

Decentralisation and Local Government Reform in Japan

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Introduction

In Japan, April 2000 saw the introduction of the so-called decentralisation reform, which has brought the most significant changes to the country's local government system since the democratic 'local autonomy' system was established after WW2. Essentially, the effect of the decentralisation reform is that the national government's involvement in local government operation has been greatly pared back, giving Japanese local authorities levels of autonomy and responsibility hitherto unknown. This 'deregulation' of local government operation was deemed imperative in order to respond effectively to Japanese people's more and more diversifying and locally varied demands for government services, most notably in the area of aged care, for which Japanese municipalities are expected to assume pivotal responsibilities under the national aged care insurance scheme, also introduced in April 2000.

Minimised national supervision under the decentralised intergovernmental arrangements means that Japanese local governments now have many more decisions to make for which they are held fully responsible and accountable. If the decentralisation reform is to be a real success, therefore, it must be matched by local government's own reforms for strengthening their policy-making capabilities and financial base. With this view as a backdrop, there have been widespread calls for local government structural and governance reforms including municipal amalgamations and increased accountability and transparency.

This paper, which is divided into five parts shown below, will examine the decentralisation process and local government reforms, which have been promoted side by side in Japan since the 1980s as the mutually indispensable two wheels for ensuring effective government response to the country's ongoing massive socio-economic changes:

- The first part outlines characteristics of the Japanese local government system as some basic background information ;
- The second part explains the socio-economic changes underlying mounting pressures for decentralisation and local government reforms ;
- The third part summarises the developments up to the present in the recent reform move in Japan ;
- The fourth part examines the impact of the decentralisation reform which came into effect in 2000, and
- The last part highlights major local government reform initiatives which have so far been undertaken in Japan.

1. Characteristics of the Japanese Local Government System

It is often asserted that centralisation has been the major characteristic of Japan's government system. This remark is correct in many respects and a view shared by many Japanese people. Intergovernmental relations in any country have various dimensions, however, and it may be misleading to simply say that one country is more centralised than the other. If we look at a different aspect of intergovernmental relations, we may come across a completely different picture of the degree of centralisation or devolution. In fact, although there is much truth in saying that Japan is a centralised country, it also has very decentralised features in its government system. To highlight this dual nature of the Japanese local government system, the following explains its characteristics by dividing them into decentralised and centralised features, especially compared with the Australian system.

1. 1 Decentralised features of the Japanese local government system

i) Recognition of 'local autonomy' in the Constitution

As one of the most striking differences in the status of local governments between Japan and Australia, the Constitution of Japan (promulgated in 1946) clearly recognises local governments and their operation based on the principle of local autonomy. In Japan, there are three levels of government, that is, the national government, prefectural governments (47) and municipal governments (cities, towns and villages; 3,229 as at April 2000), and the latter two levels — prefectures and

municipalities — are classified as 'local governments' or, in Japanese legalese, 'local public entities'. These prefectures and municipalities are government units each of which is separate from the national government structure. They are not part of the national government, but each of them is an independent governmental unit established on 'the principle of local autonomy', as stated in Article 92 of the Constitution of Japan.

Based on this principle, the Constitution also guarantees local governments' right 'to manage their property, affairs and administration and to enact their own regulations' (Article 94) and ensures that each local authority should be run by democratic representatives of its residents. In Japan, each local authority has an Assembly as its deliberative organ and a chief executive officer, that is, a governor in the case of prefectures and mayor in the case of municipalities, and both the members of the local assemblies and the chief executive officers are elected by direct popular vote (Article 93).

Because of this constitutional recognition of the principle of local autonomy, as will be explained later, the national or State government led 'compulsory' approaches, which are sometimes found in Australia, cannot be used to promote local government reform in Japan.

ii) Broad scope of responsibilities and functions

Secondly, as far as the scope of responsibilities and functions of local governments are concerned, Japan is perhaps one of the most decentralised countries in the world.

Inherent in the principle of local autonomy is the understanding that 'local' matters should be taken care of by the locality's own government unless they can be much more efficiently and effectively handled by an upper level of government. Based on this premise, the so-called 'municipalities first' principle exists. This means that services which are closely related with people's daily lives should be handled by municipalities as much as possible, as they are the governmental units closest to the people. Consequently, Japanese municipalities are responsible for various services which are integral to community life. To name a few, they keep a register of family status and residential addresses of people, operate primary and junior high schools, water supply and sewerage systems, and provide fire fighting service, social aid, child and aged care services. Therefore, generally speaking, the scope of services

Table 1 Breakdown of Government Sector Expenditure and Personnel in Japan and Australia by Level of Government* (%)

Japan	National	Prefectural	Municipal
Expenditure** (1998)	35%	30%	35%
Personnel (March 1999)	26%	39%	35%
Australia	Federal	State	Local
Expenditure** (FY 1997)	57%	38%	5%
Personnel (FY 1998)	19%	71%	10%

* The figures have been computed from the data in Government Finance Statistics, Australia 1997–98, ABS, and White Paper on Local Government Finance in Japan 1999, Japanese Ministry of Home Affairs.

** 'Expenditure' is the final expenditure (i.e. the financial transfer such as grants to another sphere of Government is excluded).

provided by Japanese municipalities is broader than that of Australian local governments.

As for prefectures, as regional level governmental units which cover a wider area encompassing many municipalities, they provide services which can be effectively handled on a wider scale, such as constructing and maintaining inter-city roads and other large scale infrastructure, setting standards for school education, operating police services and administering tests and licences which require uniform national or regional standards.

Reflecting their extensive responsibilities and functions, Japanese municipalities use a considerable part of the resources allocated to government as compared with their Australian counterparts. Table 1 compares the share of each of the three tiers of Japanese and Australian Government in the total government sector outlay and the total number of government personnel. As shown in the table, Japanese municipalities account for one third of the total government sector in both terms, while the corresponding figures for Australian local governments are 5–10%.

1. 2 Centralised features of the Japanese local government system

If only these two aspects—constitutional recognition and the broad scope of responsibilities—are considered, the Japanese local government system may well be viewed as a highly decentralised one. To look at the flip side of the coin, however, the Japanese local government system also has considerably centralised features. In fact, these centralised features constitute the main issues which have been addressed in the recent push for decentralisation in Japan.

i) Nation-wide uniformity of the local government structure

Firstly, the local government structure in Japan is quite 'uniform' throughout the country. In the United States or Australia, for example, the local government system is different from one state to the next, and even from one area to another in a single state. In contrast, in Japan, the two-tier local government structure is established throughout the country, and every place belongs to one prefecture and one municipality. Also, all local governments across Japan, from the City of Yokohama which is home to 3 million residents to a remote island village with 200 residents, have basically the same organisational structure and provide basically the same services, irrespective of specific local conditions.

