Affirmative Action and Its Mythology

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Affirmative action policy regulates the allocation of scarce positions in education, employment or business contracting so as to increase the representation in those positions of persons belonging to certain population subgroups. Such policies are highly controversial. For more than three decades, critics and supporters of affirmative action have fought for the moral high ground—through ballot initiatives and lawsuits, in state legislatures and in varied courts of public opinion. The goal of this paper is to show the clarifying power of economic reasoning, when it is used with a healthy dose of common sense, to dispel some myths and misconceptions in the racial affirmative action debates.

The sort of analysis presented in this paper will not change the positions of diehards who are unalterably committed to supporting or opposing affirmative action and who view their positions as required by basic principles of justice. But most Americans do not hold extreme beliefs about affirmative action; indeed, the American public embraces no coherent conception of what "affirmative action" actually entails. When President Bill Clinton directed a team of aides to undertake a comprehensive review of the federal government's racial preference policies, the inquiry found that Americans held wide-ranging and conflicting views about what is meant by "affirmative action." Investigators concluded that this lack of coherence fostered an atmosphere of confusion about what these policies aimed to achieve and how they were implemented (Edley, 1996).

There is a growing literature on the fragility of views regarding affirmative action. Bositis (2004) asked subjects to respond to the following statement, "We

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should make every possible effort to improve the position of blacks and other minorities," with which 75 percent of blacks, 67 percent of whites and 80 percent of Hispanics agreed. However, when subjects were asked to respond to an alternate statement—"We should make every possible effort to improve the position of blacks and other minorities, *even if it involves preferential treatment*"—only 57 percent of blacks, 48 percent of Hispanics and 33 percent of whites agreed. Bositis also found that the presence of the term "preferential treatment" had its most pronounced negative impact on support for assisting racial minorities when the context involved race-based preferences in college admissions. Moreover, and perhaps most disturbingly, Sniderman and Piazza (1993, pp. 102–104) find that in a comparison of two groups of similar whites, individuals to whom affirmative action was mentioned showed a significantly higher tendency to affirm negative racial stereotypes about blacks like "most blacks are lazy" than did those to whom affirmative action was not mentioned at all. Given this conceptual incoherence, it is hardly surprising that many survey researchers now avoid using the ambiguous term "affirmative action" altogether, opting instead to describe a program's specific content in their questionnaires (for example, Kravitz et al., 1996).

When concepts are unclear, misunderstandings can easily take root. This paper enumerates seven commonly held but mistaken views one often encounters in the folklore about affirmative action: 1) Affirmative action may involve goals and timelines, but definitely not quotas; 2) Color-blind policies offer an efficient substitute for color-sighted affirmative action; 3) Affirmative action creates opportunities but does not undercut incentives; 4) Passing equal opportunity laws is enough to ensure racial equality; 5) The earlier affirmative action is used in education or career development, the better; 6) Many whites are directly affected by affirmative action policies designed to increase representation of minorities; and 7) Affirmative action always helps its intended beneficiaries. We discuss each of these beliefs in turn and provide economic arguments that reveal them to be more myth than fact.

Myth #1: Affirmative Action Can Involve Goals and Timetables while Avoiding Quotas.

The belief that it is possible to draw a meaningful distinction between "goals" and "quotas" is found on both sides of the affirmative action debate. Supporters of affirmative action typically endorse goals, but back away from quotas. Here is President Bill Clinton (1995), defending affirmative action in his "Mend It Don't End It" speech: "Since President Nixon was here in my job, America has used goals and timetables to preserve opportunity and to prevent discrimination, to urge businesses to set higher expectations, and to realize those expectations. But we did not and we will not use rigid quotas to mandate outcomes." Likewise, President George W. Bush (2004) leaned heavily on this alleged distinction when, in commenting on the U.S. Supreme Court's decision in the University of Michigan

affirmative action cases, he said: "I agreed with the Court . . . that we ought to reject quotas. I think quotas are discriminatory by nature. . . .We also agreed with the finding that, in terms of admissions policy, race-neutral admissions policies ought to be tried. If they don't work, to achieve an objective which is diversification, race ought to be a factor. . . .I think it's very important for all institutions to strive for diversity, and I believe there are ways to do so."

