

# **Evolution and Salient Characteristics of the Japanese Local Government System**

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## **Abstract**

This paper provides an overview of salient characteristics of the Japanese local government system paying special attention to the following: (a) the strong preference for regional balance in fiscal transfer rules; (b) the lack of systematic influence by individual politicians in grant allocations; (c) the practice of exchanging staff across different levels of government; (d) the use of attractive work and remuneration conditions to obtain and retain high quality staff at the local government level; (e) the use of local governments as development project implementation agencies; (f) the use of amalgamation to create larger local government units to exploit economies of scale; and (g) the exercise of local policy initiatives.

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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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# ***Evolution and Salient Characteristics of the Japanese Local Government System\****

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## **Introduction**

Despite recent problems, Japan remains an outstanding example of a successful broad-based development experience. Carefully analyzed, Japan's experience ought to yield many insights and lessons for other countries engaged in the task of development from a low income base. Its broad based development is clearly reflected in its economic and social development indicators. For example, not only does Japan now have among the highest per capita incomes in the world (\$33,325 in 1997) but its prosperity is among the most equally distributed. One third of Japanese prefectures have a per capita income within 5% of the average whereas in the US, only one sixth of the states fall in this range. Similarly, Japan has impressive social indicators, both in levels and distribution: the bulk of its population has access to good education, health and basic infrastructure. For example, 98% of Japanese prefectures have a high school enrolment rate within 5% of the average (compared to 84% for the United States). And 15% have a measure of access to health care (physicians per 100,000 population) within 5% of the average (compared to 14% for the United States).

Japan's local government system has helped attain such broad based development. It has served as an effective instrument for the achievement of national goals as well as a vehicle for the solution of local level concerns. Since a substantial portion of general public expenditures (70%) and public capital formation (80%) in Japan is spent through local governments, the importance of the local government system is obvious, at least for the developmental impact that can be achieved through public spending on infrastructure, education, health and welfare. This paper provides an overview of the evolution and characteristics of Japan's local government.

## **Evolution of Intergovernmental Relations since 1945**

It is convenient to start with a stylized depiction of the local government system both in terms of its evolution over time and in analytical terms, that is, where the Japanese "model" fits in the analytical framework typically used to study intergovernmental relations. In a recent paper Muramatsu (2001) discusses the postwar evolution of the Japanese local government system in terms of three periods. The first period, extending

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\* This paper provides an overview of some work on the Japanese local government system which has been published recently in the working paper series of the World Bank Institute. A list is provided in the Bibliography.

roughly to the early 1960s, saw both the formal enshrinement of new local government powers in the Constitution and, paradoxically, a reassertion of central control. The new powers, modeled after the American example, allowed for the election of local government assemblies and chief executives and expanded their ability to legislate, deliver public services and raise revenues locally. These were major departures from the prewar system in which mayors and governors were directly appointed by the central government and the ability of local authorities to raise revenues and undertake public expenditures were sharply circumscribed by national fiscal and administrative considerations.

Despite these new *de jure* powers, however, the early postwar years saw a *de facto* reassertion of central authority over local government actions, in part because local governments lacked the technical and financial capacity to make much of their enhanced legal abilities and in part because of the consolidation of power in a conservative political-bureaucratic coalition that emphasized reconstruction and “catch-up” with the industrialized countries as the dominant national goal and considered central direction of economic policies and financial resources as the most effective way to achieve this goal. One manifestation of central authority was the revival of agency delegated functions, under which central ministries could direct local chief executives to perform certain functions and could theoretically fire these local executives in case of non-performance.

Much of this changed in the second period which lasted roughly from the early 1960s to the late 1970s and was distinguished by an upsurge of local government initiatives and influence. This was manifested in the capture of important mayoral and gubernatorial seats by left-wing politicians (the so-called Progressive group associated with the socialist and communist parties) and the spontaneous emergence of numerous “citizens movements” seeking greater voice and a re-weighting of priorities in matters affecting their quality of life, especially those concerning pollution and health care.

This shift in the balance of power between the central and local authorities can be attributed in part to growth in technical and financial capacity at the local level (promoted by various characteristics of the local government system to be discussed later), in part to the emergence of concerns other than unbridled economic growth, concerns which were possibly better handled at the local level, and in part to apprehensions within the conservative political coalition dominant at the national level that, unless it tended to local concerns more actively, opposition politicians would sweep to power in national elections also. The second period saw the beginning of a much more interactive relationship among the various levels of government, characterized by a lot of give and take, bargaining, and negotiation across a wide range of activities.

