# RACIAL PROFILING, INSURANCE STYLE: INSURANCE REDLINING AND THE UNEVEN DEVELOPMENT OF METROPOLITAN AREAS

GREGORY D. SQUIRES
*George Washington University*

**ABSTRACT:** *Racial profiling has emerged as a highly contentious practice in a range of social settings. This article examines the role of racial profiling in the property insurance industry and how such practices, grounded in negative racial stereotyping, have contributed to racial segregation and uneven metropolitan development. From a review of industry underwriting and marketing materials, court documents, and research by government agencies, industry and community groups, and academics, it is clear that race has long affected and continues to affect the policies and practices of this industry. Due to limitations in publicly available data, it is difficult to assess precisely the extent to which race shapes industry practices. Research and public policy initiatives are explored that can ameliorate the data problems, increase access to insurance, and foster more equitable community development.*

"Very honestly, I think you write too many blacks . . . you got to sell good, solid premium paying white people. . . . the white works"

Sales manager for American Family Mutual Insurance Company
(NAACP v. American Family Mutual Insurance Company, 1992).

Racial profiling has emerged as a leading civil rights issue in social science research and policy circles today. If most of the debate over racial profiling focuses on policing and administration of justice issues, such practices are not restricted to this arena. In fact, at least financially and economically, far more damage is done by racial profiling in other areas of public and private life. One of those is the property insurance industry. The costs include not just diminished opportunities for racial minorities, but also the exacerbation of uneven development of metropolitan areas, and the many costs associated with that pattern. This article examines the historical and ongoing practices of racial profiling and related discriminatory actions on the part of the property insurance industry in the US. These practices are hardly unique to any particular industry. In fact, they reflect longstanding racial stereotypes

*Direct correspondence to: Gregory D. Squires, Department of Sociology, 801 22nd Street NW, Phillips Hall, Suite 409, George Washington University, Washington, DC 20052. E-mail: squires@gwu.edu*

**JOURNAL OF URBAN AFFAIRS, Volume 25, Number 4, pages 391–410.**
**Copyright © 2003 Urban Affairs Association**
**All rights of reproduction in any form reserved.**
**ISSN: 0735-2166.**

that have stigmatized racial minorities throughout much of American society, and continue to do so at great expense to minority communities and metropolitan areas generally. Remedies may be available and directions for future policy initiatives are explored.

## INSURANCE, HOME OWNERSHIP, AND URBAN DEVELOPMENT

The property insurance industry has a long and continuing tradition of racial profiling. If such practices were once considered sound, professional business practices and explicitly endorsed by the industry, few publicly defend them today. Yet they persist. While redlining and racial discrimination by mortgage lenders and banking institutions generally have long been subject to research and public policy initiatives (Goering & Wienk, 1996; Haag, 2000; Munnell, Browne, McEneaney, & Tootell, 1996; Ross & Yinger, 2002; Stuart, 2003), equally pernicious, but less scrutinized, has been the behavior of the property insurance industry (Badain, 1980; Galster, Wissoker, & Zimmermann, 2001; Squires, 1997). Yet insurance is critical, or in the industry's term "essential." If a potential homebuyer cannot obtain a property insurance policy, no lender can provide a mortgage. The risk of financial loss to the mortgage lender would simply be too great if the property is not insured. Should the home be damaged, the lender needs to know that its investment is secured and that the loan will be repaid. Property insurance on the home along with the value of the land, which could be sold in case the home was destroyed, provides that security. Without a mortgage, the vast majority of homeowners would not have been able to purchase their homes. In light of the essential nature of home insurance, lenders often refer their customers to local insurance agents, or increasingly now offer insurance services themselves. So, as the Seventh Circuit Court of Appeals stated in the 1992 case of *NAACP v. American Family Mutual Insurance Co.* (1992), "No insurance, no loan; no loan, no house; lack of insurance thus makes housing unavailable."

Households experiencing what the industry refers to as a problem of insurance availability are not randomly scattered throughout metropolitan areas. They tend to be located within central city neighborhoods, usually with high concentrations of non-white residents. While some rural communities experience availability problems due primarily to limited fire protection, for a variety of reasons this has been a particularly urban problem. For example, in Milwaukee 72.4% of homes in white areas compared to 61.6% of homes in black areas were covered by insurers required to comply with that state's disclosure requirements in 1999. (Very few states have such requirements as will be discussed below.) Remaining homes either have no coverage or are protected by smaller insurers or so-called *surplus lines*, *off shore*, or *non-admitted* insurers. These insurers are not regulated by the states and, therefore, are not included in state guaranty funds, which means consumers are not protected if the companies should go bankrupt (Squires, O'Connor, & Silver, 2001).

Urban communities tend to have older homes with electrical, heating, and other major systems that have not been updated in recent years. Older wood frame homes, generally concentrated in cities, pose a greater fire risk than newer suburban brick homes. The dense nature of housing patterns means that a fire on one property may damage a nearby property, leading insurers to avoid high concentrations of policies in a particular neighborhood. Theft rates are higher in many urban neighborhoods than in most suburban communities. Relatively lower valued dwellings in cities also make urban properties less profitable to insure. A recent insurance industry study of loss costs in eight major metropolitan areas between 1989 and 1994 found that the frequency of claims was 18% higher in cities than in the neighboring communities within five miles of the city boundaries; there were 124 claims per 1,000 insured homes in the cities compared to 105 claims in the surrounding communities. And the average claim was 20% higher in cities.

Consequently, industry costs per insured home were 42% greater for urban than suburban policyholders (Insurance Research Council, 1997).

But in addition to risk factors that may differ between some cities and suburbs in general, a host of other practices (discussed below) that are not based on risk adversely affect urban communities. Redlining of older urban neighborhoods, including practices of racial profiling and discrimination, exacerbate urban insurance availability and affordability problems. Compounding the racial effect is the fact that racial minorities tend to have lower incomes, live in lower-valued homes, and reside in cities (U.S. Bureau of the Census, 2002). The connection between property insurance practices and the fate of cities was captured by a federal advisory committee in 1968, which observed:

> Insurance is essential to revitalize our cities. It is a cornerstone of credit. Without insurance, banks and other financial institutions will not–and cannot make loans. New housing cannot be constructed, and existing housing cannot be repaired. New businesses cannot expand, or even survive.
>
> Without insurance, buildings are left to deteriorate; services, goods and jobs diminish. Efforts to rebuild our nation's inner cities cannot move forward. Communities without insurance are communities without hope (President's National Advisory Panel, 1968, p. 1).

There is a direct line between the actions of the property insurance industry and the critical problems facing the nation's most distressed urban communities that was captured in the title of a law review article, "Property Insurance and the American Ghetto: A Study in Social Irresponsibility" (Yaspan, 1970). If progress has been made since the federal advisory report in 1968, the problems of urban insurance availability and affordability, including its racial dimensions, retain their largely urban character. As another legal scholar concluded: "Hardest hit by unavailability and unaffordability difficulties are transitional neighborhoods in older cities and members of minority groups. So long as unavailability and unaffordability problems remain, communities without affordable insurance become communities with diminishing hope" (Badain, 1980, p. 76).

A related reason for the significance of property insurance for cities and the economy in general is the sheer size of the industry. In 2001 total assets of the insurance industry reached $4.2 trillion with the assets of those other than life insurers totaling $881 billion. For all financial services sectors, including banks and securities, total assets were $37.6 trillion. So insurers accounted for just over 11% and non-life insurers accounted for just over 2% of total assets in financial services (Insurance Information Institute, 2003). In 2000 the property insurance industry (which includes automobile, commercial, and marine as well as homeowners insurance) received $299.6 billion in premiums. (Premiums are the dollars collected for policies that are sold.) Homeowners' premiums reached $32.4 billion. In 1999 the property insurance industry's net after tax income was $20.6 billion. And the insurance industry generally, including life and health insurers as well as property insurers, employed 2.3 million people in the US (Insurance Information Institute, 2002).

Not surprisingly, in 1999 the states that generated the most premiums were primarily large urban states with California ranking first followed by New York, Texas, Florida, and Illinois. Average premiums ranged from a low of $266 in Wisconsin to a high of $861 in Texas. Insurers generally pay out more in losses and loss cost expenses than they collect in premiums. In 2000 property insurers paid out approximately 10% more than they received from their underwriting activities. But earnings from invested funds along with money set aside as loss reserves compensate in most years for underwriting losses and enable insurers to generate a profit (Insurance Information Institute, 2002).

The property insurance industry, therefore, constitutes an important actor, economic and otherwise, in urban and metropolitan areas. And it is also an integral piece of the institutional infrastructure of inequality in urban and metropolitan areas. It reflects and reinforces the role of race and space in framing the opportunity structure confronting residents of the nation's cities and surrounding communities. The restructuring of American cities in recent decades has been accompanied by growing inequality and concentration of poverty along with a range of social problems associated with those developments (Goldsmith, 2002; Harrison & Bluestone, 1988; Jargowsky, 1997; Massey & Denton, 1993; Wilson, 1996; Wolff, 1995). If the overt expression of racist sentiments has been subdued, the continuing reality of racial profiling, grounded in longstanding and persisting racial stereotypes, reveals the ongoing centrality of racism in the political economy of urban communities. The devil is in the details. One of those critical details is the property insurance industry.

From documents describing industry underwriting guidelines, marketing strategies, and court documents, as well as research by government agencies, industry and community groups, and academics, the following pages document historical and contemporary practices of racial profiling and related forms of redlining and racial discrimination on the part of the property insurance industry. Profiling refers to practices through which individuals are classified, at least in part, on the basis of their race or the racial composition of their neighborhoods and treated differently as a result.

Such practices incorporate elements of both disparate treatment and disparate impact discrimination that are unlawful under the federal Fair Housing Act and many state statutes. Under the disparate treatment standard plaintiffs must establish that the respondent intentionally discriminated on the basis of a protected class membership (e.g., race, ethnicity, gender). Under the disparate impact standard intent is not necessary. The universal application of an apparently neutral policy or practice that excludes a disproportionate share of protected class members (e.g., racial minorities) would violate the act unless the respondent could establish a legitimate business purpose for that policy or practice and that no lesser discriminatory alternative is available to accomplish that objective (Crowell, Johnson, & Trost, 1994). No parallel legal definition of racial profiling has emerged from the legislative debates and court cases in the fair housing arena, but given the legal standards that have emerged it clearly incorporates many of the elements of unlawful practices that have been identified.

Following the discussion of past and present profiling and discrimination, successful efforts to combat these practices are examined. And policy recommendations are offered to further reduce the role of race in the delivery of property insurance products and services. Racial profiling may not be as visible within the property insurance industry as it is in law enforcement. But insurers are equally proficient, perhaps because they have had so much practice.

## The Insurance Industry's Character Problem: Moral, Morale, and Other Hazards

Insurers generate their revenue from the sale of insurance policies. In so doing they incur a range of costs. In 2000 for each dollar collected in premiums insurers paid 79.6 cents for claims, 25 cents for sales and administrative expenses, 2.5 cents in taxes and 1.3 cents in dividends. As noted above, these costs come to more than 100%, which is normal for most insurers' underwriting activities. Investment income compensates for these losses and permits insurers to generate a profit and continue making insurance available (Insurance Information Institute, 2002). But in order to stay competitive and maximize their

returns, insurers need to determine whether a given applicant is eligible for a policy, and if so, how much to charge.

The insurance industry has one major problem: It does not know the actual cost of its product (an insurance policy) when the product is sold. This makes the decision to sell a policy, the price at which it should be sold, and other terms and conditions of the transaction most problematic. Property insurance policies that cover homes are generally sold on an annual basis. A premium or price is charged and is often paid in full at the beginning of the policy period. But the cost to the insurer will not be known until the end of that period of time. In most cases there is no measurable damage to the home so no claims are filed and the insurer incurs few expenses other than transaction costs involved in processing the application and premium payments. But in other cases the property that is insured is damaged and, on occasion, totally destroyed. These costs are generally far higher than the annual premium that is charged.

So the industry tries to determine in advance who is likely to experience a loss and how large those losses will be. And because it is too expensive to collect information on the unique characteristics of each applicant, the industry categorizes applicants into groups based on expected losses. The industry attempts to identify those attributes that account for losses and which people share those attributes. Actuaries develop risk classifications and underwriters determine in which class a given applicant belongs. Two sets of considerations generally enter into this process: 1) the characteristics of the property to be insured and the neighborhood in which it is located and 2) the characteristics of the people to be insured. Compounding the complexities is the fact that decisions by insurers can affect the behavior of insureds. Once a homeowner is insured against a particular risk or event that could cause a loss, the household has less of an incentive to avoid such situations and may take fewer precautions to reduce the chances of such an event occurring.

Several property-related factors affect whether or not an applicant is eligible, and if so under what terms. These factors include the construction of the dwelling, which involves the type and age of materials, the condition of the building, and adequacy of maintenance. For example, a wood frame building is more susceptible to fire than a brick structure, therefore, a wood home, all else being equal, would be more expensive to insure. Occupancy, or the purpose for which the home is used is another factor. If the home is also used for certain types of business, it might be ineligible for home insurance and the owner would have to seek a commercial policy. Protection is a third consideration. Presence (or absence) of smoke alarms, security systems, and other protective devices can affect eligibility for coverage. Proximity to fire hydrants and the quality of local fire protection services are other related factors. Exposure is another property-related consideration. This refers to hazards or risks in neighboring properties such as certain types of industrial concerns, abandoned lots, or other environmental hazards (Wissoker, Zimmermann, & Galster, 1998).

Characteristics of people are also important. The industry identifies two general types of hazards that relate to the character and behavior of applicants and insureds: "moral hazards" and "morale hazards." The former refers to any condition that increases the likelihood of fraud. Someone who is intent on fraud can pose challenges to an insurer. The industry argues, for example, that someone in financial trouble may be more likely to submit fraudulent claims. Requiring credit reports as part of the underwriting process is justified as part of an effort to learn if the applicant poses such a risk. Some companies will not provide a full replacement cost policy (i.e., a policy that will pay the full cost for repairing or replacing damage resulting from a loss) if the market value of the home is

substantially less than its replacement cost. The fear is that such an insured has an incentive to burn their house down for the insurance money.

A morale hazard refers to a situation where an insured simply becomes less careful once their property is covered. Though no fraud is intended, knowing that an insurance policy is in force may cause some to be less careful in preventing loss than would otherwise be the case. This problem can be dealt with, at least in part, by offering incentives to take preventive action. For example, discounts can be offered for the installation of smoke alarms or security systems. Deductibles are often included whereby the insured is responsible for at least the first few hundred or thousand dollars of any loss (Heimer, 1982, 1985).

So the challenge for the insurance industry is to identify those characteristics of individual properties and people that are conducive to loss and either avoid them or charge higher premiums. The overriding problem confronting insurers remains the fact that they still do not know the cost of its product when it is sold to the consumer. Race has been used as part of the effort to solve that problem. That is, in addition to the tools noted above, a longstanding practice of the industry has been to use race–both the race of individual applicants and the racial composition of neighborhoods–in efforts to classify and price risks. Where race is associated with loss, insurers may have a financial incentive to engage in *statistical discrimination*, but these practices are illegal nevertheless. It is unlawful to use average characteristics of a racial group to determine whether housing related services will be provided to any particular individual (Yinger, 1995). Where race is used but is demonstrably not predictive of loss, there is virtually no justification for such practices. Yet drawing on traditional stereotypes that persist throughout the United States (e.g., racial minorities and particularly blacks are still viewed as less motivated to work, more likely to be engaged in crime) (Bobo & Massagli, 2001; Feagin, 2000; Schuman, Steeh, Bobo, & Krysan, 1997), racial profiling in the insurance industry has been a fact of life. These practices undercut economic development opportunities for stigmatized groups and hinder urban redevelopment in general (Badain, 1980; Metzger, 2001; Powers, 1997; Smith & Cloud, 1997; Yaspan, 1970).

## The Role of Race in Evaluating Risk and Marketing Products

The property insurance industry has long asserted that risk drives underwriting and pricing activity and that race has virtually nothing to do with these practices. Urban insurance availability and affordability, from this perspective, simply reflect the higher losses in those neighborhoods. As indicated above, one study of loss costs in eight major metropolitan areas found that as a result of greater frequency and higher costs of claims in urban communities than in surrounding neighborhoods, urban policyholders cost insurers 42% more per policy than did policyholders in nearby neighborhoods (American Insurance Association, 1993; Insurance Research Council, 1997; National Association of Independent Insurers, 1994). Yet race is a factor that has long been explicitly taken into consideration in evaluating risk (Heimer, 1982; Yaspan, 1970). And many industry practices have an adverse disparate impact on minority communities (i.e., result in a higher share of residents in these communities compared to those in white communities that is denied a policy, charged higher prices, or otherwise offered less advantageous terms and conditions) even though no intentional racial considerations may be present (Kincaid, 1994; Powers, 1997).

The following statement by one marketing consultant illustrates the importance of race, and the link between character and race that was widely and openly expressed at least through the 1950s:

> It is difficult to draw a definite line between the acceptable and the undesirable colored or cheap mixed white areas; the near west side (Madison Street) and near north side (Clark Street) still attract the derelict or floating elements with "honky tonk," mercantiles and flop houses. Any liability in the areas described should be carefully scrutinized and, in case of Negro dwellings, usually only the better maintained, owner occupied risks are considered acceptable for profitable underwriting (National Inspection Company, 1958).

This statement makes it clear that one of the keys to profitable underwriting was racial discrimination. Apparently, where there are colored or mixed areas it is difficult to determine acceptable from unacceptable areas. And it is the racial composition of such neighborhoods that raises the initial question. What is it about race that matters? Apparently it is the association with derelict behavior. If there is profitable business to be written for "Negroes" (but apparently not for whites) only well maintained properties in which the owner resides are acceptable.

More recently, through the early 1990s, at least one major insurer used explicit racial stereotypes to identify neighborhoods in Richmond, Virginia where it avoided writing insurance. Among the neighborhood descriptions found in that company's marketing guidelines were the following: "Difficult Times—Black Urbanite households with many children ... they do watch situation comedies and read T.V. guide. Metro Minority Families ... mostly black families with school children ... they enjoy listening to news/talk radio, and watching prime time soap operas" (National Fair Housing Advocate Online, 1998, para. 4). In part because of such marketing practices, a jury ruled that Nationwide Insurance Company violated the Virginia Fair Housing Act (*Housing Opportunities Made Equal, Inc. v. Nationwide Mutual Insurance Company*, 1998).

Other labels recently employed by various consultants to characterize different types of neighborhoods that have guided insurers and other financial service providers in their marketing include "Low Income Southern Blacks," "Middle Class Black Families," and "Urban Hispanics." At least one of these firms has dropped the race and ethnic labels but in ways that reflect a downgrading of those neighborhood clusters. "Middle Class Black Families" was changed to "Working Class Families," and "Low Income Southern Blacks" was replaced with "Hard Times" (Metzger, 2001). The primary result is that many residents of such areas are offered less attractive products than are available in other communities, in part for reasons that are unrelated to the actual risk they pose. The American Family sales manager quoted at the opening makes it clear that race is important and why—whites work. Again, the role of race in identifying underlying character traits is indicated.

In a 1995 survey of insurance agents in the Lehigh Valley in southeastern Pennsylvania, 3% stated that an applicant's race was a factor in their decision to insure a home. When asked to agree or disagree with the statement "The race of a homeowner is never a factor when deciding whether or not to insure a home," 94% said they "Completely Agree." When asked about "the racial mix of a neighborhood" 88% "Completely Agree" it is never a factor. The vast majority, in other words, state that race or racial composition is never a factor (Community Action Committee of the Lehigh Valley Inc., 1995). Yet more than 25 years after the Fair Housing Act was passed, at least some agents continue to openly

endorse the use of race in the underwriting of insurance policies. This finding may well understate the number of agents who explicitly take race into account. Survey respondents often give what they perceive to be socially acceptable responses to interviewers that may differ from their true beliefs. When questions are related to race, this generally means providing answers that reflect a more liberal or tolerant attitude than some respondents actually hold (Schuman, et al., 1997).

