



PROFILE of ...

KEY TOPICS IN EDUCATION

VOLUME 1

FINANCIAL SUPPORT FOR STUDENTS
IN HIGHER EDUCATION IN EUROPE

TRENDS AND DEBATES



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EURYDICE
European Unit
Avenue Louise 240
B-1050 Brussels

Tel. (32-2) 600.53.53

Fax (32-2) 600.53.63

URL: <http://www.eurydice.org>

E-mail: info@eurydice.org

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The figures included in the present summary have retained their initial numbering (as used in the complete study) to assist readers wishing to cross-refer between the two documents.

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INTRODUCTION

Numerous studies are devoted to the question of the financing of education in general and higher education in particular. Beyond the drawing up and comparison of statistical indicators on expenditure, the studies available examine primarily what is commonly known as the 'return on investment in human capital'. They attempt to relate the 'production' of education systems to their cost. This exercise cannot be carried out without taking the aims of established systems of financing into account. Anyone wishing to understand and interpret properly the financing of education is faced with the difficult question of the relative share of public and private or personal initiatives considered simultaneously from the twofold standpoint of effectiveness and fairness. It is important that strictly economic and statistical logic should be broadened in order to analyse the operation of systems (criteria for award, bodies responsible for decisions on expenditure, the number of students and pupils concerned, etc.), and situate them within the context of the various cultures and their history. This is the angle from which EURYDICE has carried out a thorough study of financial support for students in higher education.

WHY IS A STUDY ON FINANCIAL SUPPORT TO STUDENTS NECESSARY?

At first sight, the issue of financial support to students may appear circumscribed. Yet as soon as its various aspects are analysed more closely, it becomes rapidly apparent that consideration of many different elements is entailed. Such support may include grants and loans, assistance to the parents of students in the form of tax relief and family allowances, support for the payment of tuition fees, subsidised services and other social benefits.

The issue also merits examination from the quantitative angle. The number of students¹ in receipt of grants and loans is fairly high (on average, around 30% of students in the European Union were grant-holders in 1996, while 12% obtained loans). The annual amount of state spending on student support in the EU accounted on average for almost one-fifth (17%) of public expenditure on higher education, corresponding to an average overall budget of nearly € 12 billion.²

What is more, the importance of the subject for educational policies is also linked to another set of issues, as follows:

- the **'massification' of higher education** which has been evident for several decades, as a result of the political will to ensure that the greatest possible number of citizens obtain a level of qualification consistent with the increased demands of the world of work, and become successfully integrated into society. This 'massification' has an impact on the cost that higher education represents to the State, and on the demand for various forms of financial support.
- the **principle of equal access to higher education** which has been fully apparent everywhere since the 1960s, and corresponds to the determination to ensure that financial barriers do not prevent students with satisfactory intellectual ability from entering higher education. This principle is the rationale underlying the establishment of financial support in all European countries that may, however, be distinguished in terms of the various forms of support, as well as the conditions under which it is awarded and maintained. With the present century drawing to a close and the demand for skills becoming greater, this principle seems set to become stronger still.
- **higher education enrolment** that is *de facto* more socially representative is also an important element in political debate in several countries: the 'massi-

1 The study relates primarily to students on undergraduate courses. There is little consideration of support for postgraduate courses, and various forms of assistance based on merit are not analysed.

2 This amount is underestimated since it does not include other forms of support, such as assistance to families, services (meals or transport), or yet other forms of state-subsidised social benefits for students.

fication' of higher education and state support for study purposes have not sufficiently improved the 'social mobility' that had been anticipated in these countries. Indicators relating to the social origin of students clearly reveal the extent to which their participation in higher education is conditioned by the level of qualification of their parents.

A FEW METHODOLOGICAL MARKERS

The study summarized in this brochure has been written by the EURYDICE European Unit in close collaboration with the National Units in the EURYDICE network, in the case of the descriptive part, and a network of national experts in the economics of education who contributed to the contextual part. The entire comparative analysis has been drafted on the basis of comprehensive reports from these national partners.