One reason for this uniformity is that the Constitution of Japan, while recognising the principle of local autonomy, also stipulates that 'regulations concerning the organisation and operations of local public entities shall be fixed by law' (Article 92). Based on this article, the basic framework of local government structure has been set by various national laws such as the Local Autonomy Law, Local Public Finance Law, Local Tax Law and the Local Public Personnel Law.

ii) Shared responsibilities involving national government supervision over local government

Secondly, the constitutional recognition of local self-government does not mean that Japanese local governments are free from any supervision by the upper levels of government in handling their responsibilities. Unlike states in the United States or Australia, local governments in Japan are by no means sovereign — they are subject to various instances of national intervention in the handling of their responsibilities.

That is to say, that the division of responsibilities among spheres of government is not always clearly defined, but more often than not, the national government and local governments work closely with each other in providing government services, such as education and welfare, which are important from both the national and local perspective. This 'partnership' between the national and local governments however is not always on an equal footing and sometimes involves the national government's overly guardian-like supervision of local governments. There was even a statutorily institutionalised intergovernmental arrangement, commonly called the 'agency-delegation' system, pursuant to which the prefectural governor or municipal mayor

acts as an agent of the national government in performing some of his/her responsibilities. As will be explained later, the abolition of this 'agency-delegation' system was one of the highlights of the decentralisation reform implemented in April 2000.

iii) High degree of dependence on financial transfers from the national government

The last point concerns financial relations between the national and local governments. In Japan, each level of government levies and collects taxes. Major national taxes are income tax, corporations tax and consumption tax. Prefectural taxes include enterprise tax, prefectural resident (income) tax, and automobile tax. As in Australia, taxes on real property value is the major tax revenue source of Japanese municipalities, but they also collect municipal resident (income) tax and several minor taxes. In terms of the proportion of total tax revenues, national taxes account for 60% (FY 1998). On the other hand, if we look at the ratio of government outlays between national and local (prefectures and municipalities combined), it is 40 : 60, just the reverse of the tax revenue ratio.

This means that there exists a significant degree of financial revenue transfer from the national government to local authorities. In fiscal year 1998, as a whole, Japanese local authorities generated only 35% of their total revenue from their own taxes and depended 33% on national grants, of which 54% were general purpose grants and 46% were specific purpose grants (Table 2).

This considerably centralised financial structure has its merits in equitably guaranteeing necessary financial revenue for all Japanese local governments, each of which, as explained earlier, is responsible for a very broad range of government functions regardless of its size or economic circumstances. It has also been mentioned, however, that the distribution of national government grants, especially

Table 2 Revenue Sources for Japanese Local Authorities (FY 1998)

(billion yen, %)

Source of Revenue	Prefectures		Municipalities		All Local Authorities (net total)	
Local Taxes	17,237	31.1	18,685	34.5	35,922	34.9
General purpose grants	9,401	16.9	11,287	20.8	18,641	18.1
Special purpose grants	10,164	18.3	8,162	15.1	15,745	15.3
Loans	8,665	15.6	6,562	12.1	15,136	14.7
Fees & Charges	1,059	1.9	1,322	2.4	2,380	2.3
Other	8,977	16.2	8,160	15.1	15,045	14.6
Total	55,503	100.0	54,178	100.0	102,869	100.0

Source : Ministry of Home Affairs, White Paper on Local Government Finance in Japan 2000

specific purpose grants, often involves inflexible conditions and much 'red-tape', both of which hamper the effective and efficient implementation of local projects. Furthermore, the high degree of financial dependence tends to make local governments less autonomous also in their policy-making, by nurturing the passive 'wait until the money comes from above' attitude among local government officials.

It is no wonder, therefore, that a more decentralised local government financial structure has been one of the most frequently and vigorously discussed subjects in the debate on local government reform. The issue has also been one of the most difficult for which to find a widely accepted solution because it needs to carefully balance the trade-off between strengthening an individual local authority's financial autonomy and equitably ensuring necessary revenues for all local authorities.

2. Socio-Economic Pressures for Reform

As summarised in the previous section, the Japanese local government system has both decentralised and centralised features. This hybrid could to a large extent be attributed to the fact that the current local government system was established after WW2 under drastic democratic reforms to the highly centralised pre-war government system. The changes were so drastic that people who had been used to the pre-war centralised government system were not well prepared for the highly autonomous local government system which emerged through those reforms. As a result, while a considerable level of independence for local governments was guaranteed, as far as the formal system was concerned, in the actual operation of local public administration there still remained rather strong national control in various forms over the activities of local governments.

Interestingly, this unique blend of decentralised and centralised features served very well for the promotion of economic development in post-war Japan. At the macro level, the centralised part of the system enabled limited resources to be strategically allocated in different parts of the country through centrally orchestrated development plans, thereby maximising the gross national economic growth. At the micro level, the decentralised part of the system helped to fairly equitably distribute the fruits of economic growth throughout the country, by ensuring that a standard level of government services was available and a more or less similar standard of living could be enjoyed in any place.

This dual governmental structure, however, gradually lost its effectiveness, especially after the oil crisis in 1973 which shook the Japanese economy and led to slower economic growth. Its inertia came to invite more attention and discussion after the steep rise in the value of the yen following 'the Plaza Accord' in 1985, which severely hit the Japanese economy and society and necessitated structural changes. It was generally felt that the centralised features of the government system were failing to meet with mounting pressures for dynamic government responses to the rapidly and drastically changing socio-economic conditions in Japan.

In economic terms, exposure to the increasingly fierce global competition necessitated structural changes to the Japanese economy, from one heavily dependent on export, to one reliant more on domestic consumption for growth. Under the circumstances, it became increasingly difficult for the national government to draw up and lead an effective 'nation-wide' economic development strategy, because the specific conditions of different localities such as environment and other living conditions demanded greater attention if both industrial development and domestic consumption were to be boosted. In fact, since the late 1970's, while a series of centrally led development plans did not prove to be great successes, there were some successful cases in which local authorities took the initiative in invigorating both local industries and their communities.¹⁾ These successes served to attract wider attention to the potential of locally initiated economic development.

