

**Papers on the Local Governance System and its Implementation
in Selected Fields in Japan No.18**

Administrative Reform in Japanese Local Governments

Hiraki Tanaka
Associate Professor
Faculty of Cultural Policy & Management
Shizuoka University of Art and Culture

Council of Local Authorities for International Relations (CLAIR)

Institute for Comparative Studies in Local Governance (COSLOG)
National Graduate Institute for Policy Studies (GRIPS)

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Contact

Council of Local Authorities for International Relations (CLAIR) (Planning and Research Division, Department of General Affairs)

Sogo Hanzomon Building

1-7 Kojimachi, Chiyoda-ku, Tokyo 102-0083 Japan

TEL: 03-5213-1722 FAX: 03-5213-1741

Email: webmaster@clair.or.jp

URL: <http://www.clair.or.jp/>

Institute for Comparative Studies in Local Governance (COSLOG) National Graduate Institute for Policy Studies (GRIPS)

7-22-1 Roppongi, Minato-ku, Tokyo 106-8677 Japan

TEL: 03-6439-6333 FAX: 03-6439-6334

Email: localgov@grips.ac.jp

URL: <http://www3.grips.ac.jp/~coslog/>

Foreword

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

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

If you have any comments, suggestions or inquiries regarding our project, please feel free to contact the Council of Local Authorities for International Relations or the Institute for Comparative Studies in Local Governance of the National Graduate Institute for Policy Studies.

December 2010

Yoko Kimura
Chairperson of the Board of Directors
Council of Local Authorities for International Relations
Tatsuo Hatta
President
National Graduate Institute for Policy Studies

Preface

This booklet is one of the results of research activities conducted by the Institute for Comparative Studies in Local Governance (COSLOG) as one part of a project that started in FY 2005 entitled “Project on the overseas dissemination of information on the local governance system of Japan and its operation”, in cooperation with the Council of Local Authorities for International Relations (CLAIR). For the purpose of implementing this project, a “Research committee for the project on the overseas dissemination of information on the local governance system of Japan and its operation” has been set up, and a chief and deputy chiefs with responsibility for the project have been designated from among the members concerned with each research subject.

Volumes 15-18 of “Papers on the Local Governance System and its Implementation in Selected Fields in Japan”, started in FY2009, were written under the responsibility of the following four members. (Title of members as of March 2010)

(Chief)

Satoru Ohsugi, Professor, Graduate School of Social Science, Tokyo Metropolitan University

(Deputy Chief)

Yoshinori Ishikawa, Executive Director, JKA

Kenji Shimazaki, Professor, The National Graduate Institute for Policy Studies

Hiraki Tanaka, Associate Professor, Faculty of Cultural Policy & Management, Shizuoka University of Art and Culture

This booklet, the 18th volume in the series, is about the administrative reform in Japanese local governments, and was written by Prof. Tanaka.

Full-scale involvement with administrative reform was stepped up still further by local governments in Japan from the period around the 1980s as the result of having sustained the two oil crises. This booklet sets out the details of the reform process and the stages through which it passed. It also explains the important issues concerned with reform in the period in question, and the reality of the specific measures used to tackle these issues.

Finally, I would like to express my appreciation to Prof. Tanaka, and also to other members of the research committee for their expert opinions and advice.

December 2010

Hiroshi Ikawa
Chairperson

Research committee for the project on the overseas dissemination of information
on the local governance system of Japan and its operation
Professor
National Graduate Institute for Policy Studies

Administrative Reform in Japanese Local Governments

Hiraki TANAKA

Associate Professor

Faculty of Cultural Policy & Management

Shizuoka University of Art and Culture

Introduction

In modern states, administrative organs, whether at central government or local government level, have a system of bureaucracy as their foundation. As indicated by Max Weber, “rationality” is a characteristic of a bureaucratic system, but this is also accompanied, as its downside, by many different kinds of pathological conditions, including inefficiency, sectionalism, and the all-powerful dominance of rules and regulations. An unchanging issue found at all times in administrative organs is the implementation of “reform” designed to ameliorate or eliminate pathological conditions of this kind.

Limiting the discussion to the period after the end of World War II, recognition of the importance of administrative reform can be found in several advanced countries from around the 1980s, resulting from the effects of two oil shocks. In many advanced countries at this time, governments faced severe financial crises, and the importance of administrative reform became a political issue. Japan was no exception to this general trend, and it is from the period before and after the 1980s that administrative reform started to be seriously tackled by central government and local governments. This paper will therefore focus on the period after the 1980s, and will present an overview of local government administrative reform in Japan.

In the following chapters, after first clarifying the definition of administrative reform, the paper will set out the background to, and the detailed process of administrative reform in local governments in Japan. This will be followed by an explanation of important issues in such reform, and of the methods used to tackle these issues and the reality of what took place. The paper will close by exploring the outlook for administrative reform in the future and the issues that remain to be tackled.

1. The background to local government administrative reform and the details of the process

1.1 What is administrative reform?

(1) A general definition of administrative reform

The term “administrative reform” is used within the framework of many different kinds of political and administrative activities, and in TV, newspaper and other media reports, as well often being used in the course of daily conversation. However, the content denoted by the term is not

necessarily the same in different contexts, and it is rather the case that its meaning differs widely depending on the period when it is used and the context concerned.

For a general definition of “administrative reform”, we can take that found in the book, *Public Management Reform* (Pollitt & Bouckaert 2000), in which the authors define what they term “public management reform” as follows: “[it] consists of deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better”. An analogous concept to that of administrative reform is “administrative management.” The difference between the two terms can be found in the fact that administrative management takes the existing systems and powers of authority, and attempts to bring about everyday improvements within the given frameworks, whereas administrative reform is not limited to these frameworks and aims to effect changes in the existing systems and powers of authority by tackling the issues in unusual ways outside the everyday contexts.

The objects of “reform” within the term “administrative reform” can extend to all kinds of systems and structures that regulate administration.¹ This is why the term “administrative reform” is used over such a wide area.

The other part of the term, that denoting “administration”, has a similarly wide range of use. Generally, “administration” is interpreted as referring to central or local organs of implementation and their activities. When administrative reform takes place, it can either be limited to specific central government organs or local governments, or it can aim to cover either central government organs as a whole, or the whole of the local government system². Integrating or abolishing, or changing the operational methods of central or local organs, such as independent administrative corporations, special public corporations, and government-affiliated organizations, are also included in administrative reform. One further kind of administrative reform can also be said to consist of reform that aims to change the relationship between central government and local government, such as the “Trinity Reform” carried out by the Koizumi administration.

Furthermore, in line with recent trends in the concept of “governance” (see below), there has been a rise in the way of thinking that takes an expanded view of the hitherto accepted concept of administration. According to this way of thinking, the form of relationships between on the one hand, the administration, and on the other citizens/residents, and society/local communities, has also come to be regarded as a legitimate target for administrative reform.

(2) Administrative reform in this paper

As explained above, administrative reform is a concept which is subject to a wide variety of interpretations, and many different kinds of ways of tackling it are grouped together under the same rubric, i.e. administrative reform. In this paper, the primary focus will be on reform attempts undertaken by individual local governments as well as linked organizations, and implementation in terms of the targets of such reform activities. In the process, the paper will set out details of what has

happened to date as well as the present situation. Reforms targeted at the local administrative system as a whole will not be taken up with the concept of administrative reform as understood in this paper. However, since decentralization reform has had a significant influence on local government reform, the paper will also touch on that issue.

The traditional targets for administrative reform by local governments include the curtailment or reduction of expenses and personnel, the reviewing of tasks and projects, the merging or abolition of structures and organs, and the contracting out of government activities. Such reforms have aimed mainly at the simplification and rationalization, or at the slimming down of the management of administrative systems and organizations, a process which has also been termed “administrative readjustment”. From the 1980s up to the present time, administrative reform with the objective of simplification and rationalization has remained the central core of administrative reform in local governments³.

On the other hand, influenced by the advance of decentralization or the upsurge of NPM (New Public Management), new types of administrative reform methods have made their appearance. For example, as a result of the establishment of new system, it has become possible to introduce new reform approaches such as the system of designated managers, PFI (Private Finance Initiative), or the system of local independent administrative corporations. Furthermore, there are local governments which are tackling reform not with the aim of producing clearly visible results such as eliminating or reducing management expenditures, but rather with the aim of stimulating staff awareness and transforming organizational culture. In this paper, the new types of administrative reform approaches, as referred to here, will be introduced in addition to the hitherto usual pattern of administrative reform aimed at simplification and rationalization.

(3) Related concepts

Mention must also be made of “administrative management reform”, a concept analogous to that of “administrative reform”. It is, however, more frequently in the context of local governments rather than in that of central government, that this term is used, and the existence of the similar term “local government management reform” reflects this circumstance.

Since “management” itself is fundamentally a new concept⁴ in administration, it is difficult to confirm adequately the concept of “administrative management reform” and its methodology. This is the reason why the concept of “administrative management reform” is not used in a way that clearly distinguishes it from the concept of “administrative reform”.

If forced to compare the two concepts, one could say that the tendency to use the term “administrative management reform” derives from a wish to create the impression of using a concept of reform that differs in terms of objectives and methods from traditional administrative reform⁵. In this sense, the implication of an antithesis to “administrative reform aimed at simplification and rationalization” is included in the term “administrative management reform”.

On the other hand, the way of thinking expressed in the term “governance reform” has also made its appearance from the perspective of governance. “Governance” is a concept which shows in a broad sense the way in which control should be exercised at a national or a local level. It can be defined and interpreted in a wide range of ways.

However, when the concept is used in connection with matters at a local level, then the term “local governance” is also used, with the aim in many cases of denoting the management of public space, in the context of cooperation between organizations of citizens and residents, as major actors in a locality, and the local administration. The term “governance reform” in this sense is aimed at confirming this kind of “cooperative management of public space” within a local area. It goes without saying that this kind of reform draws a clear line, distancing itself from the hitherto accepted pattern of administrative reform aimed at simplification and rationalization. It could be regarded as a new type of reform which extends the range of reform to cover the whole of a local area.

1.2 The process of local government administrative reform

(1) Administrative reform under central government leadership

Until now, local government administrative reform has developed, seen from an overall perspective, in response to national leadership or pressure, and the aims of its implementation have become primarily ones of simplification and rationalization, centered on staff downsizing and on organizational and structural reform.

