Affirmative Action, Human Capital, and Market Design

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Affirmative Action and Fairness

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- Affirmative action in college admissions is one of the most divisive issues in the United States:
  - Multiple Supreme Court cases;
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  - 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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    - 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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- 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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  - How does providing merit-based aid change incentives for human capital investments?

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- 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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  - Housing markets;
  - Markets for teachers and schools—the very creators of human capital!