Understanding Racial Segregation: What is known about the Effect of Housing Discrimination

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Abstract

A central purpose of this chapter is to assess whether the available empirical evidence supports the view that current levels of housing discrimination are a significant contributor to residential segregation in U.S. cities and metropolitan areas. Through the course of this chapter, the reader will find that the empirical patterns of racial segregation in the U.S. are often inconsistent with the available evidence on housing discrimination. Admittedly, strong evidence exists that both housing discrimination exists today and that housing discrimination throughout much of the Twentieth Century was central to creating the high levels of segregation that we observe in U.S. metropolitan areas today, but the appropriate policy responses may differ dramatically depending upon how these two phenomena are currently interrelated.

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My research experience in the area of housing discrimination began as a graduate student working on data from the 1989 Housing Discrimination Study (HDS 1989) and expanded dramatically when I had the opportunity to work as the lead researcher on the team that conducted the 2000 Housing Discrimination Study (HDS 2000). Since the completion of HDS 2000, I have had numerous opportunities to speak about the findings of the study at public events often presenting as part of broader panels that contain fair housing advocates and officers of community groups that are involved in fair housing enforcement. Such individuals usually give presentations that provide compelling evidence concerning the existence of discrimination in housing markets and illustrate the real harm experienced by minority home seekers.

However, the compelling evidence on housing discrimination and its impacts is invariably followed by the assertion “and of course housing discrimination causes residential segregation and segregation causes …” Such assertions are assumed to be self-evident, and challenges to this conventional wisdom are received skeptically at best and often with disbelief. I believe that our society’s ability to craft policies that seriously address racial segregation is limited by the adherence to the view that current housing discrimination must be a key factor behind the persistence of racial segregation.

Therefore, a central purpose of this chapter is to consider the empirical evidence available and assess whether the evidence supports the view that current housing discrimination is a significant contributor to residential segregation in U.S. cities and metropolitan areas. Through the course of this chapter, the reader will find that the
empirical patterns of racial segregation in the U.S. are often inconsistent the available evidence on housing discrimination. Further, this review offers evidence in support of alternative theories for why segregation persists today especially emphasizing the important role of racial and neighborhood stereotypes that were created and maintained by residential segregation itself.

Admittedly, strong evidence exists that both housing discrimination exists today and that housing discrimination throughout much of the Twentieth Century was central to creating the high levels of segregation that we observe in U.S. metropolitan areas, but the appropriate policy responses may differ dramatically depending upon how these two phenomena are interrelated.

**History of Racial Segregation and Housing Discrimination**

One of the major demographic events in the Twentieth Century was the great migration of African-Americans primarily from the rural south to cities in the northeast and Midwest. Cutler, Glaeser, and Vigdor (1999) demonstrate the strong empirical correlation between this migration and the patterns of segregation in U.S. cities. In 1890, the population of African-Americans was quite small - less than two percent, but grew rapidly between 1890 and 1970 to almost 93.1 percent of the population in the same set of cities. During this same period, segregation grew steadily from initially moderate levels, near a dissimilarity index of 0.50, to an index between 0.70 and 0.80.¹

These increases in segregation appear to be the result of quite rigid neighborhood barriers that were developed in the early twentieth century (Fischer, 2007) and explicitly maintained by real estate agents (Yinger, 1995). As the African-American population

¹ The high levels of segregation were accompanied by the concentration of African-Americans into central cities. Colling and Margo (2001) document that this concentration depressed the homeownership rates of African-Americans between 1940 and 1960.
increased, densities and housing prices in the limited number of African-American neighborhoods increased substantially. Little decentralization of African-American households occurred prior to 1940 in spite of substantial housing price premia, and the price premia and high levels of segregation remained through 1970 in spite of increasing decentralization and expansion of minority neighborhoods (Cutler, Glaeser, and Vigdor, 1999).

Further, such expansions were by no means benign. During the 1960’s, real estate agents engaged in active arbitrage using an approach commonly referred to a “Block Busting” in order to profit from the substantial price differences between African-American and white neighborhoods. For example, Yinger (1995) describes the process by which real estate agents conspired to sell one home in the Mattapan neighborhood of Boston to an African-American family and then encouraged panic selling in that neighborhood. The same real estate agents bought these homes at deep discounts only to later sell those homes at a substantial premium to African-American families.

