

The S&L Crisis in its Earliest Days: Banking Reform Rhetoric in the Johnson and Nixon Years

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If the American dream historically consisted of achieving home ownership, home mortgage availability in the years before 1966 strongly enabled its realization for many Americans. The U.S. mortgage market relied upon congressionally directed and regulated institutions—savings and loans—to collect and distribute American working- and middle-class savings. By year's end in 1965, savings and loan institutions (aka S&Ls or thrifts) controlled 44 percent of the \$221 billion mortgage market; federal credit agencies provided only 3 percent of all residential debt; and roughly 63 percent of Americans owned their own homes.¹ The favored position of S&Ls was in large part the product of financial market regulations—an interest rate ceiling on savings accounts (Regulation Q) at commercial banks instituted by Congress during the 1930s and



Professor Irwin Friend of the Wharton School of Finance and Commerce headed a commission to assess the future success of the S&L industry.

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¹ United States Savings and Loan League, *Savings and Loan Factbook 1965* (Chicago: United States Savings and Loan League, 1965), 60. Hereinafter, referred to as “[year] *Factbook*.” Buildings and loan institutions, what later became known as savings and loans, first appeared in the United States in 1831. After many institutions failed as a result of the Panic of 1893, thrift executives formed the United States League of Local Building and Loan Associations, a national trade association that subsequently became the U.S. League of Savings Institutions. They also acknowledged several of the economic and competitive benefits that accompanied regulation and, subsequently, supported increased regulation at the state level. Another financial calamity, the Great Depression of the 1930s, ushered in new federal regulations, such as Regulation Q (interest rate ceiling on savings accounts); it also justified creating a regulatory system for thrifts that mirrored that of the Federal Reserve System and the Federal Deposit Insurance Corporation. As such, Congress passed the Federal Home Loan Bank Act of 1932 (created the Federal Home Loan Bank System), the Banking Act of 1933 (authorized the Federal Reserve to initiate Regulation Q), and the National Housing Act of 1934 (instituted the Federal Savings and Loan Insurance Corporation). See David Mason, *From Buildings and Loans to Bail-Outs: A History of the American Savings and Loan Industry, 1831–1995* (Cambridge: Cambridge University Press, 2004), 12–100.

an interest rate differential introduced in 1966—that funneled savers’ interest-bearing deposits through thrifts and into the home mortgage market.²

Thrift executives, however, experienced new economic and competitive challenges during the late 1960s and early 1970s that changed this rosy picture. The most significant of these occurred when the Federal Reserve’s Federal Open Market Committee, perceiving a wage-push inflationary spiral, tightened U.S. monetary policy in the fall of 1966.³ As the money supply shrank, interest rates rose above Regulation Q. Depositors quickly withdrew their money from thrifts and commercial banks and invested it in the securities markets—the first instance in postwar America of what came to be known as “disintermediation,” a term for shifting funds from one financial institution to another.⁴ One S&L trade association estimated that this policy decision by the Federal Reserve—what political and economic commentators later identified as the 1966 Credit Crunch—cost thrifts \$7.4 billion in savings deposit receipts.⁵ Subsequently, mortgage credit dried up, and housing starts dropped 30 percent in the six months after August 1966, producing the lowest number of starts in 20 years.⁶

The legislative and regulatory responses to the credit crunch quickly transformed the American mortgage and savings markets. The congressionally maintained niche that S&Ls had previously occupied was dramatically altered as they encountered

² The Federal Reserve only initially applied Regulation Q to commercial banks because they allowed S&Ls to set their own interest rates, which would allow them to pay slightly higher interest rates to attract the savings from working- and middle-class Americans. This arrangement worked relatively well until rate wars throughout 1966 created a higher degree of instability at S&Ls that heretofore had been missing. In the aftermath of the 1966 Credit Crunch, however, the Federal Reserve subjected thrifts and commercial banks to slightly different interest rate ceilings on savings accounts (rate differential) that was intended to provide S&Ls with a continued supply of cheap mortgage credit. Additionally, until 1951 S&Ls paid no federal taxes. Between 1951 and 1962, only institutions whose reserve funds exceeded 12% of all savings account balances paid federal taxes. And after 1962, S&Ls could allocate to their bad-debt reserves an amount equal to 60% of net income after interest. Congress also barred financial intermediaries (banks, thrifts, credit unions) from paying interest on demand accounts (checking accounts). See Mason, *From Buildings and Loans*, 128–86.

³ Edwin Dickens, “U.S. Monetary Policy in the 1950s: A Radical Political Economic Approach,” *Review of Radical Political Economics* 27 (1995): passim; Edwin Dickens, “The Great Inflation and U.S. Monetary Policy in the Late 1960s: A Political Economic Approach,” *Social Concept* 9 (1995): 67.

⁴ 1967 *Factbook*, 10. Interest rates during the credit crunch jumped to 6.30% on commercial loans and 5.85% on commercial paper when they had averaged 5% and 4.35% respectively in the first three quarters in 1965. All the while, S&Ls only offered 4.75% on their passbook savings accounts.

⁵ *Ibid.*, 60.

⁶ Michael Stone, “Housing and the Dynamics of U.S. Capitalism,” in *Critical Perspectives on Housing*, eds. Rachel Bratt, Chester Hartman, Ann Meyerson (Philadelphia: Temple University Press, 1986), 54.

an unprecedented thrift merger movement and faced new competitive pressures from commercial banks and “second layer lenders” (Fannie Mae and Ginnie Mae, among others).⁷ These new, unstable conditions not only provoked many political and economic observers to question the efficacy of financial sector regulation, but as “stagflation” intensified and disintermediation continued, an intersecting swath of government officials, academics, and journalists used this moment of apparent crisis in Keynesian methods of demand management as an opportunity to attack and significantly alter the intellectual contributions that justified regulations in the financial sector and other industries.⁸ Their efforts fostered a bipartisan ideological movement that subsequently narrowed the theoretical space in which policymakers could justify government regulation. Over the course of the early 1970s, and beyond, then, the term “deregulation” and the intention it expressed exploded into policymaking and academic circles as a viable regulatory alternative.⁹

As many academic critics of regulation began to cast their deregulatory gaze upon several sectors of the American economy, including the savings and loan industry, the U.S. Congress and President Nixon tasked two commissions—the Friend and Hunt Commissions—with investigating this new socioeconomic environment. By examining the theoretical framing and rhetoric of regulatory reform efforts of the Friend and Hunt Commissions, this article will identify the underlying issues that policymakers attempted to resolve as they responded to industry-level crises at America’s thrifts and to larger structural concerns regarding U.S. mortgage, housing, and financial markets. Policymakers debated the creation and allocation of mortgage credit and the structure and regulation of the U.S. financial sector. They also reexamined the appropriate balance of competing constitutional,

⁷ There were only 164 mergers between 1960 and 1965; in the five years after 1965, however, there were 365. And another 622 occurred between 1971 and 1975. See 1960–1976 *Factbooks*. The U.S. League of Savings Institutions identified the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac) as “second layer lenders” because depositors did not directly interact with them. The U.S. League also included the Federal Home Loan Bank Board (FHLBB) and its advance program as part of the new institutional arrangement that provided mortgage credit in lieu of working- and middle-class savings. The FHLBB maintained 12 regional banks and also regulated thrift institutions with federal charters.