Turning to social factors, the centralised government system, which worked very well to ensure national minimum standards of living, has not been as effective in meeting the growing and diversifying demands of people for a better quality of life. In spite of achieving minimum standards, people in different areas have different needs for their quality of life dictated by the different conditions of the environment in which they live. Furthermore, massive social changes have further diversified administrative needs across different areas, making it more and more

1) The most famous example of a locally-led economic development initiative, commonly known by its slogan, 'One Village, One Product' Movement, was launched in 1979 by Governor Hiramatsu of Oita Prefecture. Each town or village in the prefecture chose one local product, typically an agricultural product, for special promotion jointly with the prefectural government. The chosen products, whether or not they were eventually a hit in the marketplace, have given each community a face or a symbol, which in turn greatly helped nourish and strengthen a sense of community spirit among the residents.

difficult to address them by centrally led uniform policy measures. Consequently, there has been a considerable shift of policy making and implementation onus from the national to the local governments, especially for aged and child care services, in a bid to respond effectively to the rapid ageing of the population (the proportion of population aged 65 and over will rise from 17.2% in 2000 to 25% in 2015) and the sharp fall in birthrate (from 2.14 in 1973 to 1.38 in 1998).²⁾

3. Development of Decentralisation and Local Government Reforms

To address these mounting pressures for government reform, the Japanese government has developed and introduced one reform initiative after another since the 1980s. The development of the government responses up to the present day can be divided into three periods.

3. 1 Downsizing of the national government structure (1980–88)

The first period (1980–88), starting with the establishment of the Prime Minister's Government System Review Committee (commonly known in Japan as '*rincho*') in March 1981, mostly focused on the downsizing of the national government structure. Major reforms in the 1980's included :

- more strict control on the number of national government personnel (about 1.20 million in 1983; 1.14 million in 2000) ;
- privatisation of the three major national government enterprises — the Japan Railway, Nippon Telephone & Telegraph and Japan Tobacco (1984–86) ;
- reduction of the national government grants in terms of their coverage of the total project/program cost (1985–88); and
- the introduction of a simpler income tax system and new general consumption tax (1988).

2) Under the national aged care insurance scheme, which started in April 2000, municipalities assumed vital responsibility for determining and levying insurance premiums, assessing a client's nursing care needs and providing nursing care insurance services. Japanese municipalities have also consolidated their efforts to increase child care facilities and enhance child rearing support under a policy package commonly called 'Angel Plan', starting in 1994.

3. 2 Groundwork for a more decentralised government structure (1989 – 95)

The second period (1989 – 95) was marked by the introduction of a series of measures which laid the groundwork for implementing decentralised reforms. These measures could be classified into four categories.

The first set of measures was to encourage local government initiatives in planning their community policies:

- the allocation of the local initiative encouragement grant (general purpose) of a fixed amount of 100 million yen each to virtually all local authorities (the scheme commonly known by its slogan, '*furusato sosei*' [creative hometown]) (1988 and 1989); and
- the encouragement of projects with more emphasis on local initiatives by introducing special measures in the financial assistance grants system (1988).

The second set of measures could be seen as pioneering decentralisation reforms:

- amendment of legislation on aged care services to enable each municipality to provide such services in a co-ordinated fashion in accordance with its plan based on local needs (1990);
- experiments in decentralisation on a limited scale wherein national government involvement in implementing a specified project was tentatively loosened for some approved municipalities ('decentralisation pilot municipality scheme') (1993); and
- the creation of a local tax portion of the consumption tax revenues which is distributed among local authorities according to consumption-related indicators (1994).

The third set of measures consists of those providing for more diverse local government arrangements which could more flexibly fit the different administrative needs of different localities:

- introduction of a new urban government arrangement, under which some prefectural responsibilities are devolved to designated 'core' cities with a population of 300,000 or more and serving as a socio-economic centre for the surrounding region (1994);
- the introduction of a new form of regional cooperation among local author-

ities by which more strengthened administrative and financial powers are granted than is the case with traditional joint administrative organisations of municipalities (1994); and

- the amendment of the Municipal Amalgamation Law to introduce some new inductive measures to facilitate the amalgamation process (1995).

The last category concerned local government management reforms:

- enactment of 'the Administrative Procedure Law' with an aim to ensure fairness and the enhanced transparency of government procedures (1993), and
- an increase in local authorities which have enacted their own information access (freedom of information) law.

All in all, reforms in this period could be seen as those to improve local governments' competence for governance without national guardianship, as well as to lay the institutional groundwork for more substantial decentralisation reforms.

3.3 Comprehensive review of intergovernmental relations and implementation of decentralisation reforms (1995–2000)

Finally, the across-the-board, intensive review of intergovernmental relations started in 1995 with the enactment of the Decentralisation Promotion Law. The passage of the Law was mostly predetermined because, following the final report of the Administrative Reform Council, both Houses of the Diet (Parliament) had passed a unanimous resolution in 1994 that Cabinet should promote decentralisation. Based on this Law, the Decentralisation Promotion Committee was established in July 1995 as the Prime Minister's consultative board to discuss the basic subjects concerning decentralisation reform and, based on the results of the discussion, submit its recommendations to the Prime Minister. The Law provides that the national government should respect the Committee's recommendations when it formulates the Decentralisation Promotion Plan on which concrete measures should be taken.

Since its establishment, the Decentralisation Committee has submitted a total of five sets of recommendations to the Prime Minister on the reforms needed to simplify and streamline the nation's overall government framework so that the drastically changing administrative needs can be effectively and efficiently addressed.

Taking into account the Committee's recommendations, the national government drafted the Decentralisation Promotion Plan and a piece of legislation involving amendments to as many as 475 statutes — one third of the total — to implement the Plan. The Decentralisation Implementation Law was passed by the Diet in July 1999 and came into effect in April 2000.

4. Impact of the Decentralisation Reform

'Decentralisation (*chiho bunken*)' in the Japanese context does not mean the relocation of national government departments and agencies to regional cities, as it often does in Australia. Nor does it simply mean the devolution of national government services and functions to local government. In Japan, the agenda of the 'decentralisation' reform in fact includes the complete restructuring of administrative and financial intergovernmental relations, as well as managerial reform and improved accountability mechanisms of local governments.

From this wide-ranging agenda, the decentralisation reform implemented in 2000 was mainly targeted at 'deregulating' local government from far-reaching national government supervision. Other major areas addressed by the reform included devolution of administrative responsibilities to local governments and financial structure reforms. The following summarises the outcome of the decentralisation reform of 2000 on these three fronts.