**Recent Evidence on Racial Segregation in America**

The last few decades represent a period of gradual improvements for minorities in U.S housing markets. Segregation has declined moderately for African-Americans while the lower levels of segregation faced by Asians and Hispanics remained steady (Iceland, 2004), levels which might have been expected to increase due to the substantial increases in the total Asian and Hispanic populations (Massey, 2001). White attitudes concerning integration with African-Americans have also improved substantially during the last few decades (Schuman, Steeh, Bobo, and Krysan, 1997; Farley and Frey, 1994) suggesting
that white aversion to African-American neighbors may play a decreasing role in housing segregation (Patterson, 1997; Thernstrom and Thernstrom, 1997).

Bobo (2001) observes, however, that negative racial stereotypes persist and may have substantial negative impacts on African Americans in spite of broad improvements in the general attitudes of whites concerning racial equality.\(^2\) Farley, Steeh, Krysan, Jackson, and Reeves (1994), Zubrinski and Bobo (1996), and Krysan (2002) find that the holding of negative stereotypes was a strong predictor of unwillingness to live with African Americans, and Ellen (2000) concludes that whites stereotype neighborhoods based on racial composition when choosing a new neighborhood.\(^3\) Further, a substantial fraction of the decline in African-American segregation appears related to increased exposure to Hispanics (Iceland, 2004), and much of the decline in segregation from whites is attributable to improvements in central cities with suburban segregation being much more persistent (Fischer, 2007).\(^4\)

Many studies have examined whether housing segregation can be explained by economic factors. Massey and Denton (1993), Rosenbaum (1996), Bayer, McMillen, and Rueben (2004), and Ihlanfeldt and Scafidi (2004) all find that the majority of segregation faced by African-Americans cannot be explained by racial differences in household characteristics. The empirical results concerning Hispanics and Asians are less clear.

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\(^2\) For example, Sniderman and Piazza (1993) find that half of whites surveyed endorse some negative stereotypes of African Americans and over one in five hold uniformly negative views. Similarly, Bobo and Kluegel (1997) find that over half of whites surveyed rated African Americans relatively lower than whites on intelligence and laziness and higher on violent tendencies, and over three-quarters rate African Americans as relatively more likely to prefer living off welfare.

\(^3\) She bases this conclusion on white willingness to remain in neighborhoods when African Americans move in due to the white’s presumed knowledge of the neighborhood.

\(^4\) Similarly for Hispanics, Baugh (2007) finds that individuals with Chicano or Mexican dialects faced substantial stereotyping being assessed to have lower intelligence than whites, and Charles (2000) and Bobo and Zubrinsky (1996) suggest that white preferences for segregation limit the housing market opportunities of Hispanic households.
While Rosenbaum (1996) finds the segregation of Hispanics in New York City cannot be entirely explained by demographic and economic differences, Bayer, McMillen, and Rueben (2004) find that 95 percent of Hispanic and Asian segregation in San Francisco can be explained by income, education, language and immigration, and Borjas (1995) documents substantial declines among Hispanics’ and Asians’ exposure to their own ethnic subgroups between the first and third immigrant generations. In general, Hispanics and Asians face much lower levels of segregation than African-Americans, and a large share of the segregation faced by Hispanics and Asians can be explained by economic factors and the slow assimilation of immigrant groups.

**Housing Price as a Test for Housing Discrimination**

Naturally, if African-American segregation cannot be explained by economic and demographic factors and attitudes are improving more quickly than segregation is declining, a reasonable question to ask is whether housing discrimination plays a significant role in maintaining the level of racial segregation in U.S. metropolitan areas. The traditional approach for answering this question is based on the premise that African-Americans must face substantial constraints on their residential location choices potentially due to housing discrimination if they pay a higher price for housing than whites. A large number of studies have examined whether African-Americans pay more for housing than whites in U.S. cities and metropolitan areas. Studies from the 1960’s tend to find evidence that African-Americans pay more for equivalent housing (King and Mieszkowski, 1973, Yinger, 1978), while studies from the 1970's (Schnare, 1976, Follain and Malpezzie, 1981) tend to find little or no evidence of a housing price premium. Cutler, Glaeser, and Vigdor (1999) confirm this pattern finding a large African-American
rent premium in the first half of this century that fell substantially between 1950 and 1970 and had reversed entirely by 1990. They conclude that the high prices in predominantly white neighborhoods are consistent with “a decentralized racism” where whites pay a premium to live in segregated neighborhoods.

While Schafer (1979), Chambers (1992), and Kiel and Zabel (1996) all argue that earlier work may fail to find an African-American price premium because that work does not control for neighborhood quality or housing submarkets, it is hard to imagine how the dramatic reversal in the African-American housing price premium could have occurred without substantial increases in the number and breadth of neighborhoods being opened up to African-American households. In fact, Kiel and Zabel (1996) exploit detailed spatial and neighborhood information available in a confidential version of the American Housing Survey and only find a significant African-American price premium in one of the metropolitan areas examined in their study.

