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Report of the International Conference

on

Worldwide Perspectives of Financial Assistance Policies: Searching Relevance to Future Policy Reform for Japanese Higher Education



Center for Research and Development of Higher Education The University of Tokyo

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Worldwide Perspectives of Financial Assistance Policies: Searching Relevance to Future Policy Reform for Japanese Higher Education

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CONTENTS

Introduct	ion			
		1		
Report 1				
	Purposes and Analytical Framework of Student Financial Assistance	3		
_		Masayuki Kobayashi		
Report 2				
	Higher Educational Cost Sharing and Student Financial Assistance in Ja	pan:		
	Policy Options in International Context	D. Druge Johnstone		
Papart 2		D. Bruce Jonnstone		
керот з	Student Financial Aid Policy in Japan	31		
	Student i manenal / the roney in Japan	Masavuki Shibata		
Report 4		Trabaj and Shiroada		
1	Equality and Cost Sharing in Japanese Higher Education	49		
		Masayuki Kobayashi		
Report 5				
	The Australian Experience of an Income Contingent Loans Scheme	65		
		Craig McInnis		
Report 6				
	The Changing Nature of Student Funding Policies in Britain	83		
		Claire Callender		
Report 7				
	Student financial aid in Finland	95		
D (0		Timo Aarrevaara		
Report 8	A Study on Expansion and Equality in Chinasa Higher Education	105		
	A study on expansion and equanty in ennese righer education	Ding Vischao		
Report 9		Dilig, Alaoliao		
neporty	International Experience in Affordability. Accessibility and Student Ass	istance: 117		
	Lessons for Japan			
		Alex Usher		
About the Authors 135				
List of the Participants of the International Conference				
List of th	e i articipanto oi me international conference	157		

Foreword

This report is one of the outcomes of the "Task Force of International Comparative Studies on Student Financial Aid Policies," chaired by Prof. Masayuki Kobayashi of the University of Tokyo. The task force was launched in January 2005, with 44 scholars and government officials as members, with support from a major grant by the Ministry of Education, Culture, Sports, Science, and Technology, Japan. The Task Force has two major missions: (1) to identify and survey the present status of student financial assistance policies across the world, in relation to higher education and government reform in the broader context of socio-economic change, and (2) to provide the ministry and public with meaningful insights and research findings on these policies and practices, in order to contribute to future policy formation and to the development of higher education in Japan.

As the social and economic environment around higher education has undergone significant changes, the Japanese student financial aid system has come under severe criticism from the government and various stakeholders. How can we maintain and improve the system in a period characterized by fiscal stringency, not only without harming accessibility to higher education but also in a way that increases its efficiency and effectiveness? Further, how can we enrich the quality of higher learning in response to the currently on-going reforms of higher education? We need to prepare an appropriate response to these needs. This challenge will require careful examinations from economic, sociological and political viewpoints.

The members of the Task Force held an international conference to lay a solid foundation for future educational policy planning, seeking knowledge and wisdom from all over the world. All of the foreign guest speakers and invited participants to this conference were scholars and key officials from governmental and international organizations. The conference was held from December 6 to 8, 2006, in Tokyo.

Acknowledgements

We are grateful for the financial and other support from the Ministry of Education, Culture, Sports, Science and Technology, Japan, the Committee members, and the staff of our Center. We are especially grateful to Prof. Nobuyuki Kambara and Ms. Eriko Ishii who made great efforts to prepare for the International Conference.

Kazuo Okamoto

Director, the Center for Research and Development of Higher Education, The University of Tokyo

1. Introduction: Purposes and Analytical Framework of Student Financial Assistance

Masayuki Kobayashi

Center for Research and Development of Higher Education The University of Tokyo

1. Purposes of this Report

This report aims to get suggestions and policy implications for Japanese higher education reform, in particular, for student financial assistance policy. In order to accomplish this aim we choose several efficient methods. First of all, we provide the broad and common analytical framework to investigate this issue. Then we request distinguished scholars in this field not only in Japan but also from overseas to explain the present situation of the country comparing the situation with that of Japan. Furthermore we had a discussion on each presentation and paper, and receive the final paper from each scholar. In this introduction we would like to explain more details of our research framework.

2. Analytical Framework

2.1. Higher Education Reform

Our first framework is the common feature of higher education reforms in each country. We have very similar situation and tasks in the age of global society. On the contrary each country has own particular history, culture, economy, and society, and each higher education system and higher education policy including student financial assistance have been affected from these characteristics. So our first analytical step is to distinguish common features and pattern from particular characteristics, while identifying what shapes these features behind these above outlooks. Then we will try to acquire lessons from various country experiences those are useful for Japanese higher education, policy planning, practices, and future research in Japan. We believe these lessons are useful not only for Japan but also for other countries.

2.2. Student Financial Assistance Policy

Student financial assistance is the broadest concept that includes student financial aid, provision of dormitories and canteens, and so on. However, these concepts are often used interchangeably, and we use these two as synonym.

To analyze the higher education system in particular student financial assistance policy and scheme, we provide several analytical points. These have common features among countries.

2.3. Cost Sharing in Higher Education

The central theme of this report, "Financial Assistance Policy" should be interpreted in its broad concept of the so-called "cost-sharing for higher education" in the complex set of policies of higher education finance

Who does, will and should pay the cost of higher education ? This is the most fundamental question to deal with the higher education policy, in particular, student financial assistance policy. Historically the cost was almost paid by government, that is, the cost of higher education is public. Then the cost has been gradually paid by parents, that is, the cost is private. In Japan this is exactly the case. Recently another shift from parents to student is prevalent. How do we think this trend ? This is the issue of "Cost Sharing" in higher education.

2.4. Background of Higher Education Reforms

This "cost sharing" could be considered as one of the most inevitable consequences from the common mega trends around higher education across the world; stringent public finance, massification of higher education, societal, demographic and economic structural change, diversification of students, and crisis of equality in educational opportunity. However the background of this shift is almost common among various countries. Two factors are most important; massification of higher education and stringent public finance. These are common futures and factors in advanced countries, and this trend is gradually true for developing countries such as China.

Most governments are facing very stringent public finance, and try to decrease the public subsidies to universities. It is highly possible that this trend makes universities to raise their tuition fees. However, when the tuition fees are rising, this will cause a serious crisis for higher educational opportunities, especially for disadvantaged group such as low-income families and ethic minorities. Therefore we need student financial assistant scheme under the rising tuition fees situation. In other words, we underline we need reforms of combination of tuition fees and student financial aid simultaneously.

2.5. Higher Education Financial Policy

As we explained under the current situation, the higher education financial policy is one of the most important issues not only of higher education policy but also of governmental policies in various countries. Especially the tuition fees policy in general and in public universities is one of the foci of the policy. Student financial assistance is not dependent in these policies.

2.6. Net Tuition

It is very crucial to analyze the tuition fees policy and student financial assistance together. In other words we often talk about tuition and fees and student aid programs separately, but from the viewpoint of higher education policy it is necessary not to analyze these two separately. For several countries such as the USA and the UK, the policy of student financial assistance is combination of "sticker price" or "list price" of the tuition fees and grant for student. Thus it is very important to analyze "net tuition" that is the amount of the sticker price minus student grant.

3. Typology of Trends of Tuition Fees and Student Financial Aid Policies in Various Countries

As we stressed, it is very important to analyze combinations of tuition fees and student financial aid policies. From this point we show an overview of trends of tuition fees and student financial aid in Figure 1. Horizontal axe is the tuition fees policy, and vertical axe is student financial aid policy in Figure 1. Most public universities in various countries were located in the northwest of the figure, low tuition/ high aid, but are moving toward right, high tuition fees policy, very rapidly. It is interesting that the trends of the UK universities and Chinese universities are very similar. On the contrary the other European universities have not moved drastically. US public universities are shifting from low tuition/ low aid to high tuition/ high aid. But Japanese national universities are moving from low tuition/ low aid to high tuition/ low aid. The same trend is seen in the case of Japanese and Chinese private universities. The most distinguished feature of the policy in this figure is the high tuition/ high aid policy of US private universities. One must be careful that net tuition is very different among these policies.



Figure 1 Trend of Tuition Fees and Student Financial Aid Policies in Various Countries

Why the policies are shifting to high tuition/ high aid ? What are the factors behind the shifts ? We would like to explain the factors behinds these trends (see Figure 2). Figure 2 is the same analytical axes with Figure 1. The most important role of the traditional universities was to foster elites. Therefore lots of public subsidies were spent for this purpose. The graduates were very small number and the public

financial burden was not so heavy that the government could take low tuition or tuition-free/ high aid policy.

The educational demand has been increasing as the age of massification of higher education. Needs of professionals are the driving force of the massification. As the amount of university students are increasing, it is difficult to maintain low tuition/ high aid while using public money, and the policy is shift to low tuition/ low aid. Furthermore the massification of higher education is in progress, and the demand for higher education is surpassed the supply of public universities. Then the private universities were established to fulfill the gap. This is typical in Japan and in China. In this policy governments provide scare subsidies to private higher education institutions.

Finally the high tuition/ high aid policy has appeared. This policy has two aims; to acquire excellent students and to improve the university finance. Under this policy the net tuition fees of each student is different. The net tuition of each student is decided by need-based and/ or merit-based depending on each policy of HEIs. In any case the net tuitions are differentiated by these criteria because the net tuitions are discounted by offering grants. From the view point of HEIs they can attract more desirable prospective students by this discount policy. Advocators of this policy argue this policy is efficient because this is very different from the low tuition policy that needs heavy public or institutional subsidies.

From the view point of cost sharing the four policies are very different. Public sharing is the largest in low tuition/ high aid and the smallest in high tuition/ low aid policy. The midst is the low tuition/ low aid policy. The cost sharing of high tuition/ high aid policy is very different from three policies. The cost sharing is differentiated among students and/ or parents because net tuitions are different among them.



Figure 2 Factors of the Shift of Tuition Fees and Student Aid Policy

4. Analysis of Student Financial Aid

Ziderman proposed six factors to analyze student loan programs: schemes' organizational structure, student coverage, loans schemes' objectives, funding sources, loan allocation procedures and collection methods (Ziderman 2006, p. 27)¹. When we analyze the tuition fees and student financial aid policy, the critical issues are following;

4.1. Political rationalization

Governments in most countries subsidize to universities, as the forms of free or low tuition fees, student grants, and student loans, and therefore political rationalization of subsidies is very important². Usually the reasons of rationalization are two. One is the external effect of education and the other is to achieve equality of educational opportunity. Two are common in most higher education policy, but the stress is different in each policy.

4.2. Who pays ?

Who pays the cost of education is the issue of cost sharing. We suppose the payers are the governments, universities, private organizations and persons as the donors, and the parents and students.

4.3. Low tuition fees or grants

As I explained in Figure 1, there are four types of tuition fees and student financial assistance policy. It may seem that the low tuition or free tuition/ low aid policy is equivalent with the high tuition / high aid policy. However in a reality these are very different for students and parents. Johnstone argues this difference very clearly (Johnstone 1994. pp. 363-364 ***need check).

4.4. Grants and/ or loans

Grants and loans are two forms of student financial assistant programs. Grants are not repayable, and therefore the governments or universities who give student aids pay the costs. Loans are repayable and parents and/ or students pay the cost. Also important is who pays the interests of loans. The governments and/ or universities pay the cost when the interests of loans are subsidized, and parents and/ or students pay the cost when the interests of loans are subsidized, and parents and/ or students pay the costs when they are not subsidized. Of course the other alternatives may be chosen. For example, partly the government subsidizes the interests. This is the case of Sweden, China, and

¹ He adds five more information to compare student loan schemes: year scheme established, scope of scheme, covers public or private university enrollment, purpose of loan, and numbers of borrowers as percent of student enrollment (p. 116).

² Ziderman purposed five purposes of student loan schemes; enable universities to maintain enrolment levels and quality, alternative funding, and a reallocation of funding away from the universities to other sectors of the education system that display higher social rates of return (p. 29).

Japan.

4.5. Criteria: Need-based and/ or Merit-based

Another very important issue of student financial assistance policy is the criteria of assistance or provision of student financial aid. The most used criteria are two; need based and merit based. Each student financial aid programs adapts one or both criteria. In Japanese student financial assistance programs two criteria have been using.

4.6. Effects on educational opportunity

It is very important to evaluate how the student financial assistance programs, that is, low tuition or tuition free and/or student aid programs are effective to improve the inequality of educational opportunities, especially in the case of need based aid. This effectiveness is also very important that it is one of the reasons of the public subsidies for higher education.

5. Loan Collection Scheme

Another important issue in student loan programs is a loan collection scheme. Every loan has some defaults inevitably. How can we decrease the default? Income contingent loan repayments (ICLR) are introduced in some countries for this purpose. ICLRs in some countries such as Australia and the UK are interest free. On the contrary in the US the interest rate of ICLR is high, and the loan repayment period is longer than the other repayment plans. Therefore the total amount of repayment of ICLR becomes higher than the other repayment plan. So ICLR is not popular in the US. This shows the key determinant of introducing ICLR is who bears the interest rate.

As for the situation of Japanese loan repayment defaults have been increasing. The reasons of this increase are enlargement of student loans to low achievers heavy loan burden for the low-income borrowers, weak penalty, and unwillingness to pay. It is very important to distinguish unwillingness to pay and inability to pay from the viewpoint of loan collection. How to distinguish these two are very important for loan collection scheme.

6. Marketization and Privatization

One of the important issues in student assistance programs in Japan is the marketization of student financial assistance programs, in particular, the argument of privatization of Japan Student Service Organization, JASSO that is the governmental organization to provide public student loans. Some Japanese government council such as the Financial System Council under the Ministry of Finance has argued the privatization of JASSO. It argues that the efficiency of student loan programs will be better if the private organizations deal with student loan programs than public organization such as JASSO. Is it right direction from the viewpoint of efficiency and equity ?

7. Suggestions for Japanese Student Assistant Program Reform

We asked every contributor to think about following issues to reform student assistant programs in Japan:

- (1) Rationalization of student aid policy
- (2) Reforms of Loan repayments
- (3) Strengthen penalty ?
- (4) Alternative policy options to improve the current scheme ?
- (5) Introducing income contingent repayment can bring an ultimate resolution ? If so, what conditions/mechanisms should be arranged ?
- (6) Necessity of new grants for undergraduates
- (7) Is tax reduction or exemption a better method as alternatives for student financial aid ?
- (8) Privatization of JASSO or introducing Government Guaranteed Loans

8. Contents of this Report

The agenda of this report is following.

- (1) Cost Sharing and Student Financial Assistance
- (2) Case Studies: Student Financial Assistance of Each country

They include background and current situations of student loan programs, and issues and prospects of major policy and reform.

- (3) Searching Relevance for Future Japanese Policy from each national experience.
- (4) International Comparison

This report consists three parts. Part One has two reports. One is this paper by Kobayashi. The other one is the keynote speech by Johnstone that provides the major issues and background of this topic from international perspective.

Part Two consists six reports of the case study of various countries. Contributors of each country report were requested to include in their reports the following points:

- (1) Situations in each country regarding higher education finance and the "Cost sharing" trends, including comparison of public and private funding,
- (2) Situations of tuition-fees policies and student financial aid programs (grant and/or loan, and criteria for the need-based and/ or merit-based),
- (3) Equality of educational opportunity issues (for example, loan burden problems hurt participation in higher education), and
- (4) Scheme of collection of loans (for example, mechanism and issues related to income contingent loan, and any argument between ICRP and the traditional mortgage loans).

Authors are requested to provide their reasonable objective and critical analysis on their topic, with

theoretical-based reflection on issues and prospects of the current polices and practices in their country, from their specialized approach and methodology, such as economics, political science and sociology. At the end of the papers, they refer to opinions or the reasons why authors consider that their argument could be relevant for future Japanese policymaking.

The first paper, by Johnstone, deals with "cost sharing of higher education and student financial assistance" from a broad context using an international comparison. It provides an overview of this topic. Among the case studies, the first paper, by Shibata, on financial aid policy in Japan, draws an overall picture of Japan and related political issues in Japanese higher education. The second paper, by this author, also deals with Japanese student financial aid policy, focusing on the issue of equity of higher educational opportunities. The third paper, by Callender, presents a detailed analysis of changes in student aid policy under cost sharing in the United Kingdom. The fourth paper, by McIniss, explains the introduction of HECS in 1989 and FEE-HELP, a new loan scheme in Australia. The fifth paper, by Aarrevaara, draws a picture of the student financial aid in Finland. The following paper, by Ding, analyses the equality of educational opportunities in Chinese higher education.

Part Three has a paper by Usher to try an international comparison of student financial aid.

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2. Higher Educational Cost Sharing and Student Financial Assistance in Japan:

Policy Options in International Context

D. Bruce Johnstone¹

(State University of New York)

This paper addresses the conference theme of student financial assistance policies and the policy options that are presented to the Japanese government through the lens of the worldwide adoption of cost-sharing. This term, for which I take some credit for popularizing in the mid-1980s (Johnstone1986), is both a statement of a fact—that is, that the costs of higher education are shared, mainly between governments (or taxpayers), parents, and students—and more importantly a description of a worldwide policy shift of those costs from being borne predominantly (or even, at one time and for many countries exclusively) by the taxpayers of the country to being increasingly shifted to parents and students.²

I will not elaborate here on the rationales for this policy shift, except to point out that, while there is room for ideological contestation on some elements of policy (for example, on the proposition that parents who can afford to do so should have some financial responsibility for the higher educational expenses of their children—which proposition is quite accepted in Japan, the USA, Canada, China but not in the Nordic countries nor any longer in the UK), there is little debate over the notions that higher education brings a substantial return to almost all of its recipients or that there is little equity (and almost certainly considerable *inequity*) in having the average citizen taxpayer, who is substantially less financially able than the average student will assuredly become, shoulder the entire expense of his or her increasingly costly higher education (Johnstone 2002, 2004b).

Even more incontestable is the classic foundation of economic theory that the cost of any good or service can be viewed—especially for the purpose of assessing the worth of the product or the cost-effectiveness of its production—as the lost value or benefit that would have come from the next best alternative that must now be foregone by having used the productive resources to produce this particular product or service. In very concrete terms to the subject of this conference, the taxpayer dollars spent by a government that has decided to cover *all* of the costs of higher education (which for some countries used to mean all of the costs of instruction plus the costs of food *and* lodging *and* pocket money)—

¹ D. Bruce Johnstone is Distinguished Service Professor of Higher and Comparative Education Emeritus at the State University of New York at Buffalo and Director of the International Comparative Higher Education Finance and Accessibility Project.

² Recent general references on cost-sharing in international perspective include Johnstone (2006), Teixeira et al (2006), Tres and Segrera (2005), Vossenstyne (2004), and Woodhall (2002).

when there is unmistakable evidence that parents and even students (provided the availability of loans) are more than willing to shoulder some of the costs means the public having to forego what some of those taxpayers dollars could have been used for instead. And depending greatly on the country, these high-priority public expenditures foregone by the rapidly escalating costs of higher education might be additional expenditures on elementary or secondary education, or on public health, or on needed public infrastructure, or environmental restoration, or the special needs of children or the aged.

Although most countries outside of Continental Europe have accepted, however reluctantly, the need for some sharing of instructional costs via some level of tuition fees (and even the Netherlands, Austria, Portugal, and a few of the German states have adopted modest tuition fees), cost-sharing—including the entire panoply of tuition fees, subsidized food and lodging, grants, loans, and other costly benefits—remains both political contested and technically complex (Johnstone 2006a, Teixeira et al 2006). Therefore, it is entirely appropriate at this time for Japan to reassess this set of policies, to examine the goals of its cost-sharing and student financial assistance schemes, and to consider what policy options it realistically has in light of these goals and whatever the current budgetary constraints. Particularly appropriate would be a reassessment that includes the following issues or questions:

- The appropriate tuition fee or fees to be charged in the public institutions of higher education, as well as the appropriate variation in such tuition fees to be established, allowed, or encouraged as between different universities or between different programs within the same university.
- The appropriate level of taxpayer subsidy (if any) for other expenses that are essential to the pursuit of higher education, such as food, lodging, travel, books and other educational expenses, and other costs of student living.
- Who is expected to pay a tuition fee and the other expenses of higher education that are not borne by the taxpayer—more specifically, is it to be the parents, the students, some philanthropists, or some combination of the aforementioned?
- How higher educational accessibility—and thus social justice—is to be achieved in the face of expenses that are more than some parents and/or some students can be expected to shoulder?
- The degree to which a private higher educational sector is thought to be in the public interest and therefore to be a legitimate claimant on public subsidies—and if it is so deemed (as it has been in both Japan and the United States), whether such public subsidies should be paid directly to the private colleges and universities, or to the parents and students to then flow to the institutions via the tuitions fees that have now been made affordable via the governmentally-provided grants and/or loans.
- The degree to which the available taxpayer-borne subsidies, spent to achieve a variety of appropriate public purposes (likely including increasing access, the encouragement of high educational achievement, the steering of higher educated manpower into particular occupations and/or venues, and the support of a more tuition-dependent private sector) are more cost-effectively

spent on *direct grants* (based either on need or merit or combination of both) or on *loans* and the so-called *effective grants* embedded in the loan subsidies. (In Japan for example, the *interest free* loans represent a very substantial subsidy that will only increase as interest rates in Japan rise to levels more like other advanced industrial countries. And even the so-called *low interest* loans, with no interest charged during the in-school years or the grace period and charged thereafter at a subsidized rate, contain considerable subsidization—*effective grants*—that carry *opportunity costs* suggesting public resources that the government might better spend, say, on debt forgiveness for student borrowers whose earnings turn out to be low, or on borrowers who choose occupations with low pay but with high public value.)

We will turn to the essential questions that must be answered in all countries contemplating or reassessing cost-sharing in their systems of higher education. But first, let us consider the Japanese context.

The Japanese Context.

Japan has one of the largest and most complete systems of higher education in the world. Some features relevant to this reassessment include:³

- Some 87 national universities, all of which to some degree include the defining features of the classical Western research university: that is, multiple faculties, most of which grant the highest degree and a scholarly emphasis oriented substantially to research. While still *public* in the sense of state ownership, major public funding, and still comparatively heavy state steering by the Ministry, these universities were granted "corporate" status in 2004, For the purpose of this paper, *corporatization* suggests greater (although not yet complete) responsibility for setting fees, providing grants or discounts, and otherwise assuring that delicate balance between institutional financial viability (in the face of certain declining state resources) and maintaining accessibility.
- *Some 75 local public universities and other institutions of higher education* that are largely locally funded and that are less selective and more oriented to teaching and to vocational and professional preparation.
- *A very large private sector*, with more than 500 institutions ranging from two year colleges with minimal selectivity to a few private research universities which, in spite of endowments far below the top US private research universities, are prestigious research universities in every sense of word. These private universities receive considerable public resources, including regular (albeit declining) subventions for current expenses, state assistance for facilities construction and improvement as well as for research equipment, and eligibility of private university students to the subsidized student loan system.⁴

³ Sources for "The Japanese Context" include ICHEFA (2006), Shibata (2006), and Yonezawa and Kosugi (2006).

⁴ See Japan under the website of the International Comparative Higher Education Finance and Accessibility Project (Novem-

• *A demographic decline that is already manifested in declining numbers of high school graduates.* While other industrialized countries face the same demographic phenomenon, the effect on Japanese higher educational institutions is made more serious by: (a) the relatively low rate of immigration (considering the prosperity of Japan and the relative poverty of many of its Asian neighbors); (b) the currently high participation rate (which means that the smaller number of 18 year olds is unlikely to be fully compensated for by increasing participation rates alone); and (c) the relatively low number of international students seeking to study at Japanese universities (particularly considering their capacity as well as their academic excellence).⁵

• A policy of cost-sharing not unlike the US, with the following elements:

- Tuition fees at the national universities, 81 (out of the total of 87) of which charge the maximum allowable under curr ent law: ¥535,800 [\$4580].
- ➤ A one-time entrance fee charged by most universities, which for most national universities in 2006 was ¥282,000 [\$2410].
- > Minimum subsidies for institutionally-provided food and lodging
- Great dependence on a mainly tuition fee-dependent private sector, absorbing in 2006 more than 73 percent of all students—and consequently providing a high level of national higher educational participation at less expense to the state than could be provided with all public institutions.
- *A high level of parental contribution to the higher education of their children.* Given the high tuition and very high one-time entrance fees in the public universities, the high fees in the private universities and colleges, the high costs of student living, and the minimal (at least as compared to the United States) endowment funds and current philanthropy that otherwise allow extensive "price discounting," the financial burden of higher education on the Japanese family is extremely high. According to the World Bank Institute, the average share of household income spent on tertiary education in Japan at nearly 60 percent (similar to South Korea) is far above the United States at approximately 35 percent and closer to ten times the percentage in most of the European countries (World Bank Institute p. 109).
- *A financial assistance system composed mainly of loans* (albeit at no, or very low, rates of interest). The total volume of student lending in 2004 was ¥660 billion [\$62 billion] to 930,000 students from the Japan Student Services Organization (JASSO), which accounted for nearly 70 percent of total financial assistance (Shibata 2006).

ber 20060. http://www.gse.buffalo.edu/org/inthigheredfinance/index.html

⁵ This low rate of international student intake in Japan may be largely a function of the relatively small number of potential students in other countries who have a sufficient mastery of the Japanese language (particularly in comparison with the very large and growing numbers of students seeking an out-of-country higher educational experience who have a sufficient mastery of English as their second language).

- *A very high level of subsidization of the JASSO loans*, which are either interest free (for 460,000 recipients totaling ¥272 billion) or low-interest (630,000 recipients for a total loan volume in 2006 of ¥528 billion [\$4.5 billion].⁶ Thus, the student loans carry a large component of *effective grants* in the form of streams of repayment subsidies, although such a "loans only" scheme, even if by some measures, is over-subsidized, still allows more yen to go to more students than would be possible with a student financial assistance program of grants only.⁷
- A low take-up rate on the available student loans. Given the extremely high financial burden of higher education on the average Japanese family, and given the extensive subsidization and fairly generous eligibility criteria for the governmentally subsidized student loans, the take up rate for the JASSO student loans is surprisingly low-reported by Shibata (2006, p. 9) at just over 23 percent in 2004. In theory, what seems to be a problematically low take-up rate may simply mean that most students have enough money from other sources (although the high level of subsidization and the heavy burden on parents cast some doubt on this as a likely explanation). Or, loan availability may be less than generally thought to be because the academic merit criteria exclude more students than the selection policy intends. Or, the low take-up rate may be evidence of debt aversioneven though the interest rates, at least by international comparison, are so low and the repayment period is so generous. And if there is some debt aversion-that is, students avoiding debt under circumstances in which borrowing (especially on such favorable terms) by most measures would be quite economically rational—who is it that is debt averse? Is it the students who are debt averse preferring extensive term time employment, or an exceptionally low standard of living, or even burdening their parents to what appears to be such easy credit? Or is it the parents who are averse to having their children go into debt? Debt aversion is a commonly claimed argument against costsharing and a policy reliance on student loans (Callender 2003). At the same time, debt aversion is generally presented as highly *culture specific*, and there clearly needs to be more research on why the take-up rate on Japanese student loans seems so low.

Worldwide Issues in the Adoption or Re-examination of Cost-Sharing

In the context of these features of Japanese higher education, the issues or questions dealing with costsharing and access deal mainly with either tuition fees or financial assistance and especially in questions and issues having to do with student loan schemes. This section of the paper will look at certain issues or questions that must be addressed by any country either instituting or re-examining its policies of tuition

⁶ The "low interest" loans are capped by law at 3% and repayable over 20 years. Thus, the effective subsidy of the low interest rate (that is, the cost to the government) is magnified by the very long repayment period. This subsidy (barring changes in the law) will, of course, increase as the Japanese economy continues to come out of its long period of economic stagnation, near deflation, and exceptionally low market rates of interest.

⁷ See Johnstone (2006b) for a fuller explanation of the trade-offs between grants and subsidized student loans.

fees and student financial assistance. We will begin with issues and questions related to tuition fees.

Tuition fees

Tuition fees refer to mandatory charges imposed on all students to cover a share of the underlying costs of instruction. Whether there should be tuition fees is not an issue in Japan. What is or might be issues are the following:

1. Who should pay

Specifically as between the *parents* (at least those who are deemed to be financially able) paying upfront, or students paying via a deferred obligation, or a loan? Japan, like the United States, Canada, China, and many other countries, requires tuition to be paid up front and considers the tuition fee to be a proper obligation of parents—at least those who are able to pay, and at least through a Bachelors degree or until the student/child is of a certain age (say, 24 years old). However, in recent years the question of whether the tuition fee obligation was to be paid by the parent up front or by the student via a loan has become seriously (and sometimes deliberately) confused by the political popularity of deferred fees, particularly when they can be made to appear to be something other than loans that the student has to repay (frequently at a near market rate of interest). Because of this confusion (or sometimes obfuscation), deferred fees can be made to be quite politically popular, especially when the very concept of cost-sharing is still a contested proposition (as it is not in Japan, but is very much so in much of the rest of the world), as neither the parent nor the student need face any immediate cost. Furthermore, although a deferred fee is still a tuition fee cum interest bearing loan, it is sometimes construed as something fundamentally different, particularly when the repayment obligation is set as a percentage of future income, which is sometimes wrongly portrayed as always less costly and in all other ways better than a fixed schedule loan.⁸

Deferred fees are the approach first taken by Australia and New Zealand, followed by Scotland and then, beginning this year, the rest of the UK, and more recently by Ethiopia. Students are attracted to the deferred fee because it seems to make them more independent of their parents, and if the loan is portrayed as something other than a tuition fee and a debt that they must repay (as in the Scottish "mandatory deferred obligation"), it can almost seem as though there is no real tuition fee.

