

Historical Development of Japanese Local Governance Vol. 10

**Volume 10 The Promotion of Decentralization (2)
Decentralization and a Change of Government (2001 – 2009)**

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Foreword

The Council of Local Authorities for International Relations and the National Graduate Institute for Policy Studies have been working since FY 2005 on a “Project on the overseas dissemination of information on the local governance system of Japan and its operation”. On the basis of the recognition that the dissemination to overseas countries of information on the Japanese local governance system and its operation was insufficient, the objective of this project was defined as the pursuit of comparative studies on local governance by means of compiling in foreign languages materials on the Japanese local governance system and its implementation as well as by accumulating literature and reference materials on local governance in Japan and foreign countries.

In FY 2010, we continued to compile “Statistics on Local Governance (Japanese/English)”, “Up-to-date Documents on Local Autonomy in Japan”, “Papers on the Local Governance System and its Implementation in Selected Fields in Japan” and “Historical Development of Japanese Local Governance”. We also continued to conduct a search for literature and reference materials concerned with local governance in Japan and overseas to be stored in the Institute for Comparative Studies in Local Governance.

We would like to express our sincere appreciation to the members of research committee on “Project on the overseas dissemination of information on the local governance system of Japan and its operation” for their considerable efforts, and to all who offered valuable advice and cooperation to this project.

March 2011

Yoko Kimura
Chairperson of the Board of Directors
Council of Local Authorities for International Relations
Tatsuo Hatta
President
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Preface

This booklet, one of a series which started to appear in 2010, is one result of collaboration that started in 2005 between the Institute for Comparative Studies in Local Governance, National Graduate Institute for Policy Studies, and the Council of Local Authorities for International Relations, under the title, “Project on the overseas dissemination of information on the local governance system of Japan and its operation”. For the purpose of implementing the project, a “Research committee for the project on the overseas dissemination of information on the local governance system of Japan and its operation” was established, and a chief or deputy chief with responsibility for each part of the project have been designated.

Within the framework of the above project, we began to study in 2008 how to establish and take forward a self-contained project under the title “Historical Development of Japanese Local Governance”. The project will comprise the publication of 10 volumes in the form of booklets which will examine the formation, development process and history of local governance in Japan. We are convinced that the results of the research that underlies this project will be of immense use in the comparative study of local governance in many countries. The work has been taken forward primarily by the core team members listed below, and it is planned that all the research will be brought together by the publication, one at a time, of a booklet authored by each team member during 2010 and 2011.

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This booklet, Vol. 10 in the series, “Historical Development of Japanese Local Governance” is authored by Director-General Atsushi Konishi and gives an account of the development process and history of local governance in Japan in the period 2001-2009.

The first half of the period covered by this volume (2001-2009) was one in which structural reform was taken forward, while the latter half was marked by a change of government. The issue of decentralization, which had been a major feature of Volume 9, continued to be advanced, but in the administration of the new government, came to be known by the term “regional sovereignty reform”. Within this framework, the Trinity Reform, local administrative reform, municipal mergers, and successive revisions of the Local Autonomy Law all progressed further. This booklet introduces the issues mentioned here, focusing primarily on changing aspects of reform.

I would like to express my heartfelt appreciation to Director-General Konishi, and also to other members of the research committee for their expert opinions and advice.

Lastly, I need to thank Mr. Maurice Jenkins for his work in translating this booklet into English from the original Japanese booklet.

March 2011

Hiroshi Ikawa

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Volume 10: The Promotion of Decentralization (2) Decentralization and a Change of Government (2001-2009)

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Introduction

As the ninth volume in the series on local governance in Japan, this paper continues the account of the promotion of decentralization, and sets out to introduce movements in local autonomy from 2001 through 2009. In respect of certain items, the paper also touches on events that occurred in 2010.

The key words that characterize this period are: the Koizumi Cabinet, change of government, structural reform, the Trinity Reform, municipal mergers, and regional sovereignty reform.

Firstly, during the first half of the period in question, Prime Minister Koizumi governed the country for more than 5 years, and in the latter half of the period, was followed in quick succession by governments under Abe, Fukuda and Aso. The result of the general election for the House of Representatives in 2009 was a change of government, a transfer of power to the Democratic Party of Japan (hereafter, DPJ).

Secondly, structural reform, which was vigorously promoted by the Koizumi cabinet during the period in question, had a large influence on many fields. For example, administrative reform oriented toward small government was an important pillar supporting structural reform, and such features as a reduction in the number of local public servants were also strongly advocated by local governments.

Thirdly, as a means of achieving decentralization in local finances, which was an issue left unresolved after the initial decentralization reform, the concept of the Trinity Reform was devised. As a result, tax revenue transfer was achieved, but the content left local governments still dissatisfied.

Fourthly, municipal mergers also showed rapid development during this period. The number of municipalities (cities, towns and villages) amounted to 3,226 on April 1, 2001, decreasing to 1,727 on March 31, 2010, the reduction of about 1,500 amounting to nearly half the original figure.

Fifthly, the Decentralization Reform Promotion Law was enacted during this period, and the Decentralization Reform Promotion Committee, which was formed on the basis of the said law, issued recommendations in 4 stages. The DPJ, which advocated regional sovereignty reform, brought together parts of the recommendations into a draft bill on regional sovereignty reform,

and presented it to the Diet.

As shown above, the policies of the DPJ in the area of decentralization promotion, can be seen to a certain extent as successor policies to those of the Liberal Democratic Party (hereafter, LDP).

However, the above said, after the general election referred to above, many mutually differing factions appeared in both Houses of the Diet, the House of Representatives and the House of Councilors, resulting in what was termed the “divided Diet phenomenon” or “twisted Diet phenomenon”, and against this background as well as the appearance of discord within the DPJ, the future political outlook, as of December 2010, is opaque. The outcome of the regional sovereignty reform bill is far from clear.

This paper aims to extract what may be considered to be important key headings at the present time, and to record the relevant facts in a way that is as objective as possible. That said, it is likely that as a result of such factors as changes in the current situation, there will be criticisms to the effect that the presentation given in this paper is inaccurate. With these points in mind, I have some hesitations about writing on the subject of local governance as it has developed in the immediate past and up to the present time. However, I do think that even if my text does become the target of criticism, there is still some significance in giving a clear and structured account, and it is in this spirit that I have produced this paper.

1 The Koizumi cabinet, the vicissitudes of the cabinets that followed it, and the change of government

1.1 The cabinet of Koizumi Junichiro

(1) The launch of the Koizumi cabinet

On April 24, 2001, Koizumi Junichiro accepted the resignation of Mori Yoshiro as Prime Minister and President of the LDP, and was elected as the new President of the LDP. Two days later, on April 26, Koizumi was nominated by the Diet as the 87th Prime Minister of Japan, and the Koizumi cabinet was formally launched.

In the initial cabinet meeting, held on April 26, Prime Minister Koizumi designated his cabinet as a “cabinet resolutely committed to reform”, emphasizing that he would personally direct the activities of the Economic Policy Advisory Council, and would be resolute in carrying out structural reforms. According to public opinion polls, the newly launched Koizumi cabinet had an approval rating of more than 80%.

(2) The 2001 election of the House of Councilors

In the election of the House of Councilors that took place on July 29, 2001, the LDP gained 64 seats, giving it a total of 111 seats including those members who did not stand for election.

When combined with the 23 seats gained by the New Komeito Party (hereafter, NKP), this meant that the ruling party had a clear majority in the House of Councilors. The DPJ gained 26 seats, giving it a total of 59 seats when combined with the seats of those members who did not stand for election.

(3) Simultaneous terrorist attacks and emergency legislation

On September 11, 2001, the U.S.A. was the victim of simultaneous terrorist attacks. In response to these attacks, in Japan too, in October of the same year, the Anti-Terrorism Special Measures Law was enacted, and in the following month, November, units of the Japan Maritime Self-Defense Force were dispatched to the Indian Ocean in support of the American forces.

In April 2002, the Koizumi Cabinet submitted to the Diet a Bill concerning Measures to Respond to an Armed Attack Situation, and the Bill passed into law in June 2003. This law, which constituted one element of what was termed emergency legislation, set out the following points as responses to an armed attack: 1) basic principles, 2) the responsibilities of central government and local governments, 3) the cooperation of the people of Japan, and 4) other items identified as fundamental points. The objectives of the law were to enable the implementation of a state of response and to secure the peace and independence of Japan and the security of its citizens.

The Koizumi Cabinet also supported the U.S.A. in the Iraq War, which began in March 2004. In July of that year, the Iraq Special Measures Law was enacted, and in February 2004, Self-Defense forces were sent to Iraq.

(4) The economic situation

In April 2003, the average of the Nikkei Share Index fell to its lowest level since the bursting of the bubble, reaching a point just above 7,600 yen. However, while the Koizumi cabinet did set out a deregulation policy, it did not adopt a policy of relying on public works, as practiced by previous governments. Opinions differ on the suitability or otherwise of the economic policies of the Koizumi Cabinet. According to the provisional judgment of the Economic and Social Research Institute within the Cabinet Office, the Japanese economy reached its lowest level in January 2002, and thereafter, continued to expand for 69 months, before reaching a peak in October 2007¹. If one agrees with this judgment, then it is possible to say that within one year after it was launched, the Koizumi Cabinet began the process of recovery of the Japanese economy.

(5) The 2003 election of the House of Representatives

On September 20, 2003, in an election for the presidency of the LDP, Koizumi was re-elected

after gaining over 60% of the votes, and on October 10 of the same year, he dissolved the House of Representatives. In the election for the House of Representatives on November 9, the DPJ used its manifesto as the basis of its campaign.

The result of the election was that the LDP gained 237 seats, while the DPJ gained 177 seats, 50 more than its previous total, marking the biggest victory by an opposition party in the postwar history of Japanese politics. On the basis of this election result, awareness spread in Japan that a political system consisting of 2 major parties was making progress.

(6) The 2004 election of the House of Councilors

In the election of the House of Councilors, carried out on July 11, 2004, the LDP gained no more than 49 seats, giving it a total of 115 seats when combined with the seats of those members who did not stand for election. The DPJ gained 50 seats, giving it a total of 82 seats when combined with the seats of members who did not stand for election.

(7) The 2005 election of the House of Representatives

The cabinet of Prime Minister Koizumi fixed on the privatization of Japan's postal services, a long-cherished project of Koizumi's, as the main subject for debate in the ordinary session of the Diet in 2005. It should be noted that even within the LDP, there were many who disagreed with this privatization enterprise.

On July 5, 2005, when a draft bill to privatize the postal services was debated in the plenary session of the House of Representatives, a number of LDP members opposed it, and the bill was finally passed by a margin of 5 votes. However, in the debate in the plenary session of the House of Councilors, 22 members of the LDP voted against the proposal, while 8 members abstained, with the result that the bill was rejected by 17 votes. On the same day, Prime Minister Koizumi dissolved the House of Representatives, setting the stage for a general election².

In the election that followed, Prime Minister Koizumi designated the privatization of the postal services as the main issue. In his capacity as President of the LDP, Koizumi refused formal party endorsement to those candidates who opposed privatization, and recruited officially endorsed candidates (so-called "assassin" candidates), to stand against these members in their respective constituencies, thereby orchestrating the election in the mode of a theater production.

In the election itself, held on September 11, the LDP acquired 296 seats, thereby gaining a decisive victory. Combined with the 31 seats gained by the NKP, the total number of seats held by the governing coalition therefore amounted to 327 seats. Since this was more than 320 seats (two-thirds of the total number of 480 seats in the House of Representatives), it enabled the government to pass legislative bills without the consent of the House of Councilors. The DPJ gained a total of only 113 seats in the election.

Following the election, the postal privatization bill was re-submitted to a special session of the Diet, and was duly enacted in October 2005.

1.2 Changes in the cabinets after Koizumi

(1) The Abe Shinzo cabinet

Koizumi was first appointed as prime minister in May 2001, and served for a period of more than 5 years as Japan's 87th, 88th and 89th prime minister, resigning in September 2006 at the end of his tenure as president of the LDP.

In an election held on September 20, 2006, to decide the next presidency of the LDP, Abe Shinzo was elected, and in a special session of the Diet held on September 26, Abe was appointed as Japan's 90th prime minister. The Abe cabinet, in an opinion poll conducted immediately after it was launched, received the high approval rating of 79%.

The slogan adopted by the Abe cabinet was "Breaking away from the postwar regime", and in terms of specific issues, Abe's term of government was marked by the full-scale revision of the Fundamental Law of Education, the first in 50 years since its original enactment in 1957, and by the enactment of the National Referendum Law, stipulating a national referendum to approve any proposed amendments to the Constitution.

However, after a scandal involving false political funding reports and the discovery of inaccuracies in massive numbers of national pension records, the popularity of the Abe cabinet plummeted.

(2) The 2007 election of the House of Councilors and the Fukuda Yasuo cabinet

a) The 2007 election of the House of Councilors

In the election of the House of Councilors held on July 29, 2007, the DPJ gained 60 seats, giving it a total of 109 seats when combined with the seats of members who did not stand for election. For its part, the LDP gained only 37 seats, giving it a total of 83 seats when combined with the seats of members who did not stand for election, and even when the 20 seats gained by the NKP were added in, the net result was that the ruling coalition no longer had a majority in the House of Councilors. Looking at the Diet as a whole, in the House of Representatives, the ruling coalition had a majority, but in the House of Councilors, the opposition party was in the majority, leading to the phenomenon of what was called a "divided Diet", creating a source of trouble for all future parties in terms of management of the Diet.

b) The launch of the Fukuda Yasuo cabinet

On September 11, 2007, in a special Diet session held after the election of the House of Councilors, Prime Minister gave a policy speech, but on the following day, September 12, Abe

suddenly announced his resignation.

On September 23, the election for the post of president of the LDP was held, and Fukuda Yasuo was elected. On September 25, the procedure to name the prime minister took place, and in the House of Representatives, where the ruling coalition had a majority, Fukuda was named prime minister, but in the House of Councilors, where the opposition party had a majority, Ozawa Ichiro, then president of the DPJ, was named prime minister. Since the person named as prime minister in the House of Representatives and the House of Councilors respectively was different, a conference of representatives from both Houses was convened on the basis of the regulations prescribed in the Constitution of Japan, but since they failed to reach agreement, the decision of the House of Representatives was taken as binding on the Diet as a whole, and Fukuda was designated as Prime Minister of Japan. On the following day, September 26, Fukuda was formally appointed as Japan's 91st Prime Minister by the Emperor on the basis of the Diet resolution.

It was after the 2007 election of the House of Councilors that the phenomenon of what was known as the "divided Diet" appeared, denoting the fact that the ruling parties in the two houses of the Diet were different, but it should be noted that the ruling coalition commanded a majority of more than two thirds in the House of Representatives. In the case of a number of legislative bills, in respect of which the ruling and opposition parties respectively held different views, the governments utilized the doctrine of the superior rights granted to the House of Representatives on the basis of the articles of the Constitution to get the bills enacted into law.

However, the reality of the "divided Diet" continued, and the Fukuda cabinet continued to experience problems in terms of the management of the Diet as a whole. At one point, the concept of a "grand coalition" embracing the LDP and the DPJ was floated, but it was never realized.

