

# International Comparison of Higher Education Cost Sharing and Japanese Challenges

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This paper examines the present situation and problems of the burden of higher educational expenses in Japan and tries to show future prospects by an international comparison, describing three models of views on education based on principles of the educational expense burden, and also considering the current trend of the argument for providing education free of charge. The analysis elucidates the strongly entrenched perspective in Japan on the family burden of higher educational expenses based on the view that education is the responsibility of the family. Now that Japan seems to be coming to the limit of depending on such a heavy family burden to cover higher educational expenses, two measures to reduce the burden have been established recently. One is a new grant for undergraduate students, and the other is a new income-contingent student loan program. Furthermore, the New Economic Policy Package advocates that an enormous annual sum of approximately 800 billion yen be spent for the reduction of the heavy burden on lower-income families. This paper analyses the background, characteristics, and problems of these initiatives, and suggest perspectives on the higher educational expense burden in the future.

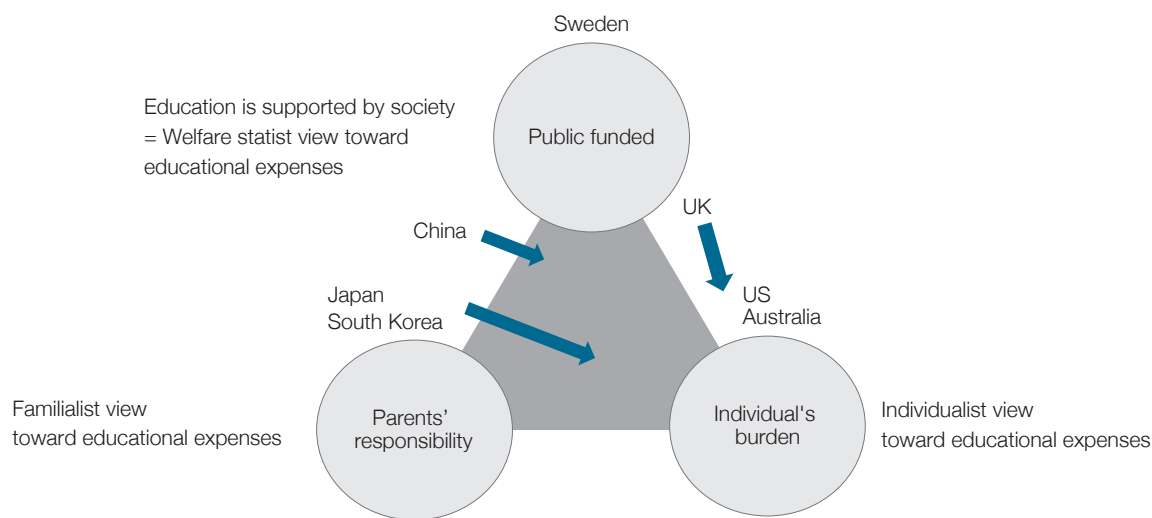
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## I. International comparison of the burden of educational expenses

### 1. Views of education and state of the burden of educational expenses

The burden of educational expenses is broadly divided into public funding and private burdens, and private burdens are roughly divided into private-sector organizations (companies, universities, charities, etc.) and household budgets. Further, the household burden can be divided into the burden on parents and guardians, and the burden on students (children). Of these, the private-sector burden does not account for a large percentage in any country. A corporate tax for education has been proposed to place some of the burden on employers, but there is no country where this has been implemented.<sup>1</sup> Instead, when considering the future burden of educational expenses, the burden on employers such as companies and donations by charities and individuals is seen as increasing in importance.

Thus, there are three major bearers of educational expenses—the public, parents (guardians), and children (the students themselves), as shown in Figure 1—which underlie the differences in views of education. First,



Note: Revised by author on the basis of Yano, 2012.

Figure 1. Three views of education and attitudes toward burden of educational expenses

the “public burden” of educational expenses is rooted in a view of education that holds that education should be supported by society. This can be called the “welfare statist” view of the burden of educational expenses. It is a concept widely seen in the Nordic countries, France, Germany, etc. Tuition fees are free or extremely low.<sup>2</sup> In Sweden and other Nordic countries, tuition is also not collected in private universities. Second, underlying the “parents’ responsibility” is the view that parents and guardians should be responsible for their children’s education. This can be called the “familialist” view of the burden of educational expenses. This is a very strongly entrenched view of education in Japan, Korea, and Taiwan. Third, underlying the “children’s (students’) burden” is a view of education holding that education is for individuals. This can be called the “individualist” view of the burden of educational expenses. This view of education is widespread in Anglo-Saxon countries such as the United States and Australia. In the UK, tuition was once free of charge and the country had been synonymous with the welfare state, called “from the cradle to the grave,” but it has been rapidly shifting from the public burden of educational expenses to the individual burden, with increases in tuition tripling the amount twice in recent years. Even if students themselves are supposed to bear the burden, it is difficult for them to pay tuition fees themselves while working part-time, and instead, in most cases, they take out student loans which must be repaid after graduation.

These are categories by philosophy. In reality each country has a mixture of the three views of education and distribution of the burden. For example, in the US there is an expectation for students themselves to be responsible, but in reality, the parents’ burden is also large. Also, more than a third of students in the US are mature adults, and naturally their burden is higher. When discussing the burden ratios, it is necessary to pay attention to differences in the education, culture, economy, and society of each country.

