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**Working Paper**

## The Tortuous Ways of the Market: Looking at the European Integration of Higher Education from an Economic Perspective

LEQS Paper, No. 56

**Provided in Cooperation with:**

London School of Economics and Political Science (LSE), European Institute

*Suggested Citation:* Teixeira, Pedro (2013) : The Tortuous Ways of the Market: Looking at the European Integration of Higher Education from an Economic Perspective, LEQS Paper, No. 56, London School of Economics and Political Science (LSE), European Institute, London

This Version is available at:

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THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■



LSE 'Europe in Question' Discussion Paper Series

# **The Tortuous Ways of the Market: Looking at the European Integration of Higher Education from an Economic Perspective**

Pedro Teixeira

LEQS Paper No. 56/2013

January 2013





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# The Tortuous Ways of the Market: Looking at the European Integration of Higher Education from an Economic Perspective

Pedro Teixeira\*

## Abstract

European Higher education is facing times of significant change that has been affecting its identity and the political expectations regarding its societal roles. At the European level this has been fostered by a trend that increasingly regarded higher education as a tool for economic and social development. Hence, we have seen a reconfiguration of the sector alongside market rules, often through policy initiatives and government intervention. In this text we reflect about these developments by focusing in the emergence of a more integrated higher education area increasingly shaped by market forces and economic rationales. We reflect about the emerging and potential effects of greater integration in the European Higher Education Area.

**Keywords:** EHEA, Markets, Integration, Inequality, Differentiation; Economics

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## Acknowledgements

This text was presented at the conference on the future of the EHEA that took place at the LSE in March 2012 and at the CHER - Consortium of Higher Education Researchers annual conference of 2012 (Belgrade, September 2012). The author thanks Anne Corbett and Sacha Garben for their invitation to the conference and their encouragement to explore the topic, and to participants on both occasions for their comments and suggestions. Financial support from the Portuguese Research Council (F.C.T.) is gratefully acknowledged.

# **The Tortuous Ways of the Market: Looking at the European Integration of Higher Education from an Economic Perspective**

## **1. Introduction**

European Higher education is facing times of significant change that has been affecting its identity and political expectations regarding its societal roles. The traditional public ethos of many higher education systems and institutions has been questioned and eroded, and the political discourse has given growing visibility to the role of markets and market forces in higher education (Teixeira et al, 2004; Teixeira and Dill, 2011). These changes have been particular controversial and complex, since in Europe there is still a prevailing vision of higher education as a bastion of public service and that regardless of the current difficulties, this should remain to be the case. However, in recent times European governments have been more willing to introduce market elements in the regulation of higher education, notably due to the consequences of its massive expansion over the latter part of the twentieth century (Barr, 2004). Thus, the European higher education landscape has been increasingly moulded by market forces.

These developments have been enhanced by the winds of change that have been gathering pace in recent years at the European level. Major policy developments at the European level include the Sorbonne and Bologna Declarations (1998, 1999) and the Lisbon Strategy (2000). Although these have

started as rather autonomous and different policy processes, they have become increasingly intertwined and by 2005 (in the Bergen Communiqué) their separate goals intersected and actions linked to the Bologna Process were increasingly informed by the Lisbon targets (see Amaral et al, 2009). Underlying this convergence was recognition that higher education institutions and systems were central to the achievement of Europe's economic and social goals (Middlehurst and Teixeira, 2012).

Both at the national and at the European levels, a growing number of policy-makers have been convinced that advanced qualifications and high level skills are a key factor in promoting economic growth and development (Wolf, 2001). An economic discourse has prioritised the creation of an institutional context favourable to the development of innovation and entrepreneurship and this in turn has strengthened the view that the accumulation of human capital can improve the economic prospects of different communities (Grubb and Lazerson, 2004). Thus, changes in the individual and social motivations regarding higher education have had a major impact in the external and internal regulation of higher education institutions, notably by stressing the economic dimension of higher education and the potential of institutions to contribute to individual and socio-economic goals.

The development of the European Higher Education Area (EHEA) has increasingly been shaped by the views that regard higher education as a major issue in the European economic agenda and as an instrument for economic and social development. Hence, we not only see a convergence between an economic ascendancy in the debates about higher education in Europe at the national and supra-national levels, but also the creation of conditions favouring a growing influence of market regulation in European higher education. This shifting view about institutions and their primary purposes has led to a need to rethink and adapt the contextual framework in

which these units operate. If we regard higher education institutions as part of an industry, then the context in which they operate should promote a rational use of resources in order to maximize the social return relative to the resources allocated to the higher education sector. Hence, we have seen a reconfiguration of the sector alongside market rules, often through policy initiatives and government intervention.

In this text we reflect about these developments in European higher education, namely by focusing in the emergence of a more integrated higher education area increasingly shaped by market forces and economic rationales. In the next we start by briefly reviewing those market trends. In the following one we explore what insights we may draw from economic integration processes, namely at the European level, to the higher education sector. The analysis will integrate the current process into the wider literature of European integration, with particular relevance to the effects of a greater integration through market regulation. Then, we analyse the forces pushing forward a greater integration of higher education systems at the European level, as well as the factors that may be hindering that process. Finally, we discuss the emerging and potential effects of greater integration in the EHEA. The text ends with a few concluding remarks.

## 2. Marketization Trends in European Higher Education

Despite significant social and political resistances, European higher education has been experiencing a growing influence of marketization forces (Teixeira et al, 2004; Teixeira and Dill, 2011). For instance, they have seen the strengthening of competition (nationally and internationally) for students, for financial resources, and for academic staff. This strengthening of competition



was often stimulated by regulatory forces and has been associated with an increasing institutional autonomy, to make European HEIs more capable to respond to those competitive challenges. On the other hand, the influence of marketization has also come through an increasing privatization of higher education. This privatization has been taking place not only through the development of private sectors, but also and quite significantly through the adoption of private-like rules and practices in public HEIs, aiming at attaining more flexibility, but also a better level of efficiency.