⁸ Significant instances of S&L disintermediation occurred again in 1969, 1971, and 1973.

⁹ A search of the *Wall Street Journal* and *New York Times* between 1970 and 1980 revealed that these newspapers mentioned “deregulation” 977 times. Legislators in Congress, over the course of the 1970s, referred to deregulation in 2,211 separate hearings and 67 distinct pieces of legislation. Similar searches before 1970, however, demonstrated the extent to which deregulation was not a serious theoretical construct for interpreting regulatory issues in academia or Congress. The *Wall Street Journal*, *New York Times*, JSTOR, and congressional sources only mentioned “deregulation” a total of 144 times.

socioeconomic, and theoretical considerations as they related to dual banking and congressional and regulatory agency oversight.

Examining conversations over the years 1966–1973 in these contested areas enables four insights into the historical importance of this early stage of a longer S&L crisis. First, these discussions reveal the linguistic, intellectual, and ideological currents that policymakers incorporated into their rhetorical repertoires as they pursued regulatory reform, which involved reconceptualizing the longstanding notion of homeownership as a “public good.” Second, the legislative responses to S&L instability highlight the inability of many policymakers to fully grasp the interrelated economic and regulatory policies—and their theoretical bases—that had enabled postwar housing and savings markets to flourish. Third, efforts to reform the U.S. financial sector demonstrate how and why, by the late 1960s and early 1970s, policymakers could focus primarily on promoting the convenience afforded most white working- and middle-class Americans by U.S. financial institutions, rather than on continuing to concentrate on ensuring liquidity, stability, and broader access. Fourth, these episodes of policy contestation make obvious the need for scholars of American regulation to parse out the multiple meanings and significances of deregulation. In doing so, scholars can then go beyond interest-based explanations that locate the action in insulated business and political interests referred to as “iron triangles” and “issue networks.”¹⁰

These important insights ultimately demonstrate how the pursuit of an ideologically based financial sector reform, particularly the deregulation of savings and loans, problematically pitted government regulation against free market solutions. By doing so, policymakers exponentially worsened a budding crisis at America’s thrift institutions with their ignorance of the economic and political factors that had allowed the U.S. housing market to flourish in the years immediately following World War II.

Contextual and Ideological Deregulation and Public Goods

Interpreting efforts to deregulate America’s S&Ls during the late 1960s and early 1970s requires first that we identify the policy recommendations and the supporting

¹⁰ “Iron triangles” consist of interest groups, legislators, and government bureaucrats who construct a regulatory apparatus for the benefit of the involved parties. This arrangement has also been labeled as a “subgovernment.” “Issue networks,” on the other hand, involve technical experts, journalists, administrators, and political entrepreneurs who operate “fairly open networks” or coalitions to pursue regulatory agendas. See Thomas Gaus, Mark Peterson, and Jack Walker, “Interest Groups, Iron Triangles and Representative Institutions in American National Government,” *British Journal of Political Science* 14 (1984): *passim*.

theoretical framework that seemed to necessitate thrift deregulation. The analysis must recognize that legislators, academics, and economic commentators at the time problematically confused what should be classed as “ideological deregulation” based on a desire to achieve conservative policy goals with what would have constituted a “contextual deregulation” aimed to allow thrifts to meet the current emergency by adapting effectively to changing economic and technological environments.

As this distinction suggests, the two different kinds of motives arose from quite different observations and motivations. The impetus for ideological deregulation in those years was influenced significantly by the work of intellectuals associated with the Chicago School of Economics, such as Ronald Coase, Richard Posner, and Milton Friedman, among others.¹¹ Starting in the late 1930s, Coase responded to the prevailing notion that a failure of capitalism in the Great Depression had theoretically and politically justified the prominent role of new government regulations through the New Deal. In his first professional publication, “The Nature of the Firm,” he attacked that interpretation by arguing for the view that the business corporation has the capacity to be more efficient than government.¹² At the exact moment when many economists were giving primary attention to understanding and tracking Keynesian macroeconomic aggregates, Coase offered the opening salvo of a decades-long crusade in which he, and many others, focused almost exclusively on microeconomic problems in an effort to promote and exemplify the purported natural efficiencies of market mechanisms.

In his later work, Coase advocated for a legal system that more rigorously protected the property rights of individuals by weighing the costs and benefits of litigating alleged property damage in order to obtain judicial rulings that assigned blame and required payment to the injured party.¹³ Replacing litigation in the courts with direct bargaining between individuals with claims against each other, he argued, would produce more efficient market outcomes by restoring the regulatory function of private contracts. Adding to this Coasian aura of distrust for regulatory outcomes, other “public choice” scholars revealed the unnecessarily

¹¹ See Jessica Leight, “Public Choice: A Critical Reassessment,” in Edward Balleisen and Davis Moss, eds., *Government and Markets: Toward a New Theory on Regulation* (Cambridge: Cambridge University Press, 2009), passim, for a comprehensive discussion of the “Public Choice” movement.

¹² Ronald Coase, “The Nature of the Firm,” *Economica* 16 (1937): passim.

¹³ R. H. Coase, “The Problem of Social Cost,” *Journal of Law and Economics* 3 (1960): passim.

high costs of regulation and the ubiquitous presence of “iron triangles”—cozy, capture-enabling relationships between corporate executives, legislators, and regulators that weakened the public’s faith in the ability of the government to identify and fairly protect the public interest.¹⁴

Collectively, these critics of public regulation insisted quite effectively that federal regulations allowed corporate interest groups and government bureaucracies to essentially control the regulatory apparatus (regulatory capture), limited beneficial competition, and created unnecessarily expensive public goods. Their perception of “public goods” was generally consistent with its traditional meaning in welfare economics. As A. C. Pigou had first explained in the 1920s, the private value of a good or service occasionally did not equal its social value, and when such a divergence occurred, Pigou argued, the government was justified in creating “extraordinary encouragements”—i.e., subsidies and tax credits—to correct what Francis Bator would later identify, in the 1950s, as a “market failure.”¹⁵ Another form of government intervention that Pigouvians supported was government planning, including certain forms of regulation, to prevent negative events such as low homeownership rates in the economy. The Chicago School promoters of deregulation argued aggressively that their work empirically and irrefutably revealed the inherent downsides of economic planning via federal regulation, mainly through the claim that regulation enabled an environment in which both interest groups and policymakers maximized their utility by exchanging campaign contributions for votes supporting legislation favorable to the industry and the major, high-spending firms that led it. Thus, these skeptics concluded, regulators were incapable of, or worse, unwilling, to identify and/or pursue a larger public good.

