

## Financing Higher Education in Japan

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### 1. OUTLINE OF THE EDUCATIONAL FINANCE

It might be of some help to outline the overall climate of educational finance in Japan before discussing various items regarding the financing of higher education.

#### Structure of Public Education Expenses

##### (1) The National Economy and Public Education Expenses

In the process of modernization, Japan made sustained efforts at investing in education. In spite of the fact that she was far less developed than the advanced Western countries, the government lavished expenditure on education in terms of the National Income from the time of the establishment of a modern educational system in 1872. During the period from 1950 to 1973, although Japan's total investment in education grew annually, the proportion of GNP spent on education did not exceed 4.2 per cent as a result of her high economic growth, a figure that did not make Japan conspicuous among advanced countries. However, because the economic growth has been declining since 1974, the percentage of Japan's investment has been rapidly increasing. It reached 5.9 per cent of the GNP in 1980. Furthermore, when the figures are adjusted to include expenses for private schools, the investment in education amounted to 7.1 per cent.

In particular, because the share of the government sector in the national economy is rather small among the advanced countries, the share of government expenditure spent on education recorded is rather large, in fact, in 1979 it was 20.2 per cent. Accordingly, in this regard Japan is in the top group among advanced countries. Furthermore, as much as 37.9 per cent of the government final consumption expenditure in the system of national accounts was directed towards educational services, an expenditure which no other country can match.

##### (2) Distribution of Public Education Expenses

It can be seen that educational spending occupies a large share of total government expenditure, but 83.0 per cent, or an overwhelming portion, of this was allotted to the expenses of national and public

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schools in 1981; and when subsidies to private schools are added, the figure for school education reaches 87.2 per cent. Expenditure on social education has recently shown rapid growth but still accounted for only 7.0 per cent of the total. The amount expended on national and local elementary, lower secondary, and upper secondary schools was large, i.e., 35.2 per cent, 18.6 per cent, and 14.8 per cent respectively, followed by that for higher education (10.7 per cent), schools for the handicapped (2.5 per cent), and kindergartens (1.2 per cent) in 1981.

According to data in 1970, about 70 per cent of public education expenses were invested in elementary and secondary education, and 56 per cent were spent on compulsory education (elementary and lower secondary schools and the elementary and lower secondary departments of schools for the handicapped). This policy of concentrating the distribution of public education expenditure on compulsory education has been followed for more than a century, and is one of the important features of the structure of educational expenditure in Japan. As a result, Japan has succeeded in achieving an internationally high standard in compulsory education, both quantitatively and qualitatively. On the other hand, however, it cannot be denied that kindergarten education and higher education have been inadequately funded.

### (3) Local Educational Expenses

The operation of local public schools below the higher education level (and of public facilities for social education) is the responsibility of local governments, so that in 1981, 86.1 per cent of public education spending was disbursed by local governments. This investment constituted 26.3 per cent of local expenditures, or the largest expenditure of the budget. The majority (61.1 per cent) of these local educational expenditures was for salaries and allowances, followed by physical facilities (24.0 per cent). Almost half (46.0 per cent) of all local public servants were employed in education, and the related expenses constituted 49.4 per cent of the total salaries and allowances of local public employees.

Two-thirds of the local spending was made by the prefectures, and the share of such expenses in prefectural budgets was 29.3 per cent, or much greater than the 18.1 per cent in the case of municipalities. This heavy burden is due to the fact that prefectures play a central role in the operation of public schools. In terms of the educational system, facilities for kindergartens, elementary and lower secondary schools, and social education are established mainly by municipalities, while only those for upper secondary schools and schools for the handicapped are established by prefectures. In the case of compulsory education, however, the substantial responsibility for finance is borne by prefectures, which provide for the majority of expenses, including teachers' salaries.

### (4) National Education Expenses

Educational expenses accounted for 10.6 per cent of the national budget in 1981, which was about half the size of the share for such expenses in local budgets. Furthermore, 58.4 per cent of this amount was for aids and subsidies to local governments, and 22.7 per cent of local educational expenses were covered by such national funding. If the local allocation tax grants for education are also included, the figure increases to 70.2 per cent in the case of national educational expenditure, and 38.1 per cent in the case of local spending. That is, the major portion of national educational expenditure was actually channeled to subsidize local educational cost.

In addition, 8.3 per cent of the national education budget was for aid to private schools, and 1.9

per cent was for scholarship funds. Expenses for national schools accounted for only 28.7 per cent of all national educational expenditure. Almost all (96.4 per cent) of these national school expenses were for higher education, and the greatest share here was for university expenses (91.5 per cent). It is therefore clear that, excluding higher education, public education is almost entirely carried out by local governments, with the main role of the national government being that of establishing standards and subsidizing expense.

#### **Structure of Cost Sharing between Central and Local Governments for Public Education**

As indicated above, the overwhelming majority of public education expenses in Japan are paid by local governments, but the financial source of such payments is shared almost equally by the central and local governments. As has been seen, local governments contributed 86.1 per cent of all public education expense payments in 1981; but since 22.7 per cent of this amount consisted of national subsidy funds, the local burden was 66.0 per cent, or two-thirds of the total. In addition, since 15.4 per cent of local education expenses were considered to be met by local allocation tax grants, the actual local financial burden was only 53.3 per cent of the total. Of this amount, 28.4 per cent was borne by prefectures, and 24.9 per cent by local governments.