Although higher education has traditionally been strongly dominated by public provision and government regulation, recent developments have changed this scenario and in the last decades, all around the globe, private higher education has been experiencing a notable growth (Altbach, 1999; Kim et al, 2007). This trend is explained by a set of contextual factors that have shaped higher education worldwide in recent decades. The impact of these trends in Europe has been somehow modulated by the dominant public ethos of higher education. Private institutions still play a small role in many European systems and its emergence is taking place against a background of large and consolidated public sectors and that will certainly influence its profile.<sup>1</sup>

Another area through which market-focus and privatization has been playing an increasing role in the EHEA is that of funding mechanisms and funding sources. European Higher Education Institutions face today a more demanding and complex financial context in which traditional modes of funding have been transformed and public sources are not as generous as

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<sup>1</sup> The major surge of private institutions in Europe emerged in that part of the continent that for several decades prevented its establishment. With the collapse of the communist regimes in the end of the twentieth century, private higher education would become a significant feature of many higher education systems in Central and Eastern Europe (Wells et al, 2007). Besides these countries, the only Western European country in which a large private sector has developed in recent years is Portugal.

often were in the past. After several decades of expansion, societies and governments are less willing to put additional public resources in the higher education system due to a variety of trends, such as the rising cost of higher education; financial austerity; and a changing view about the role of the state and the nature of public services. These trends have contributed if not always to a reduction in public budgets devoted to higher education, but to a trend of declining institutional budgets and lower per student spending (OECD, 2010). This trend towards a greater market-orientation is also reflected in the structure of revenues of many HEIs, with a growing emphasis in the revenue diversification. Although public funding is likely to remain the major source of income for European public HEIs, the current situation has forced many countries to rethink the distribution of higher education's costs and to discuss the diversification of sources of funding (Estermann and Pruvot, 2011).

The increasing influence of marketization and privatization in European higher education is also associated with changing perceptions about the purposes and nature of HEIs. In recent decades, societies and governments have evolved in their views about the social role of higher education, with significant implications for the identity of HEIs and the organization of the HE sector. Educational decisions have been increasingly perceived as motivated by economic factors and educational institutions as economic institutions. Moreover, the social contribution of the activities of higher education and science organizations has been increasingly linked to some forms of assessing their economic relevance (Bok, 2003; Weisbrod et al, 2009). Hence, policy-makers and institutional managers have been exploring ways to steer individual and institutional behaviour through incentives that are consistent with an increasing influence of economic and management ideas in higher education and research.

This changed view about HEIs and the way these should manage their academic resources has had significant implications for the academic reward structure and in the incentives to attract and retain highly qualified staff. The increasing influence of marketization in higher education has contributed to give increasing prominence to financial rewards, both in absolute and in relative terms. One of the main effects of marketization of the academic world has been the increasing differentiation of academic positions. This trend towards increasing diversity of staff contracts is the result of some of trends already implicit in the influence of economic and management rationales in higher education institutions. The search for greater economic and administrative flexibility is largely responsible for that, since it helps institutions to adjust to changes in external demands (Bland et al, 2006). This differentiation of employment arrangements within the institution does also correspond to an attempt of containing costs. Since a dominant portion of costs of higher education institutions are those related to personnel and academic staff are a very large portion of the latter, many institutions have been trying to make some savings on that front, especially due to the many signs that the emphasis on research intensity does seem to contribute to rising costs (Geiger, 2004; Clotfelter, 1996). Faced with significant financial pressures, institutions are using the increasing administrative flexibility and autonomy to differentiate employment and salary arrangements.

### 3. Markets and Government Regulation in Higher Education

Recent years have therefore seen the strengthening of a discourse that emphasises the advantages of market forces over public regulation in many sectors and higher education has not been an exception to that trend (Teixeira and Dill, 2011). The political and social environment in which higher education is embedded has tended to emphasise the advantages of market forces, including competition and privatization, vis-à-vis the shortcomings of public intervention in higher education.

Markets are usually presented as a powerful mechanism of social choice that, through rational utility-maximizing behaviour of individuals, as if by an invisible hand, will distribute goods in such a way that no one could be better-off without making anyone else worse-off (Wolf, 1993). However, economists are also aware that markets do not always produce the optimal outcome from a society's point of view. Some markets can persistently produce too much or too little of goods and services, challenging the self-regulating capacity that economists usually associate with a market mechanism, i.e., the capacity to adjust to situations of excessive or insufficient supply (or demand). This is a case of *market failures*, the main types being those of public goods, the existence of externalities (spillovers), information asymmetry, and monopoly powers. These examples of market failures have provided the traditional economic rationale for government intervention (Jones, 1993). Government intervention may also work to introduce sufficient incentives to ensure that providers reveal the quality of their services and students express clearly their demands and capacities, because sufficient information is a vital ingredient for any market. Government regulatory bodies also are charged with overseeing market concentration, preventing

collusion practices or monopolies, and promoting a market structure without unjustified barriers for potential new providers entering the market. When it comes to the higher education market, one of the major goals of government intervention is also to provide equal opportunities to all qualified individuals who wish to participate in a higher education course.

Part of the debate about higher education markets is that they differ from traditional markets in that they are publicly funded “quasi-markets,” introduced into existing state systems of higher education in order to increase efficiency and responsiveness (Le Grand and Bartlett, 1993). The concept of quasi-markets is a useful means of categorising some of the more popular reforms for introducing market forces into existing publicly financed systems of higher education. In a *quasi-market* situation, decisions about supply and demand are co-ordinated using ‘market-like’ mechanisms in which only some of the main elements of a market are introduced, often gradually. Government regulation and financing will still remain important mechanisms of coordination, but other aspects of the market, such as competition, user charges, individual responsibilities, and freedom of choice, are introduced into the system.

This emphasis on market and economic rationales has created significant tension between two different perspectives and legitimating ideas about higher education (Gumport, 2001). On the one hand, we have those who look upon higher education as a social institution with specific cultural and social functions. On the other hand, there is the perspective that views higher education as an industry and a part of the economic system (and an increasingly important part of it). This latter view of higher education as an industry and as an economic sector has important effects in the way higher education institutions are perceived, namely as quasi-corporate units that produce a wide range of educational goods and services (including, but not

only, educational ones), to an external environment that is increasingly competitive and demanding. Thus the need for those institutions to adapt and respond to the changing needs of multiple economic and societal actors. Thus, although governments have, in the context of massification, awarded greater autonomy to HEIs, they have also steered them to face increasing and more diverse demands through marketization.

The critical issue for higher education therefore is not the dispute between advocates of complete deregulation and advocates of a protected status for universities, but rather the debate regarding what type and degree of government regulations will maximize the social benefits of higher education systems increasingly subject to market forces. Governments in many Western countries have traditionally relied upon systems of rather centralized control to coordinate their higher education systems. The adoption of market-based policies in many countries represents the application of a less direct form of regulation. The challenge confronting those experimenting with market-based policies in higher education is therefore to identify the institutional framework of rules and incentives that produces welfare-maximizing competition among (mainly) publicly subsidised, but increasingly institutionally autonomous, academic institutions.

This debate is particularly relevant and timely for European higher education for various reasons. First, since we seem to be observing the convergence of national trends favouring the development of market regulation with an European willingness to promote that at the supranational level. Second, because like in the national experiences, a part of the push towards greater marketization seems to be led and managed by the political actors through and regulatory changes rather than a process steered by the institutional actors at the micro level. Hence, we need to understand better the way this

process is shaping European higher education and the kind of forces that may be promoting or hindering those attempts.

