CHEPS – Higher education monitor (http://www.utwente.nl/cheps/)

F. Kaiser, P. Meer, J. Beverwijk, A. Klemperer, B. Steunenberg, A. Wageningen Market type mechanisms in higher education / A comparative analysis of their occurrence and discussions on the issue in five higher education systems Thematic report VI: October 1999 C9FK407/220799

Introduction

Since the publication of the report Cohen (*Markt en overheid*) there is a discussion in the Netherlands on the position of (public) higher education institutions on the market. Public higher education institutions (HEIs) are pushed (or pulled) from the traditional public teaching and research activities into more market oriented activities to generate additional resources. Contract research and contract teaching (providing programmes at commercial rates for specific audiences) are the two types of market oriented activities that are mentioned most often. HEIs may deploy other activities as well (commercially exploiting existing facilities like labs, print shops, class rooms etc.).

The amount of these 'commercial' activities of (public) higher education institutions has grown substantially over the last few years. This expansion has led to a reaction of other providers of such services that were already active on those markets. They argue that public higher education institutions are in a privileged situation, distorting the free competition on the market. Most of the 'commercial' activities of public HEIs rest on activities and facilities that already existed in these institutions and which was and is heavily subsidised by the state. Although the Cohen committee agreed that public HEIs have to meet certain conditions to create a level playing field, it also exempted public higher education from part of these conditions. The primary reason for this is the 'quasi-collective' character of the provision of higher education and fundamental research.

The question policy makers have to deal with now is to determine under what conditions (public) HEIs can perform commercial activities and how compliance with such conditions can be monitored.

The Ministry of Education, Culture and Science commissioned a study to the Center for Higher Education Policy Studies (CHEPS) within the framework of the CHEPS Higher Education Monitor to address this issue from an international comparative perspective. Based on this request and a short literature review we stated the following central question:

To what extent are conditions for free competition on higher education markets met in a number of Western higher education systems?

Since changing the conditions for free markets in higher education takes a considerable amount of time, we formulated a subsidiary question:

What are the recent discussions or policy initiatives regarding these conditions?

In Part I the analytical framework and the concepts used will be addressed. The research design and operationalisations will be described in chapter 2. The results will be summarised and analysed in chapter 3. Part II consists of the case study reports.

Part I 1 Concepts and frameworks

Higher education has a strong public tradition in most Western European countries. Therefore, the introduction of markets or market-like co-ordination mechanisms will be an incremental process in which market-elements will be introduced regarding certain aspects or services. Government regulation will remain a major co-ordinating mechanism. However, to analyse the situation abroad and to identify markets or market elements in higher education we will start our conceptual analysis with a hypothetical situation of free competition. In the following section we start with the conditions for competition and intervention. In section 1.2 we describe the general features of the products in higher education. In section 1.3 we deepen the framework by describing the potential actors at the market. In the final section of this chapter we present a framework for our empirical analysis.

1.1 Conditions for competition

To assess the success of the introduction of quasi-markets in general Bartlett and LeGrand (1993:p.13) identify four criteria: the level of (productive) efficiency, the degree of responsiveness of providers to the demands of the consumers, the degree of choice customers have regarding the services and providers, and the attention paid to equity. Van der Veen (1997) adds the criterion of *beheersbaarheid* (keeping demand within manageable boundaries). Government policy and its goals determine which criteria are the most important. In order to be effective in meeting these goals, markets in higher education have to be competitive. Competition, or increased competition, can only be achieved if a number of basic conditions are met.

Bartlett and LeGrand (1993:p.19) list five conditions. These conditions are an open market structure, information about the provided goods, minimal transaction costs, financially motivated actors, and the avoidance of cream skimming. Not all these requirements are of the same magnitude. For instance, economists would not doubt actors' motivations. Instead they would point at the importance of the existence of sufficient incentives to affect individual choice behaviour. Furthermore, the avoidance of cream skimming, which is interpreted as some kind of discriminating behaviour on the side of the providers of goods (in terms of price), appears to be normal market behaviour. If government finds this behaviour not politically acceptable for equity reasons, it may intervene and introduce regulation. However, in our view, cream skimming can be better understood as a possible negative effect of market behaviour, and not as a condition for competition.

We therefore propose to adapt the conditions mentioned by Bartlett and LeGrand and to distinguish the following conditions for competitive quasi-markets: *an open market structure*: the market should be open to new providers/suppliers, while no monopolies or oligopolies will be formed. This is a rather general condition, which at least includes the following elements:

1. (a) transaction costs, i.e. costs related to specifying contracts, and the monitoring and control of these contracts, must be kept at a minimum; and (b) there are no increasing returns to be expected in producing the good, which may lead to a dominant market position by a single producer;
2. *sufficient individual incentives*: both consumers and producers are sufficiently stimulated in financial terms so that they will either reveal their preferences (consumers) or produce a certain quantity against least costs (producers); and
3. *information about the quality of the provided good*: both providers and consumers need to have cheap access to accurate and reliable information about the quality of the goods provided.

These conditions are not automatically met. Economies of scale or of scope can hamper access to the market. Joint production makes it difficult for competitors to enter a single market and makes it easy to enter a second market while already being active on a first. Normally, prices contain all the information necessary to make decisions. However this is not guaranteed. In case of externalities, not all aspects that create utility are accounted for in the price. These external effects can be negative as well as positive. It is said that (higher) education produces positive external effects (McMahon, 1987; Cie Cohen, 1998). Positive external effects lead to underproduction of or underinvestment in the good. In that situation the social return on investment in education is higher than the private return. This difference in social and private (individual) returns on investment in higher education has been an important reason for

governments to subsidise higher education. In every developed country higher education is subsidised by the government in one way or another. Also the type of product can make it difficult to assess the quality of the product. A famous example is the market of used cars, where one-sided information leads to the collapse of the market (Akerlof, 1970). Players can be misinformed about quality of the product and therefor willing to pay too much or too less. The reasons for misinformation vary. Information may be available too late, information may only be gathered at great costs, or one of the actors may profit from not making information available. In these cases, markets will not be efficient. Information problems could in principle be solved without government intervention. Nevertheless, if for some reasons the private sector is not able or willing to provide further information about the quality of their goods, government may intervene by imposing regulation.

To accomplish the basic conditions, and thereby efficient markets, government and the other actors have a range of regulatory instruments at their disposal. Dill (1997: p172) distinguishes three categories of instruments or, what he calls, 'points of intervention' for policies:

- policies aimed at the basic conditions (framework rules like anti-trust laws, higher education laws);
- policies aimed at the market structure (market-entry); and
- policies aimed at the conduct of the actors on the market (regulation regarding prices and quantity, and information provision).

Governments may also intervene in markets for political reasons. One example is equity. Although the market may allocate the products efficiently, some players may get systematically more than others do. Uneven distribution of opportunities may lead to a call for redistribution by most or, at least a majority of the political actors involved. This includes e.g. accessibility of higher education. Governments want to lower barriers to improve equal opportunities for the entire population.

1.2 Products and markets

The product we are investigating is the product of knowledge. This product comes in various shapes, and it is traded at different markets:

- the market for the distribution of existing knowledge. This includes all educational markets in which knowledge is taught and passed on to others. In this project we distinguish between markets for initial higher education and for post-initial higher education.
- the market for the production of knowledge. We can distinguish between markets for fundamental research (knowledge without immediate commercial applications) and the markets for contract research.

The markets for these products are more or less regulated by government. Firstly, as in every market, the basic conditions need to be regulated by the government.

