RACIALIZATION AND THE STATE: THE HOUSING ACT OF 1934 AND THE CREATION OF THE FEDERAL HOUSING ADMINISTRATION

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ABSTRACT: *Research examining the impact of corporate interests, state structures, and class contradictions on the state policy formation process has been dominated by three major theoretical perspectives: business dominance theory, state-centered theory, and Marxian structuralism. I argue that these existing perspectives pay insufficient attention to race and racial discrimination as a central component in the formulation and implementation of state policy. This article uses the concept of racialization to reframe existing theories of the state to explain the origin of the Federal Housing Administration (FHA) through the Housing Act of 1934. As an integral component of New Deal legislation, the FHA was created for the purpose of salvaging the home building and finance industries that had collapsed during the Great Depression. I draw on government housing reports and analyses, real estate industry documents, and congressional testimony to examine the racial dynamic of the FHA's housing policies and subsidies. The analysis demonstrates the value of employing a racialization framework to account for the racial motivations surrounding the origin of state policies, the racial basis of corporate interests, and the impact of race and racial discrimination on the creation and development of state structures.*

Over the last two decades or so, much research and debate have focused on the timing and programmatic shape of the New Deal social reforms launched in the 1930s. Virtually all scholars agree that the New Deal represented a defining moment in the history of American social policy with the establishment of nationally based social insurance programs, public assistance programs, and other innovative social programs (Allen 1991; Domhoff 1990; Gilbert and Howe 1991; Jenkins and Brents 1989; Levine 1988; Quadagno 1984; Skocpol and Ikenberry 1983). The bulk of research on the New Deal has focused on the origin of social welfare policy (Weir, Orloff, and Skocpol 1988), old age pensions and old age relief (Quadagno 1988), agricultural subsidies (Gilbert and Howe 1991; Hooks 1990; Skocpol and Finegold 1982), and labor legislation (Rubin, Griffin, and Wallace 1983).

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To date, however, very little research has focused on the origin and design of New Deal housing policies and programs as important components of American social policy. Moreover, while much research has focused on the salience of social class or state structures as determinants of specific New Deal policies, few studies have examined the role of race and racial discrimination in the construction of corporate interests, state structures, and state policies.[1]

To address this limitation, this article seeks to identify the key actors (e.g., private individuals, interest groups, and public officials), important decisions, and racial motivations surrounding the origin and development of the Housing Act of 1934 and the Federal Housing Administration (FHA). As an integral component of New Deal legislation, the FHA was created for the purpose of salvaging the home building and finance industries that had collapsed during the Great Depression. The FHA paved the way for post–World War II mass suburbanization by lowering home down payments from 30 percent to less than 10 percent, establishing minimum standards for home construction, and eliminating lending institutions' risk in providing mortgage financing (Federal Housing Administration 1958; Radford 1996:179–80). From the 1930s to 1959, the FHA proudly proclaimed that it had financed three out of every five homes purchased in the United States (Federal Housing Administration 1959:21). As many scholars have recognized, during the 1930s and later, the agency's home building subsidies and subdivision regulations helped to institutionalize racial residential segregation on a national scale by requiring the use of racially restrictive covenants on government-insured housing and refusing to insure mortgages for homes in predominantly minority areas of the inner city (Gelfand 1975:chap. 6; Jackson 1985:chap. 11; Massey and Denton 1993).

This analysis of the 1934 Housing Act addresses both an empirical and a theoretical gap in scholarly research on the New Deal. Concerning the former, a key omission in analyses of the New Deal is the impact of the changing racial composition of U.S. cities on the development of social policies and the character of state institutions during the 1930s. Scholars recognize the importance of working-class protest and labor unrest in the formulation of New Deal legislation (Griffin, Wallace, and Rubin 1986; Jenkins and Brents 1989) as well as the impact of this legislation in stimulating the out-migration of African Americans from southern states to northern cities in the decades after 1930 (Quadagno 1988). However, little research has examined how the changing racial geography of U.S. cities shaped the political mobilization of real estate interests and the subsequent formulation of New Deal housing legislation. Similarly, a number of scholars have criticized the conventional theoretical frameworks applied to the study of the New Deal because they have left unclear the precise links between race, state structures, and state policy. Existing theories of the state, including business dominance theory, state-centered theory, and Marxian structuralism emphasize the role of corporate interests, state structures, and class contradictions as independent forces in the creation and implementation of state policies. These state theories have downplayed the racially exclusive nature of the welfare state and the racial concerns of private interests and state managers that shaped the organization of social policies established during the New Deal. Although other scholars have attempted to develop a theoretical understanding of the racially unequal effects of New Deal policies (Quadagno 1994; Valocchi 1994), they have failed to elaborate a framework that extends beyond their critique of competing state theories.

This article draws on government housing reports and analyses, real estate industry documents, and congressional testimony to explain the racial dynamic of the FHA's housing policies and subsidies. I use the concept *racialization* as a frame for analyzing the origin and development of the FHA and for synthesizing state theories. As developed by a number of scholars, racialization refers to the way in which people are sorted into racial categories, resources are distributed along racial lines, and state policy shapes and is shaped by the racial contours of society (Bonilla-Silva 1997:469; Feagin and Vera 1995; Oliver and Shapiro 1995; Omi and Winant 1994; Winant 1994). Central to the concept of racialization is the idea that race has an emergent and variable quality rather than a fixed or immutable group characteristic. Racial groups are politically constructed and exist as the outcome of diverse historical practices (e.g., programmatic organization of social policy, modes of political participation) that are continually subject to challenge over definition and meaning (Omi and Winant 1994). Following Bonilla-Silva (1997:466), I use the term "racism" to describe the "racial ideology of a racialized social system" and eschew any static or immutable meaning that assumes an "all-powerful ideology that explains all racial phenomena in society." My intent is to demonstrate the usefulness of racialization as a theoretical basis for research on state policy. Moreover, by focusing on the Housing Act of 1934 and the FHA, I explain how racial discrimination became a central component of the organization and operation of the U.S. housing and lending industries in subsequent decades.

I begin by outlining the main theoretical components of the racialization perspective developed here. I then situate the 1934 Housing Act in the context of major structural shifts in housing markets and racial migration trends. Next, I discuss the main provisions of the Housing Act and the programmatic design of the FHA. I then explain how each theory of the state—business dominance theory, state-centered theory, and Marxian structuralism—can be reframed to account for the racialized nature of federal housing policy. In recent years, scholars have attempted to move toward constructive dialogue and common ground in the direction of synthesized theory building (Gilbert and Howe 1991; Glasberg and Skidmore 1997; Hooks 1993; Jenkins and Brents 1989). Central to this "accommodationist turn" in state theory is the attempt "to identify the conditions under which the policy formulation mechanisms specified by each of the three 'grand' state theories can complement and augment each other" (Glasberg and Skidmore 1997:5–6). The purpose of this analysis is not to disprove or assert the primacy of one theory or model over another. Rather, my objective is to reframe and synthesize existing theories of the state to identify the racial motivations behind the origin of the Housing Act of 1934, the racial basis of corporate interests, and the impact of race and racial discrimination on state structures.