#### 4. Market Integration – what can we learn from other economic experiences?

The emergence of market regulation in many European higher education systems and its closer integration recommends that we need to pay more attention to the experience of other recent processes of economic integration, especially in Europe. The analysis of market integration, notably at the European level, has clearly been far more focused on manufacturing industries than in service industries. This is due to several reasons. First, it is clearly easier to trade manufactured goods than service sector products (Midelfart-Knarvik et al, 2000). Thus the former has had a much greater impact in the European integration process, notably regarding locational variables and possible concentration of industries. Second, the European integration process, like several other economic integration experiences, has developed more significantly in the manufactures sector than in the services one, which continues to be far more regulated at the national level. Other specific factors include the fact that the scale of operation in the services sector tends to be on average much smaller than in manufactures and that cultural and interaction determinants tend to play a more significant role in this sector (Rubacalba-Bermejo and Cuadrado-Roura, 2002).<sup>2</sup>

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<sup>2</sup> Thus, the evidence available for the impacts of European integration is far more significant and detailed for manufactures than to services. In fact, an estimate given a few years ago indicated that although services account for about 70% of the output and employment of most advanced economies, like the European ones, their weight in international trade is far less significant, possibly representing around a quarter of total trade flows (Rubacalba-Bermejo and Cuadrado-Roura, 2002).

However, bearing in mind the weight of the services sector in the European economy, this sector should receive more attention from those interested in analysing the effects of integration trends. Moreover, services are nowadays an essential part of the on-going process of economic integration at the national, European, and global levels (Cuadrado-Roura et al, 2002), especially since many service activities reduce the relative distance between places and facilitate communication. Moreover, the growth of global flows and the integration of services are stimulating the globalisation of other activities.<sup>3</sup> An analysis of the evolution of concentration of a few services industries in the EU has shown that although there was a significant degree of concentration of those sectors in a few countries (France, UK and Italy, which accounted for roughly 2/3 of those sectors), services were in general more dispersed around Europe than manufactures. Moreover, for the period analysed (1982-1995) there was not significant evidence of a concentration trend and some of the poorer countries with smaller shares had actually shown slight increases in their weight.

Another important aspect of market integration has to do with the spatial distribution of economic activity and, in particular, the analysis of certain factors that may contribute to a spatial concentration of certain sectors. The so-called analysis of the economies of agglomeration has a long historical pedigree in economics, notably since Alfred Marshall's pioneering work (1890). According to his view, producers of the same industry had several advantages in concentrating around the same area, notably: knowledge spillovers; thick markets of specialized skills; backward and forward linkages associated with large markets. More recent analysis has built on these original

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<sup>3</sup> Other authors have also noted the existence of complementarities between flows of manufactured goods and services due to the establishment of networks, greater awareness and openness of individuals and organizations to a closer interaction in a more integrated economic space.



insights by adding other potential advantages, namely a more adaptive context in view of technological changes, a reduction of transaction costs, the use of common resources and/or services (including socially provided ones), complementarities in the labour markets, and the incentive for the development of certain infrastructures (see Jovanovic, 2003). The advantages of spatial concentration are particularly significant for smaller and medium size units, because it helps them to overcome some of the disadvantages of their smaller size through cooperation. A constellation of smaller units working within the same area can also magnify their national and international attractiveness.<sup>4</sup> The evidence available suggests that European integration has had a limited impact regarding the relocation of industry across the European continent, though European countries have become more specialized on a sector-by-sector basis (Baldwin and Wyplosz, 2006).

Another important issue regarding market integration is to what extent we will observe economic convergence or divergence between countries becoming more integrated. In recent years there has been a significant interest among economists about issues of economic convergence, both at the national and regional levels of analysis. With the development of closer integration at the European and global scales, it was relevant to see to what extent this greater integration may contribute to greater convergence and divergence, for instance, in levels of income or well-being. The development of empirical analysis has suggested that we are more likely to encounter conditional convergence paths, meaning that the possibility of countries to converge is dependent of the fulfilment of certain conditions. More specifically,

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<sup>4</sup> The relevance of this agglomeration trends has been particularly enhanced by the so-called trends of the knowledge economy, which has given an increasing relevance to issues such as intellectual capital, innovation and adaptation of technology. We also know from research about the so-called theories of endogenous-growth that the socio-institutional context may favour or hinder the capacity of a region to promote those factors and that a concentration of knowledge-industries stimulates linkages between those sectors (see Romer, 1990).

subsequent research has emphasised that only countries that are similar in their structural characteristics and that have similar initial conditions will converge (Martin and Sunley, 1998). This has become known as convergence clubs.

The analysis of the effects of integration among unequal countries indicates a certain asymmetry in the distribution of those effects. Although both parties may potentially benefit, namely through a certain specialization, there are non-trivial consequences, for instance in the composition and patterns of investment of a certain sector. The richer country is more likely to specialize in capital and knowledge intensive production processes and the poorer one in more labour intensive processes (see Frenkel and Trauth, 1997). One of the obvious topics of attention has been the cases of integration among unequal countries, especially as regards the accumulation of human capital and the development of R&D and innovation activities. Among the possible cases it seems to be quite relevant to look at the path developed by countries that devote a very limited attention to R&D activities or that have only more recently placed a greater emphasis in the development of innovative activities (Rivera-Batiz and Xie, 1993).

This analysis certainly resonates with the European experience, whose integration process has placed together countries that hardly innovate, countries that are late-comers in the competition for technology development, and some of the leading countries in R&D and innovation. Some of the economic analyses suggest that although the overall effect may be positive (notably regarding economic growth and wealth), not all countries will benefit from that and the distribution of those effects may be rather unequal. Moreover, the dynamic launched may be quite damaging even for those countries already developing some R&D activities, if the process of integration is accompanied by a significant migration of skilled labour from

less innovative countries to more innovative ones. In this scenario, the incentives to innovate will clearly decline in the former and increase in the latter countries, due to the complementarities between skilled labour and R&D activities.

The insights drawn from the economic analysis of other experiences of integration suggest that the integration of a market is a complex phenomenon and that the outcomes should not be taken for granted, especially since certainly the former impinges on specific factors that may hinder or push it forward. As several authors have pointed out, contemporary global markets are being shaped by forces that have opposite and conflicting effects that take place simultaneously (Stopford, 1999). Some of these forces may stimulate concentration and some others may contribute to greater national and locational disparity. Higher education is no exception to that, since some forces are clearly favouring closer integration in Europe and others are important factors in deterring deeper integration. Moreover, the analysis of other processes of economic integration in Europe indicates that the peculiarities of a sector play an important role in steering the effects regarding convergence/divergence and the concentration/dispersion of activities. In the following sections we look at the factors promoting and hindering greater integration in the EHEA.

