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Fighting racial inequality is about the power of corporations

Corporations are a central driver of racial inequality in American society — because their basic goal is to maximise profits

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Since the uprising against police brutality and racial injustice erupted in late May, corporations have been falling all over each other to prove their anti-racist bona fides. The international accounting giant KPMG published a blog post by a senior associate explaining why he celebrates Juneteenth. The fruit snack brand Gushers, owned by General Mills, tweeted 'Gushers wouldn't be Gushers without the Black community and your voices.' Even the Business Roundtable got in on the action, proclaiming itself 'deeply concerned about the racial bias that continues to plague our society.'

Unfortunately for the marketing consultants behind these moves, fewer people are buying what they're selling. If corporations took racism seriously, one writer recently argued in the *Washington Post*, they would do things like 'take strategic steps to recruit more black professionals,' 'invest considerably more financial resources into black employee network groups,' and 'ask black people for feedback and input on how to make the workplace less racist.'

This kind of scepticism is wholly justified. We shouldn't mistake corporate statements or tweets for anti-racist action. At the same time, what's most notable about the *Washington Post* list — which typifies the tenor of criticism coming from liberal quarters — is that it treats corporate anti-racism entirely as a matter of will. Corporations either want to be anti-racist or they don't, and if they don't, it's a moral failing of their leadership.

But firms are driven by the need to maximise profits. It is this drive — not an absence of anti-racist convictions — that ends up reproducing (and often deepening) racial hierarchies. From environmental racism to

the 'predatory inclusion' of the housing market, corporations' very reason for existing leads them to decimate the life prospects of black Americans. Attacking racism will require attacking corporate power.

Blackstone against black lives

The recent history of a single firm — the Blackstone Group — demonstrates the dynamic well.

Blackstone is a massive investment company, controlling some of the largest private equity funds in the world. Immediately after George Floyd's murder, Blackstone released a statement declaring its sympathy with the movement for racial justice and quoting John Lewis on the 'endless struggle' for equality. Its actions over the last decade tell a rather different story.

In the years before the foreclosure crisis, mortgage companies targeted black Americans with subprime loans. When the bubble popped, it triggered the greatest destruction of black household wealth in American history. The Obama administration, confronted with millions of empty homes, turned to corporate America for a solution. In 2010, it launched a program allowing Fannie Mae and Freddie Mac to sell bundles of homes in foreclosure to investment companies to convert into rental properties.

Blackstone's private equity funds have been major beneficiaries of this program. Investing over USD 60bn in rental markets, the company has turned hundreds of thousands of single-family homes into rental units. As black families were losing their homes in record numbers, Blackstone was ready to snatch them up, converting them from vehicles black families could use to build wealth into one more source of passive income for their investors.

Private equity's move into the real estate market is one reason the homeownership rate for Americans hasn't come close to recovering from its pre-crisis peak, and the rate for black Americans remains under 45 per cent.

The Obama administration had all the authority it needed to rewrite mortgages to allow families to keep their homes. Instead, it used its

Because the foreclosure crisis disproportionately ravaged black neighbourhoods, the homes private equity companies are now renting are concentrated in the same neighbourhoods. In some cities (often ones with larger black populations, like Charlotte or Atlanta), the share of single-family homes owned by institutional investors reached 10 per cent of

prerogative to keep lenders solvent, paving the way for the decimation of black household wealth.

the total volume. Multiplestudies have found that the more real estate in a neighbourhood owned by institutional investors, the higher the proportion of residents that are black.

The new landlords promised that their scale of operations would yield greater efficiency in meeting tenants' needs. Broken faucets would finally be fixed, and mouldy ceilings finally replaced. But all the vaunted managerial expertise of private equity was directed toward one purpose: squeezing as much money out of the properties as possible.

Invitation Homes, the company through which Blackstone conducted its real estate business, has reported average annual rent hikes twice as high as the nation as a whole. Because the private equity model is based on promising investors higher returns than the market as a whole, its rental business model is to charge brutal fees for late payments — and move quickly to eviction when renters fall behind. In 2015 in Atlanta, nearly one-third of tenants renting from Starwood Waypoint Homes (which merged with Invitation Homes in 2017) were slapped with eviction notices.

Blackstone's very business model turbocharged racial inequality: First, snatch up foreclosed homes in black neighbourhoods (in the process driving up housing prices and making it harder for families looking to buy their first house). Second, lease them out while jacking up the rent (and skimping out on repairs). Third, hit tenants with late fees and evictions when they can't keep up with the inflated rents.

Not content to throw its weight around in the economic arena, Blackstone has been a significant political player as well, using its considerable resources to lobby for policies that disproportionately hurt black Americans.