Pursuing contextual deregulation, on the other hand, required observant policymakers who operated within an agile regulatory framework to spot changes

¹⁴ Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Brothers, 1957); James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962); and George Stigler, “The Theory of Economic Regulation,” *The Bell Journal of Economics and Management Science* 2 (1971): passim. Even though Richard Posner did not publish “The Social Costs of Monopoly and Regulation” until 1975, he joined the University of Chicago Law School faculty in 1969 and became a founding editor of *Journal of Legal Studies* in 1972. See Steven Teles, *The Rise of the Conservative Legal Movement: The Battle for Control of the Law* (Princeton: Princeton University Press, 2008), 95–101, for a discussion of Posner’s importance within the “Public Choice” movement.

¹⁵ See John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (New York: Farrar, Straus, & Giroux, 2009), 116–19, 125–28 for discussions on Pigou and Bator’s work.

in the context of the regulated. Legislators and regulators needed to understand that constantly evolving domestic and international economic and political contexts could potentially require subsequent regulatory interventions.¹⁶ Doing so would have allowed policymakers to appropriately reevaluate the economic and structural consequences of rising inflation or the dismantling of the Bretton Woods agreement, for example, and potentially realign their expectations for the existing structure of financial regulation.¹⁷ Moves toward deregulation could have been rooted in both ideological and contextual sources, as these are not mutually exclusive constructs.

Even so, attempting to incorporate both as analytical tools and to differentiate between these elements gives historians tools useful in interpreting the Friend and Hunt Commissions' responses to S&L problems in the 1960s and 1970s. Separating out the influence of postures provided by antiregulation, free market experts can help to explain how policymakers could have pursued necessary changes to the position of the thrifts specifically, and to financial markets more generally, without simultaneously undermining the theoretical and political justifications for regulation. This distinction also enables scholars to move beyond previous narratives that focused almost exclusively on "iron triangles" and "issues networks," which portrayed policymakers as neutral, passive arbiters of public policy incapable of pursuing a larger public good.¹⁸

The Friend Commission

Social spending obligations undertaken to implement the War on Poverty in the mid-1960s raised citizens' expectations and required substantial increases in government spending and debt. These new government interventions combined to produce housing-related policies, such as increased government-sponsored enterprise (GSE) activity in a secondary mortgage market that over the next few years fatally affected the savings and loan industry. GSEs and their

¹⁶ Robert Collins, "The Economic Crisis of 1968 and the Waning of the 'American Century,'" *American Historical Review* 101 (1996): passim.

¹⁷ Bretton Woods was an international monetary arrangement agreed upon in 1944 that selected the American dollar as the basis for international monetary exchange by pegging the price of gold at \$35 per ounce. It also established the International Monetary Fund and World Bank.

¹⁸ Gaus, Peterson, and Walker, "Interest Groups, Iron Triangles," passim. See also Anthony Downs, *An Economic Theory of Democracy*, passim; Richard Posner, "Social Cost of Monopoly and Regulation," *The Journal of Political Economy* 83 (1975): passim; Coase, "The Problem of Social Cost"; Stigler, "The Theory of Economic Regulation"; and Leight, "Public Choice."

wealthy investor base increasingly replaced working- and middle-class savers as the suppliers of American mortgage credit.¹⁹ Additionally, many businessmen believed that policymakers would not succeed in eliminating inflationary pressures in an increasingly Vietnam-focused United States as they feared that Congress lacked the political wherewithal to do so.²⁰ A growing expectation of inflation, which had jumped from 1.03 percent in 1960 to almost 4 percent by the end of 1966, encouraged many to borrow sooner rather than later, since credit likely would be more expensive down the road. One economic commentator at the time even wondered “whether the tools of economic policy will work at all.”²¹

It was in this volatile economic and political context that policymakers interpreted the credit crunch of 1966. Its drastic effects so startled legislators that shortly thereafter they commissioned Professor Irwin Friend of the Wharton School of Finance and Commerce at the University of Pennsylvania and other academics to “examine the role of the [S&L] industry in the economy and to determine methods for improving its performance, particularly in view of the major difficulties which the industry was having at that time.”²² Published in July 1969,

¹⁹ Interest Rate Adjustment Act of 1966 (Regulation Q); Housing and Urban Development Act of 1968 (FNMA reorganization and GNMA creation); Rate Control Act of 1969 (Treasury could purchase \$4 billion of FHLBB obligations); and the Emergency Home Finance Act of 1970 (created FHLMC). See also Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011), 173–90.

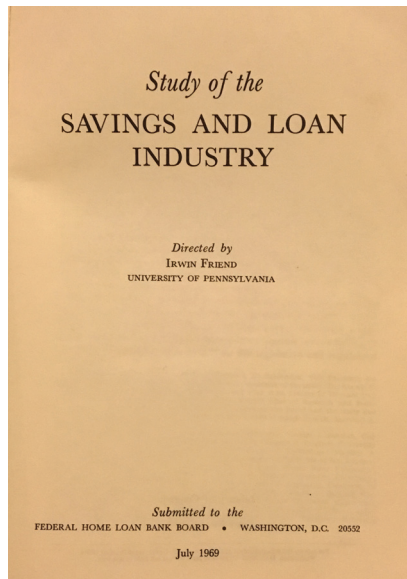
²⁰ Collins, “The Economic Crisis of 1968,” *passim*.

²¹ Stephen Packer, “The Credit ‘Crunch’: 1969 v. 1966,” *Financial Analysts Journal* 25 (1969): 19.

²² Irwin Friend, *Study of the Savings and Loan Industry* (Wash., DC: Federal Home Loan Bank Board, 1969), 1. Hereinafter referred to as the Friend Commission. In one previous account, historian David Mason failed to identify and explain the context for the Friend Commission. By missing its connection to 1966, he situated the commission instead mainly within the context of deregulation, which leads to an oversimplification of the commission’s findings. The report did recommend expanding thrifts’ asset and liability powers and eliminating Regulation Q (in the long term), but the report also clearly demonstrated the fundamental role that the government played, and would necessarily continue to play, in creating and maintaining the American housing market. See David Mason, *From Buildings and Loans*, 206. The commission’s participants included Phoebus Dhrymes (University of Pennsylvania), Paul Taubman (University of Pennsylvania), James Walter (University of Pennsylvania), Paul Cootner (Massachusetts Institute of Technology), Robert Bartell (Washington University), Austin Hoggart (University of California, Berkeley), Stephen Goldfeld (Princeton University), Reuben Kessel (University of Chicago), George Benston (University of Rochester), Edward Herman (University of Pennsylvania), Eugene Brigham (University of Wisconsin), R. Richardson Pettit (University of Pennsylvania), David Huang (Southern Methodist University), Leo Grebler (University of California, Los Angeles), Tom Doyel (University of California, Los Angeles), Irwin Friend (University of Pennsylvania), David Fand (Wayne State University), Jack Guttentag (University of Pennsylvania), Paul Samuelson (Massachusetts Institute of Technology), James Duesenberry (Harvard University), and Ernest Bloch (New York University).

the commission's report highlighted ways that the U.S. mortgage market had begun to change in response to the tumultuous events of 1966. It also identified a number of problems that policymakers and thrift executives would be forced to address as they struggled to navigate the economically and politically destabilizing circumstances of the 1970s.