In a confidential conversation in 2002, an insurance broker said he was often asked the following two questions in what he referred to as "verbal underwriting" for multi-family dwellings: 1) is there any Section 8 at these properties and 2) are the kids in this neighborhood more likely to play hockey or basketball. Both of these questions were understood by this broker and by others to be subtle code words to elicit information on the race of the tenants (Luquetta, personal communication, March 29, 2002). Much of this evidence is anecdotal. But there is also quantitative evidence of the systematic use of race, and of practices that have a disparate impact on racial minorities. Some of this evidence is quite recent.

The National Association of Insurance Commissioners, a trade association of state law enforcement officials who regulate the insurance industry, examined the distribution and costs of homeowners' insurance policies across 33 metropolitan areas in 25 states in the mid-1990s. Researchers found that the racial composition of the neighborhood remained statistically significantly associated with the number and cost of policies even after controlling on loss experience and other demographic factors (Klein, 1995, 1997). (For contradictory findings in Texas where the effect of race was not significant see Grace & Klein, 1999.)

Some of the reasons for these disparities have been uncovered by fair housing organizations in audit or paired-testing studies. In these experiments, white and non-white mystery shoppers (or shoppers from white and non-white neighborhoods) are assigned the same relevant individual, home, and neighborhood characteristics, and they contact various insurance agents in their communities posing as householders interested in purchasing a policy for their homes. The only difference in each pair is their race or the racial composition of the neighborhood of the home they indicate they want to insure. Because each pair is matched on the relevant criteria (e.g., income and occupation of householder, age and construction of home, fire protection ratings of residential neighborhoods) any differences in treatment are assumed to constitute racial discrimination.

Tests of major insurers conducted by several fair housing organizations around the country have routinely found disparities in the way white and non-white testers and neighborhoods have been treated. Where white testers and testers from predominantly white neighborhoods have generally been aggressively pursued as customers, blacks and Hispanics as well as testers from black and Hispanic neighborhoods have confronted many barriers. Differences include:

- the willingness to provide a policy for whites but denying or referring minority applicants elsewhere;
- not returning calls from minority testers while promptly responding to whites;
- offering policies with different terms and conditions (e.g., full replacement cost policies for whites, market value policies for non-whites);
- charging different prices for the same policy;
- requiring inspections in non-white but not white areas;
- requiring non-whites to supply social security numbers (so credit checks could be run) but not soliciting such information from whites.

Between 1992 and 1994 the National Fair Housing Alliance tested major insurers in nine cities and found evidence of unlawful discrimination in the following shares of tests in the respective cities: Chicago (83%), Atlanta (67%), Toledo (62%), Milwaukee (58%), Louisville (56%), Cincinnati (44%), Los Angeles (44%), Akron (37%), and Memphis (32%) (Smith & Cloud, 1997).

Similar disparate treatment has been found in approximately half the tests conducted of major insurers by several fair housing organizations (*National Fair Housing Alliance v. Travelers Property Casualty Corporation, Aetna Casualty & Surety Company, and Citigroup*, Inc., 2000; Smith & Cloud, 1997; *Toledo Fair Housing Center v. Farmers Insurance Groups of Companies*, 1999). The one study that attempted to assess the extent of racial discrimination market-wide (rather than among particular insurers as has been the case with most of the insurance testing) did not find differences in terms of access to insurance. Researchers with the Urban Institute examined the Phoenix and New York City markets and found that quotes were offered to the vast majority of white, black, and Hispanic testers. But in Phoenix, Hispanics were slightly less likely to be offered full replacement coverage on the contents of their homes than were whites (92% versus 95%) and were more likely to be told the quote would not be guaranteed without an inspection of the home (3% compared to 0.4% among testers who contacted the same agents). Quotes were also 12% higher for Hispanics, though in line with rates filed with the state insurance commissioner for different rating territories, which raises questions about the validity of those state-approved delineations. And in New York white testers were slightly more likely to receive both a written and verbal quote (18.1%) compared to 11.8% for blacks who were more likely to receive only a verbal quote. Though not large, these differences were statistically significant (Galster, et al., 2001; Wissoker, et al., 1998).

Many insurers market their products in ways that, by intent or effect, favor white neighborhoods. The location of agents is one key indicator of where an insurer intends to do business. A study of agent location and underwriting activity in the Milwaukee metropolitan area found that two-thirds of all policies these agents sold covered homes within the zip code or one that bordered the zip code in which their office was located. Coupled with the fact that the proportion of insurance agents in metropolitan areas located in central cities has consistently declined as their numbers have increased in suburban communities, the location (and relocation) of agents has had an adverse disparate impact on the service available in minority communities. In Milwaukee, for example, the number of suburban agents increased from 32 to 297 between 1960 and 1980 while the number in the city initially grew from 113 to 157 during the 1960s but then dropped to 125 by 1980. The ratio of agents per 1000 owner-occupied dwellings remained virtually constant in the city (1.01 and 1.09) while increasing from .34 to 1.25 in the suburbs (Squires, Velez, & Taeuber, 1991). A study of two major insurers within the city of Chicago also revealed a concentration of agents in predominantly white neighborhoods and an avoidance of non-white neighborhoods (Illinois Public Action 1993). Housing values, loss experience, and other economic and demographic changes might account for some of this movement. But studies of agent location in the St. Louis and Milwaukee metropolitan areas found that racial composition of neighborhoods was associated with the number of agents and agencies even after controlling for various socio-economic characteristics including loss experience, income, housing value, and age of housing (Schultz, 1995, 1997; Squires, et al., 1991).

Underwriting guidelines utilized by many insurers have an adverse disparate impact on non-white communities. Restrictions associated with credit history, lifestyle (e.g., prohibitions against more than one family in a dwelling, references to morality and stability),

employment history, and marital status are frequently utilized though no business necessity has been demonstrated (Powers, 1997). Two commonly utilized underwriting guidelines are maximum age and minimum value requirements. For example, insurers often reject or limit coverage for homes that were built prior to 1950 or are valued at less than $100,000. The disparate impact of maximum age and minimum value guidelines is most evident. In 1999, 23.6% of owner-occupied housing units nationwide were built prior to 1950. But 30.6% of black owner-occupied housing units and 41.7% of Hispanic units were built before 1950. And while 46% of all owner-occupied housing units were valued at less than $100,000, for blacks the figure was 65.5% and for Hispanics it was 50.8%. Clearly, these two underwriting guidelines exclude a larger share of black and Hispanic households than whites (U.S. Bureau of the Census, 2002). Practices that exclude a disproportionate share of a protected group may constitute unlawful, disparate impact discrimination even in the absence of evidence of intent to discriminate. These underwriting guidelines may fall in this category and, arguably, would not constitute racial profiling. But the impact of these underwriting guidelines is foreseeable and, therefore, perhaps the racial effect is not unintentional. Consequently, they comprise part of the complex web of practices that constitutes racial profiling in the property insurance industry.

A related problematic underwriting rule is the moral hazard, noted above, that many insurers assume exists when a property's replacement value (what it would cost to repair or rebuild a home) exceeds the market value (what it would sell for). For example, if a home would cost $100,000 to rebuild but would sell for only $50,000, the fear is that a homeowner would intentionally burn the home in order to collect the insurance proceeds. Others contend that, despite the apparent incentive, owner-occupants have many social and psychological, as well as financial, investments in their homes and do not present such a risk. The industry itself is split on the question of whether or not homeowners are engaged in any significant arson for profit schemes. But while arson has long been a problem in urban communities, it is primarily a problem with commercial rather than personal property. In 1998 arson was reported to be a cause of fires in 10.8% of residential and 20.4% of non-residential fires. Property damage from arson grew from $1.5 billion in 1991 to $2.4 billion in 1992 and then declined to $1.3 billion in 2000 (Insurance Information Institute, 2002). Arson occurs primarily when property owners have encountered financial difficulties. They may owe back taxes, have payments on loans that are overdue, or have other debts they are unable to meet. They may have encountered an immediate emergency such as a medical crisis for a family member. But no empirical evidence has been presented to establish that homeowners residing in properties where replacement value exceeds market value are indeed *selling their homes to the insurance industry* (Brady, 1984). Given the neighborhoods where replacement value most often exceeds market value, such an underwriting rule excludes a substantially higher share of homes in non-white than in white neighborhoods (Powers, 1997).

Though clearly an under-researched issue, the claims process is also affected by racial and ethnic stereotypes held by many adjustors, the professionals who evaluate losses and settle claims filed by policyholders (Brenner, 1993). According to one former adjustor for a major insurer, "black claimants routinely received smaller settlements than white claimants" and her company "routinely set lower reserve amounts for Hispanics than for any other type of claimant" (Saadi, 1987, pp. 55, 58). Her company questioned claims filed by blacks and Hispanics more than those filed by whites, in part because of beliefs that racial and ethnic minorities did not occupy the same occupational status and, therefore, might falsify a claim to get more money or could simply be fooled into accepting less. Lower claims settlements were also justified on the grounds that the medical profession would

not provide the same level of care for minorities and, therefore, such claimants could not utilize the funds to the same extent as whites (Saadi, 1987).

An examination of claims settled following Hurricane Andrew in South Florida in 1992 concluded that Hispanic claimants were 60% less likely than whites to be paid within 60 days of filing after controlling for income and education of claimants and level of damage to homes. A law professor and a sociologist at the University of Miami observed insurance claims mediations and interviewed claimants, adjustors, and mediators. They noted the strong subjective dimension of the claims settlement process and the types of indicators adjustors looked for to identify the likelihood of fraud. Types of neighborhoods people lived in, the cars they drove, their business or professional background, immigrant status, and other social attributes were openly acknowledged by adjustors as factors they take into consideration. Stereotypes they held about immigrants generally and Hispanics in particular led them to be more suspicious of claims from these groups. There was no difference in the claims ultimately paid, just the length of time in paying them, which reinforced the conclusion that untrustworthiness was a major factor underlying the claims adjustment process (Baker & McElrath, 1996, 1997).

There is a contradictory element to these stereotypes. If racial minorities were easier to exploit in the claims process, arguably they would be more profitable (and desirable) customers. But there is no evidence that the industry favors minority applicants on any systematic basis, and it appears just the opposite is the case. Again, limitations in data availability (discussed below) hinder efforts to precisely quantify the role of race in the sale and service of insurance products.

The insurance industry is primarily concerned with risk exposure when it writes policies. But perceptions of race have long influenced the industry's methods for assessing and responding to the ambiguous liabilities it assumes when it issues a policy. While debates over redlining and racial discrimination in the property insurance industry have raged for decades, in recent years more aggressive responses have been proposed and in some cases implemented by community organizations, law enforcement officials, and the industry itself.

## *From Redlining to Reinvestment?*

Responses to urban insurance availability problems or redlining and racial discrimination by property insurers have taken several forms. The NAIC has issued model laws prohibiting what is referred to as unfair discrimination and several states have implemented those statutes. But there has been little enforcement. State insurance commissioners have basically been missing in action in the insurance redlining debate. Their activities focus on rate regulation, establishing licensing procedures, reviewing financial statements, and determining solvency standards. Their primary concern is to assure that companies remain solvent (Brenner, 1993). Several insurers have launched a range of voluntary initiatives including educational programs, mentoring initiatives, and related outreach efforts. The most effective responses have come from fair housing organizations that have filed a series of lawsuits and administrative complaints resulting in substantial institutional changes on the part of the nation's largest insurers. But given the absence of publicly available data on underwriting and marketing activities, it remains unclear how much progress has been made in eradicating the role of race and ameliorating urban insurance availability problems.

Two basic problems have undercut the effectiveness of state insurance commissioners—the absence of political will and the limitation of resources. Those who enforce the law are frequently closely connected to the industry they are charged with regulating. A study of

state legislators who are members of insurance committees in ten large states found that almost one-fifth either own or are agents for an insurance business or are attorneys with law firms that have large insurance practices (Hunter & Sissons, 1995). Many state insurance commissioners came from and went to the industry prior to and after their public service as their state's chief law enforcement officer (Paltrow, 1998). And the resources available at the state level to regulate what are increasingly global corporations are insufficient. To illustrate, as of 1998, 13 state insurance commissioners offices employed no actuaries to examine the fairness of rates that companies charged, and the states approved. Indiana received 5,278 consumer complaints in 1997 bringing the total for the previous four years to more than 21,000. Disciplinary action was taken against 11 insurers. With a limited staff, most complaints were simply forwarded to the companies against whom the complaints were filed (Paltrow, 1998).

Some states are engaged in a range of educational and outreach activities, often in conjunction with insurers and trade associations. The Neighborhood Reinvestment Corporation created a National Insurance Task Force consisting of several leading insurance companies, state insurance commissioners, and trade associations to conduct a range of educational initiatives. Homeowners are advised on loss prevention programs including fire safety, crime prevention, and home maintenance efforts in order to reduce their risk potential and increase their eligibility for insurance. Insurance companies and agents are educated on how to identify good business in urban areas and to market their products in previously underserved communities (Neighborhood Reinvestment Corporation, 1995, 1997).

The Cincinnati based National African American Insurance Association is working with Howard University and the District of Columbia Insurance Commissioner to train minority students for careers in insurance (Mazier, 2001a). The Independent Insurers Association of America and several insurers including Chubb, Safeco, and Travelers have joined in an effort to provide additional support for, and to mentor, minority agents (Mazier, 2001b; Thomas, 1999). These same insurers, along with others, have also launched formal diversity training to assist their agents to serve and work with minority communities (Ruquet, 2001). Some insurers are simply finding profitable business in neighborhoods they had ignored in the past (Bowers, 1999).

Fair housing organizations have been the most effective vehicle for changing the way property insurers serve urban communities, and minority markets in particular. Since 1995 evidence produced primarily from paired testing audits conducted by non-profit fair housing organizations has led to settlements of administrative complaints and lawsuits, and one jury verdict involving several leading insurers including Allstate, State Farm, Farmers, American Family, Nationwide, Liberty and others. (Copies of the settlements and verdict are available from the author.) This group represents six of the ten largest, including the four largest homeowners insurers; these insurers accounted for half the premiums written in the US market in 2000 (Insurance Information Institute, 2002). As a result of these actions, these insurers have provided financial compensation to plaintiffs, eliminated maximum age and minimum value underwriting guidelines, opened agencies in previously underserved urban neighborhoods, developed educational and marketing campaigns in these communities, and financed future testing as part of an effort to evaluate the effectiveness of these reinvestment efforts. In some of these cases funds have been made available to assist homeownership in urban communities, and in one case an affirmative action plan was implemented to increase employment opportunities for minorities at all levels within the company. Examples include a $17 million commitment by Nationwide for damages and various reinvestment efforts in Richmond, Virginia (*Housing*

*Opportunities Made Equal Inc. v. Nationwide Mutual Insurance Company*, 1998; Millen & Chamberlain, 2001). American Family negotiated a $14.5 million agreement that included $5 million for plaintiffs and $9.5 million to subsidize loans and grants for home purchase and repair (*United States v. American Family Mutual Insurance Company*, 1995; *NAACP v. American Family Mutual Insurance Company*, 1992). Discussions are currently going on with insurers in several cities and more settlements are likely.

An emerging point of contention is the industry's use of mathematical formulas in which credit scores are systematically used in determining eligibility for, and the price of, insurance policies. While credit information has been used by some insurers for selected applications in the past, now approximately 90% of property insurers use credit scores systematically in their underwriting or pricing activities (Ford, 2003). Insurers claim that people with better credit scores are less likely to file claims. It is argued that those who are more careful in the management of their financial assets will also be more careful in their handling of other assets including their homes and automobiles. Because credit scoring leads to more accurate pricing of insurance policies, according to this perspective, the market is more competitive with more companies offering policies resulting in greater choices for consumers (American Insurance Association, n.d.; Snyder, 2003). Critics contend that due to racial disparities in income, debt ratios, bankruptcies, inaccurate credit reports, and other financial matters the use of credit reports exerts an adverse disparate impact on minority communities and, therefore, constitutes a new form of redlining. One problem is that the data in studies the industry relies on in drawing its conclusions are not available for public scrutiny making independent verification of its claims difficult (Birnbaum, 2003; Willis, 2003). One outcome of this debate was the introduction of the Insurance Credit Score Disclosure and Reporting Act in the 107th Congress in 2003 by Rep. Luis Gutierrez (D-IL). This bill would require insurers to disclose the use of credit scoring to all applicants along with the impact of the credit score on the price of all policies. It would prohibit insurers from taking any adverse action regarding insurance coverage based solely on credit history, and it would require insurers to refund premiums calulated on the basis of inaccurate credit information and it would provide additional protections for consumers in the use of credit information.

Despite the wide range and large number of new initiatives, it remains unclear just how differently property insurers are serving older urban communities and racial minorities in particular. A critical piece of a future agenda is the documentation of precisely how effectively various communities are being served.

## Beyond Racial Profiling: Future Research and Policy Implications

Thirty-five years ago when financial institutions were widely accused of redlining and racial discrimination, Congress stepped in and enacted three critical pieces of legislation. The Civil Rights Act of 1968 (the federal Fair Housing Act) banned racial discrimination in mortgage lending. In 1975 the Home Mortgage Disclosure Act (HMDA) was passed requiring most mortgage lenders to disclose annually the number, type, and dollar amount of loans they made by census tract in all metropolitan areas. The act has been modified several times and now requires lenders to report the race, gender, and income of all applicants, the disposition of applications (e.g., whether they were approved or denied), and as of 2004, disclosure of pricing information on some high-cost loans will be required. In 1977 the Community Reinvestment Act (CRA) was passed providing a federal prohibition against redlining. It places on all federal depository institutions (e.g., banks and savings and loans) an affirmative obligation to ascertain and be responsive to the credit

needs of the communities they serve, including low- and moderate-income neighborhoods. (For more detailed information on the Fair Housing Act see the Web site of the U.S. Department of Housing and Urban Development [http://www.hud.gov/]. For information on HMDA and CRA see the Web sites of the Federal Financial Institutions Examination Council [http://www.ffiec.gov/] and the National Community Reinvestment Coalition [http://www.ncrc.org/].)

These statutes are widely credited for increasing lending activity in low- and moderate-income communities and for racial minorities in particular (Gramlich, 1998, 2002; Joint Center for Housing Studies, 2002; Meyer, 1998). Between 1993 (when the coverage of HMDA was expanded to include independent mortgage companies not previously covered) and 2000 the share of single-family home-purchase loans going to blacks increased from 3.8% to 6.6%. For Hispanics the share grew from 4.0% to 6.9%. And the share of such mortgage loans going to low- and moderate-income borrowers went from 19% to 29% (National Community Reinvestment Coalition, 2001a). Disclosure, coupled with federal prohibitions, appear to have had the intended effect. No comparable requirements exist for property insurers. The limited disclosure data available have had some salutary effects. A broader, nationwide proposal might do for insurance what HMDA has done for mortgage lending.

A recent survey of all state insurance commissioners solicited information on HMDA-like disclosure requirements that were currently in place. Just eight states had some geographic disclosure requirements, all at the zip code level. Data on individual insurance companies were available in just four of these states. Loss experience and cost information was available at the aggregate level in three states. No state made loss or cost data and pricing information available for individual insurers (Squires, et al., 2001).

Despite the limitations of available data, they have proven useful in some instances. Plaintiffs in the American Family case noted above utilized the Wisconsin disclosure data in negotiations that resulted in the $14.5 million settlement including commitments to write at least 1200 new policies and open new offices in Milwaukee's black community, elimination of maximum age and minimum value underwriting guidelines, $9.5 million in subsidized loans to support home ownership, and other reinvestment initiatives (Lynch, 1997; Ritter, 1997).

In an analysis of 1999 Wisconsin data, researchers found that six insurers had a market share in white zip codes that was at least 50% larger than their share in black areas. In regressing the percentage of owner-occupied dwellings covered on neighborhood racial composition, race was negatively and statistically significantly associated with coverage for each insurer. Controlling on income resulted in a statistically significant finding for two insurers, Prudential and Integrity Mutual (Squires, et al., 2001). Data on loss experience were not available. Research reported above by Klein (1997) and Schultz (1995, 1997) did control on loss experience because in their capacity as employees of the National Association of Insurance Commissioners and the Missouri Department of Insurance they had access to information not available to the general public. An independent investigation of Prudential by fair housing organizations found that this insurer utilized maximum age and minimum value underwriting rules that adversely affected minority neighborhoods, placed relatively few agents in minority communities, refused to provide African American and Hispanic callers with the same level of information they provided white callers, and took other actions that made insurance less available in minority neighborhoods in Milwaukee, Philadelphia, Richmond, and Washington, DC. A formal fair housing complaint was filed and is currently pending (*National Fair Housing Alliance, et al. v. Prudential Insurance Company*, 2001).

