Controlled Decentralization: Local Governments and the Ministry of Home Affairs in Japan

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Abstract

Intergovernmental relations in post-war Japan have evolved in a complex fashion best described by the term "controlled decentralization." This reflects the fact that while substantial autonomy is now noticeable in the actions and authority of local governments, this has come about through a gradual process in which the central government has played a mostly controlling but often reactive and accommodating role. This process has been facilitated by the increasing local orientation of the Ministry of Home Affairs whose role has changed over time from that of a "regulator" to that of a "champion" of local governments in the national arena.

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Foreword

This paper was prepared for a project on Local Government Development in Japan. The project was organized by the World Bank Institute under the auspices of the Program for the Study of Japanese Development Management Experience financed by the Policy and Human Resources Development Trust Fund of the Government of Japan.

The principal objectives of this Program are to conduct studies on Japanese and East Asian development management experience and to disseminate the lessons of this experience to developing and transition economies. Typically, the experiences of other countries are also covered in order to ensure that these lessons are placed in the proper context. This comparative method helps identify factors that influence the effectiveness of specific institutional mechanisms, governance structures, and policy reforms in different contexts. A related and equally important objective of the Program is to promote the exchange of ideas among Japanese and non-Japanese scholars, technical experts and policy makers.

The papers commissioned for this project cover a number of important issues related to local government development in Japan. These issues include: the process of controlled decentralization; increasing political inclusiveness; redistributive impact of local taxes and transfers; allocation of grants; municipal amalgamation; personnel exchanges; personnel policies; agency-delegated functions; and local policy initiatives.

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Controlled Decentralization: Local Governments and the Ministry of Home Affairs in Japan

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Introduction

The phrase, *kan-kan settai* , has often been in the headlines of major newspapers in Japan in recent years. Meaning "officials treating officials," the phrase refers to the widespread practice of central bureaucrats being pampered with extravagant dinners and gifts by local officials seeking special favors. What people are angry about is that these treats are all paid for from official accounts. Such behavior is now the target of much criticism, and deservedly so. It clearly belies the image held by some people outside Japan that bureaucrats here are impartial and incorruptible. But it also reflects an important underlying characteristic of Japanese governance in the postwar period, namely, the symbiotic relationship of central and local authorities in the development process. This relationship has changed in the postwar period through a process which is best described as "controlled decentralization," a term which captures both the reality of control and the inevitability of decentralization in Japan.

It certainly is a very *controlled* system in many ways. The local system has been designed and redesigned time and again: by Meiji founding fathers, most notably Aritomo Yamagata, and then by his successors in the Ministry of Interior (MoI); later by the U.S. Occupation forces, who eventually dismantled MoI; and by the surviving bureaucrats (especially in the Ministry of Home Affairs, MoHA) and conservative politicians in the postwar era. Even today, day-to-day operation of local government is closely monitored by central government.

At the same time, the system is distinctively decentralized in some ways. First, the sheer volume of public works administered and implemented through local governments is astounding. More than 70 percent of the total public expenditure is spent by local governments, while they collect a little more than 30 percent of taxes. Human resources, expertise, information, and so forth accumulated in local government, mainly through these implementing functions, have eventually made them partners with central government rather than captives. Policy innovation also comes from localities, especiallythrough progressive local governments lead by socialist and/or communist-backed chief executives.[1]

Because of this double-faceted nature, it is tempting to characterize the Japanese system as completely centralized with insignificant local autonomy. In other words, even though public business is widely implemented by local governments, it is not decentralization of political power or legal authority, but merely delegation of functions. It is also tempting to

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draw a completely different picture, suggesting that local governments in Japan enjoy enormous autonomy with the seemingly tight control of the central government existing on paper only.

A more nuanced image of controlled decentralization is, however, appropriate. A local system is the product of many different motivations. Roughly speaking, one may conceptualize two evolutionary paths, one calling for centralization and tight control from the center, and the other calling for decentralization and autonomy from the center. Figure 1 depicts these two paths schematically. Postwar Japan found a solution, not by pitting the one against the other, but by allowing the two paths to coexist. Typically, LAT appears in Figure 1 in both the centralizing and the decentralizing categories. It is centralizing in that it is a national system administered by MoHA, and was intended by the center to alleviate regional disparity. But it is also decentralizing: it is automatically distributed money that local governments can spend without central strings attached, and it has helped local finance. The main question examined in this paper is how the coexistence of control and decentralization was established. The key to understanding the apparent contradiction lies in recognizing the important role of MoHA in managing this process as well as mutual interdependence of MoHA and subnational governments in Japan. This interdependence, and the tendency for coexistence that flows from it, is best exemplified in the practice of intergovernmental personnel exchange in Japan. Before examining that practice, however, it is instructive to consider a few historical aspects of Japan’s local government system as well as some structural links between MoHA and local governments.

Origins of Central Control

Japan has had an organized, modern local government system since the Meiji era. There were some democratic ingredients in the Meiji local system: local assemblymen were popularly and directly elected, and local chief executives were chosen by the assembly. But the prefectural governor was appointed by the national government, and the appointment was based not upon the national Diet but on Imperial Ordinances. The local governments, generally speaking, were merely agencies of the Imperial government. At the very top of the system of domestic government was the Ministry of the Interior (*Naimusho*). When the ministry was established in 1873 by Toshimichi Okubo, it was called the ministries' ministry. Its role was to watch and control people (police, internal security), take care of people (welfare, labor, education, road, port, and other infrastructure), and to administer democratization (election and other local governmental affairs). In 1886, Minister of Interior Aritomo Yamagata, who succeeded Okubo (assassinated in 1878), created in the local government system selected democratic elements. Very few would argue that Yamagata was the champion of the democratic cause. His aim was to preempt nationwide democratization in general, and the creation of the national (Imperial) Diet in particular, by institutionalizing the semi-democratic local system. While his political rival Hirobumi Ito's priority was the Diet in Tokyo and the national political party, Yamagata tried to establish his power base in the localities and bureaucracy (Taikakai 1971).

