David M. P. Freund, Princeton University

Comments to the National Fair Housing Training Conference and Housing Policy Summit, June, 2004, Washington, DC. Panel on California Newsreel's Race: The Power of an Illusion

Since the documentary so effectively introduces the story about FHA and GI-bill mortgage programs, and how these programs shaped housing patterns and wealth distribution in the post-war U.S., I'm going to focus my brief comments on two facets of this history *not* covered here, developments that are especially important to understanding the legacy of federal intervention and some of the challenges that fair housing advocates now face. First, I want to speak to a much-contested point about federal mortgage programs—the argument that these initiatives *subsidized* suburban homeownership. Second, I will speak about the ways that American homeowners have *perceived and portrayed* federal intervention. In short, I will make the following two points. 1) beginning in the 1930s and for many decades afterward, federal programs did, actively, subsidize homeownership, and they did so almost exclusively for white people. 2) most of the officials and businesspeople involved in federal housing operations during these decades insisted that they were *not* providing a subsidy—indeed, they insisted that they were doing nothing to alter the market for housing. Moreover they repeatedly reminded the American public of this, and most Americans took their word for it. This is very important for considering the politics of fair housing since the 1960s, and to this day.

First to the question of federal programs and subsidy, the issue that has led to the most disagreement among policy makers, activists, homeowners, and scholars. Many writers still insist that federal interventions did not subsidize private ownership; yet the evidence—and generations of economic historians who have examined federal programs—suggests otherwise. It is critical to remember, first, that the FHA and VA did not operate in a vacuum; rather, they worked in concert with a range of other regulatory and oversight bodies, all of them created after the crash in 1929, that together re-invented the market for mortgage finance. Among the most influential new players were the Federal Home Loan

Bank system, the Federal Savings and Loan Insurance Corporation, and the Federal National Mortage Association. These programs, together with the FHA and later the VA, designed a new market for credit, established the rules for its operation, and sustained its existence. It was the widespread use of a new, federally monitored and guaranteed mortgage instrument that created an unprecedented amount of capital for the purchase (and thus the construction) of housing, on terms that enabled millions of Americans to afford homeownership for the first time. In short, as housing economists have long argued, this combination of regulation, oversight, and insurance together *created new kinds of market structures and market relationships, which sustained activity that otherwise likely would not have occurred.*

It is true that the federal government did not directly loan money and that most of its administrative costs were eventually covered by borrowers' fees and other income. Many writers cite this evidence when arguing that federal mortgage programs did not alter pre-existing market conditions, and thus in no way subsidized homeownership and suburban growth. But this ignores the fundamental transformation of the housing market that took place during these years, and the government's role in both designing and sustaining that new market. Consider that before the Depression, most Americans couldn't afford to purchase a home, because the loan terms were prohibitive (50% down, 5 year repayment). Beginning in the 1930s, and especially after World War II, the low interest, long-term, amortized mortgage became the industry standard, thus allowing millions of middle class and working class Americans to become homeowners. But this radical new experiment in home finance would not have been attempted, and certainly would not have succeeded, if private lenders weren't assured of reimbursement—from the federal government—in case of default. Moreover, the federal government administered the complicated new financial landscape that made mortgage lending cheaper, more flexible, and more profitable. And finally, in many cases, the federal government *did* directly subsidize homeownership (by waiving down payment requirements for veterans, for example).

In other words, the federal government created and sustained conditions in the home finance market that spurred lending and homebuilding, and thus created jobs, created demand, and ultimately introduced substantial equity into the portfolios of some families, but not others. As one housing economist has written, these programs "create[d] and [kept] in operation a greater number of [lending institutions] than a purely competitive process would have permitted." As another wrote in 1965, "[t]he effects of government

participation in the residential mortgage market were so strong, pervasive, and intricate that it is impossible to visualize the form this market would have had in the absence of government intervention."