Of course, the decline in the African-American price premium could have arisen because neighborhoods available to African-Americans were expanded while effective barriers were maintained for other predominantly white neighborhoods. The 1970’s marked the beginning of the end for the great migration of African-Americans to northern cities, and past that point expansions of predominantly African-American neighborhoods, possibly through more subtle forms of the Block Busting that was documented during the 1960s, might have allowed the price paid by African-Americans to fall. Clapp and Ross (2004), however, examine housing sales in Connecticut during the 1990’s, a period when there was a large in-migration of Hispanics as well as a loss of white population. They find no evidence of any price premia associated with these demographic changes. In
their sample, housing prices appear to adjust fairly quickly and rise uniformly for all
housing units throughout metropolitan areas with increasing population.

**Direct Evidence on Housing Discrimination**

Three major paired testing studies of housing discrimination were conducted in
1977, 1989 and 2000. The first major study in 1977 performed a national set of tests for
black and white pairs and piloted tests involving Anglo-Hispanic pairs. Both the 1989
and 2000 studies conducted full-scale national testing programs for both blacks and
Hispanics. Phase I of the 2000 study piloted tests for Asian and Native Americans, and
phase II, which was conducted in 2001, included a national study of discrimination
against Asian Americans. Finally, phases III and IV conducted more limited analyses of
the treatment experienced by Native Americans and by the disabled.5

All three studies found evidence of housing discrimination in both rental and sales
markets. The 1989 study found high levels of adverse treatment discrimination against
African-American and Hispanic homebuyers and renters across a variety of measures of
treatment intended to capture availability of housing, access to housing for inspections,
encouragement, price and terms in rental, and financing assistance in sales (Yinger,
1995). The 2000 study continued to find statistically significant levels of discrimination
against both African-Americans and Hispanics in both markets, but the levels of
discrimination had declined substantially for both groups in one or both markets. For
example, the net difference between the fraction of white and African-American favored
tests was 13.4 percentage points in 1989 and 8.1 in 2000 for rental tests and 19.9 in 1989

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5 The national studies are constructed as two stage samples of tests in which first a set of representative
metropolitan areas are chosen based on the distribution of the minority population across metropolitan
areas, and in each selected site tests are conducted based on a random sample of advertisements from the
major metropolitan newspaper. Also see Yinger (1993), Smith (1993), and Boggs, Sellers, and Bendick
(1993) for histories of testing in the housing market.
and 6.7 in 2000 for sales tests using a composite of a broad set of treatment measures.  

Similarly, adverse treatment against Hispanics fell from 16.8 percentage points in 1989 to 4.3 in 2000 in the sales market (Turner, Ross, Galster, and Yinger, 2002; Ross and Turner, 2005). A direct comparison cannot be made between the 1977 and 1989 studies because they were conducted in different markets, but the levels of adverse treatment in the 1989 study appeared comparable to 1977 (Yinger, 1995).

Two major exceptions existed to the general improvement between 1989 and 2000 in the treatment observed in the rental and owner-occupied housing markets. Most significantly, net adverse treatment against Hispanics in the rental market was high and persistent rising from 13.4 to 15.6 percentage points. Second, the frequency of racial steering of African-Americans homebuyers increased over the decade and appeared to be associated with an overall increase in the number of units in minority neighborhoods being shown by real estate agents (Turner, Ross, Galster, and Yinger, 2002; Ross and Turner, 2005).

Later phases of HDS 2000 examined discrimination against previously untested groups. In phase II, the national estimates of overall adverse treatment discrimination

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6 The composite results presented here are based on a hierarchy of 14 treatment variables where availability of the advertised unit is first and followed by ability to inspect the advertised unit, see Turner, Ross, Galster, and Yinger (2002) for details.

7 A third significant change arose because real estate agents substantially increased the amount of financial assistance being offered to prospective homebuyers. This increase was substantially smaller for Hispanic testers than for white or African-American testers and so adverse treatment of Hispanic testers increased markedly on the financial assistance measures (Turner, Ross, Galster, and Yinger, 2002; Ross and Turner, 2005).