Figure 1. Centralization and Decentralization: Differing Paths

Centralizing	***Decentralizing***
Ideas	
Efficiency (LG as a tool)	Self-rule (LG as a goal)
National minimum of service	Various services, more choice
Nationalism	Regional/ethnic identity and autonomy
Interests	
Central actors suspicious of LG	LG leaders calling for autonomy
Rural areas	Urban areas
Calling for regional equilibrium	Accepting competition and disparity
Business nationwide	Local business
Complaining of uneven regulations	Seeking protection from outside
Institutions	
Political: limited elections to select LG leaders	Election and referendum
Personnel: central dispatches	LG's own bureaucracy
Administrative: central monitor and guidance	LG's initiatives (local ordinance)
Financial: subsidies and LAT	Local taxes plus LAT
Legal: control by legal means(ADF)	Litigation against the center by LG

Note: LG, local government; LAT, local allocation tax; ADF, agency-delegated functions. This figure requires two reservations. First, this list is not in any way exhaustive. Second, ideas, interests, and institutions are intricately connected with each other, not separated, as the figure implies.

Yamagata's operatives in the MoI family (*Naimusyo Jinmyaku*) continued to rule Japan. From time to time, MoI cut off some specialized functions, such as industrial promotion, agriculture, and education, but it never ceased to be the center of the bureaucratic

world, playing the role of coordinator among the Ministry of Finance, the military, and the associated bureaucracies, and of course between the center and the localities. That came to end when Japan lost World War II, and U.S. forces arrived to enforce drastic democratic reforms. MoI officials shared Yamagata's views. They were not, of course, hard-core democrats, but they were extremely practical in utilizing democratic institutions. In other words, they were politically aware of the need to accommodate the tide of democratization, and skillful in institutionalizing it in a controlled manner.[2]

At the end of the war, MoI officials proposed a fundamental reform—the election of local chief executives—to the U.S. occupying officials, just as Yamagata had tried to preempt the Diet and nationwide universal suffrage. Among the important reforms of the Occupation, some were at least partly initiated by the Japanese (such as land reform), and others were put forward by the occupiers (such as dismantling *zaibatsu* families). Local reforms were in-between. MoI and U.S. officials competed for the initiative. Americans realized the importance—and therefore the danger—of MoI, and eventually dismantled MoI into several small offices and commissions, and important top officials were blacklisted and purged from public posts. However, at the early stage of the reform, MoI played an important role—indeed, it had no choice—in pushing the idea of local autonomy as symbolized by the election of chief executives.

History shows the savvy of MoI officials, but also their limitations. For example, according to internal documents of the ministry, the MoI proposal stated that direct popular election of local chief executives was needed for “stable, solid, spontaneous, and vivid local government activities." Nevertheless, the elected prefectural governors will be considered administrative officials (*Kanri*), not public officials (*Kori*). If the *Kanri* status were retained, it was believed that MoI could control the governors. The reasons they had to be *Kanri*, not *Kori,* was explained. First, prefectures has been organized as state organs. Second, if the police came under the authority of elected governors, the public order would be in danger. Third, the need for unified, cohesive national policies for reconstruction was increasing. Last, food production and provision would be hindered by the “my turf comes first" policy of the public official governors (see Local Autonomy College 1975).

The idea of keeping the governors as national bureaucrats was flatly rejected by the new (and last) Imperial Diet, which stipulated that the governors would be administrative officials only until the day the new Constitution came into effect. But this episode has another important implication. That is, those MoI officials had strong skepticism toward the idea of the election of local chief executives, as well as toward the elected chief executives themselves. It is not surprising that the feeling was shared by officials of other ministries, such as the MoF. The controlled nature of the postwar system and its institutionalization can only be understood in the context of the serious doubts of top members of the central elite regarding the new system (see Takagi 1986).

Channels of Central Control

Even though local autonomy in Japan has been constitutionally protected since the War, and mayors and governors are directly elected, there remain several channels of central

control. Until very recently, the most well-known example of such control was the agency-delegated function (*kikan i'nin jimu*). In this system, functions of the national government were delegated to the chief executive of the local government. In carrying out these responsibilities, the local chief executive acts as an agent of the national government, under the relevant central ministry's supervision. If the national government finds that its agent—for example, the governor—neglects his assigned function, the minister could fire the chief executive, negating his election by the local inhabitants. Naturally, the local assembly's authority over these functions is severely limited. Although recent changes have been made in the direction of more discretion for local governments—such as the abolition of the provision allowing the national government to fire local chief executives—this system was a source of controversy. After lengthy debate, it was decided that agency-delegated functions would be replaced by a new system proposed by Committee for Promotion of Decentralization.

Another channel of central influence is the system through which local governments are financed. MoHA is responsible for local finance at the center. The ministry’s main tool is administration of the Local Allocation Tax, which is a revenue-sharing scheme that covers about 20 percent of the total revenue of all local governments. Subsidies are controlled by other line agencies, including the Ministries of Construction, Transport, Agriculture, and Welfare. The Ministry of Finance (MoF) is also always deeply involved in financial matters of local governments.

MoHA keeps an eye on local governments to detect excessive spending and mismanagement (see Akizuki 1995 for a full description of MoHA). It has a number of powers that allow it to monitor, direct, and sanction local governments for that purpose. Tools available for MoHA range from “hard," legal powers (such as issuing ultimatums) to “soft" flexible ones. One example of a hard tool is the stipulation in the Local Grant Tax Law that the minister of home affairs is authorized to stop the flow of the Local Grant Tax money to a local government, if he recognizes that it has used the money in a way not in accordance with principles of local autonomy. Many permissions and approvals represent less coercive but more practically useful legal powers. Among them, the most important concern local bond issues and local taxes.