The Friend Commission examined and debated the importance of national savings (thrift credit growth), thrifts' asset (lending markets) and liability (deposit bases) structures, financial regulatory approaches, the social costs of regulations, and thrifts' allocational and operational efficiencies. Most troubling for the continued future success of the S&L industry, the commission established a causal relationship of S&Ls' "nonmarketable long-term investments" (assets in the form of homes whose mortgages they held) and "highly liquid short-term liabilities" (savings accounts that could be drawn down or closed out at the depositors' will) with "adverse consequences on the housing markets." In other words, the commission pointed directly to the negative impact on thrifts of policy-related invitations to disintermediation (again, the shifting of deposits from one investment vehicle/site to another). Since the 1930s, Congress had imposed restrictions on thrifts' access to assets and choice of liabilities.²³ Thrifts in the 1960s, for example, could not offer demand deposit (checking) accounts. Thus, given these restrictions, the commission predicted that S&Ls would experience more episodes of disintermediation and



The Friend Report recommended a continued role for the national government in shaping the future of the U.S. mortgage and savings markets.

²³ A thrift's asset was a loan it made on which payments were predictably due, and the funds deposited by an individual were its liability. During the late 1960s, S&Ls' liability structure primarily consisted of savings accounts, but by the late 1970s it increasingly relied upon certificates of deposit (CDs), of which higher and higher amounts eventually came from brokered deposits, demand deposit (checking) accounts, mortgage-backed securities, and money market accounts.

²⁴ *Ibid.*, 53–54.

decreased profitability if inflation and interest rates continued to rise unless Congress modified the thrifts' lending and borrowing restrictions.²⁴

The commission also claimed that 20 percent of the industry was not "well" by 1969 due to a slowing economy, changing tax and regulatory codes, and declining savings growth and thrift profitability—problems thrifts would continue to encounter throughout the 1970s.²⁵ These new economic conditions, the report suggested, forced "an undue emphasis on growth," which included expensive advertising and solicitation fees, high interest rates on savings, and luxurious office buildings. These more expensive efforts "stimulated the reaching for high yield and risky loans" in order to cover their newly increased costs.²⁶ Even with all of the existing structural, regulatory, and allocational problems the Friend Commission described, it also acknowledged it left "several gaps" that they believed required "more detailed studies."²⁷

To counteract these recent developments, the commission detailed how savings and loans could continue to serve as the fulcrum of the American housing and savings markets. The "most promising" options included expanding consumer lending, offering more multifamily housing unit mortgages, providing longer-term savings accounts and checking accounts, creating new mortgage instruments, and minimizing geographical restrictions on thrifts.²⁸ The Friend Commission also praised both larger-sized thrift institutions and the industry's asset specialization, claiming that these features enabled economies of scale and more efficient operations.²⁹ Even so, they urged thrifts to diversify both their asset and liability structures, arguing that a "judicious combination of changes both in the lending

²⁵ *Ibid.*, 43

²⁶ *Ibid.*, 38–39.

²⁷ *Ibid.*, 2–3. These included 1) the income and loss experience of individual loans made by savings and loan associations classified by loan characteristics; 2) the comparative performance of federal, insured state, and noninsured associations; 3) the adequacy of state-level regulation and the coordination of state and federal supervisory policies and procedures; 4) the relative merits of different procedures for dealing with the most severe types of supervisory problems; 5) an examination of the role the savings and loan industry might play in urban reconstruction; 6) a critique of the structure, operations, and performance of the Federal Savings and Loan Insurance Corporation (FSLIC), including its system of insurance assessments; 7) an investigation of the organization and administration of the FHLB System (as distinguished from its regulatory and credit policies and procedures); and 8) a detailed study of the tax treatment of the industry.

²⁸ *Ibid.*, 15.

²⁹ *Ibid.*, 29–31.

[assets] and borrowing [liabilities] power of the industry could effect a significant improvement in the industry's overall economic performance without risking a severe adverse impact on the housing market."³⁰

Even though the experts opined that interest rate ceilings “should gradually be raised relative to free market rates,” the commission accepted the contemporary usefulness of legislated rates while also cautioning that they “should neither be retained indefinitely nor abolished immediately.”³¹ On the one hand, interest rate ceilings, according to critics, created “a deficiency in the supply of savings in relation to the borrower’s demands.” This, the critics claimed, necessitated “wasteful and inequitable non-price rationing methods,” which also created the opportunity for monopoly profits. These ceilings also helped discriminate against “moderate-income” and “unsophisticated savers,” in addition to enabling “serious problems of equity and efficiency.” On the other hand, the Friend Commission argued that ceilings did “provide an additional policy instrument which may be useful at times. Thus, they provided a mechanism for selective control of (and assistance to) residential construction as opposed to other capital formation.” Once ceilings were established, the commission demonstrated how their repeal could “cause substantial damage to the interests which have grown up under their protection, and this damage might on occasion assume serious proportions for the economy as a whole.” Lastly, the Friend Commission outlined how interest rate ceilings “may at times be useful to stop an upward spiral of interest rates based on self-fulfilling psychological reactions.”³²

The commission also warned against the central bank practice of relying exclusively upon monetary policy during protracted periods of tight money—“perhaps the most important problem considered” in the study. The commission was critical of over-utilizing monetary policy because it was to a “substantial extent a selective means of credit control impinging in particular on housing,” with “particularly large . . . costs to young families and to disadvantaged groups,” especially America’s minority populations. Members believed that a “prolonged period of inflationary pressure contained mainly by monetary policy and rising interest rates could be disastrous.” They therefore concluded, “It seems reasonable to assume that greater

³⁰ *Ibid.*, 54. The commission report recommended thrifts be allowed to invest up to 10% of their asset portfolios in consumer loans and offer checking accounts.

³¹ *Ibid.*, 23.

³² *Ibid.*, 22.

reliance should be placed on fiscal policy for counteracting cyclical excesses,” which “should make possible a more efficient allocation of resources and a more equitable distribution of the effects of restraint among different groups in the population, as well as provide what could be a more certain and speedier overall impact.”³³ The Friend Commission was clearly concerned not only with improving the structural integrity of the American mortgage market, but also with doing so with an eye toward enabling what they perceived to be a moral and equitable system of distributing mortgage credit.

