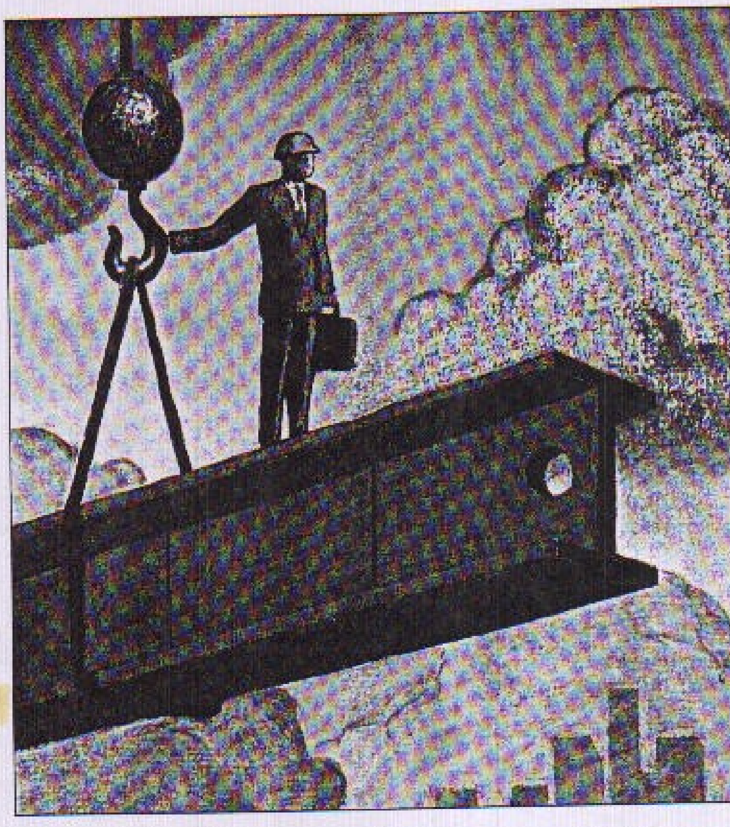
Family Housing Privatization: Lessons from the 1950s

Once touted as long-term solutions to housing shortages, the failed Wherry and Capehart housing programs teach valuable lessons today.

BY DR. WILLIAM C. BALDWIN

The concept of family housing privatization is not new. In fact, it has a relatively long history. The idea originated in the late 1940s in response to the large peace-time military forces required by the Cold War. Unwilling to pay for large numbers of housing units after the enormous expenditures of World War II, Congress and the administration turned to the private sector for help in financing housing construction.

During the six years from 1949 to 1955, privatization schemes proliferated. While each program was different, the privatization efforts can be grouped into a few categories: mortgage guarantees, leasing, rental guarantees, and even barter. In the imaginative surplus commodity program, the U.S. traded surplus agricultural commodities in a complex series of transactions for military family housing overseas.



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The Wherry Program

The other programs were more conventional. Senator Kenneth Wherry, a Republican from Nebraska, whose name is associated with the first large housing privatization program, stumbled upon the idea of privatization while searching for a way to keep the Air Force from closing any more bases in his home state. Under the Wherry program, the government insured mortgages for private developers who built and maintained rental housing (primarily on military bases) for military families who opted to rent the housing.

In its successor program, also named after a Republican senator, Homer Capehart from Indiana, the government insured mortgages obtained by private developers who built the housing and then turned it over to the services. Like millions of new homeowners in the post-war housing boom, the services paid off the mortgage and maintained the housing.

Congress first authorized short-term leases of housing when military personnel assigned to Nike missile installations had difficulty finding affordable housing in the urban areas where the missiles were located. By the late 1970s, Congress became disenchanted with leasing in the U.S., but allowed the services to continue to rely on it heavily overseas. In 1983, Congress revived domestic leasing with the long-term, build-to-lease program.

Rental guarantee programs promised private developers high occupancy rates for a specified period if they would build and maintain housing for military families. In the 1950s, rental guarantee housing was restricted to overseas locations, but in the 1980s DoD experimented with rental guarantees in the U.S.

These varied housing privatization programs produced a DoD housing boom in the 1950s and vastly expanded the military family housing stock, yet most of the programs are now historical relics, except for the aging housing they left behind.

There is no single or simple explanation for why most of the privatization programs of the 1950s disappeared, even if they were successful. Each program had its own peculiar history, and each deserves its own distinctive epitaph. Each program fell victim to a variety of maladies ranging from the smallest technical details to the largest political and diplomatic trends. However, it is possible to isolate some general problems that beset the privatization programs.

