“Victims of the American System”: An Examination the Racial Wealth Divide in the United States

by

Rashida Amina Richardson
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I would first like to acknowledge that the title of this thesis was inspired by Malcolm X’s “The Ballot or the Bullet” speech. Even though this speech was not completely relevant to my thesis topic, I wanted to use this opportunity to show my respect for this fallen hero.

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INTRODUCTION

Following the riots that occurred in many U.S. cities in the late 1960s, President Lydon B. Johnson established a Commission to explore the causes of these racial disorders. The Commission’s 1968 report, which is now known as the Kerner Report, concluded that America consisted of two separate and unequal societies, one for blacks and one for whites. The report also delivered “an indictment of ‘white society’ for isolating and neglecting African Americans and urged legislation to promote racial integration and to enrich slums—primarily through the creation of jobs, job training programs, and decent housing.”¹ Forty years after the issuance of this report, racial disparities in wealth have grown dramatically. The racial wealth gap is the most extreme form of stratification that persists within American society. Hence, “for every dollar the average white family has, in other words, the average black family has less than 17 cents.”² As sociologist, Dalton Conley argues, “it is impossible to understand the persistence of racial inequality in the U.S. without examining black/white difference in wealth ownership.”³

This honors thesis seeks to examine the racial wealth divide within the United States focusing specifically on disparities between blacks and whites. Despite the considerable body of research that studies the racial wealth gap in the United States, there is uncertainty amongst researchers about the specific reasons that this schism has persisted over time. This discord exists because a complex web of mutually

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reinforcing factors affects wealth disparities. Therefore, it is difficult to identify a single independent variable that is solely responsible for the racial wealth gap. However, as this study will argue, the housing market plays a particularly important role in perpetuating and exacerbating the racial wealth gap in the United States. The current investigation contributes to the existing literature on racial wealth disparities by focusing on the influences of the housing market and using the Shaw community of Washington DC to analyze the forces behind the persistence of this national problem. The following section introduces concepts central to the analysis and sets forth the structure of the study.

**Wealth**

Wealth is the total value of household assets minus all liabilities. Although the terms “income” and “wealth” are often used interchangeably, wealth and income are quite different concepts. While income is a flow of earnings per period (i.e. per month, per year), wealth is a stock of net assets that exists at a particular point in time (i.e. at the start of a month, at the end of a year). Furthermore, wealth serves a different purpose for the household. Wealth can act as a store of value, a method of accumulation, and a safety net in difficult economic times. For these reasons, wealth is often considered the most comprehensive measure of well-being and the overall welfare of households. It has been a popular perception that the major asset contributing to a household’s overall wealth is housing. Although still true for some households, many hold the majority of their wealth in non-housing assets. In addition

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to real estate and business equity, liquid assets such as, checking and savings accounts, stocks, certificates of deposits, life insurance, retirement funds, and pension accounts contribute to household wealth. For a growing number of households these assets have become increasingly important. This trend, however, is less true of black households, a point that will play a significant role in our analysis.

**Competing Theories of Racial Wealth Disparity**

Although the sources of the initial racial wealth gap are founded in the history of slavery and institutionalized discrimination, societal changes would lead us to expect a narrowing in this gap over time. Yet, today, wealth disparities are at their highest, proving to be worse than during the Great Depression when 25 percent of the country was unemployed.\(^5\) The 1980s and 1990s saw an unprecedented surge in wealth disparities. This widening of the wealth divide coincided with a stock market boom between 1989 and 2001, where the Standard & Poor (S&P) 500 Index stock prices surged 171 percent.\(^6\) The stock market boom primarily affected the richest one percent of households who experienced a gradual upward trend in their share of wealth. This discrepancy in the distribution is evident through Edward Wolff’s comparisons of wealth means and medians for the years from 1962 to 2004. He found that median household wealth grew more slowly than the mean household wealth. Hence, it is evident that outliers such as the super-rich one percent of

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household are shifting up mean wealth relative to median wealth, a clear sign of growing inequality.

While there is an abundance of evidence showing the wealth disparities between black and whites, experts have not been able to determine a particular attribute that causes these inequalities to persist. In *Racial and Ethnic Difference in Wealth and Asset Choices*, Sharmila Choudhury investigates the various components of aggregate wealth in relation to asset choices and saving behaviors by race and ethnicity in order to understand racial wealth inequalities. Choudury concludes that the lower number of blacks investing in financial markets probably results in their slower wealth creation. Yet, this conclusion is problematic because, although it identifies one source of the economic disparities, it does not fully explain the more fundamental issue of what causes the lower investment in financial markets. In *Black-White Wealth Inequality: Is Inheritance the Reason?*, Paul Menchik and Ammon Jianakoplos find that inheritance and other forms of intergenerational transfers have a considerable impact on the racial wealth divide. Gregory D. Squires cites several studies focusing on housing discrimination and biased government policies. In *Demobilization of the Individualistic Bias: Housing Market Discrimination as a Contributor to Labor Market and Economic Inequality*, Squires concludes that economic and labor market inequalities are derivatives of privately and publically sanctioned racial discrimination in the housing market and the corrosive impact of the resulting residential segregation. In accordance with Squires’ analysis, Melvin L. Oliver and Thomas Shapiro examine racial differences in wealth in a historical context and posit that racial wealth inequality in the United States was structured over
generations of systemic barriers, both governmental and market. A more optimistic note is struck by Andrew F. Brimmer forecasting an improvement in the diversity of black wealth holdings. Brimmer suggests that, over time, as black’s incomes rise and black families become more familiar with common stocks, there is a possibility for increased investment activity in financial markets. Yet, work by Marjorie Galenson cast some doubt on this behavioral change as a solution. In her study, which examines whether different saving patterns amongst blacks and whites would explain wealth disparities, Marjorie Galenson concludes that blacks do not exhibit different saving behavior; rather whites dissave more precisely because of their access to superior financial reserves. Galenson suggests that many of the observed disparities exist because blacks have limited access to credit. As a result, their saving behavior reflects a lack of command over and availability of financial resources. In sum, the explanation for the persistent racial disparity in the level of wealth holding is clearly an unsettled issue.

Apart from the level of wealth holding, the mix or types of assets held clearly disserves attention. In her study on the wealth gap between blacks and whites, Lisa Keister concludes that since “assets differ in both their expected yield and their attendant risk"\(^7\) it is of interest to examine the function of specific assets on one’s wealth status. According to census data on asset ownership rates for households in 2000, owning a home accounted for 32.3 percent of the net worth of households, the largest proportion of all assets.\(^8\) Census data on homeownership trends between non-

\(^7\) Wolff, p. 13.
whites and whites from 1920 to 2005 reveals that, over this time span, whites maintained homeownership rates that were an average 24 percent higher than non-whites. At the same time, housing wealth as a percent of household’s total wealth is much higher among black households. The appreciation of housing values in the late 1980s emphasizes the benefits of access to housing wealth. Yet, the subprime mortgage crisis of 2008 reminds us of the risk associated with holding all wealth in the form of housing. In sum, wealth in the form of housing can be highly beneficial; it can appreciate while providing a flow of housing services. On the other hand, housing wealth is less liquid than many forms of wealth and thus may not provide a sufficient safety net in times of economic distress. The role of housing in the racial wealth gap is accordingly quite complex providing a mix of benefits and cost, security and risk, all of which play a role in the persistence of the racial wealth divide.

The Influence of Housing Market Discrimination

In his famous essay, *A Pure Theory of Local Expenditures* Charles M. Tiebout claimed, “where families live reflects choices they make, limited by their financial capacity, to pursue the bundle of services for which they are willing to pay.” Tiebout’s discussion brings light to one of the costs associated with racial segregation, how housing inequalities can structure a household’s access to various amenities. Housing inequalities have been affected by both private discriminatory

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practices and governmental bias in policies and laws. Redlining, predatory loan lending and other discriminatory practices limited opportunities for many black households and neighborhoods. These practices were particularly problematic because they further compounded wealth inequalities. Given that black’s wealth holdings are drastically smaller than white’s, assets such as housing carry greater significance, or risks. Squires explains, “for blacks, home equity accounts for two-thirds of assets compared to two-fifths for whites make these housing inequities even more problematic.”

The significance of home equity in conjunction with the rapid increase in homeownership rates between 1930 and 1975 has resulted in homeownership being a key determinant of middle-class status. For households in lower wealth classes, the significance of homeownership is even greater in proportion to a household’s overall wealth holdings, making changes in the states of these wealth holdings even more significant. This importance, in turn, indicates the significance of several other aspects of the housing market that dramatically affect racial wealth inequalities in the United States. In particular, phenomena such as suburbanization and gentrification have a profound and often mutually reinforcing relationship with wealth disparities.

**Shaw**

Experts have suggested that U.S. metropolises magnify the housing inequalities and racial wealth disparities because social ills and problems are more

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11 Wolff, p. 15
concentrated in cities than in rural or suburban areas. The Shaw neighborhood of Washington DC provides a great lens for examining the relationship between the housing market and racial wealth disparities. Once the largest African American community in the country, Shaw flourished and became a proud and vibrant community, partly in spite of and partly because of the oppressive Jim Crow laws. The appeal of federal government jobs, the presence of Howard University and the benefit of a vibrant nightlife made Shaw a magnet for African American intellectuals, entertainers, and leaders. Although there were still many poor black families in Shaw, the area developed a very prosperous black middle class and families from all classes lived in close proximity. However, this community took a turn for the worse with the rise of suburbanization. A “black flight” occurred and most of the affluent and middle class left, a development that left the remaining residents struggling. In addition, the poor socio-economic condition of the neighborhood gradually worsened for more than a decade. Around the 1980s Shaw progressively become racially integrated as a result of gentrification. While gentrification provided wealth-building opportunities through the housing market for many white households, it has limited and in some cases almost eliminated these same opportunities for low-income black households. In addition, to inequalities being compounded by gentrification, the gentrification process has created social strife within the community and has caused many of its fundamental characteristics to dissipate.

Therefore, despite having a rich and unique history, Shaw is a neighborhood that has not often been studied in the context of understanding black-white wealth disparities. Furthermore, Washington DC itself has often been overlooked in studies
examining housing inequalities and racial wealth disparities even though it is subject to many of the same problems plaguing other U.S. cities. Hence, by using the Shaw community to further explore the affect of the housing market on racial wealth disparities, we can highlight several neglected issues that play a crucial role in the perpetuation of racial wealth disparities. In addition, the efforts to create more affordable housing in Shaw and to eschew the seemingly unavoidable gentrification in Shaw can serve as a policy lesson for other U.S. cities facing similar problems. By analyzing the forces behind the changing racial wealth divide in Shaw, this thesis hopes to add to the understanding of similar forces influencing other U.S. cities.

**Structure and Methodology of the Analysis**

Using existing literature on this subject, chapter one reviews competing explanations on the origins of racial wealth divide and its persistence. While it is evident form the previously mentioned theories that there are several factors that can affect racial wealth disparities, chapter one explores the housing market as an explanatory variable. Through original research in the form of personal interviews with local experts and community members and research of primary documents in local libraries and archives, chapter two focuses on the Shaw neighborhood of Washington, DC as a case study. Shaw will be used to explore the explanations and theories of persistence from chapter one. This chapter will discuss the neighborhood’s history while expounding on its housing and wealth disparities and the efforts to ameliorate or eliminate these inequalities. The investigation of Shaw provides a valuable representation of typical urban possibilities and pressures.
Ultimately the case study will confirm theories discussed in chapter one, in addition to calling attention to other pertinent factors. Finally, chapter three brings light to lessons learned form the synthesis of the Shaw case study and the broader theories from chapter one. In addition, this chapter considers policy options for dealing with the racial wealth divide. While there is no single panacea for eliminating racial wealth disparities, chapter three suggests that a combination of policies be explored as a potential solution. In conclusion, by using the housing market as a key variable in understanding racial wealth disparities, and with Shaw serving as a microcosm of the urban United States, this study not only provides new understanding of this national problem but also offers an alternative perspective into possible policy solutions to the seemingly obstinate racial wealth divide.
CHAPTER 1

Origins of the Racial Wealth Divide and Theories of Persistence

Multiple factors influence the wealth disparities that exist between blacks and whites in the United States. However, when examining the persistence of these disparities, the influences of the housing market are often underemphasized. In *Categorically Unequal: The American Stratification System* Douglas S. Massey suggests that housing segregation is the most pernicious form of discrimination that affects the socioeconomic status of minorities. Housing topics that deserve more attention stem from the public sector, the private sector and their interactions with demographic changes. The relevant public-sector factors include governmental actions and legislation that, despite unbiased intentions, have affected blacks and whites differently. Examples include the G.I. Bill, Federal Housing Authority (FHA) policies, public lending, urban renewal efforts and redevelopment. The private-sector factors include homeownership decisions, rental patterns, private loan lending, along with practices, which reflect the behavior of individuals, families and private lending institutions. The demographic factors of interest include shifts in the population, such as suburbanization, immigration and gentrification; but they also include issues such as housing availability that stem from the interactions of the public and private sector. A close examination of these factors and their differential effects on blacks and whites will allow for a better understanding of how housing affects the racial gap in wealth.
1.1 Public Sector

Although much of the legislation or governmental policy dealing with the housing market were not explicitly intended to discriminate against blacks, many of these political factors have negatively affected the ability of blacks to accumulate assets. This outcome was created by the governments’ tacit acceptance or tolerance of discriminatory housing practices that were prevalent among private institutions and individual actions in the housing industry and society.

