6. Higher Education Policies and Development: Approaches to funding higher education in Japan

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Introduction

Japan's higher education system is similar to those in many East Asian countries in the sense that it comprises both public and private sectors. The public sector consists of the national universities, which are established by the national government, and local public universities, which are established by prefectures and other local governments. While the private institutions enrol three-quarters of undergraduates, the national institutions play significant roles in research and graduate education.

With the advent of globalisation and 'the knowledge society' on the one hand and the increasing pressure of financial stringency on the other, both national and private institutions are faced with pressures for change. Private institutions will have to respond to the challenge of the declining number of eighteen-year-olds. Meanwhile, from the perspective of the restructuring of the Japanese economy and society for the coming ages, reshaping higher education certainly assumes particular importance.

It is for these reasons that over the past decade the national government has set out radical changes for the institutional basis of higher education. The Ministry of Education, Culture, Sports, Science and Technology (MEXT) sought to change the nature of national universities. The Law for Incorporation of National University was enacted in 2004, thus transforming the legal status of the national universities as a kind of governmental facility with an independent legal entity. The new legal form, '*Kokuritsu Daigaku Hojin*', can be roughly translated as 'National University Corporation'.

The private institutions have experienced a radical shift of governmental subsidies, with their weight shifted from the mandatory current-cost subsidy to discretionary subsidies. For 2007, the current-cost subsidy fell from the previous year for the first time in 30 years. The government also revised the Private School Law to enhance accountability in the governance and financing of private institutions.

Yet, reforms are incomplete. There are various political initiatives to bring in further changes in the higher education system. In this sense, the future of Japan's higher education is still open. How is Japanese higher education constructed? What are its major consequences for the society and the economy? How is the Japanese government trying to change the system, and what are the major issues in this context?

In order to answer these questions, this chapter describes the outline of the higher education system and its socioeconomic contexts, describes the scheme of incorporated national universities and its problems, examines policies on private institutions in the context of declining demands, and summarises current policy debates over the level of higher education expenditure in the national economy.

Outline of the System and Socioeconomic Contexts

The Higher Education System and Enrolment

At the post-secondary level there are three types of institutions. First, technical colleges (*Koto Senmon Gakko*) admit graduates from junior high schools and require five years for completion, implying two years at post-secondary level (total enrolment in this type of institution is minor, making up less than 1 per cent of total enrolments at post-secondary level). Second, miscellaneous schools (*Kakushu Gakko*) include various types of schools—mostly private—offering a wide range of education and training. The entrance requirement varies, from completion of compulsory education to high-school completion, or even higher. Third, special training schools (*Senshu Gakko*), which require a high-school diploma for admission, provide occupational or technical training lasting usually two years. They constitute the second-largest segment of the higher education system. In most cases, these institutions had originally been proprietary schools offering various types of occupational training before they received charter from the MEXT.

Two types of institutions offer higher education: universities and colleges (both called *daigaku*, and referred to as universities hereafter), which in most cases require four years for completion, except in the cases of departments of medicine and dentistry, which require six years. Of these institutions, about two-thirds offer graduate courses, in which 99 000 students are studying for a Master's or Doctor's degree. Junior colleges resemble universities in the basic structure of their curriculum, but require two years for completion. With student bodies predominantly female (90 per cent), most of these institutions offer terminal education in non-technical subjects such as literature and home economics. Unlike the case of the community college in the United States, here, transfer from a two-year to a four-year institution is exceptional.

Figure 6.1 The school system

Recent statistics show that more than 70 per cent of eighteen-year-olds advanced to some form of post-secondary and higher education in 2007. Of those, more than half (about 37 per cent) went to four-year institutions. The distribution across different types of post-secondary education differed considerably by gender. Girls tended to go to junior colleges, but the difference has been diminishing in recent years. The shares of those entering the post-secondary courses at special training schools are similar between males and females.

Table 6.1 Size of enrolment, 2007

	Total	National	Local public	Private
Number of institutions				
Four-year institutions	756	87	89	580
Two-year institutions	434	2	34	398
Special training schools	2995	11	202	2782
Number of institutions (5)				
Graduate	262 113	153 900	14 471	93 742
Undergraduate	2 566 595	473 502	115 121	1 977 972
Two-year institutions	186 667	184	10 815	175 660
Special training schools	663 349	765	27 281	635 303
Number of students (%)				
Graduate	100.0	58.7	5.5	35.8
Undergraduate	100.0	18.4	4.5	77.1
Two-year institutions	100.0	0.1	5.8	94.1
Special training schools	100.0	0.1	4.1	95.8

Source: School Basic Survey 2007.

Legal Framework

The legal framework in which Japan's education is set is rather complex, because it comprises both public and private institutions. These differ significantly from each other with respect to the relationship with the government.

National Institutions

National universities play the most important role in developing academic research, in training researchers and in providing postgraduate education. Located almost evenly throughout the country, national universities have supported the infrastructure of regional education, culture and industry, and provided opportunities for higher education that are less dependent than others on students' economic situations. The national policy agenda, including the provision of certain professional courses and the promotion of science and technology, has been reflected more in funding of national universities than in that of private universities.

There was a major change in the legal definition of national universities in 2004. Under the old system, the national universities—established by the National School Establishment Law—were part of the government's administrative structure. The assets—including land and buildings—for the use of national universities are owned by the state. Their staff, including academic, administrative and technical staff, are civil servants. Under the National University Corporation (NUC) Law, implemented on 1 April 2004, the national universities were incorporated. Through incorporation, each of the former national universities was assigned a legal personality to become a 'National University Corporation'. The land and buildings of the universities are owned by the National University Corporations. Staff are no longer civil servants.

Private Institutions

To be officially qualified as a 'private school', an institution has to be established by a 'School Judiciary Person'. Usually, one school has its own Judiciary Person, but sometimes a few schools are established by a single Legal Person. The Board of Governors governs the Legal Person. The School Judiciary Person is a legal entity who can act similarly to regular judiciary persons such as in private enterprises; they may borrow funds from private financial agencies. They are, however, subject to government regulation.

Finances are not directly audited by the Ministry of Education, but by a certified public accountant. The regulation on finances has evolved over the years. In principle, School Judiciary Persons are not allowed to make a profit. Moreover, the present regulation allows transfers from the annual budget only for building and maintenance of the facility. In other words, they are not

allowed to accumulate what would be called capital in business corporations. This is intended to ensure that the contribution from the present student body has to be returned in the form of service to that body.