From a public policy perspective, the next logical step is to enact a federal disclosure requirement for property insurers modeled on HMDA. Such a requirement would call for insurers to publicly report, on an annual basis, information on applicants, properties, and neighborhoods including: the race, gender, and income of applicants; type of policy and amount of coverage applied for; replacement value of home; disposition of those applications; price of policy; census tract in which the property is located; structure (e.g., brick or frame) and age of home; number of rooms and square feet of home; number and severity of claims; and distance to nearest fire hydrant.

Such disclosure would allow for far more comprehensive understanding of which, if any, markets were underserved and would facilitate, in particular, understanding the extent to which race remains a factor. This information could assist insurers in their marketing strategies. It would help state insurance commissioners target scarce enforcement resources. And it would help community organizations identify potential partners for reinvestment initiatives. As John Taylor, Executive Director of the National Community Reinvestment Coalition, observed regarding disclosure in mortgage lending, "The mere act of data disclosure motivated partnerships among lending institutions, community organizations, and government agencies for designing new loan products and embarking on aggressive marketing campaigns for reaching those left out of wealth building and homeownership opportunities" (National Community Reinvestment Coalition, 2001b).

Many fair housing and community development advocates along with some policymakers have also endorsed CRA-like requirements for the insurance industry. The Community Reinvestment Modernization Act introduced in 2001 by Milwaukee Congressman Tom Barrett (D-WI) and his Chicago colleague Luis Gutierrez (D-Ill) would establish an affirmative obligation for insurers to provide insurance products and investment activity in low- and moderate-income neighborhoods, along with comprehensive disclosure of where such services were being offered. Massachusetts requires insurers to invest in low-income communities in exchange for tax relief offered by that state. California has created a voluntary program in which community groups bring investment opportunities to the insurance commissioner who attempts to attract commitments from insurers in that state to finance those projects (Luquetta & Goldberg, 2001).

These are baby steps, however, relative to what lenders have been doing for decades and what appears to be the needs of many low-income and particularly minority neighborhoods. Again, absent systematic disclosure, it is difficult to identify areas of greatest need or appropriate intervention strategies. State regulators currently have the necessary data, or the authority to collect them. But few have demonstrated a desire to do so. Social reform frequently bubbles up from the local level to states and the federal government. In light of the history of racial profiling and redlining in the property insurance industry, the contentious nature of responses, and the questions that persist, the time would appear ripe for a federal insurance disclosure requirement.

Despite the limitations of current data availability, there is substantial anecdotal and quantitative evidence that indicates the persistence of racial profiling, discrimination, and redlining on the part of property insurers. But the fundamental causes of these problems extend far beyond the insurance industry. The specific policies and practices that have been identified are firmly grounded in stereotypes that continue to permeate the United States. A number of regulatory, legislative, and voluntary industry initiatives could ameliorate racial profiling and discrimination within the property insurance industry. But more meaningful progress in combating these industry-related problems may await more progress in addressing the problems of stereotyping and discrimination in American society generally.

Research on racial attitudes demonstrates that white Americans continue to view blacks as being less intelligent, less hardworking, and more prone to criminal behavior than whites (Feagin, 2000). When asked to account for racial disparities, lack of motivation on the part of blacks is the argument with the greatest appeal among whites. Their problems would be largely solved if they worked harder, according to this dominant perspective. Whites exhibit little recognition of past or present discrimination as a factor blocking black progress (Schuman, et al., 1997). Such beliefs reflect and reinforce patterns of inequality leading to structured or institutionalized racial inequalities that often appear to be inevitable if not natural outcomes of intrinsic cultural characteristics (Bobo & Massagli, 2001). Concerns with work and morality on the part of insurance agents, underwriters, and others simply reflect stereotypical attitudes that transcend any one industry.

Once formed, stereotypes, and the structured inequalities they generate, change slowly. If there is a kernel of truth to stereotypes (e.g., black unemployment is higher than white unemployment) there is a tendency to paint everyone in the group with the same broad brush. People respond to labels and their stereotypical images of those to whom the label has been attached, rather than to individuals in those groups. This results in sweeping misjudgments that have critical racial and spatial consequences (Bobo & Massagli, 2001). Racial segregation, the uneven development of metropolitan areas characterized by urban sprawl and concentrated poverty, and the associated social costs are just some of those consequences (Orfield, 1997, 2002; Rusk, 1999). For an industry like insurance that depends on risk classifications and the categorization (influenced by stereotypes) that this entails, the negative consequences are magnified.

One kernel of truth may well be that some urban neighborhoods pose greater risks to insurers than other neighborhoods that are not underserved. Insurers may well be responding to signals of the marketplace in their underwriting and pricing decisions. But to the extent that objective measures of risk explain the industry's behavior, a key question is why various neighborhoods pose different levels of risk. To the industry, such uneven development is largely a reflection of the culture, morality, and behavior of residents with race being a major determinant. Rarely does the industry point to disinvestment by private industry, fiscal crises of municipalities, public policy decisions that have long favored suburban over urban communities (e.g., federal highway construction, exclusionary zoning laws, mortgage deductions and other subsidies for home ownership), steering by real estate agents, subjective and discriminatory property appraisals, and many others (Gotham, 2002; Jackson, 1985, 2000; Massey & Denton, 1993). Given these structural realities and subjective stereotypes of the industry, eventually the prophecy becomes self-fulfilling. So it becomes rational to avoid some minority communities. But this reflects the crackpot realism Mills wrote about more than 40 years ago (Mills, 1958). Such behavior is rational, only given the larger irrationality of private practices and public policies that have nurtured uneven development (Dreier, Mollenkopf, & Swanstrom, 2001). But as the evidence cited earlier indicates, the industry is not responding just to risk. Race appears to have an independent and adverse impact even after loss experience, risk, and other objective measures are taken into account (Klein, 1997; Schultz, 1995, 1997).

Racial profiling persists in the insurance industry and it leads to unlawful disparate treatment and disparate impact discrimination. This dynamic is grounded in unflattering racial stereotypes that reinforce structural dimensions of racial inequality and uneven development of metropolitan areas. Profiling and discrimination may be less pervasive today than in previous decades, or these practices may simply be more subtle. Progress appears to have been made in recent years in part from universalistic approaches like loss

mitigation and other educational efforts directed at urban consumers and insurers generally. But racial disparities resulting from both objective economic factors and subjective discriminatory practices continue and, to be effective, proposed remedies should be mindful of the overt and subtle racial dynamics.

The necessary data do not exist to draw precise conclusions regarding the extent to which objective and subjective considerations drive these decisions. Insurers will always face the problem of not knowing the actual costs of its product when that product is sold. But steps can be taken to maximize the extent to which such decision-making is predicated on actual risk and minimize the role of race.

**ACKNOWLEDGEMENT:** I would like to thank the many people who provided helpful comments on earlier drafts of this article including William Chambliss, George Galster, John Goering, Samantha Friedman, Stephen Steinberg, Ron Weitzer, and three anonymous reviewers.

## REFERENCES

American Insurance Association. (1993). *Availability and use of homeowners insurance in the urban core of major American cities*. Washington, DC: American Insurance Association.

American Insurance Association. (n.d.). *Credit-based insurance scores: What you need to know*. Washington, DC: American Insurance Association.

Badain, D. (1980). Insurance redlining and the future of the urban core. *Columbia Journal of Law and Social Problems*, *16*(1), 1–83.

Baker, T., & McElrath, K. (1996). Whose safety net? Home insurance and inequality. *Journal of Law and Social Inquiry*, *21*, 229–264.

Baker, T., & McElrath, K. (1997). Insurance claims discrimination. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 141–156). Washington, DC: The Urban Institute Press.

Birnbaum, B. (2003). *Insurer's use of credit scoring for homeowners insurance in Ohio: A report to the Ohio Civil Rights Commission*. Columbus: Ohio Civil Rights Commission.

Bobo, L., & Massagli, M. P. (2001). Stereotyping and urban inequality. In A. O'Connor, C. Tilly, & L. D. Bobo (Eds.), *Urban inequality: Evidence from four cities* (pp. 89–162). New York: Russell Sage Foundation.

Bowers, B. (1999, March). Redeveloping the urban market. *Best's Review*, 29–37.

Brady, J. (1984). The social economy of arson: Vandals, gangsters, bankers and officials in the making of an urban problem. *Research in Law, Deviance and Social Control*, *6*, 199–242.

Brenner, L. (1993). *The Insurance Information Institute's handbook for reporters*. New York: Insurance Information Institute.

Community Action Committee of the Lehigh Valley, Inc. (1995). *Homeowners insurance and the inner-city neighborhood*. Lehigh, PA: Community Action Committee of the Lehigh Valley, Inc.

Community Reinvestment Act, 12 U.S.C.A. 2901–2908 (1977).

Community Reinvestment Modernization Act, H.R. 4893, 106th Congress, 2nd Session (2001).

Crowell, S., Johnson, W., & Trost, T. (1994). *The Fair Housing Amendments Act of 1988: The enforcement report*. Washington, DC: U.S. Commission on Civil Rights.

Dreier, P., Mollenkopf, J., & Swanstrom, T. (2001). *Place matters: Metropolitics for the twenty-first century*. Lawrence: University Press of Kansas.

Fair Housing Act of 1968, 42 U.S.C. § 3601.

Feagin, J. R. (2000). *Racist America: Roots, current realities, and future reparation*. New York: Routledge.

Ford, C. (2003, March 24). *Endorsement for Rep. Gutierrez Bill 'Insurance Credit Score Disclosure and Reporting Act.'* NCRC Listserve. Washington, DC: National Community Reinvestment Coalition.

Galster, G., Wissoker, D., & Zimmermann, W. (2001). Testing for discrimination in home insurance: Results from New York City and Phoenix. *Urban Studies*, *38*(1), 141–156.

Goering, J., & Wienk, R. (Ed.). (1996). *Mortgage lending, racial discrimination, and federal policy*. Washington, DC: The Urban Institute Press.

Goldsmith, W. W. (2002). From the metropolis to globalization: The dialectics of race and urban form. In S. Fainstein & S. Campbell (Ed.), *Readings in urban theory* (pp. 37–55). Oxford: Blackwell Publishers Inc.

Gotham, K. F. (2002). *Race, real estate, and uneven development: The Kansas City experience*, 1900–2000. Albany: SUNY Press.

Grace, M. F., & Klein, R. W. (1999). *An analysis of urban homeowners insurance markets in Texas, Atlanta*. Center for Risk Management and Insurance Research, Georgia State University.

Gramlich, E. M. (1998, November 6). *Remarks by Governor Edward M. Gramlich at Widener University at Chester, Pennsylvania*. The Federal Reserve Board. Available: http://www.federalreserve.gov/boarddocs/speeches/1998/19981106.htm [June 2003].

Gramlich, E. M. (2002, April 8). *Remarks by Governor Edward M. Gramlich at the Consumer Bankers' Association Community Reinvestment Act Conference, Arlington, Virginia*. Available: http://www.federalreserve.gov/boarddocs/speeches/2002/20020408/ [June 2003].

Haag, S. W. (2000). *Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future*. Washington, DC: The Brookings Institution Center on Urban and Metropolitan Policy.

Harrison, B., & Bluestone, B. (1988). *The great u-turn: Corporate restructuring and the polarizing of America*. New York: Basic Books.

Heimer, C. A. (1982). The racial and organizational origins of insurance redlining. *The Journal of Intergroup Relations*, *X*(3), 42–60.

Heimer, C. A. (1985). *Reactive risk and rational action: Managing moral hazard in insurance contracts*. Berkeley: University of California Press.

Home Mortgage Disclosure Act, Codified to 12 U.S.C. 2801 (1975).

Housing Opportunities Made Equal, Inc. v. Nationwide Mutual Insurance Company, LB-2704 (Richmond Cir. Ct. October, 28, 1998).

Hunter, J. R., & Sissons, M. (1995). *State legislators and insurance conflicts of interest*. Washington, DC: Consumer Federation of America.

Illinois Public Action. (1993). *An analysis of zip code distribution of State Farm and Allstate agents and policies in Chicago*. Chicago: Illinois Public Action.

Insurance Credit Score Disclosure and Reporting Act, 107th Cong., H.R. 1473 (March 27, 2003).

Insurance Information Institute. (2002). *The fact book 2002*. New York: Insurance Information Institute.

Insurance Information Institute. (2003). *The financial services fact book*. New York: Insurance Information Institute.

Insurance Research Council. (1997). *Homeowners loss patterns in eight cities: Chicago, Detroit, Los Angeles, Milwaukee, New Orleans, New York, Philadelphia, St. Louis*. Wheaton, IL: Insurance Research Council.

Jackson, K. T. (1985). *Crabgrass frontier: The suburbanization of the United States*. New York: Oxford University Press.

Jackson, K. T. (2000). Gentleman's agreement: Discrimination in metropolitan America. In B. Katz (Ed.), *Reflections on regionalism* (pp. 185–217). Washington, DC: Brookings Institution Press.

Jargowsky, P. A. (1997). *Poverty and place: Ghettos, barrios, and the American city*. New York: Russell Sage Foundation.

Joint Center for Housing Studies. (2002). *The 25th anniversary of the community reinvestment act: Access to capital in an evolving financial services System*. Cambridge: Joint Center for Housing Studies, Harvard University.

Kincaid, M. L. (1994). *Insurance redlining in Texas: A preliminary report*. Austin: Office of the Public Insurance Counsel.

Klein, R. W. (1995). *The impact of loss costs on urban homeowners insurance markets*. Kansas City, MO: National Association of Insurance Commissioners.

Klein, R. W. (1997). Availability and affordability problems in urban homeowners insurance markets. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 42–82). Washington, DC: The Urban Institute Press.

Luquetta, A., & Goldberg, D. (2001). Insuring investment. *Shelterforce*, *XXIII*(6), 12–15.

Lynch, W. H. (1997). NAACP v. American Family. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 157–186). Washington, DC: The Urban Institute Press.

Massey, D. S., & Denton, N. A. (1993). *American apartheid: Segregation and the making of the underclass*. Cambridge: Harvard University Press.

Mazier, E. E. (2001a, October 29). Minority agent support still has a ways to go. *National Underwriter*.

Mazier, E. E. (2001b, October 29). Minority intern program launched. *National Underwriter*.

Metzger, J. T. (2001, July). *Clustered spaces: Racial profiling in real estate investment*. Paper presented at the International Seminar on Segregation and the City, Lincoln Institute of Land Policy, Cambridge, MA.

Meyer, L. H. (1998, May 12). *Remarks by Governor Laurence H. Meyer: Before the 1998 Community Reinvestment Act conference of the Consumer Bankers' Association*. The Federal Reserve Board. Available: http://www.federalreserve.gov/boarddocs/speeches/1998/19980512.htm [June 2003].

Millen, J. C., & Chamberlain, C. K. (2001, April 24). *Agreement reached that will benefit homeowners throughout the country*. Press release announcing settlement agreement between Nationwide Insurance and Housing Opportunities Made Equal.

Mills, C. W. (1958). *The causes of World War Three*. New York: Ballantine.

Munnell, A. H., Browne, L. E., McEneaney, J., & Tootell, G. M. B. (1996). Mortgage Lending in Boston: Interpreting HMDA Data. *American Economic Review*, *86*(1), 25–53.

NAACP v. American Family Mutual Insurance Co., 978 F.2d 287,301 (7th Cir. 1992).

National Association of Independent Insurers. (1994). *An analysis of crime and fire statistics, dwelling characteristics, and homeowners insurance losses for selected urban areas*. Washington, DC: National Association of Independent Insurers.

National Community Reinvestment Coalition. (2001a). *Home loans to minorities and working class populations increase, but policymakers do not address remaining credit gaps: A review of national data trends from 1993–2000*. Washington, DC: National Community Reinvestment Coalition.

National Community Reinvestment Coalition. (2001b, April 16). *Better Home Loan Data Critical For Anti-Discrimination in Indian Country*. NCRC Press Release: 02–07. Washington, DC: National Community Reinvestment Coalition.

National Fair Housing Advocate Online. (1998, October 26). *Jury hands down $100,500,000 verdict against Nationwide Insurance Company in housing discrimination case*. Housing Opportunities Made Equal. Available: http://www.fairhousing.com/index.cfm?method=page.display&pageID=759&CFID=81387&CFTOKEN=64618552 [June 2003].

National Fair Housing Alliance, Inc. v. Travelers Property Casualty Corporation, Aetna Casualty & Surety Company, and Citigroup Inc., No. 1:00CV01506 (U.S. Dist. D. C., 2000).

National Fair Housing Alliance, et al. v. Prudential Insurance Company, No. 1:01CV02199 (D. D.C., 2001).

National Inspection Company. (1958). *Report on negro areas of Chicago*. Chicago: National Inspection Company.

Neighborhood Reinvestment Corporation (1995). *Pathways to partnership*. Washington, DC: Neighborhood Reinvestment Corporation.

Neighborhood Reinvestment Corporation. (1997). *Annual report, 1977*. The Neighbor Works Network and Neighborhood Reinvestment Corporation. Washington, DC: Neighborhood Reinvestment Corporation.

Orfield, M. (1997). *Metropolitics: A regional agenda for community stability*. Washington, DC and Cambridge: Brookings Institution Press and The Lincoln Institute of Land Policy.

Orfield, M. (2002). *American metropolitics: Social separation and sprawl*. Washington DC: Brookings Institution Press.

Paltrow, S. J. (1998, January 14). A matter of policy: How a state becomes popular with insurers. *Wall Street Journal*, p. A-1.

Powers, D. J. (1997). The Discriminatory Effects of Homeowners Insurance Underwriting Guidelines. In G. D. Squires (Ed.), *Insurance redlining: disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 119–140). Washington, DC: The Urban Institute Press.

President's National Advisory Panel on Insurance in Riot Affected Areas. (1968). *Meeting the Insurance Crisis of Our Cities*. Washington, DC: U.S. Government Printing Office.

Ritter, R. J. (1997). Racial justice and the role of the U.S. Department of Justice in combating insurance redlining. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 187–214). Washington, DC: The Urban Institute Press.

Ross, S. L., & Yinger, J. (2002). *The color of credit: Mortgage discrimination, research methodology, and fair-lending enforcement*. Cambridge: The MIT Press.

Ruquet, M. E. (2001, October 29). Carriers help with diversity training. *National Underwriter*, p. 15.

Rusk, D. (1999). *Inside game outside game: Winning strategies for saving urban America* Washington, DC: Brookings Institution Press.

Saadi, M. (1987). *Claim it yourself: The accident victim's guide to personal injury claims* New York: Pharos Books.

Schultz, J. D. (1995). An analysis of agent location and homeowners insurance availability. *Journal of Insurance Regulation*, *14*(1), 65–89.

Schultz, J. D. (1997). Homeowners insurance availability and agent location. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 83–96). Washington, DC: The Urban Institute Press.

Schuman, H., Steeh, C., Bobo, L., & Krysan, M. (1997). *Racial attitudes in America: Trends and interpretations*. Cambridge: Harvard University Press.

Smith, S. L., & Cloud, C. (1997). Documenting Discrimination by Homeowners Insurance Companies through Testing. In G. D. Squires (Ed.), *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions* (pp. 97–118). Washington, DC: The Urban Institute Press.

Snyder, D. F. (2003). *The consumer benefits of credit based insurance scoring: Ohio Civil Rights Commission*. Washington, DC: American Insurance Association.

Squires, G. D. (Ed.). (1997). *Insurance redlining: Disinvestment, reinvestment, and the evolving role of financial institutions*. Washington, DC: The Urban Institute Press.

Squires, G. D., O'Connor, S., & Silver, J. (2001). The unavailability of information on insurance unavailability: Insurance redlining and the absence of geocoded disclosure data. *Housing Policy Debate*, *12*(2), 347–372.

Squires, G. D., Velez, W., & Taeuber, K. (1991). Insurance redlining, agency location, and the process of urban disinvestment. *Urban Affairs Quarterly*, *26*(4), 567–588.

Stuart, G. (2003). *Discriminating risk: The U.S. mortgage lending industry in the 20th century*. Ithaca: Cornell University Press.