## 5. Drivers for further market integration in the EHEA

One of the major forces promoting greater integration of higher education is the effect on this sector of wider global economic, social, political, and cultural trends. Since higher education is itself a product of its social, economic, and political context, the fact that Europe (and the world at large) is being

characterised by greater integration in those spheres has a significant impact in higher education, stimulating a greater interaction and proximity between different higher education systems. Like in the globalization process at large, the significant changes taking place in transportation and communication has had a major impact in higher education. The speed of information and communication flows and the significant decline in the costs of transportation and communication has meant that educational and research activities have been exposed to a different context in which the possibilities and costs of interaction at the continental and transcontinental levels has become feasible and in some cases rather attractive. Those changes have reflected in the establishment and development of important research networks, growing shares of staff and student mobility, and the creation of international links even at the administrative and institutional levels.

The greater potential for mobility of graduates and staff has been also stimulated by the wider trends observed in the labour market of increasing De-regulation and liberalization. Although this process has been observed in a global scale, its depth has been to some extent even more significant at the European scale. Although European labour markets present to certain extent significant degrees of regulation (Wyplosz and Richards, 2006), the trend has clearly been towards greater de-regulation, though the scale of the changes has varied across Europe. Moreover, at the European level there have been important advances in the recognition of degrees and, though certain professions still resist to that process, in the possibility of labour mobility within the EU, especially when compared to non-EU nationals.

The development of that greater interaction and mobility has forged personal, institutional, and national links and contributed to a greater knowledge/awareness about institutions and educational systems. This is hardly surprising at the institutional or at the staff levels. Both the

administrative and the academic estates are nowadays much more knowledgeable about other European institutions, both through direct interaction, but also through the flow of information that circulates about educational and research activities across Europe. This certainly creates a potential for greater collaboration and interaction, for future joint activities, for the development of mobility networks, etc.

This greater awareness is also the case for the students and graduates. The fact that a share of them has studied abroad or has acquired a much greater knowledge of other European realities (educational or not) makes them more prone to apply to an institution in another European country or to disseminate that knowledge through their personal links, minimizing the uncertainty associated with those decisions and increasing the possibility that subsequent applicants will benefit not only from the contacts and networks established by previous cohorts of mobile students, but also from the greater knowledge that European institutions have been accumulating about candidates coming from other systems. This includes a whole range of issues, from administrative details to perceptions of institutional reputations, or the curriculum of the candidates coming from a specific country, educational system or from a certain institution. This greater knowledge at the institutional and individual levels stimulates greater interaction both from the supply and the demand sides.

This greater willingness to interact also benefits from the rising influence in the European higher education landscape of quality assessment and accreditation systems. The so-called rise of accreditation and quality assessment has meant that both the demand and the supply sides can have a certain degree of trust in the interaction being developed. This is particularly significant in those goods and services in which there is a wide perception of insufficient information and a significant incentive for each side to hide

relevant information that may affect negatively the inclination of the other side to engage in a market interaction. In those market situations, the fear on the demand side may lead to a failure of transactions taking place (as in the classic Akerloff's model of the market for used cars in the US – see Akerloff (1970)), since higher education is normally considered an experience good and that means that candidates need to take a decision without having full knowledge about its educational option. As Dill and Soo (2004) have extensively analysed, the higher education market is particularly vulnerable to those informational failures and that affects negatively the trust that potential candidates have about institutions and vice-versa. Hence, the existence of publicized and reliable assessments of each program and institution helps both applicants but also institutions to know from where the applicants are coming from.

In the specific case of higher education, part of this informational flow is largely associated with reputation issues, notably with the dissemination of international rankings and league tables (but also the growing information about national ones at the international level). This is part and parcel of the integration process, not only at the European level, but beyond that. The growing popularity of rankings has not only made institutions much more aware about their national, European, and international positioning, but has also contributed to stimulate frequent attempts to establish links and contacts with institutions better positioned in those rankings in an attempt to develop attractive educational and research activities, but also to benefit from the educational and research reputation of those above them. In some areas, such as business studies, we have seen an active behaviour from many institutions to court those with greater international reputation in an attempt to become part of a certain educational and research elite networks.

Some of the interesting developments in this respect refer to the rise of global brands and networks. In the first case, we have seen some institutions trying to build on their growing international recognition and reputation through the establishment of branches and campuses around the world. This process has been particularly led by several American research universities (see Kim and Zhu, 2010), though in recent years we have also seen a few attempts on the European side. In the second case, we have seen the development of international and European networks of institutions or schools that try to join their strengths and derive mutual benefits, and at the same time create higher barriers for those below them by creating a kind of inner circle of elite institutions within which staff and students may become more mobile. Like in many integration processes, the growing mobility within those networks and partnerships has meant that the barriers to collaboration with those outside the inner circle has become less likely (and less desired for those inside the integrated space).

## 6. Barriers for market integration in the EHEA

The analysis of processes of economic integration also highlights the fact that these are significantly influenced by a political and social willingness to remove or minimize a certain number of obstacles that will counteract the forces promoting greater integration. In the case of the European higher education area there are some important obstacles towards greater integration. Although some have lost some of its relevance, they still represent important barriers to the operation of a fully integrated market and may affect some of the higher education activities and dimensions more than others.

One of the major obstacles to greater integration in Europe of educational and research activities refers to the strong national nature of educational systems. Although in recent decades we have observed a growing standardisation and internationalisation of educational systems and educational institutions that have reduced national specificities and peculiarities (see Meyer and Ramirez, 2000), these have not disappeared and still represent an important factor in shaping differences in the structure and content of national education systems. In the case of Europe, this was illustrated by some aspects of the Bologna process itself, which was launched by national governments and has been often characterised by tensions between national prerogatives and the subtle (and even the less so) attempts of the supra-national level to take a more visible role in the process (see Amaral et al, 2009). The national resistances cannot be restricted to a political bargain, but are nurtured by deeper legal, cultural, and historical traditions that have been shaping higher education at the national and institutional levels and that react cautiously to what is often perceived as a serious process of standardisation.

The tension between national and supra-national political levels is particularly significant regarding professional regulations and their relevance for national labour markets. Although European integration has made important advances in the recognition of qualifications by national and professionally regulated labour markets, the degree of liberalization in certain occupations and especially in certain professions still represents an important barrier. Moreover, the influence and bargaining power of some of those professional communities in many European countries should not be underestimated.<sup>5</sup> Hence, this is clearly the case of a half-empty/half-full situation, in which some will emphasise the advances and the forces

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<sup>5</sup> It should be noted that labor markets in Europe still present significant variation regarding labor market regulations and variables such as wages and employment. For a comparative analysis see Ferner and Hyman (1998).



favouring further integration and others will place greater emphasis in the much to be done and the barriers and difficulties towards greater or speedier integration.