1.1.1 G.I. Bill

In 1944, the Servicemen’s Readjustment Act, commonly known as the “G.I. Bill”, was enacted in order to aid soldiers with their transition back to American life. The act was thought to be a manifestation of the American Dream because it offered post-war benefits for veterans. The benefits included a wide range of support structures such as the following: allowance during unemployment; economic support for educational opportunities at a college or university, vocational education and on-the-job training, medical and hospitalization benefits; and loans for the purchase of a home, farm or business.\(^\text{12}\) However, over time it became evident that these benefits were not available to all veterans, especially those benefits offering loans for a home, farm or business. Although the official specification of the G.I. Bill did not discriminate by race, the social climate of the time dictated discretionary interpretations for blacks and whites. The G.I. Bill served as the greatest instrument for widening the racial gap in post-war America because of systemic racism and

exclusionary practices that denied black veterans full access to the benefits and assistance provided through this legislation and often subjected them to substandard conditions.¹³

Since its inception, issues of race have posed problems for this bill. Nevertheless, interventions and the support of special interest groups led to the passage of this legislation. The eligibility requirements were “you must have been discharged under conditions other than dishonorable, and you must have spent at least ninety days in the service, not counting time in an Amery Specialized Training program.”¹⁴ Even though these requirements were, in theory, inclusive to all veterans, in actuality, the practices of the Veteran’s Administration (VA) failed to provide all veterans with the same services. After World War II many industries returned to pre-war Jim Crow practices¹⁵, so when black veterans refused employment for below subsistence wages and menial positions the VA would be notified and unemployment benefits would be terminated.¹⁶ This practice was particularly detrimental to black veterans because the “52-20 club”, what the veterans called unemployment compensation, provided black veterans an opportunity to look around before taking a job.¹⁷ Thus, when unemployment benefits were terminated it inadvertently narrowed...
employment opportunities for black veterans. The fact that most employers and unions retained pre-war racial barriers left blacks at a distinct disadvantage in the labor market. Yet, for any black veterans that managed to achieve any economic gains, retaliatory violence was a constant threat.\(^\text{18}\) For instance, “In 1946 and 1947 alone the lynchings of two black veterans, in Georgia and Louisiana, were carried out as economically motivated reprisals toward men who used their military benefits and their augmented sense of identity as a citizens to build profitable farms.”\(^\text{19}\)

Black veteran’s job opportunities were also limited because they were excluded from free education and job training opportunities offered through the GI Bill. This lack of access to education and training further limited their job opportunities. Just as many industries returned to pre-war practices, following WWII the United States educational system remained segregated. If black veterans were given the opportunity to take advantage of the GI Bill’s educational benefits, these opportunities were primarily available within black institutions in the south. Yet, contrary to the de jure racial segregation of *Plessy v. Ferguson* (1896) these institutions were separate but they were not equal. “Despite some federal assistance for black schools, the relative absence of support from the southern states left most black colleges unable to take in all the veterans who qualified…[Furthermore] Not a single one of these institutions offers work that is even substantially equal to that offered in the corresponding state institutions for whites.”\(^\text{20}\) Hence, Katznelson, Turner and Bounds assert that, for those limited to these opportunities, the G.I. Bill


\(^{19}\) Herbold, p. 105.

\(^{20}\) Katznelson, p.132.
exacerbated rather than narrowed the economic and educational differences between blacks and whites.\textsuperscript{21}

Although the VA’s provisions for educational support favored veterans pursuing higher education over veterans in skilled training programs, the poverty of most black families following WWII forced many black veterans to focus on the labor and income needed at home rather than education.\textsuperscript{22} Hence, many black veterans sought opportunities available through the governmental sponsored on-the-job and vocational training. Nonetheless, the inequalities in the educational opportunities also existed in the on-the-job and vocational training programs. The on-the-job training programs were connected to the state governments. As a result, many training programs were segregated and often assumed to be exclusive to whites. Hence, of the 1.4 million veterans signed up for these on-the-job training programs, only one in twelve veterans receiving training were black.\textsuperscript{23} Furthermore, for those who were selected for training, this training rarely provided black veterans with better opportunities for economic advancement because wages were low. These programs used the living wages provided by the GI Bill to reduce or replace a wage paid by an employer, and there were also instances of black workers being charged by their

\begin{flushleft}
\textsuperscript{21} “Out of 100,000 Negro veterans who are eligible to attend college under the GI bill, only 20,000 have been able to obtain admittance. Another 15,000 applied but were unable to find a college or university which had room for them.” Bolte, p. 18.


Herbold, p. 105.

\textsuperscript{23} Bolte, p. 14.
\end{flushleft}
employers for “the privilege of being trained.” In contrast, on-the-farm training typically offered higher wages; hence, southern states were reluctant to train black veterans to operate farms, with only one percent of black veterans being drafted for the program.

As black veteran’s opportunities for economic advancement were hindered by the practices of the VA and their inability to fully participate in the educational and training programs of the GI Bill, many were forced to continue to live in substandard dwellings. In addition, discriminatory practices inhibited black veterans from receiving the GI Bill’s housing benefits. As a result of the prevailing high cost of buying a home, many veterans sought rental housing at low rates. Government-sponsored low cost housing only offered black veterans a false sense of hope. While blacks made up 14% of veterans, black families were only allocated 2% of the units built; therefore, black veterans were subject to steep rental prices, which were a result of the lack of low-cost housing. Housing costs were also skewed for black veterans seeking mortgages and loans. In accordance with the GI Bill provisions, veterans who sought to purchase homes could make arrangements with a lender of their choice and “the VA guarantees 60 percent of the home loan or $12,500, whichever is less, against default.” Despite this seemingly beneficial assistance, black veterans had to pay high interest rates, as a result of discriminatory practices, which made purchasing a home less advantageous. Furthermore, the progress made by the Race Relations Service of the National Housing Administration, which was primarily responsible for

24 Katznelson, p. 136.
25 Bolte, p. 16.
26 Levitan, p. 155.
the record of 20% of the veterans housing in the South going to black veterans, was stunted when price controls were removed and the status quo was restored.\textsuperscript{27} Black veterans opportunities for gaining a farm loan were also limited. In order to reinforce the notion that black veterans should not own farms, they were often denied both farm-residence and cooperative loans offered by the VA loan program. Thus, their opportunities to accumulate wealth were further limited. Overall it is evident that all veterans did not reap the benefits of the GI Bill, and for most black veterans the bill only helped reinforce the pre-war status quo of segregation and subordination.

1.1.2 Federal Housing Administration

A product of the Depression, the Federal Housing Authority (FHA) was created to improve housing standards and provide and regulate mortgage loans and the mortgage market. The creation of this governmental agency offered many new families an opportunity for homeownership. In many suburban towns the racist or discriminatory ideology and/or practices of the local community often conflicted with the objectives of the FHA and the Fair Housing Act. In addition, various practices of the FHA would often diverge from their alleged objectives. Subsequently, a Housing and Urban Development study on potential discrimination in rural housing markets revealed that market segmentation\textsuperscript{28} occurred, resulting in residential segregation and subordination.

\textsuperscript{27} Bolte, p. 23-24.
\textsuperscript{28} \textquotedblleft Market segmentation	extquotedblright implies that consumers and suppliers of housing services—builders, developers, real estate agents, financial institutions, and others—are treating different portions of a housing market differently, i.e., making different decision concerning the supply and demand for housing services based on racial, ethnic, or other neighborhood characteristics.	extquotedblright Urban Systems Research & Engineering, Inc. The Barriers to Equal Opportunity in Rural Housing Market, Volume I: Analysis and Findings. Washington, D.C.: Department of Housing and Urban Development, Office of Policy Development and Research, 1977.p.23.
racially based price differentials among identical housing units in different submarkets.\textsuperscript{29} This was primarily caused by biased practices tolerated by the FHA; hence, white middle class families were the primary benefactors of the opportunities offered by FHA.

Although discriminatory practices in housing did not originate from the FHA, its approval and/or tolerance of certain practices provided impetus for such practices to attain a status that had not previously existed. In particular, the FHA policies both explicitly and indirectly stimulated discriminatory practices and residential segregation. When the FHA was established it adopted the prevailing real estate doctrines, which suggested that the maintenance of racially homogenous neighborhoods was necessary for the FHA’s stability and survival. Consequently the FHA approved race-restrictive covenants, legal obligations imposed on deeds that dictate what the buyer is able to do with the land or property. The FHA approval of this discriminatory practice was then reinforced by the guidelines dictated in its \textit{Underwriting Manual}. The \textit{Underwriting Manual} was intended to aid FHA appraisers in assessing neighborhoods’ candidacy for mortgage investment. The FHA’s \textit{Underwriting Manual} of 1938 issued the following edict to its appraisers:

\begin{quote}
“Areas surrounding a location are investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same
\end{quote}

\textsuperscript{29} Urban Systems Research & Engineering, Inc. p. 23.
social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.”

In addition, the 1936 *Underwriting Manual’s* Section of Special Considerations in Rating Undeveloped Subdivisions and Partially Developed Residential Areas instructed appraisers that, to ensure the efficacy of deed restrictions and zoning ordinances certain properties were intended for specific races. This stipulation was justified because social consonance depended on it—“Schools should be appropriate to the needs of the new community and they should not be attended in large numbers by inharmonious racial groups.” This spatial polarization was highly problematic not only for their social implications, but because they forced the black resident to have fewer life chances and opportunities. In 1947, the FHA ceased explicit recommendations of race-restrictive covenants and later aligned itself with the Supreme Court’s prohibition of such covenants in *Shelley v. Kraemer* (1948). Hence, later *Manuals* had an egalitarian character by excluding racial references and explicitly encouraging equality—“Underwriting considerations shall recognize the right to equality of opportunity to receive the benefits of the mortgage insurance system in obtaining adequate housing accommodations irrespective of race, color, creed or national origin.” Yet, in *Black Wealth/White Wealth*, Melvin L. Oliver and Thomas M. Shapiro contend that even after the Supreme Court decision and subsequent policy changes, the FHA’s policies continued to impact the sustained

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31 Federal Housing Administration, *Underwriting Manual: Underwriting and Valuation Procedure Under Title II of the National Housing Act With Revisions to April 1, 1936* (Washington, D.C.), Part II, Section 2, Rating of Location. Sec. 284(3)g, 289(1).

“suburbanization of the white population and the deepening ghettoization of the black population.”

Despite these efforts to encourage equality and reduce residential segregation it had become a self-perpetuating and almost permanent social condition, where most white homeowners still believed “Negroes hurt value.” When a non-white family moved into a neighborhood, white neighbors would frantically list homes for sale fearing that their new neighbor would cause neighborhood property devaluation. The resulting increase in the supply of homes, particularly in a small market, forces the neighbors to compete with each other for buyers. When this happens, prices for homes are discounted to attract a wider range of buyers. Dalton Conley insists that as long as whites are a significant majority and have the ability to decide where they want to live, this deleterious cycle will continue. He also notes that if the previously mentioned conditions hold, “they will have an economic incentive to flee integrated neighborhoods, thus continuing the vicious cycle.” Hence, the white homeowners greatest fear manifest as a negative cycle was created where policies, practice and attitudes reinforce barriers affecting blacks.

FHA policies also indirectly stimulated further discrimination and segregation with its federal mortgage aids. The federal mortgage insurance system increased the power of private builders to determine community patterns. Eventually government

35 Laurenti, p.25.
36 Laurenti,p. 25.
sponsored racially segregated housing was created because private builders were given the power to zone racially since the FHA committed to insure mortgages on entire housing tracts in advance. Hence, in addition to its own discriminatory practices and policies the FHA also empowered private individuals and business to reinforce homogeneity and therefore make the suburban façade virtually impenetrable.

Another manner in which the FHA informally endorsed discrimination and segregation was through redlining, a practice of denying or increasing the cost of services to residents in certain areas. The creation of the National Housing Act of 1934 inaugurated the practice of redlining. A product of the Great Depression, this legislation was intended to make housing and home mortgages more affordable. It did very little for the inner cities and instead encouraged suburbanization. As we will in Chapter 2’s discussion of Shaw, other discriminatory practices restricted minority groups to certain areas, which eventually led to overcrowding. Consequently inner cities were chronically plagued with severe scarcity in housing, and most dwellings were converted into smaller units, or had multiple families occupying a space. Therefore, many minority families would receive less housing value for their dollars spent because their homes were of poor quality. The FHA contributed to this urban decay by withholding mortgage capital from these blighted areas. This in turn, made it difficult for these communities to attract and retain homebuyers. A consequence of this urban decay was that inner-city housing rarely conformed to FHA insured loan standard; thus these areas could not receive the benefits of government housing

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38 Wheaton, p.283.
programs, e.g. government-aided housing. The FHA’s policies and practices did not create more housing opportunities for all citizens; rather for minority groups it enforced exclusion and eroded both housing and economic opportunities. Oliver and Shapiro assert that the wealth portfolio of black Americans have been significantly impacted by the actions of the FHA, which excluded blacks from the greatest mass-based opportunity for wealth accumulation in American history.\(^{39}\)

Moreover, the FHA’s practices and policies were particularly intractable because their efficacy depended on whether there was a complaint to the Department of Housing and Urban Development (HUD). However, HUD lacked the leverage necessary to enforce a solution so even if investigations proved blatant discrimination existed, the agency had no way “to prohibit discriminatory practice from continuing, or to penalize the lawbreaker in any way.”\(^{40}\) As a result of this inefficiency, only 27,706 of the 3.7 million fair housing violation complaints were filed in 2006, with 63% being processed by private fair housing groups.\(^{41}\) The effectiveness of the Federal Fair Housing laws are further complicated in suburban and rural settings because the laws and regulations are related to its community’s context.\(^{42}\) Hence, practices that would violate the laws and regulations are not only hard to identify but to prove as well. For instance, “A real estate agent’s bad faith response to an inquiry made by a homeowner regarding the race of a prospective buyer is not a per se violation of Section 3604(e) where the agent’s answer is not couched in such a way as

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\(^{39}\) Shapiro, p. 18.
\(^{42}\) Urban Systems Research & Engineering, Inc. p. 85.
to prey on the fears of the property owner.” In other words, as long as an agent’s actions are not of a predatory nature or explicitly exploiting the racially discriminatory anxiety or fears of potential buyers and sellers, then there is no violation.

