payable to the Homestead Fund in order to replenish the fund and keep it self-sustaining. The loan will be structured as a 10-to-30-year self-amortizing loan of up to $100,000. The interest rate on the loan will not to exceed the Treasury Department's one-month lending rate. An additional loan assistance fund will be created to aid eligible borrowers who may experience hardship with the loan payments. The monthly rate of the home improvement loan will be comparable to or less than what most LMI individuals pay for rent, including in section 8 housing. The standard Treasury lending rate of 2.4 percent for a $100,000 home improvement loan with a 30-year amortization is $389. A single worker with a gross income of $20,000 per year has an after-tax monthly income of a little more than $1,600 a month.[17] A housing payment is deemed affordable if it is less than 30 percent of one's salary, which is the case in this scenario. The national average market rent for a one-bedroom home is $931 per month and $1,149 for a two-bedroom home, according to a 2018 study.[18] Many Americans do not make enough income to pay rent. Section 8 housing is not available for most people who need it; and for those who are able to use it, the rental payments are a significant portion of their salary that are used to acquire adequate housing but not to build wealth. The 21st Century Homestead Act loan payments are much less than what most low-wage Americans must pay in rent.[19], Further, the loan's flexibility enables homesteaders to use the funds for home improvements and ongoing maintenance as needed.

LIEN

Revitalization cannot be done overnight, nor can homesteaders be expected to occupy their homes indefinitely. The property transfer will thus come with a 10-year lien of $100,000 that will be attached to each property. The homesteader can occupy, sell, improve, or rent the home as they please conditioned on a 10-year primary residency. In order to prevent heavy turnover and to give enough time for revitalization to occur, homesteaders promise to occupy the property for 10 years. Should they choose to leave, they can do so by paying a portion of their profits back to the Homestead Fund. If the borrower occupies the home for 10 years, the lien is extinguished. The lien will reduce each year by 10 percent of the total loan and will expire after 10 years. If there are no profits from resale, the homesteader will not have to pay into the fund. If the grantee chooses to sell the property before 10 years, they must resell to the city for cost plus improvements. After 10 years, the grantee owns the property free and clear of any obligations and is free to sell the property at current market price to any purchaser.

JOBS PROGRAMS

An additional aim of this program is to help build infrastructure that can support residents' inevitable transition from lost manufacturing jobs to new 21st century jobs in technology, service, health care, care work, or education.[20] Among the cities experiencing hyper-vacancies, some are also suffering from job displacement due to the loss of large manufacturing or factory work. Each homestead city will have a plan to work with local organizations and entrepreneurs to build facilities, infrastructure, and/or modern technology to spur job creation.

The Homestead Fund, in coordination with the city, will fund infrastructure, facilities, or a jobs program that suits the profile of the region. There is no formula for a jobs program that can be applied to each city uniformly. While one city might propose high-speed broadband, another public transport, and another a tech school, these programs should be built and managed through local or state partnerships. There are numerous examples across the country of large and small public projects that have yielded immense public benefits, including local colleges, research facilities, parks, and various public-financed urban renewal projects.[21] These public developments have led to further private investment, business revival, and increased city tax revenues. Some examples of successful city-wide infrastructure programs include Chattanooga, Tennessee's broadband program,[22] the Georgia Ports Authority, a state-owned infrastructure agency that supports 439,220 full- and part-time jobs across Georgia.[23]

This revival of America's cities must not rely on a new factory, plant, or even large office park. The jobs of the future must be carbon neutral, need not be place-based, and should be focused on human work (as opposed to robot work). In addition to being responsive to hyperlocal needs, utilities like hospitals, addiction recovery, disability centers, childcare, tech-based infrastructure, and a variety of other sectors can be supported by public funds. These jobs have a multiplier effect that have the potential to change the entire ecosystem of a city. This proposal will help to ease the transition to the future of work. A green factory, a hospital, or a large tech company brings with it a whole ecosystem of jobs, homes, parks, and community, which will become more important as modern work allows people to live where they would like instead of being attached to a physical office building.