The national peculiarities and resistances towards greater integration are particularly present in the access system to higher education. Part of the differences lay again in the national diversity in the organization of educational systems. Whereas some systems emphasise a duality between more academic and more vocational routes, other systems still try to keep a significant degree of unity between the educational routes prior to higher education. Moreover, the timing of the bifurcation between more academic and more vocational routes differs significantly across Europe. On the other hand, there are still important differences in the degree of specialization and comprehensiveness of secondary education, especially regarding the years preceding higher education. The peculiarities of the process of application to higher education are also significant. Differences include the timing of applications (after or before the conclusion of secondary education), the degree of devolution towards institutions (national or regional pools vs. institutional selection), and the existence of specific requirements (special exams, interviews, language requirements, etc).

To add to these difficulties in the access systems across higher education in Europe, another major deterrent to greater mobility of students has to do with funding systems and financial support schemes. Although the trend has been towards greater marketization and the rhetoric has been towards empowering students' sovereignty (see Jongbloed, 2006), the principle that the money could follow the student tends to stop when it comes to national borders. Students continue to face important barriers regarding the portability of support schemes (see Vossensteyn, 2004) and they also face important difficulties in applying for a public or private loan in their country of origin if

they want to study abroad. On the other hand, national funding sources are not open in most cases to non-national candidates that are not already part of the national higher education and research system. Thus, with the exception of the possibilities open to students to apply to national fellowships to study abroad (a fading prospect in times of public austerity and growing national competition) and some institutional grants to attract exceptional candidates, funding sources seem to be still largely organized around national sources, national priorities, and national frameworks, and to constitute a significant barrier to further integration in European higher education.

Another important obstacle towards greater integration refers to the degree of national inbreeding in academic and non-academic staff. Although the trends point out to the strengthening of market forces and to a reduction in some of government regulation (notably through the decline in many European countries of the civil service status historically granted to academic and non-academic staff) that could make possible greater integration at the European level, the overall picture may be more complex. The strong national identity of higher educational systems and the persistent levels of government regulation still operate significantly in counteracting integration forces within the EHEA, especially for those institutions that have a lower degree of international integration and have lower aspirations regarding international competition for prestige (which are not necessarily those with lower aspirations at the national level). Moreover, the devolution of autonomy in the management of human resources to the institutional level does not ensure that the academic and non-academic labour markets will become more integrated (especially since there may be a greater room for particularism and nepotism).<sup>6</sup> Thus, whereas elite and research-intensive institutions are

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<sup>6</sup> One important factor in this respect is the role of the regional dimension, especially in countries with strong devolution of power to regional authorities and/or language diversity.

expected to promote a greater integration of those labour markets (especially as regards academic and research staff), this may have a minor role for many institutions that continue to be focused on national higher education markets and that will regard internationalization of staff as posing greater challenges than bringing significant benefits.

A final factor in our list of potential factors limiting a greater or faster integration of higher education markets in Europe refers to certain aspects that apply to many other service sectors. Among those should be noted the fact that by contrast with manufactures, the scale of operation tends to favour more often smaller scale and to contribute to the endurance of many small scale institutions that produce a more fragmented sector. This small scale is also frequently fostered by factors relevant in many services sector that require a close interaction with customers such as cultural differences and the role of expectations, reputation, and prestige (Rubacalba-Bermejo and Cuadrado-Roura, 2002). Thus, in higher education, like in many other services, the benefits associated with standardization and concentration are often exceeded by their negative impact on potential customers' satisfaction and the capacity of institutions to sustain an effective and successful deliverance of that service.

## 7. Major Trends within an Increasingly Integrated and Competitive EHEA

As we have seen, the integration of European higher education systems is a dynamic process that has been advancing under the effect of complex and conflicting forces, some of which tend to promote greater and faster integration and some have been deterring this process. In this section we will

reflect on some current trends associated with the integration process and the possibilities they open regarding future developments in the EHEA. The analysis will start by about a consideration of students and their degree and types of mobility. We will then look at issues related to academic and research staff. Then we will examine research funding and research intensity across Europe. Finally, we will analyse issues related to convergence and divergence trends in national institutions.

### *7.1 Students*

One of the major aspects to reflect on regarding the effects of further integration in the European higher education area refers to students. In fact, one of the major purposes of the Bologna process was precisely to promote greater student mobility. The analysis of the US experience is very relevant here, since over the last decades we have seen a closer integration of the higher education sector from a geographical point of view, especially as regards more the research intensive part of the sector.

Using data on the US elite institutions, Cook and Frank (1993) analysed trends in the distribution of mostly qualified students at elite schools for several decades. They have noticed that although the reputational ranking of US colleges and universities have remained rather stable over most of the last decades of the twentieth century, the importance of reputation in the competition for top students has increased in more recent years. According to their study, a large and growing proportion of the country's top students have become increasingly concentrated in a relatively small number of top-

ranked institutions.<sup>7</sup> Since this period was characterised by a steep increase in the cost of attending an elite institution (see Clotfelter, 1996; McPherson and Schapiro, 1991), that trend of concentration in those institutions is even more significant.

It should be noted that the degree of concentration has been fostered by a more intense competition for students, especially among the best institutions. This has led to what some authors have called an arms race in US higher education in which elite and affluent institutions have competed fiercely through multiple forms, including the attraction of the best candidates both at the undergraduate and graduate levels. This process was enhanced by an apparent rise in the interest of students and families in rankings and the perception of universities' brands as a major factor in the decision-making process concerning college selection and application.

This greater interest of students and their families in benchmarking is also motivated by an economic assessment of the future returns of a specific investment in higher education in a context of mass education and greater competition among graduates. One of the effects of mass higher education has been the decline in the value of a generic credential (a university degree) and the rise of the differentiating value of certain specific characteristics of those degrees. Hence, the relative weight of factors such as the field of study and the institution awarding the degree has become more important and students and their families seem to be increasingly aware of that (Brown et al, 2011). As the share of graduates has increased, their employment landscape has become

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<sup>7</sup> Using data about top students, they have found that between the 1960s and the 1980s these students have become more concentrated at the top3 or top7 institutions (the increase was from 32.8% to 38.6% and from 46.5% to 58.9%, respectively) (Cook and Frank, 1993).

increasingly diversified with an ever increasing share of graduates being employed in associate- or middle-level occupations.<sup>8</sup>

The increasing dispersion of graduates' relative earnings may be related to a growing diversity of graduates' educational characteristics such as the types of programs they have been enrolled in. One of the aspects that draw particular attention has been that of the institution attended, especially in those systems where there is the perception of significant differences in reputation. Long (2010) analyzed three cohorts of college students in the US and found that that educational attainment and college quality had a significant effect on earnings and that those effects had increased over time. Analyzing another very stratified higher education system, Ono (2004) has found that college quality plays a crucial role in shaping incentives and earnings in the Japanese labour market.