Despite the flawed qualities of FHA over time it still continued to create and support programs that would positively affect the housing market and increase homeownership. Some of the programs included in these more recent efforts include HOPE VI (public housing program) and the HOME Investment Partnership Program (grant used to address affordable housing needs). Through these efforts the federal government has helped subsidize 1.3 million publicly owned housing units and around 1.9 million privately owned units. Some black families clearly gained, yet, this progress is still limited. Whether it was explicitly discriminating or tacitly endorsing private prejudicial practices, the ambiguity of the FHA’s position in housing market highlights its’ internal ideological conflict between upholding or enforcing federal housing policy and appeasing the predominately white American public. Although the centrality of the FHA’s vision has become more egalitarian shifting from race to affordable housing, many of the previous problems that existed within the FHA’s programs and/or practices are still prevalent.

1.1.3 Housing and Urban Development (HUD)—Urban Renewal, Redevelopment and Section 235

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During the post-war period in the United States, there was an influx of migrants from rural to urban areas, which had recently become the crux of industrialization. The combination of this mass migration to urban cities and federal housing and zoning policies resulted in overcrowding. Many U.S. urban metropolises became congested and various parts of these areas quickly deteriorated into ghettos and slums. This urban decay then created a vicious cycle that led to its further degradation. These blighted areas would drive prosperous businesses and residents to the suburbs, accentuating the conditions causing the flight by reducing tax revenues and further impairing the city’s capacity to ameliorate the situation.\textsuperscript{45} Using the ideas of city planners and housing officials that had been taking shape for years, the federal government implemented an urban renewal program through the Housing Act of 1954. This legislation recognized slums and urban decay as a national problem and asserted the mutual responsibilities of federal, state and local governments and institutions to preventing and eradicating this problem.

As a result of the high degree of federal government action needed for urban renewal projects (i.e. acquisition of land, establishment and reinforcement of laws and regulations), local communities were expected to establish workable programs for themselves.\textsuperscript{46} Theoretically, minority groups were expected to gain the most from the urban renewal programs. Yet while trying to negotiate the conflicting expectations of residents and the business community, minority and low-income families were adversely affected. “Housers claimed that urban renewal funds were misused for the benefit of commercial developers, while business leaders balked at subsidizing

\textsuperscript{45} Wheaton,p. 428.  
moderate-income housing that would not bring lucrative upper-middle-class shoppers back to downtown stores.  

This attempt at satisfying both factions resulted in the displacement of many low-income and minority families causing a ‘rich get richer, poor get poorer’ effect.

The original plans of urban renewal intended to create low-cost affordable housing for existing residents with the hope that it would serve as the impetus for social and economic changes in these blighted metropolises. However, during the 1950s the federal government began to favor projects focused on commercial redevelopment because of the potential tax revenue benefits that would result from new value assessments on properties. The relatively high cost of redeveloping housing meant a limited market with low returns; thus, the federal government primarily encouraged redevelopment projects that could be executed at a lower cost. In addition, the rehabilitation efforts led to an influx of higher-income individuals and families, which led to rising property values and higher property taxes. Hence, many owner-occupants with limited or fixed incomes were forced to sell their homes because they could not carry the new tax burden, and many tenants were forced to leave because they could not afford the higher rental prices. Consequently, local public housing agencies were faced with the task of resolving displacement and rehousing problems of the city’s poor. Black families and individuals made up a disproportionate segment of these displace households. Relocation of non-whites was

particularly troublesome because it was restricted by practices of residential segregation. Displaced families were moved into public housing or they were given housing vouchers, but as we will see in Shaw neither of these provided adequate solutions. However, displacement was problematic for many low-income and minority families because it had destabilizing effects on adjacent communities and fostered a dependency on public housing and governmental aid. Despite the intentions to improve blighted cities and the overall quality of living for its residents, urban renewal and redevelopment efforts had devastating effects on the former residents of these urban metropolises.

As a result of the mixed result of urban renewal efforts, the Department of Housing and Urban Development implemented the section 235 program in 1968, which aimed to expand homeownership opportunities for inner-city residents, racial minorities and low-income families. Fueled by the belief that homeownership was “a cornerstone of urban revitalization” 50, legislators promoted this program with hopes of improving America’s inner cities, while also supporting the private homebuilders industry. Yet, shortly after its inception, reports showed disappointing results. The Federal Housing Administration was insuring homes that were in such poor condition that there was little or no possibility of such homes surviving the life of the mortgage or maintaining a reasonable property value. 51 Thus, by 1979 over 90,000, or 18 percent of the Section 235 units has been foreclosed. This was exceptionally high in comparison to other federal homeownership programs that had a cumulative

foreclosure rate of less than 5 percent.\textsuperscript{52} Hence, despite the program’s auspicious prospects, it was laden with inherent flaws that quickly became manifest. The failures resulted in the programs termination and left many individuals regretting their participation in the program. Despite the failure of the Section 235 program, homeownership promotion and efforts to improve inner cities have not subsided.

The paradoxical results of these various efforts to improve American cities and the housing prospects of the city’s residents is a consequence of these efforts attempts to replace rather than renew or rehabilitate these blighted areas. Hence, impractical solutions are created for persistent or systemic problems. For example, in many efforts to clear slums that house much of the city’s poor and low-income residents, the decrepit dwellings were replaced with units that would attract more affluent individuals to the city. Yet, no efforts were focused on the lack of housing options for the city’s current residents or creating affordable housing, so there was massive displacement and social strife. In many of these cases, if the planners had attempted to rehabilitate the areas and create better living conditions for the current residents rather than replacing them with more appealing and profitable real estate, some of the problems that arose from their “replacement” approach could have been avoided. In the end, the flawed approach often negatively affected the very groups the programs intended to help, particularly low-income and middle class blacks.

1.2 Private Sector

Along with these highlighted issues of the public sector, forces within the private sector affected blacks and white differently and influenced the wealth disparities between the two groups. While the most detrimental forms of discrimination derived from private practices, federal tolerance and endorsement served as an impetus to their widespread use. The following section explores the private sector forces that have negatively affected the disparities that exist between blacks and whites both in wealth and the housing market.

1.2.1 Homeownership

Homeownership is often viewed as a mark of success and fulfillment of the proverbial American Dream. It also heavily influences an individual’s ability to accumulate wealth. In *Low-Income Homeownership: Examining the Unexamined Goal*, Belsky and Calder propose that, for the lower spectrums of the income distribution, home equity has been a significant source of household wealth. For most white homeowners, homeownership has been highly beneficial to wealth, and this is especially true for families that own housing as an investment, e.g. vacation homes. However, the ability of blacks to fully participate in the housing market has often been inhibited by governmental, private market and social forces. While lack of access to homeownership is one aspect of the problematic wealth gap, a second problem stems from the concentration of wealth in a single asset for those who do own homes. When blacks hold assets, it is primarily concentrated in illiquid goods, such as housing, and this is also of concern. The concentration of wealth in such

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illiquid goods is problematic for two reasons: first, the inability to use these assets in situations of need or emergency can allow an otherwise temporary cash-flow problem to evolve into a long-term crisis,\textsuperscript{54} second, these assets are also very sensitive to market and social changes. With all their wealth in housing, these families are not protected by the relative stability of developed portfolios. Furthermore, Oliver and Shapiro contend that “home equity is the most important wealth component for average American families, and even though home ownership rates are lower, it is even more prominent in the wealth profiles of African American families.”\textsuperscript{55} In addition, a paradox exists within the relationship of affordability and the ability of a home to aid in generating wealth.

The opportunity for one to acquire land or property, build a community and generate wealth has been structured and financed by state policy and the actions of the federal government. As mentioned above, the G.I. Bill and the creation of the Federal National Mortgage Association, known as Fannie Mae, created homeownership opportunities for returning veterans and the low-income households. These programs made homeownership attractive because it allowed households to acquire and invest in this costly asset with very little capital. Depending on location and other characteristics of the house, one can accumulate great wealth through the appreciation of home equity. This is especially true for those that remain in the home long enough to pay off most, if not all of the principal. “Add to the fact that capital

\textsuperscript{54} This is especially problematic since blacks are less like to have relatives they could turn to for the necessary financial support. Also unlike whites, blacks assets will not have their wealth in a variety of assets, if they have invested in housing due to a lack of resources; hence, the negative correlation between homeownership and black’s wealth accumulation.

\textsuperscript{55} Shapiro, p. 211.
gains on homes in most cases escape taxation and it becomes clear why promoting homeownership holds so much appeal for policymakers.\textsuperscript{56}

Whereas for millions of Americans homeownership is a fruitful investment, for a large share of individuals the risk associated with this asset has proved to be more constraining or detrimental. Black families often experience the negative effects of homeownership because, in many cases, housing is their only source of wealth. Having ones wealth solely concentrated in this infungible good, a good that cannot easily or quickly be converted to cash, is problematic, because in emergencies or budget shocks, families will lack the readily available funds necessary to ride out crises. The lack of liquid capital can put these households at risk of defaulting on their loan and ruining their credit record, which can increase their future borrowing cost and force them to forfeit any right to the value to the property.\textsuperscript{57}

Diversification of assets is an issue for additional reasons. In particular, for low-income black households some investments could yield higher return than homeownership. During resale some low-income homeowners experience little or no appreciation in value after deducting mortgage interest and property taxes. The economic losses that can accrue from homeownership are particularly maligning for low and middle-income households because of the lack of affordable housing\textsuperscript{58}; thus, the risk associated with homeownership becomes higher for these households. In addition, affordable housing developers are left in a quandary; if they wish to keep their housing affordable, they must limit the equity appreciation. As a result of this

\textsuperscript{56}Rohe, p. 192.  
\textsuperscript{57}Rohe, p. 192.  
\textsuperscript{58}Rohe, p. 192.
practice they inadvertently eliminate the household’s ability to accumulate wealth through this asset. Ultimately, homeownership is often perceived to be economically and socially beneficial to all individuals and their community, but the risk-return tradeoffs for this asset are often heavily influenced by an individual’s race and income.

1.2.2 Renting

Renting is often considered a good alternative to homeownership, providing mobility, different occupational opportunities and in some cases greater economic efficiency. In addition, renting can offer other understated benefits relative to homeownership because rental prices are not as sensitive to mortgage crises, deflation, and other fluctuations in the housing market. Historically, a major impediment to protecting wealth through renting was that rental units are often of poorer quality than resident-owned households. For instance, “in 1960 only 66 percent of all the rental units were in sound condition and had all of the necessary plumbing facilities, as compared with 83 percent of the owner-occupied units.” Yet, “housing, almost more than any other commodity, is a product of its environment”, where the character of the dwelling depending heavily on its immediate neighborhood’s environment. Rental units reflect this mutually reinforcing relationship because the majority of these properties are located in urban areas, which can affect its occupancies and commodities. Overall, the quandary of rental dwellings in urban area has significantly affected black residents and their wealth status.

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59 Beyer, p.123.
60 Beyer, p.337.
Similar to resident-owned housing, when quality, size and location of a dwelling are controlled, blacks end up paying higher rents and experience lesser housing value appreciation over time for similar rental units for whites.\footnote{Pipkin, John S., Mark E. La Gory and Judith R. Blau, ed. Remaking the City: Social Science Perspectives on Urban Design. Albany: SUNY Press, 1993.p. 240.} “Thus, poor black households are especially poorly housed at high cost relative to low income whites.”\footnote{Pipkin, p. 240.} As will later be illustrated in Chapter 2’s discussion of the Shaw community, rent control is often seen as a means of alleviating housing inequalities by opening rental housing opportunities to these lower-income households. Rent control is when the rent of a unit is at a fixed price. Housing experts believe that the immediate effects of rent control are preventing inflation and price gauging, while transferring wealth back to the tenants. Experts suggest that this practice would be beneficial to minority families because it accommodates for their economic circumstances, while preserving the economic characteristics of a city such that it would preserve its racial composition.\footnote{Block, Walter and Edgar Olsen, ed. Rent Control: Myths & Realities. Vancouver: The Fraser Institute, 1981.p. 61.} However, it is recently becoming evident that rent control may also have some unforeseen disadvantages that could further compound disparities between blacks effects.

Since its benefits were only available to families able to obtain a rent controlled housing unit, the landlord would still be able to show prejudice in selecting which tenant to accept. Hence, minority and low-income groups were almost effectively shut of this housing opportunity that was intended to help them. In addition, rent control reduces mobility because it hinders the construction of new dwellings and leads to lower vacancy rates because residents are encouraged not to

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62 Pipkin, p. 240.
move, and this reduced mobility inadvertently increases unemployment.\textsuperscript{64} Since reduced mobility makes it no longer possible to create sufficient new housing in the desired locations, displacement becomes a major problem for many low-income residents.\textsuperscript{65} This is made worse by the fact that advantaged residents are now using many properties as investments—\textit{i.e.} converting units into condominiums or cooperative housing united for more affluent individuals.