(3) The Aso Taro cabinet

On June 11, 2008, a resolution of censure of Prime Minister Fukuda was endorsed in the House of Councilors. Prime Minister Fukuda did not accede the demands for the resignation of his cabinet or for the dissolution of the House of Representatives. However, the government continued to face difficulties in the management of the Diet, and in this situation, Fukuda submitted his resignation as prime minister on September 1, 2008.

Fukuda's resignation was followed by an election to appoint a new president of the LDP, and on September 22, Aso Taro was elected. On the 24th of the same month, balloting was conducted in the House of Representatives to elect a new prime minister, and Aso was nominated. On the same day, in an election held in the House of Councilors, Ozawa was also chosen to be nominated as prime minister. Since the opinions of both Houses differed, Aso was

named as prime minister on the basis of the regulations prescribed in the Constitution without a special conference being convened. Consequently, Aso was formally appointed by the Emperor as Japan's 92nd Prime Minister on the basis of the decision of the Diet.

The Aso cabinet was launched in September 2008 against the background of a global depression resulting from an environment of financial uncertainty. Prime Minister Aso designated recovery of the Japanese economy as the most urgent issue facing his cabinet, and proposed to tackle this issue in three stages, focusing in the immediate future on economic countermeasures, in the medium term on financial rebuilding, and in the medium to long term on economic growth to be achieved by reform.

As economic countermeasures designed in the form of a three-stage rocket, the Aso Cabinet devised as the first stage, a supplementary budget enacted on October 16, 2008, followed as the second stage by a further supplementary budget enacted on January 27, 2009, and culminating, as the third stage, in the budget and tax reform plan enacted on March 27, 2009, as the budget for fiscal 2009, the scale of projects encompassed in the budget reached the total of 75 trillion yen. However, under the shadow of the "divided Diet", the government faced continuing difficulties in terms of Diet operations.

1.3 Change of government

(1) The 2009 election of the House of Representatives

The end of the tenure of the House of Representatives came in September 2009, following the previous election held in September 2005. As the closure date approached, the Abe cabinet decided to dissolve the House of Representatives on July 21.

Accompanying this dissolution, the election of the House of Representatives was implemented on August 30, 2009. The result of the election was that the DPJ gained 308 seats, giving the DPJ, as a single party, a majority in the House of Representatives. On the other hand, the LDP gained only 119 seats, compared to the 181 seats that it held before the proclamation of a general election. The NKP lost 10 seats, giving it a total of 21 seats.

(2) Launch of the Hatoyama Yukio cabinet

On September 9, 2009, Hatoyama Yukio as president of the DPJ, agreed to form a coalition government with Fukushima Mizuho, chair of the Social Democratic Party (hereafter, SDP), and with Kamei Shizuka, leader of the People's New Party (hereafter, PNP).

The special session of the Diet convened on September 16, 2009, after the general election for the House of Representatives. On that day, Hatoyama Yukio, president of the DPJ, was nominated as prime minister in both the House of Representatives and the House of Councilors, and was subsequently formally appointed as Japan's 93rd prime minister; he thereby became the

leader of a coalition government consisting of three political parties. This was the first non-LDP cabinet to be formed since the Hosokawa cabinet of 1993.

1.4 The launch of the Kan cabinet and the election of the House of Councilors

(1) Resignation of the Hatoyama cabinet

a) Issue of “politics and money”

Immediately after it was launched, the Hatoyama cabinet enjoyed a high level of support. However, after a scandal related to the falsification of political funding reports, problems with gift tax and so on, public mistrust heightened, centered on the relationship of politics and money.

b) “Work screening”

A “work screening” session was held in November 2009. During the session, which was held in a place open to the public, members of the Diet and knowledgeable persons from the private sector scrutinized each element of work or each work project, examining such factors as how much tax revenue was used in its implementation, or what level of effect the work produced, and then forming judgments on whether or not that particular work was necessary. “Work screening” sessions were transmitted live over the internet, and reported on continuously in the mass media.

c) The budget for fiscal 2010

In the budget for fiscal 2010 drawn up by the Hatoyama cabinet, a number of the results of the “work screening” referred to above were reflected in the way in which the budgetary calculations were arrived at. Adopting three slogans for reform, namely “from concrete to people”, “thoroughgoing political leadership” and “transparency in the calculation of the budget”, Hatoyama emphasized that change was resulting from the change of government. But that said, while on the one hand, expenditures increased as a result of implementing promises made in the DPJ manifesto, such as those to do with child allowances or making senior high school education free of charge, on the other hand, due to the fact that tax revenue decreased in the wake of the economic slump, national bond issues in the 2010 budget totaled 44 trillion yen, the highest figure ever recorded. With a dependency ratio on public bond issues of 48%, the budgetary situation reflected in the initial budgetary base was the worst ever.

d) The problem of relocating the Futenma air base and secession from the coalition government

Under the Hatoyama administration, the problem of finding an alternative location for the Futenma air base for U.S. forces in Okinawa became a major political issue. Under the previous LDP government, it had been agreed by the local people and by the U.S. government that the

Futenma base would be relocated to an offshore site in the Henoko district of Nago City, Okinawa (Camp Schwab). However, during the campaign for the 2009 election for the House of Representatives, Hatoyama had emphasized that a completely fresh start to these negotiations was needed, and even after his appointment as prime minister, continued to grope for ways to implement his promise during the election campaign that the Futenma air base should be moved out of Okinawa completely.

However, the Hatoyama cabinet failed to identify an implementation policy for this proposal, and on May 28, 2010, following consultations between Japan and the U.S., a cabinet resolution was endorsed to the effect that in the light of actual circumstances, the proposal to move the Futenma air base out of Okinawa should be abandoned. In these circumstances, Fukushima Mizuho, leader of the SDP, refused her consent to the resolution, whereupon Hatoyama dismissed her from her cabinet post, and the SDP seceded from the coalition.

e) Prime Minister Hatoyama's speech of resignation

On June 2, 2010, Prime Minister Hatoyama addressed both houses of the Diet, stating that he was resigning from the presidency of the DPJ and from the post of prime minister. Ozawa Ichiro, secretary general of the DPJ, also tendered his resignation.

(2) Launch of the Kan Naoto cabinet

Following Hatoyama's resignation, an election was held to decide the new leader of the DPJ, and Kan Naoto was announced as the victor. On the same day, on the basis of nomination by the Diet, Kan was formally appointed as Japan's 94th prime minister. The Kan cabinet was launched on June 8.

The approval rating of the Kan cabinet immediately after its launch was, broadly speaking, in the 60% plus range, marking a steep rebound from the support rating of around 20% given to the Hatoyama cabinet at the close of its term of office.

(3) The 2010 election of the House of Councilors

The 2010 ordinary election of the House of Councilors was held on July 11 of that year.

In an off-the-cuff address, Prime Minister Kan made repeated references to a forthcoming rise in consumption tax, and as a result, his cabinet's approval rating dropped to the 40%-plus mark.

The result of the election was that the DPJ lost 10 seats from the pre-election figure, so that it gained 44 seats, producing a total of 106 seats when combined with the seats of those members who did not stand for election. For its part, the LDP increased the number of seats gained by 13 to 51, giving it a total of 84 seats when combined with the seats of those members who did not stand for election. In terms of the smaller parties, Your Party (hereafter, YP) gained 10 seats,

giving it a total of 11 seats.

The above results meant that of the 242 seats in the House of Councilors, a total of 109 seats were held by the DPJ and its partner, the PNP, constituting the governing coalition, in contrast to which the opposition parties held a total of 133 seats, so that in the House of Councilors, the ruling coalition was in a minority. This led again to the phenomenon of a “divided Diet”, in which the parties holding a majority were different in the House of Representatives and the House of Councilors. In addition, the number of seats held by the governing party in the House of Representatives did not give it a two-thirds majority, so that the governing coalition was unable to pass into law bills to which the opposition parties were opposed.

2 Structural reform and “Basic Policies”

2.1 Structural reform

(1) The structural reform path of the Koizumi Cabinet

In the first cabinet resolution of his administration on April, 2001, Prime Minister Koizumi showed an awareness that “without structural reform, there will be no economic recovery”, designating his cabinet as a “cabinet firmly set on reform” and ready to grapple with the reform of all kinds of socio-economic structures. In this way he clearly laid down the route of structural reform to be followed by his government.

Professor Atsumi Yasuhiro of Tohoku University graduate school set out the following three points as the basic ideas of the Koizumi structural reform plan: “market-directed orientation”, “effectiveness-directed orientation” and “strengthened emphasis on provision”³

(2) Basic policy guidelines

The Council on Economic and Fiscal Policy (hereafter, CEFPP), an advisory body under the jurisdiction of the Koizumi Cabinet, had very great influence. In about June every year, on the basis of discussions within CEFPP, policies determined by the cabinet, showing its economic policy, were produced (the formal title of the guidelines produced on June 26, 2001, was “Basic Policies for Economic and Fiscal Management and Structural Reform”. Thereafter, every year at about the same time, “Basic Policies” were produced on the basis of discussions with CEFPP, and it became common practice to call them “Basic Policies 2001”, simply updating the year in every subsequent year. This is the practice adopted in this paper); the Policies give a clear picture of the direction in which the Koizumi cabinet moved.

The first set of policies, i.e. “Basic Policies 2001”, constitute an economic “structural reform” plan in terms of the way in which economic resources such as labor and capital basically work to achieve speedy economic growth by way of the market.

2.2 “Basic Policies 2001” and reform of the local administrative and financial system

(1) Overview

In “Basic Policies 2001”, Chapter 4, which is entitled “Competition between local areas full of individualism”, has as its subtitle “Confirming the autonomous relationship between central government and local governments”. Its essence is that each local government should be autonomous in its own right and not dependent on central government.

Since this chapter contained many points concerned with local administrative and financial policy that were the subject of debate in the Koizumi cabinet, the main points are set out below.

(2) Displaying the latent power of local areas.

Excessive intervention by central government weakens the enthusiasm of local governments to get to grips with the development of their locality in an independent fashion. The picture that the government should be drawing as the image of the future is one in which autonomous local governments can adequately display the variety of their individuality and creativity, and in which they can, each in their own way, within a framework of mutual competitiveness, draw out the vitality of their socio-economic capacity. What is necessary for the subsequent realization of this image is radical reform of the various systems concerned with central government and local governments respectively.

(3) Local governments that have the capacity to be autonomous

In order to confirm the establishment of “local governments with the capacity to be autonomous”, without dependence on central government, it is necessary to create municipalities (cities, towns and villages) that have a sense of responsibility appropriate to the rearrangement of their size and structure.

(4) Confirming the independent judgment of local areas

A mechanism that enables local residents to select, using their own judgment, necessary services suited to what they are able to bear, is a precondition for local autonomy, and a spirit of self-help and independence will be generated by this. Adopting such kinds of perspectives, the following principles are to be implemented. 1) Supplementary subsidies to be borne by the national treasury are to be limited to what will be convenient and profitable on a national level, over a wide area, and burdens to be borne by the state are limited to what are particularly necessary in such ways as providing the minimum guarantee of administrative services to the people as a whole; 2) Demands made by central government on local governments are to be reduced, and in line with this, the scope and level of expenditures such as subsidies or local allocation tax, or allowances made from revenue derived from local financial plans are to be

reduced.

(5) Radical reform of systems concerned with local finances

a) Promotion of policies based on autonomous selection and financial revenue

Local bonds are permitted to be issued in respect of special enterprises; in many cases, the majority of these enterprise costs will be financed by a combination of subsidies and a mechanism to transfer the redemption costs of the bonds in subsequent fiscal years into local allocation tax. It is necessary to reduce the mechanisms for lessening the feeling in local governments of a burden that has to be borne, and to re-evaluate this in terms of a direction aimed at promoting policies that can be effectively implemented by using autonomous revenue and selection procedures.

A staged revision constituting adjustment of the distribution of local allocation tax in line with the scale of local governments should be carried out in such a way that it does not weaken the desire to progress to greater rationality and effectiveness.

b) Simplification of local allocation tax

There are large disparities between different areas and regions in terms of economic and financial capacity. It follows that it is necessary to carry out the kind of review referred to in a) above in such a way that local allocation tax is distributed so as to enable local governments with low financial capacity levels to meet their autonomous expenditures. In the future, in response to the abolition and curtailment of central government intervention, it is necessary that simplified measures are decided that make the local grant criteria as objective and simple as possible.

c) Strengthening and securing local tax

Local tax should be secured in a strengthened form. In the context of an ongoing review of the respective responsibilities of central government and local governments, a radical review will be carried out of local tax revenue distribution including tax transfers at the same time as rationalization of national treasury subsidy burdens and a review of the preferred pattern of local allocation tax. Within that framework, it is necessary to think about the financial circumstances of central government and local governments respectively, using as a base the sort of influence the review will have on individual local governments.

With regard to outward criteria as the tax base in corporate business tax, while considering carefully the calculation process used to date, examination of the mechanism of levying tax is to be deepened in the light of opinions expressed from a variety of perspectives, and a tax levy system introduced that is appropriate to the economic circumstances.

(6) Tackling the rebuilding of healthy local finances

From now on, within the general framework of raising the level of local government independence, a review should be carried out of the level of administrative services to be provided by central government and local governments respectively with the aim of guaranteeing the minimum level of services required by residents and Japanese citizens as a whole. The review should look at the level and content of local government expenditures in the light of such factors as efforts to increase efficiency, and taking care to see that it is compatible with steps to rebuild healthy national finances.

In the above case, taking as a foundation a thorough review of expenditures in local financial planning, the aim should be to rebuild healthy local finances that guarantee a sufficient amount of revenue.

2.3 Basic Policies from 2002 onwards

(1) Overview

From 2002 onwards, the formulation of “Basic Policies” was carried out every year until 2009. This section will provide a simple introduction to the key points concerning the said guidelines debated every year in the context of local governance.

(2) Basic Policies 2002

The above policies, endorsed in a cabinet resolution of June 25, 2002, set out details of the introduction of special structural reform districts as the strategic capacity of localities, and presented the Trinity Reform as the means of activating local independence.

(3) Basic Policies 2003

The above policies, endorsed in a cabinet resolution of June 27, 2003, set out the following 3 objectives of structural reform, namely “revitalization of the economy”, “ensuring the security of the people”, and “establishment of responsible fiscal balances for future generations”. At the same time as setting out these objectives, the policies also put forward “7 reform areas” designed to enable their implementation. One of these areas, “reform of central and local governments” promoted the Trinity Reform, designating this as the reform objective capable of realizing self-determination in local governments, labeling this as the fundamental form or essence of local autonomy.

(4) Basic Policies 2004

The above guidelines, endorsed in a cabinet resolution of June 4, 2004, advocated the thoroughgoing implementation of the principles embodied in the slogans “from the public sector

to the private sector” and “from the state to the region”, and aimed to promote the following: 1) Introduction of market testing with the aim of facilitating the transfer of work from the government to the private sector; 2) Promotion of a unified package in the form of the Trinity Reform, comprising reform of subsidies, tax revenue transfer to the extent of 3 trillion yen, and local allocation tax reform; and 3) Promotion of “special regional districts”.