RACE, RACIALIZATION, AND STATE POLICY

The racialization perspective adopted here emphasizes the importance of race and racial inequality in the formulation and implementation of state policy but avoids the endemic reductionism inherent in some scholarly investigations of the racially discriminatory aspects of state policy. Recent research recognizes that the concepts of race and racism are politically constructed and historically situated rather than timeless in their meaning and effects (Almaguer 1994; McGreevy 1996; Solomos and Black 1996; Sugrue 1996; Wacquant 1997). For example, Almaguer's *Racial Fault Lines* (1994) charts the historical origins of white supremacy in California during the nineteenth century, showing how the success of European Americans in securing a privileged social status occurred as a result of racialized struggles with Mexicans, Native Americans, and Asian immigrants over landownership and labor market position. McGreevy's *Parish Boundaries* (1996) traces changing twentieth-century meanings of race, religion, and community in the United States, pointing out how cultural distinctions between various white religious congregations, diverse ethnic groups, and "working-class" identities all worked in tandem to create and perpetuate racial divisions in northern cities (see also DeSena 1994). Gotham's (1998b) recent examination of racial conflicts over federal efforts to disperse low-income housing into U.S. suburbs illustrates how white racial identity is tied to the constructed identity of the suburban home owner. What unites these diverse accounts is the focus on "race" and "racism" as situationally and historically specific concepts that are mediated by changing social and economic conditions and other factors such as social class, religion, region/location, and culture. Even in historical contexts in which the concepts of race and racism seem to be clearly established and recognized, these meanings can be quite different depending on the different social classes and elite groups applying them.

A racialization perspective recognizes that the racial biases of class segments and state managers and the discriminatory effects of state policy are contingent on a variety of historical, economic, and political forces. For example, I reject the notion that *the* state is inherently or transhistorically "racist" or that it is necessary or inevitable that state policies will reproduce racial divisions and inequality in the last instance. Rather, we can say that the state is a racial state to the extent that it creates and maintains the social conditions that reinforce and perpetuate relations of racial domination and subordination.[2] Yet an advantage of a racialization perspective is that it sensitizes us to the inherent improbability of a unified state and the need to examine the structural and strategic factors that contribute to the racialization of state policy. Moreover, any analysis of the racialized nature of state power must transcend simplistic analyses that posit an essential racial character of the state and specify the historical conditions under which state agencies (rather than the state as a totality) allocate resources along racial lines and state polices benefit some racial groups over others. In addition, the racial intents and effects of state policy cannot be established a priori but only through a historical examination of specific state agencies, political processes, and historical contingencies that shape the formulation and implementation of particular policies and exclude other policy options.[3]

Once state policy has become racialized, a set of social relations and institutional practices based on racial meanings and distinctions emerges and develops a life of its own. Although racialization interacts with class and gender structurations in society, it becomes an organizing principle of social relations in itself (Bonilla-Silva 1996; Omi and Winant 1994). On the basis of these racial relations and practices, there develops a racial ideology that becomes the "organizational map" (Bonilla-Silva 1996:474) that guides the racial actions of individuals and groups in society, including private and public actors. These racial actions include overt and covert acts of discrimination that sustain racial divisions and inequalities.[4] In the United States, for instance, the belief that the residential presence of African Americans threatens property values can become expressed in actual behavior (e.g, white flight and financial disinvestment) that in turn fulfill the prophecies of residential deterioration and decay. Similarly, poor African-American neighborhoods can be stigmatized as "dangerous" and "criminal," again leading to specific patterns of behavior, both public and private, that shape people's perceptions of social reality that lead to the prejudiced attitudes, minority scapegoating, and acceptance of individualistic explanations of social inequality that focus on the so-called pathological behaviors and moral values of the disadvantaged (Bullard, Grigsby, and Lee 1994; Feagin 1994; Feagin and Vera 1995; Gotham 1998b; Massey and Denton 1993). These racial beliefs then perpetuate a vicious cycle, as they become an important impetus and justification for maintaining the residential separation of the races through "local gatekeeping practices" (DeSena 1994), disinvesting in racially mixed and nonwhite areas, and directing investment resources into racially homogeneous, all-white neighborhoods (Gotham 1998a).

More important, a racialized state agency's operational procedures and modes of policy intervention privilege some policy alternatives while others are ignored or never considered. In the United States, a market-centered ideology of *privatism* has historically been the mechanism through which state policy is formulated and implemented. Privatism is the underlying commitment by the public sector to helping private business grow and prosper.[5] It is an entrenched and deep-rooted belief in the supremacy of the private sector in nurturing societal development, with the public sector adopting a "hands-off" (laissez-faire) strategy whose principal obligation is to encourage capital accumulation. As the notion of privatism implies, the state policy making may be narrowed by a biasing or filtering process whereby the state selects against some policy initiatives (e.g., market-centered public subsidies, tax breaks) while others are systematically ignored and never considered (e.g., direct state intervention and socialization of specific industries) (Hays 1985:8). As Glasberg and Skidmore (1997:21) recognize, the state and its policy-making process are not neutral but "responsive to particular strategies and resources rather than to others; few of the possible policies and organizations surrounding a given issue receive serious political consideration." Over time, this "strategic selectivity" (Jessop 1990:333) perpetuates biases that have asymmetrical effects on the organization of state power, the unity and effectiveness of class segments, and the dominance of business elites (Glasberg and Skidmore 1997:18). As an ideology and a political strategy, privatism has been the mechanism through which state policy has traditionally reinforced racial inequalities by dispensing public resources along racial lines and providing legitimacy for racially discriminatory private housing market practices (Feagin 1994; Hays 1985).

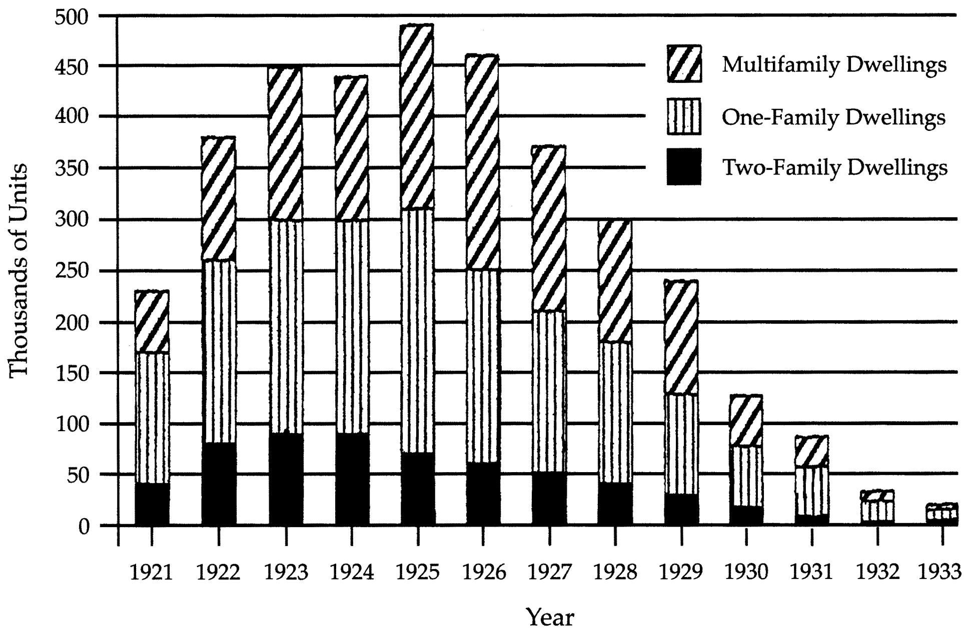
We can begin to specify the conditions under which the elements emphasized by the various theories of the state are likely to become more or less significant in shaping state policy using the concept of racialization and focusing on the impact of privatism on the policy-making process. A business dominance approach suggests that the origin of the FHA came from leaders in the real estate industry who had supporters in Congress that acted at the industry's behest. Moreover, a business dominance approach would expect that real estate interests dominated congressional hearings on the Housing Act of 1934 and that their interpretations of housing problems and programmatic solutions were more often heard and accepted by Congress than were other interpretations. A state-centered perspective suggests that the passage of the Housing Act of 1934 and the creation of the FHA was shaped by previous policies, bureaucratic constraints, and electoral politics. While state-centered theory stresses that state agencies have a degree of bureaucratic autonomy from other institutions and class segments, early leaders of the FHA exercised their autonomy in a manner that reinforced private interests and racial domination because both actors shared the same ideological framework (privatism) within which housing policy developed. A Marxian structuralist approach suggests that the Housing Act of 1934 and the creation of the FHA were stimulated by a capital accumulation crisis in real estate and finance markets. Thus a structuralist approach would expect the state to act as a mediating body between rival power blocs to preserve and enhance monopolistic real estate and banking interests, with the composition of the power bloc determining the shape of the compromise.