Moreover, some scholars suggest that rent control is inimical to affordable housing. Numerous studies of different U.S. cities have shown that the benefits of the lowered rents that result from rent control are offset by the loss in available housing opportunities. Rent control has adverse consequences for uncontrolled rental units— inhibiting new construction\textsuperscript{66}, causing the cost of other rental units to surge\textsuperscript{67}, and encouraging the deterioration and disinvestment of existing rental stock.\textsuperscript{68} Hence, many U.S. cities that initially deemed rent control necessary for preserving affordable housing have eliminated this policy because the controlled dwelling’s prices are out of reach for low and moderate-income households.\textsuperscript{69} Ultimately, rental housing does not necessarily provide residents a more economically efficient housing option, and as we will see in Chapter 2, alternative methods of providing affordable housing must be explored.

\begin{itemize}
\item Block, p. 71.
\item Goetze, p. 59.
\end{itemize}
1.2.3 Lending of Private Financial Institutions

In addition, to the loans and mortgages offered through the federal government, many private financial institutions offer families opportunities of quality housing via homeownership. Oliver and Shapiro indicate that both historical and more contemporary patterns of institutional bias by private lending institutions have blocked blacks from homeownership or forced them to pay higher interest rates to secure the residential loan.\(^70\)

Blacks are initially disadvantaged in seeking mortgage credit because their relatively low income and limited access to housing diminishes their chances of finding an adequate mortgage on favorable terms. These disadvantages create a bias amongst lenders when determining the credit risk of a buyer. Although many lenders issued favorable public statements towards non-white borrowers, a substantial amount reported poor experiences. These adverse experiences affected their lending practices, such that non-white borrowers were often denied credit. This lending practice was also evident in the financing of development housing for non-white borrowers. Lenders’ attitudes towards minority housing were often reflective of their judgment of it as a class risk; hence these endeavors were often denied. Therefore, this denial of credit not only further polarized society but it also reinforced Jim Crow Era notions of race and place.

In 1974 Congress attempted to address the growing problem of racial isolation by creating the Housing and Community Development Act of 1974 and later with the Community Reinvestment Act of 1977. These laws were intended to reduce the

\(^70\) Shapiro, p. 22.
isolation of low-income and minority groups by insuring that mortgage lenders had an affirmative duty to address the credit needs of these groups and low-income neighborhoods.\textsuperscript{71} Thus, after decades of denying loans to racial minorities and starving urban communities of credit many independent financial institutions changed their practices in order to comply with federal decree.\textsuperscript{72} However, instead of explicitly denying access to these groups, financial institutions flooded the market with exploitive loans that would prove to be even more detrimental. As black and low-income families were often considered to be credit risk, sub-prime loans are offered to increase access to credit for borrowers with a deficient credit history or high credit risk on more expensive terms. Subprime loans “can carry higher interest rates than traditional loans or adjustable rates that can make the mortgage difficult to repay once the interest rate resets. They can also carry higher fees and prepayment penalties and thus are at a high risk for foreclosure.”\textsuperscript{73} This combination of a deficient credit history and high interest can have adverse financial effects on the borrower; hence the issuing of subprime loans are often considered to be exploitive practice, similar to that of predatory loans. The National Community reinvestment Coalition (NCRC) defines predatory as “an unsuitable loan designed to exploit vulnerable and unsophisticated borrowers. Predatory loans are a subset of subprime


loans. (Not all subprime loans are predatory, but virtually all predatory loans are subprime).”

The use of subprime loans exacerbates the already prevalent racial wealth disparities that exist between blacks and whites, and the racial disparities are even greater at higher income levels. These loans require small down payments and little corroboration of the ability of the borrower to repay the loan. Edward N. Wolff recounts that subprime loans are also “characterized by a low introductory interest rate (a ‘teaser rate’), which then balloons to a very high interest rate after two or three years.” Subprime loans are three times more likely in low-income neighborhoods than in high-income neighborhoods and African Americans are three times as likely to finance their homes with a subprime loan than whites. This is especially problematic because the use of these exploitive loans has exponentially grown over a short period of time—e.g. in 1993 80,000 subprime refinance loans were reported under the Home Mortgage Disclosure Act, by 1998 this number grew 900% to 790,000. The exploitive nature of these loans has recently become evident by the dramatic increases in the loans adverse effects. After September 11th consumerism amongst Americans increased to the extent that it helped alleviate the recession that had began in 2000, yet this increased spending coupled with the depreciation of

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76 Wolff, p. 9.
housing prices made it difficult for homeowners with subprime loans to refinance mortgages and many were left with higher payments than expected. Circa 2006 a trend of high default rates on subprime loans began. This resulted in a massive amount of foreclosures for homeowners with a disproportionate amount taking place in minority neighborhoods\(^79\), and many financial institutions became bankrupt or endured great financial losses. Moreover, in a study examining sub-prime lending patterns in 331 metropolitan areas (using 2000 census and HMDA data), Calvin Bradford concluded that African Americans were disproportionately represented in the sub-prime loan refinancing market. He also revealed that as income increased, the racial disparities grew.\(^80\) Bradford points out that Washington DC has the 6\(^{th}\) highest disparity between whites and black in sub-prime lending market. This disparity will be highlighted in Chapter 2’s description of Washington DC’s Shaw community.\(^81\)

Despite the various laws and regulations prohibiting racial discrimination or prejudice in lending, racially discriminatory mortgage lending practices and disinvestment in urban communities by private institutions remains a constant reality.\(^82\) Racial fears and stereotypes are exploited, which further destabilizes the housing and economic prospects of black families and many urban communities. Therefore, through exclusion and the use of exploitive loans, private financial

\(^81\) Bradford, p. 59.
institutions have created more racial wealth disparities and further polarized urban communities.

1.3 Demographic Changes

An external variable that affects the relationship between the housing market and wealth accumulation in relation to both the public and private sectors is demographic changes or shifts in populations (e.g. immigration and migration). The phenomena of suburbanization and gentrification are examples of these demographic changes both of which have resulted in segregation. There are drastic racial disparities between cities and suburbs and these disparities both reflect and perpetuate wealth disparities. George D. Squires and Charis E. Kubrin cite that “Cities are disproportionately non-white, with over 52 percent of blacks and 21 percent of whites residing in central-city neighborhoods; while suburbs are disproportionately white, where 57 percent of whites but just 36 percent of blacks reside.”83 They also suggest that this segregation in conjunction with existing economic inequalities results in low income and non-white households becoming further isolated.84 As both the public and private sector influence these demographic changes they not only construct racial disparities but are also a product of the relationship between the housing market and racial wealth disparities.

In sum, this chapter has explored competing explanations of the racial wealth divide and its persistence. The investigation revealed complex web of forces at work,

even when the examination of the wealth gap is limited to the housing market. At the same time, the analysis demonstrated the importance of the housing market in reinforcing and perpetuating racial wealth disparities. The salient features of this process will be illuminated in Chapter 2’s discussion of the Shaw neighborhood. Our case study of this unique community provides insight into the major forces sustaining housing and wealth disparities. In particular, as chapter 2 will demonstrate, Shaw’s history underscores the significance of, and the complex interactions among, the private and public sector forces identified in Chapter 1. Highlighting the influence of the private developers and the public housing programs discussed in chapter 1, our case study of Shaw will also identify aspects of the housing market not allotted sufficient attention in the earlier literature. These factors include the divisions among the community housing activists and their competing views of the affordable housing movement. Furthermore, our analysis of the history of Shaw’s racial wealth divide provides a menu of potential policy options informed by Shaw’s own attempts at eliminating these inequalities.
CHAPTER 2

Shaw

The neighborhood of Shaw is located in central Washington, D.C. and is bounded by M Street N.W. to the south; New Jersey Avenue to the east; Florida Avenue N.W. to the north; and a westward panhandle that extends to 16th street. Once a thriving, close-knit African-American community of mixed incomes, the Shaw community has endured many changes that resulted in its current status as a highly gentrified neighborhood, with drastic economic differences.

After WWII, Washington D.C. was still segregated; most of the city’s black residents faced severely limited housing options and were restricted to largely black areas or communities. Shaw was one of these communities. Throughout the 1940s and early 1950s, black culture had blossomed in Shaw. This thriving community was not only a center of refuge for African Americans in the segregated capital city, but it was also host to many famous African American entertainers, artists, poets, historians, and religious leaders. Duke Ellington, who is often considered the city’s native son, began his career in Shaw. Later in his career, Ellington continued to play at various theaters and nightclubs in Shaw with other entertainers such as, Count Basie, Cab Calloway, Pearl Bailey and Louis Armstrong. In Dream City, Harry S. Jaffe and Tom Sherwood, describe that, “Handsome young black men turned out in double-breasted suits. A few hip white couples came for an earful of Jazz.”85 Moreover, painter, Alma Thomas, created her best work while in Shaw as an art teacher and during her retirement. Carter G. Woodson lived and worked in Shaw,

while he researched and promoted Black contributions to the nation’s history. In addition, religious figures such as Bishop C.M. Grace, known to his followers as “Sweet Daddy Grace” established the headquarters of the United House of Prayer in Shaw, and Elijah Mohammad expanded The Nation of Islam and the Black Muslim movement to this area. During this time, Shaw was also popular for being the home to what are now considered African American historical landmarks such as the Lincoln Theater, the Whitelaw Hotel, and the 12th Street YMCA. However, Jaffe and Sherwood suggest that integration gradually ruined this prosperity, and by the late 1960s “the neighborhood had gone sour.”

The progressive desegregation of Washington began following an array of events. These included the *Shelley v. Kraemer* decision in 1948, the overwhelming defeat of rent control in the 1950s legislation promoting homeownership, and the general trend toward suburbanization in the United States. Desegregation opened opportunities for many of the affluent and middle-class families to move to the suburbs. This black middle-class flight led to a gradual decline in the Shaw community. As those with economic resources moved out, the community became increasingly composed of poor African American families left behind to struggle in the decimated neighborhood. Without the support or leadership of the more economically successful families, economic and social degeneration ensued. This degeneration was intensified by a housing shortage combined with the lack of rent control; residents were forced to pay astronomically high rents for substandard

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87 Jaffe, p. 31.
housing units. In fact, *The Handbook of Housing*, published by the Housing Committee of the Congress of Industrial Organization (CIO) reported that “the citizens of the District pay a higher proportion of their income for rent than the people of any other U.S. city (including New York).” The committee report also warned that “the housing shortage must not be exploited by the real estate agents at the expense of the tenants.” This unfortunate predicament of the Shaw neighborhood was then exacerbated by the riots of 1968.

Following the assassination of Martin Luther King, Jr., riots ensued in Shaw and various other neighborhoods. Many local businesses were looted and burned. The frustration of this tragedy and various forms of discrimination that had been endured for years quickly degenerated into chaotic lawlessness. This upheaval continued even though many rioters no longer knew why they were rebelling. For instance, one observer reports, “when another [man] was asked why he was looting a store he replied, ‘because Whatsisname was killed.’” A tragic feature of the riots and subsequent events was that many apartments were attached to the local stores; while, white store owners lost their businesses, the black apartment dwellers lost everything. The effects of the riots and the chaos that followed devastated the Shaw community. It left the neighborhood in a decade long retreat of economic and social

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89 Diner, p.20.


decay that has only recently been reversed. The loss of community leaders also meant that many of the problems associated with the riots and their aftermath remained stagnant and unaddressed. Yet, with 33,000 residents, 1200 businesses and 6200 buildings, the majority in substandard condition, Shaw ultimately attracted the much needed government attention. In 1968, Shaw was selected as the site of another urban renewal in Washington.

2.1 Urban Renewal of Shaw

Following World War II, Washington and the nation as a whole experienced a period of prosperity that alleviated constraints on federal and consumer spending. The new financial resources coupled with an array of federal programs passed down from the New Deal allowed for Washington to quickly transform into one of the nation’s leading metropolitan areas. In addition to this increased consumerism, the 1948 U.S. Supreme Court decision outlawing the enforcement of racially based restrictive covenants deluged the housing market with increased homebuying and homebuilding. Ultimately, these changes spawned a general sentiment that the Washington’s slums, which were primarily comprised of impoverished African Americans, were not compatible with the City’s monuments and its changing

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95 Shelley v. Kraemer 334 U.S. 1 (1948)
landscape. Subsequently, a revitalization effort transpired to create a comprehensive metropolitan planning, including reclamation of the urban slums and redevelopment. Moreover, new obstacles and opportunities had been created by the World War II economy because the basic production and manufacturing needs of the military depended on the resources available in the U.S. urban centers. Consequently, Washington DC and several other national and regional metropolises were burdened with a massive influx of migrants.\textsuperscript{96} There was not enough housing to accommodate this mushrooming of the population; thus, many residents were relegated to alley dwellings, private or public courts that typically opened to a street and could be found amid buildings.\textsuperscript{97} As the population continued to grow, housing in these areas gradually deteriorated. African Americans primarily occupied these devastated areas because of the lack of low-cost housing, discriminatory practices and/or policies that restricted where African Americans could live. Such discriminatory policies included restrictive covenants, which were legal obligations stipulated in a deed by the seller typically used for preventing future sales to African American homebuyers. The stipulations associated with this discriminatory tool are well illustrated by the restrictive covenant questioned in Supreme Court case \textit{Corrigan v. Buckley} (1926):

\begin{quote}
“For their mutual benefit and the best interests of the neighborhood comprising these properties, they mutually covenanted and agreed that no part of these properties should ever be used or occupied by, or sold,
\end{quote}


leased or given to, any person of the negro race or blood; and that this covenant should run with the land and bind their respective heirs and assigns for twenty-one years from and after its date. [98]

Irrespective of such racial quandaries, the redevelopment efforts for the city’s slums ensued with the passage and Supreme Court’s approval of the District Redevelopment Act of 1945 serving as supplemental impetus. A *Washington Post* article pronounced, “That is good news for the whole city…It is time for extraordinary efforts to get these great undertaking into the construction stage.” [99] The District Redevelopment Act of 1945 created the Redevelopment Land Agency (RLA), which worked with the National Capital Park and Planning Commission (NCPPC) on rebuilding Washington’s blighted areas. It explicitly instructed the NCPPC to prepare a “land-use” guide for redevelopment; locate new highways, parks and playground; and to identify sites for new public buildings. [100] Despite a persistent public debate about housing and the importance of protecting poor residents from displacement, the RLA began its first redevelopment initiative in the southwest Washington. In the redevelopment process the RLA would obtain property via purchase, condemnation or eminent domain. Upon acquisition of the property, the National Capitol Housing Authority was then commissioned to construct and administer public, subsidized housing for low income resident. Despite its original intentions for the southwest, the redevelopment endeavor only completed one-tenth of

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98 Corrigan V. Buckley. 104. U.S. Supreme Court 1926.
public housing necessary to satisfy the housing requirements for the low-income urban residents between 1939 and 1960.\textsuperscript{101}

Of the completed housing in Washington DC, there were no residential spaces for low-income families, and only a small percentage could accommodate individuals with a moderate income. Local realtors, neighborhood groups and homebuilders that were opposed to the retention of low-income housing in the Southwest and the use of federal fund for these endeavors influenced this relative failure. They forced popular referenda questioning construction, supported candidates pledging to reject offers of housing aid, and encouraged debilitating amendments to public housing legislation.\textsuperscript{102} In addition to the lack of neighborhood opposition, the constitutionality of the RLA’s practices was under question. Some felt that the liberal interpretation of the phrase “public use” allowed for some land and property to be acquired without proper warrant. In \textit{Berman v. Parker} (1954), a case that questioned the RLA’s use of eminent domain, the Supreme Court ruling reaffirmed that private property could be seized for a public purpose with “just compensation”.