Financial Flow

The national government, through the MEXT, contributes to the finances of higher education institutions through several channels, including institutional and non-institutional funding. Public expenditure on higher education is provided chiefly by the MEXT. In the national budget, its contributions to the finances of higher education are channelled mainly through the following three expenditure items: 1) transfer to the National Schools Special Account; 2) current-costs subsidy to private schools; and 3) non-institutional subsidy including grants-in-aid for science research and lending to the Japan Scholarship Foundation.

1) Subsidy to National University Corporations

The National Schools Special Account (NSSA) collectively financed the expenditure on national institutions of higher education before their incorporation. Transfer from the national government to the account was the major means for the national government to support these institutions. It is also the largest item of public expenditure on higher education.

The National University Corporations are a markedly different funding mechanism from the present one. After the reform, the new National University Corporation remains basically 'national' in the sense that the state remains responsible for its function, providing the major part of the funds needed. Their personnel and other operational costs will be covered by 'operational grants' from the government. The grants will be 'block grants', which may be used at the discretion of each university without designated applications. It will be possible also to carry the grants over to subsequent years. The costs necessary for construction of new facilities will be funded separately.

In the budget for 2008, as much as ¥1181 billion was allocated to this item. It accounted for 60 per cent of total government expenditure on higher education.

2) Current-Cost Subsidy to Private Institutions

The total amount of this subsidy was ¥428 billion for 2008—or 22 per cent of the total expenditure on higher education.

The government subsidy to the current expenditures on private universities and colleges accounted for more than 20 per cent in 1980. The proportion has declined since then—down to 10 per cent. The subsidy is channelled, together with the subsidies to private institutions at lower levels, through the Japan Private School Promotion Foundation.

Substantial national subsidies to private institutions for their current expenditures started in 1970. In 1975, the Private Schools Promotion and Assistance Law was enacted to allow the government to contribute to private institutions of higher education the amount not exceeding half of the current expenditure. Since the provision did not specify any obligation on the part of the government, the actual amount allocated to the subsidy fund is determined by the government every year.

In the actual process of distribution, the Japan Private Promotion Foundation first estimates, according to a predetermined formula, the total current expenditures of the applying private institutions. At the same time, the educational condition of the institution is measured with one or two simple indices, such as the size of actual relative to standard enrolment, or the size of the full-time faculty relative to actual enrolment. Based on the indices, a proper value is found in a table of 'coefficients' that represents the proportion of the current costs to be subsidised. The amount of subsidy is obtained through multiplying the estimated total current cost by the particular value of coefficient. The table of multiplication coefficients thus functions as an incentive system to encourage changes desired by the Ministry of Education. The table is also adjusted to account for the total amount of government appropriations.

3) Non-Institutional Subsidies

Two types of government expenditure do not go directly to either public or private institutions. One is the Scientific Research Subsidy, which is given to a group of researchers in academic institutions. The other is the subsidy to the Japan Scholarship Foundation, which in turn will become the basis for loans to students in various types of schools. These indirect expenditures account for a relatively small proportion of the whole expenditure.

Grants-in-Aid for Scientific Research (Science Research Grants) constitute the major vehicle for the national government to provide financial support for research activities in addition to direct institutional support. In 2008, the total government expenditure for this purpose amounted to ¥193 billion, or 10 per cent of the total national expenditure on higher education. It should be noted that this amount does not include the direct expenditure on various types of research institutions supported by the Ministry of Education or by other branches of the national government.

These grants are given primarily to the research projects undertaken in institutions of higher education or in academic research institutions. Qualified researchers may apply to the Ministry of Education for grants. A typical grant would encompass one to three years. The applications are reviewed by appropriate selection committees, whose members are nominated partly by the

Science Council of Japan. The selected projects are then administered by the Ministry of Education. The awarded grant is in principle administered by the institution to which the researcher belongs, and is subject to auditing by the Ministry of Education and by the governmental Board of Audit.

Government Loans

The government provides loans through the Japan Scholarship Foundation. There are two categories of loans: one without any interest, and the other with a subsidised interest rate of about 2 per cent per annum. For 2008, the government earmarked ¥152 billion—or 8 per cent of the total expenditure—for this purpose.

The government contribution accounts for only 16 per cent of the revenue of the Japan Scholarship Foundation. Borrowing in various forms constitutes as much as 58 per cent of revenue. The repayment of loans from past recipients provides another 26 per cent of revenue.

Socioeconomic Contexts

Background: Mass participation and its legacies

In the postwar period, various post-secondary institutions were integrated to form new national universities and colleges. Since most of these institutions lacked adequate facilities, the priority in higher education finance has been their development. In order to secure enough resources for this purpose, the finances of the national institutions were standardised, and the budgets for each institution were allocated according to standardised units. The mechanism still constitutes the basis for financing the national institutions, and has been attracting criticism for its inflexibility.

In the 1960s, policies continued to concentrate the limited resources available for higher education upon the upgrading of existing national universities and colleges, rather than upon increasing their number. Popular demands for higher education, however, led to an expansion of enrolment in private-sector institutions. By the end of the 1960s, the private sector accounted for three-quarters of total enrolments. At the same time, since most of the private institutions were financially dependent solely upon tuition fees, they had to charge considerably higher fees, and yet offered less favourable educational conditions than the public institutions. The quantitative predominance of the private institutions, together with qualitative disparities between the public and the private sectors, thus created one of the most basic characteristics of the Japanese higher education system.

Number of Institutions	Total	National	Public	Private
Four year institutions	756	87	89	580
Two year institutions	434	2	34	398
Special Training school	2995	11	202	2782
Number of Institutions (%)				
Four year institutions	100	11.5	11.8	76.7
Two year institutions	100	0.5	7.8	91.7
Special training school	100	0.4	6.7	92.9
Number of Students				
Graduate	262.113	153900	14471	93742
Undergraduate	2566595	473502	115121	1977972
Two year institutions	186667	184	10815	175668
Special Training school	663349	765	27281	635303
Number of students (%)				
Graduate	100	58.7	5.5	35.8
Undergraduate	100	18.4	4.5	77.1
Two year institutions	100	0.1	5.8	84.1
Special Training school	100	0.1	4.1	95.8

Figure 6.2 Change in participation rates

Source: School Basic Survey, various years.

Equity

Japanese society deems equity in educational opportunities among the highest priorities in the public sphere. Any incidence of mistreatment in entrance examinations causes a major social reaction. There is strong social resistance to raising tuition fees—not only in national institutions but also in private institutions. Japanese families have tended to sacrifice their wellbeing to send their offspring to university.

Indeed, various surveys and studies have shown that the chance of advancing to higher education is determined by academic achievement at high school to a much higher degree than by economic factors. If a student demonstrates a high level of academic achievement, their chances of participating in higher education are likely to be very high, irrespective of the family's income.