4. 1 Intergovernmental relations — the abolition of 'agency delegation' and reclassification of responsibilities

The most significant outcome of the decentralisation reform of 2000 is that it has dramatically streamlined the previous complicated intergovernmental administrative arrangements, which were considered to greatly hinder responsible and accountable local government management. As described earlier (1. 2 iii), although Japanese local authorities are responsible for a considerably wide range of government services, they were subject to various instances of national intervention in handling them. As a matter of fact, many of the responsibilities handled by local authorities were not really their own responsibilities but national government responsibilities assigned by law to their governor or mayor. This statutorily institutionalised arrangement, commonly called the 'agency-delegation' system, was introduced way

back in 1888 as a mechanism by which the national government controlled municipal mayors when they handled family registration and conscription, these being vital government services at the time. This system expanded to cover many prefectural responsibilities after WW 2 as the national government sought to retain its influence as much as possible, even though prefectural governors were no longer to be nationally appointed but popularly elected. It is estimated that, prior to their abolishment, 'agency-delegated' responsibilities accounted for 80% of prefectural and 40% of municipal responsibilities.

The 2000 Decentralisation Implementation Law has completely abolished this 110 year old intricate intergovernmental system which required Governors and Mayors to assume dual responsibility as chief executive officers of local authorities and as 'agents' of the national government (i.e. they were subject to national government's general supervision when handling their agency-delegated functions). It was a complex arrangement because the system blurs administrative responsibility between the national government and local authorities.

With the abolishment of the 'agency-delegation' system, the division of responsibilities among spheres of government has become clearer and more consistently defined. Three percent of the former agency delegated functions have been abolished or are now directly managed by the national government, and 55% have become local authorities' own responsibilities. The remaining 40% or so have been classified into a newly created category of statutorily assigned responsibilities. This category should only include responsibilities which are clearly identified as, for example:

- those closely related to the fundamental aspects of national governance;
- those the most vital part of which are directly managed by the national government (e.g. enforcement of national environmental standards);
- those involving the provision of financial assistance which should be granted on the basis of uniform national standards (e.g. the provision of welfare assistance);
- those relating to the prevention of widespread health hazards (e.g. regulations on medicine and food); and
- those which are only preliminary procedures before the task is transferred to the national government (e.g. receipt of documents from residents for submission to the national government).

These responsibilities, while they are by nature of national significance, are handled by local authorities for the convenience of residents or for administrative efficiency. Unlike the 'agency delegated' responsibilities, 'statutorily assigned' responsibilities are assigned to the local authorities themselves, not to their governor or mayor. Furthermore, national intervention has been significantly reduced and its form more strictly defined. In specific cases where the national government's involvement is permitted by law, its form must in principle be not of an instructive nature but advisory or consultative. Complaints about inappropriate behaviour can be put before a newly established panel for settling intergovernmental disputes.

It is expected that, since local governments are now largely freed from national government red-tape and prescriptive intervention, they will be able to promote their community development in a more holistic and flexible manner, reflecting particular local circumstances and priorities. This has long been desired by local governments, which will now seize new opportunities for effective land use planning, community service delivery and the development of multi-purpose community facilities, all of which have often in the past been difficult for them to promote due to the national government's departmentally sectarian supervision.

4. 2 Devolution of administrative functions

As part of the decentralisation reform, the devolution of responsibilities has advanced to some extent. Most significantly, authority relating to environmental protection and land use regulation is largely transferred from the national government to cities with a population of 200,000 or more. Other wholly or partly devolved functions include the regulations of forest reserves and gravel pits, sewerage development approvals (to prefectures), childcare allowance-related decisions (to cities) and dog regulation (from prefectures to municipalities).

The number of devolved items appears to be relatively limited. There are several reasons for this. There indeed was a large-scale devolution in real terms as a result of the abolishment of agency-delegated functions, many of which were reclassified as local governments' own functions. This virtual devolution has more widely involved prefectures than municipalities because agency delegation was much more common to the prefectural governments. The logical next step of devolution therefore would be transfer of responsibilities from prefectures to municipalities. While a considerable part of prefectural responsibilities has already stat-

utorily been devolved to large cities, it seems difficult to introduce nationwide devolution of prefectural functions to smaller municipalities because their administrative and financial base to assume new functions are greatly varied from one to the next. It has been deemed appropriate therefore that each prefectural government should explore the feasibility of transferring their responsibilities to smaller municipalities, taking into consideration the capabilities of municipalities in their area. The devolution to municipalities would be more likely if they were to promote structural and managerial reforms, strengthening their administrative and financial capabilities.

4. 3 Financial structure reforms

On the issue of financial structure reforms the most desired outcome, the granting of new tax revenue sources to local authorities, appears very difficult for the moment in light of the current critical situation facing Japanese government finances, with huge debts borne by both the national and local governments. Therefore, reforms in this area have been mainly targeted at rationalising the specific purpose grants system with a view to minimising its undermining effect on local authorities' policy implementation.

The Decentralisation Promotion Committee's recommendations on this matter included :

- The specific purpose grants should be clearly divided by their nature into two categories. One is those paid by the national government to meet its obligatory share of expenses for compulsory education, social security and other fundamental national services or nationally significant large-scale infrastructure projects; the other is those aimed at encouraging local authorities to introduce nationally drafted programs.
- While grants falling into the first category should be guaranteed each fiscal year, those of the latter category, encouragement grants should, in principle, be abolished or reduced.
- The 'sunset' system, under which any grant expires within a specified period of no longer than five years, is in principle applied to all existing and new encouragement grants.
- Fewer conditions and specifications should be attached to grant-funded projects or programs. The grants application procedures should also be sim-

plified.

- National government control over local governments' borrowing and their own discretionary taxes should be eased by changing the current 'approval' of such matters to 'prior consultation'.

From a viewpoint of the call for strengthened financial autonomy of local authorities, there has been a very interesting event which has attracted nationwide attention and invited much debate. In February 2000, Tokyo Metropolitan Governor Shintaro Ishihara proposed that the metropolitan government impose a 3 % tax on gross benefits of large banks operating in Tokyo. While corporate enterprise tax constitutes one of Japanese prefectural governments' major tax revenues accounting for 27.5% of the total in FY 1998, the tax is levied on companies' profits, thus exempting those in the red. Tokyo instead planned to levy it on the gross profits of 30 of the large banks in the Metropolis with funds of 5 trillion yen or more each, which are always positive because they are the amount from which costs and losses are subtracted. (The plan had its statutory basis in Article 72 of the Local Tax Law, which allows local governments to flexibly set the basis for local corporation taxation.) The amendment to the Tokyo Metropolitan Tax Bylaw incorporating the proposal was passed by the Tokyo assembly and came into effect for five years from April 2000 to bring a projected 110 billion yen a year to the seriously debt-ridden metropolitan government.