Administrative guidance (*gyosei shido*) is a soft tool. It does not require a specified legal basis, and the Japanese bureaucrats are prone to use—and sometimes abuse—it because of its flexibility. In MoHA's case, it gives guidance on local administrative matters such as personnel management and on financial matters, including interpretation of tax-related laws. MoHA uses even softer tools, such as schooling and publishing. It has an auxiliary organ, the Local Autonomy College, where MoHA officials train many mid-career local officials. MoHA officials write numerous articles and books, which local officials are supposed to buy and read.

MoHA keeps pressure on local governments to balance their budgets, but when they fall into deficit and find no chance of recovery on their own, they are designated as “reconstruction body" (*saiken dantai*). Law requires the local government to have its application for this status confirmed by the local assembly in order to become a reconstruction body. Then the chief executive of the local government submits a basic plan for regaining fiscal balance to the minister of home affairs (in the case of a municipality, through the governor to the minister). MoHA officials, usually in the prefectural government, participate in analyzing

the cause of the deficit and framing the recovery plan. If the plan is accepted by MoHA, the local government will gain favored treatment in bond issues and distribution of Special Local Allocation Tax money. In return, the local government will get—in addition to a terrible image of fiscal mismanagement—a great deal of advice and direction from MoHA, and they will be obliged to implement the plan until the designation is nullified.

In most cases, the plan for financial reconstruction targets personnel expenditure. Pay raises would be postponed, and salaries for the chief executives and assembly members would be cut. New hiring would stop, and early retirement for senior employees would be encouraged. Local governments thus have an incentive to avoid this humiliating designation and its consequences. Until 1966, the number of such designations ran above 100, but it has steadily decreased. Since 1970s, the ratio of designated governments remains less than one percent. Today only a handful of small municipalities in rural areas are still under the designation.

Aspects of Interdependence: Intergovernmental Personnel Exchanges

Personnel exchanges between different levels of government provide a powerful means of communications and control which has been utilized by MoHA to facilitate controlled decentralization.

A bureaucrat in MoHA is expected to go through a unique career path. After brief training within the ministry, he will be sent for two years to a prefectural government, where he will work in sections such as planning (*Kikakuka*), local affairs (*Chihoka*), and the secretariat (*Bunsyoka*). After that, the bureaucrat will come back to the ministry. Two or three years later, the individual will be back in another—usually small—prefecture as a section chief. This shuttling between the home office in Tokyo and the prefectures will continue, with some irregular assignments to other central ministries, to embassies, or to some big city governments.

This practice, often called “descent from heaven" (*amakudari*), is also followed by other central ministries. But MoHA officials are much more frequently sent to local governments than officials from other ministries. Usually half of their careers are spent in local governments. Unlike MoHA officials, who tend to be assigned to a variety of prefectural (general/financial) posts, bureaucrats on external assignment from other ministries usually hold posts directly related to the functions of their home ministries (for example, the Agriculture Division chief's post in a prefecture for officials from the Ministry of Agriculture).

Just like those in other ministries, MoHA bureaucrats compete for the posts of bureau chiefs, and ultimately for the position of administrative vice-minister. However, because of its size, available posts are more limited than in other ministries. Instead, they aim at prefectural governorships. This is considered the most successful and attainable career goal.

As noted, chief executives in local governments are popularly elected, not appointed. Therefore, before becoming governors, MoHA bureaucrats must become gubernatorial candidates. As such, they must gain support from various sectors within the prefecture and its municipalities. Quite naturally, they are expected to have served in the prefectural

government at least once. It is usual, and ideal, for the candidate to serve as vice-governor (the appointment subject to approval of the prefectural assembly) right before the election.

The practice of the central bureaucracies of sending staff to local governments causes some controversy. Critics say it is a symbol of central control and the backwardness of the Japanese local system. Those who favor the system note that it is unique, allowing central and local and central governments to work together.[3] It should be noted that this practice is not based on national law, but instead is based on requests from the localities that central officials be sent. Although governors tend to welcome the central officials, they, as heads of independent bureaucratic organizations, need to pay attention to the pressure for promotion from within. This is especially the case in big urban prefectures such as Tokyo and Osaka .

Who Sends Whom, and Where

When we discuss Japanese politics, it is always of enormous importance to note that it has a highly balkanized bureaucratic system; individual ministries retain important decision-making authority. This is especially so in personnel matters. In most cases, a ministry's personnel section in the minister's secretariat (*Daijinkanbo Jinjika*) has jurisdiction over every appointment and dispatch in and out of the ministry proper. The Personnel Authority (*Jinji-in*) plays an important role in examinations, salary, workers' welfare, and management, but it does not have any authority in individual appointment or dispatch to localities. Therefore, it is not the central government but the central ministries and agencies that are sending people to local governments. Among ministries, there is no organization or scheme to coordinate the dispatch.

Among central ministries, MoHA is the most well-known for sending its officials to local governments. Numbers show, however, that Ministry of Construction (MoC) surpasses MoHA in this enterprise. (MoC sends 194 and MoHA 149, according to a Nikkei survey in 1995). The Ministry of Agriculture is a distant third (82), and the Ministry of Health and Welfare trails closely with 79 dispatches (see Inatsugu 1995).

The destinations of these officials are in most cases prefectural governments, but 12 designated cities also are possibilities. These big city governments house 59 officials, according to Nikkei. It is rather exceptional, however, for other, nondesignated municipalities (especially small towns and villages) to accept the central officials.