Secondly government intervenes in the market of knowledge to correct market failures caused by positive external effects. It is strongly believed that knowledge has positive external effects. As stated in the previous section these additional benefits are not reflected in the market price, which leads to an underprovision of knowledge.

Thirdly, it is very difficult for individuals and users to measure the quality of the product especially products like knowledge. Information on the contents and quality of knowledge is hard to get by (Winston, 1999). The relation between price and quality may be distorted or only be stated correctly at high costs. This problem may provide an additional reason for government intervention, although other, more market like, solutions may also exist. Fourthly, production processes in the various markets of knowledge are related to each other. The production of knowledge (research) may depend on the distribution of knowledge (teaching) and vice versa, which suggests that benefits exist to produce these goods jointly. For example, the output of fundamental research can have a positive effect on both teaching activities and contract research. These interdependencies in the production process, which may form the basis of various forms of cross-subsidies between markets, affects the market structure and is a fourth reason for governments to intervene in the market of higher education.

Another possible consequence of this feature is the existence of differences in regulation on various markets. A difference in regulation on one market between two countries may have an effect on or can be the result of regulations in another market. Fifthly, some governments find initial higher education of such importance to society that they want to guarantee access to initial higher education for all students. As indicated before, equity forms a political motive for government intervention. This may lead to avoidance of selection or low tuition fees to students.

Another peculiarity of the knowledge products is that the various markets in the area of higher education are intertwined, because some actors, and particularly universities, operate on all these markets. Although this is not a direct reason for governments to intervene, this causes a complication to our research.

Our research focuses on three broad markets in higher education:

- initial higher education: Initial higher education programmes are educational programmes that lead to a first degree or higher education qualification (following on secondary education).
- post-initial higher education: Post-initial higher education programmes are educational programmes that lead to a certificate or degree following a first higher education qualification. Length of the programme may vary but the programmes have to start from the qualifications obtained in initial higher education programmes. Within post-initial programmes there are two main types: the formal, regulated programmes (like PhD and Master's) and the informal programmes (tailor made courses, short courses,…) The demarcation of initial versus post-initial higher education programmes is not always obvious. What is considered in one country an initial degree may be considered to be a postinitial degree in another country. In the case study reports (see part II) the definitions used are described in detail.
- contract research: Contract research is commercial research funded on a contract base. Fundamental research funded from general university funds or funded by research councils is excluded.

1.3 The most important players

For each of the markets identified above we have to identify the suppliers and consumers, and the aspects of the transactions performed in the market. In this section, we will focus on initial higher and post-initial higher education. At this point, the market for contract research is

rather straightforward since mostly one customer and supplier are involved, who both decide on the price and contents of the good.

In case of initial higher and post-initial higher education, there are more than two parties. Departing from the traditional arrangement of public provision of higher education, we can at least distinguish three (groups of) actors: students, employers, and institutions of higher education. Both students and employers have a demand for higher education, while institutions of higher education both public and private can be regarded as the main suppliers. Initial higher education is demanded by regular students. Sometimes they pay fees for tuition according to cost price, sometimes initial higher education is supplied at no costs at all. Demand for initial higher education exists for different reasons. The most prominent reason is the perspective to earn a high future income (human capital theory, Becker, 1964). A far less prominent reason is that students perceive initial higher education as a pure consumption good. They choose and follow some study program because they like to do so. Then the choice of study programs depends less on future income.

Besides students, employers demand indirectly higher education. Employers could pay directly for the education of their employees, paying fees and other direct costs, but they could also negotiate with the institutions of higher education about the content of study programs. They could even be willing to support those institutions more directly in exchange for influence on the contents of study programs. Employers can operate both at the market for initial and post-initial higher education programmes.

1.4 A framework for empirical analysis

Based on the observations made in the previous sections we propose the following framework to describe empirically the (quasi) markets in a number of higher education systems. To describe these markets we first have to identify the suppliers and consumers in the market and the products that are offered. Subsequently, we need to investigate if and how market behaviour has been regulated by government in view of the conditions mentioned in Section

2. We recall: policies aimed at the basic conditions; policies aimed at the market structure; and policies aimed at the conduct of the actors in the market. The questions here are:

1) Which policies have been installed to guarantee and or improve the basis conditions of the markets for higher education and contract research? For instance, we will look for regulations on property rights, (who has the property rights on contract research, who has the property rights on knowledge distributed in the educational system, how is dealt with patents and benefits from patents). Are anti-trust laws applicable in higher education, higher education laws etc.?
2) Market structure: to what extent is the market structure open and which regulations have been imposed by government (i.e. taxes and subsidies)? Is access on markets for higher education regulated or free for everyone. Do institutions of higher education get subsidies and can competitors apply for the same subsidies. Are institutions of higher education taxed (VAT, income tax etc.) What were the main reasons to introduce this regulation, i.e. positive externalities, equity reasons?
3) Conduct of actors with regard to:

a) price and quantity: since higher education involves positive externalities there exist reasons for government intervention. Which regulations or measures have been imposed by government (tax or subsidies or both)? Are institutions of higher education competing with each other for students and/or contract research? Are there differences in fees, between institutions of higher education and/or programs? Are institutions of higher education sponsored by employers, do these institutions have agreements with employers?
b) quality: it is difficult to measure the quality of knowledge. What regulations have been imposed by government to solve this information problem? Is level of quality

regulated by the government, by self-governing bodies? Are agreements made with employers? Who provides customers with information on quality? Have demanders or suppliers introduced an alternative arrangement to government regulation? The basic ingredients—the broad markets and our points of attention—are summarised in Diagram 1.

Diagram 1: Framework for analysis

	actors and product	basic conditions	market structure	price and quantity	Quality
Initial higher education					
Post initial higher education					
Contract research					

This framework has guided us in drafting a questionnaire according to which we collected information on markets and market like regulations in different countries. In the empirical investigation we will fill the different cells by means of data at hand in the CHEPS monitor, study of literature and interviewing experts of different countries.

References

Akerloff, G. (1970), The Market for Lemons: Qualitative Uncertainty and the Market Mechanism, *Quarterly Journal of Economics*, Vol. 84, pp. 488-500.

Bartlett ,W & Le Grand, J. (1993). The Theory of Quasi-Markets in: Le Grand, J. & Bartlett, W. (eds.) *Quasi-markets and social policy*, London. p.13-34.

Becker, G.S. (1964), Human Capital: A Theoretical and Empirical analyses, with Special

Reference to Education, New York: Columbia University Press.

Dill, D.D. (1997), Higher education markets and public policy, *Higher Education Policy* 10 (3/4) 167-185.

Marginson, S. (1997) *Markets in Education*, Allen & Unwin, St Leonards McMahon, W.W. (1987). Externalities in Education, in G. Psacharopoulos (ed.) in: *Economics of Education Research and Studies*, Pergamon Press, Oxford, pp. 133-141.

Markt en Overheid. (1998), 'Eindrapport' van de MDW-werkgroep (commissie Cohen), Ministerie van Economische Zaken, Den Haag, (http://www.minez.nl/nota/meo/meo.htm)

Van der Veen, R. (1997). 'Marktwerking en sociaal beleid: doelmatigheid en rechtvaardigheid van sociaal beleid bij privatisering van sociale risico's en invoering van quasimarkten.' *Tijdschrift voor Politieke Ekonomie 20 (2) 194-210.*

Winston, G.C. (1999). 'Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education', *The Journal of Economic Perspectives*, Vol. 13, No. 1, pp. 13-37.

