

Decentralization in Japan

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The democratization that took place in Japan over the latter half of the twentieth century led to local governments achieving a degree of autonomy that allowed them to manage aspects of public policy in such areas as regional development, welfare, environmental development, and government information disclosure. As these local authorities increasingly became active players in the policymaking process, rather than mere central government agents, they came to influence national public policy and governance. The subsequent decentralization reforms are part of the broader public-sector reforms of the 1990s.

During the last decade of the twentieth century, the government of Japan achieved a significant degree of decentralization, the high point of which was the 1999 Omnibus Law of Decentralization. As a result, a new relationship was established among the branches of government, with the central government ceding some control over local affairs. This chapter assesses the degree of decentralization achieved to date, as well as the challenges that await those seeking further decentralization.

THE ADMINISTRATION

In this country of 47 prefectures, some 3,200 municipal governments serve a population of 126 million. The central government is divided into executive, legislative, and judicial branches. The executive branch comprises the prime minister and his cabinet; the legislative branch, the Diet or bicameral parliament; and the judicial branch, the Supreme Court, under which there are no specialized courts.

Local self-government, guaranteed by the Constitution of 1947, provides for directly elected governors, mayors, and assembly members. At the local-government level, authorities have a wide range of functions and fiscal responsibilities; a fusion of responsibility and

finance exists, with two-thirds of all government expenditure being local; and there is a tradition of frequent personnel shifts at the executive level (Furukawa 1999). Until March 2000, local governments were bound by the agency-delegated function (ADF) system, according to which they were expected to implement functions delegated by the central government agencies. Designed originally to help achieve quick post–World War II economic recovery, the system more recently had the effect of diluting responsibility in government and eroding local autonomy. Rigid financial control by the central government propped up this fusion of functions, with roughly 70 percent to 80 percent of prefectural responsibility and 30 percent to 40 percent of municipal government functions having fallen within this ADF category. The promise to the bureaucracy of financial security had guaranteed tight central control and so, as of August 2000, there were in office more than 1,600 elite bureaucrats who had been recruited from the central government for such local authority posts as that of vice-governor, deputy mayor, and departmental head (data from the Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Asahi Shimbun* 30 March 2001).

THE ISSUES

Decentralization

Worldwide, decentralization is a recent phenomenon that has been fostered by the spread of democratization, growing cultural and ethnic identification, and the trend toward globalization, which is a critical factor in Japan's decentralization process. Nevertheless, one should recognize that, while globalization exposes the smaller regions of the world to the global marketplace, its values may take precedence over local values so that, when a country's political, economic, and developmental activities become globalized, the national government may cease to be dominant.

Globalization has created new, complex networks that are different from the former centralized system (Jun and Wright 1996) and, in many countries, this has required new institutional settings, one result of which is decentralized administration. In such cases, globalization has enhanced local governance and subsidiarity, as can be seen from the

International Union of Local Authorities' famous 1985 World Wide Declaration on Local Self-Government.

In Japan, democratization, globalization, and public-sector reform have contributed most to decentralization. Matsumoto Hideaki (2000), himself a noted executive bureaucrat and major actor in the decentralization process, stresses that a centralized system is not only irrelevant to an affluent society, but may even be detrimental to its development. Instead, he emphasizes such goals as independent decision making and individual responsibility.

Kitamura Wataru (2000), meanwhile, argues that the political and economic changes that have recently occurred in Japan as a result of international impetus are a "coalition of decentralization," involving business and local government. This is the result of the desire of the business sector to have a more flexibly managed regional economic policy, so that local authorities have greater discretionary power.

The social system developed in Japan in the wake of World War II was no different from the "1940 System" (Noguchi 1995), which prescribed protectionist and paternalistic public policies, especially in the areas of banking, finance, and industry. Ironically, the factors now accelerating decentralization in Japan are no different from those that contributed to the end of an earlier system.

Intergovernmental Relations

The term central-local government relations is often used in reference to the centralized-decentralized and fused-separate dimensions between the central government and local authorities. It is generally believed that Japan's central-local relations are centralized-fused (Amakawa 1986). The concept of intergovernmental relations, dominant in the United States, denotes the interactions between various levels of government, including the executive branch, as well as comprehensive relations in a political setting (Wright 1988; Rhodes 1999).

Muramatsu Michio (1997), in his study on intergovernmental relations in Japan, identifies three models: the vertical administration control model, the horizontal political competition model, and the overlapping authority model.

The vertical administration control model, or centralization paradigm, has its basis in the period 1945–1955, when Japan was rebuilding after World War II; it is the traditional arrangement of intergovernmental relations in which local governments occupy the subordinate position.

The horizontal political competition model, meanwhile, includes elements of the vertical administration control model as well as of the central-local political structure created by politicians. This model, which originated in Japan's regional development policy of the 1960s and 1970s, suggests a two-way process. It is also a step toward the interdependent relationship seen in the third, overlapping authority model in which functions are delegated by the central government to be implemented by local governments.

