

## Housing Discrimination Is Still Worth Worrying About

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### *Abstract*

Several scholars claim that racial and ethnic discrimination in housing is now relatively infrequent and has little impact on the lives of black and Hispanic households. They conclude that money spent on fair housing enforcement will do little or nothing to help people in these groups. This article examines these claims.

The article concludes that these claims are not consistent with the evidence, which shows that discrimination in housing is still a common experience for blacks and Hispanics and that the cost of discrimination is still high. Moreover, discrimination constrains the opportunities of people in these groups to go to good schools, to find jobs, and to accumulate home equity. Thus, improved enforcement of fair housing legislation not only promotes principles that are at the heart of our democracy but also attacks one pillar of the system that perpetuates large intergroup disparities in earnings and wealth.

**Keywords:** Discrimination; Housing; Minorities

### **Introduction**

During the past few years, several prominent scholars have promoted a new line of reasoning concerning this nation's racial and ethnic divisions. This argument, elements of which appear in the work of Heckman (1998), Patterson (1997a, 1997b), and Thernstrom and Thernstrom (1997), goes something like this: Although racial and ethnic discrimination still occurs, it is relatively infrequent and has relatively modest impact on the lives of black and Hispanic households. In some cases, this argument is accompanied by the following policy message: The real problem black and Hispanic households face is their relatively low income, and money spent on anti-discrimination enforcement will do little or nothing to help solve this problem.

I believe that argument is inconsistent with the evidence, at least as it relates to housing. Moreover, it threatens to undermine existing federal antidiscrimination programs, which I believe are still essential to providing full opportunities to black and Hispanic households and to healing this nation's profound racial and ethnic

divisions. These points lead to my punch line: Discrimination in housing is still very much worth worrying about.

This article presents several claims that appear in this new line of argument and shows why, in my view, they are wrong. Although the issues addressed in this article apply to all major markets and to many types of discrimination, I confine my attention to the housing market and make no claims about other markets.<sup>1</sup> I also confine my attention to discrimination based on ethnicity. I reject the notion of “race” as a meaningful biological category, as do experts on the subject, and I follow J. Milton Yinger (1994) and Patterson (1997a) by treating social groupings associated with superficial physical characteristics, such as skin color, as examples of “ethnic” distinctions.<sup>2</sup> I focus on three broad ethnic categories labeled, following standard usage, as black, Hispanic, and white.

**Claim 1: Discrimination is relatively rare**  
**Version 1: Audit studies do not find very much discrimination**

Those who minimize the importance of discrimination claim that discrimination is relatively rare. Because the best recent evidence about discrimination in housing comes from so-called audit studies, I will begin with a brief discussion of this methodology. For more details, see Fix and Struyk (1993) or Yinger (1995).

An audit is a survey technique in which people from two different groups, one of which is a “protected class” as defined by our civil rights laws, are selected, trained, and assigned to two-person teams such that teammates are equally qualified to buy a house (or buy a car or get a job). Audit teammates successively visit housing agents to inquire about an advertised housing unit and then independently record how they were treated. Discrimination is defined as systematically less favorable treatment of the auditors in the protected class. As discussed more fully below, a large national audit study of discrimination in housing, the Housing Discrimination Study (HDS), was conducted in 1989.<sup>3</sup>

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<sup>1</sup> For a recent review of evidence on discrimination in labor markets, see Darity and Mason (1998).

<sup>2</sup> For a more detailed discussion of the concepts of race and ethnicity, see J. Milton Yinger (1994) or Yinger (1995, chapter 1).

<sup>3</sup> For evidence from other audit studies conducted during the 1980s, see Galster (1990a, 1990b), Roychoudhury and Goodman (1992, 1996), and Yinger (1995).

Supporters of this first claim acknowledge that audit studies sometimes uncover discrimination, but they downplay the results. As Thernstrom and Thernstrom (1997) put it, for example, “These experiments find significant differences, though usually not very dramatic ones” (p. 224). After reviewing a few results from HDS, they conclude that “These figures do not seem high enough to support the claim that patterns of exclusion are the norm rather than the exception” (p. 225).

The audit evidence leads me to a different conclusion.<sup>4</sup> For four reasons, I believe that discrimination is a common experience—not an unusual one—for black and Hispanic households searching for housing. First, some types of discriminatory behavior on the part of housing agents occur frequently. As Thernstrom and Thernstrom (1997) point out, all information about available housing may be withheld from blacks and Hispanics only 5 or 10 percent of the time. However, as shown in table 1, housing agents disclose fewer housing units to blacks than to whites 19 percent of the time in the sales market and 23 percent of the time in the rental market.<sup>5</sup> The comparable figures for Hispanics are 17 and 10 percent, respectively.<sup>6</sup>

Second, even if the incidence of discrimination is relatively low for each type of agent behavior taken separately, discrimination appears in so many different types of behavior that the cumulative effect appears to be quite high. Table 1 shows some types of behavior for which the incidence of discrimination was statistically significant in the HDS audits.

Scholars have developed two approaches to measuring the overall incidence of discrimination. One approach, pioneered by Wienk et

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<sup>4</sup> Although Patterson (1997a) does not discuss the issue at length, the audit evidence appears to lead him to a different conclusion as well. As he puts it, HDS “found that in the most serious form of housing discrimination—denial of access to available units—there was still a 13 percent probability of systematic discrimination” (p. 47). He associates this level of discrimination with a need for “continuation of vigorously enforced anti-discrimination laws with stiff penalties” (p. 47). However, the 13 percent figure he cites appears nowhere in the HDS reports. The incidence of discrimination against blacks in housing availability is 19.3 percent in the rental audits and 18 percent in the sales audits (using a net measure—see below). See Turner, Struyk, and Yinger (1991, table A-1).

<sup>5</sup> The Thernstroms do cite another HDS result on the severity of discrimination, namely that “black home buyers and renters were informed about a total of 25 percent fewer housing units than whites” (p. 224). This difference looks dramatic to me, but apparently not to them. A closer look at this HDS result also reveals that discrimination increases with the “opportunity to discriminate,” defined as the number of units a housing agent has to sell or rent. See Yinger (1995).

<sup>6</sup> For virtually every type of agent behavior in this table, one can reject the hypothesis of no discrimination at conventional levels of significance.

*Table 1. The Incidence of Discrimination in Housing, 1989 Housing Discrimination Study*

	Black-White Audits		Hispanic-White Audits	
	Net <sup>a</sup>	Gross <sup>b</sup>	Net <sup>a</sup>	Gross <sup>b</sup>
<b>Sales audits</b>				
Excluded from available units	6.3*	7.6	4.5+	7.5
Advertised unit inspected	5.6*	13.3	4.2*	13.2
Number of houses made available	19.4*	44.1	16.5*	43.6
Auditor asked to call back	3.3*	25.9	11.5*	30.4
Auditor received follow-up call	7.7*	18.5	5.5*	16.4
Auditor received positive comments on house	12.5*	47.9	7.5*	47.5
Agent offered to help auditor find financing	11.3*	24.4	4.4+	22.1
Overall treatment <sup>c</sup>	30.1*	50.4	23.9*	44.6
<b>Rental audits</b>				
Excluded from available units	10.7*	15.1	6.5*	12.1
Advertised unit inspected	12.5*	23.0	5.1	17.6
Number of apartments made available	23.3*	41.4	9.8	34.6
Auditor asked to call back	15.8*	30.5	8.6*	28.5
Auditor received special rental incentives	5.4*	10.3	5.1*	12.6
Auditor received positive comments on apartment	16.8*	48.4	14.6*	46.4
Overall treatment <sup>c</sup>	27.8*	45.7	22.3*	42.7

Sources: Turner, Struyk, and Yinger (1991); Yinger (1998).

<sup>a</sup>The net measure equals the gross measure minus the share of audits in which the white auditor was treated less favorably. A \* (+) indicates statistical significance at the 5 percent two-tailed (one-tailed) level.

<sup>b</sup>The gross measure equals the share of audits in which the white auditor is treated more favorably.