Hence, when the RLA expressed that Shaw would be the next area to undergo redevelopment, it faced much opposition. Although the business community commended the redevelopment of Southwest Washington DC, many members of the black community were incensed because displacement had become a customary implication of redevelopment. For instance, the Southwest redevelopment plan “called for demolition of up to 80 percent of the existing buildings in the area and the

\textsuperscript{102} Gelfand, p. 200.
relocation of 80 percent of the resident population.”

The hostility towards urban renewal efforts was primarily caused by the fact that current and former residents were not consulted throughout the planning or construction of the redevelopment process. In order to proceed, the RLA came to an agreement with the Shaw Neighborhood Advisory Council, which allowed the Shaw community to participate in the planning and execution of renewal efforts. Since Shaw was the largest urban renewal area in the United States, Thomas Appleby, the Executive Director of the Agency, wanted to ensure the RLA’s commitment to this new strategy. As stated by Appleby, “In Southwest there was little planning with people… It is the policy of the RLA to carry out the Northwest #1 project with the full participation of the residents of the area. While this isn’t the easiest way to operate, it will continue to be our policy.”

In April 1968, President Nixon announced Federal approval of $29.7 million for Shaw redevelopment. He pledged that, unlike the previous renewal efforts in Washington, this effort would be approached with urgency because “it is not enough merely to patch up what now exists; we must truly rebuild.”

Rev. Walter E. Fauntroy, a Shaw native and active community leader, created the Model Inner City Community development Organization (MICCO), a coalition consisting of 150 community organizations, civic groups, churches and a variety of community leaders to ensure Shaw did not experience the tragic effects of the Southwest urban renewal. As a result of the Housing and Urban Development Act of 1968, early completions

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103 Gillette, p. 173.
104 Gillette, p. 173.
and early rebuilding actions were able to begin while detailed planning continued. The final plan was expected to be a compromise between the MICCO and RLA reflecting the social and economic objectives that were imperative to the revitalization of this community.

With the help of the Housing and Urban Development Act and the cooperation of the RLA, MICCO and the National Capital Planning Commission (NCPC), the Shaw urban renewal effort moved rapidly. The goal of the Shaw Redevelopment Plan was to eliminate conditions that blighted the Area and to present “the renewed Shaw as an attractive residential area, with new and rehabilitated housing for low and moderate income families, as well as good public and commercial services.”¹⁰⁶ The plan included “the development of new employment, job training, ownership and business opportunities for Shaw residents.”¹⁰⁷ For the first year, the Nixon administration provided $92 million for land acquisition by the MICCO, while the churches involved in the organization would act as non-profit developers. By the second year, there was little success because some of the development projects failed to attain the necessary local leadership, builders and development. In addition to these problems, there was friction amongst the RLA, MICCO and various community groups. The MICCO were troubled by the predominately white RLA desire for more control, and Shaw community groups felt that the MICCO reflected black business interest, while the views of the

predominantly poor residents were ignored. Ultimately, the culmination of these issues and others that developed overtime led to the cessation of the MICCO, and the overall abandonment of the original Shaw urban renewal plans and goals. Reverend Ernest Gibson, a leader in the MICCO, recently suggested an alternative explanation for the failure of the Shaw project attributing “much of the dissension to interference by the developer/builders, armed with funds and long range plans of their own…and to RLA’s ineptness in dealing with MICCO.”

Despite these issues some progress was made in creating more housing and renewing areas that were affected by the 1968 riots; but some of these outcomes were not ideal. Several high-rise buildings that provided a range of housing options (i.e.- efficiencies to three bedroom units), where tenants would be able to qualify for rent supplements were created to address the housing shortage. Yet, these high-rises proved not to be the panacea for Shaw’s housing problem because it created high density living in poorly designed buildings that ended up being in a perpetual state of disrepair. Sam Little, the Director of Residential Services for D.C.’s Public Housing Department, insists that these buildings were “Designed to fail. You construct the buildings with the cheapest material, with sometimes used materials, like elevators, and you never appropriately fund them or staff them… It got to the point that it became a melting pot. A melting pot of poverty.” The inherent issues with the urban renewal’s solution for Shaw’s housing problems would later manifest themselves in the housing and social problems that persisted until the turn of the

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108 Diner, p. 94.
109 Diner, p. 95
century. In sum, the new approach (i.e. citizen participation) to urban renewal used in the Shaw project proved to be no more successful than earlier efforts and may not have been the most efficient method of ameliorating the economic and social decay that had occurred following the black flight.

2.2 Post-Renewal Shaw

Although the urban renewal did not address all of the problems in Shaw, it was still able attain its goals of bringing federal attention to the need for policies protecting tenants and attracting new residents. During the 1970s, the pressure from citizen groups caused the federal government to impose local rent control along with provisions to better protect tenants. Within this same time period many pioneering white, homosexual individuals began to move into western Shaw. 112 This integration continued for over a decade with the creation of the Reeves Municipal Center, a municipal office building and commercial shops, and the Metro. These projects helped spur economic activity in Shaw, while also serving as a catalyst for private reinvestment efforts in the area.

2.2.1 Political Influences

Political forces heavily influenced the economic strides that took place within the Shaw community. During Marion Barry’s first term as D.C. mayor (1979-1991) he was very proactive helping improve the predominately black Shaw community and further incorporating it into greater Washington community. He selected Shaw,

particularly U Street, as the location for the Reeves Municipal Center because he felt the historical significance of its location would allow for the African American Community to connect with other parts of the city. Barry also helped create a strong black middle-class in Shaw and in the city as a whole, by committing to hiring many African Americans into the city government. When Anthony Williams succeeded Barry as mayor, he was primarily concerned with strengthening Washington DC economically. Even though he succeeded in economically stimulating DC, he created no policies addressing the need for affordable housing. Thus, the economic disparities and gentrification\textsuperscript{113} that persisted in Shaw and the rest of the city grew exponentially. The unequal nature of the growth exacerbated the housing and economic in Shaw and in the wider D.C. community. Despite the economic triumphs for D.C. under the leadership of Barry and Williams’s leadership, lower-income households were still grappling to survive and social problems such as, the crack epidemic and homelessness remained prevalent.

2.2.2. Social Strife in Shaw

Having endured deep economic losses, a loss of community leaders to suburbanization and then being virtually disconnected from the rest of the city, the Shaw community began to experience another social decline after urban renewal. As many black families continued to leave Shaw in hopes of escaping it’s social ills, the community lost many of its leaders. Hence, when the black youth left in Shaw, especially young males looked for role models or leadership they often turned to

\textsuperscript{113} I am defining gentrification in this thesis as the redevelopment of the housing stock and economic progress of a community that causes a socioeconomic shift within the neighborhood as working class residents are replaced by households with higher incomes.
anyone, which increasingly became drug dealers. During the early 1980s there was a huge surge in the use of crack cocaine, and this epidemic continued for over a decade. This influx of crack cocaine availability and use resulted in a concurrent surge in homelessness, murder, theft and imprisonment. The rising drug problem angered residents and government officials, yet, efforts such as the Anti-Drug Rally of 1983, “which was part of an afternoon of demonstrations against drug users and sellers who congregate daily in various parts of Shaw” proved to be ineffective. Hence, some vigilant residents took matters in their own hands. For instance, in 1989 several crack houses in Shaw were set afire. Authorities suggested that the neighborhood residents were following a trend observed in other crack-plagued cities, a tendency of residents to take matters into their own hands. While Authorities tried to control this growing problem by increasing the severity of the punishment for possession of crack-cocaine, this stiffening of penalties only further compounded the problems. With the sentence for crack possession being “nearly three times the prison sentence served by most murderers in America”, the racial bias in this punishment emerged, revealing “the stubborn persistence of the specter of Jim Crow injustice in America.” The severe punishment further decimated families and tore the social fabric of the community. Overall, the effects of the crack epidemic and the response to it had devastating effects on the Shaw community. Drastic changes would be necessary to restore the economic and social health of Shaw.

2.2.3. **Struggles in Housing**

In 1968 The District’s Community Renewal Agency’s report suggested that the unmet housing needs of the non-white population in Washington would double by 1975 “from 40,000-50,000 to 80,000-100,000” and that one-third of the city’s population would need “financial assistance in order to [be] adequately housed.” While the efforts of community groups did result in the reinstitution of rent control in 1973 and urban renewal improved the city’s tax base, the report’s forecast eventually proved correct. During the 1970s there was a heightened need for affordable housing and public housing. Moreover, the Tax Reform Act of 1986 deterred many developers from pursuing affordable housing projects. The act created longer depreciation periods on properties, thus eliminating the benefits of investing in affordable housing. The lack of affordable housing, in turn, created a displacement problem for low-income households; hence, the city started to evolve into highly segregated communities of economic extremes. These changes were mirrored in the Shaw neighborhood.

The need for housing reinforced the depressed state of the Shaw community. The original residents lacked the financial resources for revitalization. For years, the Shaw community had been redlined or considered not ‘bankable’ because of its high concentration of African American and low-income households. Yet with increased inequality and gentrification, property rates rose so that, regardless of private discriminatory practices, many Shaw residents could not afford to purchase

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117 Diner. p. 186.
118 Diner. p. 186.
properties, or even pay the astronomical rental costs. Thus, over the years with the lack of protection from escalating rents and property values, many of Shaw’s existing residents were increasingly susceptible to displacement. More white and higher income families moved into Shaw. The property values and rents steadily increased. In an attempt to capitalize on the booming markets, landlord and developers would buy off tenants to convert these rental units into more lucrative condominiums. Since many residents of Shaw lacked the knowledge and understanding necessary to make informed decisions regarding the potential growth in housing values, they would often fall victim to the subterfuge of landlords or developers. The result was displacement and loss of increasingly valuable property.

Despite the lack of resources, some non-white Shaw residents continued to pursue homeownership opportunities because they saw the wealth building potential of this asset. Lacking the necessary credit, many obtained sub-prime loans, which as mentioned in Chapter 1 are currently proving to have serious repercussions for low-income African Americans. Local developers such as George Rothman, President of Manna Inc.\textsuperscript{120}, feel that it is too early to judge the full impact of predatory loans in Shaw, but clearly the risk are high. In sum, even those residents aware of the rising values were prevented, by lack of resources, from investing safely in the rising values of Shaw property.

\textsuperscript{120} “Manna is probably the leading non-profit in Washington that produces affordable for sale housing. They also provide home-buyer education and there is also a subsidiary mortgage company, the only non-profit mortgage company in DC that focuses on providing responsible loans to low income buyers.”

2.3 Second Attempt at Redevelopment in Shaw

In the early 1990s several organizations were interested in redeveloping the Shaw neighborhood because new federal and local laws (e.g. tax credits) made such projects advantageous. Recognizing many of the faults in Shaw’s previous redevelopment effort, these organizations maintained that one of their major objectives was to preserve the neighborhood’s residential character, while also stimulating commercial and economic opportunities in the historic U street area. One of the first initiatives was to increase the housing supply and reduce displacement by using tax incentives.

The initial recommendation was for a “circuit breaker” on the property tax along with an “anti-speculation” tax. The circuit breaker would provide “graduated income tax credit to offset a portion of the property tax burden for lower income taxpayers.”\(^\text{121}\) Meanwhile, the “anti-speculation” tax would impose a tax of one-half a percent of the value of capital gained from the sale of a home.\(^\text{122}\) Although citizen groups influenced the passage of this legislation, the program was not very successful. Its efficacy was dependent upon the city government’s publicity, monitoring, and enforcement of the programs and these oversight responsibilities were lacking. However, tax incentives were later used to encourage non-profits and private developers to develop affordable housing. In the 1990s, HUD provided the city with $7 million for different projects in the Shaw area. These funds served as seed money for development and improvements, and were allocated through low-


income housing tax credit and historical rehabilitation tax credits. As Denise Johnson, an affordable housing director in Shaw, explains, “The historic preservation tax credits have a five year compliance period… from five years after you’ve completed the renovation you have to maintain its historic features.”123 In accordance with the Economic Recovery Tax Act of 1981, the historical rehabilitation tax credit consisted of a three-tier system that offered a certain percentage of credit based upon the maturity of the property. Johnson explains, “The housing tax credit has a 15 year compliance period so what that says is you have to keep this as affordable housing for 15 years.”124 Furthermore, a certain percentage of the households occupying the housing must have an income lower than the area median income.125 These tax credits were enticing to private developers and non-profits because they could be sold to a high-tax-liability syndicator (i.e. corporations, entities), who would in turn invest in projects developers and non-profits.