##### **(1) Increase in the National Share**

This cost-sharing structure has existed only since the 1950s. Up to the 1920s, 85–90 per cent of public education expenses were borne by local governments. Furthermore, the prefectural burden was less than 20 per cent, so that the share of municipalities was much greater, ranging from two-thirds to three-quarters of the total.

The change to the present situation, in which half of the amount is met with national funds, is the result of an increase in the national subsidizing of local education expenses. That is, the percentage of local educational expenses met by national aid and subsidy funds was less than 10 per cent before 1922, after that the amount increased rapidly, so that in 1941 it reached 40 per cent, or roughly the same as at present. The national educational expense burden thus increased along with increases in national subsidies for local educational expenses. This assignment has also made it possible for local governments to avoid excessive educational expense burdens. Thus, although the percentage of educational expenses financed by the national treasury was only 2–3 per cent of the national budget in the years up to 1920, in 1930 it was more than 9 per cent, and in recent years it has increased to the 15–17 per cent level (including local allocation tax grant), while at the same time local expenditure has remained at roughly the same level, i.e., 25–27 per cent of local government expenditures.

##### **(2) Equalization of Compulsory Education Standards**

The change from a situation in which local educational expenses were borne mostly by local governments to the present one in which the burden of prefectures is greater than municipalities was to some extent related to the diffusion of secondary education; but the main factor responsible for this change was the shifting of the payment of compulsory education school teachers' salaries from municipalities to prefectures. Thus, in 1940, when this reform of the financing system was carried out, the percentages of public education expense borne by municipalities and prefectures was reversed. The percentage of

prefectural government expenditures spent on education increased from around 20 per cent to 30 per cent, while in the case of municipalities it decreased from the previous 30 per cent or more to somewhat more than 20 per cent.

Thus, the burden of public educational expense shifted from municipalities to prefectures, and from local to national finance. As a result, educational expense standards for elementary and secondary education were considerably equalized. Comparing the highest and lowest expenditures per child in compulsory schools in the prefectures, the highest expenditure was four times that of the lowest in 1928, but in recent years the factor is less than 1.5. Also, in the case of upper secondary school education, the difference is less than 2.0 times.

### (3) Dependence on Private Schools

Nevertheless, owing to the concentration of government spending on elementary and secondary education, and especially compulsory education, it has not been possible to meet the demand for increased funding for higher education and pre-school education. As a result, the educational demand in these areas has for the most part been handled by private schools. At present, although 93 per cent of elementary and secondary school students are enrolled in national and municipal schools, 77 per cent of higher education students and 74 per cent of pre-school children are enrolled in private schools. This condition has created a considerable lack of balance in these two areas.

Since 1970, national aid to private schools has increased at a rapid pace and reached the level of 30 per cent of the current expenditures of such schools in 1981. There is still a large difference, however, in the amount of national funds invested in public and private schools. The differences in the level of public expenditure on the various levels of education also stems from this imbalance. The relatively low level of public expenditure on pre-school and higher education is mainly due to the predominance of private institutions in these areas. Thus one of the main tasks in educational financing in the future is the elimination of the imbalance of educational funding among the various levels of school education, as well as the elimination of the differences in the educational expenditure levels between the public and private sectors.

## 2. JAPANESE MODEL OF EDUCATIONAL FINANCE

Olav Magnussen of the OECD Secretariat characterizes the Japanese model of educational finance as having high unit expenditures in the public sector to insure quality and elite education while relying on low unit expenditures in the private sector to achieve expansion.<sup>1)</sup>

In 1983, 777 (73.9 per cent) of Japan's higher educational institutions (junior colleges and technical colleges as well as four-year institutions) were private, and 1,690,000 students (74.8 per cent) of the total of 2,260,000 were in these private institutions (excluding those receiving correspondence education). More than half of total expenditures for higher education in 1981 (1,718 billion yen of the total expenditure of 3,113 billion yen, excluding administrative expenses) were made in the private sector. The unit per-student expenditure, calculated by dividing total sector expenditures by the number of enrolled students, was 2,691,000 yen for the public sector but only 1,015,000 yen for the private sector. This difference reflects a large disparity in the level of educational services that is illustrated, for example, by

the student-teacher ratio: 8.5 for the public sector, 26.2 for the private sector.

The expansion of higher education after World War II has been especially conspicuous in the private sector. While the number of public institutions of higher education increased from 166 in 1955 to 272 in 1981 (1.63 times), the private sector expanded from 326 to 764 (2.34 times) in the same period. The number of students in the private sector increased 4.50 times, from 376,000 to 1,693,000, while public higher education expanded only 2.29 times, from 226,000 to 518,000. Consequently, the percentage of total student enrollment in private institutions increased from 62.5 per cent to 76.6 per cent.

If per-student expenditure (after adjusting yen to dollars at the 1979 exchange rate) is used as an indicator of service level, Japanese higher educational institutions provide less than those in other advanced countries. But, as already noted, Japan's private institutions, although they enroll about three-quarters of her college students have relatively low per-student expenditures. If this indicator is calculated only for public institutions, Japan's average expenditure per student is by no means inferior to the American or European standard. Indeed, if the 1979 exchange rate were used, we would conclude that Japan's public sector has the highest standard. It can be said that Japanese public higher education maintains quality at the international standard, while the private sector promotes mass higher education.

While the popularization of higher education in Japan since World War II has been achieved through the mechanism cited by Magnussen, four qualifications should be noted. First, the dual system existed long before World War II, when Japanese higher education was still in its "elite" stage. Thus, it cannot be viewed simply as a new device for realizing mass higher education.

