Abstract

This article aims to focus on the ‘rate of return to education’, which benchmarks the benefits of receiving education, and to search out new visions of the study of the ‘rate of return to education’ mainly by reviewing the Japanese empirical evidence. In section 2, we explain policy implications of studying the ‘rate of return to education’. Next, in section 3, we review methods and evidence. Finally, we refer to the remaining research issues and new visions. Unless otherwise stated, ‘rate of return’ means return to investment in higher education.

What the studies on rate of return reveal is detailed below. First, the rate of return to higher education has been always higher than that to senior high school, and this has been stable. Second, the trend of the rate of return was declining or stable, but then turned upward in the late 1990s. Third, the rate of return in Japan has been low from the viewpoint of international comparison, and Japan’s private rate of return is 6 – 8%, according to the most recent figures. Fourth, the rate of return for females has been higher than that for males.

What empirical analyses using the method of internal rate of return show is described below. First, the rate of return by university and by faculty has decreased, but both gaps have hardly changed. Second, the rate of return which is based on the assumption that a person works for a large corporation after graduating a university has been stable at higher levels, but the rate of return which is based on the assumption that he/she works for a small-to-midsize firm has decreased. Third, the rate of return depends on the definition of the cost of education, such as whether a student goes to a public university or a private university, whether he/she needs room and board at university or not. Fourth, the private rate of return of a public university student has been higher than social one, and social rate of return of a private university student has been higher than the private one. On the other hand, unexpectedly, the preceding empirical studies using the Mincerian approach to rate of return have not been fully accumulated, and further progress is anticipated.

The reason why Japan’s higher education is so unique is because investment in this area is more profitable than that in other educational phases. On the other hand, it is commonly and empirically believed that Japan’s universities have too large a capacity. It is the very challenging issue of higher education in Japan to find out what causes such an instinctive understanding or a feeling of strangeness.