Yet this distinction between goals and quotas is dubious, because to implement either a goal or quota requires that a regulator credibly commit to some (possibly unspoken) schedule of rewards/penalties for an employer or an education institution, as a function of observable and verifiable outcomes. The results engendered by either policy depend on how firms or educational institutions react to these incentives. If the penalty for certain "bad results" is sufficiently severe, then people will tend to say that a rigid quota had been imposed. If penalties for bad results are minimal, then the people will tend to say that a flexible goal has been adopted. Clearly, this difference is one of *degree*, not of *kind*.

For similar reasons, neither can one draw a sharp distinction between the use of numerical hiring goals on the one hand, and the mere enforcement of a regime of nonracial discrimination, on the other. When antidiscrimination law enforcement agents are less well informed than are potentially discriminating employers, any effective enforcement policy will have quota-like effects.

To see this point, imagine that a government entity is trying to enforce laws against racial discrimination by auditing employers' hiring practices. Suppose that employers differ, both in their proclivities to discriminate and in the fraction of qualified minorities applying for positions in their firms. Assume that the auditor can perfectly observe neither a firm's proclivity to discriminate, nor all of the characteristics of its applicant pool, but that the auditor can observe the rate at which minorities are actually hired at any firm. Then, the observation of a low hiring rate for minorities is consistent with two alternative interpretations: either the employer is a discriminator who rejected qualified minority candidates, or the employer is a nondiscriminator who happened to draw a small fraction of qualified minority applicants. Because an outside law enforcement official can never perfectly distinguish between these two situations, a vigorous effort to limit discrimination will on occasion be subject to both type I and type II errors—that is, the employers who did not discriminate will sometimes be punished, and those who did discriminate will sometimes go unpunished. As a result, even those employers who do not wish to discriminate for or against minority workers will nevertheless have an incentive to alter their hiring practices if they happen to draw an unusually low number of qualified minority applicants, because doing so reduces their risk of being audited and undeservedly punished.

In this specific sense, then, given a legal environment that eschews affirmative action and requires only nondiscrimination, employers will nevertheless behave as if they faced an "implicit quota" (Fryer, 2004): that is, they will adhere to a self-imposed hiring target that can be understood as their equilibrium response to incentives created by imperfect auditing. A regulator enforcing antidiscrimination laws, who is less well informed than are employers about the qualifications of job

applicants, will find that an effective enforcement regime must on occasion induce some departures from race-neutral hiring by the firms being regulated. What is more, these induced departures from race-neutral hiring will generally favor members of the groups being protected from discrimination—which is to say, they will be hard to distinguish from racially preferential affirmative action.

A similar false distinction often encountered in the affirmative action debate is that between racial preferences, on the one hand, and the mere enhancement of efforts to attract qualified minority candidates, on the other. Some opponents of affirmative action reject preferences but argue that race-targeted recruitment and outreach efforts (as exemplified by the phrase "please alert us to qualified minority candidates") are acceptable, so long as all applicants are judged by a common, race-independent standard. Likewise, some supporters of affirmative action argue that to prefer a minority applicant whose qualifications are roughly the same as a nonminority competitor ought to offend no one.[1] Both of these arguments avoid the hard truth that targeted outreach will generally lead to an equilibrium in which the targeted applicants of a given skill level enjoy wider job options, more bargaining power and, consequently, greater remuneration than comparable nontargeted applicants.

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Myth #2: Color-Blind Policies Offer an Efficient Substitute for Color-Sighted Affirmative Action.

The belief that to achieve a color-blind society we are best advised to use color-blind (or, as they are sometimes called, "race neutral") means was the driving force behind two ballot initiatives in California: Proposition 209, which in 1996 successfully banned the use of affirmative action by state or local government (including state colleges and universities in their admissions decisions), and Proposition 54, which unsuccessfully sought in 2003 to ban state and local government from collecting information that would permit them to categorize students, contractors or workers by race. The public relations campaign for Prop. 54, led by Ward Connerly, proclaimed (Racial Privacy Initiative, 2002): "Asking citizens to check a race box on a school or job application form is demeaning to the growing millions of our citizens who are multiracial and multiethnic. It divides us as a people and forces Americans to pay more attention to immutable and meaningless characteristics like skin color and ancestry."

