The Misunderstood Consequences of *Shelley v. Kramer*

Discussion

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Theory

- Club Goods (Berman, Quarterly Journal of Economics 2001)
  - Local Public Good – to not have black neighbors
  - Sacrifice – blacks are willing to pay a higher price, so whites are forgoing higher prices
    - Incentive for any one individual to violate the covenant, i.e. free ride
    - Middle Class whites had the most to lose (~'higher perceived threat')
  - Similar to Berman, ultra-orthodox sect rose in Eastern Europe as the exit option became more attractive (rising wages in secular activities)
  - Predicts: Strong sanctions against the group members who violate the covenant [Is this the case?]
  - Violence against blacks actually makes blacks less willing to pay the higher price, and reduces the wedge (sacrifice) required for the covenants to exist
    - Consistent with violence against blacks occurring in the non-covenanted areas

Empirical Strategy

- Did Shelley introduce a discontinuous change in [the trends for] these variables at census tracts with racial covenants?

- Shouldn't the analysis be simply a differences-in-differences analysis with a pre-post dummy for Shelley interacted with racial covenants? Then include census-specific time trends in order to examine a trend break.

- Racial composition$_{it}$ = Covenant$_i$ * Post_Shelley$_t$ + Covenant$_i$ + Post_Shelley$_t$ + tract and year fixed effects

Racial Composition

- Now you have an instrument, $Covenant_i$ * $Post\_Shelley_t$, instead the paper reverts to $\%Black_i$ or $><50\%Black_i$ instead of $Covenant_i$

Issues

- Too brief discussion of possible omitted variables associated with presence of racial covenants. Especially since the paper begins with a discussion of variables associated with the presence of covenants (e.g. suburban, need a lot of blacks nearby, middle class)

- When doing spatial regression, a Conley (or other) correction for spatial correlation needs to be done on the standard errors. Spatial autocorrelation, like temporal autocorrelation, violates standard statistical techniques that assume independence among observations and yield unreliable significance tests.

Prices and Rents

- Theory predicts different effects for covenanted and non-covenanted (ghetto) land

- Text focuses on ghetto land: post-Shelley, (black) prices fall
- But theory predicts, blacks can now bid for the whites' land. Pay the higher price than the whites are willing to pay. And once blacks enter the covenant land, white prices fall.

Prices and Rents

- Again, you could run:

  $(change)Price_{it} = Covenant_i * Post\_Shelley_t + Covenant_i + Post\_Shelley_t +$ tract and year fixed effects

- How come we suddenly switch to change in Prices?

Prices and Rents

- The tables use bins of %Black, and it's not monotonic.
- 2 significant coefficients out of 16 consistent with story, 1 significant coefficient not consistent (rents are rising)

- Brooks (2005) runs $Price_{it} = Covenant_i * Post\_Shelley_t + Covenant_i + Post\_Shelley_t$ + tract and year fixed effects
- Finds no effect

Income Distribution/Segregation

- How is this variable created?
- It could just be the impact of World War 2 or other general secular time trend
- What is the regression?
- $Poverty_{it} = Covenant_i * Post\_Shelley_t + Covenant_i + Post\_Shelley_t$ + tract and year fixed effects