2 Design and operationalisation

2.1 Design

To answer the central questions we use a rather straightforward research design. As described in the previous chapter we drafted a framework for analysis, based on a review of the literature on competition and quasi-markets. Based on this framework a questionnaire was composed, covering the relevant issues regarding conditions for free competition in three higher education markets. The empirical part of the study consists of two parts. In the first part, literature, policy documents, legal documents and other publications are used to answer the questions from the questionnaire. The second part consists of interviews with national experts on the issues and discussions regarding markets in higher education in their countries. The study comprises five countries: Germany, France, the United Kingdom, the state of Michigan (USA) and the Netherlands. The choice of these countries is based on two major reasons. First, the selection of cases has to have sufficient contrasts within. The contrast can be found in the size of the higher education systems, the geographical location, the political system, etc. Secondly, the information must be available or possible to be made available. Of the selected countries, France on the one hand and the UK and Michigan on the other hand are extreme cases in their attitude towards the market in higher education. Whereas in the UK and Michigan the market is seen by the government as the 'ally', in France it is seen as the 'enemy'. Germany is an influential neighbour of the Dutch higher education system. The introduction of market type mechanisms (MTM) serves a number of goals. In our report we focus on the enhancement of competition as a way to achieve these goals. The basic idea is that through more competition, there will be a better co-ordination of the supply and demand of three goods in higher education (initial higher education programmes, post-initial higher education programmes and contract research activities).

In section 2.2 we describe how we operationalised the broad concepts we defined in section

1.5. In addition we describe how these items are interpreted. We scored every item as a (potential) barrier for competition. A '+' means a barrier for competition; a '-' means no barrier for competition.

2.2 Potential barriers towards a competitive market

In this paragraph we list the conditions for competition and specify them for the higher education sector in terms of barriers.

2.2.1 Basic conditions

Everyone on the market should be a price taker and should not have influence on the market-clearing price.

This condition is seen as a basic condition. The possible threat to this condition is the existence of mono- or oligopolies and monopsonies. In these cases there are one or a few actors who have the power to set the market price.

Possible barriers to this condition are seldom found in regulation. On the contrary: in most countries the existence of mono/oligopolies is fought with regulation (anti-trust regulations).

2.2.2 Open market structure

The market should be open to new providers/ suppliers.

There are two dimensions to openness of the higher education markets. On the one hand, markets may be open to new providers of higher education services (initial teaching, post-

initial teaching and contract research), on the other hand, the market may be open to new products (new [post]-initial higher education programmes).
Possible threats to these conditions are restrictions on the entry of new providers of (post-) initial higher education programmes and contract research, and restrictions in the possibilities for providers to offer

other or new programmes or research activities. Barriers may be found in the legal framework (if it is limitatively determined who the providers are and what type of programmes they may provide; if severe conditions for entry are specified; if lengthy procedures for entry are specified, etc.), in financial regulations (if public funding is limited to a number of providers, if lengthy procedures for new public funding are specified).

Production of higher education services is in most higher education institutions, a process of joint production. Initial higher education programmes are produced, along with post-initial higher education programmes and contract research. Joint production may reduce the unit cost. Because of this, it will become difficult for competitors to enter a single market and it will become easy to enter a second market while already being active on a first. A higher education institution providing initial higher education programmes may find it easier (cheaper) to 'add-on' a post-initial higher education programme, building on the experience with the initial programme, than a provider which only offers post-initial higher education programmes and which must therefore develop the post-initial programme 'from scratch'. Joint production may threaten competition if some providers are active on more than one market while other providers are active on only one market. An additional threat may arise when the providers do not take into account the full cost in setting the price for one of the products. For example, if a higher education institution which provides both initial and postinitial programmes does not take into account the full cost for overhead in setting the price for the post-initial programme (and thus 'overcharging' the initial programme) another provider offering post-initial programmes will have difficulty in providing the programme for the same price.

Economies of scale and scope may also hamper access to a market. Large providers may have lower unit cost due to economies of scale and scope than small providers. If this barrier is substantial, it may drive out small providers.

The financial and fiscal regime has to be the same for all providers and potential providers.

The open entry for providers may also be threatened by financial barriers. The question here is whether the financial and fiscal regime is the same for all providers and potential providers. If e.g. public providers are exempted from paying VAT, private providers have a clear disadvantage in the competition.

Another, perhaps even more important, financial barrier may be public funding. It is a common view that the production of higher education has positive external effects. The existence of external effects is one of the main reasons why governments intervene in the higher education market by subsidising the provision of higher education through public funding. It is problematic to consider public funding as a barrier to competition since it corrects a market failure. However, if not all providers on the higher education market are eligible for public funding under similar conditions, it becomes an obvious barrier. In most countries, not all providers of higher education programmes are eligible for (similar amounts of) public funding. Because of this, public funding creates a situation in which competition is distorted by (large) subsidies to particular providers. We distinguish two types of funding: direct funding of the providing institutions and funding through the students. In order to assess to what extent the issue of public funding is seen as a possible barrier to competition we looked at three aspects of public funding:

[21]

- the extent to which recent cuts in higher education budgets have occurred
- the extent to which recent cuts in budgets for student support have occurred
- the relative size of public funding

2.2.3 Behaviour of actors

In addition to the basic conditions and the market structure, there is a third cluster of conditions to free competition. In this cluster the categories 'price and quantity' and 'quality' are comprised. Generally speaking, the conditions in this cluster refer to the behaviour of the actors. The basic assumption is that free competition requires that all actors can make their own decisions, based on valid information on the products and lead by financial incentives.

Financial incentives

Both consumers and producers are sufficiently stimulated in financial terms so that they will either reveal their preferences or produce a certain quantity for the least cost. The actors have to behave economically rationally. That means that the market should provide sufficient incentives to affect individual choice behaviour.

Possible threats to this condition are individual suppliers and customers who do not behave (economically) rationally.

The first 'imperfection' is the existence of externalities and the way external effects are represented in the quantities offered. Normally, prices contain all the information necessary to make decisions. However, in case of externalities not all the information is reflected in the market price. If positive externalities occur, the level of production is too low and market prices are set too high. The extent to which the existence of externalities distorts the market is addressed above.

The condition of sufficient incentives is further eroded by the non-financial, non-economic reasons school-leavers use to choose an initial higher education programme or for initial education graduates to follow post-initial higher education programmes. These 'noneconomic' reasons include the influence of the peer group, the socio-economic background, and geographic vicinity. If these factors all have a significant impact on the decision to enrol or not, prices do not anymore contain all the information needed. In this study, the high level of aggregation of analysis has prevented us from collecting information on these noneconomic reasons.

Whether *sufficient* incentives are present is difficult to assess. What can be assessed, however, is whether incentives are present regarding crucial characteristics of the product higher education: prices and quality. Our basic assumption is that consumers need to perceive some differentiation in prices and in quality. If differentiation is not perceived to be present –because regulations do not allow price differentiation or because quality does not (in the eyes of the general public) differ between providers – the condition of sufficient incentives is not met.

Sufficient incentives is a relevant condition at the institutional level as well. An institution that is free to generate resources and spend resources freely, is assumed to produce more efficiently than an institution that has to follow strict rules regarding the generation and spending of resources. The latter will have far less incentives to enter a new market than the former. The barrier here can be found in general regulations regarding public accounting, regulations related to public funding, and differences in the legal status of providers. This issue will be addressed later on.

A final dimension of the individual incentive issue is the intellectual ownership of programmes and research. If individual academics or higher education institutions have ownership of the (post-)initial higher education programmes and contract research, it is likely that they will produce more than if they do not have the property rights.