## *7.2 Academic and Research staff*

Economic integration processes clearly have an impact on balances in labour market because of their effects to labour market institutions, which are the result of certain social and political arrangements (Baldwin and Wyplosz, 2006). The more a group of economies become integrated, the greater the pressure on the demand side to adjust to the conditions of tightening competition. The evolution of the European integration process in this regard has been complex and somehow uneven. From the beginning, policy-makers have been reluctant to a more speedy integration of European labour markets,

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<sup>8</sup> For the US, Lemieux (2008) has shown that while within-group inequality remained largely stable within other educational groups it rose considerably among HE graduates since the 1990's. Likewise Green and Zhu (2010) show that, in the UK, the returns to tertiary education grew slightly at the top end of graduates' wage distribution in the 1994-2006 period while they fell considerably at the bottom.

fearing the potential social backlash that it may stir. Moreover, the subsequent enlargement of the European Union has brought together more unequal economies and more diverse labour markets, making it more difficult to help those national labour markets to converge. In the case of more qualified workers, the pressure has been reinforced by the weight of professional regulations. Nevertheless, the deeper the integration in trade and financial capital, the stronger becomes the pressure for labour markets to adjust and to accommodate the effects of further economic integration.

One of the possible adjustments refers to the potential mobility of workers, in order to correspond to differences regarding wages or employment opportunities. The analysis of the labour market mobility dynamics launched by integration processes is clearly an understudied topic, especially for highly skilled professionals. The mobility of workers does not seem to be particularly significant, though more qualified workers tend to be more mobile. Younger workers also tend to be more mobile. Hence, although in general one does not observe major mobility across countries, this trend may be more significant in the case of university graduates and university staff.

Academic labour markets continue to be significantly dominated by national provision (either by nationality or by training). Even in systems normally regarded as more internationalized such as the US, where a large proportion of staff and doctoral students come from abroad (Clotfelter, 2010) the mechanisms of recruitment and selection seem to clearly favour those that are already part of the national higher education system (Musselin, 2005). However, the closer integration of educational and research activities at the European level may create a greater potential for academic mobility, especially among certain fields and among certain groups of institutions that may mirror trends observed among the research elite of the US system.

### *7.3 Financial Resources*

The growing marketization of higher education has meant that European HEIs face today a much more demanding and complex financial context. The rising concerns with efficiency have led to visible changes in the sources and mechanisms of funding of higher education in Europe, with the introduction of output criteria in the allocation of funding and a growing popularity of instruments such as performance-based funding and contract funding (e.g., Chevaillier and Eicher, 2002; Liefner, 2003). This trend towards a greater market-orientation is also reflected in the structure of revenues of many HEIs, with a growing emphasis in revenue diversification. The available data about revenue diversification confirm its increasing relevance across the European higher education landscape (Estermann and Pruvot, 2011). The studies confirm that there is a general expectation among European universities that funding sources will continue to diversify and that institutions need to develop active strategies to attract alternative sources of funding, either from public or private sources. These studies indicate that most European HEIs are presently managing an increasing multitude of funding sources.

The evidence available indicates that attracting alternative resources is not simple, nor accessible to many institutions. Many institutions confirm that results often do not live up to expectations and that these new sources of funding are often highly concentrated in a small number of institutions. The analysis of funding through grants and contracts (both public and private) also reveals that they tend to be much more concentrated in a few institutions (CHINC, 2005). This suggests that some institutions are being more successful in attracting new sources of funding, either due to system or institutional characteristics. One of the aspects highlighted in several European studies refers to the correlation between institutional autonomy and financial sustainability of HEIs, concluding that more autonomous universities are



characterised by a stronger capacity to attract funds from different sources (EUA 2008).<sup>9</sup> A few insights in this respect can be drawn from the generous and highly competitive research grants being awarded by the European Research Council, that are awarded in a competitive basis to scholars either in an early stage of their careers or in a more advanced stage for a period of 5 years.

Table1 presents the distribution of those research grants over the last 5 years by countries and groups of countries. The data indicate that some countries are clearly far more represented in these grants than others. The UK is clearly the leading country, closely followed by Germany and France. The latter is clearly more successful in terms of starting grants than in advanced grants, suggesting that its research system is less competitive at more mature age cohorts, and the UK and Germany show even more strength in advanced grants than in starting ones. Size of the country and of the higher education and research system does not seem to be decisive criteria, with some smaller countries capturing a significant share of those grants, notably The Netherlands, Switzerland, Belgium and Israel.

Some parts of Europe show a much lower aptitude to compete for those attractive grants. The results are particularly significant for Central and Eastern European countries, which includes 11 countries (Austria, Czech Republic, Slovakia, Slovenia, Hungary, Poland, Latvia, Lithuania, Estonia, Bulgaria, and Romania). The South of Europe also does not perform very well in this respect, especially since it includes 2 large countries with many higher education institutions (Italy and Spain), plus two other smaller and weaker

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<sup>9</sup> In the case of the US, an analysis of the link between research funding and institutional characteristics by Ali et al (2010) indicates that grant distribution is a function of institutional characteristics, in addition to individual faculty member productivity. Moreover, institutional characteristics seem to play a more significant role in effecting the dollar amount of grants than the number of grants.

countries in terms of their scientific attractiveness (Portugal and Greece). Even the Northern countries (Sweden, Denmark, Norway, Finland, and Ireland) show a less than impressive performance in this respect, having a share of grants below 10%.