Thomas, P. (1999, May 6). Selling big insurers on inner-city policies. *Wall Street Journal*, p. B1, B12.

Toledo Fair Housing Center v. Farmers Insurance Companies, 64 F. Supp. 2d 703 (N.D. Ohio 1999).

U.S. Bureau of the Census. (2002). American housing survey for the United States: 1999. Table 3–1 and Table 3–14. Available: www.census.gov/hhes/www/housing/ahs/ahs99/tab31.html and www.census.gov/hhes/www/housing/ahs/ahs99/tab314.html [June 2003].

United States v. American Family Mutual Insurance Company, No. 95-C-0327 (E.D. Wisc. 1995).

Virginia Fair Housing Act,

Willis, G. (2003, March). *Insurance scoring: A new form of redlining?* Paper presented at the Annual Meeting of the Urban Affairs Association, Cleveland, OH.

Wilson, W. J. (1996). *When work disappears: The world of the new urban poor*. New York: Alfred A. Knopf.

Wissoker, D., Zimmermann, W., & Galster, G. (1998). *Testing for discrimination in home insurance*. Washington, DC: The Urban Institute.

Wolff, E. N. (1995). *Top heavy: A study of the increasing inequality of wealth in America*. New York: The Twentieth Century Fund Press.

Yaspan, R. (1970). Property insurance and the American ghetto: A study in social irresponsibility. *Southern California Law Review*, *44*, 218–274.

Yinger, J. (1995). *Closed doors, opportunities lost: The continuing costs of housing discrimination*. New York: Russell Sage Foundation.

Urban Studies, Vol. 42, No. 1, 47–68, January 2005

Routledge
Taylor & Francis Group

# Privileged Places: Race, Uneven Development and the Geography of Opportunity in Urban America

Gregory D. Squires and Charis E. Kubrin

*[Paper first received, 20 April 2004; in final form, July 2004]*

**Summary. David Rusk, former Mayor of Albuquerque, New Mexico, has observed that "bad neighborhoods defeat good programs". This paper identifies the underlying causes of bad neighbourhoods along with their costs to local residents and residents throughout the region. It is a critical essay that traces recent patterns of uneven metropolitan development, the social forces generating these patterns, their many costs and potential remedies. It demonstrates how the interrelated processes of sprawl, concentration of poverty and racial segregation shape the opportunity structure facing diverse segments of the nation's urban and metropolitan population. In so doing, it draws on recent scholarly literature from various disciplines, government data and documents, research institute reports and the mass media. Topics addressed include income and wealth disparities, employment opportunities, housing patterns, access to health care and exposure to crime. While recognising the role of individual choice and human capital, the paper focuses on public policy decisions and related private-sector activities in determining how place and race shape the opportunity structure of metropolitan areas. Finally, the paper explores various policy options to sever the linkages among place, race and privilege in the nation's urban communities.**

> The housing market and discrimination sort people into different neighborhoods, which in turn shape residents' lives—and deaths. Bluntly put, some neighbourhoods are likely to kill you (Logan, 2003, p. 33).

Real estate mantra tells us that three factors determine the market value of a home: location, location and location. The same could be said about the 'factors' that determine virtually any aspect of the good life and people's access to it in metropolitan America. Place matters. Neighbourhood counts. Access to decent housing, safe neighbourhoods, good schools, useful contacts and other benefits is largely influenced by the community in which one is born, raised and currently resides. Individual initiative, intelligence, experience and all the elements of human capital are obviously important. But understanding the opportunity structure in the US today requires complementing what we know about individual characteristics with what we are learning about place. Privilege cannot be understood outside the context of place.

A central feature of place that has confounded efforts to understand and, where appropriate, alter the opportunity structure of the nation's urban communities is the role of race. Racial composition of neighbourhoods has long been at the centre of public policy and private practice in the creation and destruction of communities and in determining access to the elements of the good life, however defined.

*Gregory D. Squires and Charis E. Kubrin are in the Department of Sociology, George Washington University, Phillips Hall, Room 409, 801 22nd Street NW, Washington, DC 20052, USA. Fax: 202 994 3239. E-mail: squires@gwu.edu and charisk@gwu.edu.*
*The authors would like to thank Ivy Kennelly for her helpful comments on an earlier draft of this paper.*

0042-0980 Print/1360-063X Online/05/010047–22 © 2005 The Editors of Urban Studies
DOI: 10.1080/0042098042000309694

Place and race have long been, and continue to be, defining characteristics of the opportunity structure of metropolitan areas. Disentangling the impact of these two forces is difficult, if not impossible. But where one lives and one's racial background are both social constructs which, on their own and in interaction with each other, significantly shape the privileges (or lack thereof) that people enjoy.

The impacts of place and race are not inevitable. If place matters, policy counts as well. The uneven development of metropolitan America is a direct result largely of a range of policy decisions made by public officials and policy-related actions taken in the private and non-profit sectors. Policy decisions could be made to alter that pattern of development.

The linkages among place, race and privilege are shaped by three dominant social forces—sprawl, concentrated poverty and segregation—all of which play out in large part in response to public policy decisions and practices of powerful private institutional actors. This perspective emerges from what has been variously referred to as 'the new urban sociology', 'urban political economy' and other labels which place class, race and relations of domination and subordination at the center of analysis. In general, this requires understanding how individualistic characteristics and choices (such as human capital and household neighbourhood preferences) and voluntary exchanges that occur via competitive markets are both framed and complemented by structural constraints (such as exclusionary zoning and deindustrialisation) in determining the distribution of valued goods and services. Specifically, this involves examining how land use practices, urban policy, the dynamics of race and class, and other social forces determine who gets what and why (Feagin, 1998; Gottdiener and Feagin, 1988; Horan, 1978).

The following discussion traces recent patterns of uneven metropolitan development, the social forces generating these patterns, their many costs and potential remedies. We examine some of the contours of current policy debates and suggest directions for altering the inequitable opportunity structure confronting many residents of urban America today. Specific policies that have already been shown to ameliorate the linkages among place, race and privilege are identified. Potentially promising ideas for future initiatives are also noted. An underlying assumption is that no outcome is pre-ordained. Severing these linkages is possible, but not inevitable.

## Place, Race and Uneven Development

> Do the kids in the neighborhood play basketball or hockey? (Anonymous insurance agent, quoted in a personal communication from A. Luquetta, 20 September 2000).

Dominant features of metropolitan development in the post-World War II years are sprawl, concentrated poverty and segregation (if not hypersegregation). Clearly, these are not separate, mutually exclusive patterns and processes. Rather, they are three critical underpinnings of the uneven development of place and privilege.

Sprawl has crept into the vocabulary of metropolitan development in recent years, with different observers offering diverse perspectives on its causes and consequences (Galster *et al.*, 2001). Yet most would concur with Anthony Downs' observation that

> Suburban sprawl has been the dominant form of metropolitan-area growth in the United States for the past 50 years (Downs, 1998, p. 8).

While there is no universal agreement on a definition of sprawl, there is at least a rough consensus that it is a pattern of development associated with outward expansion, low-density housing and commercial development, fragmentation of planning among multiple municipalities with large fiscal disparities among them, auto-dependent transport and segregated land use patterns (Downs, 1999; Katz and Bradley, 1999; Orfield, 1997, 2002; Squires, 2002).

A few numbers illustrate these spatial developments. Between 1950 and 1990, US metropolitan areas grew from 208 000 square miles housing 84 million people to 585 000 square miles housing 193 million. So population increased by 128 per cent, while the land on which residents lived expanded by 181 per cent. Population density declined from 407 to 330 persons per square mile. During these years, the number of jurisdictions within metropolitan areas grew from 193 to 9600 (Rusk, 1999, pp. 67, 68). And while recently some major cities have witnessed growth in their populations, between 1970 and 2000 the suburban share of the nation's metropolitan area population increased from 55.1 per cent to 62.2 per cent (US Department of Housing and Urban Development, 2000, p. 63). This trend accelerated during the 1990s when the suburban population grew by 17.7 per cent, compared with just 8.0 per cent for central cities (US Census Bureau, 2001).

But people are not moving randomly. In general, income levels have been consistently higher and poverty levels have been lower in the suburbs. In 1960, per capita income in cities was 105 per cent of suburban per capita income. By 1990, this had fallen to 84 per cent which is where it remained in 2000 (Cisneros, 1993, p. 25; Logan, 2002a, p. 4). Between 1970 and 1995, poverty increased in cities from below 13 per cent to 20 per cent, while rising just slightly in the suburbs from 7 to 9 per cent (US Department of Housing and Urban Development, 1997, p. 32). During the 1990s, disparities between cities and suburbs remained virtually unchanged (Logan, 2002a, p. 4) and concentrated poverty has grown during these years as well. Between 1970 and 1990, the number of census tracts in which at least 40 per cent of the population was poor increased from under 1500 to more than 3400 and the number of people living in those tracts grew from 4.1 million to more than 8 million.

But there were some positive developments during the 1990s. In that decade, the number of tracts where the poverty rate reached at least 40 per cent dropped to 2510 and their residents dropped below 8 million (Jargowsky, 1996, p. 30; 2003, pp. 4, 20). A similar pattern was found using a 30 per cent threshold. And conditions in those tracts improved. The share of adults without a high school degree, the share of families headed by women and the share of households receiving public assistance declined, while the share of women who were working increased (Kingsley and Petit, 2003). But the 2000 census occurred at the peak of the economic boom of the 1990s. Most observers believe that circumstances have deteriorated since then, although it is unclear by how much. There were gains, to be sure. How permanent they are remains to be determined (Kingsley and Petit, 2003, p. 10). Despite the progress of the 1990s, the number of poverty tracts and the population of those neighbourhoods were higher in 2000 than in either 1970 or 1980. Concentrated poverty persists as a defining characteristic of urban America.

The non-randomness of sprawl is also reflected in the racial composition of city and suburban communities. Racial disparities between cities and suburbs and racial segregation in general persist as dominant features of metropolitan areas. Cities are disproportionately non-White with over 52 per cent of Blacks and 21 per cent of Whites residing in central-city neighbourhoods, while suburbs are disproportionately White where 57 per cent of Whites but just 36 per cent of Blacks reside (McKinnon, 2003, p. 2). Segregation, particularly between Blacks and Whites, persists at high levels and Hispanic–White segregation has increased in recent years (Iceland *et al.*, 2002a, 2002b; Lewis Mumford Center, 2001). While Blacks account for about 12 per cent of the nation's total population and Hispanics for about 13 per cent, the typical White resident of metropolitan areas resides in a neighbourhood that is 80 per cent White, 7 per cent Black, 8 per cent Hispanic and 4 per cent Asian. A typical Black person lives in a neighbourhood that is 33 per cent White, 51 per cent Black, 11 per cent Hispanic and 3 per cent Asian. And a typical Hispanic resident lives in a community that is 36 per cent White, 11 per cent

Black, 45 per cent Hispanic and 6 per cent Asian (Lewis Mumford Center, 2001, p. 3). Thus, while racial minorities tend to live in relatively diverse neighbourhoods, Whites remain highly isolated.

As in the case of concentrated poverty, there have been some favourable segregation trends in recent years. Nationwide, the Black–White index of dissimilarity has declined from 0.73 in 1980 to 0.64 in 2000 (Iceland *et al.*, 2002a, p. 60). (A score of 1.00 would indicate total segregation, where every neighbourhood was entirely Black or White and a score of 0 would indicate that each neighbourhood has the same percentage of Blacks and Whites as does the entire area.) Racial minorities increased their share of the suburban population from 19 per cent in 1990 to 27 per cent in 2000 (Frey, 2001, p. 1). In the nation's 10 largest metropolitan areas, the number of predominantly White neighbourhoods fell by 30 per cent and the number of mixed-race neighbourhoods grew in 9 of those 10 communities (Fasenfest *et al.* 2004). And between 1996 and 2001, the Black home-ownership rate increased by more than 4 percentage points (from 44.3 per cent to 48.4 per cent) compared with an increase of just over 2 percentage points for the nation generally (from 65.4 per cent to 67.8 per cent) (Joint Center for Housing Studies, 2002a, p. 31). But despite the changes, suburbs remain highly segregated and segregation between Blacks and Whites exists at very high levels. Where segregation has declined, it has generally been in relatively small sunbelt communities with small Black populations. In older north-eastern and midwestern industrial communities, traditional levels of segregation persist. Between 1980 and 2000, segregation declined by 6 points in metropolitan areas where 20 per cent or more of the population was Black compared with 12 points where they accounted for less than 10 per cent of all residents. And in cities like New York, Chicago, Detroit, Milwaukee and Newark, segregation scores were in the 80s in 2000 (Lewis Mumford Center, 2001; Logan *et al.*, 2004).

City–suburban barriers have broken down somewhat in recent years and levels of Black–White segregation have moderated slightly. However, racial segregation remains a prominent feature of the nation's metropolitan areas and, in conjunction with the concentration of poverty and growing economic inequality, results in growing isolation of poor minority households.

If segregation is declining, albeit slightly, for Blacks, it does not appear that this has translated into their being able to move into better neighbourhoods. The median census tract or neighbourhood income for the typical Black household in 1990 was \$27 808 compared with \$45 486 for Whites, a gap of \$17 679. By 2000, that gap had increased to \$18 112. More puzzling, when looking at households with incomes above \$60 000, similar patterns were observed. For example, in 1990, the typical Black household with an income above \$60 000 lived in a neighbourhood where the median income was \$31 585 compared with \$46 760 for the typical White household in this income bracket, a gap of \$15 175. By 2000, these figures changed to \$35 306 for Blacks and \$51 459 for Whites, making an even larger gap of \$16 152 (Logan, 2002b, Tables 2 and 3). The same pattern holds for Hispanics, not surprisingly, given that they have become even more segregated in recent years. Further confounding the intersection of place and race is the fact that in 2000 poor Blacks and Hispanics were far more likely than poor Whites to live in poor neighbourhoods. Whereas over 18 per cent of poor Blacks and almost 14 per cent of poor Hispanics lived in such areas, less than 6 per cent of poor Whites did (Jargowsky, 2003, p. 10).

These neighbourhood effects, of course, are felt by individuals and their families. For at least the past 25 years, for example, median Black and Hispanic family income has been approximately 60 per cent that of White median family income (US Bureau of the Census, 1999, Table B-4). And wealth disparities are far greater. While Blacks earn about 60 per cent of what Whites earn, their net wealth is approximately one-tenth that of

Whites. These substantial wealth disparities persist even between Whites and non-Whites who have equivalent educational backgrounds, comparable jobs and similar incomes (Conley, 1999; Oliver and Shapiro, 1995). A number of factors contribute to these disparities.

Inheritance is one major contributor. Whites are more than three times as likely as Blacks to inherit money and among those who do, Whites average \$76 000 compared with \$31 000 for Blacks. And these differentials to not take into account disparities in the amount of money children receive from their parents while they are still alive (Shapiro, 2004, pp. 67–71).

These wealth disparities also reflect, at least in part, the fact that middle-class Black families are more likely to have poor and working-class friends and relatives who look to them for financial support. Moreover, Black middle-class neighbourhoods are far more likely than White middle-class communities to be located in close proximity to poor neighbourhoods, which residents frequently pass through while commuting to work, going to the grocery store and engaging in most normal daily activities (Pattillo-McCoy, 1999). Proximity to problematic neighbourhoods also affects the value of homes and, therefore, further contributes to these economic disparities.

Home-ownership, in terms of the share of different groups that own their homes and the value of the homes they do own, is another significant contributor to racial wealth disparities. Whereas almost 70 per cent of White families own their homes, approximately half of Black families do so (Joint Center for Housing Studies, 2002a, p. 31). For Blacks, home equity accounts for two-thirds of their assets compared with two-fifths for Whites (Oliver and Shapiro, 1995, p. 106). Biases in the nation's housing and home finance markets have cost the current generation of Blacks about \$82 billion with the disparity in home equity averaging \$20 000 for those holding mortgages (Oliver and Shapiro, 1995, pp. 151, 171).

A large part of these gaps can be accounted for by racial discrimination and segregation in housing and financial service markets. A study of the 100 largest metropolitan areas found that Black home-owners received 18 per cent less value for their investments in their homes than White home-owners (Rusk, 2001). That is, for every dollar of income Blacks owned \$2.16 worth of housing compared with \$2.64 for Whites. For example, in Baltimore, Black home-owners had a mean household income of \$41 466 and owned homes with a mean value of \$69 600. So for every dollar of income, they owned \$1.68 worth of home. Whites had a mean income of \$55 429 and owned homes with a mean value of \$133 000. They owned \$2.40 worth of home for every dollar of income. In determining the causes of the variation in this 'black tax' across the 100 communities, several factors were examined including the size of the metropolitan area, economic inequality across neighbourhoods, minority population, rates of home-ownership among each group and two measures of racial segregation (dissimilarity and isolation indices). Rusk found that only the segregation measures were significant. The importance of place is also indicated by the success of efforts to relocate poor and minority households from low-income central-city neighbourhoods to middle-income suburban communities. Evaluations of the Gautreaux programme in Chicago and early returns from HUD's Moving to Opportunity (MTO) programme have found evidence that students who relocate are doing better in school, their health status has improved and their personal and families' lives have improved in a number of additional ways (Goering and Feins, 2003; Goering *et al.*, 2002; Rubinowitz and Rosenbaum, 2000).

Segregation remains a central feature of metropolitan areas and discrimination remains prevalent. In its 2000 nationwide housing discrimination study, the Urban Institute found that Black homebuyers encountered discrimination in 22 per cent of their searches for rental units and 17 per cent of their efforts to purchase homes.

For Hispanics, the figures were 26 per cent and 20 per cent. Although this represented a substantial drop from the Urban Institute's previous study in 1988, it reveals continuing high levels of racial discrimination in the housing market (Turner *et al.*, 2002, pp. iii–v). And these figures represent a very conservative estimate of the number of instances of discrimination that occur. The Urban Institute study focused on initial visits of homeseekers with managers of rental units and real estate agents. Follow-up visits and phone calls were not included. So, for example, the study did not capture what occurred when homeseekers followed up initial visits with subsequent requests for assistance or to make offers on a home. The study also did not examine discrimination in mortgage lending, property insurance, appraisals and other aspects of the home rental and buying process. As the National Fair Housing Alliance noted, if a typical apartment search involves a visit to at least four or five units and racial minorities are encountering discrimination in one out of every four or five visits to a rental agent, it may be the case that Black and Hispanic renters encounter discrimination virtually every time they move (National Fair Housing Alliance, 2003a, p. 1).

At the same time, there is mounting evidence that many inner-ring suburbs are experiencing urban ills previously associated primarily with inner-city neighbourhoods (Orfield, 1997, 2002; Rusk, 1999). So the growing presence of racial minorities in the suburbs in recent years makes the 1990s, as the title of one Brookings Institution report states, "A Decade of Mixed Blessings" (Berube and Frey, 2002). Ethnic diversity may be growing in metropolitan areas, but neighbourhood integration lags behind (Lewis Mumford Center, 2001).

### *The Costs of Spatial and Racial Inequality*

These patterns are not just statistical or demographic curiosities. These spatial and racial inequalities are directly associated with access to virtually all products and services associated with the good life. Sprawl, concentrated poverty and racial segregation tend to concentrate a host of problems and privileges in different neighbourhoods and among different racial groups (Frazier *et al.*, 2003; Massey, 2001; Massey and Denton, 1993; Sampson *et al.*, 2002). These 'concentration effects' shape opportunities and lifestyles throughout the life-cycle and across generations.