THE HOUSING ACT OF 1934 AND THE CREATION OF THE FHA

The economic exigencies of the Great Depression provided the impetus for the development of the Housing Act of 1934 and the creation of the FHA. New housing construction and sales of existing homes had ground to a halt by the early 1930s as a result of mounting foreclosures and high unemployment. Figure 1 summarizes annual permits for residential buildings in 257 U.S. cities from 1921 through 1933. The figure shows the number of multifamily dwellings, single-family dwellings, and two-family dwellings in thousands of units.

As this figure indicates, the total number of residential permits dropped dramatically, from a high of 490,000 units in 1925 to less than 400,000 in 1928, 120,000 units in 1930, and less than 26,000 by 1933 (U.S. House 1934a:64). Between 1928 and 1933 the number of residential permits for all construction fell by 93 percent, affecting virtually all aspects of the nation's housing and construction industries. The five years after 1928 were especially devastating to the housing industry, as the number of permits dropped by more than 100,000 between 1928 and 1929 and between 1929 and 1930. By 1933, when Roosevelt began his first term, the number of residential permits was at an all-time low, only 25,879 for the year. Table 1 shows the number of foreclosed homes by months during the years 1926, 1932, and 1933.

As Table 1 indicates, the total number of foreclosed homes in the United States increased from 78,356 in 1926 to 273,384 by 1932. There were 271,996 foreclosed



Source: U.S. House 1934a:64. Data are permits issued for residential buildings in 257 U.S. cities. Figures were compiled by the U.S. Bureau of Labor Statistics.

Figure 1
Building Permits in U.S. Cities, 1921–33

homes in 1933, a decline of 1,388 homes from 1932. From 1926 to 1932 the number of homes foreclosed on increased 71 percent. By the end of 1932 foreclosures of homes were taking place at a rate of almost 750 a day (U.S. House 1934a:63). Table 2 shows building and loan association failures and losses in the twelve-year period from 1920 through 1932. The table shows total number of associations, total resources, annual number of failures and estimated losses, and percent loss of total resources.

As this table indicates, the number of failed building and loan associations in the nation increased dramatically after 1928, from only 21 in 1927 and 23 in 1928 to 159 in 1929 and 190 in 1930. The percentage of failed associations increased from 0.18 percent in 1927 and 1928 to 1.29 percent in 1929 and a high of 1.61 percent in 1930. The largest percentage of losses to total resources occurred in 1930, when 0.2795 of 1 percent of the assets of building and loan associations were lost that year.

The data in the figure and tables indicate a high rate of housing foreclosures and building and loan association failures and an almost complete cessation of residential construction as contrasted to the 1920s. These economic disruptions in the housing industry created the context for the development and passage of federal legislation aimed at reviving the severely depressed home building and con-

TABLE 1
Number of Residential Units Foreclosed in the United States by Months, 1926, 1932, and 1933

Month	*1926*	*1932*	*1933*
January	5581	19,582	24,273
February	5381	18,834	22,485
March	6502	21,970	22,438
April	6632	23,574	20,520
May	6287	21,976	25,528
June	6889	24,548	25,759
July	6245	22,595	22,523
August	6520	23,932	22,894
September	6915	25,281	20,951
October	6665	22,404	20,916
November	7103	23,959	21,450
December	7636	24,759	22,259
Total	78,356	273,384	271,996

Source: U.S. House 1934a: 63. Figures based upon reports received monthly by the Division of Research and Statistics of the Federal Home Loan Bank Board.

struction industries. Starting with President Hoover's Conference on Home Building and Home Ownership in December 1931, political leaders and real estate elites argued for the establishment of new national policies and institutional mechanisms that would stabilize and protect property values in new and older residential developments, increase consumer demand, and exempt income on

TABLE 2
Summary of Building and Loan Association Failures and Estimated Losses, 1920–32

Year	*Total Number of Associations*	*Total Resources ($)*	*Number Failed*	*Estimated Loss ($)*	*Percent of Loss to Total Resources*
1920	8,633	2,519,914,971	2	506	.0002
1921	9,255	2,890,764,621	6	91,547	.0032
1922	10,009	3,342,530,953	4	158,674	.0047
1923	10,744	3,942,939,880	9	132,612	.0034
1924	11,844	4,765,937,197	18	398,245	.0084
1925	12,403	5,509,176,154	26	500,000	.0090
1926	12,626	6,334,103,807	12	380,725	.0060
1927	12,804	7,178,562,451	21	1,013,000	.0141
1928	12,666	8,016,034,327	23	568,000	.0071
1929	12,343	8,695,154,220	159	2,312,626	.0266
1930	11,777	8,828,611,925	190	24,676,059	.2795
1931	11,442	8,417,375,605	126	22,327,842	.2653
1932	10,997	7,750,491,084	122	20,337,255	.2624

Source: U.S. House 1934a:266.

mortgage investments from federal taxes (Radford 1996:46–53). Various real estate and banking interest groups, including the National Association of Real Estate Boards (NAREB), the National Association of Building Owners and Managers, the Mortgage Bankers Association of America, and the U.S. Building and Loan League, advocated the establishment of a federally regulated home financing system whereby home mortgages would be long-term, with low down payments and amortized repayment schedules (Davies 1958:174–75; Wheaton 1953:21). While these policy proposals had been discussed throughout the 1920s, the economic collapse of the housing and lending industries politicized private sector solutions and legitimized federal intervention into the housing sector.

In December 1933 President Roosevelt appointed a four-person "Housing Committee" to study the housing situation and offer proposals by which the federal government could stimulate private residential construction, which he considered "the wheel within the wheel to move the whole economic engine" (quoted in Radford 1996:179).[6] On May 14, 1934, Sen. Duncan U. Fletcher of Florida and Rep. Henry B. Steagall of Alabama (chairs of the Senate and House Banking and Currency committees [CBCs]) introduced bills to Congress that would later become, with minor changes, the Housing Act of 1934. The same day, Roosevelt sent a message to Congress urging enactment of the housing legislation. On May 28 the president issued a statement that the housing bill was a "must" item for passage before adjournment (*Congressional Record* 1934: vol. 73:8739–41). A series of congressional hearings was held during May and June, and both the Senate and the House passed the housing legislation by wide margins. There was strong Cabinet support for the housing legislation from Henry Wallace, Secretary of Agriculture, Frances Perkins, Secretary of Labor, and Lewis Douglas, Director of the Budget (U.S. House 1934a:65–121; Wheaton 1953:46–47). President Roosevelt signed the Housing Act on June 27, 1934.