However, for Japan to adopt the Australian deferred fee and move away from the currently wellaccepted (even if not exactly *beloved*) up front fee would be to shift the obligation from the parent to the student and to abandon a lucrative source of revenue that the government is clearly not going to replace. Thus, the lost revenue would have to be replaced by additional indebtedness carried by the students—or else not replaced at all, resulting in a disastrous loss of revenue for the universities to absorb (on top of

⁸ This point is elaborated upon on pages 23-16 below.

the revenue they are already preparing to lose from the promised decrease in state funding).⁹

2. The proper amount of the tuition fee:

The appropriate amount of a tuition fee is best approached—conceptually if not politically—as a percentage of underlying undergraduate institutional operating costs that are to be covered by the tuition fee. The advantages of the percentage of underlying instructional costs method of establishing an appropriate tuition fee are several. First, it is conceptually defendable in that it recognizes the appropriateness of *constant shares* (albeit of increasing underlying costs). Second, it recognizes the appropriateness of greater tuition fees for the more costly forms of instruction. Third, it treats students equivalently or evenly (albeit charging more for the more costly programs). Fourth, it avoids the need to return to the political process for the necessary tuition fee increases over time. And fifth, it reinforces the obligation of the government also to maintain its share as the underlying per-student costs increase.¹⁰

While tuition fees vary widely around the world, Marcucci and Johnstone (2007 forthcoming) report a range of public college/university tuition fees in terms of the percent of underlying costs of instruction as follows:

- Low or nominal (less than 5 percent: France, Germany)
- Medium low (5 to15 percent: UK, The Netherlands, Portugal)
- medium (15 to 30 percent: China, Japan, Canada, some US colleges)
- medium high (30 to 40 percent: Most US universities)
- high (more than 40 percent: Mongolia, some US universities for non-resident undergraduates and for advanced professional schools)

By these criteria, Japanese tuition fees are "medium," although the one-time entrance fee raises the first year burden almost to a level of "medium high." The high percentage of family income already going to higher education should discourage any sharp general increases in tuition fees. At the same time, the general affluence of the country coupled with the abundant financial assistance, the high participation rate, the apparent cultural / political acceptance of tuition fees as well as high parental contributions, plus the determination of the government to slightly decrease public spending to higher education would also

⁹ This tendency of deferred tuition fees to discourage parental contributions can be at least partially overcome by encouraging —although not requiring—payment up-front, perhaps at a discount, and also with the admonition that up-front payments will limit the student's indebtedness.

¹⁰ Tuition fees must also increase over time, essentially in accord with the underlying cost increases in the costs of instruction, and this annual policy decision, especially in those countries in which the fact of cost-sharing and the appropriateness of tuition fees has been generally accepted—may be far more contested that the fees themselves. The best policy is almost certainly (at least in theory) one that allows (or better, one that requires) the tuition fee to increase over time essentially automatically in accord with the per-student increases in the costs of instruction—which is likely to be generally in accord with the rate of increase in faculty and staff compensation (Johnstone, 2006a, 2004b). Two advantages of such a policy are that it (a) depoliticizes the process and reduces opportunities for politicians to arouse student protests that mainly injure the universities; and (b) implicitly obligates the government to increase *its* per-student contribution.

caution against any significant decrease in the Japanese standard tuition fee.

3. The degree of, and criteria for, variation in tuition fees:

A more critical issue in Japan than the *level* of the standard fee is the issue of whether there ought to be *variation in* the level of the tuition fee. For example, tuition fees around the world vary according to criteria such as:

- the underlying instructional cost of the program,
- > the level of the degree (that is, license, matrice, or doctoral),
- > the sector or type of public institution (that is, national or local),
- the expected earnings of graduates (which would theoretically allow higher tuition fees and higher levels of student debt in some fields),
- \succ the market demand for the degree.

In Japan, the tuition fee levels are held approximately constant and "moderate" for what seems to be purely political reasons. If individual institutions had more freedom to set (that is, to increase) their tuition fees, there could be expected to emerge a "spreading out" of tuition fee levels mainly according to the market. Thus, the more prestigious and selective universities (particularly in Japan the imperial universities) would be able to increase or to reset their tuition and other fees—and widen the current spread of university wealth and prestige. This *widening*—effectively making the wealthy and prestigious even more so—is both expected and accepted in the United States and the United Kingdom, although the widening, or spreading out, of wealth and prestige occurs more from the great variations in endowments, annual giving, research support, scholarly prestige, and undergraduate selectivity than from any significant spreading of tuition fees. However, such institutional differentiation is much less acceptable in Continental Europe, where all public universities are nominally equal, and was recently strongly criticized by the political left in the UK.¹¹

Market sensitive variations in tuition and other fees exist in many countries and can be established and justified by any or all of the following:

- the generally higher underlying costs of certain programs, such as laboratory or high technologycontent programs;
- the generally greater private benefits in the form of higher salaries and greater status coming to students graduating from certain programs, such as advanced management, finance, technology medicine, and the like;
- similar to the above-mentioned variation in salaries, the greater ability to repay a larger student loan

¹¹ The academic and political left in the England seems determined to prevent Oxford and Cambridge from gaining even more prestige and wealth via their market position—which stance was behind their strong opposition to the ability of some universities to charge so-called *top up* fees. Top up fees did become law, but the maximum was sufficiently low that nearly all universities charge the full top up.

debt for graduates of such programs;

- the likelihood that a disproportionate number of students who gain access to the more selective and remunerative programs and/or institutions are from more affluent families who will be able to afford the higher fees;
- as a variant of, or following upon, the above-mentioned principles, the greater market demand for certain institutions and/or programs, which is generally sufficient to rationalize a higher price in a competitive market economy.

More important may be the presumed interest on the part of the Ministry for more Japanese universities rising in the ranks of those universities appearing on any of the so-called international league tables.¹² Aside from the built-in bias against non-English-language institutions of higher education, and accepting all of the weaknesses of league tables generally, an upgrading of the international reputations of Japanese universities will almost certainly happen only selectively—that is, by upgrading those already ranked, but arguably below their potential. And this upgrading would likely be advanced by allowing those universities that are in a market position to do so to increase their tuition fees above the *standard fee* that limits all of the 87 national universities.

4. The authority to set tuition fees for public higher educational institutions.

The authority to set and to change tuition fees is vested in different entities in different countries: resting in some countries in the central government, in others in the state or provincial governments, and in still others within the institutions themselves. The problem in many countries is the easy politicization of tuition fees. At the same time, heads of governments, ministers, and legislatures or parliaments will not easily give up their roles in such a potentially politically contentious issue. Therefore, a scheme that maintains governmental authority for the *principle of a tuition fee*, and that also provides a *principle for the adjustment of the fees over time*, but that removes from the government the actual annual setting of the tuition fee or fees may be better able to balance the legitimate interests of students, families, and institutions.

In Japan, this may require reconsideration of the *standard* tuition fee and to provide additional institutional latitude both to increase this fee as the underlying costs of instruction go up (and presuming that the government does not increase the per-student current budget allocation commensurately) and

¹² Among the "World's Top 200 Universities in 2005 according to the Times Higher Eduction Supplement's (for all of the faults of league tables in general and of the Times' listings specifically), are nine Japanese universities: Tokyo (#16), Kyoto (#31), Tokyo Institute of Technology (#99), Osaka #105), Nagoya (#129), Tohoku (#136), Hiroshima (#147), Kobe (#172), and Showa (#196). The United States, in contrast has nine universities in the top 14; The UK nine in the top 73 (and six in the top 30); and Australia nine in the top 80 (and five in the top 40). While this ranking illustrates clearly the bias toward English language universities, it also illustrates that Japanese universities, for their great numbers and financial resources and considering the very high academic reputation of Japanese secondary education, do not yet enjoy an international reputation commensurate with their potential (Times Higher Education Supplement, *World University Rankings*, October 2005).

also, per the discussion above, for some institutions under certain circumstances to establish higher tuition fees.

Financial Assistance: Grants and Loans

The shifting of higher educational costs from governments or taxpayers to parents and students raises the issue of how access and equity are to be maintained in the face of this shift.¹³ As virtually all countries profess adherence to a policy that at least purports to assure higher educational opportunities to academically able secondary school graduates regardless of the socio-economic status or other attributes of the family, all countries adopting any significant cost-sharing combine their tuition fees and other student- or family-borne expenses with some program or programs of financial assistance that are targeted at those who would otherwise be financially unable to access higher education.

1. Criteria for the awarding of financial assistance.

Access to higher educational opportunities is a function both of the criteria for admissions and of the criteria for financial assistance. Virtually all educators acknowledge that measured academic attainment is greatly affected by the quality of prior schooling and by the educational enrichment provided by the home—which factors, in turn, are very much a function of available resources, including the ability to access private schooling and tutors as well as the educational levels of the parents and the academic orientations and aspirations of classmates. Similarly, most analysts in most countries acknowledge that the barriers to the equal higher educational participation of children of low socio-economic or ethnic or linguistic or rural status, or of girls, is far more than a matter of providing targeted financial assistance to some university-age youth. Rather, inequality of higher educational opportunity has its origins deep in local and family culture, which begins to "sort out" those who will and will not attain postsecondary education at very early ages.

In short, critical policy decisions need to be made about the degree to which access to university level education will be limited to entrance examinations only, and (more to the point of this paper) the degree to which access to free or low tuition higher education and/or to financial assistance will be based on the same measures of academic preparedness—in which case the assistance will go in large measure to the children of the more affluent and professional classes who would have attended anyway—as opposed to financial assistance being based more on criteria of financial need and other factors and thus go to the children for whom the assistance is likely to make a difference between attending or not.

Access to the prestigious national universities in Japan is based on measured academic merit, and the equity of that selection is far beyond the scope of this analysis. However, while there is post secondary

¹³ Parenthetically, it is instructive to out that those countries in which the state bore all higher educational costs (including the costs of instruction and the costs of student living) exhibited essentially the same disproportionate representation in the universities of the children of the educated and elite as did those countries that embraced cost sharing policies

educational capacity in Japan for virtually all high school graduates, the access to financial assistance is based on a combination of academic merit and financial need, thus seemingly targeting the assistance on those for whom the financial aid award is most likely to make a difference.

2. Financial assistance through non-repayable grants or loans:

The next decision in formulating a financial assistance policy is to decide on the mix of non-repayable grants and loans (or deferred tuition fees). In theory, because a grant is an outright expenditure and a student loan is an asset, which may not be repaid in full but which ought to have some cost recovery, a given level of governmental expenditure ought to be able to support a considerably greater volume of student loans than of student grants. And if access, or extending higher educational participation to potential students who would be unable to attend in the absence of the financial assistance, is the principal goal, and if there are indeed substantial monetary returns to personal investments in higher education, then a loan should (again, in theory) be almost as effective as a grant in furthering additional higher educational participation, and a policy of student loans thus more cost effective than a policy of student grants for the same amount of public resources.

For this reason, many countries, including the United States, the United Kingdom, Canada, and Australia have been shifting what was formerly predominantly grant support to predominantly loan support, and many other countries, including Russia and most of the former Communist countries, have cut back significantly on grants and stipends and are trying to develop workable loans systems (Johnstone 2006c). Japan, with student loans as the predominant means of governmentally-sponsored student financial assistance, is thus among the many countries evidently believing loans to be a more cost-effective form of governmental student financial assistance expenditure.

However, the cost-effectiveness of student loans depends on two factors: (1) the true cost of the loan program, which in turn depends on the costs of any governmentally covered guarantees as well as an interest subsidization: in short, on the volume of dollars or yen that can be put in students' hands though a dollar's or a yen's worth of subsidies; and (2) the effectiveness in terms of the additional and more equitable participation that the dollar's or yen's worth of subsidy can procure via student loans compared to the additional participation that might derive from the admittedly smaller (but how much smaller?) volume of ordinary grants or non-repayable stipends that those public taxpayer dollars and yen could have procured. Part of the answer to this difficult question depends on the relative effectiveness of grants versus loans, which requires more information on the degree and nature of debt aversion, discussed above. Part of the answer to the question of relative cost-effectiveness also depends on the volume of student lending that a dollar or a yen can generate—which is a question of costs and the extent of loan subsidization, to which we next turn.

3. Loan subsidies and recovery ratios.

The distinction between grants and loans is not a precise one for the reason that virtually all student loans that are *generally available* (that is, not limited to the children of credit-worthy parents or to students only in the most elite and financially remunerative professions like medicine or management) carry substantial elements of governmental, or taxpayer-borne, subsidies. An indirect but very real governmental subsidy reflects whatever level of governmental guarantee may be provided, which removes defaults as a cost that must be recovered from the interest premiums paid by all borrowers. The direct subsidies reduce the interest charges below the rates that would otherwise be required to cover the cost of the money itself (that is, to compensate the savers) as well as to cover the cost of servicing and collecting the loans over the entire period that the borrower has the money. The interest charged on student loans (and therefore whatever interest subsidies are built into the student loan scheme) is often differentiated according to the interest charged:

- while the student borrower is still in school, or the *in-school* rate—which in some countries and some loan programs is zero, but in other countries or plans may be at the regular repayment period rate, albeit generally deferred and thus accruing during the in-school years;
- during a *grace period* that sometimes continues the in-school subsidy for a period of time (generally one year but sometimes longer) between the end of schooling and the beginning of employment (and the presumed ability to begin regular repayments); and
- during the actual period of repayment.

Whereas much of the indirect subsidization of the governmental guarantee (that is, the taxpayerborne losses arising from defaults) is both unavoidable and unpredictable (although good collection management and appropriate repayment periods can substantially reduce losses due to default), the losses due to interest rate subsidization—that is, the *effective grant* embedded in the loan and accorded to all borrowers—is totally a matter of policy. In other words, all student loans—whether mortgage style, income contingent, or in the form of deferred tuition fee obligations—can be made more or less generous (or more or less costly to the taxpayer) by design.

The student loans provided by the Japanese Student Services Organization (JASSO), which provides almost 70 percent of all student lending in Japan, are either interest free altogether or are *low interest*, which are at a zero nominal rate during in-school and grace periods and at a governmental borrowing rate during the repayment years—which has been below the legal maximum of 3 percent (Shibata 2006, p. 6-7). While interest rates at less than 3 percent appear particularly low by world standards—suggesting a level of subsidization of Japanese student loans that would appear commensurately high—the *low interest* student loan interest rates in Japan, at least during the repayment period, have actually been close to a market rate and reflect more the prolonged period of economic stagnation and historically low interest rates in Japan than any particularly generous level of subsidization.

Nevertheless, student loans in Japan are subsidized, and the subsidy threatens to increase greatly as

the Japanese economy continues its current (2006) recovery and as market interest rates begin to exceed the 3 percent cap. As in all governmentally-sponsored student loans in all countries, the extent of the subsidy will be a function of: (1) the rate or rates of interest paid by borrowers between the origin of the loans and their full amortization, (2) the appropriate discount rate (which depends on the market rate[s] of interest for a particular country or currency at a particular time, and which generally reflects the anticipated rate of inflation), and (3) the standard repayment period. This subsidy—which may also be viewed as an *effective* grant embedded within the loan—is the difference between the original amount of the loan and the discounted present value of the anticipated repayments. Thus, virtually all student loans other than the strictly commercial loans available from a bank and carrying no governmental guarantee or sponsorship can thus be viewed as composed of two elements: (1) the *true loan*, which is that portion of the original amount borrowed that the stream of repayments actually amortizes at a reasonable discount rate; and (2) the *effective grant*, which is the difference between the amount borrowed the "true loan" —or alternatively, the discounted present value of the stream of subsidies.

Not counting the losses from defaults, a generous, highly subsidized student loan—that is, one that contains a substantial *effective grant* and a commensurately low anticipated recovery—would feature elements such as: no interest charged during the in-school years, a long grace period, a rate of interest charged during the repayment period that was far below the market rate of interest, and a lengthy repayment period. In contrast, a loan that is minimally subsidized—which could be said to have a small effective grant and a commensurately high anticipated recovery rate—would feature elements such as: interest charged (although probably accrued) during the in-school and grace periods, a rate of interest during the repayment years that was at least close to a market rate, and a relatively short repayment period.

The reason that the size of the *effective grant*—or its mirror, the *loan recovery rate*—matters is because each dollar or yen spent subsidizing a student loan scheme is a dollar or a yen that could have been spent on more outright grants, or on other forms of student assistance—or even on lower tuition altogether. At least in theory, then, there exists a trade-off between the *effective* grants carried within a highly subsidized student loan scheme and direct grants, stipends, and other forms of student financial assistance (such as subsidized student housing or food). And the proper mix of subsidies for a particular country depends on the country-specific goals of the financial assistance scheme and the cost effectiveness of each component in achieving these goals. Again in theory, a minimally-subsidized student loan schemes, the common object of which is to put money in the hands of the students at the least governmental cost. And there are some purposes of some student financial assistance schemes—such as steering graduates into professions and venues of the greatest public good—that can only be attained by providing the initial assistance as a loan, the major subsidy component of which would be repayment forgiveness for those who practice in certain *high public value*

professions and/or venues.

The major problem in most countries that rely on student loans for the promotion of access is too high a level of subsidy (alternatively, too high an *effective grant* component) when there is little or no evidence that these public dollars are a cost-effective way to secure the desired student behavior. Too often, politicians create the features—such as very low interest rates and long repayment periods—that they believe will mollify students and do not recognize that in so doing they are effectively spending governmental money that might have been spent in other ways. Sometimes, politicians (and scholars and university leaders and bureaucrats) do not fully understand the concept of *discounted present value*, or do not care about the expenditure of public money in the future, or are ambivalent about cost-sharing to begin with and believe that students should at be entitled to the most favorable terms on the loans that are being imposed as part of a generally unpopular set of cost-sharing policies.

The Japanese financial assistance program, by relying mainly on student loans and by conducting these loans programs in a reasonably cost effective way with reasonably low rates of default and collection costs, seems to be in reasonable shape, comparing effectively in cost-effectiveness and recovery rates with student loan programs in the United states, Canada, the Netherlands and Scandinavia. The *interest-free* and the *low interest* loan programs, however, should be re-examined to determine whether these potentially costly features actually have some intended effect on student behavior, or is

4. The form of the repayment obligation.

Although the degree of subsidization—which determines the principal real cost to the government as well as the real desirability or at least inexpensiveness to the borrower—is the most important issue in the construction of a student loan policy, the most visible as well as the most frequently misunderstood is the form of the repayment obligation. This obligation can take one of two basic forms, with many variations of each and with "hybrids" of the two also possible.

The first is the *fixed-schedule, or conventional mortgage-type*, loan. This loan carries a *rate of interest* expressed as an annual percentage of the amount borrowed, a *repayment period*, or the amount of time the borrower has to repay the loan, and *repayment terms*, such as whether the payments are to be in equal monthly installments, or installments that begin small and increase over time, or some other arrangement that yields a stream of payments sufficient to amortize the loan at the contractual rate of interest. Japan, Canada, The United states, and most other countries with student loan programs express the repayment obligation in this way.

The second form of repayment obligation is the *income contingent* obligation.¹⁴ Such a plan carries a contractual obligation to repay some percentage of future earnings generally until the loan is repaid at a contractual rate of interest, or until the borrower has repaid either a maximum amount (which can release

¹⁴ The literature on income contingent loans is extensive. See e.g. Chapman (2006). Chapman and Ryan (2002), Johnstone (1986, 2004a, 2006c), and Usher (2005).

the high earner), or for a maximum number of years (which can ultimately release the low earner). That which is stipulated in the loan contract is the annual *repayment burden*, or the percentage of earnings that must go to loan repayment (which may be *fixed* for all income levels, or *progressive*, applying to earnings only above some threshold and/or increasing as incomes rise). That which varies according to income or earnings is the *repayment period* and, at least for some low earning borrowers, *the ultimate cost of the loan*. The Australian, New Zealand, South African, and UK student loan programs all feature income contingent repayment schemes. In addition, the US has an income contingent repayment option within its Direct Loan Program.

As in conventional student loan programs, an income contingent loan program is likely to subsidize all of the borrowers to the degree that even those who repay "in full" will have repaid at a subsidized ratethat is, at a rate that is generally set below the market rate of interest (or even below the rate of interest charged to the best and most credit-worthy borrowers, or even to the government itself). For most income contingent loan borrowers, then, repaying *income contingently* as opposed to *conventionally* merely affects the shape and the length of each individual repayment period rather than the ultimate amount (in present value) that will be repaid. However, all income contingent loans have a provision for forgiving the remaining debts of some of the lowest earning borrowers who reach some maximum repayment period or some maximum age with a debt still outstanding. The present value for any particular lifetime earnings profile of this so-called low lifetime income subsidy depends on the terms of the income contingent loan contract. For example, for any given set of assumed borrower lifetime earnings profiles, a high percent of income required for repayment together with a long repayment period will minimize the number and amounts of remaining debts to be forgiven and reduce the subsidy cost to be recovered (usually from the government). In contrast, a low percent of income and a short maximum repayment period will (again, for any given set of assumed borrower lifetime earnings profiles) increase the number of borrowers who are likely to reach the end of their maximum repayment period with substantial debts to be forgiven—and of course increase the cost to the lender (presumably the government).

The source of the subsidies for an income contingent loan program in most cases is the government itself, which may subsidizes all borrowers to the extent of any built-in interest subsidization, but also will ultimately forgive the remaining debts of the *low lifetime earners* in the same way that it might elect to make up the shortfalls from borrowers who simply default, or might provide other kinds of grants or subsidies to students on the basis of their low family incomes at the time they were in the university.¹⁵ Expressed another way, the government in such an income contingent loan program is electing to

¹⁵ In theory, the source of subsidy might also be the high-earners who, in a so-called *mutualized* plan, would finish their repayments having repaid at a *premium* rate of interest, thus effectively subsidizing their low-earning borrowing colleagues and providing the loan program with an *average* break-even interest rate over all of the loans. The principal conceptual flaw in this concept—perhaps explaining why there are no such generally available *mutualized* plans in operation— is that students who reasonably anticipate high lifetime incomes will decline to participate, at least in any voluntary scheme, thus depriving the plan of its necessary source of subsidies to protect the low earners.

subsidize ultimately those who turn out to have low lifetime earnings, just as it may, in a conventional need-based grant program, be electing to *subsidize currently* those whose parents had low incomes at the time the student was in the university. Those who advocate governmentally-subsidized income contingent loans frequently claim that it makes greater sense to spend scarce tax dollars to subsidize those whose higher education, for whatever reason, has not paid off monetarily, than to provide a stream of repayment subsidies to students merely because their parents were poor when they were students and had to borrow—but who may later earn good incomes.

A student loan scheme can also combine features of the conventional fixed schedule and the income contingent obligations. Such a scheme would feature an underlying, or *default*, obligation with a fixed schedule of payments that would be due unless the monthly or annual repayments exceeded some maximum percentage of monthly or annual earnings-in which event the obligation would not exceed that maximum percentage. Amounts owed on the original fixed schedule of repayments would be deferred and become due only at such a time as the earnings or income rose and the repayment obligation could once again be made within the maximum percent of income limit. In such a scheme, most borrowers would simply repay according to the original fixed schedule (which might be graduated upwards over time to correspond with anticipated earnings growth, but still on a fixed schedule of repayments). Some borrowers, particularly those experiencing a year or perhaps two or three of low income due to unemployment, would pay income contingently during these years, but return to the fixed schedule of repayment obligations when they regained their employment and their earnings. These borrowers would have been granted the convenience of automatic deferment of paymentssimilar to a refinancing—but not a subsidy, as such. A few borrowers who combined prolonged periods of unemployment or a low paying job with high initial indebtedness might never get back on the fixed schedule. They would continue to repay their student loans on an income contingent basis, reaching the end of the original underlying repayment period with remaining indebtedness-which at some point would be forgiven as though the entire student loan obligation had been income contingent from the beginning. Variations of such a hybrid scheme are described in Usher (2005) and can be found in the US, Canada, the Netherlands, and Germany

The income contingent form of student loan has been aggressively popularized, especially by Australia and more recently by the authors of the several UK variants. In its most attractively packaged form, such as in Australia, it includes an income contingent repayment obligation with an obligation on the part of employers to collect the repayments, generally along with the withholding of income taxes and pension contributions at the time of wage or salary payment. While such an arrangement may lower the costs of collection and the level of defaults and may be preferable to borrowers, who may not notice the degree to which the student loan repayments are diminishing their take-home pay, such an arrangement has nothing to do with whether the underlying repayment obligation is on the basis of a fixed schedule or payments or on the basis of a percent of income or earnings. In other words, *any* loan scheme (or for

that matter any payment obligation that the government deems especially important and worthy of being attached to the formidable governmental machinery of income tax withholding or pension contributions) can be granted such a collection advantage by the government.

While there are some real advantages to income contingency, especially for borrowers who are particularly alarmed at the prospect of a repayment burden that might become "unmanageable and might even decline to borrow in any other form, income contingency is also frequently oversold as though it is *less costly* than a fixed schedule obligation for virtually all borrowers (which it is not) or that it is fundamentally unlike a student loan (and for most borrowers it is fundamentally just like a conventional, or mortgage type, loan).

The Japanese Ministry is reported to be interested in an income contingent loan program, perhaps modeled on the Australian scheme. While such a revised loan plan could almost certainly work-and while the Japanese income tax and pension contribution machinery are reported to be highly effective the conversion to an income contingent system would need to address several potential complications, such as how income or earnings are to be defined, the complications of marriage and one spouse leaving the labor market, the complications of living and earning income abroad, and the complications of incomes that are highly variable, typically unreported, and able to be split between borrower and non-borrower members of a household. Other countries have resolved these issues, and so can Japan. However, policy makers contemplating the income contingent form, or a conversion from conventional to income contingent loans, must be careful to differentiate between the genuine advantages of income contingency and those features of income contingency that too frequently invite a political obfuscation of the fact that an income contingent loan is still a loan that will be repaid by most borrowers at the same real cost as the alternative conventional loan. Policy makers must also be careful to differentiate between the attributes (and the liabilities) of income contingency itself, as opposed to some of the features merely—and generally incorrectly —associated with income contingency (such as the mandatory deduction of amounts owed at the point of wage or salary payment).¹⁶

In conclusion, as in all features of student borrowing and lending, the important steps are an agreement on the purposes of the scheme or schemes, an understanding of cost trajectories far into the future, an understanding of public budget constraints, including those that are future obligations (with present values), and an appreciation of the politics and ideologies that inevitable surround higher educational cost-sharing.

¹⁶ See Educational Policy Institute (Alex Usher), Understanding International Debt Management/Repayment Programs and their Effect on the Repayment of Student Financial Assistance, Toronto, Educational Policy Institute, 2005 [http://educationalpolicy.org/], D. Bruce Johnstone, "Cost-Sharing and Equity in Higher Education: Implications of Income Contingent Loans" in Pedro Teixteira, Ben Jongbloed, David Dill, and Alberto Amaral, Eds., Markets in Higher Education. Dordrecht, the Netherlands: Kluwer Academic Publishers, 2004, pp. 37-60; and "Higher Education Accessibility and financial Viability: the Role of Student Loans," in Tres, Jaoquim and Francisco Lopez Segrera, Eds., Higher Education in the World 2006: The Financing of Universities. Barcelona: Global University Network for Innovation (GUNI) published by Palgrave Macmillan, 2005, pp. 84-101 [http://www.gse.buffalo.edu/org/IntHigherEdFinance/]

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3. Student Financial Aid Policy in Japan Masayuki SHIBATA¹

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1. Trend of Tuition fees in Japanese Universities

The financial difference existing between private and national universities in Japan is related to how their functions vary within the higher education system. While private universities have been responsible for the expansion and the massification of Japanese higher education, national universities have played important roles in sustaining relatively capital-intensive educational areas, graduate education and academic research.² As a result, national universities have been heavily dependent on government funding, and private universities on tuition fees.

However, until 30 years ago, the tuition fees of private universities were only modestly high while those of national universities were held low. It was the policy of the government to guarantee for gifted students the opportunity to access to higher education by holding down the tuition fees of national universities, which were geographically distributed evenly across the Japanese regions and prefectures. This was an indirect measure to deter private universities from raising their tuition fees in fear of losing students. However, this policy was abandoned in 1972 in face of increasing pressure from interest group including management of private universities and politicians as the private sector had suffered from difficulties in financing the expansion of their capacity. The tuition of national universities have been gradually and constantly raised, and there existed a certain influential political argument that the gap in the tuition fees of national universities, in turn, invited the corresponding action in private sector. Thus a spiral of tuition fees' raise was formed.

