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Aging Society Puts Pressure on Japanese Education Budget

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As one of my colleagues reported in the “Eyes of IIMA” article of October 20, many economic issues were discussed as in the past in the recently held Annual Meetings of the IMF/World Bank, but the common ground in most of these discussions seems to be that the development of human resources is the most important measure in the present situation where no quick- impact prescriptions are available. In this regard, what worries me is the situation of the Japanese education budget that is under pressure.

Squeezed Expenditures for the Japanese Education

Although a simple comparison may not be appropriate, an OECD statistics is frequently used for cross cutting comparison to see how much public funds are allocated to the education related expenditures. According to that data, Japan stands at the third from the bottom among the OECD member countries, with its expenditures accounting for 3.5% of GDP. The highest group includes Northern Europe which allocates 6-7% of GDP to education, followed by the US and Western Europe with 4-5% of GDP. “Emerging” OECD countries like Turkey, Mexico, and Korea allocate 4-4.5%. Even compared to these countries, Japanese rate of allocation to education is low.

Fortunately, the low rate of public expenditures for education has not led to a deterioration of the level of education or scientific technology in Japan. I am delighted to see that the successive rewards of Nobel Prize to Japanese scientists testify the continued high level of Japanese studies in the field of science. But every time I hear the news of their receiving of Nobel Prize, my concern is provoked because many of them have expressed their concerns over the vulnerable financial foundations in the universities and research institutions. They fear that the continuation of such situation might destroy the educational environment that ensures the research and studies based on a long-range perspective. Research and studies that would contribute to the development of science comparable to the level of Nobel Prize will take time before the results can be shown. Needless to say, it will take more time before they are developed into application areas that are profitable for commercial use. The promotion of R&D

with long-term view and fostering of human resources needed for it cannot be done by private capital since private capital is under constant scrutiny of stakeholders for quarterly results of its cost and benefit.

Several years ago, I was very much concerned about the general atmosphere which makes light of liberal arts taught in the university education. I thought it was because liberal arts are not the subject which directly benefits students when they go out into the world. It may be true that liberal arts are not useful for daily practical businesses. But that does not serve as a justification that liberal arts are unnecessary in university education. As the society has become chaotic with rapid changes, liberal arts that teach us how to think things deeply or think about the way of thinking itself are all the more necessary. In the universities in Europe and the US, liberal arts tend to be even reappraised.

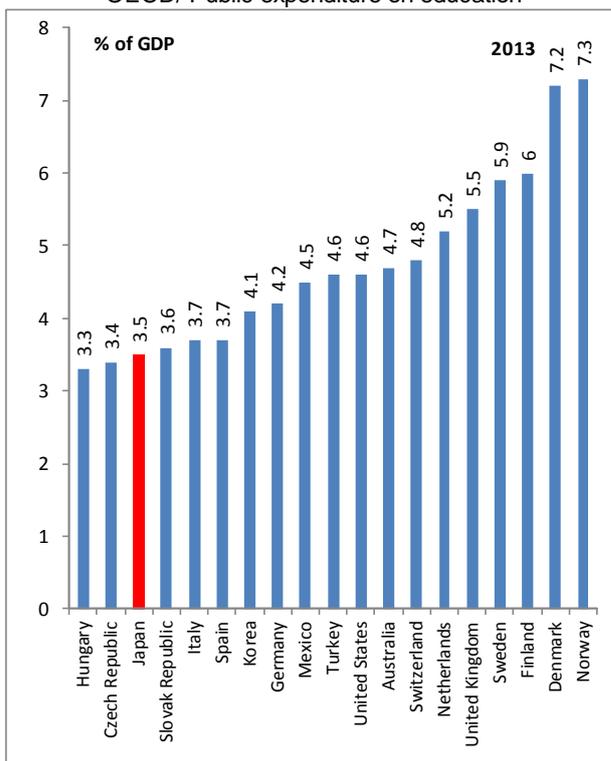
Human Capital will be the absolute source for growth

Aging society is a society where a fewer labor force supports the whole population. The faster the aging progresses, the more improvement of productivity per employee is needed to maintain its affluence. Improvement of productivity could only be achieved finally by employing all the measures that include development of nursing-care robot, new financial service using AI and big data, adoption of innovative management style like “open innovation”, surviving economic partnership agreements without giving other nations way to commanding heights, etc. What is needed for that is only human capital, nothing more.

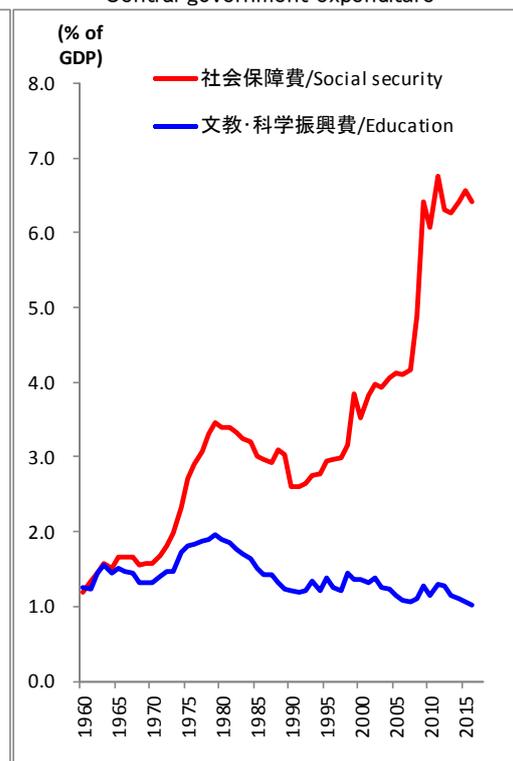
Currently, as far as we see the budget situation of the central government, the Japanese society has become unable to maintain sufficient funds for fostering human resources as the burden of the aging society has increased so much. What it would bring in is the deterioration of human capital that cannot make innovation and continues to succumb to foreign competition. Japan should not become such a country that has lost the original source for affluence.

In the midst of further progress of aging, Japan should try to stop the swelling of social security budget by streamlining the expenditures wherever it can be done. At the same time, revenues should be raised to meet expenditures and cut in outlays for developing human capital in exchange for managing to raise the funds for social security expenses should be stopped. If it requires the raise of consumption tax, we should increase the consumption tax without fear of slowdown in consumer spending. If we don't increase the tax sufficiently, it would increase the pressure to cut other expenses in order to maintain social security. If the coverage of cut extends into the budget for developing future human capital, it would eventually lower the potential growth rate of Japan, making it succumbing to foreign competition and create a situation that “poverty dulls the wits”. And as a result, what is waiting for Japan will be a more impoverished society.

OECD諸国の教育関連公的支出規模
OECD/ Public expenditure on education



日本政府歳出の社会保障費と文科振興費
Central government expenditure



(Source) OECD, JMOF. OECD data is the sum of primary, secondary and tertiary education expenditure of central and local governments

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