In July 1989 a 42-year-old African American woman, married with children, visited a real estate office in the suburbs of Washington, D.C., to inquire about a house that had been advertised in The Washington Post. Her family’s income of $125,000 was more than enough to qualify for a mortgage on this $189,900 house. The real estate broker told her that the advertised house had been sold and that no similar units were available at that time. The agent, an older white woman, did not invite this customer to call again.

Later that same afternoon, a somewhat younger white woman, also married with children and with a family income slightly below $125,000, visited the same real estate broker to inquire about the same house. Her search was considerably more successful. She too was informed that the advertised unit had been sold, but the broker then took her to inspect four similar houses in the same price range, all of which were still on the market. Moreover, this white customer was invited to call back later for more information and the broker offered to help her find a mortgage.

Across the country in the suburbs of Tucson, a 36-year-old Hispanic man visited a real estate office one morning in June 1989 to ask about another advertised house. The house was just the right size for himself, his wife, and his children, and with a family income of $64,000, he could afford the $89,000 sale price. The real estate broker, who was a middle-aged woman, showed him the advertised house, which was in a neighborhood where half of the residents were Hispanic, and told him that it was still available. She went on to tell him, however,
that she knew of no other houses currently for sale in the same price range.

This same agent had told quite a different story to a non-Hispanic white customer the previous afternoon. This 35-year-old white man, also married with children and with a family income somewhat below $64,000, not only was shown the house in the advertisement but also was shown six similar houses in the same price range, all available to be purchased.

These true stories illustrate the unfavorable treatment that African American and Hispanic American households often encounter when they search for a place to live. The problem is not confined to Washington, D.C., and Tucson; it appears in apartment rentals and condominium purchases, as well as in the sale of single-family houses; it shows up in many different types of actions by both housing agents and lenders; and it imposes high costs both on minority households and on society at large. This book documents the extent of racial and ethnic discrimination in housing and mortgage markets, explores the social and economic consequences of this discrimination, and designs a comprehensive set of antidiscrimination policies for the federal government.

Housing discrimination plays a crucial role in a complex social system that produces racial and ethnic animosity and economic disparities. Unfortunately, this role has often been neglected by scholars and policy analysts. For example, an otherwise excellent textbook on poverty and discrimination, now in its fifth edition, does not even mention discrimination in housing. In addition, a supposedly comprehensive exploration of social and economic conditions facing African Americans, commissioned by the National Academy of Sciences, devotes only two paragraphs to discrimination in housing and only eight pages to housing attitudes and residential segregation in a 550-page report issued in 1989. Recently, a few scholars have begun to redress this balance, but the importance of housing discrimination is still not widely known.

This book will show not only that housing discrimination continues to be widespread but also that it makes a powerful contribution to the racial and ethnic disparities that cause this nation so much pain. The book’s foundation is evidence from a recent national study of housing discrimination, a study based on new research techniques that make it possible to compare the treatment that equally qualified minority and white households receive when they inquire about available housing. The results are striking. Compared to their white counterparts, African American and Hispanic homeseekers are shown far fewer houses and apartments (and indeed sometimes excluded from available housing altogether), given far less assistance
in finding the house or apartment that best fits their needs and in finding a mortgage, and are steered to neighborhoods with minority concentrations or low house values.

Other recent research reveals that real estate agents discriminate in the marketing of housing in largely minority neighborhoods, that lenders discriminate against minorities in pre-application procedures, that black and Hispanic mortgage applicants are more likely than comparable white applicants to be turned down, and that both mortgages and home insurance are difficult to obtain in many minority neighborhoods. All this discrimination drastically restricts the choices of African American and Hispanic households who want to move, contributes directly to large racial and ethnic disparities in homeownership and housing quality, and helps to maintain extensive residential segregation in most urban areas.

This book also documents the fact that continuing housing discrimination has an influence far beyond the costs it imposes on individual minority households. Through its impact on residential segregation, for example, housing discrimination is a key cause of extensive segregation in elementary and secondary schools. Despite decades of federal desegregation efforts, minority children are still heavily concentrated in largely minority schools in which most of the students come from disadvantaged backgrounds, and significant racial and ethnic disparities in dropout rates and educational achievement continue to exist.