Especially in recent years, as shown in Figure 1, there has been a tendency to shift the burden of expenses from public to private and from the burden of parents (guardians) to that of children (students). Underlying this is the fact that, on the one hand, public finances are stringent in almost every country, and, on the other hand, the increasing number of students in higher education is making it more difficult for the public sector to bear the burden of their expenses. Johnstone describes this process as “cost-sharing” (Johnstone 2004). Incidentally, economics generally treats parents (guardians) and children (students) as “households” without distinguishing between them, but in the case of the burden of educational expenses, this distinction is of crucial importance. Parents’ and children’s burdens of educational expenses can be roughly divided into three

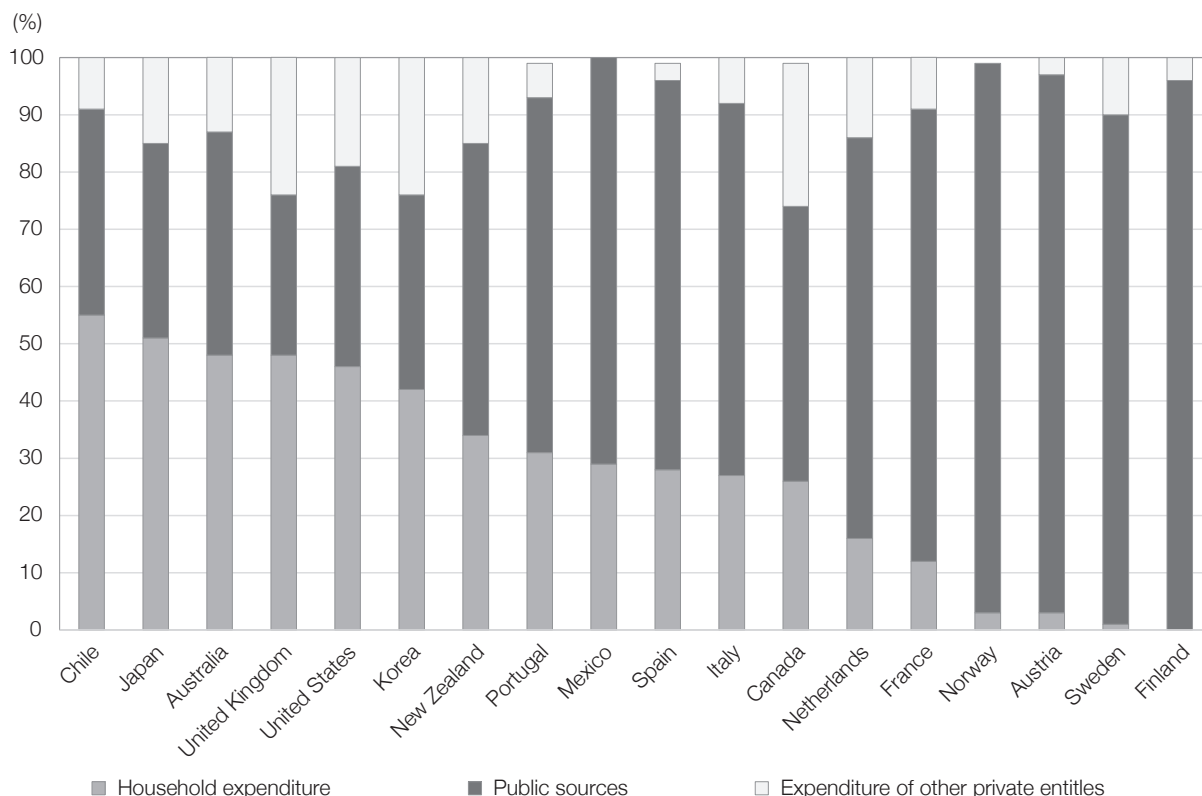
categories: investment, consumption, or gift. There are few empirical studies on this subject, but “five sponsor models” (Suetomi 2005, 2010) have been proposed. This is one of the very exceptional works on this topic in Japan.

## 2. Burden ratio of higher educational expenses

How to share expenses among these three parties (public, private, and household) or four parties (if households are divided into parents/guardians and students/children) is not something that can be theoretically determined. Expenses are one source of the burden in question, but in the case of higher education, there is a problem in that expenses are difficult to calculate. Universities are institutions that conduct not only education, but also research and contributions to society, and these are carried out through joint production. Education and research, in particular, are inseparable, and it is practically impossible to calculate their expenses separately. This means that cost-based pricing cannot be posited.

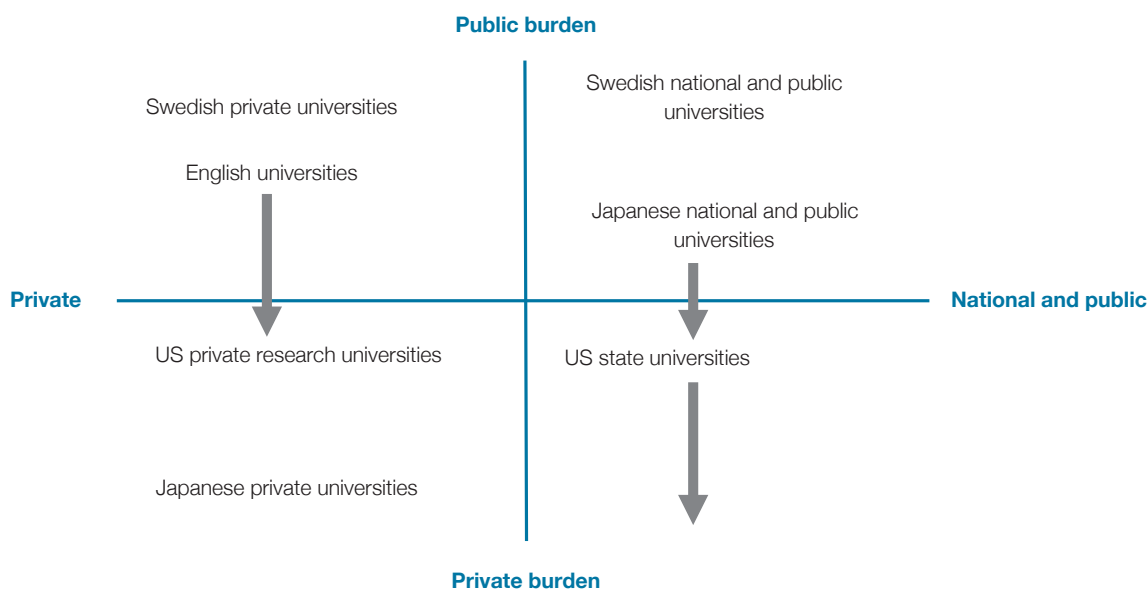
For this reason, the above factors are taken into account when calculating the actual burden of educational expenses, and the results show major differences among countries. With regard to the level of the public burden for higher education, in 2014 the average percentage of GDP for OECD member countries was 1.1%, whereas in Japan it was approximately 0.5%, the lowest of all OECD nations. Meanwhile, the private burden for higher education constituted 1.0%, double the OECD average of 0.5%. In other words, when the ratios of public and private burdens are compared, those of Japan and the OECD member countries’ averages are reversed<sup>3</sup> (OECD 2017).