Nonetheless, there are significant differences in participation rates across family income levels. Figure 6.3 summarises the estimated participation rate in higher education among high-school graduates by family-income quintile class.

Figure 6.3 Participation rates by family income

Source: 2007 Tracer Survey on High School Students, University of Tokyo Center for Research in University Management and Policy Studies.

From the figure, it is apparent that the participation rate is as high as 50 per cent for males even in the lowest quintile class. Nonetheless, it is apparent that there are distinct differences in participation rates by family-income class. The elasticity of the participation rate with respect to family income tends to be greater with females and with students in rural areas.

It should be noted that a substantial part of these differences by family income rises from the indirect effect through academic achievement: the children from low-income families tend to achieve less academically in high school, and this causes the major hindrance to participation in higher education. Nonetheless, there are distinct direct effects of family income, and these tend to be strongest with female and rural residents.

Another dimension of the equity issue is the sharp hierarchy among the institutions with respect to selectivity, which implies that it is not whether you ever enter university, but which university you enter, that really matters. It is also known that students at prestigious universities tend to have family backgrounds characterised by the higher educational and occupational status of their fathers. It is likely that the indirect influences of the parents on their offspring are routed through non-school investment. If it were true, the non-school expenditure could be significant in reproducing social inequality. Yet, researchers have not found conclusive evidence that such expenditures in fact affected achievements in examinations.

Policy Environment

At the same time as Japan is struggling to rectify the negative consequences and confusion arising from the legacies of past expansion, it is faced with similar challenges to those experienced in other countries.

One such current is the coming of what might be called the 'knowledge society', in which knowledge assumes an increasingly central role. That such trends are becoming salient will be apparent to many. Fierce competition and rapid innovation have made it inevitable that research and development become critically important in producing competitive consumption goods.

Another important trend is the move away from the predominance of the government and towards the utilisation of market mechanisms. Some argue that these moves are a reflection of financial crises brought about by exponential increases in social spending. Others argue that such moves reflect more fundamental shifts in the mode and direction of social development. Since the increased diversity and complexity of the modern society and its needs necessarily have made centralised decision and control obsolete, it is argued that market mechanisms will be the only way to deal with the diversified and multidimensional changes.

In this context, Japanese higher education is faced with serious challenges. Among them there are three major issues with significant implications for the future of higher education. The first is the incorporation of national universities, which will significantly alter not only the nature of national universities and colleges, but also the structure of higher education finance. Second is the restructuring of the private sector of higher education due to the decrease in the size of the college-going population. The third is the current debate over the size of expenditure on higher education in the national economy, which presumes a particular importance in envisaging the new stage of development of higher education in Japan.

Each of these three issues will be examined in the following sections.

Incorporation of National Universities

National universities were transformed into National University Corporations in 2004.

Background

The idea of transition from the old national universities to the new model can be summarised as in Figure 6.4. In the old concept, the national university had two sides. On one hand, it was part of the government organisation. Its budget was specified in the national budget, and the purpose of the expenditure was specified in the budget details. The faculty members and administrators were government employees. The facilities were the property of the government. On the other hand, the academic side of the operation was governed by the faculty members.

Figure 6.4 The relationship between the government and the university

In the new model, the government and the university are two separate legal entities. This raises two questions. First, how should the national university be governed as an independent entity? Second, how should the relationship between the government and the university be regulated? Obviously, the government loses its direct power to control the university, yet the government provides support to the university. The support and the performance of the university have to be balanced, and proper incentives for efficient use of resources should be built into this regulation. In a way, it is a contract between the government and the university.

These questions show that incorporation of national universities is critically dependent upon the design of the governance of the institution and the device of a latent or overt contract between the government and the university.

While the creation of the NUC scheme was a direct product of many political and economic factors, the design of the scheme was based on a body of logic. Basically, it was influenced by the 'New Public Management' or institutional economics that has gained momentum in the past two decades. At the core of that thought are the relationship between the 'principal' and the 'agent', and the explicit contract between the two. The scheme of the independent administrative institution is built on this concept: the government as the principal commissions an independent administrative agency to achieve a public purpose. The terms are specified in the mid-term goals and plan; subsequently, the level of achievement will be evaluated, the result of which will lead to consequences including financial rewards or punishment, or even discontinuation of the contract.

It is argued that by separating the principal and the agent, the agent will gain efficiency. The agent—free from the strict and minute control by the government—has to face competition with other agents, and is able to exploit local knowledge and initiate innovation. Moreover, it is given an incentive to gain efficiency through explicit goals. Provided with these mechanisms, the government is able to gain efficiency in the provision of its services and become more accountable.

In order to realise the assumed function, it is imperative that the contract should be clearly set out with an instrument to measure the level of achievement. It is also necessary that the chief executive of the agent should be designated as personally responsible for the contract, although the institution as a whole functions as an agent of the government. The chief executive then directs the whole organisation towards achievement of the set goal, and the members of the executive board assist the chief executive.

The same argument should be applied as the justification for the construction of the NUCs, as one of the variations of the independent administrative agency. From this perspective, it is natural that the mid-term goals and plans, and the corresponding evaluation, should assume the core of the new relationship between the government and the NUC. It is also understandable that the president of the NUC has to be given unusually strong powers. There are arguments that the theoretical framework cannot be simply applied to universities, which encompass a very wide range of objectives, and rely on the spontaneous intellectual activities among the members.

Legal Status and Governance

The basic framework of the NUC is outlined in the NUC Law of 2004.

Legal Status

Under the NUC Law, each NUC constitutes a legal person under the Civil Law. As a legal person, it is able to sue other legal entities and can possibly be sued by others. It owns its own assets, which are called the capital of the corporation, comprising mainly the buildings and land that were contributed from the government at the time of incorporation. In principle, it is supposed to be able to borrow funds, issue bonds or invest in other entities, but the government maintains strict conditions and restrictions.

Governance

By stipulations of the law, each NUC has a president, an executive board, an academic senate, a management council and auditors. The relations among these bodies are presented in Figure 6.5. In this scheme, the president assumes the ultimate power and responsibility for decision making and execution, while important decisions have to go through deliberation of the executive board. The academic council, upon request by the president, deliberates on academic matters and reports to the executive council and the president. Meanwhile, the management council—more than half of the members of which should be selected from outside the university—gives advice to the president. The auditors are selected by the university, but appointed by the Minister of Education and report directly to the minister.

