

## Income-based tuition loan a kind of social insurance

The Yomiuri Shimbun

**A**s a measure to ease the financial burdens of higher education, such as university fees, the Liberal Democratic Party has begun studying an income-contingent loan (ICL) scheme to allow tuition fees to be paid after students start earning sufficient income. The Yomiuri Shimbun asked Prof. Bruce Chapman, an economist at the Australian National University who invented the scheme and assisted in its introduction in Australia — the first of its kind in the world — what he thinks about Japan's envisaged system.

**The Yomiuri Shimbun:** If an university tuition fees in Australia are paid under an income-contingent system. What kind of mechanism is this?

**Chapman:** Systems like [ASSO [Japan Student Services Organization] or education loans are what we call time-based repayment systems, which means that people repay these debts according to set rules about how long they've got to pay. So let's assume that everyone with that loan has to pay back that debt within 15 or 20 years. In the time-based repayment system, repayment is difficult if the income is low, and sometimes you have to repay more than your income. There is also a possibility of default.

Australia's Higher Education Contribution Scheme (HECS) (see [ ] ) is a system to repay according to income after graduating from university. It is called an "income-contingent loan." It means that when people enroll in an Australian university, they don't have to pay any money, no tuition is paid then, if they agree to repay in the future when their income is over a certain level. If you earn a lot of money very quickly, you could pay it back within two or three years. Some people don't pay ever. The vast majority of people pay back within about 15 years.

Graduates repay when their income exceeds a certain level. The repayment

rate is 4 percent of income — [paid] with salary deduction — at the beginning, and up to 8 percent as income increases. The average HECS debt is about 25,000 Australian dollars [about \$2.19 million] in total. The [income] threshold is revised every year, and it is now A\$55,000 [about \$4.8 million] per year, which is about U.S.\$44,000.

**Q:** What happens if the income does not exceed the threshold?

**A:** Anyone who doesn't earn that amount doesn't pay in that period. If they never earn that money, they never pay. The university graduate starting salary is in the A\$52,000 to A\$55,000 [range], and half of graduates exceed the threshold.

**Q:** In Japan, the ruling LDP has started discussions on a Japanese version of HECS, or J-HECS (see [ ] ).

### If the system is designed properly, there will be no difficulty

Like the Australian system, there are no restrictions on household income and thus it is universal. But some argue that it is unfair, because students from advantaged backgrounds can also benefit from it. In Japan, we already have an income-contingent loan system for low-income households.

**A:** I think that is the misunderstanding of the income-contingent loan system. Nobody knows about the future. So, you might be fine now. You might even have rich parents. We don't know what's going to happen to you. And we don't know, for example, if you're definitely going to graduate. And if you do graduate, we don't know the area of your work. We don't know if you are going to graduate during a global financial crisis such as the Lehman Shock. We don't know if

you're going to get sick.

**Q:** It's better to understand the system as a kind of social insurance, and that's why universality is important.

**A:** Absolutely. That is exactly what it is. It is a social insurance system. It fits very easily into the model of government as risk manager. Governments do this all the time. Moreover, if you, or more likely your parents, had paid for an education which you are not experiencing benefits from over your life, it is unfair and inequitable.

This does not mean that students from advantaged backgrounds are required to take the ICL. It can be avoided if they or their parents choose to avoid loans by paying tuition at the point of entry. On this issue, note that around 20 percent of Australian students pay their fees up front. These are clearly students whose families can afford it and do not want their children to incur the forward debt. In Japan, we'd expect at least that proportion of students from wealthy families to pay up front, given the tradition of having families pay for tuition.

**Q:** What should we do to support students from low-income groups? Is free tuition not an option?

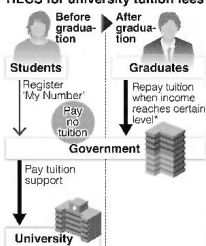
**A:** The J-HECS proposal of HECS for tuition and, for those from low-income households, a scholarship for living expenses is a good policy. In Australia, for example, means-tested government grants for income support are provided to disadvantaged students, and this works well.

Relatively rich students go on to university, and having free tuition can be unfair and regressive.

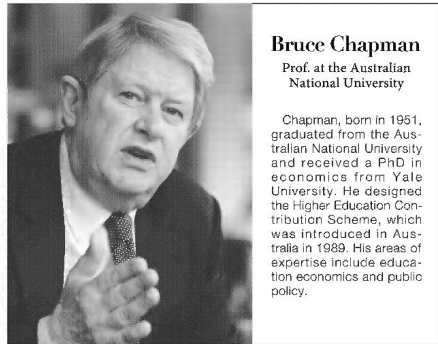
**Q:** We are considering HECS for an era in which people live to be 100 years old, and people need recurrent education. Do you think HECS will work for that purpose?