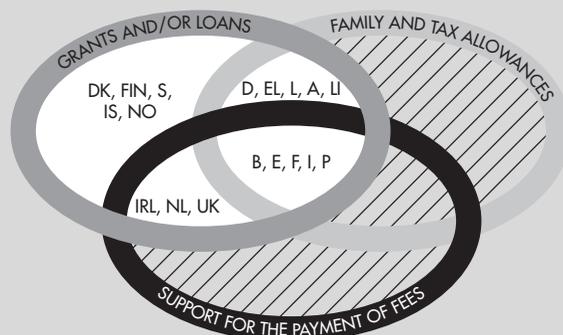
The book (whose contents are included in an annex to the present summary) contains a **thorough analysis of the different forms** of public financial support enabling young people to study. Examined separately at the outset, these various components are incorporated in a set of models that are apparent from the analysis and characteristic of all countries in the European Union and European Economic Area (EEA). The originality of the study lies unquestionably in its **contextual and historic dimension**. Central to the enquiry are an understanding of the ideological roots of financial support systems and the aims underlying their establishment, as well as an analysis of the factors that have influenced their development. The **statistical indicators** prepared on the basis of sound available data (Unesco/OECD/Eurostat questionnaire) have been finalised in full collaboration with Eurostat, and systematically analysed in the light of the situation characterising each national context.

NOTEWORTHY FEATURES OF THE ANALYSIS³

Models of financial support and its social determinants

The comparative analysis reveals wide variations between countries as regards the components of their support systems (forms of assistance, and the terms gov-

Figure 1.1: Elements of financial support for students on undergraduate courses in publicly-maintained or equivalent institutions, 1997/98



Source: Eurydice.

See *Key topics in education*, Volume 1, p. 37.

NB: Ireland: Family allowances are awarded for children up to the age of 18 (inclusive). In so far as the student population in higher education is relatively young (see the General Introduction), this support may apply to one, or even two years of study.

Luxembourg: Most students study abroad. Their financial support covers fees they may have to pay in the host country.

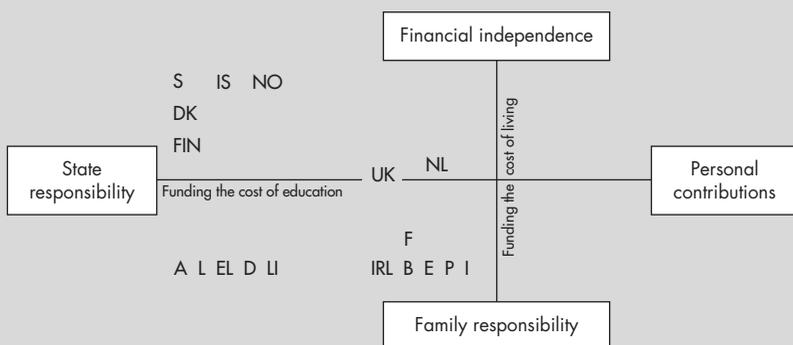
Iceland: A large proportion of the student population study abroad. The loan awarded to individual students is determined on the basis of the tuition fees they may have to pay in the host country.

Liechtenstein: Most students study abroad, in which case financial support covers any registration or tuition fees required in the host country.

- 3 It is suggested that persons seeking a rapid grasp of the full study should read the definition of the kinds of support (pp. 11-12 in the General Introduction); the introduction (pp. 37-38) and Chapter 7 in the descriptive part (pp. 113-119); the introduction to the contextual part (pp. 123-124), and the summary of Chapter 1 in this same part (pp. 145-150); the model of analysis at the start of Chapter 2 (pp. 151-157); and Chapter 3 on the debate that has occurred (pp. 185-199), or the tables that summarise it (pp. 187 and 192).

erning its award and maintenance), as well as the corresponding budgets and percentages of students supported. In some countries, support is targeted on a limited number of students selected with reference to parental income while, in others, it is available on a much broader basis. It may also be meant for students mainly in the form of grants and/or loans, or extended to families in the form of tax relief and/or allowances.

Figure II.2.2: Position of countries in the funding of higher education and the student cost of living, 1997/98



Source: Eurydice.

