another force that will foster more competition: fiscal austerity. "There is no better spur to candor, error correction, and creativity 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., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203.

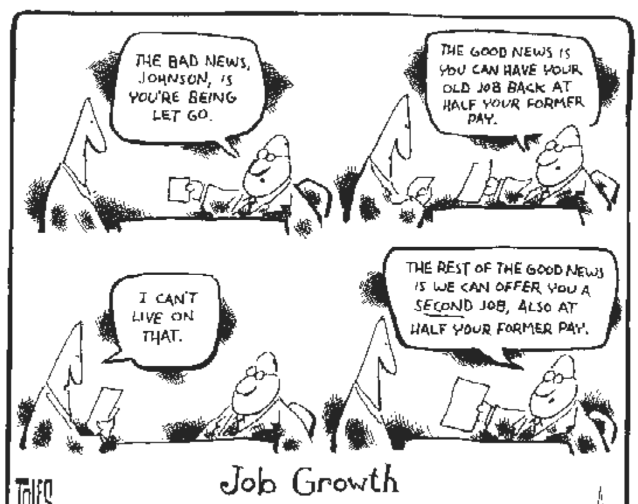
Blacks and Hispanics seeking to buy a home generally have a harder time getting a mortgage than whites do. Minority applicants are almost three times as likely to be rejected, according to data collected under the federal Home Mortgage Disclosure Act (HMDA). But is that because lenders discriminate, 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

part-time workers who would prefer full-time work—and the total number of unemployed reaches 17 to 18.5 million, or almost 14 percent of the labor force. Then add the more than 18 million *under*employed: 8.1 million workers in temporary jobs, two million who work "on call," and 8.5 million self-employed "independent contractors," many of whom, Thurow says, are downsized professionals "too proud to admit that they are unemployed." Finally, add the 5.8 million "missing males," 25 to 60 years old, who show up in census figures but not in labor statistics; some of these men are homeless, others are in the illegal underground economy. All told, Thurow calculates, "about one-third of the American workforce is potentially looking for more work."

"No wonder workers have no bargaining power," Thurow writes. The labor surpluses of the past quarter-century have prevented workers from claiming their fair share of the nation's growing wealth, which went disproportionately to the more educated and highly skilled. These labor surpluses accelerated the rise of income inequality and the fall of real wages.

"Today's slack labor markets were produced by the war against inflation" begun in the early 1970s, Thurow says. Although inflation has been defeated—the Consumer Price Index was down to 2.5 percent last year—the Federal Reserve Bank continues to pursue a tight money policy that restricts economic growth. It is time to declare victory over inflation, he concludes, and begin to put the many millions of unemployed and underemployed Americans back to work.

Getting By before Social Security

"The Poverty of Impoverishment Theory: The Economic Well-Being of the Elderly, 1890–1950" by Brian Gratton, and "Myth of the Industrial Scrap Heap: A Revisionist View of Turn-of-the-Century American Retirement" by Susan B. Carter and Richard Sutch, in *The Journal of Economic History* (Mar. 1996), 302 Thayer St., Box 1981, Brown Univ., Providence, R.I. 02912.

During the Progressive era and the New Deal, reformers argued—and historians, by and large, have agreed—that America's late-19th- and early-20th-century industrialization impoverished the elderly. As workers aged and became less fit for physically demanding factory work, the reformers contended, they were cast onto the proverbial scrap heap. Only after the Social Security Act of 1935, supposedly, was there financial security in old age.

The case no longer seems airtight. It is true, says Gratton, a historian at Arizona State University, looking at median annual earnings between 1890 and 1950, that workers over 50 were generally paid less than younger men. But older men shared in the steady improvement in real income for all workers. Men 60 and older earned $528 in 1890 and $936 in 1918 (in constant dollars). More important, however, was the fact that men of all ages could count on their children to help support the family from the time the children were young all the way into adulthood. In 1918, offspring provided nearly one-third of family earnings in households headed by men in their early sixties.

Over the years, moreover, the general rise in real wages allowed families in all age groups to reduce their reliance on the earnings of offspring.

Not only that, but between 1900 and 1910, about one-fifth of all men who reached age 55 eventually chose "retirement," living without paid labor or the support of grown children, say Carter, an economist, and Sutch, an economist and historian, at the University of California's Riverside and Berkeley campuses, respectively. "Individuals saved in order to be able to retire. Many used their savings to purchase assets, which they invested in owner-occupied, owner-operated farms, shops, and homes. Many men voluntarily left the wage sector long before retirement age to work for themselves." Later, the authors believe, these men liquidated their assets (or rented them to others) to provide adequate income in their old age.

The declining role of children's earnings before the Social Security Act was enacted indicates that both young and old Americans wanted to get away from that way of providing for old age, which, Gratton notes, can cause a lot of intergenerational friction. "The Depression raised the specter of a return to the old way, and the New Deal offered an attractive alternative." Americans took it.