The issue of franchising is also related to the issue of property rights. If a higher education provider wants to sell programmes through a franchise licence, it has to have the property rights.

Freedom of choice

Competition may be hampered by regulations regarding the decision of providers to select their customers (students). Providers will strive to select only the best applicants to improve their internal efficiency. In general, this is an important condition for competition. However, from a societal point of view, this practice has also a negative aspect as it may be seen as cream skimming. It may lead to the situation in which applicants who are not among the best have reduced chances at getting education of similar quality.

Competition also may be distorted by regulations that limit the freedom of customers (students) to select the provider they want. In many countries, even in countries that have open access, students have no final say in where they will enrol. This is a serious distortion of competition since it limits the providers in their competition for students. Competition may lead to Pareto efficient solutions if prices confer information on quality and costs. If providers are not allowed to set their own prices, the market, or competition may not find an efficient solution in co-ordinating demand and supply.

Competition may be distorted as well if the providers are restricted in the way they use their inputs or resources. These restrictions, especially in terms of financial management, are often laid down in financial regulations, general accounting practices and conditions for public funding. More restrictions or inequalities of these restrictions between providers, are likely to distort competition.

Another item is cross-subsidisation. This occurs if resources obtained for or with activity A are used to (partly) subsidies activity B. As mentioned before, this is possible only in case of joint production. If cross-subsidisation is allowed, the market prices do not need to reflect the true costs. Providers who cross-subsidise distort competition.

The final aspect of restrictions on the use of resources is the autonomy of providers to determine the use of the most important input: human resources. Competition is hampered if providers may not hire or fire their staff and if they may not determine the wages of their staff.

Information

Both providers and consumers need to have cheap access to accurate and reliable information about the quality of the goods provided.

It is difficult to measure the quality of knowledge. The ratio between price and quality may be distorted or only be stated correctly at high costs. This means that prices may not be used as a valid regulatory mechanism.

If we consider the asymmetric nature of the information on the quality of knowledge as a threat to competition, we will find in laws or other types of regulations efforts to reduce this barrier. The two most common methods used in the fight against asymmetric information are quality assessments and accreditation procedures.

2.3 Summary

In the table below, the potential barriers discussed above are listed. This table may serve as a summary of this paragraph as well as a legend for the tables in Appendix I in which the scores on the barriers on the three markets for the five countries involved in this study are reported. A + in this list means that the situation described can be seen as a barrier to competition. A '-score' indicates the absence of a barrier. A +/- score indicates that in some case barriers do exist while in other cases these barriers do not exist.

	+	-	comments
number of customers/ providers	a limited number of providers or customers	a large number of providers or customers	
New providers	it is difficult for new providers to enter the market	new providers can enter the market freely	barriers may be legal, financial, reputational
New programmes	it is difficult to introduce a new programme	providers are free to offer the programmes they want	
joint production	some providers produce several products jointly whereas others produce only one product	no differences between providers regarding joint production	
economies of scale/scope	providers are very different in size	providers have similar size	
fiscal regime	some providers enjoy fiscal advantages	all providers are treated fiscally the same	

(public) funding through providers	only part of the providers are eligible for public funding	no differences in eligibility for public funding	
(public) funding through customers	substantial barriers for students to receive public funding/ student support for consuming higher education at any providing institution	student may spend their public student support on any HEI	
externalities	government attributes substantial externalities to higher education	government attributes no substantial externalities to higher education	the relative size of public funding is seen as an indicator
differentiation in price and quality	differences in price and quality are limited	no restrictions in prices and quality	
property rights	property rights do not belong to direct producers	property rights belong to direct producers	
existence of information	no reliable information on the quality of the products exists	reliable information on the quality of the products does exist	the existence of quality assessment or accreditation procedures is used as a proxy
availability of information	no reliable information is available at a reasonable price	reliable information is available at a reasonable price	
selection of customers/ students	providers are not allowed to select applicants	providers are free to determine which applicants may enroll	
selection of providers	students are restricted in their choice of provider	students are not restricted in their choice of provider	the restriction may be caused by the selection mechanism, the non-existence of credit transfer systems, and the lack of student support systems in combination with high fees
Providers authority regarding financial resources	providers are not allowed to use the financial resources as they like	providers are free to determine what to do with their financial resources	most restrictions are found in the funding mechanisms and the accounting systems
Providers authority regarding human Resources	decisions to hire staff are made by a central body	provider determines what staff to hire at what wages	

3 Results and analysis

3.1 Goals

Market type mechanisms may be discussed or introduced for various reasons. To assess the success of the introduction of market type mechanisms in general Bartlett and LeGrand (1993:p.13) identify four criteria: the level of (productive) efficiency, the degree of responsiveness of providers to the demands of the consumers, the degree of choice customers have regarding the services and providers, and the attention paid to equity. Van der Veen (1997) adds the criterion of *beheersbaarheid* (keeping demand within manageable boundaries). Government policy and its goals determine which criteria are the most important. In the case reports[1] we have listed the goals of the introduction or expansion of market type mechanisms in higher education. This information is crucial for the interpretation of the results on conditions and discussions. Without knowing the reasons for introduction it is difficult if not impossible to use the results in a comparative way. Conditions and discussions are, in our view, strongly related to the goals of introduction or expansion. We focused the general question 'Why are market type mechanisms introduced or expanded in higher education?' by posing more specific questions: In what ways do the existing regulatory mechanisms fail to achieve the goals (national) governments have set for higher education? Why are market type mechanisms considered better ways of regulating demand and supply than the existing regulatory mechanisms?

The expansion of market type mechanisms in the Netherlands is intended to generate more private resources in the higher education system and to increase the responsiveness of higher education to the needs of society. The increase in private resources is needed because on the one hand the societal need for higher educated people grows while on the other hand the public resources for higher education are stable at best.

In Germany, the main reason for introducing market type mechanisms is to improve the quality of teaching at public higher education institutions. Some market type mechanisms are also introduced to boost efficiency, but this is not mentioned as the main reason. Another minor reason mentioned is to increase the relevance of higher education to society. The introduction of market type mechanisms and the rise of private higher education institutions are seen as a way to achieve this.

In Michigan, the drop in public funding and the subsequent need for more private resources has been also a major reason for the expansion of market type mechanisms. In Michigan, in contrast to the European countries, market type mechanisms have been functioning for over 25 years.

Enhancement of efficiency and creating a broader base for the expansion of participation in higher education were the main reasons to introduce market type mechanisms in the UK. Increasing the relevance of higher education is also mentioned, but is not one of the main reasons.

Generally speaking, the French do not like the idea of having too many market type mechanisms in higher education. However, important goals in higher education policy are to increase productive efficiency, to increase the degree of responsiveness of higher education institutions to needs of labour market and students, and to increase consumer choice. At the same time they want to establish a certain degree of equity.

Of course, the goals for introducing or expanding market type mechanisms mentioned are not the only goals in higher education policy. In all five countries it was stated that the strive for more equity in access to higher education is a goal that has a restraining effect on the

expansion of market type mechanisms; for whatever reasons market type mechanisms are expanded, equity in access should be save-guarded.
In Michigan, Germany and the Netherlands, another restraining goal was found. Higher education should cover a full range of disciplines. In these three countries there is a concern that an expansion of market

[1] The case reports are presented in part II of the full report.

type mechanisms may lead to 'cherry-picking', leading to an underproduction of non-profitable disciplines or courses.