This trend was accelerated by the pressure from the deteriorating government financial conditions rooted in the "oil shock" and following the depression, and recently the lingering slump after the burst of bubble economy. As illustrated in Figure 1, the difference in the tuition fees between the national and private universities was narrowed from 5.1 times in 1975 to 1.6 times in 2005. This resulted in the current situation being characterized as "High Tuition and Low Financial Assistance," which imposes a

¹ The opinion expressed in this article is solely personal, and does not represent the organization to which the author belongs.

² Asonuma, Akihisa, 2002, "Finance reform in Japanese higher education" Higher Education, Vol. 43, Kluwer Academic Publishers, p111.

heavy burden on the parents of students. (Kobayashi, 2002)³



Figure 1: Trends in the Tuition Fees of National and Private Universities

Table 1: Tuition and Entrance Fees of National and Private Universities in 2006

	National	Private	
Tuition Fees	¥535,800 (\$4,579)	¥830,583 (\$7,099)	
Entrance Fee (First year only)	¥282,000 (\$2,410)	¥280,033 (\$2,393)	
Total	¥817,800 (\$6,990)	¥1,110,616 (\$9,492)	

While private universities have, at least in theory, had liberty to set forth their tuition fees, national universities have been under strict control by the government. Even after incorporation of national universities in 2004, the government stipulates the standard amount and range, currently 10%, within which each university will set its own amount. In 2006, 81 national universities out of 87 set tuition fees at the standard amount, ¥535,800 (\$4,580). Other six universities adopted even less amount than the standard. There is still a strong argument behind this that national universities are a major instrument for equal opportunity for higher education, though the gap in tuition fees between national and private has been steadily narrowed.

Full or partial remission of tuition fees is granted on the meritocracy and need basis in both national and private universities. National universities give up around 8% of tuition revenue for the remission. Much less students in private universities enjoy the remission.

³ Kobayashi, Masayuki. 2002. "High Tuition and Low Scholarships (in Japanese)" College Management, Vol.116, pp 25-29.

2. The Legal Framework of Student Financial Aid

The equal opportunity in education is declared in the Japanese Constitution. The Fundamental Law of Education stipulates that the state and local governments should implement financial assistance to eliminate financial obstacles in receiving education.

The Constitution of Japan

Article 26

All people shall have the right to receive an equal education correspondent to their ability, as provided by law.

The Fundamental Law of Education

Article 3 Equal Opportunity of Education

The people shall all be given equal opportunities of receiving education according to their ability, and they shall not be subject to educational discrimination on account of race, creed, sex, social status, economic position, or family origin. The state and local public corporations shall take measures to give financial assistance to those who have, in spite of their ability, difficulty in receiving education for economic reasons.

3. The Current Situation of Student Financial Aid

(1) Outlines of Scholarship Loan and Scholarship Programs in Japan

The providers of scholarship loan and grant programs in Japan can be categorized primarily into three types of organizations. The Japan Student Services Organization (JASSO), an independent administrative agency, plays the foremost role. Second, local governments, universities and public-service corporations account for a relatively small share of the total number of loaners and scholarship award recipients and of the total budgets and expenditures. Finally, private financial institutions may be regarded as a lender, although their loans do not assume the character of a scholarship. (Table 2)

	Total Spending	Numbers of Recipients (1,000)
JASSO (2004)	¥660 billion (\$62 billion)	930
Local Governments Universities & Colleges Public Interest Corporations (2003)	¥47 billion (\$4.5 billion)	250
National Life Finance Corporation (2004)	¥240 billion (\$22 billion)	190

Table 2 :	Student	Aid in	Japan
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JASSO was established in 2004 as a non-ministerial government agency under the jurisdiction of the Ministry of Education, Culture, Sports, Science and Technology. It was instituted from the merger between the Japan Scholarship Foundation and four other non-profit foundations that administrated various support programs for international students. JASSO is currently the only agency that operates nationwide public "scholarship loan" programs in Japan. The number of student recipients reached 930 thousand in higher education, and the amount of loans exceeded 660 billion yen (6.2 billion US dollars) in 2004.

The programs provided by the local governments, universities, and public interest corporations include both types of loans and grants. Although a fairly large number of students—approximately 250 thousand—were supported by these programs in 2003, the total amount of these financial assistance programs was only 47 billion yen (450 million US dollars). Therefore, it could be said that the average amount of this type of financial assistance programs awarded to students is generally rather low. Notably, however, out of the total amount of assistance provided, only 18.6 billion yen (0.2 billion US dollars) was supplied by the universities and colleges themselves. The most stringent screening standards and processes are imposed upon applicants. Thus, the number of awards is strictly limited to only a small number of students who exhibit outstanding academic achievement or promising ability in their particular field. This feature exhibits a striking contrast to the many renowned private universities in the United States that can afford to award their students large scholarships from the large amount of endowment funds they receive.

Finally, the actual circumstances under which the loans for education are serviced by private financial institutions are scarcely known. The exception to this is the National Life Finance Corporation (NLFC), which discloses the detailed information regarding its lending since it was established as a governmental agency by a law passed in 1949. The resource for the loans is secured through borrowings mainly from the government's Fiscal Investment and Loan Program and the agency's own bonds. In 2004, approximately 190 thousand loans—totaling 240 billion yen (2.2 billion US dollars)—were borrowed by the parents of students graduating from high school and entering a university. The maximum amount of a loan is 2 million yen (17 thousand US dollars). These loans are distinct from the "scholarship loan" provided by JASSO since NLFC's loans are borrowed by parents, not by students. The Japanese government recently formulated a sweeping reform plan for governmental agencies providing financial services. This reform plan prescribed that the NLFC's educational loan program be reduced in scale in consideration of the fact that the expansion of JASSO's financial assistance programs has been assuming its roles and objectives of the former.

In the following sections, the details of the "scholarship loan" program of JASSO will be elucidated.

(2) Scholarship Loan Programs of the Japan Student Services Organization

JASSO provides two types of loans: interest-free loan and low-interest loans.

The Interest-free Loans

When students apply to the program for financial aid, a set of criteria on household income and scholastic achievement is employed to assess the student's eligibility to be awarded the interest-free loans. For example, a university freshman is required to have demonstrated scholastic achievement by securing a grade point average (GPA) of 3.5 or higher on a 5.0 GPA scale in the senior year in high school in order to be approved for the interest-free loan. The student's household income must be 9.96 million yen (85 thousand US dollars) or less in the case of a family of four members, regardless of whether the student intends to attend a public or private university. The statistics indicate that approximately 60% of the recipients come from families with a household income of 5 million yen (47 thousand US dollars) or less. The procurement of funds for this type of financial assistance loan entails (1) the inflow of finance from the government at zero interest and (2) allocation from redemption made by ex-recipients. Therefore, the nature of this interest-free loan program, which eventually offsets the actual interest by the hidden government subsidy, is a mixture of meritocracy and need basis that aims to provide an educational opportunity for able students in accordance with certain national interests.

	Interest-free Loan	Low-interest Loan
Monthly Amount	(Attending private university/ college, living away from home) ¥64,000 (\$550)	¥30,000, ¥50,000, ¥80,000, or ¥100,000 (\$860)
Conditions GPA Household income	3.5 or higher on a 5.0 GPA scale ¥9,960 thousand or less (\$85 thousand)	Well-motivated ¥13,420 thousand or less (\$115 thousand)
Funds	Interest-free loan from the govern- ment Credited repayments	Fiscal Investment and Loans fund Agency's bonds Credited repayment
Total Spending (2006)	460 thousand recipients ¥272 billion (\$2.3 billion)	630 thousand recipients ¥528 billion (\$4.5 billion)
Repayment	Monthly installment over 20 years	Monthly installment over 20 years

Table 3: The Scholarship Loan Programs of JASSO

The Low-interest Loans

On the other hand, the low-interest loan program entails mild criteria with respect to both household income and scholastic achievement. In fact, those who wish to secure low-interest loans are rarely unable to clear the assessment. This indicates that the low-interest loan program is designed to meet the financial needs of students, rather than be based upon the meritocracy. Although the ratio of the number

of recipients to the total number of undergraduate students in 2004 was only 15%, the demand for lowinterest loans was almost completely satisfied under the present scheme. The funds for low-interest loans are financed through the Fiscal Investment and Loans fund, the agency's bonds, and credited repayments. The interest rate on the loans is based on the weighted average of both the interest rates of the government's Fiscal Investment and Loan Program fund and the agency's own bonds. This interest rate is capped at 3%. The agency's bonds have no government guarantee. In the event that the weighted average interest rate exceeds 3%, government subsidy is to be injected. During the prolonged period of depression after the burst of the bubble economy in the 1990s and the first few years of the twentyfirst century, since an easy money policy was adopted, the weighted average of the interest rate has been maintained less than 3% since 1997. Moreover, the government provides subsidies in order to exempt students from interest accrued during their period of attendance at universities and colleges. Recently, an emerging issue that has been reported is that the Ministry of Finance is considering discarding the 3% cap in order to prepare the forthcoming period of higher interest rates than it, because the Japanese economy is expected to recover.

In principle, monthly repayments are automatically deducted from the recipient's bank account after graduation with a 6-month grace period. In the case of low-interest loans, the total amount of principal and interest is divided by the number of installments within a 20-year period.

As shown in Table 4, it is evident that the monthly amounts of interest-free loan for undergraduate students are far from sufficient to meet all the expenses, including the tuition fees. Meanwhile, students in the low-interest-rate program may choose one of the monthly amounts of financial assistance according to their needs and preferences. The highest amount of this type of loan is expected to cover approximately 50%–70% throughout the average monthly expense of students. Although the recipients of interest-free loans are able to receive low-interest loans at the same time, only 1% of them in fact opt for the both. This may be an indication of the fearful attitude of students, especially from the lower income stratum, toward amassing financial debts.

If it is indeed the case that one of the objectives of a student loan is to provide and promote the opportunity to equal access higher education, it can be reasonably assumed that its purpose cannot be entirely fulfilled unless the approval of such a loan is to be made prior to the student' s entrance at a university. Thus, this so-called "prior acceptance" selection for financial aid is essential in this regard compared with the nature and the magnitude of the impact of "post acceptance" selection, which is applicable to those who are already attending at a university. Currently, around 40% of recipients at the undergraduate level and approximately 80% at the graduate level are entitled to their financial aid through "prior acceptance."

		The monthly loan amount to be paid to recipients [A]	The estimated aver- age monthly expenses of students [B]	[A]/[B]
Undergraduate	Attending a national university/college, living away from home	¥51,000 (\$436)	¥151,000 (\$1,291)	34%
	Attending a private insti- tution, living Away from home	¥64,000 (\$547)	¥208,000 (\$1,778)	31%
Graduate	Master's	¥88,000 (\$752)	¥148,000 (\$1,265)	59%
	Doctor's	¥122,000 (\$1,043)	¥175,000 (\$1,496)	70%

Table 4: Interest-free Loan Program of JASSO

Source: "Student Expenses in 2004," JASSO. Note: Monthly expenses [B] include tuition fees.

	The loan monthly amount to be paid to the recipients [A]	The estimated average monthly expenses of students [B]	[A]/[B]
Undergraduate	[Options] ¥30,000 ¥50,000 ¥80,000 ¥100,000 (\$855)	¥151,000 (\$1,291) [National, away from home]	66% (at maximum)
Graduate	[Options] ¥50,000 ¥80,000 ¥100,000 ¥130,000 (\$1,111)	¥148,000 (\$1,265)	88% (at maximum)

Table 5: Low-interest Loan Program of JASSO

The criterion of household income for graduate school students is accorded considerably lower priority, since the income of the individual student (and his/her spouse) is seriously taken into consideration. For example, the income of a Master's level student should be 4,160 thousand yen (40 thousand US dollars) or less in order to be entitled for an interest-free loan. The ratio of the recipients to the total number of graduate students is much higher than to that of undergraduate recipients; this is due to the strong demands for a knowledgeable and high-skilled work forces and the intensive training load required being researchers and/or highly professional experts.

Since the beginning of the period of high economic growth around 1960, a unique scheme of interestfree loan had been in operation until 1984.⁴ This special scheme was designed to ensure that exceptional students would not miss an educational opportunity and thereby meet the demand for a well-educated work force. The candidates selected through tests or interviews were promised an exemption from

⁴ Japan Student Services Organization, 2006 "The History of Japan Scholarship Foundation", (in Japanese), pp118-134.

the repayment of a certain proportion of the total loan prior to their entry into a university or graduate school. In this manner, the selected students could eventually receive the type of financial assistance, which had a stronger characteristic of scholarship grants rather than a loan. However, this scheme was gradually scaled back due to the government's austere financial policy over two decades and was finally abolished in 1984.

Another exemption scheme was introduced in the early 1950s in order to feed the influx of the scarce highly-educated and knowledgeable human resources into specific professions, such as those of school teachers and university professors. This scheme had also been reduced over five decades and was finally converted into a new program in 2004. In the new program, the top one-third of the graduate students who completed graduate courses with financial assistance from JASSO's interest-free loans are recommended by their universities to the organization to be eligible for full or half exemption of repayment.

Besides the "scholarship loan," the Japan Society for the Promotion of Science provides fellowships to doctoral students with a view to support the activities and lives of young researchers. Currently approximately 1,000 doctoral students receive monthly stipends and scientific research grants.

4. Issues regarding the Scholarship Loan Programs of JASSO

(1) The Low Ratio of the Recipients to the Total Number of Students

Table 6 presents the rate of the recipients of scholarship loans to the total number of students in 2004. Figure 2 illustrates that the rate for undergraduate students remained at approximately 10% throughout the expansion period of higher education in the 1990s, while that for graduate students fluctuated at a much higher level.

	Total Number of Students (A)	Interest-free (B)	Low-interest (C)	Total (B+C)
Undergraduate Take-up Rate Spending	2,732 thousand	229 thousand A/B 8.4% ¥138 billion (\$1.3 billion)	407 thousand C/A 14.9% ¥318 billion (\$3 billion)	636 thousand (B+C)/A 23.3% ¥456 billion (\$43 billion)
Graduate Take-up Rate Spending	203 thousand	59 thousand A/B 29.1% ¥67.6 billion (\$6 billion)	21 thousand C/A 10.4% ¥21.6 billion (\$2 billion)	80 thousand (B+C)/A 39.5% ¥89.2 billion (\$8 billion)

Table 6: Take-up Rate of Scholarship Loans



Figure 2: Trend of Take-up Ratio of Scholarship Loans

Figure 3 illustrates that the trends of the number of total recipients and the percentages of students pursuing higher education exhibited a similar pattern for more than 40 years. Although the number of recipients had increased steadily over the period, the ratio remained stable at approximately 10% as the size of undergraduate education expanded rapidly.

Figure 3: The Trends of the Numbers of Recipients and the Advancement Rate pursuing Higher Education



The 1990s were marked by a lingering depression in the wake of the bust of the bubble economy. At the same time, Japanese higher education experienced another rise in the advancement rate. Many private institutions were newly established since the Education Ministry relaxed the standards for the establishment of universities and colleges as an adoption of the so-called "new liberalism."⁵ Thus, the demand for financial assistance was increasing in Japan. At the turn of the century, the government's Fiscal Investment and Loan scheme was cited for serious concerns and scrutiny under a widespread suspicion that the fund may have unnecessarily expanded and turned into a wasteful investment for building social infrastructure, including rarely used motorways.

This led to drastic reforms of the Fiscal Loan scheme. Although education as well as health and welfare services were proposed as promising fields for fruitful investment in society, investment in these fields began to be placed under strict control, management, and assessment. Another reform served to reduce the size of the fund by substituting it with the agency's bonds. Accordingly, JASSO initiated the issuance of the agency's bonds in 2001.

Against the backdrop of the factors described above, a substantial expansion of the low-interest loan was undertaken by relaxing the assessment criteria, while the size of the interest-free loan was left unchanged due to financial difficulties. Due to the expansion of the low-interest loan, the number of total recipients of the loans in 2004 grew to a level 1.6 times that in 1998. (Figure 4)



Figure 4: Number of Recipients of Scholarship Loans (Undergraduates)

As a result, the ratio of the recipients to the total number of undergraduate students rose to 23% by 2004. However, it is still considerably low compared to figures such as 80% in England and 70% in the USA, for both loans and scholarship grants. It should be noted that the demand for low-interest loans has almost been almost satisfied, while interest-free loans attract 30%–40% more applicants than the budgeted number of recipients. At this point, we have to address some fundamental questions. Why has the discontent of students and parents not erupted for a long time? Why has the demand for low-interest

⁵ For a historical background, see pp13-15 of "Financial Management and Governance in HEIS: Japan," OECD IMHE-HEFCE Project on International Comparative Higher Education, 2004.

loans almost been satisfied?

If the current situation of high tuition fees is taken into perspective as described earlier, these questions become magnified.

Why have the Japanese parents endured such a heavy financial burden over a few decades? Kaneko (2005)⁶ and Yano (1997)⁷ provide an answer to this question. In Japan, higher education used to be regarded as the key to entering the urban middle class. Thus, people—including both parents and students—used to have firm aspiration for pursuing higher education, which used to be affordable even for the lower income stratum at a time when the benefits of the rapid economic growth were distributed equally among the social classes. In addition, as Japanese parents and their children share close-knit relationships, the parents used to assume a strong sense of responsibility for overcoming financial difficulties in order that they could send their children to schools and universities. This may be reflected in the cultural norm of parents and their psychological tendency to avoid having their children depend on interest-bearing loans. This could be one of the most persuasive reasons why the demand for the available low-interest loans seems almost satisfied; in fact, the take-up ratio of the loans is less than 20%.

However, another question should be raised: Can we let the situation remain unchanged in the near future? There is a strong concern that it will become increasingly difficult for parents to continue investing in their children's higher education as they have to bear far greater costs for their own retirement (pension), medical services, and senior care services. Japan has rapidly turned into an aging society with the declining birth rate. Moreover, it is noted that the income gap between the rich and the poor has been widening due to the prolonged depression and the increase in the number of part-time and short-time employees. Against these backgrounds, the scholarship loan program needs to be reviewed in order that some portion of the burden can be shifted from parents, who are forced to prepare for their own old age, onto their children. In other words, the take-up ratio of the financial assistance program should naturally increase. From the view-point of borrowers, an expansion of the interest-free loans program is the most desirable scenario. Under the prevailing unfavorable financial conditions, it is rather evident that this policy cannot be easily realized because increasing the invisible costs, that is, subsidizing the interests of such loans, will place an enormous financial burden on the government's fiscal conditions.

Perhaps, it would be probably practically better if it were possible for us to improve the current low-

⁶ Kaneko, Motohisa. 2005. "Next Issues in Higher Education: Scholarships and Tuition (in Japanese)." IDE, October, 2005.

⁷ Yano, Masakazu. 1997. "Social Economics of Scholarships (in Japanese)."

Students and Universities, Vol.388. Ministry of Education, Science, Sports and Culture

interest loan program. Or, if possible, the introduction of the income-contingent repayment scheme could be an alternative method of reducing the sense of burden among users by replacing the current mortgage-loan type repayment. This is because this type of repayment is front-loaded and imposes a heavier burden in the earlier years of the graduates' career. Moreover, an income-contingent repayment plan may help relieve the anxiety toward the debts.

(2) Necessity of a Scholarship Program as a Mechanism to Maintain Social Mobility between Classes

As explained earlier, all of JASSO's programs have been generated in the loan scheme from the beginning. When the Japan Scholarship Foundation—the predecessor of JASSO—was established in 1943, two years before the end of World War II, statesmen reasoned that the excessive state expenses should be avoided and that the responsibility of educating children lies with the parents.

While the underlying principle has never changed, some modifications were made during the 1960s when Japan's economy began to exhibit signs of rapid growth upon the recovery from the post-war chaos. As the strong demand for a well-educated work force began to be voiced in the industrial world, a special loan program was introduced to implement a scholarship factor into the loan scheme. As explained earlier, those students who were selected through tests or interviews were promised a special loan that would exempt them from a considerable portion of repayment. However, this special loan program had diminished after the "oil shock" and the ensuring financial difficulties. The program was eventually completely abandoned in 1984.

There are some precedent research results that indicate that the lower the household income is, the greater is the tendency of such families to avoid debt or harbor fear toward it in foreign countries.⁸ As some argue, it is more likely that as the income gap between the social classes widens, students from the lower income families will forfeit the opportunity to pursue higher education. This is known as the issue of imperfect information in the field of economics. Educational investment may be regarded as risky especially when people do not have the knowledge and information about future benefits and rewards to be gained from the acquisition of higher education. People belonging to lower income families have greater tendencies of being trapped in their conditions because they lack the personal or familial experience of the higher education, and thus, they in negatively assess advancement to colleges and universities in order to avoid debts. If an undergraduate student borrows a maximum monthly amount of 100 thousand yen (860 US dollars) for 4 years, the total amount of repayment is 6.5 million yen (60 thousand US dollars) including the interest incurred during the period. Therefore, it is reasonable to

⁸ Callender, Claire, 2005, "Survey of higher education students' attitudes to debt and term-time working and their impact on attainment, DfES, pp.38-44.

conclude that even an ordinary salaried worker would hesitate to borrow an amount as much as this. The best remedial measure to tackle this issue is to introduce a scholarship program specifically geared toward lower income families. Certainly, the scholarship program is expensive, however it may be a worthwhile social project for us to implement it along with other social programs with some expense, because it is necessary to maintain and secure the mechanism that promotes social mobility between classes.

(3) Default

JASSO's loan programs have adopted the mortgage-loan type⁹ repayment. The repayment should be completed within 20 years with monthly installments made automatically by credit transfer. Although all recipients are required to open an account at a bank and report their account information to JASSO prior to their graduation, in order to prepare for their repayment schedule, around 5% of the new graduates somehow fail to register their account number in the JASSO's system. The default rate on the monetary basis is approximately 8% among new graduates. This default rate has been maintained at the same level in recent years. Nevertheless, the arrearages accumulate over the years. In particular, since 1999 when the low-interest loan program began expanding, the arrearage accumulation has accelerated in terms of the real amount. The longer the period of delinquency, the worse is the recovery rate. Even though the default rate of the new graduates remains the same, the issue attracts more attention and criticism because the total amount of the default increases. This problem has become serious enough to be reported in the papers and very rapidly grow out of control. This would undermine the sustainability of the scheme.

In 2004, the amount of accumulated default was 50.7 billion yen (0.5 billion US dollars), with 250 thousand borrowers in default. JASSO aims to collect repayments from half of the 250 thousand, as they are ones who have been in default for less than a year and are more willing to revert to the original repayment schedule. The defaulters are contacted by telephone normally in the evening and on holidays from the beginning of the default up to the sixth month. After the sixth month of the default, an announcement is made declaring that JASSO may present the delinquency case in court, in order to pursue legal options for a procedure for execution. However, such legal action is very expensive, and it is usually not worth the relatively small amount of delinquency. This is the reason why JASSO was not aggressive in implementing these steps, as compared with the cases in other countries, such as the United States.

⁹ As in case of buying a house, the loan has a fixed duration, and monthly repayments are fixed other than adjustment because of change in the interest rate.

	Amount due in the year	Amount overdue	Total
Total Amount	¥187 billion	¥42.5 billion	¥229.6 billion
	(\$1.7 billion)	(\$0.4 billion)	(\$2.1 billion)
Collected	¥172.9 billion	¥6.1 billion	¥179 billion
	(\$1.6 billion)	(\$60 million)	(\$1.7 billion)
Collection Rate	92.4%	14.4%	77.9%

Table 7: Repayment of Scholarship Loans

Accumulated bad loans:

¥50.7 billion (\$0.5 billion)

The Number of borrowers in repayment: 1,730 thousand

The Number of borrowers in default:

250 thousand

In 2004, a new guarantee system was introduced in addition to the old one, which required students to find single or joint personal guarantors for their loan applications. Under the new system, if students pay the premium to the associated credit guarantee agency with JASSO, they are no longer required to present a co-signer in their application procedures. Students have the choice of using this option or finding individual guarantors. The premium is automatically deducted from the monthly amount. Since the deposit of the premium is to be applied to the defaulted debt, the take-up rate has to be high enough in order for the system to be successful. The take-up ratio is currently around 30%, and additional efforts are required to raise the rate.

There appears to be no crucial countermeasures to cope with the cases that fall into default. It is, however, important to ensure against "moral hazard" by strengthening the collection measures, including public relations for betterment, and/or the possible usage of private credit collection agencies. In the long term, a withholding system along with taxation, like that already introduced in Australia and England, may be an option.

5. Policy-making and Administration in Scholarship Loan Program

(1) Policy-making in the Scholarship Loan Program

As explained earlier, the main program in student financial assistance is administered by an independent administrative institution, JASSO. Such an institution is given a middle-term plan that it is supposed to achieve within five years. The Ministry of Education retains the jurisdiction over the institution, controls its operation, and assesses its performance at the end of every fiscal year and the last year of the five-year period, in accordance with the objectives set for that year and the five years. The administrative operation expenses of the institution are borne by the block grant from the government.

The middle-term objectives of JASSO do not stipulate the size of the scholarship loan programs. Instead, it is decided in the process of drafting the government's budget each year while taking into consideration the demand for the loan programs and available funds. The government's budget proposal is drafted with coordination between the Ministry of Education and the Ministry of Finance. In this process, designated Diet members from the ruling parties are consulted in advance in order to facilitate a smooth passage of the budget proposal.

The middle-term objectives of JASSO include items concerning measures to improve administrative procedures of scholarship programs and the targeted collection rate or default rate.

Presently, the funds for the scholarship programs come from interest-free loans from the government, the Fiscal Loan fund, the agency's bonds, and credited repayments, as illustrated in the following figure.



Figure 5: Funds for Scholarship Loan

The government's Fiscal Investment and Loan Program funds are controlled by the Finance Ministry in both aspects of selling the government's bonds and distributing available funds for each government function. The issuance of agency's bonds is to be authorized by the Ministry of Education in consultation with the Ministry of Finance. Therefore, these funds raised in the financial market are also under the strict control of the government. From these illustrations, it can also be understood that the Finance Ministry has a strong influence in the decision-making of the size of scholarship programs. As the interest on loans is exempted while students stay in universities and the interest above 3% is subsidized by the government, the Ministry of Finance is deeply concerned with the size of the programs.

The values of the agency's bonds are to be determined by the credit rating of the competitive commercial market, since they are not government guaranteed funds. In fact, there is a remarkable difference in the interest rates between the commercial and government bonds. The difference is

finally accounted for by graduates' repayments. It is assumed that, to an extent, the competitive market mechanism is expected to play a significant role as an instrument to shape the organization's management capability. This is because it would make it impossible to issue bonds if the agency's poor management produced bad debts. However, in reality, investors have already taken into account that this independent administrative agency is supported by the government, and therefore, there would be almost no risk of bankruptcy. This is the reason why it is said that they acknowledge the "tacit guarantee" by the government and are willing to purchase the bonds. As required by investors, the disclosure of managerial information has progressed considerably. However, the tacit guarantee weakens the role of the market mechanism. It has to be examined whether it is economically rational to raise the funds in a more costly manner when an alternative fund, the namely Fiscal Investment and Loan Funds, is also available.

(2) Administration of the Scholarship Loan Programs

One of the most important tasks in any scholarship loan scheme is collection. The government mobilizes two measures to improve the performance of JASSO. One is the institutional assessments done on a yearly basis and the other is conducted at the end of the five-year plan. As fears against increasing the default rate increased and became widespread in society, the assessment became very stringent, and thus, the organization is often urged to devise methods to improve its performance. For example, it has been repeatedly recommended that JASSO outsource collection to private companies with expertise in the field on a contractual basis. The assessment conducted at the end of the middle-term reviews the necessity of the organization's existence itself. This imposes an immense pressure on the executive managers and all the employees.

Another source of pressure comes from the Ministry of Finance, which closely controls the Fiscal Investment and Loan Funds, as they themselves could be a target of criticism if their investment turns out to be inefficient. They are concerned about the default rate to such an extent that detailed suggestions on collection measures from the Ministry of Finance are often ordered from JASSO through the Ministry of Education.

An effective method for an independent administrative institution would be to administer the scholarship loan programs, while major policy decisions such as the size and conditions of loans are dictated by the government.

In addition, the assessment system forces JASSO to offer their best efforts to improving the current default rate. It has to be emphasized that the issue of default is exacerbating with each passing year. Therefore, a drastic measure should be considered in the long term.

Appendix Selection Procedure of Recipients of JASSO's Scholarship Loans

(In case of current students)

- (1) JASSO notifies each university of planned number of recipients calculated on the basis of previous year's record etc..
- ② Applicants present relevant documents to university to prove his/her eligibility in household income.
- ③ University provides the applicant with ID number and password after confirming his/her eligibility in household income.
- (4) Applicants send on-line information to JASSO on his/her family structure, household income etc..
- (5) JASSO compiles lists of applicants for each university. University downloads the lists and automatic selection program from JASSO's host computer.
- (6) University feeds the selection program additional information such as scholastic achievements. University decides weighting between household income and scholastic achievements in the selection. Finally, prioritized lists of applicants will be sent to JAASO for approval.
- \bigcirc JASSO decides recipients for each university in accordance with the prioritized lists.



