

Is Affordable Housing the Remedy to Perceived Discrimination Against Immigrants?

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Introduction

Migration is an organic process that evolves over time for each wave of immigrant communities. Newly-arriving immigrants recognize they suffer from substantial disadvantages in a new culture foreign to them, oftentimes substantially foreign politically, socially and in other dimensions. Research in recent decades has revealed a marked tendency for immigrants to cluster in urban communities that afford them a network of similarly-situated persons who have already walked the path that they are just beginning.

Ethnic clusters or networks have existed in the United States for centuries. Each wave of immigrants has followed similar patterns. We may briefly describe the pattern as consisting of the following attributes:

1. Residing in a community of similar immigrants sharing the same language, culture and religion as they had in their country of origin.
2. Guiding new immigrants in finding living accommodations.
3. Helping each other to secure employment opportunities and access to credit.
4. Providing support in assisting one another in social and legal matters.

This policy statement has been prepared for the Community Forum before the New Jersey State Advisory Committee to the United States Commission on Civil Rights, May 8, 2008, Trenton, NJ.

Without listing other immigrant community benefits, suffice it to say that these networks reduce in a substantial way the stresses and shocks of relocating and living within a broader culture that is foreign and intimidating to them.

There is virtually no disagreement among economists that such benefits exist from such migration networks. There is, however, a question of whether the pursuit of migrant networks is the only factor affecting immigrants' location decisions or whether immigrants migrate for other reasons. One such theory is that, when making housing decisions, immigrants merely follow the herd and in so doing ignore potentially valuable, private information (e.g., access to finance, etc.).

Research by Bauer et al. suggests that patterns of migration can be explained by both herd effects and the pursuit of migrant networks. Immigrants for whom herd effects dominate typically benefit less from ethnic enclaves than those who acquire, and base decisions upon, private information acquired within migrant networks.

Immigrant enclaves as social capital

Despite the immediate benefits to immigrants of becoming part of a supportive immigrant network, there are some short-term disadvantages to themselves and to the community at large. One perceived problem is that immigrants tend to continue to rely on their ethnic community and thereby do not assimilate quickly into American culture. This is especially true of middle-aged and older immigrants who may never learn the English language, never hear or read the news as reported in American media, and thereby continue to suffer from social and economic disadvantages vis-a-vis their non-ethnic counterparts.

Another problem is that immigrants tend to live in housing that is, to Americans, below

acceptable standards. Crowding and safety problems are perennial housing problems in immigrant enclaves.

Yet research also reveals some substantial long-term benefits that accrue to immigrants in ethnic communities. Gradual assimilation while residing in an intensely ethnic neighborhood allows immigrants to acquire and build-up human capital. Human capital, in economic terms, refers to the skills and abilities a person possesses and these are typically acquired by means of additional education, improved language skills, and work experience. Studies indicate that the earnings of immigrants lag behind the earnings of comparable non-immigrants at first, but then increase faster over time than those of native workers. (See Xie and Gough) Perhaps the degree of comfort afforded immigrants by ethnic communities provides a sound base upon which learning and skills are more readily acquired.

In addition, several studies including Damm's study suggest that immigrants with unfavorable characteristics self-select into ethnic enclaves, which increases the employment probability of immigrants. As immigrants with unfavorable characteristics (i.e., no formal education, few skills, etc.), these individuals would be shut out of the labor market if not for the assistance of fellow immigrants who, by providing them with marketable traits (e.g., knowledge of the native language, mores, etc.), increase the likelihood that they obtain employment.

Existing policy responses

In 1983, the State of New Jersey responded to what it perceived to be a problem, namely segregation. It did so by creating the Council on Affordable Housing (COAH) to implement plans for the creation of housing for low- and moderate-income housing. It is important to note that the State made no distinction between institutionalized segregation and organic segregation, the latter being the result of largely voluntary self-selection by immigrants. Despite that, the State formulated an institutional response to a non-institutional situation. By introducing policies

designed to disperse immigrants throughout the suburbs of New Jersey, COAH's mandates serve to undermine the development of immigrant communities. This not only reflects a serious misunderstanding of the causes of dense urban immigrant communities but potentially denies immigrants access to the benefits to be derived from the existence of ethnic enclaves and migrant networks.

Among other things, ethnic enclaves also allow immigrants to invest in, and build up, social capital where social capital reflects the value of social networks, bonding of similar people, and the furtherance of norms of reciprocity. Adler and Kwon define social capital as "the goodwill available to individuals or groups" and observe that "its source lies in the structure and content of the actor's social relations." They continue, "its effects flow from the information, influence and solidarity it makes available to the actor." Social capital derives its name from the fact that it can be considered a critical factor of production, an integral component of social and economic development.

Fukuyama notes that "states do not have many obvious levers for creating many forms of social capital." He continues, "public policy can be aware of already existing forms of social capital - for example, the social networks used to develop information for microlending - but it cannot duplicate the effect of, [for example, culture] as a source of shared values." Fukayama's policy recommendations are based on the premise that social capital is a by-product of an organic, and a largely non-governmental, process.

