The Economic Aftermath of the 1960s Riots: Evidence from Property Values* – A Review

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I. Introduction

The current spate of riots the world over has assumed a worrisome proportion to managers of economies. In the United States of America (USA), for instance, during the 1960s, numerous cities experienced violent, race-related civil disturbances. Nigeria in the recent past, had recorded some of history's most violent religious and ethnic related crises. Although social scientists have long studied the causes of these riots, the consequences have received much less attention. The paper focused on the impact of riots on the value of residential property with an emphasis on black-owned property in the US using census data. The focus was informed by the fact that property value is one of the indicators of neighbourhood quality and secondly the widening gap in housing values which may not be unconnected with the occurrence of riots.

II. Synopsis of the Paper

In examining the causes of riots in the United States, the authors identified discriminatory norms and public policies, large capital gaps in income and wealth, relatively low demand for unskilled labour due largely to macroeconomic and technological developments, rural–urban migration, rising rates of crimes and unemployment as some of the predominant causative factors.

∗ *Published By Williams J. C. and A. M. Robert, National Bureau Of Economic Research Working Paper 10493 May 2004*

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Using city-level and household-level data, the paper found persistent negative and economically significant correlations between riots severity and black-owned property values. The paper attempted to capture the omitted variables that could misstate riots' true impact on property values by controlling series of city characteristics such as pre-existing trend in housing values, pre-riot city size, black population size, manufacturing, employment, residential segregation, crime and region. The authors adopted the instrumental variable approach to estimating the riot effect and observed that riots have strong negative impact on property values.

The paper further took a cursory look at the historical chronology of violent race-related civil disturbances in the US from the early 18th century eliciting the causes, character, magnitude, geographical spread, duration, location, targets, associated number of arrests, injuries, occurrence of arson, and deaths recorded. The severity of the riots were measured in absolute terms using five characteristics (deaths, injuries, arrests, arson and number of days of rioting) on a cumulative basis to form an index.

In assessing the potential influence of riots on the affected areas, the authors found that riots could either lead to:

- large inflow of outside resources thereby improving the economic quality of life of the residents and businesses
- generate no significant alteration in economic decision since they are temporary
- set in motion a dynamic process of deteriorating economic outcomes as mobile residents and businesses relocate to more secure environs and
- depreciation of public goods and amenities as they are vandalized and abandoned.

Another instructive adverse impact of riots is the shift in perceptions regarding future costs and benefits associated with residing in, doing business in, or even traveling through a particular city. The paper argued that since property values cannot be isolated from the streams of net benefits of riots, riots therefore, impact negatively on and lead to decline in property values particularly in central cities. Higher personal and property risk, rising insurance premiums, increased police and fire protection, closure of retail outlets, relocation of businesses and employment opportunities, relocation of friend and families and burned out buildings were some identified effects and costs that may potentially depress property values. All these have implications on property values especially as demand stock adjusts slowly to negative shocks.

Using census data that reported an array of relevant city-level information the authors found out that the median property values for samples of all owner-occupied housing fell in the medium- and high-severity cities relative to low-severity cities. They further found out that a negative demand shift in riot areas could be accompanied by a positive demand shift in non-riot areas within the same city. The analysis showed that property values in riot–torn cities do not bounce back relative to others. The instrumental variable approach in which rainfall (there is considerable anecdotal evidence that people are less likely to engage in collective violence when it rains) and city administration (that isolates plausibly exogenous variation in riot severity) were used to measure the riot effect. The 2SLS estimate was also applied in testing the above instrumental variables. In the base specifications, the paper regressed the severity-group on region dummies, city size, black proportion of population in 1960, rainfall in April and city-manager dummy. The 2SLS coefficients were uniformly negative, economically large, and remain near conventional levels of statistical significance. Thus, from every empirical point of view (simple summary statistics, OLS estimates, and 2SLS estimates), riots were associated with relative declines in central-city property values, especially for black-owned property.