The third period, extending from the late 1970s to the present, has seen a more quiescent and mature relationship coming into place between local governments and the center, reflecting perhaps a growing realization of mutual interdependence and the need for a common approach to emerging pressures. In particular, pressures have risen from two sources: tight finances and internationalization of the Japanese economy. The overall fiscal situation has tightened since the early 1970s for several reasons, including the slowdown of economic growth and the adoption, at the national level, of certain expensive welfare measures (some originally sponsored by populist local governments). This has

encouraged the national government to transfer more responsibilities, especially in health and welfare matters, to local governments.

For example, the national government's share of welfare expenditures on the aged declined from 60% in 1979 to 25% by 1987. Internationalization, or opening up in trade, investment and finance matters, has exposed Japanese local and national government practices to greater scrutiny from international partners (commercial and political), and has encouraged them to work together on coordinated responses. Whatever the causes, intergovernmental relationships in Japan have come to be characterized in the last two decades or so by extensive consultation and partnership (albeit with much bargaining and negotiation in the background). The autonomy of local authorities has been formally increased. As of 1992, it is no longer legally possible for a central minister to fire a local chief executive for non-performance of delegated functions. Indeed, the concept of delegated functions has come under critical review by recent parliamentary commissions set up to study the scope and feasibility of further decentralization of public services.

### **Characterizing Japanese Intergovernmental Relations**

It is convenient to think of intergovernmental relations in terms of two polar cases, the Autonomous case in which local governments have substantial formal autonomy prescribed by law and the roles of different levels of government are well defined and largely non-overlapping and the Unitary or centralized case in which local bodies are appointed by a central authority (as in a unitary state) and serve essentially as agencies of the central government. Where does Japan fit? One might look for answers in three areas, in aggregate public finance data, in the formal descriptions of central and local powers, and in the evolution of intergovernmental relations over time.

Aggregate public finance data are not of much help in accurately characterizing the Japanese model. According to such data Japan has among the most decentralized local government systems in the world. On the revenue side, locally collected funds account for almost 35% of total local revenues, one of the highest such ratios in the world and exceeding by far the average for OECD countries. On the expenditure side also, local government expenditure accounts for a very large proportion, over 70%, of general government expenditure, which is considerably in excess of the ratio found in the average OECD country. From such data it would appear that Japanese local governments have the most control among OECD countries over their revenues and expenditures. Yet even casual observations suggest that this is not the case. High local revenue ratios mask the substantial control that central authorities exercise over local government revenue raising powers with regard to tax bases, tax rates and the ability to borrow. High local expenditure ratios fail to reveal that a substantial fraction of local expenditures are undertaken at the order of central ministries, with discretion over standards and levels residing at the center.

Formal descriptions of central and local powers and jurisdictions can also be misleading. This is because there can be a substantial gap between *de jure* and *de facto* considerations and it is also possible that relative powers can shift over time. Analytical

descriptions of the Japanese system must take these two points into account. Thus, despite the *de jure* powers provided to local governments in the postwar Constitution, Japan cannot really be considered an example of the Autonomous case because the *de facto* situation has been different over a considerable period of time. Similarly, experience since the 1960s suggests that it would be inappropriate to consider Japan an example of the Unitary case. Indeed Japan is best viewed as an example of an intermediate case, referred to in the literature as an Integrationist model (see Muramatsu, 2001), in which the roles and responsibilities of various levels of government are, for practical purposes, loosely defined and jurisdictions overlap across a wide range of tasks; central and local government functions are integrated rather than separated and influence and leverage is exerted in both directions.

It is in the evolution of intergovernmental relations in the postwar period that one finds pointers to the most accurate, if complex, characterization of the Japanese model. This reveals a model in which aspects of both central control and decentralization have co-existed but, over time, the balance has shifted gradually towards the latter. A good discussion of the interplay of these two aspects is found in Akizuki (2001). Akizuki suggests that the process of “controlled decentralization” has been possible because of the growing local orientation of the Ministry of Home Affairs (MoHA) and the increasing national orientation of prefectures. Features of the system which may have originated as means of control changed over time to become means of communication and reflections of mutual interdependence. In addition, changing economic and political conditions have created incentives for the system to become more decentralized.

While the MoHA is a central ministry which possesses several administrative and financial instruments to control the behavior of local governments, it has over time become a champion of local government interests as well. In particular, it has supported local government positions on such issues as the transfer of greater general-purpose resources to local governments, more local discretion on the use of specific-purpose subsidies, and modifications in the implementation of agency delegated functions. On the other hand, many prefectural governments, while essentially local in nature, have displayed a tendency to think nationally and have cooperated with MoHA and the national government in many areas rather than adopt narrow and parochial local positions. They have also helped influence municipal governments in adopting such an orientation in certain cases. The incentives for both MoHA and local governments to cooperate are straightforward.

