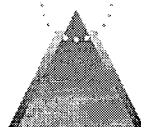




Higher Education as an Associative Good

Henry Hansmann

Students care about their potential fellow students—their intellectual aptitude, previous accomplishments, sociability, athletic skills, wealth, and so on—as much as, if not more than, they care about a prospective college’s faculty, curriculum and facilities. Henry Hansmann, Harris Professor of Law at the Yale Law School, explains how this key characteristic of higher education distinguishes it from most other goods and services: higher education is an *associative good*. That is, due to the strong influence of classmates on a student’s educational and social experience, students are very much concerned with who the institution’s other students, or customers, are. In short, a large part of what a college or university is selling to its students is its other students—past, present and future.



“a large part of what a college or university is selling to its students

Stratification

Markets for associative goods do not function like markets for other goods and services, particularly in the nonprofit realm. Given that its tuition, or price, is the same for any student, a college or university will prefer the student of higher quality to make itself more attractive to its other customers. The result is clustering and stratification: everyone wants to patronize the institution with the highest quality students, but only the highest quality students are accepted as patrons. Once the top students form a cluster, the highest quality students of those who remain will cluster at the next tier, and so on until all the students are sorted in hierarchical fashion. This sort of stratification is very pronounced in higher education.

Competition

Stratification dampens considerably the degree of competition among institutions. Of the more than 3,000 colleges and universities in this country, very few are considered to be any one institution's competitors. The hierarchical structure of higher education in the United States is firmly entrenched—no other industry exhibits this kind of stability. A critical factor in preventing competition is the difficulty of quickly changing the character of a college's student body. Generally, it is possible to change the quality of at most one-fourth of the student body in any one year, as each new first-year class is admitted. Moreover, a college can do virtually nothing to change the qualities

of its former students, who contribute strongly to its reputation. Thus there is a high degree of inertia in the relative attractiveness of colleges to prospective students, both undergraduates and graduates. The same is true for faculty, particularly given that tenure makes it difficult to quickly change faculty quality.

The nonprofit form also diminishes competition and accentuates stratification, as institutions often are inhibited from using price and the ability to pay as a basis for admissions decisions. For example, a low quality student generally is unable to gain admission to a high quality college even if he or she is willing to pay more than another prospective student. Further, since the 1950s, various groups of colleges that compete with each other for students—including the Ivy League schools—have entered formal agreements to not offer merit scholarships, but instead to offer aid based only on students' ability to pay. Thus, a student accepted at several schools may well be looking at the same cost to attend any one of them. In this situation, the quality of the institution and its students becomes a primary consideration.

Homogeneity of Preferences

If all students placed the same weight on the various characteristics of their fellow students, then stratification of students across institutions would be extremely pronounced. As it is, though, some students care most about academic aptitude,

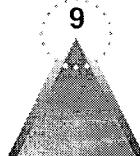
is its other students”

while others are more concerned with mathematics or music; still others may focus on sociability or athletic skills. These varying preferences help mitigate stratification. However, recent years seem to have brought increasing convergence of preferences, and hence stratification. Our increasingly meritocratic society has focused on a very limited, quantitative set of measures of intellectual aptitude—namely SAT scores and high school grades—exacerbating the ranking of students and the colleges and universities they attend. Prominent rankings of institutions, such as those published by *U.S. News and World Report*, further boost this process. Many students, lacking better information, have been led to apply to the highest ranked institution they believe will accept them, and then to attend the highest ranked institution to which they are admitted. The result is increased stratification; the rankings become a self-fulfilling prophecy and the hierarchy is further solidified.

Is Stratification a Good Thing?

Clearly, the associative character of higher education has a strong tendency to drive the industry toward hierarchical stratification. The question is whether this is a desirable situation, and thus whether public policy and institutions should act to assist or resist it.

There is no clear evidence whether the stratification of students by their academic strength maximizes the aggregate



“higher education is increasingly becoming a commodity”

effectiveness of education. If students are mixed by academic quality, the degree of advantage most likely is greater for weaker students than for strong students. But we simply do not know the optimal degree of mixing, and thus whether there is too much hierarchical stratification in higher education. Even if a high degree of stratification does maximize the average efficiency of higher education, it may lead to excessively unidimensional institutions, and strongly reinforce social inequality as an elite cadre further separates itself.

Another potential disadvantage of a hierarchy is, as noted, that it reduces competition among institutions, which in turn provides room for a good deal of slack in the management of those institutions. An elite college or university can survive many years of mediocre management without losing its reputation. This may be one reason why the professionalization of the administration of higher education has come relatively slowly compared to large corporations in the United States.

Public Versus Private Education

Public universities today account for nearly 80 percent of students in American higher education, and thus have served as a check on the overall amount of stratification in the industry. Generally, state colleges and universities are much larger and less stratified than their private counterparts. However, increased privatization of public higher education, accompanied by higher fees

and greater autonomy, will strengthen the tendency toward stratification. In the future, we can expect a debate about the desirability of tying public subsidies to a willingness on the part of private institutions to accept a more diverse student body. Diversity in this sense will go beyond the issues of gender, race and class to include varying levels of intellectual aptitude and accomplishment.

Conclusion

It is possible for private institutions to employ various competitive strategies to bootstrap themselves up the educational hierarchy. Successful examples at the top reaches are rare, however, owing to the associative character of the experience the institutions offer. Among non-elite colleges and universities, in contrast, higher education is increasingly becoming a commodity, with the individual course rather than the four-year degree as the common unit of consumption. At that level, large numbers of institutions—public, nonprofit and for-profit—are competing with growing intensity for students with respect to price, curriculum, facilities and faculty. The result is a dual system of higher education, with ever more competition at the lower levels of the industry, and ever more hierarchical stratification at the top.

Henry Hansmann is Harris Professor of Law at the Yale Law School and also a member of the faculty at the Yale School of Management. His widely cited 1980 article, “The Role of the Nonprofit Enterprise,” describes the structure of nonprofit organizations and the role they play in the economy. Hansmann’s most recent book, *The Ownership of Enterprise*, was published in 1996 by the Belknap Press of Harvard University Press.