8 Phase II and beyond used a sampling protocol that rotated between the various sources available to homebuyers and renters, such as the internet, weekly newspapers, and local homebuyer or rental guides that cover a region of the metropolitan area. A comparison of tests based on advertisements drawn from major metropolitan newspapers, which were used in 1989 and phase I of HDS 2000, to tests based on alternative sources did not yield a consistent or strong pattern of differences across advertisement sources, see Turner, Ross, Galster, and Yinger (2002) and Turner and Ross (2003b) for a detailed discussion of these comparisons. See Ross (2002) for a discussion of this and other methodological issues arising when paired testing approaches are used to measure the incidence of discrimination.
for Asians is 4.3 and 19.6 percentage points for rental and sales markets, respectively, suggesting much higher levels of adverse treatment against Asian-Americans in the sales market than seen with other minority groups (Turner and Ross, 2003a). Phase III examined the treatment of Native Americans primarily focusing on the rental market and finding net differences of 7.7, 21.3, and 19.0 percentage points in the states of Montana, Minnesota, and New Mexico (Turner and Ross, 2004).  

It is important to place these results in context with the recent report issued by the National Fair Housing Alliance (NFHA, 2006). The NFHA report describes high levels of discrimination in the sales market against both African-Americans and Hispanics. The first thing to realize is that NFHA is focusing their efforts on real estate agencies and markets where a variety of sources including HDS 2000 identified unusually high levels of adverse treatment. Therefore, while their findings document the existence of discrimination, they do not accurately describe the environment encountered by a typical minority homebuyer in the U.S. In fact, the NFHA report explicitly acknowledges that their measures of discrimination do not capture the national incidence of discrimination.

In addition, many of the results presented represent gross measures of adverse treatment. The gross measure captures the frequency of white favored tests while the net measure, which is primarily reported above, captures the difference between the frequency of white and minority favored tests. The gross measure can dramatically overestimate discrimination because sometimes a minority tester is treated disfavorably for reasons that have nothing to do with race. The net measure addresses this problem by

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9 Phase IV examined the relative treatment of individuals who are deaf attempting to obtain information about available housing over the telephone via a TTY system and individuals in a wheelchair attempting to visit and inspect available rental housing. In both scenarios, disabled testers faced very high levels of discrimination with many net measures falling between 15 and 30 percent (Turner, Herbig, Kaye, Fenderson, and Levy, 2005).
subtracting the frequency of minority favored tests under the assumption that the share of minority favored tests is a good proxy for the frequency of random differences in treatment.\textsuperscript{10}

A comparison of gross measures from NFHA and HDS 2000 yield fairly similar results. For example, NFHA finds that African-Americans and Hispanics were denied access or given limited information in 20 percent of tests, but this finding is broadly comparable to findings in HDS 2000 that approximately 15 percent of white, black, and Hispanic testers were told that the advertised unit was not available when their partner was told that the unit was available suggesting net measures of adverse treatment near zero. The NFHA report does present net measures for number of units inspected with African-Americans and Hispanics seeing about three units less than whites, but HDS 2000 also identified substantial differentials on number of units inspected for African-Americans. In summary, in terms of access to housing, the NFHA and HDS 2000 results are not very different from each other especially given NFHA’s mandate to focus on real estate agencies or markets where discrimination appears to be taking place.

In the case of steering, however, the NFHA report and the results from HDS 2000 are far less consistent with the NFHA report finding that steering takes place in 87 percent of tests when testers were given an opportunity to see homes. One explanation may again arise from the reliance of NFHA on gross measures of adverse treatment combined with the fact that the NFHA report never mentions requiring that differences in

\textsuperscript{10} Admittedly, the net measure may underestimate discrimination because sometimes minorities are favored for systematic reasons, such as a white not being shown the requested unit because it is located in a minority neighborhood. In phase II of HDS 2000, tests with three testers, two of the same race, were conducted in two sites. These tests provide a same race comparison allowing the elimination of random differences in treatment without the problems associated with the traditional net measure. The revised net measure based on the same race comparison yielded very similar results to the traditional net measure favoring the use of the net measure for studying discrimination (Turner and Ross, 2003b).
neighborhood composition exceed a reasonable threshold in order to count as steering. Without a threshold, the gross measure in the presence of no steering is likely to be near 50 percent just due to random variation.

Another potential factor is the role of agent editorializing concerning neighborhoods, schools, and communities. While HDS 2000 found only low levels of steering based on units recommended and inspected, the black-white tests in HDS 2000 indicated much larger differences in the comments made by real estate agents with agents being 12-14 percent more likely to editorialize about neighborhoods in ways that would encourage segregation of African-Americans rather than reduce segregation (Galster and Godfrey, 2005). Further, Galster and Godfrey (2005) found that agents offer more comments to whites and that 70 percent of those comments provide information about the racial or ethnic make-up of the neighborhood.\(^{11}\) The HDS 2000 methodology, which instructs testers to focus on inspecting the advertised and similar units, quite likely reduces the influence of agent commentary on the type of units observed relative to either the NFHA testers or typical homebuyers.