Connerly's view has some superficial plausibility, even if one begins with the assumption that achieving racial diversity is a compelling government objective. After all, to abide by the color-blindness constraint in employee or student selection

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[1] Although, as Bositis (2004) points out, roughly half of blacks and whites oppose offering a job to a black candidate when both she and a white candidate are equally qualified and blacks are underrepresented in the firm.

Fn2 does not rule out the pursuit of greater representation for a disadvantaged group.[2] Group-representation goals can be sought tacitly under color-blindness: selectors can favor a targeted racial group by overemphasizing the nonracial factors that are relatively more likely to be found among members of that group. For example, the states of California, Florida and Texas now guarantee admission to their public university systems for all in-state high school students graduating in the top 4, 20 and 10 percent, respectively, of their senior classes. Since high schools across these states have different racial populations, this policy will tend to cause university admissions to mirror more closely the racial composition of the state. We use the term "color-blind affirmative action" when referring to this kind of implicit racial **Fn3** preference.[3]

Let us consider in more detail how color-blind affirmative action might work. Suppose that a college has the capacity to admit only a certain fraction of its **Fn4** applicants and seeks to maximize the expected performance of those admitted.[4] Assume for the sake of this illustration that expected performance is a linear function of a student's standardized test scores and that student's level of involvement in extracurricular activities. Then the college will admit an applicant if the value of this function exceeds some suitably chosen threshold. The weight the college gives to extracurricular activities relative to test scores in this admissions policy function will equal the ratio of the partial correlations of these variables with **Fn5** postadmissions performance.[5]

Now, suppose the college believes that to follow this threshold policy would yield too few members of some racial group. Imagine that the level of extracurricular activities is distributed among applicants within racial groups in approximately the same way, but that the within-group test score distributions differ substantially between the races. Given this setup, a college could enhance racial diversity in a color-blind manner (although at some cost to expected performance among those admitted) by placing more weight on extracurricular activities relative to test scores than is warranted by the correlation of these variables with performance. That is, the college could practice color-blind affirmative action by valuing an applicant's traits in the admissions process not only because a variable might help forecast post-admissions performance, but also because that trait might be associated with an applicant's membership in the targeted racial group. The practice in California,

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[2] Chan and Eyster (2003) were the first to make this point. Independently, Fryer, Loury and Yuret (2003) advanced a related, though more general, analysis.

[3] U.S. Department of Education (2003) provides a range of examples illustrating how race-neutral admissions programs in higher education might work.

[4] As Sam Bowles has pointed out to us, an equally plausible objective function for colleges—one with quite different implications for admissions policy—would be to maximize the expected *value-added* to their students' overall academic abilities as a result of being admitted. Moreover, even if this were not a compelling goal for colleges acting on their own account, it might be the most reasonable *social* objective function. That the interests of individual institutions may diverge from the interests of society at large is clear, in view of the fact that improving their *relative* ranking is a key goal for many colleges and universities, but this consideration may be of much less significance from the a social point of view.

[5] See Fryer, Loury and Yuret (2003) for a detailed model along these lines and a formal demonstration of this result.

Florida and Texas—which guarantees admission to some students based solely on their high school class rank—is one way to implement such color-blind policy. Another method, recently enacted by Mount Holyoke College, is to make reporting of an applicant's test scores optional while committing that some portion of the incoming class will be chosen from among those who elect not to submit scores. However, even though the targeted group may constitute only a small fraction of its applicant pool, to practice color-blind affirmative action in this way a college would need to bias its evaluation of *all* of its applicants, minorities and nonminorities alike.

By evaluating applicants in a different manner from that which would maximize expected postadmission performance, color-blind affirmative action enhances racial diversity at the cost of lowering selection efficiency. Of course, given a fixed distribution of traits among applicants, *any* affirmative action policy—blind or conventional—necessarily lowers the expected performance of those selected.[6] Otherwise, no policy to enhance racial diversity would be necessary. Even so, for a fixed distribution of traits, any color-blind affirmative action policy is less efficient than the optimal color-sighted policy calibrated to achieve the same degree of racial diversity (Chan and Eyster, 2003; Epple, Romano and Sieg, 2003; Fryer, Loury and Yuret, 2003). This result follows from the fact that, in the absence of affirmative action, efficient selection entails using a universal threshold policy where all applicants expected to perform above some level are admitted. Consequently, the use of group-specific thresholds under affirmative action—with everyone being admitted whose expected performance exceeds a minimal level that is specific to their group—provides as close an approximation to the efficient policy as is possible, consistent with meeting a racial representation target. In other words, color-sighted affirmative action uses racially discriminatory means when comparing applicants from different groups, but, unlike color-blind policy, it makes optimal use of all available, nonracial information when comparing applicants *within* groups.