FINANCING MECHANISM

This proposal can be financed through a combination of resources from Congress, the Fed, and the Treasury. Ideally, these funds can work together to lower the risk and costs of the program, but in the event that any of these institutions refuses to participate, the others can also fully fund the 21st Century Homestead Act. The most direct, efficient, and sustainable plan for funding would include an initial appropriation by Congress, followed by a sale to investors of homestead bonds guaranteed by the Treasury, and the purchase of the bonds as needed by the Fed. This program is intended to be an investment that will return the principle capital investment for home improvement loans and jobs financing so that the fund can continue to invest in other sectors. Congress will provide initial funding for the homestead trust to purchase the properties. The trust will subsequently issue investment shares through a securitized bond, which will be structured as a fixed rate, and variable terms of between five to 20 years open to all investors. The bond will be guaranteed by the Treasury and will maintain a AAA rating. Treasury guarantees lower the risk of investment, thereby attracting more private capital like pension funds and low-risk mutual funds. The fund will be structured to be self-sustaining much like the Export-Import Bank and other New Deal credit programs, which currently operate based on their own revenues and have abetted a burgeoning private market. To the extent that there is a shortfall of capital to finance the entire homestead effort, the Fed will purchase and hold these bonds until they can be sold.

To purchase these bonds, the Fed can use a variety of methods modeled after existing stimulus programs. Over the past decade, the Fed has used its monetary policy toolkit and authority to boost economic activity in a variety of creative ways, including some similar to this proposal. Two recent examples of Federal Reserve stimulus programs are the Term Asset-Backed Securities Loan Facility (TALF),[24] which involved the purchase of $50 billion in securities and quantitative easing (QE), the Fed's purchase of public debt totaling around $4.5 trillion.[25] Another lesser known example of monetary policy is interest on excess reserves (IOER) through which the Fed pays billions of dollars in interest to banks on their reserves.[26] In just one year, the Fed paid about $7 billion in interest to commercial banks, including more than $100 million to Goldman Sachs and more than $900 million to JPMorgan Chase."[27] These Fed programs have succeeded in their goals of economic recovery. However, while average real estate prices and capital markets have recovered, inequality has increased. One reason for the uneven recovery is that the Fed's interventions have gone through banks as an intermediary. In order to spur development, lending, and investment, the Fed should bypass the middlemen and fund the development directly by buying homestead trust bonds. Once these cities have recovered over the next decade or two, the Fed can sell these bonds to market investors.

The 21st Century Homestead Act is a total revitalization program that will not rely on tax incentives or corporate decision-making but rather on targeted investment from the federal government.

The major difference between this program and traditional government programs—like previous attempts at urban revitalization such as the Clinton-era Empowerment Zones and the Trump-era Opportunity Zones—is that each has worked through tax incentives to employers or property developers respectively to employ or build in these areas. These programs had limited reach because they benefited from limited funds and relied on private investments. Thus, each has had limited reach and success. The 21st Century Homestead Act is a total revitalization program that will not rely on tax incentives or corporate decision-making but rather on targeted investment from the federal government.

III. Benefits of a 21st Century Homestead Act

ADDRESSING THE RACIAL WEALTH GAP BY HELPING TO BUILD GENERATIONAL WEALTH

The most significant benefit of a 21st Century Homestead Act is its potential to build wealth for individual families who have been historically excluded from historic wealth-building programs such as the original Homestead Act and New Deal era credit programs. Due to the compounding effects of historic housing discrimination, average wealth for white families is seven times higher than average wealth for Black families.[28] Median white wealth is 12 times higher than median Black wealth—a gap that does not decrease with educational attainment and has not abated over time.[29] In fact, Black families lost over 50 percent of their wealth during the 2008 financial crisis due to foreclosures and the compounding effects of segregation and the yawning racial wealth gap.[30]

Over 60 percent of Americans own their homes, and for most Americans, especially the middle class, their home is their largest asset and their greatest source of security. In order to build wealth, home values must rise. Despite occasional asset bubbles, average home values have continued their steady rise in America.[31] However, historically segregated Black neighborhoods have not enjoyed increased home values over time. In fact, a 2018 Brookings Institute report measured the gap and found that on average owner-occupied homes in majority Black neighborhoods were undervalued by $48,000 per home compared to those in neighborhoods with few Black residents.[32] Earlier studies have found that when a neighborhood crosses a "tipping point" of around 10 percent Black residents, white residents flee and the property values suffer steep declines.[33] Because assets in Black neighborhoods do not increase in value at the same rate as they do in non-Black neighborhoods, the gaps in home-ownership and home values are two reasons why the wealth gap has not closed over time. These gaps in value have led many scholars to question homeownership as a means of closing the racial wealth gap.[34]

One reason that properties in Black neighborhoods do not increase in value is because whites, despite their stated preference to live in diverse neighborhoods, actually live in mostly white neighborhoods—and market prices reflect this.[35] This reality cannot be directly targeted through public policy.