(5) Basic Policies 2005

The above Basic Policies, endorsed in a cabinet resolution of June 21, 2005, advocated 3 reforms in support of the concept of “small and efficient government”. Part of the title of one of these, namely “changing the flow of work”, emphasized thoroughgoing opening of the private sector to government work by means of reform of central government and local governments and by means of the full-scale introduction of market testing. In addition to this, the section “changing personnel and organizations” seeks full-scale administrative reform of central government and local governments.

(6) Basic Policies 2006

The above Basic Policies, endorsed by a cabinet decision on July 7, 2006, are the last set of Basic Policies to emanate from the Koizumi cabinet.

The primary characteristic of “Basic Policies 2006” is that they represent a continuing, ongoing effort to tackle the rebuilding of healthy finances by dividing the objectives into 3 periods, the first of which, Period I, denotes financial rebuilding during the tenure of the Koizumi cabinet (fiscal 2001 to fiscal 2006). Periods II and III set out objectives to be carried into the future.

In order to enable health rebuilding of finances to be tackled in both Period II and Period III, 7 principles are set out. In Principle 1, emphasis is put on minimizing the increase of the burden on citizens by thoroughly streamlining government, while in Principle 4, emphasis is put on the way in which both central and local governments must direct their respective efforts toward the objective of reconstructing healthy finances and, in the course of doing this, should cooperate with each other in realizing this objective within a framework of mutual understanding.

Furthermore, the following factors can be adduced as integral parts of specific, concrete efforts to realize efficient government: 1) Review local allocation tax in an attempt to expand the number of local governments that require no local allocation tax; 2) Ensure openness of public accounts; 3) Reform public services through the introduction of competition; and 4) Enact a law promoting special regional districts.

(7) Basic Policies 2007

The Basic Policies 2007 were endorsed on June 19, 2007, by the cabinet of Prime Minister Abe.

As part of the section headed “establishing an administrative and fiscal system suitable for the 21st century”, there is a call for “decentralization reform”. Specifically, the content discusses the examination of such points as the following: 1) Taking forward the examination of the respective roles of central government and local governments within the framework of the Decentralization Reform Promotion Committee; 2) Examining the issues of subsidies, local allocation tax and tax revenue allocation as a unified package reform; 3) Examining how to correct imbalances in tax revenue between different local governments; 4) Examining radical reform of local government departments and bureaus; and 5) Considering the “hometown payment plan” (policy of expanding contributions to local governments).

(8) Basic Policies 2008

The “Basic Policies 2008” were endorsed on June 27, 2008, by the cabinet of Prime Minister Fukuda.

In “Chapter 2: Enhancing Growth Potential”, the section entitled “regional revitalization” can be cited. In this section, after saying that vitality in local areas is the source or lifeblood of vigor in Japan as a whole, mention is made of the promotion of decentralization reform on the basis of the “regional revitalization strategy”, and at the same time, of support by a strong and unified government for ways in which regional and local areas can spontaneously activate their own creativity and ingenuity in tackling the issues concerned.

In “Chapter 4: Reforming public finance and Administration in the best interests of people”, mention is made of promoting administrative and financial reform aimed at benefiting the people as a whole through such means as decentralization, administration which lays emphasis on people’s daily lives, and the elimination of unnecessary tasks, as well as of constructing a financial framework that supports these aims. As specific reform policies, reference is made to tackling 1) submission to the Diet of a “New Omnibus Decentralization Bill”; 2) rationalization of central government branch offices; 3) formulation of a “Vision of a Regional System” aimed at the full-scale introduction of a regional system.

(9) Basic Policies 2009

The “Basic Policies 2009” were endorsed on June 23, 2009 by the cabinet of Prime Minister Aso.

In “Chapter 2: Enhancing Growth Potential”, mention is made of taking forward the formation of a local region possessing vitality and individuality, and of realizing growth which is generated

from within a local region. Specifically, the following points are debated: 1) the gradual promotion of decentralization on the basis of the recommendations of the Decentralization Reform Promotion Committee; 2) tackling such issues as strengthening locality-based human potential and creating locality-based vitality on the basis of the “regional revitalization strategy”, and 3) taking forward the concept of “autonomous settlement zones” on the basis of liaison between central government ministries and agencies; 4) guaranteeing the total amount of general tax revenue, composed of such items as the combination of local tax and local tax allocation required for stable local government management; and 5) establishing in the cabinet office an “examination organ” aimed at realizing the enactment of the “Fundamental Law of a Regional System” (provisional title).

3 Administrative Reform⁴

3.1 The future direction of administrative reform

(1) Overview

On December 24, 2004, the cabinet endorsed a resolution entitled “The future direction of administrative reform”, which recognized the results of the “Fundamental Principles of Administrative Reform” (cabinet resolution of December 1, 2000). With this as a basis, the 2004 resolution identifies administrative reform as one important pillar of structural reform, and indicates the direction to be followed as one of strongly promoting administrative reform from perspectives of “letting the private sector do what it can do” and “letting local areas do what they can do”.

Specifically, the document comprises 9 headings such as the streamlining of government as well as government-related corporate bodies. Of these, 2 items featured under the heading “Promotion of decentralization”, namely “promotion of municipal mergers” and “promotion of local administrative reform” are introduced below.

(2) Promotion of municipal mergers

From the perspective of maintaining and upgrading the level of administrative services offered by municipalities in their capacity of basic public bodies, and of aiming to expand the scale of administration and increase its efficiency, the resolution uses the formulation “setting a target of 1,000 local government bodies after the completion of municipal mergers”, and on the basis of this target, aims at the continuing positive promotion of mergers developed by local governments on their own initiative, and at strengthening their administrative and financial base.

(3) The promotion of local administrative reform

With regard to the administrative reform of local public bodies, the government said that it

would plan new directions for administrative reform, consisting of the following items, by the end of fiscal 2004: 1) general adjustment of the set number of general local public servants as well as appropriate adjustment of salaries; 2) handover to the private sector so as to make the maximum possible use of private sector vitality; 3) positive utilization of the system of designated administrators; 4) radical review of the third sector; 5) efforts to attain managerial soundness of local public enterprises; 6) promotion of electronic local governments; 7) effective and positive utilization of the system of administrative evaluation; and 8) guarantee of fairness and equity, and rise in the level of transparency.

With regard to the personnel system of local public servants, local government reforms are promoted in the following ways: 1) confirmation of a personnel system that puts weight on ability and achievements through the introduction of an objective evaluation system; and 2) support for dealing with the diversity of the appointment and terms of service of employees.

For its part, the government aims to publish details, in an orderly fashion, from fiscal 2005 on, of how they are tackling local government administrative reform, and also to disseminate examples of excellence over a wide range. The government will extend efficient management in local government, and will implement the calculation of local allocation tax in response to management efforts as measured by objective indicators.

3.2 Local government reform by means of a concentrated reform plan

(1) Overview

The government took receipt of the document “The future direction of administrative reform”, and on March 25, 2005, with the aim of giving positive encouragement to the promotion of local administrative reform, the Ministry of Internal Affairs and Communications (hereafter, MIC) issued new indicators aimed at promoting administrative reform in local governments. The main points of these indicators are as listed below.

(2) Review of the Fundamental Principles of Administrative Reform and formulation and announcement of the Concentrated Reform Plan

On the basis of the indicators referred to above, each local government set to work to formulate new Fundamental Principles or to review the existing ones.

In order to implement in a concentrated way efforts to tackle reform on the basis of the Fundamental Principles, each local government was required to take as the contents of its plan the items enumerated from 1) through 8) in 3.1 (3) above, and to clearly publicize within fiscal 2005 specific details of the ways in which it planned to tackle the enumerated issues over the period from fiscal 2005 through fiscal 2009.

It was stipulated in the Fundamental Principles and the Concentrated Reform Plan that, as far

as possible, numerical indicators should be attached to objectives and that details should be set out in an easily understandable way. With particular reference to adjustments to personnel staffing levels, numbers of people due to retire and numbers of planned new recruits should be specifically stated, and numerical objectives to be reached by April 1, 2010, should be given.

(3) Key headings to be incorporated into the Concentrated Reform Plan

Key headings to be incorporated into the Concentrated Reform Plan were stipulated as follows: 1) the reorganization, abolition or integration of duties and projects; 2) the promotion of consignment to the private sector (including utilization of the designated manager system); 3) adjustment of set staffing levels; 4) salary adjustment focused primarily on allowances; 5) transfer of authority to municipalities; 6) review of central government branch offices; 7) review of the third sector; and 8) the financial effects of reductions in operating expenses, etc.

3.3 The Administrative Reform Promotion Law

(1) Overview and objectives

In May 2006, a law concerned with the realization of simple and efficient government was enacted (the Administrative Reform Promotion Law). As an important reform instrument, the law covered many fields, including policy-based finance reform, independent administrative corporations, special accounts, reform of personnel expenses, reform of resources and bonds, etc. Of these various items, reform of personnel expenses will be briefly explained.

(2) Reform of personnel expenses

Within the framework of reform of personnel expenses, the following points are tackled. 1) carrying out a reduction of personnel expenses by means of a reduction in the overall number of national public servants and a review of the salary system; 2) Achieving a net reduction of 5% or more in the set number of employees of national administrative organs within 5 years; 3) Review of the salary system of national public servants; 4) Reduction of the personnel expenses of independent administrative corporations, special corporations, etc.; 5) Requiring a reduction of 4.6% or more in the number of local public servants within 5 years; 6) Review of the salary system of local public servants; and 7) As a long-term target, achieving a 50% reduction in the GDP ratio of the personnel expenses of public servants.

3.4 Expenditure reform concerned with local public servants as reflected in Basic Policies 2006

In “Basic Policies 2006”, the specific content of expenditure reform in each field is taken up and brought together in “appendices”. The main points of 2 of these appendices, i. e. “Local

public servants” and “Still further reforms” are set out below.

1) Achievement of a net reduction (5.7%) in the set number of national public servants in administrative organs within 5 years by the end of fiscal 2010, and a net reduction, to the same level, in the set number of local public servants; 2) A continued reduction through fiscal 2011; 3) Making the salaries of local public servants reflect more closely salary levels in the private sector in the local area concerned; 4) Achievement of a reduction in special attendance allowances; 5) Reduction or elimination of subsidies to mutual aid associations; 6) Correcting the composition of employees by grade; 7) Making appropriate adjustments to the retirement allowances given to highly paid officials like the prefectural governor; and 8) Reduction of the personnel expenses of educational employees.

3.5 Local government reform by means of the administrative indicators issued in 2006

On August 31, 2006, on the basis of the Administrative Reform Promotion Law (see 3.3 above) and “Basic Policies 2006” (see 3.4 above), MIC formulated “Indicators to take still further forward the promotion of administrative reform in local governments” (2006 administrative reform indicators). The main reform objectives that the government hoped to achieve by means of these indicators were as follows: 1) reform of personnel expenses; 2) reform of the provision of public services; 3) reform of local public accounting; and 4) with the aim of facilitating an easy comparison between local governments, the formulation of rules on information disclosure as well as strengthening a supervisory oversight by local residents.

3.6 The main issues tackled by the Concentrated Reform Plan as well as the 2006 Administrative Reform Indicators

(1) Overview

In November 2010, on the basis of the Concentrated Reform Plan (see 3.2 above) and the 2006 Administrative Reform Indicators (see 3.6 above), MIC publicly issued a document which brought together the reform achievements of all local governments throughout the country during the 5-year period 2005-2009. The main points of these tabulated results are as shown below.

(2) Tackling the issue of set numbers of staff

The information referred to above revealed that in the period from April 1, 2005 to April 1, 2010, the net reductions achieved were as follows. 1) in prefectures, 5.3%; 2) in ordinance-designated cities, 10.6%; 3) in cities, wards, towns and villages (excluding ordinance-designated cities), 9.9%. Combining these totals, the overall net reduction in set

numbers of local public servants was 7.5%.

(3) Adjustment of salary levels

As of July 2008, efforts aimed at a review of the salary levels of technical staff had been implemented in all prefectures and all municipalities.

With regard to special attendance allowances due to be examined from the point of view of weighted provision, the total reduction achieved by all prefectures (47 bodies) as well as ordinance-designated cities (18 bodies) was 14.825 billion yen, from a total of 15.234 billion yen to a total of 409 billion yen in FY 2010, a reduction of more than 97%..

In addition, the abolition of special pre-retirement bonuses and the review of the rate of retirement allowances are being implemented in all prefectures and ordinance-designated cities.

(4) Promotion of consignment to the private sector

As of April 1, 2010, the number of facilities (percentage) in which the designated manager system had been introduced, numbered 8,661 (61.8%) in prefectures, and 6,334 (52.2%) in ordinance-designated cities.

The number of local governments implementing the consignment of tasks to the private sector is also increasing. For example, the consignment rate for the preparation of school meals in prefectural schools rose from 77% at the end of fiscal 2004 to 96% in April 2010. Also, the consignment rate for general affairs duties in prefectures rose from 51% to 79%, for the driving of public vehicles in designated cities from 46% to 97%, and for the supply of school meals in municipal schools from 55% to 70%; further increases are ongoing.

(5) Transfer of authority to municipalities

With regard to the transfer of authority from prefectures to municipalities, as of the end of fiscal 2009, authority transfer promotion plans had been prepared in 40 prefectures. In addition, there were 28 bodies which had set targets for the headings or the number of tasks to be transferred, 43 bodies which had established discussions or research meetings with municipalities, and 32 bodies which were carrying out comprehensive transfers of authority in the form of packaging tasks in special fields such as urban community development. In short, the transfer of authority from prefectures to municipalities is penetrating into local governments all over the country.

(6) Administration of the set staffing numbers of public enterprises

In 37 prefectures, 13 designated cities, and 933 ordinary municipalities (cities, wards, towns and villages), numerical targets have been established for the administration of set staff numbers

in public enterprise accounting. Net reduction achievement values amounted to 12.4% in the above local bodies in the period from April 1, 2005, to April 1, 2010.

(7) Achievement of structural reform in salary levels

Structural reform in salary levels and the publication of information on salary levels were implemented in all prefectures and designated cities.

(8) Retirement allowances for special posts

All prefectures as well as designated cities have implemented a review of calculation methods for the retirement allowances to be given to prefectural governors and city mayors.

(9) Review of voluntary contracts

By the end of fiscal 2009, local governments which had completed a review of the preferred form of voluntary contracts numbered 46 prefectures, 16 designated cities, and 1,467 ordinary municipalities.

(10) Review of public welfare programs

The total amount of subsidies to mutual aid associations for employees over the country as a whole was reduced from 84.1 billion yen in fiscal 2004 to 13.7 billion yen in fiscal 2010 (a reduction of about 84%).

(11) Introduction of market testing

The number of local governments implementing market testing (including those still studying its introduction) was 131 at the end of fiscal 2009.

(12) Reform of public accounting

The situation regarding the preparation of financial statements for fiscal 2008 was that financial statements using some kind of model or other had been produced in 42 prefectures (89%), 17 designated cities (94%), and 1,102 ordinary municipalities (excluding designated cities).

Combining statements already produced with those on which a start had been made gives an overall total of 1,640 bodies (91%).