At this point, it is appropriate to set out the details of the process whereby local government administrative reform was carried out as a result of national leadership. In particular, it should be noted that this process is deeply connected with administrative reform at national level, taken forward by central government, and with decentralization, and these trends and connections will now be explained. For convenience, the following explanation has been broadly divided into 3 periods, namely: 1) the 1980s; 2) the 1990s; and 3) the period since 2000.

1) The 1980s

As a result of various factors, including the reduction of fiscal revenue due to the two “oil crises”, an expansion of the push for public works projects as part of economic stimulation measures, and the increase in social security expenditure resulting from the establishment of a “welfare state” as a target, Japan at the end of the 1970s faced a severe budgetary situation. It is against this background that the Second Provisional Commission for Administrative Reform (hereafter: Second Provisional Commission), adopting as its fundamental slogan “restoring financial soundness without recourse to a tax increase”, was launched in March 1981.

With the consistent objective, throughout its lifetime, of achieving “small government”, the Second Provisional Commission put forward policies aimed at a thoroughgoing reduction of expenditures. Its attitude toward local governments was characterized by criticism of the irresponsibility of a number of local governments in terms of their administration of staff salaries

and staff numbers, and it is against this background that suggested measures to rationalize and adjust staff numbers, as well as measures to correct salaries and retirement allowances should be viewed. In short, the suggestions of the Second Provisional Commission became an opportunity to make a change of direction toward “administrative reform aimed at simplification and rationalization” at national and local levels.

As a successor to the Second Provisional Commission, the First Provisional Administrative Reform Council (hereafter, the First Admin Reform Council) was launched in June 1983, and took up as a matter of urgency the issue of streamlining and increasing the efficiency of administrative and financial management at national and local levels; it also advocated strongly the need for downsizing, greater efficiency and expenditure restraint on the part of local governments. Acknowledging receipt of its submissions, the government formulated in January 1985 its “Fundamental Principles of Local Administrative Reform”, containing guidelines defining the path to be pursued in taking local administrative reform forward.

It was made clear in the above document that local governments should formulate their own Fundamental Principles of Administrative Reform. A written communication sent to local governments by the Vice-Minister for Home Affairs at the same time set August 1985 as the date by which local governments were expected to formulate their own documents. As a result, local governments all over the country set to work to produce Fundamental Principles of Administrative Reform (see Table 1).

Specifically, the Fundamental Principles produced by each local government constituted a document which set out clearly the fundamental direction of reform and the planning devices to be used within the framework of a set period of time; in the communication of 1985 from the vice-minister referred to above, the period was broadly defined as around 3 years. In practice, many local governments continued to revise and renew the Fundamental Principles after the effective formulation period had come to an end, and the style generally adopted by many local governments was one whereby the general direction of reform and items to be tackled were clearly shown in the Fundamental Principles, and the reform process was carried out in a planned manner.

Table 1: State of the Formulation of Fundamental Principles of Administrative Reform (as of end March, 1986)

(Unit: Number of bodies)

	Prefectures	Designated Cities	Municipalities
Completion stage	47(100%)	10(100%)	2,834(86.8%)
Initial formation stage	—	—	419(12.8%)
Total	47(100%)	10(100%)	3,253(100%)

[Source] Nakahashi, et al. (1986)

The first stage of administrative reform under the First Admin Reform Council came to an end in 1986, followed by the work of the Second Provisional Administrative Reform Council from 1987 to 1990. It was during this second stage that decentralization from central government to local governments was suggested. The background to this is that in Japan at this time, the bubble economy was still in a state of uproar, and movements demanding a further streamlining of central government attitudes toward local governments were not particularly in evidence.

But that said, the 1980s, leaving aside the period of several years covering the bubble era, were a time when central government and local government relationships were characterized by efforts to get to grips with simplification and rationalization. However, in local areas, the pattern that developed was not one of local governments carrying out reforms on their own initiative, but rather of them carrying out reforms under pressure from central government (in particular from a central government commission or from the (then) Ministry of Home Affairs). It was also during this period that local governments tackled for the first time the formulation of Fundamental Principles after receipt of the intentions of central government, and from this time on, up to the present day, administrative reform has proceeded on the basis of the said Fundamental Principles, and this has become the normative pattern for local government administrative reform.

2) The 1990s

From the perspective of the local administration system, the 1990s were a landmark in terms of the substantive development of decentralization reform. In particular, after receiving multiple recommendations from the Local Decentralization Promotion Committee (period of office: 1995-2001), the government promulgated in July 1999 the Omnibus Decentralization Law; this clarified the division of responsibilities between central government and local governments, and included among other points abolition of the agency delegated function system (implemented from April 2001). The successive movements in the 1990s (especially in the latter half of the decade) up to the enactment of the Omnibus Decentralization Law, are often termed the first stage of decentralization.

The significance of this first stage can be found in the fact that the pattern of relationships between central government and local governments was changed from a “superior-subordinate or master-servant” type of relationship to one based on “equality between partners and co-operation”. As a result, while on the one hand, the decision-making power of local governments expanded, on the other hand, greater accountability was also required of them. A noticeable characteristic of the first stage is also that accompanying the reduction in the role of central government, reforms aimed at expanding the roles of local governments were taken forward. It followed from this that in order that local governments could respond adequately to increases in the quantity of duties and activities to be undertaken, their administrative capacity had to be upgraded. Particularly at the level of municipalities (cities, towns and villages), on the basis of the principle of subsidiarity (putting the first priority, at the time of allocating roles and duties between different levels of government, on the

basic units of local government, and next on wide-area local governments, leaving central government to handle only those administrative tasks which could not be appropriately dealt with by wide-area local governments), it was expected that the scale and the ability of local governments to carry out a central role in local administration would be expanded and strengthened.

Looking more specifically at the expectations of, and demands for, an upgrading of administrative ability on the part of local governments, on the one hand, these factors were linked from 1999 onwards to the “Great Heisei Consolidation” via the debate on the “proper body for the assumption of responsibility”⁶). The consolidation referred to here brought about an expansion of the scale of the basic units of local governments through the merger of municipalities (cities, towns and villages) led by central government, and aimed in particular at a strengthening of basic financial soundness.

On the other hand, there was the demand for more vigorous reform by individual local governments, aimed at more simplification and rationalization, and a rise in administrative ability. In specific terms, during the 1990s, there were two occasions when “Local Administrative Reform Guidelines” were issued, once under this name, in 1994, and once, as “New Local Administrative Reform Guidelines” in 1997. On both occasions, the demands of central government specified, among other things, that local governments throughout Japan should formulate and/or revise the Fundamental Principles of Administrative Reform, review tasks and projects, reappraise organizations and structures, adjust salaries and numbers of officials, and utilize information technology in the administrative process. As a result of receiving demands of this kind, many local governments prepared and revised the Fundamental Principles of Administrative Reform, which had continued from the 1980s, and at the same time, took forward the administrative reform process centered on simplification and rationalization.

Summing up the 1990s, at the national level, decentralization developed to a hitherto unprecedented extent. Within this context, while there was a rise in expectations of improvements in administrative ability on the part of local governments (especially municipalities as the basic units of local government), at the level of individual local governments, there was no great change in the pattern whereby administrative reform with simplification and rationalization as the main objectives had been taken forward up to and through the 1980s.

3) After 2000

As a result of the first stage of decentralization reform, the allocation of roles to central government and local governments respectively was re-examined, but the result was termed “incomplete decentralization reform” because there was an inadequate transfer of authority over fiscal revenue sources from central government to local governments. Specifically, securing and strengthening local fiscal revenue was carried over as the next issue to be dealt with in the context of decentralization.

It was within this kind of framework that the “Trinity Reform” was implemented by the Koizumi administration. The aims of this reform were, on the one hand, the promotion of decentralization,

and on the other, the restoration of government financial soundness. For three years, from fiscal 2004 through fiscal 2006, the government implemented the abolition or reduction of central government subsidies, the reform of local allocation tax, and the transfer of fiscal revenue to local governments.

In April 2007, on the basis of the Decentralization Reform Promotion Law (enacted in December 2006), the Decentralization Reform Promotion Committee was launched. After its launch, the Committee carried out various investigations and deliberations, including a thorough reappraisal of the respective roles of central government and local governments, an examination of the kind of local tax and financial system appropriate to a decentralized society, and proposals for putting in place and confirming administrative structures. The Committee submitted four reports on its work to the Prime Minister.

While efforts of this kind to tackle decentralization reform continued, central government also required administrative reform to continue to be taken forward. On the basis of a Cabinet resolution of December 2004, entitled, “Principles for Future Administrative Reform”, the Ministry of Internal Affairs and Communications compiled in March 2005 its own document entitled “New Local Administrative Reform Guidelines” (new guidelines aimed at promoting administrative reform in local governments). The document was addressed to all local governments throughout Japan, and required them to formulate and make public an “Intensive Reform Plan,” covering the five fiscal years from fiscal 2005 through fiscal 2009, and incorporating new efforts to tackle administrative reform as well as numerical objectives.

The result of this was that in the case of many local governments, the newly formulated Intensive Reform Plan assumed a parallel existence to the Fundamental Principles of Administrative Reform, which had been used hitherto. The relationship between these two sets of documents differed from one local government to the next, but basically, the Fundamental Principles showed the direction and the priority objectives of administrative reform, whereas the Intensive Reform Plan showed the specific implementation items of administrative reform and numerical targets.

(2) Efforts to tackle administrative reform undertaken autonomously by local governments

As will have become clear from the above, it cannot be denied that the aspect of local government reform after the 1980s was that of reform being taken forward as a result of central government leadership. Moreover, as a result of the fact that the specific direction and detailed guidance on administrative reform were set out by the Ministry of Home Affairs (after 2001, the Ministry of Internal Affairs and Communications) in communications issued to local governments all over the country, many local governments tackled reform in very similar ways, focusing primarily on a reappraisal of numbers of staff, salary adjustments, and tasks and projects.

However, that said, it was not the case that all local governments simply promoted administrative reform in passive acquiescence with the demands of central government. A number of prefectures

(Miyagi, Aichi, Okayama, Ishikawa and Tokyo, for example) and cities (Kita-Kyushu, Nagano, etc.) had already begun, from the 1970s on, to tackle on their own initiative such reforms as staff downsizing, salary readjustments, reappraisal of organizational structures, contracting out, and reviewing tasks and projects.