(4) Application on Line

4. Equality and Cost Sharing in Japanese Higher Education

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1. Issues

This chapter deals with the issues on the cost sharing and equality of higher educational opportunity in Japan. I would like to discuss six issues. The first issue is cost-sharing in Japanese higher education. In Japan, the parental burden ranks the highest amongst the world. Should we, or can we maintain this model of financing? Should we promote the shift of cost sharing from public to private, from parent to student? It's a very big issue. If not, what policy is recommended or needed?

The second issue is a policy of the combination of tuition fees of universities and colleges and student financial aid programs. The tuition fees of Japanese universities and colleges are very high, and we have scare public grants for undergraduate students both in the public sector and private sector. On the other hand, public student loans, in particular loans of JASSO (Japan Student Services Organization), those are with no or a very low interest rate, have been increasing rapidly. Does it mean that a shift from high tuition / low aid policy to high tuition / high aid policy, which is very popular in American private universities and colleges? And how do we evaluate this issue? Related to this topic is, some councils of the Japanese government, especially the Council on the Finance System of the Ministry of Finance, argue that the tuition fees of national universities should be equal to those of private universities and colleges. This "equal footing" argument has very strong support from some economists and educators. What should we think of this argument? This is the second issue of this chapter.

And the third issue is the criteria of JASSO student loans. Student loans of JASSO have two criteria: need-based and merit-based. These two criteria have not been changed since the Japan Scholarship Foundation was established in 1944, which was reconstructed to JASSO in 2004. Should we keep these two criteria or change them by creating a new type of student loan based on need only or merit only? This is the third issue.

The fourth issue is the equality of higher educational opportunities. The Student Life Survey by Ministry of Education, MEXT (by JASSO since 2004) shows there is not so much inequality of higher education accessibility among income classes. However, as we show later in this chapter, there is much inequality of educational opportunity in private university according to our new survey.

If the income inequality is widened, as is discussed recently, the accessibility of higher education for low-income families may be shrinking because among low-income families widening loans might not be effective to decrease their financial burden. We found the loan aversion among low-income families, and this may affect the decision of student family to apply university. So this process might become a vicious circle. What policy do we need to improve this disparity crisis? This is a very big issue both for researchers and policy makers.

The fifth issue is the loan collection scheme. JASSO has a penalty system for non-repayments, however it is argued this system has not been working well, and the default rate has been rising. Just recently, JASSO started to strengthen its penalty system, and it might increase the loan aversion for low-income families. What should we do to reconsider the loan borrowing and default problem? Will implementing the income contingent loan repayment scheme improve this situation? If so, what kind of income contingent loan repayment scheme is desirable: hard, soft, or hybrid? There are so many income contingent loan repayment schemes as Usher and Johnstone in this report mentioned. This is a fifth issue in this chapter.

And final issue is the privatization of JASSO. Some councils of the Japanese government, especially the Council on the Finance System of the Ministry of Finance and the Economic and Financial Management Council under the prime minister, argue the privatization of JASSO, and private companies such as commercial banks can operate student loans effectively and efficiently. Some activities such as loan collection may or can be outsourced, but there are no student loan agencies that are entirely privatized in other countries. JASSO has a 60-year history and it has a lot of infrastructure, for example, a good database system of borrowers. What do we think of the privatization of JASSO? It's a very big political issue in Japan.

Those are the topics we'd like to discuss further in this chapter. We will try to show the evidence to support our arguments.

2. Backgrounds of the Higher Education Reform

Before showing the student financial assistance in Japan, we would like to point out factors affecting the Japanese higher education, as follows.

- 1) decreasing youth population,
- 2) stringent public finance,
- 3) market-driven reform,
- 4) a very low interest rate,
- 5) small income differences,
- 6) parental strong willingness to pay for their children's education.

We would like to explain the background factors briefly and then discuss the impacts to higher education and student financial assistant programs.

Decreasing Youth Population

First of all, the decreasing 18 year-old population invokes urgent problems for higher education. The youth population has been decreasing very rapidly as Figure 1 shows. This decrease has been making university participant ratio increased since 1991. However, the actual numbers of the university and college enrollments have been decreasing. This means that the selection of enrollment has been becoming less selective. The level of selection of entrance examination has been falling. It also means that low achievers and/or new type of students who are not well prepared for university education and lack fundamental academic competencies and motivation can easily enroll in some universities and colleges have to have new curricula and student assistance for these so-called involuntary students. Many students apply for university because of parental pressure, that is, parents are very eager for their children to go to university.



Figure 1 Trends of 18-year-old Population, University and College Enrollment Ratio

note: university and college enrollments ratio=university and college enrollments / 18-year old population

Stringent Public Finance

At the end of fiscal year 2002, the Japanese accumulated public debt reached to seven hundred trillion yen, which was 1.4 times of the Japanese GDP. Japanese government has been taking very shrinking budget policy to improve the deficit. But the Japanese society has a lot of problems such as decreasing younger population, the aging society, and increasing social care and medical care. We have serious dilemma between stringent finance and strong demands for public money.

Market-Driven Reform

The Japanese government took the market-driven reform of the government and public finance to improve the financial situation. This was called "the structural reform with no sacred cows." The main purpose of this policy is to deregulate strict rules those restrict the behavior of stakeholders such as universities and colleges, educational industry, and the governments themselves, while decreasing subsidies. This policy has been having strong influence to the higher education.

Very Low Interest Rate

The Japanese government has been taking "Zero interest monetary policy" since the end of the bubble economy in the 1980s. This policy makes the interest rate of JASSO Type II loan (the loan with interests) very low. So the interest rate has not been serious political issue till now. This is very unique characteristic of JASSO loans. But it is not certain that this low interest rate will continue in the future.

Small Income Difference

In Japan the wage difference between university graduates and high school graduates is much smaller than those of other developed countries. This might be the result of high participation rate of higher education in Japan. But this small income difference will affect the behavior of younger generation. Some of them might choose not to go to college because they cannot gain more benefits from their education.

Parental Strong Willingness to Pay for their Children's Education

The last factor that is important to Japanese student assistant program is parental very strong willing to pay for their children's education. As is shown later in this chapter most parents, even low-income parents have very strong wish to pay for their children's education. It may be a part of Japanese culture, or of the East Asian culture because this willingness is observed among the parents in East Asian countries.

3. Changing Higher Education and Student Financial Assistance

The higher education policy and student financial assistant policy has been changing to respond these changes in Japanese social and economic situation. The change also has been affecting the behavior of universities and colleges. We will overview them in turn.

3.1. Market-Driven Higher Education Policy

The Higher Education Policy has been changing very rapidly since 1991. Till 1991 the Ministry of Education rigorously restricted the establishment of new universities and colleges, and even departments since 1976. The Ministry also restricted places (the number of enrollments in each department in

a HEI). It changed this restricted policy to laissez-faire to establish new universities and colleges and departments, though the 18 year-old population begun to decrease since 1993. It argued that as universities and colleges have to compete each other to survive, and therefore this market-driven policy would make quality of Japanese HEIs better. Each HEI was involved in the competition to get students and money since then. This competition has been getting harder because the youth population is decreasing. This competition began to affect their finance and student financial aid policy.

On the other hand, while the government has been trying the market-driven reform, it has been cutting the subsidies to national universities for more than two decades. As the result the public financial cost sharing in higher education is only 0.5 percent of the GDP, which is the lowest among OECD countries.

Each university and college has to find the revenue from external resources and/ or raising the tuition fees. They compete each other to find resources and prospective students. The main resources are tuition fees and external resources such as gifts, revenue from endowments and profits from their industrial activities. This is a market-driven reform of higher education.

One of the important reforms of higher education in this decade is deregulation and stimulation of competition among HEIs due to incorporation of National Universities and colleges.

3.2. Tuition Fees Policy

The stringent public finance has been affecting subsidies to universities and colleges. This financial squeeze on higher education has severely effected to HEIs. Since the incorporation of national universities in 2004, the appropriation form the central government has been decreasing by one percent a year. These squeezes are not only reduction of public subsidies to national universities but also revenue reduction from tuition fees resulting from the decline in absolute numbers of enrollments, in particular among private universities and colleges. Most private universities and colleges have been experiencing the decrease of applicants and enrollment because the decreasing eighteen-year-old population. Adult students have been increasing, but they have only a few percent of enrollments.

However, it is very difficult for most private universities and colleges to raise tuition fees because it may lead to loose their prospective students and their revenue. Before incorporation the diet decides the tuition fees of national universities. However each national university has a power to raise their tuition fees within a cap of 10 percent increase since 2006. Then the cap increased till 20 percent in 2007. The tuition fees of all national universities are same among all national universities and all departments except low schools. However most universities and colleges do not raise the tuition fees because they believe lower tuition fees will contribute to the equality of educational opportunity, in particular, for the accessibility of low-income class.

As is shown in Figure 2 the tuition fees of national universities have been rising very rapidly, and most educators except the Ministry of Finance and some economists think they are too high for low-income class.



Figure 2 Changes in National University Tuition Fees (2005 Constant Yen)

On the contrary the tuition fees revenue of most private universities and colleges have been decreasing, though they have been raising their tuition fees shown in Figure 3. Both national and private universities and colleges have been facing very severe financial condition, if they could raise the tuition fees.



Figure 3 Changes in Private University Tuition Fees (2005 Constant Yen)

source: Ministry of Education, Survey on Private Schools Tuition Fees, each year

The rapid raising of tuition fees has seriously affected the family with a prospected student. Figure 4 shows the rising proportion of tuition fees against family disposable income per month. Most Japanese parents pay the tuition fees of their children. The burden of paying tuition fees is heavier in low-income class.



Figure 4 Changes in a Proportion of Tuition Fees to Monthly Disposal Family Income

3.3. Changing Student Financial Assistance Policy

The overview of student financial assistant programs of JASSO is outlined in Shibata's paper in this report. I would like to pay your attention to the rapid increase of Type II (low-interest loan) since 1999, as is shown in Figure 4. In 1999 the Ministry of Education changed the student financial aid policy and increased the Type II (low-interest) loan very much. Figure 1 shows this rapid increase of Type II loan, though the reasons and background of this sudden change were not clear.

3.4. Trends in Student Loan and Loan Burdens

The tuition fees have been rising very rapidly both in national universities and private universities and colleges as were shown, but the amount of student loans that a student can borrow has not rising as rapid as tuition fees, though the number of the borrowers have been increasing. Figure 6 clearly shows the gap between tuition fees and student loan. The amount of Special Loan of Japan Scholarship Foundation (now JASSO) was more than seven times of tuition fees of national university in 1971. However the increase of the amount of student loan has not been keeping up with the rapid increase of tuition fees. They became almost same in 1984. Then the maximum amount of the loan was increased in 1998, when a new Type II loan, *Kibou* which literally means "Hope" was introduced.



Figure 5 Growth in the number of Borrowers of Student Loans

Source : Japan Student Foundation, Annual Report, each year

Figure 6 Changes in Proportion of Loans of Boarding Students to Tuition Fees



3.5. Higher Educational Opportunity by Income Classes

However according to *the Student Life Survey* the enrollments of national university are equally distributed among income class (Figure 7). In 1980s and 1990s the lowest income class (Class I, the bottom 20 percentile class) students were occupied more than the other classes. The situation of enrollments of private university is more drastic. The richest class (Class V, the top 20 percentile class)

occupied very large share in 1960s. However, the shares have been declining very rapidly, and it seems the equalization of accessibility has accomplished since 2000.



Figure 7 Changes in National University Enrollment Rates by Income Classes

Data: Ministry of Education, Student Life Survey. Note: Income 20 Percentile class, I:lowest, II: low, III: middie, IV: high V:highest



Figure 8 Changes in Private University Enrollment Rates by Income Classes

Data: Ministry of Education, Student Life Survey. Note: Income 20 percentile class, I:lowest, II:low, III:middle, IV:high, V:highest This equalization trend can be shown by Gini coefficients in Figure 9.

However some researchers have been criticizing these results of the Student Life Survey. Their points of critics are following:

- (1) The survey cannot grasp the family income properly. The family income shown in Figures are acquired by questionnaires for students, and therefore, they argue, are unreliable.
- (2) The samples of this survey are decided by each HEI, and, therefore, might not be random-samples, though the instruction of the survey strictly demands to make a random-sampling to each HEI. This sampling might make the data biased. In particular the purpose of this survey is to get basic information for student financial assistance, and some HEIs might chose more low-income students than actual, and therefore the samples would be biased toward low-income class.
- (3) The trends of proportion among income classes are fractural. This means that there are very drastic changes in every two year. This may not be the case in reality. The fluctuation depends on the calculation of participation rates. It is not plausible that these might be flacutuate in each year.
- (4) Some researchers use random-sampling data and show inequality of higher education are widening, or at least not improving. However, these samples are too small to make these findings generalized.



Figure 9 Changes in Gini's Coefficients of University Enrollment Rates by Income Classes

4. New Results of Higher Education Participation and Student Loan Burdens

4.1. High School Student and Parent Survey 2006

Thus the evaluations of equality of higher education opportunity in Japan are mixed results. We will show the new evidence by our new survey. This survey was done both for high school students and their parents by area sampling method in November 2005 and only for high school students in March 2006. The area sampling method is close to random-sampling, and we got four thousands samples from 400 areas of all over Japan. Therefore these nationwide samples properly represented the high school students and their parents¹.

The results show inequality of private higher education enrollments by income class very clearly, as is shown in Figure 10. Especially the female students enrollment of private university is highly correlated with income class.



Figure 10 HEIs Enrollment Rates by Income Classes by Sex

Further the inequality is very clear when we divide the ratio by high school achievement. Both income class and achievement are highly correlated with enrollment ratio of both male and female students, as Figure 11 shows. However the relation is very different between sexes. The enrollment ratios of male students are not much different both by income class and by high school achievement. However, the ratios are very different in the case of female students. Both income class and achievement are strongly affected the enrollment ratio. This evidence clearly shows there exists inequality of accessibility in higher education in Japan.

4.2. Parental Expectation for their Children's Education

When we investigate parental wish for their children to participate the HEIs, we found less difference by income class. Most rich parents wish their children enroll universities and colleges, while most poor parents wish their children enroll junior colleges or technical schools. Thus in sum most parents want their children go to some HEI, and the difference of their expectations for their children to go to higher

¹ Prof. Motohisa Kaneko and Prof. Masakazu Yano, the University of Tokyo led the surveys.

education is not different among income classes.

Moreover most parents have strong willingness to pay for their children's higher education in spite of their financial condition. Figure 12 shows the parental perception of their capability to pay the higher education costs. We can find some difference among income class, but the difference is much smaller than we expected.



Figure 11 University Enrollment Rates by Income Classes by Junior High School Achievements by Sex

Figure 12 Parental Perception of Higher Education:Capability to Pay the Higher Education Costs by Income Classes





Most parents also have willingness to pay their children's costs of higher education. Again we found less difference among income class, though it is sure that difference exists, as Figure 13 shows.

We confer that the high enrollment ratio and not much inequality in higher education are sustained by the parental willingness to pay for their children. It may be ironical that parents who are very eager to pay for their children's education hide inequality of higher education accessibility. The inequality of higher education accessibility may be bigger, if parents do not pay for their children's education. They might also make the issue not so serious, and therefore the inequality of education does not become political and social problem in the Japanese context. Furthermore it may be one of the reasons that public student financial aid programs are not an important governmental policy.

Figure 13 Parental Perception of Higher Education:Willingness to Pay the Higher Education Tuition Fees Cost by Income Classes



Source: Parents of high school student survey 2005

4.3. Loan Burden and Loan Aversion

Another big issue concerning student loan is a loan burden and loan aversion. When some borrowers feel the loan burden is too heavy and think it difficult to repay after graduation, they may choose not to apply for higher education, or at least to change types of institutions or location of institutions. This is very serious matter because the purpose of student loan programs is to contribute to the finance of some prospective students as financial assistance, but if some prospective students or parents have a tendency to avert loan, loan programs are not helpful for them. If a prospective student considers he or she will not be able to repay the borrowing money after graduation, he or she may change the decision from his or her most desirable institution or program to cheaper institution or program. At the most extreme case he or she may give up to apply for HEIs.

Therefore it is very important to investigate they have a tendency of loan aversion. In the case of the United Kingdom, Callender and Jackson found the loan aversion among high school students (Callender and Jackson 2005).

We found the loan aversion for low-income class as Figure 14 shows. We might face the loan aversion

problem in the near future in Japan because loan borrowers of low-income families are increasing rapidly, as we mentioned. However, the tendency is not so strong. One reason of this weak loan aversion of low-income class is the strong parental educational aspiration to their children.

Figure 14 Parental Loan Aversion by Income Classes and Mother's Education: Unwillingness to borrow the Student



Source: Parents of high school student survey 2005

4.4. Findings of Our Survey

Major findings of the survey are following:

- (1) Tuition fees of both national and private universities and colleges have been raising and colleges. Student loan borrowers have been increasing since 1999.
- (2) Widening inequality of accessibility to higher education, in particularly to private institutions among female, low-income and low-achievers is found.
- (3) Strong relationship between enrollment, income class and academic achievement of high school student is found. Both family income and academic achievement have strong influences to the choices of the high school students.
- (4) Most parents have very strong willingness and perception of financial capability to cover the higher education cost for their children.
- (5) There exists a tendency to avert student loans, particularly among low-income and lesseducated families, but it is not much difference among income classes.

5. Policy Implications

From our survey results, we propose some policy implications.

5.1. Rationalization of the Purposes, Objectives, and Targets through Student Financial Assistance

We have to reconsider the student financial aid programs in Japan. Most policy problems on student financial aid programs still have remained unsolved since the foundation of Japan Student Scholarship Foundation in 1944. For example, most important thing of the reform of the student financial assistance is criteria of selection of student aid receptors. JASSO has been using two criteria, merit- and need-based. It may be unique characteristics of Japanese student financial aid to weight to two criteria equivalent weight, and this seems to have been functioning well till now. But using two criteria makes the purpose of student financial aid programs and targets of recipients vague. So we must reconsider the purposes in the light of new situation.

5.2. Adopt an appropriate and most effective financing scheme:

Secondly we have to search any feasible policy options for improvement of collection scheme. The default rates of JASSO student loans have not been so high that it does not have strong penalty tools nor a tracing system of borrowers. In sum, we have not been having strong needs to have infrastructure of student loan collection scheme. However the default rates are rising gradually, as the number of borrowers is increasing. So we face a new problem of defaults. Will we strengthen the penalty or create a new collection scheme, or completely convert to income-contingent loan scheme? This is a policy issue we have to discuss with a longer perspective of future policy on student loan programs. JASSO set a committee to reform the loan collection scheme in 2007, and the report will be published near future.

5.3. A new need-based grant scheme for students from the lower income families national/ institutional level

The serious emerging problem of the student loan programs is the "loan aversion" behavior of prospective borrowers, in particular of those low-income borrowers. This is very pervasive trend among countries where student loans are popular, and we found this loan aversion behavior among low-income families in Japan. It may be a serious problem as the student loan volumes increase and the penalty becomes rigorous, though it is not a serious problems in Japan. We think we need another type of student financial assistant programs such as a grant for undergraduate students in Japan, since we have scare grants for undergraduates that is very unique characteristics of Japanese public student financial assistant programs.

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5. The Australian Experience of an Income Contingent Loans Scheme

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INTRODUCTION

Australia was the first country in the world to implement a national income-contingent loan (ICL) charge for student tuition. This radical approach to student financing, the key component of the Higher Education Contribution Scheme (HECS), was launched in 1989. HECS has been the platform for a remarkable series of changes in the Australian higher education landscape and despite major policy modifications in 1996, 2003 and 2007. the core principles and defining features of HECS have remained essentially constant over the last 18 years. New Zealand, South Africa, Chile and the United Kingdom have since developed ICL schemes of their own, and along with other countries, the Japanese Government is considering an ICL option to address a number of challenges, including moving the cost of tuition from parents to students.

The purpose of this chapter is to provide an overview of the Australian system of financing student tuition and to consider the relevance of such a scheme for the Japanese context. The chapter describes the key characteristics and origins of the Australian cost sharing initiatives and discusses recent changes in tuition fee policies and mechanisms. It then briefly reviews ongoing and emerging issues concerning institutional diversity, access and equity, and student choices and decision-making. Finally, some observations are made on the relevance of the Australian system — in terms of its potential social and economic effects — for proposed reforms in Japan

POLICY ORIGINS AND CHANGES

Mapping the changes in policy and the mechanics of HECS, from its introduction in 1989 to the 2007 budget announcement of major shifts in the funding of Australia's higher education system, provides insights into the impact of the changing social and economic context on HECS arrangements and vice-versa. HECS was a central component of the radical reforms that expanded provision and combined Australian universities and colleges of advanced education into a National Unified System in 1988. The Hawke Labor Government was motivated by an anticipated peak in demand from school leavers for university places in the early 1990s that it could not meet in political terms with additional taxation. The Wran Committee charged with making recommendations on a new system of student financing argued

that the existing no-tuition fees policy was an unfair burden on average taxpayers who were unlikely to use higher education, and who would receive much lower incomes over their working lives than most university graduates (Beer and Chapman 2004:2). The Committee also argued that fees charged to students should reflect the cost of the course they undertook.

HECS was initially a simplified version of the scheme proposed by the Wran Committee. Instead of the preferred scheme with three levels of charges to reflect differences in the cost of course provision, the Government decided to charge a flat rate of \$1800 per unit for a full-time student regardless of field of study. All students in all Australian universities were required to contribute to the cost of their education through fees for tuition. There was, and still is, limited support available to assist some students with living costs.

The most distinctive feature of HECS is that students do not have to pay tuition fees when they enroll at university. The key principle underpinning this is that no student should be prevented from enrolling in a university course because they are unable to pay fees upfront. Indeed, students in Australian universities do not need to pay fees at all. It is only when they have left university — and by definition are no longer students — that they must pay back the interest free loan they received from the Government. If students leave university without completing their degree program they are still obliged to repay the debt they accumulated for the period they were enrolled. The HECS debt is collected directly via the taxation system whether people are employed or self-employed. Students also have the option of paying the subsidised fees up-front each year with a discount, set initially at 15 per cent, as an incentive.

The other key feature of HECS is that it is an income-contingent loan. That is, until workers reach a specified threshold of annual income, they make no repayments for their tuition fees at all. This means that a person who is never employed, or is employed on an income below the threshold, may never be required to pay back the HECS debt they accumulated while attending university. The principle underlying this is that the HECS debt should be tied to a specified level of private benefit, and that there should be no repayment without the significant private benefit currently set at the average Australian salary.

The repayment schedules were also designed to reduce the impact of HECS on the initial earnings of graduates and thus further minimise any deterrent factor for prospective students. In 1989 the first loan repayment rates were 1, 2 and 3 per cent of a person's income depending on the level of income. It is also important to note that the HECS loan is interest free and that there is no additional interest rate on the debt, although the debt and repayment thresholds were indexed initially to the Consumer Price Index

and later to Average Weekly Earnings (DEST 2003:289).

From 1990 to 1994 there were changes in HECS repayments and income thresholds that involved some fine-tuning of the scheme. The significant proportion of students paying HECS upfront was an unexpected windfall for the Government and universities. In 1993 the discount was raised to 25 per cent with the aim of increasing the proportion of students choosing to pay up-front. Students were able to make voluntary lump sum repayments at any time that also attracted a discount. The discount has been reduced now to 20 per cent.

In 1996-7 the Liberal Government introduced significant adjustments to HECS. They included a major increase in the HECS charges with differential charges by field of study related to the cost differences of the courses of study (as originally proposed). Law courses were a controversial exception with students charged well above the actual costs of tuition on the grounds that the private rewards to law graduates were likely to be high.

POLICY CHANGES AND ARRANGEMENTS 2003-2008

HECS has been the primary marker of the change in the balance between private and public payments towards the cost of higher education in Australia. In 1991 HECS payments represented 21 per cent of university operating grants and by 1999 this had grown to 31 per cent (DEST 2003). This was part of a continuing overall shift in funding sources for universities towards non-Government revenue. The payments, up-front or via taxation, formed part of the Commonwealth operating grants to universities so they did not impact on the overall revenue available for institutions. In 2005 Government grants made up 41.3 per cent of revenue for publicly funded higher education providers, and 14.3 per cent came from HECS (including upfront payments). To put this in perspective, the remaining 44.4 per cent of revenue came from: international fee-paying students and other student fees and charges (22.9 per cent); consultancies and contracts (4.9 per cent); investment income (4.1 per cent); and, a range of other sources (12.5 per cent) (DEST 2006).

This 2005 revenue picture is the outcome of the 2003 package of reforms, *Our Universities: Backing Australia's Future (BAF)*. The Higher Education Support Act 2003 (HESA) established the framework for the implementation of the reforms. The financial aspects from these reforms were introduced in 2005.

Forms of tuition support

Three forms of tuition support for domestic students in Australian universities were created under the 2005 Higher Education Loan Programme (HELP). The first is HECS-HELP which replaced HECS. This is a subsidised loan for students receiving a Commonwealth Supported Place (CSP) at university. Most

domestic students are subsidised by the Government, and the student contribution varies by discipline and university. The Government pays the loan amount directly to the university (or other eligible provider) on behalf of the student. Partial deregulation of the fees allowed the universities to increase HECS tuition costs up to a maximum of 25 per cent above the base amount set by the Government. The reforms also placed a limit of 8 years full-time on the number of years a student may study in a CSP. There is no tax deduction for repaying part or all of the HECS-HELP loan.

The second form of support under the HELP scheme is called FEE-HELP. This is a loan available to domestic students who choose to take a full fee place. The FEE-HELP loan covers up to the full amount of tuition fees for a domestic undergraduate or postgraduate course. These places do not receive Government funding and there is no restriction on the fees universities can charge. Clearly, the gap between the loan limit and the fees charged may present a problem for universities and students alike. Under pressure from the universities the loan limit set by the Government in 2005 of \$50,950 (the maximum a student can borrow over a lifetime) was increased in 2006 to \$80,000 for all courses except Medicine, Veterinary Science, and Dentistry, which were increased to \$100,000. FEE-HELP students are charged a 20 per cent loan fee on top of the amount borrowed and may be entitled to a tax deduction for the cost of the tuition fees.

A third element of the HELP scheme of limited interest to this discussion is called OS-HELP. This is for eligible domestic students who need financial assistance to study overseas.

The 2003 reforms allowed universities to offer a maximum of 35 per cent of student places as fullfee. This was for all disciplines except Medicine, which the Government limited to 25 per cent of places. Universities argued vigorously for these caps to be removed since it left them in the invidious position of being expected to generate income from private sources in a market environment while being restricted both by the Government caps on the fees they could charge, and also by the numbers of fee-paying students they could enroll, in each discipline area.

The 2007 budget removed those restrictions. From 2008, universities will be able to offer as many full-fee places as they are able in the context of the market. There is one proviso: the universities must first offer all the CSP (HECS-HELP) places agreed with the Government before they can offer full-fee places. The actual numbers of available CSP places will increase by 21000 in 2008 along with an increase of almost 5 per cent in the funding per place.

The Commonwealth Grant Scheme

The HELP system needs to be understood in the context of the overall funding system. Universities currently receive a grant from what is known as the Commonwealth Grant Scheme (CGS). Under that scheme the Australian Government funded eligible higher education providers to deliver a specified number of places in particular funding clusters based around academic disciplines or fields of study. To receive a grant under the CGS a higher education provider must enter into an annual funding agreement with the Australian Government. In 2005 that agreement specified the number of Commonwealth supported places the provider was funded to offer students in each of 12 discipline clusters. Units of study in each funding cluster attract a Commonwealth contribution rate specified in the Act.

Illustrating the adaptability of the Australian scheme, and its potential for responsiveness to contextual change, the 2007 budget reduced the clusters from 12 to 7 for funding in 2008. Table 1 shows the base level CGS funding cluster rates per equivalent full-time student load for 2008. Medicine, Dentistry, and Veterinary Science and Agriculture will receive the highest amounts of Commonwealth grant at \$18,227 and Law, Accounting, Administration, Economics and Commerce receive the lowest with \$1,674.

	Discipline clusters	Funding in 2008
1	Law Accounting, Administration, Economics, Commerce	\$1,674
2	Humanities	\$4,674
3	Mathematics and Statistics Behavioural Science and Social Studies Education Computing, Built Environment, other Health	\$8,217
4	Clinical Psychology Allied Health Foreign Languages Visual and Performing Arts	\$10,106
5	Nursing	\$11,280
6	Engineering, Science, Surveying	\$14,363
7	Medicine, Dentistry and Veterinary Science Agriculture	\$18,227

 Table 1: Funding cluster grant rates 2008

Source: DEST 2007

Universities have been set a maximum student contribution amount for an equivalent full-time student load place that they may charge students for units of study. In 2005 the areas of study were grouped
into three bands, and a range of charges set for each group. Education and nursing were designated as national priority clusters. Table 2 shows the maximum student contribution amounts for an equivalent full-time student load place that may be charged for units of study in 2007.