Table 3.1: Goals and limits for introducing more MTMs in higher education

	Netherlands	**Germany**	**Michigan**	**United Kingdom**	**France**
More private resources	X		X	X	
Enhance quality of teaching		X			
Enhance responsiveness	X	X		X	X
Increase productive efficiency		X		X	X
Danger of inequities	X	X	X	X	X
Danger of cherry picking	X	X	X		

3.2 Conditions

3.2.1 Initial higher education

3.2.1.1 Actors and basic conditions

The number and type of suppliers of initial higher education differ to a large extent between the countries. In Michigan and France the diversity in suppliers is probably highest. Due to its size, the Netherlands has a small number of universities. The main consumers of initial higher education are young students who just finished secondary education. Besides these 'traditional consumers' we encountered more mature students who want to upgrade their initial (secondary) education. In terms of barriers to competition in higher education, the legal frameworks (or basic conditions) score low. In all countries, these frameworks allow in principle the operation of market type mechanisms in higher education. We found only one possible barrier regarding a basic condition: the danger of monopolistic tendencies in Dutch universities because of the small number of universities.

3.2.1.2 Market structure

In Germany it is difficult for a new institution to enter the market. It is difficult to establish new universities who have the right to educate students to an official degree. All public higher education institutions are listed in regional acts. Private institutions need the approval of the minister. The universities encounter difficulties to supply new programmes, too. They have to follow an approval procedure. A further difficulty to introduce market type mechanisms is the existing funding system of German universities. Most public funds are earmarked, making it impossible for the institutions to allocate the funds according to their own insights. This makes it difficult for them to be or to become a competitive player.

The market for initial education in the Netherlands faces almost the same kind of barriers as the German market. In the Netherlands it is difficult to establish new institutions of higher education, too. All publicly funded institutions are listed in the higher education act. The law needs to be changed to give public means to other institutions. Privately funded institutions need to be recognised ('*aangewezen'*) by the Minister of Education, Culture and Science. To

become recognised they have to proof, i.e. by track record, that they are able to provide higher education of a high enough standard. The supply of new programmes or major changes in existing programmes is

regulated too. All programmes leading to an official degree are centrally registered. To enter the register the new programmes have to follow a procedure in which ultimately the Minister decides on registration. The higher education institutions do not face funding barriers. Almost all of the public funds are paid as lump sum and can be spend as the institution sees fit.
In France it is not that difficult to establish a new institution for higher education. However, it is difficult to supply new programmes. All national recognised degrees are centrally planned and registered. Up to eighty percent of the programmes are prescribed by law. Also the spending freedom of the institutions is limited. The Minister has to approve the hiring of new staff and pays the salaries. Universities have limited authority regarding their staff and the wages.

In the United Kingdom the barriers are opposite to those in France. In the UK it is difficult to establish new universities. Universities are founded by charter or law. A difficult procedure has to be followed to establish a new one. However once established and therefor recognised these universities can in principal offer any programme they like. Also they can change the offered programmes as they see fit. However, not every programme is publicly funded. The government fixes the number of publicly funded studentplaces per programme. As in the Netherlands England's universities have the freedom to spend the public funds as they see fit. The public funds are paid as a lump sum.

In Michigan there are no barriers what so ever. Everyone who likes to do so, can establish an institution of higher education and provide whatever programme he sees fit. Also the institutions are independent so they have no limitations in the spending of the funds. The differences between the five countries with respect to these barriers arise from the different systems of accreditation of institutions and programmes. In the Netherlands, Germany and France both institutions and programmes are accredited. The system of accreditation of degrees is centralised. The government in these countries is responsible for the so-called 'civic effect' of degrees. This more or less centralised system makes it difficult, although not impossible, to set up conditions for introducing market type mechanisms. In the UK and Michigan accreditation is much more decentralised. In the UK the institutions are accredited by way of charter or law. The government does not accredit the programmes, but the institutions. These institutions are responsible for the programmes. The institutions are independent. In Michigan accreditation is performed by regional bodies, both at the level of institutions and at the level of programmes. Accreditation is voluntary, making it possible to supply programmes that lead to degrees that have no guaranteed effect. This makes competition much easier.

3.2.1.3 Behaviour of actors

Price and quantity

In Michigan the higher education institutions can set their own fees. The tuition fees in Michigan differ both between institutions and between programmes. The level of tuition fees (partly) depends on the amount of public funds received by the institution. In Michigan everyone who wants to take up a study has the right to do so. However it might be difficult to study at the institution of first choice. Institutions have their own selection criteria, making it possible to select those students an institution wants. The allocation of students over institutions depends not only on the tuition fees, but also on these selection criteria. However, everyone who wants to study can find a place to do so.

In the UK the government sets the fees for publicly funded studentplaces. These fees do not differ between programmes or institutions. The number of publicly funded studentplaces is agreed upon between institutions and the government. The studentplaces are fixed by discipline. Admission of more or less students than agreed has financial repercussions for the institutions. Institutions select their own students, using their own selection criteria. However,

universities can admit more students by letting them pay full cost fees. For instance overseas students are not publicly funded and these students pay full cost fees. Students not admitted because of a shortage of publicly funded studentplaces can try to get admitted on a full cost fee basis, but it is possible that not all students find places to study. In Germany and France initial higher education (at public institutions) is free, in the sense that no tuition fees are paid. One could say that the tuition fees are fixed at zero. In France for some initial degrees the number of places are fixed and students are selected, while for the

most initial degrees all students are admitted. Not every student can study at the place of first choice. In Germany every student is admitted although some restrictions apply to some disciplines with a shortage of capacity. A national system of admission and allocation exists for those programmes in which demand is higher than supply.
The situation in the Netherlands is the same as in Germany except that in the Netherlands tuition fees are set by the Minister. The fees do not differ between programmes and institutions. For some programmes the number of places are fixed, in which case a national system takes care of the admission and allocation of students.

Quality and information

In the Netherlands no major differences in quality of the degrees offered by different institutions exists. Partly because this is the policy of the ministry, partly because the programmes are subject to quality assessments. These are used to establish a minimum quality level of the same degrees. Departments which programmes do not meet the quality standards receive a warning and are encouraged to increase the quality. The information about the outcomes of these self-enforced quality assessments is freely available to the public. The Education Authority uses this and additional information to perform a meta-analysis. Also the privately funded institutions are assessed by the Education Authority. The information about each privately institution is not freely available. Because of these and other regulations the market seems fairly transparent.

In Michigan no quality assessments are performed. Instead a voluntary system of accreditation exists in which institutions and programmes are accredited. The information about this accreditation system is available. Because of the freedom to set tuition fees and to select students differences in quality between programmes and institutions exist. It is difficult to assess for future students and employers how big differences in quality are. Also because the variety in programmes and degrees the market is less transparent. In the UK quality assessments are performed by a government agency, the Teaching Quality Agency. This agency admits differences in teaching quality as long as it does not become unsatisfactory. In that case it has financial consequences for the institutions. The results of the assessment are freely available to the public. Despite this information some persons ask for a system of benchmarking to increase transparency. Due to the freedom of programming a wide variety of programmes, within the disciplines, exists which makes it difficult to compare the contents and value of the programmes and which makes the market less transparent. In Germany no system of quality assessment exists. The whole framework of regulations should guarantee that no major differences in quality between the institutions exist. It should not matter to a student where a degree is obtained. The market is also seen as transparent because of framework of regulations.

Quality assessment in France is performed by the *Comité National d'Évaluation des Établissements publics à charactère scientifique, culturel et professionel* (CNE). This autonomous agency performs institutional and disciplinary evaluations as well as thematic studies. The primary goal of the evaluation is to make higher education institutions more accountable and to assist them in making improvements. Not all programmes are evaluated, since there are over 8000 programmes. The institutional evaluation reports are published. However, due to the low frequency of evaluation and the limited coverage, there is still a lack of transparency in this market.

