



In 1942, this African-American family was able to move into a federally built home in Detroit, but discriminatory mortgage practices effectively shut them out of private housing open to whites.

But the revolution bypassed an important group: African Americans. Whites were given a generation's head start on accumulating wealth through homeownership. Today, the median white household has 10 times as much wealth as the median black household.

The FHA, says Adam Gordon, a third-year law student and senior editor at *The Yale Law Journal*, established underwriting guidelines that were based on the racial makeup of a neighborhood. Areas with a greater proportion of whites, in the FHA model, were deemed to have stable, relatively high property values, while predominately black neighborhoods were assumed to have low values. This loan-granting model severely limited access to FHA mortgages for black Americans. In 1960, nonwhites held only 2.5 percent of FHA-insured loans.

This story is well known to scholars. What's disputed is how much difference the FHA policies actually

made. If there was sufficient demand among black home buyers, some scholars argue, private mortgage insurers would have stepped in to serve those excluded by the FHA. Gordon believes he has the explanation for why this did not happen: Because private lenders adopted the same flawed FHA lending model, their discriminatory criteria "effectively became binding law."

In November 1962, President John F. Kennedy signed an executive order directing the FHA to make its loans available regardless of "race, color, creed, or national origin." That order, and later reforms, such as the Fair Housing Act of 1968, put blacks on nearly

Three decades of discriminatory lending practices prevented many African Americans from building assets.

equal terms with whites when buying a home, but three decades of discrimination had already prevented many blacks from "becoming homeowners and building assets."

Gordon argues that further remedies are needed. Among the options are stepped-up attacks on exclusionary zoning and "mobility grants" for blacks in the form of direct payments—in effect, reparations—or mortgage subsidies. The straightforward anti-discrimination steps taken so far fail "to adequately address . . . the past disparity in wealth building" and its consequences—the segregated, depressed neighborhoods "that the FHA helped create."

ECONOMICS, LABOR & BUSINESS

Is Property Sacred?

THE SOURCE: "Did Insecure Property Rights Slow Economic Development? Some Lessons From Economic History" by Naomi R. Lamoreaux, in *The Journal of Policy History*, 2006: No. 1.

ONE ITEM STANDS ATOP THE list of reforms the World Bank and the International Monetary Fund push on developing nations as part of what's called the Washington Consensus: better guarantees of property rights. If the full force of the law isn't behind the principles that investors' assets can't be seized, that corporate accounting can't be tampered with, and that loans must be repaid on time and in full, then people will be reluctant to risk their hard-earned cash in a country's economy.

That logic seems incontestable,

observes Naomi R. Lamoreaux, an economist and historian at the University of California, Los Angeles, but it is contradicted by both history and the latest doings on the Web.

A few years ago, for example, an Oklahoma man plunked down \$750 for a nine-room stone house in a quaint seaside village—quite a deal, except that it was a virtual house that existed only in the Internet fantasy game *Ultima Online*. The buyer had no property rights whatsoever. Yet such virtual investments are becoming increasingly common in online games. *Wired* magazine's blog recently reported that a Miami man paid \$100,000 for a virtual space station resort, from which he hopes to make money.

The real world offers its own counterevidence. In late-19th-century America, investors poured millions into the country's rising corporations, even though minority shareholders enjoyed scant protection under the legal doctrines of the day. Corporate executives and majority owners (often a handful of people) were largely free to manipulate businesses to their own advantage. In 1850, for example, the Rhode Island Supreme Court stoutly upheld the New England Screw Company's sale of assets on favorable terms to another company largely controlled by New England

EXCERPT

The Curse of Innovation

New products often require consumers to change their behavior. . . . Many products fail because of a universal, but largely ignored, psychological bias: People irrationally overvalue benefits they currently possess relative to those they don't. The bias leads consumers to value the advantages of products they own more than the benefits of new ones. It also leads executives to value the benefits of innovations they've developed over the advantages of incumbent products.

That leads to a clash in perspectives: Executives, who irrationally overvalue their innovations, must predict the buying behavior of consumers, who irrationally overvalue existing alternatives. The results are often disastrous. Consumers reject new products that would make them better off, while executives are at a loss to anticipate failure. This double-edge bias is the curse of innovation.

—JOHN T. GOURVILLE, author of *Eager Sellers, Stony Buyers: Understanding the Psychology of New Product Adoption*, in *Harvard Business Review* (June 2006)

Screw's majority shareholders. American courts generally assumed that majority owners always acted in the best interests of the company.

Why did Americans (and others) continue to invest in the new corporations? Because the profit opportunities, despite the risks, were superior to the alternatives. Lamoreaux points out that the federal government had a great deal to do with creating those opportunities, through actions such as providing the legal authority and the “financial fillip” to build the nation-spanning railroads, opening public lands to

prospectors and others, and creating the U.S. Geological Survey to map those lands.

That brings Lamoreaux to the Beijing Consensus, an alternative to the Washington version that calls for a more active governmental role in economic development and less preoccupation with property rights. These will emerge “endogenously” over time, advocates say, as the beneficiaries of economic development become larger and more powerful, just as they did in the United States. And today's globalized economy adds another endogenous influence, since developing-country governments know that investors can easily go elsewhere if they completely trample property rights. Attracting those investors in the first place

with more profitable opportunities, Lamoreaux believes, ought to be priority number one.

ECONOMICS, LABOR & BUSINESS

A Queen's Whims

THE SOURCE: “What's in a Surname? The Effects of Surname Initials on Academic Success” by Liran Einav and Leeat Yariv, in *Journal of Economic Perspectives*, Winter 2006.

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