(13) Expansion of the implementation of the external appointment of auditors and external auditing

In the 2006 administrative reform indicators, it was stipulated that when the appointment of

auditors was carried out, except when there was an exceptional need, persons who had been ordinary employees of the local government concerned (OB committee members) should not be appointed, and that, in principle, persons from outside the local government should be appointed. As of April 1, 2010, OB committee members constituted 33 (17%) of the 195 auditors at prefectural level, and 586 (14%) of the 3,853 auditors at municipal level.

The introduction of the external auditing system is being made legally obligatory in prefectures, designated cities and ordinary municipalities. As of April 2010, the number of local public bodies in which the introduction of external auditing is not obligatory, is 5 in respect of comprehensive external auditing, and 73 in respect of individual external auditing.

3.7 The Law Relating to the Financial Soundness of Local Governments⁵

(1) Overview

The Law Relating to the Financial Soundness of Local Governments was enacted on June 15, 2007. In 2006, the Minister of Internal Affairs and Communications, Takenaka Heizo, issued instructions that the legal situation concerned with the financial collapse of local governments should be examined, and work on this subsequently began. At almost the same time as the examination process began, in June 2007, the mayor of Yubari City, Hokkaido, announced that because the city's deficit balance had reached such immense proportions, reconstruction using the city's own resources would be very difficult, and he accordingly signaled his intention to apply to the Financial Reconstruction Organization on the basis of the existing Special Measures Law for the Promotion of the Rebuilding of Local Finances. It was as a result of this announcement that the "financial bankruptcy" of local governments attracted the attention of the mass media.

The above law establishes a system comprising the public announcement of ratios concerning the financial soundness of local governments. The law also stipulates a system whereby, according to the ratio, the local government must aim at 1) early financial soundness, 2) financial rebuilding, and 3) the formulation of a plan aimed at restoring the management soundness of public enterprises. The objective of contributing to the financial soundness of the local government concerned is to be achieved by devising measures of financial soundness aimed at taking the implementation of the said plan forwards. An outline explanation of the above law is given below.

(2) Ratios for determining soundness

Local governments (prefectures, municipalities (cities, towns, villages and special wards) must make a publicly available report every financial year to their respective assemblies, attaching to the report an audited statement covering the following 4 ratios for determining

soundness. 1) Real deficit ratio; 2) Consolidated real deficit ratio (ratio of the real deficit of all accounts divided by the standard financial scale); 3) Real debt service ratio; and 4) Future burden ratio (ratio of the real debt of all general accounts, including publicly managed enterprises and expenditures of corporate bodies, divided by the standard financial scale).

(3) Plan for achieving financial soundness

In a case where any of the above ratios exceeds the value determined as the early financial soundness criterion, a plan for achieving financial soundness must be determined.

Following endorsement of the said plan by the assembly of the local body concerned, the plan must be speedily publicized and submitted in a report to the Minister of Internal Affairs and Communications and the prefectural governor. The situation regarding implementation of the plan must be reported in every financial year to the assembly concerned and made public.

(4) Financial rebuilding plan

In a case where any of the above ratios for determining soundness ((2)1 to 3)) exceeds the financial rebuilding criterion, a financial rebuilding plan must be determined.

Following endorsement of the said plan by the assembly of the local body concerned, the plan must be speedily publicized. The plan can also be discussed with the Minister of Internal Affairs and Communications, and the Minister's approval can be sought. Furthermore, the local public body (financial rebuilding organization) which determines a financial rebuilding plan must publicize and make a report to its assembly every financial year on the circumstances concerning the implementation of rebuilding.

(5) Limitation on the issuance of local bonds

In the case of a local public body (= local government) where any of the ratios for determining financial rebuilding are exceeded, then if the agreement of the Minister of Internal Affairs and Communications to the financial rebuilding plan has not been obtained, local bonds may not be issued, except in cases of disaster restoration work.

(6) Restoring soundness to local publicly managed enterprises

Every local government which manages public enterprises must submit, in every financial year, a report on the financial shortfall ratio, accompanied by an audit statement, to its assembly and make the report publicly available. If the ratio exceeds the criterion for the restoration of managerial soundness, the local government must determine a plan for restoring soundness to the enterprise. The mechanism is as outlined above.

(7) Implementation period

The implementation period for the public announcement regulations concerned with the ratio for determining soundness is enforced from the close of accounts for FY 2007, while the application of the regulations concerning other obligatory actions is based on the close of accounts for FY 2008.

4 The Trinity Reform and local finances⁶

4.1 The Trinity Reform

The reform known as the “Trinity Reform” designates a unified reform comprising the following 3 areas: distribution of tax revenue including transfer of tax revenue sources, the national treasury subsidy and obligatory share system, and local allocation tax.

This reform package was first advocated by the then Minister of Internal Affairs and Communications, Katayama Toranosuke, in an advisory council meeting held on May 21, 2002. Katayama issued a document entitled “Structural reform of local public finance and transfer of tax revenue sources (draft)” (the Katayama plan). The plan put particular emphasis on the following points.

1) Abolition or curtailment of central government intervention in local expenditures, 2) Systematization of annual revenue centered on local taxation, 3) Transfer of tax revenue sources from central government to local governments, 4) Transfer of tax revenue amounting to about 3 trillion yen from income tax to local residents’ tax, 5) Setting the proportional tax rate of local residents’ tax at 10%, and 6) Formal standardization of corporate business tax.

Objections to the Katayama draft plan were made by the Minister of Finance and others, and a major policy debate followed.

4.2 The progress of the debate on the Trinity Reform and changes in local finance plans

The following is a simple summary of the progress of the debate on the Trinity Reform and the changes that took place in local finance plans and local tax (initial budget base).

(1) FY 2002

The total amount of the local finance plan for FY 2002 was 87.6 trillion yen, 1.9% less than in the previous year. Local allocation tax amounted to 800 billion yen, 4.0% less than the sum of 19.5 trillion yen in the previous year.

According to the “Basic Policies 2002”, issued in June 2002, the target set was, within one year, to examine the Trinity Reform, comprising reform of the national treasury subsidy and obligatory share system, local allocation tax, and the preferred pattern of transfer of tax revenue

sources, and to produce a draft reform plan which included the desirable form to be assumed by these items and the processes leading to their accomplishment.

(2) FY 2003

In the initial budget for FY 2003, an embryo of the Trinity Reform was developed, and part of the national treasury obligatory share of compulsory education expenses was transferred to local allocation tax.

The total amount of the local financial plan for FY 2003 was 86.2 trillion yen, 1.5% less than in the previous year. Local allocation tax 18.1 trillion yen, a reduction of 1.5 trillion yen (7.5%) from the previous year.

According to “Basic Policies 2003”, issued in June 2003, in the 3 years from FY 2004 through FY 2006, a target was set to reduce national treasury subsidies and obligatory shares to about 4 trillion yen, and it was also stipulated that tax revenue transfer to local governments would be made to the extent necessary to enable local governments to continue on their own initiative projects in respect of which national treasury subsidies and obligatory shares were the target for abolition, further, that local financial plans would be reviewed, that the amount of local allocation tax would be held down, and that the function of guaranteeing financial revenue would be curtailed.

(3) FY 2004

In the initial budget for FY 2004, a reform of subsidies was carried out to the extent of 1 trillion yen. Of this sum 500 billion yen was linked to tax revenue transfer. Specifically, including the amount transferred in 2003, tax revenue transfer was implemented in the form of 400 billion yen of income transfer tax, and 200 billion yen in the form of a grant scheduled for tax revenue transfer.

The total amount of the 2004 local financial plan was 84.7 trillion yen, a reduction of 1.8% from the previous year. Local allocation tax was 16.9 trillion yen, a reduction of 1.2 trillion yen (6.5%) from the previous year. The policy of holding down the total amount of local allocation tax was in line with the direction indicated in “Basic Policies 2003”. However, as a result of the ongoing reduction, continued from 2003, of more than 1 trillion yen in local allocation tax, and combined with this, the reduction of nearly 30% in emergency financial countermeasure bonds, there was a large-scale reduction in the amount of revenue which local governments could use freely, and this marked the beginning of spreading feeling of despair on the part of local governments concerning the Trinity Reform.

In the “Basic Policies 2004”, issued in June 2004, the government set out its plans to transfer about 3 trillion yen as a tax revenue source. As a precondition, the central government asked

local governments to consolidate specific proposals for the national treasury disbursement reform, and it was decided that an examination would be made of these proposals. This kind of request to local governments to prepare a reform plan themselves marked an epoch-making change.

In August 2004, a reform plan prepared by the Six Associations of Local Governments was submitted to the government. The plan suggested that about 8 trillion yen of tax revenue sources should be transferred by 2009, and that of this sum, 3.2 trillion yen should be transferred by FY 2006, also that in a review of the national treasury disbursement, 9 trillion yen as a whole should be transferred and that, of this sum, 3 trillion yen should be transferred by FY 2006.

At the newly established conference between central government and local governments, agreement was finally reached, via a process of adjustments with the government ruling parties and others, in November 2004 to the effect that around 3 trillion yen should be disbursed by the national treasury in 2005 and 2006, and that of this sum, 1.8 trillion yen should be linked to the transfer of tax revenue sources. In the agreement, it was stipulated that the tax revenue transfer, including the amount transferred in 2004, should aim at a target of around 3 trillion yen, and that 80% of this sum should correspond to a reduction in national treasury subsidies for compulsory education expenses, national health insurance, public housing, etc. The decision in the agreement to transfer a sum of the scale of 3 trillion yen had great significance.

(4) FY 2005

In the 2005 budget, a subsidy reform of 1.8 trillion yen, and a reduction of 1.1 trillion yen in connection with tax revenue sources could be realized.

The total amount of the local financial plan for FY 2005, including correction of the divergence between the planning budget and the final settlement of accounts (decrease in investment expenses and increase in running management expenses) was 83.8 trillion yen, a reduction of 1.1% from the previous year. The local allocation tax amounted to 16.9 trillion yen, the same as the previous year, marking a halt to the declining trend.

In the “Basic Policies 2005”, issued in June 2005, it was stated that the government would reach a conclusion on unresolved issues by the autumn of 2005.

In July 2005, the Six Associations of Local Governments submitted a second version of their reform plan to the government. At the same time as carefully selecting 1 trillion yen as the target for the transfer of subsidies, the plan sought agreement to the establishment of a “second reform period” from FY 2007 onwards and to the systematization of the “conference for discussions between central government and local governments”.

With regard to the future of discussions, as a result of the agreement of the ministries concerned and following adjustments with the government and ruling parties, an agreement was

drawn up in November 2005. Its main points were as follows. 1) further national treasury subsidy reform (tax revenue transfer) of about 700 billion yen, 2) setting the level of the national treasury obligatory share of compulsory education expenses (elementary and lower secondary school) at one-third of the cost (about 900 billion yen), 3) tax revenue transfer totaling 3 trillion yen (including the current subsidy reform), and 4) execution of the total amount as income transfer tax as a transitional measure for FY 2006, and transfer from income tax to individual resident tax through the tax system reform of FY 2006.

By means of this agreement, the Trinity Reform was brought to a provisional conclusion, but on the main point of debate, namely the national treasury share of compulsory education expenses, the conclusion reached was a compromise one, namely retaining central government involvement and generating an amount equivalent to the total of the tax revenue transfer.

(5) FY 2006

The budget for FY 2006 realized subsidy reform to the extent of 1.2 trillion yen in, and tax revenue transfer to the extent of 600 million yen. The total amount of tax revenue transfer was 3 trillion yen, and the device adopted was that of transferring the total amount as income tax revenue in FY 2006, and transferring it to resident tax in FY 2007.

The total amount in the local financial plan for FY 2006 was 83.1 trillion yen, a decrease of 1.1% from the previous FY, including correction of the divergence between planning and accounting, was 83.1 trillion yen, a decrease of 15.9 trillion yen (5.8%) from the previous year.

(6) Summary

Looking at the Trinity Reform as a whole, one can say that a total of 4.7 trillion yen in national treasury disbursements was abolished or converted to grants, that 3 trillion yen of tax revenue sources was transferred, and that a reduction of local allocation tax, including the extraordinary financial measures loan, to the extent of 5.1 trillion yen, was achieved. The total reduction in the local financial plan, comparing FY 2003 with FY 2006, was about 3.1 trillion yen.

4.3 Reform of the local tax system

(1) Overview

This section will deal with the use of outward criteria as the tax base in corporate business tax and the unification of the rate of individual resident tax. It is fair to say that by levying tax lightly and broadly, these 2 reforms strengthened the character of local tax in Japan as being proportionately related to profits.

(2) Outward criteria as the tax base in corporate business tax

a) Overview

Taking up the topic of corporate business tax, the system of using outward criteria as the tax base, targeted at corporate persons with capital in excess of 100 million yen, was created through the reform of the tax system in 2003 and applied in each fiscal year from April 1, 2004 onwards.

The introduction of the use of outward criteria as the tax base in corporate business tax was referred to in the “Basic Policies 2001” as “targeted for introduction after consideration of the circumstances of the economy” (see 2.2(5) above), and was examined from then on.

b) Basic purpose

The basic purpose of the introduction of outward criteria can be found in the following four points. 1) Applying tax lightly and broadly helps to guarantee equity in the sharing of the tax burden; 2) It serves to clarify the character of a tax that is proportionate to profit as seeking to apply within corporate business tax a burden that is in proportion to the profit gained; 3) It aims to stabilize a fundamental tax that supports decentralization; and 4) By applying the tax thinly and broadly, not only to those firms that are making an increased profit, the tax system will be one in which firms that are making an effort will be rewarded, and the system will serve to contribute to activating the economy and acting as a spur to structural reform.

c) The framework of the system

The framework of the system of using outward criteria as the tax base is as follows.

i) Targets of the tax

Corporate persons capitalized in excess of 100 million yen (it is estimated that out of the total number of about 2.51 million companies registered as corporate persons, about 3 million firms will be objects of the tax).

ii) The proportion of those on which tax using outward criteria as a tax base will be levied

In the case of corporate persons on which tax using outward criteria as a tax base is levied, one-quarter of the tax will be levied using that system, while three-quarters will be levied using income tax.

iii) The device of the added value levy and the capital levy

The total amount of the tax using outward criteria as a tax base is calculated by adding the added value levy and the capital levy.

The added value is the amount of distributed profit (salary remuneration + net interest + net rental payment costs), to which net profit and loss for a single year is added.

The amount of capital is the figure for the amount of capital as defined in the Corporation Tax

Law or the amount of consolidated individual stated capital.