Some have claimed that the Friend Commission represented one of the earliest steps toward the deregulation of the thrift industry.³⁴ If this is true at all, it should be clear that the Friend Commission sponsored *contextual* deregulation of America’s thrifts. Far from repudiating government involvement in the provision of home mortgage credit by thrifts, the Friend Report actually explained how government assistance had previously “helped to offset the imperfections of the mortgage markets.” It then identified homeownership as a public good and encouraged nonmarket responses to promote and maintain the U.S. housing market. The report offered various suggestions as to how government programs and regulatory bodies could help to alleviate thrifts’ shortcomings by creating more flexible mortgage instruments, offering supplemental funds when the supply of savings deposits dropped, and opening more government-owned-and-operated credit facilities.³⁵ Precisely in this fraught historical moment policymakers and academics began to discuss what would later be identified as a movement for deregulation. Yet it is important to recognize in the Friend Commission’s key recommendations the implications of recommendations for the national state’s continued role. This body of experts made perfectly clear, as late as 1969, the view that the government would need to continue to play a fundamental, if not an even greater, role in shaping the contours and direction of the U.S. mortgage and savings markets.³⁶

The Hunt Commission: Offering a Regulatory Reform Agenda

Hardly a year after the Friend Commission’s final report was published, in the midst of the second episode in three years of disintermediation at American

³³ *Ibid.*, 7–8.

³⁴ Mason, *From Buildings and Loans*, 206–07.

³⁵ Friend Commission, 11.

³⁶ *Ibid.*, 29–34.

thrifts, President Nixon established the President’s Commission on Financial Structure and Regulation—the Hunt Commission—in spring 1970 to evaluate the “structure, operation, and regulation” of U.S. financial institutions. Nixon tasked the Hunt Commission with producing a set of “achievable legislative proposals” that would improve the efficiency and flexibility of the U.S. financial sector.³⁷ Ultimately, 17 corporate and financial executives, two professors, and one labor representative drafted a set of ideologically justified policy recommendations that, if implemented, would fundamentally restructure the American financial sector and readjust the future expectations of policymakers as they aimed to continue increasing American homeownership and fostering economic growth.³⁸

The term “deregulation” did not appear in the commission’s report. Even so, the Hunt Commission clearly identified and articulated the need for ideological deregulation, signaled by the market-referencing language it used. The commission identified its intention to “move as far as possible toward freedom of financial markets” by ensuring a higher degree of competition for deposits.³⁹ Adequate competition, the commissioners argued, guaranteed institutional flexibility and consumer choice; but it also enabled, they claimed, equitable systems of regulation and taxation by eliminating institutional specialization—a hallmark of the pre-1966 financial sector.

Even as Congress continued to identify the need for government support in reaching national housing goals as it had in 1968, for example, the commission’s report declared, “When the goal of public policy is to increase the availability of particular types of goods, regulation of financial institutions is likely to be

³⁷ Richard Nixon, “Special Message to the Congress Proposing Changes in the Nation’s Financial System,” *The American Presidency Project*, June 16, 1970, www.presidency.ucsb.edu (accessed November 28, 2015).

³⁸ The commission’s participants included Reed Hunt (Crown Zellerbach Corporation), Atherton Bean (International Multifoods Corporation), Morgan Earnest (Earnest Homes, Inc.), J. Howard Edgerton (California Federal Savings), Richard Gilbert (Citizens Savings Association), William Grant (Businessmen’s Assurance Company), Alan Greenspan (Townsend-Greenspan & Co., Inc.), Walter Holmes, Jr. (C.I.T. Financial Corporation), Lane Kirkland (AFL-CIO), Donald MacNaughton (Prudential Insurance Company of America), Edward Malone (General Electric Company), Rex Morthland (Peoples Bank and Trust Company), William Morton (American Express Company), Ellmore Patterson (Morgan Guaranty Trust Co. of New York), K.A. Randall (United Virginia Bankshares Incorporated), Ralph Regula (Attorney and State Senator, Ohio), Ezra Solomon (former Dean Witter Distinguished Professor of Finance, Stanford University), R. J. Saulnier (Professor of Economics, Columbia University), and Robert Stewart III (First National Bank in Dallas).



Reed O. Hunt headed the Hunt Commission, which advocated “increased competition within and among the institutional types” of banking.

unsuccessful. Attempts to force inappropriate functions upon financial institutions waste society’s resources, cause them to be inefficient, and, most important, often leave goals unmet.”⁴⁰ In advocating for market-based solutions, however, the commission ignored the messy and complicated realities of the workings of markets and the unique historical development of U.S. financial and housing markets. Their language clearly minimized and/or completely eradicated the regulatory rationale of pursuing through regulation a Pigovian “social good,” particularly as it related to homeownership. Rather, their rhetoric narrowed and redirected the political and economic scope of inquiry almost exclusively toward utility maximization for individual lenders or borrowers and toward looking at comparative prices and efficiency. In turn, the Hunt approach did not consider social harm, economic restitution, systemic stabilization, and the interplay of economic aggregates.

Attempting to encourage Congress to initiate substantial financial regulatory reform, the Hunt Commission warned of dire consequences if Congress failed to comprehensively enact its recommendations.⁴¹ Without their substantive reforms, the Commission argued that the existing regulatory structure would continue to limit national savings, foster additional non-price competition, increase financial intermediaries’ operational costs, raise the cost of credit, and lower the rate of return for investors and some savers.⁴² After acknowledging the changing socioeconomic and technological environments of the late 1960s and early 1970s, the commission also offered a criticism that Ford, Carter, and Reagan administration officials would later incorporate into their rhetorical arsenals; they bemoaned what they termed the negative ramifications of a regulatory framework that had been developed to combat the economic instability of the 1930s.

³⁹ *The Report of the President’s Commission on Financial Structure and Regulation* (Wash., DC: GPO, 1973), 9. Hereinafter referred to as Hunt Commission.

⁴⁰ *Ibid.*, 117.

⁴¹ The Hunt Commission recommended the following reforms: end Regulation Q, expand S&Ls’ asset and liability powers, allow federally chartered mutual and stock associations, permit branching and interstate banking, consolidate federal regulatory agencies into one regulatory body, and eliminate preferential institution-based tax codes.

⁴² *Ibid.*, 12.

Establishing a regulatory framework that encouraged individual and institutional choice was of vital importance to the Hunt Commission. The choice of the type of charter, the preferred regulator, institutional identity, and operational strategies that the commission's recommendations would implement would allow financial executives to achieve higher degrees of efficiency, operational freedom, and competition, the commission claimed. One key aim was to allow the thrifts to engage in additional types of lending. With institutions, particularly S&Ls, "offering a wider range of products and services," the commission's report argued, customers would benefit immensely from "added convenience" and enhanced "elements of competition" that produced "better service, greater efficiency and possibly lower prices."⁴³ Choice, though, as conceptually interpreted by the Hunt Commission, represented the antithesis to regulation. Its utilization as a fundamental component of a restructured financial sector offered policymakers a new theoretical justification for allowing financial markets to self-regulate—a change that the executives on the committee apparently clearly welcomed.