In the short run, with applicants' traits given, the efficiency of color-blind affirmative action depends on how well one can proxy for race by using observable, nonracial characteristics that are not negatively correlated with a student's performance. For instance, if a college could perfectly forecast an applicant's race by using some combination of the applicant's name and date of birth, then that college could implement an admissions policy which, in effect, set separate thresholds of expected performance for each racial group, while being able to maintain truthfully that all of its applicants have been evaluated relative to a common, nonracial standard. At some point, though, this effort to find perfect proxies for race ceases to be "color-blind" in any meaningful sense. In practice, since color-blind affirmative action generally shifts weight from academic characteristics to

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[6] That this need not be true when the distribution of traits is endogenous is a principle implication of our discussion of Myth #3 below.

Fn7 social characteristics, the policy will concurrently help Hispanics and low-income whites as well as blacks.[7]

Moreover, as emphasized by Fryer, Loury and Yuret (2003), color-blind affirmative action is likely to be inefficient over the long run as well. In any proper long-run analysis, the distribution of applicants' traits must be allowed to shift in response to the incentives created by the colleges' policies. Because color-blind policy works by biasing the weights put on nonracial traits when assessing *all* applicants, the policy creates a situation where the incentive for students to acquire traits diverges from the relative importance of those traits in a college's estimate of postadmission performance. For example, in states using a top-x-percent scheme, students have an incentive to enroll in high schools (or particular courses within a high school) at which they expect to perform relatively well. So, top-*x*-percent policies should be expected to alter the way that students and high schools of varying qualities are matched with one another in equilibrium. There is no reason to expect that such a shift in resource allocation induced by color-blind affirmative **Fn8** action will promote efficiency.[8] Similarly, a policy that raises the weight on extra-curricular activities relative to standardized test scores in the admissions process must lower preapplication incentives for students to acquire skills that enhance performance on such tests. To the extent that such skills also enhance postadmission performance, shifting from color-sighted to color-blind affirmative action **Fn9** policies could lead to an overall applicant pool that is less academically promising.[9]

Myth 3: Affirmative Action Undercuts Investment Incentives.

It is theoretically possible that the existence of affirmative action could reduce incentives for effort and skill acquisition in the targeted group, because the policy could make effort and skill less important for achieving successful outcomes. On the other hand, affirmative action could enhance incentives for the targeted group

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[7] For plausible estimates of the possible magnitudes, see Fryer, Loury and Yuret (2003).

[8] As discussed in note 5 above, the private goals of colleges in the admissions process need not coincide with social objectives. For instance, society may care about how students of different races and varying abilities are sorted among the high schools in a state, while this might matter little to a college. To this extent, the bias in colleges' admissions policies induced by color-blind affirmative action could, in principle, enhance social efficiency over the long run.

[9] Card and Krueger (2004) have studied the effects of this shift on applicant behavior in California and Texas. Using data on SAT test takers, they examine how eliminating color-sighted affirmative action in these states has affected the rate at which minority students send their test scores to selective public universities. They find no change in the SAT-sending behavior of highly qualified black and Hispanic students. They also find that the shift in policy had no effect on the number of schools to which these students applied and did not significantly alter the quality of their fall-back schools. This evidence is consistent with the hypothesis that the shift from color-sighted to color-blind affirmative action has had little impact on incentives for highly qualified minority students (which, given they are inframarginal, is what one might expect). A more persuasive test of this hypothesis would examine the impact of affirmative action on the grades and attendance patterns of high school students. These outcomes are elastic with respect to effort, and are likely to vary with changes in students' perceptions of college opportunities.

by creating a situation where opportunities previously thought of as out of reach come to be perceived by the applicant as attainable and thus worth the expenditure of effort to pursue. Supporters of racial preferences tend to downplay possible adverse incentive effects, while critics are dismissive of the prospect that the policy could provide incentives for better performance in a targeted group.