Summary

The total number of barriers to competition in initial higher education programmes is high in Germany, France and the Netherlands. It is low in Michigan and to a lesser extent in the UK. In Germany the barriers can be found both in conditions regarding the market structure and the behaviour of actors.

3.2.2 Post-initial higher education

In most countries the market for post-initial higher education is a very heterogeneous market. There are two main types of programmes offered. The first type are the programmes that lead to nationally recognised degrees. These programmes are subject to much more regulations than the second type of post-initial higher education programmes: the programmes leading to degrees that are locally or

regionally recognised only. The latter differ widely in subjects, duration, level and civic effect, whereas the programmes of the first type have a more uniform structure and lead to a recognised civic effect. These two types of post-initial programmes will be referred to as programmes of the first type (the regulated programmes) and programmes of the second type (the non-formal, less regulated programmes).

3.2.2.1 Actors and basic conditions

The number and type of suppliers of post-initial education differ to a large extent between the countries. The number of suppliers is in no country a barrier for competition. Because the systems of post-initial higher education differ between the countries it is difficult to describe and compare the 'regular' students. Sometimes the students go immediately into post-initial education to obtain a recognised (Masters, DESS etc.) degree or doctorate. These students normally pay themselves for post-initial education. Otherwise students enter post-initial education at a later stadium sponsored by their employer. These programmes do not necessarily lead to recognised degrees. The legal frameworks in the countries do not oppose competition in this market. In principle these frameworks allow market type mechanisms in post-initial education.

3.2.2.2 Market structure

Germany has the highest total number of barriers to competition in post-initial higher education followed by France and the United Kingdom. The Netherlands and Michigan have only a few or no barriers to competition in this market.

In Germany the barriers to free competition in the first type of programmes (*Aufbaustudien, Ergänzungstudien, Zusatzstudien,* and doctorate programmes) are similar to those of initial education. The system of *Weiterbildung* (post-initial higher education programmes of the second type) is more open. Not all of these programmes are state recognised and can be provided outside the formal system.

For the first type programmes in France (DESS, DEA and doctorat) the conditions are similar to the conditions for the initial programmes. For the non-formal type (mainly local university degrees), the conditions are different. For new providers of this type of programmes it is not difficult to enter the market. The main providers are the universities and *Grandes Écoles*. The institutions are free to offer as many of these programmes as they like. They also have the discretion over the content of the programme.

In the United Kingdom there are barriers for new institutions, but once established these institutions can offer the programmes they see fit. Post-initial education leads to Master's degrees, the PhD and other degrees. Besides these degrees they offer diplomas and other certificates as well. The institutions have full control over the programmes offered. Because the universities do not receive public funds for these programmes they can accept as many students as they like.

In the Netherlands only a few programmes (i.e. medical and law) leading to degrees with a civic effect are regulated. A few professional organisations (i.e. accountants) regulate their own programmes. Other programmes can be supplied and set up by anyone who likes. This

can be done by both publicly funded and privately funded institutions. The institutions of higher education offering initial programmes have an advantage over other institutes. They can jointly produce initial and post-initial programmes. The knowledge and expertise to develop programmes is available. The publicly funded institutions as well as other providers do not have particular barriers to enter this market. The publicly funded institutions do not receive funds to provide post-initial education.
In Michigan Master's, PhD and First Professional degrees are regarded as post-initial higher education (of the first type). The market structure for these degrees is the same as for initial education and is in principal open. In addition to these degrees 'continuing professional' programmes are offered. These programmes are not subject to state regulation what so ever.

3.2.2.3 Behaviour of actors

Price and quantity

In Michigan the institutions offering post-initial education can set their own fees. The tuition fees in Michigan differ both between institutions and between programmes. Everyone who wants to take up a post-initial programme and has the required entrance level has the right to do so. However as in the case of initial education it might be difficult to study at the institution of first choice. Institutions have their own selection criteria, making it possible to select the students. The allocation of students over institutions does not only depend on the tuition fees, but also on the selection criteria. However, everyone who wants to study can find a place to do so. The total number of students is around 20,000 (compared to just over 70,000 students in initial higher education)

In the UK the fees for post-initial programmes are set by the institutions. The institutions do not receive public funds for these programmes so the fees have to cover total costs. The fees differ between programmes and institutions. Entrance is open to all students with a Bachelor's degree and to those who have the equivalent experience. No information on number of students or turnover is available.

In France the minister sets the fees for the DESS and DEA programmes. The fees for the other programmes are set by the institutions themselves. The variation in fees is wide. The institutions are free to admit students to their post-initial programmes. No overview of the size of the market exists.

In Germany all institutions providing post-initial higher education programmes may charge fees for these programmes. The *Länder* regulate the level of the fees of the public institutions. Sometimes fees are below full costs, sometimes they have to recover full costs. The institutions themselves determine how many places are available and whom they will except. Public institutions may not charge fees for the post-initial programmes of the first type. Private institutions have the discretion to set their own fees. There is no comprehensive overview of the size of the market, but experts indicate an upward trend. In the Netherlands the institutions can set their own fees and can decide whom and how many students to accept. The fees differ between programmes and institutions. The yearly turnover is momentarily estimated to be around at least 600 million guilders (270 million Euro). The number of students is not known.

Quality and information

In the Netherlands most post-initial higher education programmes are not subject to any quality control. A few programmes are controlled and regulated by organisations of professions. Therefore no information on quality of the programmes is available to potential students. Only information with the aim to promote the programmes is available. The market is regarded as non-transparent. A wide variety of Master's degrees are available without information on quality and level of the programmes.

In Michigan no quality assessments are performed. Instead a voluntary system of accreditation exists in which institutions and programmes are accredited. The information about this accreditation system is available. However, the main source of information is

commercial guides. Because of the freedom to set tuition fees and to select students differences in quality between programmes and institutions exist. It is difficult to assess for future students and employers how big differences in quality are. Because of the variety in programmes and degrees the market is seen as lacking transparency. In the UK quality assessments are performed by a government agency, the Teaching Quality Agency. This agency also assesses the quality of post-initial education, however not as rigorously as for initial education. The results of the assessment are freely available to the public.
In Germany no formal system of quality assessment exists. The whole framework of regulations should guarantee that no major differences in quality between the institutions exist. It should not matter to a student where a post-initial degree of the first type is obtained. However, it can be expected that differences in quality exist between post-initial programmes of the second type. This part of the market is probably less transparent. In France quality assessment of the first type post-initial programmes is the same as for initial programmes. The evaluation reports are published and available to the public. Due to the limited coverage there is still a lack of transparency in this market.

Summary

For the first type, conditions are in general similar to the conditions in initial higher education programmes. For the second type, there are less barriers to competition than in the market for initial higher education. This holds for every country. These markets are less regulated than those for initial higher education and are less transparent than the market for initial higher education.

3.2.3 Contract research

3.2.3.1 Actors and basic conditions

Besides institutions for higher education a variety of organisations compete for contract research. This includes other publicly funded research institutes, private companies and nonprofit organisations. Also demand is very heterogeneous. This is the same for all countries involved. The legal framework of the countries does not prohibit market type mechanisms in contract research.