It should also be mentioned that in recent years, as exemplified by such cases as the “Sa-Wa-Ya-Ka (refreshing) Movement” of Mie Prefecture, the “Time-based Assessment” policy of Hokkaido Prefecture, and the “One Person One Reform” movement of Shizuoka Prefecture, there are examples of local governments tackling reform independently. Such cases will not be examined in detail in this paper, but it should be noted that from the 1990s on, administrative evaluation (“Gyousei Hyouka” in Japanese) spread widely to local governments as one way in which local governments, acting independently, tackled administrative reform.

(3) NPM and local government administrative reform

The term “NPM” (New Public Management) denotes a generic concept that describes currents of thought and methodologies common to administrative reform that came to prominence in Western countries in the 1980s. Its primary characteristic can be found in such facets as its orientation toward “small government”, and its intention of minimizing government intervention in society by promoting deregulation and privatization. In addition, trends that are common throughout NPM also include the introduction of the market principle into the provision of public services, and the application of entrepreneurial management concepts to the public sector.

The full-scale introduction of NPM into Japan dates from the 1990s, and has exerted various kinds of influences on administrative reform not only in central government, but in local governments as well. The concepts discussed below, namely the system of designated managers, PFI (Private Finance Initiative), and local independent administrative corporations, were all systematized as a result of the influence of NPM. Further, while it would not be correct in this case to speak of directly receiving the influence of NPM, from around the end of the 1980s, cases were seen of private sector enterprises being established one after the other in many different areas, and it can be said that this trend matches the development of privatization in Western countries.

On the other hand, there are many local governments which advocate NPM as a symbol of their attitude in tackling administrative reform. Such local governments do not stick rigidly to set reform methods based on NPM, but rather advocate ideas and concepts characteristic of NPM, such as “prioritization of efficiency”, “client-based (= resident-based) orientation”, and “emphasis on results”; in short, they aim to tackle administration reform on the basis of ideas of this kind.

(4) Recent trends

After the collapse of the bubble economy, tight financial conditions for local governments continued over a long period of time. In addition to this, as a result of the global financial crisis

triggered by the bankruptcy of the Lehman Brothers, residence tax (individual and corporate) greatly decreased, accelerating the financial difficulties faced by many local governments. In these circumstances, the simplification and rationalization aimed at by administrative reform still maintained its hitherto prevailing importance.

On the other hand, triggered by the financial collapse of Yubari City, new schemes for restoring financial soundness to local governments were established. The basis for these new schemes was the “Law Relating to the Financial Soundness of Local Governments”, enacted in 2007. Specifically, an obligation was imposed on all local governments to publish the following four items: 1) the real deficit ratio; 2) the consolidated real deficit ratio; 3) the real debt service ratio; and 4) the future burden ratio. As a result of examining the actual values shown by these indicators, a judgment would be made on the necessity of actions aimed at early financial soundness (restoration of financial soundness to be achieved by autonomous improvement efforts on the part of the local government) and on the necessity of actions aimed at financial rebuilding (firm rebuilding to be achieved by the intervention of central government, etc.).

It is also within the framework that, judgments are made on the need for a consolidated base including local governments and the third sector, and on the need for measures aimed at the early restoration of financial soundness or financial rebuilding. It was against this background that drastic reform measures became necessary in local governments, embracing public corporations (including third sector corporations), that had fallen into deficit management or sustained excessive debts.

It should also be noted that the “Law Relating to the Financial Soundness of Local Governments” was fully implemented in April 2009, and was applied to new schemes in respect of the account settlements of fiscal 2008. According to the report (November 2009) from the Ministry of Internal Affairs and Communications, there were 22 local governments that exceeded the ratio for early financial soundness at the end of fiscal 2008, and the entities concerned were required to formulate and implement plans for the restoration of financial soundness.

2. Major issues in administrative reform, and ways of tackling them

2.1 Previous patterns of administrative reform

(1) Adjustment of numbers of staff

Adjustment of numbers of staff means managing the numbers of local government staff and their distribution in an appropriate way that matches the demand for administrative services and the prevailing financial circumstances. Personnel expenses account for a large share, almost 30%⁷, of all local government expenditures. Moreover, because personnel expenses are fixed, reducing staff numbers is an effective way of improving the budgetary balance. This is the reason why appropriate adjustments of staff numbers have become the core method used in administrative reforms aimed at simplification and rationalization.

From the 1980s on, central government came to urge local governments to take forward

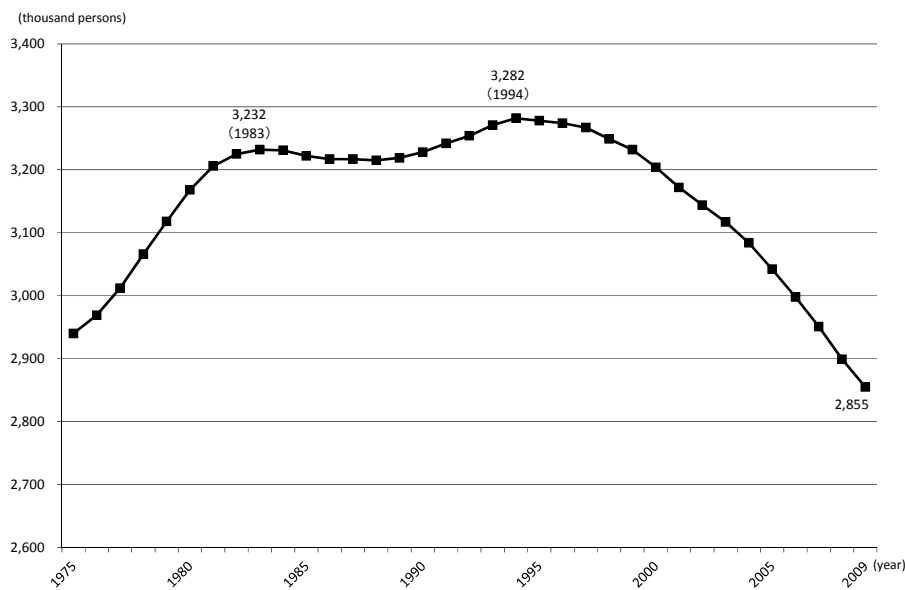
appropriate staff number adjustments in a planned manner. In this situation, local governments set about formulating plans for appropriate adjustments, which clearly set out staff downsizing as their central objective, and in line with this objective, reductions of staff were indeed promoted. Each local government set its own objectives defining the parameters of a staff reduction based on the national objectives set out by central government⁸, the models suggesting appropriate staff numbers (numbers of staff in general administrative sections) issued by the Ministry of Home Affairs (now the Ministry of Internal Affairs and Communications), and the national statistics on average staff numbers categorized by analogous type of local government.

The most fundamental method used by local governments to achieve staff reductions is that of restraining the appointment of a replacement when a vacancy occurs. In particular, since the numbers of people retiring can be estimated with almost complete accuracy, it is possible to achieve planned reductions of staff by keeping the numbers of people employed as part of the standard annual recruitment or hired partway through the year below the numbers of those retiring. It is also the case recently that there has been an increase in the number of local governments introducing early retirement schemes, involving special measures for those retiring before the due retirement date.

If the number of staff continues to decrease in this way, human resource shortages will inevitably occur. It follows that there is a need to reappraise the structures and organizations, review tasks and projects, and contract out administrative activities. At the same time, it is also necessary to aim at upgrading staff ability by strengthening training programs and raising productivity through the promotion of OA.

Diagram 1 shows the movement in the total number of local government employees. From the time when the survey of numbers was begun in 1975, the number increased until 1983 (mainly due to strengthening of the education and welfare fields), and then decreased slightly until 1988. Thereafter, in line with the increase in public investment and the strengthening of local welfare and medical services, the total number increased again, reaching 3.28 million in 1994. From 1995 until the present day, a period of 15 years, the number decreased continuously.

Diagram 1: Trends in the total number of local government employees



[Source] Ministry of Internal Affairs and Communications, "Result of a survey into the adjustment of the number of local government employees (FY 2010)"

(2) Reform of structures and organizations

Within the framework of administrative organizations and structures, there is a general tendency to move toward expansion and ramification. Not only is this linked to an excessive growth of staff in an administrative organization as a whole, but it also has bad effects in such terms as vertical separation within an organization. It is also the case that this kind of organizational and structural expansion is inevitably accompanied by a growth of stratification and complexity, taking such forms as an increase in middle-level management. In organizations that have become increasingly stratified and complex, the speed of decision-making slows down, and there is a lowering of responsiveness to social issues by organizational structures as a whole. It is for these reasons that the reform of structures and organizations is an important issue in administrative reform alongside adjustments in numbers of staff.

Specifically, within the framework of organizational and structural reform, the streamlining of internal compartments, such as bureaus, divisions, sections and sub-sections, within a local government, has become an important issue to be tackled. For example, patterns resulting from such streamlining include the large-scale bundling together and restructuring of several bureaus and divisions, or the abolition of divisions and units that have outlived their *raison d'être*.

Often carried on as an accompaniment to the internal streamlining referred to here are a re-appraisal of the division of duties performed by each section, or changes in the allocation and distribution of staff. With the aim of avoiding structural expansion, establishing or strengthening internal structures and organizations has come to be severely restrained. The method of implementation, which takes the form of a rule, is the so-called "scrap and build" formula, and this

continues to be employed within the central government administration as it has been in the past. In local governments too, the same formula is employed, but the number of cases in which it is strictly enforced is not necessarily large (for more on this point, see below).

Another reform aimed at internal structures is “organizational flattening”. This term denotes the simplification of stratified designations, and there are many examples of the use of this strategy to do away with such middle-level titles as deputy chief, section chief, or unit chief. Through the use of “organizational flattening”, the chain of command from the chief down to the lowest level staff member has been shortened, and rapid organizational response has been made possible.

In line with “organizational flattening”, other organizational adjustment formulae that are employed are those of a “group system”, “team system” and “staff system”. Each one of these formulae has the objective of demolishing the barriers existing in a vertically structured system, and of utilizing the current employees effectively⁹.