The officials who are dispatched from the central ministries are roughly categorized into three groups. First are those who are sent shortly after their entrance, usually between the ages of 28 and 35, and hold chief posts in small sections of a prefecture. Second is mid-career bureaucrats, who hold top positions in departments (*bu*) or important sections such as finance (*zaiseika*) and local the affairs section (*chihoka* or *shichosonka*). Third are those who are reaching the final goal in their bureaucratic lives and are ready to jump into a political career. They become vice-governors of prefectures or vice-mayors of designated cities where they have previous ties (served there before, born there, graduated from college there; preferably, a combination of these ties). After the current chief executive retires or dies, the dispatched official becomes the heir-apparent candidate and wins the election to succeed his former boss.[4]

Motivations for Exchange

There can be several motivations for central ministries to send their officials to localities:

1) CONTROL/MONITOR. An obvious reason for the central agency to send official to local governments is to control them. This explanation is often used by critical media and pundits when they accuse MoHA and other central ministries of overprotecting local governments. MoHA has good reason to do so, because it has the responsibility to keep local government finance accountable. Most notably, MoHA has strong authority to check overspending (down to a pencil) by local government when it sinks to special designation for financial reconstruction. A more subtle wording is to "monitor" what is going on in the local government. Monitoring can be done by requiring reports or making phone calls, but no method of monitoring is more effective than placing their own officials in the localities.
2) ASSISTANCE. This version is the most favored explanation of the central ministries, especially MoHA. In most cases, local government cases does not possess enough skill and experience in certain areas of administration, and therefore it is the central agency's duty to supplement their ability or lack thereof. Assistance required by local governments lies in two different areas. First is technical expertise and skills in certain fields (roads, city planning, water supply, and the like). Second is the more general ability of coordination, planning, negotiation, and so forth.
3) APPRENTICE. Almost every central official interviewed with experience of serving in local governments said it had been "highly educational." Japanese elites are required to "know the job site" (*genba wo shiru koto*) in order to climb to the very top. The best way to know the job site is to serve in local governments as they implement most of policies formulated at the center. This kind of appreciation is now spread all over Kasumigaseki. Some officials from the Ministry of Construction admit that assignment to a local government had once been considered a demotion, but now it is nearly a must for career bureaucrats in the ministry.
4) POLITICAL AMBITION. Central bureaucrats sometimes hope to become politicians. Becoming governors or mayors is considered one of the good career goals for them. Winning a seat in the national Diet is also attractive. It is enormously helpful for the would-be politicians to serve the local governments in the localities and to be able to say "I know the people and place here." To satisfy this political ambition, central officials need to work in local governments and be appreciated by local people.

How the Dispatch Process Works

Central ministries send the officials to local governments after—and only after—the chief executives ask them to do so. Some posts, such as prefectural vice-governorships, require consent of the local assembly. These two requirements usually do not mean much. First, this practice is so institutionalized and mutually beneficial that there is no point in arguing who initiates the process. Second, there are few local governments that can say no to this practice. These requirements are important, however, because they provide guarantee for the local

governments that they keep final say in whether they want central officials, and if they do, in which positions. While the request is initiated by the local government, typically, it does not control who is dispatched. There are some exceptions, however. Governors with strong connections may mention names when requesting dispatchees, especially when choosing top aides (vice-governor/mayor or general affairs division chief). Would-be vice-governors must get the local assembly's consent. This is highly exceptional, but in some cases the assembly actually says no, as in a recent example in Osaka Prefecture, where new Governor Isamu Yamada's choice (vice-governor from Ministry of Health and Welfare) elicited criticism from the assemblymen, and the governor eventually withdrew his plan to appoint her.

Reverse Flow: Prefectures' Dispatch to Central Government

The fact that localities also send people to the central ministries is sometimes overlooked. This does not mean that the personnel exchange is done on equal footing. The dispatched local officials are generally young, and below the level of section chief. Central ministries never offer top posts to local officials. Nonetheless, it is important to note that exchange is not strictly in one direction (Kusano 1995). It is prefectural governments and, to lesser extent, designated cities that typically utilize this facility. They do so mainly to get dispatched staff trained in the way central ministries do business. Some of the central ministries offer opportunities in specific national colleges, such as the Local Autonomy College (of MoHA) and Construction College (of MoC). On-the-job-training, however, is much more properly supplied by sending officials into the home office in Tokyo.

As localities enjoy resources and start initiating new policies, some central agencies show dependence upon local government. The Environmental Agency is a typical example. It is heavily dependent on prefectures sending their experienced staff (urban prefectures were the first to initiate environmental assessment schemes or ordinances). Similar cases are found in relatively new policy areas such as consumer protection, recycling, and personal information management.[5]

In some cases prefectures dispatch officials for monitoring purposes. For example, Osaka Prefecture once sent one of its young officials (a subsection chief) to the Aviation Bureau in the Ministry of Transport (MoT) in order to learn how seriously MoT was committed to the idea of building a new international airport in the Kansai area. MoT accepted him as a signal of agreement with Osaka Prefecture regarding the airport project. He remembered that he was a kind of “spy," and MoT people at first treated him as such. But eventually they got along well, and after he returned to Osaka, he continued to serve in airport-related posts (Akizuki 1988). Personal ties forged in this manner proved to be quite valuable for Osaka which got its airport and related construction budget. Not surprisingly, the person sent to MoT eventually rose to the vice-governorship in Osaka Prefecture.

Personnel Exchange among Local Governments

Local governments exchange officials with each other too. Prefectures send their staff to municipalities and receive dispatchees in return. In this way, the relationship between

prefectures and municipalities is a mirror image of the relationship between the central government and the prefectures. In the case of Osaka Prefecture, municipalities tend to accept technical experts from the prefecture and to send general administrative officials as trainees. Small municipalities are sometimes heavily dependent on prefectural dispatches. Prefectures sometimes exchange officials with each other. Especially after the Hanhshin-Awaji earthquake in 1995, policies to minimize the damage caused by the earthquake became important. Shizuoka Prefecture is known for earthquakes since it has many active volcanoes and several "exchange proposals" are offered from other prefectures. Currently Osaka accepts one Shizuoka official and sends one official to Shizuoka. Although systematic data collection is yet to be done, the tentative finding is that exchange among localities has recently grown in importance in the overall personnel policy, and also in the intergovernmental exchange scheme.