<sup>c</sup>Based on an index covering housing availability, efforts to complete a transaction, credit, and steering.

al. (1979), is to calculate a summary index of discrimination across many types of agent behavior. One such index assumes that an auditor is favored if he or she is treated more favorably than his or her audit teammate in at least one way and never treated less favorably. The HDS audit data were used to construct an index of this type. It measured how much information was provided about available housing, what agents did to help complete a housing transaction, what information was made available about financing or credit checks, and whether any steering toward certain types of neighborhoods took place (see Turner, Struyk, and Yinger 1991). The results are striking. In the black-white audits, this overall index indicates that the white auditor is favored 50.4 percent of the time in the sales market and 45.7 percent of the time in the rental market. The black auditor is favored only 19.7 and 17.9 percent of the time, respectively. The non-Hispanic auditor is favored in 44.6 percent of the sales audits and 42.7 percent of the rental audits, whereas the Hispanic auditor is favored in only 20.7 percent of the sales audits and 20.4 percent of the rental audits (see table 1).

The other approach, found in Yinger (1991), is to count the number of times a black or Hispanic tester is treated less favorably on a single type of agent behavior than the white tester and then subtract the number of times the white tester is treated less favorably. The result is a net measure of the number of acts of discrimination a black or Hispanic customer can expect to encounter during each visit to a housing agent.<sup>7</sup> Applying this approach to the HDS data reveals that, on average, black and Hispanic home buyers can both expect to encounter close to one act of discrimination each time they visit a real estate broker. Some customers will encounter two acts and others will encounter none, of course, but the average number of acts is 1.13 for black home buyers and 0.97 for Hispanic home buyers. The comparable estimates for renters are 0.83 acts for blacks and 0.58 acts for Hispanics. Most of this discrimination involves information on housing availability. For black home buyers and renters and for Hispanic home buyers, the number of acts of discrimination involving housing availability alone falls between 0.35 and 0.40 for each visit to an agent. The estimate for Hispanic renters is 0.23 acts.<sup>8</sup>

Third, all of these results provide a lower bound on the incidence of discrimination, defined as unfavorable treatment of a customer based solely on his or her membership in a protected class. This underestimation raises complex technical issues, but because it is an important topic I will provide a brief overview. Most audit studies measure the incidence of discrimination using one of two simple measures. The gross incidence of unfavorable treatment—or “gross measure” for short—is the share of audits in which the auditor in the protected class is treated less favorably than his or her teammate. As pointed out by Wienk et al. (1979), however, discrimination is the *systematic* unfavorable treatment of a protected class. *Random* differences in treatment should not affect measures of discrimination.<sup>9</sup> A measure should not reflect, for example, a case in which an apartment is rented after a white auditor sees it but before the black teammate even inquires about it. Wienk and colleagues argue that the share of audits in which the teammate from the protected class is favored provides an estimate of the extent to which random factors are at work. Thus, they suggest looking at the net incidence of unfavorable treatment—or “net measure” for short—which equals the gross measure minus the share of audits in which the auditor in the protected class is treated more favorably.

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<sup>7</sup> As discussed below, a net measure provides a lower bound estimate of discrimination. See also Yinger (1993a).

<sup>8</sup> All of these estimates are highly significant statistically.

<sup>9</sup> Wienk et al. (1979) were not the first to use a net measure. For a history of audit research, see Yinger (1995, chapter 2.)

The problem, of course, is that, as shown by table 1, the net and gross measures are often far apart. Some economists favor the net measure because it is conservative. By ignoring random factors, the gross measure may overstate the incidence of discrimination, whereas the net measure can be seen as a lower bound. As Fix, Galster, and Struyk (1993) and Yinger (1993a) point out, however, this lower bound can be quite inaccurate, because some actions that favor members of a protected class are the result of systematic, not random, factors. Consider, for example, cases in which real estate brokers decide not to show houses in largely black neighborhoods to white customers. The net measure implicitly regards this behavior as random, when in fact it is systematic. This behavior in no way offsets discrimination that blacks may encounter when they look at houses in white neighborhoods.

Ondrich, Ross, and Yinger (1998) take an alternative approach, which is to (1) model the observed and unobserved effects in audit data, (2) estimate the roles played by systematic and random factors, and (3) explicitly remove random factors when calculating the incidence of discrimination.<sup>10</sup> For example, they estimate the extent to which unfavorable treatment varies with audit circumstances and then identify cases in which white auditors are favored for systematic reasons—cases that should not be “netted out” in calculating discrimination. Ondrich, Ross, and Yinger apply this approach to the HDS data and obtain estimates of discrimination that are always above the net measure but are closer to the net measure in some cases and closer to the gross measure in others. Because of the HDS test design, they cannot provide an exact measure of the incidence of discrimination, but they can calculate lower and upper bounds.<sup>11</sup> For several types of behavior, the lower bound for their measure of discrimination greatly exceeds the simple net measure. For “advertised unit inspected,” for example, their lower bound is

<sup>10</sup> Ondrich, Ross, and Yinger use a random-effects probit model. Ondrich, Stricker, and Yinger (1998) provide an alternative approach to measuring the incidence of discrimination. This approach, which could be seen as a compromise between the simple net measure and the complex Ondrich/Ross/Yinger measure, uses a fixed-effects logit analysis to adjust the net measure for the observable differences between teammates—for example, in age or in order of visit. For every type of agent behavior they examine, the logit-based estimate of the incidence of discrimination is larger than the simple net measure in the third column. For three housing-availability variables, for example, the incidence of discrimination is between 10 and 40 percent for both blacks and Hispanics. Moreover, real estate brokers are much more likely to offer financial assistance to white than to black customers.

<sup>11</sup> With the HDS data, it is not possible to directly estimate the covariance between the unobservable factors in the treatment of teammates, but bounds on this covariance can be determined. These bounds on the covariance lead to upper and lower bounds on the estimated incidence of discrimination. See Ondrich, Ross, and Yinger (1998).

8.2 percent, considerably above the net measure in table 1 (5.6 percent). For “auditor asked to call back,” the difference is even greater: 15.4 percent for the lower bound compared with the 3.3 percent net measure in table 1. The simple gross measure falls below the Ondrich/Ross/Yinger upper bound in a few cases but is close to their measure in others.<sup>12</sup> Again for “advertised unit inspected,” the gross measure in table 1 is 13.3 percent, whereas their upper bound is 11.8 percent.

Fourth, housing audit studies provide only a partial view of discrimination, and the available evidence indicates that a great deal of discrimination exists that these studies cannot detect. To begin with, the HDS audit design made it possible to glimpse, but not fully observe, some types of discriminatory behavior. Consider the example of steering, which is directing a customer toward neighborhoods where people in his or her ethnic group are already concentrated.<sup>13</sup> Thernstrom and Thernstrom (1997) cite the HDS result that steering occurs in only 6.2 percent of the black-white audits when all units are considered and in 11.8 of the black-white audits when only units other than the advertised unit are considered. Paterson (1997a, 47) also cites the HDS finding of “low” steering. However, as Turner and Mickelsons (1992) and Yinger (1995, chapter 4) explain, the scope for steering in the HDS data was limited by the fact that housing in largely black neighborhoods is rarely advertised in major metropolitan newspapers. Because newspaper advertisements defined the HDS sampling frame, houses in black neighborhoods were underrepresented in the sample.

In fact, steering is likely to occur when the opportunity arises. Yinger (1995) finds, for example, that if the advertised unit is in a largely black neighborhood and the real estate broker has access to

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<sup>12</sup> The reader may wonder why the Ondrich/Ross/Yinger upper bound estimate can exceed the simple gross estimate as it does, for example, for “auditor asked to call back,” for which the upper bound is 36.7 percent (compared with the gross measure of 25.9 percent in table 1). The explanation, first presented in Yinger (1993a), is that random events favoring the auditor in the protected class can result in the appearance of equal treatment even when the housing agent is trying to discriminate. Consider an agent who always withholds the advertised unit from blacks. If the black auditor goes first and the unit is rented before the white auditor arrives, then the audit will observe equal treatment even in this case.