Providing choice on the recommended scale, however, created a new set of contradictions for policymakers. In the existing regime that the commission hoped to replace, a rule passed decades earlier, Regulation Q, mandated disparate interest rate ceilings on savings accounts at S&Ls and commercial banks, with thrifts allowed to pay higher rates as compared to commercial banks. The aim had been to supply S&Ls with an adequate supply of cheap credit to then disperse as mortgage credit, thereby increasing American homeownership. In light of the "effects of regulation of financial institutions [that] have been amply demonstrated in the field of housing during the past six years," the commission proposed to replace both the thrifts' specialization in providing home mortgages and Regulation Q. Replacing these, the report proposed providing subsidies to citizens qualifying for assistance and tax credits for institutions providing mortgage credit.⁴⁴ Both proposals, the commission reported, would help to "avoid the 'hidden tax' . . . of special regulations and special agency financing." The implementation of subsidies and tax credits, the commission claimed, "parallels the allocation of real resources and permits better planning, management, and account."⁴⁵ But as Morgan Earnest, the

⁴³ *Ibid.*, 113.

⁴⁴ *Ibid.*, 117.

⁴⁵ *Ibid.*, 118.

commission's sole representative from the housing industry, explained in an addendum to the official report, both options fell quite short of the explicit promotion of American homeownership previously embedded into U.S. financial regulation.

For more than a quarter of a century, it has been recognized that the greatest single critical deficiency in the financial structure of the nation has been in the mortgage market. . . . The Commission's recommendations in this area failed to come to grips with the overriding problem of providing a more stable flow of funds into the residential mortgage market. . . . The Commission recommendation to turn to the Federal Government to provide direct subsidies to consumers, in the event mortgage financing is not adequate to achieve national housing goals, highlights its failure to recommend means to even the flow of funds in a private enterprise society.⁴⁶

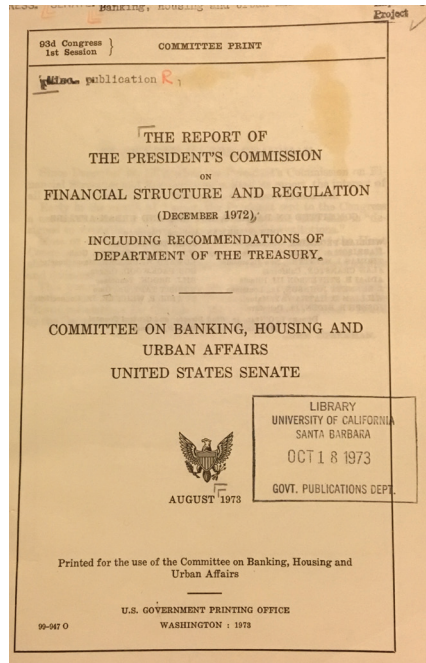
Just as important, the commission failed to recognize three disturbing paradoxes of the existing American mortgage market. First, policymakers promoted market-based solutions at the exact moment that GSEs steadily began to increase their importance as a key conduit of mortgage credit in the United States.⁴⁷ Second, the Hunt Commission advocated the creation of a self-regulating financial sector that simultaneously, and coincidentally, shifted risks from financial intermediaries onto the Treasury Department, Congress, and consumers. In a Hunt-envisioned financial sector, then, consumers increasingly bore the risk associated with interest rate volatility, not financial institutions. Third, the commission claimed that dual chartering, the authority possessed by either an individual state or federal agency to offer a charter to an S&L, mitigated the "dangers" of "over-zealous" entry restrictions and unimaginative regulatory authority by promoting competition between the various regulatory agencies. Dual chartering, the commission claimed, also raised supervisory standards, promoted efficiency, and "assure[d] uniform

⁴⁶ *Ibid.*, 135.

⁴⁷ Between 1966 and 1970, the FHLBB advanced \$17 billion to S&Ls and Fannie Mae purchased another \$15 billion of mortgages on the secondary mortgage market at a time when S&Ls closed and/or purchased \$114 billion worth of U.S. mortgages. Such second-level activity represented 28% of the funds S&Ls used to increase American homeownership during those five years. In the years between 1971 and 1975, that percentage increased to 33% as the secondary mortgage market contributed another \$89 billion in mortgage credit. See 1966–1976 *Factbooks*.

treatment of depositors” since competition between regulators, the commissioners believed, would theoretically prevent any state or federal regulator from creating too harsh of a regulatory environment for its constituents, lest they abandon their existing charter for another.⁴⁸

But as one critic of the Hunt Commission explained, the maintenance of the dual banking system was “political accommodation pure and simple,” because “this system could not conceivably be dislodged short of financial disaster.” Such accommodation reflected the strength of the structural and ideological expectations regarding the American financial sector that only allowed “unreconstructed optimists among the academic profession” to “afford to dream of a better solution,” this critic maintained.⁴⁹ Of equal importance, thrifts’ experiences over the course of the 1970s and 1980s revealed the declining, not enhanced, supervisory standards that resulted from financial executives choosing their charters and regulators (i.e.,



reserves, taxes, rate regulations, and supervision, there should be no need for *ad hoc* protective policies in future periods of economic stress.

The recommendations are interrelated and the Commission urges that they be considered as a package, even though some of the proposed changes, if enacted separately, would improve the financial system. The Commission believes that piece-meal adoption of the recommendations raises the danger of creating new and greater imbalances.

In recommending increased freedom for the financial system, the Commission recognizes that precipitous action is inappropriate. The existing structure and regulatory framework must be changed in an orderly manner to achieve and maintain competitive balance between institutions, and to assure the system's proper functioning during the period of transition. Accordingly, several of the Commission's recommendations contain guidelines that would provide for an orderly phasing-out of the old system and phasing-in of the new.

The Hunt Report. An excerpt from the report states that with full market competition “there should be no need for *ad hoc* protective policies in future periods of economic stress.”

⁴⁸ Hunt Commission, 60, 120.

⁴⁹ Roland Robinson, “The Hunt Commission Report: A Search for Politically Feasible Solutions to the Problems of Financial Structure,” *Journal of Finance* 27 (1972): 773–4. At the time, Robinson was a professor of economics at Michigan State University.

regulatory arbitrage). And from a theoretical perspective, it is also difficult to imagine how a regulatory system with 52 rule makers could ever achieve the efficiency and uniformity the Hunt Commission claimed to have promoted.⁵⁰

Submitting its final report to President Nixon in December 1972, the Hunt Commission claimed to have proposed a “number of fundamental changes” that it hoped “would produce a structural and regulatory system which will efficiently and equitably serve the financial needs of the country in the coming decades.”⁵¹ In effect, the Hunt Commission had created one of the first opportunities for actors on a government-sanctioned platform to openly advocate for ideologically motivated regulatory reform. Its commissioners fully understood the difficult road ahead in persuading many thrift and commercial banking executives and legislators that competition and institutional choice among America’s financial intermediaries was the most effective policy objective moving forward. They declared as much in their final report:

The recommendations provide regulated financial institutions with many more choices than under the presented system. . . . Increased competition within and among the institutional types is a prime objective of the Commission. Not all those subjected to increased competition will regard it enthusiastically. . . . All of the changes are necessary to make competition work.⁵²

The Hunt Commission did succeed, however, in producing a regulatory narrative that pitted government regulation against free market solutions, a dichotomy that,

⁵⁰ Federal Reserve Chairman Arthur Burns aired the same concern during a 1974 speech to the American Bankers Association: “I recognize that there is apprehension among bankers and students of regulation concerning overcentralized authority. Providing for some system of checks and balances is the traditional way of guarding against arbitrary or capricious exercise of authority. But this principle need not mean that banks should continue to be free to choose their regulators. And it certainly does not mean that we should fail to face up to the difficulties created by the diffusion of authority and accountability that characterizes the present regulatory system.” See Arthur Burns, “Maintaining the Soundness of our Banking System,” (speech, American Bankers Association Convention, Honolulu, HI, October 21, 1974).