Advantages of Exchange for Prefectures

One reason why personnel exchanges persist in Japan is that they carry mutual benefits. Indeed, prefectures benefit a lot from this system. The merits of the exchange are obvious: the prefectures get talented and well-connected officials who possess skills and information not easily available to prefectures. The dispatched officials serve—both during and after their stint as a communication conduit with the central ministry. By giving posts and educational opportunity to central government officials, prefectures can show a favor to ministries, and they can expect favorable treatment in return. Moreover, in practice, the receiving prefectures have much discretion with regard to the number of people they must accept and the skills-profile of the dispatchees. Finally, there is the facility of sending its own staff to central ministries on a dispatch basis.

To say that prefectures are strategically advantaged does not automatically mean that they actually formulate personnel exchange policy strategically. Nevertheless, as shown in Table 1, variation of the number of central dispatches among prefectures suggests that they are taking advantage of their strategic position and exercising their own judgment, weighing the benefits and demerits of exchanging officials. The most recent and boldest example of this is Saitama Prefecture's decision in 1997 to terminate all transfer from the center indefinitely. That decision was made partly in response to the latest scandal—a young Ministry of Welfare dispatch working as a section chief of welfare for the aged in that prefecture had been involved in bribery and the severe mismanagement of privately run old-age home (Asahi Shimbun, 1997).

Aspects of Interdependence: Exchange of Political Support

Personnel exchange is not the only demonstration of interdependence in the Japanese inter-governmental system. The mutual need for political support in bureaucratic arenas is another aspect of interdependence between MoHA and local government units.

MoHA sees local governments as allies, sources of support and legitimacy. Local governments see MoHA as a useful conduit to the center and a convenient source of talent. Pressure groups of local chief executives and assemblymen, known as the Six Local Lobbies

(*Chiho Rokudantai*) have supported MoHA and fought against cutbacks in the money sent to the local governments. Indeed, the alliance might be the most important resource MoHA possesses. MoHA needs the local politicians' support in the bureaucratic battle with other central ministries. Local politicians see MoHA as the protector of the current system, from which they benefit.

Each local government has its own interests and political needs. MoHA officials try to coordinate the different needs of municipalities from the prefecture, as well as the home office of the Ministry. That is a responsibility of the Local Affairs Section in the prefecture, usually headed by a dispatched MoHA official. Coordination between prefectures is less institutionalized, and therefore much more difficult. Even among prefectures with former MoHA officials as governors, political conflict and animosity could develop.

Even with the powers given, MoHA cannot always succeed in controlling local governments. The most important change brought by the new Constitution is direct election of local chief executives and assemblymen. This has generated a wide range of political inputs from the local citizens. Political parties, especially leftist parties such as the Japan Socialist Party and the Japan Communist Party, intensified their activities at the local level, and in the 1970s they came to form a winning coalition at the prefectural as well as municipal level. These progressive local governments were born of local political movements and local administration, with more expertise and knowledge in social policy.

During the heyday of progressive local governments—between the late 1960s and the early 1970s—there was a significant change in the pattern of policymaking. First, local initiative for new programs influenced the center's policy; an example is the Tokyo metropolitan government's free medical care for senior citizens, which led the Ministry of Welfare to adopt a similar policy nationwide. Second, local governments became less hesitant to stand up against the central authority when their own policies were in conflict with the center's will. This typically occurred when environmental considerations became an important issue to local citizens, and therefore to the local governments, and the central ministries were relatively slow to respond to these concerns.

All of these new trends have been a mixed blessing to MoHA. They surely indicate that local autonomy is growing in Japan. As an advocate of autonomous local governments, MoHA generally welcomed the trends. MoHA officials often have had to work in, as well as work with, these “leftist regimes." But when it comes to local financial matters, MoHA cannot be overly understanding. The extreme case of “financial war" between Tokyo metropolitan government and MoHA was seen in 1969. When Tokyo's progressive governor Ryokichi Minobe ignored MoHA's direction on salaries, MoHA declined approval of Tokyo's local bond issues.

Table 1. Personnel Exchange Between the Central Ministries and Prefectures

	Dispatches to prefectures	*Dispatches from prefectures*
Hokkaido	10	20
Aomori	14	4
Iwate	16	5
Miyagi	12	2
Akita	15	0
Yamagata	13	3
Fukushima	7	3
Ibaragi	15	1
Tochigi	6	5
Gunma	8	2
Saitama	14	5
Chiba	12	2
Tokyo	12	2
Kanagawa	6	7
Niigata	15	6
Toyama	11	2
Ishikawa	14	1
Fukui	14	4
Yamanashi	10	1
Nagano	6	7
Gifu1	7	5
Shizuoka	10	8
Aichi	10	0
Mie	10	1
Shiga	13	0
Kyoto	13	0
Osaka	11	5
Hyogo	16	8
Nara	12	1
Wakayama	14	2
Tottori	13	1
Shimane	11	10
Okayama	16	1
Hiroshima	15	1
Yamaguchi	12	1
Tokushima	11	0
Kagawa	11	1
Ehime	9	2
Kochi	13	13
Fukuoka	16	7
Saga	12	3
Nagasaki	14	8
Kumamoto	15	5
Oita	13	1
Miyazaki	14	11
Kagoshima	15	5
Okinawa	5	2
Total	571	179

Source: Nihon Keizai Shimbun, 1995 data; Atsushi Kusano, 1994 data (*Nihon no Ronso* p. 254).