Housing discrimination also contributes to minority-white disparities in labor market outcomes. The lines of influence flow not only through housing discrimination's impact on educational disparities, which translate into lower wages and employment rates for minorities, but also through the spatial mismatch that arises when housing discrimination restricts minority households' access to suburban neighborhoods and job opportunities. Thus, a full explanation of minority-white disparities in employment, income, and poverty must recognize the important role played by housing discrimination.

The social costs of this discrimination are very high, not only for the minority households who encounter it, but also for the nation as a whole. Intergroup hostility and distrust place a clear drain on our time and resources, and in today's competitive international economy, we can hardly afford a system that undermines the productivity of so many of our citizens.

**RACE AND ETHNICITY**

Because the topic of this book carries so much emotional power, it is crucial to begin with careful definitions of the terms *race* and *eth-
nicity. These definitions contain something of a surprise: Despite its focus on racial and ethnic divisions, this book is not, in one important sense, about race or ethnicity at all. As we will see, race and ethnicity are important symbols that influence social and economic outcomes, but neither term in its literal meaning is connected to the system of discrimination.

Race

Strictly speaking, the term race refers to a group whose members share certain inherited physiological characteristics. Many of these characteristics, including skin color, hair texture, and the shape of facial features, are easily observed, but scholars have also identified other less obvious characteristics that differ across races. However, none of the physiological characteristics associated with different racial groups have anything to do with a person’s abilities or skills in meaningful human endeavor.

Many people balk at this claim. Racial differences are perceived as important because some racial groups achieve more success, on average, than others, or are more likely than others to engage in socially productive activities. A recent book, for example, draws on intelligence test results to feed the perception that blacks are inherently less intelligent than whites. But if one carefully untangles the role of race itself from the role of the environment in which a person grew up and of the external constraints he or she faces, the evidence to support this claim is overwhelming. Despite lower test scores for blacks than for whites, there is no scientific basis for the claim that some races are inherently less intelligent than others.

The strongest evidence comes from the study of human genetics. No two individuals, except identical twins, have the same genes, but the frequency of some genetic features varies systematically from one location to another. The gene frequencies in the people born in a particular location are the product of two offsetting processes. The first process is genetic differentiation. Going back far enough in time, all human beings are descended from Africans. Different racial groups evolved; that is, genetic differences across people arose, as some people migrated within or outside of Africa and became isolated from those who stayed behind. Isolation made it possible for genetic differences to arise due to “genetic drift or natural selection to different environmental conditions.” Skin color is an example of an adaptation to environmental conditions, and in particular it is a “good indicator of past climate.”

The second process, which to some degree offsets the first, is ge-
netic mixing, which occurs as the people from one location, who draw on one pool of genes, expand into other locations and mix with people who draw on another pool of genes. Although some genetic differentiation can still be observed across people, there have been so many human expansions in so many directions that currently recognized racial groups represent centuries of genetic mixing, with a large share of the remaining genetic variation associated with differences in climate. Indeed, recent sophisticated research into human genetic patterns reveals that "All races and ethnic groups now seem to be a bewildering array of overlapping sets and subsets that are in a constant state of flux." According to some leading scholars, widespread understanding of this genetic research would "undercut conventional notions of race and underscore the common bonds between all humans." To be more specific, population movement within Africa produced three of the six primordial racial groups identified by some scholars. Although all three of these groups have dark skins, two of them, the Pygmies and the Khoisan (represented by the Bushmen), have very small populations today, and most African people around the world are drawn from the third, called blacks. The first great migration of "anatomically modern" humans out of Africa began about 100,000 years ago. This migration took people to Europe; to Asia, where Asians, another one of the six broad racial categories, evolved; and eventually to Australia and the Americas.

Recent genetic research reveals that Europeans, who fall into the broad racial group usually called whites, did not begin to emerge until about 30,000 years ago and that their immediate ancestors were roughly 65 percent Asian and 35 percent African. Moreover, this research makes it possible to observe the genetic legacy of some of the human expansions that ultimately produced Europeans. The first of these expansions began about 10,000 years ago, as people from the Middle East migrated to Europe after they had developed the farming of cereals and the domestication of animals. A second expansion started about 5,000 years ago, as pastoral nomads from the Russian Steppes, who learned how to raise horses and developed new modes of warfare, spread in several directions, including into Europe. Between 4,000 and 2,400 years ago, Greeks, who had developed new methods of navigation and trade, also expanded into Europe. The genetic makeup of modern Europeans reflects the influence of all these expansions, and perhaps others.