Political advocacy for decentralization often reflects the vertical administration control model, in which local governments find themselves in a disadvantageous position. This line of thinking, which has become assimilated in politics and administration, is not illogical, but the issue is more complex than it would first appear. Horizontal competition and interdependence are involved as politicians tend not to foster decentralization, in the belief that politics is already adequately decentralized. So, for example, most members of the Diet will be more concerned with negotiating a favorable status for their districts in resource allocation. Thus, while the overlapping authority model might be a persuasive interpretation of the reality of the welfare state, it has not found good friends in politics and administration.

Administrative Reform

Central-local government relations has been one of the focal points of past administrative reforms due to the interrelated nature of Japan's system of government. An evaluation of the post–World War II administrative reforms reveals four distinct periods (Furukawa 1999): the democratic phase (from 1945 to the 1950s), the management-oriented phase (from the 1960s to the 1970s), the liberal conservative phase (in the 1980s), and the reorganization phase (in the 1990s). In each of these periods, decentralization was on the reform agenda, even though accomplishments to that end were meager (Jun and Muto 1998).

The first reform phase, following Japan's defeat in World War II, was marked by a fundamental change to public administration; postwar reforms sought to promote efficiency and a more democratic orientation. In 1947, the then-Ministry of the Interior—which had been in charge of the country's police force, local administrative bodies, and public works—was divided into eight separate organizations. One significant effect of this move was that prefectural governors were thereafter elected by direct popular vote, rather than appointed by the central government, thus altering the balance of power in the administrative and political arenas. This led other central government departments to establish regional offices for the administration of local matters that, although long under the jurisdiction of prefectures, had formerly been controlled by the Ministry of the Interior. The work of local and regional administrations was, thus, duplicated and fragmented.

Most of the recommendations emerging from the second, management-oriented reform phase of the 1960s and 1970s were not implemented as intended, although the central bureaucracy was somewhat reduced and several public corporations were merged. Unfortunately, while curbs were placed on the size of the civil service at the national level, it expanded at the local level and special public corporations soon appeared. With the subsequent increase in local government personnel, justified on the grounds that numerous functions had been delegated by the central government, it appeared that local governments had assumed greater responsibility. But the reality was that their discretionary powers had been reduced; political scientists of the day cynically spoke of a “new centralization,” not unlike Muramatsu's classic vertical control administration model (1997, 21).

Although the two oil crises of the 1970s resulted in a national deficit amounting to more than 30 percent of the government's annual revenue, the introduction of a sales or consumption tax was strongly opposed by the business community, which sought fiscal restructuring without a tax increase. Thus in 1981, at the start of the third, liberal conservative phase of administrative reform, the Second Provisional Commission on Administrative Reform was established to promote cutbacks in management and the devolution of power to local government authorities. Both the Ministry of Finance and the Ministry of Home Affairs cooperated in this effort, but progress was limited, even though the spending cuts and

increased privatization of the then-three biggest public corporations—the Japan National Railway, Nippon Telegraph and Telephone Public Corporation, and Japan Tobacco and Salt Public Corporation—have been claimed as major victories of the administrative reforms of the day. In short, there was little change in central-local relations.

In the fourth, reorganization phase of reforms that took place in the 1990s, central government departments were reorganized into one cabinet office and twelve ministries and agencies. It was only then that the major decentralization of government really began.

A Reform Model

Administrative reform is based on four factors, namely, driving forces, the political system, the administrative system, and the interface of the political and administrative systems. This breakdown is a revision of that of Christopher Pollitt and Geert Bouckaert (2000, 26), which addresses general factors affecting reform in ten countries, mainly in Europe and not including Japan.

In the case of Japan, the driving forces factor has two components. The first is a socioeconomic element that involves systemic change and is influenced by globalization, the aging society, economic recession, and regional economic disparity. The second is a political element that involves reform and is influenced by pressure from citizens and the media to rectify mismanagement and instances of malfeasance as well as bad policy.

The second factor on which administrative reform is based is the political system, and it includes such considerations as party politics and political realignment. Decentralization has produced an ideological division between the long-dominant, conservative Liberal Democratic Party (LDP) and the opposition parties. Ever since the LDP developed a congenial relationship with the central bureaucracy, centralization has seemed the preferable alternative, while the opposition parties, which had until recently been excluded from power, were drawn to the progressive local governments which were effective in the quest for control of the central government.

This was particularly true in the 1960s and 1970s, when most metropolitan prefectures

and cities had governors and mayors supported by opposition parties. Comprising mainly socialists and communists, the opposition saw greater decentralization as a means of enhancing their political base. Since the LDP was otherwise inclined, however, the result was an even more rigid administrative system—the third factor on which administrative reform was based—that allowed the ruling party to exert centrally regulated legal and fiscal power over local governments.

The resultant administrative system proved an unusually productive moment in the political life of Japan, for the reforms conformed to the specific organizational interests and the elite bureaucrats were thus engaged in not only designing the strategy, but also enhancing the results, including the privatization of government enterprises and spending cuts, which behavior is comparable to the bureau-shaping model put forward by Patrick Dunleavy (1991).