In addition to the points listed above, other targets for organizational reform are the deployment of regional branch offices, and that of advisory committees. Regional branch offices are located outside the main local government office, and are merged or abolished depending on the prevailing system of transport and communications, and on the actual circumstances of the locality concerned. With regard to advisory committees, those committees other than ones set up in response to legal requirements are the main targets for reform. On the basis of an examination of the reason for their establishment and the state of their activity, mergers or abolitions are decided, and other measures such as a reappraisal of their composition or a reduction in the number of members are being carried out.

(3) Adjustment of salaries and allowances

A large part of local government expenditures is taken up by personnel costs, and in many places, this area is regarded as “hallowed ground”. However, in comparisons with the salaries of national public servants as well as those of private-sector employees, the relatively high salaries and inappropriate allowances (for example, special labor allowance) of local public employees were often raised as problem areas, resulting in the issue of adjustments to salaries and allowances being grappled with in many local governments. Examples can also be found in recent years of local governments which are tackling the reappraisal of salaries and allowances within the context of expectations of expenditure decreases in the face of tight financial conditions.

In terms of the methods adopted to adjust salaries and allowances, a broad distinction can be made between an adjustment of salary levels on the one hand and allowances on the other. As for an adjustment of salary levels, it means in many cases a reduction in salaries.

As a means of making appropriate judgments on what constitute appropriate salary levels, use is made of the Laspeyres Index. This is an index which enables a comparison to be made between average salaries of different bodies, eliminating the influence resulting from the difference in the

composition of employees; it is usual in such calculations for the salary of national public servants to be taken as 100.

Formerly, the fact that the salaries of local public servants were higher than those of national public servants (in short, the Laspeyres Index for the average salary of local public servants was higher than 100) was designated as a problem, but the average salary rates for local governments have been lowered to a level below that of national public servants (in other words, the Laspeyres index was lowered to less than 100) ¹⁰. As a result, the imbalance between local government salaries and those of private sector employees has recently become a problem area.

The reappraisal of salary levels is fundamentally carried out by the following methods: revising salary tables; lowering the salary of new employees; deferring salary rises; and correcting inappropriate placements (the assigning of a rank which is not appropriate for the professional duties involved). In practice, however, the matter is dealt with in many cases by uniformly reducing the salary levels of employees. The reason for using this kind of method is that in addition to having immediate effect, a uniform reduction can easily get the agreement of people within and outside the organization.

Table 2: Trends in the average Laspeyres index for all local governments

Category	1963	1974	1989	2000	2004	2008	2009
Average of all bodies	105.5	110.6	103.0	101.2	100.1	98.7	98.5

[Source] Ministry of Internal Affairs and Communications, "Average salary levels of local government employees" (2010)

[Notes] Values as of April 1 of each year

Turning next to the revision of allowances, the target for reappraisal in many cases is the special labor allowance. This allowance is given to employees who are “engaged in work that is distinctly identifiable in terms of posing particular dangers, unpleasantness, or difficulties concerning health matters, or is in some other way, distinctly identifiable”. The special labor allowance was recognized under Article 204, 2 of the Local Autonomy Law, but cases were found where its applicability was far removed from its fundamental intention, and the necessity of awarding the allowance was queried on a significant number of occasions. Table 3 presents examples of reappraisal and implementation of this allowance by local governments.

Table 3: Examples of revision of the special labor allowance

Local governments	Examples
Soka City (Saitama Prefecture)	<p>The document delivery allowance (2,000 yen a month) paid to general staff of kindergartens and children's centers as well as to technical staff in elementary and junior high schools was abolished in fiscal 1982.</p> <p>The "public enterprise allowance" (5% of monthly salary) paid to employees of the water supply sections of public enterprises was gradually reduced from fiscal 1985.</p>
Makurazaki City (Kagoshima Prefecture)	<p>The counter service duty allowance paid to employees working on counter service during the lunch-break time (800 yen per counter service session during the lunch-break time) was abolished in 1997.</p>
Miyakonojo City (Miyazaki Prefecture)	<p>From fiscal 1998, 25 kinds of special labor allowances and a commutation allowance for less than 2 km were abolished.</p> <p>As examples of special labor allowances that were abolished, the following could be cited: allowance for disposing of the bodies of dead cats and dogs (200 yen per animal); tax service allowance for the collection of unpaid taxes (4,000 yen a month); guidance allowance for public health nurses and care workers looking after sick and weak persons and those with difficulties in their daily lives (4,000 yen a month); and year-end and year-commencement allowance (5,000 yen a day).</p>
Tsuru City (Yamanashi Prefecture)	<p>Under the administrative reform of fiscal 1999, 23 kinds of special labor allowances were abolished.</p> <p>Among the allowances abolished were the tax service allowance, hospital work allowance, university staff question preparation allowance, land negotiation allowance, and water provision basic allowance.</p>

[Source] Sakata (2002)

In addition to the special labor allowance, other allowances which are the target for reappraisal included the retirement allowance and the term-end bonus. With specific reference to the retirement allowance, a salary increase based on a special promotion on retirement¹¹ is a primary target for corrective measures.

Furthermore, it should be noted that it is stipulated in the Local Autonomy Law that the salaries of local government officials are to be determined in laws and regulations (known as the legal regulatory principle). It follows from this that any change in salaries or allowances requires the establishment of a new regulation or revision of an existing one. Prior to the submission of a new draft regulation, negotiations are conducted with unions of employees, and there are cases where the proposed drafts have been met with strong opposition or resistance on the side of the unions.

(4) Reappraisal of tasks and projects

The reappraisal of tasks and projects is targeted at activities carried out within local governments, and consists of examination of the need for them and of methods of implementing them, followed by the implementation of required improvements. Within the framework of administrative reforms aimed at simplification and rationalization, core reforms consist of eliminating existing tasks and projects and abolishing or reducing their cost.

As part of the process of reappraisal, an examination was made from the following three perspectives: 1) whether there is a need for administrative intervention in the activity concerned; 2) whether the activity concerned is being implemented effectively; and 3) (in the case of administrative services and the like) whether the relationship between benefits and cost to the user is appropriate.

In the case of perspective 1), when the necessity for administrative intervention is judged to be low, a decision is made on whether the activity concerned is to be abolished, or whether it should be transferred to some other body outside the administration. Examples can also be found of cases where even though it is recognized that administrative intervention has a certain significance, tasks and projects that are felt to be non-essential and non-urgent are eliminated because of the financial situation of the local government concerned.

With regard to perspective 2), on the one hand, the size of the overall cost (project costs, personnel costs, etc.) and on the other hand, the quantity of tasks and projects conducted are compared and contrasted. Where it is judged that the cost is excessively large in comparison with the effects or the amount of activities conducted, demands are made either for the budget intended to be allocated to the activities in question to be reduced, or for more activity or effects to be produced by the use of the same budget.

Finally, in the case of perspective 3), attention is focused on whether or not the benefits of the services provided match the expenses incurred in the provision of those services. However, in the case of administrative services where the user fees charged to the beneficiaries of the services are held down as a result of political considerations, an important issue that arises is whether or not a noticeable inequality arises between citizens who are beneficiaries and those who are not. The same kind of perspective is also applied where the reappraisal of existing subsidies is concerned.

When looking at how local governments tackle a review of tasks and projects, a distinction is made between a review of all tasks and projects carried out in all the sections of a local government office (called “comprehensive examination of tasks and projects”), and a reappraisal of prioritized areas or specially designated items (review of subsidies, for example). In the former case, it is possible to interpret one of the methods developed to carry out the said “comprehensive examination” as administrative evaluation (or task and project evaluation).

In order to tackle the reviewing of tasks and projects at the same time as budget formulation, a variety of methods have been developed, including the following: the ceiling formula; the scrap-and-build formula; zero-based budgeting; and the sunset formula. Looking first at the ceiling formula, this comprises the parameter limits into which the budget requests made by each department to the finance division (the maximum amount of budget requests) have to be fitted. At a time of financial austerity, it is frequently the case that only a budget request which is lower than that of the previous fiscal year (“minus ceiling”) will be approved. This has the effect of obliging each department to take its own independent steps to review tasks and projects so as to make them fit

within the budgetary limit when the ceiling figure is established. The ceiling formula was first used on a national level in the early part of the 1980s, but later spread to local areas and is now used by many local governments.

Turning next to the scrap-and-build formula, this is a budget formulation principle which looks for proposals put forward by departments to eliminate and/or reduce existing tasks and projects at the time when new tasks and/or projects are being proposed. As a result of introducing this formula, it has become possible to restrain the quantity of work and the number of staff even when tasks and projects are newly added.

The scrap-and-build formula is used not only in the context of tasks and projects, but also in that of the control of structures and organizations. At national level, it is applied to the assessment of the requests for organizational revision which are made by ministries, carried out by the Administrative Management Bureau of the Ministry of Internal Affairs and Communications (formerly Administrative Management Agency). On the other hand, at local government level, it cannot be said that there are a large number of local governments in which the scrap-and-build formula is strictly applied at the time of making budget requests (regardless of whether these are concerned with tasks and projects or with structures and organizations). It is reasonable to think that a majority of local governments do not forcibly apply scrap-and-build on a uniform basis, but rather go no further than promoting conscious enlightenment to implement scrap-and-build as far as possible in respect of existing tasks and projects.

Turning next to zero-based budgeting, this method does not allow departments to take any existing projects for granted when they make budget requests. Instead, it requires them to examine the need for and the cost-effectiveness of each project or expenditure, after which the distribution of budgetary resources is decided in priority order beginning with the highest priority items. The method is well-known as having been introduced for use in the budget formulation process by the Carter administration in the U.S.A. However, since this method requires re-appraisal of all existing tasks and expenditures, its implementation demands a great deal of time and effort, and it is not easy to apply it in practice. In Japan, Kita-Kyushu City is among those local governments said to have introduced zero-based budgeting after falling into financial difficulties, but apart from exceptional cases of this kind, the number of local governments that have undertaken full-scale implementation of this method is not necessarily large.

Finally, the “Sunset Formula” establishes a final expiry date for the validity of tasks and projects, structures and organizations, and laws, and when this date is reached, their validity automatically expires. The system was first introduced in the U.S. state of Colorado in 1976, and a “sunset law” has been enacted in a large number of American states. With regard to tasks and projects, there are many cases where the work is continued over a long period of time without any strict reappraisal being subsequently carried out. It is in these circumstances that the continuance of tasks and projects which have lost their *raison d'être* can be prevented by the introduction of the sunset formula.

