

Japanese Higher Education: The “Haves” are Gaining and the “Have-nots” are Losing

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In this new period of a contracting global economy with no light at the end of the tunnel for the Japanese economy, the frequent debate in Japan concerns the division of society into the “winners’ group” and the “losers’ group.” In many cases where the bad economy threatens an organization—especially large ones—the Japanese government tends to intervene, overtly or covertly. The fear of the resulting chain reaction triggered by a large organization going bankrupt serves to propel action to sustain these organizations, although the size of an organization does not necessarily guarantee that it will “win.” Like any organization, many Japanese private higher education institutions face a risk of falling into the “losing group.”

POLARIZATION OF PRIVATE HIGHER EDUCATION

This phenomenon in part results from the collective shortsightedness among university administrations of not taking a precautionary policy with respect to the falling population of the traditional college age cohort. In Japan, it is not common for people of nontraditional student age to enter or re-enter higher education institutions—due in part to the lower possibility of reentering full-time employment after delayed or additional education. Thus, the college market in Japan is primarily composed of the traditional-age student cohort. Although this cohort has been shrinking since 1994, the expansion of higher education institutions in Japan—including the opening of new institutions—has not stopped. As a result, a large number of institutions—particularly rural and small ones—fail to recruit enough students.

TEI-IN : THE OPERATION OF UNIVERSITIES

The term *tei-in* refers to the quota for first-year students that a university registers with the Ministry of Education, Science and Technology. When a new school or department is opened, the quota is defined based on the accreditation standards set down by the Ministry of Education. We are conditioned to admit first-year students in numbers that do not exceed the quota by 30 percent, to qualify for the designated government subsidy. Government subsidy is intended to help develop private higher education institutions without worsening the teacher/students ratio. In the past, some institutions facing financial difficulties tried to improve the situation simply by increasing student numbers without matching them with

teacher numbers. It is each university’s responsibility to admit first-year students in conformity with the quota.

Admitting students in numbers over the quota, however, generates additional revenue over the budgeted income. For example, a university with a quota of 5,000 first-year students that admits 20 percent over the figure gains an extra tuition income of US\$12 million a year. This figure is derived from the 1,000 extra students, or 20 percent overage, multiplied by US\$12,000 (the average tuition at a four-year private higher education institution in Japan for the 2009/10 academic year). If the institution retains this 20 percent increase for four years, a large flow of “extra income” over the budgeted income contributes to the institution’s bottom line and financial health.

According to the statistics released by the Ministry of Education, the 20 largest universities in Japan together have 117,494 based on the first-year-student quota, although many of them admit students at a rate of 10 to 20 percent over the quota. Most of these institutions are located in metropolitan cities like Tokyo or Kyoto-Osaka. Of these, the largest university’s quota is about 14,180. If this university takes in first-year students at a rate of 20 percent over the quota, many small higher education institutions will be driven out from the college market. Forty-one institutions (7% of all private institutions) possess a quota greater than 2,500, and they enroll 858,222 students (42% of all these students at private institutions). A small group—comprising 18 percent of the private sector—enrolls 63 percent of all students.

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A strong tendency exists for high school applicants to flow into metropolitan areas, making it more difficult for small/rural higher education institutions to recruit students. To even worsen the chances of the latter institutions, the top 20 offer not only ample scholarship programs but also “dump tuition.” Tuition dumping is a practice similar to airlines offering deeply discounted tickets, known as much better than flying routes with empty seats. This scheme is an advantage that the large, urban higher education institutions gain over the small/rural ones.

Private higher education institutions should bear the responsibility for the hardship of their inability to recruit students so as to fill up the quotas. The Association of Private Higher Education Institutions should have applied the brakes on the expansion policy much earlier. The 18-year age cohort (“a”), has been shrinking, and thus both the quota for a specif-

ic institution (“ x ”) and the quota for other institutions (“ y ”) should also have been decreased to maintain equilibrium. If higher education institutions had acted according to the formula $x + y = a$, they should have realized that the expansion policy would equal bankruptcy.

According to further Ministry of Education statistics, about 43 percent of private institutions were below the quota for the academic year 2008/09, and 47 percent are in debt for the fiscal year 2007/08. Most of these are small higher education institutions located in rural areas. Tuition is the main source of income and, at many institutions, up to 80 percent of total revenue. Institutions that fail to recruit students not only lose financial resources but, if they fall below 70 percent of the quota, government subsidy as well. These institutions will experience a harder time in stopping the drainage of reserve funds so long as they fail to fill up slots to their *tei-in*.

FINANCIAL BURDEN OR ASSETS FOR PRIVATE INSTITUTIONS?

Private institutions’ are required, under the private school accounting laws, to maintain a certain amount of money as basic reserve funds. The reserve funds include 50 or 100 percent of the retirement payment for full-time faculty and depreciation expenses for new facilities (calculated according to a prescribed formula). Under a definite plan for construction of a new building, the necessary amount of money must be put aside as a reserve fund.

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An institution’s fundamental reserves vary according to the size of an institution and whether it has any midterm plan for a new facility or campus expansion. When the bank interest rate was around 3 to 5 percent, many institutions put their reserve funds into bank accounts and realized income from assets. Now that the bank interest rate has lowered to 0.5 percent, many institutions carry out asset management by government securities, structured bonds, foreign-currency deposits, or bank debentures. These policies are at low to medium risk compared to investment trusts, equity investments, or derivatives trading.

The media reported that the anonymous K university (5,500 student *tei-in*), for example, lost US\$150 million before it withdrew its reserve fund from derivative trading. It had to make up its loss by a bank loan. Many higher education institutions obtain loans from banks for new buildings. In the case of another anonymous T university (1,700 student *tei-in*), instead of putting its reserve funds in high-risk but high-return derivatives, it managed its assets by structured bonds, bank debenture, and foreign currency trusts. It enjoyed a return rate of

2.69 percent in 2008, earning US\$15 million. However, the projected interest rate from asset management for this institution will be down to 1.25 percent, resulting in earnings of US\$7 million for 2009.

Clearly, it seems that small/rural colleges end up receiving less extra income from admissions over the *tei-in* level. This loss creates less scholarship money for capable students. Moreover, the attractiveness of the colleges to prospective students decreases, reflected concretely in fewer applications, and the greater likelihood of actual enrollments below the *tei-in*. The small/rural institutions are likely to lose prospective students as a negative cycle works against them. This tendency, in turn, augments the opportunities available to large, metropolitan higher education institutions. In Japan, a clear division is anticipated, with the larger institutions getting much larger and the smaller and rural ones getting much smaller. With no sign of extra assistance from the government directed to small/rural institutions, it is likely that some (specific number unknown) of them will be driven out from the college market. This is a hard fact that we will face in the foreseeable future. Large higher education institutions will survive these changing circumstances. ■

Germany: The Quest for World-Class Universities

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Despite widespread criticism of global rankings, it has become politically attractive in nations across the globe to position at least one if not more of their universities among the top-ranking institutions. It is a matter of national prestige to have a global player among the higher education institutions in almost every system around the world. Germany, which has been known for the organizational diversity as well as legal homogeneity of its higher education system, shares this course of action. In 2004 the education and research federal minister thus made a proposal to identify Germany’s top-level institutions. “We need lighthouses” was the minister’s argument to secure Germany’s competitiveness and economic future in the emerging knowledge society and to strengthen the international visibility of German universities as high-quality institutions with cutting-edge research.

This plan formed the birth of the German “excellence initiative.” After complicated negotiations with the German states, which are politically and financially responsible for higher education, a competition was organized in three categories: gradu-