The Housing Act of 1934 contained four main provisions. First, the federal government established a temporary nationwide credit plan that insured lending institutions against loss up to 20 percent of all property improvement loans (Federal Housing Administration 1959). Under this emergency plan, lasting from 1934 to 1936, federally insured loans were made without requiring collateral as part of a "modernization" effort to stimulate home building and rehabilitation of existing homes. Second, the 1934 legislation provided for the establishment of a "mutual mortgage insurance system" under which the newly created FHA would provide insurance to private lenders to protect them against loss on home rehabilitation loans and mortgages for new homes. All FHA-insured loans and mortgages were required to conform to specific government regulations pertaining to minimum property standards and inspections, design of the structure, quality of building materials and construction, appraisal procedures, condition and location of site, and subdivision planning (Weiss 1987:148–52). The cost of this new mortgage system was financed by a monthly insurance premium paid by the home owner as part of the monthly mortgage payment (Keith 1973:25–26). Third, the FHA created "national mortgage associations" to buy and sell FHA-insured mortgages in an effort to make mortgage insurance available on a nationwide scale and maintain a continuous and geographically even circulation of funds in times of short credit. Fourth, the Federal Savings and Loan Insurance Corporation (FSLIC) was established to insure the accounts of federal savings and loan associations (Federal Housing Administration 1959).

Overall, the stated purpose of the 1934 Housing Act was to bolster employment, provide credit to encourage home ownership, and stimulate new home construction and improvement (U.S. House 1934a:1). The relative uniformity of FHA mortgage requirements and federal insurance was designed to free up frozen assets and encourage the flow of credit and mortgage funds to stimulate new housing construction. In addition, the FHA's guidelines were designed to help standardize lending practices on a national scale as well as create a common credit pool that could link mortgage lenders throughout the country into a federally supervised and regulated network. The agency also sought to create consumer demand by requiring that lenders provide government-insured mortgages with low down payments (10 percent or less of the total housing cost), long-term and fully amortized repayment schedules, and high loan-to-value ratios. The intent of this new mortgage insurance system was to expand the housing market by bringing home ownership within the financial reach of working- and middle-class families. With the financial backing of the FHA's mortgage insurance system, private "lenders could look to the insurance as security, and the greatest risk of mortgage investment was switched from the lender to the Federal Government" (Semer et al. 1976:12).

THE GREAT MIGRATION AND THE AMERICAN REAL ESTATE INDUSTRY

The origin of the Housing Act of 1934 and the programmatic orientation of the FHA cannot be understood apart from the changing racial composition of U.S. cities during the second and third decades of the twentieth century. During the "Great Migration" from 1915 to 1930, an estimated 1.5 million to 2 million African Americans left the South for urban areas in the North (Jones 1992, 1993; Trotter 1993). In Chicago, the African-American population increased more than five times, from 44,000 to 234,000, between 1910 and 1930. Likewise, New York City's African-American population more than tripled from 100,000 to 328,000, while Philadelphia's population grew from 84,500 to 220,600. Detroit's African-American population increased 611 percent from 1910 to 1920 and nearly 200 percent during the 1920s, climbing from less than 6,000 to more than 120,000. In Los Angeles, the African-American population grew from 7,600 in 1910 to nearly 40,000 by 1930. During this same period, Cleveland's African-American population increased from 8,500 to nearly 72,000 (Clark 1967; Katzman 1975; Kusmer 1978; Spear 1967; Trotter 1993:68; Weaver 1948:26, 35, 49). In many cities, the huge influx of African Americans was accompanied by increased competition for housing and consequent racial conflicts including intimidation, harassment, and cross burnings, and violent race riots (Mohl 1997:62; Tuttle 1980).

These striking increases in the African-American population of many U.S. cities established the basis for the development of various legal devices, including zoning, deed restrictions, and racially restrictive covenants to impose and increase racial residential segregation.[7] From the turn of the century on, the mainstream opinion among real estate agents, appraisers, brokers, and mortgage bankers was that the movement of African Americans into white neighborhoods would undermine property values, contribute to neighborhood deterioration, and lead to other negative consequences (Mohl 1997). Local real estate boards promulgated this segregationist philosophy and took the lead in establishing racially restrictive covenants and neighborhood improvement organizations to maintain and protect segregated neighborhoods (Helper 1969:223–30; Hirsch 1983, 1993). As early as 1917, the Chicago Real Estate Board stressed the need to maintain racial homogeneity to protect property values and neighborhood stability (*Chicago Real Estate Bulletin* 1917:313). In 1923 the St. Louis Real Estate Board approved a policy that prohibited real estate agents from selling or renting property in white areas to African Americans (*St. Louis Real Estate Bulletin* 1923). By 1924 real estate boards in Milwaukee, Detroit, Kansas City, Los Angeles, and other cities had approved measures endorsing the restriction of ethnic and racial groups, especially African Americans, to specific districts in their cities (Helper 1969:223–28). These discriminatory actions were incorporated as official policy of the National Association of Real Estate Boards, which adopted a code of ethics in 1924 stating that "a Realtor should never be instrumental in introducing into a neighborhood . . . members of any race or nationality . . . whose presence will clearly be detrimental to property values in that neighborhood" (Abrams 1971:162–63).

Thus, by the late 1920s, real estate interests had established national political organizations with the capacity to mount effective lobbying campaigns to shape public policy to reflect their segregationist ideology and agenda (National Association of Home Builders 1953:17; Radford 1996:197; Weiss 1987:28–31). In many cities, for example, Chicago, Kansas City, and Los Angeles, the NAREB and the National Association of Home Builders (NAHB) pressured local governments to enact various land-use policies and subdivision regulations to maintain a rigid color line in housing (Abrams 1971:158–59; Davies 1958; Helper 1969; Mohl 1997). These political organizations were also instrumental in shaping real estate ethics, professional standards, and investment decisions. Discriminatory perceptions were deeply embedded in the training and educating of real estate professionals who studied how residential transitions would affect taxes, property values, and housing prices (Helper 1969:201–15; Mohl 1997). Builders and developers and appraisal firms also analyzed racial migration trends to keep abreast of the impact of racial transitions on local housing markets and pricing structures. By the advent of the Great Depression, the leading actors and organizations in the housing and lending industries all embraced a discriminatory ideology that viewed racial minorities as threats to property values and neighborhood stability. Thus the establishment of the racial restrictive covenant and other segregationist legal tools, the creation of national real estate organizations, and the adoption of a real estate code of ethics by the NAREB in 1924 provided the means to segregate the large numbers of African Americans migrating to northern cities during the second and third decades of the century.

