Redlining and Disinvestment

A Case Study on Racial Segregation and Gentrification Throughout Seattle's Central District

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About the Critical Corporate Theory Collection

The Critical Corporate Theory Collection is part of the *Systemic Justice Journal*, published by the Systemic Justice Project at Harvard Law School. The Collection is comprised of papers that analyze the role of corporate law in systemic injustices. The authors are Harvard Law students who were enrolled in Professor Jon Hanson's Corporations course in the spring of 2021.

The Collection addresses the premise that corporate law is a core underlying cause of most systemic injustices and social problems we face today. Each article explores how corporate law facilitates the creation and maintenance of institutions with tremendous wealth and power and provides those institutions a shared, single interest in capturing institutions, policies, lawmakers, and norms, which in turn further enhance that power and legitimates its unjust effects in producing systems of oppression and exploitation.

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ABSTRACT

Racially discriminatory redlining practices emerged following the establishment of the Home Owners' Loan Corporation and the Federal Housing Administration in the early 20th century. While there have been many studies that focus on redlining practices through the national lens, few focus on the direct effects redlining practices have had on Black communities in Seattle's [once] majoriy-Black Central District. Moreover, seldom focus on how redlining practices throughout the Central District weakened the economic and social stability of Black communities and subsequently manifested into widespread gentrification efforts let by corprote power and legitimized by corporate legal structures.

This paper focuses exclusively on the adverse effects redlining practices have had throughout Black communities in the Central District. Furthermore, it discussses how corporate power—through the emeregence of multinational tech companies in Seattle—and corporate legal strucutres exacerbate issues of instability and displacement, with little to no effective mechanisms of accountability.

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INTRODUCTION

In 2020, Seattle was dubbed the second fastest-growing large city in the United States.[1] From the effects of the tech boom that has swept the West Coast to "cheaper" housing options and increased quality of life, Seattle is one of the few cities on the Western Seaboard that has experienced an influx in "techies" that have relocated to the region to enjoy the many benefits the progressive city has to offer. However, native Seattleites have tech giants like Amazon and other corporate actors (e.g., banks, real estate developers, etc.) to blame for the widespread gentrification and displacement of communities of color and minority-owned local businesses throughout the city over the past couple of decades. The very communities that have been adversly affected by the gentrification efforts exacerbated by corporate power—Black communities in particular—have been confined to the regions and areas throughout the city they are now being pushed out of.

Throughout this paper, I will examine the role racial restrictive covenants and redlining practices have had in destabilizing the economic and social stability of communities of color—specifically, Black communities—throughout Seattle's Central District. I argue that redlining in what eventually became predominately Black communities, alongside the disinvestment from these communities, has exacerbated economic and social instability. These practices have consequentially left Black residents more vulnerable to recent gentrification efforts led by corporate and other private interests.

PROBLEM DESCRITPTION

History of Racial Restrictive Covenants and the Emergence of Redlining in Seattle

The Central District (also known as the "Central Area," or the "CD") is one of Seattle's oldest surviving residential neighborhoods.[2] Soon after the migration and success of prominent African American businessmen such as William Grose—an African American pioneer who arrived in Seattle around 1860 as one of Seattle's first Black residents and one of wealthiest Black residents in the entire region[3]—Seattle became an epicenter for Black migration and one of the first Black settlements in the region.[4] By 1950, shortly after World War II and more than thirty years after the start of the Great Migration, African Americans became the city's largest minority population for the first time.[5] The Central District was—and still remains—home to most of Seattle's Black population. Not by choice, however. As African Americans began moving into the Greater Seattle area, they were subjected to racial restrictive covenants and residential redlining that confined them to the Central Area and prevented them from establishing settlements beyond the Central District and parts of Rainier Valley.[6]