In short, the strategy of MoHA, and its effectiveness, cannot be determined solely by its will or legal powers, but also by many local factors such as the local government's

economic base, political leadership of the chief executive, strength of the local unions, partisan composition of the local assembly, local citizens' movements, and so forth. Neither can local governments' strategy be determined solely by their will, leadership, and legal powers. They are limited by the institutional framework in general and by MoHA's direct intervention in particular. The institutional arrangements also support the local governments and their political leaders. This interdependence has been central to the experience of controlled decentralization in the postwar period.

Process and Implications of Controlled Decentralization

As noted before, the attempts to introduce substantial local autonomy by constitutional decree in the early postwar years was met with resistance by administrative elites. Their initial reaction was to formulate indirect measures of control. Legally, the mechanism chosen was agency delegation. Financially, it was standardized local tax rates, subsidies, and restrictions on local bond issues. Administratively, it was a wide variety of controlling tools including guidance, monitoring, and personnel exchanges.

However, as time passed, and the voice of local opinion as well as the capabilities of local officials became stronger, the perception of the central government changed. At the time of the reform debate right after the war, a central bureaucrat warned that once elected politicians were allowed to become governors of rural prefectures, local pressure would make it likely that they would stop the flow of the rice and other basic foods to the urban areas. This kind of negative view toward elected officials did not die easily, but today it is almost nonexistent. Governors and prefectural government officials tried very hard to win the trust of central government through a series of efforts, including implementing assigned tasks in earnest, keeping the communication links with the central bureaucracies as open as possible, and building up their own human resources.

As skepticism became weaker, formal arrangements changed accordingly, although the pace of change was much slower than local governments hoped. Among other measures, the legal ability of the central government to fire local governors was abolished in 1992 whereas agency delegation was curtailed more recently. Perhaps more important, less formal practices between the central and local governments also changed, gradually but substantially. The practice of personnel exchange is a good example. It was without doubt initiated by the central government officials to control and monitor the local governments. However, emphasis has shifted from one-way control toward using this facility for training and better communication. Coupled with the opportunity to send its staff to municipalities within their areas and to the central ministries, prefectures now enjoy a strategic position within the network. Whether and how prefectures and their leaders take advantage of such a position differs among prefectures. But variation in the numbers that accept staff and send their officials among prefectures suggests they indeed are making judgments about this matter, weighing the options available.

MoHA is a central ministry whose main job now is to be of service to local governments. It monitors finances, reviewing local finance plans on a macro basis and offering specific tutelage and guidance to each local government on a micro basis. It sends its own staff

to local governments, especially to general affairs bureaus of prefectures, which coordinate line bureaus in a prefecture and its municipalities. Most importantly, it represents local government as a whole. If local governments compete for a limited amount of subsidy, MoHA usually steps back and lets locally elected Diet members represent the localities. But if the issue is a concern for the local governmental system, and there is consensus among local governments, it fights fiercely against central ministries, as in the expansion of the Local Allocation Tax, more discretion in the use of subsidies, resistance to MoF attempts to cut back LAT, or to other ministry efforts to keep the share of subsidies in the intergovernmental financial transfer, and thereby maintain their control over local governments.

Controlled decentralization has kept the overall administrative system stable while accommodating the rising needs and capabilities of local governments. System stability has allowed participants—governmental and private alike—to formulate long term strategies and to avoid precipitate action. There has been no strong call to overhaul the financial transfer framework (compare the U.S. case of the creation and abolition of general revenue sharing). Also, there has been no drastic structural change, such as a switch from a two-tier to a three-tier system (compare the French case of fundamental reform).

Political dissatisfaction with the LDP regime has been shown, and it is reflected at local level, as the case of progressive local governments demonstrated. But even these local chief executives with leftist backing played ball—hardball, maybe—within the rules of the game established by the center. What they have shown is an evolving shift of policy orientation. It is more pro-labor, more environmentalist, favors the peace-movement, more consumer-oriented, and more pro-welfare, but it is not even close to a revolution. The central government showed a willingness to listen to dissenting voices, but only with the help of the interpretation by local governments.

Controlled decentralization has worked because both local and central governments have gained from it. For example, local governments have benefited in three ways. First, they have gotten control over numerous job assignments as many functions were assigned to them by central agencies, in addition to the original tasks required by local constituents. Second, they have been able to expand their workforces: the job assignments have naturally required local governments to hire more people. Despite MoHA's campaign to limit the size of the local work force, the number of local employees steadily increased until recently. Localities now retain some 3.3 million officials, compared with 1.1 million in the central government. Third, they have gained expertise: as the local governments' functions have grown and their role become more recognized, more talented people with higher credentials have tended to go to the localities. Also, implementation requires knowledge, technology, and skill. Information concerning policy implementation has been accumulated at the local level.

How local governments translate all these resources from implementation capacity into the ability to make policy is another matter. Just as the United States has the contrasting capacities of such states as New York, Wisconsin, and California, compared with the group typified by Mississippi, Alabama, and West Virginia, policymaking capability has varied among Japanese prefectures and cities. Yet, there is evidence that some local governments steadily demonstrate policy initiative and creativity that influence other local governments, and even the central government agencies cannot ignore (for example, Kanagawa Prefecture

under Governor Kazuji Nagasu and Kobe City under Mayor Tatsuo Miyazaki). The recent boom in policy research institutes affiliated with local governments supports the conclusion that they have tried to convert implementation capacity into policymaking capability.

The central government has benefited also. Decentralization has permitted the central government more fiscal space in which to maneuver. When the central government was under strong pressure to limit the size of the government, they could reduce the central work force partly because there were always local governments to do the job. This occurred with a vengeance under the Nakasone cabinet. Some business leaders strongly demanded much smaller (and therefore less intrusive) government, and the number of central officials shrank from 1.7 million in 1980 to 1.2 million in 1986. In the meantime, the local government work force maintained its size during this "administrative reform boom." More practically, central agencies get posts, especially in the prefectural offices, which is always good news in any bureaucracy.