Human migration and genetic mixing have not, of course, been confined to prehistoric times, and events in more recent years reinforce the claim that genetic differences across races, as such, are
insignificant. Although anthropologists have developed various schemes for identifying racial groups, each group inevitably is diverse, and the boundary lines between the groups are arbitrary. Moreover, just as the genetic makeup of currently identified racial groups was produced by the mixing of different groups in the distant past, the racial ancestry of the people in any given location today typically is mixed through sexual contact between people from different racial groups.

In the United States, for example, scholars have estimated that at least 80 percent of African Americans have some European ancestors. Most of this mixing occurred in the past because of sexual contact, often forced no doubt, between white slave owners and their African American slaves. A smaller, but growing source, is interracial marriage. Most people with this type of mixed ancestry have dark skin and are considered to be African Americans, but the fact is that many of them have a genetic makeup that is virtually indistinguishable from that of someone whose ancestors all came from Europe.

The racial ancestry of so-called white Americans is not as homogeneous as many people believe. Some scholars estimate that as many as one-quarter of Americans classified as "white" may have at least one African ancestor. Moreover, some people whose ancestors lived in northern Africa before Europeans colonized the continent have very fair skin and are classified by scholars as whites, as are many people who live in the Middle East. Thus, not all whites or even all white Americans have European ancestry.

Overall, the concept of race is elusive: because of the ongoing and widespread mixing of human genes, human beings around the world draw on virtually the same genetic pool. A few physiological differences, most of which arose as adaptations to different climates, can be associated with broad racial groups, but "racial differences are minor biological variations in an essentially homogeneous species." To put it another way, "despite the obvious physical differences between people from different areas, the vast majority of human genetic variation occurs within populations, not between them."

**Ethnicity**

Ethnicity has to do with cultural differences among people, such as differences in language, religion, dress, or customs. In many cases, these traits are associated with the country from which a person's ancestors originated. This book examines the treatment of one major ethnic group, namely, Hispanic Americans. "Hispanic" is an ethnic, not a racial designation. In fact, Hispanic Americans have a di-
verse racial makeup. Some of them have European ancestors, some Native American ancestors, some African ancestors, and others ancestors from more than one of these racial groups. Instead, the term Hispanic is intended to identify people who can trace at least some of their ancestors back to “Hispania,” a name for the Iberian peninsula on which Spain and Portugal are located, usually through South America, Central America, or the Caribbean, and who retain some connection with the language, religion, or customs of their ancestors. Because it encompasses the cultures of so many countries, twenty-three by one count, the Hispanic designation masks great cultural variety.

A person’s ethnic identity may influence his or her preferences or choices or training, but it has no connection with inherent abilities. All ethnic groups draw on essentially the same human genetic pool. Moreover, this country has long gained strength from its diverse ethnic heritage and the resulting variety of approaches to the challenges of human existence. Just as race, as such, proves to be unimportant, ethnicity, as such, cannot explain why some people are the victims of prejudice and discrimination.

The Social Reality of Race and Ethnicity

In another important sense, this book is about race and ethnicity. Even though race and ethnicity in their most literal sense cannot explain deep divisions among people, race and ethnicity both provide means for distinguishing among people and can become powerful symbols for a history of conflict, oppression, and mistrust. These symbols have power whenever they influence the way people are treated, that is, when they have social reality. This book could be thought of as testimony about the power of race and ethnicity as symbols in the United States.

Few places on earth have escaped some sort of conflict along racial or ethnic lines, and the newspapers are full these days of tragic examples of this type of conflict. Many human beings appear to have a need to feel superior to people who somehow differ from themselves and, if possible, to translate this feeling into economic and social domination. Because skin color and other visible physiological differences are easily observed, they often provide a way to identify a group that is believed to be inferior. Ethnic distinctions, such as language or mode of dress, sometimes serve the same purpose. Of course, different racial and ethnic designations gain power in different societies.