Second, the difference between the public and private sectors are not limited to financial matters, but also can be seen in the substance of education and in the characteristics of enrolled students. Roughly speaking, the national colleges and universities educate those who will eventually be placed at major business enterprises or go on to graduate school. Compared with private sector students, they are more likely to major in science and engineering, to be males from the middle class, and to be high scholastic achievers. In contrast, private sector students are more likely to study humanities or the social sciences, to be average scholastic achievers, to be female, and to come from well-to-do families. Private sector graduates are more likely to find jobs in small enterprises.<sup>2)</sup>

Third, as Japanese higher education has moved into the mass stage, the dualistic structure described by Magnussen has become less acceptable to the general public. Thus, today there is strong popular pressure for the removal of the invidious distinctions between the public and private institutions.

Fourth, there is considerable institutional diversity within each sector. To begin with, each sector is composed not only of universities but also of colleges, junior colleges, and technical colleges, and within these types there is considerable qualitative diversity. For example, among national universities there are large differences of expenditure level. Within the private sector, where each institution is run by an independent managerial board, there is even greater variation. This variation forms what Amano referred to as a multilayered structure.<sup>3)</sup>

### 3. FORMATION OF THE JAPANESE MODEL

Japanese education developed very early in comparison with the nation's industrial and economic spheres. M.C. Kaiser suggests that Japan achieved universal compulsory education prior to its economic

“take-off”, whereas in most other industrialized societies the order was the reverse.<sup>4)</sup>

In 1872, four years after the Meiji Restoration, the new government proclaimed its goal of rapidly forming a national system of education that would enable the nation to catch up with the great powers of Europe and America. However, the young government lacked the finances to back the plan; thus, the original budget proposal of the Ministry of Education was cut in half, so that education received only about 2 per cent of the total expenditure of the central government.

In the Ministry of Education's 1873 budget, more than one-third was allocated for the salaries of teachers from abroad, and the purchase of foreign books and instruments. Another quarter of the budget was used to support local schools. Consequently, the appropriations available for higher education from the central government were quite small.

### (1) Expenditures per Student

Local governments, being primarily responsible for the development of primary and secondary schools, had limited resources available for higher education. Nevertheless, during the 1880s local governments established a number of institutions of higher education, and for a short period the number of students enrolled in these exceeded those in both national and private institutions. However, average per-student expenditures in the local institutions were much lower than those in the sole national university: 71 yen versus 193 yen in 1885. Many of the local institutions were phased out by the middle of the Meiji Era, for by then a division of labor had been established: cities, towns, and villages assumed primary responsibility for elementary schools; prefectures, for secondary schools; and the state, for higher education. Financial responsibility coincided with this pattern. With this resolution the central Ministry of Education came to focus most of its resources and energy on the higher educational level, and especially on the imperial universities.

Unit expenditures during the foundation period were surprisingly high compared with the economic level at that time. Per-student expenditure for national sector higher education was 209 yen in 1890: ten times the per capita National Income, which in 1890 was about 20 yen. At Tokyo Imperial University the per-student expenditure was 323 yen, 16 times per capita National Income.

These high unit expenditures in the elite institutions were indispensable if Japan was to develop an institution comparable with the best in the West. But the national treasury lacked the capacity to establish a large number of such expensive institutions. Privately established technical colleges were looked to for supplementary services, especially the supply of desperately needed educated personnel. Half of the higher educational students were in private institutions by 1890; subsequently the national sector increased to over half, but by 1920 the private sector was again numerically dominant.

Even though the private institutions were classified as offering higher education, their average per-student expenditure level in 1920 of less than 20 yen was about the same as in public elementary schools, and less than one-fourth of per-student expenditure in public secondary schools (90 yen). This expenditure differential has basically continued to the present, except the short period around 1940 when there was extensive capital investment in both the public and the private sectors.

In the nineteenth century, per-student expenditures at local universities were much lower than at national universities, but during the twentieth century this pattern has reversed. Many local institutions were reestablished as national government institutions, while those that have retained their local affiliations often include high-cost medical faculties. Because local institutions educate a small proportion



of all students and have relatively high per-student expenditures, they will often be grouped in this paper with national institutions in the public sector.

## (2) Tuition and Other Income

The remarkable difference in the unit expenditure levels of institutions derived from this differential access to government funds, for the tuition charges of the two sectors were about the same. In 1910 tuition at Tokyo Imperial University was 50 yen, the same at Waseda University, and 48 yen at Keio University. This pattern continued to the end of World War II. In 1934-35 national colleges and universities charged 120 yen, national technical colleges 80 yen, Tokyo Municipal Higher School (now Tokyo Municipal University) 120 yen, Keio and Waseda Universities 140 yen, Meiji University 110 yen, and Jissen Women's Technical College (now Jissen Women's College) 100-110 yen. Even as late as 1944 there was no change in this pattern of basically equal tuition levels among national, local, and private institutions of higher education, except that national technical schools and Meiji University raised their tuition to 100 yen and 130 yen, respectively.

The public institutions received revenues from the national and local governments. The tuition and fees made up only 6 to 20 per cent of the revenues of public institutions throughout the period before the war, whereas they constituted over 40 per cent of the income of private institutions. Public institutions received over 80 per cent of their revenues from public sources, which offered nothing to the private institutions. Thanks to the availability of government funds, the public institutions were able to spend at least three times as much per student as their private counterparts.