**Table 1.** Distribution of ERC Grants (as in 2010)

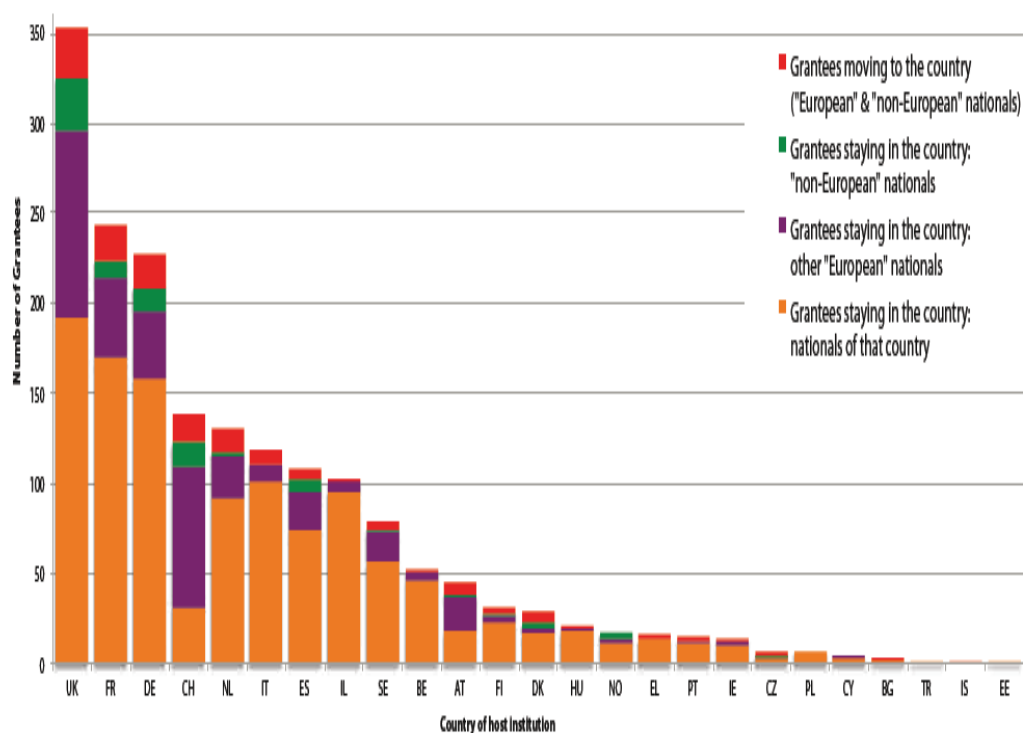
	UK	NL	CH	F	D	B	Nordic (SE. DK. FI. NO. EI)	South (IT. SP. PT. GR)	Israel	Central- Eastern	Total
Starting Grants	74	27	29	74	64	15	39	56	23	23	424
	17.45%	6.37%	6.84%	17.45%	15.09%	3.54%	9.20%	13.21%	5.42%	5.42%	100.00%
Advanced Grants	54	17	21	32	46	5	30	37	13	12	267
	20.22%	6.37%	7.87%	11.99%	17.23%	1.87%	11.24%	13.86%	4.87%	4.49%	100.00%
Total	128	44	50	106	110	20	69	93	36	35	691
	18.52%	6.37%	7.24%	15.34%	15.92%	2.89%	9.99%	13.46%	5.21%	5.07%	100.00%

Source: ERC; Calculations by the author

The data presented above should be complemented by another important element. These grants also give the opportunity to the recipients to choose the location after they have been awarded, thus, these have the possibility to move elsewhere, namely to another European country. In the figure presented below we see the share of the grants that each country has from its own nationals and from nationals from other countries (either previously resident in these countries or in other countries). According to the data, several of the more successful countries receive an additional boost by attracting a significant share of the grants awarded to individuals from other European countries. In relative terms the most impressive is clearly Switzerland that roughly trebles the number of grants through that process. The UK boosts even further its competitive advantage by moving clearly ahead of the two

other large countries. With the exception of the Netherlands, Spain, Sweden, and Austria, the remaining countries do not seem to be able to increase the number of ERC grants through this possibility. Hence, the final distribution of grants, according to the location where the recipients develop their activity, is even more concentrated from a country point of view.

**Figure 1.** Allocation of ERC Grants by Country of Host Institutions (discriminating the origin of Grantees) - 2010



Source: ERC

### 7.4 Research

The figure suggested by those grants is one of a highly concentrated research network, being potentially reinforced by the allocation of major research grants. This needs to be placed into the wider perspective of the distribution of research activity funded by European projects. The table below provides

data on European research projects which have been funded by the European Commission during the past years.<sup>10</sup>

**Table 2.** Distribution of EU Funding by Country (2011)

Country	Total funding k€ (approx.)		Number of projects		Coordinated projects		Sole partner projects	
Germany	989.836	15,91%	1340	11,59%	389	12,55%	225	11,22%
United Kingdom	979.095	15,73%	1521	13,16%	626	20,19%	470	23,44%
France	652.829	10,49%	1059	9,16%	349	11,26%	224	11,17%
Italy	541.617	8,70%	966	8,35%	227	7,32%	124	6,18%
Spain	509.316	8,18%	1014	8,77%	307	9,90%	203	10,12%
Netherlands	414.595	6,66%	741	6,41%	215	6,94%	134	6,68%
Switzerland	293.246	4,71%	496	4,29%	141	4,55%	115	5,74%
Belgium	258.321	4,15%	574	4,96%	114	3,68%	61	3,04%
Sweden	242.448	3,90%	455	3,94%	95	3,06%	55	2,74%
Austria	168.924	2,71%	380	3,29%	83	2,68%	47	2,34%
Greece	143.746	2,31%	354	3,06%	77	2,48%	39	1,95%
Israel	137.689	2,21%	250	2,16%	116	3,74%	105	5,24%
Denmark	126.161	2,03%	305	2,64%	67	2,16%	49	2,44%
Finland	114.021	1,83%	266	2,30%	34	1,10%	17	0,85%
Norway	107.699	1,73%	224	1,94%	44	1,42%	21	1,05%
Poland	93.107	1,50%	266	2,30%	37	1,19%	21	1,05%
Portugal	86.923	1,40%	230	1,99%	27	0,87%	15	0,75%
Ireland	85.919	1,38%	204	1,76%	61	1,97%	28	1,40%
Hungary	76.753	1,23%	224	1,94%	38	1,23%	26	1,30%
Czech Republic	47.764	0,77%	138	1,19%	12	0,39%	6	0,30%
Slovenia	46.208	0,74%	140	1,21%	7	0,23%	3	0,15%
Romania	32.276	0,52%	121	1,05%	8	0,26%	5	0,25%
Bulgaria	19.847	0,32%	75	0,65%	5	0,16%	3	0,15%
Cyprus	14.695	0,24%	55	0,48%	13	0,42%	7	0,35%
Luxembourg	12.575	0,20%	23	0,20%	3	0,10%	1	0,05%
Estonia	11.028	0,18%	54	0,47%	0	0,00%	0	0,00%
Lithuania	9.210	0,15%	44	0,38%	1	0,03%	1	0,05%
Latvia	3.740	0,06%	22	0,19%	2	0,06%	0	0,00%
Malta	3.553	0,06%	21	0,18%	2	0,06%	0	0,00%
<b>Total</b>	6.223.141	<b>100,00%</b>	11.562	<b>100,00%</b>	3.100	<b>100,00%</b>	2.005	<b>100,00%</b>

Source: CORDIS; calculations by Beta.Org

<sup>10</sup> These data are taken from the CORDIS database which has been published via the internet by the European Commission at <http://cordis.europa.eu/> and that have been collected and systematized into an European research ranking.

The data indicate that the distribution of funding is significantly concentrated. More than half of the funding is allocated to the 4 largest countries (Germany, UK, France, and Italy). The proportion of each country is not only dependent on the size of the research system, with some similar countries doing far better in this respect than others. Good performers tend to be countries such as the Netherlands, Switzerland, Belgium and Sweden. By contrast, most of the Central and Eastern countries and the small Southern countries do clearly less well in the distribution of funding, especially in large projects.

