

Wealth Disparity in the United States: The Case of Federal Housing Authority

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The income and wealth disparity in the United States of America is wider than any other economically developed country in the world. This is confirmed by a recent study that found the top 20 percent of the population holding 84 percent of wealth in the United States (Katznelson et al., 2014). The rich in the United States amass more purchasing power than their wealthy counterparts anywhere else in the world, while "the bottom 10 percent can buy less than the equivalent group in Canada and Western Europe" (Katznelson et al., 2014). Nonetheless, the astronomical gap between the haves and have-nots has been a reality since the inception of the union as the social construct has been designed to favor white Christian males over all others.

The invisible hands of the state have been consistently and systematically preventing minority groups from acquiring adequate opportunities to do well and prosper. To the contrary, state institutions such as the Federal Housing Authority (FHA) have promoted economic injustice and implemented discriminatory policies leading to the current colossal economic gap and absurdly incongruous state. Institutional discrimination has created a lasting generational impact on African Americans and other minority groups (Kimble, 2007).

Minority groups have been blocked from acquiring low interest rate loans and the few that were able to get it were systematically targeted by discriminatory policies such as the "redlining". The term that was used to differentiate the neighborhoods with minority occupants and marking them with red to envisage them as high-risk for mortgage lenders (Domonoske, 2016). Although many choose to illuminate the positive contributions of the FHA, only a handful of scholars have disclosed the agency's complicity with racial segregation (Kimble, 2007). As the field of upward economic mobility has been unevenly leveled to all members of the society,

it is essential to investigate the activities of institutions such as the FHA for their role in undermining civil rights and hampering economic justice.

This paper will investigate the FHA and its role in discriminating African Americans from acquiring opportunities to own land and properties. It will also examine how the FHA color zoning impacted so many African-American neighborhoods from appreciating in values and led them to languish in poverty. This paper will scrutinize whether African-Americans have been intentionally targeted and contrast counter arguments, and will also review how and when the FHA comes about with misguided policies that debilitate the future of minority groups in the country.

The ideals of equal opportunity have a unique meaning in the United States political framework since the outset of the country, and it has been stated in the founding documents as such. However, the principle of equal opportunity, its interpretation, and the practical application were widely misguided and engineered to only serve white Christian males at the expense of “people of color”. When the country was being formed, economic success was not related to hard work and rather to social origin or the color of skin. Thus, upward economic mobility was disproportionately interwoven with racial constructs and African Americans were marginalized and left out to suffer from adverse poverty.

The Federal Housing Authority is among the government numerous agencies that were created after the Great Depression of 1929. The FHA was established by the National Housing Act of 1934 to tackle the declining market through a collaborative effort of the federal government and private businesses. In 1933, half of the nation's mortgage was in default and the millions that had affiliations to the housing industry were unemployed. As a result, the National Emergency Council convened in 1934 to spearhead a vigorous intervention to resuscitate the

crumbling market. The agency transformed the housing industry and revolutionized the financial mortgaging system. The agencies' actions revitalized home ownership by stabilizing the housing market that has been affected immensely (Kimble, 2007).

Prior to the massive housing crisis that had been caused by the Great Depression, American public opinion was inclined towards opposition of any form of government intervention in economics and market. However, when too many people lost their homes to foreclosure and forced sales, the public opinion shifted and people started to seek government intervention and federal assistance. Thus, the FHA began its role in regulating interest rates, and stabilizing the market. While the FHA played a significant role in stabilizing and reviving the housing market, the agency operated and advanced the segregationist agendas designed to deny loan applications of African Americans (Kimble, 2007).