**Does Current Housing Discrimination Cause Residential Segregation?**

The evidence clearly suggests that the racial segregation experienced by African-Americans is different than the segregation experienced by either Asians or Hispanics. African-Americans are exposed to much higher levels of segregation than the other two groups, and unlike Asians and Hispanics the vast majority of African-American segregation cannot be explained by economic factors. Meanwhile, HDS 2000 documents

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\(^{11}\) The NFHA study (2006) found that comments about schools were a very important component of racial steering, but Galster and Godfrey (2005) found that only five percent of comments were related to schools.
substantially higher levels of discrimination against Asians in sales markets and Hispanics in rental markets than against African-Americans in those same markets.

In spite of the existing criticisms, Cutler, Glaeser, and Vigdor (1999) provide a compelling story of growing segregation during the 1900’s based on the increasing urbanization of African-Americans and fairly rigid discriminatory barriers followed in recent decades by declining segregation and dispersal of the African-American population as those discriminatory barriers have fallen. Not a single study has found evidence that African American’s paid more for housing during the 1980’s or 1990’s. Similarly, Clapp and Ross (2002) find that housing prices adjust fairly quickly across communities and prices are found to increase throughout Connecticut urban areas even though population increases were driven entirely by in migration of Hispanics. These findings suggest that the rigid barriers that were once enforced by real estate agents are no longer in place.

This conclusion is consistent with the sharp shift of African-American homeowners in the 1980s away from central city neighborhoods towards higher income suburban neighborhoods, while no such shift occurred for white households during this period (Bostic and Martin, 2005).\(^\text{12}\) This shift and the accompanying declines in racial segregation during the 1970’s and 80’s occurred in spite of the high levels of discrimination documented by national paired testing studies conducted in 1977 and 1989. Meanwhile, the pace of improvements in racial segregation did not change

\(^{12}\) Bostic and Martin (2005) argue that these declines are attributable to the Fair Housing Act because they correlate with proxies for enforcement of that act during 1970s and 80s. In general, I agree that that Fair Housing Act likely played a very important role in eliminating barriers to the suburbanization of African-American families, but this conclusion does not shed light on whether current discrimination against African-Americans contributes to and maintains current residential segregation by race.
appreciably during the 1990’s (Iceland, 2004), a period in which housing market
discrimination against African Americans declined markedly.

Further, Galster and Ross (2007) find that discrimination against African-
Americans was higher overall in metropolitan areas with large Hispanic populations.
This finding suggests that discrimination should have risen based on current trends and
that the decline in discrimination is likely associated with broad changes in racial
attitudes and in the structure of the real estate industry (Ross and Turner, 2005). The
finding of rising housing discrimination in metropolitan areas with increasing Hispanic
population stands in stark contrast to recent evidence by Card, Mas, and Rothstein (2008,
In Press) on racial tipping points, the threshold of African-American representation in a
neighborhood at which the neighborhood will begin to lose white population and tip
towards being a predominantly African-American neighborhood. They find evidence of
tipping points increasing in U.S. metropolitan area over the last three decades, and the
largest increases occur in metropolitan areas that have the largest gains in share Hispanic.

Countervailing Views

Using data from HDS 1989, Galster (1991) examines the relationship between
housing discrimination against African-Americans and both the centralization and
residential segregation of the African-American population in selected U.S. metropolitan
areas. Galster (1991) finds that African-Americans have much higher levels of
centralization and segregation in metropolitan areas where he predicts high levels of
discrimination in the sales market. However, Galster finds a negative relationship
between rental market discrimination and African-American centralization and
segregation raising questions about how to interpret these results. Further, Galster and
Ross (2007) examine changes in racial segregation between 1990 and 2000 and housing discrimination between HDS 1989 and 2000 finding little evidence of any correlation between these changes for either the sales or rental markets.

Secondly, the high levels of discrimination in rental housing against Hispanics and Native Americans suggest that discrimination in rental housing markets is still a serious problem. Further, the declines in discrimination against African-Americans in the rental market may not represent meaningful increases in opportunities. The reader needs to remember that the key service provided by a rental agent is the provision of rental housing while paired testing can only assess the amount and nature of information provided to the testers during their initial in-person inquiry about the advertised rental unit. It is impossible to know whether discrimination against African-Americans has declined or has been moved to other stages of the transaction that are not captured by traditional enforcement approaches. For example, Massey and Lundy (2001) find that testers who speak “Black English” are less likely to be able to make an appointment to see available housing over the phone.