The authors used household-level data as well as city-level data with a view to comparing black with white housing values. The household-level data was adopted to examine the relationship between riot severity and metropolitan area property values in 1970 and 1980 as well as examine the changes in the racial gap in property values. The econometric analysis revealed that while black-owned property values in riot-afflicted cities did not rebound in the 1970s, it however, declined in high-severity riot areas.

The authors concluded the paper by stating categorically that the occurrence of a riot significantly depressed the value of black-owned property and that riots appear to have strong negative effects on black property values. The results also suggested that the racial gap in housing values widened in riot-afflicted cities. The riots were adverse shocks with long-lasting and potentially self-propagating effects while riot-torn tracts lost substantial amounts of population relative to non-riot tracts, which is consistent with a decline in the demand for housing in response to a decline in perceived neighborhood quality.

III. Comments

The authors' appraisal of the social and economic impact of riots on an economy deserves commendation. Their comprehensive and in-depth analysis on an issue that has currently assumed national and global concern is quite enlightening and recommended for countries like Nigeria where the spate of the social phenomenon of riots had assumed a worrisome dimension. The paper is written in plain diction while the authors' use of simple and non-technical language makes it reader friendly.

In terms of summations reached by the authors, I quite agree with some of the several conclusions. For instance, the fall in property value as found by the authors quite mirrors the Nigerian scenario. Property values often record drastic decline in regions plagued by riots as relocating persons flood the property markets with their holdings in a bid to avert complete loss. The authors' allusion that riots in one region would attract large inflow of resources to the region affected, was to say the least, the truth but the conclusion that it would result in improving the economic quality of life of the residents and businesses cannot be generalized. Nigeria has had an unprecedented record of riots, yet the areas affected had witnessed remarkable decline in development as most of the relief material donated from both internal and external donors hardly to get the riot-affected persons, hence, the affected people remain worse off rather than benefiting from the expected resource flow from donors. The same could be said of investors' interest in such riot-prone areas. Regions of high rate of violent riots, irrespective of the motive, had of late recorded significant decline in internal and external capital or investment inflow. Existing companies are pulling out while little new investment is recorded in those areas. These had not only impoverished the people but drastically constrained government revenue streams from such investments.

IV. Usefulness of the Review on Policy to Nigeria

The topic is of immense importance to Nigeria especially as both the US and Nigeria have a historical tract record of violent riots even though the causes are often attributed to different factors. The spate of these ethnic-related riots that had occurred since the inception of democratic governance is worrisome; unfortunately no comprehensive research on the impact of the riots on the Nigerian economy has been undertaken. The importance of the paper is underscored by the fact that riots, along with other social and economic vices, undermine development, retard growth, decelerate investment as well as erode confidence in the economy thereby reducing external support required for economic growth and development. Riots inflict an unquantifiable damage on the image and resources of the country while an incalculable physical damage and inventory loss are suffered by businesses. Tourism development, a vital industry, is hampered while the human toll of riots is immeasurable – physical suffering, psychological toll, loss of sense of security, etc. The rise in violent crimes as well as the over-tasking of law enforcement agencies leave much to be desired. Currently Nigeria is seen as a cauldron of violence with widespread implications. While some of these consequences are obvious and immediate, others manifest long after the riot. But until this unprecedented wave of riots is curbed, Nigeria would continue to pay a steep economic and social price for the riots that have torn the nation apart.

V. Conclusion

The several conclusions reached by the paper are imperative and elucidated some crucial and fundamental lessons which Nigeria must consider if the nation is to return to the path of sustainable development. The spate of riots in the country is a pointer to suppressed grievances (particularly during the era of military regimes) which the government must critically examine since development and growth do not take place in a vacuum but in a society. Not only does investment need protection but the lives and property of investors, especially foreigners must be secured. While it is not an offence for a peaceful protest, legal infrastructures must be put in place to appropriately sanction those who seize such opportunities to vandalize public or private properties.