Among OECD member countries, Japan is one of the countries where household expenditure on higher education costs is heaviest. As shown in Figure 2, in Japan, the percentage of total higher education costs



Source: OECD, *Education at a Glance*, 2017.

Figure 2. Higher education cost sharing



Note: Created by author.

Figure 3. University category and burden of expenses

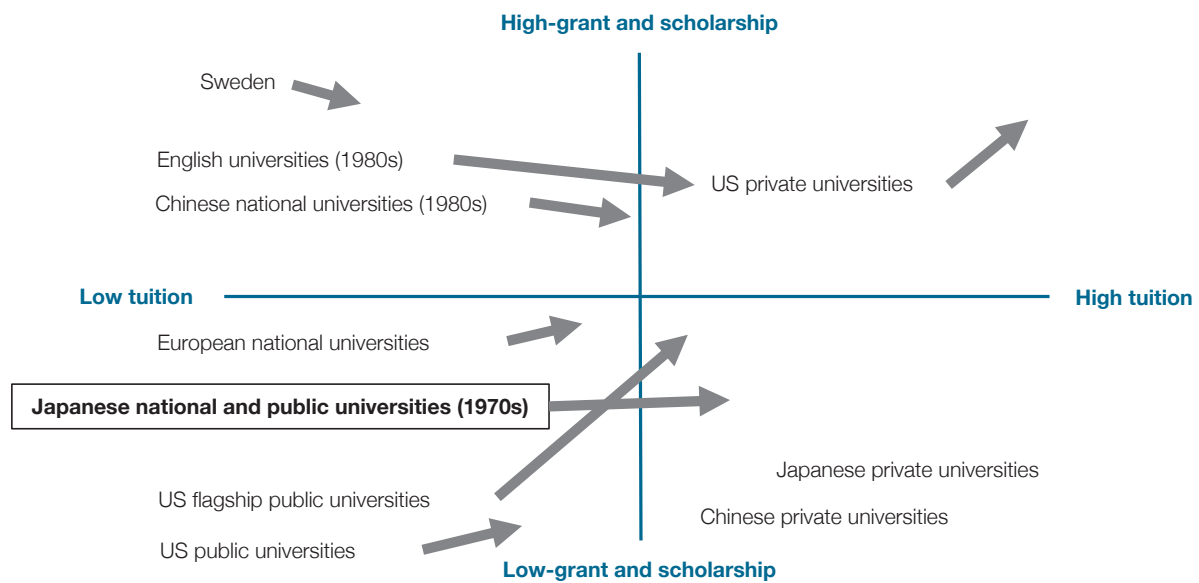
borne by household budgets is more than half, at 51%, second only to Chile (55%) among OECD members. In Australia and the UK, the household expenditure ratio is rising because tuition has risen significantly in recent years, and the expansion of grants and scholarships has not kept up with it. Meanwhile, South Korea has been one of the countries with the highest household expenditure ratios, like Japan, but the household burden as a percentage of the total is now falling because grants have been reinforced in recent years while tuition increases have leveled off.

The high ratio of the household burden in Chile, Japan, and South Korea is due to the high proportion of private-sector higher education, reliant on tuition, in these countries, and a paucity of public support for higher education institutions. On the other hand, on the right side of Figure 2 are countries with low levels of household expenditure. Household costs are almost zero in Nordic countries such as Finland and Sweden.

It should be noted that in the case of universities, mainly for those outside Japan, the parties establishing educational institutions and the forms of funding sources are different. As shown in Figure 3, in general, public expenditure goes mainly toward national and public universities and private expenditure to private universities, but there are also examples of the public burden applying to private universities in countries including Sweden and the UK. Meanwhile, at some US state universities, the percentage of public subsidies is extremely low, accounting for less than 10% of total income, which is lower than the 10% average for private universities in Japan.

### 3. Policies for tuition and grants in various countries

The actual burden of university expenses varies depending on the combination of tuition and grants. Here, we will divide these combinations into four types as shown in Figure 4.<sup>4</sup> This is a schematic diagram giving a general overview of the relationship between tuition and grants, and it should be noted that the actual change over time and variations by countries are more complicated and there are many exceptions. Here, the tuition on the horizontal axis is the official tuition of the university, referred to as the sticker price, published price, etc. The vertical axis shows grants and scholarships. Net tuition is obtained by subtracting institutional grants (grants and scholarships provided by higher education institutions) from this amount. It should be noted that



Note: Created by author.

Figure 4. Tuition, and grants and scholarship policy by country

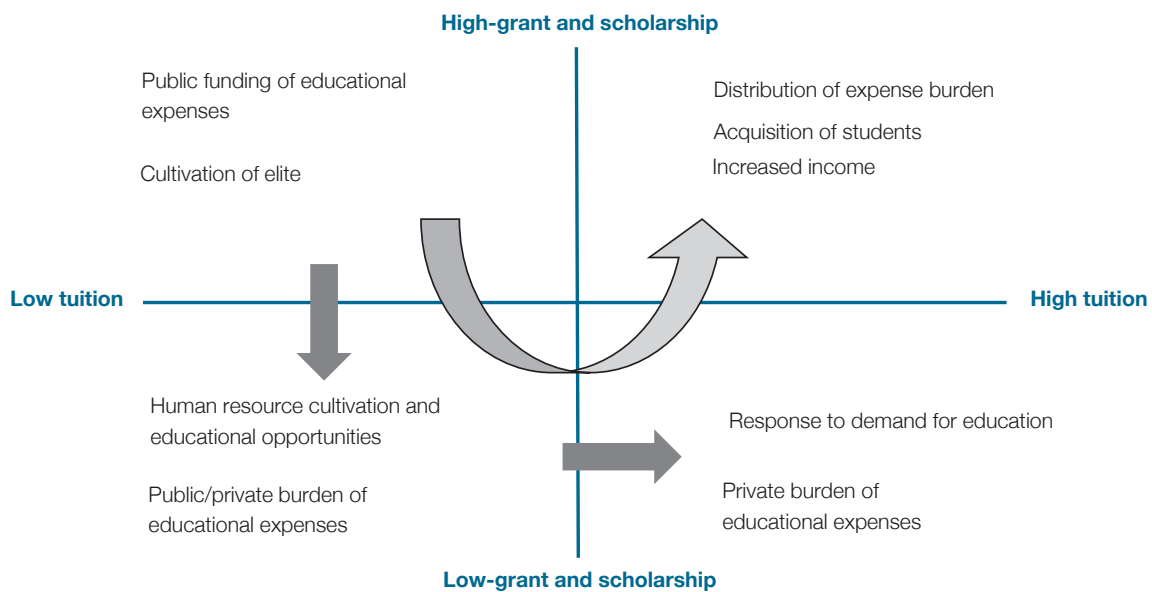
there are both government grants and institutional grants, but in either case, the burden on students and parents is reduced.