Over time, a greater sense of partnership has emerged between the central and local governments, especially at the prefecture level. The shift from skepticism to the sense of partnership is demonstrated in recent efforts at decentralization. The Local Decentralization Act of 1995 is now in the process of implementation and from initial accounts it appears that the profile of prefectures is rising since they are being handed over various powers previously enjoyed by central government agencies. The profile of governors is also increasing. Former Prime Minister Morihiro Hosokawa (ex-Governor of Kumamoto) and former Finance Minister Masayoshi Takemura (ex-governor of Shiga) had very short tenures as members of the Diet, but their governorships gave them political experience and confidence for top national posts. Junior politicians such as Takahiro Yokomichi (ex-governor of Hokkaido) and Daijiro Hashimoto (governor of Kochi) have been mentioned as future leaders of the country.[6]

Lessons from the Japanese Experience

Financial transfer with tight central control, intensive communication, and personnel linkage between the center and localities—mediated through a central ministry such as MoHA with strong mutual interdependence with local government units -- these are important characteristics of the Japanese intergovernmental system. This system has enabled a process of controlled decentralization to occur with attendant positive consequences of stability and flexibility.

Stability has given the players, central and local governments alike, time to accommodate themselves to the rules of the game, to accumulate experience. Throughout the postwar period, every industrial polity has had to change or modify its governance structure in one way or another. Japan is no exception, but Japan's uniqueness lies in doing so without a change in the ruling party until 1993. Some attribute this to the wide range of ideas and policy orientation held by LDP Diet members and the energy generated by the inter-factional competition within the party (Sato and Matsuzaki 1986). But the role played by the local governments should not be neglected. They too have been sources of new ideas, pressure and reform. Progressive local governments' dissatisfaction with the basic course of "putting economic growth first" was conveyed by the local election results, and later by the experimental policies enacted by the local leaders elected by the dissenters. They are not the

exception but the rule; local governments not classified as leftist or progressive also keep generating new ideas and modifications in policymaking and policy implementation.

All of the above should not lead any reader to believe that the system is perfect or ideal, resulting in a kind of "Japan Model" that other countries should follow. Every coin has two sides. Extensive coordination sometimes means nobody is really in charge. The interdependent nature of central-local linkage could also mean that local people really cannot determine their destiny by themselves. And that brings us to the issue of the "deficit of democracy." Local voters' power—although emphasized by local elected officials—does not appear strong in the usual settings, mainly because the intertwined network and complicated jurisdiction make it difficult for laypeople to acknowledge which matters are really local. For instance, distribution of LAT money is so complicated that it requires an entire book to describe the system. The idea underpinning the LAT—that a portion of several nationally collected taxes are reserved by central government, and distributed by formulae enacted at the center to local governments, but that LAT should be considered a surrogate of local taxes, and therefore no strings should be attached by the central government, but may be used together with subsidies coming from the center—is, to say the least, confusing.

Stability can be stultifying as well, as Japan's inability to move out of the prolonged recession of the 1990s shows. It can mean that the system might become less well-equipped to accommodate changes over time than it should be. It can also breed corruption, as noted at the very beginning of this chapter.

Having read these caveats, if some countries decide to explore the possibility of adopting the Japanese intergovernmental system—at least part of it—what kind of prerequisites should they possess? Which, if any, specific institutional settings might they consider transferring to their own system? And, more generally, even if they do not "transfer" the system, what can generalized observations of the Japanese experience tell those who are confronting the challenge of designing a governance system today? In this regard, it is useful to consider the following two prerequisites, two specific proposals and three generalized observations.

Prerequisite 1: Shared Integrationist Orientation

An integrationist orientation should be shared by the administrative and political elites and the public. Japan's modernization started, and continues today, on the assumption that localities' concern for autonomy and distinctiveness from the center is to be given relatively low priority. No region (with Okinawa being a possible exception) seeks independence or separation from Japan. The Kansai International Airport project in Osaka Bay directly involved the central governments, Osaka Prefectures, two neighboring prefectures (Hyogo and Wakayama), two designated cities (Osaka and Kobe City), and numerous municipalities surrounding the airport site from its planning phase. As this example suggests, it is becoming increasingly difficult to distinguish what is local, regional, national, or global. This does not seem to frustrate the elites in Japan. Rather, they appreciate that the Japanese system fits within this basic trend. Borders, jurisdictions, and accountabilities tend to become blurred, but the public gets angry only when that is the cause of corruption and mismanagement.

Controlled decentralization requires intensive communication, negotiation, and compromise among levels of government. In other words, if a country yearns for a legal structure (federalism) or an ethnic reason to seek more separationist arrangements, the Japanese system would be a hard sell.

Prerequisite 2: Training of Public Officials

Virtually all the good things controlled decentralization can produce depend upon the quality of public officials in the central and local governments. Central government officials must have wide range of knowledge and expertise to survive jobs in unfamiliar places, as well as the self-restraint required to avoid the tendency to over-control. If local government officials are of poor quality, the communication will eventually become one-way, and local initiatives cannot be expected. It may sound too rigorous to require many skillful bureaucrats at every level of government, but this is not necessarily the case. First, the bureaucracy does not have to be huge. Second, as the Japanese case illustrates, there is always a possibility for on-the-job training. Local government officials, elected and non-elected alike, have learned from implementation functions, negotiating with the center, and input from the local people. But a strong orientation toward training and recruiting is needed. It is important to know that all the prefectures and most of major municipalities in Japan initiated an independent and neutral merit-based examination system as early as 1960. By 1970, 46 out of 47 Japanese prefectures had set up their own in-service staff training programs.