Our view is that confident a priori assertions about how affirmative action affects incentives are unfounded. Indeed, economic theory provides little guidance on what is ultimately a subtle and context-dependent empirical question. First principles, commonsense intuitions and anecdotal evidence are simply inadequate to the task here.

It is useful in this context to think about affirmative action as a form of market regulation that induces a shift in demand for the services of persons at various skill levels in affected groups. For example, in a labor market context, racial preference policies may lead firms to hire or promote minority applicants at a given skill level, even though similar nonminority applicants would be rejected. The consequence of such policy for incentives to acquire skills should thus depend on the relative magnitudes of these demand shifts and on supply elasticities at the various skill levels. If regulation causes firms to bid up the rewards to the highly skilled in the targeted group by more than to the less skilled, then skill-acquisition incentives will be enhanced. Alternatively, given the relative supplies, if the demand for various skill grades within a preferred group were to rise in response to affirmative action policy in such a way that the less skilled gain more than the highly skilled, then skill-acquisition incentives will fall. Thus, economic analysis suggests that the impact on incentives of preferential policies depends (perhaps in a counterintuitive way) on details of the specific environments into which they have been introduced.

Coate and Loury (1993) explore a model of the labor market where workers are minorities or nonminorities and are qualified or unqualified. Employers have a taste for discrimination; that is, they incur a noneconomic cost of hiring minority workers that rises as minorities become a greater share of their workforce. In the unregulated equilibrium of this model, qualified minority workers are not always hired, even though qualified nonminorities are fully employed, so the incentive for minorities to become skilled are lower than for nonminorities. Coate and Loury study how affirmative action policies intended to counter employers' discriminatory preferences affect the equilibrium of this model. They show that the impact of affirmative action on the incentives of minority workers to acquire skills depends critically on the aggressiveness of the plan. Because employers discriminate, there is a surplus of qualified minorities prior to regulatory intervention—more minorities invest in skills than find employment. If the affirmative action goal is modest, employers anticipate meeting the goal by dipping into this surplus of qualified minorities, which in turn raises the probability of a qualified minority being hired in equilibrium, thereby increasing the incentive for minority workers to become qualified and further narrowing the skill gap. If, on the other hand, the affirmative action goal is highly ambitious, then employers will perceive a shortage of qualified minorities relative to the numbers needed to be in compliance with the regulations, and so they will be inclined to hire some who are unqualified, thereby lowering the

minority incentives to invest in skills. Coate and Loury call this outcome a patronizing equilibrium.

This analysis suggests that affirmative action, even when introduced to counter employment discrimination by race, can embody an awkward tradeoff: a highly aggressive plan risks inducing a patronizing equilibrium, whereas a more modest goal may not fully eliminate discrimination. An intermediate policy would be to ratchet up the affirmative action goal over time. If a modest but not insignificant affirmative action goal is initially enacted in such a way that the first stage of the plan can be satisfied by drawing only on qualified minority applicants, then as these applicants are hired, the incentive for minorities to acquire skills increases. Then, in a later stage, the affirmative action goal can be set more ambitiously without moving incentives in the wrong direction; employers can draw on a larger pool of qualified minority applicants.

Myth #4: Equal Opportunity is Enough to Ensure Racial Equality.

Given the unlovely racial history of the United States, are equal opportunity laws enough to correct for centuries of institutional discrimination and social isolation? Economists have pondered this question for decades.[10] If there had been equality of opportunity for all racial groups from the very beginning of the United States, then the ongoing enforcement of a nondiscrimination regime might arguably suffice to secure racial equality today. However, given that egregious violations of racial equality of opportunity are an historical fact, and under the plausible assumption that the evolution of interracial income distributions over the long run depends to some significant extent on initial conditions, there is a strong case for the view that achieving racial equality requires something more than the enforcement of nondiscrimination from this point forward.

Consider an environment in which, while job assignments are based solely on an individual's productive characteristics, an individual's acquisition of these characteristics is favorably influenced by the economic success of his or her parents. Thus, the toxic consequences of past discrimination for blacks are reflected in the fact that their children have less successful parents, on average, and therefore less favorable parental influences on their skill acquisition process. Further, imagine that families are grouped together into communities and that local public goods like educational resources that are important for individual productivity are provided uniformly to children of the same community. In this setting, background influences achievement on two dimensions. First, less successful parents are not as able to provide important resources that augment human capital development—such as career information, job referral networks and other forms of social and cultural capital. Second, children with less successful parents will tend to live in communities with inferior local public goods.