First, many modern universities can be viewed as starting out with a low-tuition/high-aid policy. This is because universities' role was, above all, to train the elite: the nation's most important and influential people. Many European national universities and universities in the UK or China also had generous systems of financial aid. Many Nordic universities retain these characteristics today.

As universities expand, the financial burden of generous grants becomes onerous, and as the central role of universities shifts from training the elite to training professionals, and providing higher education opportunities to the general public, there is a tendency to transition to a low-tuition/low-aid policy. US public universities, and especially public two-year universities (community colleges), have this characteristic. Japanese national and public universities also fell into this category in the past. Meanwhile, as demand for higher education expands, private universities emerge to meet these needs. They adopt a high-tuition/low-aid policy, as seen in private universities in Japan, China, and South Korea. In contrast, what we have seen in recent years is a transition to a high-tuition/high-aid policy, which is seen occurring in many countries. Underlying this is governments' fiscal belt-tightening and a shift to a free-market model for higher education in many countries.

In terms of the burden of educational expenses, as shown in Figure 5, a low-tuition/high-aid policy results in the largest public burden, while a low-tuition/low-aid policy reduces the public burden and represents a shift to differentiation of the public and private burdens. On the other hand, a high-tuition policy represents a shift in the burden of educational expenses from the public to the private sphere, and this trend is most prominent in a high-tuition/low-aid policy.

Meanwhile, from the viewpoint of the burden of expenses, a feature of the high-tuition/high-aid policy is that the sticker price is set high, but each student is offered various different forms of financial aid, thereby individualizing the burden of educational expenses. In particular, the policy of the university itself offering discounts in the form of its own grants (institutional grants), in addition to governmental grants, began at US private universities in the 1980s, and is now widely used at public "flagship universities" (generally, the



Note: Created by author.

Figure 5. Tuition, and grants and scholarship policy and burden of educational expenses

best-known public university in a particular state). In the UK, all universities have adopted this high-tuition/high-aid policy since 2006. Universities in the US set multiple discount rates (ratios of financial aid to sticker price) according to the attributes of a student, and apply a formula to the student’s characteristics to determine the rate. Some universities have variable rates ranging from zero to 100 percent cost coverage. In this case, net tuition (discounted tuition) differs depending on the student.<sup>5</sup> For example, at Harvard University, the sticker price was about US\$64,000 per year (including housing costs, etc.) in fiscal 2015, but the average net grant was about US\$40,000, and the net tuition averaged about US\$16,000 (according to NCES, College Navigator). In this case, it is important to note that this is an average, and the net tuition varies from zero to US\$64,000.

In particular, in the case of lower-income families, there is a loan-free policy through which net tuition is virtually zero. However, there are only a few dozen universities with abundant funds that offer loan-free policies. There are major problems with high-tuition/high-aid policies at universities in general. The university often wants to admit a certain type of student (with excellent academic performance, outstanding sports ability, etc.), and university-specific institutional grants tend to be merit-based rather than based on the student’s financial needs. This creates a problem in that grants do not contribute to the expansion of educational opportunities.

#### 4. Higher Education Contribution Scheme (HECS)

Among countries’ various systems for alleviating higher education expenses, attention is being paid to the Australian tuition system called the Higher Education Contribution Scheme, commonly referred to as HECS. In the past, the Australian government did not charge public university tuition, but in 1989 it changed to a policy placing some of the burden on individuals. This was based on the idea that both the individual and society are beneficiaries of higher education, so individuals should bear a share of the burden accordingly. HECS refers to this share not as tuition, but as a “contribution.”

However, there was a concern that collecting this tuition or contribution would threaten higher education opportunities especially for lower-income families. In response to this problem, HECS adopted a system in

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which tuition is not charged while students are in school, but a portion of tuition is repaid based on income (income contingent) after graduation. In other words, HECS is essentially an income-linked student loan. After graduation, tuition is repaid according to income over a long period of time, so the burden on low-income people is light, and therefore there is less tendency to avoid loans and thereby less impact on higher education opportunities.

The contribution amount is determined by the university, within minimum and maximum amounts set by the government, for each group based on the university major, which is called a “band.” In most cases, most universities charge the maximum allowable amount, and the maximum amount tends to rise year by year. For all bands, the minimum amount is zero. Band 3, with the highest contribution amount, includes majors in medicine, dentistry, veterinary science, law, and business administration, and the maximum amount is 10,000 Australian dollars (AUD) (at an exchange rate of AUD 1.00 to 84.5 Japanese yen, this comes to approximately 860,000 yen). The maximum for Band 2, including mathematics, health, engineering, and agriculture, is approximately 735,000 yen, and for Band 1, including humanities, clinical psychology, foreign languages, visual and performing arts, and nursing, is 515,000 yen (Australian Government, Department of Education and Training 2016).

It should be noted here that for each of these majors, there is no relation between educational expenses and amount of contribution. The educational costs for medicine, dentistry, and veterinary medicine are very different from those for law and business administration, but they are all in the same Band 3. Generally, tuition is determined based on costs, but in HECS it is determined based on expected income after graduation. Herein lies the very unique character of HECS.