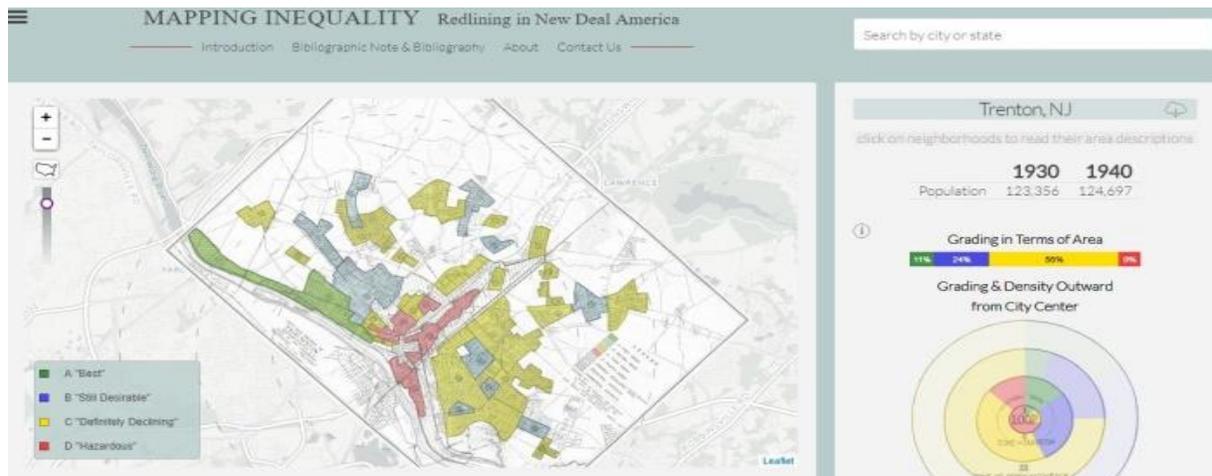
The FHA's trajectory of zoning American neighborhoods was primarily grounded in a vision of blackness and whiteness. African-Americans had been classified as unique financial credit risks and excluded from benefiting the FHA credit lines, so capital was disproportionately channeled to white neighborhoods. In the few cases where African American property buyers sought to buy homes in white neighborhoods, they had to pay higher premiums to set foot in the territory. For decades, the FHA failed to investigate the agency's rationale that directly link integration to the housing value depression as well as the merit of the agency's conclusion about African Americans resistance to assimilation (Rothstein, 2012).

The FHA Underwriting Manual (lender guideline) required lenders to keep a color coded document known as the Residential Security Map on file. The map categorized neighborhood "A" to "D" according to their racial composition, where A grade was linked to the most desirable and D grade was meant rejection. In addition, other area description forms

accompanying the Residential Security Map require appraisers to document the percentages of African-Americans, foreign born residents and possibilities of future “penetration” by those groups (Kimble, 2007).

As a case in point, a neighborhood in Trenton, New Jersey, which was described as having “executives and businessmen” with no African-American nor foreign-born and no “threat of infiltration” was graded as “A-1”. Another middle class neighborhood in Hamilton Township, New Jersey was graded as “B” for only a “threat of infiltration by foreigners” while all the residents were white middle class families. A nearby neighborhood whose residents is composed of 10 percent African-Americans and 65 percent foreign born was graded “C”. Another residential neighborhood in Delaware, Trenton with 15 percent African-Americans and 60 percent foreign born resided with a mixed threat of infiltration was described as “factory hand and laborer” and was given a “D” grade (Kimble, 2007).

Figure 1: A map of redlined Trenton, NJ.



Source: Domonoske, et al., Interactive Redlining Map.

Studies revealed that African-Americans were not necessarily living in the blocks where amenities were fewer and in the worst situation. Nevertheless, those “good blocks” where African-Americans resided were kept below market value because of their proximity to the more

depleted neighborhood. Similarly, the all White, largely Italian and Polish neighborhood located adjacent a “D” grade proximity was graded a “B” and “C” respectively (Kimble, 2007).

According to Adelman (2003), “between 1934 and 1962, the federal government backed \$120 billion of home loans: more than 98 percent went to whites. Of the 350,000 new homes built with federal support in Northern California between 1946 and 1960, fewer than 100 went to African Americans”. This indicates how African Americans have been dragged down to poverty while the whites were benefiting from the segregationist policies of the FHA. Despite the common belief of being hardworking and intelligent yielding prosperity, many white Americans get where they are at through unearned privileges, racism and merit (Adelman, 2003).

In 1947, developer Willian Levitt built 17,500 mass produced 2 bedroom houses, but no homes were sold to African-Americans due the FHA’s restrictive covenant. The FHA insisted that developers include a housing deed with restrictions regarding the selling and reselling of the homes to African-Americans. Of the total 300 large subdivisions that were built in New York’s Nassau and Westchester counties between 1935 and 1947, 83 percent had racially exclusive deeds that began with a prologue such as “Whereas the Federal Housing Administration requires that the existing mortgage on the said premises be subject and subordinated to the said [racial] restrictions ... [except for] domestic servants of a different race domiciled with an owner or tenant...” (Rothstein, 2012)

During World War II, an estimated 10, 000 African Americans moved to the City of Los Angeles in search of employment and, for the first time, industries that were desperately looking for laborers started to hire them in shipyards, aircraft plants, and other war industries. However, there was no adequate housing for the workers to settle into. As a result, working poor African-Americans were forced to be homeless while they were eligible for public housing, and there

were vacant homes in the white neighborhoods. The City's Housing Authority restricted African-Americans from moving into the predominantly white neighborhoods (Rothstein, 2012).

Segregated housing projects and segregated cities doesn't only exist in the history books and they were still in existence in some parts of the country until very recently. For instance, in 1984, an investigation conducted by the Dallas Morning News found that federally funded 47 housing projects in various cities were still segregated across racial lines and those, Yet, white predominant projects were found to have far superior amenities than black neighborhoods (Rothstein, 2012).