Another reason for undervaluation is that segregated Black spaces have always had fewer resources and assets than white spaces. The racial wealth gap is where historic injustice breeds present suffering. Policies that excluded Blacks from acquiring equity-building assets continue to self-perpetuate. The undervaluation gap contributes to gentrification patterns, hyper-vacancies, and the lack of community wealth and resources. Those trends reciprocally lead to the devaluation of homes in Black neighborhoods and the racial wealth gap. Black neighborhoods need wealth-building assets in order to create a wealth-building cycle. The goal of this proposal is to disrupt racially exclusive patterns by intentionally and strategically investing in distressed neighborhoods in a way that leads to an increase in property values and to break the connection between a neighborhoods value and the race of its residents.

The racial wealth gap is where historic injustice breeds present suffering.

Property values and general neighborhood decline or uplift all have a reciprocal and correlative nature. The major benefit of a housing program that is not dispersed but focused on a single location is that it can target neighborhood conditions that are interrelated. Home values rise and fall depending on surrounding home values and on general neighborhood conditions. Neighborhood conditions exist in an ecosystem of other conditions—the sum of its parts (schools, parks, roads, services, restaurants) are greater than the whole. Not all of the parts need to be built for a neighborhood to tip into thriving and healthy—just enough to tip the balance. The reverse is also true, of course, as the closing of one factory can quickly lead to a death of a city and a massive flight of capital. With a large public investment, conditions can improve suddenly and dramatically. Once a downward cycle is reversed, the attendant problems of blight eradicate, and the benefits are multiplied. Further, home prices follow a positive feedback loop such that the more people that own homes in a community, the more home values rise across the board, ultimately creating more wealth.[36] Higher wealth then leads to a bigger tax base, which leads to better schools, which in turn lead to higher incomes and the virtuous cycles that build community and shared prosperity.

This type of investment could change the trajectories of historically redlined communities. Studies that have measured the impact of additional low-income housing on neighborhoods show that the potential gains of such a program could be exponential.

Even modest housing development through the low-income housing tax credit (LIHTC) program was found to "helps revitalize low income neighborhoods, driving up house prices 6.5 percent, lowering crime rates, and attracting a more racially and income diverse population." Further, "affordable housing development in a low-income area improves welfare by $23,000 per local homeowner and $6500 per local renter, with aggregate welfare benefits to society of $115 million."[37] In the mid-1990s, the HUD offered a randomly selected subset of families living in high-poverty housing projects subsidized housing vouchers to move to lower-poverty neighborhoods. The long-term effects of the program, called "Moving to Opportunity," have been rigorously studied. Researchers have found stunning disparities between families that moved and the control group that stayed. Families who moved to the lower-poverty areas showed greatly improved mental health, physical health, safety, and general well-being according to several long-term studies.[38]

More recent research shows even more profound differences for children who moved when they were young. A joint study conducted by researchers from Harvard and the National Bureau of Economic Research (NBER) showed that children who moved to a lower-poverty neighborhood had significantly improved college attendance rates and lifelong earnings. These children also lived in better neighborhoods themselves as adults and were less likely to become single parents. The children from randomly selected families had substantially higher incomes—over 30 percent higher—than the control group of children who stayed in their high-poverty neighborhood. The findings show that by changing one's surrounding environment from high poverty to low poverty, intergenerational poverty can be disrupted within one generation.[39] Today, due to the great divergence of cities, it is more sustainable and less costly to try to change a high-poverty area to a low-poverty area rather than hope to move all families out of high poverty and into high-priced, low-poverty areas.

The findings show that by changing one's surrounding environment from high poverty to low poverty, intergenerational poverty can be disrupted within one generation.