The amount of the contribution to be repaid annually is income-linked, and determined according to total annual income, etc. and repayment rate. The repayment rate ranges from 0% to 8%, and the higher the income, the higher the repayment rate. For those with incomes under about 4.82 million yen the amount falls to zero, i.e., it is waived. Therefore, low income earners are exempted from paying back tuition for their entire lives.

Since the introduction of HECS, it is said that the overall university enrollment rate has risen, and a major impact on the enrollment rate for lower-income families has rarely been reported (Chapman 2014, 18, etc.).

HECS was a great success, and went on to be introduced in other countries such as the UK. However, as mentioned earlier, with the income-linked model not all contributions can be recovered, and it is expected that the public will shoulder 15 to 20% of the burden of expenses.

## **II. Public burden of educational expenses and the current situation in Japan**

This section discusses the grounds of public funding of educational expenses and the current situation thereof in Japan.

### **1. Grounds and processes of public funding of educational expenses**

Earlier, we discussed the fact that beliefs regarding responsibility for educational expenses depend on views of education. However, the grounds for public sharing of costs of educational expenses are not limited to views of education alone. The most important grounds for this relate to ensuring equal opportunities for education. In Japan, equal educational opportunities are stipulated in the Constitution of Japan, Article 26, and the Fundamental Law of Education, Article 4.<sup>6</sup> Furthermore, the government is obligated to provide financial aid so as to realize equal educational opportunities. It is stipulated in the Fundamental Law of Education, Article 4, Paragraph 3, that “the national and local governments shall take measures to provide financial assistance to those who, in spite of their abilities, encounter difficulties in receiving education for economic reasons.”

Such financial aid and provision of education free of charge, based on the principle of equal educational opportunities, is a concept widely shared not only in Japan, but also internationally. In 1966, the International

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Covenant on Economic, Social and Cultural Rights stated in Article 13, Paragraph 2-C that “Higher education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education.” Japan ratified this covenant in fiscal 2012, and the government has a duty to endeavor to make higher education free of charge to fulfill its international pledge.

The public burden of educational expenses is based on the principle of equal educational opportunities. However, it can be said that in Japan, calls for equal opportunities for education were not particularly loud until quite recently. In recent years, the argument for ensuring equal access to education on investment grounds has arisen based on human capital theory. That is, disparities in higher education, and people with motivation and ability being unable to receive education, result in wastage detrimental not only to the individual, but to society as a whole. Furthermore, from the viewpoint of educational investment, it is also necessary to contribute to improvements in productivity and efficiency, or to invest in areas that are difficult to connect to the market, such as basic research, in order to contribute to the development of human resources and economic growth, which are the grounds for the public burden of educational expenses. These are ideas that are highly compatible with human capital theory.

Externalities of education (external effects, the external economy) can also be cited as arguments for the public burden of educational expenses. If there are externalities, no one will shoulder the expenses if it is left to the operation of the free market, so the part of supply corresponding to externalities will be under-represented. Therefore, it is necessary for public funds to cover that amount. The externalities of education go beyond basic education such as reading, writing, and math, and include the presence of university graduates improving the productivity of those around them (Moretti 2004), better health and reduced crime as a result of being better educated, labor migration, and alleviation of mismatching (prevention of unemployment). In this regard, however, it is generally said that the external effects of education are higher at lower levels of education.<sup>7</sup> In addition, the public nature of education (education as a quasi-public good) and education as social common capital (Uzawa 1998, 2000) are also cited as grounds for the public burden of educational expenses.

However, the problem here is that, in many cases, it is impossible to calculate expenses because externalities and costs to the public of education do not go through the market, and in practical terms it is impossible to make the burden of expenses correspond to externalities. Therefore, in reality, allocation of the public burden is not based on these theoretical grounds.

## **2. Current status of the public burden of educational expenses in Japan**

The public burden of educational expenses can be broadly divided into two approaches. One is governmental subsidies to institutions, and the other is governmental subsidies to individuals. In the case of national and public educational institutions, the original cost of establishing them is paid by public funding.

Furthermore, in Japan, there are institutional subsidies for the operation of national universities (1.1 trillion yen per year), subsidies for private university endowments (316 billion yen), and local allocation tax subsidies to public universities (35 billion yen). In addition, part of competitive funding such as scientific research expenses, Center of Excellence (COE) Program funding, etc. (400 billion yen) can be regarded as public subsidization. These total about 2 trillion yen (all are rough figures for 2019; the same applies below).

With regard to subsidies to private institutions, tuition reduction and exemption, which take the form of grants, are all implemented as part of institutional assistance. At national universities these amount to approximately 37 billion yen, at private universities 17 billion yen, and at public universities 3.5 billion yen. In the case of vocational schools, prefectural governments are responsible, but only Kochi and Hokkaido have official tuition waiver programs. Although tuition waiver programs have tended to be expanded in recent years, there is a problem in terms of marked disparities not only among national, public, and private universities, but also between universities and vocational schools.

Besides tuition waivers, in terms of subsidies to students, thus far financial aid from JASSO (the Japan



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Student Services Organization) had taken the form of loans rather than grants. National funding was only marginal, consisting of assistance with interest payments and so forth, which was completely inadequate. In 2017, two new student financial aid programs were established. These are the new grant-type scholarships and the new income-contingent student loan program (hereinafter “income-contingent program”). The two have clearly different purposes and characters, and they need to be distinguished properly. The purpose of grants is, among other things, to promote the advancement of students from households with difficult financial hardships. On the other hand, the purpose of income-contingent programs is to reduce the burden of repayment, not only for lower-income families, but also for middle-income groups, as in Australia’s HECS.<sup>8</sup>

Several factors can be cited as underlying the creation of these two programs. First of all, there are major disparities in higher education enrollment rates depending on income level. In lower-income families (with annual incomes of 4.62 million yen or less), the rate of university enrollment is 41%, but in high-income households the rate is dramatically different, at 71% (The University of Tokyo 2016).