In its 1947 publication, the Civic Unity Committee defined racial restrictive covenants as: "agreements entered into by a group of property owners, sub-division developers, or real estate operators in a given neighborhood, binding them not to sell, lease, rent or otherwise convey their property to specified groups because of race, creed or color for a definite period unless all agree to the transaction."[7] Racial restrictive covenants became widely used throughout the United States in the early 20th century, following the start of the Great Migration.[8] The widespread use of racial restrictive covenants arose following the U.S. Supreme Court's 1917 ruling in *Buchannan v. Warley*. The case rendered city segregation ordinances illegal and in violation of the Fourteenth Amendment.[9] However, the Supreme Court refused to extend the same Fourteenth Amendment protections to restrictive neighborhood covenants in its 1926 ruling in *Corrigan v. Buckley*, arguing that private real estate and developer plat maps were not similarly affected.[10] Thus, real estate developers and private property owners were legally permitted to discriminate against ethnic and racial minorities when selling, leasing, and renting properties.

While many racial restrictive covenants were written into the deeds and rental agreements by single private owners, land developers, real estate developers, and large corporations served as the authors to the majority of Seattle's racial restrictive covenants and redlining efforts.[11] William E. Boeing, who founded one the largest corporations in Seattle, The Boeing Company (known then as Boeing Aircraft Company, the world's largest aerospace company), served as one of the largest land developers in the region alongside his wife, Bertha.[12] Using the wealth they accumulated from their successful aerospace company, the Boeings purchased a large tract of land north of the city limits for subdivision. They included racial restrictive covenants to the property deeds that restricted conveyance, ownership, rentals, and leases to white or Caucasian individuals exclusively.[13] Other large land developers subdivided hundreds of acres of land throughout the city "always with racial restrictions permanently following the deeds."[14]

Racial restrictive housing covenants were eventyally outlawed in 1948, when the Supreme Court decided *Shelly v. Kraemer*.[15] While the restrictive covenants could not be legally enforced following the *Shelly* decision, the structural and institutional damage had already taken form. Black and other racial and ethnic minority groups remained confined to the racially segregated areas in the Central Area of Seattle, and other parts of the country similarly affected.

The Effects of Redlining in Seattle's Central District and the Fight Against Corporate Disinvestment

Redlining emereged following the passing of the National Housing Act of 1934 in an effort to "protect" affordable housing during the Great Depression.[16] Notwithstanding the Act's proclaimed efforts, the Housing Act served as a mechanism of identifying geographic areas throughout a given city where bank investments and mortgages were deemed secure.[17] Where an area was considered high-risk, banks, private investors, and real estate developers were discouraged from financing projects and developing properties in those areas. While seemingly an effort to protect bank (corporate) investments and other private fiscal and land developments, redlining practices were overt—and usually intentional—racial segregation and discrimination tactics.[18] Black and minority communities were almost always deemed high-risk neighborhoods and forbidden from purchasing, leasing, or renting property in white neighborhoods.[19] They were also routinely denied opportuntites to purchase or own property in their respective neighborhoods.[20] Afterall, the "high-risk" categorization often associated with Black and minority communities gave banks and other financial institutions formal mechanisms to deny financing property purchases and developments.

In Seattle, redlining practices restricted Black communities to the Central District and plat maps labeled the area a "high-risk" and, effectively, a *no-investment zone*. By the mid-1970s, Seattle residents began organizing and community organizations throughout the city sought to address the discriminatory practices affecting the Central Area. The Central Seattle Community Council Federation (CSCCF) was extremely active in this effort. In 1975, CSCCF released a report addressed to community members who had been adversely affected by redlining practices.[21] The report detailed the tremendous influence large corporate banks and other lending institutions had over the investments made throughout the city as well as the robosut disinvestment efforts that took place throughout the Central District and Rainier Valley.[22]

CSCCF revealed that Black communities were not only confined to redlined parts of the city, but they were also frequently denied the financial support from banks. Despite investing their hard-earned money—hoping to relocate or develop properties—Black residents and developers were repeatedly denied. Yet, these same banking institutions were taking money from Black neighborhoods and reinvesting the funds into white-only suburban residential neighborhoods located in "low-risk" parts of the city[23]:

