

Japanese student loans: problems and possible solutions

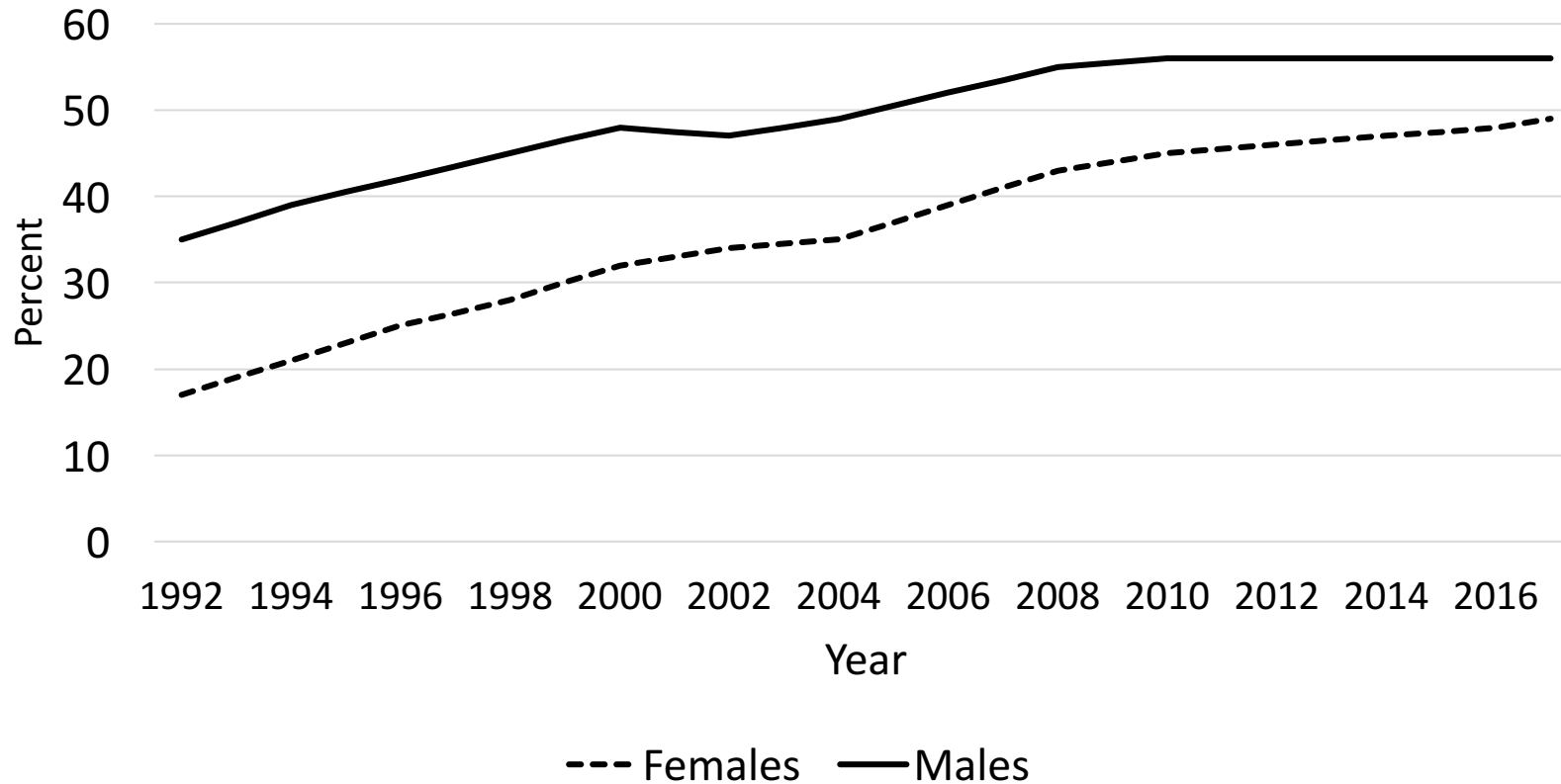
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Introduction