In 2018, Blackstone spent almost USD 7 million defeating Proposition 10 in California, which would have allowed cities to enact their own rent control policies. In New York, Blackstone was part of a cabal of corporate landlords that mounted an unsuccessful last-ditch effort to stop the state's new pro-tenant housing laws last year. In both states, black Americans are significantly more likely than white Americans to be tenants.

None of this — not the political spending, not the predatory business model — was a matter of Blackstone having a bad corporate culture or failing to 'promote inclusion,' as the company's statement after Floyd's murder put it. The part they played in the continued suppression of black

families' wealth flowed from the firm's most basic mission: to achieve maximum return on investment.

Equality against the market

From the perspective of its investors, Blackstone is doing great. When the company took Invitation Homes public in 2017, it cleaned up, raising USD 1.5bn in its market debut.

And at the same time it was launching its 'Diverse Leaders Program' to ensure it 'attracts talent from the broadest universe possible', Blackstone was sending people to Albany to fight tenant protections that would disproportionately help people of colour. There's little reason to think that diversifying the boardroom will prompt Blackstone to give up opportunities to turn a nice profit.

In other words, if Blackstone and the rest of corporate America are going to stop pursuing strategies that worsen racial inequality, they will have to be forced to stop. No amount of moral suasion will change their behaviour. That means enacting policies that restrict the power of capital, breaking the cycle by which firms preying on black disempowerment recreates that disempowerment.

In the case of private equity's move into real estate, it would have been quite easy to implement measures to prevent it. The Obama administration had all the authority it needed to rewrite mortgages to allow families to keep their homes. Instead, it used its prerogative to keep lenders solvent, paving the way for the decimation of black household wealth.

The administration could have simply decided not to sell foreclosed properties to private equity funds, or at least impose conditions protecting tenants in return for the sale. Though Obama was happy to hammer private equity on the campaign trail in 2012 (leading to Cory Booker's memorable plea to 'stop attacking private equity'), his administration rolled out the red carpet for private equity funds' entrance into real estate.

Only a mass popular movement that sets its sights on curbing corporate power can make firms 'do the right thing.'

In fact, one of the last things it did was backstop Invitation Homes's securitisation of the rents it collects. At every step, the Obama administration prioritised the interests of capital — and in doing so, dealt a crushing blow to racial equality.

What's needed today is precisely the opposite: policies that curb the power of capital in order to produce more egalitarian outcomes. The rent control measures that Blackstone lobbied against in New York and California are one example. Eviction restrictions, such as those that require landlords to show they've attempted to work out a plan with late-paying tenants, are another — they help to stop the cycle of eviction and poverty that disproportionately affects women of colour.

Some have proposed more ambitious protections, such as requiring landlords to submit evictions to an independent, democratically-elected community review board. More modestly, real estate investors like Blackstone could be required to make a first offer of any homes they are selling to the current tenants, offering the black families they squeezed out of the housing market a route back in.

On a structural level, it's worth thinking about simply outlawing private equity vultures like Blackstone altogether. All of these measures are nonstarters for Blackstone (and real estate companies more broadly) — not because they haven't thought enough about racial inequality, but because these policies would constrain their ability to take advantage of people to turn a profit.

Real estate is hardly unique. Across the economy, initiatives that reduce racial inequality will have to be won over the opposition of capital. Minimum wage laws, for example, are a potent weapon to compress black-white wage inequality, given the overrepresentation of black workers in minimum-wage jobs. Similarly, unionisation is a huge boon to racial wage equality.

Business groups vehemently oppose both. Noneconomic forms of racial inequality, like environmental racism, confront the same problem. Flint, Michigan lacks clean drinking water because of austerity measures that prioritise the interests of the investors that hold the city's debt over the interests of its citizens.

Left to their own devices, firms will exploit the workers least able to resist them, plunder the neighbourhoods most vulnerable to them, and externalise their costs on to the people most lacking in the resources to stop them. In a society with deep racial inequality like the United States, the basic mandates of the market will ensure that very little changes in our society's brutal racial order.

The path forward, then, is not some reckoning of conscience in the boardrooms of Blackstone or Bank of America. Whatever thin commitment to social justice these corporations are shamed into

proclaiming will never stand between them and an opportunity to make a profit. Only a mass popular movement that sets its sights on curbing corporate power can make firms 'do the right thing.'

Shortly before his assassination, Dr Martin Luther King Jr asked striking sanitation workers: 'What is power? Walter Reuther said once that "power is the ability of a labor union like UAW to make the most powerful corporation in the world — General Motors — say yes when it wants to say no."' Today, corporations may be happy to say yes to sloganeering for black lives. But halting their racial plunder will require forcing them to stop their relentless drive for profit.

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