<sup>13</sup> Another example concerns “disparate-impact” discrimination, which audits are not designed to measure. Under the Fair Housing and Equal Credit Opportunity Acts, along with civil rights legislation that applies to employment and public accommodations, economic agents discriminate whenever they use practices that do not explicitly consider a person’s group membership but instead have an adverse impact on a protected class without any “business necessity” (Schwemm 1992). The available audit evidence concerns “disparate-treatment” discrimination, which exists when different rules are applied to people in different groups, but does not shed light on disparate-impact discrimination.

units in largely white neighborhoods through a multiple listing service, there is an 80 percent chance that the broker will withhold from black customers information about the units in white neighborhoods. Moreover, there appears to be active steering in the marketing practices of real estate brokers, who tend to use different recruiting and marketing strategies in black and white neighborhoods. (See Newburger 1995 and Turner 1992.) For example, brokers almost never hold open houses in black neighborhoods but hold them frequently in white neighborhoods.

Thernstrom and Thernstrom (1997) go to some lengths to dismiss the importance of steering:

One of the characteristics that many find attractive is the presence of a “critical mass” of other people of the same race. Such people will not object to “steering” and may steer themselves if the realtor does not. Since they often seek out settings in which many people of the same race already live and avoid those in which they do not, they are far less likely to experience discriminatory rejection than are the testers. . . . [N]ot many blacks are willing to live in areas that have no more than a handful of black residents. Biases in the real estate market certainly exist, but they appear minor compared to the biases of real estate customers themselves. The “steering” metaphor is misleading in its implication that real estate agents are in the driver’s seat, and they take their clients to destinations that they would have not chosen on their own. The agents are more like taxi-drivers; they turn the wheel, control the gas pedal and the brakes, but the customer decides where the vehicle is headed (p. 225).

The hint in this analysis that steering is acceptable if it follows a customer’s preference is not correct. The Fair Housing Act makes racial or ethnic steering explicitly illegal even if the real estate broker believes that he or she is doing what the customer wants. In addition, the evidence does not support the view that brokers are simply acting in their customers’ best interests. The steering uncovered by HDS, for example, arises even though black and white customers inquire about exactly the same housing unit and give no hint as to their neighborhood preferences. Moreover, several studies (Ondrich, Stricker, and Yinger 1998; Page 1995; Yinger 1995) find that some forms of discrimination are relatively frequent in integrated neighborhoods, exactly the neighborhoods to which brokers interested only in customer preferences would be steering blacks. This result supports the hypothesis that real estate brokers have an economic incentive to preserve their established contacts with white customers and therefore attempt—up to a point—to prevent ethnic “tipping.” Under some circumstances, at least, brokers are more inter-



ested in preventing ethnic tipping, and thereby preserving their white customer base, than they are in serving the interests of black or Hispanic customers. Finally, steering that occurs through marketing practices has nothing to do with customer preferences. The taxi-driver analogy simply does not fit the facts.

In addition, audit studies observe discrimination only in the marketing phase of a housing transaction. They cannot observe discrimination in the negotiating process in home sales or in rental credit checks. Any discrimination in these later stages would raise the hurdle that black and Hispanic home seekers must overcome.

Finally, landlords and real estate brokers are not the only participants in housing markets who discriminate. In fact, there is extensive evidence of discrimination in mortgage markets and some evidence of discrimination in markets for home insurance and mortgage insurance. A detailed study of discrimination in loan approval based on 1991 Boston data found that black and Hispanic customers were 82 percent more likely to be turned down for a loan than were white customers with the same credit qualifications requesting the same type of loan (Munnell et al. 1996).<sup>14</sup> Moreover, several pilot studies have found evidence of discrimination in home insurance (Squires and Velez 1988; Tisdale, Smith, and Cloud 1994). An audit study of lenders' preapplication behavior was conducted in eight major urban areas in the early 1990s (Smith and Cloud 1996). Although scholars have not yet examined this study, it used standard audit procedures and discovered many different kinds of discriminatory behavior against blacks and Hispanics, including the following:

- requiring a credit check, completion of an application, or presentation of other documentation prior to scheduling an appointment with African-American and Latino persons while not imposing the same pre-appointment requirements on white persons;
- quoting more restrictive qualification standards and ratios to African-American and Latino persons;
- making exceptions to qualification standards for white persons while not making the same level of exceptions for African-American and Latino persons;

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<sup>14</sup> I believe that this is a high-quality study, but many scholars have criticized it. For a detailed look at both sides of this debate, along with more evidence of discrimination in mortgage lending, see Goering and Wienk (1996) and Ladd (1998).

- requiring higher levels of escrow and reserve payments of African-American and Latino persons at the time of closing than for white persons; and
- providing constructive advice (i.e., paying down debt, obtaining gift letters, explaining credit flaws) to white persons on how to circumvent a potential barrier to qualifications while not providing the same advice or quality of advice to African-American and Latino persons (Smith and Cloud 1996, 598–99).

In sum, housing audit studies provide compelling evidence that blacks and Hispanics frequently encounter discrimination and that some of this discrimination seriously constrains their access to housing. Moreover, housing audits observe only some of the discrimination that black and Hispanic households encounter and therefore undoubtedly understate the magnitude of the discriminatory hurdles these households face.

**Claim 1: Discrimination is relatively rare**  
**Version 2: Audit studies exaggerate the amount of discrimination black and Hispanic households actually encounter**

Some authors have argued that flaws in the audit method lead audit studies to exaggerate the amount of discrimination a typical black or Hispanic household encounters today. These authors have identified four potential flaws.

The first arises when audit studies are not “blind,” in the sense that auditors are aware of the purpose of the study and of the fact that they have a teammate. Following the long experience with so-called “double-blind” studies in psychology and medicine, some scholars (e.g., Heckman and Siegelman 1993) have argued that audit studies might be subject to bias because auditors may be influenced by their knowledge of the study.

In the case of housing audits, however, blind audits are not practical for two reasons (see Yinger 1993b).<sup>15</sup> First, auditor training is complicated, and matching of teammates requires that potential audit teammates receive exactly the same training. Given the segregated nature of our society, many auditors may be struck by the fact that exactly half the participants in their training sessions belong to a protected class—and may alter their behavior in the study based on this realization. A clear statement of the nature of the

<sup>15</sup> These practical problems do not arise for all types of audits. The car sales audits by Ayres and Siegelman (1995), for example, were “blind” as defined in the text.

study and of the need to fill out the survey forms accurately is preferable to such uncontrolled changes in behavior. Second, many of the early audit studies discovered that auditors in the protected class sometimes encountered extreme examples of discrimination, such as having doors slammed in their faces, and were then too upset to fill out the survey forms properly. Careful training about how to handle these events is preferable to creating a situation in which audits involving the most severe discrimination may be invalid.

Overall, therefore, housing audit studies have not been conducted on a blind basis for practical reasons. To protect the integrity of audit data, these studies have instead emphasized careful training about the need for objective recording of information, along with elaborate debriefing procedures to help ensure that participants recorded all relevant information accurately. There is no evidence to suggest that these procedures have led to biased results.

The second potential flaw involves imperfect matching of teammates. Because researchers may not know all the customer traits that economic agents consider when making a decision to show a housing unit (or offer a job or set a price on a car), audit teammates cannot be matched on all such traits, and a comparison of teammates' treatment does not necessarily isolate discrimination. Researchers have long recognized this problem (see, e.g., Wienk et al. 1979, chapter 5). Heckman (1998) and Heckman and Siegelman (1993) present formal examples of its potential magnitude. They demonstrate that an audit study could either over- or underestimate discrimination, depending on the extent to which economic agents consider traits not observed by the researcher and on the correlation between these traits and membership in the protected class.

At the current state of knowledge about discrimination, this argument is nothing more than a theoretical possibility. No scholar has provided any evidence that an existing audit study failed to match teammates on some trait that was important to economic agents—let alone that such traits are correlated to membership in a protected class so as to bias upward audit estimates of discrimination. Moreover, the extensive history of housing audits, which dates back several decades and involves close observation of the behavior of housing agents, makes it unlikely that such traits have been ignored.<sup>16</sup> Overall, there is no justification for discounting audit studies because of imperfect matching.

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<sup>16</sup> Employment and car sales audits do not have such a long history, but the researchers who carried out these studies made extensive efforts to identify the key traits that economic agents consider. See Ayres and Siegelman (1995); Bendick, Jackson, and Reinoso (1994); Bendick et al. (1993); Cross (1990); and Turner, Fix, and Struyk (1991).