The restoration of the Whitelaw Hotel was one of several private reinvestment projects to take advantage of the tax credit incentive to address the need for affordable housing and economic development in Shaw. The Whitelaw Hotel is a historical landmark. Originally built as an apartment building in 1919, it was converted into a hotel in the late 1930. While Washington was segregated, the Whitelaw became a prominent hotel for many black entertainers such as Joe Louis and A. Philip Randolph from its opening to the late 1950s. Manna, a local affordable housing non-profit, used both historical rehabilitation tax credits and low-income

housing tax credits to convert the devastated building into 35 subsidized housing units for low-income households. The Whitelaw renovation and similar projects using the tax credits to create affordable housing were quite successful for Shaw. They created economic diversity in this increasingly gentrified neighborhood. Yet, with the tax credit compliance periods expiring for many of these projects, questions arise about the effectiveness of this approach in providing affordable housing. If the organizations help the residents of the affordable housing units build equity, then the units will lose their affordability; and if they decide to sustain the properties’ affordability, the existing residents lose the opportunity to gain equity from the units.\(^{126}\) While providing affordable housing is necessary in Shaw, eliminating a resident’s opportunity to build wealth through homeownership is problematic. It limits the mobility of low-income households and reduces the potential for economic progress. The New Columbia Land Trust is one organization that found a workable compromise. By purchasing properties and keeping the land in a trust, the Land Trust’s solution sustained affordability, while simultaneously allowing the owner to sell and gain some equity. However, as the philosophical foundations for this approach to affordable is often questioned, Shaw has been pushed to experiment with other approaches to creating affordable housing.

A growing trend in the affordable housing movement in Shaw has been for tenants to collectively purchase a building, create cooperative housing, and thus build wealth simultaneously. Since the 1970s, Washington has developed progressive tenant protection laws. One of the most substantial laws was the Tenant Opportunity

\(^{126}\) This pertains to non-rental units.
to Purchase Act, which requires that tenants have a right to purchase a building first if it is to be sold. Individual households are typically not financially capable of purchasing an apartment building, so with the help of non-profits the tenants form a non-profit cooperative corporation to purchase the building. A non-profit cooperative corporation is more suitable for receiving the loans necessary to purchase the property because eligibility of the tenants as a collective is assessed rather than individual eligibility. A cooperative is established under articles of incorporation and functions under its bylaws. Each member buys a share and has one vote in all decisions and in distribution of surpluses. This autonomy moderates the influence of outside capital. Under this system the tenants can set their own rents, which can be maintained at relatively low prices, and if they leave the co-op, they can sell their unit and potentially generate some wealth from the transaction. Members of the co-op put equity into a cooperative enterprise and the benefits are distributed either through annual dividends or a patronage refund that is received upon exit from membership. Thus, successful cooperative corporations increase assets and generate wealth. This approach has proved to be significant in Shaw, where affordable housing and the opportunities to generate wealth for African American are scarce.

In addition to these specific efforts for creating affordable housing, there has been an increase in community involvement and pride. This heightened community awareness is particularly demonstrated through the development of the Shaw heritage

128 Hecht, p. 396.
trail and involvement of churches. The Shaw Heritage walking trail consists of signs dispersed throughout the neighborhood displaying stories, historic images and information. It was created through the collective effort of Shaw community members, Cultural Tourism DC and Convention Center Historic Preservation Grant program. According to Jane Freundel Levey, one of the trail’s developers, it succeeded in fulfilling its intended goals of generating economic development and community pride, in addition to being a means of getting tourists “away from the mall.”

When discussing its success, Denise Johnson reveals that the trail “helped bring stories out of the community and involved a wide range of neighborhood residents and stakeholders, including 2 of the largest churches in Shaw (United House of Prayer and Shiloh); the Wheatley YWCA; United Planning Organization (a local non-profit); local civic associations; and others.”

The Shaw community was involved throughout the whole process of creating the Heritage Trail and both the professional staff at Cultural Tourism DC and community members learned and gained form the experience. The success of Shaw’s heritage trail resulted in the program’s adoption in other neighborhoods throughout Washington. Furthermore, even though Shaw has always been a proud community, the heritage trail was an impetus for further efforts in the community. Particularly, the non-profit historic preservation organization, Shaw Main Streets, has used resources from the trail and Cultural Tourism DC to further revitalized Shaw. Its executive director, Alexander M. Padro notes, “the community has made a commitment to bringing back the types of neighborhood-serving businesses that longtime residents remember once thrived here.

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Regardless of race, class, or income, people want to be able to spend their money close to home. And by the end of this year [2006], they'll have more opportunities to do so than at any point since the 1968 riots.\textsuperscript{132}

In addition to the heightened community pride that is evident through the Heritage Trail and its subsequent efforts, there has also been a noticeable increase in the involvement of local churches in Shaw. In addition to churches being instrumental in the 1968 redevelopment effort, during the 1980s many of Shaw’s churches have progressively become more involved with improving Shaw through eliminating housing inequalities. It is speculated that the initial increased involvement of churches within Shaw community was a result of growing racial and class conflicts resulting from gentrification and reinvestment efforts.\textsuperscript{133} More specifically, United House of Prayer and Shiloh Baptist Church have responded to gentrification problems by creating affordable housing. The United House of Prayer built hundreds of apartments in Shaw and Shiloh Baptist acquired several housing properties that it intended to convert into affordable senior housing.\textsuperscript{134} However, unlike the success of the United House of Prayer, Shiloh has rescinded on its plan of providing affordable senior housing. Many community members have complained about the Church’s vacant housing properties, some of which were recently condemned by the local government. The plight of Shiloh’s efforts highlights the quandary that most churches exploring affordable housing development face. Since the majority of the properties

\textsuperscript{132} Cultural Tourism DC. "Heritage Trail Highlights Continuity and Change in Shaw Community Trail Walk and Unveiling May 6". Washington DC, 2006. Cultural Tourism DC.


these churches own are donated by parishioners, they can neither afford to develop the primarily delinquent buildings nor pay the delinquent and sales taxes associated with property sales. Leslie A. Steen, D.C.’s housing chief, considers the churches real players in affordable housing and commends their efforts. However, she is also in agreement with many other housing experts that suggest the churches would be more effective as housing advocates rather than developers. The increased community pride and involvement gives insight into a potential means of dealing with disparities in Shaw; yet, further research or evaluations are necessary.

When examining the success of the private investment efforts in Shaw from the 1980s onward, it is evident that the involvement of non-profit organizations has been fundamental to these projects. Jim Dickerson, founder of Manna, notes, "Nonprofits just stepped in. We evolved from performing social service to rehabbing a house to eventually becoming viable development entities capable of taking on complicated projects." However, one unintended side effect of this private reinvestment is that it escalated gentrification in Shaw, and inadvertently limited affordable housing. Gentrification not only intensified competition in the housing market, which led to increases in property value and rent, but also dramatically changed the neighborhood dynamic. The once thriving black neighborhood of the 1950s, which had struggled through a period of social and economic depression associated with suburbanization, out-migration of the successful, and a devastating crack epidemic, quickly became a community divided by economic extremes.

growing economic divide was concurrent with a racial divide. Denise Johnson, a community activist and affordable housing developer, noted

“[Shaw] was a down trodden neighborhood that no one was interested in, so it took years and years and years for redevelopment to come back to 14th street for example. And now that it has, you ask yourself the question who has it come back for… the demographic has totally changed… it did leave a void to a certain degree in the neighborhood because you didn’t have the same mix of incomes, you didn’t have the same mix of education. And you know the society and culture has changed as well.”

As gentrification advanced, whites, who had initially moved into eastern Shaw, progressively moved west. Although later redevelopment efforts attempted to address these new pressures, the one feature that remained constant during this period was the population bearing the brunt of these changes; that population consisted of African Americans and low-income households. Individuals from these groups were dispersed to other parts of the city. In sum, over time, more traditional residents were displaced by largely white and higher-income households interested in taking advantage of the burgeoning market in Shaw.

The black households left in Shaw experienced further discord and alienation when white households sought means of having greater agency in the community.

The controversial division of Shaw’s Advisory Neighborhood Commission (ANC) best illustrates the polarization that occurred in this community. The Advisory

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Neighborhood Commission is a small, local elected body that represents smaller “sub-neighborhoods” within a community. Denise Johnson describes, “its kind of the first level of the elected official in the city its on the neighborhood level and its based by the size of the census tract, etc. And they’re configured to be a certain size, so Shaw had an ANC with 12 people, which was large.” Yet, as Shaw gentrified, the ANC became hostile because its members would constantly squabble across racial and economic lines. Hence, community member and Shaw’s Councilman, Jack Evans, thought it would be best and most constructive to divide the Shaw’s ANC into two separate bodies. Yet, there was much resistance amongst community organizations and residents to this proposal. Denise Johnson, one of the residents in dissention, felt that “one ANC was going to relegated to the poor black folks and the other one was going to be for wealthy white folks and 9th street was going to be the dividing line.” Despite the dissention within the community, the ANC was split which has led to further turmoil and dysfunction. The ANC east of 9th street is a run by a dogmatic community activist who has a tendency to pursue his personal agenda, and therefore, disenfranchises the primarily African American constituency.

Meanwhile the ANC west of 9th street is primarily white and is attempting to disconnect itself from the rest of the community. The tension within the original ANC, which reflected the tension within the Shaw community, was particularly troublesome. Alexander Padro, an advisory neighborhood commissioner, felt “Conflicts among neighbors are unusual in Shaw, which has a reputation as a tolerant

community.” This failure of the ANC division reflects the unforeseen consequences that are created by the housing market’s influence on the racial wealth disparities in Shaw.

In sum, chapter two has confirmed the significance of many of the factors discussed in chapter one, while also bringing to light several new or previously overlooked explanatory factors. The importance of homeownership in perpetuating the racial wealth divide was particularly evident in this community. At the same time, the creation of affordable housing played a significant role in challenging these persistent disparities. The successes in Shaw reflected the combined forces of non-profit organizations, affordable housing policies, and heavy community involvement. These forces frequently battled not only against each other but also against the dramatic effects of suburbanization, redevelopment and gentrification. In many instances, the forces of suburbanization, redevelopment and gentrification these changes served to exacerbate wealth disparities thus contributing to the already difficult housing situation for low-income African American households. The Shaw case study has also illuminated some unforeseen consequences from the persistence of wealth disparities such as social strife and political polarization. In fact, African American, low-income households in Shaw have in many ways, become further isolated and distanced economically from the more prosperous segments of the new Shaw population. Chapter three will draw lessons from our research by pulling together the major findings from the Shaw investigation while emphasizing the implications for the literature analyzed in Chapter 1. We will use this synthesis to

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highlight the forces at work in sustaining racial wealth disparities, and to explore a menu of policy options for reducing the racial wealth divide.
CHAPTER 3

The Broader Implications of the Shaw Experience: An analysis of what we learned from Shaw

Although African Americans have made extraordinary progress since Emancipation, by 1990 they still only owned 1 percent of the total wealth in the United States. Hence, it is no surprise that today’s greatest racial disparity is in wealth ownership. The significance of this disparity is described well by Thomas Shapiro, author of “Race, Homeownership, and Wealth.” As Shapiro explains, “Wealth changes our conception of racial inequality, its nature and magnitude, origins and transmission, and whether it is increasing or narrowing…indeed, a wealth lens will broaden our understanding of the relationship between historical and contemporary considerations for class as well as for race.” In other words, wealth ownership pervades multiple aspects of socio-economic status. At the same time, race itself is the most influential variable in explaining wealth disparities. Given the pervasive role that wealth plays in racial disparity and the crucial role that race plays in the wealth gap, the variables determining wealth accumulation warrant further examination. Housing plays a central role in this wealth accumulation process and thus, we have seen, deserves further consideration.

We have indicated that the housing market has been a major impediment to reducing the racial wealth gap. The forces that rule the housing market have prevented black households from gaining wealth at the same rate as white household

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in the United States. The housing market has provided whites a means of accumulating wealth over time. As Shapiro explains, “For most Americans, home equity represents the largest reservoir of wealth: home wealth accounts for 60% of the total wealth among America’s middle class.” Federal and local government, non-profits, and community groups have promoted homeownership because it serves a dual purpose: First it acts as an important source of savings; at the same time, it provides opportunities for upward social mobility as additional wealth is generated through home equity appreciation.

The problematic relationship between housing, wealth and race becomes most clear when examining it within the context of U.S. cities. The class and racial schisms that exist in most U.S. cities help to amplify the role of race in the nation’s opportunity structure. Metropolitan areas are of interest because population shifts and their associated economic consequences are magnified by the geographic concentration of the effects. In terms of our particular focus, phenomena such as gentrification and suburbanization have dramatic economic ramifications, which both reflect and further influence the racial housing gap.

Despite it being situated within the crux of U.S. and international power, Washington DC is not excluded from the problems that plague other U.S. cities. For the purpose of examining racial wealth disparities in the housing market, the

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144 Shapiro, Thomas M. "Race, Homeownership and Wealth." p. 59.
neighborhood of Shaw, in particular, provides both a window into the forces shaping wealth disparities in the U.S. along with a living laboratory for weighing possible policy responses. While Chapter 2, described the transformations occurring in this specific community, the current chapter draws lessons from the Shaw experience. These lessons inform our understanding of the origins of the racial wealth gap at the national level along with our evaluation of policy alternatives. In other words, the history that, at first, seems specific to Shaw has wider application to a range of metropolitan areas in the United States. This extension from Shaw to the wider lessons of Shaw's experience is the focus of the current chapter.