(3) The unified rate of individual resident tax

a) Overview

Central government (the body which levies income tax) transfers tax revenue to local governments (the bodies which levy individual resident tax) to the extent of 3 trillion yen, and since FY 2007, the individual resident tax rate structure, which until then had 3 levels, namely 5%, 10% and 13%, corresponding to the respective income tax amounts, has been unified at 10%.

b) Basic purpose

i) The result of correcting disparities

One influence of a lowering of the tax rate for high-income earners is a decrease in local tax revenue, and this effect operates in local governments in which many high-income earners live. On the other hand, raising the tax rate for low-income earners results in an increase in the tax, and because these influences are generated for all taxpayers and operate in all local governments, the introduction of a unified 10% proportional tax has the effect of correcting bias.

ii) Strengthening the principle of the proportional relationship of tax to profits

By applying a flat rate of 10% equally, without regard to the level of income, the principle of the proportional relationship of tax to profits in local taxation is strengthened.

c) The framework of the system

i) Tax rates

Before the reform, tax rates were set at 5% for incomes from 0 to 2 million yen, 10% for incomes from 2 to 7 million yen, and 13% for incomes above 7 million yen, but after the reform, rates were unified at 10%.

ii) The burden on individual taxpayers

The system is designed so that by raising or lowering the level of income tax in response to a rise or fall in the level of individual resident tax, the tax burden on each individual taxpayer remains unchanged.

4.4 The settlement of accounts of local finances before and after the Trinity Reform

In this section, Table 1 presents an overview of the situation with regard to the settlement of accounts of local finances from FY 2001 to FY 2009.

The first point to note is that local expenditures decreased every year from FY 2001 to FY 2007; comparing the figure of 89.1 trillion yen for FY 2007 with that of 97.4 trillion yen for FY

2001, there was a drop of 8.3 trillion yen (8.5%). If the change in amounts and the percentage decrease are compared with the change in national expenditures of 5.6 trillion yen (6.0%) over the same period, it is clear that the change at local level is greater. This is the result of shrinkage in local financial plans and of administrative reforms carried out by each local government.

As a result of tax revenue transfer and an upturn in the economy, local tax income for FY 2007 exceeded 40 trillion yen, an increase of 4.7 trillion yen (13.3%) compared to FY 2001.

However, thereafter, as was clearly demonstrated by the collapse of Lehman Brothers, the American investment bank, management problems surfaced one after the other in American and European financial institutions. With the emergence of these problems as the trigger, global finance and capital markets fell into confusion. This confusion in the capital and financial markets had a damaging effect on the real economy through such factors as credit shrinkage, and generated a worldwide economic recession. In Japan too, exports and production fell, and consumption stagnated, and the economy became suddenly worse. As a result of circumstances of this kind, local tax income decreased, measuring 35.2 trillion yen in FY 2009, a fall from FY 2001.

4.5 Establishment of the Japan Finance Organization for Municipalities

(1) Creation and objectives

In May 2007, the Japan Finance Organization for Municipalities Law was enacted, and in June of the same year, the Japan Finance Organization for Municipalities (hereafter, JFOM) was created with a new name and a reformed structure, while inheriting the financial foundation of the previous Japan Finance Organization for Municipal Enterprises.

The JFOM has the three following objectives. 1) to provide local governments with long-interest rate funds; 2) to support local governments' fund-raising on the capital market; and 3) to contribute the sound management of finances of local governments as well as to the enhancement of the welfare of local residents.

(2) Main changes in the JFMO's role

At the same time as the change of name which accompanied the creation of the JFMO, its role was changed in the following 2 ways: 1) expansion of the ability to offer funds to the general accounts of local governments; 2) improved loan conditions.

5 Municipal mergers⁷

5.1 Overview

a) Transition of the Municipal Mergers Law

The Law for Exceptional Measures on Municipal Mergers (hereafter, the Municipal Mergers

Law) was substantially reformed in 1999, and measures taken to enable municipal mergers to be further promoted included the strengthening of the system to enable proposals to be initiated by residents and the creation of special merger bonds. In 2002 too, the Municipal Mergers Law was further reformed, the system of enabling residents to initiate proposals was expanded and strengthened, and further strengthening and expansionary measures were carried out, including the introduction of a local referendum system and special tax system-related measures to accompany a merger. Through these reforms carried out in the period 1999 to 2002, municipal mergers were strongly promoted.

In 2004, 3 new laws were enacted, namely a law revising part of the Local Autonomy Law (see 7.3 below), a law revising part of the Municipal Mergers Law (hereafter referred as the old Municipal Mergers Law) and a new Law for Exceptional Measures on Municipal Mergers (hereafter, the New Municipal Mergers Law). As a result of these legal measures, municipal mergers advanced to a new stage.

b) Progress on mergers

This section will look more closely at the situation regarding progress on municipal mergers.

i) The number of municipalities (cities, towns and villages)

The number of municipalities decreased from 3,226 on April 1, 2001, to 1,727 on March 31, 2010, i.e. a decrease of 1,499 (46.5%). It is because of this kind of advance in municipal mergers that this period came to be called the Great Heisei Consolidation.

ii) The number of mergers

The number of mergers carried out between FY 2001 and FY 2009 was 639. Years in which there were particularly numerous mergers were FY 2004 (215) and FY 2005 (325).

Leaving aside the effect of the special merger laws referred to above, a more detailed analysis of the number of mergers shows the following: 1) The number of mergers made after the application of the 1999 revision of the Municipal Mergers Law (the old Municipal Mergers Law) was 257; 2) The number of mergers made after the application of the transitional regulations of the old Municipal Mergers Law under the 2004 revision (see 5.2 below) was 324; and 3) the number of mergers made after the application of the New Municipal Mergers Law was 61. It follows from this analysis that of the 639 mergers carried out between FY 2001 and FY 2009, more than 90%, i.e. 581 (257 + 324) mergers, were carried out after the application of the 1999 revision of the old Municipal Mergers Law, which contained the most advantageous financial measures.

5.2 The 2004 revision of the Law for Exceptional Measures on Municipal Mergers (the old Municipal Mergers Law)

Because the validity of the old Municipal Mergers Law expired March 31, 2005, municipalities that did not complete their mergers before the 2005 reform, i.e. before March 31, 2005, would be unable to claim the substantial merger support benefits comprised in the reforms of 1999 and 2002. This is why, in 2004, there were a large number of municipalities that had only a little further to go before completing their merger. In these circumstances, transitional measures were created in the reform of 2004, whereby municipalities that made an application to the prefectural governor concerned before March 31 2005, and then went on to complete their merger before March 31, 2006, were still entitled to claim the substantial merger support benefits referred to above.

5.3 Enactment of the new Law for Exceptional Measures on Municipal Mergers (the New Municipal Mergers Law)

(1) Overview

With a view to accelerating still further the progress toward mergers being sought by municipalities on their own initiative, after the enactment of the Old Municipal Mergers Law, the New Municipal Mergers Law of 2004 set a new validity expiration date as March 31, 2010; this law was implemented from April 1, 2005.

According to this new law, compared to the situation under the Old Law following the revision of 1999, financial measures have become rather weaker, so that, for example, the calculation period for mergers has been curtailed, while on the other hand, the possibilities for intervention by prefectures in such matters as settling plans for the promotion of mergers have been strengthened. The main points of the new law are as listed below.

(2) Establishment of a merger conference

A merger conference is a device to enable municipalities that are thinking of embarking on a merger to have discussions on such matters as framing a basic municipal merger plan.

(3) Resident-initiated proposal system

If one-fiftieth or more of persons with authority (= residents who fulfill specified requirements) sign a joint petition requesting the establishment of a merger conference and present it to the mayor of their municipality, the mayor must, on receipt of the petition, undertake the required procedures to establish such a conference.

(4) Drafting a basic municipal merger plan and making changes to it

A basic municipal merger plan comprises documentation which indicates the basic direction to be followed by the proposed municipal merger, and shows how the municipalities and prefectures concerned can contribute in particular to securing the smooth management of merger implementation as well as to balanced development.

(5) Special requirements needed to become a city

The requirement necessary to establish a city or to convert existing towns and villages through mergers into a city is that the proposed city must have a population of 300,000 or more. Other than population size, there are no other specified requirements.

(6) Special measures concerning the set number of assembly members and period of tenure

It is possible to implement special measures whereby the number of members of an assembly can be increased above the legally stipulated number and the period of tenure of an assembly can be extended beyond the normal period.

(7) Immunity from taxation and inequality in tax rates

For a period within 5 fiscal years from the fiscal year in which a merger takes place, immunity from taxation or inequalities in taxation are permitted.

(8) Special measures concerning local allocation tax

The following special measures are applied to the calculation of local allocation tax.

a) Revisions necessitated by mergers

Provisions to meet the expenses incurred in unifying an administration directly after a merger, or expenses needed to correct disparities in administrative standards or in the burden imposed on residents at such a time can be made to the standard local allocation tax.

b) Exceptional merger calculations

For a fixed period after a merger (in the case of mergers concluded in FY 2005/2006, 9 years; for mergers in FY 2007/2008, 7 years; and for mergers in FY 2009, 5 years), the amount of standard local allocation tax calculated every year would be guaranteed to be as if the merger had not taken place. Furthermore, even after the expiration of this period, a device to alleviate any sudden changes was introduced.

(9) Considerations regarding local bonds

Merger promotion bonds are allocated to cover 90% of the cost of establishing such things as public facilities in the context of a municipal merger, and in principle, 40% of the principal and interest is met by local allocation tax. It should also be noted that under the old Municipal Mergers Law, a system of special merger bonds provided for 95% of the cost to be allocated to cover costs as above, and a device was introduced whereby 70% of the principal and interest was met by local allocation tax. This system was abolished in the new law.

(10) The concept of a special district

When municipal mergers take place, in the case where a special district based on the area of one or more of the merging municipalities is established, it is possible to appoint the head of such a district as a special post, and to put the name of the special district at the head of the address of places within the said special district.

(11) Details of a special district

For a set period (less than 5 years) after a municipal merger, a merged municipality may establish a special district based on the area of one or more of the merging municipalities; such a special district may have the character of a special local public body and the legal status of a corporate person.

The head of the special district occupies a special post, and is appointed by the head of the merged municipality.

A special district conference committee may be formed within a special district. It will be composed of persons who are residents of the said special district and have voting qualifications; they will be appointed by the head of the said special district. The conference committee will have the authority to agree or disagree with decisions on important matters such as budgetary proposals.

The name of the special district may be put at the head of the address of places within the said district.

(12) The concept of promotion of mergers

The Minister of Internal Affairs and Communications decides on basic guidelines to serve the promotion of mergers that are spontaneously initiated by municipalities. On the basis of indicators issued by the Minister, prefectures determine plans concerned with the promotion of mergers, aimed at municipalities where it is considered necessary to promote spontaneous movements directed toward mergers. A prefectural governor has the authority to request municipalities that are the target of a merger promotion plan to establish a merger conference

committee and to take forward discussions concerned with the said merger.

5.4 Reforms under the New Municipal Mergers Law

(1) Overview

The validity of the New Municipal Mergers Law was due to expire at the end of March, 2010, but on March 26, a revised law was enacted extending its validity. Under the revision, it was possible, taking into account the fact that merger discussions had progressed to a significant extent, to implement a powerful intervention saying that negotiations had progressed sufficiently up to that point, and to convert the special measures defined by the new Municipal Mergers Law from devices which aimed to promote mergers into ones which aimed to abolish the barriers to mergers.

(2) Change in the name and objectives of the law

The name of the law was changed from the “Law for Exceptional Measures and other matters on Municipal Mergers” to the “Law for Exceptional Measures on Municipal Mergers”, and its objective, previously defined as being “To make appropriate adjustments to the scale of a municipality arising out of the promotion of a spontaneously undertaken municipal merger” was changed to “To ensure the smooth implementation of a spontaneously undertaken municipal merger”.

(3) Abolition of the devices to promote municipal mergers

The fundamental indicators drawn up by the Minister of Internal Affairs and Communications, and the involvement of the central government and prefectural governments in the promotion of prefectural plans, etc., are terminated. The special measures concerning the population requirement for a city to be of 30,000 people more are also terminated.

(4) Measures to remove barriers to mergers

In order that the arrangements for a spontaneously undertaken municipal merger can proceed smoothly, special measures concerned with local tax and those concerned with the tenure of assembly members will remain in place, as will those on the rights of residents to make proposals and local ballots in the context of mergers, and the system of special districts following a merger. Furthermore, within 5 years after the completion of a merger, the amount of local allocation tax is guaranteed to be the same as it was before the merger, and for another 5 years after that, special measures to ameliorate severe effects will remain in place.

(5) Extension of the period of validity of the law

The validity of the period of the law is extended for 10 years until March 31, 2020.

6 Promotion of decentralization⁸

6.1 The Decentralization Reform Promotion Committee

(1) Establishment

The Decentralization Promotion Committee, which had the Decentralization Promotion Law as its legal foundation, issued its final report in June 2001, thereby completing its assigned tasks. Its successor organization was the Decentralization Reform Promotion Committee, which was established, on the basis of a government ordinance, on July 3, 2001; its validity was set to expire on July 2, 2004.

(2) Statements of opinion and their influence

The Decentralization Reform Promotion Committee did not issue recommendations as its predecessor organization, the Decentralization Promotion Committee, had, but instead submitted statements of opinion to the Minister of Internal Affairs and Communications. Its authority can be measured by 3 statements of opinion, which were submitted to Prime Minister Koizumi, namely: “Opinion concerning the preferred pattern of duties and projects” (October 30, 2002); “Opinion on the Trinity Reform” (June 6, 2003); and “Opinion on the establishment of an administrative system for the promotion of administrative reform in local public bodies” (May 12, 2004).

However, if we look more closely at the “Opinion on the Trinity Reform”, which favored a reduction of local allocation tax as the direction to be followed, we find that 4 out of the 11 members of the Committee presented a declaration of their thinking, which was clearly opposed to the statement of opinion of the Committee. Putting this in a wider context, as already pointed out (see 4.2 above), the issue of Trinity Reform was the main issue of debate between the Committee, which had the status of an advisory body on the one hand, and of a government and ruling party committee on the other.

6.2 The Decentralization Reform Promotion Law

(1) The Round Table Vision of Decentralization in the 21st Century and the New Decentralization Concept Examination Committee

The “Round Table Vision of Decentralization in the 21st Century”, established by the then Minister of Internal Affairs and Communications, Takenaka, issued a report on July 3, 2006, which emphasized 1) the need for speedy enactment of a new omnibus decentralization law, 2) the conditions that were appropriate to serve as the principles of implementation criteria for

autonomous duties, and 3) the need to construct a mechanism which could enable change.

On the other hand, the New Decentralization Concept Examination Committee, which was established by the 6 Associations of Local Governments, advocated in its interim report issued on May 11, 2008, the enactment of a New Decentralization Promotion Law (provisional title).

(2) Enactment and implementation of the Decentralization Reform Promotion Law

On the basis of the movements outlined above, the Abe cabinet submitted the Decentralization Reform Promotion Bill to the Diet on October 27, 2006. The Decentralization Reform Promotion Law was enacted in December 2006, and implemented from April 1, 2007, with its validity set to expire on March 31, 2010.

The objective of this law was to promote decentralization reform in a planned and comprehensive way. More specifically, the law aimed to identify the basic ideas underlying decentralization as well as the basic key points designating the tasks and policies to be carried out by central government and local governments respectively, and to establish the necessary systems and infrastructure.

The law placed an obligation on the government to draw up a decentralization plan which determined what legislative and financial measures were required.

It also placed an obligation on the cabinet to establish a Decentralization Reform Promotion Committee⁹, which would have the authority to recommend the specific indicators needed to formulate a decentralization reform promotion plan.