Millions of Africans were brought to the United States as slaves,
and their descendants have experienced centuries of mistreatment and relative deprivation. The legacy of this oppression is an African American population with far fewer skills and resources, on average, than those of the average American of European descent and sometimes with self-destructive or socially unacceptable behavioral responses to mistreatment, actual or anticipated. This legacy gives great power to skin color as a symbol. Many whites perceive the relatively low success of the average African American, conclude that African Americans are inferior, develop an anti-black prejudice, and sometimes discriminate against them. Most African Americans perceive that they are treated unfairly, at least some of the time, because of their race, and must develop coping mechanisms. Behavioral responses by some African Americans to their past and current mistreatment, which include turning to drugs or to violence, also serve to reinforce this cycle. There is no reason to believe that African Americans are any more likely than members of other groups to respond to a history of deprivation or mistreatment by engaging in self-destructive or antisocial behavior. However, responses of this type by whites do not have the same symbolic power as those of blacks because they do not feed the stereotypes that are at the heart of our racial divisions. This troubling asymmetry is part of the legacy of our racist past.

The power of race as a symbol in the United States is also demonstrated by the fact that individuals with any visible physical traits that appear to be African, primarily dark skin, are treated as black, regardless of their overall genetic makeup. Individuals with three white grandparents and one black grandparent, for example, often have brown or light brown skin and are treated as blacks. This has been called "the one-drop rule," which defines as black a person with as little as a single drop of "black blood." Other societies, which have different histories, do not define "black" so broadly. For example, "race in the Caribbean is perceived as a spectrum running from white to black"; and in South Africa during apartheid, clear legal and social distinctions were made between "blacks," whose ancestors are all African, and "coloureds," whose ancestors are a mix of Africans and Europeans.

The history of the United States has also given power to the "Hispanic" ethnic identity as a symbol. Although the so-called Hispanic population is diverse, both racially and culturally, many Hispanic Americans can be identified by their accent or surname or by an appearance revealing that some of their ancestors were Native Americans or Africans. The power of Hispanic ethnicity as a symbol draws not only on the nation’s history of oppressing Native American and
African American people but also on the history of conflicts between European American workers and immigrants from Mexico and other parts of Latin America.\textsuperscript{43} The diversity of the Hispanic population ensures that Hispanic identity plays a more important role for some Hispanic groups than for others; nevertheless, our society has given enough power to this symbol to justify a focus on "Hispanics" as a whole.\textsuperscript{44}

**Terminology, or Talking about Race and Ethnicity**

The power of race and ethnicity as symbols is demonstrated by the ongoing debate about the right terms to use. Terms themselves sometimes become symbols of oppression, and the debate about terms sometimes seems as heated as the debate about public policy to combat discrimination. During the late 1960s, the term Negro came to be a symbol of oppression to many African Americans and was gradually replaced in public discussion by the term black.\textsuperscript{45} Many scholars and commentators now use the term African American instead of or in addition to black.\textsuperscript{46} This book uses African American and black as synonyms.

Given the mixed racial ancestry of most African Americans, and indeed of many groups in the United States, the Census Bureau recently has been debating whether to add a "multiracial" category on decennial census forms and other government documents.\textsuperscript{47} It may seem that those who favor a multiracial category are emphasizing the biological definition of race whereas those who oppose it are emphasizing the social definition. After all, many people in this country do have multiracial backgrounds in the biological sense, but thanks to the "one-drop rule," people whose multiracial background includes African ancestors usually are treated as black. Since any set of racial categories exaggerates the biological differences among people, this debate is really about whether official labels magnify existing social divisions by giving them more credibility or help eliminate these divisions by bringing attention to the economic and social disadvantages some groups face.\textsuperscript{48} For many purposes, it is valuable to acknowledge the growing number of people in this country with diverse racial backgrounds, but I believe that adding a multiracial category to the census at this time would obscure the severe social and economic disparities that continue to exist in this country between blacks and whites as traditionally defined.

*Hispanic* is a term used by the U.S. Bureau of the Census to identify people in the many groups with ancestry that traces back to *Hispania,*
including Mexican Americans (also called Chicanos), Puerto Ricans, Cubans, and immigrants from Central and South America. Some people called Hispanic by the census object to Hispanic as a term invented by the oppressor and prefer the term Latino.⁴⁹ One author calls Hispanic "a repulsive slave name."⁵⁰ Others believe that Latino should be limited to people who were born in Latin America or that Latino is even more removed from their experience than is Hispanic because it refers to "an even older empire."⁵¹ Still other people with a Spanish surname, indeed a majority according to a recent survey, prefer to be identified by their own subgroup, such as Cuban, Mexican, or Puerto Rican.⁵² No single term can possibly reflect this diversity of views, let alone the diversity in country of origin, among people called Hispanic by the census. This book therefore retains the census usage and makes reference to the experience of specific subgroups under this label where appropriate.