The fourth factor on which administrative reform was based, namely, the interface of the political and administrative systems, is the connecting point of the two key facets of government: It is crucial to understanding the nature of a bureaucratic state.

THE LEGISLATIVE PROCESS

The 1995 Law for Promoting Decentralization

The 1990s witnessed Japan's first major political realignment in forty years. The process began in 1992, when the Japan New Party under Hosokawa Morihiro—a former Kumamoto prefecture governor who hailed from a family of the highest prewar aristocracy—won four seats in the Diet's House of Councillors (Upper House) election. The first priority of the Japan New Party was decentralization, which Hosokawa deemed important based on his gubernatorial experience. The election results were supportive of his stance and, making an impact in those political circles aware of the effectiveness of this platform, set in motion the trend that followed.

Hosokawa was, from 1990 to 1992, a member of the Third Provisional Council for the Promotion of Administrative Reform (1990–1993), which in 1992 issued a recommendation for decentralization. This was met, as had been the original plan of 1991, with formidable

opposition from the ruling LDP and the bureaucracy, as a result of which almost nothing was achieved. Following this experience, Hosokawa decided that creating a new, viable political party would be the quickest way to achieve decentralization.

The concept of decentralization became common parlance in the political arena only when, just before the House of Representatives (Lower House) election in June 1993, both houses of the Diet passed almost identical bipartisan resolutions on decentralization calling for appropriate legislation. A new political phase had started.

Diet resolutions are not generally binding but, as reflections of the political environment, are instrumental in agenda setting. In this case, however, political actors and scholars alike agree that the resolutions were epoch-making (Matsumoto 2000). Decentralization had been in gridlock for years, caught up in administrative reforms and blocked by the opposition in the compartmentalized bureaucracy, but the resolutions underlined the importance of decentralization.

The long dominance of the LDP ended in 1993, and the new coalition government, headed by Hosokawa, placed decentralization on its political agenda. In October 1993, the Third Provisional Council for the Promotion of Administrative Reform handed to its former member, Hosokawa, its final recommendations on decentralization that included a basic plan. Despite different configurations, coalition governments have since been the rule in Japan, and it was one such government, led by Socialist Prime Minister Murayama Tomiichi (1994–1996), that in May 1995 enacted the Law for Promoting Decentralization. The law did not, however, include provisions for the decentralization of government functions and finance, its major component being the establishment of the Committee for the Promotion of Decentralization (CPD), which proved to be an effective organ for the deciding of strategy and its implementation.

Four main factors made it possible for the Decentralization Law to be enacted. First, the prefectural and municipal authorities cooperated, and various recommendations—notably one made in October 1993 by the Third Provisional Council for the Promotion of Administrative Reform—ensured that the two-tiered local government system would continue.

Second, the existence of a coalition government and the configuration of its actors

contributed to the requisite flexibility and compromise. The LDP, a coalition partner from 1994, was not enthusiastic about decentralization, but the Socialist Party and Sakigake (Pioneer) Party, also coalition partners, were convinced that decentralization was critical to the policy agenda and stood their ground. Since the LDP needed the cooperation of coalition partners in order to stay in power, it chose to compromise.

Third, the decentralization cause had the support of important political figures: Murayama, the prime minister, formerly a member of a prefectural assembly, who was supported by Jichiro (All-Japan Prefectural and Municipal Workers Union); Igarashi Kozo, his chief cabinet secretary and a Socialist Party member, who had once been a city mayor; Takemura Masayoshi, chief of the Sakigake Party, finance minister and former chief cabinet secretary under Hosokawa, who had been a city mayor and prefectural governor before entering the Lower House; Nonaka Hiromu, LDP leader and home minister, who was a former mayor, prefectural assembly member, and vice-governor of Kyoto; and, standing between politics and the bureaucracy, Ishihara Nobuo, the deputy chief cabinet secretary appointed from the bureaucracy and former vice-home minister, who had served more than seven years in the bureaucratic hierarchy and could exert effective coordinative power over the central departments.

Japan's policy process in the central government revolves around decisions taken by the cabinet, which proposes over 80 percent of the bills submitted to the Diet. Most major decisions in the cabinet thus require consensus among its members and those of the ruling coalition parties. Thus, having placed key actors in the cabinet, the Murayama administration was able to finalize decisions on decentralization and, despite negative attitudes within the LDP and the bureaucracy, the interface of political and administrative systems—the fourth factor on which administrative reform was based—functioned well.

A policy window, as in John W. Kingdon's model (1995), opened as the LDP's long-standing dominance in Japanese politics ended. Without this political realignment, the window would have remained shut, given the LDP was loath to pursue decentralization.