On issues that affect local governments as a whole, MoHA offers the most effective means of projecting local government views and lobbying the central government for appropriate action. So local governments have an incentive to retain this mechanism for collective action. At the same time, MoHA would not survive as an important bureaucracy if it lost the support of its key constituency, local governments. Its power within the central government comes largely from its position as the “representative” of local governments. So, despite its origins as a “regulator” of local governments, over time it has gained a strong interest in cultivating support among local governments.

As already mentioned, while the opposing tendencies of control and decentralization have operated throughout the postwar period, the balance has gradually

shifted in favor of decentralization. This has been due in part to changing economic conditions. Slow growth, tight budgets and expanding welfare payments since the 1970s have encouraged more experimentation within the local government system, ranging from spinning off additional expenditure assignments to local governments, permitting local governments to borrow more through issuance of bonds, and accommodating the push for greater autonomy by local governments in the design and implementation of regional development projects and social welfare initiatives. The Ministry of Finance has supported some of these measures to the extent that they permitted a smaller national fiscal deficit. MoHA has also supported these measures to the extent that they enabled local governments to respond more flexibly to local needs and pressures.

However, opinions among local governments have tended to vary. The financially stronger local governments have welcomed decentralization seeing it as a way to operate more autonomously. Financially weaker units have expressed concern about the burden of (partially) unfunded mandates that have sometimes accompanied decentralization and the risk of having their share of revenue transfers reduced. The thrust of general public opinion seems to be in favor of greater decentralization. Now that substantial regional equity has been achieved in Japan, there is more emphasis on efficiency, flexibility, and accountability as desirable features in the evolving intergovernmental system.

### **Local Government System and Political Development**

Political development, or progress in the achievement of fundamental political values such as liberty (personal rights) and equality (broad participation in public affairs), is an important measure of improvement in societal welfare, as important perhaps as the more commonly tracked measures of income growth and human development. The Japanese local government system has engendered, or at least accommodated, a significant amount of political development in the above-noted sense of the word (see Macdougall, 2001).

This growth in political inclusiveness has come about largely as a result of a process in which local governments, responding to citizen concerns and pressure, took policy initiatives which often went beyond (and were sometimes in conflict with) national guidelines and practices but in which they nevertheless prevailed. Indeed, in some cases, the national government eventually adopted the local initiative as national policy, thereby showing that it was not immune to the power of rising citizen concerns, validated and projected by local government actions. Through this process, Japanese citizens have managed to forge new implicit “contracts” with local and national authorities which give them greater participation in the decision-making process and provide greater opportunities for their preferences to be reflected in public policy.

The most important and certainly the best known mechanism for greater citizen participation in Japanese political life is the “citizens movement”. As already mentioned, such movements emerged spontaneously in the 1960s and 1970s as a way for citizens to make themselves heard on matters related to the quality of life. The most prominent ones focused on urban and industrial pollution control. Ultimately 3000 such movements were

organized and they dealt, as might be expected, with a correspondingly broad range of local and national issues.

Other mechanisms of participation include consultative committees in which citizens are invited to serve together with local or national officials and politicians to review and monitor controversial projects. And finally, as its value has become more widely accepted, a new form of citizen participation has taken root in Japan through the formation of the so-called “citizens networks”. These are not protest groups (like the movements of the 1960s and 1970s) but rather non-governmental groups of concerned citizens and professionals who often take the initiative in presenting proposals to local and national authorities, especially in the areas of urban and environmental planning. These networks have grown substantially since the early 1980s and reflect the more consultative and partnership-oriented tenor of this latter period of citizen-government relations.

By now, Japanese citizens from a broad range of geographic, occupational and income backgrounds have acquired effective political voice and are able to influence policies which affect both collective and individual welfare. For example, rising citizen participation has had an impact on the location and design of public works: over time, citizens and communities have pushed their way into the decision-making process and implementation of many public works projects. Specific examples include the siting and design of airports (e.g., Narita case, where citizen protest delayed the construction and opening of the airport considerably), petrochemical complexes (e.g., Mishima and Numazu cases, where local authorities backed by citizen groups were able to successfully impose tough pollution control standards), and waste management facilities (e.g., Tokyo incinerator case). Following citizen concerns, many local governments adopted pollution control standards stricter than national guidelines; later on, these standards were also adopted by the national government, demonstrating the projection of citizen and local government power to the national level.