According to Fukayama, "the area where governments probably have the greatest direct ability to generate social capital is education." He goes on to state that "states indirectly foster the creation of social capital by efficiently providing necessary public goods [such as well-defined property rights]." Lastly, Fukayama observes that "the ability to cooperate is based on habit and practice."

Fukayama's emphasis on education is especially important and of great interest to us because it provides a method that would allow the State to effectively address a commonly cited negative consequence of ethnic enclaves: the inability of immigrants to master the native language. An immigrant's ability to increase his stock of human capital, thereby gaining access to better employment opportunities, is directly affected by his knowledge of the native language. COAH's mandates ignore education as a long-run method by which immigrants can access better employment opportunities and, as a consequence, presumably better housing.

There are substantial scale economies both in the provision of housing and in delivering educational services. For example, urban areas more readily provide efficient, less costly services for residents of multi-unit housing than do suburbs and, other things being equal, specialized learning teams are more effectively deployed in school systems where there are concentrations of students who would need special services such as language training.

Recommendations

Based on the aforementioned information, as well as our analysis of COAH's Third-Round Rules, we recommend the following:

a. Investment in mass transit

Perhaps the most irresponsible oversight by COAH was its complete disregard of mass transit as a method by which workers can access jobs while still being able to afford area housing. An implicit assumption of the Third-Round Rules is that everyone should have an equal opportunity to purchase affordable housing "close to" their place of employment. But efficient, affordable mass transit has, for a long time, been an alternative method of linking an individual's residence and place of employment. As an article in the *Wall Street Journal* recently reported, rail and transit services are experiencing a renaissance

thanks to continuing concerns about the environment and highway congestion. In 2008, Congress passed legislation to establish more than \$3 billion in grants for states to expand rail services over the next five years, and in November 2008, U.S. voters approved billions of dollars for mass-transit projects. This, along with President Obama's pledge to invest in infrastructure, suggests that significant improvements in mass transit will occur over the next several years, further enabling it to serve as a viable link between residential communities and employment centers. In addition, numerous studies have identified health benefits (e.g., reduced obesity rates, etc.) associated with mass transit use. (See Tiemann et al. and AP report.)

An investment in mass transit not only provides immigrants with access to employment, it also allows subsequent generations ready return access to their ethnic base after having migrated out of central cities.

b. Relax housing standards

Housing standards may be too restrictive for first generation immigrants. Such standards likely impose values of native and middle- to upper-income homeowners on immigrants. Immigrants who may desire to sacrifice and save for a better future will be unable to do so because of housing requirements that do not reflect their values and their willingness to give up current living standards for better standards in the future. It is not unusual, for example, to find several immigrant family members sharing rooms that would not pass local minimum room square-footage per-person standards.

c. Enforce housing laws as they pertain to housing discrimination

The government could, and should, better enforce existing anti-discrimination laws. Among other things, some housing discrimination results from discriminatory lending

practices. Denying well-qualified immigrants access to credit should be appropriately and regularly addressed by the proper regulatory authorities. We note, however, that many immigrants choose not to engage in traditional banking activities (e.g., depositing funds, using checks or debit cards as a payments mechanism, utilizing credit cards, etc.). Instead, these immigrants rely upon alternative financial enterprises such as check-cashing centers and a cash economy. Immigrants who choose not to make use of traditional banks may find it difficult to obtain financing for housing regardless of discrimination.

One might expect the existence of discrimination to be reflected in foreclosure statistics. Most studies regarding disparate foreclosures, however, examine foreclosures across minority group (most typically blacks and Hispanics) and thus do not provide sufficient data that would allow us to examine foreclosures across ethnic groups in general and more specifically immigrant populations.

Haughwout, et al. identify three ways in which mortgage lenders may treat similar groups of borrowers differently:

- 1) they may refuse to offer credit at all;
- 2) they may urge accepted applicants to purchase less attractive or more costly products; or
- 3) they may price a given product differently for different borrowers.

The authors find that high minority neighborhoods and locations with higher unemployment rates have a higher concentration of sub-prime loans, evidence of a small but positive credit supply shock in these neighborhoods. Because of the way in which the data relied upon in this study were collected, however, it is difficult, if not impossible, to draw any conclusions about credit discrimination against immigrants.

d. Collect and organize more useful data

As previously stated, the lack of available data sets that contain mortgage and foreclosure data specifically for recent immigrants makes it very difficult to determine the extent to which credit discrimination occurs, if at all, among immigrant borrowers.

Under the Federal Reserve System's Regulation C, financial institutions are required to collect data about the ethnicity, race and sex of applicants or borrowers. For ethnicity, the applicant is identified as Hispanic, Latino or neither. In addition, five racial categories exist: American Indian or Alaska Native; Asian; Black or African American; Native Hawaiian or other Pacific Islander; and White. The applicant no longer has the option of checking off "other" but is able to select more than one category. Despite the emphasis on the collection of ethnicity and race data, financial institutions under Regulation C still are not required to provide relevant statistics that would allow one to evaluate the extent of credit discrimination among immigrants. The State could take a leadership role by implementing data collection requirements along the lines we have suggested.

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