In Japan, examples can be seen of the sunset formula being used in respect of subsidies, so that for example, the expiry date of a national subsidy is set in principle at five years. On the other hand, in local governments, there are examples of closure dates being attached to some bylaws or to subsidies, but it is not usual for the sunset formula to be applied to a wide range of tasks and projects¹².

(5) Contracting out

Contracting out is the process hitherto adopted by local governments of consigning, or entrusting activities to outside bodies (private-sector enterprises, public corporations, NPOs, and so on), and is also termed private-sector consignment or outsourcing. In some areas (collection and disposal of garbage and human waste, the cleaning of government office premises, management of community centers, etc.), cases have been seen since the 1950s of local governments contracting out these activities to private-sector firms. Central government has consistently pushed local governments toward the implementation of private-sector contracting out.

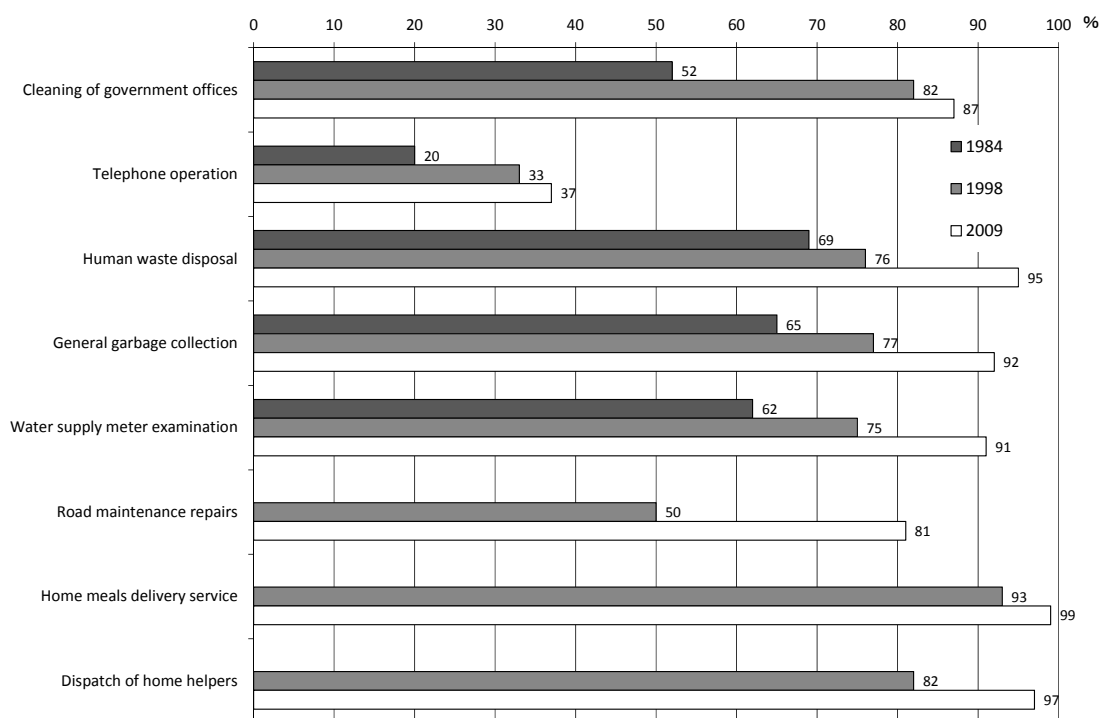
The objects of contracting out are tasks where it can be expected that an abolition or decrease of costs may be expected (cleaning and security of the government offices, collection of garbage and human waste, etc.), or tasks for which a high degree of specialist knowledge is required (all kinds of investigation and research, maintenance of air conditioning facilities and information processing systems, and so on). However, looking at what actually took place in practice at the same time as administrative reform methods, we find an overwhelming preponderance of methods of the former kind, aimed at reducing or abolishing expenditures.

Many different kinds of bodies are represented among those to which tasks were contracted, including private-sector enterprises, public-service corporations, social welfare corporations, NPOs, local autonomy and neighborhood groups, and volunteer organizations. The conversion of tasks carried out by regular local government employees into ones to be carried out by temporary or part-time workers can also be included in contracting out to the private sector in a broad sense.

Diagram 2 shows the overall state of the implementation of contracting out in respect of general tasks undertaken by municipalities. Within the framework of the tasks shown in this diagram, the number of those tasks implemented by means of contracting out is consistently rising year by year.

Looking more specifically at the nature of the administrative tasks shown in Diagram 2, they are of a general kind that is carried out in any municipality. The content of many of the tasks is also repeated on a regular basis, making for large cost savings through external contracting. It is with these points in mind that the contracting out of these activities is being promoted in many local governments. Fields where this has been delayed, but where it has been developed in recent years include the provision of school lunches, driving of publicly owned vehicles, the design and management of internet home pages, and salary calculations.

Diagram 2: Percentage of public bodies undertaking external consigning of general duties (municipalities)



[Source] Ministry of Internal Affairs and Communications, "State of implementation of external commissioning in municipalities" (annually issued)

[Note] 1) Number of bodies undertaking external consigning (partial consigning also included)/number of bodies undertaking administrative duties x 100

2) Values as of March 31, 1984, April 1, 1998, and April 1, 2009.

3) Values not acquired for 1984 for road maintenance repairs, home meals delivery service, dispatch of home helpers.

(6) Reform of local public enterprises and third sector corporations

Leaving to one side the offices and departments under the direct control of chief (governor or mayor), local governments carry out activities through the medium of specially organized bodies known as local public enterprises or third sector corporations.

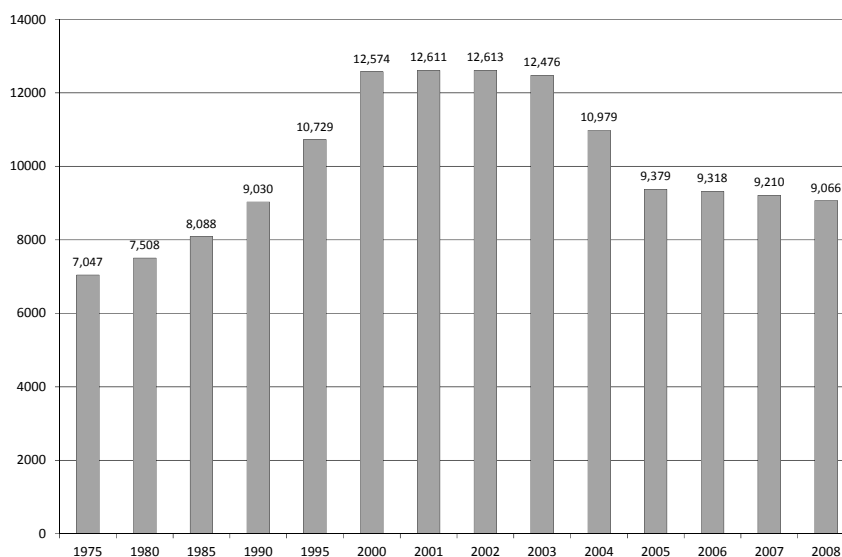
Local public enterprises, which are directly managed by local governments, are concerned with water-supply and sewerage business, electricity and gas supply, medical care services, and so on. Such enterprises do not have independent corporate status, and comprise a part of local government, but because their business yields earnings, their accounts are calculated on a self-supporting basis.

Up to the end of fiscal 2008, the number of local governments operating local public enterprises totaled 1,847, while the number of business operated by such enterprises amounted to 9,096. As shown in Diagram 3, the number of business operated by local publicly managed enterprises exceeded 12,000 in the first half of the 2000s, but then decreased by about 25% (about 3,000 businesses) in the period from 2003 to 2005. The main reason for this decrease can be found in the large number of municipalities in which mergers were promoted during this period.

Within the framework of local public enterprises, the management condition of a significant number of businesses has worsened in recent years due to the noticeable change in socio-economic circumstances. In local governments which contain such enterprises, a consequent increase in payments from the general account can be observed. In particular, areas in which such a worsening of the operating conditions has become noticeable are public hospitals and public transport systems (subway systems, etc.).

More specifically, there is a fear that the worsening of the operating conditions of business run by local public enterprises will not only make it difficult for the businesses to continue in being, but will exert pressure on the financial conditions of the local governments themselves. This is why the Ministry of Internal Affairs and Communications required local governments to strengthen the management base of local public enterprises by means of carrying out comprehensive checks, formulating mid-term plans, and implementing performance evaluation. Furthermore, aiming at the radical reform of local public enterprises, central government demanded the introduction and implementation of management methods of the type used in the private sector (designated manager system, PFI, local independent administrative corporations, outsourcing, etc.) as well as an examination of privatization or of transferring work to the private sector, and as a result, the implementation of reforms of this kind can be observed in local governments.

Diagram 3: Trends in the number of business operated by local public enterprises



[Source] Ministry of Internal Affairs and Communications, "White Paper on Local Public Finance, 2010" (settled accounts for 2008)

Turning to the next topic, the definition¹³ of the third sector corporations issued by the Ministry of Internal Affairs and Communications covers corporate bodies funded by local governments, including corporations, foundations, and corporate persons under company law (joint-stock corporations, unlimited partnerships, limited partnerships, etc.). The range of fields in which third

sector corporations are set up is also very wide, including local and urban development, housing and urban services, tourism and leisure, agriculture and fisheries, commerce, social welfare and health care, transport and roads, and education and culture. Also established as one kind of third-sector corporations are the three public corporations established on the basis of special laws, namely the Local Housing Corporation, the Local Road Corporation, and the Land Development Corporation. Local Independent Administrative Corporations, of which a detailed explanation is given below, are also included in third-sector bodies.

