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Introduction [1]

It is almost universally acknowledged that investments in knowledge and skills play an important part in maintaining national standards of living. Yet governments are concerned about the state of their budgets. Hence, while investments in education are necessary, governments are limited in their possibilities to make these investments themselves. It is therefore argued that students must contribute more to the costs of their education. A notable illustration of this is the recent proposal by the new British Government to start raising tuition fees, thereby ending the longstanding tradition of free higher education. Gradual increases in tuition fees can also be observed in other countries. In addition to increasing the amount of funds available for education, raising tuition fees also reflects the notion that the individual participants benefit from their schooling and that private payments strengthen student–institute relations, thereby enhancing consumer sovereignty.

Higher tuition fees may put at risk the accessibility of higher education. What happens to accessibility if tuition fees are increased critically depends on how the system of financial aid operates. In the economics literature, there is now a growing consensus that income-contingent loan schemes are the most efficient and most equitable form of financial support for students.

This article reviews the arguments and empirical evidence in favour of this scheme and compares it with two alternatives: a mixture of loans and grants and a graduate tax. It also discusses reasons for government involvement in financial aid systems; the 'classical' system of a mixture of mortgage type loans and income dependent grants; the graduate tax system; the income-contingent loan scheme and the arguments and evidence concerning this scheme; and a recent policy

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