See *Key topics in education*, Volume 1, p. 157.

EXPLANATORY NOTE

Because the share of the personal contribution is everywhere less than that assumed by the State, as far as the funding of education is concerned, all the countries are to the left of the vertical axis. To make the figure easier to read, this axis has been moved to the right.

These variations are closely related to the position of countries on two main axes linked to determinant social principles:

- THE IMPORTANCE ATTACHED TO THE ROLE OF THE STATE as reflected either in personal contributions to meeting the cost of higher education, or the exclusive responsibility of the State in doing so.

- THE EXTENT TO WHICH STUDENTS ARE DEPENDENT ON THEIR PARENTS, as reflected in either the financial independence of young people *vis-à-vis* their parents, or the financial responsibility of parents for their children.

The position of countries in relation to these axes determines very markedly both the kinds of support that are instituted but also its intended beneficiaries. It should be emphasised that the position of a country with respect to one of the two axes is unrelated to its position as regards the other.

- The Nordic countries are characterised by the financial independence of young people *vis-à-vis* their parents and by free admission to studies. No assistance is offered to families to cover the costs represented by a student child. Only students may receive grants and/or loans. In all these countries, this single form of financial support is awarded to a substantial proportion of the student population (at least the majority), and the amounts are in general supposed to cover the cost of living.
- Germany, Greece and Austria uphold the principle of free admission to higher education, like the Nordic countries. However, they are distinct from the latter in also accepting the principle of family responsibility for student children. As a result, families with children aged over 18 who are still studying receive the same assistance as is available to the parents of young children. At the same time, support is awarded to students in the form of parental means-tested grants and/or loans. It is thus targeted towards the least well off, and those who receive it are less numerous than students in the first group. Assistance to families is more broadly based.
- Belgium, France, and the remaining countries of southern Europe are distinct from the two preceding groups as regards the existence of tuition and/or registration fees paid by students to their higher education institution and, therefore, adherence to the principle of personal contributions to the cost of education. However, these countries also uphold the principle of parental responsibility and award family assistance in the form of tax relief and/or allowances. As in Germany and Austria, such assistance is available to virtually all families, while support to students depends on the level of income of their parents. For students from underprivileged backgrounds in these coun-

tries, support for the payment of registration fees supplements the award of grants, and is generally allocated in accordance with the same terms.

- Two countries (the Netherlands and the United Kingdom) occupy a distinctively intermediate position as regards the principle of family responsibility. Parents receive no assistance in respect of their student children, which reflects the desire of young people to seek freedom from parental control, and concern for the principle of financial independence. However, a share of financial support to students remains parental means tested. In both countries, payment of tuition fees by students to their institution is combined with support mechanisms.

Besides these major distinctions between countries, based solely on differences in the components of support, the methods of implementing some forms of assistance also require special attention. Indeed, for a given form of support, differences may be observed between countries as regards the conditions governing both its allocation and continuation, and the sums actually awarded. These variations may have major consequences for the attractiveness of the support available to students, and for the real financial assistance it represents for those with-

**Figure I.2.8: Interest rates borne by students,
and their obligations in this respect during undergraduate courses,
1997/98**

	Interest - free loans	Capital index and/or interest rates less than 4 %	Interest rates equal to or greater than 4 %
Total or partial repayment during studies		L	FIN
No repayment during studies	D, F, I, LI	UK, IS	B fr, DK, NL, S, NO

Source: Eurydice.

See *Key topics in education, Volume 1*, p. 63.

NB: Belgium (B nl), Greece, Spain, Ireland and Austria: Not applicable.

out much money. In this context, two kinds of support merit special consideration, namely loans and assistance to families in the form of tax relief.