THE FORMULATION OF THE HOUSING ACT OF 1934

A central issue in state theory concerns which groups control the policy formulation process, who supports and opposes policy proposals, and which groups benefit and suffer once social policies are enacted and implemented. Business dominance theorists argue that state policy is intentionally dictated by corporate interests whose representatives have captured or controlled the state (Domhoff 1990; Miliband 1969, 1983). In case studies of federal advisory and regulatory agencies, business dominance theorists argue that corporate leaders are "overrepresented" in high decision-making positions and therefore dominate the policy-making process (Akard 1992; Mizruchi 1989). In debates with Theda Skocpol and Gregory Hooks, Domhoff (1990) contends that the programmatic shape and development of New Deal social policies were forged by rival segments of corporate capital. Specifically, Domhoff (1990:64) argues that the impetus for the Social Security Act of 1935 came from a "conflict within the state between rival segments of the ruling class that were feeling the pressure from the tens of millions of people from all walks of life whose everyday routines had been severely disrupted by the Great Depression." In general, business dominance theorists emphasize the class basis of state power; interactions among corporate elites, especially the largest corporations and financial institutions; and the specific political, economic, and organizational resources that allow corporate leaders to dominate the policy-making process in the face of resistance (Akard 1992; Domhoff 1986–87). A limitation of business dominance theory is its neglect of the impact of race and racial discrimination on the construction of class interests and corporate political mobilizations.

The evidence indicates that prominent leaders in the real estate and lending industries controlled the formulation of the major provisions of the 1934 Housing Act and shaped the subsequent programmatic design of the FHA that included racial discriminatory housing practices. However, real estate, lending, and building interests were not monolithic, and there was much debate over the specifics of the housing legislation. The NAREB was strongly in favor of legislation that would establish a national mortgage bank,[8] while savings and loan representatives vigorously opposed any federally regulated system of mutual mortgage insurance (*Business Week* April 14, 1934, p. 7, May 12, 1934, p. 12, June 23, 1934, pp. 7, 10; Wheaton 1953:57). In hearings before the House CBC, opponents of the housing legislation castigated the NAREB and its allies, arguing that the bill was an incentive for consumers to go into debt, the beginning of top-down federal regimentation of home financing and home ownership, and a step toward the creation of a socialist welfare state (U.S. House 1934a:71–81, 92, 106, 108, 140, 211, 245, 270–71; U.S. Senate 1934:225, 301, 312). Representatives of local savings and loans associations contended that the legislation would put small banks and lending agencies out of business and would benefit large builders and monopolistic real estate interests (*Congressional Report*, June 9, 1934, vol. 78:10,908; U.S. House 1934a:171, 224; U.S. House 1934b; U.S. Senate 1934:230–36). Thus, not all real estate and banking groups agreed with the specifics of the proposals. However, all of the proposals that received serious consideration by the Senate and House CBCs had been developed by real estate and banking policy organizations and their representatives. By the time the bill that was to become the Housing Act of 1934 reached Congress, the basic agenda and legislation had already been set by leading officials in the real estate and lending industries. There were disagreements over administrative issues but not basic policy goals.

The 1934 housing legislation was constructed with little input from organized labor, housing reformers, civil rights activists, or interracial housing advocates. The House and Senate CBCs included mostly real estate and lending interests and excluded all who advocated more radical redistributive housing initiatives (e.g., federal construction of low-cost public housing) (U.S. House 1934a; U.S. Senate 1934). The Labor Housing Conference (LHC), formed in May 1934, rejected the private, market-centered focus of the housing bill presented before the House and Senate CBCs. In a 1934 resolution to the American Federation of Labor (AFL), the LHC proposed federal, state, and local financing of "large-scale planned housing developments on a non-profit basis, designed, constructed, and administered in direct collaboration with bona fide groups of workers and consumers" (Pennsylvania Federation of Labor 1934:580). At the time of the congressional hearings, the LHC castigated the 1934 legislation, arguing that the FHA was a "thoroughly bogus measure, which will be of no immediate service either to workers or consumers, and which may work to their eventual harm" (p. 580). Likewise, the leadership of the AFL opposed the housing legislation, calling the 1934 Housing Act the "Anti-Housing Act" and maintaining that the housing produced with FHA subsidies would be too expensive for union families (p. 580). However, organized labor's vehement opposition had little effect in altering the parameters of the debate. In addition, consumer advocacy groups had little influence on the subsequent shape and design of the Housing Act, even though they spoke at length before the House CBC to register their opposition to the housing legislation (U.S. House 1934a:320, 327, 353, 370–92). Other housing reformers, civil rights activists, or interracial advocates did not appear before the House or Senate CBCs and therefore had no influence on the debate or character of the Housing Act.

The various proposals of the Housing Act were not only developed by real estate and lending interests, but key officials from these industries dominated the congressional hearings and were directly involved in drafting the final housing legislation (U.S. House 1934a:90, 189, 192–93, 241). The NAREB president, Hugh Potter, was a key lobbyist for the 1934 housing legislation as was the organization's secretary, Herbert Nelson (U.S. House 1934a:225–36). Representatives from key banking, insurance, and brokerage associations, such as Charles A. Miller, president of the Savings Bank and Trust Company; Morton Bodfish, executive vice president of the U.S. Building and Loan League; and Albert L. Deane, president of the General Motors Holding Corporation, testified in support of the legislation and guided policy discussions (U.S. House 1934a:9–11, 199–224, 237–319). Henry I. Harriman, president of the U.S. Chamber of Commerce, also testified in support of the Housing Act (U.S. House 1934a:122–48).

Finally, once the housing legislation was finalized and passed, real estate elites and other lending interests controlled the subsequent development of the FHA's housing subsidy and mortgage insurance programs by staffing its administrative ranks. Although the FHA's staff was recruited from a variety of fields, real estate and financial backgrounds predominated. For example, real estate economist Ernest Fisher and appraiser Frederick Babcock directed FHA operations in economics and underwriting. Ayers DuBois, state director of the California Real Estate Association, was appointed assistant director of the FHA's Underwriting Division. Fred Marlow, a Los Angeles subdivider, directed the FHA's western regional office. Albert L. Deane was appointed a deputy administrator, and Roger Steffan, vice president of the National City Bank of New York, was appointed director of Modernization Credits. Other prominent corporate elites held high-level positions in the FHA, including James Moffet, a senior vice president of the Standard Oil Company, who was appointed the agency's first administrator in 1935. Stewart McDonald, a leading Midwest manufacturer, was appointed special assistant to the administrator. J. Howard Ardrey, executive vice president of Guaranty Trust Company of New York, and Robert M. Catharine, vice president of the New York Title and Mortgage Company, were appointed deputy directors (Federal Housing Administration 1959; Weiss 1987:146).

Business dominance theory provides insight into the creation of the FHA by highlighting the powerful role economic elites from the real estate and lending industries played in the formulation of the Housing Act of 1934. This theory does not assert that all economic elites directly manipulate and benefit from state policies. Local savings and loan associations and small builders bitterly opposed the Housing Act of 1934 and the creation of the FHA. There was much debate over and opposition to proposals to establish a national mortgage bank and legislative efforts to establish a new system of home financing (e.g., a long-term, amortized repayment schedule). Nevertheless, controversies over the programmatic design of the FHA and dangers of federal intervention in the housing market rapidly receded into the background. The preservation of racial discrimination and segregation in private housing and lending activities was a conscious goal of real estate and banking elites, and the political power of national organizations provided elites with direct access to this arena of policy making. The real estate trade, the building industry, and financial institutions supplied the FHA with most of its personnel and guidelines, and each of these groups accepted the notion that racial housing segregation was essential if residential districts were to retain their stability and desirability. Class divisions between monopolistic firms and small firms were tangential to their shared agenda of maintaining racial discrimination and residential segregation through federal housing policy. The continued right of private real estate and banking interests to practice racial discrimination through federal policy was not debated or challenged by state managers or organized labor.