Revival programs such as the Clinton administration's Empowerment Zones (EZ) program have had a mixed legacy with some modest success. A study compared EZ areas to similar areas not designated for the program and found that the EZ program "substantially improved local labor and housing market conditions in EZ neighborhoods." However, these programs did not focus on building equity for the residents of these communities, most of whom did not own their homes. Thus, as these neighborhoods improved, the cost of housing increased and displacement has occurred. Because many EZ residents were renting homes, the price increase was an unanticipated negative effect. This is another reason the homestead program must rely on home ownership as the wealth-creating impetus as opposed to just job creation.[40]

Public investment is the most direct and efficient means of addressing inequality.[41] Instead of giving tax credits to developers or corporations to invest in distressed communities, the 21st Century Homestead Act would invest in order to create a thriving community of taxpayers. In this manner, the capital gains would go to the individual communities and home owners as opposed to typical investors.

Public investment is the most direct and efficient means of addressing inequality.

REVITALIZING AMERICAN CITIES BY CREATING JOBS

Many distressed communities, though not all, have been in decline due to a loss of a factory or plant that was a large employer. Instead of making unrealistic promises that these jobs will return, we must account for the changing nature of employment and create the environment, tools, and facilities that will employ the future of American labor. The goal of the 21st Century Homestead Act is to directly use public funds to spur revitalization in cities by providing the services and infrastructure necessary for a thriving community and jobs sector. Certain jobs have multiplier effects and a large source of employment can spur the revitalization of a city. Thus, new 21st century jobs in these cities will not only benefit newly employed individuals, but they will have a positive cascading effect on communities. For each new job in the tech sector, five jobs are created in the non-tradable jobs. In Silicon Valley, Apple employs 12,000 people, but those 12,000 employees create 60,000 more jobs. Economists Enrico Morretti and Per Thulin call these multiplier effects "human capital externalities."[42] Just as a General Electric factory built the town of Flint, Michigan, a hospital, public college, or tech center can rebuild it. Colleges especially have large spillover effects in spurring high-technology, innovative activity, both directly through and indirectly apart from the college and university context.[43]

It is naïve for cities suffering from hyper-vacancies and poverty to wait for redemption by private companies. Once the core infrastructure is built, more employers will be attracted to the revitalized towns.

Cities are complex organisms and their health and wealth are interrelated and correlated, but they're not linear.[44] When cities are desirable places to live, more jobs are created, home values increase, schools and public services improve, infrastructure investments rise, and more families are drawn to the city—bringing with them more assets and more jobs. This is why cities are willing to lure a company like Amazon to relocate even by sacrificing much-needed public funds. Yet when choosing where to relocate, companies prefer areas with infrastructure, an educated labor force, and desirable housing and education for their employees. It is naïve for cities suffering from hyper-vacancies and poverty to wait for redemption by private companies. Once the core infrastructure is built, more employers will be attracted to the revitalized towns.

IV. Costs, Risks, and Objections

THE FEDERAL RESERVE'S PARTICIPATION IN THIS PROGRAM

The Federal Reserve financing plan is unconventional and will likely face political opposition. While there is legal authority for using Fed monetary policy in this way, the nature of this plan will be unprecedented. The Fed has used its monetary policy mandate to stimulate the economy in unprecedented ways in the past, but those actions occurred in the aftermath of a typical economic recession. While the target cities are suffering more dire recession conditions than were present during the financial crisis, the cause of the slump was not an acute economic emergency but a slow and debilitating decline. Policymakers will need to reframe the status quo of these cities as an emergency worth federal action from America's central bank. These actions will likely face political backlash, but Fed spending is not subject to congressional appropriations; therefore, these investments can be shielded from the partisanship, pork-barrel spending, and industry lobbying that stunts congressional action.

> **Policymakers will need to reframe the status quo of these cities as an emergency worth federal action from America's central bank.**

Legally, these actions can be justified given the Fed's original legislation. If necessary, however, new authorizing legislation can be written. Within its dual mandate as specified by Congress and authorized under the law, the Fed's participation is justified. The Board of Governors of the Federal Reserve System and the Federal Open Market Committee are authorized to "maintain *long[-]run growth* of the monetary and credit aggregates commensurate with the economy's long[-]run potential to *increase production*, so as to promote effectively the goals of *maximum employment*, stable prices[,] and moderate long-term interest rates." The Fed is also authorized, according to section 14(b) of the Federal Reserve Act to buy and sell bonds issued by municipalities, states, or other instruments backed by the Treasury.[45] Moreover, Section 13(3) allows the Fed to lend at a discount in an emergency.[46] This is the authority that the Fed relied on for its extraordinary bailout provisions starting in 2008 during the Great Recession.

