

Administrative Decentralization: Priorities in Act 2

By *Jinno Naohiko*

■ From Act 1 to Act 2

With the passing of governing power from Koizumi Junichiro to Abe Shinzo, Act 1 of Japan's reform of regional administration through decentralization came to an end and the curtain is about to be raised for Act 2. The adoption by the National Diet of a resolution pertaining to the promotion of administrative decentralization in 1993 set the stage for the reform, which began with the enactment of a law for the promotion of administrative decentralization in 1995.

The Diet resolution of 1993 stated that the objective of the administrative reform is to realize "a society in which people can really feel comfortable and affluent," and for that, they "are pinning high hopes on the roles of local public entities." The Diet resolved to promote administrative decentralization because "it is urgent to establish local autonomy fit for the 21st century by meeting these expectations of the people, reexamining the roles of the central and local governments, delegating power from the central to local governments, improving and strengthening local government finances, and enhancing the autonomy and independence of local governments."

Although Japan achieved dramatic economic growth after World War II, the Japanese people were not able to realize either comfort or affluence. The people's discontent mounted as they felt that this was because decisions on public services to support their lives were made in a centralized manner, resulting in uniform services across the country rather than those which matched diverse regional needs. It is safe to say that this sentiment has moved the Diet to promote administrative decentralization.

In order to promote decentralization, two major priorities were presented. They were a "transfer of power from the central to local governments" and

"improvement and strengthening of local tax sources." With respect to the former, a 1999 package law pertaining to administrative decentralization abolished the system of "agency-delegated functions" under which the central government regarded the heads of local governments as its agencies and issued instructions to do particular administrative work. With respect to the latter, the so-called "triple reforms" of local finances under the Koizumi administration, which were implemented from 2004 through 2006, are thought to have achieved it by transferring tax sources from the central to local governments.

Despite the fact that the measures to achieve the two priorities have been implemented, the Japanese people have not been able to feel comfort or affluence. Moreover, public services offered by local governments, which should support people's lives, have been diminishing steadily.

This is why the Abe administration has enacted a new law for the promotion of regional administrative reform through decentralization to push ahead with the second phase of regional decentralization.

■ Centralized, Dispersed System

In order to understand Japan's reform for administrative decentralization, one must understand characteristics of the relationship between the central and local governments in Japan, which may be best described as a "centralized, dispersed system." As *Chart 1* (on the next page) shows, the weight of outlay by local governments in Japan is large by international standards. If a system under which public services are offered by the central government is to be called a "centralized" system and one under which they are offered by local governments a "dispersed" system, then the Japanese system is "dispersed."

However, even if it is primarily local

governments that provide public services, the power to determine their burdens and expenditures for the services is in the hands of the central government in Japan. Therefore, if a system under which the power to decide the burdens and expenditures for public services is in the hands of the central government is to be called a "centralized" system, and the other a "dispersed" system, the relationship between the central and local governments in Japan is a "centralized" system. This is to say that the intergovernmental relationship in Japan is a "centralized dispersed" system. Therefore, the task in the reform for administrative decentralization in Japan is to change the centralized dispersed system to a decentralized dispersed system, under which local governments determine their burdens and expenditures.

■ Abolition of "Agency-delegated Functions" & Transfer of Tax Sources

The intergovernmental relationship in Japan has been a centralized dispersed system because the central government controlled local governments through two routes. One is the "agency-delegated functions" and the other is subsidies.

Under the "agency-delegated function" system, the central government imposed administrative functions on local governments, regarding them as its agencies and issuing instructions to them. It was said that 85% of the work of prefectural governments and 45% of that of municipal governments were agency-delegated administrative functions. This system allowed the central government to issue instructions to local governments to offer public services. With respect to subsidies, as shown in *Chart 1*, the weight of expenditures by local governments is large in Japan, but that of local taxes is small. This gap is being closed by subsidies, a kind of fiscal

transfer, from the central to local governments. Since the application of subsidies is determined by the central government, accepting them means that local governments are obligated to offer public services as designated by the central government. Even when subsidies are provided, local governments must bear their share of expenditures. Therefore, to allow financially weak local governments to offer public services, as designated by the central government, the central government distributes subsidies to them in the name of “local allocation taxes” without specifying their purposes of use. The combination of subsidies and local allocation taxes, which make up the fiscal transfer from the central to local governments, allows local governments to offer uniform public services across the country.

This being the case, to change a centralized dispersed system into a decentralized dispersed system, it is necessary to abolish the agency-delegated procedures and transfer tax sources from national to local taxes. The former was realized by the Package Law for Administrative Decentralization of 1999. The latter was achieved by the Koizumi administration’s triple reforms of local finances, which were designed to simultaneously reform subsidies, local allocation taxes and local taxes.