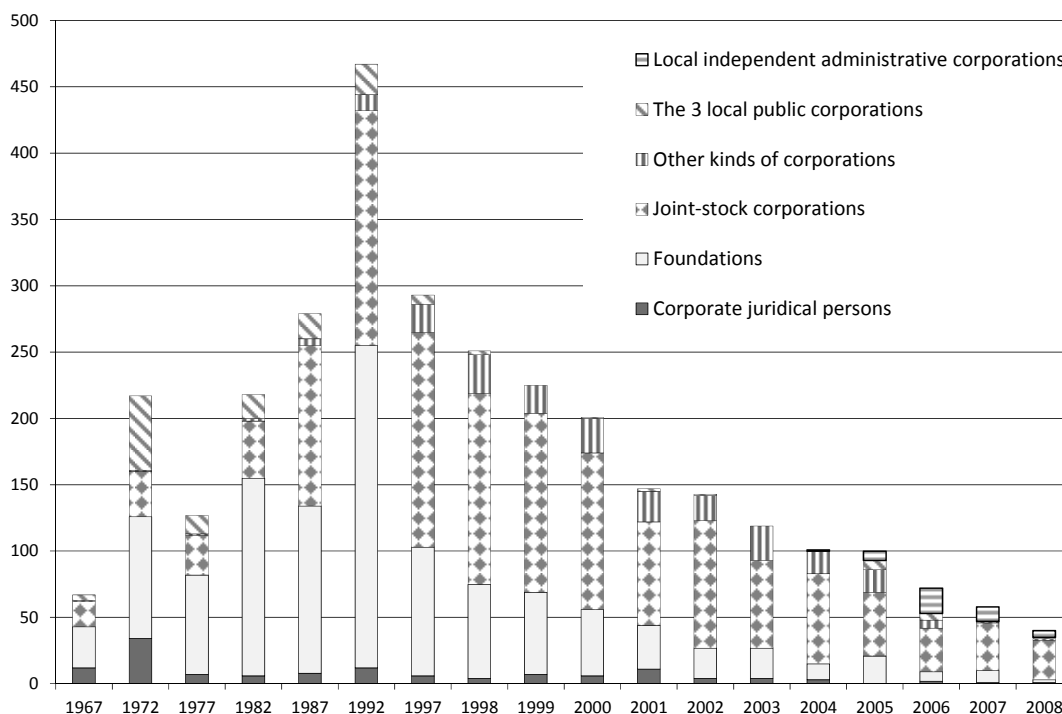
At the end of fiscal 2008, there was a total of 8,729 third-sector corporations. Diagram 4 shows the number of third-sector corporations established year by year. From the end of the 1980s into the early 1990s, on the basis of the enactment of the Private Participation Promotion Law and the Resort Law (the Law for the Establishment of Comprehensive Preservation Areas), many third-sector corporations were established in such forms as foundations or joint-stock corporations. This trend changed after the collapse of the bubble economy, and fewer enterprises have been established in recent years.

As evidenced by this changing trend, the management situation of the third sector in general was adversely affected by the collapse of the bubble economy, and according to a recent survey (at the end of fiscal 2008), nearly 40% (around 38%) of all corporations marked up an operating loss. There were also said to be many third-sector corporations which had effectively already collapsed as a result of excessive debts.

In cases of a worsening of third-sector management, it was almost always necessary for local governments to implement financial assistance in such forms as the issuing of deficit bonds or debt guarantees, and this resulted in increased pressure on local government finances. As a result, the Ministry of Internal Affairs and Communications has, right up to the present time, required local governments to get a grasp of the operational circumstances of third-sector corporations and take appropriate supervisory measures. Furthermore, on the basis of the full-scale implementation in 2009 of the Law relating to the Financial Soundness of Local Governments, local governments were required to re-examine all third-sector corporations, and to examine radical reform measures, including consideration of whether or not they should continue in existence.

In the event of the liquidation of third-sector corporations, there is a high possibility that local governments would have to settle all their debts. It follows that it is difficult to get to grips with radical measures to cope with liquidation even in the event of the accumulated deficits of the third sector snowballing or falling into effective collapse. But that said, a special measure was devised by central government, as a time-limited measure of five years from fiscal 2009, whereby local bonds could be issued for the purpose of reconfiguring and regenerating third-sector corporations, and it can be anticipated that the number of local governments able to tackle the radical reconfiguration of such corporations by means of using this opportunity, will increase.

Diagram 4: Number of third sector bodies established by year



[Source] Ministry of Internal Affairs and Communications, "Results of a survey on the condition of third sector corporations" (2009)

2.2 New types of administrative reform

(1) Administrative reform by means of newly established or changed systems

The administrative reforms dealt with in 2.1 above have constituted the core reforms carried out to date with the object of achieving simplification and rationalization in local government administration. Furthermore, these were the extremely general methods used by many local governments from the 1980s up to the present day, without regard to the particularities of the time in question.

The above said, in recent years, in addition to the hitherto conventional pattern of administrative reform, new types of administrative reform, consisting of the establishment of new systems or of changes to the basic systems, have become possible. The main methods used by these new types of reform are the system of designated managers, PFI, and local independent corporations.

1) The system of designated managers

Public facilities are established by local governments with the objective of promoting the welfare of local residents. Examples of public facilities are shown in Table 4.

Until now, public facilities, the management of which could be contracted out, were limited to entities such as consumers' cooperatives, farmers' cooperatives, social welfare corporations, cultural promotion foundations, and residents' associations or to third-sector corporations, one half or more of the capital of which was invested by local governments. However, under the reform of the Local

Autonomy Law, it has become possible since September 2003 for a wide range of private organizations, including joint-stock corporations and NPOs, to bear the burden of managing public facilities as “designated managers”.

The merits of the designated manager system are that by entrusting the management operations of public facilities to private-sector organizations, it becomes possible to expect more efficient facility management and an upgrading of the level of services compared to what happened before. Further, whereas previously, tasks that could be entrusted to external managers were limited to the operational duties of facilities, and it was not possible to hand over permission for the use of the facilities, under the designated manager system, it is possible to entrust a comprehensive package of duties, including permission for the use of the facilities, to designated managers.

Table 4: Categories of public facilities

Recreation and sports facilities	Athletics stadiums, baseball stadiums, gymnasia, tennis courts, swimming pools, ski resorts, golf courses, sea bathing resorts, youth hostels, accommodation and relaxation facilities, etc.
Industrial promotion facilities	Information centers, exhibition facilities, trade fairs, open-type research facilities, etc.
Basic facilities	Parking lots, large-scale parks, water supply facilities, sewerage treatment plants
Cultural and education facilities	Citizens' halls (prefectural and city level), culture halls, museums, art galleries, nature information centers, marine and mountain information centers, etc.
Social welfare facilities	Hospitals, welfare centers for the elderly, etc.

[Source] Compiled on the basis of: Ministry of Internal Affairs and Communications, "Results of a survey into the conditions resulting from the introduction of the designated manager system into public facilities".

At present, local governments are requested to choose whether to manage directly facilities that they own or whether to entrust their management to designated managers (if they choose to manage them directly, it is still possible to entrust one part of the operating functions of the facilities to external bodies). According to a survey carried out in 2009 by the Ministry of Internal Affairs and Communications, the designated manager system had been introduced into 70,022 publicly owned facilities in the country as a whole (6,822 facilities in prefectures, 6,327 facilities in designated cities, and 56,183 facilities in general municipalities). Facilities in respect of which the designated manager system was used amounted to 59% of all facilities in prefectures, and 49% of all facilities in designated cities. Diagram 5 shows the situation with regard to the designated manager system by category of facility.

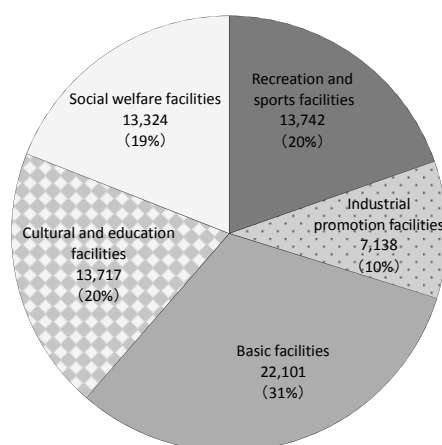
Table 5: State of introduction of the designated manager system by category of body

	Number of facilities where the designated manager system has been introduced	Number and percentage of cases where private companies are designated as designated managers	
	Number of facilities	Number of facilities	Percentage
Prefectures	6,882	1,571	22.8%
Designated cities	6,327	1,564	24.7%
Municipalities	56,813	17,354	30.5%
Total	70,022	20,489	29.3%

[Source] Ministry of Internal Affairs and Communications, "Results of a survey on the introduction of the designated manager system in public facilities" (2009)

[Note] Joint-stock corporations, NPOs, educational juridical persons, medical care juridical persons, jointly operated enterprise bodies, etc., are included in the category "private companies".

Diagram 5: The introduction of the designated manager system by categorized facility (all local governments)



Source: Ministry of Internal Affairs and Communications: "Results of a survey on the introduction of the designated manager system in public facilities" (2009)

2) PFI (Private Finance Initiative)

PFI (Private Finance Initiative) is a new methodology related to public works projects involving the use of private-sector funding or know-how to establish public facilities and social infrastructure projects as well as to implement their subsequent management. In the area of public works projects to date, local government was responsible for the financing of projects, and subsequently concluded separate contracts with private-sector businesses for the design and construction of facilities, and for their continuing operation. Under PFI, it is possible to entrust an entire package, comprising financing, the design and construction of a facility, and ongoing maintenance and operation to the

private sector.

Attempts to tackle PFI began under the Thatcher administration in the UK with its aim of “small government”, and was formally introduced in 1992 under Mrs. Thatcher’s successor, John Major. It continued under subsequent governments, regardless of whether the ruling party was Conservative or Labor, and to date, more than 600 projects have been established using PFI.