A fourth factor that made possible the enactment of the Decentralization Law is the balance of power in the administrative system. Developments became possible with the

cooperation of the Ministry of Home Affairs, local government associations, and scholars closely linked to the Murayama administration. In September 1994, six local government associations had put forward the Guidelines for Promoting Decentralization. Meanwhile, the recommendations and proposals made by the government administrative reform headquarters and research committees were almost identical, most of the membership of the bodies overlapping. When the Ministry of Home Affairs exerted particular influence on the recommendations, causing other ministries to become not a little suspicious, the responsibility for drafting the bill was allotted to the Management and Coordination Agency, which was in charge of administrative reform. Counterattacks from the other ministries were thereby blunted until deliberations began at the CPD.

Deliberation at the CPD

In an attempt to preempt powerful intervention behind the scenes, the commission assumed a mantle of openness and deliberations were made public soon after each meeting. However, Murayama resigned in 1996, in the wake of difficulties encountered in connection with policy issues ranging from matters relating to the Great Hanshin-Awaji Earthquake of January 1995 to antirecession measures following the bursting of the economic bubble. Speculation was that the new coalition administration of Hashimoto Ryutaro, LDP president, would not be as enthusiastic about decentralization as had been the predecessor.

But reform-related deliberation proceeded, albeit characterized by traditional, compartmentalized, interdepartmental rivalries and time-consuming negotiations with the CPD, since the new administration's resolve concerning decentralization was somewhat less focused. It should be remembered that the CPD, an advisory organ, was acting in the capacity of bureaucratic member organization of the cabinet, as a result of which its zeal for decentralized administration met opposition from central government organizations that feared the decentralization scheme would merely serve to enhance the power of the Ministry of Home Affairs, which was in charge of intergovernmental relations. Ministries thus mobilized politicians who favored centralized administration for the political influence it

allowed over resource allocation. For the CDP and these ministries to reach an agreement necessitated compromise.

Prime Minister Hashimoto (1996–1998) was more inclined to tackle the administrative reforms pertaining to the reorganization of the central government. Scandals involving high-ranking bureaucrats in major ministries plagued his administration, and failures of public policy, particularly as regards banking, created distrust of the once-respected bureaucracy. On November 21, 1996, amid calls for accountability, the Hashimoto cabinet established the Administrative Reform Council, the remit of which was the reorganization of the central government.

Hashimoto, a conservative reformer, did not have a substantial political base in his party, having been elected to its presidency only because he had been instrumental in boosting popular support in the coalition government. Philosophically, he was drawn to the doctrine of state supremacy and feared an increase in the local power of governors although, as leader of the coalition government, he did agree to foster the course of action launched by the Murayama cabinet.

The CPD believed that Hashimoto would give the nod to its recommendations, which would not include those with which he disagreed. Four recommendations were thus presented to Hashimoto in 1996 and 1997 and, in May 1998, the cabinet consolidated them into the Decentralization Plan.

Decentralizing Public Works and the 1999 Omnibus Law of Decentralization

The Law of Reorganization of Central Ministries and Agencies was enacted in 1998 with reorganization having started in January 2001, and, even though some ministries have been consolidated or renamed, their basic structure remains virtually unchanged. While most agencies with ministerial portfolios have been merged, there will continue to be twelve ministries. But the bigger ministries will be too large to control unless a substantial number of functions are devolved to local government, a fear that has been confirmed by the disappointing devolution results to date.

As plans for central government reorganization unfolded in 1997, Hashimoto wanted to streamline the Ministry of Land, Infrastructure and Transportation, which would soon encompass the four major public works organizations. These organizations accounted for more than 8 percent of Japan's gross domestic product (GDP), a figure that is two to four times larger than that of other advanced countries. The prospects of having a leviathan ministry drew a great deal of criticism, since without substantial devolution to local authorities, particularly at the prefectural level, there would be significant risk of its being uncontrollable and prone to exerting political pressure on elected politicians—a fear that has already materialized.

When the CPD was drafting its fifth recommendation, which the public works bureaucracy opposed strongly, politicians were again mobilized and the vice-minister for construction publicly announced his opposition. In the meantime, Hashimoto had to resign due to party setbacks in the Upper House election in July 1998. The final CPD recommendations, submitted in November 1998 to Obuchi Keizo (1998–2000), who succeeded Hashimoto as prime minister, were unsatisfactory as regards terms for devolution. Vested opposition interests prevailed and local governments were divided, fearing that devolution would decrease their grants. As a result, the fifth recommendation saw changes only in the areas pertaining to city planning and the consolidation of grants to municipal governments, which was scaled down. Counterbalancing the agreed-upon decentralization, however, was the construction industry, which accounts for more than 10 percent of the country's labor force, a figure that is twice as large as that of major Western countries. Four recommendations had been incorporated into the Decentralization Plan of May 1998.

Taking the content of these five viable recommendations together, the Diet enacted the Omnibus Law of Decentralization in July 1999, which took effect in April 2000. The legislative process was complex in the extreme, with 475 laws, 440 cabinet orders, 507 ministerial orders, and 186 public notices. The eight major components of the law are: the clarification of the roles of the state and local governments; the abolition of the ADF system; deregulation of the jurisdiction of local affairs; the creation of mechanisms for mediating disputes between central and local governments; the devolution of sixty-four functions; the

creation of “special cities” with populations of over 200,000 that would enjoy still greater devolution from prefectures; the deregulation of requirements for establishing offices and organizations in local governments; the consolidation of grants-in-aid and an increase in the discretionary taxing power of local governments.