Health disparities may constitute the most concrete disadvantages associated with the spatial and racial divide in urban areas and they manifest themselves quite early in life. The Black infant mortality rate in 1995 was 14.3 per 1000 live births compared with 6.3 for Whites and Hispanics and 5.3 for Asians. More troubling is the fact that the ratio of Black to White infant mortality increased from 1.6 to 2.4 between 1950 and the 1990s (Kington and Nickens, 2001, pp. 264–265). Access to clean air and water, exposure to lead paint, stress, obesity, smoking habits, diet, social isolation, proximity to hospitals and other medical treatment facilities, and availability of health insurance all vary by neighbourhood and contribute to long-established disparities in health and wellness (Bullard, 1996; Dreier *et al.*, 2001 pp. 66–82; Kington and Nickens, 2001; Klinenberg, 2002). Recent research has documented that the environment can affect the fundamental development of the brain which leads to variations in the growth of a range of intellectual, emotional and social abilities. An on-going controversial debate is the role of IQ, widely assumed to be inherited, in determining individual achievement (Herrnstein and Murray, 1994). But as the National Academy of Sciences reported in its book *From Neurons to Neighbourhoods*, the causal arrow points in both directions (Shonkoff and Phillips, 2000). Intelligence no doubt influences achievement, but environment clearly influences development of the basic tool that drives intelligence, the human brain. To illustrate the impact of place, in the Washington DC area, the affluent and predominantly White suburb of Bethesda, Maryland, has one pediatrician for every 400 children, while the poor and predominantly Black neighbourhoods in the District's south-east

side have one pediatrician for every 3700 children. And while the hospital admission rate for asthma in the state of New York is 1.8 per 1000, it is three times higher in the Mott Haven area of the South Bronx (Dreier *et al.*, 2001, pp. 68, 70).

Education has long been regarded as the principal vehicle for ameliorating such problems. If education is to be "the great equalizer of the conditions of men—the balance wheel of the social machinery" as the Massachusetts educator Horace Mann anticipated over 150 years ago, that day has yet to arrive (Bowles and Gintis, 1976, p. 23). Reliance on property taxes to fund public education nurtures on-going inequality in the nation's schools that is explicitly tied to place. Although some communities have introduced equalisation formulas, wealthier communities still provide substantially greater financial support for public schools, with a lesser tax effort, than poorer ones. Given the demographics of metropolitan areas, spatial inequalities are readily translated into racial disparities (Anyon, 1997). After two decades of progress in desegregating the nation's schools, it appears that progress may have come to a halt in the 1990s or perhaps may have even been reversed. For example, in 2000, 40 per cent of Black students attended schools that were 90–100 per cent Black compared with 32 per cent of Black students who attended such schools in 1988 (Orfield and Eaton, 2003). The percentage of White students in the schools of the typical Black student declined from more than 36 to less than 31 during these years. And the share of Hispanic students attending schools that were 90–100 per cent minority grew from 23 per cent during the late 1960s to 37 per cent in 2000 (Frankenberg *et al.*, 2003, pp. 30, 33). John Logan (2004) has suggested that demographic changes rather than resegregation account for these patterns. That is, in public schools, Whites simply account for a smaller share of total enrollments, so students of all races are in schools that have higher minority enrollments. Yet, Logan concludes that public schools remain highly segregated and he observes that "Separate continues to mean unequal" (Logan, 2004, p. 16). Continuing disparities result in fewer educational resources, less qualified teachers and higher teacher turnover and, ultimately, lower educational achievement in low-income and minority communities (Frankenberg *et al.*, 2003, p. 67).

If there is one single factor that is most critical for determining access to the good life, it might be employment. This is particularly true in the US where individuals and households are far more dependent on their jobs to secure basic goods and services than is the case with virtually all other industrialised nations that provide far more extensive social welfare states (such as national health insurance, child care, family leave) (Wilson, 1996, pp. 149–182). The importance of place and race have long been recognised by spatial mismatch theorists (Kain, 1968, 1992, 2004) who posit that lower-income residents of poorer communities generally reside in or near central cities while job growth has been greater in outlying suburban communities. Those most in need of employment, therefore, find it more difficult not only to learn about available jobs but more expensive to get to those jobs when they find one. This is particularly true for welfare recipients who, in recent years, have come under increasing pressure to secure employment (Allard and Danziger, 2002). Once again this dynamic is not racially neutral. As of 2000, no racial group was more physically isolated from jobs than Blacks, and those metropolitan areas with higher levels of Black–White housing segregation were those that exhibited higher levels of spatial mismatch between the residential location of Blacks and the location of jobs (Raphael and Stoll, 2002). Racial minorities tend to search for jobs in slower-growing areas while Whites tend to search in faster-growing communities. And the differences in the quality of these job searches is accounted for primarily by residential racial segregation, even after taking into consideration racial differences in social networks and search methods (Stoll and Raphael, 2000). Compounding these troubles are the 'mental maps' many employers draw

in which they attribute various job-related characteristics (such as skills, experience, attitudes) to residents of certain neighbourhoods. A job applicant's address often has an independent effect, beyond his or her actual human capital, that makes it more difficult, particularly for racial minorities from urban areas, to secure employment (Tilly *et al.*, 2001; Wilson, 1996). Moreover, recent research has found that it is easier for a White person with a felony conviction to get a job than a Black person with no felony convictions, even among applicants with otherwise comparable credentials or where Blacks had slightly better employment histories (Pager, 2003). Such divergent employment experiences, of course, contribute directly to the income and wealth disparities described earlier.

Another critical quality of life factor is crime and associated with that is the fear of crime. If most indices of serious crime have gone down in recent years, crime remains concentrated in central cities and selected inner-ring suburbs. For example in 2000, the estimated violent crime victimisation rate per 1000 population in urban areas was 35.1 compared with only 25.8 in suburban areas (US Department of Justice, 2001). And in 2002, for every 1000 people, 7 urban, 4 suburban and 3 rural residents were victims of an aggravated assault, with urban residents being robbed at about 4 times the rate of rural residents. Race enters the picture as well. Surveys of 12 cities in 1998 found that Black residents in urban areas experienced a higher rate of violent crime than urban Whites in a majority of the cities (US Department of Justice, 1999).

Tense police–community relations further exacerbate crime problems for racial minorities. Ironically, the communities most in need of police protection—disadvantaged Black communities—are also those in which many residents view the police with the most ambivalence. This stems, in part, from a recognition that colour counts as a mark of suspicion used as a predicate for action—stopping, questioning, patting down, arresting and so forth. Such practices cause residents who might otherwise be of assistance to police to avoid them, decline to co-operate with police investigations, assume bad faith or dishonesty on the part of police officers and teach others that such reactions are necessary (Anderson, 1999; Kennedy, 1997; Kubrin and Weitzer, 2003). In an age where race is used for purposes of calculating suspiciousness (what some refer to as racial profiling), it is no surprise that residents of poor Black communities distrust the police. Research on police behaviour supports residents' perceptions. Unwarranted police stops, verbal and physical abuse, and racial bias towards residents of disadvantaged communities continue to strain minority residents' relations with the police.

Crime, of course, reflects and reinforces several quality of life factors including home-ownership rates, job opportunities, access to retail and commercial businesses, family life and many others. For example, Alba *et al.* (1994, p. 412) find that owning a home enables residents to live in safer communities. According to their study, home-owners reside in communities where violent crime rates are nearly 250 (per 100 000) units lower than in communities where comparable renters reside. In other words, the concentration of crime does not simply reflect the concentration of individuals prone to criminal activity, but various neighbourhood characteristics as well (Sampson *et al.*, 2000). Once again, racial segregation is a critical culprit. Segregation tends to concentrate poverty and a range of social problems long associated with older urban communities, including acts of crime (Massey, 1995; Peterson and Krivo, 1993).

Access to financial services, and the cost of those services, also varies by neighbourhood. In recent years, a two-tiered financial services market-place has emerged with conventional lenders (commercial banks, savings institutions) concentrated in outlying urban and suburban areas and so-called fringe bankers (cheque-cashers, payday lenders, pawn shops) in central-city neighbourhoods (Caskey, 1994, 2002; Sawyer and Temkin, 2004). In addition, sub-prime and predatory

lending have grown dramatically in older urban and minority communities increasing the cost of housing for area residents while conventional prime loans remain the norm in the balance of most metropolitan areas. A particularly severe family and community cost has been the dramatic increase in foreclosure rates that cost many poor and working families their life savings (Immergluck and Smith, 2004; Renuart, 2002; Squires, 2003). To illustrate, between 1975 and 1995, the number of banking offices in low- and moderate-income areas declined by 21 per cent while increasing by 29 per cent overall (Avery *et al.*, 1997). That withdrawal created opportunities for fringe institutions to become major players in those markets. Cheque-cashing businesses increased from 2151 to 5500 between 1986 and 1997 (Leonhardt, 1997, pp. 84–86). A case study of Milwaukee, Wisconsin, found that in 1996 there were 2 banks for each cheque-cashing business in the city's economically distressed neighbourhoods (as determined by the Milwaukee Comptroller) compared with 10 banks for each cheque-casher elsewhere. In predominantly African American neighbourhoods, there was 1 bank for each cheque-cashing business compared with 15 in predominantly White areas. For Hispanic neighbourhoods, there were 2 banks for each cheque-casher compared with 8 banks in non-Hispanic communities. Equally problematic, there was just over 1 bank per 10 000 households in African American areas compared with 6 in Hispanic neighbourhoods and almost 8 banks per 10 000 households in White areas (Squires and O'Connor, 1998, pp. 131–132). Access to mainstream financial services, however, is not simply a matter of location. Where conventional branch banks are located nearby, they still do not effectively market to low-income and minority households, thus creating a vacuum that fringe bankers fill (Sawyer and Temkin, 2004).

Areas served by fringe bankers pay for that 'service'. One study of banking customers in New York City found that a cheque-cashing customer with an annual income of $17 000 would pay almost $250 a year for services that would cost just $60 at a bank (Moskowitz, 1995). The Federal Reserve Bank of Kansas City reported that a family with a $24 000 annual income would spend $400 for services at a cheque-casher that would cost $110 at a bank (Lunt, 1993, p. 52). Today, cheque-cashers process approximately $60 billion in cheques annually. They charge 2 or 3 per cent of the cheque's value, generating fee income of more than $1 billion every year (Sawyer and Temkin, 2004, p. 9).

Perhaps most problematic is the impact of uneven development on children and how the proverbial vicious cycle recreates itself over time. In addition to the impact of unequal educational opportunity noted above, the neighbourhood effects literature has demonstrated links between neighbourhood characteristics (like poverty and inequality) and teenage pregnancy, high school drop-out rates and delinquent behaviour (Fischer, 2003, p. 690). Patterns of privilege emerge early in life, persist throughout the life-cycle and recreate themselves in subsequent generations.

More provocative is the evidence that all parts of metropolitan areas are adversely affected by sprawl, concentrated poverty, segregation and uneven development generally. Central-city per capita income is correlated with suburban income. Consequently, as cities do well, so do their suburbs. Conversely, where city income declines, so does suburban income. And regional economies with relatively large city–suburban income disparities grow more slowly than those communities with lower levels of inequality (Dreier *et al.*, 2001, p. 36). Once again, race enters in. According to the National Research Council, high levels of racial segregation lead to a 3–6 per cent decline in metropolitan-level productivity while increasing costs of policing a disadvantaged group that believes it has been unfairly denied opportunities (Bollens, 2002, p. 634).

Place and race do matter. In many cities, racial differences in poverty levels, employment opportunities, wages, education, housing and health care, among other things, are so strong that the worst urban contexts in which

Whites reside are considerably better than the average context of Black communities (Sampson, 1987, p. 354). Sampson and Wilson (1995, p. 42) assert that in not one city over 100 000 in the US do Blacks live in ecological equality with Whites when it comes to the basic features of economic and family organisation. A depressing feature of these developments is that many of these differences reflect policy decisions which, if not designed expressly to create disparate outcomes, have contributed to them nevertheless. The upside is that, if policy contributed to these problems, it is likely that it can help to ameliorate them as well.

*Policy Matters*

Inequality has long been explained by economists to be largely a function of varying levels of human capital that individuals bring to various markets, but particularly the labour market. Human capital consists primarily of a combination of skills, experience and education (Becker, 1964). More recently the role of culture, attitude (for example, work ethic) and other attributes individuals bring to the market(s) have been noted as contributing to the varying rewards people receive (McWhorter, 2000; Mead, 1992; Murray, 1984). But the basic model prevails whereby individual buyers (such as employers) and sellers (employees) enter into voluntary exchanges in the labour market with each trying to maximise their 'utility'. Inequality of place also has been explained in terms of individualistic characteristics and voluntary market exchanges. It has long been argued that individuals or households make voluntary choices, based on their financial capacity, in selecting their communities when they 'vote with their feet' by moving to those areas offering the bundle of services for which they are willing or able to pay (Tiebout, 1956). But individualistic models of labour market inequality have been challenged by institutional theorists in economics who identify a number of structural characteristics of those markets that impede consummation of individual, voluntary exchanges (for example, race and gender discrimination, internal and dual labour markets, labour law including minimum wage statutes, union activity) (Holzer and Danziger, 2001). Many urban scholars have noted the role of public policies and institutionalised private practices (such as tax policy, transport patterns, land use planning) that serve as barriers to individual choice in housing markets and contributors to spatial inequality in metropolitan areas (Dreier *et al.*, 2001; Feagin, 1998; Orfield, 1997, 2002; Rusk, 1999).

Individuals do make choices, of course. Many households select their neighbourhoods and many do so on the basis of the services, jobs, cultural facilities and other amenities that are available within the constraints of their budgets. Critical for many households is a dense network of families, friends and other social ties that bind them to particular locations. Even the most distressed neighbourhoods, including some notorious public housing complexes, often have a culture, social organisation and other attributes that residents want to retain (Fullilove, 2004; Rae, 2003; Suttles, 1968; Venkatesh, 2000). Particularly in diverse urban communities, what appears to outsiders as the minutiae of everyday life takes on important symbolic significance to local residents. In what she referred to as the 'sidewalk ballet', Jane Jacobs described how seemingly minor daily rituals of life—neighbours unlocking their businesses to start a new day, young children marching off to school—deliver the important message to local residents that 'all is well' (Jacobs, 1961, pp. 50, 51). Community, defined in many different ways, attracts and retains residents of all types of neighbourhoods.

But, again, these choices are made in a context shaped by a range of public policy decisions and private practices over which most individuals have little control. Those decisions often have, by design, exclusionary implications that limit opportunities for many, particularly low-income households and people of colour. It is precisely because of the history and on-going reality of economic and racial exclusion that many find

their family, friendship and other social ties in distressed neighbourhoods. And it is the conflict and hassles that racial minorities face outside their communities that lead some to choose a segregated neighbourhood for their home, even when they could afford to live elsewhere. As an accountant who lived in a Black suburb of Atlanta stated in reference to her neighbourhood

> There are not any White people around here staring us in the face and trying to prove we don't matter. So much goes on at the job that we have to endure, the slights and the negative comments, and feelings that we're unwanted. When I have to work around them all day, by the time I come home I don't want to have to deal with White people anymore (Fullwood, 1996, pp. 204–205).

Choice matters. Individual tastes and talents count. But all too often such decision-making is framed and limited by a range of structural constraints. Individuals exercise choice, but those choices often do not reflect what is normally understood by the term 'voluntary'.

If suburbanisation and sprawl reflect the housing choices of residents, these are choices that have been influenced by a range of explicit public policies and private practices. Suburbia has been sold as much as it has been bought (Judd, 1984). Creation of the long-term 30-year mortgage featuring low downpayment requirements, availability of federal insurance to protect mortgage lenders, federal financing to support a secondary market in mortgage loans (Fannie Mae and Freddie Mac) which dramatically increases availability of mortgage money, tax deductibility of interest and property tax payments, and proliferation of federally funded highways created sprawling suburban communities that would not have been possible without such public largesse (Jackson, 1985).

The federal government's underwriting rules for FHA and other federal mortgage insurance products and enforcement of racially restrictive covenants by the courts along with overt redlining practices by mortgage lenders and racial steering by real estate agents virtually guaranteed the patterns of racial segregation that were commonplace by the 1950s. Concentration of public housing in central-city high-rise complexes (many of which are now being torn down) reinforced the patterns of economic and racial segregation that persist today. Exclusionary zoning ordinances of most suburban municipalities that created minimum lot size and maximum density requirements for housing developments (often prohibiting construction of multifamily housing) complemented federal policy (Hays, 1995; Hirsch, 1998; Ihlanfeldt, 2004; Jackson, 1985, 2000; Massey and Denton, 1993; Rusk, 1999; Yinger, 1995).

Government policy has also encouraged the flight of businesses and jobs from cities to surrounding suburban communities and beyond. Financial incentives including infrastructure investments, tax abatements and depreciation allowances favouring new equipment over reinvestment in existing facilities all have contributed to the deindustrialisation and disinvestment of urban communities. The pursuit of lower wage and tax bills, and fewer government regulations, have also encouraged the flight of business from cities and regions viewed as high-cost areas to other regions of the country, and other nations altogether, that present capital with lower costs (Bluestone and Harrison, 1982, 2000). In order to 'meet the competition', localities often believe it is necessary to provide incentives to businesses that they cannot afford and which undercut their ability to provide traditional public services for less privileged communities more dependent on those services (Barnekov and Rich, 1989; Reed, 1988). Research has generally failed to demonstrate that these incentives encourage new investment or employment or target development to economically distressed communities (Peters and Fisher, 2004). Often, incentives are offered but little effort is made to ensure that the terms and conditions recipients are supposed to meet (such as job creation goals) are in fact met. And frequently such expenditures are offered for

development that would have occurred without the benefit (Barnekov and Rich, 1989; Ellen and Schwartz, 2000; LeRoy, 1997). As one observer noted, "Subsidising economic development in the suburbs is like paying teenagers to think about sex" (Wray, 1999). The end result is often an unintended subsidy of private economic activity by jurisdictions that compete in a 'race to the bottom' in efforts to attract footloose firms and mobile capital, starving traditional public services—like education—for resources in the process. A downward spiral is established that further undercuts the quality of life, including the business climate, and deindustrialisation becomes both a cause and consequence of uneven development.

## Place, Privilege and Policy

> Bad neighborhoods defeat good programs (Rusk, 1993, p. 121).

Who gets what, and why? That is how Gerhard Lenski defined the study of social inequality almost 40 years ago in his classic book *Power and Privilege* (Lenski, 1966, p. 1). If the distribution of privilege today is less determined by ascriptive characteristics and more determined by achieved characteristics than was the case during most of the centuries examined by Lenski, meritocracy is hardly around the corner. This state of affairs has not occurred simply or even largely due to differences among individuals in terms of their skills, abilities and other attributes. Key determinants of who gets what and why today are social realities associated with place and race. These realities reflect policy decisions that have been made at all levels in both public and private institutions. But society is not an iron cage. Social realities that have been nurtured by policy can be altered by policy as well.

Knowing what to do constitutes part of the challenge. Equally if not more critical is having a political strategy that will, in fact, encourage those who need to act to act in appropriate ways, if the distribution of privilege is to change. Basically, this comes down to understanding self-interests and how they can be moulded to alter realities that in many ways currently benefit powerful and privileged interests. Sometimes such interests can be mobilised by organisers who can get seemingly disparate groups to recognise their common ground. On other occasions, litigation, legislation and other actions are necessary to force people to do things they would not otherwise voluntarily do. Below we offer general observations for severing the links between place, race and privilege. We attempt to identify ideas that might actually work and feasible strategies for implementing them. Some have already been implemented and yielded at least some of the intended outcomes. Others are ideas that offer future promise. Clearly, there is no single magic bullet. Therefore, a multipolicy approach is essential. Cities and states can provide 'laboratories for democracy'. But the federal government, non-profit organisations and the private sector all have important roles to play.

### *Universalistic vs Race-specific Remedies: A False Dichotomy*

One of the more unfortunate debates in recent years has been over the question of whether 'race-specific' or 'universalistic' remedies are more appropriate for addressing the issues of race and urban poverty. (An even more unfortunate debate, of course, is with those who simply think we have done enough, or perhaps too much, and that neither race nor class remedies are needed.) But the world does not come to us neatly wrapped in race or class packages. Sometimes the issue confronting a mayor, community group or federal agency is an explicit, neighbourhood-level poverty issue, sometimes it is one of overt racism. All too often, of course, it does indeed involve a combination of race, class and other fundamental divisions (such as gender, ethnicity). The nature of the issue often dictates the appropriate response.

The primary attraction of the universalistic or class-based approaches, according to its proponents, is pragmatism. Recognising the

many common interests of poor and working households of any colour, it is argued that the most significant barriers confronting these groups can be addressed with policy initiatives and other actions that do not ignite the hostility often associated with race-based discussions and proposals. Race-neutral policies that assist all of those who are working hard but not quite making it reinforce traditional values of individual initiative and the work ethic, thereby providing benefits to people who have earned them rather than to the so-called undeserving poor. Given the socioeconomic characteristics of racial minorities in general, it is further argued that such approaches will disproportionately benefit these communities, nurturing integration and greater opportunity in a far less rancorous environment than is created with debates over race-specific approaches. Given the 'race fatigue' among many Whites (and underlying prejudices that persist), class-based approaches are viewed as a much more feasible way to address the problems of urban poverty that affect many groups but particularly racial minorities (Edsall and Edsall, 1991; Kahlenberg, 1996; Skocpol, 2000; Teixeira and Rogers, 2000; Warren, 2001; Wilson, 1999).