Citizen pressure has also been effective in changing welfare policies, first at the local level and eventually at the national level. Such pressure led to the adoption, initially by the Tokyo city government in the early 1960s but eventually by close to 250 local governments and also by the national government, of “progressive” welfare measures such as free medical care for the aged and subsidies for unaccredited private sector child care centers.

The process described above is one in which local governments, especially at the municipality level, contributed to one important aspect of political development, that is greater citizen participation in public affairs, through accepting citizen pressure, adopting responsive policies, and projecting pressure upwards to higher levels of government. This was not always a smooth process. Not all local governments were favorably inclined towards citizen participation. Also, in some cases, local governments had to change their own historical practices and break with traditional supporters in the business establishment in order to accommodate emerging citizen concerns. In still other cases, they had to face legal and other challenges to the policy initiatives they took in response to citizen pressure. It is not surprising, therefore, that not all local governments in Japan took this route of change and challenge. But many did and by so doing created a new

equation in government-citizen and intergovernmental relations in Japan. Indeed, some local governments undertook initiatives in furtherance of political inclusiveness even without any citizen pressure to speak of.

A case in point is the treatment of minorities, especially the Korean-origin minority group. A few progressive local authorities took the lead in extending the basic human, welfare and political rights of minorities in Japan and giving them access to public health insurance, family allowances, and public housing. Some local authorities also began to accredit Korean schools and allow registration of members of the the Korean minority as citizens (and not foreigners) at a time when this was not permitted under national guidelines (Macdougall, 2001).

### **Use of Fiscal Transfers to Achieve Regional Balance**

A prominent characteristic of the Japanese intergovernmental fiscal transfer system is its strong bias in favor of regional balance. A detailed discussion of the various taxes, transfers and allocation formulae that underpin this characteristic is provided by Mochida (2001). He makes two main points. First, he notes that a substantial amount of resources are transferred to local governments by the centre. For example, the ratio of local to total revenues rises from 37% to 53% after transfers are effected. In part, high transfers reflect the fact that around 70% of general public expenditure and 80% of capital spending is channelled through local governments in Japan, a share much higher than the average for OECD countries. Second, he shows that poorer regions get disproportionately more by way of transfers.

A high negative correlation of 0.52 exists between per capital prefectural tax revenue (which measures pre-transfer local tax collections) and and per capita prefectural general revenue (which measures funds available for spending after transfers); in other words, the lower the fiscal capacity, the higher the transfer. The following example illustrates this point in a telling fashion: in FY1993, Tokyo had the highest prefectural tax of 196000 yen per capita while Okinawa had the lowest level at 60,000 yen per capita; after transfers, Tokyo had a general revenue level of 206,000 yen per capita while Okinawa moved up to 213,000 yen.

The tendency towards equalization of post-transfer revenues has contributed to the tendency towards equalization of development outcomes across geographical regions in Japan. It has already been noted that the regional distribution of income and welfare is relatively equal in Japan, especially when compared to the US or, for that matter, to the average OECD country. Much of this equalization occurred in the postwar period. The Gini coefficient of regional per capita incomes declined substantially during 1950-1975 before leveling out at a comparatively low level.

It is worth noting that the preference for regional balance was not always a part of the Japanese fiscal system. It was built into it by pressure brought about largely by rural politicians. Left to their own devices, Japanese bureaucrats would have concentrated public resources more narrowly in keeping with their technocratic assessments of the growth potential of different regions. Indeed, in the early 1950s, initial plans drawn up by

central ministries proposed to concentrate infrastructure spending on the Tokyo-Osaka corridor on the basis of anticipated rates of return. However, rural politicians lobbied for and obtained a wider distribution of infrastructure spending. Similar plans in later periods were also modified in the parliamentary review process to reflect politicians' preference for broader-based development.

Success, however, is breeding other concerns. The system of equalizing transfers has worked so well in the past fifty years that the pre-transfer disparity in local tax collections is now fairly low and the need for redistributive transfers is being questioned. Indeed, the gap between the Gini coefficients for pre and post transfer fiscal resource measures has been so low for the last few years that the merits of having a costly transfer apparatus in place can no longer be taken for granted. Now that considerable cross-regional equality has been achieved in terms of per capita incomes, a greater concern for the exercise of local preferences is being voiced.

### **Neutrality of Grant Allocation Rules**

In addition to the local allocation tax (which is the main source of general purpose fiscal transfers whose distribution has just been discussed), specific-purpose grants from the central government are also an important source of revenue for local governments in Japan. Accordingly, the principles and practices characterizing grant allocation are also an important determinant of the regional distribution of development in Japan. A common view, prevailing in journalistic discussions in particular, is that individual political influences are an important factor in grant allocations in Japan. However, Reed (2001) shows that this view is not supported strongly by available statistical evidence. He shows that the grant allocation process is dominated instead by rural-biased and historically constant shares among the regions.