Tokyo's initiative was met by the fierce opposition from the banking industry as well as the national government, which claimed that it was inappropriate to target only banks when economic recovery and financial stability were imperative. It was widely supported by the general public however, many of who them shared resentful feelings towards the banking industry, because they saw the industry benefiting from the virtual zero interest policy at the sacrifice of consumers, while a huge sum of taxpayers' money had been poured into the national government's rescue programs for troubled financial institutions. A majority of other prefectural governors also directly or indirectly supported Governor Ishihara's bold initiative, saying the move was in line with the decentralisation reform, which would not be really achieved without solid financial resources of local governments. Spurred on by Tokyo's 'victory' which coincided with the introduction of decentralisation reform, in creating a new tax of its own, scores of other prefectural governments have

embarked on exploring the feasibility of introducing their own new taxes and/or tax rates to help alleviate their severe financial situations.

In the meantime, the national government, having failed to block Tokyo's move, has started seriously considering an amendment to the Local Tax Law to enable all prefectures across the nation to levy their corporate enterprise tax even to loss-making firms (not only banks but any companies) as is the case with the one introduced by Tokyo. In fact, while the introduction of local corporate taxation based on what is called '*gaikei hyojun*' — external standards reflecting the size of companies' business activities, such as their sales and the number of employees — has long been under consideration by the national government with an aim to help stabilise prefectural tax revenues, which are susceptible to economic fluctuations, the change has never materialised because of the strong opposition by business associations, only to see the Tokyo metropolitan government become the first local government to introduce a tax of that kind.

So, Tokyo's new tax was not only successfully introduced despite the national government's opposition but also provided a model for the national government, not to mention other local governments, to deliberate on local taxation. Although views would vary as to whether the introduced tax is appropriate from a viewpoint of overall economic and taxation policies, Tokyo's move could be seen as one of the earliest signs suggesting the changing policy-making style under the post-decentralisation regime.

5. Ongoing Local Government Reforms

Decentralisation reform was not unmet by opposition and resistance especially from the bureaucrats of the national government. Many of them were — or perhaps still are — sceptical of local governments' capability to handle vital services without the national government's oversight and prescriptive directions. Mindful of these concerns, the Ministry of Home Affairs, a major decentralisation proponent at the national level, has actively promoted local government structural and management reform. Furthermore, faced by severe financial constraints stemming from the country's long-running economic slump, an increasing number of prefectures and municipalities have been introducing major organisational and operational reforms.

The following features the recent developments in five key areas of local

government reforms: municipal amalgamations, regional cooperation, organisational restructuring, policy review and accountability.

5.1 Municipal amalgamations

Table 3 shows the change in the number of Japanese municipalities over the years since the 1880's to date.

Looking back over the history of Japanese local government, there have been cases in which the national government has played a deft hand in bringing about nation-wide municipal amalgamations. The first such mass amalgamations took place in the 1880's when Japan was trying desperately to accelerate its modernisation in order to catch up with western powers. The then existing local communities, which numbered more than 70,000, served well as units of communal life but were too small as governmental units, especially for adequately handling, among others, family registration and conscription, these being the most vital municipal responsibilities from the central government's viewpoint at the time. As the pre-war national government in Japan was an extremely centralised and powerful one, it was able to sweep traditional villages away and to reorganise them into 'modern' governmental units without much difficulty. As a result of this mass amalgamation, the total number of municipalities was reduced to one fifth within only a few years.

The second drastic amalgamations were urged after WW2, in order to mould local governments to their dramatically changed status and to ensure they could take on their expanded responsibilities. In keeping with the democratic reforms of the post-war period, by following the constitutionally declared principles of local autonomy, a considerable level of independence for local governments was

Table 3 Change in the Number of Japanese Municipalities

Year	Number	Year	Number
1888	71,314	1965	3,392
1889	15,859	1970	3,280
1930	11,929	1975	3,257
1945 (Oct.)	10,520	1980	3,255
1950 (Jan.)	10,443	1985	3,253
1954	8,928	1990	3,245
1955	5,206	1995	3,234
1957	3,866	2000	3,229

*The number of municipalities in 1954 and after is as at April of that year.
Source: Ministry of Home Affairs

guaranteed, with far less national control and significantly strengthened citizen participation in their operations, compared with the pre-war period. At the same time, the scope of municipal responsibilities was greatly widened, because one of the basic components of 'local autonomy' was understood to be that services which are closely related with people's daily life should be handled by municipalities as much as possible, they being the governmental unit closest to the people. Many municipalities of the time, however, experienced extreme financial and administrative difficulties in assuming their significantly increased responsibilities, especially in operating primary and secondary schools. Under these circumstances the national government, supported by peak local government organisations, actively encouraged municipal amalgamations (the target for the minimum municipal population was set at 8,000). In 1953, the Diet enacted a special law providing for measures to motivate municipalities to amalgamate as well as smooth the amalgamation process. The measures included financial incentives for new enlarged municipalities and a guarantee of office for assemblymen of the amalgamated local governments for a transitional period. Pursuant to this special law, the total number of municipalities sharply declined from over 10,000 in 1953 to less than 4,000 in 1956.

The number of municipalities has remained largely unchanged in the forty years since the second mass amalgamation of the mid-1950's, and now totals about 3,200. While Japanese local governments have generally performed their vital role of meeting their community's changing needs throughout these years well, contributing significantly to improving people's quality life and promoting the economic development of Japan, it is thought that they should improve their administrative and financial capabilities to facilitate a more effective response to the growing needs for service, most importantly in the area of aged care. In some cases, a municipality may have insufficient resources to assume its increasingly vital responsibilities without increasing in size by amalgamating with other municipalities. In recent years, therefore, municipal amalgamations have appeared as a top priority item on the Japanese local government reform agenda.