- As far as loans are concerned, the conditions for their repayment (interest rates, period for repayment, income-linked instalments, etc.), may give rise to sometimes considerable debt which is no less undesirable for graduates than it is for the State. Where there is defaulting on repayment, the savings that the public authorities seek to make through the increase in personal contributions expected from the introduction of a loans system, or changes in its financial conditions, do not materialise.
- As regards assistance to families, tax relief in some countries is awarded in a similar manner to all families with student children, in the form of tax credits or, in other words, a flat-rate payment unrelated to income. In other systems, tax allowances are calculated on the basis of real expenditure incurred in contributing to the cost of studies and/or correspond to a tax savings proportional to income. In this case, the more the family spends on studies or the

Figure I.3.2: Presentation of the tax systems in terms of their main features, 1997

	Tax allowances	Tax exemption	Tax credit	Increase in number of tax portions, decrease in the rate of taxation	No tax measures in favour of students in higher education, or those on whom they are dependent
Lump sum	D, EL, LI	B	E, F, I, A, P	F, L	
Actual exp.	I, P				
No measures				DK, NL, FIN, S, UK, IS, NO	

Source: Eurydice.

See *Key topics in education, Volume 1*, p. 74.

NB: Ireland: Tax relief exists for some students enrolled in private institutions and for part-time students, but they are a minority.

greater its income, the greater is its tax savings. This phenomenon has not escaped the attention of those for whom the main aim of a system of financial support is to enable the least well off to enter higher education.

The development of systems and limiting factors in the implementation of reforms

In the course of the last 30 years, few 'structural' changes have occurred in systems of financial support. The reforms and adaptations required by new situations have been achieved within limits defined by the already existing components. Far-reaching changes in which the components themselves are radically altered are rare. They have been witnessed mainly in the United Kingdom (very recently) and in the Netherlands.

Family responsibility and free education: two founding and permanent principles

In order for a system of financial support to be radically transformed, a fresh vision of society (greater freedom for young people, the principle of equal access and the duty of the State to intervene), not to mention fresh aims, must provide a basis for change.

Among the basic principles which were evident when contemporary support systems were established and which have remained exceptionally stable, the principles of family responsibility (sometimes enshrined in the Constitution), and free education are especially noteworthy.

Only the Nordic countries have moved towards total financial independence of young people *vis-à-vis* their families. This principle had long been fully operational in Iceland. Support at the outset in the other Nordic countries was family means tested. It depends now on the income of students themselves. This shift in the countries concerned is partly due to the lack of assistance for families with young people aged over 18. After many years of preparation and debate, the Netherlands overhauled its system by abolishing assistance to families and

introducing basic grants for virtually all students. It is thus fair to say that the country has moved closer to the principle of the financial independence of young people.

Yet by also introducing into the arrangements a supplementary and parental means-tested grant, the dependence of young people on their families has been partially maintained. The United Kingdom is currently characterised by the same intermediate position. Throughout the whole period, grants were parental means tested, and the share of tuition that students have recently had to start paying is calculated in proportion to parental income. Elsewhere, the principle of family responsibility has remained strong, despite debate on the issue in several countries.

As to free education, it has been maintained wherever tuition fees were not charged when contemporary systems were established. While retaining free education, two *Länder* in Germany have very recently adopted regulations aimed at introducing administrative fees. The personal contribution to the cost of studies is also recent in the United Kingdom. Before 1998, the cost of tuition fees was not paid by students, but borne directly by the State. Now, they are part paid by students on the basis of a parental means test. In all cases elsewhere in which registration and tuition fees were charged during the 1970s, they have been preserved and in general markedly increased.

These increases have been systematically accompanied by arrangements for support for students without much money, in the form of reductions, exemptions or grant supplements. Higher registration or tuition fees have generally given rise to debate and opposition that has been mitigated, in a few countries, by tax allowances for families who pay registration fees.

Developments in Ireland have been of particular interest in this context. The sharp rise in tuition fees there in the 1980s occurred alongside the introduction of a measure providing tax allowances for parents who offered their child a regular subsistence payment. The measure turned out to be a highly expensive one, given the many parents who took advantage of it. It was recently abolished in the interests of greater fairness at the same time as tuition fees payable by the majority of students were also scrapped.

Introducing loans: a difficult undertaking

In the course of the last three decades, financial support systems in higher education in the EU countries have not all been affected by identical demographic, political and socio-economic factors. Furthermore, where the same factors have been present in several countries, they have not always altered the arrangements for support, or have influenced them in different ways. In fact, political decisions have been quite strictly determined by the basic principles underpinning support systems at the outset, the aims pursued and the components already in existence.

