

# The Central Government VS Local Governments

By Sasaki Takeshi

**PRIME** Minister Koizumi has carried out a major reshuffling of his cabinet and placed strong emphasis in his new cabinet on finishing up his restructuring reforms by attaining his long-held goal of privatizing the postal services. While urging the participation of private enterprises in the postal business, he is making an issue of gradually shifting the enormous sums that have accumulated in postal savings – effectively making Japan Post the largest bank in Japan – into the hands of private financial institutions. (By doing this, these funds will no longer be available for wasteful operations in the public sector.) Within the Liberal Democratic Party (LDP), there has been a maelstrom of arguments against this reform, and multiple issues will have to be addressed, including what will become of Japan Post. Naturally, compromises will have to be made during the process of these debates, but it is generally anticipated that ultimately some decision will be reached within the first half of 2005.

## The relationship between central and regional governments in Japan

While the privatization of postal services is a problem of reorganizing the relationship between the government and the marketplace, an even greater problem has emerged. This is the furious tug of war between the central government and local governments. Japan is traditionally seen as a nation with a strongly centralized system of power, but there is now taking place in the political spotlight a debate that could shake this image at its very core. Over the past decade, successive cabinets have taken as their official position the delegation of power and transfer of sources

of revenue to local governments, and local administrations have rapidly gathered strength in terms of both function and political presence.

At one time, the posts of governors and mayors were almost always filled by those with experience in the central bureaucracy, but now it is the National Diet representatives who see those posts as a next step. The central government in Japan takes the form of a national assembly system and political parties, but the local governments employ a structure that is closer to a presidential system. The relationship between these two levels of government involves two different styles of government working in cooperation. The representatives of local governments are gradually acquiring a degree of influence which matches the existing powers held by the political parties' leaders and they are becoming more assertive vis-à-vis the central government. In this way, the system of centralized authority is losing the overwhelming presence it had in former days and we are seeing more flux in the relations between the two levels of government.

Under these circumstances, the greatest focus has been on the rivalry between the two for power and sources of revenue. For a long time, the central government has had about 60% of revenue sources under its control, and about 60% of the implementation of the budget fell to the local governments. The departure point for this rivalry, within the structural deviance of revenue sources and implementation, was a maze of control mechanisms whereby the central government kept local governments under its thumb. In a relationship of dependency on the central government, local governments did not cultivate cost awareness and it became the duty of the

local governments to acquire subsidies from the central government without simultaneously making efforts to avoid waste. Amidst the stagnation of Japan's economy and the drastic reduction of tax revenues, the fundamental trend in recent politics has been allowing local governments to develop a greater sense of autonomy and decision-making, including sources of revenue – thereby reducing expenditures – together with a reduction of the powers held by the central bureaucracy.

Until now, the relationships between local and central governments have been carried out entirely within the confines of the central administration, and fundamentally, issues have been decided between LDP politicians and the central bureaucrats. Originally, both the LDP politicians and bureaucrats, from the standpoint of maintaining their own authority and influence, were ill-disposed toward transferring power and revenue sources to the local governments, and therefore they did not promote fundamental reforms. Every year as part of the compiling of the annual budget, this issue was brought up but as one can easily imagine, the conclusion each time strongly reflected the views of the central government.

## Initiatives by Prime Minister Koizumi and local governments

In 2004, Prime Minister Koizumi took an extremely bold step by urging the local governments via such groups as the governors' conference to put together proposals for dealing with a major reduction in subsidies from the central government, taking into consideration that a serious amount of tax revenue would be transferred to local governments. This meant that the local governments would have a real role in this important political decision-making process. It is, however, not known exactly what Koizumi's true intention was in proposing this measure. One interpretation is that it was merely a means of deflecting pressure from the local governments and that he did not

have major expectations for the results. This was because in reality the members of the local governments find themselves operating in a complex system of conflicting interests, so it could be anticipated that due to internal divisions they would be unable to respond adequately to the prime minister's proposal. A second interpretation is that if the representatives of the local governments were capable of submitting appropriate responses to the prime minister's call, then Koizumi would gain the ability to exert political pressure on the central bureaucracy. Regardless of the true intention, the prime minister dealt a card to local governments that carried considerable political risk for them.

In August 2004, after heated discussions within six regional government organizations, including the national conference of governors, a proposal was formally adopted for major reductions in subsidies. Politically this meant that the local governments had taken the offensive by moving ahead of the central government in terms of attempting to grapple with the issues at hand. A feeling of perplexity spread among those responsible within central politics, and shock waves ran through the central bureaucracy. Koizumi declared to the representatives of the national gubernatorial conference that he would respond to their proposals in good faith and endeavor to make good use of them in the following year's budget, and as a result, opportunities for consultation between central and local governments have been established. However, as many anticipated, antagonism between the two sides remains and it has been difficult to find effective solutions. As a general rule, the central government has not only been half-hearted regarding reductions of the subsidies, but even when these reductions are achieved, it will try to retain in one way or another the structure of control over local governments. Local governments have found themselves unable to secure autonomy and have retorted with rancor that all this comes to is the central government reducing financial support

without changing anything else.

Politicians of the parties who undertake the responsibility for central government say, "The way things are going, there will be no role for us to play." And there is increasing dissatisfaction with the initiatives of the Koizumi cabinet. In short, they are insisting that the situation should remain the way it has been, with the bearers of the responsibility within the central government making the necessary internal adjustments on issues and making their own independent proposals, without being bound by the proposals from local governments. It is impossible to predict how successful the prime minister will be in overcoming resistance within his own party and in satisfying the expectations of the local governments, but we should not overlook the enormous metamorphosis of political nuance that was brought on by the prime minister's calling for the participation of the local governments in the first place. This involves serious issues of political responsibility.

### What does the central government intend to do?

Could the prime minister and the governing party, for example, take the plunge and make the local administrations into political adversaries? If this occurred, how would the representatives to the National Diet explain this situation to their respective constituencies? Could they continue to marshal support? Would doing this not invite a rebellion on the part of their own supporters and destroy their political base? But then, could they actually part from the tradition of political activity and recognition that has resulted from gaining advantage for their electoral districts through the central bureaucracy?

For the leaders on the local government side meanwhile, if the prime minister who controls the operations of the central government cannot render practical results, his political responsibility would be called into question. Especially in the event that local auto-

my is not increased and only financial support is reduced, this responsibility will be heavy. Sooner or later the result would be adopting a clear attitude – whichever it may be – toward the Koizumi cabinet. In actual fact, they are already observing the response of the central government with a critical eye, sensing that this might be their last favorable opportunity. The relationship between the central government and local governments is already the most acrimonious that it has ever been, but it is certain that the current situation will lead to a further dilution of the political foundations of the central government.

Until now the issues involved in the relationship between the central and local governments have appeared at a glance to be politically neutral, but with this new step, the situation is seen as becoming rapidly more politicized. The following scenarios come to mind. The prime minister turns this politicized problem by his skillful leadership into a new political resource for himself. If the reforms fail, the problems of the relationship between the central and local governments would become an issue of central politics after all, and it would become politicized through the involvement of the opposition Democratic Party of Japan. Ultimately it would develop into an issue between the political parties.

Either way, major reform of the relationship between the central and regional governments is an extremely knotty problem and an extremely careful plan for the future relationship between the two is essential. However, because Japan has left this serious issue to chance, making each decision on the spot when an issue arises, the central government has very little experience in developing such a long-term plan. The central administration and central government are extremely passive in regard to this issue, and this is a factor in their inability to develop strategies for dealing with it. **JS**

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