Reed analyses the influence of powerful individual Dietmen by comparing the allocation of construction funds (the most important grant fund category) in different prefectures over time and finds that prefectures with more powerful Dietmen did not necessarily obtain more funds than those with less powerful Dietmen; the rank ordering of the prefectures (in terms of construction expenditure allocation) does not change systematically when the powerful Dietmen come to power. Additional analysis using regression techniques shows that having an own-prefecture Minister of Construction has no effect on the inflow (from the central government) of subsidized projects.

These results reinforce the geographically redistributive bias of the fiscal transfers system. If significant influence over grants were exercised by powerful politicians, this would have resulted in richer, more urban, prefectures getting a larger share of grants since they typically produce the more powerful politicians. Instead, the system most likely has a bias in favor of poorer, more rural prefectures. While individual powerful politicians cannot substantially affect the distribution of grants to prefectures, political parties can; thus it may be argued that the link between the LDP (the dominant party) and rural constituencies led to a rural bias in the allocation of grants which would be equalizing in its effects since the more rural districts tend to be poorer.

To the extent that one party, the LDP, had representatives elected from every district during the period 1955-90, it was difficult for it to make political choices among districts. It could not be seen to be ignoring some districts while favoring others; it found it easier to adopt the neutral principle of “fair shares” (which favored poorer districts) and not to tinker with the proportions thereby established every time a new set of ministers were appointed. As a result, despite frenetic activity and negotiations during each budget season, the prefectural shares of grants show considerable inertia in that they have tended to remain constant over time.

### **Building Capacity through Personnel Exchanges**

Japan possesses a possibly unique system of personnel exchange across different levels of government. Under this system, selected senior positions in prefectural administration are filled by central government dispatchees and selected senior positions in municipal administration are filled by prefectural dispatchees. While these dispatches are not forced, they are governed by strong traditions and some positions may well be considered hereditary. There is reverse dispatching as well: some local government officials are placed with central government ministries and agencies for specified periods of time.

The developmental role of such exchanges can best be appreciated by examining various possible rationales for their existence. One such rationale is that personnel exchanges are functional instruments that proved to be effective in implementing national plans. Since the bulk of development expenditure is assigned to the local level and since local capabilities were limited (at least in the early postwar years), the central government found it necessary to place some officials within local administration to help carry out priority tasks. Once in place, such exchanges also might have proved to be useful means of building local capacity: they would have provided training to local officials both by having them work with better-trained central officials who were dispatched to them and by having them dispatched to work in central government jobs.

Support for the capacity building and functional roles of personnel exchanges might be found in the fact that the quality of dispatchees from central government is typically high, involving people identified as promising and headed for senior positions (see Inoki, 2001). This suggests that, by accident or design, some capacity building is probably achieved. Further support for this is provided by the pattern of distribution of the dispatchees. For some ministries like the Ministry of Education and the Ministry of Welfare, transfers are primarily to rural prefectures and not to urban ones; this also suggests that there may be a capacity building motive or, at least effect, involved since the rural prefectures tend to be more in need of skills. Finally, it should be noted that there is not much opposition among local governments to the system of personnel exchanges. Since they pay the salaries of dispatchees, they must feel they are getting something in return or else they would complain a lot.

Of course, other rationales might also be valid. For example, personnel exchanges might be viewed as a means of training central government officials, a way of exposing them to a broader range of government activities. Inoki notes that, at least in pre-war

Japan, such dispatches were thought of as being career-promoting within the old Interior Ministry; this aspect may have continued into the postwar system. Even if this were the primary motivation, it should be noted that the system would still have a positive impact on capacity building for local government. The fact that the system might have been designed for capacity building among central government staff does not preclude a similar, if unplanned, effect on local government staff.

Personnel exchanges might also be viewed as a means of improving communication across various levels of government. The intermingling of some personnel across different levels of government builds networks across which communication might be easier. Once again, such a system is not necessarily one-sided in the benefits it delivers. Local governments might find it in their interest to have contacts in the central ministries who, because of past dispatchee status, may be of potential help to them in their current positions. This interpretation is also consistent with the practice of “thank-you gifts”: frequently, when dispatchees return to their home central ministries, they arrange for “gifts” in the form of new public projects for the local governments they served (Inoki, 2001).

By building capacity among local level officials (whether by design or accident), the personnel exchange system might be said to have contributed to both efficiency and equity in Japan’s development. Efficiency would have been enhanced by the lowering of transactions costs arising from the greater ability of local governments to carry out various development projects. At the same time, the increase in the number of local governments able to implement such activities would have reduced disparities across regions. And finally, the bias towards posting dispatchees to remoter, poorer towns and regions would undoubtedly have a positive effect on cross-regional equity and balance.