3.1 Equity Inequity: The Significance of Inequality in Housing Equity in Shaw and Beyond

Homeownership is the cornerstone of household wealth. When examining the wealth gap among households in their 40s and 50s of the same income, home equity accounts for a wealth discrepancy of $88,000 for homeowners to $6,430 for renters.147 Scarcity of housing options for low-income households, and limited access to housing opportunities for even middle-income African Americans have been major impediments in stimulating wealth formation for black Americans. Both disparities in original ownership and disparities in equity appreciation over time have undermined the wealth standing of African Americans. “While blacks had impressive gains, they were about 10 percent less than whites. Even when blacks get homes, the high costs of segregation saps their ability to share fully in the equity returns that are enjoyed by

whites.” The discrepancy in equity appreciation by regional location has also
further compound this issue. As mentioned in Chapter 1, biased governmental
policies and tacit endorsement of private discriminatory policies led to what john
powell describes as federated regionalism by race. This is when an authority hinders
access to fundamental life opportunities. Our discussion of Shaw in Chapter 2
provided us with a specific example of what powell claims occurred on a national
level. While some affluent black households were able to take advantage of the
homeownership opportunities in surrounding municipalities, many poor blacks were
left in Shaw creating concentrated poverty in inner-city assets that were in danger of
depreciating. This dilemma only exacerbated social ills and economic decline in
Shaw, while further segregating the neighborhood, both internally and from the
neighboring suburbs. Furthermore, as trends such as gentrification occur, as we
observed in Shaw, these communities become more polarized. The existing poor
residents of these inner cities have very few opportunities to take advantage of rising
prices and the burgeoning housing market. Powell points out the stark contrast
between the suburbs and inner-city citing “residents living in segregated areas of
metropolitan regions experience little appreciation in the value of their
homes…Because of larger regional trends, such as segregation, homeownership for
many people of color is not the gateway to wealth and other opportunities that it is for
Whites.”

Oliver and Shapiro also agree that residential segregation by race

148 Shapiro, Melvin L. Oliver and Thomas M. Black Wealth, White Wealth: A New Perspective on
powell chooses not to privilege capital letters over lowercase letters.
150 powell, p.8.
negatively affects equity appreciation. They maintain that “because homes in all-black areas increase in equity at a slower rate than comparable homes in white neighborhoods, young blacks may not receive the same rate of return of similarly situated whites in all-white neighborhoods.”\textsuperscript{151} In Chapter 2, we noted examples of this phenomenon in Shaw where rising housing values accompanied integration that, in turn, through gentrification, served to displace rather than enrich the traditional black residents. Hence, the spatial disconnect between blacks and whites not only reflect, but also reinforce the socioeconomic and wealth disparities that exist between these two groups.

### 3.2 Challenges in Affordable Housing: Attention to Community Needs

According to both federal and local housing programs, affordable housing is categorized by rental and homeownership opportunities and is defined as housing that cost no more than 30% of the gross household income.\textsuperscript{152} As our investigation has illustrated, the association between affordable housing opportunities, race and class nationally, and more specifically in Shaw has proven to be very complex. Gentrification in Shaw has transformed both the demographics and housing characteristics within the last decade.\textsuperscript{153} According to 1990 and 2000 census data, the black population has decline while the population of whites has steadily increased between 1990 and 2000. This shift in the population has also been at a relatively

\textsuperscript{151} Shapiro, p. 23.
higher rate than the rest of D.C.\textsuperscript{154} The data also reveals that the rate of home sales has declined, while prices have drastically increased—\textbf{in 1999} the sales of single family homes in Shaw was at 28\% and by 2006 it had dropped to 8\%, and the price of homes more than tripled in that same time period.\textsuperscript{155} As in Shaw, gentrification in other U.S. urban neighborhoods has significantly altered the availability of affordable housing in a manner that has widened the wealth disparities between urban blacks and urban whites. Unfortunately, such challenges to expanding wealth building opportunities to African Americans through affordable homeownership have only been complicated by the problems that plague affordable rental housing. Again, the trends in Shaw are observable on a national level. As housing expert William M. Rohe explains, “\textbf{The design of affordable rental housing in this country has been driven largely by the desire for cost savings rather than by concerns about either integration into existing neighborhoods or the needs and aspirations for the occupants. [Thus] large, poorly desired, and poorly managed multifamily ‘projects’ have [been] left.}”\textsuperscript{156} Communities such as Shaw illustrate why affordable housing is necessary not only for reducing racial wealth and housing disparities but also in aiding community development.

As was discussed in Chapter 2, Shaw used an alternative approach to creating affordable housing, which gives us insight into areas of further research and potential policy suggestions. With the help of the Tenant Opportunity to Purchase Act and local non-profit organizations, residents of larger apartment buildings created

\textsuperscript{155} The Urban Institute and Washington DC Local Initiatives Support Corporation.
\textsuperscript{156} Rohe, p.4.
cooperative corporations to purchase and control the property. By creating a co-op, participants ensure that the liability for mortgages was based on the group as a whole rather than its individuals, the overall cost of the property was reduced and the rents could be maintained at an affordable rate. Contrary to the previously highlighted ineffective approaches to creating affordable housing, co-ops provide participants the wealth building opportunity of homeownership without its associated risk and credit requirements. While successful co-ops can be extremely beneficial to its members, we also learned from Shaw that problems such as exit costs and limited equity exist. For instance, some co-ops in Shaw wanted its participants to remain long-term residents, so they create a predetermined maximum resale value for its units, which limits the wealth building potential for the low-income households these co-ops target. Despite the potential pitfalls of this approach, chapter 2 shows us that when tenants work together as a collective they can acquire greater agency or influence on the availability affordable housing opportunities. Hence, researching potential programs or policies that would aid groups rather than individual households, as we have seen in Shaw, could provide us with a better understanding of what is necessary for effective wealth building and affordable housing policy.

3.2.1. Non-profits: The Dilemma of Too Much Success

In Chapter 2, we saw that non-profits played an integral role in educing racial wealth disparities in Shaw housing opportunities. This success contrast with the commonly presumed influences of political advocacy or governmental intervention. Our study of Shaw demonstrated that the private reinvestment of non-profits during
the early 1990s and onward were largely responsible for the limited number of successful redevelopment efforts in the economically and socially devastated community of Shaw. With the impetus of increased community participation and a burgeoning market, the economic and social progress made some significant steps forward.

Yet, this progress inadvertently created alternative problems for both the community and non-profits, which leaves one to question whether non-profits are the solution for the racial wealth divide. As the Shaw community began to take shape as a more prosperous and desirable place for urban living, low-income black families became further marginalized. Non-profits such as Manna, Inc. found that, as Shaw gentrified, it became harder to create affordable housing and homeownership opportunities. In other words, the very success of the non-profits in helping to revitalize Shaw led to economic growth that eventually priced many traditional residents out of the housing market. The lesson seems clear. A strong affordable housing policy requires protections against displacement and full gentrification. Otherwise, groups like Manna eventually find themselves unable to afford the creation of affordable housing.\footnote{George Rothman. Personal Interview. January 11, 2008.} The lack of such policy also brings awareness to the need of community involvement or initiative for non-profits to be effective. George Rothman, President of Manna, Inc., suggests “what may be missing is good communication to tell people in the community what’s there, but there has to be a desire with the people as well.”\footnote{George Rothman. Personal Interview. January 11, 2008.} As we saw in Chapter 2, the increase in community pride and interest can be very beneficial for reinvestment or improvement efforts.
Furthermore, as Shaw demonstrated, churches can serve as an implement for forming the improved communication that Rothman deems necessary within the community. Therefore, as non-profits are integral to the creation of affordable housing, stronger housing policies and greater community interest are necessary for this campaign against wealth disparities.

3.3 Further Policy Implications: A Menu of the Options

In a speech to the Urban League in 2001, Frank Raines, the chair of Fannie Mae, noted, “Right now, the average White household has a net worth of $84,000. The average Black household has only about $7,500. If we had full equality, the wealth of Black households would rise by $1 trillion.” Yet, as outlined in chapter 1 and demonstrated in chapter two, the racial wealth divide in the United States is a multifaceted problem that would require an array of drastic measures to solve it. In *Wealth in America*, Lisa A. Keister asserts that governmental policies of many sorts would be required to change the distribution in household wealth. Using the previously discussed information on racial wealth disparities in Shaw and the United States, the following discussion considers her list of options in light of what we have learned about the urban, affordable housing market. In particular, the analysis considers tax policies, institutional changes to the banking system, desegregations initiatives, and policies aimed at building and preserving assets.

3.3.1 Tax Policies

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159 powell, p. 8.
The federal government allocates approximately $335 billion a year to allow tax breaks for certain incomes, even though there is an absence of asset-building policies and over 36 million living below the poverty line.\textsuperscript{161} Hence, appropriate tax policies would be effective ways of reducing inequalities in society.\textsuperscript{162} Two taxes that are currently used and have, to some extent, affected wealth inequality are income taxes and capital gains tax. The capital gains tax, in particular, can be a powerful tool. In a study on the changes in wealth, Greenwood and Wolff argued that more than 70\% of increases in wealth ownership could be accounted for by shifts in capital gains.\textsuperscript{163} Due to the significance of these policies, the implementation of more effective capital gains taxation could prove helpful in eliminating wealth disparities that arise from housing disparities. As we saw in our study of Shaw, limiting capital gains keeps housing affordable but also restricts wealth accumulation. A capital gains tax may be closely linked to household income and wealth could help reconcile these two goals.

Reconstruction of a more effective estates tax is another policy option. Although only estates of a considerable size are targeted, the Federal estates tax can have a dramatic effect on the redistribution of wealth.\textsuperscript{164} The federal estates tax was “imposed on the transfer of the taxable estate of every decedent who is a citizen or

\textsuperscript{163} Keister, p. 196.
\textsuperscript{164} Keister, p. 197.
resident of the United States.” In general, this tax is paid only on estates in excess of $2 million and $4 million for couples, and affects the tax liability of only the top ten percent of the U.S. households ranked by wealth. Yet, in 2005 the Bush administration permanently repealed the estates tax, even though has given “imprimatur to the sedimentation of inequality for African-Americans.”

Furthermore, since homeownership rates are lower among black households, then it is less likely that amongst wealthy black households this asset will be bequest to future generations where it could contribute to their overall wealth. Some economist such as Jadadeesh Gokhale and Pamela Villarreal, suggest that inheritance is a minor source of wealth for most wealthy households. Others disagree, in Black-White Wealth Inequality: Is Inheritance the Reason? Paul Menchik and Ammon Jianakoplos conclude from their calculations and analysis of data that, not only are whites more likely to receive inheritance but, when inheritance is received, it is at a greater magnitude. Thus, inheritance and inheritance taxes, if restructured, could still have a considerable impact. In communities such as Shaw, they could limit the untaxed bequest of fortunes in the form of high valued appreciated property while leaving modest bequest of most black households untouched.

Another recommendation that could positively affect racial wealth disparities is a re-evaluation of property tax codes. Dalton Conley suggests that incentives should be structured into property tax codes to foster integrated communities. More specifically, he references social analysts Kirp and Davis’ proposal for social

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166 Lui, p. 279.
insurance development. This recommendation is meant to eliminate economic incentives for whites that typically leave integrated communities. “This form of insurance would protect property owners from any rundown in prices resulting from selling sprees as a neighborhood ‘tips’ from white to black.” Although it diverges from Kirp and Davis’ intentions, the implementation of this policy would have been an extremely beneficial in a community like Shaw. This social insurance development would increase the benefits of staying in one’s existing dwelling and could potentially persuade middle-class black households who are enticed by the suburbs, to stay in the city. Furthermore, since the details of this policy recommendation are complicated, Conley suggest that that further studies be done on integrated communities where owner occupancy is a norm, and that these integrated communities should be compared to communities that are predominately white or black. Although there is no single tax policy recommendation that would, by itself, resolve the racial gap in housing wealth, some combination of the tax policies suggested above could start to narrow the racial wealth disparities.

3.3.2 Institutional Change to the Banking System

The United States financial system has contributed to the polarization of American society by race and class. Biases in the financial system help particular groups accumulate wealth, while subjecting vulnerable low-income and black families to detrimental practices. This is evident from the fact that 22 percent of all

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low-income families are lacking a basic checking account. Further evidence is found in the fact that blacks are denied mortgages and home improvement loans at twice the rate of whites. Hence, in order for racial wealth disparities to shrink institutional change is necessary within the United States banking system. Many believe that the most effective reform would be for the government to have stricter or greater penalties for all forms of discriminatory and abusive practices. However, the ambiguity in implementation and measuring the efficacy of this change would be problematic.