POLICY FEEDBACKS AND THE FHA

State-centered theory views the formulation and enactment of social policy as contingent on previous policy precedents and the state structures that implement them (Hooks 1990; Skocpol 1992, 1980; Skocpol and Amenta 1985). The determinants of state policy depend on the consequences of previous policy attempts, the capacities of state institutions, and the balance of power among economic and political elites (Skocpol 1985; Skocpol and Ikenberry 1983). State-centered theorists do not assume that state structures are neutral mediators of pluralist conflict among competing interest groups (Hooks 1990). Rather, state structures provide differential access to state power for various agents and political groups. State-centered theorists argue that the feedback effects of previously enacted policies on subsequent policies "reveal how changing political agendas and alternative possible alliances emerge not only in response to new socioeconomic conditions but also on the basis of—or in reaction to—previous policy accomplishments" (Weir, Orloff, and Skocpol 1988:17). "Once instituted, social policies in turn reshape the organization of the state itself and affect the goals and alliances of social groups involved in ongoing political struggle" (25). According to state-centered theorists, state structures and policy feedbacks constitute the political processes through which social policies are forged. A limitation of state-centered theory is its failure to consider the impact of racial inequality and racial discrimination on political conflicts, state structures, and the formulation and implementation of social policies.

As state-centered theory anticipates, the FHA's mortgage insurance system and housing policies attempted to build on the previous policy initiatives of the 1932 Federal Home Loan Bank Act (FHLB) and the 1933 Home Owners Loan Act. Before the 1930s federal involvement in housing markets was limited to the creation of a Federal Land Bank system in 1916 and the construction of military housing during World War I (Jackson 1985:192). The creation of the FHLB in 1932 by the Hoover administration established the policy context that shaped subsequent New Deal housing legislation, including the Home Owners Loan Act of 1933 and the Housing Act of 1934. Hoover's FHLB recommended a new direction in federal housing policy that included the creation of long-term amortized mortgages, encouragement of low-interest rates, federal housing subsidies to aid private home building efforts, and reduction of housing construction costs (President's Committee on Home Building and Home Ownership 1932:24). The FHLB created a system of federal home loan banks that could supply housing credit, analogous to those of the Federal Reserve system. Like the Federal Reserve, the FHLB's regional banks were to provide guidance, standards, and regulation over the private lending industry to expedite the flow of mortgage funds. The legislation that created the FHLB was designed to rationalize and modernize existing lending practices and institutional forms that had existed since the end of the nineteenth century (Semer et al. 1976:71).

The 1933 Home Owners Loan Act was intended to strengthen the institutional and regulatory structure established by Hoover's FHLB. The leadership and staff of the FHLB was incorporated into a newly created Home Owners Loan Corporation (HOLC), and the new legislation was to provide mortgage relief to home owners and lending institutions (U.S. Senate 1933; *Congressional Record*, June 9, 1933, vol. 77:5437). The HOLC replaced the direct loan provisions of the FHLB and pioneered the long-term amortized mortgage with uniform payments spread over the life of the mortgage debt (Jackson 1980; 1985:196). During its brief period of operation (1933–35), the HOLC refinanced more than one million mortgages, accounting for one out of every five mortgages and one-sixth of the nation's outstanding mortgage debt (Keith 1973:24).

More important, the HOLC systematized appraisal methods throughout the nation by devising a neighborhood rating system in which physical condition of the property, characteristics of the neighborhood and location within the city, deed restrictions, and assorted land-use controls were evaluated to assess the credit-worthiness of the housing it financed (Harriss 1951; Jackson 1985:185–86). Four categories of neighborhood value were established, with the highest category going to new, racially homogeneous, all-white neighborhoods. Outlying Jewish and white working-class neighborhoods were given a second grade, while neighborhoods near a contiguous African-American neighborhood were assigned a third category of housing value. The lowest appraisal value was given to all–African-American neighborhoods regardless of the age of the dwellings or the income of the residents (Jackson 1980). With the assistance of local real estate agents and bankers, the HOLC assigned one of the four ratings to every block in every American city. The rating information was then recorded on "Residential Security Maps" in local HOLC offices and placed in "City Survey Files" along with reports relating to land values in the city (Jackson 1985:199). The effect of the mass application of the HOLC's appraisal rating system was to systematically devalue racially mixed and predominantly minority neighborhoods, thereby precluding private investment (Massey and Denton 1993:51–54).

The Housing Act of 1934 drew from the past policies of Hoover's FHLB and the HOLC to lay the institutional foundations for development of the modern mortgage system in the United States. The HOLC's neighborhood rating system, discriminatory appraisal methods, and amortized payment schedule were adopted by the FHA in 1934 (Jackson 1985:203, 215). Moreover, the Board of Directors of the FSLIC was drawn from the FHLB and initial capital for the FHA was provided by the HOLC (Semer et al. 1976:74; U.S. House 1934c). The built-in clientele of the FHLB and HOLC supplied the FHA with a trained and competent staff of state managers and officials from the real estate and lending industries to guide policy making, establish appraisal guidelines, and set national standards for lending and mortgage insurance. Continuing a trend begun by the HOLC, the FHA required that all government-insured loans be fully amortized and that the repayment period for mortgages be extended to twenty-five or thirty years. The FHA contributed to reform in mortgage lending practices initiated by the FHLB and HOLC by lowering interest rates for first mortgages from an average of 6 to 8 percent to 4 percent (Federal Housing Administration 1959).

There was consensus among members of Congress and administrative officials that the 1934 housing legislation involve as little government interference in the private sector as possible. Key administrative officials such as Marringer Eccles, assistant to the Secretary of the Treasury; Harry Hopkins, Federal Emergency Relief administrator; and John H. Fahey, chairman of the FHLB, endorsed real estate industry proposals that called for the creation of privately run mortgage insurance system (U.S. House 1934a:1–3, 6–9, 11–15, 23–64, 88–95). Specifically, Eccles supported a program that would "provide a long-term mortgage instrument at a low interest rate . . . and an amortized mortgage" (p. 8). Eccles was adamant that the housing legislation be "private in character," while Harry Hopkins argued for the establishment of a policy that would "unloose private credit rather than public funds" (p. 2). House CBC chairman, Henry B. Steagall, supported a program that could "induce the private sector to step in and supply housing" (p. 30). Eccles and other administrative officials worked for the passage of a market-centered stimulus program that would "avoid any direct encroachment by the government on the domain of private business, but [would use] the power of the government to establish the conditions under which private initiative could feed itself and multiply its own benefits" (Eccles 1951:144). In other words, the privatist orientation of the housing legislation was designed to facilitate the profitable business transactions of monopolistic real estate and lending interests without altering existing racial inequalities and patterns of residential segregation.

State-centered theory sheds light on how the feedback effects of previous policies and state structures shape and condition future social policies and legislative initiatives. The Housing Act of 1934 was built on the policy precedents of Hoover's FHLB and the HOLC, which provided regulatory guidelines, appraisal standards, and administrative staff to the FHA. Moreover, the policies and regulatory frameworks established by these state agencies for the economic revival and expansion of the housing market were governed by a privatist ideology and explicit endorsement of racial discrimination.[9] HOLC and FHA officials required private builders, real estate firms, and lenders to adopt specific land-use tools and subdivision regulations to protect property values and safeguard real estate investments. The FHA alerted land developers and realtors that "if a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally leads to instability and a reduction in values" (Federal Housing Administration 1936:233). Agency personnel were warned not to insure mortgages on homes unless they were covered by a racially restrictive covenant, located in "racially homogenous" neighborhoods, and removed from blighting influences such as poor schools and older housing (Abrams 1971:230–37; Myrdal 1944:349–50; Weiss 1987:151). In addition to the racially restrictive covenant, the agencies implemented a segregationist appraisal rating system and required that private housing actors and bankers practice racial discrimination in order to receive federal housing subsidies. The racial character of the 1934 housing legislation was shaped by previous policies and state structures that were conditioned by a racial bias in which nondiscriminatory measures were either ignored or not considered by state managers.