### **Role of Personnel Systems**

Personnel systems (covering compensation, training, promotion and retirement policies and practices) can have a big influence on the cost and developmental impact of local government. If a given system is successful in creating, attracting, and retaining high quality personnel, it will undoubtedly have a positive impact on economic and social development in relevant prefectures. If, on the other hand, personnel rules are such that local governments are overstaffed, under-trained, and poorly motivated, the result will be high administrative costs and low development impact. How does the Japanese system measure up in this regard? Information on which to base a judgment is provided in Inatsugu (2001).

Personnel systems are broadly similar across Japanese local government units (and also similar to those in Japanese corporations) in that they are characterized by the following practices: entry-level hiring with little recourse to lateral intake; seniority-based pay and promotions; compressed pay structures; promotions from within existing staff; considerable on the job training; and flexible job descriptions in initial staff assignments allowing for acquisition of broad range of administrative skills. This similarity exists despite the statutory flexibility allowed to local governments to set their own pay scales and personnel practices in accordance with their needs and objectives. This is so partly because of the influence of MoHA on local government personnel practices, which in turn

is accepted because it is easier to justify a personnel system to one's own legislature and public if it can be shown to be based on national guidelines (issued by MoHA).

The salaries of local government employees are typically higher than those of national government employees. This feature is rarely found among developing country civil service personnel systems and is infrequent among developed country systems as well. It is due in part to the fact that the Labor Standards Law applies to local government employees but not to central government employees and in part to the fact that central government employment carries non-pecuniary compensation in the form of higher status as well as certain implicit post-retirement benefits in the form of employment in private companies (the so-called *amakudari* system).

These practices, which essentially guarantee a stable and well-paid career to local government staff, have strengthened the capability of local governments over time. They have generated a strong interest among graduates in working for local government. Roughly twelve persons apply for each opening at the entry level (requiring graduate qualifications); this has meant that a relatively strong skills base is attracted into the local government system. The quality-at-entry aspect is also bolstered by the fact that all prefectures and most big municipalities have in place independent, merit-based examination systems to select recruits. Staff quality is then maintained through on-the-job training, much as is the case in Japanese private corporations. As early as 1970, all prefectures had established in-service training institutes; these institutes also train staff of municipalities that lack the resources to maintain their own training facilities. Unlike the case in many developing countries, there has not been a pronounced "brain drain" into the central government from the regions and this is due in part to the personnel system. The relatively good (and improving) quality of the local bureaucracy has also permitted the Japanese civil service to stay relatively lean. At 8% or so of the work force, the size of the local (and national) bureaucracy in Japan is small relative to that in OECD countries (which averages around 17%).

The similarity of personnel systems (pay, training, promotions etc.) has prevented skill disparities from widening across local government units. Indeed, the opposite has happened. Over time, local authorities in rural and remote prefectures have been able to attract personnel of reasonably high quality and skill differences relative to urban prefectures have gradually become smaller. This tendency towards parity in skill bases or capacity has probably contributed to equality in socioeconomic development outcomes, both benefiting from and reinforcing the equalizing tendency of intergovernmental fiscal transfers. Finally, it might be noted that the similarity of personnel systems across local government units and the slightly higher pay scales relative to the central government has facilitated personnel exchanges and the attendant capacity building effects.

### **Promoting Capacity through Increasing Size: The Amalgamation Experience**

For over a hundred years now, the central government in Japan has favored amalgamations among municipalities as a way to rationalize its administrative organization and deliver public services in a more effective manner. The number of

municipalities has declined from just over 71000 in 1883 to just over 3000 currently, with big consolidations occurring at the turn of the century (the so-called Meiji Amalgamation around 1898) and at mid century (the so-called Showa Amalgamation of around 1950-60). A fewer number of consolidations occurred between the two big ones as well as in the past three decades. By and large, these amalgamations have been consistent with increased and better-utilized capacity among local governments and more cost-efficient operations (benefiting from certain economies of scale). At the same time, they do not seem to have significantly compromised local autonomy (Mabuchi, 2001).

The motivation behind amalgamations has changed over time. The great Meiji Amalgamation which reduced the number of municipalities from just over 71000 to just around 14000 during 1883-98, appears to have been motivated principally by the desire to use municipalities more effectively as an instrument of state power and policy. At that time, the municipalities were chiefly used for assembling family registers for tax collection and the military draft. The next major round of amalgamation (Showa in the 1950s) was motivated largely by the need to ensure sufficient capacity to deliver newly devolved and important local services (e.g. education, sanitation, welfare). For example, it was thought that municipalities with less than 8000 residents would not have the financial and human resource capacity to run junior high schools and hence attempts were made to move towards that minimum size.