A more creative approach to implementing institutional change in the banking system is through leveraging the resources of the secondary mortgage market with institutions such as Fannie Mae, which buys bundles of bank loans, thus allowing the banks to reinvest and broaden their lending criteria. These loans are usually not appealing to the secondary market “due to such features as high debt to income levels, limited assets, lack of private mortgage insurance, and/or non-traditional employment or poor credit history.” Yet, institutions such as Self Help, have encouraged the secondary mortgage markets through setting examples of the potential in expanding affordable housing to low-income groups. Sensing the new market in low-income and minority communities, Fannie Mae created Community Advantage Program (CAP) using an unprecedented $50 million dollar grant from the Ford Foundation to insure

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169 Shapiro, p. 248.
the potential losses that Fannie Mae might experience.\textsuperscript{172} The program experienced initial success aiding black, low-income, and female-headed households, but had a considerable and discouraging mortgage payment delinquency rate. Yet, the overall data of the CAP program has proven that the encouragement of secondary mortgage markets to commit to affordable home ownership is not only a good public policy but a good business as well.\textsuperscript{173} In addition, with the availability of more affordable housing loans, the use of predatory loans would hopefully decline. Moreover, this policy is particularly beneficial in areas such as Shaw because, as we have seen in Chapter 2, banks in such areas are scarce and those that do exist are very hesitant to support affordable housing; hence, the existence of non-profits such as Manna Inc., which has its own mortgage company, is imperative. Ultimately, without the capital to take advantage of the wealth building opportunities of homeownership, wealth disparities will persist; hence, the implementing these institutional changes would be significant.

3.3.3 Desegregation

Class and race have divided American society for centuries, and this is evident by the similar divisions that exist in the housing market. “Households continue to show strong tendencies to segregate themselves along racial and class lines, meaning that even with financial assistance to lower housing cost, racial minorities find themselves excluded from a full range of housing opportunities.”\textsuperscript{174} The segregation

\begin{itemize}
\item \textsuperscript{172} Shapiro, p. 249.
\item \textsuperscript{173} Shapiro, p. 249.
\end{itemize}
of the housing market has served as the nexus of various social ills and national problems, with particular impact on the racial wealth divide. In addition, the segregation of U.S. cities only further polarizes and undermines certain urban neighborhoods. Chapter 2 found that this was the case of Shaw where gradual segregation led to social and economic decay leaving the community stagnant for over a decade. Furthermore, racial and class residential segregation not only affected the segregated groups but it also created social cost for both the excluded groups and those benefiting form their exclusion. For instance, many black households moved to surrounding suburbs to escape the social ills of Shaw; however, many of them, especially those moving to Prince George’s County, found that the many of the same problems spread to those areas. Thus, the racial wealth divide is reinforced by segregation and the elimination of this divide requires a desegregation strategy.

Unlike previous endeavors, which attempted to integrate by placing housing projects in racially or economically homogenous areas, desegregation requires a combination of diverse federal housing programs. Following the Shannon v. HUD (1970) decision, several programs were created to address this problem. In his paper, The Persistence of Segregation in Government Housing Programs, Philip D. Tegler outlines many of the programs HUD introduced to prevent segregation:

“…the Community Reinvestment Act (CRA)…actually gives credit to banks for financing segregated low-income rental housing in high-poverty neighborhoods. The federal Housing Opportunities made

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176 Third circuit courts case that challenged HUD’s failure to assess or reduce the segregative effects of housing projects.
Shannon v. United States Department of HUD, 436 F.2d 809 (3d Cir. 1970)
Equal (HOME) program disburses fund to cities and states primarily for housing rehabilitation, but imposes few meaningful restrictions on where rehabilitated, low-income housing units should be placed.\textsuperscript{177}

In addition, to these programs, HOPE VI, which, as we discussed in Chapter 2, is a public housing redevelopment program used with some success in Shaw, is also viable for desegregation efforts in other communities. However, one major impediment to desegregation is that the general public has a negative attitude towards these efforts, to bring in low-income and affordable housing projects. Denise Johnson, an affordable housing developer and Shaw community activist, notes that new residents might not be conscious of any resistance or hesitations they have towards these projects.\textsuperscript{178} However, her comments suggest that the effects of this negative response are quite real. She suggests that this unconscious resistance typically derives from a fear that low-income and affordable housing projects will negatively affect home values.\textsuperscript{179} Furthermore, Sue Popkin, a housing expert at the Urban Institute, explains that several experts and existing residents view programs such as HOPE VI as “a gamble. We don’t know how to take a terrible neighborhood and make it nice while keeping the same people there.”\textsuperscript{180} These concerns imply that our earlier discussion of "property-value-insurance" may be relevant here. In addition to such “insurance” support for residential desegregation, progress in maintaining


affordable housing requires that community groups and local government entities be integrated and representative of the full community.

As seen in Chapter 2, with more representative involvement this change would have helped considerably in Shaw where the unintended segregation of the Advisory Neighborhood Commissions (ANC) undermined the program’s success. Policy-makers need to take heed of the fact that the division of Shaw’s ANC simply created additional strife. As Denise Johnson reports “everybody’s worst nightmare came true.” One predominantly black ANC, troubled by leadership and organizational issues, effectively disenfranchised many of Shaw’s black residents, while the other predominately white ANC further separated itself from the rest of the neighborhood. Hence, desegregating these ANCs was necessary for any form of unity to exist in the Shaw community and for its various problems to be appropriately addressed. Although these suggestions are not guaranteed solutions to this problem, they do have the potential to not only address systematic desegregation, but also to aid in changing public opinion.

3.3.4 Asset Building and Preservation Policy

Racial wealth disparities have persisted in spite of the numerous Federal assistance programs that have existed since the New Deal. Many scholars are recognizing that income-support programs, such as welfare, do not necessarily foster asset accumulation. For instance, in Losing Ground, Charles Murray suggests that welfare may foster reckless or harmful behaviors among poor people, behavior that

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hinders their integration into the modern economy. Reflecting a related view, in 
*Assets and the Poor: A New American Welfare Policy*, Michael Sherradan proposes 
that in order for racial wealth disparities to be ameliorated “policy would move away 
from support and toward growth, away from entitlement and toward 
empowerment.” In this book he recommends federally sponsored Individual 
Development Accounts (IDAs), as a viable asset building policy. IDAs are 
nontaxable saving account matching funds issue by the government. They are 
designated for education, homeownership, self-employment and retirement. The 
program is designed to encourage saving because withdrawal of IDA funds are only 
possible with well-defined reason that were stipulated by a designated authority. The 
promise of this program led to a privately funded pilot IDA program. However, this 
pilot was flawed because it was not on the same scale the proposed IDA programs. 
According to Sherradan, the pilot program made the proposal visible, but it did not 
reveal its transformative capacity. An IDA program would be particularly 
beneficial in a community such as Shaw because many black and low-income 
households lack the resources to participate in wealth building opportunities such as 
homeownership. Hence, implementing this program would aid in helping these 
households become homeowners, while also insuring that they maintain their 
commitment to building wealth. Essentially, the intended effects of an IDA program 
in Shaw would resemble that of the previously mentioned limited equity co-ops.

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Ultimately, more programs with structures similar to IDAs would help reduce racial wealth disparities by promoting asset building.

In addition to asset-building policies, policies that help preserve the assets already owned by poor that people are warranted. This is particularly necessary with the recent rise in predatory loans that is causing a mushrooming in foreclosures rates. The creation of asset-preservation policy, and, more importantly, foreclosure prevention programs, not only helps households retain valuable assets but it also provides a more affordable way for households to stabilize their homeownership.\textsuperscript{185}

A program directed by the Family Housing Fund that was successful in the St. Paul and Minneapolis area, was the Mortgage Foreclosure Program (MFP), which existed between 1991 and 1997. The MFP assisted about 1,700 homeowners reinstate their mortgages to prevent foreclosure and delinquency at a smaller cost than going through a mortgage insurer. Mortgage insurers could cost between $10,000 to $28,000, depending on the home location and the insurer. Based on the success of these smaller efforts, we can surmise that making programs such as MFP into federally sponsored national programs and creating similar programs that would help preserve pensions and other valuable assets would aid in the efforts to reduce the racial wealth gap. Hence, although the consequence of the sub-prime loan crises are not fully evident, implemented a program such as MFP could prove to be an advantageous proactive policy. These programs have particular promise because they use the housing market as a means to eliminating wealth disparities and, as we have

\textsuperscript{185} Lui. p. 283.
seen, housing is the primary form in which African American families hold their wealth.

In sum, it is evident that a variety of approaches will be necessary to effectively combat racial wealth disparities. By analyzing the theories on wealth persistence from chapter 1 in light of chapter two’s case study of the Shaw district, this chapter has brought attention to both the strengths and weaknesses of the existing literature and has focused attention on policy instruments of particular interest. We have found that factors such as equity appreciation play a central role and must be permitted but also limited in order to sustain affordable housing while also allowing for wealth accumulation. We have also found that the battle for affordable housing is, most likely, never really won but, rather, must continually be reasserted against powerful forces such as gentrification that threaten to reverse fragile gains. Our analysis demonstrates the crucial role that non-profit organizations and community involvement play in this process. However, our findings also emphasize the risks from divisions within and conflicts among the non-profit entities and these community groups. Finally, the synthesis of chapters one and two enables us to explore potential policy options. Among these options, a particularly promising strategy is the Community Advantage Program. Such policies, along with new perspectives provided by studying communities such as Shaw, can be valuable in addressing this serious issue of the racial wealth divide.
CONCLUSION

In his celebrated book, The Souls of Black Folks W.E.B. DuBois noted, “The problem of the twentieth century is the problem of the color-line.”186 Despite the great strides that have been made in ameliorating systemic racial issues, DuBois’ notion remains even though we have progressed into the 21st century. The continued significance of this topic is most recently evident through the March 2008 speech about race in America by Democratic Presidential Candidate Barack Obama. Significantly, that speech followed various events concerning race that sparked controversy during his campaign. The speech and those events made clear, as does this thesis, that we have come far but we still have a long way to go.

The purpose of this senior honors thesis was to examine race in America by illuminating an underlying problem of “the color-line”—the racial wealth divide. DuBois also famously declared the significance of this dramatic gap in wealth, “To be a poor man is hard, but to be a poor race in a land of dollars is the very bottom of hardships.”187 After Emancipation blacks remained an underclass in the United States. However, 143 years later this is still the case. Even though the United States has progressed to the status of an industrialized world power holding a considerable portion of the world’s wealth, it is evident that racial wealth disparities have not only persisted but have worsened overtime. This fact was the motivation for this study.

Chapter one reviewed several competing theories on the racial wealth divide and its persistence, specifically focusing on the housing market. We learned through this chapter that many of the factors were inter-connected. For instance, the federal

government participated in explicit discriminatory policies such as redlining. The federal government also tacitly contributed to discrimination by allowing private organizations to follow biased practices. In addition, chapter one demonstrated that many of the factors affecting racial wealth disparities were also products of these disparities. Hence, suburbanization further segregated housing, which caused a worsening of racial wealth disparities; but as we saw in Shaw, black flight to the suburbs was also a product of racial wealth disparities because many middle-class blacks continued to leave the area in hopes of escaping its social ills. Overall, chapter one showed us, through the range of factors it discussed and their complex relationships that the racial wealth divide is perpetuated by a set of mutually reinforcing factors among which the workings and characteristics of the housing market play a particularly important role.

Chapter two investigated how the forces discussed in chapter one played out in maintaining racial wealth and housing disparities in the community of Shaw. This case study confirmed many of the factors discussed in chapter one and called attention to additional forces that are often overlooked. For example, although Shaw’s new approach to redevelopment failed in the late 1960s, the more recent involvement of the community in revitalization efforts points to the importance of involving community members in these projects. At the same time, our study indicated the difficulties of coordinating effective community involvement and suggested that strong leadership and successful communication is necessary to prevent counter-productive divisions among the groups working for similar purposes. Moreover, our study of Shaw has demonstrated how vital a role is played by the promotion of
affordable housing in addressing the racial wealth divide. In fact, we saw that in Shaw, black households, particularly those with low incomes, were effectively excluded from wealth building opportunities through the housing market. The Shaw example illustrated the integral role that non-profits have in creating affordable housing opportunities and minimizing housing inequalities. Yet our study also pointed to the fact that, by their very success, these non-profits may eventually close themselves out of the local housing market as land values and housing prices rise.

Chapter three also expounds on the tax and regulation implications of Shaw emphasizing additional policy areas where reforms may be needed to address persistent wealth disparities. One such area particularly deserving of further study, according to our discussion, involves institutional change within the banking system. Chapter three brings attention to particular forces that deserve further consideration. For example, we saw that policies that allow equity appreciation in affordable housing units may be necessary for promoting accumulation among low-income individuals. Yet our analysis also noted that these policies might eventually reduce a community's stock of affordable housing. Thus, the rules would need to impose some limits on equity appreciation in order to prevent the few from benefiting at the expense of the many. More broadly, the policy discussion in chapter three finds that the persistent inequalities in wealth ownership and attainment are so deeply embedded in housing inequalities that any effective policy response must address the duality of this issue. This observation suggests that a combination of policies would be necessary; in other words, the suggested policies may work only if implemented together. These suggested policies may work only if implemented together; clearly,
the analysis suggests that a combination of several policies would be necessary. For instance, policies encouraging desegregation would open housing opportunities to blacks. These new opportunities, in turn, would then affect wealth accumulation when asset-building policies such as Individual Development Accounts are implemented to help black households generate wealth. Hence, just as chapter one pointed to a complex web of multiple forces behind the persistence of racial wealth disparities, chapter three proposes that a similarly complex web of policies will be necessary to eliminate these persistent disparities.

This senior honors thesis has sought to bring a new perspective to the literature regarding the wealth disparities between blacks and whites in the United States. Through original research in the form of personal interviews with local experts and community members and research of primary documents in local libraries and archives, I have sought to bring attention to the unique, yet often overlooked community of Shaw and its potential for illuminating the origins and persistence of racial wealth disparities. My analysis suggests that racial wealth disparities have not received sufficient attention in the social sciences literature on discrimination and inequality. It is my hope that further research will be devoted to this issue and appropriate policies implemented. Until we acknowledge these disparities and their connection to other inequalities in society, we will be unable to adequately address this national issue, and the destructive effects of racial inequality will continue to stifle our progress as a nation. Only when these disparities are eliminated will the problem of race described by Dubois be resolved.
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