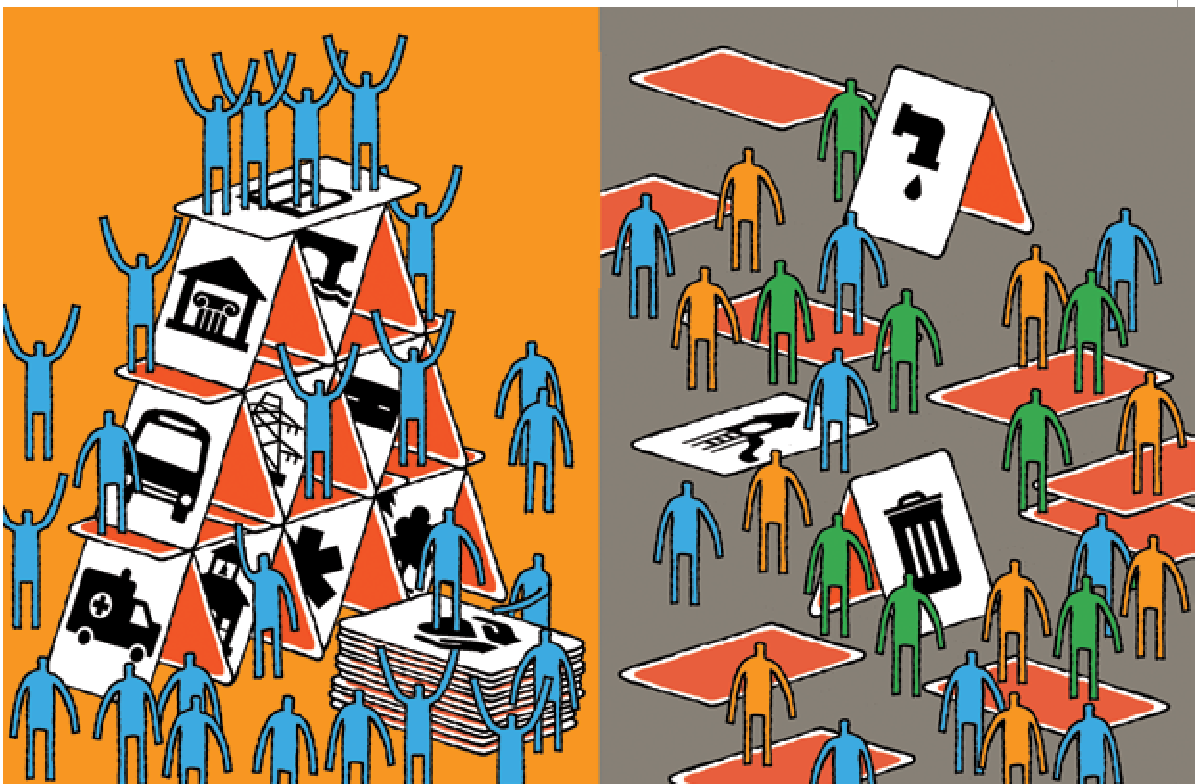
MIGRATION'S AFTERMATH

Diversity and Diminishing Tax Revenues

Historians have long understood that twentieth-century U.S. suburbs emerged during the exodus of whites from cities, as millions of African Americans from the South moved north and west in the Great Migration. Less well studied are the consequences of such "white flight" for the health of cities—particularly their ability to provide resources (such as education and public safety) to residents. Now a series of studies by postdoctoral fellow Marco Tabellini, who will join Harvard Business School as an assistant professor next year, uses data from the Great Migration to examine the relationship between race and public resources.

Tabellini contributes to the increasingly conclusive body of scholarly work suggesting a negative relationship between racial diversity and social cohesion—people's willingness to pool and share their resources to pay for certain public goods. Politically powerful ethnic groups tend to find ways to exclude other groups through residential segregation and privatization, and the Great Migration provides a natural experiment to study the possible effects of such efforts. Earlier research by economists such as Leah Boustan, Ph.D. '06, has shown that black migration to northern cities resulted in far more white residents moving out than new black residents moving in. Tabellini builds on this work to estimate how black migration and white flight affected city finances. One recent working paper finds that cities' tax revenues fell significantly between 1910 and 1930, reflecting the decline in property values after the arrival of African Americans during the first wave of the Great Migration. Those decreases resulted in cuts to government spending on programs where black and white residents ordinarily interacted, such as in public schools.

Racial difference can affect city resources in two broad ways, he explains: either directly, by reducing the public's desire for resource-sharing and increasing efforts to lower taxes, or less directly, by reducing property values. If whites don't want to live in a city alongside black residents, then urban housing prices will decline due to lower demand for housing there—and because most local government money in the United States comes from property taxes, city revenues will plummet in turn. Using census data from 1910, 1920, and 1930, and historical data on the finances of 42 U.S. cities with populations greater than 100,000, Tabellini found that the first possible explanation was not the cause. "While there was no change in the tax *rates*," he says, "there was a significant drop in property values." Cities became more reliant on debt to pay for services: "Unable or unwilling to raise tax rates, cities were forced to reduce public spending and raise debt to cope with a tighter budget constraint."



In Omaha, for example, which absorbed 6,000 Southern-born black migrants between 1910 and 1930, property values and tax revenues decreased by 8 percent and 6 percent, respectively. The cities most affected were those already experiencing weak economic and population growth, too limited to sustain demand for housing. "In a city that is growing a lot," Tabellini says, "even if some whites leave, you will not see an effect on public finances, because someone else is willing to buy their houses. Conversely, in declining cities, vacancies will increase, driving down house prices."

In response to falling public revenue, some types of spending were cut while others went virtually untouched. Spending on public education per student (which also accounted for the single greatest share of municipal spending) and poverty relief suffered most; the former dropped by 6 percent between 1910 and 1930, yet still represent-

Illustration by Tim Ellis

ed a larger share of public spending in the test cities at the end of the test period (40 percent in 1930, compared to 30 percent in 1910). Spending on basic infrastructure, like roads, and on fire and police departments, was only negligibly affected: although tax revenues declined by 6 percent overall, spending decreased by only 2 percent—suggesting that cities relied on debt to provide public services.

"My interpretation," Tabellini says, "is that cities allocated less to categories where whites and blacks directly interact, such as education, or where poorer blacks would have received a larger implicit transfer, such as sewage and garbage collection." Limitations in available data didn't allow him to compare rates of private schooling during the test period, but he notes that "in places that are racially diverse, whites are much more likely to be in private schools."

His research, Tabellini says, "now provides direct evidence of the fact that the Great Migration had important fiscal consequences." Looking ahead, he wants to investigate the long-term impact of those consequences: "whether these early patterns were one of the reasons that central cities in the 1950s, '60s, and '70s were really struggling." He stresses that his findings were the result of *indirect* forces (externalities, in economics parlance): drops in home values, rather than voters' explicit preferences for lowering their taxes. Particularly now, when both scholars and the general public are more interested in the economic effects of race, the research might encourage readers to think about how racism can influence these seemingly nonpolitical mechanisms—and how policy might be shaped to encourage people to be more public-spirited.

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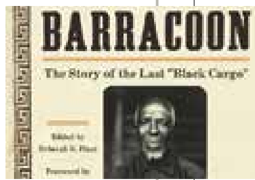

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