> *"Central Area people provide millions of dollars yearly to the banks. Children for years deposited their quarters faithfully every week with Washington Mutual through 'Bank Day' of the Seattle Public Schools. But we now know that almost none of those quarters and paychecks get re-invested in the communities where they came from . . . . The Federation has discovered the incredible extent to which the Central Area and the Rainier Valley are being stripped of the investment cash they need. According to the best available figures, the Central Area is getting less than 25¢ back in the form of loans for every dollar its residents deposit. And none of that money is going into redlined areas. But in the suburbs outside Seattle, in many places*

> *they're getting over $2 re-invested for every dollar they deposit."*[24]

Banks blatantly doubled their investments in white suburban areas while reducing their investments in Black neighborhoods on average by 75 percent. The largest banks disinvested from the Central District and Rainier Valley at greater numbers, returning less than 20 percent of the cash flow collected from community members.[25] This was an apparent effort by banks to destabilize Black communities. The exploitation did not stop there. Banks further required higher down payments on properties at higher interest rates compared to those offered in suburban areas while also increasing loan prerequisites.[26]

Given the financial incentives banks generated to push residents out of the Seattle area and into suburban areas, local governments were deprived of the essential tax funds to support neighborhood schools as well as city and social services.[27] Black communities suffered tremendously as a result. The geographical confinement to the Central District coupled with the absence of support from major banks and lending instuttions was simply devistating. Social and economic destabilization began to manifest.

Redlining was eventually outlawed in the State of Washington in 1977 upon Governor Dixy Lee Ray's signing of House Bill 323.[28] Despite prohibiting redlining and alleged "reinvestment" efforts, Black communities continued to suffer tremendously over the next few decades. Black home ownership in King County (Seattle) declined approximately 43 percent from 1970 to 2017, dropping significantly below the national average.[29] In 2017, King County was ranked as having the fifth lowest Black homeownership rate among the hundred U.S. counties with the largest Black populations.[30] Economic barriers, the result of centuries of marginalization, worsened as housing prices in the Greater Seattle area increased and homeownership throughout communities of color declined. The emergence of large corporations like Amazon aggravated economic and social instability throughout communities of color; this has in turn contributed to the displacement and gentrification these communities continue to experience today.

Emergence of 'Big Tech' and Gentrification

While Black communities made up the vast majority of the Central District throughout much of the 20th century, frequent harmful events plagued communities of color. Black residents were therefore more vulnerable to gentrification. From the crack epidemic that plagued urban, Black communities in the 1980s and early 1990s, to the housing bubble of the mid-2000s that initiated predatory lending—which disproportionately targeted Black and Latinx homebuyers—Black residents became more vulnerable to white homebuyers from out-of-town.[31] Seattle's Central District went from being 73.4 percent Black in 1970, to 18 percent Black by 2014.[32] It was clear that gentrification had struck the city just as it had other major urban areas across the United States.

Similar to other parts of the country, Seattle's Central District had large tech companies to blame for the influx of out-of-towners who moved to the city. Many out-of-towners moved to Seattle to pursue job opportunities big tech companies provided while taking advantage of the "affordable" housing options the city offered in comparison to other major tech hubs such as San Francisco, San Jose, New York, and Los Angeles. More than 114,000 people have moved to Seattle since 2010, increasing the population by 19 percent. With parts of the Central District increasingly attractive to new residents, displacement was inevitable: "Longtime residents of formerly redlined neighborhoods are often pushed out when the areas' economic fortunes are reversed . . . many can no longer afford the rising rents."[33] Unsurprisingly, developers continued to prioritize offices and high-end homes over more affordable housing options for those affected.[34] Namely to entice their newly hired employees. However, profit and job creation—despite the bulk of those jobs going mostly to new residents—served as justifications for continued displacement and gentrification throughout the city.