6.3 The recommendations of the Decentralization Reform Promotion Committee

(1) Overview

The Decentralization Reform Promotion Committee submitted 4 “recommendations” to the prime minister between May 2008 and November 2009. The main points of the recommendations are as listed below.

(2) First Recommendations

a) Overview

The “First Recommendations”, issued on May 28, 2008, were entitled “Confirmation of “local government” from the standpoint of everyday living”. The document was composed of 5 chapters, and the main points of Chapter 1 and Chapter 3 are as follows:

b) Chapter 1: Fundamental thinking concerning the division of roles between the central government and local governments

Three points in particular are made: 1) Ideas and issues in recent decentralization reform

aimed at “a major role for local areas in formation of the nation”; 2) A review of the respective roles of central government and local governments; and 3) The respective roles of wide-area local governments and basic local (= municipal) governments (the principle of priority for basic local governments).

c) Chapter 3: Transfer of authority to basic governments and expansion of the degree of discretionary freedom

The following are the 2 main points.

i) Promotion of the transfer of authority to basic local governments

Transfer of authority from prefectures to municipalities is recommended in respect of 64 laws and 359 administrative powers.

ii) Strengthening of the authority to carry out financial settlement (diversion, transfer, etc.) of objects of subsidies

In principle, the authority to make a financial settlement of a subsidy or grant, when more than 10 years have elapsed since the said subsidy or grant, should be converted from the need to seek permission from the national treasury to a simple obligation to file a report.

(3) Second Recommendations

a) Overview

The Second Recommendations, issued on December 8, 2008, comprised the following 2 chapters: “Chapter 1: Review of the imposition of obligations and frameworks”; and “Chapter 2: Review of central government branch offices”. The main headings of Chapter 1 are as follows.

b) Fundamental thinking underlying the review

The following 3 points show the fundamental thinking underlying the recommended review in terms of the construction of mechanisms needed for the implementation of autonomously responsible administration: 1) Confirmation of “local government” as “fully autonomous local government bodies” with autonomous administrative, legislative and financial authority, 2) Strengthening and expansion of authority to make bylaws, including expansion of the scope for applying the concept of “override by bylaw”, designating the capacity to overrule national laws and regulations, and 3) Strengthening of the autonomy of local governments from a juridical perspective, and expansion of discretionary freedom.

c) The direction of review

i) The scope of the review

Objects for review are those, within the autonomous duties conducted by local governments,

where local governments are subject to an obligation or framework imposed by national law or regulation and where there is no room for local governments to make autonomous decisions through their own bylaws. The objects comprise about 10,000 clauses.

ii) “Obligations” and “frameworks”

The “imposition of obligations” is defined as making a set category of activities obligatory, thereby making local governments tackle the issues comprised by those activities; the “imposition of a framework” is defined as fitting a framework to the procedures and judgmental criteria pertaining to the activities of local governments.

iii) The direction of review

In the case of clauses in respect of which the imposition of obligations and frameworks is allowed and to which the use of “Merkmale” or signposts (judgmental criteria) does not apply, it was decided that one of the following methods of review would be conducted. 1) abolition (including cases that go no further than simple encouragement), 2) Permission to carry out delegation or make supplementary corrections in respect of all matters by the use of bylaws (“overrule by bylaw), 3) Permission to carry out delegation or make supplementary corrections in respect of some matters by the use of bylaws (“overrule by bylaw”).

d) The result of judging whether or not “Merkmale” (signposts) should or should not be applicable to items to which obligations or frameworks were attached (about 10,000 clauses) was that there were applicable in 51.8% of cases, and were not applicable in 48.2%.

e) The future direction

Taking as a foundation the investigations already carried out by the above Committee, it was felt that particular problems were presented by the following: 1) criteria for establishing or administering local government facilities and publicly owned assets, 2) central government intervention (discussion, agreement, consent, approval and permission), and 3) the formulation of plans, etc., and procedures pertaining thereto. It was decided that the Committee would examine specific measures in advance of the Third Recommendations.

(4) Third Recommendations

a) Overview

The Third Recommendations, issued on October 7, 2009, were given the subtitle, “Toward the realization of “local governance” through the expansion of the legislative authority of local governments”, and consisted of 3 chapters. The content of Chapter 1 is as in b) below. Points identified for review in Chapter 2 are the following: 1) Review of the obligatory regulation to establish boards of education and agricultural committees, and conversion into an optional

system, and 2) Review of the local government financial accounting system from the perspective of raising the level of transparency and acceptance by local governments of responsibility for themselves. In Chapter 3, with regard to the establishment of a juridical system relating to a place for deliberations between central government and local governments, the recommendations make suggestions, as points of reference, on various points on the basis of the recognition that the goal to be aimed at is agreement between the center and the localities, namely key points for deliberation, the composition of membership of such a deliberative forum, the management of meetings, etc.

b) Review of the imposition of obligations and frameworks, and expansion of discretionary authority to enact bylaws

Out of the approximately 4,000 clauses on which obligations and frameworks were imposed (see the Second Recommendations above), it is suggested that specific measures should be devised, per individual clause, for 892 clauses that raise special problems and fall into one of the 3 following priority categories: 1) national establishment and administration criteria vis-à-vis local government facilities and publicly owned assets; 2) central government intervention (consultation, consent, approval and permission) in local government duties; and 3) imposition of an obligation on a local government in respect of the formulation of a plan and the procedures pertaining thereto.

Review of 106 clauses concerned with the imposition of obligations and frameworks was requested by the National Governors' Association and the Japan Association of City Mayors. In the recommendations, bylaws relating to 103 clauses (97%) are indicated as objects of review.

(5) Fourth Recommendations

a) Overview

The Fourth Recommendations, issued on November 9, 2009, were the final recommendations made by the Decentralization Reform Promotion Committee. On the basis of the sub-title to the recommendations, "Toward the realization of "local governance" by means of strengthening autonomous financial authority", the contents comprise the following: "Introduction", "I: urgent topics", "II: medium-term to long-term topics", and "Conclusion". The headings of the topics raised in I and II are as below.

b) Urgent topics

Under this heading, in consideration of the current economic situation as well as of the public promises made by the new government, the following 6 topics are identified as being of special urgency: 1) securing the overall amount of local allocation tax as well as raising the legally

determined rate, 2) reviewing the burden of costs imposed on local governments for projects directly controlled by central government, 3) transferring duties and powers to local governments and securing the necessary financial resources, 4) points requiring particular attention in connection with the conversion to a comprehensive grant of one part of national treasury subsidies, 5) points requiring particular attention when reviewing the provisional tax rates of various kinds of car-related taxes, and 6) making an urgent start on the realization of actual deliberations between central government and local governments.

c) Medium-term to long-term topics

Under this heading, directions are recommended in respect of each of the following 5 medium-term to long-term topics: 1) reform of the local tax system, 2) rearrangement of the national treasury subsidy system, 3) local allocation tax, 4) local bonds, and 5) provision of a guarantee of financial discipline.

6.4 Regional sovereignty reform

(1) Overview

On September 16, 2009, Prime Minister Hatoyama, on the occasion of the launch of his Cabinet, revealed the fundamental direction of his policy and identifies “substantive regional sovereignty” as one of its major supporting pillars. Within this context, the following points were made.

(2) Definition of regional sovereignty reform

The concept of regional sovereignty is defined as moving away from the centralized structure that has characterized Japan since the Meiji era, and toward a society in which the residents in a particular region think for themselves, act as the protagonists, and take responsibility for what they do, in short in which decisions on regional issues are taken by the people who live in those regions.

(3) What Japan should aim for

The pattern that Japan should henceforth seek to follow is not one of omnipotent government according to which people rely on the government for everything, nor is it one of market fundamentalism under which everything is left to the private sector, giving rise to disparities and leaving the weak to be discarded. The three main ideals that Japan should seek to follow are: 1) “popular sovereignty”, under which the lives of the people take the highest priority, 2) “regional sovereignty”, under which administration by local residents is realized, and 3) “self-support and co-existence”, under which individuals aim to be independent, while respecting others and

providing mutual support.

By fulfilling these three ideals, central government, local governments and the people will each be able to perform their respective roles as members of the society which they compose. That is what Japan should aim for.

6.5 Establishment of the Regional Sovereignty Strategy Council

On November 17, 2009, with a view to examining policies concerned with regional sovereignty reform, the government, on the basis of a cabinet resolution, established the Regional Sovereignty Strategy Council, with the Prime Minister in the chair, and the Minister of State for the Promotion of Regional Strategy as the vice-chair; members included the head of the cabinet secretariat, other concerned ministers including the Minister of Finance, prefectural governors, city mayors, and persons of academic renown.

It should also be mentioned that Haraguchi Kazuhiro, Minister of Internal Affairs and Communications in the Hatoyama Cabinet, and Katayama Yoshihiro, Minister of Internal Affairs and Communications in the Kan Cabinet, served concurrently as Ministers of State (with responsibility for regional sovereignty promotion) in the Cabinet Office.

The objectives of the newly established Council were to examine and implement policies concerned with reform that contributed to “regional sovereignty” from the perspective of achieving speedy realization of this concept, and at the same time, to take forward policies based on the recommendations of the Decentralization Reform Promotion Committee. It is clear from this that although the Decentralization Reform Promotion Committee dated from before the change of government, the implementation of policies based on its recommendations was an objective of the new Council.

6.6 The regional sovereignty strategy flowchart

(1) Overview

At the first meeting of the Regional Sovereignty Strategy Council on December 14, 2009, a “regional sovereignty strategy flowchart (draft)” was presented as the “Haraguchi Plan” by Haraguchi Kazuhiro, Minister of Internal Affairs and Communications and Minister of State in the Cabinet Office (responsible for regional sovereignty promotion). The direction followed was, broadly speaking, in line with this flowchart.

(2) Regional sovereignty strategy phase I

This period was stipulated as lasting, broadly speaking, until the summer of 2010, and encompassed the transition from the establishment of a promotion system up to the formulation of the “Fundamental Principles of Regional Sovereignty Strategy”.

The headings of the objectives to be realized in this period were as follows: 1) establishment of the Regional Sovereignty Strategy Council, 2) broad formulation of urgent issues and methods of proceeding, 3) a forum for deliberations between central government and local governments, 4) review of the imposition of obligations and frameworks, and 5) formulation of the “Fundamental Principles of Regional Sovereignty Strategy”.

(3) Regional sovereignty strategy phase II

This period was stipulated as lasting, broadly speaking, from summer 2010 until summer 2013, and would encompass developments from the realization of items featured in the pre-election manifesto, and specified by means of the “Fundamental Principles of Regional Sovereignty Strategy”, until the enactment of the “Fundamental Regional Sovereignty Law”.

It is planned that during this phase, the “Fundamental Principles of Regional Sovereignty Strategy” will be realized in an orderly staged fashion, through the medium of the “Regional Sovereignty Strategy Council” and the “Forum for Deliberations between Central Government and Local Governments”.

Key headings that are specifically assumed are the following: 1) Review of the imposition of obligations and frameworks; 2) Transfer of authority to basic local (= municipal) governments; 3) Conversion of subsidies into a comprehensive grant; 4) Strengthening and securing of local tax revenue; 5) Abolition of the burden on local governments arising from projects directly controlled by central government; 6) Greenery decentralization; 7) Enactment of the “Fundamental Local Government Law”; 8) Liaison between local governments; 9) Reform of central government branch offices; 10) Draft of the Comprehensive Regional Sovereignty Promotion Law; and 11) Fundamental Principles of Regional Sovereignty Promotion (provisional name).

6.7 Decentralization Reform Promotion Plan

Within the context of a firm resolve to realize regional sovereignty reform, the Hatoyama Cabinet recognized that a review of the imposition of obligations and frameworks and an expansion of the authority to enact bylaws had major significance. It was against this background that the cabinet brought together objects for review, focusing primarily on key items requested by local governments extracted from those incorporated into the Third Recommendations of the Decentralization Reform Promotion Committee, and endorsed by means of a cabinet resolution of December 15, 2009, as the Decentralization Reform Promotion Plan.

This plan was termed the “First Review of the Imposition of Obligations and Frameworks” carried out by the DPJ administration; 63 clauses were listed in the plan as objects that should be

reviewed.

6.8 Three bills linked to regional sovereignty reform

(1) General explanation

On March 29, 2010, the Hatoyama Cabinet submitted 3 bills based on the Decentralization Reform Promotion Plan, namely a “Bill on the improvement of laws related to the promotion of regional sovereignty reform”, a “Bill concerned with a forum for deliberations between central government and local governments”, and a “Bill to revise part of the Local Autonomy Law”. The bills became known as the “3 bills related to regional sovereignty reform”. Their respective purposes are outlined below. It should be noted that as of December 13, 2010, all 3 bills had reached the discussion stage in the Diet.

(2) Bill on the improvement of laws related to the promotion of regional sovereignty reform

The main content of this bill is concerned with 2 points: 1) providing a legal foundation for the Regional Sovereignty Strategy Council as a Council concerned with important policies regulated in the Cabinet Office Establishment Law, and 2) revising laws related to the review of the imposition of obligations and frameworks.

(3) Bill concerned with a forum for deliberations between central government and local governments

With a view to promoting regional sovereignty reform as well as making central government and local government policies more effective and efficient, this bill proposes the establishment of a forum for deliberations between central government and local governments, and identifies details of the composition and operation of the proposed body as well as the objects to be deliberated on; the body will be concerned with the planning and implementation of national policies that have an influence on local autonomy, and the members will include on the central government side, cabinet ministers in posts of relevance, and on the local government side, the representatives of nation-wide, federation-type organizations of the heads of local government bodies and local government assemblies.

(4) Bill to revise part of the Local Autonomy Law

The content of this bill focuses on 2 main points: 1) abolishing the upper legal limit on the size of local assemblies, and devising measures to enable local governments to decide for themselves how large their assemblies should be as well as measures to make it easier for joint organs of local government to be established, these provisions to be carried out with the aim of

expanding the degree of discretionary freedom on the part of local governments in terms of their structure and their operations; and 2) making such amendments as are necessary to secure the appropriate implementation of the system of making direct demands.

6.9 The Fundamental Principles of Regional Sovereignty Strategy

(1) Overview

On June 22, 2010, the cabinet passed a resolution entitled “Fundamental Principles of Regional Sovereignty Strategy”. It consisted of the following 10 parts: 1) The overall image of regional sovereignty reform; 2) Revision of the imposition of obligations and frameworks, and expansion of authority derived from the enactment of bylaws; 3) Delegation of powers to local governments; 4) The abolition in principle of central government branch offices (radical reform); 5) Conversion of subsidies with attached conditions into a comprehensive grant; 6) Strengthening and securing local tax revenue; 7) The abolition of the burden on local governments arising from the cost of projects directly controlled by central government; 8) Enactment of the Fundamental Law of Local Government (radical revision of the Local Autonomy Law); 9) Liaison between local governments and a regional system; and 10) Promotion of the decentralized reform of greenery. The main points of 1) from the above list are simply introduced below.