The establishment of loans is thus a difficult undertaking wherever grants traditionally constitute the only form of support. Most attempts to introduce the former have met with little success or been totally abortive, either because students make very little use of loans, or because banks are reluctant to offer them. Only the United Kingdom appears to have managed the transformation successfully under circumstances in which both the independence and financial responsibility of students were being promoted.

In general, even in countries in which loans have always existed, students avoid borrowing whenever possible. Often, they rely on paid work. This means they take longer to complete their studies, which results in greater expenditure on higher education by the State. The search for a balance between the loan share of support (including the interest rate calculated and terms of repayment) and the grant share is central to the concerns of the Nordic countries, which are constantly battling against graduate debt and/or the paid work undertaken by students during their courses. In these countries, in which loans have always been a component of support, the most frequent reaction to both problems has been to increase its grant share.

In Sweden, the major increase in the grant share of support during the 1980s forced many students to meet their living costs by borrowing, which led to significant graduate debt. Since the 1990s, repayment has been income-linked and the grant share of support steadily increased.

This increase has gone hand in hand with a higher loan interest rate borne by students. The aim has been to increase the non-repayable share of support in order to fight the problem of debt while controlling state expenditure. In Finland, student debt was largely absorbed in the 1980s by increasing the grant share of support. Today, in this country, as in Denmark, the grant share meets a major proportion of the living costs of students who avoid borrowing. They make do with the grant and supplement it by relying on paid work.

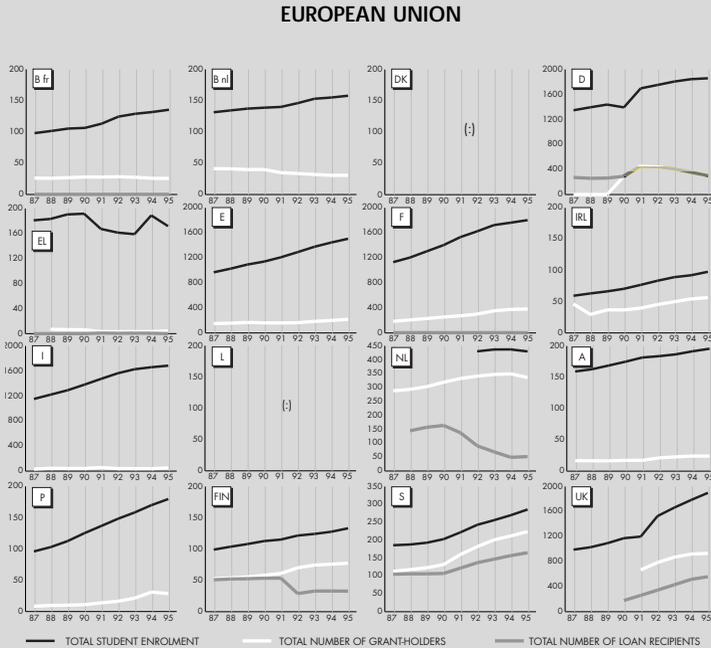
This trend poses a recurrent problem for the State, as paid work by students increases the time taken for them to complete their courses and, by the same token, the public cost of higher education. Both countries also share the aim of making studies more attractive and boosting social mobility. It would appear that the financial commitment their young people are prepared to undertake for study purposes is limited. This may be partly put down to the tradition of financial independence among young people, the limited individual gain to graduates (who earn little more than non-graduates) and their entitlement to unemployment benefit. The amounts of public support for study therefore have to be enough to persuade young people that it is worthwhile.

Germany abolished the grant component of its (BAföG) support system for some years. The growing number of students, the unemployment rates of the most highly qualified graduates and the need to reduce costs were the three main reasons for this. Since 1990, grants have been reintroduced. They amount to half of the support and are only awarded to those who take out a non-interest-bearing loan. This obligation imposed on students constitutes an exception in the EU countries. It should also be emphasised that, in Germany, support depends solely on parental income, and is awarded to a limited number of students. This is in sharp contrast to the Nordic countries in which the majority of students receive support.