- Japan has a large government deficit and limited extra resources to invest in higher education
- This has placed financial pressures on universities and there has been a huge increase in fees in both private (majority of universities) and public universities
 - The tuition fees charged by national universities in 2016 are more than 40 times higher than in 1972 in real terms
 - Private fees about 50% higher (around \$15,000 pa) than fees in high quality public universities (around \$10,000 pa)
- This has seen a huge increase in students taking out student loans though less than 50% of students still take out these loans
- Growing qualitative evidence that students not entering HE as worried about being able to pay back student loans

Students undertaking 4 year BA degrees steadily increasing



Student Loans in Japan

- Japan currently has two types of student loans
 - Type 1 loan - available to the poorest students who are of high academic ability
 - Type 2 loan – available to students who are relatively poor
- These two loans have typically been TBRLs with Type 1 loans having a zero interest rate and Type 2 loans a small positive interest rate (which varies but capped at 3% - currently 0.18 per cent)
 - Recent reform has introduced ICL type loan for Type 1 borrowers but voluntary, does not have employer withholding, has minimum repayment regardless of income
- Student loans are run by JASSO - Japan Student Services Organization – a quasi-governmental agency

How much do students borrow and what are terms?

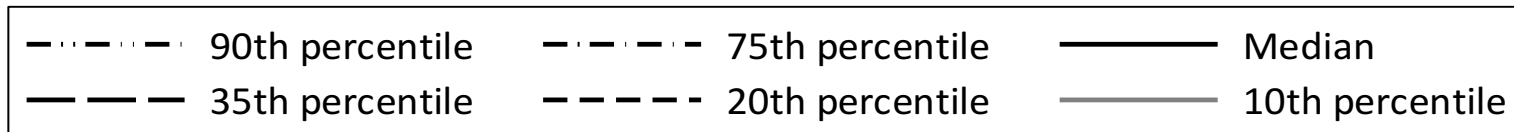
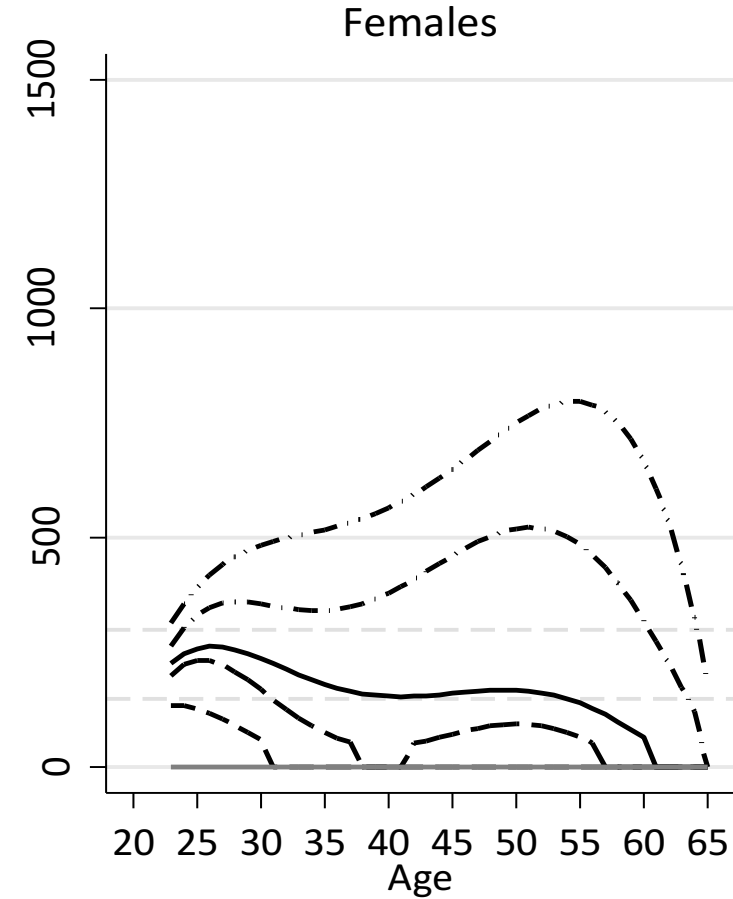
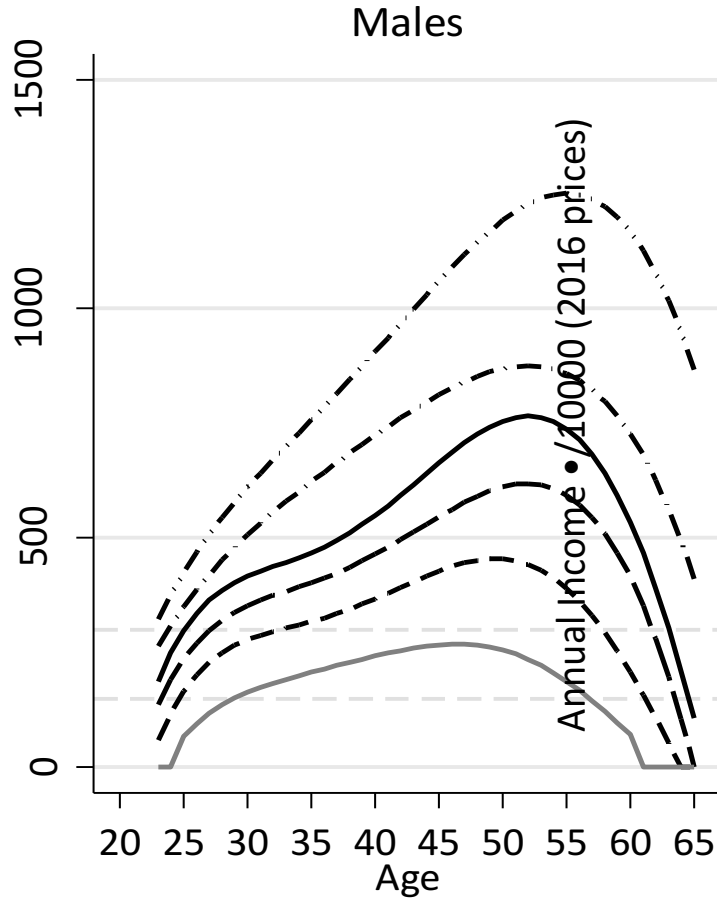
- The loan repayment length varies between 14 and 18 years for Type 1 loans and 13 to 20 for the more common Type 2 loans.
 - Size of loan depends on whether living at home or not, whether attending public or private university
 - More money available with Type 2 loans so some students will have Type 1 or Type 2 loans
 - Need guarantor (though can apply for institutional guarantor) so this will impact on incentives of students from poor backgrounds
- Typical loans:
 - Type 1 Jasso loan of 51,000 yen per month (\$A600) (the amount for an away from home individual at a national or local public university)
 - Type 2 Jasso loan of 80,000 yen per month (\$A950) (a relatively high Type 2 loan).