Decentralization & Fiscal Overhaul

Despite these developments, local governments have not been able to play the roles expected by the public. This is because in Japan, there is a strong tendency to promote administrative decen-

tralization as a means of rehabilitating the central government’s finances.

It was in 1993 when the Diet adopted the resolution to promote administrative decentralization. Japan has been suffering serious fiscal deficits since the 1980s. Therefore, administrative decentralization was promoted to rehabilitate the central government’s finances rather than to promote local autonomy.

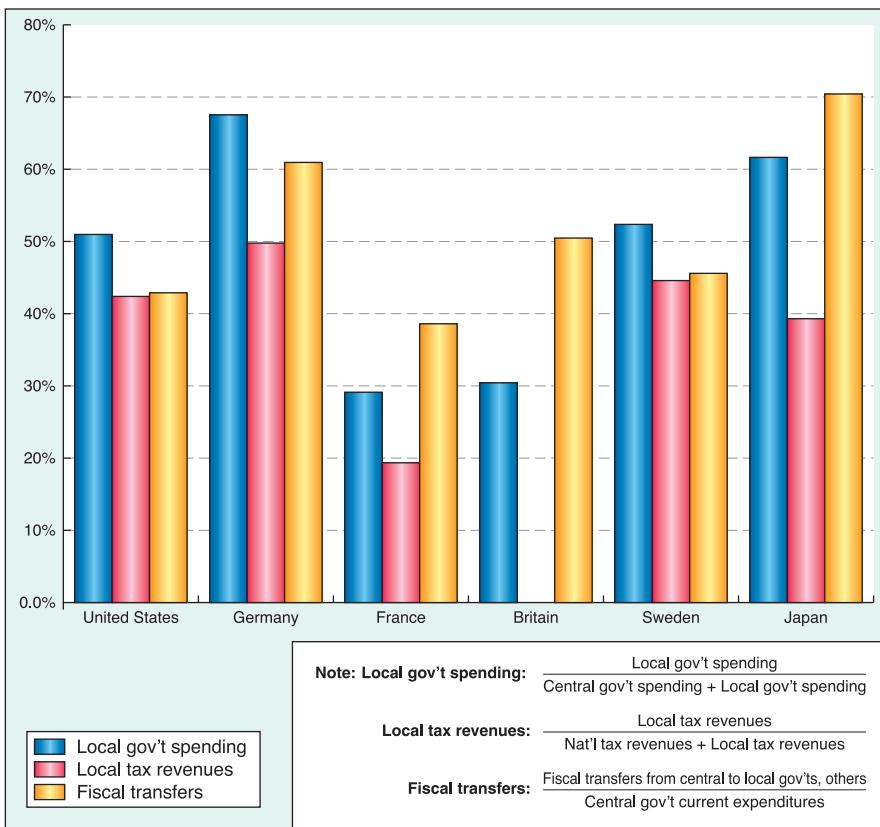
To rehabilitate the central government’s finances, it was necessary to reduce fiscal transfers in the form of subsidies and local allocation taxes from the central to local governments. In the 1980s, the promotion of administrative decentralization was used as an excuse for reducing such transfers.

This is not to say that no effort was made to improve the quality of local autonomy. A reduction in fiscal transfers from the central to local governments would result in lower levels of public services offered by local governments. To avoid this, local governments have been urged to undertake reforms and improve their administrative capabilities since the 1980s. This was to be achieved through the promotion of consolidation of municipalities. Now, moreover, the consolidation of prefectures (which are the largest administrative units after the central government) into states (provinces) is under study.

Meanwhile, the industrial structure of Japan changed dramatically during the 1980s from the male, labor-intensive heavy and chemical industries to the service, information and knowledge-intensive industries that require female labor as well. This has resulted in the shrinking of family sizes, and calls are growing for local government support in the fields of child-rearing and nursing care for the elderly, the type of work which traditionally was supported by unpaid labor within the family.

The “society in which people can really feel comfortable and affluent” is a society in which personal social services, which traditionally were provided within the family, are offered by local governments as public services. This is the role people expect from local govern-

Chart 1 Local gov’t spending/local tax revenues/fiscal transfers (1996)



Source : National Accounts, Vol. 12, OECD

ments and is the objective of the promotion of administrative decentralization. Thus, in Act 1 of the reform for administrative decentralization, which opened in the 1990s, there was a tug-of-war between two policy priorities: the realization of a “society in which people can feel comfortable and affluent” through the enhancement of personal social services and the financial rehabilitation of the central government.