In response, it is argued that while the quality of life for racial minorities has improved over the years, such approaches simply do not recognise the extent to which race and racism continue to shape the opportunity structure in the US. 'Colour blindness' is often a euphemism for what amounts to a retreat on race and the preservation of White privilege in its many forms. In a world of scarce resources, class-based remedies dilute available support for combating racial discrimination and segregation. From this perspective, it is precisely the controversy over race that the class-based proponents fear which demonstrates the persistence of racism and the need for explicitly anti-racist remedies including far more aggressive enforcement of fair housing, equal employment and other civil rights laws. Race-based remedies alone may not resolve all the problems associated with race and urban poverty given the many non-racial factors that contribute to racial disparity as indicated above. But, according to this perspective, they must remain front and centre as part of the nation's opportunity agenda (Bonilla-Silva, 2003; Edley, 1996; Feagin, 2000; Fiss, 2003; Steinberg, 1995).

But this debate presents a false dichotomy. Policy decisions affecting the opportunity structure and quality of life of American communities are made everyday, some of which are explicitly associated with economic or class disparities and others tied to traditional civil rights or race-specific matters. Decisions in each of these areas influence, and are influenced by, inequalities of place and race. That is, 'universalistic' problems and solutions have racial implications and matters that are addressed through a racial lens have implications for entire regions. The ensuing distribution of privilege, in turn, affects how subsequent problems are defined and decisions are made. Policy responses, some class-based (such as increasing the minimum wage and earned income tax credit, implementing 'living wage' requirements) and some race-based (more comprehensive affirmative action and related diversity requirements), are essential if the underlying patterns of privilege are to be altered.

Coalitions that cut across interest-groups, including racial groups, are essential. Many land use planning, housing and housing finance policy proposals, for example, are generally articulated in colour blind terms. Fair-share housing requirements, tax-based revenue sharing and inclusionary zoning (discussed below) are 'universalistic' in character, although they often have clear racial implications. That is, these proposals are designed to benefit poor and working families in general, although racial minorities are likely to benefit disproportionately. Clearly, such proposals are important parts of an effort to ameliorate spatial and racial inequalities.

But sometimes the issues are racial and responding in racial terms cannot be avoided. If African Americans and Hispanics face discrimination in one out of every four or five visits to a housing provider, it is difficult to avoid recognising the need for stronger

enforcement of the Federal Fair Housing Act and other state and local rules prohibiting racial discrimination in housing markets. And such enforcement works. Since 1990, private, non-profit, fair-housing organisations have generated more than $190 million for plaintiffs from lawsuits utilising leverage provided by the federal Fair Housing Act (National Fair Housing Alliance, 2003b).

While racial minorities constitute 'protected groups' targeted by fair housing law, it is also the case that communities generally benefit by ameliorating racial inequality and the ensuing conflict. If Atlanta does not live up entirely to its slogan as 'a city too busy to hate', the local economy has certainly benefited by the city's ability to alter its image in the area of race relations in recent decades (Jacoby, 1998; Rutheiser, 1996).

Universalistic and race-based policies are among the essential remedies for challenges posed by inequalities of place and race and each has implications for the potential success of the other. It is important to overcome the polarisation that frames much of this debate. As Christopher Edley Jr argued, each should have a place in "the opportunity agenda" (Edley, 1996, p. 46). The nature of a particular issue or campaign should dictate the emphasis that will be placed on any particular set of policies. Saul Alinksy famously argued that there are no permanent friends and no permanent enemies. A similar sentiment would appear to apply to the choice of weapons.

### *'Pro-place' vs 'Pro-people': A Second False Dichotomy*

Another unfortunate debate is that between proponents of so-called pro-place policies and those who advocate pro-people policies. Once again, there is a need for both. And it is also the case that the distinction between policies that focus on improving neighbourhoods and those emphasising individual development is not as great as is often suggested.

Place-oriented policies (such as community reinvestment and related efforts to combat redlining and predatory lending practices) in fact benefit both distressed neighbourhoods and many of the less privileged households in those neighbourhoods (Joint Center for Housing Studies, 2002b; Squires, 2003). Enforcement of the Community Reinvestment Act, a federal law passed in 1977 prohibiting redlining, has generated more than $1.7 trillion for underserved urban communities with low- and moderate-income and minority markets receiving a disproportionately high share of those funds (Joint Center for Housing Studies, 2002b; *New York Times*, 2004). Policies designed to create greater opportunities for individuals and their families (such as Moving to Opportunity and other mobility programmes) benefit entire communities by reducing the concentration of poverty and segregation, along with associated costs including the various social service demands that these problems generate (Goering and Feins, 2003; Goering *et al.*, 2002; Rubinowitz and Rosenbaum, 2000).

One example of a policy that appears to be effectively responding to what is explicitly both a 'pro-place' and 'pro-people' agenda is HUD's $5 billion Hope VI programme that began in 1992. The objectives of Hope VI included: improving the living environment of residents of severely distressed public housing through demolition, repair and replacement of those projects; improving neighbourhoods around public housing sites; decreasing the concentration of poverty; and, building sustainable communities. Preliminary research indicates that Hope VI has successfully demolished many of the nation's most problematic public housing complexes and replaced some of them with higher-quality housing often in mixed-income communities. Many former residents of the rased projects have been rehoused in their former neighbourhoods or provided with housing vouchers that enabled them to find better, safer housing in other communities. One limitation is that many of them have not yet been successfully relocated and HUD has initiated steps in efforts to respond to on-going needs (Popkin *et al.*, 2004).

It is difficult to disentangle the impact of these two types of policies. But, as with universalistic and race-specific initiatives, the nature of the problems confronting particular neighbourhoods and metropolitan areas in general should dictate the policies of choice. Again, as Edley argued, there is a clear need for both approaches in the "opportunity agenda" (Edley, 1996, p. 46).

### *Regional Responses to Inequities of Place and Race*

A linchpin of spatial and racial inequality is the flight of people, jobs and other resources to the outlying parts of metropolitan areas, a process subsidised in part by taxpayers throughout the region who are paying for the roads, schools and other infrastructure required by the new development. Any effective response must find a way to capture the wealth that is accumulating at the edge for reinvestment throughout the region. Such regional responses include regional tax-based revenue sharing (where a portion of the increasing tax revenues from growing commercial and residential property in the outlying suburbs is utilised for development throughout the region), fair-share housing programmes or inclusionary zoning (requiring jurisdictions throughout metropolitan areas to provide a reasonable number of affordable housing units for working and poor households) and land use planning initiatives (like urban growth boundaries that encourage development in or near the central city and discourage further sprawl) to stimulate balanced development throughout the region (Abbott, 2002; Nelson *et al.*, 2004; Orfield, 2002).

Regional and metropolitan approaches to government have long been debated but, with some notable exceptions (such as Minneapolis–St. Paul, Indianapolis, Louisville), few communities have taken serious steps in this direction. There are reasons to believe that more may do so in the future. First, the number of voters and jurisdictions who stand to benefit is growing. Many inner-ring suburbs now recognise that they are experiencing problems previously associated with central cities. Myron Orfield has estimated that nationwide approximately 7 per cent of metropolitan area residents live in what he refers to as the "affluent job centers" (Orfield, 2002, p. 171). Even if that 7 per cent represents a disproportionately powerful coalition, these numbers should work in favour of more progressive public policy.

Growing income inequality among households and communities, and the increasing number of gated communities that concretely symbolises that polarisation, increasingly have become a subject of public policy debate (Blakely and Snyder, 1997; Low, 2003). What former Labour Secretary Robert Reich described as the "secession of the successful" has drained the fiscal capacity of many distressed communities as well-off families leave cities and move into such communities where they utilise private security forces (thereby relying little on public police officers), private recreational facilities (such as country clubs instead of public parks) and send their children to private schools (Reich, 1991). In many ways—financially, psychologically and otherwise—these families withdraw from their surrounding communities and particularly the fiscally deprived central cities of which they were formerly a part. Responding to this demographic and political reality has been a growing concern for public officials at all levels.

Even many of those who presumably are the beneficiaries of sprawl have recognised some of the costs they have begun to pay as well as the benefits of more balanced regional development to mitigate those costs. The congestion and environmental degradation associated with sprawling patterns of development undercut the quality of life that many residents are pursuing. And as indicated above, economic growth of the periphery is not disconnected from what is happening in the central city. Concentrated poverty, the costs of segregation and uneven development generally undercut prosperity throughout the region.

*Uncommon Allies*

Many constituencies that traditionally find themselves at odds with each other can find common ground on a range of policies designed to combat sprawl, concentrated poverty and segregation. Identifying and nurturing such political coalitions is perhaps the key political challenge.

For example, many suburban employers (some of whom may have left their respective cities as part of the sprawling pattern of local development) are unable to find the workers they need in part because of the high cost of housing in their local communities. Often there are local developers who would like to build affordable housing and lenders who are willing to finance it, but local zoning prohibits such construction. These interests could join with anti-poverty groups, affordable housing advocates, civil rights organisations and others who are generally on the other side of the development table to challenge effectively the traditional exclusionary suburban zoning ordinances. Such groups came together in Wisconsin and secured passage of a state land use planning law that provided financial incentives to local municipalities who developed plans for increasing the supply of affordable housing units in their jurisdictions (Office of Land Information Services, 2001; Squires *et al.*, 1999).

Welfare reform advocates and affordable housing groups are often on opposing sides of political controversies yet there are common interests on which they could unite. One objective of welfare reform is to enable people who have been dependent on government services to become economically independent. For many, access to safer neighbourhoods where jobs are more readily available can be a critical step to achieving self-sufficiency. In fact, some states have begun to co-ordinate federal and state housing and welfare services simultaneously to facilitate the entry of former welfare recipients into the workforce and to help them find better housing (Sard and Daskal, 1998).

Similarly, school choice and fair housing groups—two groups that rarely ally—might recognise that severing the link between the neighbourhood in which a family lives and the school which children must attend may well reduce homebuyers' concerns with neighbourhood racial composition. This would reduce one barrier to both housing and school segregation while giving students more schooling options (Katz, 2003).

This list is hardly meant to be exhaustive. The point is simply that there are some creative political alliances that have begun to be made, and others waiting to be made, that can exercise a positive impact on some longstanding and seemingly intractable problems. Sprawl, concentrated poverty and segregation have many identifiable causes. The confluence of place, race and privilege becomes less mysterious over time. At least some approaches to reduce uneven development and its many costs are available. Land use planning tools like tax-based revenue sharing and the delineation of urban growth boundaries can be utilised more extensively to reduce sprawl and some of the associated costs. Community reinvestment initiatives, housing mobility programmes and inclusionary zoning ordinances can be expanded to diminish further the concentration of poverty. Fair housing law enforcement can be strengthened to reduce racial segregation. With emerging, and yet to be discovered, political alliances and strategies, what has long been viewed as the seemingly inevitable uneven and inequitable development of metropolitan areas can be ameliorated.

## Severing the Connections

When 10-year old Lafayette Rivers, one of two brothers living in a West Side Chicago public housing complex chronicled in Alex Kotlowitz' award-winning book *There Are No Children Here*, described his hopes he began, "If I grow up, I'd like to be a bus driver" (Kotlowitz, 1991, p. x). Children growing up in more privileged neighbourhoods often ponder *what* they will do when they grow up, but not *if* they will grow up. The fact that place and race exert such a profound impact on one's future, or whether

there even will be a future, violates accepted notions of equal opportunity and fair play. The legitimacy of virtually all institutions is challenged when privilege is so unevenly distributed and for reasons beyond the control of so many individuals.

The costs are not borne by the Lafayette Rivers of the world alone. The security and well-being of every community are threatened when oppositional cultures at such great variance with mainstream norms become as pervasive as they have in many cities today (Anderson, 1999; Massey and Denton, 1993; Wilson, 1996). To paraphrase David Rusk's observation noted above, such neighbourhoods defeat good programmes and good intentions of all kinds, all the time.

By virtually any measure, access to the good life varies dramatically across communities in metropolitan areas today. One constant is the close association between neighbourhood and race. But such disparities undermine the quality of life for residents of all areas. This threat is compounded when these patterns are the outcome of non-meritocratic factors, like the neighbourhood where people live or the colour of their skin. One of the researchers who participated in Russell Sage's recent multicity study of urban inequality concluded that

> Race is woven into the fabric of residential and industrial location choices, of hiring and wage determination, and of the human perceptions that underlie all these processes (O'Connor, 2001, p. 28).

This is one tapestry that needs to be unravelled. If policy is largely responsible for getting us where we are today, policy can help us to pursue a different path tomorrow. It is time to sever the links among place, race and privilege.

## References


ABBOTT, C. (2002) Planning a sustainable city: the promise and performance of Portland's urban growth boundary, in: G. D. SQUIRES (Ed.) *Urban Sprawl: Causes, Consequences & Policy Responses*, pp. 207–235. Washington, DC: The Urban Institute Press.

ALBA, R. D., LOGAN, J. R. and BELLAIR, P. E. (1994) Living with crime: the implicationns of racial/ethnic differences in suburban location, *Social Forces*, 73(2), pp. 395–434.

ALLARD, S. W. and DANZIGER, S. (2002) Proximity and opportunity: how residence and race affect the employment of welfare recipients, *Housing Policy Debate*, 13(4), pp. 675–700.

ANDERSON, E. (1999) *Code of the Street: Decency, Violence, and the Moral Life of the Inner City*. New York: W. W. Norton & Co.

ANYON, J. (1997) *Ghetto Schooling: A Political Economy of Urban Educational Reform*. New York: Teachers College Press.

AVERY, R. B., BOSTIC, R. W., CALEM, P. S. and CANNER, G. B. (1997) Changes in the distribution of banking offices, *Federal Reserve Bulletin*, 83(September), pp. 707–725.

BARNEKOV, T. and RICH, D. (1989) Privatism and the limits of local economic development policy, *Urban Affairs Quarterly*, 25(2), pp. 212–238.

BECKER, G. S. (1964) *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. New York: Columbia University Press.

BERUBE, A. and FREY, W. H. (2002) *A Decade of Mixed Blessings: Urban and Suburban Poverty in Census 2000*. Washington, DC: The Brookings Institution.

BLAKELY, E. J. and SNYDER, M. G. (1997) *Fortress America: Gated Communities in the United States*. Washington, DC and Cambridge, MA: Brookings Institution Press and Lincoln Institute of Land Policy.

BLUESTONE, B. and HARRISON, B. (1982) *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry*. New York: Basic Books.

BLUESTONE, B. and HARRISON, B. (2000) *Growing Prosperity: The Battle for Growth with Equity in the 21st Century*. Boston, MA: Houghton Mifflin Co.

BOLLENS, S. A. (2002) In through the back door: social equity and regional governance, *Housing Policy Debate*, 13(4), pp. 631–657.

BONILLA-SILVA, E. (2003) *Racism without Racists: Color-blind Racism and the Persistence of Racial Inequality in the United States*. New York: Rowman & Littlefield Publishers.

BOWLES, S. and GINTIS, H. (1976) *Schooling in Capitalist America: Educational Reform and the Contradictions of Economic Life*. New York: Basic Books.

BULLARD, R. D. (1996) *Unequal Protection: Environmental Justice and Communities of Color*. San Francisco, CA: Sierra Club Books.

CASKEY, J. (1994) *Fringe Banking: Check-cashing Outlets, Pawnshops, and the Poor*. New York: Russell Sage Foundation.

CASKEY, J. (2002) *Bringing unbanked households into the banking system*. Washington, DC: The Brookings Institution (http://www.brookings.edu/es/urban/capitalxchange/article10.htm; accessed on 21 January 2002).

CISNEROS, H. G. (1993) Interwoven destinies: cities and the nation, in: H. G. CISNEROS (Ed.) *Interwoven Destinies: Cities and the Nation*, pp. 17–29. New York: W. W. Norton & Co.

CONLEY, D. (1999) *Being Black, Living in the Red: Race, Wealth, and Social Policy in America*. Berkeley, CA: University of California Press.

DOWNS, A. (1998) The big picture: how America's cities are growing, *Brookings Review*, 16(4), pp. 8–11.

DOWNS, A. (1999) Some realities about sprawl and urban decline, *Housing Policy Debate*, 10(4), pp. 955–974.

DREIER, P., MOLLENKOPF, J. and SWANSTROM, T. (2001) *Place Matters: Metropolitics for the Twenty-first Century*. Lawrence, KS: University Press of Kansas.

EDLEY, C. Jr. (1996) *Not All Black and White: Affirmative Action and American Values*. New York: Hill and Wang.

EDSALL, T. B. and EDSALL, M. D. (1991) *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics*. New York: W. W. Norton & Co.

ELLEN, I. G. and SCHWARTZ, A. E. (2000) No easy answers: cautionary notes for competitive cities, *Brookings Review*, 18(3), pp. 44–47.

FASENFEST, D., BOOZA, J. and METZGER, K. (2004) *Living together: a new look at racial and ethnic integration in metropolitan neighborhoods, 1990–2000*. Washington, DC: The Brookings Institution.

FEAGIN, J. R. (1998) *The New Urban Paradigm: Critical Perspectives on the City*. New York: Rowman & Littlefield Publishers, Inc.

FEAGIN, J. R. (2000) *Racist America: Roots, Current Realities, and Future Reparations*. New York: Routledge.

FISCHER, M. J. (2003) The relative importance of income and race in determining residential outcomes in US urban areas, 1970–2000, *Urban Affairs Review*, 38(5), pp. 669–696.

FISS, O. (2003) *A Way Out: America's Ghettos and the Legacy of Racism*. Princeton, NJ: Princeton University Press.

FRANKENBERG, E., LEE, C. and ORFIELD, G. (2003) *A multiracial society with segregated schools: are we losing the dream?* The Civil Rights Project, Harvard University, Cambridge, MA.

FRAZIER, J. W., MARGAI, F. M. and TETTEY-FIO, E. (2003) *Race and Place: Equity Issues in Urban America*. Boulder, CO: Westview Press.

FREY, W. H. (2001) *Melting Pot Suburbs: A Census 2000 Study of Suburban Diversity*. Washington, DC: The Brookings Institution.

FULLILOVE, M. T. (2004) *Root shock: How tearing Up City Neighbourhoods Hurts America, and What We Can Do About It*. New York: One World/Ballantine Books.

FULLWOOD, S. (1996) *Waking from the Dream: My Life in the Black Middle Class*. New York: Anchor Books [cited in S. CASHIN (2004) *The Failures of Integration: How Race and Class are Undermining the American Dream*, p. 18. New York: Public Affairs.

GALSTER, G., HANSON, R., RATCLIFFE, M. R. *ET AL.* (2001) Wrestling sprawl to the ground: defining and measuring an elusive concept, *Housing Policy Debate*, 12(4), pp. 681–718.

GOERING, J. (2003) Comments on future research and housing policy, in: J. GOERING and J. D. FEINS *Choosing a Better Life: Evaluating the Moving to Opportunity Social Experiment*, pp. 383–407. Washington, DC: The Urban Institute Press.

GOERING, J. and FEINS, J. D. (2003) *Choosing a Better Life: Evaluating the Moving to Opportunity Social Experiment*. Washington, DC: The Urban Institute Press.

GOERING, J., FEINS, J. D. and RICHARDSON, T. M. (2002) A cross-site analysis of initial moving to opportunity demonstration results, *Journal of Housing Research*, 13(1), pp. 1–30.

GOTTDIENER, M. and FEAGIN, J. R. (1988) The paradigm shift in urban sociology, *Urban Affairs Quarterly*, 24(2), pp. 163–187.

HART, P. D. and TEETER, R. M. (2002) *Results of the Fannie Mae Foundation Affordable Housing Survey: Summary of Findings*. Washington, DC: Fannie Mae Foundation.

HAYS, R. A. (1995) *The Federal Government and Urban Housing: Ideology and Change in Public Policy*. Albany, NY: SUNY Press.