THE FHA AS A RACIALIZED STATE STRUCTURE

Marxian structuralists have criticized business dominance theorists and state-centered theorists for neglecting the structural foundations of capitalism, the process of capital accumulation, and the class struggle as salient factors in the formulation of social policies (Bowles and Gintis 1982; Levine 1988; Quadagno 1984:644–46). Marxists do not deny that business leaders play a central role in the policy formulation process, but they view this role as symptomatic of the structural forces of capitalism, not an ultimate cause (O'Connor 1973; Offe 1984). Thus, the state adopts pro-capitalist policies not because of the direct influence of powerful capitalists but because the state depends on a profitable capitalist economy to sustain its political legitimacy and material resources (Poulantzas 1980). State policy and state structures constitute a relatively autonomous political arena that factions of capital use to "organize political coalitions that compete for political dominance[;] those that prevail become the dominant power bloc" (Jenkins and Brents 1989:892; see also Poulantzas 1980:127). However, as Jenkins and Brents (1980:892) recognize, these political coalitions and actors cannot formulate policies at their behest but "operate within a capitalist context that defines the major contending interests and sets limits on the range of likely solutions." Yet structuralists have failed to explain the racial interests surrounding the political mobilization of rival capitalist blocs, the racial dynamic of state policies, and the racial nature of political opportunities.

The long-term effect of the federal government's mortgage insurance system indicates that the actions of the FHA ultimately benefited monopolistic real estate and building interests by reproducing racial inequality. That the FHA refused to insure mortgages in neighborhoods that were poor or racially mixed meant that builders and prospective buyers could only take advantage of FHA reductions in down payments and lower interest rates if they relocated to suburban areas (Gelfand 1975:218; Hays 1985:80–89). Thus, the FHA not only sanctioned racial discrimination in the housing industry but also fostered the development of large "community builders" who specialized in assembling huge tracts of vacant suburban land for lot sales and uniform home construction on a large scale (Checkoway 1984; Weiss 1987:141–62). The FHA's home building subsidies, underwriting standards, and land-planning policies encouraged large builders to expand the scope of operations and market share by enhancing the financial feasibility of single-family homes. Community developers whose housing plans conformed to FHA standards were able to get a government-insured mortgage for all homes they built. Once the FHA subsidy was obtained, builders rapidly increased the size of their operations, producing a high volume of quality, moderately priced dwellings in suburban areas. By 1938 the FHA was insuring mortgages on nearly one-third of all new housing production in the United States (Weaver 1948:70). This figure would remain fairly constant through the end of the 1950s (Weiss 1987:154).

Table 3 shows the number of new housing units started and percentage built by large builders from 1938 to 1959. Large builders accounted for 5 percent of all new housing started in 1938. This figure increased to 24 percent in 1949 and 64 percent by 1959. As the table shows, the period from 1938 to 1959 saw a significant increase in the number of houses built and the number of large builders.[10] Unlike smaller builders, large builders were able to receive credit advances and subsidies from the FHA to build a large quantity of new homes in a relatively short time. Builders who could promise a large quantity of mortgages and new homes were the principal beneficiaries of federal housing subsidies, while smaller builders were driven from the market because of their small-scale operations. For large builders, the FHA offered billions of dollars of credit and insured loans up to 95 percent of the value of the house. In Long Island, New York, the William Levitt and Son Company was able to get FHA subsidies to finance four thousand houses

TABLE 3
Number of New Housing Units Started and Percentage Built by Large Builders in the United States, 1938–59

	New Housing Units Started	*Percent of Housing Built by Large Builders*
1938	406,000	5
1949	1,466,000	24
1959	1,554,000	64

Sources: U.S. Bureau of Labor Statistics 1940; U.S. Department of Labor 1954; National Association of Homebuilders 1960:17. A "large builder" completed 100 or more new housing units a year, had a volume in excess of $1 million, over $600,000 in total assets, and employed more than 100 workers and staff (Checkoway 1984:155).

before clearing the land to build Levittown (Checkoway 1984:158–59). As late as 1960, not one of Levittown's 82,000 residents was African American (Jackson 1985:241). In 1962 the J. C. Nichols's Prairie Village subdivision in Johnson County, Kansas, contained more than 50,000 residents but only two African-American families. Nationally, it is estimated that from the 1930s until at least 1959, almost all of FHA-insured homes were built in the suburbs and less than 2 percent of FHA-insured loans were made to African Americans (Squires 1994:chap. 3).

In sum, the FHA institutionalized a racially separate and unequal system of home financing that favored suburban building for whites while precluding insurance for homes in racially mixed and nonwhite neighborhoods in the inner city (Massey and Denton 1993:53–55; Quadagno 1994:chap. 4). Before the 1930s racial discrimination in housing was confined to local housing markets and was unsanctioned at the level of federal policy (Abrams 1971:150–51). With the Housing Act of 1934, federal housing policy became "racialized" through the FHA's racially discriminatory mortgage insurance and lending policies, appraisal guidelines, and home building subsidies that stimulated high- and moderate-cost housing production by large-scale builders. The FHA excluded African Americans from participation in the federal government's mortgage system and in subsequent decades enabled whites to tap a lucrative and expansive suburban housing market that was created with federal subsidies. From the 1930s through the 1950s, the FHA's *Underwriting Manuals* considered African Americans to be "adverse influences" on property values and warned against the "infiltration of inharmonious racial or nationality groups" in racially homogeneous neighborhoods (Federal Housing Administration 1936, 1938, 1947, 1952). The FHA's discriminatory activities helped to disseminate and legitimize the notion that racial discrimination is a necessary and normal characteristic of all housing market transactions, housing appraisal, and mortgage lending (Massey and Denton 1993:51–55). As a result, the FHA's mortgage insurance system and home ownership subsidies established a racially dual home financing market by refusing to insure mortgages in areas not covered with a racially restrictive covenant, thus denying mortgages to African Americans and channeling capital into suburban housing construction.

CONCLUSION

This analysis of the Housing Act of 1934 demonstrates the value of analyzing state structures and state policy in terms of their underlying racial dimensions. Up to now, the leading theories of the state have downplayed the importance of race and racial inequality in the process of policy formulation and implementation. The concept of racialization helps to reframe existing theories of the state to explain the impact of race and racial discrimination on state structures, state policies, and corporate interests. The recognition that race interacts and intersects with the state and state policy in multiple ways shows how state theories can complement one another. In recent years a number of scholars have embraced an "acommodationist turn" in state theory as a means of avoiding "the increasing fruitless competition among theories for recognition as the single best theory of the state" (Hooks 1993:51; see also Gilbert and Howe 1991; Glasberg and Skidmore 1997; Jenkins and Brents 1989). This accommodationist position does not preclude the possibility for making general statements about the state but challenges scholars to examine the "institutional contexts in which state policies are conceived and implemented in order to specify the conditions that produce the outcomes asserted by each theory" (Hooks 1993:37). Business dominance theory helped to shed light on the role of powerful real estate and lending elites in the development of discriminatory policy ideas and their inclusion on the political agenda of national political leaders. State-centered theory proved useful in exploring how the racial logic of previous privatist free-market legislative initiatives shaped and constrained future policy choices in which nondiscriminatory polices were not considered by policy makers. Marxian structuralism provided insight into how the racialized nature of the FHA aided in the concentration and centralization of capital (Poulantzas 1980:177) by promoting the growth of large builders who specialized in large-scale building of suburban subdivisions.