Japanese graduate labour market

- Japanese graduate labour market very different from most other countries I have looked.
- Virtually all employees aspire to get *seishain* jobs – permanent jobs with good pay
 - Key to success in Japanese labour market
 - BA graduates much more likely to get *seishain* job
 - But way that operates has been changing over time
- If leave *seishain* job, difficult to get another one (particularly important for women who leave the labour force when marry and/or have children)
- Tax system gives huge incentives for married women not to earn above 1.3m yen per year (as generous tax deductions for husband)

Japan age income profiles for women very atypical of most countries

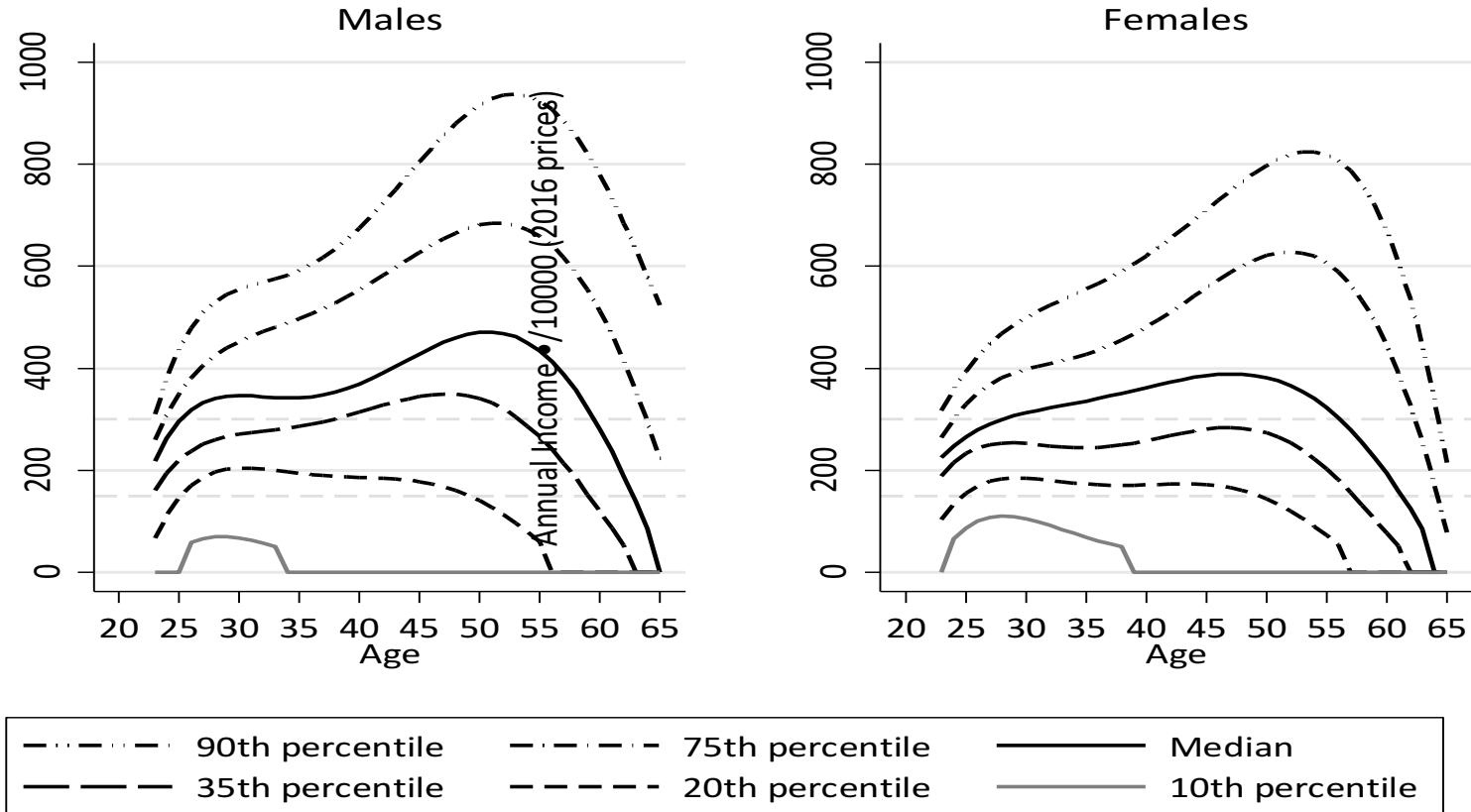
- Female BA age earnings profiles very different from most of the rest of the countries I have looked at (except highest earning female graduates)
 - Japanese graduate women have high employment rates (e.g. higher than US) but low earnings
- Male BA graduates very similar to rest of world