Student contribution band	2007 Student contribution ranges		
3	Law, Dentistry, Medicine, Veterinary Science	\$8,333	
2	Accounting, Administration, Economics, Commerce, Mathematics, Statistics, Computing, Built Environment, Health, Engineering, Science, Surveying, Agriculture	\$7,118	
1	Humanities, Behavioural Science, Social Studies, Foreign Languages, Visual and Performing Arts	\$4,996	
National priorities	Education, Nursing	\$3,998	

Table 2: Maximum student contributions 2007

Repayment thresholds

Changes in the minimum threshold for compulsory repayment of the HECS debt illustrate the adaptability of the HECS to changing conditions and policy contexts. Of course, it also indicates the potential exposure of ICL schemes to short-term political exigencies. In 1989 the minimum threshold for compulsory repayment of loans was set at \$22,000 and was indexed by the Consumer Price Index. In 1993-4 the thresholds were recalculated to reflect Average Weekly Earnings. In the 1996-7 adjustments referred to earlier, the threshold for the commencement of repayments was increased to \$28,495, but the following year this was reduced to \$20,701 thereby increasing the number of people required to make compulsory repayments (DEST 2003). The thresholds and repayments rates were adjusted again in the 2003 reforms as shown in Table 3.

For repayment income in the annual	Rate (%) to be applied to	
salary range (AUD\$)	repayment	
Less than 35 001	Nil	
35 001 to 38 987	4.0	
38 988 to 42 972	4.5	
42 973 to 45 232	5.0	
45 233 to 48 621	5.5	
48 622 to 52 657	6.0	
52 658 to 55 429	6.5	
55 430 to 60 971	7.0	
60 972 to 64 999	7.5	
65 000 and above	8.0	

Table 3: Income thresholds and repayment rates, 2004-05

Source: Higher Education Support Act 2003

ONGOING AND EMERGING ISSUES

One of the architects of HECS argued that the 2003 reforms would ultimately lead to the most significant transformation of the financing of higher education in Australia in more than 30 years (Chapman 2004). The 2007 federal budget confirmed these predictions of transformation in no uncertain terms. Similarly, Norton (2006:2) saw FEE-HELP having the potential to reform higher education radically and that the new FEE-HELP loans 'empower universities as entrepreneurs and students as consumers, strengthening markets in higher education.' However, Norton regards the loan caps as a 'crude way of controlling lending' by the Government and suggests that 'a truly radical reform would make student loans mimic commercial loans'. While only 3 per cent of Australian domestic students are currently in full fee places, the 2007 budget sets the scene for the expansion of this category in the longer term.

For some critics the 2007 budget is seen as the beginning of the end for government-subsided places. They argue that universities will ultimately be able to shift entirely to full-fee paying places in some courses and that this will be the primary source of future growth for the sector. Others argue that the increased flexibility given to universities could result in CSP places being shifted to selected courses and therefore there will be less need to top up those courses with full-fee students. It remains to be seen how universities respond to the opportunity to change the mix of public and privately funded places. However, the Government has declared that it will not allow universities to substitute fee-paying students for CSP students, that is, they can increase the numbers of fee-paying students wherever to suit their mission and needs but are still required to offer existing CSP places allocated after negotiations with the Government.

Diversification and specialization

Institutional diversity was one of four principles underpinning the 2004 *Backing Australia's Future* reform package (the others being equity, quality, and sustainability). The need for diversity was prompted in part by the concern that universities were not responding sufficiently to the labour market needs especially at the local and regional level and were essentially pursuing the same goals. Moreover, many universities were providing a financially unsustainable breadth of programmes. As the Minister put it in a speech on the need for diversification:

'We are a country of 20 million people with 37 public universities and three private universities including the new Carnegie Mellon campus in Adelaide. We have neither the population nor sufficient high-quality academic staff to maintain 37 comprehensive universities which are all undertaking teaching, scholarship and research across a broad range of disciplines.' (Bishop 2006)

From the Government's perspective, the benefits of a more diverse system include: greater choices for students; increased competition and excellence among institutions; and increased innovation and invention. Universities should therefore differ in terms of mission, discipline mix, course offerings, modes of delivery, management and in academic structure. Given the view of the Government that Australia can only support around 10-12 comprehensive universities, the way is open for the development of specialist institutions. This includes public and the small but potentially increasing number of private universities.

HECS has become an instrument to promote and secure the goal of diversification of the sector. The role of HECS in this respect is also likely to become a contentious issue. The most notable example is the use of HECS to support the historic shift of one of Australia's leading research-intensive universities, the University of Melbourne, to a US model. Melbourne will eliminate 96 undergraduate degree programmes, and replace them with six generalist degrees. It is establishing graduate entry programs for professional courses such as Law and Medicine. To do this required support from the Government to move CSP allocations from undergraduate to postgraduate level which was readily agreed. The university intends to reduce the number of HECS places over a 20-year time-frame and double its full-fee numbers.

The introduction of FEE-HELP also supports the growing private higher education sector. More than 40 private higher education providers have been approved to offer FEE-HELP to assist domestic students to pay tuition fees. This effectively supports potential competition from the private sector. The allocation of subsidised student places is a crucial tool for Government in the pursuit of diversity. An emerging issue is the extent to which this and future strategies will impact on the core principles and key elements of the HECS model.

Access and equity

Increasing the access and participation rates of disadvantaged students has been a priority in Australian higher education policy for more than 30 years. As noted above, equity is also a key principle of the 2003 reform package. The goal of higher education equity policy is to remove barriers to access to higher education. The National Higher Education Equity Framework is based on the assumption that there are factors or characteristics that, for certain social groups, inhibit their access to higher education and ability to succeed at university (OECD 2006).

One of the main objections to the introduction of HECS from its beginnings was that, despite the key feature of no fee obstacle at the point of entry, any fee would still discourage people attending university from disadvantaged backgrounds. The argument is made that this is because people from disadvantaged groups are debt aversive, although the evidence in support of this is largely anecdotal. In any event, this cannot be readily separated from associated factors. For example, in the case of low socio-economic

students, especially those from rural areas, the opportunity costs for families in terms of loss of income earned while their children are at university are generally more significant than for most other students.

Overall, once enrolled, students from targeted equity groups have tended to achieve success and retention outcomes comparable to that of other students. This suggests that the primary causes of disadvantage are concerned with prior education experience and socio-economic environment. Research on the impact of HECS on the participation of students from disadvantaged backgrounds shows they were actually less likely to attend university when there were no student fees at all. There is no evidence of a decrease in the participation of students from relatively poor families (Chapman 2005:68). However, the evidence also shows that while the number of students from the defined equity groups has increased, their share of total enrolments has not improved (OECD 2006). That is, their relative disadvantage remains constant. Chapman makes the further point that more places were made available for more students overall at the same time the HECS scheme was introduced, but it does not follow that HECS was the reason for this increase: it coincided with it.

However, the context is changing with respect to student living costs and this is likely to shape further policy developments in student financing. A survey by the Australian Vice-Chancellors Committee of 19,000 students across all Australian universities shows that almost 25 percent of undergraduates take out a repayable loan to support their studies (AVCC 2007). The extent to which these loans are for basic living costs is not clear. Nevertheless, this trend has the potential to undermine the key virtue of the HECS loan system whereby nobody was deterred from study by not being able to pay the fees, as one Vice-Chancellor argues: 'if you can only survive at university by taking out a loan, you are beginning to introduce an up-front component. You are beginning again to influence who goes to university.' (Armitage and MacNamara, 2007)

As more students accumulate private debts around \$25,000 over the duration of their degree program, on top of their interest free HECS debt, the level of private debt multiplies the difficulties of repaying the cost of the university education. Private loans take the form of bank loans and credit cards, and students also borrow from parents or depend on spouses. Although the amount of money borrowed by many students is not great, the AVCC survey shows that many more students are borrowing. This is reflected in the increasing number of students working part-time. The survey follows a series of studies showing that many students rely on support from parents or partners to meet living costs. It also confirms that full-time undergraduate students in Australia are working almost 15 hours a week in part-time paid employment (McInnis and Hartley 2002). This disguises quite significant variations with large numbers of students in certain fields of study working considerably more than 15 hours a week even when enrolled as full-time students.

The 2007 budget addressed some aspects of these financial pressures on students. The number of Commonwealth Scholarships providing living costs assistance was increased for students from low income backgrounds, particularly those from rural and regional backgrounds where there has been little change in participation rates over the last decade. Also, eligibility for the two major living support schemes, Youth Allowance and Austudy was extended to students undertaking masters coursework degrees.

Equity issues associated with HECS are not confined to creating opportunities for disadvantaged people or removing obstacles to their participation. Concerns about equity as fairness are emerging more strongly as universities increase the number of full-fee-paying places in high demand and selective admissions courses. Currently, students who fail to attain a sufficiently high entry score for a Government subsidised HECS-HELP place are able to apply for a full-fee place in the same course. Typically, a university sets a minimum national entry score (known as ENTER) for each of its degree programs. This is calculated on the basis of institutional experience and judgement about the academic potential of students to pass the course, and the risks of admitting students who may not be able to cope with the academic demands. As noted above, under the current arrangements, the Government agrees to subsidise a number of places for each program. When these places are filled by the students above the ENTER score cut-off, additional full fee-paying places can be offered by the university to students who are judged to be capable of passing the degree but whose results were not high enough to get a CSP. These non-CSP students do not have to pay fees upfront – they have the option of taking a FEE-HELP loan.

Since individuals can accumulate a mix of HECS-HELP and FEE-HELP debts the end result is quite significant differences in the debt levels accumulated by students on graduation from the same degree — in some instances separated by the barest of margins in their ENTER scores. For example, in the case of a combined degree in Arts/Law in one university, the final accumulated debt for a student could range from around \$34,000 to as much as \$100,000 depending on the mix of HECS-HELP and FEE-HELP involved. The impact of the 2007 budget with respect to the removal of caps on the full-fee places is unlikely to immediately change this situation.

Student choices and the labour market

There is little evidence of HECS overall deterring student participation in higher education in Australia although concerns are emerging about the extent to which the FEE-HELP scheme will impact on student choice of university, degree program and career path.

A review of the 2003 reforms conducted for the Ministerial Council on Education Employment, Training and Youth Affairs (MCEETYA) asked the key question: 'Is there a tipping point, beyond which some members of the community will judge the price of higher education to be in excess of its private benefit?' (PhillipsCurran 2002). There is no evidence to suggest that it has passed that point nor is it not possible to predict when students will choose not to go to university because it does not represent value for money. There is also no evidence to suggest that students have a clear idea of the specific level of debt they will incur at university, or that graduates are negative about making HECS repayments from their income as a component of their taxes. However, with the likely increase in full-fee student places following the removal of the numbers caps, the perception of loan burden is likely to become more of an issue.

The use of HECS as a means of steering student choices and the labour market is regularly debated. For example, in response to the suggestion that HECS debt should be lowered to reduce the shortage in science and mathematics teachers, Chapman (2007) argues that there has been very little change in the composition of student enrolments by course despite changes in the HECS fees, large or small. However, there is some indication that in certain fields of study such as nursing and teaching, students are more inclined to be cautious about their HECS-HELP commitment because of financial considerations. The MCEETYA review found that students in education and nursing appear to be more sensitive to fee levels than students in other areas. Students in these fields of study have a number of distinctive characteristics that make HECS more problematic: for example, they are more likely to come from low socioeconomic backgrounds and less likely than other students to pay HECS fees up front (PhillipsCurran KPMG 2002).

RELEVANCE OF THE AUSTRALIAN SYSTEM FOR JAPAN

The ICL aspect of HECS cannot be meaningfully isolated from the package of interrelated policy measures developed and refined over time to finance universities and to support students. While it is neither possible nor desirable to implant the Australian or any other system into the Japanese context there may be elements that are capable of being directly adapted. In the discussion that follows some similarities and differences between the Australian and Japanese social and economic environments are set against a summary of the broad benefits and advantages of the HECS experience from the Australia perspective.

The benefits and advantages of HECS

The most obvious social and economic benefit of HECS for a relatively small economy such as Australia has been the dramatic increase in the overall provision of higher education. The number of students attending university since HECS was introduced has grown by more than 50 per cent and despite the significant increases in fees there has been no evidence of a decline in applications for university. Australian governments have attempted to use HECS to simultaneously influence student choice, improve equity, and manage the workforce supply. While the evidence on the outcomes in these

respects is neither comprehensive nor compelling, it is reasonable to conclude that HECS has played a major role in funding the development of a highly educated workforce that would otherwise not have been possible.

A major advantage of HECS that tends to be understated is that the debt is effectively invisible for many students and their families. The income contingency arrangement significantly reduces anxiety about the risks associated with course choice and outcomes for individuals. In the longer term, although the charges have inevitably increased, the interest free loan makes HECS-HELP less of a perceived burden compared with other loan arrangements. However, the benefits of HECS for equity and access do not appear to extend to the most disadvantaged groups.

A further benefit of HECS is that it is inexpensive in administrative terms. There is no loan insurance and no default or risk premium and collateral issue. In 2001 it cost less than 2-3 per cent of the \$800 million collected to administer the scheme. As Chapman (2005) acknowledges, the findings concerning revenue, access and growth could also come about in non-ICL arrangements, nevertheless:

Because of the risk and uncertainty with respect to students' future incomes, an ICL approach is suggested to have the potential for delivering efficacious economic and social outcomes. The essential benefit is that, if designed properly, ICL is the only form of financing that offers both default insurance and consumption smoothing. (Chapman 2005:71)

Tax-based non-commercial schemes such as HECS also have the advantage of limited exposure to corrupt practices. The corruption that has recently been the subject of attention in the United States, where commercial loans companies have been accused of paying kickbacks to universities and colleges to steer students to take loans from 'preferred lender' lists, has significantly damaged the credibility of the universities and lenders involved. According to the New York Attorney General, students ended up paying higher rates than necessary while other lenders charging potentially lower rates were denied access to students by the colleges involved (Chronicle 30 March 2007). The intervention of the US Secretary of Education was also prompted by the potential misuse of the National Student Loan Data system that contains personal information about student borrowers (Chronicle 25 April 2007).

Similarities and differences in contexts

The Australian context posed quite different challenges that prompted the introduction of HECS in the 1980s from those driving the 2007 budget initiatives. Australia was at that time looking for ways to finance the expansion of the higher education system as the basis for economic growth. It also needed to satisfy demands to improve the participation of students from lower socio-economic groups at the very least by expanding the number of university places. The Japanese interest in alternative systems of student financial assistance is prompted by an aging and declining population, increasing competition for a limited pool of talented students, a widening income divide, and the declining capacity of lower income groups to pay the costs of tuition for their children. As Kaneko observes:

'It is envisaged that the population size of 18-year olds will decline dramatically from more than 2 million in 1992 to about 1.2 million in 2010. This will create redundant enrolment capacity at the Universities; and the supply-demand gap will disappear. The selection of students will undergo significant changes, and it is likely that the economic benefit from a university degree will decline at least for some students.' 2005:14)

The latter point adds some weight to favouring a HECS-style option: if it increasingly turns out that some students do not experience the private benefits traditionally due to graduates, then the risk of opportunity cost alone is likely to deter their entry in the first place, or, if they do graduate, the failure to gain significant financial benefit will increase the likelihood of graduates defaulting on loans when the tangible rewards of a degree fail to materialise. If the Australian experience is any guide it is the uncertainty about the financial benefits of degrees at the margins, rather than fear of debt, that will reduce participation from lower income groups. As in Japan, more graduates in Australia are finding employment in areas unrelated to their degree program and that tends to undermine confidence in the value of a university education.

Moreover, the changing demographic profile of the undergraduate population in Japan, combined with the intense international and local competition for professional skills, is likely to restrict the pool of talent to students from middle and high income families, and possibly individuals with exceptional abilities from lower income groups. Students who may otherwise have achieved beyond what their school performance might predict are excluded prematurely from the system. To engage the available talent the Government might need to consider increasing its level of risk-sharing specifically in support of students with school records that are traditionally less reliable predictors of university performance. Drawing on a more diverse student population will also require universities to reconsider their expectations of students and approaches to instruction.

An interesting question from the Japanese perspective concerns the impact of ICL systems such as HECS on graduates' motivation for employment. Given that graduates who earn below the threshold salary level are not liable to repay the HECS loan it is a reasonable question. It might be argued that this encourages 'free-riders' to enrol in university degrees and who, perhaps for lifestyle reasons, then choose to earn income below the threshold and therefore avoid repaying the loan. The Australian

experience does not support this notion at all. A related side benefit that might be of relevance to Japanese policymakers is that Australian women who plan to rear children after graduation are not discouraged from starting families by tuition debt. However, as noted above, there is some evidence that once they have children women are reluctant to then enter higher education because they are concerned that it might impose a debt on their family.

The HECS approach, and the ICL component in particular, may also address issues in Japan concerning linkages of university and labour market. For example, Arimoto (2007) points to the category of workers currently not engaged in employment, education or training (NEETs), unmarried and not seeking work or training, now increasing in Japan. Engaging these people in education and training presents a challenge that might be met by an ICL system. Likewise, the impact of the widely discussed phenomenon of 'freeters' – young people who choose not to work in regular jobs – needs to be taken into account. They are predicted to reach ten million in 2014, an increasingly significant proportion given the declining population of full-time workers. Relying on parents as the primary source of funds for tuition in the long term may be impossible.

Related is the problem of articulating university education with the professions and vocations: 'The substantial development of future society in the 21st century necessarily requires further development of higher education to train adequately the younger generation.' (Arimoto 2007:9). Added to this is the major change from a traditional Japanese management structure to contract and annual salary systems. The pre-conditions for risk-sharing are changing. If the Japanese Government decided to promote lifelong learning, mature age students could become a new and important dimension of the student profile. It is a matter for speculation as to whether an ICL scheme would promote mature age entry or re-entry into university-based professional education, or whether the growth in demand for mature age education will support calls for new systems of financing tied to private benefits.

In sharp contrast to Japan, Australia has a long tradition of encouraging mature-age students. There has been exceptionally strong growth over the last 15 years of enrolments in masters coursework degrees. Most of this comes from student and employer needs to meet professional entry requirements to advance career opportunities, and to improve skills and productivity. Generally, students undertake these programmes while they are working full-time with rewards and recognition from employers. This was given further impetus in the 2007 budget with an extension of Youth Allowance and Austudy to masters degree students.

CONCLUSION

The introduction of HECS in 1989 met with predictable opposition from a generation that had been privileged to have tuition-free university education for only a short 15-year period in Australia's history. Some felt, and still feel, betrayed by the Labor Government that took away what they assumed was an inalienable right to free university education. Despite that, after 18 years in operation HECS has become firmly embedded and accepted in Australian society as a fair and reasonable system of government and individuals sharing the costs and benefits of university education. It bears repeating that the fundamental principle of HECS is that it eliminates the need for students or their families to pay any tuition fees until they leave university and start earning an above average income.

The budget changes to be implemented in 2008 largely meet the demands of universities for greater flexibility in the ways they allocate places across different disciplines and according to their particular mission and contexts. The new arrangements also support the Government agenda of promoting greater institutional specialisation and diversity across the system allowing universities to respond more directly to student and employer demand, a development of particular relevance to regional universities building relationships with local industry and business.

Developing a financing system fixated on the assumption that the capacity and commitment of parents to support student tuition costs is somewhat naïve and risky. Finance policies based on somewhat sentimental assumptions and wishful thinking about a system of higher education entirely dedicated to young school leaver undergraduates are out of step with the rapidly changing realities of the student experience (McInnis, in press). The international mobility of students and the globalised labour market requires a shift in understanding the changing expectations and outlooks of students. This is part of a broader change in context where notions of a career and working life are becoming increasingly diverse, much more individually based, and entrepreneurial. This applies especially to the current highly mobile generation of graduates in the professions who understand their market position in the international competition for talent. Being a student no longer has the transitional and marginal status it once had when students were a relatively small minority of the late adolescent population who went to university before they entered the 'real world'. Most undergraduates both in Australia and Japan are simultaneously students and workers in diverse and varying configurations and time commitment.

The Australian system has enabled it to meet the challenges of diverse needs for students across all ages and stages of higher education including the demands of professional lifelong learning. It has also sustained and advanced the established tradition of an open system whereby mature age entry and reentry into higher education has been made possible for large numbers of the working population. It is noteworthy that it is likely that HECS will be introduced for Vocational Education and Training courses as part of the Government strategy to address significant national skills shortages.

A national system of financing students for the future will need to be adaptable and responsive to changing student contexts, their diverse needs, and major shifts in the external environment. As the Australian system has shown over the last 18 years HECS and its income contingent component has a distinct advantage in that respect.

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6. "THE CHANGING NATURE OF STUDENT FUNDING POLICIES IN BRITAIN"

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INTRODUCTION

This paper focuses on Britain's higher education system of student financial aid. It questions whether the system facilitates or hinders access, and is equitable. It concentrates on provision for full-time undergraduates in England. Financial support for part-time undergraduates and postgraduate students is very different compared to the help available to full-time students, as is student funding elsewhere in the UK because, since devolution in the late 1990s, Scotland and Wales have developed their own student funding programmes.

The current British government wants to expand higher education and this is now symbolised by their pledge to increase the participation of young people in higher education to 50 per cent by 2010. It also is committed to widening accessibility to higher education and in broadening the groups of people going to university, especially students from low-income families (DfES, 2003a; DfES 2003b). It aims to tackle the reality that young people from professional families are over five times more likely to enter higher education than those from unskilled backgrounds, and even when they have similar qualifications, are more likely to attend the best universities. This commitment is driving the government's higher education policies. It arises from the need for universities to meet the demands of a globalised knowledge based economy and a desire for social justice and social inclusion. Britain's student assistance policies, therefore, incorporate two types of funding models outlined by Professor Kobayashi and Professor Kambara - the pragmatic and social activist models. Moreover, the main policy mechanism used for both funding and promoting widening participation has been the reforms of student financial support.

This paper will start by briefly summarising some key features of Britain's higher education system, to contextualise her student financial assistance policies. Then it will outline the main changes in student funding and support policies since the 1990s, and explore the impact of these changes on students to date.

BRITAN'S HIGHER EDUCATION SYSTEM

There are some significant differences between the Japanese and British higher education systems.

Britain, reflecting its smaller population, has far fewer universities and students than Japan. There are only 132 universities and colleges of higher education in England and 169 in the whole of the UK with around 1.8 million undergraduates. There has been a steady growth both in the number of higher education students and the proportion of young people attending university. The most pronounced rise occurred in the mid 1980s and early 1990s, so that today around 30 per cent of young people in England and Wales participate in higher education. Women now make up over half of the student population and around a fifth of full-time undergraduates are aged 21 or over at the start of their course. Unlike Japan, all universities in the UK are public and funded directly or indirectly from central government, except for one university that is very small and caters primarily for overseas students. Consequently, the private higher education sector in Britain is insignificant. However, the higher education system is very hierarchical with entry based on academic ability and research funds concentrated in the top ten universities. Competition for places at these top universities is high and these universities can afford to be very selective in their intake of students. For other universities lower down the hierarchy, recruiting students is more of a concern.

CHANGES IN STUDENT FUNDING POLICIES

Between 1962 and the late 1980s, there were few significant changes in full-time student funding and support policies. Undergraduates' tuition fees were paid by the state, but students received means-tested maintenance grants and social security benefits for their living costs. The means-test was based on the income of a student's parents or on the student's own income if they were aged 25 and over, and this has been the basis of means-testing in all subsequent student grants and loans. In addition, students' parents were expected to contribute to their child's living costs of at least up to the maximum grant available.

Student loans for living costs were first introduced throughout the UK in 1990 by the Conservative government. They were made available to all full-time undergraduates, irrespective of their means, at a zero real rate of interest, and thus were heavily subsidised by the government. These 'mortgage style' loans were repaid usually over a five-year period after students completed their course, but only once graduates were earning 85 per cent of national average earnings. If they earned below this threshold their loan repayments were deferred. Thus unlike Japan, both the eligibility criteria for the receipt of student loans and the loan interest rates were the same for all students. Student loans were made universally available to all students irrespective of their family income and academic ability. In addition, in 1990, maintenance grants were frozen and students' eligibility for social security benefits was severely limited.

The system of student grants for living costs, which student loans gradually replaced, was originally designed in the early 1960s when only around six per cent of young people attended university. By the late 1980s, higher education had expanded rapidly and participation more than trebled. However,

universities' income from central government did not rise in line with this expansion and was inadequate to meet the increasing costs associated with a growing student population. Student loans, therefore, were introduced as a way of saving money for the government because they were cheaper to fund than grants. The money saved through student loans could then be passed on to the expanding higher education sector. In fact, all the changes to student finances since 1990, especially since 1997, have been driven primarily by a desire to reduce public expenditure on higher education while at the same time raising more money for universities to fund greater and wider participation.

The underlying rational behind the introduction of loans, set out in the 1988 White Paper *Top-Up Loans for Students* (Cm 520), has been repeated ever since in various documents in relation to loans, and latterly tuition fees. The idea of raising additional funds to meet increasing higher education costs through more contributions from students' parents or taxation was rejected. Instead, the arguments were based on the principle that those who benefit from higher education, should pay towards its costs. Society benefits by gaining highly skilled people essential to a modern economy and society, and so should pay the greatest share. However, students, once they graduate, also benefit in terms of good jobs, better employment prospects and enhanced earnings, so they too should contribute towards the costs of their education.

The Labour government introduced its first set of changes to student support arrangements in the 1998 Teaching and Higher Education Act. The aim of these reforms was to generate more income for the sector because of years of under-investment under the Conservative government. In addition, funding the widening participation agenda was central to these changes. The 1998 Higher Education and Teaching Act introduced a flat rate means-tested tuition fee of £1,150 (¥267,600) a year paid up-front primarily by students' parents. The Act also abolished cash grants for living costs and replaced them entirely with student loans. Students loan were also partially means-tested for the first time- so poorer students received more generous loans than wealthier students. However, all students still could get a student loan and all students paid the same interest rate on their loans. In addition, the Act established a different student loan repayment system which was linked more directly to students' income once they graduated. This was achieved by abandoning the mortgage style loans and replacing them with income contingent loans which were repaid via graduates' pay packet and the tax system. In reality, this meant that graduates with incomes over £10,000 a year (¥222,700) had to pay an additional 9% in tax, until they had paid off their loan. However, the interest rate on loan remained unchanged and was linked to inflation. The loans were administered by the Student Loans Company which is a quasi government organisation and very similar to JASSO. However, they no longer had to collect the loan repayments as this is done through the tax system which also was a means of reducing repayment default levels.

The next major changes in student funding were incorporated into the 2004 Higher Education Act and proved highly controversial. They only applied to students in England and came into force in 2006/07. The reforms signal a radical shift in student finances. They have deregulated undergraduate tuition fees and introduced a quasi-market in higher education. Universities now can charge up to a maximum of $\pounds 3,000$ (\clubsuit 668,044) for any undergraduate course. However, all students, irrespective of their family's income, now pay tuition fees. So, means-tested flat rate tuition fees paid up front were replaced with deferred fees repaid after graduation via an optional student loan. Consequently, students now can take out a loan for both their living costs and their tuition fees. The repayment threshold for these loans and the existing maintenance loans was increased to £15,000 a year (\$3,355,946). The loans for tuition fees, like loans for living costs are zero rated and will be collected in the same way as maintenance loans. They are designed to cover students' fees in full, except for low income students who receive bursaries of £300 from their university (see below). Consequently, poorer students can borrow up to £2,700, while their wealthier peers who are ineligible for mandatory bursaries can borrow up to £3,000. It is anticipated that the take up of loans for tuition will be around 80 per cent.

In addition, various changes were initiated specifically to support students from low-income backgrounds. First, a means-tested grant of up to $\pounds 2,700$ (\$601,100) was re-introduced. Full grants are paid to students from households within incomes of $\pounds 17,500$ or less (around \$4 million), which represents about 7/8 of Britain's median household income. Secondly, student debt is to be written off after 25 years which is an important safety net for low earning graduates, and especially for women with interrupted patterns of labour market participation due to childbearing and rearing. Finally, universities charging the maximum tuition must give low-income students non-repayable bursaries of $\pounds 300$ (\$67,108) a year to supplement their state-funded grants and maintenance loans.

On top of this mandatory minimum, the government has encouraged universities to provide additional discretionary financial support to promote widening participation. This is a new development in England. For the first time in over 40 years universities are expected to contribute to the student financial support from the income they generate from tuition fees. But expenditure on these bursaries is very small compared with the costs of grants and loans funded through central government. The current sources of student assistance are summarised in Figure 1.

All these changes in student funding reflect an ongoing cost-sharing agenda arising from financial austerity (Johnstone, 2006). They are transforming who shoulders the costs of higher education and are shifting the costs of higher education from government and taxpayers to students, and from students' families to students themselves. It is far too early to assess the impact of the most recent changes in student funding which were only introduced in 2006/07. However, potentially lessons can be learnt from earlier reforms. It is to these that we now turn.