This analysis suggests that once a state structure is racialized, its "normal" dynamics include a racial component that allocates differential resources to groups along racial lines (Bonilla-Silva 1997:474; Omi and Winant 1994; Winant 1994). While the motivation for creating the FHA and assorted housing legislation may have originated in the economic interests of powerful actors, after federal housing policy became racialized, all the leading actors in the housing market participated in defending and reproducing the racial structure of housing. The FHA's discriminatory appraisal guidelines and valuation criteria became the standards adopted and applied by private real estate firms, lending institutions, appraisers, and builders throughout the housing and lending industries. The FHA embraced and disseminated a segregationist philosophy that equated racially mixed and predominantly minority neighborhoods with declining property values and deteriorating housing conditions. To safeguard its investments and protect residential property values, the agency required the use of racial restrictive covenants and other discriminatory measures that gave legal sanction to the residential separation of the races. Racial discrimination and segregation became regarded as the "normal" functioning and outcome of private and state housing-related activities and lending practices that crystallized and hardened racial stereotypes and shaped the racial and socioeconomic character of neighborhoods and communities long after the 1930s (Massey and Denton 1993). Thus, once racial discrimination was encoded into the structure and operation of the FHA, the racialization of private housing industry developed a life of its own.

Although the findings of this article are limited to New Deal housing policy, the thesis developed here has broader implications for the formation of the American welfare state. Valocchi (1994) and Quadagno (1994) have pointed out that the politics of the policy formulation and policy-making process during the New Deal involved protecting the economic interests of elites as well as their racial interests. This analysis suggests that the 1934 housing legislation was shaped by the ability of leading actors in the housing and lending industries to guarantee maximum private sector control over the FHA's housing initiatives and mortgage insurance system so that federal policy would not undermine prevailing patterns of racial inequality and residential segregation. The maintenance of housing discrimination and segregation was a source of political and economic power of real estate elites and state officials that they worked to protect and sanction through federal policy. Seen in this light, the Housing Act of 1934 and the creation of the FHA was not just a singular isolated policy responding to a major crisis in the housing and lending industries. Rather, they were part of a broader process of welfare state building organized around relations of racial privilege and subordination and implemented through racialized state structures.

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NOTES

1. In recent years Quadagno (1994) and Valocchi (1994) have stressed, in various ways, the important role that race and racial inequality play in the formulation and implementation of welfare state policy.
2. James (1988) draws a distinction between the "liberal democratic state" and the "racial state" to examine the impact of class and race on the transformation of the southern racial state in the post–civil rights era. According to James, the liberal democratic state confers equal political rights on citizens regardless of their race, income, education, religion, class, and status distinctions; ignores petitions for redress of grievances based on racial status; assigns children to schools regardless of race; and protects voting rights of all. The racial state, in contrast, uses racial criteria to assign unequal political rights to different races; metes out different punishments for equivalent crimes according to the race of criminals and victims; segregates schoolchildren according to race; and discriminates on the basis of race.
3. Omi and Winant (1986) point out that while "every state institution is a racial institution" (p. 76), "race must be understood as occupying different degrees of centrality in different state institutions at different historical moments" (p. 77). Thus, state agencies organize and enforce "the racial politics of everyday life" through policies and institutional practices that are explicitly or implicitly racial (e.g., education programs, family law, and procedures for punishment, treatment, and surveillance of the criminal, deviant, and mentally ill). As a socially constructed and politically contested term, race is seen "as an unstable and 'decentered' complex of social meanings" (p. 68) that are

given concrete expression by the specific social relations and historical context in which they are embedded.

4. Recent empirical work on racial discrimination in housing, work, and other areas of society has shown that the distinction between "individual" discrimination (discrimination based on conscious intent) and "institutional" discrimination (organized, interconnected, and systemic) is artificial (Bullard, Grigsby, and Lee 1994; Feagin 1994; Massey and Denton 1993). As Feagin (1994:26) puts it, "all institutional discrimination is carried out by individuals, who implement the shared norms of their organizations and social networks."
5. Hays (1985:16–18) and Squires (1991:197; 1993) identify three major assumptions that have historically been central to the ideology of privatism. First, because the desire for material well-being drives human productivity, the market must encourage and reward acquisitiveness and competitiveness. Second, "the free market is the most effective and least coercive mechanism for allocating goods and services since it harmonizes individual self interest with society's collective development." Third, "government's role is to reinforce and supplement the market in regulating exchange in a manner that maximizes individual freedom and choice" (Squires 1993:136).
6. President Roosevelt appointed Frank C. Walker, a New York real estate broker and executive director of the National Emergency Council, as chairman of the housing committee. Other members included John H. Fahey, chairman of the FHLB Board; W. Averell Harriman, special assistant administrator of the NRA; and Henry I. Harriman, president of the U.S. Chamber of Commerce (Federal Housing Administration 1959:3; Radford 1996:179–80; Wheaton 1953:46–47). Walker assigned the job of researching and proposing remedies for reviving the housing and lending industries to Winfield W. Riefler, an economic adviser to the Executive Council and chairman of the Central Statistical Board (Federal Housing Administration 1959:3).
7. Racially restrictive covenants were contractual agreements among property owners and neighborhood associations that prohibited the sale, occupancy, or lease of property and land to certain racial groups, especially African Americans. Racially restrictive covenants did not exist before 1900 and legal restrictions on the transfer and sale of property were contained in deed restrictions, which covered single parcels of land. Unlike deed restrictions, restrictive covenants were designed to prevent the wholesale migration of African Americans into white neighborhoods and legally required all property owners to sell only to whites. Residents could be sued in court if they violated the stipulations of the covenant. After 1910 the use of restrictive covenants mushroomed throughout the United States and were frequently used to maintain racial homogeneity and segregation until 1948, when the U.S. Supreme Court declared them unenforceable (Massey and Denton 1993:36–38).
8. As early as 1918 the NAREB had proposed the idea of a central mortgage bank system that could insure lenders against loss on loans for home construction and improvement (Davies 1958:174; Wheaton 1953:21). By 1931 the NAREB and other building interests were proposing the establishment of a federal mortgage discount bank that could purchase mortgages from investors, insurance companies, and building and loan associations (Davies 1958:174–75).
9. In 1956, Albert Cole, head of the Housing and Home Finance Agency, testified before Congress that the role of the federal government in housing is "to assist, to stimulate, to lead, and sometimes to prod, but never to dictate or coerce, and never to stifle the proper exercise of private and local responsibility" (Albert M. Cole, letter, Congressional Record, 84th Cong., 2d sess., 1956, vol. 102, no. 103:9673, cited in McEntire 1957:62).

10. These large builders included, among others, J. C. Nichols in Kansas City, Irvin Blietz in Chicago, Maurice Fishman in Cleveland, Don Scholz in Toledo, Del Webb in Phoenix, Carol Gellert and Ellie Stoneson in San Francisco, John Mowbray in Baltimore, and Waverly Taylor in Washington, DC (Checkoway 1984:160).

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