The third potential flaw involves the selection of auditors who belong to the protected class. There is, of course, considerable diversity among people considered “black” or “Hispanic” in this society, and all the people within one of these ethnic groups may not encounter the same degree of discrimination. One early audit study, Hakken (1979), found, for example, that dark-skinned Hispanics encounter more discrimination than light-skinned Hispanics. Because auditors are recruited through community organizations and fair housing networks and selected in part on their role-playing ability, they are not a random sample of the population from a protected group. If discrimination is lower (higher) against people in a group who have a trait that is underrepresented among the auditors, then the audit study will overestimate (underestimate) the discrimination encountered by typical members of that group.

The designers of the HDS audits were concerned, for example, that the level of discrimination might be greater against Hispanics with strong accents or, following Hakken (1979), with dark skin. As a result, HDS employed auditors both with and without strong accents and with both light and dark skin.<sup>17</sup> A comparison of the discrimination encountered by auditors with different combinations of these traits revealed no clear pattern based on accent or skin color (Yinger 1995).<sup>18</sup> This result does not prove, of course, that either HDS or any other audit study is immune from this potential flaw. Instead, it indicates that existing studies provide no evidence that auditors encounter a systematically different level of discrimination from other members of their ethnic group—let alone that this potential flaw has resulted in an overestimate of discrimination.

The fourth potential flaw involves sampling. Housing audit studies generally are based on a random sample of the housing units advertised in a major metropolitan newspaper. Thus, as Yinger (1995, 29)

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<sup>17</sup> In the HDS audits, a “strong” accent was one that clearly identified a person as Hispanic but was not so strong as to interfere with communication. A stronger accent would imply, as an anonymous referee pointed out to me, that auditors were not matched on one key trait, and that discrimination could not be differentiated from unfavorable treatment based on poor English communication skills. If a Spanish (or French, German, or Chinese) accent does not interfere with communication, then it is discrimination to consider it in making a market decision.

<sup>18</sup> The HDS audits also revealed no clear pattern in discrimination against Hispanics or blacks in different urban areas (again, see Yinger 1995). Thus, the HDS results do not support the view that discrimination against Hispanics depends on their country of origin, which varies widely across urban areas, or that discrimination against blacks depends heavily on the circumstances in the urban area where they live. However, this issue is different from the one in the text because urban areas, unlike auditors, were randomly selected. Even if discrimination did vary systematically by region, this fact would not lead to bias in HDS estimates of discrimination.

puts it, the results of HDS and most other housing audit studies “describe the treatment black and Hispanic households who are qualified for advertised housing units can expect to encounter when they ask housing agents whether those units are available.” As pointed out by Wienk et al. (1979), among others, these results therefore do not necessarily describe the discrimination encountered by the typical black and Hispanic household.<sup>19</sup>

Thus, the first step in analyzing this potential flaw is to determine the right question for an audit study to ask—and thereby to identify the right sampling strategy. This is a difficult step, and different scholars may come to different conclusions about which approach is best. Newspaper advertisements provide the most complete source of information about available housing and are one of the main housing search resources for both white and black households (Farley 1996; Newburger 1995; Turner and Wienk 1993). In the sales market, both white and black households also rely heavily on real estate brokers, who are often identified through newspaper ads. Moreover, newspaper ads are, as noted earlier, concentrated in white neighborhoods where white households tend to conduct their housing search, and the distribution of housing prices in newspaper ads roughly corresponds to the distribution of income of their main target audience, namely whites. Consequently, the HDS approach, which is based on ads, measures the discrimination that black and Hispanic households would face if they had the same incomes and housing search patterns as whites. In effect, this approach is designed to determine the discrimination these two ethnic groups would face if their incomes and housing search patterns did not reflect wage differentials, residential segregation, and other elements of the legacy of past discrimination.<sup>20</sup> Because the approach focuses solely on current discrimination, I find this question a compelling one to answer.

A second and equally valid question is the amount of discrimination blacks and Hispanics face given their current income distribution and neighborhood locations. If discrimination increases with income, then the HDS approach, with its focus on relatively high-income advertisements, could lead to an overstatement of discrimination as defined by this question. This type of overstatement is emphasized by Thernstrom and Thernstrom (1997):

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<sup>19</sup> Note that the issue here is whether audits are biased because they are based on the “wrong” sample of houses, not because they are based on the “wrong” sample of auditors from a protected class (the previous potential flaw). One way to make this distinction is to add the following phrase to the sentence in the text: “and would not even if auditors were randomly selected from the population.”

<sup>20</sup> The low incomes of Hispanics may also reflect the fact that many of them are recent immigrants. For more on this issue, see the appendix.

[W]hite and black testers are matched for income, but the overall populations we want to draw conclusions about are not. Blacks tend to have lower incomes, and that limits their housing choices, a factor the audit studies ignore. Many African Americans, that is, are too poor to be serious candidates for housing in posh neighborhoods where they might encounter discriminatory barriers (p. 225).

The issue here is not imperfect matching, but whether discrimination occurs in the neighborhoods covered by an audit study—the “posh” neighborhoods in the above quotation—and not (or to a lesser degree) in the lower-income neighborhoods where blacks are more likely to look for housing. If so, then HDS overstates discrimination according to the question that the Thernstroms apparently prefer. Because all households tend to search for housing in nearby neighborhoods, a similar overstatement occurs if black and Hispanic households tend to search for housing in integrated instead of white areas and if discrimination is relatively low in integrated areas.

A third possible question is the level of discrimination that blacks or Hispanics encounter during their actual housing searches. This question may seem straightforward, but in my view it is problematic because the actual search behavior of blacks or Hispanics reflects their perceptions of, and experience with, discrimination (see Courant 1978; Yinger 1997). Suppose, for example, that blacks expect to encounter discrimination on the east side of town and therefore search only on the west side, where they do not expect discrimination. An audit study that was limited to the west side might not find any discrimination, even though discrimination had an enormous impact on the overall housing outcomes of blacks. Thus, I feel it is legitimate to ask how much discrimination the members of an ethnic group encounter given their current incomes and residential locations, but it is misleading to ask how much discrimination they encounter during their actual housing search.<sup>21</sup>

One version of this third approach appears in the work of Heckman (1998):

It was Becker’s insight to observe that finding a discriminatory effect of race or gender at a randomly selected firm does not

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<sup>21</sup> Our knowledge of housing search behavior is too limited to identify all aspects influenced by discrimination. Blacks and Hispanics may, for example, use informal housing information networks either because of their low income or because of anticipated discrimination in formal networks. In my view, therefore, audit studies should stick to clear, simple sampling strategies to make certain they do not inadvertently draw samples that are, in part, defined by discrimination.

provide an accurate measure of the discrimination that takes place in the market as a whole. At the level of the market, the causal effect of race is defined by the marginal firm or set of firms with which the marginal minority member deals. The impact of market discrimination is not determined by the most discriminatory participants in the market, or even by the average level of discrimination among firms, but rather by the level of discrimination at the firms where ethnic minorities or women actually end up buying, working and borrowing. It is at the margin that economic values are set (p. 102).

This line of reasoning leads Heckman to criticize the sampling methods of audits. In particular, he writes that “audit methods monitor discrimination at randomly selected firms within the universe designated for sampling, not the firms where blacks are employed” (p. 112).

This argument has two serious flaws. First, it misses the distinction between an act of discrimination and the impact of discrimination on a particular market outcome. Becker (1957) models the observed market-wage differential between whites and a protected class in the presence of wage discrimination by employers. His analysis is not intended to measure the frequency or severity of employers’ discriminatory acts. As Becker explains, employers with a relatively strong aversion to employees in some class (or, to use Becker’s term, with a high “discrimination coefficient”) will offer such low wages to people in that class that none will accept the employer’s offer. This behavior has no impact on the observed wage differential, which, by definition, involves only employers who hire people in the protected class, but it surely is an act of discrimination as defined by most analysts and by the law. Hence, Heckman’s claim is not correct: Discrimination at a randomly selected firm can provide “an accurate measure of the discrimination that takes place in the market as a whole,” although it does not provide an accurate measure of the impact of discrimination on the observed market wage.