⁵¹ Hunt Commission, iii.

⁵² *Ibid.*, 121. The report additionally concluded, “Bank and bank-related product lines can, under the recommendations, be more easily crossed by several types of financial firms. Geographic areas are less protected. Reserve requirement differentials would disappear. Advantages stemming from regulatory disparities would no longer be possible. Tax treatment would become more nearly identical among competing institutions. Each of these changes would have at least temporarily adverse effects on institutions given special protection under the present system.”

when eventually accepted into popular and political lexicons, would establish a new criterion for interpreting regulatory successes and failures.

Debates over Implementing the Hunt Commission's Recommendations

Many legislators, regulators, financial executives, and Nixon administration officials, and, in later years, Ford and Carter administration officials, attempted to translate Hunt Commission regulatory reform proposals into lobbying campaigns and congressional and regulatory action over the course of the 1970s. Their efforts would eventually result in a fundamentally altered U.S. financial sector in which three highly interrelated components of American finance were re-conceptualized. These components included the mechanism for creating and allocating mortgage credit; the processes for identifying and justifying the federal government's proper role in financial sector regulation; and the methods that policymakers would use to balance competing constitutional, socioeconomic, and theoretical considerations as they related to dual banking, executive power, and congressional and regulatory agency oversight. These legislative and administration proposals and the congressional testimony they engendered help to reveal the contestation in and between conceptual and rhetorical framing that occurred over the early years of the 1970s.

Even before the Hunt Commission issued its final report to President Nixon and Congress in December 1972, economic and political observers had already begun to debate the merits of its preliminary recommendations. One professor of financial management and economics criticized the commission for the political expediency of some of its proposals, especially its perceived capitulation to institutional and individual pressures to maintain the dual banking system.⁵³ The U.S. League of Savings Institutions (USLSI), the largest trade association for thrifts, opposed the report's comprehensive approach because the League believed the commission's pursuit of ideological deregulation via its promotion of efficiency and choice ultimately reflected a desire to phase S&Ls out of existence. The USLSI did support efforts at contextual regulation, changes that included expanding thrifts' operational and investment powers and maintaining Regulation Q and the interest rate differential.⁵⁴ Reflecting upon the "great inertial elements" these capitulations enabled, Almarin Phillips, a Hunt Commission co-director, explained that many

⁵³ Robinson, "The Hunt Commission Report," 773. See also Paul Horvitz, "The Hunt Commission Report: a Further Comment," *Journal of Finance* 29 (1974): passim.

⁵⁴ U.S. Savings and Loan League, written statement, House Committee on Banking and Currency, *The Credit Crunch and Reform of Financial Institutions*, Congress, 1st sess., 10–14 September, 1973, 223.

federal regulations actually hampered systemic structural changes at the state level, a problem, he claimed, that only further hastened the likelihood of a “crisis-bred” resolution to America’s serious financial intermediary problem.⁵⁵

On the other hand, George Benston, a professor of accounting, economics, and finance at the University of Rochester, revealed a theoretical inclination in favor of the need for further ideological deregulation when he suggested that the Hunt Commission “did not go far enough.” Its proposals, he stated, “insufficiently emphasized” both “allowing banks to merge more freely” and the “need for freer entry into banking markets as a means of insuring competition.”⁵⁶ Another policymaker whose rhetoric quite closely mirrored that of the supporters of ideological deregulation, Clifton Luttrell, Assistant Vice President of the Federal Reserve Bank of St. Louis, praised the commission’s utilization of efficiency as a metric of evaluation for American financial intermediaries. Luttrell identified institutional growth and profitability as appropriate indicators of efficiency. “Those firms that can buy, service, and sell most efficiently,” he claimed, “will tend to grow the fastest and make the greatest profits”—a questionable assertion that would be utterly invalidated during the 1980s when many of the fastest growing S&Ls failed at alarmingly high rates.⁵⁷ Further, these varied assessments hinted at conflicting meanings for “efficiency,” in Luttrell’s case relating it to the believed inevitable workings of market allocation, and in the USLSI’s relating it to the excellence of internal operation. And in contrast to the Hunt Commission, the Friend Commission justified several of its recommendations by highlighting their effects on individual thrifts’ institutional and operational efficiency.

Despite these and other reservations, the Nixon administration incorporated many of the Hunt Commission’s proposals, specifically expanding S&Ls asset powers, offering a mortgage interest tax credit, and improving the secondary mortgage marketing, into its financial regulatory reform agenda—the Financial

⁵⁵ Almarin Phillips, “Regulatory Reform for the Deposit Financial Institutions—Retrospect and Prospects,” *Journal of Financial and Quantitative Analysis* 9 (1974): 800.

⁵⁶ George Benston, “Discussion of the Hunt Commission Report: Comment,” *Journal of Money, Credit and Banking* 4 (1972): 988–9. Benston worked in the Graduate School of Management and the Center for Research in Government Policy and Business, University of Rochester. The Conference on Financial Institutions, coincidentally, was also held at the University of Rochester, March 17–18, 1972. Benston was subsequently commissioned by the American Bankers Association during the 1980s to produce an anthology on the safety and soundness of American banking.

⁵⁷ 1973 Credit Crunch Hearing, 223.

Clifton Luttrell, “Hunt Commission Report – An Economic View,” (speech, Federal Reserve Bank of St. Louis Management Group, St. Louis, MO, April 14, 1972).