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[10] This inquiry began with Loury (1977, 1981a) and has spawned an impressive literature.

Now consider the following thought experiment: Assume that all individuals have identical preferences and that the distribution of innate abilities characterizing each generation of black and white children does not differ by race. Assume further that peer effects operating at the neighborhood level strongly influence the acquisition of skills by the young. Then, supposing that no antiblack discrimination occurs from a fixed point in time onward, one can ask whether a competitive market would eventually eliminate any initial differences in the average status of the two groups.

Loury (1977) shows that the answer to this query depends on whether only income, or both income and race, affect the community to which an agent belongs. When community membership depends only on income, equal opportunity can be shown always to yield a racially equitable long-run outcome. However, if race plays an independent role in sorting families into neighborhoods, then equal opportunity will generally not be enough to yield racial equity.[11] When some racial segregation exists among communities, the intergenerational status transmission mechanism differs substantially for the two racial groups. In essence, an intragroup externality is exerted through local public goods provision, by the lower income of black families who share a community. Because the racial composition of one's community depends (in part) on the choices of one's neighbors, this effect cannot be completely undermined by an individual's actions. Since social clustering by ethnicity and race is empirically relevant and has been observed since the dawn of its measurement, equal opportunity from this point forward is unlikely to assure racial equity.

In the recent U.S. Supreme Court case of *Grutter v. Bollinger* (02-241 [2003]), involving the application of affirmative action standard in admissions to the University of Michigan,

Justice Sandra Day O'Connor took an intriguing stand on equal opportunity and racial equity: "Race-conscious admission policies must be limited in time and the court expects that 25 years from now, the use of racial preferences will no longer be needed to further the interest approved today." A recent paper by Krueger, Rothstein and Turner (2004) evaluates the plausibility of O'Connor's forecast by projecting what the elite college applicant pool can be expected to look like 25 years ahead. Their thought experiment rests on a number of assumptions regarding the rate at which existing racial gaps in economic circumstances and precollegiate educational achievement will likely close in the future. The analysis is focused on two important margins: changes in the black-white income distribution and the convergence in test scores among students with similar family income. They argue that Justice O'Connor was overly optimistic; that is, blacks are unlikely

[11] Sethi and Somanathan (2004) is a recent effort to model endogenous community formation when agents care about both the income and the racial composition of their neighborhoods. They show that in the extreme case where communities are segregated by race and income, but where the intraracial distributions of income among blacks and whites are nearly identical then, in the unique stable spatial equilibrium, the provision of local public goods in the two communities will be nearly equal as well. Under such circumstances, equal opportunity alone may suffice. As an empirical matter, we are unaware of any such environments.

to witness the dramatic convergence needed to make affirmative action in college admissions superfluous in 25 years. They estimate that, were all affirmative action in college admissions to be eliminated, then expected minority gains in income and socioeconomic status over the next quarter century would yield only 42 percent of the current level of racial diversity in selective institutions.

Myth #5: The Earlier in Education or Career Development Affirmative Action is Implemented, the Better

Critics of racial preferences in higher education often argue that affirmative action should be undertaken early in the developmental cycle. However, whether or not affirmative action should be practiced early or late in a development cycle is a subtle empirical question on which little evidence exists.

The tradeoffs of early versus late affirmative action can be illustrated with another thought experiment: Suppose that the higher education establishment wants to increase its share of minority faculty and that this goal can be attempted in one of two ways—by lowering hiring standards for newly minted minority Ph.D. students or by changing graduate admissions policies to admit more minority graduate students. Let there be a cost to making a mistake in each stage—that is, admitting graduate students who do not do well is costly, as is hiring newly minted Ph.D.'s who turn out to be unqualified. Finally, suppose that hiring an unqualified faculty member is more costly than admitting an unqualified graduate student. Given this set-up, which approach is preferable? The answer depends on the empirical details of the case.