Program blunders

The Wherry program was arguably the most dismal failure, although it did produce the second largest amount of military family housing in the 1950s. The program was so poorly conceived that the Secretary of Defense suspended its operation after only a few months and appointed a commission of housing specialists to examine it. Among the flaws identified by the commission was the provision that housing built on government land would revert to the private developer after a lease of not less than 50 years. Congress corrected that problem in 1950.

The commission also noted that the expectations of Congress and the developers were fundamentally at odds. Congress and the administration wanted developers to build housing units that cost an average of $9,000, including $900 from the developers and $8,100 covered by federal mortgage insurance. From the beginning, it was clear to the commission that developers planned to build units for $8,100 or less, but no one proposed a solution to this problem. After three years, Congress began to complain of "windfall profits," and developers protested that "many government employees consider it a crime for private enterprise to realize a profit." When Congress finally demanded that developers reimburse the government for their windfall profits, the program collapsed.

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The Wherry program also suffered from another flaw, which later plagued other housing programs. Military families rented Wherry housing voluntarily, which meant that rents had to bear some relationship to housing allowances. But the rents for Wherry housing were determined, not by the amount of the housing allowances, but by the amount necessary for the developer to pay off his mortgage, maintain the property, and make a profit.

Everyone acknowledged that Wherry rents would exceed the housing allowances of most service members, and one congressman noted that Wherry housing could be reserved for personnel with higher allowances, leaving government quarters to those with lower allowances. As their expenses increased, Wherry owners raised their rents, making the already small and cheaply built housing even less attractive to military families.

After the Wherry program collapsed in 1954, the government struggled for years with the problem of what to do with this housing. Ultimately, the services, under congressional prodding, bought most of it, turning private rental housing into government quarters, and combined many of the small units into larger, more livable housing. Although the Wherry program provided thousands of units of desperately needed military housing, it was an endless headache for the government and the developers.

Both the Wherry and the overseas rental guarantee programs required the developers to operate and maintain the housing. Under the overseas program, DoD persuaded foreign developers to built, operate, and maintain housing for military families at a specified monthly rent by guaranteeing 95 percent occupancy for a set period, usually five to 10 years.

Like Wherry housing, the rental guarantee housing was small, cheaply built, and seemed expensive to service members. They also complained about inadequate maintenance, prompting the suspicion that developers were maximizing the return on their investment during a period when perhaps better built housing would have required fewer repairs. One of the legacies of both Wherry and rental guarantee housing was a concern in Congress and DoD about how to ensure that private developers adequately maintained the housing they provided to military families.

The Capehart Program

Wherry's successor, the Capehart program, dropped the rental concept and authorized DoD to buy housing on the installment plan. Developers did not have to worry about maintenance, taxes, long-term leases, or mortgage payments. Congress also raised the ceiling on the average cost of Capehart units to $16,500, almost twice as much as the Wherry program. After a few minor problems, the Capehart program functioned smoothly and produced a flood of new housing.

In fact, the program may have been too successful. It became the object of a bitter jurisdictional debate between two sets of congressional committees and it became associated with the Republican administration. When a flamboyant Hollywood developer defaulted on some Capehart projects and fled to Acapulco, the program came under intense scrutiny. Members of Congress accused developers of fraud and attacked the program as "back door spending" and a drain on future budgets. In 1970, during lean years for military housing, mortgage payments for Capehart and Wherry housing did amount to almost one quarter of the military family housing budget.

When the Kennedy administration came into office in 1961, it rejected privatization programs, calling them expensive and hard to administer. Congress and DoD returned to the practice of building military housing with appropriated funds, the method that all acknowledged was ultimately the cheapest. But as Senator Capehart had warned, housing had to compete with other priorities in the defense budget, and even before the demands of the war in Vietnam pushed housing into the background, new housing construction for military families dropped steadily.

Lessons learned

The Wherry program failed because of internal contradictions and differing expectations; the Capehart program failed because of a changed political climate and new defense priorities. Together, they had produced the biggest housing boom in the history of the Army, but sheer numbers were not the only gauge of success. The simplest way to produce affordable, well-built, and well-maintained housing without the fear that private developers were making undue profits was to build it with appropriated funds. But the philosophy "buy now, pay now" carried its own risks.

Both the Kennedy administration and Congress vowed to continue the steady pace of housing construction that had characterized the decade of the 1950s, but neither was able to keep that vow. When the privatization effort began in 1949, it was touted as the long-term solution to the services' perennial housing shortage; instead it became just another boom in the long boom-or-bust history of military housing. ■

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