In the instances in which the Supreme Court of the US had to investigate the FHA and the Chicago Housing Authority, both the federal agency and the Chicago Housing Authority were found to be unconstitutional, in selecting development sites specifically to preserve and maintain segregation. The housing projects were not being developed where they are most needed. Rather, they were spearheaded to be developed in predominantly white neighborhoods (Rothstein, 2012).

In 1948, the United States Supreme Court presided over a case known as Shelly v Kreamer. The Petitioner, African-American Ethel Shelly, bought a property from Geraldine Fitzgerald in a St. Louis neighborhood where three quarters of property owners held a deed prohibiting the sale of land to African Americans and Mongolian. "The neighborhood restriction had been in place since 1911 and the property owners agreed to a 50 year contract not to sell property to the specified races. Shelly bought the property from Fitzgerald without knowing the restrictive covenant. When Shelly refused to give up the purchase of the property after learning the restrictions, Louis and Fern Kraemer, residents of the neighborhood whose deed bore a similar restriction sued to restrain Shelly from taking possession of the property" (Ducat, 2013).

The trial court found the covenant at fault, but the decision was reversed when Kraemer appealed to the Missouri Supreme Court. Shelly appealed to the U.S. Supreme Court and the case was heard with another controversy from Michigan, which involves a similar restrictive covenant. The Court found the action of the state court to deprive the petitioner's right guaranteed by the 14th amendment equal protection clause (Ducat, 2013).

The presiding Judge, Mr. Chief Justice Vinson delivered the opinion of the court by stating that “All citizens of the United States shall have the same right, in every State and Territory, as is enjoyed by White citizens thereof to inherit, purchase, lease, sell, hold, and convey real and personal property” (Ducat, 2013). In granting judicial enforcement of the restrictive agreements in these cases, the States denied the petitioner’s equal protection of the laws. As a result, the action of the States court was found unconstitutional. Although three Supreme Court Justices took no part in the consideration or decision of these cases, there was no dissenting opinion (Ducat, 2013).

The consequence of segregated housing projects is far reaching and has a broad impact on African-Americans lives. By far, the FHA is considered among the agencies that utilize federal policies to unequivocally ruin the plight of economic justice. In 2014, the total net worth of White households was 20 times that of African American households and 18 times that of Latinos (Katznelson et al., 2014). The FHA was among the major vehicles of the broader effort to maintain economic inequality and promote segregation. When the federal government enacted the Fair Housing Act in 1968, its purpose was to curtail discrimination and form a unitary housing market where people would receive equal opportunities to rent and purchase properties. Nonetheless, it was too late to reverse the damage that took place (Kimble, 2007).

Today, the political landscape is different than what it had been. There are no different water fountains for blacks and whites, and crude racist messages conveyed through a medium of communications are not tolerated. Many people have become open-minded to positively recognize other value systems and take part in cross-cultural experiences. Workplaces are more diverse than they used to be and the U.S. had its first African-American president. The nation has come a long way in striving to overcome the grotesque practice of racism. Today, people are relatively evaluated on a merit based system rather than getting stigmatized because of who they are. Nevertheless, the damage has been done and any intervention requires more work than electing an African-American president and delegating him in the White House.

According to economist Edward Wolf, African-American's net worth is less, " even when they make the same income, white families have over twice the wealth-much of that gap due to home equity and family inheritance." Sadly, many would like to assume that the wealth disparity is a natural phenomenon caused by a merit-hard work and even intelligence. Many even blame the very victims of a racist system for not putting more effort to improve their situation, and for failing to purchase homes and pass the appraised value to the next generation. The fact is that the playing field has never been evenly leveled and it has continued to be tilted to the advantages of non colored people (Adelman, 2003).

Most importantly, African Americans are still segregated and live in a poverty stricken neighborhood where the crime rate are astronomical and in the areas where schools lack adequate resources to provide services. African-Americans are also disproportionately represented in the nation's prison system and many are unable to find a job after serving time mainly because of imprisonment records. Some are even disenfranchised from participating in the nation's political process entirely. Various studies have indicated that over 46% of the 2.3

million prisoners in the United States are African-Americans when African-Americans only represent 13% of the population. (Alexander, 2011)

Although there are no easy answers to address the problems of inequality, the first step is acknowledging that inequality is not natural and is rather a byproduct of the intended consequence of persistent discrimination. Researchers have found a strong relationship between economic inequality and race in the United States (Hutchison, 2017). Therefore, the continued high level of inequality should be the concern of everyone. After all, addressing the root causes of economic inequality is not only morally appropriate, but also a prerequisite for justice.

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