Institutions Act of 1973. As the Nixon administration formulated its legislative agenda, White House and U.S. Treasury officials examined a number of highly complex and interrelated theoretical, structural, and economic components of the existing financial sector regulatory apparatus. As they did so, these policymakers aimed to identify and explain the connection between the supply of mortgage credit and the demand for housing.⁵⁸

A 1973 Treasury report declared that most economic and political observers supported the “bottleneck hypothesis,” an interpretation that claimed “the rate of housing production to be a captive of the *amount* of mortgage funds available—in both the short and long run.” Proponents of this view maintained that financial intermediary specialization, provided by the savings and loan industry, enabled the provision of higher amounts of mortgage credit at lower interest rates than would have been provided otherwise. Treasury officials and eventually the Nixon White House rejected the bottleneck hypothesis. Instead, both cited the cost of credit, rather than the supply of credit, as the key determinant. They supported the “interest rate hypothesis,” an idea that, according to the Treasury, “follows most naturally from received economic theory.” Its supporters argued, “Mortgage and housing markets are stimulated or contracted simultaneously by outside influences—in the short run notably by fluctuations in general credit conditions.”⁵⁹

Treasury officials concluded that the “best available work” validated the interest rate or cost of credit hypothesis as the determining factor in how much mortgage borrowing, and thus how much housing production, occurred. But these economic and political observers did not situate their analyses within a larger structural context that demonstrated they fully understood or considered the relationship between independent drivers of postwar economic growth and individual savings, savings and loans institutions, and mortgage credit. By failing to do so, they assumed a degree of mutual exclusiveness between “general credit conditions” and “specific characteristics of the mortgage market” that otherwise could not be justified, thereby creating a problematic conceptual framework rooted in a false dichotomy that exclusively pitted interest rate fluctuation against mortgage flows.⁶⁰

⁵⁸ Department of the Treasury, *Recommendations for Change in the U.S. Financial System* (Wash., DC, Government Printing Office, 1973), 12, 20, 29–34.

⁵⁹ *Ibid.*, 30.

⁶⁰ *Ibid.*, 30–31.

Unaware of this conceptual inconsistency, the Nixon administration proposed the following changes: expand S&Ls' asset powers into new lending markets beyond the mortgage market; offer a mortgage interest tax credit; and improve the secondary mortgage market, which would allow primary lenders to "sell" their mortgages up the line to investors so that those lenders could loan the same funds once again. Nixon justified his regulatory reform agenda, just as the Hunt Commission had, by claiming the implementation of his legislative agenda would increase competition, eliminate institutional and individual inequities, and decrease operational costs. Just as important, he claimed his proposals would also simultaneously reduce the cyclical variability of housing and enhance the attractiveness of mortgage investment to nontraditional lenders via mortgage-backed securities—not realizing this aspect created direct competition for S&Ls. Treasury officials projected that Nixon's proposals would alleviate thrifts' earnings and disintermediation problems by allowing them to reject specialization through loaning for purposes other than homeownership. They hoped asset portfolio diversification would allow S&L executives to buy and sell new financial products such as mortgage-backed securities and expand into new lending markets such as commercial lending. S&Ls could then earn higher returns and consequently obtain and retain more deposits by subsequently offering depositors higher interest rates on their savings. As "nearly all economists agree," a Treasury report proclaimed, minimizing cyclical instability was imperative because "in the short run (about a year or less) changes in the availability and flows of mortgage credit importantly influence housing production."⁶¹

Collectively, Nixon's proposals, he claimed, allowed both small savers and institutional investors to receive a "fair return" on their accumulated capital and thus reduced the need of "Government support [for S&Ls] required in the past."⁶² Equally significant, Nixon's recommendations, along with the Hunt Commission's proposals, revealed a relatively new expectation of and goal for U.S. financial intermediaries—fostering institutional and consumer choice.⁶³ With an increasing number of policymakers blaming the S&L troubles and economic instability of

⁶¹ *Ibid.*, 31–32. Paradoxically in the 1980s thrifts advertised higher interest rates to attract deposits, which were then invested with the hope of earning higher returns.

⁶² *Ibid.*, 1–3. Nixon proposed ending ceilings on interest rates (Regulation Q), permitting stock charters, and simplifying financial intermediary tax structures. A stock charter would allow an S&L to raise investment funds in the stock market instead of relying solely on its depositors.

⁶³ *Ibid.*, 32–33. See also Hunt Commission, 113.

the late 1960s and early 1970s on the overregulation of financial institutions, they ultimately strove to transform S&Ls into efficient, competitive, and convenient “family financial centers.”⁶⁴

Conclusion

Both the Friend and the Hunt Commissions claimed that increased efficiency and expanded thrift asset and liability powers would resolve the problems that plagued America’s savings and loan industry during the late 1960s and early 1970s. Each commission, however, justified its proposals with radically different regulatory reform rationales and rhetorics. The Friend Commission clearly viewed homeownership as a public good that specialized financial intermediaries—S&Ls—should continue to promote; they also hoped to reduce competition amongst thrifts in the U.S. mortgage market and streamline thrifts’ operational strategies in order to create better economies of scale. The Hunt Commission, on the other hand, offered additional competition and institutional choice as an ideological fix that could correct the market inefficiencies that so sorely plagued the U.S. financial sector. Far from demonstrating the extent to which congressional bureaucrats and corporate lobbyists controlled the mechanisms of federal regulation, the Hunt Commission and subsequently the Nixon administration ultimately leveraged the prestige of a presidential commission to force other policymakers in Congress, U.S. financial regulatory agencies, and even many financial institutions to grapple with the tenets of ideological deregulation. Unfortunately for all parties involved, the proponents of ideological deregulation and many other policymakers at that time clearly misunderstood the intricacies of the postwar housing and savings markets. In particular, they failed to understand the relationship between continued economic growth, increased working- and middle-class savings, Regulation Q, savings and loan institutions, and the postwar housing boom.

When introducing his legislative agenda to Congress, Nixon perhaps unintentionally highlighted the key paradoxical friction between the conceptualization of homeownership as a public good, as originally understood and pursued by the architects of New Deal financial sector regulation and carried forward by the Friend Commission, and the ideological deregulation of U.S. financial intermediaries as proposed by his administration and the Hunt Commission. As Nixon stated in an August 3, 1973, special message to Congress,

⁶⁴ Dr. A. James Meigs, written statement, 1973, Credit Crunch Hearing, 259.

As the government tries to play its proper role in building a better financial system, we must proceed with one basic assumption: the public interest is generally better served by the free play of competitive forces than by the imposition of rigid and unnecessary regulation.⁶⁵

Nixon's interpretation, much like the Hunt Commission's, problematically pitted government regulation against free market solutions. In doing so, it failed to acknowledge how deliberate efforts at creating, promoting, and maintaining postwar housing and savings markets actually enabled those markets, and the larger economy in general, to flourish in the years immediately following World War II.

Photo credits: Irwin Friend, Wharton School of Finance and Commerce; Friend Report, Study of the Savings and Loan Industry, July 1969; Reed Hunt, Courtesy of the Archives, California Institute of Technology; Hunt Report cover and excerpt, The Report of the President's Commission on Financial Structure and Deregulation, December 1972

⁶⁵ Richard Nixon, "Special Message to the Congress Proposing Changes in the Nation's Financial System," *The American Presidency Project*, August 3, 1973, www.presidency.ucsb.edu (accessed November 28, 2015).