The Japanese government's approach towards local government amalgamations has been one of encouraging voluntary rather than forcing compulsory amalgamations. In fact, Japanese local governments will never be forced to amalgamate, because they have been established on the principle of local autonomy. If the assembly of a municipality is opposed to the proposed amalgamation, the municipality

will not be amalgamated against its assembly's will. Therefore, the national government does not resort to coercive measures but prepares lubricating measures to remove obstacles and encourage voluntary amalgamations. Provision is made for a guaranteed transitional number of councillors, exceeding the statutory upper limit,³⁾ and approval to continue levying different pre-amalgamation municipal tax rates for three years.

Furthermore, the Municipal Amalgamations Law was amended in 1995 to introduce the so-called residents' initiative for amalgamation: if more than one fiftieth of the electorate of a municipality petitions its mayor, the mayor should initiate talks on a proposed amalgamation with the mayors of the relevant municipalities (Ultimately, however, the assembly of the municipality will vote on the amalgamation requested by the initiative). There have been the total of 37 residents' initiatives for mergers between 1995 and 2000. Of these, 20 cases have successfully gained the support of their local assembly, leading to the establishment of a formal body to investigate the pros and cons of amalgamating. Including those not instigated by residents, 199 cases of amalgamating have been being considered across the country, involving 871 local governments (as at January 1, 2001), although those which have actually materialised are still relatively few, with five cases of mergers involving 12 municipalities since 1996 up to January 2001.

In its show of support for amalgamation moves, the Ministry of Home Affairs published a set of guidelines for promoting municipal amalgamations in August 1999, and urged prefectural governments to refer to this document and advise municipalities accordingly. The guidelines do not prescribe a uniform process, but explain the associated benefits that may flow from several patterns of municipal amalgamations (see Table 4). The guidelines put forward a particularly strong case for amalgamating small-area municipalities in a metropolitan or regional centre, where there is a big discrepancy between the limited area of local government's jurisdiction and the wider area of local residents' daily activities. The guidelines

3) The size of the population is used to determine the number of assemblypersons to which each local authority is entitled, as set down in the Local Autonomy Law; the number ranging from 40–120 in prefectures, 30–100 in cities and 12–30 in towns and villages. For example, a city with a population of 50,000–150,000 would be entitled to up to 36 assemblypersons, while a town with 5,000–10,000 residents can have 22 members.

Table 4 Amalgamation Patterns and Benefits for Japanese Municipalities

Amalgamation Patterns (typical population size of the emergent municipality)	Expected Benefits (examples)
(500,000 or over) ■ Two or more neighbouring regional cities amalgamate ■ Several neighbouring mid/small-sized cities in a metropolitan area amalgamate	■ Development of a more integrated, stronger commercial zone ■ More balanced and consistent urban development ■ Qualifying as a 'designated city', to which wide-ranging prefectural responsibilities are transferred
(200,000 – 300,000) ■ A regional city amalgamates with surrounding municipalities ■ Several neighbouring small-area cities, which form a continuous commercial/residential corridor in a metropolitan area, amalgamate	■ Better urban planning and environmental preservation ■ Boosting the urban status of the area ■ More effective response to rapid population growth ■ Creation of a city with high growth potential ■ Qualifying as a 'core' city, to which some prefectural responsibilities are transferred
(100,000) ■ A small regional city and surrounding municipalities amalgamate ■ Several neighbouring small-population cities near a metropolitan area amalgamate	■ Capacity to provide 'high standard' municipal services, such as the establishment of senior high schools and waste management centres ■ Growth as the prefecture's second or third urban centre, which contributes to balanced development of the prefecture as a whole
(50,000) ■ Several neighbouring rural municipalities, which together constitute their residents' daily life zone, amalgamate	■ Upgrading welfare services ■ Development of high quality public facilities ■ Promoting urbanisation in a consistent manner ■ Qualifying as a 'city'
(10,000 – 20,000) ■ Several neighbouring rural/remote municipalities sharing communities of interest amalgamate ■ Several municipalities on a remote island amalgamate	■ Optimal provision of 'basic' municipal services, such as community aged care and the establishment of junior high schools

Source : Guidelines issued by the Japanese Ministry of Home Affairs, August 1999

also place considerable pressure on less-populated municipalities to consider amalgamating, stating that a population of at least 10,000 – 20,000 is necessary if a municipality is to remain sustainable and be able to provide fundamental services in health, welfare and compulsory education.

In keeping with the guidelines, prefectural governments have drawn up their own basic principles for promoting municipal amalgamations within their respective jurisdictions. The onus is now on municipalities to display that they can remain sustainable while taking on new and vital responsibilities — by amalgamating with other municipalities, or otherwise. According to a survey (June 1997) conducted by the Japanese government, nearly half of Japanese municipalities think that it may be increasingly difficult for them to respond effectively to their community's needs, especially in terms of aged care, and the majority of municipalities (66%) consider

it necessary to at least explore the impact and possibility of amalgamation. As for factors which could pose as obstacles to actually proceeding with amalgamations, the top three answers were: losing its respective government unit by amalgamation may lead to an increased gap in the development of the existing municipalities (59%); policy-making in a larger municipality may become less reflective of residents' opinions (55%); and it will become more difficult for a larger municipality to meet the specific and different needs of individual residents (55%). It will be important and necessary for the Japanese government to devise and provide measures which will help clarify or mitigate these worries held by local governments, if it is to be seen as an advocate of 'voluntary' municipal amalgamations.

5. 2 Regional cooperation

While the national and many prefectural governments have been keen advocates of municipal amalgamations to achieve greater efficiency in local government, regional cooperation is another major approach which has flourished over recent years among Japanese municipalities. It is not new nor rare that two or more municipalities establish some form of an organisation, which is similar to a county or regional organisation of councils (ROC) in Australia, to jointly operate their common specific services such as waste management, water, sewerage and fire fighting. Cooperation has been widespread also in such areas as the sharing of libraries, sports and recreation parks and other community facilities and through staff exchanges for sharing expertise and facilitating mutual cooperation.

More recently, a growing number of municipalities have been inspired to form a new regional cooperation arrangement by the introduction of the national aged care insurance scheme, under which they assume responsibility for:

- determining and levying insurance premiums (All citizens 40 and over will pay monthly premiums, determined by the municipality in which they reside. Payment will make them then eligible for nursing care services later in life.);
- assessing a client's nursing care needs, and
- providing nursing care insurance services.

Many municipalities have acknowledged their limited administrative capacity to independently implement the changes and administer the new system. As a result, they are increasingly developing regional strategies for aged nursing care with

neighbouring municipalities. Regional administrative arrangements promise:

- reductions in administrative costs (e.g. staff pooling and the exchange of computer and operational expertise);
- access to a wider pool of assessment professionals;
- better quality and complementary services, and
- a more secure insurance fund pool.

