

Can Affirmative Action Be Cost Effective? An Experimental Examination of Price-Preference Auctions

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ABSTRACT

One of the most controversial questions facing our economy and society in recent years is the question of affirmative action. The debate centers around an issue of minority representation in which the rights of the majority are depicted as being compromised by affirmative action programs set up to increase the welfare of minorities. Implicit in this discussion is the assumption that all affirmative action programs must be cost increasing. This result, it is claimed, follows trivially from economic theory since any interference into the competitive process which prevents the most capable from being chosen must be wasteful and costly.

In this paper we challenge this implicit result by demonstrating that price-preference auctions, in which high cost minority firms are given preferential treatment in the awarding of contracts, can be programs that both enhance minority representation and are cost effective in that they decrease the cost of government procurement. In this paper we ask: If a government agency has instituted a price-preference policy in an effort to give preferential treatment to a particular subset of contractors, what effect would this price-preference policy have on the cost of government purchasing? In particular, is it possible that such a policy might not only benefit that subset but actually lower the purchasing cost of the government as well? We answer this question in the affirmative both on theoretical and empirical (experimental) grounds¹.

Keywords: Affirmative Action, Auctions, Experiments

JEL Classification: C92, D44

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