### *7.5 National and Institutional convergence and divergence*

One of the major impacts of closer market integration is the growing specialization and interdependence of agents operating within that framework. As Adam Smith - one of the founding fathers of economics, has insightfully and famously reminded us, the degree of division of labour (or specialization) depends on the extent of the market. Thus, the larger the market, the greater the possibility for agents and organizations to specialize on certain activities, since they can place the outputs of their activity into a wider and bigger market. Moreover, the incentive to specialize is particularly significant since, through that process, individuals and organizations can focus on certain activities, improving their efficiency and being stimulated to develop ways of improving the quantity and the quality of the goods and services they deliver.

A closer integration of European higher education under growing regulation of the market suggests the unleashing of important forces such as those favouring increasing specialization. This specialization may take several forms. One may be a greater specialization and differentiation of institutional profiles. Another form may be the development of greater locational

specialization, at the national and international levels, with some emerging clusters of higher education and research activities. In the following tables we present a synthesis of data taken from two well-known international rankings and the geographical distribution of the top 10/30/50 European institutions classified in those rankings. The overall picture presented by both rankings is rather similar. There is a prominent presence of British institutions and a very strong performance of two rather small higher education systems (The Netherlands and Switzerland). Large countries like France and Germany perform less well in relative terms, especially at the highest level. When we look at groups of less preponderant countries, there is a very poor performance of Southern and Central-Eastern European higher education systems (almost or totally absent from those positions) and a good showing of Northern higher education systems.

**Table 3.** Distribution of European Universities placed at the Top 10, Top 30, and Top 50 of the THES Ranking (2011)

	UK	NL	CH	F	D	B	North (SE, DK, FI, NO, EI)	South (IT, GR, SP, PT)	Central- Eastern	Total
Top10	6	0	2	0	1	0	1	0	0	10
	60,0%	0,0%	20,0%	0,0%	10,0%	0,0%	10,0%	0,0%	0,0%	100,0%
Top30	11	4	3	3	4	1	4	0	0	30
	36,7%	13,3%	10,0%	10,0%	13,3%	3,3%	13,3%	0,0%	0,0%	100,0%
Top50	19	7	7	3	5	2	7	0	0	50
	38,0%	14,0%	14,0%	6,0%	10,0%	4,0%	14,0%	0,0%	0,0%	100,0%

Source: THES; Calculations by the author

**Table 4.** Distribution of European Universities placed at the Top 10, Top 30, and Top 50 of the Shanghai Jiao Tong Ranking (2011)

	UK	NL	CH	F	D	B	Nordic (SE, DK, FI, NO, EI)	South	Central- Eastern	Total
Top10	5	0	1	2	0	0	2	0	0	10
	50,0%	0,0%	10,0%	20,0%	0,0%	0,0%	20,0%	0,0%	0,0%	100,0%
Top30	9	2	3	3	5	1	7	0	0	30
	30,0%	6,7%	10,0%	10,0%	16,7%	3,3%	23,3%	0,0%	0,0%	100,0%
Top50	14	5	5	5	9	3	8	1	0	50
	28,0%	10,0%	10,0%	10,0%	18,0%	6,0%	16,0%	2,0%	0,0%	100,0%

Source: Shanghai Jiao Tong University; Calculations by the author

This type of exercise tends to draw significant controversy, notably due to the superficiality of the portraits given by rankings and the risk of simplicity and over-homogeneization (see Kehm and Stensaker, 2009). However, the use of this data here is mostly to illustrate an important point which is the fact that this type of exercises has had some relevant effects in the European and international higher education sectors, notably by raising awareness about the institutional and national positions in an European and international context. In particular, they have given visibility to a growing competition for places in the highest positions of those rankings both in Europe and elsewhere (see Altbach and Balán, 2004). After a period of steady expansion and a focus on mass access, policy-makers seem to be increasingly enamoured with the idea of protecting (or even promoting) an elite sector within mass higher education (Palfreyman and Tapper, 2009). This has contributed to strengthen a more structural change that seems to be emerging in many European higher education systems, i.e. greater stratification and differentiation. Pushed by competition for resources and prestige, many systems seem to be evolving towards greater structural and functional differentiation and stratification (see Vaira, 2009). Hence, we are seeing in many European systems attempts for concentrating resources in a few institutions, either by selective treatment

or by favouring mergers and consortia of institutions in an attempt to attain a dimension that can reach higher positions in those rankings. European integration seems therefore to be accompanied by a significant concentration of resources and prestige, pushed both by European competition and national policies.

## 8. Concluding Remarks

The development of the European Higher Education Area has increasingly been shaped by the views that regard higher education as a major issue in the European economic agenda and as an instrument for economic and social development. Hence, we have seen a reconfiguration of the sector alongside market rules, often through policy initiatives and government intervention. In this text we have reflected on these developments in European higher education, namely by focusing on the emergence of a more integrated higher education area increasingly shaped by market forces and economic rationales.

As in many other previous experiences of economic integration we do seem to have a two-stage process in which European integration under market regulation seems to follow a prior promotion of greater market regulation and integration within the national sphere. After a few decades of marketization at the national level, we observe a growing willingness for greater integration of the European higher education space and that this integration is at least to a certain degree shaped by the market forces of competition, autonomy, and self-interest.

Like in other dimensions of European integration, we are dealing with a complex process. If some forces are pushing towards greater and faster integration, there are important obstacles and resistances to that process.



Moreover, this process raises significant perplexities and fears among national and institutional actors that may hinder further the drive towards greater integration. Some of the major fears refer to the potential locational and concentration effects that may be promoted by further integration and competition. The current picture is blurred, with some trends suggesting that the fears of concentration are real (especially in issues such research, funding, and prestige) and others less so (especially in what refers to the mobility of individuals, especially staff).

Although Europe has traditionally had a more egalitarian approach towards higher education, there have been multiple signs in recent years that this is becoming less the case. In recent years we have seen a greater willingness of governments in Europe to promote multi-level differentiation across national systems regarding aspects such as institutional missions, allocation of funds, or regulatory frameworks. Hence, the case for an egalitarian approach to European higher education has been weakened and the current trends suggest that this trend will evolve further.

In any case, one should not forget that the process of European integration is taking place against a background of wider and deeper global changes that may influence the former. Although some actors may aim at controlling the direction and the speed of the process, they should not overestimate the capacity of European actors to steer it, nor the willingness of some parts of the European higher education and research systems to participate in the development of international networks and alliances between institutions that transcend the European space. Thus, an European Union increasingly concerned with global relevance may be willing to concentrate resources in a few elite institutions, even if that means using market regulation to promote that political intention. The paths of the market are definitely uneven. They may also be mysterious and transcend purely economic motivations...

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