The president—who was elected by the academic senate under the old system—is now elected by the committee for selection of the president. The committee consists of equal numbers of representatives from the management council and the academic senate; the president and the members of the executive board may join as members. The person elected is, in principle, appointed by the Minister of Education as the president. The length of term and the exact procedure taken for election are to be decided by each university. The committee also has the power to relieve the president of duty through a procedure similar to the election.

The scheme of incorporation does not necessarily require a change in the status of the workers from government employees. The cabinet, however, which was politically committed to the restructuring plan of the government organisations, pushed forcefully to change the employment status. Meanwhile, resistance from the national universities failed to gain momentum. Consequently, all the academic and administrative members of the NUCs changed their status

from government employees to employees belonging to one of the NUCs. The pension and healthcare funds, however, remain practically a part of those for government employees.

Figure 6.5 Governance structure of the National University Corporation

Because of the strong power given to the president, their selection process bears not only symbolic but also practical significance to the governance of the NUC. While the NUC Law required that the president should be selected by a presidential selection committee consisting of equal numbers of representatives from the academic and management councils, it does not stipulate the details for the procedure. Depending on the design of the procedure, it could lead to a significant departure from the tradition of participatory governance.

As it turned out, most NUCs bypassed this problem by implanting the participation of faculty members in the new selection process. In most cases, the presidential selection committee decided to include a ‘reference ballot’, in which individual faculty members cast a vote for their preferred candidate. The details of selection of the candidates and the specific rules for the reference ballot differed substantially by institution.

Nonetheless, a few NUCs started considering alternative schemes. The Board of Directors of Tohoku University—one of the seven former imperial universities—decided in early 2005 that the next president would be elected by the presidential selection committee itself, and direct involvement of the faculty members would not be allowed. It remains to be seen if this practice will be diffused to other NUCs.

Governance Structure

For each NUC, the first task for transition was to organise the basic governance structure. According to the NUC Law described above, each NUC organised an executive board, academic council and management council.

The number of members of the executive board is stipulated by an ordinance issued by the government basically according to the size of the institution. Various surveys showed that by far the majority of the board members were recruited from the professoriate—most of them former vice-presidents and faculty deans. In many NUCs—mostly those of large size—the boards included a non-academic, who was assigned to oversee managerial and financial matters. Many board members carried the title of vice-president.

The academic board—as the NUC Law stipulates—consists mainly of faculty members. In most universities, the size of the board, while not stipulated by any ordinance, tended to be smaller than the former university council it replaced. In most universities, the members were elected in the faculty meetings. The new council practically retained the conventions and procedures taken in the old council.

The size of the management council was subject to the discretion of each NUC. In most cases, they included executives in local businesses. It was common to include a member of the local mass media. Some NUCs appointed former government officials.

In most NUCs, each executive board member was assigned to a specific area of administration such as education, research or financial management. The board members were designated to direct the particular administrative section corresponding with his/her assigned function. There were differences among NUCs with respect to the secretary of the university, who had been practically nominated by the Ministry of Education. In some NUCs, the secretary was appointed to be one of the board members, and the title was abolished. In others, the title and the position were retained.

Figure 6.6 Old and new schemes of financing national universities

Finances

In the old system, the finances of national universities were constituted as part of the government budget; they were classified into separate lines, and the expenditure had to be made for the designated purpose of each line. Tuition fees collected at the national universities were treated as revenue for the national treasury. On the expenditure side, the national universities had to follow the budget and various government regulations in spending the funds. Moreover, the number of personnel was under the strict control of the government. On the other hand, necessary costs for the operation of the university were, in principle, assumed to be borne by the government.

The NUC Law stipulates that the NUCs are financially autonomous entities with their own budgets. After incorporation, the government subsidy was given to each university as a lump sum, without any division by line item. The NUC was, in principle, given basic autonomy over the expenditure of the budget.

With the enactment of the NUC Law, the government contributed most of the facilities, land and buildings to the NUCs. The evaluated prices of those facilities constituted the capital fund of each NUC. In contrast with the old system, in which the budget for a fiscal year had to be executed in the designated year and accounted for within the fiscal year, in the new system, the NUCs were allowed to carry the balance to the next accounting period. Within a limit, each university is free to make investments: it may borrow money either from government or from commercial banks; it also may issue a bond with the permission of the government.

At the same time, the NUC Law stipulates that the finances of NUCs will be accounted for according to the NUC Accounting Standards, which are similar to the accounting standards required for business corporations. In the old system, the budget was divided into line items, and the accounting procedure simply implied executing the budget accordingly without any infringement of governmental regulations. In the new system, accounting takes the form of double-entry bookkeeping. The financial report should include a balance sheet, profit-and-loss statement, cash-flow statement and other necessary statements.

One of the critical issues in this reform was, naturally, the level of government contribution to the NUCs. While the law does not provide for specific mechanisms to determine the level of government contribution to the NUCs, the 2003 *Report of the Expert Committee for Incorporation of National Universities* outlined the basic principle. First, the necessary amount of total costs was calculated for individual areas of study employing a formula that involves such indices as the number of students and teachers and other expenses and their corresponding unit costs. From the required amount, the institution's revenue is subtracted

to derive the necessary amount of government subsidy. In other words, this method assumed the basic principle that the government had the responsibility to secure the necessary level of funding for each institution.

The last, and probably most significant, aspect is finance. While the NUC Law stipulates the framework of the NUCs and their relationship with the government, it does not specify the financial obligation on the part of the government to support the NUCs. As a result, there is a substantial range of alternatives in the level and methods for government financial support. That, however, will be a decisive factor for the nature of the NUC in significant aspects. There are three sets of important issues revealed in the process of implementation.

Government Subsidy

It was stated above that the original design laid out in the 2003 *Report of the Expert Committee for Incorporation of National Universities* assumed that the government remained responsible for securing necessary levels of revenue, calculated on a formula, for each institution. In other words, the government would maintain the ‘compensation principle’—implying that the government will fully compensate for the gap between the calculated cost and the actual income of each university. This principle had to undergo a series of significant alterations in the following periods.

In the autumn of 2003, when the NUC Law had been enacted and the national universities started preparation for incorporation, the Ministry of Finance released its own plan for funding the NUCs. This plan did not follow the expert committee that proposed a set of formulas to derive the amount of government contribution to each institution. Instead, the Ministry of Finance indicated that each NUC would be given the amount that the institution received in the previous year irrespective of any change in the numbers of students and faculty members. A fixed rate of across-the-board reduction in government expenditures would apply to the allocated amount. In the case of NUCs, the rate will be 1 or 2 per cent. The Ministry of Education, in a political climate of government restructuring, had no alternative but to oblige.

