

Chapter 3

Harmonization of the Funding Mechanisms in European Universities

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ABSTRACT

The chapter discusses, comparatively, funding mechanisms for universities in Europe and advances potential ways for their harmonization in the framework of their Bologna convergence. The findings of the research suggest that, while there is a European-level shift to performance-based funding and quantitative indicators tend to say that European HE funding systems are to a certain degree convergent, qualitative analysis indicates that the outcomes are still divergent and more efforts have to be put into really bringing these systems to a common ground.

INTRODUCTION

Traditionally, higher education has been considered a public good and universities have been financed from public sources. However, during the last few decades two major trends have been challenging this position, forcing public universities to become more financially

state-independent. One of the trends regards the increase in the cost of education brought about by the massification of higher education and the rising costs of human resources (pension costs etc.) (Estermann & Pruvot, 2011). On the other hand, public funding is no longer able to satisfy the increasing demands of the educational sector which is in direct

DOI: 10.4018/978-1-4666-4325-3.ch003

competition with other public priorities such as health, national security etc. which are facing the same cost inflation. Especially after the 2008 financial crisis, governments have decided to decrease the levels of investment in higher education, forcing universities to seek alternative means of funding. Thus, today's universities are struggling to find alternative sources of financing, in the context of changing educational laws that have as a desired outcome the placement of the burden of funding on the institution side.

Concerning the European Higher Education Area (EHEA), since March 2000, the European Council decided that one of the goals of the EU should be to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion". It is clear that education is the main pillar for achieving this ambitious position and, thus, the council also required member states to increase their investments in education and for these investments to be based more on the output of the higher education institutions. However, the council also emphasized that this is not a matter of concern just for governments and that institutions themselves have to become more market oriented and search new alternative streams of income.

The search of new funding alternatives has led many to deplore the current state of European higher education which they consider to have turned its back on traditional values of quality and selectivity and to have embraced the ones of capitalism: massification, focus on cost reduction and obeying universal standards of quality, most of them which translate poorly to the educational sector. We can talk about a financial fragility of higher education institutions, borrowing the term from Johnstone (2009), which uses it to refer to

the institution (or in a macro sense, the higher educational system of a state or country) that is constantly on the edge of having to compromise its chosen mission or fundamental institutional character because of the inability to consistently raise enough revenue or shed enough expenditures—year after year—to maintain this mission and character. (p.1)

According to the author, the underlying cause that inevitably leads to worldwide financial fragility of all the higher education institutions and educational systems is the natural trajectory of costs, or necessary expenditures, that tends to outpace the natural trajectory of revenues. The explanation behind this phenomenon lies in the fact that certain sectors, as the educational one, cannot profit from substituting capital for labor or from outsourcing to regions where the cost of production factors is lower, leading these sectors to become productivity immune (Baumol & Bowen, 1966).

In spite the fact that it faces many challenges, the tertiary educational sector is viewed as a major driver of economic development (Altbach, et al., 2009), and thus there is increased pressure to perform, meaning to provide equal access for all and high quality teaching, priorities which are incompatible with the difficult conditions in which these institutions have to exist. At the EHEA level, the higher education institutions have to become competitive on a global level and they have to produce graduates that will contribute to the economic development of the EU and the rest of the non-EU countries.

But all is not negative with regards to the financial fragility, as Kwiek (2006a) cites this income diversification impulse as a source of positive change in the educational sector: "financial diversification of an institution is also healthy academically" (p. 3) because it

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