Affirmative Action, Human Capital, and Market Design

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Affirmative Action and Fairness

Affirmative action in college admissions is one of the most divisive issues in the United States: Multiple Supreme Court cases; Multiple voter initiatives (e.g., Prop 209, Initiative 200, Proposal 2); Multiple private lawsuits against Harvard and other institutions. The debate has assumed a fixed pie: there are only so many slots at a given college or university, and so one group's gain must be another group's loss.
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Hickman shows that the pie is not necessarily fixed—Affirmative action can change the incentives for investing in human capital. Affirmative action can ameliorate the discouragement effect for disadvantaged students. But it can exacerbate the discouragement effect for non-preferred students. But this only further enflames the equity debate: Now, affirmative action not only lowers opportunities for non-preferred students, but results in lower human capital investment for (most) non-preferred students.
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Caniglia & Porterfeld point out that affirmative action can be a matter of efficiency:
Need-based aid was more effective at recruiting high-quality students than merit-based aid; high-performing, low-income students seem to be under-recruited relative to their high-income peers—affirmative action here is really about finding the best students. Most importantly, post-graduate outcomes for Franklin & Marshall students have improved! Caniglia & Porterfeld argue that affirmative action can be seen as raising overall surplus. Here, Franklin & Marshall’s version of affirmative action was good for Franklin & Marshall—and overall social efficiency!
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Affirmative Action and Investment

If we see affirmative action as just shifting around a fixed number of seats... it will be impossible to find any sort of consensus. But these authors' work opens up a whole new set of questions about affirmative action policies affecting pre-market investment and thus efficiency:

How should we design college admissions to maximize human capital investments? How do we improve information provision in these markets, particularly to and about the socioeconomically disadvantaged? And how will such information change human capital investments? How does providing merit-based aid change incentives for human capital investments?
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Many of the papers presented here have emphasized the importance of market design on pre-market behavior:

- The lack of markets, or badly designed markets, leading to poor investment choices in coffee production;
- Better food allocation led to capital investment by food banks;
- Better allocation of teachers could lead to investment in different skills.

Hatfield, Kojima, and Narita (2016) analyze how different school choice mechanisms affect incentives for schools to invest.

This idea that market design affects ex ante incentives for investment is also well understood in auction design (Bergemann and Välimäki, 2003; Arozamena and Cantillon, 2004; Hatfield, Kojima, and Kominers, 2016).
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