**A:** I think income-contingent [loans] would work kind of better for those in their 30s and 40s. Relatively old people with big debts will not pay, because their incomes are not high. So that will be the issue if the vast majority of people are coming into the system near re-

### Envisaged Japanese version of HECS for university tuition fees



The repayments may be called "contribution expenses." Collection methods being considered include deducting money from a person's salary, as well as insurance premiums.



**Bruce Chapman**  
Prof. at the Australian National University

Chapman, born in 1951, graduated from the Australian National University and received a PhD in economics from Yale University. He designed the Higher Education Contribution Scheme, which was introduced in Australia in 1989. His areas of expertise include education economics and public policy.

### Higher Education Contribution Scheme (HECS): An income-contingent loan system institutionalized in Australia in 1989.

It was introduced, with low-income groups taken into consideration, when tuition fees were introduced to universities — which had previously been free — with an aim of securing fiscal resources for expanding and improving higher education. Student protests ended quickly as the scheme set a "repay only when possible" policy, under which students are not required to repay unless their income exceeds a certain threshold. The scheme was legislated 18 months after the sub-

mission of the policy proposal. It was also introduced in New Zealand, England, Hungary, the Netherlands, South Korea, Thailand and elsewhere.

### J-HECS: The official name is the "contribution system after graduation."

Based on the Australian HECS system, the LDP listed it as a policy pledge in the recent House of Representatives election. According to the draft plan under consideration within the party, the government would pay directly to universities and other institutions, on behalf of students, an amount equivalent to national university tuition fees (about ¥540,000) and an en-

rollment fee (about ¥280,000) as "tuition fee aids." Those benefiting from this scheme would be required to make repayments, the amounts of which are set in accordance with their income levels after they become employed. Several options have been put forward for income levels that would trigger repayments, such as ¥2.5 million (the average starting salary for university or junior college graduates), or ¥3 million. Options are also shown for the repayment rate, such as 9 percent of taxable income (up to about 5 percent of annual income). These figures are based on calculations for standard employment across a 20-year repayment period.

retirement. **Q:** With the HECS system, how do you maintain the quality of universities?

**A:** I don't know enough about the education quality rules, but we can say this: Income-contingent loans are a very powerful instrument. It is a very serious issue when you've got a big private sector such as in Japan. The government has to be very careful about which institu-

tions can use the system, and about what the rules are. Because if you've got a poor quality university, with students that come with income-contingent loans, they could charge very high prices.

If the system is designed properly, there will be no difficulty of repayment, no consumption hardship. Since there is no default, one's credit reputation will not be influenced. The J-HECS proposal is a good policy and

gets right the main features of a well-designed ICL based on international experience and evidence. All countries are different, and the main issue now seems to be to understand and help define the specific arrangements that best suit and properly address Japan's particular needs.

(This interview was conducted by Yomiuri Shimbun Senior Writer Makoto Hattori.)

## As America steps back from global stage, China pursues a starring role

By David Ignatius

**W**ASHINGTON — The friendly words exchanged between Presidents Trump and Xi Jinping last month softened the edge of a Chinese economic and military buildup that a recent study commissioned by the Pentagon described as "perhaps the most ambitious grand strategy undertaken by a single nation-state in modern times."

At the Beijing summit on Nov. 9, Xi repeated his usual congenial injunction for "win-win cooperation," and Trump responded in kind, calling Xi "a very special man." Trump also complained about the Chinese trade surplus, but the visit was mostly a serenade to Sino-American cooperation.

What caught my ear was Xi's hint of China's big ambitions in his toast that night. He quoted a Chinese proverb that "no distance, not even remote mountains and vast oceans, can ever prevent people with perseverance from reaching their destination." Xi then cited an adage from Benjamin Franklin: "He who can have patience, can have what he will." That's an apt summary of China's quiet but relentless pursuit of becoming a global superpower.

### 'America first' facilitates Beijing

China's rise has been so rapid yet gentle in tone that it's easy to miss how fast Beijing has expanded its ability to project power. The mesmerizing go-slow strategy of the pre-Xi years, summarized in the Chinese idiom "hide and bide," has been replaced by what U.S. analysts now see as an open power play.

Trump's "America first" strategy has facilitated China's buildup, unintentionally. The administration's rhetoric on fair trade has been strong, but the actual gains have been modest. Meanwhile, Trump has shredded the Trans-Pacific Partnership and stepped back from other U.S.-led alliances — opening the way for China's new network of global institutions, including the "One Belt, One Road" (OBOR) plan for Eurasian trade and the Asian Infrastructure Investment Bank to finance Chinese-led projects.

The scope of China's challenge to the American-led order is described in two unpublished and unclassified studies commissioned by the Air Force.

