



Obama's Phoenix comments call for reflection on class and housing issues

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Phoenix was perhaps the worst choice for Barack Obama's recent speech on his plans for Fannie Mae and Freddie Mac. To many, the Arizona capital epitomizes the recent housing crisis, when predatory lenders, mortgage security traders, and real estate developers gambled with the symbol of respectability for the working class. Obama, of course, labeled home ownership one of the cornerstones of what "it means to be middle class," which now needs to be protected from "these companies that are not really government, but not really private sector." He was, of course, right to point out that these government service enterprises were "allowed to make huge profits buying mortgages, knowing that if their bets went bad, taxpayers would be left holding the bag." The president was still wrong to advocate "private lending...be the backbone of the housing market," especially in a place like Phoenix.

Central Arizona sprawl is a testimony to what goes wrong at the local level when the federal government relinquished oversight of the foundations of working-class economic security to the private sector. Phoenix has long been home to the sorts of businessmen determined to

defend their right to rule over their enterprises but also their neighbors. An array of local private interests, not just bankers, cashed in on homes financed by thirty-year mortgages. The Chamber of Commerce and the city council (there was hardly much difference in postwar Phoenix) encouraged bedroom communities but left small-property owners holding the bag well before federal officials allowed Fannie Mae and Freddie Mac to be publicly traded. By then, residents' savings and security were wrapped up in a free-enterprise growth machine built on managerial hostility to worker power, wealth redistribution, and federal oversight. It was this regressive political agenda that transformed the Valley of the Sun from whistle-stop to metropolis at the expense of those who lived and worked there.



President Barack Obama speaking at an event on the housing sector in Phoenix, Arizona.

Obama is hardly the first liberal Democrat to trust lenders with reviving the housing market. New Dealers made that mistake in the 1930s, when Phoenix's maverick bankers, Walter and Carl Bimson, put aside their disdain for state intervention to take advantage of the Federal Housing Act. DC's liberal Democrats of course wanted financiers to promote the loans available for construction and repair, much as they hoped the government's mortgage

clearing houses would encourage the kind of trading that would make the new 30-year, fixed mortgages feasible, if not desirable, for lenders and working-class borrowers. FHA administrators were hence thrilled that the Bimson brothers devoted Valley National Bank's resources to hosting home fairs, publicizing available monies, and sending employees door-to-door to make recommendations on how a home could be improved. Arizonans ended up taking out \$500,000 for repairs within the program's first two years, a figure that made remote Arizona a national standout in making use of FHA monies.

New Dealers should have been wary of financiers who had dictated that staff "Make Loans!" when they took over an insolvent bank in 1933. Liberals could also have listened more carefully to how Carl promoted the program to his peers around the country in the mid-1930s, when he served as an official FHA spokesman. "This Act," the younger Bimson proclaimed, "is being operated by businessmen for the benefit of businessmen." "This is private money," he emphasized, "not government money." That attitude no doubt colored the Bimsons' willingness to flout FHA rules over what percentage of their holdings banks could lend out for liens. The brothers sidestepped the federally-managed mortgage market and directly peddled their loans across the country. They were all too happy to draw public attention to the sale of federal-backed mortgages to a Los Angeles insurance company. This \$1 million risk paid off for Valley National Bank: customers kept coming in and money went right back out with them.

Climate, not housing, prevented what could have been a speculative disaster. The Bimsons and other bankers, lawyers, newspaper owners, and retailers in the Chamber of Commerce recognized that the coming war could be profitable, especially after FDR decreed that defense production and training would take place in the interior. These boosters sold the desert's barren landscape, spacious skies, and perennial sunshine as an ideal place for training pilots. They were right: 145,000 recruits earned their wings in Central Arizona. Many more Americans came to the Valley to work for the military contractors constructing barracks, airplane parts, small aircraft, and flight decks. Soldiers and factory workers spent their paychecks in downtown stores, theaters, and hotels, not on housing repair or construction. To be sure, military personnel and plant staff needed a place to stay but construction firms were busy building temporary facilities.