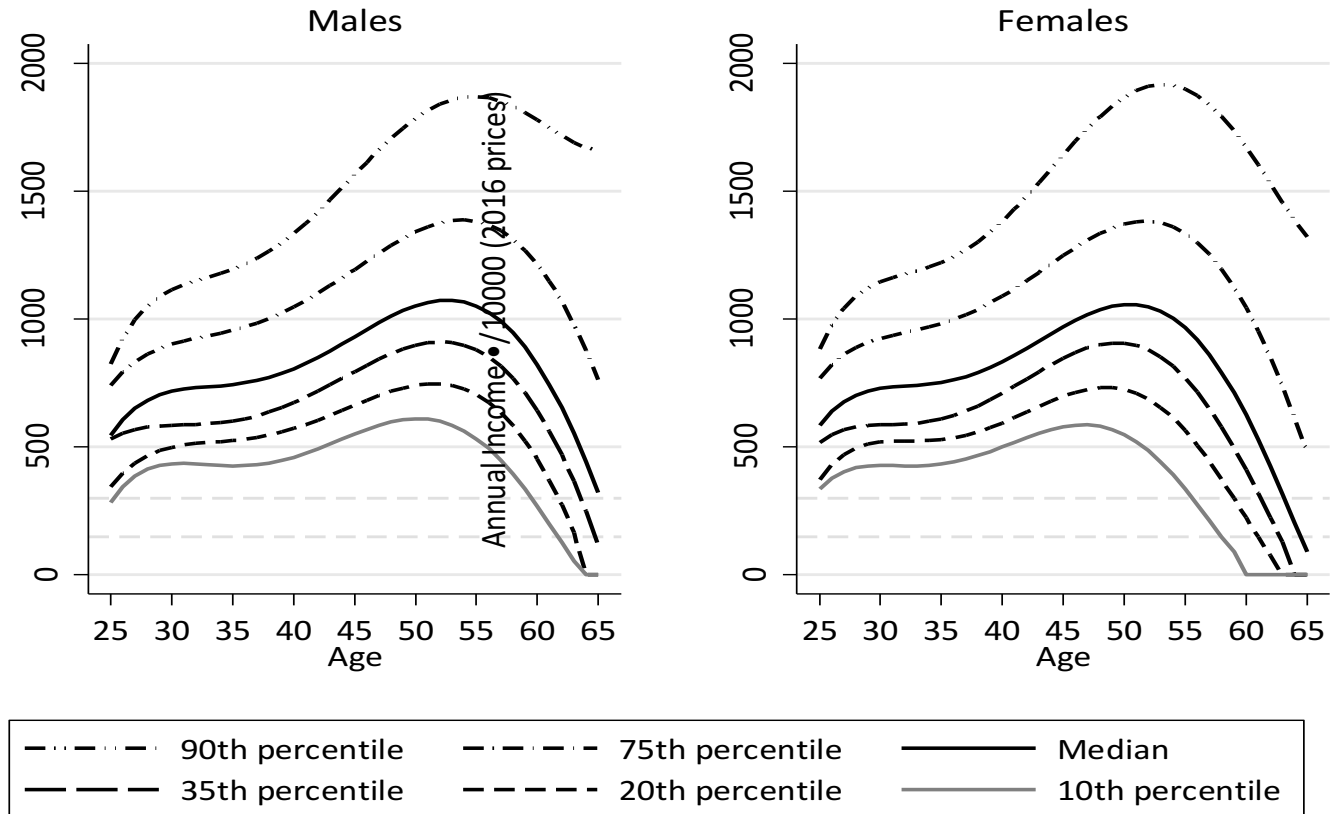
What's going on?

- Split our BA graduates into three groups
 - Those who are not married (between 25-30% of graduates aged 35 or more)
 - Those who are married to BA graduates
 - Those who are married are non-BA graduates
- Do this by gender and compare **household income** (i.e. income of husband and wife if married)