The distinction we are drawing here between early and late affirmative action is similar to the distinction highlighted in Loury (1997) between *developmental* and *preferential* affirmative action. The benefits from the earlier affirmative action are developmental, in that it enhances the skills of some minority students. However, to derive the expected cost of affirmative action in this stage, we must consider the proportion of those admitted who will not complete the program, taking due account of the losses experienced when matriculates do not complete their studies. Hence, affirmative action in graduate admissions will tend to be a good idea if the early investments pay off for a substantial group, but will tend to be a bad idea if the resulting attrition rates are too high and too costly. Focusing affirmative action at the later stage of faculty hiring stage is advantageous when one wants to target narrowly the preferential treatment to particular individuals within the preferred group. However, it will be disadvantageous if the costs of hiring some unqualified faculty are sufficiently high. Fang and Fryer (2004) provide a model based on this intuition that shows that when it comes to affirmative action, earlier need not be better.

This issue is related to the broader question of whether efforts to ameliorate the effects of racial disparity in socioeconomic background should be undertaken early or later in the life cycle. Heckman and Krueger (2002) provide a lively

discussion of the efficacy of interventions throughout the life cycle. Early childhood interventions such as the Perry Preschool Project and the Abcedarian Project seem to have large effects on test scores, schooling attainment and crime reduction. The results from adolescent interventions are mixed, which is illustrated in the disparate results from analysis of the Job Start and Job Corps programs. Job Corps is the nation's largest and most comprehensive residential, education and job training program for at-risk youth, ages 16 through 24. It takes the students to (predominantly rural) training centers where they receive free room and board along with intense training in one of 100 vocational specializations. Conversely, Job Start uses the same teaching curricula as Job Corps, but the students stay at home and commute to a local training site. Job Corps seems to increase earnings and reduce crime, whereas, Job Start has statistically insignificant effects.[12]

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The disparities between Job Corps and Job Start initiatives suggest that peer group externalities may be important. Assisting a large fraction of students in a particular neighborhood could cause positive spillovers, and these spillovers could be self-enforcing. The magnitudes of these externalities will likely differ across environments, and change in complicated ways as children age and develop their identities—making a thorough cost-benefit analysis quite difficult. As such, whether or not affirmative action is better to introduce early or late in the developmental life cycle remains an open empirical question.

Myth #6: Many Nonminority Citizens are Directly Affected by Affirmative Action

Many white Americans hold erroneous perceptions about the costs they incur due to racial preferences favoring blacks and Hispanics. According to our calculations based on data from the 2000 General Social Survey (GSS), 40 percent of whites over the age of 18 believe it likely that they or someone they know were rejected from a college due to an unqualified black applicant being admitted. Yet Kane (1998) has shown that racial preferences in admissions are given only at the most elite 20 percent of colleges and universities and, even at these colleges, the impact of racial preferences on the typical white applicant's admission probability is small. As a back-of-the-envelope calculation, assume that elite colleges and universities accept 20 percent of their applicant pool (the true percentage is probably lower) and that 15 percent of their incoming students are black or Hispanic. If one makes the extreme and clearly incorrect assumption that all admissions of blacks and Hispanics to elite colleges and universities are a result of affirmative action, then 3 percent of all selective college admissions in a given year would be the result of affirmative action. Very few of the 80 percent of those rejected by selective colleges could possibly fit into the 3 percent of admissions

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[12] See ⟨http://www.jobcorps.org⟩ and ⟨http://www.mdrc.org/project_9_60.html⟩ for results on Job Corp and Job Start programs, respectively.

affected by affirmative action. Evidently, many rejected white applicants imagine themselves to have fallen just below the margin of acceptance though, by definition, this could be true for only a few of them. Such perceptual biases could cause the aggregate subjective cost of racial affirmative action to far exceed the policy's objective burden.

This observation has particular force if we take value-added, not absolute, performance as the proper outcome measure in a college's objective function. Indeed, Dale and Krueger (2002) demonstrate that there is little incremental payoff for individuals from advantaged backgrounds associated with attending selective colleges, whereas the benefit for disadvantaged students is substantive. Thus, even if a nontrivial share of advantaged whites were to have been displaced from elite universities due to the preferential admission of minority candidates—which is *not* the case—this would probably have little impact on the lifetime incomes of advantaged whites while, as Bowen and Bok (1998) have stressed, the benefits for disadvantaged minorities could be substantial.