Second, Becker’s argument refers solely to wage discrimination, whereas housing (employment) audits are designed primarily to observe discrimination in access to housing (jobs). If one were to follow Heckman’s recommendation to conduct audits only at firms where members of a protected class were employed or only at housing agencies that were willing to sell or rent to people in that class, not only would one miss evidence of wage and price discrimination that discourages the acceptance of job or housing offers but, even more important, one would miss most instances of discrimination in access—cases in which people were turned away solely because of their membership in a protected class. Indeed, given the extensive evidence of discrimination in access to housing, restricting the sam-

ple to housing agencies that have revealed a willingness, at least under some circumstances, to sell or rent to blacks or Hispanics would result in a dramatic understatement of the incidence of some types of discrimination, such as withholding available units from, or refusing to give mortgage information or special rental incentives to, black and Hispanic customers. As discussed earlier, it is legitimate to ask how much discrimination exists in the sale or rental of housing that members of a protected class can afford, but it makes no sense to ask how much discrimination exists among landlords and real estate brokers (or employers) who have already revealed their willingness to rent or sell to (or hire) people in that class.

Now suppose one wants to ask the legitimate question: How much discrimination do the members of an ethnic group encounter given current incomes and residential locations? Do audits overstate the answer to this question, as claimed by Thernstrom and Thernstrom (1997), among others? Consider first the case of income. Because audit studies rely on a relatively high-income source, normally advertisements, the claim of overstatement could be correct if discrimination increases with income. Evidence from HDS indicates that this is not the case. As shown in table 1, HDS examined discrimination in both the sales and rental markets and found that discrimination against blacks was similar in magnitude in both markets. The sampled units covered a wide price range and a wide range of neighborhood quality, and there was no evidence that discrimination was limited to a certain price range or to neighborhoods with certain average house values or rents—let alone to “posh” neighborhoods. Discrimination against Hispanics was found to be lower in the rental market than in the sales market, but HDS uncovered no evidence that discrimination within either of these markets was higher for some price ranges than for others.

Moreover, the claim that discrimination is lower against lower-income blacks is also not supported by the evidence.<sup>22</sup> In fact, one study, Yinger (1986), finds that discrimination in sales inspections was higher against lower-income blacks. Several other studies, including Ondrich, Stricker, and Yinger (1998), Page (1995), and Yinger (1986, 1995), find that discrimination does not depend on income for many different types of agent behavior. In addition, there is some evidence (Page 1995; Yinger 1995) that certain types of agent behavior reveal lower levels of discrimination against “over-qualified” blacks—that is, against blacks whose incomes are large relative to the rent or sales price of the sampled housing unit. To the best of my knowledge, no study has ever found that discrimination increases with income.

<sup>22</sup> The evidence cited in this paragraph also disproves the Thernstroms' claim that audit studies ignore the role of income.



Now consider the possibility that black and Hispanic home seekers may tend to search in black, Hispanic, or mixed neighborhoods instead of the white neighborhoods where most advertised housing units are located.<sup>23</sup> If discrimination is lower in these neighborhoods, then an audit study based on newspaper ads will overstate the discrimination encountered by the typical black or Hispanic home seeker. Again, the evidence does not support this possibility. In fact, as noted earlier, several studies have found that discrimination is sometimes relatively high in integrated neighborhoods.

In short, the question most audit studies address, namely how much discrimination members of an ethnic group would encounter if they had incomes and housing search patterns similar to those of whites, is a legitimate one. Scholars and policy makers should be interested in the answer to this question, which a well-designed audit study provides. An equally legitimate question is how much discrimination the members of an ethnic group encounter given their current incomes and residential locations. In principle, the answer to this second question could involve either more or less discrimination than the answer to the first question, but extensive evidence from HDS and other audit studies indicates that the answers to the two questions are roughly the same.<sup>24</sup> In other words, audit studies do not understate discrimination even if one poses the second question. Still other questions have been proposed, but, in my view, it is not reasonable to ask how much discrimination is encountered in behavior by a set of economic agents when the composition of that set has itself been influenced by discrimination.

## **Claim 2: Discrimination now has little impact on housing markets**

### **Version 1: Discrimination in housing must be declining**

Discrimination in housing is known to influence many housing market outcomes. In fact, before audits came along, the primary method that scholars used to determine whether discrimination existed was to look for its impact on specific outcomes, such as the degree of ethnic residential segregation and the homeownership rate of blacks and Hispanics (after controlling for the effects of other factors).

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<sup>23</sup> See Turner and Mickelsons (1992) or Yinger (1995) for a discussion of the concentration of housing advertisements in white neighborhoods.

<sup>24</sup> In their analysis of hiring audits for entry-level positions (using young Hispanic and white men as auditors), Kenney and Wissoker (1994) find that discrimination in hiring does not vary a great deal with audit circumstances. This result supports the view that these employment audits accurately measure the discrimination encountered by the typical young Hispanic man looking for an entry-level job.

Some scholars have now gone back to this old method to bolster their argument that discrimination is fading.

Thernstrom and Thernstrom (1997) present evidence that racial residential segregation has steadily declined over the last two decades and conclude that discrimination is no longer a significant barrier for black households:

The claim that the process of exclusion from housing has become more subtle but no less effective is hard to square with the evidence presented in the preceding pages. By every possible measure—and we have examined several—the residential separation of blacks and whites in the United States has diminished substantially over the past three decades. If many real estate agents have “a smiling face” but a bigoted spirit, they have been doing a mighty poor job of keeping blacks out of white neighborhoods (p. 224).

It is true that racial residential segregation has diminished by many measures. For three reasons, however, I do not find this fact to be compelling evidence of the demise of discrimination. First, the recent declines in segregation have been modest in most places. The degree of segregation between blacks and whites, by any measure, remains far above the degree observed between any other two large groups. The best-known measure of segregation for two groups, and one highlighted by the Thernstroms, is the dissimilarity index: It indicates the share of either group that would have to move to obtain an even distribution of the two groups across locations. For the 23 metropolitan areas in the United States with the largest black populations, the average value of the dissimilarity index fell from 78.8 in 1980 to 74.5 in 1990 (Farley and Frey 1993). By contrast, it would be unusual to find a dissimilarity index as high as 30 for one European ethnic group relative to other Europeans (Lieberson 1963, 1980).<sup>25</sup>

Second, it is simply not true to say that segregation has declined “by every possible measure.” Some scholars distinguish among five dimensions of segregation: (1) evenness (which is picked up by the dissimilarity index), (2) isolation, (3) clustering, (4) concentration, and (5) centralization. In a study of 16 highly segregated urban areas (Denton 1994), segregation increased between 1980 and 1990 on three of these dimensions (isolation, clustering, and concentration)

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<sup>25</sup> Thernstrom and Thernstrom (1997) cite higher indexes of dissimilarity between pairs of European ethnic groups—as high as 81 between Italians and Hungarians. But it is not legitimate to compare an index for two small groups with an index for blacks and whites. No recent comparison of one European ethnic group and all other whites yields an index anywhere near 81.

and decreased on two others (evenness and centralization). Moreover, the number of “hypersegregated” areas, defined as those with segregation indexes above 60.0 on at least four of these five dimensions, actually increased from 16 to 19 between 1980 and 1990.<sup>26</sup>

Third, because segregation has several causes, a decline in segregation cannot be interpreted as proof of a decline in discrimination. Thernstrom and Thernstrom (1997) provide, inadvertently perhaps, some examples of alternative interpretations. One example involves the role of income and wealth. After a chapter documenting “The Rise of the Black Middle Class,” they argue that black-white differences in income and wealth provide part of the explanation for black-white segregation. If segregation indexes are high partly because of limits to black households’ income and wealth, measures of segregation will go down when the black middle class grows, *even if the incidence of discrimination in housing remains the same.*

A second example involves the role of ethnic attitudes. The Thernstroms argue, as have several other scholars (see, e.g., Clark 1991 and Patterson 1997a), that black-white residential segregation is partly, if not largely, determined by the attitudes of blacks and whites.<sup>27</sup> After discussing blacks’ and whites’ attitudes toward integration and presenting a simple simulation that generates a high degree of black-white segregation, the Thernstroms conclude that “a considerable amount of residential clustering is likely to continue as long as elements of the population continue to identify as members of racial and ethnic groups and feel some desire to live where other

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<sup>26</sup> This is a net increase. In 1990, two areas were no longer counted as hypersegregated because they had only three indexes above 60.0 and one just below: 59 for Atlanta and 58 for Dallas. The five new hypersegregated areas are Birmingham, AL; Cincinnati; Miami; New Orleans; and Washington, DC. Ten other areas first appeared as hypersegregated in 1990 but were not in the data set in 1980. (See Denton 1994.)