Proposal 1: MoHA Type of Central Agency

MoHA has been instrumental in maintaining the intergovernmental system in Japan. It is not free from criticism, however, most of which derives from its intrinsic ambivalence as a national ministry promoting local autonomy. The experiences in postwar Japan shows that being ambivalent does not automatically mean failure. Its main characteristics—a relatively small ministry, but staffed by highly qualified officials; the lack of a heavy workload of specific tasks to be directly implemented (delivery of mail, building public facilities, inspecting banking industry, promoting and protecting agricultural sector, and so forth); and its financial powers, not only in relation to the local governments, but also MoF—are useful to MoHA in working in such an environment.

Proposal 2: Extensive Communication Between Levels of Government, Including Personnel Exchange

There is little argument against good communication between the center and local governments. Especially in integrationist conditions, where functions tend to be shared rather than separated, you need flow of information, perspectives, and opinions. The problem here is whether to go as far as introducing personnel exchange. The Japanese case tells us that it could work, and more important, there is a wide variety of examples over time and among local governments of how this practice can be carried out. Right after the war, the center could

not permit popular election of governors without an arsenal of controlling tools, and personnel transfer was an important component. Local governments were lacking in human resources, so that they really wanted central officials to come. As partnership grew, these motives became weaker (although not entirely absent). In the 1960s and 1970s, the personnel transfer was a very convenient way for local governments to form a connection with the central bureaucracies for receiving subsidies. This motive also remains, but training and facilitating communications have received greater emphasis recently. Personnel exchange is, of course, not the only way to communicate among governmental units, but it is worthy of consideration by the designers of local systems today, with one condition. Local government must initiate, continue, or terminate the exchange, at least legally. Otherwise, it will become just another control mechanism for the center, and the possibility of local governments executing their own judgment will be curtailed.

Observation 1: Stable Institutions Matter But Flexibility is also Important

Looking at the Japanese postwar experience, the institutional setting, especially the symbiotic relationship between MoHA and the prefectures, appears to be quite important. The constitutional, legal, financial, and administrative framework for intergovernmental relations is always important to every participant in the game. But openness to institutional change and innovation is also important. For example, in the Japanese case, many aspects of the postwar system were originally motivated by serious doubt about elected local chief executives. But these aspects were allowed to change, slowly but steadily, in response to emerging needs and capabilities. Those who are designing institutional frameworks must take institutions seriously, but not too rigorously. Successful institutional development does not solely rely on the ingenuity of the framers, but on continuous effort by those who operate the institutions over time. It is sometimes better to give institutional arrangements some flexibility and let the next generation determine the rest.

Observation 2: Innovation Can Come from the Middle of the System[7]

Great leaders such as Franklin Delano Roosevelt, Lenin, or Lee Kuan Yew put their names in the history books by bringing new ideas, putting them into practice, and giving the country energy and motivation. Grassroots movements, voting, and more basic changes in society can also change the course of one country. The Japanese case clearly suggests an alternative to these top-down and bottom-up theories of innovation and change. Surely, local elections are always important, especially in the case of progressive local governments. But taxpayers' movements to monitor excessive local spending, and voters' revolts to "throw the rascals out," have been relatively low-key and are just starting to emerge. Historically, with the great exception of Yamagata, Japan does not have Jefferson-caliber framers for local systems. Instead, the designers and managers of the system have been a nameless and faceless group of local leaders and government bureaucrats. Moreover, the prefectures are key to the entire system. Governors (by becoming prominent members of the Diet and cabinet ministers) and central career bureaucrats (by returning to their home offices) return to the

national government with the experience of having dealt with local issues. The possibility of producing innovation from the middle has an important implication in the discussion of local, regional, and intergovernmental governance in any country.

Observation 3: There Is neither a "Best" System nor a "Permanently Good" System

The merits of systems are almost always accompanied by the defects. Coordination and communication sound good, but they may reach the level of excessive control, so that corrupt behavior becomes rampant, and the necessary reforms are inhibited. Complicated financial and administrative arrangements have been necessary for the maintenance of the controlled decentralization, but democratic causes—direct participation, self-determination, community values, and so forth—are often sacrificed under such a system. It is almost impossible to reach complete consensus over the priority among the important values—economic prosperity, efficiency, democracy, and stability, to name a few. The challenge for the designers of the local system is to find some agreeable solution that most of the interested parties can accept. In addition, as the Japanese case strongly suggests, the system that once seemed quite satisfactory can become problematic. The trend today in Japan appears to demand a more accountable system, with greater orientation toward the voters and citizens and more stringent control over the behavior of the local and central officials. It is therefore not a completed system, but a continuous effort to keep the system viable and suited to the ever-changing environment.

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Notes

[1] For extensive study of progressive local governments, see Steiner, Krauss, and Flanagan 1980.
[2] A former MoI official wrote in his memoir that MoI started considering the election of local chiefs during the war (see Shibata 1975).
[3] Governors themselves seem to have a mixed opinion. National Governors Association 1968 (p. 148) expresses the two contradicting views.
[4] Recently, this type of heir-apparent seems to have become less common. In 1995, a shockwave hit when in Tokyo and Osaka, the two largest prefectures, former bureaucrats (MoHA and Cabinet Secretariat in Tokyo, Science Technology Agency in Osaka) were both defeated by amateur politicians with television careers.
[5] Interview with Personnel Section officials, Osaka Prefecture, conducted by Yiroaki Inatsugu and the author, March 25, 2997.
[6] Yokomichi, after serving several terms as a socialist Dietmember, became Hokkaido governor, and now he is a leading figure of the Democratic Party in the Diet. Hashimoto denies any stepping-up to national posts.
[7] The notion of "middle innovation" originated in a written suggestion from Blair Ruble.