The abolition of assistance for all parents of students to make way for a single form of support to all students irrespective of parental income - which was achieved by the Netherlands in 1986 - has got no further than the discussion stage in other countries. Two factors prevent this kind of transformation, namely the principle of family responsibility and the costs that such

an operation incurs. In the Netherlands, for financial reasons, the system is currently tending to decrease the share of assistance available to nearly all students and strengthen financial support to students from disadvantaged backgrounds. Very broadly-based family assistance may also be challenged. In Austria, for example, it has been subjected to major budgetary cut-backs, by linking its continuation to satisfactory student attainment.

Figure II.1.9: Total student enrolment and recipients of grants and loans, in thousands, 1987/88 to 1995/96



Source: Eurydice.

See *Key topics in education, Volume 1*, p. 140.

NB: Greece: Data not available for grant-holders in 1987.

Italy: The number of grant-holders has risen markedly since 1996/97, from an initial 40 000 to an estimated 110 000 in 1999/2000.

Netherlands: Data on the student population not available before 1992.

Portugal: Public-sector higher education only.

Finland: Universities only.

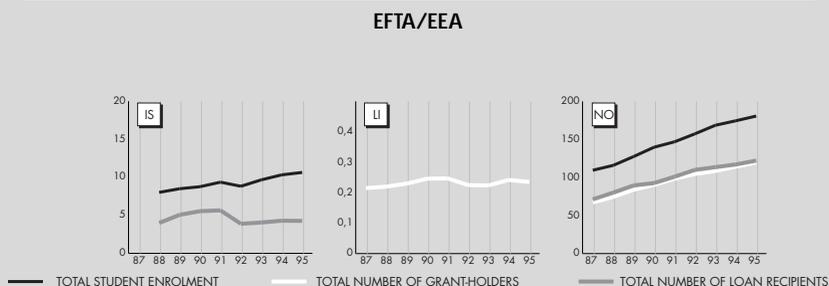
United Kingdom: Data include students in further education institutions and the Open University. Data unavailable for grant-holders from 1987 to 1990.

EXPLANATORY NOTE

The numbers of students supported have been shown in real values, rather than as proportions, in order to retain the information on the growth of the student population. As a result, these graphs are all on different scales, and cannot be compared with each other. Furthermore, data sources for student populations and students who obtain financial support are not always the same, so that the proportions calculated may not be entirely accurate. The percentages shown in the text are from national data.

The student population concerned comprises enrolments at the higher education institutions covered by this study (see the General Introduction). Any qualification regarding this definition has been indicated in the notes.

Figure II.1.9 (continued): Total student enrolment and recipients of grants and loans, in thousands, 1987/88 to 1995/96



Source: Eurydice.

See *Key topics in education, Volume 1*, p. 140.

NB: Liechtenstein: Data on the student population not available.

Student attainment and continued grant support: an increasingly similar approach

As regards changes in the student attainment necessary for grant and/or loan support to be awarded and continued, the approaches of countries have been becoming somewhat more similar. Countries that have been the most flexible in this respect have tightened their requirements while, conversely, those in which satisfactory completion of studies was a *sine qua non* condition for continued grant entitlement have introduced measures to prolong the period of assistance. The award of support appears more closely related to study achievement where it is allocated on a substantial scale in so far as it is available to a big proportion of students and includes large amounts in the form of grants. This is understandable in that the sense of responsibility of students should be sufficiently developed to prevent them from drawing on state resources for any other reason than that of satisfactorily completing their studies.

Finally, over and above clear differences between countries in the components of support at the outset and in the basic principles underlying their arrangements

for support, three main trends seem to be emerging as regards changes in its target groups.

