

another force that will foster more competition: fiscal austerity. “There is no better spur to candor, error correction, and cre-

ativity in defense planning,” he says, “than a very tight budget and a few smart rivals competing for budget share.”

ECONOMICS, LABOR & BUSINESS

Race and Real Estate

“Mortgage Lending in Boston: Interpreting HMDA Data” by Alicia H. Munnell, Geoffrey M. B. Tootell, Lynn E. Browne, and James McEneaney, in *The American Economic Review* (Mar. 1996), American Economic Assn., 1014 Broadway, Ste. 305, Nashville, Tenn. 37203.

Blacks and Hispanics seeking to buy a home generally have a harder time getting a mortgage than whites do. Minority applicants are almost three times as likely to be rejected, according to data collected under the federal Home Mortgage Disclosure Act (HMDA). But is that because lenders discriminate, illegally, on the basis of race—or is it only because they are selective, quite reasonably, on the basis of economic factors, such as income and credit history? Analyzing additional data for 1990 gathered by the Federal Reserve Bank of Boston, Munnell, a member of the U.S. Council of Economic Advisers, and three colleagues from the Boston Fed contend that the legitimate selectivity explains a large part of the racial gap—but not all of it.

On average, the authors say, minority applicants have less wealth and weaker credit histories than white applicants do, and they need to borrow more relative to the value of

the property they seek to buy. When these disadvantages are taken into account, the difference in rejection rates shrinks considerably. But minority applicants are still 1.8 times more likely to be rejected than comparable white applicants. Minorities’ “adjusted” rejection rate is 28 percent, compared with a rate for whites of 20 percent. It appears, the authors say, that “white applicants may enjoy a general presumption of creditworthiness that black and Hispanic applicants do not.”

David Horne, of the Federal Deposit Insurance Corporation, and other critics have claimed that the Boston Fed study, whose preliminary findings were available four years ago, is ideologically biased and methodologically flawed. Munnell (who was director of research at the Boston Fed when the study was done) and her colleagues now fire back at Horne and his “errors.” The statistical battle goes on.

One Third of a Nation?

“The Crusade That’s Killing Prosperity” by Lester Thurow, in *The American Prospect* (Mar.–Apr. 1996), New Prospect Inc., P.O. Box 383080, Cambridge, Mass. 02238.

Nearly eight million Americans were officially out of work last fall—5.7 percent of the labor force—but they were only a small part of the vast, hidden army of the unemployed and underemployed in the United States, contends Thurow, an economist at the Massachusetts Institute of Technology.

Add to the officially jobless the five to six million not counted because they are not actively seeking work (perhaps having become discouraged), and the 4.5 million