As Figure 1 indicated the three attitudes toward the burden of educational expenses, the parental responsibility model dominates in Japan. This model has led to many households with overstretched budgets. These are households that cut back on other household expenses for the sake of children, devoting an inordinate amount of money to savings or educational endowment insurance for future educational expenses. Paradoxically, it is thought that the presence of such households with overstretched budgets was not apparent in Japan because of the relatively small public burden of educational expenses.<sup>9</sup> While tuition continues to rise, household income is on a downward trend, and as a result the burden of educational expenses on households continues to grow heavier. The annual payment for the first academic year of a university went from 86,000 yen in 1975 to 818,000 yen in 2014 for national universities and from 373,000 in 1975 to 1.3 million yen in 2014 for private universities on average. Meanwhile, the ratio of the first annual payment to monthly disposable income in 1975 was 0.4 for national universities and 1.7 for private universities on average, but these ratios rose to 1.9 and 3.1, respectively, in 2014. It is not feasible to rely any further on households for educational expenses, and in particular there is a limit on extracting these expenses from low-income households.

In addition, many studies have shown that the household burden of educational expenses is one of the causes of declining birth rates. For example, according to a survey by the National Institute of Population and Social Security Research, the most commonly cited reason for not having one’s ideal number of children is that “the cost of parenting and education is too high,” at 56.3% (NIPSSR 2017). In addition, a 2013 survey by the Cabinet Office inquired about sources of anxiety when considering having children (or additional children) in the future, and “a heavier financial burden” (70.9%) was the most common response.

It is evident that the parental responsibility model for educational expenses has created various problems, and if it continues along the current path, there is concern that these problems will become even more severe. To address this, there is a need to expand public coverage of costs and financial aid.

Another important factor is that Japan’s financial aid program, which has scarcely been reformed in more than 70 years since the founding of *Dainihon-ikueikai* (the former Japan Scholarship Foundation), one of JASSO’s predecessors, in 1944, and it has become less responsive to various changes. With an increasing number of students going on to become higher education graduates, many students have come to rely on financial aid. In particular, the increasing number of higher education graduates has led many students to take advantage of student aid. Notably, the number of interest-bearing student loans exploded from about 100,000 in 1998 to about 950,000 in 2012, and there have been issues with the financial burden of loans and evasion of repayment. Addressing this has become a crucial issue.

Exacerbating the problem of the financial strain on borrowers (students) is the destabilization of employment in the university-graduate labor market. Formerly, this market in Japan was characterized by a stable lifetime employment system, and since university graduates were able to obtain stable income, it was easy to establish clear plans for steady return of loans through fixed-rate return programs. However, in an

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unstable labor market with rising non-regular employment and with one in three university graduates leaving their initial jobs within three years (Ministry of Health, Labour and Welfare, “Job Resignation among Recent Graduates”), having only a flat-rate return plan means that many will be unable to make payments, thus heightening the need for a payback plan calibrated according to income.

### **3. Proposals for a Japanese version of HECS**

For the reasons outlined above, deliberations on an income-contingent student loan program were launched in Japan in 2017. Earlier, this paper gave an overview of HECS in Australia, as a unique program that has succeeded in alleviating the burden of educational expenses. In this regard, the Headquarters for the Revitalization of Education of the Liberal Democratic Party of Japan’s “The 8th Educational Reform Proposal” of May 18, 2017 called for the creation of a Japanese version of HECS. The concept is to expand application of the income-linked model, which currently applies only to interest-free financial aid, into a universal program that extends to interest-bearing loans and applies to all students.

In response to this proposal, on October 31, 2017 a subcommittee of the Ministry of Finance Fiscal System Council objected on the grounds that HECS does not reduce disparities between income levels, and made a counterproposal that alleviation of the financial burden should be limited to children from low-income families that genuinely need assistance. However, the objective of income-contingent programs is reduction of the burden of educational expenses on middle and lower-income families. This in turn results in improvement of higher education enrollment rates of lower-income families and lessening of disparities, but that is not its sole objective. Opposing the introduction of a HECS program simply on the grounds that it cannot address disparities effectively does not seem valid. In any case, a Japanese version of HECS is advocated for further study in the New Economic Policy Package, and it will be necessary to keep an eye on future trends.

### **4. The New Economic Policy Package**

The Abe Cabinet approved the New Economic Policy Package by cabinet decision on December 8, 2017. The contents of this package include a significant expansion of grants amounting to approximately 800 billion yen a year, which will have a major impact on financial aid in the future. In addition to tuition waivers, grants will be provided to assist with the cost of living. Also, in addition to exemption from enrollment fees, which has been limited to some students so far, measures will be taken to address “sudden changes in household finances” (such as parents’ job loss, death or divorce), for which public funding had not previously been allocated. The new program should be highly acclaimed for its substantial investment in education and expansion of beneficiaries. In particular, with regard to enrollment fee exemption, in Japan, excessively high first-year payments at the time of admission have been an obstacle to higher education enrollment for lower-income families. The measures to assist those facing sudden hardships in household budgets, who have hitherto lacked public support, are also laudable.

However, many concerns remain on this package program. For one thing, beneficiaries are limited to lower-income families. This is due to the restriction that this package is designated for the purpose of social welfare, and measures to address the declining birthrate, because the package is financed by a consumption tax hike as part of the Comprehensive Reform of Tax and Social Security Systems. Furthermore, beneficiaries are selected on the basis of academic performance in high school. However, if the purpose is strictly social welfare, it is not necessary to impose performance requirements. In particular, there is a strong correlation between academic ability and income, and belonging to a lower-income family tends to be a barrier to academic achievement. These performance requirements have already been removed for lower-income recipients of JASSO interest-free financial aid, but keeping them in place for other forms of assistance could shut out lower-income families.

Second, if the program is not well designed to resolve inequities between residential tax-exempt households that can receive benefits and residential tax-exempt quasi-households that cannot, a gap known as

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a “cliff effect” arises between recipients and non-recipients. However, this design is quite difficult, because it has only three stages of the amount of tuition exemption and grants, and there is a risk that any program will remain unfair.

Third, it is highly problematic that not all universities and vocational schools are covered by support measures under this program, but only those that provide “the pursuit of both academic research and practical education in a well-balanced manner to develop human resources who can respond to the needs of society and industry.” In particular, there are specific criteria in the form of detailed numerical indicators for teachers and board members from outside higher education institutions with practical experience in their fields. These are likely to have a major impact on the state of universities. It is understandable that as long as taxpayers’ money is being spent, it is necessary to set certain standards for educational institutions, but this method of determining educational institutions’ eligibility restricts students’ range of educational opportunities. Financial aid is a form of support for individuals, and individual choice should be respected. Students at universities and vocational schools that do not meet the conditions cannot receive financial aid, which may also result in the exclusion of lower-income families.