Reform of the local government system touches on three areas. The first is the overhauling of the basic framework of local authorities’ functions. In addition to abolition of the ADF system, the law stipulates a new classification of local functions either as those that are autonomous or those that are entrusted by law. The latter are defined as functions administered by local governments but regulated by national law or cabinet order to ensure proper implementation.

The second area is the need for less central control. Since local governments already implement most domestic functions, the law is not specific, but city planning is cited as an example of an area requiring significant devolution, and a general reduction in central government intervention and involvement is emphasized, with new rules established for central-local government relations.

The third area is devolution from prefectural governments. Communities with a population exceeding a certain figure are granted wider functions, which has led to the diversification of municipal government.

DECENTRALIZATION EVALUATED

Evaluation has not been uniform. For example, the chairman of the CPD hailed the decentralization scheme as a major step toward viable governance. As a major actor in the process, the chairman described local government reforms as the “third revolution,” after the Meiji Restoration of 1868 and the nation’s post-1945 democratization. Other actors involved in the process have also tended to see the strategy favorably. Matsumoto (2000) concurs that it has resulted in more genuine local autonomy—as stipulated in Article 92 of the constitution—by redefining central-local relations as independent decision making and individual responsibility. Nishio Masaru (2000), a leading member of the CPD, sees the

strategy as an “unfinished revolution.” Law professors also saw the abolition of the ADF system as a positive step, complaining only about the inadequate fiscal-legal framework (Kaneko 1999).

Political scientists, however, have been more ambivalent. For example, Matsushita Keiichi (1999), a long-time Social Democratic Party ideologue, claims that while the decentralization scheme provides impetus for an autonomous, decentralized system, it still leaves local governments facing many challenges, including fiscal stress, the hollowing out of assemblies, insufficient government information disclosure, and a degrading public policy. Muramatsu (1999) is less enthusiastic in his evaluation, noting that reform is but a natural course of action designed to authorize the current authorities’ ability and postwar performance.

In light of these responses, this writer proposes three perspectives whereby to evaluate the decentralization strategy: changes in central-local relations, reform of the administrative system, and realization of democratic principles.

Changes in Central-Local Relations

Muramatsu’s typology (1997) depicts the chronological progress from the vertical administration control model to the horizontal political competition model, with the current situation explained by the interdependent overlapping authority model. Viewed against the new decentralized framework, these models bear reexamination.

First, the issue regarding the legal interpretation of the new system was whether and to what extent the federal principle can and should be incorporated into a unitary state. Under an American type of federal system, the central government only exercises such power as is granted by the constitution, while the states hold the residual power. While the first recommendation of the CPD states that proposed limitations shall be the “principle for legislation,” in the Omnibus Law of 1999 this wording was changed to “consideration for legislation.” If limitations should be the principle, then the governmental system would eventually be similar to a federal system. But as there have been no strong historical and

ethnic factors necessitating power sharing between central and local governments, an orientation toward establishing a federal system in Japan was avoided through use of the less normative compromise wording “consideration for legislation.”

This writer once proposed a “substantial federal system” (Furukawa 1993) that can be realized under the current constitution. This idea is unrelated to legal arguments and suggests merely a reorganization of the administrative system. A substantial federal system can be achieved by simply reorganizing the central government’s branch offices without a constitutional revision. Amalgamation of prefectural governments is another matter altogether. True decentralization cannot be realized through the legal system alone. Relying too much on a legal system, which is actually only a framework, is almost the same as the continental European view of “Rechtsstaat” (legalistic state). This view easily transforms into the “wistful thinking” by which people feel everything would go well if only a legal system is in place.

Second is the political aspect of central-local relations. The pioneering policies of local authorities have influenced national public policy (Reed 1986). Several local policies regarding welfare and the environment, for instance, have been adopted as national programs, although they may have been criticized as too redistributive at the local level. In another instance, the chairman of the Second Provisional Commission on Administrative Reform pointed to administrative reform in a small town as an example of what central government reform should entail. Information disclosure also had its start in municipal government in the first half of the 1980s, and it was not until 1999 that the national law was enacted.

As the political authority of the central government has declined, governance has undergone changes as well. The role of other sectors of society—the private sector, the market, and nonprofit organizations (NPOs)—has increased correspondingly. In this new framework, the vertical administration control model is no longer applicable—although it may still describe one aspect of a specific case—the thrust of the reforms having been the removal of the situations for which this model was most relevant.

The horizontal political competition model, meanwhile, presupposes that politicians will lobby the central government for advantage, but the declining power of the central government

automatically diminishes such lobbying, and greater discretionary power and decision-making authority at the local level limits the number of cases to which this model might apply.