<sup>27</sup> Several other scholars, including Galster (1988) and Yinger (1995, chapter 7), show that this argument is misleading. For example, it ignores the fact that racial attitudes themselves depend on residential integration—and hence on discrimination—and the fact that both blacks and whites have a wide distribution of attitudes, not a uniform preference for particular types of neighborhoods. The Thernstroms’ (1997) version of this argument also makes the factually incorrect claim that “something important is missing from most discussions of residential segregation patterns—the neighborhood preferences of African Americans themselves” (p. 225). In fact, every serious analysis of the topic of which I am aware considers the preferences of blacks. Patterson (1997a) makes the same error when he says, “The answer, which liberal students of segregation repeatedly insist on sidestepping, is that persisting segregation is partly—and for most middle class Afro-Americans, largely—a voluntary phenomenon” (p. 46). Moreover, Patterson omits discrimination from a list of the causes of residential segregation. It is particularly surprising that Patterson takes this position given his clear statement later in the book (pp. 201–2) that racial attitudes are “pliable.”

members of the group live" (1997, 230). Given this analysis, it seems reasonable to suppose that the softening of white prejudice in recent decades, amply documented by the Thernstroms, could explain a decline in segregation. In fact, they seem to say as much: "This change of view would seem conducive to greater neighborhood integration" (p. 228). Hence, their own analysis of attitudes undermines their conclusion that less segregation implies less discrimination.

Discrimination can also have a significant impact on the homeownership rate. Some commentators have seized on a decline in the black-white homeownership gap between 1994 and 1997 as an indication that discrimination is lessening. This interpretation is way off the mark. The black-white homeownership gap is the difference between the white and black homeownership rates, both expressed as a percentage of households. This gap did, indeed, drop from 27.3 percentage points in 1994 to 25.7 percentage points in 1997, when the white homeownership rate was 71.7 percent and the black rate was 46.0 percent. However, the gap was relatively high in 1994 by historical standards. In fact, the 1997 gap was higher than the gap in any year from 1983 to 1987.<sup>28</sup> If a decline in discrimination explains the drop in the gap between 1994 and 1997, does an increase in discrimination explain the jump in the gap between 1988 and 1994? The recent data also reveal that the Hispanic-white homeownership gap stood at 28.5 percentage points in 1994 and 28.6 points in 1997, compared with a gap below 28.6 in seven of the eight years before 1991. This evidence does not support the claim that the discriminatory barriers preventing blacks and Hispanics from buying homes in the past have now been lifted.

As in the case of segregation, a reliance on homeownership data, whatever the trends, also ignores the fact that many factors, including income and number of children, influence the homeownership rate for an ethnic group. Many studies have investigated the determinants of homeownership rates. Studies based on data from 1989 or 1990 include Gyourko and Linneman (1996, 1997) and Linneman et al. (1997). (No published study yet addresses these issues with more recent data.) These studies find that homeownership rates for blacks are significantly lower than homeownership rates for whites, controlling for a wide range of factors. This unexplained gap must be due to discrimination or to some factor that none of these studies has been able to observe.

Some other scholars have pointed to evidence of an increase in loan approvals to blacks and Hispanics as evidence that discrimination

<sup>28</sup> All these figures and the following ones for Hispanics are from the Council of Economic Advisers (1998). Comparable data are not available before 1983.

is lessening. For example, Orlebeke (1997) cites Home Mortgage Disclosure Act (HMDA) data for 1994 (which cover almost all mortgage loans in the country) that indicate a significant increase in mortgage loan approvals for blacks and Hispanics. As in the case of homeownership, however, this short-run change masks a lack of progress by blacks in the longer run. In the case of conventional mortgages for home purchase, the loan rejection rate for blacks was 2.07 times the rate for whites in 1991 and 2.05 times the rate for whites in 1997.<sup>29</sup> Some decline in the Hispanic-white loan rejection ratio occurred over this period, however, from 1.74 to 1.47.

Moreover, loan rejection rates are influenced by many factors in addition to discrimination. Indeed, the strength of the so-called Boston Fed Study (Munnell et al. 1996) is that it was able to control for a wide range of factors—including, for the first and only time, applicant credit history—in explaining the difference between the denial rate for whites and that for blacks and Hispanics. Even after controlling for all these factors, the black/Hispanic denial rate was 1.8 times the rate for whites. The HMDA data do not contain information on credit history, so they cannot provide an estimate comparable to that of the Boston Fed Study. Still, it is instructive to note that the black-white denial ratio was higher for applicants with incomes between 100 and 119 percent of their area's average (2.095) and for applicants with incomes 120 percent or more of their area's average (2.466) than for the average applicant (2.054).<sup>30</sup> Hence, the decline in the Hispanic-white loan denial ratio between 1991 and 1997 could be due to a decline in discrimination against Hispanics, but it could also be due to an increase in Hispanics' incomes or to a decline in the number of unqualified Hispanics who apply for a loan. Similarly, the black-white denial ratio over this period could remain unchanged despite a change in discrimination against blacks, in either direction, if this change were offset by a change in some other variable.<sup>31</sup>

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<sup>29</sup> The 1991 figures are presented in Yinger (1995); the 1997 figures come from the Federal Financial Institutions Examination Council (FFIEC) (1998).

<sup>30</sup> These figures are from FFIEC (1998). For more on interpretation of the HMDA data, see Goering and Wienk (1996), Munnell et al. (1996), or Yinger (1995).

<sup>31</sup> In fact, some evidence suggests that the black-white denial ratio would have increased and the Hispanic-white denial ratios would have decreased less or even increased except for the fact that blacks and Hispanics, far more than whites, increased the share of their applications going to high-cost lenders, where the black-white and Hispanic-white denial ratios are relatively low. (See FFIEC 1998.) For example, the share of black (white) applications going to high-cost lenders went from 29.6 percent (14.6 percent) in 1993 to 65.7 percent (35.4 percent) in 1997. Moreover, the 1997 black-white denial ratio was 1.27 for high-cost lenders compared with 2.28 for low-cost lenders. In other words, blacks may have held the line on the denial ratio only by shifting to higher-cost loan products.

Finally, some scholars assert on the basis of informal evidence that discrimination must have declined since 1989, when HDS was conducted. Because the HDS data were collected before the U.S. Department of Housing and Urban Development (HUD) and the Justice Department could implement the new enforcement powers granted them under the 1988 amendments to the Fair Housing Act, Orlebeke (1997) concludes that “the real estate industry today is much more aware of the risks of getting nailed for discriminatory behavior than it was in the seventies and eighties” (p. 182).<sup>32</sup> Since 1990, landlords have paid roughly \$95 million in settlements and damages as a result of lawsuits brought by private fair housing groups (Fair Housing Center of Metropolitan Detroit 1998) and roughly \$7 million in settlements and damages as a result of lawsuits brought by the Justice Department (Reno 1998). To some degree, these payments reflect the power of the new enforcement provisions in the 1988 amendments, and they may have promoted a new awareness of the penalties for discriminating. However, these payments also provide evidence of how much discrimination still occurs. Moreover, despite recent improvements, the fair housing enforcement system still touches only a small fraction of the real estate transactions in the country, usually in response to complaints about possible discrimination, and no formal evaluation of its effectiveness has yet been attempted.<sup>33</sup> So discrimination might have declined since 1989, but the presence of the 1988 amendments hardly constitutes proof.

In addition, results from other audit studies conducted as recently as 1997 are now available, and they find no sign of a downward trend in discrimination. A detailed comparison of the HDS results with those of the 1977 national study (Wienk et al. 1979) reveals no clear evidence of a trend in either direction (Yinger 1995). Moreover, the evidence that has become available since HDS shows no sign of a trend since 1989, either. Recall that the comprehensive index of discriminatory behavior calculated for HDS placed the incidence of discrimination at about 50 percent for both blacks and Hispanics in both the sales and rental markets using a simple gross measure. Between 1993 and 1997, fair housing groups have conducted several audit studies that summarize discrimination using a similar index. In particular, black-white audits have been conducted in five metropolitan areas (Fresno, CA; Montgomery, AL; New Orleans; San Antonio; and Washington, DC), and Hispanic-white au-

<sup>32</sup> Orlebeke (1997), which is a review of Yinger (1995), also concludes that “Yinger relies heavily—perhaps too heavily—on the 1989 research results to support his general conclusion that the treatment of minorities in housing transactions has seen little or no improvement” (p. 182).