The conspicuous disparity of revenue and expenditure between public and private institutions since World War II is by no means a new phenomenon. Its prototype can be found in the Meiji Era, as a national outcome of the official policy toward higher education. The policy had two objectives: to achieve in the public sector, and especially at Tokyo Imperial University, a level of quality in higher education comparable with that found in the best institutions of higher education of the advanced countries; and to rely on private institutions to meet the quantitative demand for educated people.

Because of this policy many young people were able to obtain diplomas from higher educational institutions, and industries could employ people who had acquired specialized knowledge and skills at salaries much the same as those offered the graduates of secondary schools. The tuition at Tokyo University around 1885 was 8 yen, or about 60 yen including board and other incidental expenses, which was quite high compared with the per capita National Income of that time (20 yen). However, graduates of Tokyo University could expect an annual salary of 700 to 1,000 yen upon graduation. Private firms could not afford to employ such high-salaried staff. Therefore, they expressed a preference for graduates of private technical schools.

## 4. DEVELOPMENTS AFTER WORLD WAR II

Japanese culture has a strong egalitarian bias. Thus, when one individual or group acquires a special privilege, others wish to follow. This bias has influenced the development of Japanese higher education by generating strong pressure for expansion. Major institutional responses occurred in 1918 and 1943, but the greatest change came after World War II, with the Occupation's democratic reforms that enabled

Japan's egalitarian bias to achieve its fullest realization. The only force holding the public back from mass participation in higher education was the difficult economic situation due to the ravages of war. However, this economic handicap proved to be temporary.

### (1) Economic Growth and Educational Expansion

By 1956 the national economy had recovered to the prewar level (using 1934–35 as the standard), and Japan's unprecedented economic growth followed. The average annual rate of growth in National Income from 1959 to 1968 was 9.83 per cent. With this development the major obstacle to a higher rate of school attendance was greatly mitigated, and the percentage of students enrolled in secondary and higher education increased rapidly. Thus, between 1950 and 1976 the proportion of 15-year-olds entering secondary schools increased from 42.5 per cent to 92.6 per cent, and between 1955 and 1976 the proportion of 18-year-olds entering institutions of higher education increased from 10.1 per cent to 39.2 per cent. Higher education entered the mass stage.

This sudden increase in college attendance clearly coincided with the exceptional level of economic growth. Between 1955 and 1960 the rate of increase in college attendance slowed, but in the 15 years after 1960 the actual number enrolled quadrupled and the proportion of the college-age group in college trebled.

The ratio of higher educational expenditure to national income also increased, and by 1975 was double the prewar level of 1930. The share of higher education in total educational expenditures increased somewhat faster than the share for elementary and secondary education. Needless to say, the absolute amount of expenditures for higher education, including that provided by governments, expanded immensely over the postwar period. However, the government share of these expenditures did not keep up with that coming from private sources.

After the war the share of public disbursements to education in total government expenditure increased remarkably nearly doubling the prewar level. Mainly this increase was caused by the quantitative expansion and qualitative improvement of elementary and secondary education, so that public expenditures for higher education as a proportion of government educational disbursements did not change much.

The private institutions of higher education have played the most active role in realizing the numerical expansion of enrollments and in shouldering the accompanying financial burden. Between 1923 and 1975 the share of private institutions of higher education increased from 53.6 per cent to 77.4 per cent of the number of institutions, from 43.9 per cent to 74.1 per cent of enrolled students and from 18.6 per cent to 53.3 per cent of total expenditures on higher education.

This great expansion of the private sector was made possible by the rapid economic growth of the 1960s, which raised the income level, making it possible for ordinary families to meet the cost of private colleges and universities. In 1964 the average cost of sending a child to a private university was 20.3 per cent of the average disposable income of a household whose head was aged 45 to 49, but by 1974 this figure had decreased to 10.6 per cent.

Although this reliance on the private sector has enabled the quantitative expansion of higher education, the qualitative side has actually suffered. Because in higher educational institutions nearly half of all expenditures (excluding university hospitals and research institutes) go to pay the salaries of teachers and staff, and because these personnel, through their union, insist that their salary increase faster than

the cost of living, there is a strong tendency for costs to rise automatically in accordance with increases in the National Income level and regardless of improvement of services.

## (2) Disparity between Public and Private Institutions

After World War II the financial disparity between public and private institutions of higher education was magnified. The public-private difference in per-student expenditure has remained more or less constant over the postwar period. However, the disparity in the financial burdens imposed upon students has widened sharply. The amount of tuition and fees paid by students in private institutions has risen to more than twice the prewar level in real value, whereas the tuition and fees at public institutions were reduced after World War II and continued at the low level until 1975; since then, there have been increases in the fees charged by public institutions, but these fees are still less than half for the private ones.

Consequently, even though in recent years private institutions have begun to benefit from public subsidies, the ratio of tuition and other fees to their educational expenditure is about the same as the prewar level. In contrast, in the national and local colleges and universities the ratio of tuition and other fees to their educational expenditures has declined to half of the prewar rate. The inequality of the student burdens for the two sectors is much greater than before the war.

While one can point to these inequalities, all things considered, the two-sector structure served the important function of enabling Japanese higher education to expand rapidly while preserving a haven for high-quality education and research. The public sector alone could not possibly have achieved this desirable outcome. However, in recent years the two-sector structure has become subject to increasing public criticism. Its defects may well outnumber its merits.