In the US, as well, federal financial aid is limited to the students at higher education institutions that meet the standards of accreditation agencies, but the vast majority of higher education institutions are eligible. On the other hand, with the standards set by this package, the New Economic Policy Package, it is unclear what proportion of higher education institutions will meet the criteria.

The author has already expressed several concerns in this regard, in particular the cliff effect, and the eligibility and requirements for higher education institutions. These seem irrelevant with student financial aid programs (*Asahi Shimbun*, December 15, 2016, and *Mainichi Shimbun*, February 19, 2018). Also, Kyoto University President Juichi Yamagiwa criticized the program as intervention in universities’ autonomy at a general meeting of the Japan Association of National Universities on January 26, 2018 (*Nikkei Shimbun*, January 26, 2018). In addition, on February 15, 2018 the Federation of Japanese Private Colleges and Universities Associations released a request not to carry out the selection process.

The contents of the Interim Report of the Cabinet on New Paradigms in the Era of the 100-Year Lifespan, established in 2017, are almost identical to those of the New Economic Policy Package, down to the wording. Meanwhile, a panel of experts within the Ministry of Education, Culture, Sports, Science and Technology, which is in charge of the practical design of the program, began deliberations on January 30, 2018. This panel added further detailed requirements for higher education institutions and prospective recipients of this new student aid. The progress of future programs will need to be watched.

### **III. State of the cost sharing of educational expenses**

This section discusses a number of topics regarding the future of the cost sharing of educational expenses.

#### **1. Making education free of charge**

As already discussed, the grounds for public support for educational expenses, and, further, making education free of charge, is the realization of equal educational opportunities. Recent proposals for making education free of charge are considered to be effective in lessening disparities in higher education enrollment described above. In addition, it is said that reducing the burden of educational expenses has the effect of boosting household consumption as well as correcting disparities. However, so far there has been little empirical testing on this point.

As mentioned earlier, the Fiscal System Council (October 31, 2017) raised concerns about making higher education free of charge, as it extends benefits to high-income families as well as other groups, and thus may widen disparities. This is a common criticism of making higher education free of charge and of low-tuition policies. The most famous is the so-called Hansen-Weisbrod-Pechman debate over California’s

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public university tuition in the 1960s. Hansen and Weisbrod (1969; 1971) and Hansen (1970) indicated that the subsidies to higher education institutions subtracting the tax burden per capita was distributed in the order of the University of California system, the California State University system, community colleges, and higher education non-attendees. Because there are more university graduates in higher income groups, state government subsidies to universities are regressive and the education system redistributes income from lower-income households (non-university attendees) to higher-income households (university students). There were many objections to this argument, however, such as Pechman (1970) and Hartman (1970, 1972).

Objection (1): High-income earners also pay a lot of taxes within progressive tax systems.

Objection (2): There are external effects, as mentioned above, which should be considered.

Objection (3): In addition to income redistribution during schooling, redistribution after graduation is also an issue.

In response to these objections, Hansen and Weisbrod (1971, 1978) made an immediate counter-argument, but no definitive conclusions have been drawn due to factors such as an inability to measure external effects quantitatively and different methods of calculating tax payments. However, an important issue raised by this controversy is that elimination of fees and low-tuition policies are fundamentally intended to assist those wishing to go on to higher education, many of whom belong to the high-income contingent, so the disparity correction effect is limited, which is in line with the Fiscal System Council's argument.

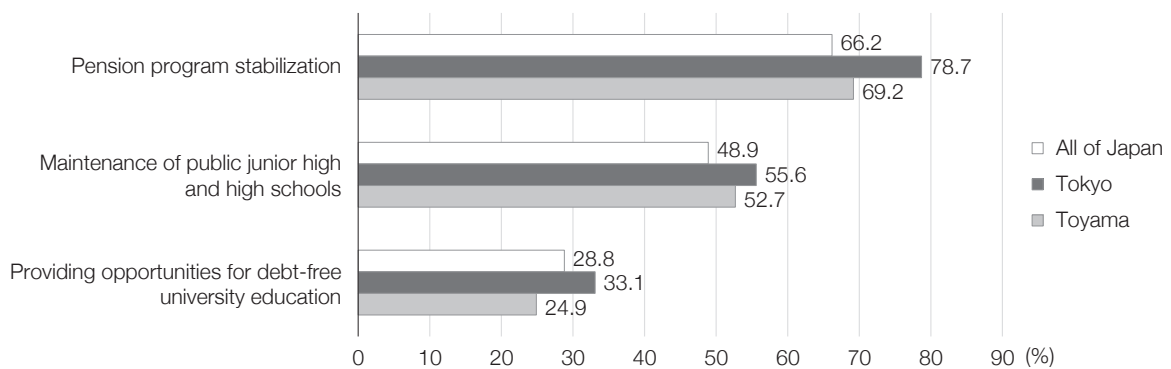
## **2. Recurrent education: Adults going back to school**

In relation to the burden of higher educational expenses and human resource development, I would like to touch briefly on adult members of the workforce going back to school, and the burden of expenses in the case of "recurrent education." In Japan, there are many factors impeding the spread of education for adults, of which expense is the most problematic. In a survey of impediments, the University of Tokyo Center for Research on University Management and Policy "Workforce Survey on University Education" (2010), 52.4% responded that "excessively high cost" is "definitely an obstacle." When combined with 35.4% who cited cost as "an obstacle to some extent," expense accounts for the highest percentage at 87.8%.