In the short run, this might not make much difference to the original design with respect to the amount of subsidy, but it implied a significant shift in the principle of government contribution—not only were any prospects for increasing the allocated budget closed, but also the compensation principle was abandoned.

Government Regulations

Meanwhile, the Ministry of Education retained a substantial number of regulations on finances. Even though the government subsidy is allocated

in a lump sum including wage costs, the ministry enforces NUCs to limit the numbers of academic and administrative employees to the level specified in the mid-term plan. This in effect allowed the ministry to maintain a significant level of control over the management of NUCs. Also, each NUC has to get approval from the Ministry of Education to record either a surplus or a deficit for a given fiscal year, to borrow funds from banks, to issue bonds, or to make investments. In each of these cases, the NUC has to satisfy rigorous conditions.

Under these circumstances, the NUCs are left in a situation where they have to seek to survive with gradually decreasing funds under still heavy government control. Over time, it is likely that these regulations will be gradually reduced to allow increased levels of financial autonomy to the NUCs. On the other hand, that would necessitate a new set of instruments for the ministry to oversee management. How such arrangements should be made is still unclear.

Financial Management and Accounting

Prior to the reform, each national university was given the budget separated into line items. Because the formula to calculate the allocated budget was known, it was clear how much each faculty received in the budget. Under these conditions, the faculties had a strong basis for demanding allocation. On the other hand, the university administration was given little room in which to manoeuvre.

With the transformation to NUCs—which receive government subsidies in a lump sum—the university administrators are given a considerable degree of arbitration. In distributing the funds to faculties and other constituent units, most universities set the basis as the previous year and then deduce institutional funds by applying the same rate across the board. Through this measure, most institutions increased the resources at the discretion of the institutional level. Some institutions introduced redistribution schemes to provide incentives related to achievements in research. These reforms appear to indicate that management at the institutional level is increasing resources at their discretion.

Meanwhile, the disappearance of line items implies that each institution has to have sufficient ability in financial management in order to gain efficiency on the one hand and to avoid risks on the other. The Accounting Standards for NUCs were designated exactly for that purpose. For most of the administrative sections, however, it was difficult to introduce the new bookkeeping system. Moreover, the organisation of universities is extremely complex, with numerous sub-units cutting across each other. It is, in a sense, a nightmare for cost accounting. Moreover, each unit has its own source of income through research funding.

It will take time to use the new accounting system for strategic financial management. This implies that the financial mechanism of NUCs, as it currently stands, is not only incapable of leading to appreciative gains in efficiency, it also involves substantial risks.

Relations with the Government

The relationship between the government and each NUC—which is legally independent of the government—is regulated mainly by mid-term (six-year) goals and the corresponding mid-term plan, which is in effect a contract between the two. Figure 6.7 presents the basic framework.

Mid-Term Goals and Plan

As the law stipulates, the Ministry of Education assigns each NUC mid-term goals that specify the goals to be achieved within six years in enhancing the level of education and research, in improving efficiency of management of the institution, and in other areas. Based on these goals, the university should prepare a mid-term plan to achieve the specified goals, which should be approved by the government. Reflecting criticism that this clause will give the government overwhelming power over the NUCs, both Houses of Parliament passed attached resolutions that required the government to respect the autonomy of the NUCs. In practice, the Ministry of Education asked each NUC to draft its mid-term goals, and then approved them without substantive changes.

Evaluation

Towards the end of the six-year period, the newly established Council for Evaluation of NUCs will evaluate the levels of achievement of the goals with the assistance of the National Institute for Academic Degrees. The law states that, depending on the results of evaluation, the government will examine the need for continuation of the institution and necessary actions to be taken by the institutions. The last clause implies that the results might be related to government subsidy to the institution. The attached resolutions of both Houses of Parliament again draw attention to the possibility that this mechanism could lead to encroachment on academic freedom, and request the government to take precautions. Further details in either the method of evaluation or the consequences of evaluation have not yet been worked out.

As stated above, each NUC is, in principle, an independent organisation under the Public Law, implying that the finances are completely separated from the government even though it may receive subsidies from the government.

The above discussion indicates that the backbone of the scheme of the NUC lies in the cycle encompassing goal–evaluation–reward. That is, the success of the scheme is critically dependent on the power of the evaluation methods as the key of the cycle.

The Independent Administration Agency Law stipulates that the government may take a range of actions, including discontinuation, against the institution after deliberation on the results of evaluation. This principle applies to NUCs. The report of the experts committee under the Ministry of Education indicated that evaluation results in a mid-term period would be reflected in the mid-term goals, and, as a consequence, the level of government subsidy, for the following period. Exactly how they are related was not specified in the report, leaving the issue to be solved after the new scheme is implemented.

The process involves a wide range of practical questions. The central problem is that the mid-term goals, and accordingly the corresponding process of evaluation, have to cover the whole activity of a university. At the same time, the results of evaluation should be given a reasonable level of reliability. Since the results entail significant consequences for the NUCs, including budget allocation, the lack of reliability should lead to a number of problems including with the credibility of the scheme as a whole and the collapse of the incentive system that the scheme was supposed to create.

Figure 6.7 Mid-term goals and plan cycle

Reactions and Problems in the Future

It is beyond the scope of this chapter to describe the complex process of evaluation. This is probably the most comprehensive and the most ambitious scheme of evaluation in the world. It is comprehensive in three ways.

First, it involves both judgment on achieving the goals specified in the mid-term plan on one hand and evaluation of the absolute levels of education and research on the other. While the logical construct of incorporation requires only the judgment of whether the mid-term goals have been achieved, it does not necessarily demand judgment on the absolute levels of academic abilities. The government and the National Institution for Academic Degrees (NIAD) argued, however, that in order to make judgments on goal attainment, one needs the basis of evaluation on the levels.

Second, it requires both self-evaluation by the university and objective evaluation by NIAD. The Incorporation Law requires that the incorporated universities not be subject to arbitrary control by the Ministry of Education. In other words, the mid-term goals are set as an agreement between the ministry and individual universities. This principle applies to the evaluation procedure. Self-evaluation is also indispensable for practical reasons. Since the evaluation has to be undertaken for all 80 NUCs at the same time, NIAD is not able to start gathering information by itself.

Third, its scope covers both education and research—at the institutional as well as the school level. Even though evaluation of research is difficult, it might still be feasible if enough time and resources are provided. In contrast, evaluation of education raises more serious problems. One might remember that in the United Kingdom, where research assessment exercises have been undertaken for some time, assessment of education has not been implemented even though it was persistently proposed by the government. In the case of the incorporation scheme in Japan, evaluation of the mid-term goals, which play the role of a comprehensive contract between the government and the university, has to cover the whole scope of those goals including education.