Through longer-term lending at a fixed rate, the Fed can tailor credit facilities to support 21st Century Homestead Act programs, according to each community's residential and economic development needs. Due in part to the Fed's credibility and market stabilizing presence, establishing community development credit facilities could result in benefits that greatly exceed the actual volume of loans extended by the federal government to new homeowners.[47]

The Fed could use its 13(3) powers to extend emergency loans to municipalities facing acute financial pressure. When a city, state, or municipality is in a state of crisis, it does not get the same treatment from the Fed as failing banks did the in the late 2000s—and even non-banks like AIG. "It is hard to see why the failure of AIG or Bear Stearns was not acceptable, but the failure of financially constrained governments to deliver basic public services to millions of Americans is," states Mike Konczal.[48] The Fed has the tools to rescue American cities that are in crisis; it can also spur economic revitalization by buying public debt issued by homestead cities. As one economist remarked, "Fed money is not exactly 'free,' but it has this great virtue for government: [I]t doesn't cost the taxpayers anything. Fed expenditures do not show up in the federal budget, nor do they add anything to the national debt."[49] The investments necessary to fund the 21st Century Homestead Act are a fraction of what the Fed has already invested in the banking system. Moreover, the investment is structured to be profitable or at least self-sustaining over the long-run.

> **"It is hard to see why the failure of AIG or Bear Stearns was not acceptable, but the failure of financially constrained governments to deliver basic public services to millions of Americans is," states Mike Konczal.**

CREDIT RISK

With any credit program, there is a risk of default and a loss of principle, especially in the event of a financial crisis. The mechanisms for dealing with risk are either insurance or guarantees, and the federal government has used both to create efficient and stable markets. The purpose of the federal guarantees of the homestead bonds is to diminish credit risks. These Treasury guarantees will be modeled after the FHA mortgage guarantees. Federal guarantees are so ubiquitous that they have become practically invisible, but these guarantees support the majority of mortgage and student loan debt. During the 2008 financial crisis, the FHA guaranteed 4 million mortgages. These guarantees did not present a net expense for the government. The Congressional Budget Office (CBO) has measured the costs of all of the government's credit programs and found that, overall, these programs, though costly, have led to net gains in the budget and not losses. Without these guarantees, mortgage interest rates would have doubled, new housing construction would have fallen by more than 60 percent, and GDP would have declined by an additional 2 percent. A 2016 study found that the total effect of federal credit programs is $400 billion in additional stimulus.[50]

TARGETING THE PROGRAM TO INTENDED BENEFICIARIES

If this program is to be a remedy to inequality, it must be structured such that banks and private equity firms holding large portfolios of foreclosed properties do not reap the benefits of revival. There is a risk that the windfall of property appreciation will not benefit the intended beneficiaries but rather outside investors. In some of these regions, outside investors have purchased many abandoned homes with the intent of holding them until their prices increase, at which point they can be resold for a profit. In hypervacant cities, large private equity firms have purcahsed abandoned properties in bulk sight unseen. A Federal Reserve (the Fed) study found that large investors were especially prevalent in distressed areas with over 60 percent of "damaged property" and over 20 percent of short sales are being purchased by large investors, especially after the financial crisis.[51] The properties must be transferred to intended beneficiaries in a manner that does not violate the rights of the private investors, but also in a way that discourages passive capital investment from large investors. This is no easy task because the law does not look kindly on government intervention into the realm of private property ownership. The federal government should make these investors whole by buying back the homes through a takings process and providing just compensation for these investors. The Supreme Court takings jurisprudence would support such a procedure. Another means to protect against outside investors gaming the system, properties owned and held by outside investors can be purchased through the city in a reverse bid process whereby the city offers to pay market rate for the first 40 percent of properties held by outside investors and then tax the rest of the properties at a higher value.