## 5. PROBLEMS WITH THE TWO-SECTOR POLICY

### (1) Low Standard of Higher Education

Why is the two-sector policy facing a crisis? If Japan continues the policy, there will be no resolution of the general low standard of higher education. As was shown by research of the International Educational Association, Japanese school children perform exceptionally well compared with children from other advanced nations.<sup>5)</sup> However, there is little reason to believe that Japanese university students or professors surpass achievements elsewhere. Unit expenditures for elementary and the first half of secondary education in Japan are already equal to or a little higher than those in Europe and America. But the unit expenditures for higher education are still below those of other advanced countries.

A greater financial investment would not necessarily result in improved quality, but one of the major causes of the low standard of higher education must be the comparatively low level of its unit expenditure. In any case, amelioration of the impoverished financial condition of Japanese higher education is long overdue. For example, from 1959 to 1974 nominal expenditure on higher education (excluding expenses for hospitals and research institutes attached to colleges and universities) increased from 175.4 billion yen to 669.5 billion yen. However, further analysis indicates that 78.6 per cent of the increment was due to inflation, especially on expenditures for land, salaries, and physical plants, and 12.2 per cent was due to increased enrollment. Therefore, only 9.2 per cent of the increment resulted from other factors, including those related to the qualitative improvement of education.<sup>6)</sup>

There are differences between national and private institutions of higher education concerning the three factors that have contributed to the increase in expenditures. While inflation has had an equal effect on both sectors, there are significant differences with regard to the other two factors. Size of the student body accounted for only 7.3 per cent of the increase in expenditures at national institutions; in contrast, for the private sector it accounted for 14.9 per cent of the increase. Hence, the residual including those increases related to qualitative improvements was much smaller for the private sector. This contrast becomes even more conspicuous when the debt service of private institutions is subtracted from the increment; then 15.6 per cent of the expenditure increase is attributable to enrollment expansion, leaving only 6.7 per cent to be explained by the remaining factors, including qualitative improvements. Even though the expenditure increase in private institutions was higher than in national institutions – 18.4 times versus 13.3 times – the margin has not contributed so much to the improvement of quality in private institutions. This is because the increase of enrollment in private institutions vastly exceeded that in national institutions: 3.6 times versus 2.0 times between 1959 and 1974. Thus, the qualitative gap between the two sectors has probably widened.

### **(2) Difference in Service Levels**

The second problem is that the difference in the service levels of the public and private sectors remains as large as ever. Per-student educational expenditures (omitting expenditures for attached hospitals and research institutes) at private institutions in 1981 were only 44.0 per cent of those in national colleges and universities; per-student expenditures in private junior colleges were only 38.9 per cent of those in local junior colleges. These differences show up in such quality indicators as student-teacher ratios, floor space per student, and books per student. Of course, in these comparisons some allowance might be made for the fact that private institutions tend to concentrate on the “softer” disciplines of the humanities and social sciences, while public institutions emphasize science, engineering, medicine, and teacher training, all of which tend to require more resources per student. Even after allowing for these differences in emphasis, the sectoral quality gap seems immense. Then, another calculation, using adjusted numbers of students with consideration for the proportions of those in evening courses and post-graduate courses, demonstrates that per-student educational expenditure in private universities is about 80 per cent of that in national institutions.

### **(3) Financial Burden**

The third problem is the sectoral gap with regard to the financial burden that students shoulder, especially since it is increasing. In 1983 every freshman in a national college or university paid 336,000 yen, regardless of the field of study. In contrast, freshmen at private institutions paid an average of 860,000 yen, which is 2.6 times more than in the national institutions. In medicine and dentistry, beginning students at private colleges and universities had to pay an average of 4,437,000 yen in tuition and fees, 13.2 times more than at national institutions. From these facts it is clear that the tuition and other fees have become strikingly unequal between public and private institutions, whereas there was virtual equality before the war.

It may be difficult to argue that there are inequities if the only indicator is a substantial difference of expenditure level. However, when students in the private sector have to pay so much more for a service

that is qualitatively inferior, questions of equity are unavoidable. Increasingly, the Japanese public feels that the present financial arrangements for higher education are not fair.

#### **(4) Inequality of Educational Opportunity**

The fourth problem is that the high tuition and other fees of private institutions greatly hinder equality of educational opportunity. For analytical purposes, one can assume that all the households in the nation that are headed by individuals aged 45-54 years have a college-age child. If these households are divided into five strata according to annual income level and those youth actually in college are allotted to these strata, based on the report of their parents' income level, we find that students in private colleges and universities have a definite tendency to come from households of the highest income strata (30.6 per cent), whereas students in national and local institutions are rather evenly distributed over the five income levels.

If the share of students in private institutions were small, the economic bias in student placement would not constitute a serious problem. Rather, one might say that the system of finance simply placed a special tax on the affluent class. But since the overwhelming majority of higher educational places are located in the private sector, a different conclusion is reached. In fact, the current system of finance serves as a significant barrier to educational opportunity for children from low-income families.

The situation is very serious, especially in medicine and dentistry, since students at private institutions not only have to pay tuition and other fees that are more than two times greater than those at public institutions, but also find they must contribute "donations" that are several times larger than tuition and fees. As a result, the large majority of students in the medical and dental departments of private institutions are from high-income families, such as those of medical doctors and dentists. Moreover, at some of these institutions there have been scandals in which parents paid extra "donations" in order to secure a place for their children. In 1978 enforced donations were prohibited as one way to abolish these evils. However, in response, the private institutions sharply increased their tuition and other fees; for example, the average sum for tuition and fees became 4,128,538 yen for medical students and 4,814,528 yen for dental students in 1983. With an exchange rate of 235 yen to the dollar, the respective sums come to roughly \$17,568 and \$20,487 annually.