3.2.3.2 Market structure

In every country included in our research the market structure is open. Everyone who wishes to perform contract research is allowed to do so. Due to the budget system in Germany some universities might have problems entering the market. Professors therefor found separate organisations to engage into contract research. This gives them more freedom. Due to their size universities have economies of scale and scope making it easier to perform research. Also because of their knowledge and expertise they have advantages over commercial providers in doing research. These advantages hold especially for specialised research, i.e. medical research but also technical research requiring specialised laboratories. These advantages hold also for other publicly funded research institutes. In some of these fields it is difficult for private organisations to enter the market, due to high entry costs.

3.2.3.3 Behaviour of actors

Price and Quantity

In all countries prices for contract research are set in the contract and are a result of the negotiations between commissioner and provider. Normally these prices cover all costs, although sometimes for strategic reasons prices are set below full costs. However, in Germany the latter is difficult to do, because of the accounting system that makes it difficult to cross subsidise activities. In no country a limit (upper or lower) is set to the amount of contract research that can be performed by universities. As long as primary activities

(education and basic research) are not endangered every contract can be taken up. Due to system differences the yearly turnover in contract research is difficult to compare between the countries. Also the figures that are available do not always cover solely contract research. In Michigan the share of industrial funding in total research and development in the higher education sector more than doubled in the last decade. It grew from less than 3 to just over 7 percent. In Germany the Federal Ministry estimates the income from contract research to be 30 percent of total research income of the universities. In France on average 12 percent of recurrent resources come from research contracts. In the Netherlands the universities earned almost 900 million guilders (405 million Euro) from contract research. This is approximately 12 percent of their total budget (including teaching). In the United Kingdom no figures are available.

Quality and Information

In France the national research agencies conduct evaluations for certifications and funding purposes. Also the CNE evaluates the synergy between research and teaching. These evaluations are published and available to the public. In the Germany the quality of research is controlled by peer review. In Michigan contract research is not subject to quality assessment. In the United Kingdom the quality of research is assessed in a four-year cycle. The judgements are made by peer review. In the Netherlands research (including contract research) performed by universities is assessed on a regular basis. This information is published and freely available.

Although in some countries the quality of research performed by publicly funded institutions is assessed the market of contract research is non-transparent. Most providers of contract research are not controlled so generally information on quality is not available. Providers of contract research try to build reputations as good performers. The quality assessment of the research of publicly funded institutions might serve as a basis to establish a competitive advantage.

Summary

In general the market for contract research has even less barriers to market type regulations and to competition than the market for post-initial education. The main barrier is the lack of transparency.

3.2.4 Conditions in three markets

Based on the descriptions of the barriers to competition in the three markets in higher education we can answer the central question of this study :'To what extent are conditions for free competition in higher education markets met in a number of Western higher education systems?'.

The total number of barriers in initial higher education programmes is high in Germany, France and the Netherlands. It is low in Michigan and (to a lesser extent) in the UK. In Germany, the barriers can be found both in conditions regarding the open market structure and the behaviour of actors. In the Netherlands, the barriers are mainly in the market structure. In France the market structure is a bit more open than in the Netherlands, but the behaviour of the actors is more restricted.

In the market for post-initial higher education programmes, especially of the first type, there are more barriers in Germany, France and the Netherlands than in Michigan and the UK. Regarding the post-initial programmes of the second type, there are barriers in financial management in most German *Länder* and France. In the other countries the barriers in this type of programmes can be characterised as market failure. The market is not transparent in terms of the quality of the programmes.

The conditions for competition on the market for contract research are 'good' in all countries. Again in Germany and France there are some restrictions regarding financial management, but that is the only significant difference between the countries covered in this study. As is the case on the market for post-initial higher education programmes, the 'main' barriers can be found in the limited transparency of the market (in terms of information on quality) and the diversity in scale and scope of the providers.

In the market for initial higher education programmes there are many more barriers present than in the market for post-initial higher programmes and contract research. This conclusion can be drawn for each country.

3.3 Policy discussions

Since changing the conditions for free markets in higher education takes a considerable amount of time, we formulated a subsidiary question: 'What are the recent discussions or policy initiatives regarding these conditions?'.

In the European countries covered, the introduction of market type mechanisms in higher education is a policy-issue. Clearly the existing co-ordination mechanisms do not anymore result in the type and level of activities that society and government require. The transition from the existing situation into a situation with more market type mechanisms is embedded in public discussions on the pros and cons of certain market type mechanisms and the choice of market type mechanisms that are best suited for the specific national situation.

In general it can be concluded that in Michigan current trends are toward increasing market orientation in higher education. Market activities have become increasingly important as they bring in additional revenue for the institutions. Moreover, it is assumed to make institutions more client-responsive (more responsive to students and society). Many members of staff, however, are against the growing market orientation. Fields that cannot easily engage in contract research and other market activities (such as the humanities) are being damaged by the increasing market orientation of higher education.

In Germany, market type mechanisms are high on the agenda. The rise of private institutions and the enhancement of the institutional freedom in financial management are major issues. Other issues are the introduction of more performance oriented funding mechanisms, performance based payment of professors, and the introduction of accreditation procedures for the new Bachelor and Master degrees.

In the Netherlands, the introduction of market type mechanisms is related to the increase in the flexibility in higher education with regard to partial diploma's and certificates; increase in transparency of Master's degrees awarded in post-initial education; decreasing regulation concerning supply of programmes, internal management and increasing responsibility of the institutions; decreasing regulation of programmes of initial higher education; differentiation of tuition fees and increasing orientation on the market. Recent discussion has focused on the distortion of competition because of cross subsidising.

The policy-change regarding the expansion of the higher education system, the subsequent cuts in the higher education budgets, and a funding mechanism in which competition for public funds through competition for students is essential are the main sources of discussions on market type mechanisms in the UK. On the one hand, competition is still seen as a major instrument in increasing efficiency at higher education institutions and attracting funds from private sources. On the other hand, some negative effects of the fierce competition for

students are becoming apparent. There have been some examples of badly managed higher education institutions and extreme differences in pricing. It is felt that the international reputation of British higher education may be jeopardised by this and that consumers need to be protected. How the negative aspects will be corrected is not clear: the government does not have a clear policy regarding market type mechanisms in higher education. The French ministry of education has made it quite clear that privatisation of higher education institutions in any form is out of the question. The only arena in initial and post-initial education in which competition is discussed is the international market. What can the French do to remain competitive (as a nation/ economy and as higher education graduates on the international labour market)? There is a discussion about enhancing the autonomy of public research institutes, especially in order to simplify the management of research institutes. Suggestions have been made to the ministry to 1) enhance the mobility of research staff by providing information on openings in research institutes and universities on the Web; 2) bring decisions from the ministry to the level closer to the research institutes; 3) reduce the number of administrative staff. Another aspect of the discussion of opening the market is the reduction of the detailed regulations regarding the purchase of goods by public research institutes. In general, there is a push toward less detailed regulation to improve the efficiency of public research institutes. Another point of discussion concerns the position of *Grandes Écoles*. They are considered to be too small and have a too narrow scope of activities. The ministry is looking into ways to improve the qualitative adaptation of the supply of engineers to the need of industry, and to improve the transparency of the French engineering programmes.

3.4 Concluding remarks

Having addressed the two central questions in the previous sections, we turn to a final question. As stated in the introduction, the study was commissioned by the Dutch Ministry of Education, Culture and Science. The introduction and expansion of market type mechanisms is seen as an instrument to achieve broader higher education policy goals. The question we address in this closing section is: What may policy-makers learn from this report? First of all the report opens up a broad and rich body of information on five higher education systems and the role market type mechanisms play in these systems. Comparative analyses on the information available are difficult to make. The complexity of the issues, the limited number of cases, and the lack of a thorough and comprehensive explanatory framework limit the possibilities for comparative analyses to tentative observations. In this section we take the Dutch issues in higher education policy as a starting point for such observations.