<sup>33</sup> For a detailed analysis of the fair housing enforcement system, see Yinger (1995).

ditions have been conducted in three areas (Fresno, CA; San Antonio; and Washington, DC). These studies found that the incidence of discrimination in rental housing was at least 50 percent (and up to 77 percent) against both blacks and Hispanics in the first four areas, and about 40 percent against blacks and Hispanics in the sales and rental markets in the Washington, DC, area. (See Central Alabama Fair Housing Center 1996; Fair Housing Action Center 1996; Fair Housing Council of Fresno County 1995; Fair Housing Council of Greater Washington 1997; and San Antonio Fair Housing Council 1997.) These audit studies have not yet been evaluated in a scholarly study, but they follow procedures similar to the many audit studies that preceded them, and they do not support the claim that housing discrimination is disappearing.

## **Claim 2: Discrimination now has little impact on housing markets**

### **Version 2: Discrimination in housing is no longer worth worrying about**

Another version of the second claim is that some discrimination may be occurring, perhaps even frequently, but because it involves relatively unimportant events, such as not calling a customer back the next day, it has a minimal impact on urban housing markets. This view is reflected, for example, in the sarcastic comment by Thernstrom and Thernstrom (1997), cited earlier, that real estate brokers “have been doing a mighty poor job of keeping blacks out of white neighborhoods.”<sup>34</sup>

Results from audit studies indicate that blacks and Hispanics are rarely denied access to housing altogether, but the studies do not, by themselves, indicate the extent to which discriminatory behavior by landlords and real estate brokers forces black and Hispanic households to settle for housing that is inferior to the housing acquired by comparable whites or otherwise alters housing market outcomes for these groups. As a response to this claim, I will briefly describe one method that builds on the HDS results and other information to estimate the magnitude of the cost that discrimination imposes on black and Hispanic households, and I will present some estimates based on this method.<sup>35</sup> These estimates are by no means

<sup>34</sup> Although he focuses on employment, Heckman (1998, 101) concludes that “discrimination is no longer a first-order quantitative problem in American society”—despite his own finding that audits could either over- or underestimate discrimination.

<sup>35</sup> Yinger (1995, chapter 7) also presents an analysis of the cumulative impact of discrimination on housing market outcomes. This analysis has been criticized by Thernstrom and Thernstrom (1997). A discussion of the issue they raise is presented in the appendix.

the final word on this subject, but they do provide some perspective on the continuing detrimental effects of housing discrimination.

Discrimination in housing increases a household's search costs and may force it to settle for a house that yields less satisfaction than the house it would have obtained in the absence of discrimination. One approach to measuring the cost of discrimination, therefore, is to determine what households would be willing to pay to avoid it—that is, to avoid the higher search costs and lower-valued outcomes that are its result. Yinger (1997) implements this approach by expanding a housing search model developed by Courant (1978). Courant's model uses basic microeconomic concepts to determine the value a household places on a housing improvement obtained through a housing search process, which is initiated whenever the household experiences a change, such as a new child or an increase in income, that alters its demand for housing. In the expanded version of this model, discrimination lowers the gain from housing search in several ways: It (1) restricts information about available housing, (2) makes the housing search more unpleasant and time-consuming, (3) makes it more difficult to find information about a mortgage, (4) increases the odds that a mortgage application will be turned down, and (5) may add to the cost of moving. The cost of discrimination is the sum of the lost value from all these effects, after a household has altered its behavior to minimize their impact. To put it another way, the cost of discrimination is the total amount a household would pay to avoid it.

Using estimates of discrimination from HDS (based on the relatively conservative net measures), Munnell et al. (1996), and other sources, along with data on households' demand for housing from the Michigan Panel Study on Income Dynamics, Yinger (1997) calculates the loss in value that black and Hispanic households experience because of current discrimination. The resulting estimates are by no means definitive or comprehensive. The calculations are complex and require several assumptions that cannot be tested. Moreover, this approach does not consider the societal costs that accompany intergroup mistrust and hostility. Nevertheless, this approach provides the first rough estimate of the magnitude of housing discrimination's impact on housing markets.

The base-case results are as follows. When an event induces a black household to search for a house to buy, it must pay, on average, a discrimination "tax" of roughly \$3,700. The implied total cost of discrimination for all black households—owners and renters—comes to almost \$3 billion per year. The comparable cost for Hispanic households is roughly \$1.7 billion per year. These costs are certainly large enough to warrant concern.



### **Claim 3: Fair housing enforcement no longer has an important role to play in aiding black and Hispanic households**

The last claim I will consider—that fair housing enforcement no longer has an important role to play—brings the discussion to questions of public policy. This final claim takes several forms, the most common of which is to belittle the role of “race” in determining the poor social and economic outcomes of blacks and to dismiss race-related policies, including civil rights enforcement, as solutions. The argument that we should focus on class, not race, has been around for some time, at least since Wilson (1980). Thernstrom and Thernstrom (1997) make their position on this point clear: “Poverty more than race is the problem that leaves too many African Americans trapped in dilapidated neighborhoods” (p. 231). They go on to dismiss policies that promote mobility for the urban poor—black or white—and do not mention fair housing enforcement in a 230-page discussion of policy alternatives.

Heckman (1998) joins this chorus, with an explicit connection to policy:

At this time, the goal of achieving black economic progress is better served by policies that promote skill formation, like improving family environments, schools, and neighborhoods, not by strengthening the content and enforcement of civil rights laws—the solution to the problem of an earlier era (pp. 101–2).

I strongly disagree with this argument for two reasons. First, the principle that no citizen should face unfavorable treatment in the housing market (or any other market) because of the ethnic group to which he or she belongs is central to the success of our diverse democracy. We cannot promote equal opportunity if some citizens’ access to certain housing is denied or constrained solely because of their ethnicity. Although this principle was codified into law with the 1968 Fair Housing Act, this act gave the federal government only minimal enforcement powers.<sup>36</sup> The Justice Department was given the authority to prosecute cases involving a “pattern and practice” of discrimination or an issue of broad national interest, but it could not levy fines. HUD was given the authority to conciliate individual discrimination complaints—but only if both parties agreed. The main burden of enforcement, therefore, fell on individuals, who could file a civil suit against an alleged discriminator, but who might have to wait many years and pay extensive lawyers’ fees before their case was decided.

<sup>36</sup> According to a 1968 Supreme Court decision, this principle was also codified in an 1866 civil rights act. (See Schwemm 1992 or Yinger 1995.)

The Fair Housing Amendments Act of 1988, passed with broad bipartisan support and signed by President Reagan, greatly strengthened the fair housing enforcement system. This act expanded the powers of both Justice and HUD. For example, it instituted fines for people convicted of housing discrimination and gave HUD the authority to initiate investigations, with audits among other tools, instead of relying entirely on individual complaints.<sup>37</sup> The federal government has made progress in learning to use these new enforcement powers, and it would be both tragic and profoundly ironic if this nation decided to back away from enforcing its fair housing laws shortly after it had finally implemented a reasonable enforcement system.

Second, this argument ignores the central role of ethnic discrimination in perpetuating income disparities. In most cases, a family can send its children to schools only in the district in which it lives. Consequently, discrimination in housing plays a key role in restricting the access of blacks and Hispanics to good schools (see Orfield and Eaton 1996; Yinger 1995). As a result, housing discrimination reinforces the skill differentials that are so central to income differentials. Housing discrimination also plays an important role in limiting the access of blacks and Hispanics to jobs. This is, of course, the well-known spatial mismatch hypothesis (see Kain 1992; Ross 1998; Yinger 1995). In one study of this hypothesis, Ihlanfeldt and Sjoquist (1990) found that black youths' poor access to jobs in Philadelphia explained about one-third of the black-white youth unemployment gap. Housing discrimination also helps confine many black and Hispanic households to high-poverty neighborhoods, where, even after controlling for family characteristics, children are more likely to participate in crime, drop out of school, have a child out of wedlock, or be unemployed (Brooks-Gunn, Duncan, and Aber 1997; Mincy 1994).<sup>38</sup> Galster (1991) provides an empirical investigation of the discriminatory system as a whole and shows that housing discrimination has a significant impact on school segregation and poverty.