Further, Galster and Ross (2007) find that local Department of Housing and Urban Development funded enforcement activities are associated with a decline in adverse treatment against African-Americans in the rental market, but this deterrence effect of enforcement testing may not influence landlord behavior in later stages of the rental process. Specifically, landlords may shift discrimination until later in the rental process in order to avoid detection, and HDS 2000 may substantially understate the level of discrimination practiced in rental markets.¹³

¹³ On the other hand, Department of Justice and National Fair Housing Alliance (NFHA) enforcement activities are associated with smaller declines and higher levels of discrimination suggesting that these
Naturally, the first response to concerns about discrimination in rental market is to note that HDS 2000 did capture substantial discrimination against Hispanics in the rental market as well, and yet Hispanics experience substantially lower levels of segregation than African-Americans and a large fraction of Hispanic segregation can be explained by differences in economic resources and immigration. In addition, racial discrimination in the sales market fell between 1989 and 2000, and over 70 percent of U.S. households reside in owner-occupied housing, and this share is even higher in suburban areas. As noted by Fischer (2007), most of the decline in racial segregation has occurred in central cities, where rental markets are a larger share of the housing market. These facts suggest that major discriminatory barriers to the integration of the African-American population must be found either in the market for owner-occupied housing or in other markets that are crucial to the transition to homeownership, such as the home mortgage market.14

The declines in sales market discrimination identified by HDS 2000 appear quite compelling. Unlike rental agents who might withhold housing until later stages of the transaction, real estate agents in the sales market provide services that are easily observed during testing, and the remaining discrimination against African-Americans and Hispanics in this segment of the market appears quite low. The job of a real estate agent is to provide information on homes that are available for purchase, as well as to provide homeseekers with physical access to those properties. The sales tests directly examine these treatments and allow for both a follow-up visit by the tester and follow-up contact groups targeted locations where discrimination is most persistent and widespread. Given the likelihood that national actors like Justice and NFHA target metropolitan areas where discrimination is especially problematic, it is not possible to determine whether the actions of these groups lead to reductions in the level of discrimination. In addition, Galster and Ross (2007) did not find any evidence that enforcement lowered discrimination against Hispanics, which is consistent with the fact that Hispanic targeted enforcement activity was only one-fifth the level of African-American targeted activities.

14 See Ross (2008) and Ross (2005) for discussions of the evidence on racial discrimination in mortgage markets.
by the real estate agent. Substantial declines were observed for both African-Americans and Hispanics, and these declines were not associated with fair housing enforcement activities (Galster and Ross, 2007).

Finally, many advocates point to the substantial evidence of racial steering by real estate agents during HDS 2000 and in the NFHA study. As discussed above, steering rose between 1989 and 2000 for the metropolitan areas studied in HDS 2000. Further, the NFHA study and Galster and Godfrey (2005) found evidence of extensive commentary by real estate agents. Even if minorities are shown units in white neighborhoods, segregation might be reinforced and maintained if African-Americans and whites are consistently pushed towards selecting houses in racially homogeneous neighborhoods.

However, while steering against African-Americans did increase during the 1990’s, racial differences in steering based on units recommended or shown were approximately five percentage points in HDS 2000, which is comparable to the low levels of disparate treatment observed for African-Americans in the sales markets on most treatments in 2000 and statistically indistinguishable from steering against Hispanics. In fact, the increase in racial steering may in part be due to a number of factors that represent improvements in the housing market. First, the opportunity to steer increased because mainstream real estate agencies increased their representation and advertising of units located in minority neighborhoods between 1989 and 2000 indicating greater willingness of real estate agents to market such units.

Further, the real estate industry has consolidated substantially reducing the incentives for agents to practice discrimination based on the prejudice of their potential
customers.\textsuperscript{15} In fact, Galster and Godfrey (2005) found that the majority of commentary was aimed at whites rather than African-American homebuyers. Rather than exclusion from neighborhoods, which may create substantial price premiums, real estate agents today appear to practice a less restrictive form of steering where they provide homebuyers with information on racial and ethnic composition of neighborhoods that in some cases disparages integrated neighborhoods to white homebuyers, but such comments may be a reflection of the preferences of typical white homebuyers as opposed to systematic action by real estate agents that shape white preferences.\textsuperscript{16}