It is possible that this situation could change if employment becomes fluid, or if it becomes necessary for adults to go back to school even within the lifetime employment system. With regard to this, it is also necessary to consider the issue of training costs. Becker's (1993) argument regarding the burden of training expenses is well known, namely that the burden of general training rests on the worker while that of specific training is partially on the employer. Workers bear the cost of general training (including school education), which is useful at any workplace, because it represents an investment that the employer cannot recover if the worker moves to another workplace. On the other hand, employers ought to cover the cost of specific training that is useful only at a particular workplace. However, in reality, general and specific training are mixed, and it is difficult to separate them clearly. The important thing here is that specific training is only useful in one workplace, so it cannot be an incentive for workers to change workplaces. However, there are factors influencing job change besides the presence or absence of specific training, and fluidity of the job market is important, as is the correlation between job changes and financial burden (Becker 1993, 43–48). In other words, if more workers leave lifetime employment and change jobs, and the employment situation becomes more fluid, specific training will decrease and general training will increase, which may lead to growth in adult education but may also increase the burden of training expenses for workers.<sup>10</sup> The burden of training expenses has hardly been discussed to date, but it should be considered in the future.

## **3. Can the burden of educational expenses be shifted?**

Up to this point, we have examined the pervasiveness in Japan of the parental responsibility model of educational expenses, and issues with this model. In particular, it is evident that households are coming to the limit of their ability to cover costs, and measures to reduce the burden of educational costs for lower-income



Source: Prepared by author on the basis of Yano, Hamanaka, and Ogawa, 2016, 49.

Note: Data based on Tokyo Survey (2011) and Toyama Survey (2010). Toyama Prefecture is located in the middle of main island of Japan and bordered Sea of Japan to the north.

Figure 6. Comparison of supporters of strengthening of measures through tax hikes

families or eliminate higher education costs altogether are being introduced rapidly. Will Japan shift toward public coverage of the burden of educational expenses, that is, in the direction of welfarism? A national consensus is required to spend more taxes on higher education, but public opinion on this is negative, as shown in Figure 6. Only one-quarter to one-third support “providing opportunities for debt-free university education” through tax increases. It should be noted that more than half of those polled support making higher education free of charge if taxes are not involved.<sup>11</sup>

These findings indicate that the use of tax funds to cover costs of higher education is not supported. A previous survey (Figure 6) conducted by Yano, Hamanaka and Ogawa (2016) shows that current Japanese society consists largely of those with a vested interest and families that prioritize education. In other words, households with members being educated make education a priority in their household budgets, but do not want to cover the costs of “other people’s kids that they have never met.” It is extremely difficult to convert such self-centered views of the burden of educational expenses into altruistic ones. Under such circumstances, the familialist attitude toward responsibility for educational expenses in Japan is built on very solid foundations. To change people’s outlook on this subject, it is necessary to re-examine the significance of the public burden of educational expenses.

There are several keys to encouraging the shift of more educational costs to the public burden. One is the possibility of changing public opinion by demonstrating that higher education has positive socioeconomic effects, and that not only the educated, but the entire society can benefit. A questionnaire survey by Yano, Hamanaka and Ogawa (2016) showed that public opinion toward the possibility of income tax increases to fund university education is trending positive.

In addition, it is necessary to expand the discussion of cost sharing beyond education to related fields such as welfare and investment. However, while preschool education has been discussed in recent years with regard to dividing cost coverage between the education and welfare sectors, in the case of higher education, there has been virtually no discussion of welfare with regard to higher education costs.<sup>12</sup> If the scope of this debate expands spatially, it is necessary to expand it temporally as well, as a generational problem that changes in time and is concerned with investment, intergenerational income transfer, and familial (parent-child) relationships. Study from the viewpoint of mutual aid and public assistance is also required. Currently, up to 15 million yen of inheritance tax is exempted for the purpose of educational funds for children and grandchildren, and this program is currently said to be on a scale of 1 trillion yen. This shows the strength of the principle of the familial burden of educational expenses in Japan, in that people seek to pay lower

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taxes by covering educational expenses for their grandchildren, rather than paying taxes that would support the entire system. Under present circumstances we cannot expect much of the public spending in terms of covering educational costs, but it may be possible to frame usage of tax funds as a form of mutual aid to a few low-income people, donations to universities, etc. There is also a need to take measures with regard to private-sector sharing of educational expenses. To this end, it is necessary to loosen regulations governing tax exemptions for charitable deductions, and universities' asset management.

As we have seen, many challenges remain with regard to the public burden of higher educational expenses. To shift more of the burden to the public, it is necessary to strengthen the social credibility of universities by heightening the public benefits of education, and universities should enhance their communality (the nature of public goods) and social contributions, and above all ensure accountability, transparency and information disclosure. These areas have not been sufficiently addressed, and are important research and policy issues for the future.

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#### Notes

1. Some assert that even if a financial burden is placed on employers, it will eventually be passed on to consumers in the form of increased product prices, etc. (Johnstone 2004, 404).
2. "Public funding" is a cost ultimately imposed on the public in the sense of being funded by taxpayers. However, it envisions costs imposed not on those related to this issue, but to unrelated persons (i.e., neither they nor their family members are being educated). This point will be discussed later.
3. It should be kept in mind that these statistics are rough comparisons. While details are unknown, categories and calculation methods differ depending on the country. This point has been considered by Ishii (2012).
4. For a comparison of tuition and grants in each country according to these four types, see Kobayashi (2010a, 2010b, 2010c, 2012, 2013b, 2016a) and Kobayashi, ed. (2012) for details.
5. See Kobayashi (2013a) and Kobayashi and Liu (2013a) for details.
6. The Constitution of Japan, Article 26: "All people shall have the right to receive an equal education correspondent to their ability, as provided by law..." The Fundamental Law of Education, Article 4, Paragraph 1: "The people must be given equal opportunities to receive an education suited to their abilities, and must not be subjected to discrimination in education on account of race, creed, sex, social status, economic position, or family origin."
7. See Mitsubishi Research Institute (2010), and Kobayashi and Liu (2013b) for these details.
8. See Kobayashi (2016b, 2017) for details.
9. See Kobayashi (2008, 2009) for details.
10. A detailed discussion of general and specific training is provided in "Chapter 9: Human Capital Investment," in Omori (2008).
11. For example, 62.0% agree, and 30.4% disagree, that "the Constitution of Japan clearly calls for education, including higher education, to be made cost-free" (Sankei Shimbun and FNN Survey, *Sankei Shimbun*, June 19, 2017).
12. In one endeavor, Nakazawa (2014) examined the relationship between educational expenses and welfare, but this discussion was comprehensive and did not consider higher education in detail.

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