Without going into some fairly arcane detail concerning federal interventions and their impact on credit markets, the big picture is this: federal housing and credit programs created a new market for housing, created tremendous wealth in housing, and did so, critically, by embracing the principle that minorities posed a threat to white neighborhoods. So during the decades that the government first actively supported lending, borrowing, and homeownership, it wrote racial minorities out of the new market. And while the federal government eventually renounced its racially discriminatory policies, and even committed itself to open occupancy in the 1960s, it was far from vigilant in enforcing the new fair housing mandate. Even during the "fair housing" revolution of the 1960s, officials insisted that it would be dangerous to intervene in the "free market" for property, and thus were very slow to challenge discrimination in the real estate and home finance industry. This is quite ironic, of course, given that it was federal policies that had made the spectacular post-war growth of that market possible.

That leads to my second major point, which is about a very curious historical paradox: while the federal government worked very hard to create and sustain this robust new market for private homes, throughout the 1930s-1960s, it insisted that government intervention was incidental, and that the "free market" alone was fueling recovery and growth. For those who are interested in this, I'm finishing a book on this subject right now—its called COLORED PROPERTY—but I'll give you the jist of the argument here. Beginning in the 1930s, and throughout the post-war period, housing officials and businesspeople claimed that the new federal presence in housing markets was "non-interventionist," that it in now way altered normal market operations. And they went to great lengths to popularize this view. Why did they do this? Remember that politicians, businesspeople, and consumers, alike, were very wary of these ambitious federal schemes—they were opposed to "big government" in general, and specifically to government interference in private enterprise. So the advocates of the new federal role quite self-consciously popularized the story that federal intervention wasn't really intervention at all. Rather, it was a way to "unleash" market forces, as one supporter explained in Congressional testimony. And federal mortgage operations "in no

way interfered with the private sector," as FHA administrators insisted throughout the 1950s and 1960s.

And in a remarkable twist, the FHA even made this claim the theme of a multi-million dollar promotional campaign to encourage more lending, borrowing, and spending. For decades, the federal government literally advertised its programs and recruited participants. They ran print and brochure campaigns, spoke to national radio audiences, and sponsored door-to-door canvasses in thousands of communities. The goal was to encourage lenders to lend, borrowers to borrowers, retailers to advertise and encourage spending, and finally, the sale of homes, home furnishings, and construction supplies. But the theme of this campaign, tellingly, was that mortgage insurance programs were "loosening up" credit markets, and allowing them to return to their "normal" levels of activity. In speaking tours, radio and film advertising, promotional literature, regional "home" fairs, and the door-to-door canvassing, the FHA assured Americans that federal intervention in mortgage markets was essentially "non-interventionist," and wholly "compatible" with free enterprise. They celebrated the consensus that "the housing task of this nation is one to be done for the most part by private enterprise," as one FHA administrator explained. They told builders, lenders, and potential consumers that the housing market was shaped purely by "competitive supply and demand economics." (That quote comes from one of hundreds of post-war speeches).

So in addition to your questions and comments—both of which I'm very anxious to hear—we might want to consider the legacy that federal interventions have had on the *politics* of homeownership and fair housing in the United States today. Consider the paradox. We live in a nation of homeowners precisely because the federal government has taken an active role in the market for home finance since the Great Depression. And the government's role remains essential to this day, both because those early programs created the infrastructure that made today's markets possible and because the conventional market still relies heavily on federal oversight. Yet at the same time, we live in a nation which insists that government intervention has historically only *hampered* the post-war housing economy. When many people think about federal housing programs, they think about public housing, about urban renewal, or about Section 8, and often *not* in a positive light. Government intervention, according to popular narratives, is necessary only to *assist* those people not able to afford housing in the private market. What people rarely consider, by contrast, are the much larger and by far more influential federal programs that have enabled countless Americans to gain wealth in housing. And when those programs *are* indeed discussed—for example,

in a widely-viewed PBS documentary on the GI BILL—there is little if any discussion of the racial clauses that guided mortgage insurance programs.

How did this happen, and what are its implications? It is a result, in part, of federal intervention itself, which had more than simply an institutional and structural impact. Yes, federal policies helped create a market for housing sharply segregated by race and by class. On top of this, federal policies and the politics surrounding them helped convince generations of Americans that these results were purely the result of healthy free market practices, when in fact the government played an instrumental role from the beginning. I'll leave you with a question. If more people understood the legacy of past federal actions, might it alter the way that they think about the government's responsibility to help create more equitable markets for housing? If more people were aware of the federal government's role in *creating* inequality, might they be more open to policies that mitigate that inequality?