#### **(5) Financial Difficulty in Private Institutions**

The fifth problem is that the financial management of private institutions of higher education has become difficult. Private institutions are approaching the point where many prospective students will be unable to afford further tuition increases, yet the institutions will have pushed all other sources of revenue to their natural limits. Generally speaking, the students at private institutions have tended to come from higher-income families, but students from middle or lower income levels have also increased. For example, between 1961 and 1976 the average household income of day students in private colleges and universities increased only 4.7 times, while the average household income of all workers in Japan increased 5.7 times. In contrast, the average family income of national college students increased 6.1 times.

During the 1950s and the first half of the 1960s, tuition and fees at private institutions increased faster than general prices, whereas in the latter half of the 1960s, tuition rises were sharply curtailed. Behind this development were the vigorous student protests that were focused in part on opposition to the increases. A significant theme in the student rhetoric was the claim that private higher education was no longer the province of the rich, but of the masses, and hence tuition increases were no longer justifiable.

In that there was a limit to raising tuition, one alternative might have been to enlarge student enrollments. However, this policy tended to invite not only student protests but also the vicious cycle whereby a larger student body includes a larger number of students from the lower income classes. With the increase in the number of students from lower income families, there is a greater difficulty in raising tuition and fees.

The new campus and buildings purchased by private institutions during the 1960s were financed mainly with loans, which had to be repaid. By 1970, the amount spent on debt service by the private institutions (19.2 per cent of total expenditures) exceeded the new loan revenues (18.6 per cent of total revenues).

Thus the managerial latitude for private institutions had significantly narrowed, and not a few faced bankruptcy unless there were new measures taken. Anticipating these problems, in the late 1960s spokesmen from the private sector began a vigorous campaign to obtain government subsidies for private higher education. They argued that private universities were performing as important a service as the public institutions, but that they were not receiving financial support from public sources. This lack of public financial support, they maintained, was the principal factor in the difference in the quality of education they were providing. The large amount of money that private institutions were having to spend on debt service made it impossible to achieve the same student-teacher ratio as the national universities or to pay their staff members equivalent salaries.

## 6. THE 1970 REFORM AND ITS LIMITATIONS

The student protests and the lobbying by private-sector spokesmen during the latter half of the 1960s rapidly made the problem of public support for private institutions a political issue, and in 1970 a government policy of financial assistance to private colleges and universities was approved. This was an epoch-making reform of higher educational finance. Until then subsidies to private institutions had been limited mainly to low-interest loans for the purchase of facilities and equipment, whereas the new policy authorized direct subsidies for operating expenses. The ultimate aim was to cover up to half of the current expenses borne by each private institution.

The policy had an immediate positive impact. In 1969 subsidies to private higher education institutions from the national treasury amounted to only 7.8 billion yen, but from 1970 the nominal value of government subsidies doubled every two years, reaching 285.7 billion yen in 1981. Subsidies to private colleges and universities increased from 1.0 per cent to 6.3 per cent of the Ministry's budget between 1970 and 1981. However, government subsidies to private higher educational institutions are still less than 29.4 per cent of the government expenditure for national colleges and universities, and make up only 0.6 per cent of the general account budget of the government.

Since the national government decided to provide financial support for private colleges and universities, the amount of the public subsidy has increased very swiftly. Now it is an important revenue source for private institutions second only to tuition and fees. This subsidy is also a substantial burden for the national treasury.

However, the oil crisis of 1973 and the subsequent economic stagnation have somewhat dimmed the prospect for future increments in the public subsidy to private institutions. These developments have slowed Japan's economic growth rate, as well as the growth rate in the revenues of the national treasury,

thus resulting in new stringency. So, although the government subsidies have increased and their proportionate contribution to the revenues of private institutions also has increased significantly, private institutions, in order to expand their income, have since 1975 been forced to raise their tuition and fees at a higher rate than the rate of increase in the Consumer Price Index or the rate of workers' disposable income growth. Thus, since 1975 the ratio of tuition and other fees at higher educational institutions to the income of householders aged 45-49 turned upward after a ten-year period of steady decline. Given Japan's current financial difficulties, one wonders whether the private sector will be able to achieve further improvements in its financial position.

The present increase of expenditure in private institutions stems not from temporary facilities and equipment necessities, as was the case in the period of rapid construction in the 60s, but mainly from increases in operating costs, especially for personnel.

Even if the recent economic difficulties, as mentioned afterwards, were not to bring about cuts in subsidies to private higher education institutions, it is highly unlikely that the two-sector policy can disappear completely, for there is a limit to the growth of the rate of subsidization. The proposed limit is half of the running cost. Moreover, in view of the precedent of the national government paying local governments half of their expenses for compulsory education, and in light of the necessity to maintain the autonomy of private colleges and universities, it is difficult to see how subsidies to private institutions could go beyond half of their expenditures.

Also, in terms of technical details related to the subsidy calculation, 50 per cent is a difficult goal to achieve, because in 1981 the number of students actually admitted to private institutions exceeded the authorized number by 39 per cent, and the subsidy is calculated on the basis of the ratio of actual to authorized students, multiplied by half of operating expenditures per student. In addition, the amount of grants is calculated upon the standard cost of national institutions, and some institutions and items of expenses are not liable for subsidy. Thus, in 1981 the subsidy was 49.5 per cent in terms of authorized students but only 28.8 per cent of actual expenses. If the ratio of actually admitted to authorized students were improved to 125 per cent, and all educational expenditures in addition to current expenditures were covered under the 50 per cent subsidy policy, the rate of financial support would remain only 40 per cent in substance.