The Bimson brothers and other boosters would once again embrace housing to avert catastrophe after the bases closed and military contractors shuttered their facilities. Homes were initially tangential to their plans to reinvigorate postwar Phoenix. Local entrepreneurs first set out to create a kind of free-enterprise oasis for the Steelbelt executives who disdained taxes, liberal Democrats, and unions. The Bimsons and their compatriots spared no expense contesting worker power and federal authority. The brothers were, for example,

heavily involved in passing Arizona's 1946 right-to-work law, the first statute passed in the West. This victory over Arizona shop floors had a direct impact on labor's ability to organize itself for Election Day, when voters repeatedly upheld tax cuts, regulatory repeals, and anti-labor ordinances. The Chamber of Commerce asserted these regressive measures were a part of "Phoenix's Second Climate," whose defining features grew to include the sort of municipal land giveaways, reduced utility bills, and infrastructure improvements done across the nascent Sunbelt to attract and compete for outside investment.

This climate did not reap long-term dividends for working- and middle-class property owners. Cities spent a lot of money being "business friendly" but did not receive much direct revenue in return, either from new enterprises or the Americans arriving in search of jobs, mild winters, and lower living costs. To be sure, transplants provided a steady customer base for downtown merchants, professionals, and newspaper owners but personal property and sales taxes were low in these years, which initially helped to make a middle-class lifestyle affordable in militantly non-union towns like Phoenix. Boosters and city officials steadily increased levies on small-property owners and consumers to pay for their business climates. Yet urban leaders could do little to raise rates outside city limits, where residents enjoyed the benefits of public utilities without having to pay municipal taxes.

Federally-guaranteed thirty-year mortgages inadvertently fed boosters' conservative growth machines. This easily obtained financial product underwrote the bedroom communities that became a gold mine for boosters and city leaders, like the Bimsons and their friend Barry Goldwater. The Phoenix retailer disdained union militancy, both on the job and at home. He had cut his political teeth in the Arizona right-to-work campaign, an effort as much about economic growth as his run for city council three years later. He considered city expansion and new investment initiatives deeply intertwined: "If you bring industry in here, we have got to have more homes." He had no patience for ordinary Phoenicians resistant to his plans. Ignore their "squawks," he demanded in 1947, lest the town "remain seventeen square miles for the next hundred years." He only demurred to the demands of outside investors, "I don't propose to wiggle for them until they wiggle for us. Let's wiggle together." The boosters who succeeded the Senator in city government did more than shimmy for executives. Councillors signed a landmark 1958 agreement with manufacturers outside Phoenix's borders that exempted all enterprises, either in or coming into the city, from fourteen municipal business ordinances. The treaty also guaranteed large operators (not shoppers) a ban on future city sales taxes, a moratorium on retail sales taxes on final sales, and the end of a city sales tax on goods sold to contractors.

Thereafter, manufacturers proved eager to help Phoenix swell in size. Someone had to pay for their corporate welfare. Arizona usurpation rules worked in their favor. Cities were

allowed to assume territory after owners of a proposed tract's property agreed to come into the city. Industrialists, Chamber members, and elected officials eagerly collaborated to propose annexations that included thousands of homeowners and but one major factory. It took, for example, a single GE higher-up to overrule the objections of suburbanites like Leonard Grube, who argued their reasons for wanting to remain unincorporated did not matter. "You see, it was their right," as property owners, to decide whether or not they wanted to follow city building codes or pay city taxes, some of which were almost on par with levies in union-friendly California, where citizens received much more in the way of public services than Phoenicians. But what could Grube do? There was hardly any oversight over the power of private interests in Phoenix, which covered almost 250 square miles by 1968, the year federal officials permitted public trading of Fannie Mae and Freddie Mac stock.

Hence Phoenix was hardly the place for Obama to argue that "private capital should take a bigger role in the mortgage market," much less assert "we can't leave taxpayers on the hook for irresponsibility or bad decisions by some of these lenders or Fannie Mae or Freddie Mac." It was, after all, a lack of federal oversight that allowed boosters, like the Bimsons and Goldwater, to subvert and profit from the "safe and simple mortgage products" that Obama wants to protect. And it should be emphasized: the Chamber's unchecked growth machine hardly served Phoenix well in the long run. Debt and regressive taxation have not kept firms like GE from moving to even sunnier pastures. As in Detroit, it will likely be working-class taxpayers who will (regardless of whether they can keep their homes or not) end up shouldering the costs.

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