3.4.1 Flexibility and transparency

The flexibility of the qualification structure of the higher education system was the first policy issue listed. Increasing the flexibility is seen as a way to enhance the responsiveness of higher education to the

needs of its customers (both students and employers) and to accommodate a further expansion of participation in higher education. How flexible a qualification structure is can be seen from the existence of a credit transfer system (to some extent in Michigan) or from the existence of many formal intermediate qualifications (like in France). The call for more flexibility refers to initial higher education programmes and post-initial higher education programmes as far as they are state regulated only. Contract research and non-formal post-initial higher education programmes are already flexible in all countries examined.

[35]

In the Dutch discussion, the removal of barriers that limit providers of higher education programmes in their freedom to create new or modify their existing programmes is seen as a way to enhance flexibility.

In Michigan and France, there is no discussion on changing the regulations regarding new programmes. One of the main reasons mentioned is that the flexibility of the qualification structure in those countries is relatively high. For flexibility reasons there is no reason for discussion in these two countries. In Germany, there are some initiatives and discussions to give the providers more freedom in their provision of higher education programmes. Increasing the flexibility is mentioned as an argument in these discussions. However, the situation remains fairly regulated. In the UK, providers have a large freedom regarding the programmes they offer. More freedom is not seen as a way to enhance flexibility in the UK. Removing certain barriers for free competition on the higher education markets may enhance the flexibility of the qualification structure. However, removing one barrier may articulate another barrier to competition. This can be illustrated if we relate an increase of flexibility to the transparency of the higher education system (another Dutch policy issue). We assume that more flexibility in the system increases the chances that the transparency of the system will go down. In a highly diversified system in which the qualification structure changes constantly, the chances are high that customers will have great difficulty in obtaining valid information on the programmes offered. This applies to both students and employers.

3.4.2 Transparency and information

But transparency is not only threatened by flexibility. Another major source of problems with transparency is the information on the quality of higher education programmes. A way to increase transparency is to set up systems of quality control. This has been done in the Netherlands where initial programmes and university research are evaluated. System of quality control is being discussed in the UK, where programmes should then conform to benchmarks. To make the market transparent all gathered information must be made public and must be accessible for everyone interested. This is easier said than done. More market type mechanisms may contribute to better quality of teaching and research if there is full information on the quality of teaching and research and if differences in quality are reflected in differences in prices. These two conditions are clearly not met in the Netherlands and Germany. In these countries there is still the ‘myth’ that the quality of teaching at all public or recognised private providers is the same. Information on teaching and research quality is partial, complex and contested (if available at all). Available and widely discussed is information on the positional standing of higher education institutions. Since this information is used by customers (applicants) providers will try to improve their position and not necessarily their teaching and research (Marginson, p254). Central co-ordination of programme offerings may provide more information on quality and more transparency on the market but this will reduce flexibility.

3.4.3 Transparency and prices

In a transparent market, all information on quality is reflected in the price of the commodities. On the market for initial higher education programmes in all countries except Michigan this ideal situation doesn’t exist for two reasons. First there is no full information on the quality available and second, prices are fixed for most providers. The main reason why prices are fixed is the concern about equity. In all countries reviewed, policy makers are concerned that freeing the prices will lead to a strong segregation in higher education. This segregation is not based on merits but on social economic background, which is in most countries unacceptable. In all countries there is a limited number of providers offering initial programmes for high fees, but they cover only a very small part of the market. Although both in the UK

and in Germany, the increase of income from private sources is a major goal for marketisation, a differentiation of fees is not considered as a means to do so.

[36]

3.4.4 Institutional management

In continental Europe, institutional management at higher education institutions was traditionally underdeveloped. Nowadays a strong institutional management is seen as a prerequisite for a successful introduction or expansion of market type mechanisms. The need for strengthening institutional management is articulated in the three continental systems in this report. In the two Anglo-Saxon systems, there is no call for better institutional management. The expansion of the contracting policy in France and the introduction of more commercial accounting elements in Germany have lead to initiative to strengthen management capacity.

3.4.5 Distortions of competition

The distortion of competition is only in the Netherlands an issue in the discussions on markets in higher education. The results from this study are inconclusive regarding the reason why this issue is not discussed in the other higher education system. However, a few observations can be made.

First of all we have to take into account the general policy context. In the Netherlands, there is a broad discussion on marketisation of the public sector. Within the framework of this discussion, the issue of distortions of competition and level playing fields is addressed, not only in the field of higher education but in almost all areas of the public sector. The absence of such discussion in the other countries (at least in that intensity) may contribute to the relative low level of attention this issue has got in these countries. A second observation can be made regarding the relative size of commercial activities in higher education. The distortion of competition is caused by cross-subsidisation in publicly funded providers. The assumption is that the public funding covers all fixed costs. Commercial activities at publicly funded providers therefore may charge only variable costs (while private providers have to charge full costs). This line of reasoning does not hold if the amount of commercial activities at publicly funded providers has become substantial. The publicly funded infrastructure will no longer suffice and (part of) fixed costs will have to be paid also by the revenues from commercial activities. On the other hand, if commercial activities are relatively small, these activities will not be considered to be a threat to the activities of the other (private) providers. We hypothesise that the issue of distortion of competition will be discussed most if the amount of commercial activities is somewhere in the middle. The results show that with respect to the part of commercial income in total income of public providers Germany is at the lower end, the UK and Michigan on the high end, and the Netherlands somewhere in between.

France is not positioned on the scale above because publicly funded or regulated providers dominate the markets. Because there are only few alternatives to publicly funded providers who might raise the issue, the issue is not (high) on the agenda.

3.4.6 In the end

The introduction or expansion of market type mechanisms is not a goal in itself. It is seen as a way to achieve the goals that are summarised in section 3.1. The most intriguing question (do market type mechanisms contribute meeting these goals?) has not been addressed yet. The main reason for this is that in three out of five countries the introduction of market type mechanisms was too recent to show significant effects. In Michigan and the UK market type mechanisms have matured enough to show effects. However, the information presented in the country studies does not show any clear effects. In the case of Michigan, it is mentioned that the rise of tuition fees may have a disrupting effect on the goals regarding equal opportunities to enter higher education. In the United Kingdom equal access is also threatened by the use of market type mechanisms. Here, these mechanisms do not refer to tuition fees but to the way the selection of new entrants is organised. To prove whether these effects are due to a certain market type mechanism is impossible within the scope of this research project. The small

[37]

number of cases, the lack of thorough longitudinal information and the complexity of the field (the large number of relevant variables and their interrelatedness) make this type of explanatory analyses too big a challenge.
However, the study does provide a rich body of information. This may be used as a base for further investigations into the questions raised above, and may also serve to generate new or better questions on the role and effects of market type mechanisms in higher education.

References

Bartlett ,W & Le Grand, J. (1993). The Theory of Quasi-Markets in: Le Grand, J. & Bartlett, W. (eds.) *Quasi-markets and social policy*, London. p.13-34.

Marginson, S. (1997) *Markets in Education*, Allen & Unwin, St Leonards

Van der Veen, R. (1997). 'Marktwerking en sociaal beleid: doelmatigheid en rechtvaardigheid van sociaal beleid bij privatisering van sociale risico's en invoering van quasimarkten.' *Tijdschrift voor Politieke Ekonomie 20 (2) 194-210.*

Winston, G.C. (1999). 'Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education', *The Journal of Economic Perspectives*, Vol. 13, No. 1, pp. 13-37.