HERRNSTEIN, R. and MURRAY, C. (1994) *The Bell Curve: Intelligence and Class Structure in American Life*. New York: The Free Press.

HIRSCH, A. (1998) *Making the Second Ghetto: Race and Housing in Chicago, 1940–1960*. Chicago, IL: University of Chicago Press.

HOLZER, H. J. and DANZIGER, S. (2001) Are jobs available for disadvantaged workers in urban areas?, in: A. O'CONNOR, C. TILLY and L. D. BOBO (Eds) *Urban Inequality: Evidence from Four Cities*, pp. 496–538. New York: Russell Sage Foundation.

HORAN, P. M. (1978) Is status attainment research atheoretical?, *American Sociological Review*, 43(4), pp. 534–541.

ICELAND, J., WEINBERG, D. H. and STEINMETZ, E. (2002a) *Racial and Ethnic Residential Segregation in the United States: 1980–2000.*

US Census Bureau, Series CENSR-3. Washington, DC: US Government Printing Office.

ICELAND, J., WEINBERG, D. H. and STEINMETZ, E. (2002b) *Racial and ethnic residential segregation in the United States: 1980–2000*. Paper presented at the *Annual Meetings of the Population Association of America*, Atlanta, May.

IHLANFELDT, K. R. (2004) Exclusionary land-use regulations within suburban communities: a review of the evidence and policy prescriptions, *Urban Studies*, 41(2), pp. 261–284.

IMMERGLUCK, D. and SMITH, G. (2004) *An econometric analysis of the effect of subprime lending on neighborhood foreclosures*. Paper presented at the *34th Annual Meeting of the Urban Affairs Association*, Washington, DC.

JACKSON, K. (1985) *Crabgrass Frontier: The Suburbanization of the United States*. New York: Oxford University Press.

JACKSON, K. (2000) Gentleman's agreement: discrimination in metropolitan America, in: B. KATZ (Ed.) *Reflections on Regionalism*, pp. 185–217. Washington, DC: Brookings Institution Press.

JACOBS, J. (1961) *The Death and Life of Great American Cities*. New York: Vintage Books [cited in M. T. FULLILOVE (2004) *Root Shock: How Tearing Up City Neighborhoods Hurts America, And What We Can Do About It*, pp. 18, 19. New York: One World/Ballantine Books].

JACOBY, T. (1998) *Someone Else's House: America's Unfinished Struggle for Integration*. New York: The Free Press.

JARGOWSKY, P. (1996) *Poverty and Place: Ghettos, Barrios, and the American City*. New York: Russell Sage Foundation.

JARGOWSKY, P. (2003) *Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s*. Washington, DC: The Brookings Institution.

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY (2002a) *The State of the Nation's Housing 2002*. Cambridge, MA: Joint Center for Housing Studies.

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY (2002b) *The 25th Anniversary of The Community Reinvestment Act: Access to Capital in an Evolving Financial Services System*. Cambridge, MA: Joint Center for Housing Studies.

JUDD, D. R. (1984) *The Politics of American Cities: Private Power and Public Policy*. Boston, MA: Little, Brown & Co.

KAHLENBERG, R. D. (1996) *The Remedy: Class, Race, and Affirmative Action*. New York: Basic Books.

KAIN, J. (1968) Housing segregation, negro employment and metropolitan decentralization, *The Quarterly Journal of Economics*, 82(2), pp. 175–197.

KAIN, J. (1992) The spatial mismatch hypothesis: three decades later, *Housing Policy Debate*, 3(2), pp. 371–460.

KAIN, J. (2004) A pioneer's perspective on the spatial mismatch literature, *Urban Studies*, 41(1), pp. 7–32.

KATZ, B. (2003) Presentation at the *Fannie Mae Foundation Annual Housing Conference, "Raising Housing on the Nation's Agenda: Building from the Millennial Housing Commission"*, October.

KATZ, B. and BRADLEY, J. (1999) Divided we sprawl, *The Atlantic Monthly*, 284(6), pp. 26–42.

KENNEDY, R. (1997) *Race, Crime, and the Law*. New York: Vintage Books.

KINGSLEY, G. T. and PETTIT, P. L. S. (2003) *Concentrated Poverty: A Change in Course*. Washington, DC: The Urban Institute.

KINGTON, R. S. and NICKENS, H. W. (2001) Racial and ethnic differences in health: recent trends, current patterns, future directions, in: N. J. SMELSER, W. J. WILSON and F. MITCHELL (Eds) *America Becoming: Racial Trends and Their Consequences, Vol. II*, pp. 253–310. Washington, DC: National Academy Press.

KLINENBERG, E. (2002) *Heat Wave: A Social Autopsy of Disaster in Chicago*. Chicago, IL: University of Chicago Press.

KOTLOWITZ, A. (1991) *There Are No Children Here: The Story of Two Boys Growing Up In The Other America*. New York: Doubleday.

KUBRIN, C. E. and WEITZER, R. (2003) Retaliatory homicide: concentrated disadvantage and neighborhood culture, *Social Problems*, 50, pp. 157–180.

LENSKI, G. E. (1966) *Power and Privilege: A Theory of Social Stratification*. New York: McGraw-Hill, Inc.

LEONHARDT, D. (1997) Two tier marketing, *Business Week*, 17 March, pp. 82–90.

LEROY, G. (1997) *No More Candy Store: States and Cities Making Job Subsidies Accountable*. Chicago, IL and Washington, DC: Federation for Industrial Retention and Renewal and Grassroots Policy Project.

LEWIS MUMFORD CENTER (2001) *Metropolitan Racial and Ethnic Change—Census 2000*. Albany, NY: Lewis Mumford Center.

LOGAN, J. (2002a) *The Suburban Advantage*. Albany, NY: Lewis Mumford Center.

LOGAN, J. (2002b) *Separate and Unequal: The Neighborhood Gap for Blacks and Hispanics in Metropolitan America*. Albany, NY: Lewis Mumford Center.

LOGAN, J. (2003) Life and death in the city: neighborhoods in context, *Contexts*, 2(2), pp. 33–40.

LOGAN, J. (2004) *Resegregation in American Public Schools? Not in the 1990s*. Albany, NY: Lewis Mumford Center.

LOGAN, J. R., STULTS, B. J. and FARLEY, R. (2004) Segregation of minorities in the metropolis: two decades of change, *Demography*, 41(1), pp. 1–22.

LOW, S. (2003) *Behind the Gates: Life, Security, and the Pursuit of Happiness in Fortress America*. New York: Routledge.

LUNT, P. (1993) Banks make check-cashing work, ABA *Banking Journal*, December, pp. 51–52.

MASSEY, D. S. (1995) Getting away with murder: segregation and violent crime in urban America, *University of Pennsylvania Law Review*, 143(5), pp. 1203–1232.

MASSEY, D. S. (2001) Residential segregation and neighborhood conditions in U.S. metropolitan areas, in: N. J. SMELSER, W. J. WILSON and F. MITCHELL (Eds) *America Becoming: Racial Trends and Their Consequences*, pp. 391–434. Washington, DC: National Academy Press.

MASSEY, D. S. and DENTON, N. (1993) *American Apartheid: Segregation and the Making of the Underclass*. Cambridge, MA: Harvard University Press.

MCKINNON, J. (2003) *The Black Population in the United States: March 2002*. Washington, DC: US Census Bureau.

MCWHORTER, J. H. (2000) *Losing the Race: Self-sabotage in Black America*. New York: The Free Press.

MEAD, L. (1992) *The New Politics of Poverty: The Nonworking Poor in America*. New York: Basic Books.

MOSKOWITZ, E. (1995) One-stop shops offer check cashing and more, *Christian Science Monitor*, 23 August, p. 9.

MURRAY, C. (1984) *Losing Ground: American Social Policy 1950–1980*. New York: Basic Books.

NATIONAL FAIR HOUSING ALLIANCE (2003a) *Fair Housing Trends Report*. Washington, DC: National Fair Housing Alliance.

NATIONAL FAIR HOUSING ALLIANCE (2003b) *$190,000,000 and Counting*. Washington, DC: National Fair Housing Alliance.

NELSON, A. C., DAWKINS, C. J. and SANCHEZ, T. (2004) Urban containment and residential segregation: a preliminary investigation, *Urban Studies*, 41(2), pp. 423–439.

*New York Times* (2004) Banking on local communities, 15 April, p. A 26.

O'CONNOR, A. (2001) Understanding inequality in the late twentieth-century metropolis: new perspectives on the enduring racial divide, in: A. O'CONNOR, C. TILLY and L. D. BOBO (Eds) *Urban Inequality: Evidence from Four Cities*, pp. 1–33. New York: Russell Sage Foundation.

OFFICE OF LAND INFORMATION SERVICES, DEPARTMENT OF ADMINISTRATION, STATE OF WISCONSIN (2001) *Wisconsin's Comprehensive Planning Legislation*. Madison, WI: State of Wisconsin (http://www.doa.state.wi.us/dhir/documents/compplanstats.pdf; accessed 18 June 2004).

OLIVER, M. L. and SHAPIRO, T. M. (1995) *Black Wealth/White Wealth: A New Perspective on Racial Inequality*. New York: Routledge.

ORFIELD, G. and EATON, S.E. (2003) Back to segregation, *The Nation*, 276(8), p. 5.

ORFIELD, M. (1997) *Metropolitics: A Regional Agenda for Community and Stability*. Washington, DC and Cambridge, MA: Brookings Institution Press and the Lincoln Institute of Land Policy.

ORFIELD, M. (2002) *American Metropolitics: The New Suburban Reality*. Washington, DC: The Brookings Institution Press.

PAGER, D. (2003) The mark of a criminal record, *American Journal of Sociology*, 108, pp. 937–975.

PATTILLO-MCCOY, M. (1999) *Black Picket Fences: Privilege and Peril Among the Black Middle Class*. Chicago, IL: University of Chicago Press.

PETERS, A. and FISHER, P. (2004) The failures of economic development incentives, *Journal of the American Planning Association*, 70(1), pp. 27–36.

PETERSON, R. D. and KRIVO, L. J. (1993) Racial segregation and black urban homicide, *Social Forces*, 71(4), pp. 1001–1026.

POPKIN, S. J., KATZ, B., CUNNINGHAM, M. K. *ET AL.* (2004) *A Decade of Hope VI: Research Findings and Policy Challenges*. Washington, DC: The Urban Institute and the Brookings Institution.

RAE, D. W. (2003) *City: Urbanism and Its End*. New Haven, CT: Yale University Press.

RAPHAEL, S. and STOLL, M. A. (2002) *Modest Progress: The Narrowing Spatial Mismatch Between Blacks and Jobs in the 1990s*. Washington, DC: The Brookings Institution.

REED, A. JR (1988) The black urban regime: structural origins and constraints, *Comparative Urban Research*, 12, pp. 140–187.

REICH, R. B. (1991) *The Work of Nations*. New York: Alfred A. Knopf, Inc.

RENUART, E. (2002) *Stop Predatory Lending: A Guide for Legal Advocates*. Washington, DC: The National Consumer Law Center Inc.

RUBINOWITZ, L. S. and ROSENBAUM, J. E. (2000) *Crossing the Class and Color Lines: From Public Housing to White Suburbia*. Chicago, IL: University of Chicago Press.

RUSK, D. (1993) *Cities Without Suburbs*. Baltimore, MD: Johns Hopkins University Press.

RUSK, D. (1999) *Inside Game Outside Game: Winning Strategies for Saving Urban America*. Washington, DC: The Brookings Institution Press.

RUSK, D. (2001) *The 'Segregation Tax': The Cost of Racial Segregation to Black Homeowners*. Washington, DC: The Brookings Institution, Press.

RUTHEISER, C. (1996) *Imagineering Atlanta: The Politics of Place in the City of Dreams*. New York: Verso.

SAMPSON, R. J. (1987) Urban black violence: the effect of male joblessness and family disruption, *American Journal of Sociology*, 93, pp. 348–382.

SAMPSON, R. J. and WILSON, W. J. (1995) Toward a theory of race, crime and urban inequality, in J. HAGAN and R. D. PETERSON (Eds) *Crime and Inequality*, pp. 37–54. Stanford, CA: Stanford University Press.

SAMPSON, R. J., MORENOFF, J. D. and GANNON-ROWLEY, T. (2002) Assessing 'neighborhood effects': social processes and new directions in research, *Annual Review of Sociology*, 28, pp. 443–478.

SAMPSON, R. J., SQUIRES, G. D. and ZHOU, M. (2000) *How Neighborhoods Matter: The Value of Investing at the Local Level*. Washington, DC: American Sociological Association.

SARD, B. and DASKAL, J. (1998) *Housing And Welfare Reform: Some Background Information*. Washington, DC: Center on Budget and Policy Priorities.

SAWYER, N. and TEMKIN, K. (2004) *Analysis of Alternative Financial Service Providers*. Washington, D.C: Fannie Mae Foundation and the Urban Institute.

SHAPIRO, T. M. (2004) *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality*. New York: Oxford University Press.

SHONKOFF, J. P. and PHILLIPS, D. A. (Eds) (2000) *From Neurons to Neighborhoods: The Science of Early Child Development*. Washington, DC: National Academy Press [cited in D. K. SHIPLER (2004) *The Working Poor: Invisible in America*, pp. 218–230. New York: Alfred A. Knopf].

SKOCPOL, T. (2000) *The Missing Middle: Working Families and the Future of American Social Policy*. New York: W. W. Norton.

SQUIRES, G. D. (Ed.) (2002) *Urban Sprawl: Causes, Consequences & Policy Responses*. Washington, DC: The Urban Institute Press.

SQUIRES, G. D. (2003) The new redlining: predatory lending in an age of financial service modernization, *Sage Race Relations Abstracts*, 28(3–4), pp. 5–18.

SQUIRES, G. D. and O'CONNOR, S. (1998) Fringe banking in Milwaukee: the rise of check-cashing businesses and the emergence of a two-tiered banking system, *Urban Affairs Review* 34(1), pp. 126–149.

SQUIRES, G. D., O'CONNOR, S., GROVER, M. and WALRATH, J. (1999) Housing affordability in the Milwaukee metropolitan area: a matter of income, race, and policy, *Journal of Affordable Housing & Community Development Law*, 9(1), pp. 34–73.

STEINBERG, S. (1995) *Turning Back: The Retreat from Racial Justice in American Thought and Policy*. Boston, MA: Beacon Press.

STOLL, M. A. and RAPHAEL, S. (2000) Racial differences in spatial job search patterns: exploring the causes and consequences, *Economic Geography*, 76(3), pp. 201–228.

SUTTLES, G. D. (1968) *The Social Order of the Slum: Ethnicity and Territory in the Inner City*. Chicago, IL: University of Chicago Press.

TEIXEIRA R. and ROGERS, J. (2000) *America's Forgotten Majority: Why the White Working Class Still Matters*. New York: Basic Books.

TIEBOUT, C. (1956) A pure theory of local expenditures, *Journal of Political Economy*, 64, pp. 416–424.

TILLY, C., MOSS, P., KIRSCHENMAN, J. and KENNELLY, I. (2001) Space as a signal: how employers perceive neighborhoods in four metropolitan labor markets, in: A. O'CONNOR, C. TILLY and L. D. BOBO (Eds) *Urban Inequality: Evidence from Four Cities*, pp. 304–338. New York: Russell Sage Foundation.

TURNER, M. A., ROSS, S. L., GALSTER, G. C. and YINGER, J. (2002) *Discrimination in Metropolitan Housing Markets: National Results from Phase I HDS 2000*. Washington, DC: The Urban Institute.

US BUREAU OF THE CENSUS (1999) *Money Income in the United States: 1998*. Washington, DC: US Government Printing Bureau.

US BUREAU OF THE CENSUS (2001) *Population Estimates of Metropolitan Areas, Metropolitan Areas Inside Central Cities, Metropolitan Areas Outside Central Cities, and Nonmetropolitan Areas by State for July 1, 1999 and April 1, 1990 Population Estimates Base* (http://www.census.gov/population/estimates/metro-city/ma99-06.txt; accessed 26 April 2001).

US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (1997) *The State of the Cities*. Washington, DC: US Department of Housing and Urban Development.

US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (2000) *The State of the Cities 2000*. Washington, DC: US Department of Housing and Urban Development.

US DEPARTMENT OF JUSTICE (1999) *Criminal Victimization and Perceptions of Community Safety in 12 Cities, 1998*. Washington, DC: US Department of Justice.

US Department of Justice (2001) *Criminal Victimization 2000: Changes 1999–2000 with Trends 1993–2000*. Washington, DC: US Department of Justice.

Venkatesh, S. A. (2000) *American Project: The Rise and Fall of a Modern Ghetto*. Cambridge, MA: Harvard University Press.

Warren, M. R. (2001) *Dry Bones Rattling: Community Building to Revitalize American Democracy*. Princeton, NJ: Princeton University Press.

Wilson, W. J. (1996) *When Work Disappears: The World of the New Urban Poor*. New York: Alfred A. Knopf.

Wilson, W. J. (1999) *The Bridge over the Racial Divide: Rising Inequality and Coalition Politics*. Berkeley, CA: University of California Press.

Wray, L. (1999) *St Paul Pioneer Press* 28 February [cited in G. LeRoy, S. Hinkley and K. Tallman (2000) *Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb*, p. 44. Washington, DC: Institute on Taxation and Economic Policy].

Yinger, J. (1995) *Closed Doors, Opportunities Lost: The Continuing Costs of Housing Discrimination*. New York: Russell Sage Foundation.

**From:** Stonestreet, Rebecca rebecca.stonestreet@wvinsurance.gov
**Sent:** Tuesday, April 28, 2009 1:39 PM
**To:** News <News@naic.org>
**Subject:** Insurance regulators to hold hearing on credit scoring

I would like to respond to this story. I am a 62 year old woman who up until I had my right knee replacement was doing ok on my credit. Then I was off work unexpectedly longer than I had time for and found myself off work, little to no money to go on and guess what, credit in the toliet. I lost my auto (State Farm) and homeowners (Allstate) insurance that I had for a long time. After I got back on track after the surgery and recoop time I tried to get insurance and was told the premium (almost twice what I had been paying) was because of my credit score being low. The article stated "

"Credit scoring is one of the most significant developments in the pricing of auto and homeowners insurance in the past 20 years," said NAIC President and New Hampshire Insurance Commissioner Roger Sevigny. "Our goal is to protect consumers by ensuring that any use of credit scoring does not have unfair or unintended consequences."

I think that unfair or unintended consequences were certainly shown to me in this bad time in my life and I certainly don't think that you can regulate insurance on people that have this kind of situation. I know that the insurance companies state that they only use this as one tool to determine the premium but I would venture to guess that they use this as the only tool when they see a low credit score without knowing the reason. It would seem like there needs to be a review of the insurance premiums that they charge to people so that "we" as the intended payor of the premium would know if corruption is afoot or not. If someone was to pull applications and look at the points allowed on each application of what the premium was to be charged then you may get a better understanding of what has been going on for a long time.

## Clarifying oral remarks (below) and two items (following) presented April 30, 2009 in conjunction with NOW's written testimony

Patrick Butler, Insurance Project Director, National Organization for Women, concluded his testimony:

"This pamphlet describes odometer-mile insurance being made newly available in Texas as of October last year. [**MileMeter pamphlet attached**.] The company could go into all states, and wants to because it's web based. And this article [**National NOW Times article attached**] is something we're telling our members about—action to end group defamation by auto insurers."

"I'll end by noting that the National Organization for Women . . . opposes attempts to ban or regulate credit score rating, education- and occupation-status rating and the like for auto insurance for this reason: these correlations are all just symptoms of the problem. Claim rates per 100 car years perversely increase apparently with *any* measure of decreasing ability to pay. However, attempting to regulate such symptoms simply delays attention to the cause of the correlations and prolongs their harm. Thank you."

* * * *

Insurance Commissioner: "Mr. Butler, at the end you said NOW supports the use of credit scoring, and education and income, but you were somewhat rushed. Could you repeat what the reasons are for that?"