Figure 1 Student Finances in 2006/07

THE IMPACT OF CHANGES IN STUDENT FUNDING BETWEEN 1990 AND 2006

Student loans and debt

The phasing out of grants and their replacement with student loans to cover students' daily living expenses between 1990 and 2006 has lead to a very radical restructuring of students' incomes (Figure 2). Figure 2 clearly shows that the proportion of students' total income derived from student maintenance loans has increased over-time while their income from grants has fallen. In 2004/05, student loans formed two fifths of students' total income compared with under a third in 1998/9 (Finch et al, 2006; Callender and Wilkinson, 2003). This is because more students are taking out maintenance loans and borrowing larger sums of money. In last decade loan take-up has doubled. Today 81 per cent of students take out a maintenance loan, a much higher proportion than in Japan. The average size of the loan has increased fivefold in the past decade and now stands at £3,730 (SLC, 2006).

Student maintenance loans make up the majority of all students' borrowings. Inevitably, with more students taking out loans and borrowing larger sums, student debt has escalated. Some 92 per cent of students graduating in 2005 anticipated leaving university with debts compared with 81 per cent in 1999. Their average debt was also higher- nearly three times more than those who graduated in 1999. By 2005, students were graduating with an average debt of nearly £8,000 (\$1,762,233) (Finch et al, 2006; Callender and Wilkinson, 2003). However, debt is unequally distributed. Students who are poor before going to university are more likely to be in debt and to leave university with the largest debts, while better-off students are less likely to have debts and leave with the lowest debts. In 2005, the poorest students

graduated with average debts of £9,842 (¥2,190,960), 42 per cent more than the richest students.

Thus, student debt is a social class issue. Poorer students have to take more responsibility personally for the costs of their education, and far more responsibility than wealthier students do. Therefore, the student support policies, in effect, have been regressive because poorer students have had to pay - via their loans - relatively more towards the costs of their education.



Figure 2 Changes in the composition of student income 1988/89 to 2004/05

Source: Derived from Callender and Wilkinson, 2003 and Finch et al, 2006

Students exhibit a complex web of attitudes towards money and employ a range of strategies to avoid accumulating debt. However, there is mounting evidence that concerns about debt can put off prospective students from going to university. Several studies cite fear of debt and the prospects of building up large debts, particularly student loan debt, as a deterrent to university entrance among qualified students, especially from low socio-economic groups (Forsyth and Furlong, 2000; Connor et al, 2001; Archer et al, 2003; Forsyth and Furlong, 2003). A recent study found that debt averse students were five times more likely not to go to university than those with more relaxed attitudes to debt (Callender and Jackson, 2005). Fear of debt was greatest among students from the lowest social classes, and put them off going to university more than the better off, even when controlling for a range of other factors including academic ability. Moreover, this debt aversion could not be subsumed within class-related predispositions to higher education. It was a deterrent in its own right. Fear of debt particularly deterred low-income students undertaking vocational qualifications but not those taking academic qualifications (A Levels). These would-be students' debt aversion has serious implications for the government because these low-income students are at the heart of their widening participation policies.

These UK findings on debt aversion may be important for Japan. Clearly, attitudes towards debt and debt aversion are culturally specific. It would be interesting to understand the nature of Japanese students' attitudes to debt and the extent to which the low take up of student loans in Japan is related to debt aversion or other factors, and which student groups hold particular views about debt.

Family support

Another shift in students' income since 1988/89 is the fall in financial support from their parents (Figure 2). This fall has been most marked among students from the highest social classes (Callender and Wilkinson, 2003). Since 1998/99, their income from their family fell by 20 per cent in real terms but was largely made up by an 18 per cent increase in income from student loans. By contrast, students from the lowest social classes saw their income from their family rise by two per cent while their income from student support rose by just four per cent. Therefore, the poorest students have lost out. The main beneficiaries of the move from grants to loans were wealthier students: student loans were a subsidy for the middle classes. These changes are completely contrary to the government's commitment to redistribute the costs of higher education in a fair and equitable way and to give support to those who need it most (DfES, 2003a). And again, this is regressive because the real value of student support has risen for the wealthiest students but fallen for the poorest.

Paid work

A further shift in students' income since 1988/89 is their increasing reliance on paid work. This is a direct consequence of the abolition of grants and the introduction of tuition fees. More students are working in term-time than ever before and they are working longer hours. Between 1998/99 and 2004/5, the proportion with term-time jobs increased from 47 per cent to 58 per cent, when they worked an average of 14 hours a week (Callender and Wilkinson, 2003; Finch et al, 2006).

Consequently, their earnings form a much higher share of their total income. This is another example of how the costs of higher education have shifted more on to individual students. However, again this contribution is greater for students from low-income families than their most affluent peers, as they are more likely to engage in term-time employment and to work the longest hours (Callender and Wilkinson, 2003). So, employment is another social class issue

Students reap few benefits from working because they are concentrated in unskilled and very low paid jobs, earning well below national average wages. Instead, they trade time studying for money, undermining their academic performance, depressing their final degree results, and putting at risk their successful course completion. For example, recent research (Van Dyke et al, 2005) shows that students who work in term-time obtain poorer degrees results than those who do not work do, and the more hours they work the greater the detrimental effect. For instance, a student working the average number of hours

a week is a third less likely to get a good degree result than an identical non-working student. Again, the poorest and most disadvantaged students are the hardest hit because they are the most likely to work in term-time. Term-time employment, therefore, compounds and increases existing inequalities among the student population: it has the most negative affect on those already at a disadvantaged within higher education.

The 2004 Reforms – the unintended consequences

It is too early to tell what the impact of the changes introduced in 2006/07 by the 2004 Higher Education Act will have on students, universities, and the higher education sector overall. However, already it is possible to see some unintended consequences of the 2004 Act which bring this into question the rationale behind the 2004 reforms.

The purpose of these reforms was to advance the marketisation of higher education. Competition was the leading logic behind the reforms. The aim was to stimulate more competition between institutions to increase efficiency, drive up quality, and to give students greater choice. The key mechanism for creating this competitive market was variable tuition fees. However, contrary to the government's intentions, there is no market in fees: fee levels remain undifferentiated. Currently, all but four universities are charging the maximum fee of £3,000 for a bachelor's degree and none, are charging zero. The new "maximum" tuition fee has turned out, in effect, to be a revised flat-rate fee that the new variable fee was designed to replace.

However, competition between universities is emerging in relation to extra-statutory bursaries and scholarships. There are stark disparities both in the amount of money universities are investing in these bursaries, and in the nature and scope of the support, they offer. For example, universities are spending anything between 11 to 78 per cent of their new tuition fee income on bursaries and access. In addition, the generosity of bursary schemes ranges significantly from the mandatory minimum of £300 (¥67,108) to £5,000 (¥1,184,620). Consequently, there is a considerable difference between, what the Americans call, the 'sticker price' of £3,000 tuition fees and the discounted price, that is, the tuition fee minus the value of any bursary. And this difference varies from one university to another. In other words, via the back door of bursaries we are seeing some tuition fee variation.

Competition between universities resulting *directly* from the new funding regime now revolves around their bursary schemes and policies, and will continue to do so until the cap on tuition fees is lifted. These policies can assist universities' institutional repositioning in the higher education marketplace and be used as a competitive strategy – since this is where universities have the greatest discretion and opportunities for innovation. For some universities, bursaries are an investment, a means of opening up

opportunities to the brightest and the best. For others, they are a cost, a means of maintaining student numbers.

Over and above the statutory minimum bursary of $\pounds 300$, it is up to each university to decide their bursary eligibility criteria and how much to award. This adds to the complexity of an already complicated student funding system. The discretionary, non-standardised nature of these bursaries and their diverse eligibility criteria may be advantageous to universities but not necessarily to students. The bursaries are not an entitlement, unlike all other government funded student support, so students have to apply for support. However, some are not applying. They do not know about them, think they are ineligible, or are deterred by their complexity because information is unavailable, or unclear and poorly presented. A recent government survey showed almost two-thirds of young people were unaware that universities and colleges were offering bursaries. The net result is that the take-up of bursaries in 2006/07 was poor in some universities. This is an inevitable consequence of a discretionary system of student aid. Another is that some applicants did not know if, and how much, they would receive before starting their course which made financial planning (something the government is encouraging students to do) – very difficult. Moreover it has yet to be seen if the size and variety of the bursaries on offer are sufficient to influence students' choices and behaviour.

Overall, the 2004 reforms already have proved very costly to the Exchequer and taxpayer, and in their present form probably are not sustainable in the long-term. Student loans (for maintenance and fees) are very heavily subsidised by the government because of their low interest rate and because outstanding student loan debt is cancelled after 25 years. It has been estimated that for every £100 a student borrows it costs the taxpayer around £42 (DfES, 2004). Moreover, not all of this considerable subsidy is targeted at those most in need. Some of it is going to students from wealthy families because all students can take out loans. This raises the question of whether limited government resources should be focused more on those in need of financial help, and whether wealthier students or their parents should contribute more to the costs of their education. However, the new grants do mean that students from low-income families get more state support than students from higher income families while the writing off of debt will benefit poorer graduates. In other words, some of the more regressive features of the student support provision introduced following the 1998 Teaching and Higher Education Act have been remedied by the 2004 Education Act.

The Treasury is putting much more money (around $\pounds 1.2$ billion a year more) into higher education as a result of the grants and tuition fee loans. This will only be gradually recovered and never actually recovered in full, because of the student loans' low interest rates and the writing off of debt. It is questionable, therefore, the extent to which the costs of higher education following these reforms, in reality, have shifted from the public to the private purse. Now individual students, or more accurately graduates, are paying more towards the costs of their education. But taxpayers are also paying more too because of their increased share of the costs of student support. In fact, some commentators suggest, that the additional money raised from tuition fees is off set by the extra costs to the taxpayer of both the student loans and the new maintenance grant. Consequently, we still have a mass higher education system funded predominantly as a public service through taxation.

If the government wants to introduce greater competition in higher education through tuition fees and more of a market, then the costs to the taxpayer of tuition fee loans raise significant issues for the future. Problems will arise if firstly, tuition fee loans continue to be non-means tested; secondly, fees are still funded via low-interest student loans; thirdly, the loan repayment threshold remains at its current level; and fourthly, the current cap on tuition fees is lifted after the new funding system is reviewed in 2009/10. Specifically, the cost of lifting the cap above £3,000 will be considerable for the Treasury because of fee deferral. Moreover, if the cap was lifted, the universities charging the highest fees would be the most prestigious. These are the universities with the smallest proportion of students from low-income backgrounds and the highest proportion of students from wealthy backgrounds. Consequently, a greater share of government tuition loan subsidy would go to students from the wealthiest backgrounds. This would be highly regressive. Currently, this is not an issue because tuition fees remain undifferentiated. However, it will be a major concern if there is greater fee differentiation and a real market in fees develops in the future, as the government had originally intended. So, although some people may think the issue of fees has been decided in England, in fact it has not. We can expect further changes to fees and how these are financed in the medium term.

CONCLUSIONS

The unintended consequence of the 1998 student support reforms was to create greater inequalities with poorer students losing out. Now students pay for their education by taking out loans and doing paid work while they are studying. Money from their families is less significant. And it is poorer students who shoulder a larger share of the costs. It is unlikely the government's latest reforms will reverse this, or lead to widening participation. Variable fees increase both the costs of higher education for students and their debt: both deter low-income groups' participation in higher education. The new grant, while welcome, is inadequate to offset both rising costs and debt. And, the student funding system is becoming more complex than ever before – which in turn may act as a barrier to participation. Rather there is a danger that the new reforms will reassert elitism in higher education. Privileged students who populate top universities at the bottom of the hierarchy may pay a bit less but will get less and still end up with large debts. These divisions between institutions and between students reinforce both social

class and disadvantage. There is a danger that higher education will become more socially and ethnically differentiated and polarised than ever before.

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7. Student financial aid in Finland

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The welfare aspects of Finnish society have been built on education, culture and knowledge, and all children are guaranteed opportunities for study and self-development according to their abilities. This principle applies, irrespective of their place of residence, language and financial status (MinEdu 2006c). These lofty principles are very strong in Finnish public administration.

In 2006, there were 20 universities in Finland, of which 10 were multi-faculty universities, three were universities of technology, three were schools of economics and business administration and four were academies for the creative and performing arts. All Finnish universities are state run and receive their core funding from the state budget. In 2005 there were about 136,700 undergraduate students in the Finnish university system, and about 20,600 postgraduate students (source: KOTA 2006). In polytechnics there were about 131,200 students on degree programmes (source: AMKOTA 2006). The extensive higher education system in Finland including the polytechnics offers in principle degree study places in higher education for about 65 % of the each new age group.

The structural redevelopment of higher education institutions in Finland is in progress and cooperation has increased rapidly over the past few years. This is manifest in common education projects between universities and polytechnic institutions and in closer regional cooperation. The Finnish universities and polytechnics are also rapidly internationalising and their readiness to respond to international competition has increased throughout the 2000s. The conditions for structural changes to rectify the deficiency in funding are there when political decision-making is ready to take the step. First three mergers are carrying out in polytechnics sector in 2006-2007 and mergers of universities are expected to carry out in 2008 (Minedu 2006 a, b, c).

In both Japan and Finland, the populations are ageing and the number of 18-year-olds in the population is declining – while the total population was growing in Finland in 2006. As a consequence, the size of the higher education sector in Finland is the subject of discussion, including the number of higher education institutions in the country. Due to changes in employment practices over the past decade, an increasing number of tertiary education graduates are unable to find lasting and steady employment concerns both Japan and Finland. In the long term this will affect students' motivation to access tertiary education programmes in those fields of study with poor employment prospects.

Investments in knowledge and skills are at the heart of economic growth in the OECD countries, as the OECD has attributed to rising labour productivity half of the GDP per capita growth from 1994 to 2004. According to the *Education at a Glance 2006* analysis, private returns show a rate of return above 8% for tertiary education in all countries. This return has been calculated by comparing future earnings prospects with the private cost of studying, and these numbers are generally higher returns than at the upper-secondary level. (OECD 2006a)

The differences between Japanese and Finnish higher education can be understood by looking at education as consumption. In Japan education is private consumption, but not in Finland. Higher education as public good is important value for European higher education (de Wit 2005, 147). This affects the conditions under which the government will guarantee access to higher education by supporting students financially.

It is typical of the Finnish higher education system that the number of non-degree students is quite high, due to university extension studies centres and traditional summer university organisations' active role. In Japan the share of part-time and non-degree students is clearly smaller than in Finland, but in both countries the need for lifelong learning is increasing. Still, in the Nordic countries life-time earnings from higher education degrees are relatively low, although in Finland they are higher than in Sweden (OECD 2006a, Indicator C2). Graduate employment levels in the public sector is historically high in all Nordic countries. Therefore higher education is perceived as public rather than private consumption.

Discussion on tuition fees

The Commission of the European Community strongly promoted tuition fees in its Communication from the Commission to the Council and the European Parliament on 8th September 2006. The communication Efficiency and equity in European education and training systems" made the following observation:

"A common assumption has been that a 'free' system of higher education (one funded entirely by the state) is, of itself, equitable. In fact, this assumption has not been borne out by reality, since the main determining factor in participation is socioeconomic background. The bulk of evidence shows that there are usually significant private returns to those who participate in higher education, and that these are not entirely offset by progressive tax systems. This can have a reverse redistribution effect. This regressive effect is particularly acute where school systems exacerbate the effects of socio-economic background on educational attainment. In order to bring about a more equitable balance between the costs funded by individuals and society and the benefits accrued by each, and to contribute to providing universities with the extra funding they need, many countries are turning to the main direct beneficiaries of higher education, the students, to invest in their own futures by paying tuition fees. Evidence also suggests that the market effects of tuition fees may improve the quality of teaching and management in universities, and reinforce student motivation."

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This critique runs contrary to tuition fee policies in the Nordic countries, as non-EU/EEA-students pay tuition fees in Danmark since 2006. In Finland, higher education institutions ability to collect any student contributions is limited, and for example, the Act on Criteria for Charges Payable to the State limits the higher education institutions' ability to demand mandatory contributions. Discussion is now focused on introducing tuition fees for non-EU international students. The student organisations in Finland consider them deliberately misleading a "red herring question" – a step towards tuition fees for all students. The student organizations are therefore opposed to any tuition fees in Finland.

The OECD thematic review on tertiary education 2006 found that tuition fees are unlikely to have a significant impact on the overall balance of public and private resources in the Finnish tertiary system. They would rather affect the incentives motivating university and polytechnic institutions, providing them with stronger incentives and resources with which engage in the targeting and recruitment of non-EU students. The government has also instigated discussions on permitting tertiary educations institutions to offer teaching on degree programmes partly financed by employers.

In Japan, the government sets goals to ensure that there will be learning opportunities for students by maintaining and improving the conditions for teaching and research. One tool which can be used to work towards this is to provide support for students. There are two ways to achieve this goal. First, there is support for higher education institutions as institutional support. Second, students can be looked after with individual support. In any higher education system, there must be an appropriate balance between these goals (MEXT).

Student Grants in Finland

There has been a long tradition of support through private and public student grants in Finland in the 19th and 20th centuries. A system of state guaranteed study loans system was established in 1959. The Centre for Student Financial Aid was founded in 1972. It was an organisation established for a modern student financial aid system for Finnish students in tertiary education. According to legislation enacted in 1994, student financial aid is to be provided by the Social Insurance Institution of Finland (KELA), which evaluates the needs of students according to eligibility criteria, taking into account students'

income and state subsidies.

In the European Union, the term 'student' refers to a person who is enrolled at a higher education institution and who pursues higher education studies which lead to a recognised degree or other recognised tertiary level qualification up to doctoral level, regardless of field of study. All the degree students in Finnish tertiary education can benefit from publicly financed study grants and housing supplements. The aim is to provide sufficient income and to provide the incentive for students to commit to graduating in a planned time.

The total sum of student financial aid is also dependent on the type of institution, age and marital status of the student, and the mode of accommodation. The housing supplement covers 80 percent of the rent, but it is not granted for rents over EUR 252 per month (in 2006).

The maximum period of eligibility for this form of support is 55 months, but the time depends on the target completion time length of a degree. Students can apply for an extension in some cases.

	Student	Universities, Polytechnics and con- tinuing education centres of Universi- ties (in EUR)
1.	is married or has dependents	259,01 (about 38600 Yen)
2.	Lives alone, aged 20 or over	259,01 (about 38600 Yen)
3.	Lives alone, aged 18-19	259,01 (about 38600 Yen)
4.	Lives alone, aged under 18	126,14 (about 18800 Yen)
5.	lives with his or her parents, aged 20 or over	105,96 (about 15800 Yen)
6.	lives with his or her parents, aged under 20	38,68 (about 5800 Yen)

Table: The basic monthly study grant (in EUR, Source: KELA 2006).

The basic monthly study grant can be reduced in cases 4-6 described above. Conversely, study grants can be increased if the taxable annual income of students' parents is less than 26100 EUR (about 39 MYen). All sums presented here are pre-tax. The amount for income other than the study grant and housing supplement is 505 EUR (about 75200 Yen) per month and 1515 EUR (about 226000 Yen) for financial aid-free months.

Recent reforms in student financial aid in Finland

In Autumn 2005 the maximum sum of the state-guaranteed loan for higher education was increased from 200 EUR to 300 EUR per month, and the maximum loan for students studying abroad from 360 to 440 EUR per month.

Tax relief can be granted to those who graduate in the minimum time specified in the legislation. The reduction in such cases would be 30% on loans exceeding 2500 EUR.

The housing supplement covers 80 percent of housing expenses. The maximum monthly allowance for housing expenses was increased to 252 EUR (about 38500 Yen) from 1.11.2005

Source: MinEdu 2006

The Government also guarantees student loans of up to 300 EUR per study month or 440 EUR for Finnish citizens studying abroad aged at least 18 years. Students must arrange the loan with the private banking sector. The period for re-paying the loan is twice the period over which the loan was taken, and the maximum repayment period is 14 years. Students and the private banks negotiate between themselves all other conditions such as interest, repayment and other terms and conditions which will applying to the loan.

The total sum of student loans in private banks has remained about the same during the 2000s as the number of students is growing and there has been no remarkable change in interest rate (Sources: Bank of Finland 2006 and KOTA). This fact tells us that students in the 1990s and 2000s avoid loans more than they did in the 1980s.

A conventional form of loans is mortage type based on a defined rate of interest, repayment period and repayment mode. Some countries are in favour of income-contingent loans (ICL), which carries a contractual obligation to repay some percentage of future earnings. However, many countries combine these types with hybrid versions (Johnstone 2006, 152-153).

The low level of study loans

In Finland, all study loans will eventually be paid back, because they are not ICL's but mortage-type loans. The exception to this rule is for new students who commenced higher education in the academic year 2005-2006 or later. They are eligible for a student loan tax deduction if they complete their studies

within the usual time frame and have an outstanding higher-education debt of more than $\notin 2,500$ at the end of the term in which they complete their studies (amendment to the Income Tax Act 409/2005). This opportunity for new students has not produced a radical increase in the number or amount of loans taken out by students.

@31 August	Total sum in 1000 Milloin EUR	Interest %
2003	1.41	4.06
2004	1.37	3.81
2005	1.39	3.70
2006	1.4	4.19

Total sum of study loans taken from private sector banks and their average interest %.

This system is expensive, since a growing amount of students enter tertiary type A programmes in Finland, as was shown in Indicator C2 in Education at a Glance (OECD 2006a). However, the student financial aid system applies only to Finnish citizens. Only non-citizens who live in Finland on a permanent basis for purposes other than studying, can benefit from student financial aid in Finland. Also, the Centre for International Mobility (CIMO), an organisation operating under the Ministry of Education Finland offers services and expertise to encourage crosscultural communication. It administers about 1000 scholarship and exchange programmes available to Finnish and foreign students.

At the moment there are more foreign students coming to Finland than there are Finns going abroad. Finland could increase the number of foreign students and in this way support countries where the university structures are not sufficient to meet the demand. The demand for higher education is definitely growing in some fields of study but there are others where decline is evident. This is a natural development of changes in demand, and public universities have a history of inability to respond swiftly to these changes.

Although the age groups are becoming smaller, the proportion of those matriculating in each age group over the next 10 years will continue to grow in Finland. In fields where the demand for education is growing it is possible to establish publicly funded programmes. There are, however, two major restrictions on their use. Firstly, experiences from the outcome of extensive programmes are partly negative as the results of the training have been modest (Aarrevaara & Kivistö 2006). Secondly, universities cannot increase their capacity according to the changing demands in the labour market and,

therefore, the use of foreign training programmes creates new opportunities to provide flexibility at a lower cost than by expanding the university institution. Hence it is also in the tax-payers interest to support studies abroad.

Students use their financial aid to cover living costs, and the Finnish legislation does not permit tuition fees to be charged to degree students. This is due to the principles of the welfare state enshrined in the Finnish Constitution, including regulations relating to the provision of free education to all students studying for a degree. On the one hand, for international students, the absence of tuition fees might be a reason for studying in Finland. On the other hand, there is evidence to confirm that the combination of fees and loans has not impaired access to higher education. An Australian study is a reflection of the latter. Participation can continue to grow and not decrease the participation of students from low-income families (Greenway & Haynes 2004, 317).

The Experiences of Erasmus Mundus

Inflexible official structures and the strong legislative foundation of the organisation restrict Finnish universities' capacity to make rapid changes. The heavy cost structure weakens the opportunity to act in response to the market or to take financial risks. The setting up of the European Higher Education Area (EHEA) requires improved competitiveness by the universities in that they have to compete for students and researchers. Increasing economic autonomy is necessary for Finnish universities to enable them to maintain their current levels of operation in the changing environment.

The Erasmus Mundus Programme (EM) is an example of new tools for enchancing EHEA. EM is a co-operation and mobility programme launched by the EU Commission in 2004. Its aim is to enhance the quality and attractiveness of European higher education worldwide by identifying, recognizing and supporting high-quality EM Master's Courses. EM provides a framework for promoting valuable exchange and dialogue between cultures and aims at strengthening EU and third country (countries outside the EU/ETA zone) co-operation in higher education. EM financial envelop in the EU Commission is 230 M \in 2004-2008. In the operations of EM programme there is competition between Erasmus Mundus Courses of outstanding academic quality, in each the minimum is 3 partners and there is no formal maximum for number of networked higher education institutions.

In Japan, the universal access to higher education is accomplished by expanding scholarships for students, rather than subsidizing national universities (Yamamoto 2004, 162). The Erasmus Mundus programme is an example of a similar steering shift from national institutional support to European competitive based support. Non-European students who participate in EM Master's courses can apply for a EM scholarship awarded to the best students on a competitive basis. These scholarships cover travel and living expenses as well as tuition and its amount is $21000 \in$ a year (about 3,2 MYen a year). Some of the universities in Europe are able to charge tuition fees. Finland refers only to the GATS "Consumption abroad" alternative, and reguires not tuition fees from overseas students. In 2007 political pressure to change the non-fee-paying policy for students outside EU/EEA is inevitable in Finland.

More International Policy for Contributions

If Finland is genuinely seeking to universally provide higher education, it is unrealistic to assume that within the university sector the publicly funded universities alone could realize it. If the universities take in significantly higher numbers of students, domestic or foreign, they must abandon some of their research resources and this would probably mean that they would neglect their social task of information transfer. Over the past decade the growth of the university sector has materialized through state subsidies. The growth of budget expenditure for the whole university sector in Finland has been 65 % between the years 1995 and 2005 and this development is based on Parliamentary Act (1986/1052, 30/2001, 18/2004). Further growth in the public university sector in Finland is unlikely, as this growth has ceased for now and the universities need outside funding sources to fill the gaps left by state subsidies.

Major reforms in the Finnish higher education system are, however, and still ahead. Like many European countries, Finland has inflexible higher education structures leading to the problem of governance systems that have remained relatively unchanged for decades. This has led to an increase in bureaucratic administration and has caused a permanent deficiency in financing. The Council of State has set goals for the Finnish higher education system to improve the quality of operations and impact, and to strengthen internationalisation. The problem is that decision-making in the publicly owned universities and polytechnics is slow. The main problems in the 2000s are not likely to be solved by traditional means. Contributions to higher education finance are needed from all stakeholders including students and employers to maintain the level teaching quality.

For instance, internationalisation presupposes strong investments in teaching given through a foreign language. The answer within the European Higher Education Area to shortfalls in funding is to force an increase in student contributions. This means the adoption of tuition fees which is a question of political decision making in many European countries.

However, it is possible that within a few years, all Nordic the countries will change their legislation about tuition fees or allowing voucher systems in higher education. Discussion is ongoing in all Nordic countries about imposing of tuition fees on non-European students. The idea is to use this resource to cover internationalisation expenses.

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8. A Study on Expansion and Equality in Chinese Higher Education

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I. Two speculations about expansion and the equality of access

Since the 20th century, there has been the increasing access to education all over the world. Does the influence of students' socio-economic backgrounds upon equality of educational opportunity vary in the process of education expansion? How is it changing? To put the question another way, does the expansion of education bring about greater equality in access to education? Two speculations have been put forward in exploring the questions. In 1993 Raftery and Hout suggested "Maximally Maintained Inequality" (MMI) (Raftery and Hout 1993), and in 2001 Lucas presented the theory of "Effectively Maintained Inequality" (EMI) (Lucas 2001).

Raftery and Hout analyzed the link between equality of access and the expansion of Irish secondary education. Secondary education in Ireland has been expanding steadily in the 20th century, with a strong surge in the late 1960s. The results show that this expansion may also lead to a loosening of class barriers to educational attainment with the implementation of a series of education finance policy designed to improve equality of access, the effect of social-class origins on educational opportunity declined. However, class barriers were not removed. On the basis of this analysis, Raftery and Hout proposed the MMI hypothesis. The core contentions of MMI can be summarized into following main points. First, expansion does not necessarily alter the effect of socioeconomic status on access to education. Second, if enrolment rises faster than demand (where demand is the amount of schooling expected on the basis of population level and social class background composition), then lower-class persons obtain more schooling, even so, the social class effect remains the same. Third, if completion for a given level of education becomes universal for upper-classes persons, then the effect of social background on that transition declines over times. That is, demand for education at a given level must have reached a saturation point - must be "maximized" - before the differences in access to education between privileged and weaker groups in society can be reduced. Otherwise, it is possible that the effect will be the reverse: differences will be exacerbated. Parents of a high socioeconomic status will always find and make use of every possible avenue to increase educational opportunities for their children.

The MMI hypothesis has been influential since its proposal. It highlights competition between social classes. However, its suggestion that "the competition will be nil for any level of education that is universal." has been called into question and criticized by Lucas and others. Lucas believes that MMI
cannot show the deeper relationship between socioeconomic status and access to education because it sees education as undifferentiated, with no distinctions of type or quality. On this basis, Lucas proposes the EMI speculation. He suggests that for levels of education that are universal, competition will occur around the type of education attained. Thus, for some levels, MMI implies the maximum amount of background-related inequality is virtually zero, whereas EMI implies that for those very same levels inequality will not only be nonzero but also nontrivial, that is, the background-related inequality will be consequential.