Kane (1998) offers a useful analogy explaining why the perceived costs of race-targeted policies might exceed the actual cost. Suppose a single unused parking space in front of a popular restaurant is reserved for disabled drivers. Nondisabled drivers who observe the unused space while trying to park might resent this policy, imagining that it prolongs their parking search. But when parking is tight it is likely that, even if the disabled space were not reserved, it would already have been taken by the time a given driver comes along. When many nondisabled drivers overestimate their chance of getting the unreserved space, the perceived cost of a policy favoring the disabled could be large, despite fact that the policy has a negligible effect on the mean duration of a parking search. So too, it would seem, with racial affirmative action in higher education.

Myth #7: Affirmative Action Always Helps its Beneficiaries

Many supporters of affirmative action policy believe that, irrespective of the cost, affirmative action always helps its beneficiaries. That is, it is better to attend an institution because of preferential treatment than not to attend. Moreover, supporters of affirmative action argue that minorities admitted under affirmative action are likely to benefit from the myriad academic, social and network externalities that exists at selective institutions.

A recent controversial paper by Richard Sander (2005) offers the disturbing possibility that, at least in the context of legal education, affirmative action may actually harm its beneficiaries. The paper reports some useful and troubling facts. Using data on a national cohort of 27,000 law school students gathered from 95 percent of accredited law schools in the United States, Sander finds that the median black student starting law school in 1991 earned first-year grades comparable to those of a white student at the 7th or 8th percentile of the overall grade distribution. Roughly 52 percent of black first-year law students fall in the lowest decile of the overall grade distribution; 83 percent fall in the bottom three deciles.

Furthermore, Sander presents evidence that lower first-year grades are associated with lower rates of law school completion and lower odds of passing the bar exam. Thus, Sander argues it is theoretically possible (given certain assumptions on the educational production function and on the determinants of the supply of black lawyers) that even though eliminating affirmative action would cause fewer blacks to be enrolled at elite law schools, it could also cause the number of practicing black lawyers to *increase*. This counterintuitive result is possible because, without affirmative action, black students would enroll in greater numbers at less selective law schools and be more likely to graduate from law school and to pass the bar exam.

We are not here endorsing (or disputing) the conclusions in Sander (2005), as they rest on a number of hotly disputed counterfactual hypotheses concerning the behavior of prospective black law students which are difficult to assess. Moreover, since the cost-benefit analysis of preferential admissions depends explicitly on the value society places on the production of successful black lawyers, a social welfare function that puts enough weight on successes relative to non-successes might continue to favor a preferential admissions policy even when it is known to yields inferior outcomes for many of its intended beneficiaries. Nevertheless, empirical findings such as this must give a prudent analyst pause, and strongly suggest that it would be unwise to assume that racial preferences are always helpful for their intended beneficiaries.

The Clarifying Power of Economic Analysis

Heated argument over affirmative action will surely continue for years to come. Supporters of these policies recently won an important victory in the area of education with the Supreme Court decisions in *Gratz v. Bollinger* (02-516 [2003]) and *Grutter v. Bollinger* (02-241 [2003]).[13] Although the court issued a split decision, deciding in favor of the University of Michigan Law school and against the undergraduate college, the two decisions rejected the position that the Constitution requires race-blind admissions policies at public colleges. As Justice O'Connor declared in her majority opinion in *Grutter*: "Student body diversity is a compelling state interest that can justify using race in university admissions." Yet the Supreme Court also expressed ambivalence about race-conscious public policies.

We believe that economic reasoning can make a contribution to the affirmative action debate. This paper shows the insights that can be gained when one respects the consistency requirements of formal definitions, remains mind-

[13] New admissions guidelines for entering freshman at the University of Michigan have been adopted as a result. The full text of these opinions is available through the U.S. Supreme Court website at ⟨http://www.supremecourtus.gov/opinions/02slipopinion.html⟩. Loury et al. (2003) is a legal brief considered by the Supreme Court in the University of Michigan affirmative action litigation.

ful of incentives and recalls that the behaviors of interacting agents must adjust to be mutually compatible in equilibrium. These are the mainstays of the analytic discipline conveyed by economic reasoning, and we have tried to show how their consistent application can enrich the study of affirmative action policy.

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