(2) The overall image of regional sovereignty reform

a) A definition of “regional sovereignty reform”

The definition of “regional sovereignty reform” is as follows. “Reform that enables administration that is close to the hearts and minds of local residents to be handled autonomously and comprehensively by local residents within the ideas enshrined in the Constitution of Japan, and at the same time, enables local residents to tackle various issues within the framework of their own judgment and responsibility”.

b) The shape of a country which aims at regional sovereignty reform

The formation of the “shape of the nation” should be carried out through cooperation between central government and local governments, so that within the framework of respect for the autonomous judgment of local areas and regions, the relationship between the state (central government) and local governments is one of a meeting of equal partners.

On the basis of the “principle of subsidiarity”, the foundation should be one where as far as possible, administration that is close to local people should be transferred to local public bodies (= local governments), and within this framework, priority should be put on municipal governments, which are the organs closest to local residents.

c) The regional sovereignty reform flowchart

On the basis of such factors as the results of tackling reform based on the “Fundamental Principles” (see (1) above), the target is to promulgate the “Fundamental Principles of the Promotion of Regional Sovereignty (provisional title)” in the summer of 2010.

Reform will be promoted in a speedy and concentrated fashion by the country’s political leadership, with the Regional Sovereignty Strategy Council, chaired by the Prime Minister, as the central focal point. A forum for deliberations between the central government and local governments will be initiated and will aim at the promotion of reform as well as at effective and efficient policies to be carried out by central government and by local governments.

7 Revision of the Local Autonomy Law

7.1 The 2002 revision of the Local Autonomy Law

(1) Overview

A law revising part of the Local Autonomy Law was enacted on March 28, 2001. The said law comprises a revision of part of the Local Autonomy Law and a revision of part of the Old Municipal Mergers Law.

The specific content of the revision of the Local Autonomy Law is outlined below.

(2) Relaxation of the requirements for making direct demands

a) Relaxation of the condition on the number of signatures

Hitherto, it was necessary, in order to be able to make a demand for the dissolution of an assembly or for the removal of an assembly member or chief, for a petition to be signed by one-third or more of the persons with authority (= eligible voters) in the electoral constituency of the assembly concerned. After the reform, in line with the formula shown below, the number of necessary signatures was modified so that in the case of local governments with eligible voters numbering more than 400,000 persons, the number of signatures was one-third of persons up to the 400,000 limit plus the signatures of one-sixth of persons over and above that number.

Number of signatures needed = $400,000 \times 1/3 + (\text{number of eligible persons} - 400,000) \times 1/6$

b) Securing an opportunity for submission of a written statement of opinion

In the event of a demand for the alteration or abolition of the enactment of a bylaw, an opportunity must be guaranteed for the submission of a written statement at the meeting place of the assembly.

(3) Strengthening the system of local assemblies

a) Dispatch of assembly members on business trips

The dispatch of an assembly member on a business trip is incorporated into the revision of the Local Autonomy Law, and the justification and procedures pertaining to such a trip are clarified, so that it is now possible by means of an assembly regulation, for the need for the said trip to be approved by an assembly as necessary for such reasons as investigating an assembly proposal or a matter of local government business.

b) The introduction of braille for voting

Braille systems are introduced for use in assembly elections.

(4) Strengthening the system of audit demands by residents

a) Strengthening audit procedures

i) Listening to an opinion expressed to specialist audit committee members

It is stipulated that audit committee members are able to listen to the opinions presented to them by persons of intellectual renown.

ii) Presence of the originator of a demand at an Audit Committee hearing

Audit committee members, when they listen to an opinion presented by the chief or other implementing organ, or by another employee concerned with the matter, are entitled to request the attendance of the originator(s) of the demand.

b) Creation of a system of a recommendation by audit committee members for the temporary cessation of an activity

In the case of an audit demand made by residents, when there is sufficient reason to believe that the act which is the subject of the demand is unconstitutional, and when there is an urgent need to avoid damage resulting from the said act that threatens to become irrecoverable, and when, furthermore, specified conditions are met, then the audit committee is authorized to make a recommendation to the chief or other person, specifying the reason, asking for the cessation of the act for a set period of time.

(5) Strengthening of the system enabling residents to bring lawsuits

a) Change of the concept of a defendant in a lawsuit brought by a resident

In the case of a lawsuit brought by a resident, the defendant is changed from being the chief or other individual employee to being an implementing organ represented by the chief or other person.

b) Expansion of the system of making legal fees a burden on the public purse

Before the revision, the burden of legal fees on the public purse was limited to a specific type of lawsuit, in which the plaintiff won the case, but after the reform, this was extended to all lawsuits brought by residents.

c) Responsibility of employees for compensation

The period during which the chief of a local government could initiate a compensation order directed at financial accounting employees was extended from 3 to 5 years.

7.2 The Local Autonomy Law revision of 2003

(1) Overview

On June 6, 2003, a law revising part of the Local Autonomy Law was enacted.

With the aim of rationalizing the structure and management operations of local governments, at the same time as abolishing the legal limit on the number of prefectural bureaus and departments, the law reviewed the system of entrusting the management of public facilities to the private sector, and introduced the system of designated managers. The specific content is as given below.

(2) Abolition of the legal limit of the number of bureaus and departments

While abolishing the legal limit on the number of bureaus and departments within the prefectural administration, the revision leaves the division of local government duties to the local government chief, and stipulates that structural matters and the like must be settled by bylaws.

(3) Introduction of the system of designated administrators

The prevailing system with regard to the administration of public facilities was that only corporate bodies funded by local government could be entrusted to the private sector.

Under the reform, in the case of other corporate persons too, including joint-stock corporations, and other bodies that are not necessarily publicly funded, a change can be made to management by persons designated by the local government to act in their place (designated manager system). Furthermore, in order to ensure that the public facility is appropriately by the person so designated, it is possible to design measures whereby the designation can be annulled, or a cessation order issued.

7.3 The Local Autonomy Law revision of 2004

(1) Overview

On May 19, 2004, a law was enacted revising part of the Local Autonomy Law, and together with this, a law concerning mergers. The merger-related law has been dealt with above (see 5.2 and 5.3), so the following is an explanation only of the law revising part of the Local Autonomy Law.

(2) Creation of local autonomy districts

The concept of “local autonomy districts” aims to ensure that the opinions of residents are reflected in the administration and to strengthen links between the administration and residents. They can be created according to the judgment of the municipality (city, town or village) concerned, and can set up a district council composed of district residents as well as arranging a division of duties with the municipality concerned. The system of local autonomy districts has the following content: 1) A local autonomy district is created by a municipality within the area of the said municipality by means of a bylaw. 2) The members of a local district council are appointed from among the residents of the said district by the head of the municipality. 3) The head of the municipality has to listen to the opinions of the local district council concerning important matters which affect the district.

(3) Improvement of procedures for autonomous mergers by prefectures

a) Prefectural autonomous merger procedures

In the matter of prefectural mergers, in addition to the formula of enacting a legal reform, the following regulations were put in place with a view to facilitating a response to any request by prefectures. 1) The cabinet will make a decision on the basis of any request from the prefectural side. 2) Prior to making an application, prefectures will endorse a resolution in their respective assemblies. 3) At the time of making a decision, the cabinet will obtain the agreement of the Diet. 4) Settling a merger will become effective through a notification issued by the Prime Minister.

b) The establishment of new procedures for the merger of municipalities that cross over prefectural boundaries

Regulations will be devised to enable local public bodies to make an application for a new merger of municipalities in cases where prefectural boundaries are crossed.

(4) Expansion of special measures for settling the allocation of duties through the use of bylaws

Special measures to dispose of duties through the use of bylaws means being able to delegate duties that fall within the authority of a prefecture or prefectural governor to municipalities by means of the enactment of bylaws. Before the revision, i.e. before the establishment of the bylaw system, consultation with the mayor of the municipality that was to be asked to carry out the duties was obligatory, but the request for a consultation could be made only from the side of the prefecture. Through the strengthening reform, it is possible to have suggestions generated from the side of the municipality in the following way. 1) The mayor of a municipality is empowered, through the medium of an assembly resolution, to make a request to undertake the disposal of duties falling within the authority of a prefecture to the prefectural governor. 2) On receipt of such a request, the prefectural governor concerned must have a discussion with the mayor(s) of the municipality or municipalities concerned.

(5) Increasing discretionary powers regarding the number of regular meetings of an assembly

The legal limit on the number of regular meetings to be held by an assembly is abolished, and the number of meetings convened can be determined every year by means of a bylaw.

(6) Reform of the financial accounting system

a) Simplification of expenditure order

With regard to set expenditures (the assumption is one of costs in respect of which confirmation of debts can easily be obtained in such a form as public bond issues), the procedure of orders on expenditure is simplified, so that for example, the measure is adopted of issuing comprehensive orders once a year, bringing together in this fashion monthly expenditure orders.

b) Expansion of the framework for long-term continuing contracts

Set contracts (for example, contracts for the leasing of OA equipment) are added to the existing list of long-term, continuing contracts that can be negotiated, including the supply of electricity, gas and water, the provision of electro-communication facilities, and the leasing of real estate.

7.4 The Local Autonomy Law revision of 2006

(1) Overview

On May 31, 2006, a law was enacted revising part of the Local Autonomy Law. By means of this revision, measures to expand the autonomy and independence of local public bodies were

put in place, on the basis of the report issued by the Local Government System Research Council. The specific content is as follows.

(2) Review of the assistant post system of vice-governor

The post of assistant mayor of a municipality (city, town or village) is renamed that of deputy mayor, and it is stipulated that as additional duties, a person occupying the post of vice-governor of a prefecture or deputy mayor of a municipality may in that capacity, 1) receive orders from the chief of the municipality concerned, and participate in policy as well as planning, and 2) be delegated to implement part of the duties falling within the jurisdiction of the said chief.

(3) Review of the system of chief accountant and treasurer

The posts of chief accountant and treasurer are abolished, and an accounts administrator of general accounts is established.

(4) Items concerning the review of the audit committee system

It is made possible to increase the number of audit committee members through bylaws by means of appointing people with discernment.

(5) Review of systems concerned with finance

A method for using credit cards for such things as payments of usage fees to local governments is determined. Cases of being able to loan administrative possessions or to establish personal ownership rights are expanded. A system of regulating security trusts is established.

(6) A system for the provision of information by the local government chief or the chief of the assembly to a nation-wide federation-type organization

In the event that a minister aims to formulate a policy or legislation whereby the imposition of a new obligatory duty or burden on a local government is approved, the representative of a nation-wide, federation-type organization (for example, the Six Local Associations) is empowered to present an opinion to the cabinet, and with this in mind, a special measure is devised whereby the content of the policy can be imparted to the federation-type body.

(7) Strengthening of the assembly system

A regulation is established concerning the utilization of specialist opinions or knowledge by persons of learning, or convening of an emergency session of an assembly. The limitation on assembly members of belonging to a number of standing committees is abolished. The right of a

committee to present a draft of an assembly resolution is approved.

7.5 The Local Autonomy Law revision of 2008

(1) Overview

On June 11, 2008, a law revising part of the Local Autonomy Law was enacted in the form of legislation introduced by a Diet member. The main content consists of the following 2 points.

(2) Clarification of preparatory investigations, etc.

With the objective of clarifying the scope of assembly activities on the basis of the actual circumstances of operation of a local assembly, a revision has been made to the Local Autonomy Law; specifically, the Local Autonomy Law has been clarified to the effect that a local assembly can investigate an assembly resolution or establish a forum for discussion or adjustment of assembly operations.

(3) Separating and confirming the independent nature of regulations concerning the remuneration of assembly members

It is stipulated that regulations concerned with the remuneration of assembly members are to be separated and treated as something independent from regulations concerning such items as the provision of remuneration to members of other administrative committees.

8 Other movements

8.1 Reform of the system of public servants

On April 24, 2007, the cabinet endorsed a resolution entitled “Concerning the reform of the system of public service”.

On the basis of the cabinet resolution, the Law Revising the National Public Service Law was enacted on June 30; its content covered such items as a thoroughgoing revision of personnel administration that was based on the ability and actual achievements of personnel measured by means of the introduction of a personnel evaluation system.

On May 29, 2007, the cabinet presented to the Diet a revision of the Local Public Service Law. In the same way as the National Public Service Law, the contents of the draft bill dealt with personnel administration that was based on the ability and actual achievements of personnel measured by means of constructing a system of personnel evaluation. However, the bill did not get beyond the discussion stage.

8.2 Revision of the Public Election Law

On June 4, 2003, a law revising part of the Public Election Law was enacted. The main

content of the revision was as follows.

(1) Creation of a system of a system of voting before election day

Voting by qualified electors who anticipate having difficulties in casting their votes on polling day may be carried out during the period between the day following that on which the election is formally announced and the day before polling day.

(2) Absent voting

In a case in which qualified electors who are registered on the electoral roll wish to vote in an election for members of the House of Representatives or for members of the House of Councilors, it is stipulated that they can vote either at a Japanese consulate overseas or by means of a postal vote.

8.3 Revision of the Basic Resident Registration Law

On July 8, 2009, a law was enacted to revise part of the Basic Resident Registration Law. The main contents of the revision are as follows.

(1) System for persons not possessing Japanese nationality

The reform constitutes a revision of the existing system whereby persons not possessing Japanese nationality are not subject to registration. Henceforth, registration requirements will also apply to foreign nationals resident in Japan, who will be required to register their name, address, nationality, residence status and period of residence.

(2) Communication from the Minister of Justice

The Minister of Justice requires all residents of Japan with a nationality other than Japanese to inform the chief of the municipality where they are resident without delay of any change in the registered items.

8.4 The Civil Protection Law

The Civil Protection Law (formal name: the Law for the Protection of the People in an Armed Attack) was enacted on June 14, 2004.

The law is in line with the basic framework of a system to protect the people in armed attack situations. As its objective, it aims to implement firm and speedy measures to protect citizens in the event of an armed attack. More specifically, the content consists of the following: 1) the duties of the central government and local governments; 2) the cooperation of the people; 3) measures concerned with evacuation; 4) measures concerned with succor for evacuated

residents; and 5) responses to armed attack disasters.

8.5 The concept of autonomous settlement zones

The concept of an autonomous settlement zone marks a mutual division of responsibilities between a “core city” and the “surrounding municipalities”, and aims to guarantee, by means of a process of liaison and cooperation, the daily living functions necessary to preserve the life and livelihood of residents in the zone as a whole, and to promote population stability within the zone.

As specific procedures, the following are postulated. 1) The “core city”, namely a city which satisfies certain set conditions, makes a “core city declaration”, by means of which it states its commitment to playing a central role in the process directed toward the formation of an autonomous settlement zone; 2) The city that has made the core city declaration passes an assembly resolution confirming its intention, and on this basis, within the context of close relations with the surrounding municipalities, concludes a one-to-one “autonomous settlement zone agreement” with each municipality, thereby deciding a mutual division of responsibilities aimed at ensuring the livelihood functions necessary for population stability; 3) Following discussions with each of the municipalities with which an agreement has been concluded, the core city formulates an “autonomous settlement zone vision”; this marks a decision on the future image of the zone and on specific content items and their results; and 4) With the “autonomous settlement zone vision” as a foundation, the core cities and the surrounding municipalities will develop ways of tackling specific, concrete issues on the basis of their agreed division of responsibilities.