The overlapping authority model, however, retains its validity because the new common functions, called “legally contractual functions,” are legally established on an equal and contractual basis. Such common functions still account for roughly half the functions administered by local governments, further emphasizing the overlapping, interdependent aspect of the relationship. Arguably, an integrationist model might remain dominant even after the enactment of decentralization legislation, given that the intense relationship between the two levels of government has roots in local political initiatives (Muramatsu 1997, xviii).

A vertical political and administrative competition model can be proposed based on the above discussions since policy competition often results in alternatives being submitted for consideration by major local governments, including those of Tokyo, the prefectures of Mie and Shizuoka, and the cities of Mitaka, in Tokyo, and Yokosuka, in Kanagawa prefecture (see “Citizen Engagement” box).

This new competition model has three prerequisites: political stability based on election results, public confidence in government, and a solid belief in local autonomy; fiscal solvency alone is not enough. Even small local authorities can put forward an exemplary policy for citizen participation—as did Niseko town in Hokkaido (see “Citizen Engagement” box)—or for housing aid for earthquake victims—as did Tottori prefecture. While the central government finds itself in yet another fragile coalition, where policymaking seems an elusive task, local governments are exhibiting the ability to make decisions and implement them promptly, and have displayed sufficient authority and gathered enough energy to alter the balance of the central-local relations.

Reform of the Administrative System

With decentralization part of the broader public-sector reform initiative, the Omnibus Law of 1999 required that sixty-four government functions be devolved to the local level. While the number is small, it should be remembered that, under the ADF system, most domestic

functions had already been implemented at the local level. So, of greater interest were the new functions created to satisfy the desire of the central bureaucracy to maintain control over domestic affairs in order to calm the fears of local authorities that they would inherit devolved functions without sufficient fiscal resources to handle them.

Citizen Engagement and Entrepreneurial Programs

Citizen participation, or citizen engagement, was not a normal state of affairs in the central government until the legislation of administrative reform in 2000 encouraged the concept of public involvement as a guideline for policymaking and implementation.

The city of Mitaka, in suburban Tokyo, with a population of 167,000, has been innovative in promoting itself as “A City for Tomorrow,” and is a member of Cities of Tomorrow, the International Network for Better Local Government—comprised of ten cities around the world—supported by the Bertelsmann Foundation, Germany. Perhaps inspired by successful precedents overseas and the tradition of its planning process management, Mitaka tried to introduce comprehensive citizen involvement in 1999. This was possibly the first case of its kind in Japan. Mitaka called for some 400 volunteer citizens to draft an original plan for the city. A partnership agreement was made between the Citizen Council for Mitaka Plan 21 Project and the city government. Ten working groups were formed. Based on the ideas of dedicated citizens—academics, professionals, and citizens interested in community affairs—a proposal was presented in October 2000. This proposal formed the basis for formulating a Basic Concept and Master Plan for the City. The learning and collaborative process fostered through the discussions was a meaningful experience both for city staff and citizens.

The City of Yokosuka, Kanagawa Prefecture, is undertaking similar endeavors. Yokosuka is unprecedented for including citizen engagement in policymaking and policy implementation. It is also famous for its use of information and communication technologies in municipal administration, and has become a role model.

Operating on a smaller scale, but important in terms of citizen engagement, is Niseko, a small ski resort town in Hokkaido. Niseko is the first local authority in Japan to enact a bylaw to include citizen participation in local administration. The town is famous for its citizen-oriented administration with an annual performance report easily understood even by children.

Tottori, the smallest prefecture in Japan with a population of 610,000, decided to provide assistance to victims of the 2000 earthquake in spite of the interpretation of the law that does not allow for direct grants for personal property rehabilitation because natural calamity damage is beyond the responsibility of government. Without support for rebuilding houses in depopulated areas inhabited mostly by elderly residents, the area affected by the earthquake would have deteriorated. The central government did not have a tool to stop the governor’s resolution.

The streamlining of the central bureaucracy has, thus, not been achieved, even though central control has been eased. This can be seen from the way in which public works remain regulated, politicians with particular interests in such areas as agriculture, construction, and commerce being eager to thwart the devolution initiative.

While there was little opposition to the overall idea of fostering decentralization and

administrative reform, the compartmentalized decision-making process and bureaucratic politics were viewed as a hindrance when it came to specific issues. It was feared that the results would be little more than disagreement between the Ministry of Home Affairs, in charge of local government, and other ministries and agencies.

The fact that there has been insufficient government reform at the center is partly due to the nature of the Japanese political process. The disintegration of government is a reflection of the compartmentalization of the bureaucracy that is often equated with government in Japan. But this disintegration is not necessarily a factor in local government, where leaders are directly elected, the bureaucracy is comparatively weak, and reform strategies are easier to implement, demonstrating the decentralized nature of centralized government and the centralized leadership of local government (Furukawa 2000).