JUSTIFYING BLACK DISINVESTMENT: CURRENT DOMINANT NARRATIVES

Redlining Was "Well-Intended"

In 1933, Franklin D. Roosevelt established the Home Owners' Loan Corporation (HOLC) as part of the New Deal—an effort to avert household defaults and foreclosures.[35] The government-sponsored corporation "purchased existing mortgages that were subject to imminent foreclosure and then issued new [amortized] mortgages with repayment schedules of up to fifteen years (later extended to twenty-five years)."[36] HOLC's mortgages were designed to ensure that monthly payments went toward mortgage principals so that borrowers would eventually own their respective homes and attain the equity. This was the first time working- and middle-class homeowners could gradually gain equity while their properties were still mortgaged.[37] While seemingly a noble effort to address the tangible effects of the Great Depression, Black communities were overtly excluded from reaping the benefits that derevied from the HOLC.

The HOLC created color-coded maps for every major metropolitan area in the nation, marking the safest neighborhoods (white neighborhoods) green and the riskiest neighborhoods (Black/foreigner neighborhoods) red.[38] Where a community was marked red, the HOLC routinely declined intervention. In fact, when assessing borrowers' ability to avoid default, the HOLC deemed neighborhoods where at least one African American or foreigner was a resident high-risk, even if the area was a middle-class neighborhood full of single-family homes.[39] The establishment of the Federal Housing Administration (FHA) in 1934, created by Congress and President Roosevelt to "solve the inability of middle-class renters to purchase single-family homes for the first time," proved even worse for Black communities.[40] The FHA's *Underwriting Manual* explicitly prohibited investment in Black and urban communities, providing the following instruction in 1935: "If a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally leads to instability and a reduction in values."[41] The manual went on to advise that "[a]ll mortgages on properties protected against unfavorable influences [consisting of the infiltration of inharmonious racial or nationality groups], to the extent such protection is possible, will obtain a high rating."[42]

The question here should not be whether the HOLC and FHA's practices were well-intended, but instead should be *for whom* were they well-intended? The answer here is quite clear. They were well-intended for white, lower- and middle-class communities. The suggestion that this offered any sort of benefit to communities of color—Black communities particularly—is simply false. The investment practices and policies, implemented by the federal government and executed by private actors such as banks, were obvious efforts to maintain segregation while destabilizing Black communities: "The FHA discouraged banks from making any loans at all in urban neighborhoods…[and] favored mortgages in areas where boulevards or highways served to separate African American families from whites . . . ."[43] Any suggestion otherwise is mere nonsense.

The Blaming Narrative

The narratives justifying the practice of disinvestment from Black communities consisted of falsities that placed blame on Black communities to reconcile the negative effects of redlining. These false narratives were not only perpetuated by agencies such as the HOLC, the FHA, and other state government agencies, but were especially used by large banks that controlled property ownership and distribution throughout major cities. Banks regularly used blaming narratives to justify their rare allotments of bank loans to Black residents alongside their frequent disinvestments from these communities. Specifically, banks argued that racial lending discrepancies did not occur because of intentional discrimination against communities of color, but were instead the result of prospective borrowers' credit scores which rendered them ineligible for loans.[44]

Other narratives consisted of blaming the communities themselves for lending denials, which were often marked as "high-risk" investment neighborhoods. From signs of decay and neglect to abandonment and vandalism, banks and other financial institutions arbitrarily denied cash flow and other pertinent investment resources into Black neighborhoods.[45] However, absent necessary development and revitalization—which usually depended on the investment(s) made into these communities by the banks themselves—there were very few ways to make these communities more attractive or suitable for bank investments per "on paper" requirements. Major banks and other lending institutions controlled real estate markets and continued to disinvest from redlined communities. The money that banks were taking from communities of color—which could have been used for revitalization or development to transform said communities from high-risk to lower-risk neighborhoods—was instead funneled elsewhere.[46] In other words, banks blamed and penalized Black communities for the very conditions they caused.