\textbf{Stereotypes and the Role of Past Discrimination and Segregation}

In my opinion, however, it is not appropriate to simply end the conversation having described a limited role for current real estate agents and placed the blame for racial segregation on economic and social factors. Cutler, Glaeser, and Vigdor (1999) and the work of many others clearly demonstrate that discrimination played a very important role in creating the highly segregated metropolitan areas that exist today. The

\textsuperscript{15} Ross and Turner (2005) argue that the negative steering result in 1989 may arise from customer based discrimination where agents act to protect potentially vulnerable neighborhoods and are more likely to exclude minorities from neighborhoods that already have some minority residents than from all white neighborhoods (Yinger, 1995). Multivariate analyses of the 1989 HDS and earlier testing efforts have generated numerous findings consistent with discrimination based on customer prejudice, such as Yinger (1986, 1995), Roychoudhury and Goodman (1992), and Page’s (1995) finding that minority couples face more discrimination when they have children, Yinger’s (1986) finding that discrimination was high in integrated neighborhoods that were not experiencing an influx of African-Americans, and Ondrich, Ross, and Yinger’s (2002) finding that discrimination decreases with the distance between the housing unit and the real estate agent’s office.

\textsuperscript{16} The steering observed in 2000 is quite likely the result of statistical discrimination where real estate agents believe the likelihood of a sale is increased by steering homebuyers towards or away from minority neighborhoods (Ondrich, Ross and Yinger, 2003). For HDS 2000, Zhao, Ondrich, and Yinger (2006) in sales and Choi, Ondrich, and Yinger (2005) in rental find substantial evidence of neighborhood exclusion based on minority composition and income, which would appear to be consistent with statistical discrimination.
finding that whites pay higher prices for housing is consistent with whites paying a premium to avoid living in integrated neighborhoods, but does nothing to identify why those whites are willing to pay this premium today. In a similar vein, would the typical white homeowner have any preference for segregation or would the typical real estate agent have any economic incentive to discourage whites from visiting housing units in predominantly African-American neighborhoods if the U.S. metropolitan environment had not been so terribly distorted by a legacy of very high levels of housing discrimination?  

For example, Galster (1991) develops a descriptive model where housing discrimination leads to racial segregation, and the resulting racial segregation contributes to negative outcomes for African-Americans in terms of education outcomes, family structure, and the labor market. Cutler and Glaeser (1997). Collins and Margo (2000), and Card and Rothstein (2007) all document the negative impact of residential segregation on the African-American population. In addition, Collins and Margo (2001) document the historical influence of segregation on homeownership and housing values, which may have limited the wealth accumulation of African-American families (Charles and Hurst, 2000). In Galster’s model, racial segregation is reinforced and maintained by the racial differences in poverty, unemployment, and single parenthood that arise in part from segregation, and once established high levels of racial segregation can persist even if housing discrimination has been completely eliminated.

17 As an illustration, Bayer, McMillen, and Rueben (2005) estimate a structural model of residential location choice. This analysis shows that the neighborhood choices available in current metropolitan areas dramatically limits the options of upper and middle income African-Americans causing them to consume much lower levels of neighborhood amenities than would otherwise have been expected. This concentration of African-Americans of all income levels into lower amenity neighborhoods would naturally limit the willingness of whites to live in integrated neighborhoods.
Ellen (2000) suggests that the racial composition of a neighborhood is used by whites to stereotype neighborhoods or as a signal of neighborhood quality. She tests this proposition by examining the mobility decisions of whites in response to racial composition. Specifically, she finds that white are no more likely to exit neighborhoods when African-Americans move in, but when a white leaves a neighborhood that has experienced an increase in share African-American regardless of the reason whites are less likely to move into that vacated unit. This difference between the likelihood of moving in and the willingness to stay is presumably due to the current white residents’ knowledge of the neighborhood’s quality.

In a similar vein, Clapp, Nanda, and Ross (2008) examine the relationship between housing prices and school district attributes between 1994 and 2004. They find evidence that increases in percent Hispanic students within the school district is associated with declines in property values within that district. However, the effect of Hispanic students is falling substantially over time being replaced by a strengthening effect of test scores on housing prices. Clapp, Nanda, and Ross (2008) suggest that this shift may be occurring because ethnicity was used as a signal of school quality during the 1990s, but this signal is being replaced by standardized test scores as test scores become more easily available and more salient with the adoption of No Child Left Behind.