I have no quarrel with the argument that intergroup income differences continue to be a major problem in this country and that we should adopt effective, nondiscriminatory policies to help eliminate them. But critics of civil rights enforcement have underestimated

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<sup>37</sup> For detailed discussions of the 1988 amendments, see Schwemm (1992) or Yinger (1995).

<sup>38</sup> In addition, several audit studies of hiring practices have documented continuing discrimination against young black and Hispanic men, which directly contributes to existing income differentials (see Bendick, Jackson, and Reinoso 1994; Bendick et al. 1993; Cross 1990; Mincy 1993; Turner, Fix, and Struyk 1991). For a critique of these studies, see Heckman and Siegelman (1993). See also Yinger (1993b).

its potential role in lowering these disparities and have not provided convincing evidence that other effective policies are available.<sup>39</sup> Indeed, one of the most popular policies, namely training programs, has proven to be remarkably ineffective (see Bloom et al. 1993). The jury is still out on the long-run effects of welfare reform, and the federal government has a limited role in some key realms, such as elementary and secondary education. The evidence does not prove that enforcing civil rights laws is more effective than all other policies as a way to eliminate intergroup social or income differences. Indeed, no comparable benefit-cost analysis of alternative policies is possible with currently available evidence. However, the evidence does demonstrate that discrimination in housing, and perhaps in other markets, continues to be an important part of the system that results in intergroup income disparities. As a result, any program to combat these disparities should include, among other policies, improved enforcement of laws against discrimination in housing.

In short, it simply makes no sense to separate discrimination from ethnic income differentials. Extensive evidence supports the conclusion that housing discrimination helps perpetuate these differentials and that fair housing enforcement has a key role to play in bringing the incomes of various ethnic groups closer together.

## Conclusions

Thernstrom and Thernstrom (1997) and Patterson (1997a) document the economic and social progress that black and Hispanic households have experienced over the past several decades. The signs of progress are real and important, and I have no quarrel with the view that people in these two protected classes have experienced gains that are, by the standards both of our society and of the world, very impressive. While these authors also acknowledge that this progress has been minimal at best for some—particularly for blacks and Hispanics at the bottom of the income distribution—they do not recognize the important role played by ongoing ethnic discrimination, particularly in housing.

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<sup>39</sup> As Heckman (1998, 101) puts it, “A careful reading of the entire body of available evidence confirms that most of the disparity in earnings between blacks and whites in the labor market of the 1990s is due to the differences in the skills they bring to the markets, not to discrimination within the labor market.” However, even if one agrees with Heckman that *labor* market discrimination is not a key cause of the continuing earnings disparity, *housing* market discrimination, through its impact on access to schools, clearly has an impact on the skills various groups bring to the labor market.

The evidence reviewed in this article shows that ethnic discrimination in housing markets is a common experience for blacks and Hispanics and that the cumulative cost of this discrimination is still quite high. Moreover, this discrimination still constrains the ability of many black and Hispanic people to go to good schools, to find jobs, and to accumulate home equity. There is no contradiction in saying that we have made great progress but that ethnic discrimination remains a serious problem, worthy of our nation's attention. Indeed, improved enforcement of fair housing legislation not only promotes principles that are at the heart of our democracy but also attacks one pillar of the system that perpetuates large ethnic disparities in earnings and wealth. The fight against housing discrimination needs to remain high on our national agenda.

### *Appendix*

#### *The cumulative impact of housing discrimination*

Thernstrom and Thernstrom (1997) criticize one aspect of Yinger's (1995) analysis of the link between discrimination and housing market outcomes:

Although Yinger presents useful information on the housing market, much of his analysis is simplistic and ideologically driven. The author habitually attributes differences in socioeconomic status to discrimination without considering other explanations. The most egregious example is his discussion of Hispanic patterns of homeownership. Starting from the bizarre assumption that Hispanic households today would have the same homeownership rate as non-Hispanic whites but for "past and present discrimination" (107), Yinger estimates that discrimination has reduced the "housing wealth" of Hispanics by \$200 billion. This ludicrous calculation completely overlooks the point that much of the huge recent increase in the Hispanic population has been due to immigration, and that the typical Latino immigrant to the United States arrives with little education and no command of English, both serious handicaps in the labor market (p. 589n. 39).

In fact, however, the methods discussed in Yinger (1995)—both the audits and various other methods—are designed to separate the role of current discrimination from the role of other factors. The audit methodology explicitly accounts for income, age, timing, customer behavior, and a variety of other factors in order to isolate differential treatment based solely on membership in a protected class. Yinger (1995) also cites other research designed to isolate discrimination by controlling for other determinants of the behavior in question. For example, Wachter and Megbolugbe (1992) carefully

control for the impact of group endowments and other factors on homeownership to isolate the impact of discrimination. Munnell et al. (1996) control for the impact of credit history and other factors on loan denial to isolate the potential role of discrimination.

The specific calculation the Thernstroms criticize is designed to help the reader interpret an analysis of current discrimination by exploring accumulated ethnic differences in homeownership and housing wealth. Chapter 6 of Yinger (1995) is devoted to calculating the cost of current discrimination using the method described in the text. The calculations concerning the cumulative cost of discrimination in chapter 7 are intended to “add perspective to the earlier result that current discrimination alone imposes an annual cost of about \$2.6 billion on black households and \$1.5 billion on Hispanic households” (p. 107). (These results differ slightly from the ones in the text because they are based on an earlier implementation of the method.) After converting these annual costs of current discrimination into their asset equivalents, Yinger goes on to say, “Roughly speaking, therefore, current discrimination as observed by HDS and the recent mortgage discrimination studies accounts for one-fifth to one-fourth of the gap in housing wealth between whites and minorities, and past discrimination, including discrimination in markets other than housing, accounts for the rest” (p. 108). This rough estimate is consistent with evidence from studies such as Wachter and Megbolugbe (1992).

Moreover, the specific issue the Thernstroms raise, namely a failure to consider the incomes of immigrants, is actually discussed at length in Yinger (1995):

These calculations are, of course, hypothetical, because we cannot observe what the world would be like without discrimination. Even if the many blacks who came to this country as slaves had migrated here of their own free will, they probably would have had lower skills and incomes than the average white American. . . . This lower income probably would have had some wealth consequences for a few generations, but without discrimination there is no reason to believe that these wealth consequences would have persisted until today. Income and housing wealth differences across American citizens with ancestors from different European ethnic groups are small relative to the differences between blacks and whites . . . despite the fact that many of the immigrants in some of these groups were very poor when they first entered the United States (pp. 311–312n. 5).

In other words, Yinger recognizes that income differences for immigrants upon arrival in the United States have implications for

homeownership, but that these initial differences fade in the absence of discrimination. For any group dominated by families that have been in the United States for many generations, including blacks, factors other than discrimination are likely to play a very small role in current disparities in homeownership and housing wealth. This point explains why my simple calculation helps provide perspective on the role of current versus past discrimination. This calculation is obviously more difficult to interpret for groups, such as Hispanics, with many recent, poor immigrants. The Thernstroms apparently believe that the problem of interpretation makes the calculation “ludicrous.”<sup>40</sup> I believe that, appropriately qualified, this calculation helps add perspective to an analysis of current discrimination. It shows that, for both blacks and Hispanics, the cumulative impact that all forms of discrimination have on housing wealth could be as much as four or five times the impact that would arise from ongoing discrimination at the levels we currently observe in housing markets.

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<sup>40</sup> Actually, Thernstrom and Thernstrom (1997) go even further in criticizing Yinger’s calculation. They write, “Yinger apparently believes that if a 22-year-old Mexican immigrant with eight years of schooling and no English who arrived in San Diego three years ago does not own a home and a 50-year-old native-born white college graduate does, that is proof of discrimination against Hispanics in the housing market” (p. 589). I do not believe this, and my calculations do not imply it.

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