A survey by the Japanese Ministry of Health and Welfare found that almost 80% of municipalities were practicing regional cooperation in operating their aged care insurance programs. As at January 2000, a total of 408 municipalities had established regional councils or other joint organisations for that purpose across 54 regions, and about 2,500 municipalities were working cooperatively to assess client needs across 275 regions.

Japan's first regional council for administering the aged care insurance scheme was established by the City of Utashinai and five neighbouring towns in Hokkaido in July 1998. The local authorities have a combined population of approximately 35,000, of which the aged population accounts for 25.1%, 10 points higher than the national average. Of the six member municipalities, the population of the smallest town is less than 3,000. This town has no general practitioner making it impossible for an assessment panel to be formed. Furthermore, this town and similarly sized municipalities questioned the ability of a panel to make an objective assessment of an elderly person's care needs if relatives or friends were panellists. Regional panel assessment arrangements will eliminate these problems. Additionally, administrative costs can be reduced by approximately one third. There are also plans afoot to develop a computer network system connecting health and aged care facilities in the region. The system would also be used to track the care needs of all older citizens in the region.

It is widely anticipated that many of the regional arrangements inspired by the introduction of the aged care insurance system will expand to encompass other health and welfare services as well as areas such as economic and tourism development and recycling services.

5.3 Organisational restructuring

As far as local government organisational reforms are concerned, various efforts

have been made by individual local authorities since as early as the 1970's, and on a more national scale and systematically since 1985, when the Ministry of Home Affairs put forward and announced comprehensive guidelines for promoting voluntary, across-the-board administrative reforms at the local level. All prefectures and 99% of municipalities had developed their own administrative reform plans by the end of 1998.

The current major administrative reform agenda for Japanese local authorities, therefore, is to review their existing administrative reform plans and to further promote ongoing reforms from the strategic viewpoint of ensuring the smooth and effective implementation of decentralised reforms. For its part, the Ministry of Home Affairs published new administrative reform guidelines, titled 'Guidelines for Promoting Local Government Administrative Reforms in the Age of Local Autonomy' in November 1997. The following points feature in the new guidelines:

- to set tangible reform targets as much as possible for the number of personnel, organisational restructuring, grants restructuring and other objectives so that residents can easily monitor the reform outcomes;
- to rouse citizens' interests and seek their understanding and cooperation in promoting reforms through active public relations, opinion polls and other measures, and
- to promote the restructuring of local government corporations (companies or foundations wholly or mostly established by a local government).

As part of organisational reforms, the contracting out of municipal services has significantly expanded. According to a Ministry of Home Affairs survey as at April 1998, 77% of municipalities have contracted out their garbage collection services, 77% of park management, 82% of home help services for the aged, 82% of municipal office cleaning and 50% of road maintenance.

More recently, as the prolonged economic slump in Japan has severely affected local government finances, organisational streamlining and the rationalisation of personnel have emerged among the major reforms. An increasing number of local governments have adopted a numerical target for staff downsizing. For example, the Tokyo Metropolitan Government plans to reduce its personnel by 10,000 (5%) over five years and Osaka Prefectural Government by 7,000 (9.5%) over ten years. All prefectures and 43% of municipalities had set similar numerical goals by the end

of March 2000. It should be noted here that dismissing staff before the age of retirement has been rare thus far in Japan's public sector. Rather, posts left vacant following a public servant's retirement are not immediately filled by employing new staff, but job allocation and organisational structures are streamlined so that the same level of performance can be achieved overall by fewer staff.

Reflecting this downsizing trend in the public service, the total number of Japan's local government personnel—prefectural and municipal combined—was 3,249,494 in April 1998, a drop of 17,624 or 5 % over the previous year. This was the largest post-WW 2 decline. Prefectural personnel have decreased over seven consecutive years since 1991. The decrease in municipal personnel is less significant, but this can largely be attributed to the growing demand for aged care services, for which municipalities are employing an increasing number of staff. Outside aged care and other community services, staff numbers have been steadily declining also in municipalities. The contraction of workforce continued in 1999 both at prefectural and municipal government levels by 11,709 and 5,627 respectively over 1998.

5. 4 Policy Review

Another key area vigorously addressed by recent administrative reforms of Japanese local governments has been establishing a system to ensure efficient management of their various projects and programs. Undoubtedly, the impact of Japan's long-lasting economic slump on government finances has been one impetus for this trend. It is now imperative for local governments to make efficient and effective use of their increasingly limited resources by allocating them to well-defined and essential priority programs. At the same time, to meet public demands for open and transparent government, local authorities must now be prepared to explain their policies, programs and outcomes in a clear and timely manner.

'Policy review' therefore is now pivotal in the reform of public administration across Japan, although procedures and objectives differ from one local authority to the next. It was two prefectural governors—Mr Tatsuya Hori of Hokkaido and Mr Masayasu Kitagawa of Mie—who had paved the way to this trend by introducing the following groundbreaking policy reviews to their respective governments in 1997, sparking many other local authorities, and even the national government, to follow suit.

Hokkaido Prefecture's "Time Assessment"

Literally translated as 'assessment of time', *'toki no asesu'* is the catchphrase for the policy adopted by the prefectural government to review the current relevance or effectiveness of government programs and projects, taking into consideration their date of inception. The policy has been drawn up to prevent frittering away huge sums of money and resources on projects which have continued without reference to changing social circumstances. Governor Hori explained his motivation to introduce the initiative as follows:

"While continuity is very important for responsible government, failure to stop to assess the value or effectiveness of a project can draw criticism of public servants for 'being bound by red-tape' or 'squandering taxpayers' money'. Nowadays, the pace of change is rapid. The many and diverse programs undertaken by our Government may include those which, as time has gone by, have lost much of their relevance, effectiveness and priority..."

In Hokkaido, projects and programs which have stagnated for a long time, whose relevance or effectiveness may have diminished due to changing socio-economic circumstances or resident needs, or which are difficult to start up again having stagnated for a long time, are subject to review. The department responsible for each such project evaluates it in terms of its current necessity, effectiveness, priority and efficiency, also taking into account residents' views and any alternatives. The Vice Governor and his evaluation taskforce receive a two-page report on each project for consideration. Recommendations are then made to the Policy Council on whether a project should be modified, abolished or allowed to continue.