Expectedly, the blaming narratives have continued up to present day. From blaming Black communities for "voluntarily" selling their properties to white homebuyers, some narratives have even gone so far as to blame the end of redlining and the expansion of lending to historically high-risk communities for the economic downturn and Great Recession of 2007-09. During a speaker forum at Georgetown University in 2008, centered on the origins of the U.S. subprime mortgage crisis, former Mayor of New York City, Michael Bloomberg, argued that legislative efforts to address racial bias and discrimination as a result of redlining and plat maps prompted banks to "make[] more and more loans where the credit of the person buying the house wasn't as good as you would like," which in turn caused the market to crash.[47] However, Bloomberg was wrong. Communities of color and low-income communities were not the cause of the market crash. They were the victims of predatory lending and the exploitation of policies intended to bring equity to the housing market.[48] Still, the very communities who have suffered the most have yet to fully recover.[49] Meanwhile, the banks that played critical roles in the economic crash enjoyed the government shield and generous bailout via the Emergency Economic Stabilization Act of 2008.[50]

COMMUNAL INSTABILITY: THE ROLE OF CORPORATE POWER AND CORPORATE LAW

Corporate Capture of Seattle's Political and Economic Landscape

The reduction in Black homeownership and home equity accrual as a result of redlining and disinvestment efforts led by large banks and other corporate actors has rendered Black communities more susceptible to gentrification efforts. Corporate actors have attempted to mask themselves and their efforts as the *ball*—moved by the market and high-risk neighborhoods, which they argue are caused by communities of color (i.e., the *stick*). However, corporate actors are in fact the *stick*, and their disinvestment efforts and capture of the political and economic landscape throughout the city are clear examples of such. Corporate capture in Seattle has not only manifested itself through banking and real estate development, but also through deep capture of government and regulatory bodies at the local level. As a result, this has fueled issues of displacement as well as social and economic instability throughout Seattle. This form of corporate capture has persisted up to present day.

In 2018, for example, Seattle's City Council passed a "head tax" following years of advocacy efforts aimed at addressing the booming tech development throughout the city. The swift incline in the tech business made housing in areas like the Central District progressively unaffordable for Black residents who had lived in the area for decades. The head tax imposed a $275 per-employee tax on all businesses with gross revenues exceeding $20 million, only affecting approximately 3 percent of businesses in the city.[51] The head tax was estimated to generate approximately $47 million, which would have been used to build nearly six hundred affordable housing units throughout the city and provide rental subsidies for hundreds of units and shelter beds.[52] The businesses affected by the tax, as presumed, were mainly large corporations. The idea behind the tax was to require the very companies that were driving low-income communities of color out of their homes—which they did by increasing property values, taxes, and rent as a result of their recruitment of thousands of employees from out-of-state—to pay into a city tax fund that would be used to keep community members in their homes while strengthening homeless-prevention efforts.

Unsurprisingly, the head tax's success was short-lived. Less than a month after passing with unanimous support, the City Council about-faced and voted to repeal the tax.[53] Seven of the nine city councilmembers, each of whom were up for re-election the upcoming year, changed course and were joined by Seattle's Mayor, Jenny Durkan.[54] The councilmembers claimed that discussions with their constituents persuaded them to change direction.[55] However, it was apparent that corporate capture of the city's political and economic landscape played a major role in the City Council's decision to repeal the head tax it implemented only weeks prior. Amazon, for example, was quite vocal with its threats to halt the company's major development and expansion plans throughout the city pending the outcome of the head tax vote: "The company said it would halt construction of a new building . . . putting 7,000 or more jobs in jeopardy."[56] Other large corporations like Starbucks—often praised for its progressive corporate social responsibility efforts throughout the city[57]—were also vocal about their opposition to the tax, blaming the city's "anti-business [and] spending inefficiency"[58] for housing displacement and instability.

Despite a "deeply concerned" Mayor Durkan proclaiming that the city "must urgently address [its]. . . homelessness and affordability crisis and lift up those who have been left behind,"[59] the conflicted Mayor and City Council seemingly surrendered to corporate power, the result of corporate capture. The risk of losing the jobs large companies were producing throughout the city and the threat of a corporate-backed referendum to repeal the tax was not worth the political and economic setback that was sure to materialize.[60] More importantly, it was not worth losing economic growth opportunities to cities like Phoenix—which began recruiting Seattle-based businesses in light of the head tax debacle[61]—despite the adverse impact on communities of color throughout Seattle. Corporate deep capture of the political and economic landscape could not have been more apparent.[62]