The principal feature of the first is the continuation or strengthening of an egalitarian distribution of support in which all students receive similar amounts irrespective of the income of their parents. It is to be found mainly in the Nordic countries, as well as in Greece and Austria. The second tendency corresponds to a redistribution of support towards the poorest, drawn from the contribution of wealthier families. Without discontinuing the tradition of support to families, redistribution may amount to a decrease in - or even the total abolition of - tax allowances leading to tax savings that rise with income, thus favouring the richest. This measure may be supplemented by an increase in support for students without much money - a development apparent in Belgium, Ireland, Italy, the Netherlands and Portugal. Several countries have remained characterised by a polarised distribution of support. While grant support is targeted on students of modest means, assistance to families includes an element tending to favour the richest. This applies to Germany, France, Luxembourg and Liechtenstein.

MAJOR ISSUES AT THE HEART OF DEBATE

Three basic questions should be central to all reforms or debate regarding financial support to students in higher education. What are the fundamental principles underlying a given system? What are its aims? And what are the factors making change inevitable? The various components of support, its target groups and the financial resources required, depend on the answers to these questions.

The issues of equal access and the balance between state intervention and personal contributions are always at the heart of the tensions that fire debate on student financial support. Those in favour of course registration fees and/or the introduction of a system of repayable loans generally base their arguments on the principle of personal contributions, given the personal gain accruing from the possession of a degree. Those in favour of free admission and the award of non-repayable support are concerned that the principle of equal access - or even of

balanced social representation in higher education enrolments - should be upheld.

A few countries (Italy, Portugal and the United Kingdom) have recently introduced tuition fees or increased them considerably. This reform has been accompanied by financial compensation for students from less well-off families (either through reductions in the amount charged, total exemption from payment, or an increase in the grant). The aim is clear, namely to increase the personal contribution to the cost of studies, while respecting the principle of equal access. It is too soon to measure the impact of these recent measures.

Only developments in the education budget and in access to courses in the next few years will enable consideration of how the aims underlying these measures are being realised in practice. Discussion as to the increase or introduction of registration fees paid by students cannot overlook a key variable in countries where there are tax benefits. This is that there are diminished savings to the State in raising the personal contribution to the cost of studies, where families are offered opportunities to secure tax allowances in accordance with their real expenditure on tuition fees.

One question prompted by the study is whether the increase in personal contributions, and the other conditions imposed by the State, will hinder progress towards respect for the principle of equal access, which all countries are striving to achieve.

The Nordic experience has demonstrated that raising personal contributions via loans in an egalitarian system increases graduate debt and has repercussions on public-sector budgeting because of defaulting on repayment.

The phenomenon has led most countries that have put this option to the test to revise their decisions. Increasing personal contributions via tuition fees and loans in redistributive systems (in which richer families pay for those that are less well off) is not an approach which has existed long enough for its possible advantages to be fully proven. Firm conclusions will only be possible in the light of the reaction of all those directly concerned in the years ahead.

No examination of financial support to students is complete without considering measures concerned specifically with the principle of commitment to successful

study. Greater emphasis has been placed on this principle in recent years, given the political will not only to ensure that students accept greater responsibility, but to reduce their overall period of study and, with it, the cost of education. These measures relate especially to the progress required in student coursework.

While they may assume several forms, all of them limit in one way or another the entitlement of students to support if they take longer than the normally accepted period to complete their courses. Without denying that such measures may boost student motivation to do well, it is to be feared that they may inhibit access to higher education among young people from underprivileged social groups and that, as a result, they run counter to the principle of equal access.

Already disinclined to continue studying for economic and cultural reasons, the same young people are confronted with yet a further barrier, namely the obligation to do well quickly. As emphasised above, the approaches of countries that only recently had very divided views on this question are becoming increasingly similar. Once again, the evidence of the next few years should make it possible to identify the impact of such measures on access to studies but, above all, on dropout, the scale of which is only now beginning to be fully appreciated.

Several countries have set up observatories on student lifestyles, and carry out surveys on various aspects of the situation experienced by the student population. Such initiatives should be very fully welcomed in making it possible to go beyond the analyses underlying political decisions, and enrich the statistical data on macroeconomic expenditure that are already available. Indeed, they provide the opportunity for a field investigation of both the tangible effects of the various forms of support and how young people view the whole issue (in terms of the fear of debt, personal gain and the requirement that study should be successful, etc.).

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