Once HUD chooses pilot cities and before the program is functional, there is a risk that outside investors will purchase the abandoned properties for the purpose of “flipping” them or gambling on an upswing in prices. The income caps will likely prevent other investors from gaming the system on the new acquisition side, but administrators must always be wary of potential fraud. To discourage a rigged system, either the eligibility requirements must start immediately or in the interim between selection; and in the beginning of the program, the city can use its taxing powers to disincentivize these purchases. For example, any newly acquired properties can be taxed at 10 or 20 times the normal rate of taxation.

PAST AND POTENTIAL FAILURES

A few programs on the local level have attempted to sell blighted properties. The homes for a dollar program in Baltimore was one such experience that offered vacant homes to residents willing to move in and improve the home. The homes were “sold” for a dollar, and the residents then took out loans for improvements. While some residents were able to buy and improve homes, the program failed due to inadequate financing. The fatal flaw was that there was no mechanism for financing the improvement projects, and banks were unwilling to lend on properties with no value.[52] These properties were appraised too low to warrant even a home improvement loan. Appraisals, loans, and other tools of the traditional market are insufficient to alter the trajectory of the target cities. Banks are constrained in their ability to lend and they cannot coordinate a revival—public credit support is necessary. Moreover, these past programs were just housing transfers without a holistic plan to provide jobs and other public facilities in order to create the conditions for increased market values. These past failures should be studies to prevent their repetition, but they should not be a roadblock for further revitalization efforts. Baltimore is a city that can be revived with targeted investment. Its location, population density, and high number of abandoned properties, and its legacy of discrimination make it a prime target for a program like the homestead act.

FAILURE TO REVITALIZE

Another risk inherent in such a program is that a failed revitalization will saddle the grantees with unprofitable property. If the city is not revitalized, the homestead grant can harm an already vulnerable population with mortgages in undesirable neighborhoods. The program must be wary of this risk first and foremost because half-measures can easily lead to such an outcome. The way to avoid such a fate is to carefully select cities that can be revived and to ensure that the revival includes a holistic plan that included jobs, infrastructure, and other public investments. Still, there is a risk that despite the best efforts of the program, a revival does not occur. In this case, the proposal must ensure that property owners are not saddled with the property. As outlined above, the loan payments are structured to be less than what most LMI tenants pay in rent so there is a net housing benefit even if the equity of the home does not increase. Moreover, if the home sells without a profit, the homesteader has not lost any equity because she can walk away from the loan and the property free and clear.

Moreover, there are many stakeholders who benefit from revitalization and who will have an incentive to commit to neighborhood betterment. The Homestead Fund is administered by the city, the land is owned by residents, and outside investors buy shares in the bond. This incentive structure differs from the subprime lenders who offered mortgages, but who had no future stakes in the neighborhood. It also differs from Enterprise Zones or Opportunity Zones programs where investors do have an incentive to better the distressed communities, but they gain the entire equity upside in land development.

Successful revival requires long-term investment on several fronts—housing, infrastructure, jobs, and transportation. This is why a federal financing mechanism is essential to jumpstart distressed housing markets. The New Deal was uniquely successful in spurring housing values and production because it was a federally financed program that reduced the risks and costs of private lending. Indeed, the New Deal and the Homestead Acts created communities out of empty space. The New Deal created the white American suburbs and the Homestead Acts created communities of settlers in uncultivated land. They created wealth-generating properties through public grants. This proposal is not so ambitious—these distressed target cities already have the basic elements of a thriving community, but local markets have stalled. These cities just need a jumpstart of public funds so that thriving market conditions can be created. Only the federal government has the ability to make long-term investments by using Treasury funds, appropriations, and monetary policy and pave the way for the programs to be embraced and perpetuated by the market.

Conclusion

The purpose of the 21st Century Homestead Act is to counteract the legacy of racially discriminatory housing policies by building wealth in distressed communities. If successful, a natural market revival in formerly redlined communities will lead to community wealth building. While the proposal aims to create an upswing in local markets, it does not rely on private investors to revitalize these communities. Public funds will be directly targeted to jumpstart distressed local housing and job markets. The purpose of this proposal is not to present a comprehensive plan of action, but to offer a brief overview of a public investment with the potential to reduce inequalities and to foster thriving communities.