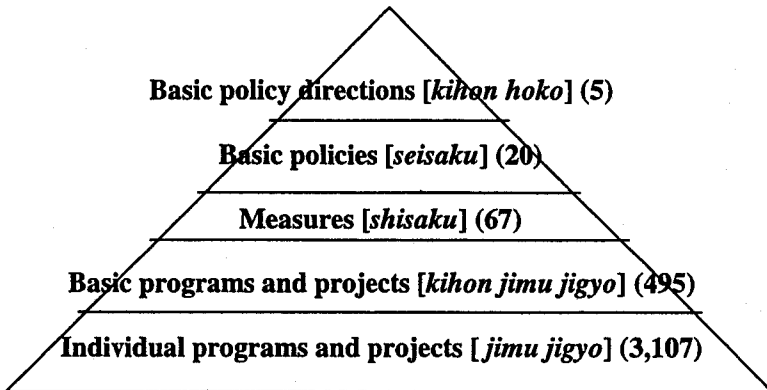
Mie Prefecture's "Program and Project Review System"

The objective of Mie Prefecture's approach to policy review was explained by Governor Kitagawa as follows:

"Unless all public officers share a common vision, founded on clear strategies and policies, the government inevitably becomes passive, inflexible and bound by precedents. Government policies should develop with changing socio-economic trends, and be aligned with people's everyday needs. We must review our government's

projects and programs with this in mind and establish a bureaucracy in which each staff member clearly understands the contribution of his/her work to achieving good governance."

With the scope and diversity of government programs and projects, public servants may lack a clear understanding of where the task for which they are responsible fits into the overall scheme of government planning and service provision. To resolve this, Mie Prefecture has implemented a policy to clarify the goal of each program or project from a 'whole of government' viewpoint, so that each officer is able to perform his task in a more consistent, coordinated and purposeful manner, ensuring greater accountability. The prefectural government has developed a pyramid-like schemata, as follows, to illustrate its vision and the processes whereby this can be achieved.



There are some 3,107 individual programs and projects requiring evaluation against a standard, concise two-page evaluation sheet. Mie's objective is to deliver a 'shared vision' among all public officers, councillors, and most importantly the residents, to maximise public accountability and thereby the efficiency and effectiveness of public administration.

As at August 2000, 24 prefectural governments (51%) have introduced one form or another of policy review system into their organisation. At the municipal level, although the move has been much slower, more than half of the municipalities are considering the feasibility of such an introduction. Furthermore, spurred by the initiatives of local authorities, the national Ministry of Construction has reviewed its

dam construction projects throughout the country, leading to the cancellation or halting of work on nineteen construction sites nationwide. This has been followed by the Prime Minister's instruction in December 1997 for a comprehensive review of all public works.

5. 5 Accountability

In order to strengthen the accountability of local authorities, the audit system was changed in 1997 so that professionals such as lawyers and accountants could be contracted as 'external' auditors to local government.

In response to growing public pressure for more transparent government, there also has been a dramatic increase in the introduction of Information Disclosure By-laws among local authorities. The first such bylaw was enacted by Kanayama Town (Yamagata Prefecture) in 1982 and by Kanagawa Prefecture in the same year, by far preceding the national government's introduction of the Information Disclosure Law in 1999. By April 2000, all prefectures and 26.5% municipalities have established such a bylaw.

Meanwhile, recent years have seen a growing number of local authorities conducting plebiscites on contentious issues such as the construction of nuclear power plants and the hosting of an American military base within their boundary. However, although the establishment of a more formal and general referendum system by law was discussed by the Decentralisation Promotion Committee, the Committee took a rather cautious stance because the wider use of referenda might drastically change the current basic local government structure based on representation through the popularly elected chief executive officer and Assembly.

Conclusion

All in all, Japanese decentralisation and local government reforms could be seen as qualitative rather than quantitative. 'Decentralisation' in the context of Japanese government reforms is largely 'deregulation' or loosening the national control over local government management. In this sense, matters for which local authorities are responsible will not dramatically increase in terms of number but the essence of their responsibilities will change greatly to a more autonomous one. Local government reforms are also largely qualitative ones aimed at strengthening and in-

tensifying local governance, even though they include restructuring or downsizing features. From this viewpoint, it can be said that the reforms of local governments in Japan are essentially based on trusting or optimistic views of their potential to contribute to improving efficiency and effectiveness of government services and thus the Japanese populace's quality of life in the rapidly changing environment.

In fact, some local governments have taken a lead and set a standard in various areas of government reforms such as freedom of information initiatives and policy review. The national government has not only modelled its own reforms on experiences in these pioneering local governments but also developed guidelines to help promote these reforms in local governments across the country. This boomerang-like pattern of policy making and proliferation — developed first by pioneering local governments, then adapted and promoted by the national government and then followed by local governments nationwide — dates back to the 1970s when local governments most severely affected by pollution took precedence in introducing environmental protection measures. Since such a policy making and proliferation process has been more and more commonly observed as times went by in such areas as aged and child care, regional development and services for foreign residents, it is now often said that local governments are not the third tier of government but in fact the front tier of government as the one most sensitive to people's changing needs for government services.

The essential aim of the recent decentralisation reform is to maximise this potential of the front tier governments in developing and implementing effective policy responses to ongoing rapid and massive socio-economic changes. For this strategy to work most effectively, it is vital to help enhance their potential also through local government structural and management reforms, because the boomerang pattern — if it is seen most cynically — might be suggesting that at the opposite end to some proactive and innovative pioneers, there are also quite a few local governments just “working to rule”, reluctant to take action until the national government hands down a guideline or model policy for them to follow. In this sense, decentralisation and local government reform are accompanying pieces, bolstering each other in achieving their ultimately same goals.

To look at a bigger picture, the decentralisation and local government reforms in fact constitute only a part of many necessary reforms of the overall Japanese social system. When designing a social system to effectively respond to the coun-

try's massive changes, it is vital to redefine the roles which should be played by the major sectors in our society — the national and local governments, private enterprises, NGO/NPOs and individual citizens — and to reduce as much as possible the duplication of responsibilities shared by these sectors, so that each sector can fully demonstrate its own relative strengths and contribute more effectively to promoting the welfare of people. In this context, decentralisation can be seen as an effort to redefine the roles played by the national and local governments and to reduce duplication. And it is clear that decentralisation efforts should be paralleled with not only local government reforms but also other efforts such as deregulation, industrial structural reforms, national government reorganisation and activating volunteerism. It is no coincidence, therefore, that all these efforts constitute the current major agenda of the Japanese government.

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