One study argues that China's Eurasian reach is beyond that of the 1947 Marshall Plan, which cemented American power in postwar Europe. The report estimates that the OBOR framework would provide up to \$1 trillion in Chinese support for more than 64 countries, while the Marshall Plan provided \$130 billion in current dollars, mostly to six countries.

The report describes OBOR as a program of unprecedented size and scope with the strategic intent of constructing a Chinese-led regional order in Eurasia.

China is building the infrastructure of power. The study describes, for example, how Beijing is financing a string of ports in the Indian Ocean region, including in Sri Lanka, Malaysia, Pakistan, Myanmar, Djibouti, Kenya and Abu Dhabi. The proposed investment is nearly \$250 billion.

China has also invested \$13.6 billion in Greece, buying control of the port of Piraeus and big shares of Greek utilities and fiber-optics companies. "Greece serves as a strategic beachhead for China into Europe," notes the report.

The Asian infrastructure bank, meanwhile, has approved \$16 billion in projects in 10 countries, including long-standing

U.S. allies such as Egypt, India and Oman. And the Chinese are building rail lines to Europe and every part of Asia, allowing them to bypass U.S.-controlled sea lanes. China already has 40 rail routes to nine European countries.

American dominance has been built partly on the primacy of our scientific and technological laboratories, which have drawn the best and brightest from around the world. But the Chinese are challenging here, too. China is building at least 50 joint-venture science and technology labs with OBOR countries and plans over the next five years to train up to 5,000 foreign scientists, engineers and managers, the study notes.

### Mobilizing best tech talent

As foreign scientists pull back from some U.S. labs because of visa and government-grant worries, the Chinese are doubling down. According to the second Air Force study, China surpasses the United States in annual patent applications, is now No. 2 in peer-reviewed research articles and in 2014 awarded more than twice as many degrees in science, technology, engineering and math.

China is mobilizing its best tech talent for this global empire. China Telecom plans to lay a 150,000-kilometer fiber-optic network covering 48 African nations. IZP, a big data company, plans to expand soon to 120 countries. BeiDou, a government agency, is building a GPS-like satellite navigation system for all Eurasia.

There's an eerie sense in today's world that China is racing to capture the commanding heights of technology and trade. Meanwhile, under the banner of "America first," the Trump administration is protecting coal-mining jobs and questioning climate science. Sorry, friends, but this is how empires rise and fall.

## California leads the U.S. into an electric-car future

Bloomberg

**C**alifornia's energy future is visible in the underground garage of a luxury condominium that rises behind the facade of a former San Francisco muffler shop. The parking spaces come equipped with charging stations for electric cars — an amenity that, as of next year, the city will require.

The city law, which mandates that at least 10 percent of parking spaces in all new buildings be equipped with car chargers, is just one way the state and local governments are pushing Californians to use emissions-free cars and trucks.

How California's strategies work is a question of interest far beyond America's largest state.

Its experiments come in many forms and sizes. Electric car sharing programs are under way in low-income neighborhoods in Sacramento and Los Angeles, and free public chargers are springing up on streets and in parking garages.

Los Angeles is leading a group of 30 cities in an effort to persuade automakers to build zero-emission police cruisers, street sweepers, buses and trash trucks.

The state government, for its part, is creating an array of incentives to get people, school districts and businesses to go electric: rebates and loan assistance for buyers of electric and hybrid cars (with more money available for low-income buyers); electric car sharing programs; clean vehicles for farmworker van pools; electric school buses, and vouchers to help businesses buy trucks, tractors, bulldozers, forklifts — whatever kind of mobile machinery they use.

California's cap and trade program, which

puts a rising price on greenhouse-gas emissions, is a crucial part of its plan. Not only has the program modestly raised the price of gasoline, making electric cars marginally more competitive, it helps pay for the aforementioned experiments. Proceeds from the program's emissions permit auctions raise almost \$2 billion a year.

The state's goal — 1.5 million zero-emissions vehicles by 2025 — still seems distant. There are only about 340,000 electric cars in the state right now, bought over the last six years, and Californians already buy almost half of all electric cars sold in the United States.

Having pledged to lower its greenhouse-gas emissions 40 percent by 2030, however — the greatest share of which come from car and truck tailpipes — California is trying almost everything.

It's not surprising that the effort is most pronounced in urban areas. That's where pollution is greater (six of the 10 most polluted cities in the United States are in California) and political support for climate policy is stronger (Los Angeles' and San Francisco's plans to reduce greenhouse-gas emissions are more aggressive than the state's).

There are a few things California has yet to try to drive gasoline-fueled cars off the road. Gov. Jerry Brown recently raised the possibility of simply banning the sale of them — as China, France and Britain all have pledged to do in coming decades. Such a step might be necessary someday, and not just in a single state, to avert ecological disaster.

In the meantime, California is helping the rest of the United States figure out what works — one parking spot at a time.

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