These issues point to the fundamental assumptions of the scheme built on contract and evaluation. If the contract covers a single or very small number of objectives, it is likely that the results can be easily evaluated and translated into rewards or punishment. That could lead to higher levels of accountability and efficiency. On the other hand, to the extent that the contract covers a wider range of objectives, and for longer periods, the evaluation could become technically involved and difficult.

It is evident that such a comprehensive evaluation entails an enormous amount of costs, if it is feasible at all. A more serious problem is how the results will be connected to the next mid-term goals. This critical point is still unclear.

It should be evident from the discussion above that incorporation in fact introduced a range of radical changes in the ways the national universities operate. How was it received by the universities, and where are the problems?

In 2006, two years after incorporation, a survey was undertaken to ask the opinions of the presidents of NUCs about the consequences of incorporation (Figure 6.8). The results show that, so far, the presidents believe incorporation has, on the whole, had positive effects. They particularly thought the reforms made management easier and activities more efficient. It is, in a way, a reflection of the frustration they harboured under the old system.

Figure 6.8 Presidents' opinions of the consequences of incorporation

Source: Center for National University Finance and Management (2007:Appendix).

The ultimate judgment, therefore, should be given after the cycle of the first mid-term is completed—that is, after the scheme of evaluation is implemented and the next mid-term goals are set.

The uniqueness of the NUC model derives from its direct application of the theoretical scheme based on the principal–agent relation with contract–

evaluation sequence. Even though such concepts are used in the analyses of the existing economic institutions, the Japanese NUC system is probably the first case to apply it to the design of public institutions. As discussed above, such a construct engendered a number of contradictions and ambiguities. At present, the factors of the state facility model still remain strong, and they function as an adhesive to prevent the contractions from creating real problems. Remaining regulations from the Ministry of Education, academic participation in the election of the president, and inertia among administrators are among such factors.

Over time, however, such compromises will have to be replaced with a more realistic scheme for the relationship between the government and the NUCs and the internal governance and finance in each NUC. Such a scheme will include a regime of government monitoring and partial evaluation, together with stronger capacity in financial management. One thing that is clear is that, for the time being, the reform has created among a substantial proportion of academics an atmosphere that each national university has to seek its own way to realise its wishes.

Moreover, the current political climate, moving towards radical restructuring of the government organisation and reduction of government outlays, has started to threaten the basis on which the original design of the NUC scheme was built. If things move further in that direction, the NUC scheme could lose its original characteristics and shift to become a different entity.

Between the innate problems in details of the original design on one hand, and the political climate shifting towards further radical restructuring of the government on the other, NUCs will keep exploring their destination for some years to come.

Financial Crisis Among Private Institutions

The second issue is the decline in the demand for higher education as a consequence of the diminishing size of the population of eighteen-year-olds.

Demographic Shift and Private Institutions

Japan's higher education sector experienced a major rise in participation rates until the mid-1970s. Since then, the momentum of expansion has been rather contained, due to the policy of restraint of the Ministry of Education on the establishment of new institutions and the expansion of existing institutions. The policy was concomitant with a new government subsidy to private institutions. Through these schemes, the Ministry of Education regained the

power to control the total enrolments in the private sector of higher education. Through this power, the ministry has been able to sustain the quality of higher education by limiting the proportion of high-school graduates entering college. At the same time, existing private institutions have been able to enjoy a practical monopoly in the market for higher education at the undergraduate level. Such a situation had to change due to the decreases in the college-going population.

The size of the college-going population reached its second peak after World War II when the second baby-boom generation reached eighteen years of age in about 1990 (Figure 6.9). The growth of the population under limited expansion of supply resulted in a decrease in the participation rate. The following cohort, however, started shrinking rapidly. The size of the eighteen-year-old cohort, after reaching the two-million level, shrank to about 1.5 million by 2000. Since then, the decline has become slower, but it is continuing steadily. It is envisaged that the population of eighteen-year-olds will drop to about 1.2 million in 2010. The population will remain at that level for the foreseeable future.

Until recently, the participation rate had been steadily increasing—to cancel out the effect of the decrease in the number of eighteen-year-olds. In fact, the participation rate, which was less than 25 per cent in the early 1990s, grew to 46 per cent in the spring of 1998.

Nonetheless, it is unlikely that the participation rate will keep growing at the same pace as before. The decline of the number of eighteen-year-olds will create redundant enrolment capacity in universities, and the supply–demand gap will disappear. The selection of students will undergo significant changes, and it is likely that the economic benefits of a university education will decline at least for some students. Moreover, some private institutions have begun to face the possibility of insufficient applicants for admission, and hence the chance of closure.

In fact, many institutions—most of them with a relatively short history and small in scale—are faced with the effects of demographic shift already.

The direct consequence of the shrinking market will be the prospect of institutional closure. Some institutions are already facing a decline in applicants, and, in a number of cases, the freshman class failed to fill the legal sitting capacity. The situation will be further aggravated towards the next decade. It should be noted that the effect of the demographic shift is not the same across the institutions. In general, those institutions at the higher tiers in the institutional hierarchy are least affected by this change. On the other hand, those at the bottom will be hit hardest. Most of these institutions are new and small—the

newcomers among the entrepreneurial type of institution. Because the average size of enrolment is small, the number of institutions affected will be large for a given size of total reduction in demand.

Figure 6.9 Number of eighteen-year-olds

The reduction in the size of enrolment will inevitably affect the financial health of the institutions, in some cases leading to closure of the institution. In a sense, such a crisis has already started. The risk of closure can be measured by two indices

- *fulfillment rate*: (number of entrants)/(enrolment capacity)
- *application rate*: (number of applications for enrolment)/(enrolment capacity).

The 'enrolment capacity' is prescribed by the National Council on University Establishment for each institution. Even though the government does not have authority to enforce the capacity, admission of students significantly above this capacity will result in reduction in, or in severe cases cancellation of, the Current-Cost Subsidy from the government. On the other hand, if the institution is enrolling less than the capacity (and therefore the fulfilment rate falls significantly below 1.00), the institution will not be able to collect sufficient tuition income to support its operations.

Meanwhile, some of those institutions admitting capacity might be very selective in accepting students. Those institutions are receiving fewer students than the capacity to maintain the academic standard for admission as dictated by their policy. From this perspective, the application rate is an important source of information.

The two indices for the year 2004, derived from the data made available for 493 institutions, or about 90 per cent of the total number of private institutions, are presented in Figure 6.10. Each institution is represented by the dots in the space where the vertical axis stands for the fulfilment rate, while the horizontal axis for the application rate is in logarithmic scale.