Thus, it is not likely that either the per-student expenditures or the tuition charges of private institutions will be able to approach the level at national and local colleges and universities. Needless to say, the gap between the two sectors could disappear if private institutions, after reforms in the present institutional framework, were granted financial support equal to that of the public institutions. In that case, however, private institutions would no longer be private.

Moreover, such generosity from the national treasury is inconceivable. For example, if per-student expenditures in private institutions of higher education (excluding expenditures for hospitals, research institutes, correspondence education, and repayment of debt) were raised to the unit expenditure level of public colleges and universities, 1,723.7 billion yen (using 1981 figures) would be required, which corresponds to 0.85 per cent of the 1981 national income. In that year total expenditures on higher education came to 1.70 per cent of the national income. The suggested change would increase total higher educational expenditures by 50 per cent, raising them to 2.55 per cent of the national income. Then, if per-student average charges by private institutions were lowered to the level at public institutions, an

additional 667.5 billion yen (at the 1981 rate) would be required to make up the revenue loss. In sum, 2,391.2 billion yen would be required from the public treasury in order to equalize per-student expenditures of private and public institutions. This amount corresponds to 5.05 per cent of the total expenditure of the central government in 1981. In fact, the government actually spent 1,704.6 billion yen that is 3.60 per cent of its total expenditure for higher education. The change would require 8.65 per cent altogether, or more than twice the actual level.

If subsidies to private colleges and universities were expanded to this extent, the financial demands of higher education still would not be ended. The extensive subsidies to private institutions would not only result in substantial improvements in the quality of the educational conditions at private institutions, but also reduce the economic barrier to college attendance for many college aspirants. In consequence, the private institutions would become both more attractive and more accessible, and the demand for higher education would be fanned.

In order to cope with the swelling demand for higher education, a restraining policy might be undertaken; for example, the establishment of new colleges and universities might be prohibited. However, in the period of rapid growth in college-age population, that policy might eventually be abandoned, because it would certainly incite even more severe competition for admission to higher education.

Obviously, the drastic measure of attempting to realize an immediate equalization of tuition charges and per-student expenditures in the two sectors is not feasible. Nor is this policy, in combination with a prohibition of the establishment of new institutions, practical.

## **7. PROFOUND CHANGES IN THE 1980s**

Since the late 1970s, significant changes have been occurring in regard to the economic environment surrounding Japanese higher education.

### **(1) Financial Crisis and Cuts in Government Expenditure**

One of the main causes of the changes is that Japan's economic growth has declined in the wake of the oil crisis in 1973. The average annual economic growth in real terms was 9.1 per cent between 1959 and 1973 but sharply lowered to 4.0 per cent for the following eight years. Accordingly, the government could not expect a steady natural increase of tax revenue any longer.

However, for fear of losing voter support, the government hesitated to make an effective response to a new environment. Instead, it stuck to a policy of 'affirmative politics' for the purpose of increasing yearly the profit distribution to all the people. That compelled the government to issue deficit financing bonds in 1975 and to abandon the 'construction bond' principle (of restricting national debt to such investment cost as is involved in public works). As a consequence, the ratio of public loans to the total government revenue drastically rose to nearly 40 per cent in 1979 and the sum of the bonds issued came to exceed 5,000 billion yen. Finally, in the 1980 fiscal year the government adopted new policies to tide over the financial difficulties. It laid restraints on further issuance of deficit financing bonds and the ratio of the revenue covered by the bonds eventually abated. Nevertheless, the amount of public bond to be redeemed still grew and amounted to 39 per cent of the GNP in 1983; hence the government bond service in payment for the loans kept on accumulating.



Although the government has attempted to assess a large-scale indirect tax as another policy for financial reconstruction, this expedient has been blocked by the tax payers' stubborn objection. As their income in nominal terms has increased, taxation has become a greater burden to the people. The tax burden ratio to the National Income has shot up by 4.3 per cent between 1975 and 1983, though it cannot match the 11.4 per cent swell during the same period in the percentage of the government bond service to the total government expenditure.

Thus, partly because of little growth in the revenue and mostly because of rapid expansion in government bond service, the national finance is falling into dire straits. The annual growth rate of the total revenue excluding the bond service and local allocation tax grant has been rapidly falling since 1980 and in 1983 it has reached a subzero growth.

## **(2) Contraction in Education Expenditure**

Under this embarrassing financial condition, the government has had to be more careful about its expenditure for education in recent years. As annual growth rates of the budget for the Ministry of Education, Science and Culture have been somewhat lower than those of the total expenditure of the central government, the budget shared by the Ministry has been shrinking every year. The recent contraction in education expenditures is due mainly to the above-mentioned swell in government bond service; concurrently, the ratio of education expenditures to the total government expenditure excluding bond service and local allocation tax grant has remained steady. Therefore, education is not the only item that had been intended for a budget cut. Owing to the fact that its share is constant, the growth rate of educational expenditure is determined by that of the total government expenditure. The annual growth rate of the Ministry's budget has been decreasing. In real terms, it reached zero in 1982, and then recorded a sub-zero level in 1983. This means that the trend towards expansion in government expenditure on education has come to a halt and turned towards contraction.