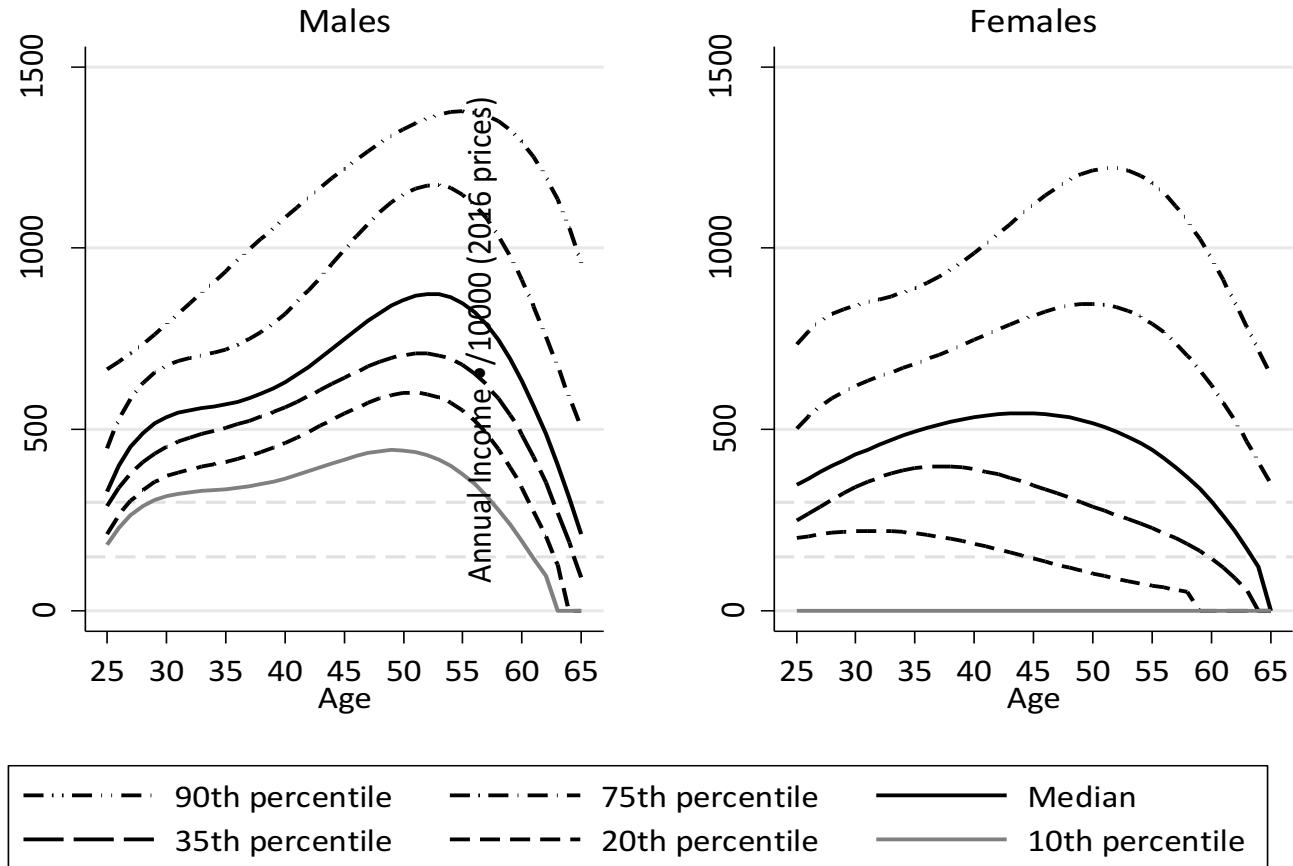
Single BA graduates



BA graduates married to each other



BA graduate married to non BA graduate



What are the implications of this?

- How we look at RBs needs to change (similar issue in South Korea which Dung will cover)
- Also means need to be innovative in designing ICL for Japan that takes account of the Japanese BA labour market

ICL in Japan

- Japan has allowed Type 1 loan recipients to take out loan as an ICL rather than as a TBRL
 - Based on retrospective income – not contemporaneous
 - Involves minimum payment regardless of income
 - Doesn't involve employer withholding
 - Only 12% of students can take out this loan (not universal)
- Work I am doing with Shiro Armstrong, Bruce Chapman and Nobuko Nagase and others trying to devise ways of implementing an affordable universal ICL
- Will need to be based on household income and will need to ensure it doesn't provide further incentives for women with BA degrees not to fully participate in the labour market
 - Early work on this suggests there is a way to do this that can be revenue neutral and universal

Conclusions

- Every country is different and Japan is a good example of this
- Important to use local micro data to understand how the student loan system impacts across the distribution of graduates
- ICL design has to take into account institutions in that country – there is not a one size fits all ICL
 - Japan is a good illustration of this
 - We are dealing with issues never seen in other countries we have worked with
 - But ICL is clearly better than current system
 - Also may help with other problems in Japan (low fertility rates, low participation by low SES students etc)



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Thankyou

ありがとうございました