The space is further divided by two lines. The horizontal line represents the fulfilment rate of 0.9, implying that the institutions below this line are admitting less than 90 per cent of capacity. The vertical line indicates the application rate of 1.0, signifying that the institutions to the left of this line are receiving less applications than the capacity. By combining these lines, the institutions can be divided into three groups: 1) low-risk institutions accepting more than 90 per cent of capacity; 2) medium-risk institutions, which are receiving less than 90 per cent of capacity, but for whom the application rate is higher than 1.0; and 3) high-risk institutions that are located in the lower-left quadrant, receiving fewer than 90 per cent of capacity and for whom the number of applying students does not reach capacity.

The figure shows that more than 100 institutions belong to the medium and high-risk categories thus defined. There are 44 institutions, or 9 per cent of the total, that belong to the high-risk group. Most of the institutions in the high-risk group are small and relatively new. This implies that their financial basis tends to be weak.

Figure 6.10 Distribution of private institutions by fulfilment rate and application/capacity ratio

Viability of Institutions

Despite the large number of institutions in the high and medium-risk groups, there have been very few cases of closure as a consequence of genuinely fiscal reasons. Many institutions appear to have sizeable margins in their current revenue over costs. Some of them have succeeded in slashing costs by either decreasing the number of employees or cutting wage levels. Nonetheless, the prospect of closure is definitely looming. How many, and when, institutions will have to close depends on many factors and remains uncertain at this point.

What will happen if an institution is faced with financial difficulty? There are a few scenarios. In the most peaceful case, the institution might seek financial help from an individual or an organisation. Or, another institution might try to acquire the university in difficulty to take them under its wing. If the prospect for such a solution is small then the institution can declare bankruptcy: the students will be transferred to neighbouring institutions. In the worst case, the School Juristic Person (SJP) may stop operations, and, even after liquidation, significant debt and unpaid salary for the employees might remain. Not only might the employees and creditors not be able to recover their losses, the students might have to move to another institution and pay for tuition again (MEXT 2005).

Social attitudes towards the prospect of closure remain ambiguous. The media has been reporting the likelihood of closure with a tone that suggests such incidences are inevitable. Some social critiques are arguing that such natural selection is healthy and useful for improving the efficiency of higher education. Nonetheless, in the event massive closures take place, the public's attitude might change quickly.

As a consequence of these changes, private institutions appear to be increasingly polarised in their interests. Accordingly, they will seek very different directions towards the future.

On one hand, there are a number of institutions that are positioned at the higher echelon of the market and therefore are faced with less acute risk in the market. These institutions tend to be large or medium sized, and are either the voluntary or the sponsored type. Their strategic goals are to enhance their market position and to increase competitiveness not only against their peers but also against the national institutions.

If these institutions wish to achieve these goals, they have to achieve certain conditions. They tend to be less attached to the Current-Cost Subsidy. They are also less persistent in following the financial scheme of the Accounting Standards. They are already receiving subsidies competitive with those of

primary institutions. They might welcome the shift from institutional subsidies to individual subsidies through either a direct grant to students or some form of voucher.

A more significant issue will be how donations to private institutions are treated in the tax system. Under the current system, donations to private institutions may be deducted from taxable income (income deduction) to an extent, but not from the amount of tax itself (tax amount deduction). The institutions will have to seek the tax-deduction status in order to become competitive with public institutions. This change should, however, require corresponding changes in governance. Being given tax-amount deduction status implies that the organisation is permitted to accumulate public funds as assets. The asset should be owned by a group of responsible persons who cannot get any benefit from the operation of the university. The decision making by the membership group, or the practice of participatory management, might have to be seriously questioned.

On the other hand, there are a number of institutions that are faced with the pressure of reduction in demand. Many of these institutions are striving to strengthen their competitiveness in their segment of the market and survive the struggle. From this standpoint, the provision of the Current-Cost Subsidy is indispensable not only for its value as a source of stable income, but also as a sign of recognition by the national government of their function as an educational institution. They would also be opposed to the further disclosure of finances, on the ground that such disclosure could generate misinformation. The entrepreneurial-type institutions particularly are unlikely to change their governance and management. In that sense, they would not expel the element of private ownership. In this sense, they might take the direction of entrenchment as far as it is possible.

Ironically, the entrenchment strategy could be challenged by an unexpected competitor: for-profit institutions currently allowed on a trial basis. The proponents of the for-profits argue that the present private institutions established under the School Juristic Person are in fact generating interests for the people engaged in management. At the same time, it is likely that some of the bankrupt universities might be purchased by the enterprises that wish to build for-profit institutions. In this sense, some part of the private sector is moving towards the private domain.

The discussion above indicates that the private higher education sector in Japan has been changing—and it will keep changing towards the future. There has been a wide variation among private institutions, and this will continue—albeit in a different way—in the future. Such variation and changes are created by the dynamism of the market forces in higher education together with the shifts in demographic, social and political factors.

National Expenditure on Higher Education

The most fundamental issue in the financing of higher education is the level of expenditure on higher education in the national economy. Recently, there have been public debates concerning this issue.

Higher Education Expenditure in the National Economy

One of the outstanding characteristics of Japan with respect to higher education finance is the low level of government expenditure on higher education relative to the size of the total economy. According to the statistics of the Organisation for Economic Cooperation and Development (OECD), government expenditure on higher education in Japan as a proportion of GDP stands at 0.5 per cent, compared with the OECD average of 1 per cent. In fact, Japan, along with Korea, is ranked at the bottom among the OECD countries in this respect. On the other hand, the higher education system is heavily dependent on private contributions. The OECD statistics show that private expenditure on higher education stands at 0.8 per cent of GDP, compared with the OECD average of 0.4 per cent. Indeed, this level ranks third among OECD nations, after the United States (1.9 per cent) and Korea (1.8 per cent). The high level of private contributions is a reflection of the high share of private institutions in enrolment and their dependence on tuition revenue. This pattern of dependence on private contributions is not unique to Japan in the East Asian region.

In Japan, this characteristic derives from the unique path along which the country's higher education system has developed. As indicated earlier, the demands for higher education in Japan started growing at relatively early stages of its economic development. As the government still lacked the financial resources to supply sufficient rooms in public institutions, the excess demand had to be met by expanding the private sector of higher education. After Japan went through a period of rapid economic development, it shifted towards a welfare society by promptly raising the levels of social expenditure, including on higher education. The government started the Current-Cost Subsidy in 1975, which was intended to substantially increase the level of public expenditure on higher education. This development was, however, short-lived. By the end of the 1980s, a rising budget deficit became apparent and the government turned to a stringent fiscal policy. This shift had to be accelerated even further in the later period by the explosive increases in expenditure on national pensions and health plans on one hand, and the economic recession after the boom on the other.