Mr. Butler**:** "What we're saying is we oppose efforts to regulate credit-score rating without understanding the source of the problem because it delays attention to what might be the real root cause of the problem. That's why I put out two theories [in NOW's written testimony]. The default theory if you don't state a cause, then you actually blame the drivers as being negligent or being bad drivers, high risk drivers. I've seen all sorts of derogatory terms. We have proposed an alternative to that idea, which in our view can't be avoided. When people have reasons to save—and they can even be high income people who have four cars for two drivers—they're going to get rid of some of their surplus cars. So relative to the other folks in the neighborhood, they're going to be [producing] more claims per 100 car years because they simply reduced the cars. . . . If people reduce driving but they reduce the number of cars used in that driving proportionally more, then the average miles per car goes up and so does the cost per car to insurers."

# Action to End Group Defamation by Auto Insurers

**By Patrick Butler**
*Insurance Project Director*

An emerging hot topic in state legislatures will be addressed in a workshop at the NOW conference in June. The focus will be on a shocking practice auto insurers increasingly employ—charging higher premiums to drivers on the basis of lower-status education and occupation.

The workshop—Classist, Racist, Sexist Auto Insurance: An End is in Sight—will review misinterpreted facts and circular reasoning behind stereotyping lower-status groups as "high risk" drivers.

In a nutshell, today's premiums are charged like a fixed tax on each car owned, whether it is driven a little or a lot. Therefore, financially-stressed drivers have only one way to economize—own fewer cars to drive the same miles.

When people have to share cars, those cars average more miles on the road and therefore, as a group, average more accidents. The result: insurers blame more claims (per 100 car years) on low-status drivers instead of on more miles driven per car and raise the premium "tax" on each car.

To stop the premium increases, and the group defamation that falsely justifies them, insurers must offer a way to save that doesn't make owners give up cars—and then have to pay ever-higher premiums on the remaining cars they are sharing.

Texas lawmakers did the right thing in 2001 by enacting HB 45, drafted by NOW's Insurance Project and argued by Texas NOW. The law validates the cents-per-odometer-mile option, which is the only workable remedy in a competitive market. Buying miles of insurance in advance to add to the odometer reading is like buying gasoline as needed.

With this end in sight, the workshop will provide information on a new company in Texas, MileMeter.com, whose start last fall was guided by HB 45 and whose venture capital backing was assisted by NOW's endorsement. The company sells insurance at cents-per-mile prices according to coverage, residence location, and driver age—not by driver sex or financial status.

To enable insurance companies like MileMeter to serve low-income customers, NOW is urging legislators to clarify mandatory insurance laws that might be misinterpreted to force per-mile companies to maintain coverage after a car has exceeded the miles purchased. When the odometer limit is exceeded, all coverage must be considered cancelled for non pre-payment of premium—as currently done when a monthly installment is not paid when due.

Workshop participants will learn the tricks and truths of auto insurance rating, and how cents-per-mile rates eliminate discrimination. One example is legislators' use of stereotyping by driver sex to argue against the Equal Rights Amendment. ERA opponents contended that men drivers as a group are a greater risk than women. What they didn't tell the public was that men have more accidents simply because their cars are driven more miles on average than women's cars.

Upcoming opportunities to inform both legislators and the public include a July 11 meeting of insurance legislators in Philadelphia to consider the pros and cons of status rating.

**"I use public transportation and don't drive much. It's nice to know I only pay for the miles I do drive."**

**MileMeter can save you up to 75% on auto insurance!**

MILEMETER

AUTO INSURANCE BUY THE MILE

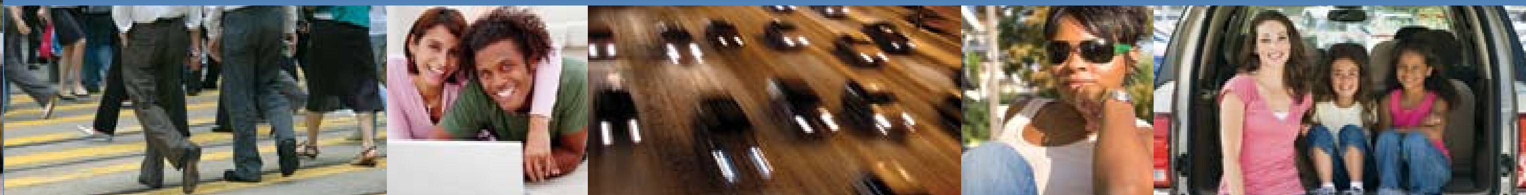
**MileMeter Insurance Company**
1700 Pacific Avenue
Suite 2400
Dallas, Texas 75201
(866) 833-5233

© MileMeter, Inc. – The MileMeter name, logo and "Auto insurance buy the mile" are trademarks of MileMeter, Inc. Methods and system are Patent Pending.

# Auto insurance buy the mile

**The less you drive, the less you pay… cha-ching.**

MILEMETER



MileMeter.com

MileMeter.com

**MileMeter: Auto insurance that's fair, affordable, and makes sense.**

MileMeter's auto insurance by the mile is a revolutionary idea: The less you drive, the less you pay.

**MileMeter can save you money.**

MileMeter's fair, sensible pricing can provide substantial savings for many motorists. Here are just a few situations where you'll find our insurance by the mile especially beneficial:

- You work at home or telecommute
- You carpool or use public transportation
- You don't have a long daily commute
- You live in a small town
- You have a child in college
- You have one or more vehicles that aren't driven frequently
- You are concerned about the environment

**Go to MileMeter.com and see how MileMeter can save you up to 75% on auto insurance!**

**Tell your insurance company to take a hike.**
Cancel your existing auto insurance today, get a refund, and start saving with MileMeter.

### Savings from the word go.

For starters, with MileMeter's "insurance buy the mile" you only pay for the insurance you need. With typical insurance that charges per auto, per year, you're paying for insurance all the time – when your car is stopped, parked at work, even when it's safe in the garage. With MileMeter, you only pay for insurance on the miles you actually drive. **Customers can save up to 75%!**

### Purchase between 1,000 and 6,000 miles of coverage at a time.

Policy rates are quoted in cents per mile. **You may purchase between 1,000 and 6,000 miles of coverage and pay by credit card. The miles purchased are good for six months or until driven – which ever comes first. You may purchase more miles at any time.** Comprehensive and collision coverage are combined into a single coverage option called Physical Damage.

### Pick, purchase and print.

We sell insurance directly to motorists through our web site, www.milemeter.com. This keeps our operating costs low and our service level high. **Customers can get quotes, purchase insurance, and even print their insurance cards, all in five minutes or less.**

**"We went to milemeter.com, got a quote, purchased insurance, and printed our insurance card, all in just a few minutes."**

### Cancel your existing auto insurance policy today and start saving with MileMeter!

Did you know you can cancel your existing auto insurance policy and get a prompt refund for the time remaining? (But be sure you cancel the policy, don't just stop paying for it. Some companies will continue to bill you and then cancel you for non-payment. No kidding!)

### Auto insurance that makes sense.

MileMeter was founded by some insightful entrepreneurs who saw a great opportunity in providing something completely different – auto insurance that's fair, affordable, and makes sense.

### Time for a change.

In 2001, the Texas House passed Texas HB 45, the cents-per-mile choice law, authorizing insurance companies to offer a cents-per-mile alternative to their dollars-per-year prices. Texas was the first state to change its insurance laws; others are now considering similar changes.

### MileMeter — the world's first.

MileMeter was the first company in the world to develop and get approval to offer an insurance-by-the-mile program. But we also made sure to do it right. The MileMeter team includes people who are experts in every aspect of the insurance industry and are using that expertise to offer an innovative, cost-saving product.

MileMeter Insurance Company is a fully licensed insurance carrier regulated by the Texas Department of Insurance. The company is well-capitalized and deeply reinsured, with the backing of industry leaders.

### Hassle-free claims.

Reporting a claim to MileMeter is as simple as a phone call. We promise to do our best to treat you fairly, and to resolve your claim as quickly and simply as possible.

### Trust, don't track - we respect your privacy.

MileMeter takes privacy matters very seriously. That's one reason we worked so hard to create per-mile insurance without any GPS or vehicle-installed tracking technology – tracking devices infringe upon consumer privacy, and they also raise the cost of insurance. Similarly, we don't use credit scoring and the associated collection of Social Security numbers, since we believe that credit scoring is both invasive and unnecessary to sell insurance.

### MileMeter: A good value, and good values.

MileMeter auto insurance by the mile is not just a better way to buy insurance – it makes the world a better place.

### Insurance that doesn't discriminate.

**MileMeter's insurance product does not discriminate between male and female drivers,**[1] rather we differentiate between low- and high-mileage drivers by assigning a cost-per-mile for insurance.

The National Organization for Women has endorsed MileMeter *"because charging for insurance in this way is non sexist, helps the environment, and helps enable lower income people to retain their cars. In a word, it's fair."*[2] *"[We are] gratified that MileMeter is offering an insurance alternative based on odometer miles, not on stereotype averages."*[3]

**Traditional auto insurance can discriminate against lower income families.** If a family can't afford insurance for all the vehicles they need in order to drive to their jobs, they may be forced to use one covered vehicle and drive it more miles, or, in some unfortunate situations, decide to drive an uninsured vehicle. Insurance by the mile allows any family to insure the vehicles they need while only paying for insurance for the miles they need to drive.[4]

### MileMeter makes the roads safer.

Implementing insurance by the mile nationally could prevent up to 3,100 traffic fatalities and 210,000 traffic injuries per year.[5]

*"Pay-As-You-Drive Insurance is predicted to reduce mileage an average of 10% among participants, while crash costs and fatalities decline 15-20%."*[6]

*"The accident savings net of lost driving benefits from per-mile premiums would be $12.7 billion per year nationwide."*[7]

MileMeter auto insurance by the mile is not just a better way to buy insurance – it makes the world a better place.

### MileMeter is good for the environment.

Insurance by the mile provides an economic incentive to drive less. This leads to fewer tailpipe emissions, less toxic road runoff, and less demand for road and parking lot construction. Think of it as a way to reduce urban sprawl, improve our air quality, and fight climate change.

*"The EPA and the Federal Highway Administration have cooperated in promoting Pay-As-You-Drive insurance… (that) could cut air pollution and traffic congestion by 10 to 12 percent or more."*[8]

**"I'm not a tree-hugger, but I do care about the environment. With MileMeter, I get great rates and help the environment."**

The Environmental Defense Fund has praised MileMeter, stating *"Texas drivers now have a choice to do the right thing by their pocketbooks as well as by the environment… Pay-as-you-drive insurance policies help to increase our awareness of how many miles we're driving and therefore, think twice before making an optional trip to the store, or better yet, walk, bike or use public transportation to get there instead."*[9]

1. Patrick Butler, "Automobile Insurance Pricing: Operating Cost versus Ownership Cost; the Implications for Women." Proceedings, Women's Travel Issues Second National Conference, Federal Highway Administration.
2. National Organization for Women, "Vote for Non Sexist Car Insurance" action alert (3 December, 2007)
3. Hannah Riddering, Texas N.O.W spokesperson (14 November, 2008).
4. Patrick Butler, "Why The Standard Automobile Insurance Market Breaks Down In Low Income Zip Codes," Report to the Texas House Committee on Insurance, July, 2000.
5. Jason Bordoff and Pascal Noel, "Pay-As-You-Dive Auto Insurance: A Simple Way to Reduce Driving Related Harms and Increase Equity" (2008).
6. Todd Litman, "Evaluating Safety and Health Impacts, TDM Impacts on Road Safety, Personal Security and Public Health" (2001, 2004).
7. Aaron Edlin. "Per-Mile Premiums for Auto Insurance, Economics for an Imperfect World" (2003).
8. "Financing Transportation: Wise Stewardship Demands a Level Playing Field" Testimony of Michael A. Replogle, Transportation Director, Environmental Defense, before the Congressional Joint Economic Committee May 6, 2003.
9. Ramon Alvarez, "Texas Environmentalists Praise By-the-Mile Auto Insurance Option," Environmental Defense Fund press release (12 November, 2008).

Douglas H. Green, President
Telephone: 360-871-7500
SettlementCentral.Com, Inc.
http://www.settlementcentral.com
Please use "contact us" form: e-mail is protected from spam bots
1426 Harvard Avenue #466,
Seattle, WA 98122-3813

Sent Via Electronic Mail

April 28, 2009

**National Association of Insurance Commissioners**
MARKET REGULATION AND CONSUMER AFFAIRS COMMITTEE
Kim Holland, Hearing Co-Chair—Oklahoma State Insurance Commissioner
Michael McRaith, Hearing Co-Chair—Illinois Secretary Department Financial Regulation

**Regarding: Adjustments to Credit Scoring in Light of the Economic Crisis**

Dear Commissioners,

We write on behalf of consumers who have suffered economic misfortune not of their own making, but who will nonetheless be subject to auto insurance rate increases because no adjustments have been made to the credit scoring systems approved in most states. Our purpose is to respectfully request that your members make provision for the impact of the economic crisis to be taken into account with respect to the tens of millions of consumers who have lost employment or whose credit scores have been reduced through no fault of their own.

As we all know, the credit score is the major factor comprising a consumer's "insurance score", upon which the auto insurance premium is based. Many NAIC member commissioners have by rule or statute placed restrictions on the use of credit scores, and we believe that a few states do not permit a lowered insurance score to result in an increased rate at renewal. But it appears that the remainder of the states have no restrictions that will prevent what has become (because of our economic crisis) a potentially widespread consumer abuse by the insurance industry.

We respectfully request that these comments be included as part of the public testimony at the forthcoming hearing credit scoring to be held on April 30, 2009.

Our interest in this matter is simply one of seeking common sense and economic fairness for all consumers whose economic situation has deteriorated because of our present economic crisis. We possess no expertise in the many complex areas of regulation that your members deal with. We have not studied the arguments for and against the use of credit scoring in good economic times. Instead, the mission of www.SettlementCentral.Com is simply to provide information, forms, and letters to enable injured accident victims to settle their own insurance claims. Our attorney founders are plaintiff trial attorneys with only moderate experience in representing municipal corporations, and hence, we readily admit that we have no specific expertise in the field of insurance premium rate-setting, credit scoring, or regulations pertaining thereto.

That said, we DO speak for thousands of consumers who are in contact with us via our website or the volunteer efforts of one of our attorneys. David Jackson (aka "Dr. Settlement, J.D.") is a volunteer writer for us and a volunteer at www.allexperts.com, where he is the highest ranking trial attorney volunteering assistance in the area of auto insurance and claims.

Hence, we are in touch with a great many consumers regarding insurance topics, and one area of concern for many is what will happen to their insurance rates in light of the drastic loss of economic position brought upon so many of our countrymen. Two consumers recently told of stress and depression over their inability to keep current with their payments because of losses in their work status. They wrote e-mails to Dr. Settlement in his capacity as a volunteer. Both writers told of having their jobs terminated in the last two years because they (1) were outsourced overseas, and (2) manufacturing was reduced by half.

Both of the writers complained of falling behind on their obligations, and one wanted to know the consequences of driving without insurance. Their credit worthiness has fallen precipitously since the loss of employment, and hence they will suffer unwarranted increases in their auto insurance premiums.

What did those two consumers do to deserve economic punishment? Why should they now be labeled a higher risk for auto insurance loss? Yes, they did go into debt, but that was when they had jobs. And if they were handling the debt when they had work, how can we make them pay more for auto insurance now that the lack of work has caused them to fall behind? Surely none of your members will contend that the insurance industry is entitled to any increased windfall profit to be made on the back of someone's misery.

An equally compelling argument for immediate revision of the credit scoring system is that of the tens of millions of consumers whose credit limits were reduced, even though their historical use of credit was otherwise satisfactory. Typically, these victims of the lower credit limits campaign (led by the banks) were mostly in compliance with their card agreement to pay their bills, and yet their credit limits were drastically cut. Now, the **credit utilization ratio** of those impacted will be greatly increased, and their credit scores will automatically suffer.

There is firm evidence that the leading FICO credit scoring formula is **very sensitive** to how much of one's available credit is being used. Hence, when the credit card limits are lowered or an account is closed, any existing balances will significantly increase the important **credit utilization ratio, and the FICO score will decline.**

So we see that credit scores, and hence insurance scores, have been lowered by loss of employment and reduced credit limits. Surely these factors do not tell us anything about the risk to insurance companies from the driving habits of these economic victims. Without arguing the merits of the use of credit scoring in good economic times, we respectfully submit that it is **TOTALLY INAPPROPRIATE and very harmful** to tens of millions of consumers who have suffered economic misfortune not of their own making.

This ineluctably leads to a reduced insurance score, which in turn means insurers get increased premiums. Even if the consumer is notified of this adverse action, there is nothing that can be done about it. The credit report can be corrected if there is any error. But we are NOT talking about errors per se here: the credit score has been lowered for the reasons set forth above.

Hence, the consumer needs some ENFORCEABLE RIGHT to an appeal or an arbitration forum to be hosted at the insurer's expense. Some states do provide consumers an opportunity to complain to their insurers and to show that they should have an exemption because of their particular life circumstances. We respectfully submit that this ought to be made into a consumer right, with enforcement provisions. That way, any aggrieved consumer can simply show that her decreased insurance score has no relevance to any evaluation of her driving risk.

We note that over one year ago, Mr. Birny Birnbaum of the Center for Economic Justice asked state insurance regulators to push for a moratorium on insurance scoring as part of an overall program to assist consumers who are the victims of reckless and abusive mortgage lending practices. Was any action taken on that request?

Here we present an even more compelling reason to take IMMEDIATE and EFFECTIVE action inasmuch as the economic victims we describe herein are blameless. Yet, the insurance industry, under your authorization, continues to pretend that their newly lowed credit scores truly do tell us that they are higher risks for auto insurance losses.

**The basic premise of credit scoring simply DOES NOT WORK in these times of crisis inasmuch as there is no logical connection between the loss of economic well-being and one's insurance risk as a driver.** How does the fact that a worker's job was shipped overseas tell us anything about the risk of that now-unemployed worker's driving habits? How does the fact that credit card limits were lowered have any bearing whatsoever upon that person's risk for auto insurance loss?

We are not at all informed about the mechanics of how the credit scoring systems could be adjusted, and we imagine it is a complex mechanism. But simple common sense tells us that unless the states take IMMEDIATE AND EFFECTIVE action, tens of millions of consumers risk unwarranted increases in their insurance premiums. And, of course, the corollary is that the auto insurance industry stands to reap **undeserved windfall profits**. Typically, changes to your rules or statutes will take many months—but by then it is too late. You MUST find a way for immediate relief.

This is NOT a good time to let the free market have its way, since we already see how unfairly it has—and will—treat those victims of our economic crisis. And the commensurate profits taken by the insurance industry from unabated use of the present credit scoring system are surely NOT earned. This is a business abuse, and it is YOUR JOB to fix the system since you are the ones who allowed the use of credit scoring in the first place.

In all but a few states, the rules and regulations governing the use of credit scoring will not help those of whom we write. Hence the need for some quick action. We respectfully suggest that this is the time to suspend the right to increase rates because of a decrease in the credit score. But the whole structure of rate-setting is complex, and if the state regulators are not able to find an **immediate** solution, perhaps, in light of this economic crisis, they could at the minimum provide some means for consumers to contest the insurance score or its use in setting premiums. Your members ought to be able to write rules that will ensure there is some kind of **arbitration forum to be hosted at the insurer's expense or other no-cost appeal mechanism** for consumers to utilize if they feel that their credit scores have no relevant bearing upon their risk for an insurance loss. The implementation of such a right would necessarily require continued public service announcements for some time.

Anyone who wishes to access our links to resources regarding the impact of the economic crisis on credit scoring is welcome to read "Employment Losses & Credit Restrictions Cause Auto Insurance Rate Increases: What YOU Should do About It" posted on our website at http://www.settlementcentral.com/page0464.htm. We have posted two sample letters to insurance companies (one for employment losses and one for credit limit reductions), and one complaint form for consumers to send to their state insurance commissioner, at "ACTION PAGE: Sample Letters to Insurer, to State Insurance Commissioner & to State Legislative Delegation" at http://www.settlementcentral.com/page0466.htm. Your members are welcome to copy and post these letters, so long as attribution is given to www.SettlementCentral.Com.

We would be pleased to furnish any additional information you may deem useful to resolution of this problem. Please feel free to contact the undersigned.

Very Truly Yours,

Douglas H. Green
President
SettlementCentral.Com, Inc.

cc: Pam Simpson and Eric Nordman of NAIC