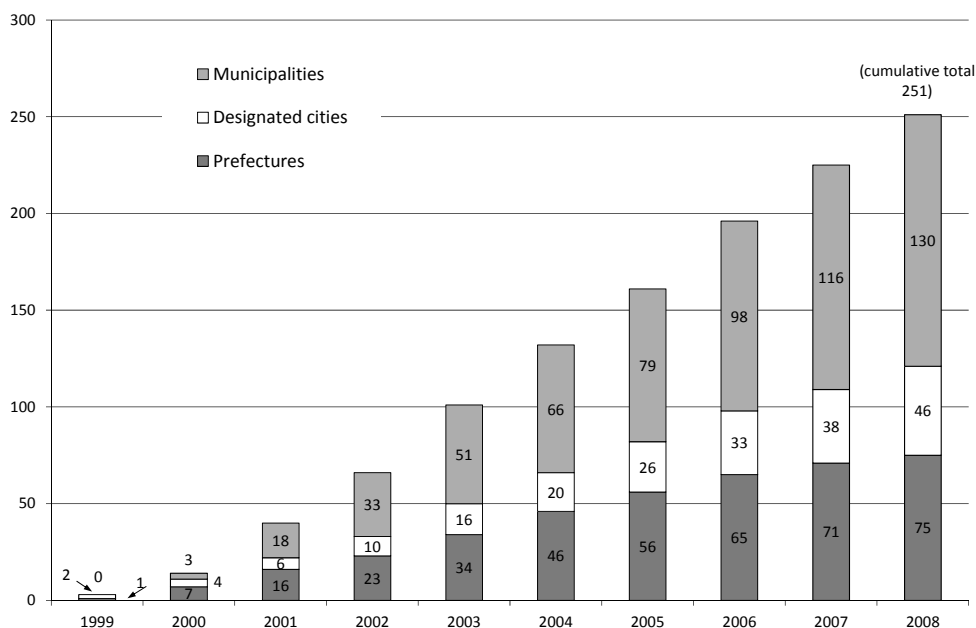
In Japan, an examination of the possibility of introducing PFI started in the latter half of the 1990s, and the Law relating to the Promotion of the Realization of Public Facilities by Using Private Funds (PFI Law) was enacted in 1999. Subsequently, five kinds of guidelines were formulated for the implementation of PFI projects, and in this way, a framework was established to facilitate the realization of PFI projects. Both the PFI Law and the guidelines were formulated with the primary aim of implementing PFI in respect of national institutions, but it is expected that at local government level too, PFI projects will be taken forward on the basis of trends that reflect the above-mentioned guidelines and the ideas of the PFI Law.

The merits of implementing PFI are that because the financing of projects is left to private-sector businesses, a reduction in the burden of expenses falling on the public sector can be expected. In the context of examining the possibility of implementing PFI in respect of a public works project, the government should produce an estimate of 1) the costs that would be incurred by using traditional methods (the present value of the total sum of the construction costs and the operating costs over a set period of time) and 2) the costs incurred over the life-cycle of a PFI project (the present value of the estimate of the public financial costs over the duration of a PFI project). When both sets of costs are compared, in the event that the costs incurred by using PFI are lower than by using traditional methods, then it is deemed appropriate for the PFI formula to be applied. Apart from cost reductions of this kind, a further merit of PFI is that all the aspects of a facility, including design and construction as well as management, can be commissioned from the private sector as a comprehensive package, making it possible to utilize the know-how and the creativity of the private sector in the design and ongoing management of the facility concerned.

In the U.K., the introduction of PFI was promoted from the medium-term to long-term perspective of raising the level of efficiency of public services and effectively utilizing private-sector capital. On the other hand, in Japan, the introduction of PFI was examined against the background of a long-term economic slump, and rather than PFI being seen as a new method of reforming public works projects, expectations were biased in the direction of short-term economic policy.

As shown in Diagram 6, projects in respect of which PFI has been applied since 1999, have increased in number, reaching a total of 251 in 2008 (75 in prefectures, 46 in designated cities, and 130 in general municipalities). Many of the facilities in respect of which PFI has been applied comprise school buildings, hospitals, waste disposal plants, local government offices, and housing for government workers.

Diagram 6: Trends in the number of PFI enterprises (cumulative totals)



[Source] Cabinet Office: Annual Report on PFI (2009)

[Note] The figures reflect the times at which enterprises publicly announced the implementation of PFI.

3) Local independent administrative corporations

Local independent administrative corporations have a legal status that makes them independent from local governments. They are established to carry out tasks and projects which are necessary from the standpoint of public benefit, but local governments themselves do not have to become the main implementing bodies. Following the precedent of national independent administrative corporations, it became possible to create local independent administrative corporations from 2003. With specific reference to the issue of possessing corporate status, there are similarities between this concept and that of third sector corporations, but local independent administrative corporations are established on the basis of the Local Independent Administrative Corporations Law, and the scope of their operations is defined by specifically designated regulations.

The activities of local independent administrative corporations are limited under the above-mentioned law to such fields as the establishment and operation of experimental research centers and universities, and public enterprises in the form of hospitals, social welfare corporations, and so on. A local government which aims to establish a local independent administrative corporation must determine the articles of association by means of an assembly resolution, and must obtain permission, in the case of a prefecture from the Minister of Internal Affairs and Communications, and in the case of a municipality, from the governor of the prefecture in which the municipality is located.

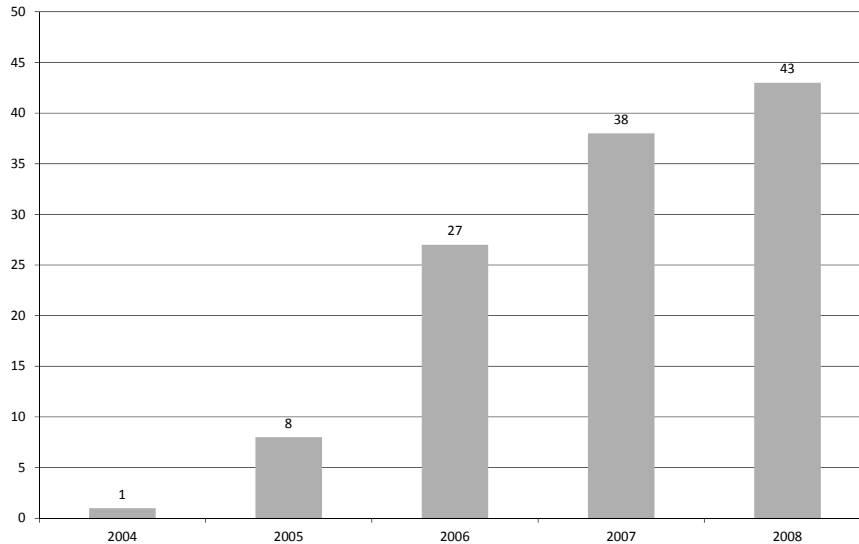
In terms of operational aspects, a characteristic of local independent administrative corporations is that mechanisms for managerial supervision and evaluation based on predetermined objectives are

established. In the operation of these corporations, respect is paid to their autonomy, and intervention on the part of the chief of the local government that established a corporation is limited to setting medium-term targets to be reached by the corporation, and to post-facto evaluation of achievements.

Furthermore, within the framework of local independent administrative corporations, universities are established and managed by what are known as public university corporations, and the methods prescribed for tackling this issue in terms of personnel, organizations and structures, and medium-term objectives, differ from those used for other local independent administrative corporations.

Turning to the origin of local independent administrative corporations, they are a device that conforms to the national independent administrative corporation system that was introduced using the British “agency” system as a model. The system was not one that was introduced on the basis of a strong desire evinced by local areas, and it follows from this that it cannot be said that local governments showed a high level of interest in the introduction of the system. As shown in Diagram 7, even in 2008, five years after the system had been established, the number of local independent administrative corporations numbered 43, an extremely low figure. It should also be noted that the majority of these corporations are experimental research centers or universities.

Diagram 7: Cumulative totals of local independent administrative corporations



[Source] Ministry of Internal Affairs and Communications, "Results of a survey on the condition of third sector corporations" (2009)

Merits of the system of local independent administrative corporations are that after confirming its transparency and post-facto control, it is possible to activate the creativity of the corporate body and manage structures and staff in an organized and flexible way. On the other hand, the scope of the fields covered by the said corporations is limited, in that neither existing third sector corporations

nor the three local corporations referred to above, can be transformed into such corporations. This has the consequence that for local governments, there is a high possibility that the utility of the system is being impaired.

As shown here, local independent administrative corporations are a new method of reforming public services, and at the present time, their use is extremely limited.

(2) Autonomous local government reform

Up to this point, conventional administrative reforms as tackled by many local governments have been presented. These have taken the form either of 1) the direct examination of items which can be made the object of elimination or reduction, or of integration and merging, such as the reappraisal of numbers of staff, salaries, and tasks and projects, or of 2) new reform methods prepared as established systems used by local governments, such as the designated manager system, PFI, and so on. Reform methodologies of the kind listed here are usually accompanied by technical concerns about the specific way in which they should be taken forward, but implementation of the reforms does not require any special creativity on the part of the local governments concerned.

On the other hand, cases can be found in local governments of new reform methods being developed or of administrative reform being tackled in new and creative ways. The following examples, from Mie Prefecture, Hokkaido Prefecture and Shizuoka Prefecture are concrete examples of new ways in which reform is being tackled.

1) “Sa-Wa-Ya-Ka (Refreshing) Movement” in Mie Prefecture

In Mie Prefecture, the administrative reform movement termed the “Sa-Aa-Ya-Ka (refreshing) movement”¹⁴ began in 1995, at the time of the appointment of a new governor who had formerly been a member of the National Diet. This was the period when scandals taking such forms as accounting fraud surfaced in every part of the country. Against this kind of background, the “Sa-Wa-Ya-Ka (refreshing) movement” focused in its initial stages on reforming the consciousness or awareness of employees (for example, by introducing an employee recommendation system, or by holding seminars or training sessions). As time passed, the scope of the content developed further, and various kinds of reforms were tackled.

At the core of these reforms was the “task and project evaluation system” introduced in 1996. In Mie Prefecture, the newly introduced system takes as its potential target all the tasks and projects undertaken by the prefecture, and is used as a tool to reappraise the said tasks and projects from the standpoint of the results achieved and the degree to which the objectives have been met. As indicated in 2.1(4) page 11, many local governments have, for a considerable time past, implemented a re-appraisal of all tasks and projects on a government-wide basis under the heading of a “comprehensive examination of tasks and projects”. However, Mie Prefecture was probably the first local government in Japan to put its primary focus on post-facto evaluation of achievements, and to introduce evaluation as a systematic and ongoing device using quantitative indicators.

Together with the introduction of the system of evaluation of tasks and projects, concepts that reflected the characteristic ideas and way of thinking of NPM, such as “results-based principles”, “client-oriented thinking” and “management by objectives” were also introduced into the Mie prefectural government office. At this time, because NPM itself was still not very well known in Japan, these new concepts were felt as a breath of fresh air not only within the boundaries of Mie Prefecture, but among those interested in local autonomy in the country as a whole.

The new task and project evaluation system, which was introduced in Mie Prefecture and which shared the way of thinking of the new management reform tool known as NPM, attracted attention from many persons connected with local government, and was subsequently implemented, in the same way as in Mie Prefecture, in many local governments throughout the country.