Finally, the research of Card, Mas, and Rothstein (In Press) and Ferreira (In Press) in this volume might be considered in the light of stereotypes that are propagated and maintained by residential segregation. Card, Mas, and Rothstein (In Press) find evidence of what they refer to as one sided tipping where neighborhoods that cross a threshold share of African American residents start moving towards becoming predominantly
African-American neighborhoods, while neighborhoods below that threshold exhibit substantial stability in terms of African-American population share as opposed to tipping towards becoming all white neighborhoods. Another explanation for this phenomenon involves racial composition being used as a signal for neighborhood quality. Signaling models especially when the signal is noisy often give rise to non-linear thresholds where the signal only takes on meaning if it crosses a threshold much like the tipping points identified by Card, Mas, and Rothstein (In Press). When racial composition is below the threshold, the signal conveys no information about neighborhood quality and therefore does not have any systematic affect on future changes in racial composition.

Ferriera (In Press) describes research in Ferreira and Saiz (2008) who examine the influence of changing neighborhood ethnic composition on housing prices. Specifically, they estimate the impact of an Hispanic household moving into a neighborhood finding that this move decreases property values in predominantly white neighborhoods and increases property values in predominantly Hispanic neighborhoods. They interpret these findings as evidence of tastes for self-segregation among both whites and Hispanics.

An alternative explanation, however, arises if one considers that the entrance of an Hispanic household provides information about both the change in neighborhood composition and the ethnicity of the typical person who is demanding housing in this neighborhood, i.e. the ethnicity of the typical person who is negotiating for and helping to set the price of housing in this neighborhood. Instead of an empirical analysis that examines the effect of adding an Hispanic to a white or Hispanic neighborhood, the empirical exercise may effectively be thought of involving a large change in the ethnic composition (from white to Hispanic) and the associated neighborhood unobservables for
a neighborhood that is attracting new Hispanic homebuyers. Hispanics may simply have a lower willingness to pay for unobserved (from the researcher’s perspective) neighborhood attributes that correlate with ethnic composition or possibly are less able to evaluate neighborhood quality in a predominantly white neighborhood. This phenomenon would lead falling prices relative to levels that might have been established when whites formed a larger share of potential homebuyers.

In both cases, phenomena that are in part ascribed to preferences concerning racial or ethnic composition may be explained by racial or ethnic differences in preferences for neighborhood quality and potentially by asymmetric information concerning neighborhood quality. Especially in the case of one-sided tipping, the empirical regularities uncovered appear very consistent with the notion of neighborhood stereotyping or using race as a noisy signal for neighborhood quality. Such stereotypes clearly can be maintained by the existing high levels of racial segregation in U.S. metropolitan areas and the negative impacts of that segregation on the African-American population.

**Summary and Conclusions**

The willingness of whites to live in integrated neighborhoods has improved steadily. The incidence of housing discrimination is down substantially with the exception of discrimination against Hispanics in the rental market, and the observed pattern of prices and outcomes in the housing market suggests that discrimination by real estate agents does not significantly constrain the neighborhood choices of minorities. And yet, residential segregation of African-American persists at levels far above the level experienced by other minority groups in this country. Improvements in residential
segregation have been modest since the 1970’s, and there is no evidence of an acceleration in desegregation as discrimination fell during the 1990s. This combination of empirical evidence strongly suggests that the elimination of housing discrimination (while a major accomplishment for other reasons) would do little to mitigate the high levels of racial segregation experienced by many African-Americans in our country.

On the other hand, the evidence of high levels of discrimination in the past is quite compelling. The legacy of this past discrimination is almost certainly the central factor in explaining the high levels of residential segregation that developed during the last century and likely heavily influences the segregation experienced by African-Americans today. While middle income African-Americans have suburbanized over the last two decades, this suburbanization has taken place in a cultural environment distorted by high levels racial segregation, and accordingly the resulting pattern of African-American suburbanization also involves high levels of segregation mirroring that earlier environment.

Building on earlier work by Galster (1991) and Ellen (1999), I have suggested in this chapter that the history of African-American residential segregation may be a central force for developing and maintaining the attitudes about neighborhoods that reinforce and maintain the high levels of racial segregation observed in U.S. metropolitan areas. White households may stereotype predominantly African-American neighborhoods in terms of both the quality of the neighborhood environment and expected changes in that quality based on the segregated urban environments that arises from such attitudes. The frequency and severity of such stereotyping may be exacerbated because whites may have difficulty evaluating neighborhood quality in predominantly minority
neighborhoods due to cultural differences. In my opinion, information asymmetry concerning neighborhood quality has been under studied in research on racial segregation and may be especially important for explaining why racial segregation in housing has been so persistent as general attitudes have improved and housing discrimination has declined.

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