At the local level, the leadership of governors and mayors, often supported by citizens rather than political parties, may result in the success of efforts at autonomous reform. Effective leadership almost always results in the local bureaucracy being more integrated than its counterpart in the central government. It follows, then, that when the authority of the central bureaucracy is challenged, as is currently the case, local initiatives become possible, as with both the breakthrough by prefectures in the area of environmental protection policy during the 1970s, and performance-based management in local government (see “Performance Measurement” box).

Without either a reallocation of tax resources or independent revenue sources, fiscal accountability in local government is limited. Thus, in the foreseeable future, efforts to achieve autonomy for local government will be made by governors and mayors, many of whom have served in the Diet.

Realization of Democratic Principles

If the democratic principles of independent decision making and individual responsibility are bases of decentralization, how have they been instrumental in the dynamics of policy formulation?

Performance Measurement in the Public Sector

Although performance measurement is related to the most recent administrative reform in central government, efforts at performance measurement first started not at the center but at the periphery. Mie prefecture, located in the central part of the country on the Pacific coast and with a population of 1.8 million, began implementing integrated management based on performance measurement in 1995. The aim is to achieve not only cost savings, but also a transformation of the bureaucratic organization culture with the main concept being customer-oriented service delivery.

Shizuoka prefecture, also on the Pacific coast of central Japan and with a population of 3.7 million, initiated another type of strategic management in 1994. This management reform method has come to be applied to the overall restructuring of government, in addition to cutting the number of staff through consolidation, outsourcing, and the use of information technology.

Hokkaido, the most northern prefecture and with a population of 5.7 million, surprised the ministries by carrying out the first reevaluation of public works. Ministries responsible for public works were surprised that a prefecture, as the recipient of public works subsidies that promote local job opportunities, would initiate a performance measure.

These three entrepreneurial endeavors of local governments in Mie, Shizuoka, and Hokkaido influenced the central government's passing in 1998 of the Basic Law for Central Government Reform.

Performance measurement is also related to the monitoring of comprehensive plans and benchmarking practices as an effective tool for improving performance. To achieve the Tokyo Plan 2000, which aims to create an attractive, dynamic Tokyo by 2015, the Tokyo Metropolitan Government, the largest local authority in Japan with a population of more than 12 million, has developed four "Tokyo Policy Measures": (1) create an urban city that facilitates a balanced working and living environment; (2) create a hometown with abundant nature and culture; (3) improve Tokyo's convenience as a city with the smooth interaction of people, goods, and information; (4) nurture unique and talented human resources.

The active involvement of local authorities has not been extensive, their legal and formal involvement having been institutionally limited. Six local government associations have, to date, aggressively participated in the deliberative process, one of their suggested proposals being a cutback the equivalent of some US\$10 billion. Most local governments, however, have taken a wait-and-see attitude and, with the changes that have taken place in recent coalition governments, the CPD has been at a disadvantage and the decentralization of public works has fallen victim to divide-and-rule politics.

Nevertheless, these obstacles should not be exaggerated, as the degree to which decentralization has been achieved can be measured by the number of democratic leaders who have emerged in recent gubernatorial elections. The year 2000 witnessed the surprise landslide victory in Nagano prefecture of Tanaka Yasuo, a popular writer, over the vice governor.

Another surprise was the gubernatorial election in Tochigi prefecture, where the three-term incumbent, with no scandals to besmirch his record, lost by a slim margin to the mayor of a small city. Again in March 2001, an independent female candidate became governor of Chiba prefecture, adjacent to Tokyo, after defeating two contenders supported by major parties. While these three prefectures traditionally vote conservative, the three new governors claimed victory based on the citizens' reevaluation of public programs. This was independent decision making at the most decentralized level, where ideological orientation was not an issue. People wanted a way out of the political bottleneck. The first stage of the decentralization process has thus helped to set the political agenda.

CHALLENGES TO DECENTRALIZATION

Amalgamation of Municipalities

Related to devolution and fiscal reform, the issue of amalgamating municipal governments has emerged during the past seven years. Two prior efforts at amalgamation decreased the number of municipalities from 71,314 to 15,820 between 1889 and 1890, and from 9,622 to 3,786 between 1953 and 1957. Since then, the trend has slowed, with the number of municipalities at the end of 2000 standing at 3,229.

Past amalgamation policies were instrumental in modernization and economic growth (Furukawa 1997). Now, however, the issue is focused more on management concerns and the decentralization of government. With increased and overloaded functions delegated to municipal governments of various sizes over the past thirty years, many have been incapable of implementing their respective functions, particularly those relating to welfare care for the elderly, a major concern as Japan's society ages increasingly rapidly.

The central government has tried to promote autonomous amalgamation by amending laws so as to include incentives and inviting greater involvement by prefectural authorities. The resistance it has encountered from local assemblies is revealing. The results to date are considered unsatisfactory by policymakers at the center, there having been only thirteen amalgamations over the last fifteen years, involving a mere thirty-eight municipalities.

Paternalistic fiscal equalization and the flow of funds to smaller municipal governments are factors that have deterred amalgamation, while the fiscal incentives to promote amalgamation are no more than guarantees that funds can be transferred. And, because the Local Allocation Tax, a shared revenue with strong equalizing elements, tends to benefit smaller municipalities with less fiscal capacity, amalgamation is seen negatively, since it would serve merely to decrease the resources available to these municipalities.