A discussion of the relative position of Hispanics requires a term for the comparison group, namely non-Hispanic whites. In some of my earlier writing, I used the term Anglo for this comparison group to emphasize the role of language in this particular ethnic distinction. In retrospect, this usage appears to place too much weight on language and to imply, incorrectly, that non-Hispanic whites all share an Anglo or English background. To remove this implication and to preserve conciseness, this book uses the term white to mean non-Hispanic white. The reader should remember, however, that in terms of their racial background, many Hispanics are white themselves.

# PREJUDICE AND DISCRIMINATION

Racial and ethnic divisions among people are most directly observed in the form of prejudice and discrimination. Because these concepts play such an important role in the analysis that follows, we must define both terms carefully.

**Prejudice**

Prejudice is "an emotional, rigid attitude (a predisposition to respond to a certain stimulus in a certain way) toward a group of people."⁵³ This book explores the troubling consequences of widespread white prejudice against having blacks or Hispanics as neighbors or as classmates for one's children.

In the words of the song, "you have to be taught to hate," and prejudice is a sad inheritance that some children receive from their par-
ents, often reinforced by perceptions and experience. People who observe that one racial or ethnic group tends to live in poorer neighborhoods or to be more likely to receive welfare or commit crimes may assume, incorrectly, that these outcomes reflect some inherent characteristic of this group. Over time, specific stereotypes (that is, stylized negative images) of a particular group may develop and help reinforce the misperceptions on which prejudice feeds.

Surveys of the racial attitudes of whites have been conducted for many decades. For our purposes, the evidence about whites' racial attitudes concerning the racial and ethnic integration of neighborhoods is particularly relevant. Although this evidence must be interpreted with care, because attitudes about surveys, as well as attitudes about race, may have changed over time, virtually all studies find that white aversion to black neighbors persists but is less severe than it once was. Surveys by the National Opinion Research Center (NORC) and Gallup polls, for example, find a steady decline in the share of white people who care whether a black person with the same income and education moves into their neighborhood, who would move if a black family moved in next door, who believe whites have the right to keep blacks out of white neighborhoods, or who oppose fair housing legislation.

Particularly detailed surveys of white attitudes toward neighborhood racial integration were conducted in Detroit in 1976 and 1992. In 1976, half of whites said they would not move into a neighborhood that was 20 percent black, and almost three-quarters said they would not consider moving into a neighborhood that was 33 percent black. Comparing the 1992 and 1996 results reveals that white attitudes about racial integration have become more liberal. Whites, in the 1990s, were, apparently, more willing to move into areas which had a few black residents. However, there was considerable resistance to living in neighborhoods that were one-third or more black. For example, 45 percent of Detroit area whites felt uncomfortable in a neighborhood in which five of fifteen homes were occupied by blacks, 28 percent said they would try to move away if their neighborhood came to have such a composition and 56 percent would not consider moving into such a location if they found an attractive house they could afford there.

Similar conclusions are provided by 1990 data from NORC, which found that almost half of whites were somewhat or strongly opposed to living in a neighborhood that was either half black or half Hispanic. A 1991 Cleveland area survey uncovered somewhat less white prejudice: 68 percent of whites said they would prefer their neigh-
neighborhood to be racially mixed (defined by most whites as about one-quarter black), 22 percent of whites said they would be willing to move into a neighborhood where most of the residents were black, and only 16 percent of whites chose an all-white neighborhood.62

**Discrimination**

Racial and ethnic discrimination is adverse treatment of an individual solely on the basis of his or her membership in a particular racial or ethnic group. An employer who hires a highly qualified white applicant instead of a poorly qualified Hispanic applicant is not discriminating because his decision is based at least in part on the relative skill of the two applicants, which is a legitimate component in his decision. However, an employer who consistently hires white applicants instead of Hispanic or black applicants who are equally qualified based on all legitimate, observable criteria is guilty of discrimination.63 In the housing market, it is discrimination when a real estate broker shows four houses to a white couple but nothing to a black couple with the same income, housing needs, and credit qualifications. Thus, the examples that begin this chapter clearly involve discrimination. And a lender is discriminating if he gives equal credit ratings to a white and an Hispanic applicant for the same type of mortgage but approves the loan only for the white.