After 1961, further amalgamations had a more pronounced bias in favor of economic development; infrastructure programs and subsidies targeted at larger units were used to coax small municipalities to amalgamate. In many cases, however, post 1960 amalgamations were voluntary. Residents voted with their feet by leaving small villages to go and live in adjoining large cities; in cases where the outflow to neighboring cities was large, villages voluntarily applied to be annexed to these cities. In this sense many of the more recent amalgamations have been amalgamations from below, advocated by mayors and village assemblies rather than forced by prefecture or national authorities.

It can be argued that amalgamations have contributed to broad based economic development. The Showa Amalgamations, in particular, were carried out with the objective of ensuring the delivery, at the local level, of important public services. Indeed, the target size of amalgamated villages was chosen on the basis of the minimum population needed to make a secondary school practical and feasible. The relatively uniform distribution of secondary schools all over Japan suggests that this objective was achieved. By banding together, several villages were able to obtain various services which they probably could not have obtained independently. Thus, smaller, more remote villages were provided access to services such as a secondary schools through amalgamation; it is unlikely that similar access could have been achieved had they remained completely autonomous.

Such access was obtained simultaneously with greater cost-efficiency. Mabuchi cites studies showing that per capita expenditures are related to municipality size along a U-shaped curve suggesting that the costs of delivering public services decline with size up to an “optimal” level before rising. The “optimal” level is around 115,000 persons; to the

extent that many municipalities are still below this size, there would appear to be considerable scope for additional cost-efficiency gains from further amalgamations.

It could be argued that amalgamations have involved a trade-off between economic development objectives and political development ones. While access to services and efficiency were indeed obtained, these may have come at the expense of local autonomy. Villages could have been deprived of local autonomy through becoming amalgamated into much larger units. The close relationship between residents and representatives could have been eroded.

This hypothesis is tested by Mabuchi who shows that voter turnout in elections is not significantly affected by amalgamations; if anything, his data show that voter turnout actually increases with municipality size. So, to the extent that voter turnout can be taken as a proxy for the interest of voters in political matters, there appears to have been no loss of interest even though amalgamation produced a greater distance, so to speak, between them and their representatives. On the other hand, Mabuchi's analysis also shows that competition among rival parties tends to decline somewhat as municipalities get larger. So the implications for local autonomy are somewhat mixed; people continue to take an active interest in local elections even after the localities are enlarged but they face fewer choices and options.

### **Using Local Governments as Development Implementing Agents**

Extensive use is made in Japan of local governments as implementing agents of the national government for various development projects and targets. Indeed, between 70% and 80% of public expenditure is channeled through local governments, much of this using an authority known as the agency delegated function. This device originated in prewar times when prefectural governors were formally appointed as the agents of the center. It continued in the postwar era despite the introduction of *de jure* autonomy for local governments because it allowed for a balance to be struck between centripetal and centrifugal tendencies in the Japanese political system. It accommodated the need for centralization to the extent that the center kept control of design and standards in certain areas. But it also accommodated the need for decentralization in the sense that it allowed local governments to organize the delivery of specific services to their constituencies.

The agency delegated function is clearly useful from the center's point of view. It avoids the need for central ministries to build extensive field networks across the nation in order to fulfil their mandates. This is indeed done in some cases (e.g., the Regional Construction Bureau is a field office of the Ministry of Construction with the mandate to manage road building). But maintaining field offices is expensive and operating through local governments is preferable in most cases.

Another attraction is that the challenge of maintaining cost efficiency in delivering the delegated service is assigned to the local agent, thereby relieving the central ministry of the task of meeting deadlines and negotiating with vendors to get the services delivered. Much of the headache of delivering public services, and some of the cost, is transferred to the local agents. The system has several advantages for local governments also. First, it

gives them jobs; in Japan, there are now three times as many employees at the local as at the national level. Second, it gives them valuable skills and training in project implementation. Both of these aspects have helped local governments become active and reliable partners of the central government in the task of development.

This system also has some disadvantages for local governments. To the extent that local chief executives (governors and mayors) serve as agents of the centre and the functions themselves lie beyond the scrutiny and questioning of elected local assemblies, local government autonomy is restricted and political development can be hindered. For elected officials, such as prefectural governors, to be answerable to unelected bureaucrats for the performance of certain functions and to be at risk of dismissal by these bureaucrats for unsatisfactory compliance, is inconsistent with democratic sensibilities. Furthermore, this feature could hamper the ability of local governments to develop policy and decision making abilities. These different aspects of the agency delegation function have kept it at the centre of controversy and debate regarding centre-local relations, and a topic of constant study by parliamentary and other committees. A desirable objective would be to strike a balance such that the learning and partnership aspects of the relationship dominate while the political control aspects gradually become insignificant.

