Is Urban Harmony Bad for Business?

By Amine Ouazad , INSEAD Assistant Professor of Economics

Market realities are more to blame than social elites for the rise of segregation in today's cities.

Imagine, if you will, returning to a familiar neighbourhood after ten years' absence and finding that virtually the entire populace has moved away and been replaced by a very different set of faces. It seems incredible that an entire community could "turn over" so quickly, yet that is precisely what happened to Edmondson Village in Western Baltimore, Maryland between 1955 and 1965. As African-American families began to move into Edmondson, white families left the neighbourhood at increasing speed, causing an all-but-total racial conversion in the 20,000-strong population.

This phenomenon was not a spontaneous expression of communal white racism, nor was it unique to Baltimore. After World War II, such rapid racial shifts were common occurrences in U.S. cities, sparked by a sharp business practice known as "blockbusting". This was a tactic whereby real-estate agents working in white neighbourhoods would warn residents of an imminent influx of African-Americans, deliberately stoking fears of falling property values so whites would want to move away. The agents' infamous

tactics included hiring African-Americans to show up in white neighbourhoods blasting music or leading packs of crying children.

Agents could incentivise whites to move even faster if they hinted at the high prices that eager black buyers -- who were desperate for decent housing and lacked access to credit -- could be induced to pay for homes in a white-majority neighbourhood. A generation of opportunistic brokers profited hugely from the resulting flurry of transaction fees.

Blockbusting and the present day

The 1968 Fair Housing Act made blockbusting illegal in the United States. More subtle forms of the practice survived into the 1980s; it has disappeared since. However, the decades have not brought racial integration to Edmondson Village, which is still almost totally black. Nor is integration pervasive in the U.S. as a whole: The 2010 Census found that **the average African-American** lives in a neighbourhood that is 45 percent black; the average white person lives in a neighbourhood that is 78 percent white. And with gentrification on the rise, the racial and class identities of urban communities are arguably in flux as never before. 58 percent of **low-priced neighbourhoods in Portland, Oregon** have gentrified since 2000, to name just one example.

I wanted to know whether studying blockbusting could shed any light on the complex, ever-shifting stratifications in today's cities. So in researching my paper "**Blockbusting: Brokers and the Dynamics of Segregation**", I used computer modelling to recreate the incentives and rewards involved for all the parties in blockbusting: the specific elements that, aligned in a particular way, could wreak permanent, radical changes in the social landscape of communities, even entire cities.

Broker as fixer

In a fee-based blockbusting structure where the real-estate broker doesn't actually own properties, brokers exercise their leverage through the information they choose (or choose not) to share with white homeowners about offers made by black buyers. The white homeowner will choose whether or not to accept such an offer based on economic self-interest, as well as the strength of his racial prejudice, i.e. his tolerance for living among African-Americans. For my study, I replicated the calculations behind these choices by plugging mathematical equations into a dynamic computer model

reflecting changes in the neighbourhood over time.

The model showed that brokers stood to make less money from fees when the white homeowners harboured extreme racial preference. More "rational" whites, because they were less inclined to dump their houses right away, made for more favourable conditions for brokers. These whites, who weighed their inclination to live in a white neighbourhood against other interests, were more likely to stick it out until they couldn't ignore the writing on the wall, leading to higher commissions for the broker.

Indeed, my findings show that anti-blockbusting provisions, by prohibiting brokers from strategically disclosing information, actually produce better general outcomes for racially motivated whites, and worse ones for black families. This appears to bolster the **controversial arguments** of those who claim that blockbusters deserve some credit for advancing the cause of racial mobility, however unintentionally.

Moving with the market

There can be no doubt that blockbusters exploited racial rifts in society, but their actions are perhaps better explained with reference to systemic market failures than to racial prejudice. By the 1950s, housing prices in the African-American ghettoes were highly inflated due to the segregation regime. By contrast, affordable housing was plentiful in many white areas. In these all-white neighbourhoods, there was a high degree of market complacency, creating low turnover and minimal opportunity for brokers to make more money on fees. In this context, blockbusting could be seen as a quick and dirty form of disruption on the part of the brokers.

If, as my research suggests, virulent white racism was a headwind for blockbusters rather than their greatest asset, we may draw the conclusion that racial aversions are not the primary reason urban environments today are so segregated. However, human beings *do* have a natural tendency to want to live among others like themselves, which is not always a blameworthy trait. My blockbusting model shows that once the "minority" population of newcomers exceeds a certain percentage, usually between five and 20 percent, the neighbourhood tends to tip very quickly to the other demographic extreme. But with real-estate brokers and other market-sensitive players in the mix, the newly installed majority may themselves be displaced before too long. Neighbourhood stability is bad for business.

The best-laid urban plans

These lessons from blockbusting imply that city environments may be more complex than urban planners realise. It is no easy task to predict how a neighbourhood will change over the next few years to a decade, so it stands to reason that influencing it to change in the way you want is an even greater challenge. In the end, people will organise themselves according to how their goals and objectives align with options the market makes available. The arrival of a single superstore can be of greater influence than the best-laid bureaucratic plans, as residents of lower Manhattan saw in the early 1990s when the **opening of a Bed Bath & Beyond outlet** signalled the revitalisation of Sixth Avenue.

In some cities, social housing schemes provide a hedge against segregation. Take Amsterdam, where about 60 percent of renters live in rent-controlled social housing. As is the case throughout Europe, the Dutch social housing system has experienced problems since the financial crisis, and increased privatisation may be in the cards. However, on a recent trip I was surprised to find a vibrant community of immigrant workers located a mere five-minute bike ride out of central Amsterdam. The workers enjoyed access to high-quality amenities in the city centre, including schools for the children. If all goes well for them, these kids may benefit from a form of social mobility even more significant than blockbusting.

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