The Role of Corporate Law

While examples that illustrate the ways in which Seattle's government actors have been, or are presently, captured by corporate power are plenteful, corporate legal structures shield corporations from meaningful mechanisms of accountability—particularly as it concerns their actions and impact on social welfare. Corporate law enables businesses to use legal structures that shield corporate actors from personal liability to their advantage—all in the name of profit and duties to shareholders. So, for example, where a corporation operates with the understanding that its actions may result in harm to a neighboring community or particular persons, corporate legal structures such as limited liability—otherwise known as the corporate veil—protect shareholders, directors, and other employees from personal liability.[63] This sort of safeguard incentivizes excessive risk-taking by allowing corporations and other corporate actors to avoid the full costs of their activities.[64] Moreover, the improbability that corporate actions overtly harmful to public welfare will be held accountable by piercing the corporate veil through judicial intervention only reassures this level of protection and risk-taking.

Two important questions remain, nonetheless: First, what incentives do corporate actors in the Seattle area have to act with public interest in their purview when making investment or other business decisions? Second, why should large companies seriously assess their role in destabilizing Black communities in the Central District? The answer to both of these questions is simple: there are no incentives nor any pertinent reasons why companies should reassess their harmful roles in the city, despite vows otherwise. Afterall, as characterized by Milton Friedman when assessing the role of corporate taxes in advancing public interest, for example, "[t]he imposition of taxes and the expenditure of tax proceeds are governmental functions . . . . [Society] has established elaborate constitutional, parliamentary, and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public . . . ."[65] In other words, despite proclamations throughout corporate mission statements pledging otherwise, it is simply not the role of corporate actors to act with public interest in mind; their mere existence consists of two purposes, both of which are legitimized by corporate legal structures: profit and loyalty to shareholders. Instead, it is the role of government—contemporary society's mechanism of checks and balances—to fulfill this function. Unless, for example, corporate actors aim to be like Phillip Wrigley or Henry Ford and seek to use corporate assets with neighboring communities in mind or to support charitable causes, respectively.[66]

Despite the clear role of government and regulatory agencies in protecting public welfare, how can we expect systems of oversight and enforcement to properly execute their roles in advancing public interest, through the imposition of corporate tax, for example, when government actors are captured by corporate actors and corporate interests? Seattle's failed head tax and the legitimization of corporate legal structures clearly exemplify how corporatocracy has crippled Black communities in Seattle's Central District with little to no accountability.

CONCLUSION

In 2019, Seattle was named the third most gentrifying U.S. city.[67] Today, only 25 percent of Black residents own homes—the lowest of any racial or ethnic group in the Seattle and King County area.[68] This drops nearly 50 percent from the number of Black families that owned homes in the 1970s and is approximately 33.3 percent below the U.S. rate.[69] Additionally, Black residents have the second lowest median household income at $39,396 and the highest percentage of households with zero net worth at 33.1 percent.[70] The successful gentrification efforts widespread across the city are the result—in part—of declining Black homeownership and equity accumulation over recent years, all of which derive from redlining and discrimination practices exacerbated by corporatocracy. However, despite the compelling statistics and research on housing displacement alongside the adverse impact corporate action and corporate law has had on Black communities in the Seattle area, corporate actors persist in their capture efforts.

There are no clear solutions to reconcile the damage and ever-persisting harm redlining practices have caused Black communities throughout the Central District. While organizations like the National League of Cities have suggested approaches that involve incentivizing investment in economically deprived areas that have been adversely impacted by redlining practices,[71] these sorts of incentives typically fall short. Namely, as explored throughout this paper, these efforts all too often succumb to corporate interests and corporate capture of economic and political landscapes. Recent efforts to pass a new employer tax, JumpStart Seattle, which only taxes highly paid employees rather than all employees at high-revenue businesses, are unsurprisingly opposed by Seattle's Mayor Durkan despite a 7-2 City Council vote in favor of the bill.[72] However, this might be a preliminary stride towards remedying the harmful effects of redlining. Regardless of the approach, it is clear that Black communal instability in Seattle's Central District persists and communities are in desperate need of economic and social intervention.

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