

# Why is the Market for Degrees Different to the Market for Apples?

## Asymmetric Information and Higher Education

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## WHY IS THE MARKET FOR DEGREES DIFFERENT?

- › A critical consideration of the rise of the managerialist university, associated also with greater competition between universities, summarizing earlier commentary by me in:
- › (2012) 'The Managerialist University: an Economic Interpretation', *Australian Universities Review* 54 (2): 44–49.
- › (2014) 'Higher Education "Markets" and University Governance', in M. Thornton (ed.) *Through a Glass Darkly: the Social Sciences Look at the Neoliberal University* (Canberra: ANU Press): 79–88.
- › I proposed that a purely economic analysis of the university provides a sufficient basis for repudiating the managerialist model.
- › ... a 'line management' structure of university governance in which it is clear that each level of management is responsible to those further up the structure, not those 'below', entailing a repudiation of the traditional collegial model of the university.

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- › ... treating the university as an enterprise, ‘just like any other’, producing a set of commodities; but producing services, rather than physical commodities ... and belonging to that sub-subset of service providers in which it is quite impossible for a managerial group within the enterprise to enforce upon the workers a set of activities and endeavours so as to ensure the services of the corporate entity are provided to a desired quality standard.
- › Under such conditions workers can shirk with respect to the provision of some aspects or other of the activities and endeavours that go into forming the final product ... reinforced when some aspects of the services being produced involve voluntary contributions that are not, and cannot be, written into explicit labour contracts.
- › It is impossible for management to enforce all aspects of the workers’ activities ...

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- › There are many, many things that academic workers do that they could cease doing, without compromising their contracts with the university, but which if they ceased to be done by many, most, or all academic workers, would certainly compromise the overall product that universities deliver.
- › It is these conditions of academic production which make 'Management 101' inapplicable to the university industry, or makes its application damaging ... . Certainly, one cannot induce academic workers, individually or collectively, to deliver an overall product of quality research, teaching and wider community service merely by way of management wielding a stick of one form or another. The goodwill of the workforce is essential to enable quality product provision. An antagonized and demoralized workforce will find a myriad of ways, individually and collectively, to cut corners in the provision of research, teaching and/or service.

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- › The overall character and quality of what the university produces will be compromised by shirking, with consequent damage to the reputation and standing of the university in the wider community? But perhaps the standing of the universities' products will *not* be damaged, even as the objective quality of those products declines.
- › If academics are induced to shirk, in ways that cannot be observed or ascertained by managers, then it is not likely to be their research time or research output that is primarily affected; they are likely to protect their research time and efforts at the expense of teaching and service. It is in teaching where a minimum or merely serviceable effort will suffice, without the corporate entity having any capacity to enforce something better in the way of pedagogy.
- › But would this not force management to alter its methods, since the consequent decline in teaching quality might compromise a university's standing with potential students and thereby threaten the student load, which is the key funding base for most universities? Perhaps it will not.

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- › To see why this reputational effect might not occur takes us to the notion universities should engage in competition with each other, in some sense. (The most obvious connection is that if universities can be conceived of as usefully competing with each other, then an application to universities of managerialism appears, to that extent, more plausible.)
- › Underpinning the endorsement of competition is a belief, articulated only in the vaguest of ways, that competition will improve the quality of outcomes. In fact, this notion has only been specified in the vaguest of ways because if any precision is attempted, the plausibility of the idea evaporates.
- › The question here is whether the competitive process as applicable to ordinary consumption goods is transferable to competition with respect to the services universities provide.

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- › Competition for researchers ... doesn't increase *the aggregate* of human intelligence and effort devoted to the sciences and humanities, it merely reallocates intelligence and research effort between institutions and perhaps between disciplines.
- › Competition with respect to degree provision almost by definition cannot involve a large body of informed consumers – in fact, hardly *any* – on the demand side of the degree market. The peculiarity of university degree consumption, *vis-à-vis* most other commodities, is that it is virtually always a *unique* act of consumption, strictly speaking, never to be repeated.
- › For any particular degree on offer from competing producers on the supply side, a potential consumer will only ever wish to consume one a lifetime, at most. The existence of a large body of informed consumers is a crucial condition for the efficacy of competition in shaping the pricing and quality of ordinary commodities.

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- › The incapacity of competition between universities to beneficially shape the degree product is greatly reinforced by the fact that the quality of the product is non-transparent, *even after it has been consumed*. ... not only because it is a one-off consumption item, but also because knowledge- or information-rich products and services entail an information asymmetry between supplier and consumer. The potential consumer, in making a choice, is reliant upon the advice of the potential suppliers, causing thereby also an asymmetry of power.
- › This asymmetry is *intrinsic* to the situation. To a considerable extent, the one-off consumers of degrees will never know if it was worth it. Whatever degree of satisfaction graduates may record concerning their degrees – 1, 5 or 10 years after graduation – they will not have any very clear and definite conception of what their education *could have been*, better than that which they received.

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- › A decline over time in the quality of the education provided in degrees will not be evident to the graduates who have consumed just one degree at one point in time. Even if there are claims by, e.g., well-informed university lecturers, about declining standards, the non-transparency of the product will always make these claims contestable and less than compellingly evident.
- › This is the basis for my earlier comment, that a decline in teaching quality need not be inhibited by competitive pressure, because it will not necessarily damage the reputation of a degree supplier, in particular, the *relative* reputation of the supplier with respect to other suppliers.
- › The ‘rankings’ culture, so beloved of the managerialist ‘KPIs’ approach, means that *absolute* quality does not matter to those who run the contemporary university.

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- › Aside from research students, degree-consumer preferences across universities are largely an expression of self-validating circular causation. The Go8 universities rank high in degree-consumer preferences, not because of objectively superior teaching, but because they already, *previously*, ranked high. The perception of their quality as degree providers is merely due to the quality of their previous students, which in turn was a result of those universities previously ranking high in degree-consumer preferences. This perception then attracts another generation of quality students, and so on. (It is difficult, but not impossible, for this virtuous circle to be broken.)
- › Producing a quality university system is not going to be achieved by managerialism plus competition; these cannot serve as a substitute for traditional approaches to quality assurance, which ultimately rest upon embodying in both individual and collective academic activity, professional norms and ethics of conduct, collegially regulated by the community of academics.

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- › The managerialist recourse to contractual modes of governance of academic life does not leave traditional norm-governed academic conduct intact; it undermines it. Explicit or implicit performance indicators, particularly when applied down to the level of the individual academic, tend to crowd out whatever is not included in them. They also deter elements of good teaching for which robust empirical evidence can never be provided, and service activities that are not career-enhancing.
- › Given the great limitations on the capacity of degree consumers to ascertain quality, competition between degree providers can easily lead to a diminution of degree quality. And to the extent that degree consumers' primary motivation in acquiring a degree is their perception of its usefulness in advantaging them in the labour market, *merely relative to others*, they may be rather indifferent to the intrinsic quality of their education. This is possible so long as lack of intrinsic degree quality does not compromise the relative advantage in the labour market, provided by possession of the degree.