To assess developmental impact it is important to establish whether the agency delegated function system is effective in achieving its stated objectives. A study by Kume (2001) provides relevant information. Kume analyses the effectiveness of the system by comparing the delivery of kindergarten and nursery services over time. Nursery services for pre-schoolers without adequate parental care were considered a welfare matter to be dealt with through delegation (and funding) from the centre while kindergarten services were considered an educational policy matter to be left to the discretion of local authorities. Kume shows that nursery services expanded faster than kindergarten services in the postwar period and ascribes this to the effect of a well-functioning agency delegation system which made available adequate funding for the service. On the other hand, whether or not to fund kindergarten services was a matter to be decided by local assemblies and some did not allocate resources at the same level as available for nurseries.

It is also possible to argue that the agency delegated function serves to achieve redistribution or equity-enhancing objectives of the national government. Kume shows that there exists a negative correlation between per capita prefectural income and the availability of nursery schools: the poorer the prefecture, the more the nursery schools (per child of nursery school age). To the extent that nurseries and kindergartens are at least partial substitutes for each other, this correlation suggests that the agency delegation system allowed the national government to provide early child education services in relatively poor areas.

### **Expanding Autonomy through Local Policy Initiatives**

A prominent aspect of local government development in Japan since the 1960s has been the exercise of local policy initiatives in different areas. At various times, various local governments have launched independent initiatives in three main areas: business

promotion, industrial regulation, and welfare provision. Business promotion measures have included such initiatives as industrial park development, trade fairs, credit programs, tax exemption schemes, and technical and marketing support for locally-based small and medium industries. By and large, such initiatives were marked by cooperation among the centre and local authorities.

In the other two areas, however, tensions have existed. The most prominent industrial regulations were aimed at pollution control and were started by big city governments (such as Tokyo and Osaka) in the 1960s. In many cases, local authorities went beyond national standards and sparked conflicts with central ministries. These conflicts were eventually resolved in favor of the stricter standards demanded by local authorities. A similar experience can be seen in the case of welfare initiatives in the form of free medical care for the aged and aid to unaccredited private day care centres, both of which were launched by the Tokyo city government in the 1960s but proved so popular that they were adopted as national policy within a few years.

Kitayama (2001) notes that the exercise of local policy initiatives has been possible for four reasons: (a) the postwar Constitution permits local authorities to undertake any function that is not explicitly forbidden; (b) it also permits local chief executives to present bills and budgetary proposals to local assemblies, thereby theoretically obviating the need to go to the national authorities for financing; c) some initiatives had to be undertaken in order to avail of resources offered by the centre (especially in the case of business promotion measures); in most cases, there was a demonstration effect and many local governments followed the more active ones in developing initiatives; and (d) some initiatives, especially in the areas of pollution control and health care for the aged, proved so popular (as evidenced by citizens movements and committees) that prefectural and national politicians also quickly lined up behind them, thereby weakening any resistance that was offered by central bureaucrats and financial managers and obscuring the fact that the local agencies may have been acting beyond the legal authority actually available to them.

The exercise of local initiatives, especially since the 1960s, has had a significant impact on local political development through providing a greater sense of participation and control to citizens. The ability to influence policies affecting their quality of life imbues citizens with greater faith in the political system as well as makes them more responsible in their actions; the high levels of voter turnout in local elections in Japan attests to vigorous citizen interest in politics.

The capacity of local governments to act autonomously has also been enhanced by this experience. In other words, the very exercise of autonomy set up the basis for the enhancement of autonomy. For example, by undertaking initiatives in the area of pollution control, they were able to “learn by doing” and thereby build capacity in the relevant areas. So much so that when these initiatives became national policy, the centre delegated the relevant functions to local authorities in view of the latter’s superior expertise in these areas. A similar experience can be observed in the case of city planning. By taking the lead in setting up city planning offices and recruiting highly skilled people into these units, some local governments (especially big city administrations) were able to (a) carry out

their own city planning activities; (b) speak authoritatively in negotiations with central ministries on matters related to urban infrastructure (roads, sewers, parks etc); and c) negotiate from strength with business groups involved in urban infrastructure matters. According to Macdougall (2001), the “development of city planning expertise was a key factor in enabling local authorities to gain a measure of control over the developmental destinies of their cities.”

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