Educational opportunities can be analyzed on several levels. The approaches to the question are in the following three ways. The first approach is the availability of a given level of education. Equality of access can be examined by surveying years of schooling of all young people within the appropriate age bracket, or by analyzing the make-up of the student body admitted to the institutions of the relevant level. This kind takes a simple numerical approach to the question of equality. The second approach is consideration of differences of type and quality within education. For example, institutions of higher education can be divided into general higher education and vocational higher education; or they can be categorized in terms of quality by their human and financial resources or by reputation. Once categorized by whatever method, student intake can be surveyed to determine the level of equality of opportunity. This brings an extra level of complexity, over and above the simple numerical approach. The third approach involves the results obtained from education. This might include analysis of how the benefits of education (ability to find work, occupation, income, etc.) are distributed among those who received it.

Of these three approaches, MMI focuses on the first and EMI on the second. The two speculations are complementary, each examining an area ignored by the other. The integration of both helps the interpretation of changes brought about by China's expansion of its higher education programs.

II. Empirical findings of equality in Chinese higher education

Since the 1990s, student numbers in higher education in China have been steadily growing. This expansion has brought about a definite increase in educational opportunities. But how have these opportunities been distributed among different social groups? Has the expansion weakened the impact of socioeconomic status on educational opportunities?

This question is approached from two angles. One is that without consideration of the quality of higher education, changes in access to any form of higher education are assessed. The other is that educational access for students of different socioeconomic status is examined in terms of stratified schools of different quality.

Changes in overall enrolment of students in higher education

This section is based on urban household surveys conducted by the national statistics bureau in 1991 and 2000. It analyzes the socioeconomic status of individuals under the age of 23 who have received

or are currently receiving higher education (including junior college degrees or above) ("students"). Distributions of higher education students by household income per capita are presented in Chart 1 and Chart 2. In Chart 2, household income per capita is sorted by ascending order. The cumulative proportions of students are represented by the vertical axis. The Curve thus plotted would be a 45-degree straight line if the student proportions were identical for all income groups. Meanwhile, imitating the calculation of Gini Coefficient, the "Gini Coefficient of Higher Educational Equality" has been defined. The coefficient may range from 0.0 to 1.0. When the coefficient falls to 0.0, absolute equalization of higher education opportunity among various income groups is presumed to exist, and as the coefficient increases, the levels of that equality decrease. The results of the "Gini Coefficient of Higher Educational Equality" for 1991 and 2000 are 0.4746 and 0.1520 respectively. That is, a very significant increase can be seen from the perspective of equality of distribution of higher education student family economic status.



Chart 1. Proportion of students coming from different economic groups

Chart 2. Cumulative frequency of students from different economic groups



As well as economic status, educational background of students' parents or guardians (actually "head of household") was also analyzed. From Table 1, it can be found that the proportion of students whose head of household had a relatively low education level rose significantly between 1991 and 2000. This shows that equality of access to higher education also improves among different social groups.

These results indicate that in the 1990s there was a marked improvement in access to higher education for those from relatively poorer and less well educated backgrounds. Access to higher education was

significantly more equal in 2000 than it was in 1991.

Education of head of household	Percentage of students			
Education of head of household	1991	2000		
Junior college or above	44.8	30.8		
Technical secondary school	15.0	13.8		
High school	14.8	18.4		
Junior high school or below	25.4	37.0		

Table 1. education level of head of household

The reforms of higher education funding in the 1990s brought about great changes. Finding external funds, particularly tuition fees and incidental fees, became much more important in higher education budgets. In 1995, public funds accounted for 73.29 percent of higher education expenditures. By 2000, the proportion was down to 55.23 percent. In the meanwhile, tuition and incidental fees rose from 11.89 percent to 21.09 percent. Tuition fees, just 6 percent of higher education budgets in 1990, reached 16 percent in 1995 and 31 percent in 2000. The proportion of tuition fee per student to per capita net income of rural residents rose from 28 percent in 1990 to 67 percent in 1995; in urban areas it rose from 12.62 percent to 25 percent. By 1999, it had been 160 percent of the average rural income and 61 percent of the average urban income. The policy of private cost sharing played an important role in the expansion of higher education, but the rapid increase in tuition fees provides reason to worry that access to higher education may actually have become less equal during this period.

However the empirical analysis above does not indicate that there is increased polarization in access to higher education during this period of rising fees. Access actually becomes more equal. There are several reasons for this. Firstly, the expansion of higher education has brought increased access to all social groups, particularly to the middle and lower classes. In 1991 there were 2.04 million students in regular HEIs. By 2000, this figure had been up to 5.56 million. The expansion in student intake perhaps counteracted the pressure towards inequality caused by rising tuition fees. This move towards equality supports the MMI hypothesis to some degree. Secondly, the personal income of graduates rose continuously and significantly throughout the 1990s. Research has shown that between 1991 and 2000 the Mincerian rate of return to education rose from 3.78 percent to 13.1 percent (Chen Xiao-yu et al. 2003), which shows significant growth. Compared with private internal rate of return (including private cost and private benefit), the Mincerian rate of return, only reflecting private benefit, may have played a more important role in determining willingness to pay high tuition fees. Thirdly, the surveys adopted in this paper only cover urban residents. It is not certain that the findings would be replicated if it were extended to rural residents. Fourthly, higher education system is a pyramid structure with various types and qualities of education. However, limitations on the data mean that this part of the analysis does not

distinguish between admission to different types and levels of higher education. To complete a more thorough analysis, the second part of this paper will use other data to check for variation in quality beyond simple access to higher education.

Analysis by different tiers of higher education

There have already been several useful analyses of access to higher education by level of institution. Most of the research has concluded that socioeconomic status plays a dominant role in access to higher education. However, taking different samples, researchers do not agree on the changes in equality of access, especially the disagreement on the changes within individual levels of HEIs (Zhong Yu-ping et al. 1999; Xie Wei-he et al. 2000; Ding Xiao-hao 2000). Based on the data of questionnaires from June 2004, administered to students at various schools in different regions of China, this paper makes an analysis of the socioeconomic backgrounds of undergraduates.

Several different methods can be used to judge the "quality" of HEIs. This paper divides the 15 selected institutions into Tier 1 and Tier 2 by their reputation and attractiveness to potential students. Tier 1 institutions are those which are directly affiliated with the Ministry of Education or are part of the "985 Program". Other institutions are classed as Tier 2. To take into account the attractiveness of institutions to students, all agricultural and geological colleges belong in Tier 2.

Changes in students' occupational backgrounds

Occupational background is an important factor reflecting family socioeconomic status. The father's occupation is taken to represent a student's background.

(1) An analysis is made on the composition of undergraduate colony in accordance with occupational information of the entire labor force. Therefore, based on the data from China's 5th National Population Census in 2000 on occupations, we define the ratio of student occupational background is as following: the proportion of corresponding occupational population to the entire society is divided by the number of students from various occupational strata. If the ratio nears to 1, the proportion of students from this occupational background is much the same as that of the population working in this occupation; if the ratio is less than 1 or even much lower than 1, the proportion for students than for the population as a whole. Likewise, if the ratio is higher than 1, the proportion for students is higher. Table 2 shows the ratio of student' occupational background.

(2) The table 2 shows that children of agricultural and urban laborers are less likely to enter higher education than the average for all professions (ratio<1). They are also less likely to be admitted to Tier 1 institutions in comparison with Tier 2 institutions. The children of office workers, professionals and managers are more likely to receive higher education (ratio>1). Particularly striking is that children of high level managers are 10 and 6 times as likely as the general population to enter Tier 1 and Tier 2 institutions, respectively. The difference in access to higher education here is very clear.

	Tier 1	Tier 2	Tier 1/Tier 2
Rural labor	0.27	0.49	0.54
Urban labor	0.73	0.76	0.95
Office work/lower management	3.61	3.20	1.13
Professional	2.82	1.92	1.46
Administrator	10.62	6.58	1.62

Table 2. The ratio of student occupational background

(3) The "occupational index"¹ integrates all of the occupations for a particular group. The weighting of each profession in the occupational index reflects its social standing (the higher the social status, the higher the index). Table 3 shows the occupational index for students over four years at the two grades of institution.

	Year of admission into institution			
	2000	2001	2002	2003
Tier 1	56.8	55.4	57.8	58.4
Tier 2	51.8	50.9	48.2	51.1
Tier 1/Tier 2	1.10	1.09	1.20	1.14

 Table 3.
 Occupational index for the fathers of students

Table 3 shows that for any given year, the occupational index of fathers of students at Tier 1 institutions is higher than that of at Tier 2 institutions. Over the sample period, there is a tendency to be on the rise in the occupational index between Tier 1 and Tier 2.

(4) In terms of occupational distribution, it is often the two extremes of the occupational scale which attract attention. One extreme includes the most disadvantaged workers in society, like agricultural laborers; the other extreme is the most advantaged, such as managers of government or party organizations, company owners and high level technical experts. Table 4 shows the changes over four years in the relative proportions of students from agricultural laboring backgrounds. Table 5 shows administrative/professional backgrounds.

Table 4 shows that the proportion of students from agricultural labor backgrounds at Tier 1 institutions is consistently lower than that of Tier 2 institutions. The proportion of Tier 1 to Tier 2 appears to decline.

Table 5 shows that the proportion of students from administrative/professional backgrounds at Tier 1 institutions is consistently higher than at Tier 2 institutions. The proportion of Tier 1 to Tier 2 turns out to be on the rise.

¹ The occupational index is calculated by assigning values to each kind of occupation, then weighting each one according to its prevalence in the general population. The resulting index does not have any particular meaning, and is used to look for trends only.

	Year of admission into institution			
	2000	2001	2002	2003
Tier 1	0.187	0.175	0.141	0.177
Tier 2	0.296	0.297	0.340	0.312
Tier 1/Tier 2	0.632	0.589	0.415	0.567

 Table 4.
 Proportion of students from agricultural labor backgrounds

Table 5. Proportion of students from administrative/professional backgrounds

	Year of admission into institution			
	2000	2001	2002	2003
Tier 1	0.324	0.306	0.364	0.359
Tier 2	0.258	0.221	0.202	0.227
Tier 1/Tier 2	1.256	1.385	1.802	1.581

Changes in educational level of parents

Education attained by parents is an important indicator of the socioeconomic status of a student's home. Fathers' educational degree is used to represent family educational background. The "educational index"² integrates all of the levels of education for a particular group. The weighting of each level in the educational index reflects its social standing (the higher the social status, the higher the index). Table 6 shows the educational index for fathers over four years at the two tiers of HEIs.

Table 6.	Educational index for students' fathers					
	Year of admission into institution					
	2000 2001 2002 2003					
Tier 1	47.8	47.9	50.6	52.3		
Tier 2	46.8	45.3	43.1	45.8		
Tier 1/Tier 2	1.02	1.06	1.18	1.14		

Table 6 shows that for any given year, the occupational index of students' fathers at Tier 1 institutions is higher than that of Tier 2 institutions. Over the sample period, there is a tendency to be on the rise in the educational index between Tier 1 and Tier 2.

² The educational index is calculated by assigning values to each level of education, then weighting each one according to its prevalence in the general population. The resulting index does not have any particular meaning, and is used to look for trends only.

Factors affecting entrance to different types of institution

Based on the above analysis, logistic regression is used to assess the impact of social and economic factors on entrance to Tier 1 institutions.

The dependent variable will be a dummy variable representing entrance to Tier 1 institutions (y1). Independent variables include: (1) home financial situation (Eco); (2) a dummy variable representing whether the father's occupation is in an administrative job or a professional capacity (Ocu-1-2); (3) representing whether or not the father is an agricultural or urban laborer (Ocu-7-8); (4) whether or not the student is from an urban background (Residency); (5) year of admission into the institution (Time). The results of the regression are shown in Table 7.

Access to excellent higher education (admission into a Tier 1 institution) is significantly correlated with the student's place of residence, household financial situations and the father's occupation. Among student colony, the chance of the student who lives in urban area entering a Tier 1 institution is 1.48 times as high as that of a rural student (see the Exp (B) value for Residency). Students whose fathers are laborers have slim chance to be admitted to a Tier 1 institution (just 0.768 times the chance of other students). Students whose fathers have administrative or professional jobs have an obviously higher chance of entry. Household incomes have a clear positive correlation with the chances of entering a Tier 1 institution.

	Coefficient B	SE	Level of significance	Exp(B)
Residency	0.392	0.049	0.000	1.480
Eco	0.047	0.005	0.000	1.048
Ocu-1-2	0.123	0.060	0.042	1.130
Ocu-7-8	-0.265	0.054	0.000	0.768
Constant	833.549	42.072	0.000	

Table 7.Regression results

The results from the analysis of access to various levels of higher education are as follows.

- (1) The opportunities for higher education among children of laborers are fewer than those of other children. The chances of entering a Tier 1 institution for these children are much lower than those of entering a Tier 2 institution. The opportunities for children of office workers, professionals and managers are obviously greater. Students whose parents are administrators have 10 and 6 times access to Tier 1 and Tier 2 institutions as much as the general population, respectively.
- (2) The occupational index of students' fathers at Tier 1 institutions is obviously higher than that of Tier 2 institutions. The index value for Tier 1 institutions gradually rose, while the value for Tier 2 institutions fell from 2000 to 2002.
- (3) The proportion of students from agricultural laboring backgrounds is obviously lower at Tier 1

institutions than that of Tier 2. The proportion of such students at Tier 1 institutions gradually fell, while the proportion at Tier 2 institutions increased by degree from 2000 to 2002.

- (4) The proportion of students from administrative or professional backgrounds is obviously higher at Tier 1 institutions than that of Tier 2. The proportion of such students at Tier 1 institutions gradually rose, while there was a tendency to have a degressive fall in the proportion at Tier 2 institutions from 2000 to 2002.
- (5) The educational index of students' fathers at Tier 1 institutions is significantly higher than that of Tier 2 institutions. The index value of Tier 1 institutions gradually rose, while the value for Tier 2 institutions fell from 2000 to 2002.
- (6) The financial situation, parental occupation, place of origin and other factors have a significant effect over whether a student gains admission to a Tier 1 institution.

The research described above provides evidence for the explanatory power of the MMI and EMI hypotheses. On one level, the expansion of higher education did bring about a clear rise in equality of opportunity, as far as the number of students is concerned. This result fits the MMI hypothesis. However, when examined on another level, where different levels of higher education are recognized, a trend towards equality in higher education certainly does not appear. On the contrary, there is a growing tendency for the highest quality education to be reserved for those of high socioeconomic status. It is the non-elite institutions which have played the key role in expanding access to higher education for disadvantaged groups in society. This is better explained by the EMI approach.

III. Causation discussion

Admission to Chinese universities is determined by a single centralized test – the College Entrance Examination or *Gao Kao*. The strict link between *Gao Kao* results and university/college admission is maintained by the education departments within each province working together. Problems remain in these systems: the fairness of allocation of places at centrally designated key institutions has been called into doubt; the problem of fees may deter poorer families from higher education. However, in general places are allocated and admission granted based firmly on *Gao Kao* results. So what causes the skew towards socially advantaged groups in admissions to the best institutions?

Two of many possible answers are:

(1) There is huge demand for places at the best primary and secondary schools among urban residents. Extra-budgetary fees charged by these schools – including excess tuition fees charged to students who did not meet the examination requirements for admission – have become an important part of their income. Though there has been an effort in recent years to rebalance public spending on primary and middle schools, the results have been less than ideal. The increases in government budgets for lower-ranked schools have lagged far behind the extra funding – public and private – attracted by the best schools. The gaps between urban and rural schools or between well-supported

and poorer schools have grown discouragingly large, and it is possible that they will grow larger still. Differences in the ability of schools to attract funding amplify disparities in teaching quality and resources, particularly in computer science and English – and these are heavily weighted subjects in the Gao Kao.

(2) Extracurricular classes now account for an important part of the investment made in education by urban residents. My research into education spending has shown that over 70% of urban households with children in education spend money on extracurricular classes of some kind. 30%-40% of the total amount spent on education is now spent on extracurricular classes. The amount spent on extracurricular classes shows a clear correlation with household income. This suggests that the locus of competition for places in higher education has moved from schools themselves to out of school classes. Economically advantaged groups improve their children's academic performance by providing them with high quality extracurricular classes; by giving them artistic or sports training outside school, they increase their chances of achieving "special talent" status (which gives them extra *Gao Kao* points). Both of these raise their chances of gaining admission to a top higher education institution.

IV. Policy implication

One problem that has faced Chinese students for a considerable time is that banks are happy to make student loans to those attending top-rated institutions, but are reluctant to make loans to students at second tier colleges. The research shows that it is these second and lower tier colleges which are attracting great numbers of children from socioeconomically and culturally disadvantaged families. Improving the provision of loans to these students is therefore a key task in broadening opportunities for higher education.

In discussions of opportunities for higher education, the focus has generally been on financial policy: tuition fees, student loans, etc. However, the cultural resources and social capital of households also plays a role in this problem which cannot be ignored. Financial aid for higher education continues to expand in China, meaning that the opportunities for economically disadvantaged families are ever greater. However the monopolization of many places at the best institutions by socioeconomically advanced groups has not been resolved. If anything, the problem is becoming worse. I believe that the reason for this comes from systemic imbalances which are unconnected to the funding issue. It is therefore important to develop a range of social and educational policies at the same time as improving the funding situation. These policies might include a rethink of admissions policy. Policy ideas and systems for boosting admissions among the disadvantaged could be borrowed from other countries (such as the USA). Quotas for rural students could be suggested for the best institutions. Disadvantaged students could be given not just financial support, but also relaxed standards for university admission.

Increased access to any form of higher education is important. It does, at least, increase one form of equality. The experience of some countries has shown that the expansion of higher education does not necessarily bring about greater equality of opportunity. Therefore, expansion of higher educational opportunities for Chinese urban residents in the 1990s should be seen as a hugely important step in the development of social justice.

However, looking only at the total number of students in higher education is not sufficient for an analysis of the full situation. Different levels and kinds of higher education available are also extremely important. Equality across the range of educational classes is an integral part of a nation's education system. Raftery and Hout explained the omission of quality concerns in the MMI hypothesis. Secondary education in Ireland follows a national curriculum, with all students nationwide studying the same curriculum at any given time. As a result of this, they believed that variations in quality would not matter.

This is, obviously not the case in China. There are great disparities within China's higher education system, and differences in resources and reputation among schools are very significant. Thus research into equality of access to higher education should not only focus on the total number of students, but also on the quality of higher education available. Variation in quality is an indicator of equality of access to higher education available. Variation in quality is an indicator of equality, as the key index is much more important than variation in quantitative. It's also a major factor contributing to students' choice of HEIs. Findings in this paper show that while inequality in the provision of higher education was decreasing, inequality in the quality of that education must include not only the total number of students in education, but also a view of the quality of the education they receive. Only a combination of these two aspects gives a comprehensive view of the situation.

In any society, family background will have a certain influence on one's access to education available. This is an immutable rule. Children in disadvantaged social groups will be limited or at least affected by their home financial situation, their parents' education level and other factors. Obstacles to entrance into higher education exist at the primary and secondary levels. It is certain that to some extent, opportunities for higher education are reduced for the economically disadvantaged classes of every country. Absolute equality in educational opportunities in any nation – developed or developing – is a utopian dream. However, the pursuit of increasing equality is a goal which policy makers should not dismiss lightly. If equality of opportunity is cast aside, and household wealth is allowed to become the deciding factor in access to higher education, the consequences would be serious and long lasting. In order to create harmonious development, it is necessary to improve opportunities for the disadvantaged and narrow the gap between those with the greatest opportunities and those with the least. This requires careful analysis of the systems that create these differences and discussion of solutions to them (Yang Dong-ping 2005; Li Wen-li 2005). Public policy should aim at controlling and reducing the differences among social

groups. Following the expansion of higher education, the state can promote equality of opportunity through the allocation of resources and ongoing reform of state funding. With China's higher education in its current state, it is clear that the structure of the education system and the funding system will influence not only whether or not a child enters higher education, but also the quality and type of higher education he or she will receive.

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9. International Experience in Affordability, Accessibility and Student Assistance: Lessons for Japan

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This paper is based on a presentation given to the conference Worldwide Perspectives on Financial Assistance Policies and their Relevance to Future Policy Reform for Japanese Higher Education on December 5, 2006. Its aim is to provide certain lessons for Japan in terms of developing policy in terms of higher education affordability and student loan policies.

Much of what is contained herein is based on two previous papers by the same author, entitled *Global Higher Education Rankings: Affordability and Accessibility in Comparative Perspective* (Usher and Cervenan, 2005) and *Global Debt Patterns* (Usher 2005), both published by the Educational Policy Institute, both of which are available on the Institute's website. This paper in effect summarizes those two documents and tries to draw out specific lessons which may be of use to Japanese policy makers.

In keeping with the origins and purposes of the document, it has been organized into two parts. Part I is an examination of national-level data on affordability and accessibility in higher education; part II is an examination of international experiences in the administration of student loans, with particular reference to the question of income-contingency.

Part I: The Relationship Between Affordability and Access: National-Level Data

When it comes to national debates on policies related to access to higher education, a rather simplistic and deterministic interpretation of the laws of supply and demand is often heard. "As the price of tuition increases," goes the argument, "so must demand for higher education fall." The corollary, of course, is that cheap tuition will increase demand for higher education and that free tuition will therefore create the greatest demand and therefore also the greatest levels of access to education and participation.

A similar strain of thought suggests that not only will free tuition create the greatest aggregate demand, but that the reduction of tuition fees will stimulate demand the most at the bottom end of the income scale. Tuition fees, according to this argument, are inherently regressive because they place a higher relative burden on individuals from lower-income backgrounds. According to this argument, the reduction of tuition fees will not only stimulate aggregate demand, but also stimulate demand in particular among lower-income youth (McKenzie 2007). Thus, reduced or free tuition will not only

increase access in the "Type I" sense of providing greater aggregate participation, but also in the "Type II" sense that Europeans often refer to as "democratization"; that is, providing more equality in opportunities in higher education across different income strata (see Anisef 1985 for descriptions of Type I and Type II access).

A moment's thought, of course, shows that there are two elementary logical flaws in this argument. The first major flaw is that it ignores the possibility of price discrimination. Despite the fact that the argument acknowledges the fact that price does not act as a barrier to all people in equal measure, it does not then take the next step and suggest that the price be adjustable downwards for those for whom it might in deter from attending higher education. This is in fact precisely what grants are meant to do. By acting as a kind of "negative tuition", they reduce the price of education. In those countries where grants are targeted based on income, grants therefore act as a form of price discrimination to help lower "net tuition" for those who are perceived to require assistance in overcoming price barriers.¹ This is a more efficient use of resources than lowering tuition across the board, as those who are not in need of assistance do not receive the windfall gains that would result from lower general levels of tuition.

The second major flaw is the argument that it assumes that any increased demand that results from any reductions on tuition or even net tuition will lead to greater access (in either a "Type I" or "Type II" sense) necessarily requires educational institutions to meet such new demand as is generated by the decrease in price. This, to put it mildly, is a generous assumption, particularly if institutions are not able to raise revenue from tuition fees to meet demand. If institutions cannot do so, of course, then demand will outstrip supply and – in the absence of a price mechanism - rationing sets it (Finnie 2004). In higher education, this rationing usually takes the form of rationing by secondary school achievement. Of course, this too leads to inequality, as across all OECD countries, prose and quantitative literacy score are significantly higher among students from high-income families than among those from lower-income backgrounds (Willms 2003).

Proof of these observations can be found simply by looking at international comparative data on higher education affordability and accessibility in 15 countries (results for Belgium are split to show results for both the French and Flemish communities). Table 1 shows the educational costs and total costs (i.e. educational costs plus living expenses) of higher education in 15 countries, with data for the Flemish and French communities shows separately. Not surprisingly, countries with low or zero tuition (that is, Belgium, Finland, France, Germany, Ireland, and Sweden) appear to be generally cheaper than those countries that have tuition fees.

¹ Definition of net tuition. Note that McPherson etc, define it differently

Country	Education Costs	Living Costs	Total Costs
Australia	526,590	924,416	1,451,006
Austria	203,344	800,710	1,004,054
Belgium (Flemish)	112,969	570,155	683,124
Belgium (French)	112,969	634,869	747,838
Canada	570,802	675,327	1,246,129
Finland	37,346	719,289	756,635
France	239,122	742,938	982,060
Germany	286,562	607,580	894,141
Ireland	216,630	681,840	898,470
Italy	293,754	608,190	901,943
Japan	1,134,619	846,818	1,981,437
Netherlands	273,771	677,308	951,079
New Zealand	457,609	1,038,103	1,495,711
Sweden	117,264	747,061	864,325
United Kingdom	448,012	1,183,285	1,631,297
United States	1,321,174	872,670	2,193,845

Table 1: Education Costs, Living Costs and Total Costs (in Yen)

Note: All figures in 2004 Yen, converted at PPP.

Of course, affordability is not simply about cost. Even if something is deemed "cheap", consumers must have the ability to pay for it. Figure 1 displays the relative total costs (that is the combined educational and living costs) of each country, expressed as a percentage of national GDP per capita, which is a rough proxy for family income across countries. Looking at the data in this way does changes our view of the United States and New Zealand in particular. Despite having the highest combined costs, the US is only the fourth most expensive jurisdiction when costs are expressed as a function of





ability to pay; New Zealand, on the other hand, goes from fourth most expensive to the most expensive when ability to pay is taken into account.

Looking at costs is instructive, but it is by no means the best way to examine affordability in various countries. After all, most countries spend hundreds of millions – if not billions – of dollars on various forms of educational subsidies in the form of loans, grants and concessionary tax measures, all of which are designed to offset to varying degrees the total costs of education. Table 2 shows each country's perstudent expenditures on various types of student assistance. Figure 2 shows each country's total perstudent assistance expenditures as a percentage of each country's total costs.

Figure 2 shows that different countries take very different approaches to student aid. In Sweden, where tuition is already free, the state also makes every effort to help students cover any conceivable education and living cost; on average, roughly 92% of total costs are covered by government loans and grants. This is a very different approach than that taken by other countries with free tuition; in Ireland, Belgium and France, student assistance covers less than 30% of total costs. The Netherlands and Finland are also very generous with their student assistance problems, as is the United States. Of particular interest for Japanese readers is the fact that Japan is noticeably different from other countries which charge tuition fees in that it provides its students with very little in the way of subsidies and loans to offset the costs of

Country	Grants	Loans	Tax Expenditures
Australia	189,242	1,261,764	1,570
Austria	116,844	887,211	263,309
Belgium (Flemish)	37,821	645,303	112,736
Belgium (French)	34,931	712,907	110,017
Canada	153,289	1,092,840	170,321
Finland	352,879	403,755	0
France	185,694	796,366	85,064
Germany	43,379	850,763	269,911
Ireland	141,481	756,989	6,727
Italy	34,941	867,002	0
Japan	0	1,981,437	50,035
Netherlands	546,021	405,058	0
New Zealand	168,356	1,327,355	0
Sweden	379,263	485,062	0
United Kingdom	132,440	1,498,857	0
United States	553,737	1,640,108	87,928

Table 2: Grants, Loans and Tax Expenditures per student (in Yen)

education.



Figure 2 – Total Average Aid as a Percentage of Total Average Costs in Sixteen Jurisdictions

When subsidies are subtracted from total costs, as is done below in figure 3, one gets a very different picture of affordability across countries. The line between countries where tuition is free and those where it is not is much thinner than previously; students in France and Canada, for instance, actually have similar levels of costs after all subsidies - represented in the graph by the dark blue line which shows costs "out-of-pocket after tax expenses" (OOPATE) - despite tuition being free on one country and over \$3,500 (US) per year in the other. Figure 3 also provides graphic representation of Japan's position as an outlier among these countries in that its OOPATE costs are substantially higher than those in other countries – indeed, they are almost twice as high as they are in the United States.



Figure 3: The Role of Grants, Loans and Tax Expenditures in Reducing Total Costs

However, as noted earlier what is important is not simply costs, but costs as a function of a person's ability to pay (for which GDP/capita is here used as a rough proxy). Table 4 shows a variety of different possible measures of affordability, including Total Costs (that is, living and educational costs combined),

Country	Total Costs	Net Costs	Net Costs After Tax Expenditures	Out=of-Pocket Costs After Tax Expenditures
Australia	1,451,006	1,261,764	1,260,194	876,478
Austria	1,004,054	887,211	623,901	623,901
Belgium (Flemish)	683,124	645,303	532,568	532,568
Belgium (French)	747,838	712,907	602,890	602,890
Canada	1,246,129	1,092,840	922,519	720,519
Finland	756,635	403,755	403,755	314,783
France	982,060	796,366	711,302	711,302
Germany	894,141	850,763	580,852	537,473
Ireland	898,470	756,989	750,262	750,262
Italy	901,943	867,002	867,002	867,002
Japan	1,981,437	1,981,437	1,931,402	1,688,177
Netherlands	951,079	405,058	405,058	315,321
New Zealand	1,495,711	1,327,355	1,327,355	972,477
Sweden	864,325	485,062	485,062	60,390
United Kingdom	1,631,297	1,498,857	1,498,857	912,697
United States	2,193,845	1,640,108	1,552,180	882,940

Table 3:

Net Costs (Total Costs minus grants), Net Costs After Tax Expenditures and Out-of-Pocket Costs After Tax Expenditures (Net Costs minus loans, grants and tax expenditures) as a percentage of GDP/capita. Again, this data does not change the picture radically, but certain nuances emerge. The United States and Japan tends to look relatively better on these comparisons than it does on those in table 3 because of their high levels of GDP/capita, while New Zealand tends to look worse.