2) “Time-based Assessment” in Hokkaido

The term “time-based assessment” set as its objective the reappraisal of policies which had stagnated over a long period of time, and was first introduced into Hokkaido as a system in 1997. Examples of such policies are ones, particularly in the field of public works projects where it is found, after the initial implementation decision had been made, that the social climate of opinion has changed, or which meet with opposition from local residents. As a result, there are cases where long delays occur in the implementation of the planning, or even after a project is implemented, the results and efficiency do not reach the levels originally envisaged. In circumstances like these, it is very difficult either to cancel a policy once it has been approved, or to carry out a large-scale reappraisal. Particularly in the case of public works projects in which enormous sums of money has been invested, simply closing down the project, without taking consideration of this fact, not only requires great courage on the part of the administration, but is not something that can be easily accomplished because of the many different special interests involved.

At the time in question, Hokkaido was facing severe financial difficulties, and at the same time, was the home base of many large-scale projects which had stagnated over a long period of time. It was in order to provide a solution for this problem that a new system was suggested in the form of “time-based assessment”.

However, it was not that there was novelty in the technical aspects of “time-based assessment” itself, but rather that there was originality in the idea of seeing “time-based assessment” as the framework for reappraising existing public works projects and searching for the foundation of reappraisal in the “passage of time”. It helped that easily understandable words were used to describe the new concept, and “time-based assessment” became a well-known concept throughout the country, of course on the level of local government, and also on the national level, and similar efforts based on this concept were introduced elsewhere in the country.

In Hokkaido, “time-based assessment” existed for two years from 1997 through 1999 as a separate system. During these two years, such projects as industrial water supply plants located on land earmarked for large-scale industrial complexes, dam construction projects, and road construction

works were reappraised or cancelled. Furthermore, although “time-based assessment” came to an end as a separate system in 1999, even after this date, the function of the concept was continued in the form of the evaluation of public works projects within the framework of the newly introduced policy evaluation system.

3) The “one person one reform movement” in Shizuoka Prefecture

In Shizuoka Prefecture, with the aim of raising the level of efficiency in the administration, various projects were taken forward from around 1994. In 1995, under the rubric, “Halving the amount of documents and tasks”, reforms were implemented with the aim of reducing by half such items as the amount, of documents, the length and frequency of meetings, the number of persons approving circulars, and so on. And in the same year, the “Committee of 100” was organized, with younger employees of the prefectural government office as the members of the committee. In this committee, various kinds of reforms concerning the prefectural government office were examined, and concrete reforms were suggested, including ones which were actually realized.

With the aim of disseminating these activities within the prefectural government as a whole, the project entitled “one person one reform movement” was started in 1998. The movement is a kind of employee recommendation system, in which individual employees examine the tasks with which they are most familiar, and tackles ways of taking forward reforms or improvements which they had designed themselves. Within the framework of the movement, people are encouraged not only to implement the reform recommendations that they think out for themselves, but also to apply reform ideas suggested by people in other sections.

There are many local governments which have systems for implementing recommendations made by employees, but the distinctive characteristic of the system in Shizuoka Prefecture is the effort put into implementation by the entire prefectural office. The movement was organized in the form of structural units consisting of units or sections in the main office as well as units in branch offices, and over the 12-year period from 1998 through 2009, more than 120,000 items were proposed and implemented. In recent years, the number of items proposed and implemented per individual employee exceeded one item per employee (in 2009, this figure reached 1.81).

Every year, outstanding items are selected, and the persons who put forward these items are invited to give a presentation of their reform recommendations and their implementation in front of the governor and other senior management staff.

3. The outlook for local government administrative reform and problem points (conclusion)

In this paper, the author has given an overview of the process whereby administrative reform has been taken forward in local governments in Japan since the 1980s as well as of the content of specific reform methods that have been tried out. Seen from the perspective of the process of reforms to date, the primary characteristic of administrative reform is that of reforms being taken

forward by local governments under the guidance and leadership of central government, and until recently, no great changes have been observed in this pattern.

Given the present circumstances of a severe financial situation faced by the public sector both at central government and local government level, there is a strong likelihood that the pressure for administrative reform exerted on local governments by central government will continue. On the side of local governments too, given that financial supervision will be strengthened by the start of new schemes aimed at restoring financial soundness, it will be even more necessary than in the past to tackle seriously administrative reforms aimed at improving the financial situation.

On the other hand, as in the examples of Mie Prefecture, Hokkaido, and Shizuoka Prefecture, administrative reform methods are conceived through new ideas, and make their appearance in local governments which take projects forward on the basis of their own originality. There is evidence here of the way in which decentralization has at last embarked on a process of qualitative development, and it may be anticipated that in the future too, the number of local governments tackling administrative reform autonomously, and not simply in response to the urging of central government, will increase.

Because the targets and the content of administrative reform are so varied and cover such a wide area, it has been impossible to introduce everything in this paper. Among those topics which could not be introduced in detail, two issues that it will be important for local governments to tackle in the future are “reform of personnel management” and “reform of the relationship between the local administration and local residents”.

Taking first the issue, “reform of personnel management”, the concept of “reform” should include all aspects in its sights, including the recruiting, placement, treatment, evaluation, and education and training of personnel. It goes without saying that for local governments, personnel are a very important administrative resource. The issues to which local governments should respond are very diverse and complex, but on the other hand, in an environment in which an increase in the numbers of personnel cannot be expected, it is indispensable for the abilities of employees to be drawn out to the fullest extent possible and for employees to be effectively used.

With the above points in mind, the approach adopted hitherto whereby the various functions to do with employees, including hiring and distribution, working conditions, evaluation, and education and training, were individually dealt with, has its limitations. There is a need for these various functions to be systematically located within the framework of some kind of consistent idea or policy direction, and for the strategic handling of each function to be strengthened.

Turning next to “reform of the relationship between the local administration and local residents”, the concept of “reform” in this context does not mean simply reform of a one-way relationship taking such forms as disclosure of information or the promotion of citizen participation. It means rather that on the basis of the new concept of governance, touched on in the latter part of this paper, the relationship between the local administration and local residents is reconsidered from various

standpoints so that “cooperative management of public space” (p 2) implemented by the local administration and residents can function in a substantive manner.

However, the above said, because the concepts of governance or the “cooperative management of public space” are themselves still new, it is not yet clear what kind of content they will assume in concrete terms in real society. With this point in mind, in local governments which tackle governance reform, the starting point, and a precondition for them, before actually tackling governance reform, is that they define this concept and clarify to themselves what kind of governance they want in the local communities concerned.

In the new concept of governance, local governments are no more than one kind of actors engaged in the business of managing local societies. That said, it will continue for a while to be expected of local governments that they will conceive and structure the way in which governance should be carried out. It will also be expected of NPOs and researchers, for whom local areas are the place where they carry out their activities, that they provide specific and concrete ideas.

[Notes]

- 1 Nishio (1993) classifies 6 types of structures: “constitutional structure” (regulated by the Constitution of Japan, the Public Offices Election Law, the National Diet Law, the Cabinet Law, the Courts Law, the Local Autonomy Law, etc.); “administrative and financial structure” (regulated by the National Government Organization Law, the National Public Service Law, the Public Finance Law, the Public Accounting Law, etc.); “structure concerned with the division of administrative authority among central government ministries and agencies” (regulated by organizational laws and regulations such as the laws governing the establishment of each ministry or agency); “framework structure concerned with individual tasks and projects” (regulated by various kinds of operational laws and regulations); “structure comprising laws and administrative regulations appertaining to budgets and numbers of staff as well as to budgetary implementation” (regulated by the annual budgets); and “structure of implementation regulations concerning tasks and projects” (regulated by various kinds of administrative and financial regulations).
- 2 There are many cases of administrative reform targeting the whole of the local government administrative system also being termed “decentralization reform”.
- 3 The addition of the term “finance” to the term results in the composite term “administrative and financial reform”. Since finance is in fact one aspect of administration, this aspect is already included in the term “administrative reform”, but when the mention of finance is added, it means in many cases that attention is primarily focused on the financial aspect.
- 4 In the preface to Mutoh, ed. (2004), it is pointed out that the concept of management is not necessarily new in public administration. However, the wide dissemination of the concept of management in Japan occurred after the introduction of NPM in the 1990s, so in this sense, it can still be maintained that the use of “management” in public administration in Japan is a new concept.
- 5 For example, the following examples from the book, *Local Government Management Reform* (Mutoh, ed., 2004) can be cited as examples of new types of reform: “Top management reform in local government” (Ch. 2), “Strategic reform in local government planning” (Ch. 3), “The ombudsman system and local government reform” (Ch. 6), and “Local government management reform through utilization of the private sector, focused on PFI” (Ch. 8).
- 6 On the question of the proper body for the assumption of responsibility, it was emphasized in the debate that there is a need for radical reorganization of the local government system so that only cities which exceed a certain size are asked to bear the administrative burden of decentralization.

- 7 In the amount of account settlements for fiscal 2008 (total for all local governments), personnel expenditures (charged to the ordinary account) amounted to 27.4% (Ministry of Internal Affairs and Communications White Paper (=annual report) for 2009).
- 8 For example, central government demanded of local governments a net reduction of 5.7% over the five-year period from fiscal 2005 through fiscal 2009; in response, local governments planned for, and implemented, a net reduction of 6.4%.
- 9 The concepts of a “group system”, “team system” and “staff system” are not clearly differentiated, and the titles as well as the content differ from one local government to another.
- 10 However, even in 2009, there were 276 bodies (15% of all local governments), in which the Laspeyres Index exceeded 100.
- 11 The special promotion on retirement, consisting of upgrading the rank of an official at the time of retirement, was a target for criticism when it was commonly adopted in many local governments.
- 12 In Tottori Prefecture, in fiscal 2006, on the suggestion of the then governor, the policy was adopted of including an automatic invalidation regulation in newly enacted bylaws (one kind of sunset formula), and an expiry date was included in many bylaws.
- 13 A definition under which corporate bodies jointly funded by local governments and the private sector are classified as third sector corporations also exists, but this paper follows the definition of the Ministry of Internal Affairs and Communications.
- 14 “Sa-Wa-Ya-Ka (refreshing) Movement” is a composite term covering a number of headings of Japanese terms such as “Saabisu (service)”, “Wa-kariyasusa (easily understandable)”, “Yaruki (vitality)”, and “Kaikaku (reform)”, which have a pleasant ring about them.

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