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43 "A more direct approach is the better one. If we want to provide a good education to millions of future Americans, let's just do it. If you want something very big done very quickly, and there's no profit in it, you can't beat good old Big Government." Ryan Cooper, *The Case for Federal University*, THE WEEK (Nov. 27, 2017), https://theweek.com/articles/737746/case-federal-universities; Noah Smith, *Rural America's Revival Begins on Campus*, BLOOMBERG OPINION (Nov. 16, 2018, 9:00 AM) https://www.bloomberg.com/opinion/articles/2018-11-16/rural-america-s-revival-begins-on-campus; Luc Anselin et al., *Local Government Spillovers between University Research and High Technology Innovations*, 42 J. URBAN ECON. 422-448 (1997) https://www.sciencedirect.com/science/article/pii/S0094119097920325?via%3Dihub.

44 RICHARD FLORIDA, THE NEW URBAN CRISIS: HOW OUR CITIES ARE INCREASING INEQUALITY, DEEPENING SEGREGATION, AND FAILING THE MIDDLE CLASS AND WHAT WE CAN DO ABOUT IT (2017); GEOFFREY WEST, SCALE: THE UNIVERSAL LAWS OF GROWTH, INNOVATION, SUSTAINABILITY, AND THE PACE OF LIFE IN ORGANISMS, CITIES, ECONOMIES, AND COMPANIES (2017); ENRICO MORETTI, THE NEW GEOGRAPHY OF JOBS (2013).

45 12 U.S.C. § 355 (1980) ("Every Federal Reserve bank shall have power: (1) To buy and sell, at home or abroad, bonds and notes of the United States, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of no exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. Notwithstanding any other provision of this chapter, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market. (2) To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.").

46 12 U.S.C. § 343 (2010) (…"3. Discounts for individuals, partnerships, and corporations: In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any participant in any program or facility with broad-based eligibility, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank: Provided, That before discounting any such note, draft, or bill of exchange, the Federal reserve bank shall obtain evidence that such participant in any program or facility with broad-based eligibility is unable to secure adequate credit accommodations from other banking institutions. All such discounts for any participant in any program or facility with broad-based eligibility shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.").

47 One obstacle is that the Fed is currently only authorized to purchase state and local government debt with a maturity date of less than six months. This law should be changed to enable the Fed to purchase long term debt as part of a land trust owned by the Fed, state, and city governments collectively. See MIKE KONZCAL & J.W. MASON, THE ROOSEVELT INSTITUTE, A NEW DIRECTION FOR THE FEDERAL RESERVE: EXPANDING THE MONETARY POLICY TOOLKIT (2017).

48 KONZCAL & MASON, supra note 49.

49 William Greider, *"Unusual and Exigent": How the Fed Can Jump-Start the Real Economy*, LEVY ECON. INST. (2013), http://www.levyinstitute.org/publications/unusual-and-exigent-how-the-fed-can-jump-start-the-real-economy.

50 *See* CONG. BUDGET OFF., FAIR-VALUE ESTIMATES OF THE COST OF SELECTED FEDERAL CREDIT PROGRAMS FOR 2015 TO 2024 (May 22, 2014), https://www.cbo.gov/publication/45383. The CBO projected that for fiscal years 2015 to 2024, the Department of Education's four largest student loan programs would yield budgetary savings of roughly $135 billion under FCRA accounting but cost roughly $88 billion on a fair-value basis. The Ex-Im Bank's six largest programs would generate budgetary savings of $14 billion under FCRA accounting but cost $2 billion on a fair-value basis; and the FHA's single-family mortgage guarantee program would provide *budgetary savings* of $63 billion under FCRA accounting but cost $30 billion on a fair-value basis. These estimates are compared with ones reflecting the procedures currently used in the federal budget as prescribed by the Federal Credit Reform Act of 1990 (FCRA). CBO's fair-value and FCRA estimates are based on the program terms and outcomes—including the volume and amount of lending, fees, and borrowers' rates of repayment and default—that are expected to prevail under current law.

51 Sarah Treuhaft et al., *When Investors Buy Up the Neighborhood: Preventing Investor Ownership from Causing Neighborhood Decline*, COMMUNITY INV., Spring 2011, at 19 (2011).

52 John Heltman, *Nobody's Home*, AMERICAN BANKER (2018), https://www.americanbanker.com/nobodyshome.

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