Naturally, the government has also reduced the outlay on higher education. Both its expenditure on national higher education institutions and its grants for private ones, which account for a certain part of the Ministry's budget, showed a zero growth in 1982 and a minus growth in 1983. The national sector's expenditure is still slightly increasing, but this is caused mostly by a rise in student fees and other independent incomes including that from its attached hospitals. Although the recent data related to the private sector is not available, judging from the rise in student fees which is the biggest item (43 per cent) of its income, this sector's expenditure could also be presumed to be still on the increase.

The two sectors have concurred in shifting the burden on to the beneficiary in order to meet the shortage of their financial resources. Especially, the fees paid to private institutions, where 75 per cent of the students are attending, has been raised by a rate twice as high as that in family income since 1975. As a result, the proportion of fees for private universities from the disposable income earned by 45 to 49 year-old household heads jumped from 10.6 per cent in 1974 to 17.5 per cent in 1982. This intolerable burden to the household economy might be regarded as one of the predominant factors in the decrease in applicants for higher education from the upper secondary school graduates since 1977.

## **(3) Coping with the Rapid Population Change on the Horizon**

In a deteriorating economic environment, Japanese higher education is entering a period of drastic

changes in the college-age population. Recent statistics show that the number of 18 year-olds will be 1,557,000 in 1985, reach a peak of 2,048,000 in 1992 and then decline to 1,510,000 by the end of the century. Therefore, we can estimate that, provided that the present enrollment level (35.6 per cent in 1983) is maintained, the number of first year students will increase by 175,000 and afterwards decrease by 191,000.

With the intention of coping with these changing conditions, the Ministry has recently designed a third scheme related to expansion and improvement in higher education. <sup>7)</sup> By it the Ministry seeks to increase the student places by 86,000 during the growing period between 1986 and 1992, and to cancel about a half of these places after that. These intentions, in my opinion, are in conflict with some of the aims pursued by the 1970's reform. <sup>8)</sup> Fears are entertained that these actions nullify the government and citizen's patient efforts to improve learning conditions.

First of all, under the name of temporary quotas, higher education institutions would be obliged to admit students beyond their capacity. Out of 44,000 temporary places to be created, the national and local institutions are to cover only 10,000 approximately (8,100 places within the former). This means that the Ministry is planning to rely upon the private sector to meet the remainder of the demand, 34,000 places. The rate of the excess in virtual number of students over the quota in this sector, which has lessened to 36 per cent in 1983 from 79 per cent in 1975, would no doubt rise again. The situation might be saved when the bulge has left, but students' learning conditions during the bulge period can hardly hope to escape unscathed.

Secondly, the Ministry's new scheme is against its former policy of discouraging establishment of private institutions and promoting expansion in the national institutions' share. Between 1975 and 1983 the ratio of students attending private higher education institutions has effectively fallen by 2.6 per cent from 77.4 per cent down to 74.8 per cent. For lack of prospect for financial resources, the plan does not refer to how the public and private sectors will share the task of providing 42,000 permanent places. Certainly, only a little relief can be expected of the public sector unless the present financial crisis passes. In fact, in neither the first (1976-80) nor the second (1981-86) plan did the Ministry succeed in increasing so much quota within the public sector as it had originally planned to. Especially in either 1982 or 1983, the number of places virtually provided was only one third of the estimate that they had made. Therefore, the private sector is likely to shoulder the heavier task of creating permanent places as well as temporary ones; accordingly, the share borne by the public sector will probably decline hereafter.

Thirdly, the plan would place obstacles in the way of balancing higher education opportunities among regions. The percentage of student enrollment in inner-city Tokyo and the ten second largest cities has lessened to 49 per cent from 61 per cent since 1973 when the government suggested that the universities and junior colleges situated close together in large cities should move their campuses to provincial areas. In the expansion project lately drawn up, the Ministry intends to relax the control over the development of higher education institutions so as to turn back to the old 1960s' policy. Hence, further imbalance between big cities and provincial areas is within the bounds of possibility.

In addition, a greater burden to be imposed on the students might limit opportunities for going on to higher levels of education. As mentioned before, the national, local and private institutions altogether try to make up for little growth or shrinkage in grants from the government by means of increasing their independent incomes. As the situation is affected by the expansion of the private sector, the expenses

covered by the beneficiary will necessarily have to become still higher. The financial pressure scarcely allows the Ministry to enrich the scholarship fund; in fact, to the contrary, the government is even thinking of applying a system of charging interest on the loans. Thus, education costs would be laid more heavily on the household economy. As a result, children from poorer families will possibly be denied college opportunities.

Lastly, private institutions might fall again into financial difficulties. Thanks to the increase in the government subsidies and the rise in student fees in the 1970s, they have quite recovered from an embarrassing state. Today they even give their faculties better salaries than the national institutions. In 1981 the average annual salaries of full-time teaching staff in the former was 5,765,000 yen. This figure was 16 per cent higher than those in the latter, 4,971,000 yen. Further, the personnel expenses for the private sector which had accounted for 34 per cent of its expenditure in 1970 amounted to 44 per cent in 1981. However, the rate of applicants for higher education has already begun decreasing and this downward tendency will probably be accelerated by another burden on the beneficiary. If so, the number of students might not increase in the early 1990s as is expected and the enrollment rate might not rise in the following period of shrinkage of the population, either. The long-range prospect is more likely to see a decrease in student population and some private institutions which are not attractive enough to appeal to high school graduates may be forced to close-down.

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**NOTES**

This paper is based on Shogo Ichikawa, “Finance of Higher Education” in W.K. Cummings et al. (eds.), *Change in the Japanese University: A Comparative Perspective*, Praeger, New York, 1979, with the chapters enlarged, the statistics renewed and the tables omitted.