The concept of autonomous settlement zones began to develop over the country as a whole from April 2009, and the number of areas grappling with this concept is currently increasing. As of December 3, 2010, 59 cities had made core city declarations, 46 autonomous settlement zones had been created, and 34 cities had formulated autonomous settlement zone visions.

8.6 The “new public commons” concept

On October 26, 2009, then Prime Minister Hatoyama made the following remarks in his policy speech to the Diet. “What I am seeking is a “new public commons”, under which people support and are of service to each other. It consists of a new set of values that sees the supporting role being played not just by people in the bureaucracy but also by each person in local communities who is involved in such activities as education or child-rearing, community-building, crime and disaster prevention, medical care and welfare. Such efforts ought to be supported by society as a whole.”

On the basis of the prime minister’s policy speech, a new organization termed “New Public

Commons” was established as a round table conference by a prime ministerial decision taken on January 25, 2010.

The newly established round table conference issued a declaration on June 4, 2010, entitled “The New Public Commons”; as part of the foundation structure supporting this new concept, the declaration emphasized such items as the introduction of tax credits and the provisional authorization of NPOs to enable tax deductions for donors.

[Notes]

¹ The following website was used as a reference source:

<http://www.esri.cao.go.jp/jp/stat/di/100607hiduke.html>.

² Citing the fact that postal privatization legislation was enacted by the House of Representatives but rejected by the House of Councilors as a reason for dissolving the House of Councilors was criticized as being illogical. In response to this criticism, Prime Minister Koizumi commented along the following lines in a press conference. From the moment of the initial launch of the Koizumi cabinet, postal privatization was designated as a central pillar of structural reform, and it was for this reason that the rejection of the postal privatization legislation was seen as a vote of no confidence in the structural reform policies of the Koizumi cabinet. The prime minister added that he wanted to learn whether the Japanese people as a whole approved or disapproved of the direction of reform that his cabinet was following, and that this was why he dissolved the House of Representatives. (press conference of August 8, 2005).

³ See p 16 of Suggestions concerned with the “Koizumi concept of structural reform”, issued by the Ministry of Finance Japan as Discussion Paper Series (No. 06A-28) in September 2006.

⁴ On local government administrative reform, see TANAKA, Hiraki, *Administrative Reform in Japanese Local Governments, Papers on the Local Governance System and its Implementation in Selected Fields in Japan No. 18*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2010.

⁵ For a detailed explanation of this law, see KAWATO, Yoshihiko, *The New System for Promoting Soundness in Local Finances in Japan, Up-to-date Documents on Local Autonomy in Japan No. 7*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2010.

⁶ For details of the Trinity Reform, see IKAWA, Hiroshi, *Recent Local Financial System Reform (Trinity Reform), Up-to-date Documents on Local Autonomy in Japan No. 2*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2007.

⁷ For details of the movements concerned with municipal mergers, see YOKOMICHI, Kiyotaka, *The Development of Municipal Mergers in Japan, Up-to-date Documents on Local Autonomy in Japan No. 1*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2007.

⁸ The movement of municipal mergers centered on the activities of the Decentralization Promotion Committee from 1995 to 2001 is called the First Decentralization Reform, while subsequent decentralization reform (in particular, the movement of the Decentralization Reform Promotion Committee) is known as the Second Decentralization Reform, but consideration must also be taken of the regional sovereignty reform movement under the DPJ administration. This makes it difficult to use the conventional distinction, which is the reason

why it is not adopted in this paper. For further details on decentralization reform since 1990, see IKAWA, Hiroshi, 15 Years of Decentralization Reform in Japan, *Up-to-date Documents on Local Autonomy in Japan No. 4*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2008, and YOKOMICHI, Kiyotaka, *Movement in Decentralization in Japan after the First Decentralization Reform, Up-to-date Documents on Local Autonomy in Japan No. 8*, issued by the Council of Authorities for International Relations (CLAIR), and the Institute for Comparative Studies in Local Governance (COSLOG) within the National Graduate Institute for Policy Studies (GRIPS), 2011.

⁹ In the “Interim Report” of the New Decentralization Concept Examination Committee, there was no statement of an intention to establish an organization such as the Decentralization Promotion Committee within the framework of the “New Decentralization Promotion Law (provisional title)” and it was stipulated that its functions would be carried out by the “Local Administration and Finance Committee (provisional title)”. However, in the text of the Decentralization Reform Promotion Law as enacted, the establishment of the Decentralization Reform Promotion Committee is stipulated as a regulation.

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- Kuroda, Buichiro (2007) [in Japanese] *San-i-ittai no kaikaku to shourai zou – chihou-zei / chihou koufu-zei [The Trinity Reform and its future image – local tax and local allocation tax]*, Gyosei.
- Sato Fumitoshi (2007) [in Japanese] *San-i-ittai no kaikaku to shourai-zou – sousetsu / kokko hojo futan-kin [The Trinity Reform and its future image – general account / national treasury burden]*, Gyosei.
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- Matsumoto, Hideaki (2009) [in Japanese] *Chihou jichi-hou no gaiyou Dai 3-ji kaikei-ban [Overview of the Local Autonomy Law 3rd revised ed.]*, Gakuyo Shobo.

[Attachment]

Table 1 "Population, National Income, Central Government Expenditure, Local Expenditure Local Tax Revenue, Consumer Price Index over the years"

(Unit: thousand people (population), trillion yen (national income), billion yen (central and local expenditure, local revenue), 100 (CPI year 2005), % (percentage change))

| Year (Fiscal year) | Population | Percentage change | National income | Percentage change | Central government expenditure | Percentage change | Local expenditure | Percentage change | Local tax revenue | Percentage change | Consumer price index | Percentage change |
|---|------------|-------------------|-----------------|-------------------|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| 2001 | 127,316 | - | 361 | - | 93,908 | - | 97,432 | - | 35,549 | - | 101.5 | - |
| 2002 | 127,486 | 0.13 | 356 | Δ 1.39 | 92,494 | Δ 1.51 | 94,839 | Δ 2.66 | 33,379 | Δ 6.10 | 100.6 | Δ 0.89 |
| 2003 | 127,694 | 0.16 | 358 | 0.56 | 88,792 | Δ 4.00 | 92,582 | Δ 2.38 | 32,666 | Δ 2.14 | 100.3 | Δ 0.30 |
| 2004 | 127,787 | 0.07 | 364 | 1.68 | 91,645 | 3.21 | 91,248 | Δ 1.44 | 33,539 | 2.67 | 100.3 | 0.00 |
| 2005 | 127,768 | Δ 0.01 | 366 | 0.55 | 93,435 | 1.95 | 90,697 | Δ 0.60 | 34,804 | 3.77 | 100.0 | Δ 0.30 |
| 2006 | 127,770 | 0.00 | 375 | 2.46 | 90,947 | Δ 2.66 | 89,211 | Δ 1.64 | 36,506 | 4.89 | 100.3 | 0.30 |
| 2007 | 127,771 | 0.00 | 379 | 1.07 | 88,304 | Δ 2.91 | 89,148 | Δ 0.07 | 40,267 | 10.30 | 100.3 | 0.00 |
| 2008 | 127,692 | Δ 0.06 | 352 | Δ 7.12 | 89,480 | 1.33 | 89,691 | 0.61 | 39,559 | Δ 1.76 | 101.7 | 1.40 |
| 2009 | 127,510 | Δ 0.14 | 339 | Δ 3.69 | 94,212 | 5.29 | 96,106 | 7.15 | 35,183 | Δ 11.06 | 100.3 | Δ 1.38 |
| Average rate of increase (simple average) | | 0.02 | - | Δ 0.78 | - | 0.04 | - | Δ 0.17 | - | Δ 0.13 | - | Δ 0.15 |

[Source] Produced by author using the following publications.

1. Up to FY 2007, population figures are taken from the "Prefectural Economic Calculations for FY 2007" (Cabinet Office), while figures for FY 2008/09 are from "Population Estimates (announced in April 2010)" (Statistics Bureau of MIC).
2. National income figures are taken from "National Economic Calculations for FY 2009" (Cabinet Office).
3. National expenditure figures are taken from the "Outline of local finances", issued by the Institute of Local Finance in December 2009. Unit: 100 million yen, p.2.
National expenditures figures up to and including FY 2007 are taken from the settlements of accounts, and for FY 2008 and 2009 from the initial budgetary estimate.
National expenditures represent the total of the general accounts figure plus the net budgetary figure or the settlement of accounts figure in respect of the following 5 special accounts from FY 2008 onwards (for FYs for FY 2007 and earlier years, special accounts corresponding to these 5 special accounts). Special accounts for: local grants as well as transfer allocation funds, energy countermeasures, pensions (child allowance calculations only), food supply stability provision (national land improvement project calculations only), and social capital improvement projects (excluding project calculations).
4. Figures for local expenditure and local tax revenue are taken for FYs up to and including FY 2008 from the annual publication, "Local Finance White Paper", issued by MIC, and for FYs from 2009 on, from the "Outline of the closure of account figures for the ordinary accounts of local public bodies for FY 2009".
5. Cost of living indices are taken from "Basic cost of living indices for FY 2005", issued by the Statistics Bureau, MIC. 2005=100.

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| Trends of the Era and National Policy | Trends in Local Autonomy (Local Administration / Local Tax and Finance Policy) |
|---|---|
| 2001 (Apr.) Formation of the Koizumi cabinet (policy) | 2001 (June) Final report by the Decentralization Promotion Committee (admin/finance) |
| 2001 (June) Cabinet resolution: Basic Policies 2001 (policy) | 2001 (July) Launch of the Decentralization Reform Promotion Committee (admin/finance) |
| 2001 (July) Election of the House of Councilors; governing party secures majority (policy) | |
| 2001 (Sep.) Outbreak of simultaneous terrorist attacks in the U.S.A. (current) | |
| 2001 (Jan.) Economic trough (current) | 2002 (Mar.) Revision of the Local Autonomy Law (admin) |
| 2002 (June) Cabinet resolution: Basic Policies 2002 (policy) | 2002 (May) The Katayama Plan: Trinity Reform, etc. (finance) |
| 2003 (Apr.) Continuing downward slide after the collapse of the average share price bubble (current) | |
| 2003 (June) Enactment of the Law concerning Measures to Respond to an Armed Attack Situation (policy) | 2003 (June) Revision of the Public Election Law (system of advance voting until day before polling day) (admin) |
| 2003 (June) Cabinet resolution: Basic Policies 2003 (policy) | 2003 (June) Revision of the Local Autonomy Law (system of designated administrators, etc.) (admin) |
| 2003 (Nov.) Election of the House of Representatives; DPJ increases number of seats (policy) | |
| 2004 (Feb.) Dispatch of Self-Defense Forces to Iraq (policy) | 2004 (May) Revision of the Local Autonomy Law (special districts, etc.) (admin) |
| 2004 (June) Cabinet resolution: Basic Policies 2004 (policy) | 2004 (June) Enactment of the Civil Protection Law (admin) |
| 2004 (July) Election of the House of Councilors: LDP gains 49 seats, DPJ 50 seats (policy) | 2004 (Sep.) Submission of proposal by the Six Associations of Local Governments on the Trinity Reform (finance) |
| | 2004 (Sep.) Launch of a forum for deliberations between central government and local governments (finance) |
| | 2004 (Nov.) Agreement with the government and ruling parties on the Trinity Reform (finance) |
| | 2005 (Mar.) Demand for formulation of a concentrated reform plan (admin) |
| 2005 (June) Cabinet resolution: Basic Policies 2005 (policy) | 2005 (Apr.) Implementation of the New Municipal Mergers Law (admin) |
| 2005 (Sep.) Election of the House of Representatives: LDP gains 296 seats (policy) | |
| 2005 (Oct.) Enactment of the Law concerning Postal Privatization (policy) | 2005 (Nov.) Agreement with the government and ruling parties on the Trinity Reform (finance) |
| 2006 (May) Enactment of the Administrative Reform Promotion Law (policy) | 2006 (May) Revision of the Local Autonomy Law (admin) |
| 2006 (July) Cabinet resolution: Basic Policies 2006 (policy) | 2006 (Aug.) Administrative reform indicators (admin) |
| 2006 (Sep.) Formation of the Abe cabinet (policy) | 2006 (Dec.) Enactment of the Decentralization Reform Promotion Law (admin/finance) |
| 2007 (Apr.) Cabinet resolution on the direction of reform of the public service system (policy) | 2007 (Apr.) Implementation of the Decentralization Reform Promotion Law (admin/finance) |
| | 2007 (June) Establishment of the Japan Finance Organization for Municipalities (finance) |

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| 2007 (June) | Cabinet Resolution: Basic Policies 2007 (policy) | 2007 (June) | Enactment of the Law relating to the Financial Soundness of Local Governments (finance) |
| 2007 (June) | Revision of the National Public Service Law (policy) | | |
| 2007 (July) | Governing party loses majority in the election of the House of Councilors (policy) | | |
| 2007 (Sep.) | Formation of the Fukuda cabinet (policy) | | |
| 2007 (Oct.) | Economic peak (provisional) (current) | | |
| | | 2008 (May) | First Recommendations of the Decentralization Reform Promotion Committee (admin) |
| 2008 (June) | Cabinet resolution: Basic Policies 2008 (policy) | 2008 (June) | Revision of the Local Autonomy Law (clarification of assembly activities, etc.) (admin) |
| 2008 (Sep.) | Global outbreak of financial depression originating in U.S. (current) | | |
| 2008 (Sep.) | Formation of the Aso cabinet (policy) | 2008 (Dec.) | Second Recommendations of the Decentralization Reform Promotion Committee (admin) |
| | | 2009 (Apr.) | Start of the concept of autonomous settlement zones (admin) |
| 2009 (June) | Cabinet resolution: Basic Policies 2009 (policy) | 2009 (July) | Revision of the Basic Resident Registration Law (admin) |
| 2009 (Aug.) | Election of the House of Representatives: DPJ gains 308 seats (policy) | | |
| 2009 (Sep.) | Formation of the Hatoyama cabinet (policy) | 2009 (Oct.) | Third Recommendations of the Decentralization Reform Promotion Committee (admin) |
| | | 2009 (Nov.) | Fourth Recommendations of the Decentralization Reform Promotion Committee (finance) |
| | | 2009 (Nov.) | Establishment of the Regional Sovereignty Strategy Council (admin) |
| | | 2009 (Dec.) | Cabinet resolution on the Decentralization Reform Promotion Plan (admin) |
| 2010 (Jan.) | Establishment of the "New Commons" round table conference(policy) | 2010 (Mar.) | Revision of the New Municipal Mergers Law (admin) |
| 2010 (June) | Declaration of the "New Commons" (policy) | 2010 (Mar.) | Submission to the Diet of 3 bills linked to regional sovereignty reform (admin) |
| 2010 (June) | Formation of the Kan cabinet (policy) | 2010 (June) | Fundamental Principles of Regional Sovereignty Strategy (admin/finance) |
| 2010 (July) | In election of the House of Councilors, governing party loses its majority (policy) | | |

[Note] In this table, "current" denotes matters concerned with the current of times, "policy" matters concerned with national policy, "admin" matters concerned with local administration, and "finance" matters concerned with local financial policy.