

# **THE IMPACT OF AFFIRMATIVE ACTION ON THE EMPLOYMENT OF MINORITIES AND WOMEN OVER THREE DECADES: 1973-2003**

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## *EXECUTIVE SUMMARY*

The primary goal of affirmative action legislation is to increase minority and female representation across American workplaces. However, the dearth of comprehensive data conducive to analyzing the effects of affirmative action in employment on the U.S. labor force has made it difficult to determine the extent of these effects. Long term trends indicate that minority and female shares of employment in large U.S. firms have been rising since the 1960s, while the share of white men has been on the decline. What role has affirmative action played in the employment growth of minorities and women in U.S. firms over the past decades? The current paper examines this question by comparing the employment of minorities and women at firms holding federal contracts and thereby mandated to implement affirmative action, and non-contracting firms, over the three decades spanning 1973 to 2003 using a new large national dataset uniquely suited for the exploration of this question obtained from the U.S. Equal Employment Opportunity Commission. The paper exploits rich variation across firms during these decades in the timing of federal contracting to identify affirmative action effects, and is the first study to comprehensively document the long-term impact of affirmative action on the U.S. employment landscape.

The paper's key findings reveal that the cumulative effects of affirmative action over 1973-2003 were mixed across race and gender groups. Specifically, the share of black and Native American women and men grew more on average at federal contractors subject to affirmative action obligation than at non-contracting firms during 1973-2003, and this result is robust to controlling for firm size, corporate and occupational structure, industry-specific shocks, economy-wide shocks, and firm fixed effects. However, the results reveal that affirmative action in federal contracting did not increase the employment of Hispanic and Asian women and men, while it decreased white female representation and increased white male representation on average during this time.

Moreover, the analysis of the dynamics of workforce composition around the time of contracting reveals that a large part of the effect of affirmative action on increasing protected group shares occurred within the first four years of gaining a contract. Evaluation of time patterns prior to contracting, with sharp employment increases following contract gain, supports the interpretation of the estimates as causal effects of affirmative action in contracting. Furthermore, employment dynamics at the end of contract durations show that increased shares of protected group shares persisted even after a firm was no longer a federal contractor.

The paper also uncovers some important results on how the impact of affirmative action evolved over 1973-2003, in particular that the fastest growth in the employment shares of minorities and women at federal contractors relative to non-contracting firms occurred during the 1970s and early 1980s, decelerating substantially in ensuing years.

Affirmative action in the labor market was incorporated into federal law in 1961 by President John F. Kennedy with Executive Order 10925, which required that federal government contractors “take affirmative action to ensure that applicants are employed and employees are treated during employment without regard to their race, creed, color, or national origin”, and established the Committee on Equal Employment Opportunity. In 1965, President Lyndon B. Johnson’s Executive Order 11246 expanded affirmative action to cover women, and established the Office of Federal Contract Compliance Programs (OFCCP), a branch of the Department of Labor responsible for affirmative action and non-discrimination enforcement. Johnson’s executive order mandated that firms with federal contracts must prepare annual written affirmative action plans identifying under-utilization of women and minorities relative to their availability in the labor market and laying out goals and timetables for their hiring at every level of the workplace. It also mandated that federal contractors are subject to compliance reviews by the OFCCP, with penalties for non-compliance ranging from revocation of current government contracts to suspension of the right to bid on future contracts.

During the initial years of the civil rights movement, minorities and women did benefit from affirmative action. In early seminal research using data from the Equal Employment Opportunity Commission, Ashenfelter and Heckman (1976), Goldstein and Smith (1976), and Smith and Welch (1984) found a positive affirmative action effect of federal contractor status on increasing the employment of black males from 1966 to 1970, from 1970 to 1972, and from 1970 to 1980, respectively, Heckman and Wolpin (1976) found a similar result in their analysis of firms in the Chicago metropolitan area for the period 1970-1973, and Leonard (1984a, 1984b, 1986) found that affirmative action led to faster growth in the employment of minorities and women from 1974 to 1980. The current paper updates our knowledge about the employment effects of affirmative action since these early studies, an exercise which has not been possible until now due to the unavailability of appropriate data. This is also the first study to provide a breakdown of affirmative action effects for Hispanics, Asians and Native Americans individually.

The affirmative action climate changed dramatically in the 1980s. In 1981, the OFCCP came under new leadership that was neither committed to the organization nor to affirmative action. During the presidency of Ronald Reagan a serious effort was made to rescind Executive Order 11246 and when that failed, numerous steps were taken to weaken affirmative action enforcement (Anderson, 1996). During the Reagan years, the OFCCP rarely issued sanctions for non-compliance (Leonard 1990, 1996) and the number of employment discrimination lawsuits plummeted (Donahue and Siegelman, 1991). Enforcement activity increased somewhat beginning in 1989 when President George Bush took office. With the inauguration of President Bill Clinton in 1993, OFCCP enforcement accelerated and the number of debarments due to affirmative action noncompliance increased dramatically.

Recent years have witnessed efforts to rescind affirmative action at the state level, with California prohibiting affirmative action in public employment in 1996, Washington in 1998, Michigan in 2006, Nebraska in 2008, Arizona in 2010, and legislation pending in several other states, and the future of affirmative action in the United States is uncertain. Rhetoric abounds on both sides of the affirmative action debate with little hard evidence brought to bear to inform policy discussions. As Blau and Winkler (2005) put it, “After four decades, we are still debating

how much impact affirmative action can and should have on opportunities and outcomes at work... in all the controversy and rancor, there is one question that is less often asked and even less frequently answered: Does affirmative action in employment actually work?"

This study is the first to present comprehensive evidence on the implications of affirmative action on the employment growth of minorities and women based on a large national longitudinal database uniquely suited for the analysis of this topic containing detailed information on both federal contractors bound by affirmative action obligation and non-contracting firms in all industries and regions of the U.S. This is also the first study to present evidence on how the effect of affirmative action has evolved over the course of three decades, during political regimes with drastically different views about affirmative action, allowing us to assess the long-term impact of affirmative action on the employment of minorities and women. The Equal Employment Opportunity Commission firm reports have only recently become available to scientific researchers for the first time since the early 1980s, presenting a unique opportunity to investigate the long-term effects of affirmative action. Indeed, with over 100,000 firms over thirty-one years, these data constitute the largest and longest available panel of U.S. firms with information on gender and race composition by occupation. The paper's research design exploits variation in the timing of contracting to identify the causal impact of affirmative action in federal contracting on increasing minority and female representation at U.S. firms, and is able to control for numerous sources of heterogeneity in panel regressions that threaten the identification of the effect of affirmative action, including time-varying observed firm heterogeneity, time-invariant unobserved firm heterogeneity, and industry-specific, region-specific, and economy-wide trends that may additionally affect the employment growth of minorities and women.

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