Nevertheless, as the incentive mechanism in the Omnibus Law of 1999 expires in 2005, the central and prefectural governments have spared no efforts to encourage urban and rural local governments to seriously consider amalgamation. This is particularly true both of those local authorities in major metropolitan areas criticized for their fragmented administration, and of fragile governments in geographically disadvantaged areas. The prospects of declining support from the Local Allocation Tax may also have helped bring about this change of heart.

In December 2000, a decision was thus made by the cabinet to consolidate municipal governments into 1,000 units, in order to strengthen their fiscal capacities in the interests of boosting administrative efficiency. This amalgamation will not, however, include prefectural governments.

Reforming Intergovernmental Fiscal Relations

Lacking on the decentralization agenda was intergovernmental fiscal reform. Grants and shared revenues are under paternalistic control, so the issue is how to relate the division of functions and resources on the one hand, and accountability on the other. Included in the revision of the basic fiscal system were measures for raising local taxes and bonds, although few grants were consolidated or abolished. The strategy of the CPD thus was to redefine the system whereby functions were allotted, with fiscal matters—deemed to take a long time to revise—left to the next phase. The CPD hopes that administrative reform may be followed by fiscal reform (Committee for the Promotion of Decentralization 2001), but the central financial situation is now serious. At the end of fiscal year 2001, it was more than US\$4.4 trillion in debt, while centrally controlled local finances were at the brink of bankruptcy, with a total debt of

US\$1.7 trillion. The fiscal year 1999 settled account of local authorities shows that 60 percent of all local governments are in dire straits. The Local Allocation Tax could not begin to meet the shortfall and, as a result of the widespread fiscal exhaustion, the centrally controlled system has begun to erode.

In April 1999, Ishihara Shintaro, a noted writer, was elected governor of Tokyo, the largest local government in the world. In the summer of that year, he boldly unveiled the Tokyo renaissance plan, which includes proposals for tax and financial reform. In February 2000, he proposed that a corporate enterprise tax be levied on large banking institutions that would evade taxation were it based solely on corporate income rather than gross profit. The new plan is expected to boost revenues by approximately US\$5 billion over five years. Ishihara's initiative is a serious challenge to the national government, which has so far failed to implement a tax reform program for local governments. As the Local Tax Law and related fiscal laws through which the central government controls fiscal matters were deregulated in April 2000, other local governments have started to search for ways of generating new tax revenue, including from the refuse-disposal industry and atomic energy-related facilities.

Admittedly, public finance is a complex issue, the wide discrepancies between urban and rural fiscal capacities further complicating the issue. Small local governments with fewer resources are often overloaded, so devolving fiscal resources will not be a solution for these authorities, but a reform plan that will satisfy the needs of all is not easily formulated.

The local-central rift again appeared when, after Prime Minister Koizumi Jun'ichiro took office in April 2001, it was proposed that local public spending be cut. Most local governments complained that Koizumi was neglecting the ailing local economies.

The reform of intergovernmental fiscal relations comes under the purview of public-sector reform. At the central government level, rather than on reorganization, interest currently centers on management: efficient and effective performance-oriented administration. Local government reform is what the central government is seeking, because most domestic government functions are administered at the local level. In light of impending decreases in fiscal support by the central government, no small number of local governments have voluntarily taken reform initiatives. The centralized nature of local administrations has made

such reform feasible.

CONCLUSION

After a half century of existence, local autonomy has accomplished much more than was expected at the time of democratization in the late 1940s, when the new constitution was enacted. The pioneering policies and practices of regional development, welfare, the environmental movement, and public-sector management, including government information disclosure, have influenced national public policy and governance. Local authorities have begun to claim independent positions, departing from their former roles as mere agents of the national government. Decentralization in the 1990s took this postwar transformation of central-local relations a step further and reestablished the legal framework.

Paradoxically, the central government is a decentralized unit, composed of compartmentalized ministries, that often stalls when developing meaningful policy. The institutional setting of Japan is such that when the decentralized ministry system leads the central government to a policy deadlock, local governments are able to step in and get the job done.

Coalition government can be expected to be a regular feature of Japanese politics through the first decade of the twenty-first century and, depending on the configuration of the parties and actors, the degree of decentralization will vary. Missing in the most recent decentralization scheme is an agenda for public finance reform that addresses questions regarding the allocation of functions and resources, and the implementation of a system of accountability.

A leadership model based on local government would stimulate central decision making. The old model of central-local relations—where the central government has a monopoly on power and money, and local governments merely engage in policy implementation—has lost its relevance and can no longer be sustained. Given these new circumstances, the horizontal political competition model, which involves local governments requesting grants-in-aid and designation as special cities, is transformed into more dynamic intergovernmental relations. The resulting model can be termed a vertical political and administrative competition model, even as the overlapping authority model continues to exist.

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