There have been persistent demands for greater government expenditure on higher education, and one of the grounds for the argument is Japan's low standing in international comparisons. The voices advocating this argument have been loudest among the associations of national and private institutions of higher education and the Central Education Council under MEXT. On the other hand, there have been strong criticisms of this argument from the Ministry of Finance and various economic advisory committees. It is claimed that the low level of government expenditure is not the main issue; after all, government expenditure is financed by tax revenues, one of the main sources of which are taxes on individuals. Japan's higher education tends to be financed through direct contributions from households, not through tax and government expenditure. The latter argument gained even greater momentum in the context of fiscal stringency and the popularity of marketisation orientation.

Quality Shift and Funding

A new dimension has been added recently to this debate. A few members of the Central Education Council issued a statement claiming that, having reached the stage of universalisation of higher education after 50 years of quantitative expansion, Japanese higher education should initiate a new drive for restructuring towards qualitative upgrading. On one hand, such a shift is critical in responding to the challenges created by globalisation and the fierce economic competition that requires high competencies among college graduates. On the other hand, it is necessitated by the changing behaviours and values among youth.

The group claimed further that such a shift towards a qualitative leap was impossible without substantial increases in expenditure on higher education. One of the grounds for this argument is, again, an international comparison.

Figure 6.11 presents the distribution of OECD countries with respect to unit costs of higher education institutions (vertical axis) and the level of per capita GDP (horizontal axis). The two indices are expressed in equivalent US dollars converted using purchasing power parity (PPP). It is shown that, in general, the unit cost increases as per capita GDP rises. The difference by country, however, is substantial, especially among more wealthy countries.

Particularly striking is the high level of unit costs among a few countries, including the United States, Switzerland and Canada. Especially in the first two countries, the unit costs lie in the range of \$25 000. On the other hand, a large group of OECD countries—including Finland, Denmark, the Netherlands, the United Kingdom, Germany, France, Australia and Japan—is located in the range between \$10 000 and \$15 000.

Figure 6.11 International comparison in per capita costs

Source: *OECD Education at a Glance 2006*.

Obviously, the figures should be interpreted with caution for there are substantial problems with international comparison of unit costs due to the difference in the range of higher education institutions and other factors. Nevertheless, it seems to be true that there are substantial differences among the OECD countries with respect to the unit cost of higher education institutions.

It should be noted that the differences among the OECD countries have developed in the past two decades. In particular, the present high level of unit costs in the United States is the result of the steady increase in unit costs since the end of 1980s.

The rapid rise in unit costs in the United States was not necessarily induced by explicit government policies either at the federal or the state level. In fact, there have been strong criticisms of higher education institutions for the sharp increases in tuition fees that partly financed the increase in unit costs. Rather, the increase was induced by the leading universities increasing spending on education, which was then followed by other institutions.

Nonetheless, the shift in development appears to have corresponded with the economic strategy that the United States has been pursuing. Threatened by the rise in productivity of the manufacturing sector in such countries as Japan, the US economy had to assume its hegemony by strengthening its power in the global economy. It required a number of talented college graduates who could handle the particular demands required in the multinational enterprises. And

this had to be the area where the United States had the advantage (Reich 1991). From this perspective, the increasing investment in higher education constitutes a significant part of the strategy for fortifying the strength of the United States in the globalised economy.

If Japan is to remain competitive in this environment, it can no longer rely entirely on the high productivity on its factory floors. The competence of regular white-collar workers and engineers should be the critical factor for competitiveness, and higher education is expected to contribute to enhancing it. Arguably, that will not be possible without radical reformation of higher education through increased investment.

It is interesting to note that, recently, an EU committee made a statement to the same effect.

Benchmarking with the United States

Even if the above argument for the necessity of increased spending is accepted, there remain a number of issues to be considered. Who should pay, how should it be delivered and who should receive the spending? From this perspective, it will be informative to compare closely the components of higher education expenditure in Japan with those in the United States.

Figure 6.12 presents the results of a benchmarking exercise to estimate national expenditure on higher education by different forms (direct government subsidy to higher education institutions, government funding for research on a competitive basis, tuition fees and donations to higher education institutions). These amounts are further divided into revenues to public institutions and those to private institutions. Observations from this figure can be summarised in the following three points.

First, the contributions from households through tuition fees are similar in the two countries—about 0.7 per cent of GDP. The distributions by public and private sectors are different, reflecting the relative sizes of the two sectors in the two countries. The difference in total expenditure on higher education between the two countries arises from the differences in the other three sources of funding.

Second, the major source of difference between the two countries comes from government expenditure. Direct institutional subsidies amount to 0.8 per cent of GDP in the United States compared with less than 0.5 per cent in Japan. Funding for research activities through competition stands at 0.2 per cent of GDP in the United States compared with less than 0.1 per cent in Japan.

Figure 6.12 Components of national expenditure on higher education: Japan and the United States, 2003

Source: Author's estimations from various sources.

Third, there is a substantial difference in private contributions in the form of donations. In the United States, this source stands at 0.2 per cent of GDP, compared with about 0.05 per cent in Japan. This is particularly important for private institutions.

These results do not necessarily imply that Japan will inevitably have to follow the United States in its pattern of expenditure if it is to increase the total amount of expenditure. It is also unrealistic, because it implies a doubling of the present level of government expenditure. Private donations will be welcome, but it could take a while to foster the culture for voluntary contributions to social causes. More realistically, significant increases in tuition fees will be inevitable if Japan is to raise the level of expenditure on higher education.

Nonetheless, the exercise does seem to indicate that the further increases in expenditure will necessitate, along with tuition revenues, at least a marginal increase in government expenditure on higher education in the form of various incentives for qualitative improvement and a reorganisation of the national student loan system. Whether that option is viable in the present political climate remains to be seen.

Conclusions

After a half-century of robust expansion, higher education in Japan is clearly at a crossroad. In order to respond to the new challenges, it has to undergo a significant transformation in which changes in financing assume the critical role.

Some of the changes have already been translated into concrete policies—most prominent of which is the incorporation of national universities that took place in 2004. The other changes are about to take place, as in the case of reconfiguration of the private sector of higher education. There are also debates taking place about the macroscopic basis of higher education expenditure.

All of these developments involve a number of issues about which there are significant differences of opinion. In this sense, Japanese society is struggling to find a definite direction for higher education financing towards the future.

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