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Housing Market Discrimination, Homeownership, and Savings Behavior: Reply

By John F. Kain and John M. Quigley*

John McDonald's comment is a useful verification and extension of our earlier analysis of the effects of racial discrimination in urban housing markets. In our paper we demonstrated that black households have a lower probability of home ownership or purchase than otherwise comparable white households. We concluded that this difference results largely from "supply restrictions," i.e., a limited supply of units suitable for home ownership within the ghetto and substantial impediments to the purchase of homes outside the ghetto by black households.

Our paper contained two empirical investigations: a detailed analysis of the probability of home ownership and purchase, based on a large sample of St. Louis households, and an analysis of intermetropolitan differences in black and white home ownership among 18 large metropolitan areas. The second of these two analyses was devised primarily to test the supply restriction hypothesis. In it the proportion of central city units that are single family and the proportion of the SMSA black population that reside in the suburban ring were used to represent these supply restrictions.

In his note, McDonald replicates our St. Louis analysis of homeownership using Detroit data and correctly points out that part of the difference he obtains in black and white ownership probabilities may result from the "fact that blacks have more difficulty obtaining mortgages on single family houses." He then attempts to decompose the racial coefficient in our model into two components: 1) a component due to difficulties in obtaining mortgages, and 2) a component due to our notion of supply restrictions. In his first alternate model, he includes whether the household lives in a single family unit as an explanatory variable (Equation (2), Table 1). In his second alternate model, structure type and tenure are jointly determined (Equation (3), Table 1). He interprets the racial coefficient in these two alternate probability-of-ownership equations as reflecting problems of access to mortgages.

McDonald does not discuss the nature of the difficulty blacks encounter in obtaining mortgages, but at least two sources come to mind. Blacks may have difficulty obtaining mortgages because of overt racial discrimination by lenders or because they, as individuals, are considered poorer credit risks than comparable whites. Alternatively, mortgages may be unavailable because the dwelling units available to potential black home buyers are old, in poor condition, located in declining neighborhoods, or have other characteristics that make them high risk investments.

Differences in mortgage availability arising from the characteristics of dwellings and neighborhoods are clearly an integral part of our concept of supply restrictions, but overt racial discrimination and differences in the evaluation of credit worthiness by lenders are conceptually distinct.

Unfortunately, McDonald's method fails to distinguish between these two kinds of effects. Indeed, in this respect it goes no further than our analysis of the difference in ownership rates among metropolitan areas. Our analysis of intermetropolitan differences in black and white home ownership rates can be interpreted in terms virtually identical to McDonald's analysis. If the coefficient estimates reported in our equations (4) and (5) are accepted at face value, the results imply that if central city ghettos were composed entirely of single family housing (i.e., if $S_e$ in equations (4) and (5) had a value of 1.0) the mean difference between actual and "expected" black home ownership rates would be reduced to about 3 percentage points.

* Harvard University.
(using equations (4)) or 6 percentage points (using equation (5)).

For the Detroit metropolitan area, analyzed by McDonald, our estimate of the difference between expected and actual black home ownership rates is 26 percentage points. The regression coefficients from equation (4) indicate that, if Detroit's black ghetto were composed entirely of single family housing this difference would be reduced to 12 percentage points. Finally, the use of the regression coefficients from equation (5) reduces the difference between expected and actual black home ownership rates in Detroit to 6 percentage points. Of course, the assumed change in the characteristics of Detroit's housing stock would imply higher white homeownership rates as well. Thus McDonald's results, using individual households in Detroit as units of observation, are a consistent extension of our own intercity analysis.

We differ more sharply with McDonald's conclusions regarding appropriate public policies. It is hard to disagree with the view that steps should be taken to ensure that banks and other lenders do not discriminate against blacks or other ethnic groups in mortgage dealings. But if the lower ownership rates among blacks living in single family units reflect the higher risks of lending in old, low quality transitional neighborhoods, we are skeptical of programs that would provide mortgages to blacks to buy units in ghetto and boundary areas. Experience with the Boston Banks Urban Renewal Group program in Boston and with similar programs in other cities suggests that such measures in a segregated housing market may operate to consolidate the ghetto.

The obvious public policy alternative is to design and emphasize programs which would make the entire nonghetto housing market more accessible to prospective black home owners. (See Kain and Joseph Persky and our unpublished 1972 paper.) Even if the objective of public policy is no more broad than "to increase the proportion of blacks who own homes" (McDonald, p. 229), the latter policy should provide a much greater payoff.

REFERENCES