Certainly, the triple reforms bring about a transfer of tax sources. However, during the three years in which the reforms were implemented, local allocation taxes were slashed by ¥5 trillion and subsidies were consolidated by ¥4 trillion, while the transfer from national to local taxes amounted to only ¥3 trillion. This is to say that priority was given to the reconstruction of the central government’s finances rather than to offer personal social services matching the living needs of regional communities by expanding the discretion of local governments.

■ Outlook for Act 2

In Act 1 of the reform for administrative decentralization, reflecting the “centralized dispersed system” between the central and local governments in Japan, the focus of the reform was to reduce the involvement of the former in the affairs of the latter to enhance the latter’s latitude in policymaking. This is why emphasis was placed on the abolition of “agency-delegated functions” and on the transfer of tax sources.

However, since the focus of the reform was narrowed to increasing the policy latitude of local governments, the triple reforms of local finances led to sharp reductions in the sources of funding for local governments. If the priority of the administrative decentralization reform is to increase the provision by local governments of personal social services such as welfare, education and healthcare due to the shrinking of family functions, Act 2 should shift its strategy from reduction in the central government’s involvement in the affairs of local governments to

expansion of the latter’s roles.

The administrative decentralization reform envisioned by the Abe administration, however, does not follow this course. Rather, it can be said that it is shifting its gears to the promotion of administrative reform of local governments in order to promote the financial rehabilitation of the central government.

This is evident in the fact that following the forcible consolidation of municipalities in Act 1, the government is now strongly promoting the introduction of larger administrative units, namely states.

Japan has a population of more than 100 million. Yet, there were only some 3,300 municipalities. The consolidation of municipalities along with the triple reforms has reduced the number to fewer than 2,000.

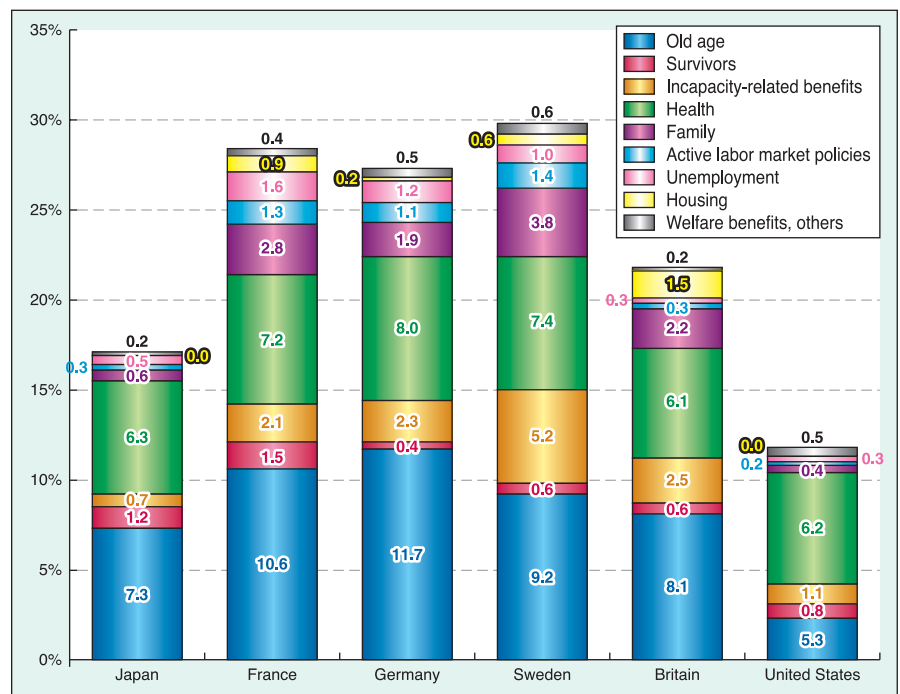
In Act 2, which is about to begin, prefectures (which are larger geographic units of administration than municipalities) are to be consolidated into states as part of a regional system of division, in

addition to the consolidation of cities, towns and villages, which are the basic local autonomous bodies. The expansion of geographic areas of local governments will distance them farther from the people.

As indicated in *Chart 2*, Japan’s spending for personal social services, such as for child-rearing and welfare services for the elderly, is extremely low by international standards. There are growing calls for the enhancement of personal social services through administrative decentralization. Thus, also in Act 2, the administrative decentralization reform should unfold as the strategy to increase personal social services, which people want, in competition with the strategy to promote the rehabilitation of the finances of the central government. **J.S**

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Chart 2 Ratio to GDP of public social expenditure by policy area



Source : Social Expenditure Database, 2004, OECD