Discrimination can take many forms as well as have many causes.64 Discrimination and prejudice are mutually reinforcing, but each can, and sometimes does, exist without the other.65 Prejudice sometimes leads a real estate broker or lender to discriminate, and some people develop prejudice as a rationalization for discriminatory behavior, but unprejudiced brokers and lenders sometimes decide to practice discrimination whereas others obey laws against discrimination in spite of their own personal prejudice.

Together, prejudice and discrimination have a powerful impact on American society. They greatly restrict the housing choices of many black and Hispanic households, and they are among the key causes of racial and ethnic residential segregation, which is the physical separation of the residential areas of different racial and ethnic groups. One of the key objectives of this book is to untangle the complicated connections between—and the powerful consequences of—prejudice and discrimination based on race and ethnicity.

**PLAN OF THE BOOK**

The rest of this book is divided into three parts. The first part presents recent evidence about the extent and nature of discrimination in
housing and mortgage markets in the United States. The second part explores the consequences of this discrimination in terms of the costs imposed on minority households in addition to the implications for broader social and economic outcomes. The third part presents the history of federal antidiscrimination policy and develops a program of federal actions to combat discrimination today.

Historically, discrimination has been difficult to document because people conceal behavior, such as discrimination, that is illegal. However, recent innovations in research methods have made it possible to obtain direct measures of discrimination in both housing and mortgage markets. Extensive evidence about racial and ethnic discrimination in housing markets comes from the 1989 Housing Discrimination Study (HDS), a nationwide study of discriminatory practices. Chapter 2 describes HDS and its methodology; Chapter 3 presents the HDS results on racial and ethnic discrimination in housing availability; and Chapter 4 presents the HDS results about racial and ethnic steering. Chapters 3 and 4 also review recent evidence from studies other than HDS. The final chapter in the first part of the book, Chapter 5, presents recent evidence concerning racial and ethnic discrimination and redlining in mortgage markets and explains why this evidence has led to a recent rediscovery of discrimination in mortgage lending.

Part Two explores the consequences of discrimination in housing and mortgage markets, both for the affected individuals and for society as a whole. Chapter 6 describes a new method for estimating the direct costs that current discrimination imposes on black and Hispanic households who want to find new places to live. The resulting cost estimates are disturbingly high. Past and current discrimination also have impacts on a wide range of outcomes in the housing market, including racial and ethnic residential segregation as well as racial and ethnic disparities in homeownership rates, in housing wealth, and in housing quality. Chapter 7 reviews recent evidence about the magnitude of these impacts. Finally, discrimination in housing and mortgage markets is one part of a broader system that includes the labor market and public services, such as education. Chapter 8 explores the role of housing discrimination in this broader system. For example, several recent studies, which are reviewed in this chapter, provide evidence that discrimination in housing contributes to relatively high unemployment and poverty rates for black and Hispanic households.

The last part of the book examines cures for discrimination in housing and mortgage markets. To help inform the policy debate, this part begins with an exploration of the causes of discrimination, based largely on the HDS results. The second chapter in the part,
Chapter 10, then reviews the history of fair housing and fair lending policy, starting with U.S. Supreme Court cases in the early 1900s and ending with the extensive legislative changes and court decisions of the last few years. These two chapters set the stage for Chapter 11, which presents several principles for fair housing and fair lending policy and then develops a comprehensive plan to combat discrimination in housing and mortgage markets. The basic premise of this chapter is that simple enforcement of antidiscrimination legislation, no matter how effective, is necessary but incomplete as a strategy for eliminating discrimination and all its costs. Additional policies, some of which are now being attempted on a small scale, to provide education on matters of race and ethnicity and to undo the market outcomes that perpetuate the discriminatory system, are also required. The final chapter, Chapter 12, summarizes the book’s findings and policy recommendations and explores the feasibility of these policies in today’s political environment.