The preceding survey has shown both that there are multiple perspectives to "affordability", and also that, depending upon which definition of accessibility is chosen, different countries may be perceived as being more or less affordable than others. However, by almost any measure, Sweden should probably be judged as having the "most affordable" system of higher education, followed by Finland and the Netherlands, both of which, like Sweden, have modest costs combined with very extensive loans and grants programs.

After these countries come Belgium and Ireland, two catholic European countries with no tuition, no loans programs and small need-based grants program, followed by Austria, Germany and France. Italy, the most expensive continental European country and Canada, the least expensive Anglophone country, are very similar in terms of their overall affordability profiles, despite one of them having theoretically

"free" higher education and the other having tuition fees of over \$3000 US. Australia and the United States have similarly close affordability profiles, despite the wide gap in the "sticker" price of tuition.

Country	Total Costs	Net Costs	Net Costs After Tax Expenditures	Out-of- Pocket Costs After Tax Expenditures
Australia	36.2%	31.5%	31.4%	21.9%
Austria	24.4%	21.5%	15.1%	15.1%
Belgium (Flemish)	17.5%	16.5%	13.6%	13.6%
Belgium (French)	19.1%	18.3%	15.4%	15.4%
Canada	29.7%	26.1%	22.0%	17.2%
Finland	20.2%	10.8%	10.8%	8.4%
France	26.1%	21.2%	18.9%	18.9%
Germany	23.5%	22.4%	15.3%	14.2%
Ireland	17.8%	15.0%	14.8%	14.8%
Italy	24.2%	23.3%	23.3%	23.3%
Japan	51.2%	51.1%	49.9%	43.6%
Netherlands	23.5%	10.0%	10.0%	7.8%
New Zealand	51.3%	45.6%	45.6%	33.4%
Sweden	23.6%	13.2%	13.2%	1.6%
United Kingdom	43.8%	40.2%	40.2%	24.5%
United States	42.7%	31.9%	30.2%	17.2%

Table 4:

Lagging behind the others are three special cases: the United Kingdom, New Zealand and Japan. In the case of the first two, the issues are the same: despite costs that are modest in international comparison, both countries have high costs of living, low GDP/capita and provide their assistance predominantly in the form of loans. As a result, in neither country can education truly be considered as "affordable" and in most respects lag behind some allegedly expensive countries such as the United States.

Last, there is Japan – a country with high costs and little public student assistance. On the face of it, Japan appears to be extremely expensive. This does not, however, mean that higher education is truly beyond the means of most Japanese families. As is the case in many East Asian countries, household savings rates in Japan are extremely high; hence, most students can likely draw upon parental contributions far larger than those commonly seen in Europe and North America. Thus, while all the various methods of calculating cost and affordability make Japan seem extremely expensive, it is also possible that Japanese students can draw on extensive family resources to meet these costs.

Some consideration needs to be given to the difference between educational costs in the public and private education sectors. If we could look only at public 4-year colleges in the United States (which, after all, hold approximately two-thirds of all American enrolments at the 4-year level), the US' affordability profile would be close to that of Ireland. In Japan, excluding the private sector (would not make much sense because it holds two-thirds of all students) would have the effect of giving Japan an affordability profile comparable to New Zealand's.

So much for affordability. The question, of course, is whether or not any of this matters in terms of accessibility – that is to say, does a country's performance on affordability bear any relation to the size or diversity of its student population?

In its previous work, the Educational Policy Institute has used four basic indicators of accessibility for which data seems widely available on a comparable basis internationally. The first two are related to "Type I accessibility", or the size of the country's higher education system, and the second two are related to "Type II accessibility", or the equitableness of social background of the students within the system.

1) **Participation Rates.** This is the most obvious of all possible indicators: the fraction of young people engaged in higher education studies. There are, however, some difficulties in trying to find standard cross-national measures of participation, in part because students in different countries do not all start higher education at the same time. This study will use the participation rate of the four years of age with the highest rates of participation.

2) Attainment Rates. Raw participation rates are unsatisfactory measures of accessibility for two reasons. Firstly, it measures participation as opposed to completion. Secondly, it corrects for a possible confound in participation rates between "number of students attending" and "length of time in studies" (i.e. a country with a lot of people in short programs may have the same participation rates as a country with fewer people in longer programs). Using some kind of measure of attainment corrects both these problems. This study will use the percentage of the 25 - 34 year old population has completed a "tertiary type A (higher education)" degree.

3) The Educational Equity Index (EEI). This measure is described in an Educational Policy Institute paper entitled *A New Measuring Stick* (available at <u>www.educationalpolicy.org/pdf/measuringstick.pdf</u>). In brief, it measures educational inequality by measuring the degree to which students from high socio-economic status backgrounds (as measured by parental education levels) are over-represented in higher education. The specific measure is best expressed algebraically:

Jurisdictional EEI = $100 \times \frac{(\% \text{ of all males 45-65 with HE degrees})}{(\% \text{ of all students whose fathers have HE degrees})}$

High EEI scores imply that the composition of the student body "looks like" society as a whole; low EEI scores imply that the student body is drawn disproportionately from already privileged families.

4) Gender Parity Index. Proximity to gender parity is another possible indicator of equity in higher education access. In this indicator, any deviation from gender parity (strictly speaking, from the 51-49 female-male split seen in most countries) is treated as being indicative of inequality and therefore negative.

Data on all these points was available in thirteen countries (unfortunately, no data for the EEI was available for New Zealand or Japan). The results are shown below in table 5.

Country	Participation Rate (best 4 years)	Attainment rate of 25-34 year-olds	Educational Equity Index	Gender Parity Index
Australia	22.0% (6 th)	25% (3 rd)	59 (5 th)	1.24 (7 th)
Austria	19.4% (9 th)	7% (13 th)	38 (12 th)	1.19 (4 th)
Belgium	19.4% (9 th)	$18\% (10^{\text{th}})$	37 (13 th)	1.18 (3 rd)
Canada	20.3% (7 th)	26% (2 nd)	63 (2 nd)	1.34 (10 th)
Finland	39.7% (1 st)	$21\% (8^{th})$	61 (4 th)	1.23 (5 th)
France	25.2% (4 th)	19% (9 th)	55 (8 th)	1.27 (8 th)
Germany	17.5% (13 th)	$13\% (11^{\text{th}})$	43 (11 th)	0.92 (1 st)
Ireland	19.0% (12 th)	23% (5 th)	63 (2 nd)	1.29 (9 th)
Italy	32.4% (2 nd)	$12\% (12^{\text{th}})$	47 (10 th)	1.34 (10 th)
Netherlands	29.6% (3 rd)	25% (3 rd)	67 (1 st)	1.08 (1 st)
Sweden	19.4% (9 th)	22% (7 th)	55 (8 th)	1.54 (13 th)
United Kingdom	24.1% (5 th)	$23\% (5^{\text{th}})$	57 (6 th)	1.23 (5 th)
United States	20.3% (7 th)	$31\% (1^{st})$	57 (6 th)	1.35 (12 th)

Table 5: Comparative Measures of Accessibility

Looking at participation in the "best 4 years", Finland has by some considerable distance the highest rate among the countries in this study with nearly 40 percent of its 21-24 year-olds participating in higher education. Italy (32.4%), the Netherlands (29.6%), France (25.2%) and the UK (24.1%) are next, meaning that the top five countries in terms of participation are all European. Beyond that, the next seven countries' participation rates are all bunched in a narrow range between Australia's 22% and Ireland's 19%. Last comes Germany, with the survey's lowest rate of higher education participation at

just 17%

Attainment rates for the population aged 25-34 are presented in the second column of table 5. Despite not having an extraordinarily high participation rate, the United States has the highest attainment rate of any country (31% of all 25-34 year-olds). Canada is second, followed closely by Australia and the Netherlands. Austria, by some distance, is the weakest performer on this measure and Germany does not fare particularly well, either. Most countries attainment rates for this age group, however, cluster in a fairly narrow band between 18 and 22% of the population. Perhaps the most striking result is Italy's. Despite having the second-highest participation rate in the survey, it also has the second-lowest attainment rate which is striking evidence of the serious student retention problems facing the Italian higher education system.

We noted above that a high EEI score indicates that the student body is very similar in sociodemographic characteristics to the overall population, while a low EEI score indicates that the student body is much more "elite" than the overall population. The portrait of accessibility shown by the third column of table is an interesting one. Under this measure of accessibility, the Netherlands has the most accessible system of education, followed closely by Canada and Ireland. A number of countries cluster closely behind these two: Finland, Australia, the UK, the United States, Sweden and France all have student bodies with very similar social compositions. The real outliers in terms of accessibility are Belgium, Austria and Germany, all of which have relatively small student bodies and low attainment rates. It therefore seems likely that there is a very real connection between the size of the system and the equality of access.

The Gender Parity Index (GPI) shown in column four is the ratio of female-to-male value of a given indicator, with GPI of 1 indicates parity between sexes; a GPI that varies between 0 and 1 means a disparity in favour of boys; a GPI greater than 1 indicating a disparity in favour of girls. Germany and the Netherlands have the students bodies where the gender balance is closest to fifty-fifty.² Most countries – Austria, Belgium have gender balances in the range between 1.18 and 1.35, meaning that females in all these countries make up between about 55 and 60 percent of the student body. Only in Sweden does the gender balance tip any further to one side, with females forming almost exactly two-thirds of student body being female.

² In terms of scoring the gender parity index, one must not rank based on the highest or lowest GPI scores (which would imply a preference for one gender or the other), but rather based on the distance from the parity score of one. In most cases, this does little to change the rank score; only in Germany, the only country in the survey where males continue to outnumber females in higher education, does it make a major difference.

Just as different yardsticks of affordability provide perspectives about which countries are "affordable", different yardsticks of accessibility provide different insights as to which countries are "accessible". That said, the Netherlands and Finland both do well in terms of having both high participation rates and good or excellent gender parity scores

The United States, Ireland and the Commonwealth countries of Canada, Australia and the UK have strikingly similar results in many areas. France, Sweden and Italy do slightly worse than the anglophone countries on most measures, while Germany, Belgium and Austria are at the bottom of most measures of accessibility except for gender parity. None has a particularly participation or high attainment rate and all of them have student bodies that are much more "elite" in their social origin than is the case in other countries.

Overall, the data suggest quite strongly that the links between accessibility and affordability are not as straightforward as some policymakers and analysts believe. Sweden, for instance, which as we have seen has virtually eliminated all financial barriers to education, does not do especially well on any of the key measures of accessibility. On the other hand, Canada and the United States, which fare poorly on most affordability measures, do reasonably well in terms of accessibility. With the already-noted exceptions of Finland and the Netherlands, no other country has consistently high or consistently scores across both the affordability and accessibility rankings. The worst that can be said about any country is that they are mediocre across both rankings – a description that would apply to Italy, Germany and Austria.

From a Japanese perspective, this is heartening news. Although Japan appears to be doing badly in terms of the affordability of higher education, this is not necessarily evidence that it must *ipso facto* be doing poorly in terms of accessibility, too. Many countries that do well in terms of affordability don't do well in terms of accessibility and vice-versa. The link between accessibility and affordability at the national level is simply not very strong.

Why might this be? Well, to begin with, the demand for higher education is determined by many things other than simple price. Among the more obvious determinants are the structure of the economy and the returns to education; the social value society (and more particularly parents) places upon education; and the steam of qualified graduates emanating from secondary school.

As noted in the introduction, though, not all of the demand for higher education can necessarily be met. Having high demand for post-secondary education is no guarantee of equality of opportunity; if demand cannot be met then rationing needs to be imposed either through fees or, if this is prohibited, secondary school achievement. And both of these, as we have seen, are equally likely to disproportionately affect youth from lower-income backgrounds.

As a result of all this, the effect of "affordability" on accessibility, at the national level at least is really quite small. Does this mean that affordability doesn't matter? Well, no. Policies related to affordability can still affect who attends PSE at the margins if they are well-designed and well-targeted. Moreover, affordability policy can also have many positive policy outcomes in areas unconnected to access. A more affordable education likely means that students have better living and study conditions. They may be less likely to take on part-time work, or if they do, they may not need to work as many hours. More affordable education may result in lower student debt, and it may also result in students becoming independent of their parents much quicker (this is not likely a policy goal that would be embraced in Asia, but in Scandinavia the independence rationale is frequently given as a reason for the generosity of their student aid programs).

In other words, promoting generally affordable higher education (in the sense of lower average costs) may have a number of socially desirable outcomes – but increased accessibility is probably not one of them. For that, more targeted measures of student aid are probably required; in this case, student grants and student loans, the latter of which is the subject of the next section of the paper.

Part II: Designing Student Loan Repayment Systems

Japan, as we have seen in Part I of this paper, is notable internationally for its reliance on student loans as a means of supporting students. There is also considerable concern about the repayment burden that loans may be causing graduates in an economy which for the last decade has been decidedly unwelcoming to young workers in the country. As a result, some interest has been expressed in the possibility of developing an income-contingent loan system. Part II of this paper examines some of the lessons that can be brought to bear on this question from international experience in student loan repayment systems.

The key point to grasp at the outset of this discussion that neither "income-contingent" nor "mortgagestyle" loans have any inherent effect on access to higher education. As any student of human capital theory will attest, the decision to pursue a course of studies is based on the cost of attendance, plus the cost of foregone income minus any subsidies that might be provided. Only to the extent that loans are subsidized can they affect the decision to attend; and, as we shall see, the decision to subsidize a loan is independent of whether or not the loan is "income contingent".

The most frequently-used policy to subsidize student loans is the subsidy of student loan interest. Most

student loan systems subsidize interest to some degree (Japanese Type II loans and the American Stafford Unsubsidized loans are rare exceptions). In Germany, no interest is charged at all on the student loan, meaning that in real terms the loans carry negative interest. Australia and the United Kingdom provide loans with interest rates equal to the rate of inflation. The Netherlands provides loans at a cost equal to that of the government rate of borrowing (which is technically not a subsidy, but nevertheless provides students with access to credit at below-market interest rates). In Canada and the United States, loans are charged at two different rates depending on whether or not one is still enrolled in school. While in school, students pay zero nominal interest rates (i.e. negative real rates); in repayment, students pay rates which are either equal to or not far off commercial rates.

Governments can also subsidize loans by *forgiving* substantial portions of loans for a variety of reasons at the start of the loan repayment period. In Canada and Germany, students with high levels of debt at graduation often are given loan remission payments to bring their debts down to a certain level which is considered the maximum permissible debt (e.g. 10,000 euros in Germany). In Germany and the Netherlands, some debt forgiveness is triggered by timely completion of study (some Canadian provinces also have timely completion conditions on their forgiveness programs). Germany also has some debt forgiveness based on academic merit (the top third of each graduating class receives some debt forgiveness).

A number of subsidies can also take place during the repayment period. In Canada and the United States, favourable tax treatment is given to interest paid on student loan debt. In Canada, New Zealand and the United States, certain portions of loan interest may be written off during periods of low income; in Canada, some of the principal may also be forgiven if loan payments are deemed to be persistently too high for the individual to make payment over a 3-5 year period. In the United States, many states have debt forgiveness programs contingent on post-graduate work in particular fields which are deemed in need of skilled labour (e.g. teaching or providing medical service in remote areas).

All of these subsidies should have some kind of effect (albeit probably fairly marginal) on access to higher education because of their effect in lowering the net cost of attendance. And all, it should be noted, can be delivered regardless of whether or not a loan is of the "income-contingent" or "mortgage-style" variety.

Income-contingency, as it is typically defined, involves two elements: a threshold beneath which no payment is required and a percentage of income (usually but not always marginal income above the threshold) which makes up the required payment. This description holds true for the versions of income-contingency in use in Australia, New Zealand, the UK and – prior to its abolition in 2003 – Sweden.

However, most student loan programs share at least one feature with these systems, and that is the existence of a threshold beneath which no payment is required. In Canada, the United States, the Netherlands, Germany and Sweden's new (post-2003) system of repayment, there exist thresholds beneath which no payment is required. Because of this, these systems might be thought of as "semi" -income-contingent, though they have been described variously as "soft"income-contingent systems (Usher 2005) and as "income-contingent deferral" systems (Ziderman and Albrecht 1991). Thus, the dividing line between "income-contingent" and "mortgage-style" systems is not quite as sharp as is sometimes thought since both systems employ the concept of a threshold.

In fact, if one could imagine two loan repayment systems, side-by-side, with identical income thresholds beneath which no repayment is required and identical subsidy terms, it would be possible to compare the pros and cons of the two systems. At levels of income beneath the threshold, students are treated exactly the same in each system. At levels of income just above the threshold, however, "hard" income-contingent systems (that is, those where payment above the threshold is calculated as a percentage of income) will be gentler than the "soft" income contingent systems (that is, those where payment above the threshold is calculated based on a fixed amortization schedule). However, as income increases, the burden of the "hard" income-contingent loan repayment will become heavier while those of the "soft" income-contingent remain constant. At some point the "hard" system becomes more onerous, though exactly where this happens will depend on the size of the outstanding debt, prevailing interest rates and the percentage of marginal income the "hard" system requires borrowers to pay each year.

Thus, from the student point of view, excluding any considerations of the subsidization of the loan, the benefits of "hard" income-contingent" loans are in part a function of how much income one has. From the government point of view, however, the benefits of an income-contingent system lie almost entirely in how sagaciously it can place the threshold level for non-payment.

The critical nature of the threshold point is not well described in the literature but deserves to be better understood. To the extent that loan interest is subsidized (as is the case in most income-contingent systems, notably Australia and the UK), the placing of the threshold has a major impact on the costs of the scheme to government. When the Australian government decided in 2004 to raise the threshold to \$35,000 from \$26,000, it prompted the Australian Tax Office to perform an immediate write-down 8% (A\$800 million) of the total value of outstanding HECS debt. Losses of a similar size were incurred in the UK when the threshold was raised from £10,000 to £15,000. In the new Thai system of student loans, where the repayment threshold has been set substantially above the level of the average wage, it is expected that the scheme will lose well over half (and possibly as much as eighty percent) the funds it gives out in Net Present Value terms.

This argues for setting the threshold as low as possible – except that a low threshold negates the major purported benefit of income-contingency, which is that such systems are generous to students during the period right after graduation when their incomes are low and/or unsteady. The challenge for governments then is to find a level for the threshold which is high enough to provide real benefits to borrowers without being overly burdensome on the public treasury.

(It should be noted here in passing that the foregoing discussion only matters for those governments who wish to provide subsidies to students through discounted student loan interest. If no interest subsidies are planned, then the placing of the threshold limit is a much less weighty matter since it has far smaller effects on government expenditures)

	Average Debt at Graduation	Estimated Avg. Annual Income of Recent University Graduates	Debt- to- Income Ratio	Estimated Avg. Monthly Payments	Estimated Avg. Monthly Income of Recent University Graduates	Estimated Avg. Debt Service Ratio
Australia	\$14,697	A\$38,000	38.7%	\$126.67	A\$3,166	4%
Canada	\$18,900	C\$38,000	50%	\$209.83***	C\$3,166	6.6%
Germany*	€5,600	€41,136	13.6%	€105.00	€3,428	3.1%
Netherlands	€8,700	€28,000	31%	€60.29	€2,333	2.6%
New Zealand	\$15,930	NZ\$44,510	36%	NZ\$236.15	NZ\$3,709	6.4%
Sweden	230 000 SEK	290 400 SEK	79%	914.36 SEK	24200 SEK	3.8%
United Kingdom [†]	£8800	£22,000	40%	£90	£1833	2.9%
United States**	\$19,300	US\$34,100	57%	US\$108.00 – US\$189.68***	US\$2842	3.8 - 6.7%**

Table 6: Average Debt-to-Income Ratios and Debt Service Ratios

At 2004 PPP, \$1Cdn = US\$.78 = A\$1.08 = €.75 = NZ\$1.17 = SEK 7.46 = £.48

* Under a strict 20-year amortization scale, German students' repayment rates would be about €37/month, or just over one percent of monthly income; however, there is a minimum payment of €105/month.

** The lowest figure is for "graduated" repayment over 25 years; the highest figure is for "standard" repayment over ten years. Burdens of other repayment options, including income-contingent loans, fall between these two figures.

*** Canadian and American borrowers also benefit from tax credits which would lower their repayment amounts somewhat. In Canada, a student paying \$209.83 per month would receive tax credits that would lower his/her payments by approximately \$18/month, which would make "net" payments approximately \$191.83/month. In the United States, the size of the tax deduction tax deductions would depend on the interest paid (which is a function of the length of amortization period) and the student's tax bracket; assuming a 10-year repayment period and a 15% tax rate, the reduction would be on the order of \$14/ month.

Finally, to the question of outcomes and student loan burdens in different countries. This necessarily requires that a number of things be taken into account including the size of initial loan burdens, interest rates, repayment periods, and the kinds of salaries students can expect once they graduate. Table 6,

below, shows a number of factors related to student loan outcomes and provides some figures for debtto-income ratios and debt-service burdens.

The real effect of different countries' debt repayment management schemes is probably best explored by comparing the difference between debt-income ratios (column three) and debt burden ratios (column six). The rank order of countries in debt burden is very different in these two columns; New Zealand, for instance, which has a relatively low debt-to-income ratio, has a very high debt burden ratio. Conversely, Sweden, which has a very high debt-to-income ratio, has a very low debt burden ratio.

There are two principal reasons for the divergence of outcomes between the debt- burden measure and the debt servicing measure. The first, and probably most important, is the rate of interest charged on student loans. It is no coincidence that the three countries with the highest debt-service ratios are also the three countries with the highest interest rates – indeed, the only three countries that use revenue from student loan interest to cross-subsidize other aspects of the loan system.

The second important factor here is the length of the repayment period. Most countries allow students a relatively long period to repay their loans – 15 years or more. In the case of Canada and some of the American programs, the short period of time to repayment is another factor pushing up the monthly repayment burden. Even here, however, a distinction needs to be made. In the US, the individual can reduce monthly payments by extending the loan period; Canadian borrowers do not have this privilege and this makes an enormous difference to their monthly debt-servicing charges. For instance, if Canadian borrowers could extend their payments to 15 years, their monthly payments would drop by 25%, thus bringing debt repayment burdens down under 5 percent of income.³

Table 6 is useful in dealing with averages, but it is important to remember that most students are not at the average. Table 7 therefore extends the analysis somewhat to look at different national systems where debt and income are either higher or lower than average. For the purposes of this exercise, we have stipulated that "high" and "low" graduate income refer to situations where income is 133% and 66%, respectively, of the average graduate income portrayed in Table 7, while "high" and "low" debt refers to debt that is 150% and 50%, respectively, of the average debt reported in Table 7.

³ The total amount of interest paid over the life of the loan would, however, rise. Objections on this score could of course be eliminated by providing an extended repayment period as an option rather than a mandatory feature of the repayment program – those borrowers that preferred lower total interest payments costs to lower monthly interest payments could remain on the existing 9.5 year plan. Currently, extensions of the repayment period to 15 years are only available to those borrowers who have been receiving interest relief for considerable periods of time – i.e. only to the very poorest.

	High Income, Low Debt	High Income High Debt	Average Debt, Average Income	Low Income, Low Debt	Low Income, High Debt
Australia	6%	6%	4%	0%	0%
Canada	2.6%	8.0%	6.6%	5.2%	0%
Germany	2.3%	2.3%	3.1%	4.6%	4.6%
Netherlands	1.0%	2.9%	2.6%	2.0%	5.9%
New Zealand	7.3%	7.3%	6.4%	4.5%	4.5%
Sweden	1.8%	5%*	3.8%	3.6%	5%*
United Kingdom	4.4%	4.4%	2.9%	0%	0%
United States**	1.3-2.5%	4.2-7.6%	3.8 - 6.7%	2.8-5.0%	8.6-15.3%

Table 7 – Estimated Debt-Service Ratios for Various Debt and Income Scenarios

N.B. Low debt = 50% of average debt and high debt = 150% of average debt; low income - 66% of average income and high income = 133% of average income

* Under the standard formula, repayment for "high debts" would be 5.4% of income at "high income" and 10.8% of income at "low income"; however Swedish student aid caps repayments at 5% of income.

** Low figure is for "graduated" repayment, high figure is for "standard" repayment. Burdens of other repayment options, including income-contingent loans, fall between these two figures.

The picture that emerges from Table 7 is a complicated one, but a simple message emerges nevertheless. No single loan program can be considered "attractive" to students regardless of their income and debt levels. Programs that work for one set of borrowers usually do not work well for another. This is another way of saying that the advantages and disadvantages of different student loan debt management systems varies considerably according to one's income and outstanding debt.

Apart from this simple message, four subsidiary lessons can be learned from this table:

First, given the conditions on debt and income set here, the UK, Australia and Canada, the three countries with the most generous loan income thresholds, are probably the best places to be if one is a borrower with low income and high debt. Care should be taken in interpreting this, however; should the Canadian student's income rise even slightly from the level shown here, he or she would lose eligibility for interest relief and would be required to pay the full amount of the loan. In this case, the debt service ratio would suddenly become the worst of the bunch, at just over 16% of pre-tax income. Australia, however, because of its generous income thresholds and low initial rates of repayment, does not suffer from this problem.

Second, high earners have lower debt-service ratios under conventional mortgage-style systems than they do under "hard" income-contingent loan systems. This may be somewhat misleading, however, as some high earners undoubtedly pay more than the required minimum in these programs so as to avoid interest charges. Conversely, of course, this implies that "hard" ICR systems can be much harsher on high-income borrowers than "soft" ICR systems.

Third, low earners generally have lower debt-service ratios in "hard" income-contingent systems than they do in mortgage-style systems. However, as the example of Canada shows, all it would take to change this is a more generous system of income-contingent deferrals. In the Netherlands, New Zealand, the United States and Germany, the cut-off for assistance is approximately 50%, 36%, 31% and 28% of average graduates' salaries, respectively, which are too low to help the "low-income student" used in this example.

Fourth, in the "worst-case" scenario of having low income and high debt, the United States is clearly the worst place to be - in no other country do repayments of students in this position exceed 6% of income, whereas in the US the proportion can be as high as 15.3%.

What lessons, then, can Japan learn from student loan programs in other countries? Perhaps the central lesson is that the decision to make a program "income-contingent" in the classic Australian sense is independent of the decision whether or not to subsidize the loan system in some fashion and if so, how these subsidies will be arranged. The Australian HECS system – which in many ways is a very attractive system for students – is a very expensive program for government to run not because income-contingency is inherently expensive but because the Australian government has chosen to attach a very generous and sophisticated set of subsidies to its program. A HECS-style system without similar subsidies would end up looking very different and might not be as attractive to students.

To the extent that the problems with the current Japanese loan system appear to be the result of weak labour markets reducing graduates' ability to pay, then some form of income-contingency or post-graduation subsidy would seem to be the right policy response. But this need not be a full-blown Australian-style system; a Canadian-style system where graduates with high-debt-to-income ratios are permitted to suspend payments for a period of time while government covers the cost of interest on the loan might also be an adequate response. It is at this point that the policy process must take into account considerations of administrative efficiency and implementation costs in order to make a correct decision. What works for one country rarely works as well if transplanted directly into another system.

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Johnstone has written or edited some 100 books, monographs, articles, book chapters, and book reviews. He is best known for his works on the financial condition of higher education, the concept of learning productivity, student financial assistance policy, system governance, and international comparative higher education finance. His newest book, published in 2006 by Sense Publishers, is *Financing Higher Education: Cost-Sharing in International Perspective*. Other books include *New Patterns for College Lending: Income Contingent Loans* (1972); *Sharing the Costs of Higher Education: Student Financial Assistance in the United Kingdom, the Federal Republic of Germany, France, Sweden and the United States* (1986); *In Defense of American Higher Education* (co-edited with Philip Altbach and Patti Gumport, 2001); and *Financing Higher Education: Problems and Solutions* (2004: translated into Chinese by Professor Shen Hong).

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Craig has conducted more than 30 national and international policy projects, strategic initiatives and consultancies for governments and universities over the last ten years. He has published more than 60 papers, reports, evaluations and investigations on a wide range of higher education matters.

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He was educated at Keio University, and completed a MA in Economics at Northwestern University and an Ed.M at Harvard Graduate School of Education. He is also a founding member of a NPO, Culture Creation for Students. He is a member of The Task Force of International Comparative Studies on Student Financial Aid Policies under the MEXT.

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Throughout his career, Mr. Usher's involvements have focused on the context and policy environment of post-secondary education and finances. He was the first national director of the Canadian Alliance of Student Associations(1995-6), served as a researcher and lobbyist for the Association of Universities and Colleges of Canada (1996-98) worked as a consultant for the Council of Ministers of Education, Canada and the Government of Canada(1998-9), and was instrumental in the complex intergovernmental negotiations at the birth of the Canada Millennium Scholarship Foundation (1999-2000). Immediately prior to joining EPI, Mr. Usher was the Director of Research and Program Development (2000-3) for the Canada Millennium Scholarship Foundation, where he was in charge of Canada's largest-ever research project on access to post-secondary education.

6-December, 2006

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