

# CLAIR

## Fact Sheet

### The Trinity Reform



#### The Role of Local Finance in Japan

Local governments (prefectures and municipalities) play an important role in people's lives as the primary provider of various administrative services including k-12 education, hygiene facilities, police and fire, roads and sewage.

The public sector accounts for 23.0% of gross domestic

expenditure (GDE), of which local governments account for 12.4%, the national government for 4.3% and social security funds for 6.3%. Therefore, the relative importance of local governments is about three times as high as that of national government.

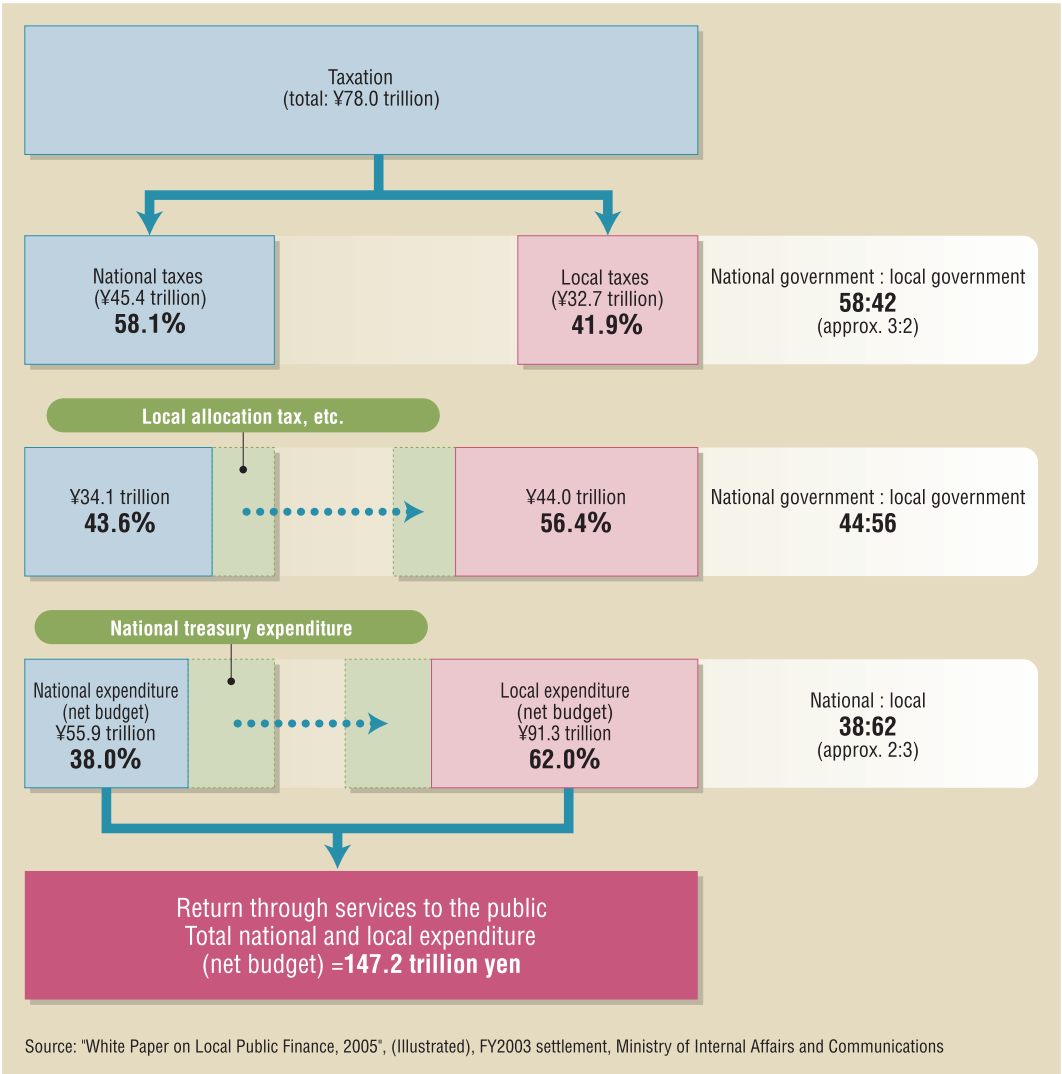
**Council of Local Authorities for  
International Relations**

# Distribution of Funds between the National Government and Local Governments

The ratio of tax revenues between national government and local governments in Japan is 3:2. Nevertheless, the ratio of expenditure of public funds between national government and local governments is 2:3 because of the redistribution of revenues that are collected nationally. These are the

allocation of tax revenues to local governments, the transfer of tax revenues to local government for the construction of roads and airport noise reduction facilities and national treasury disbursements or subsidies. Therefore, for prefecture and local governments there is an imbalance between expenditures and tax revenues.

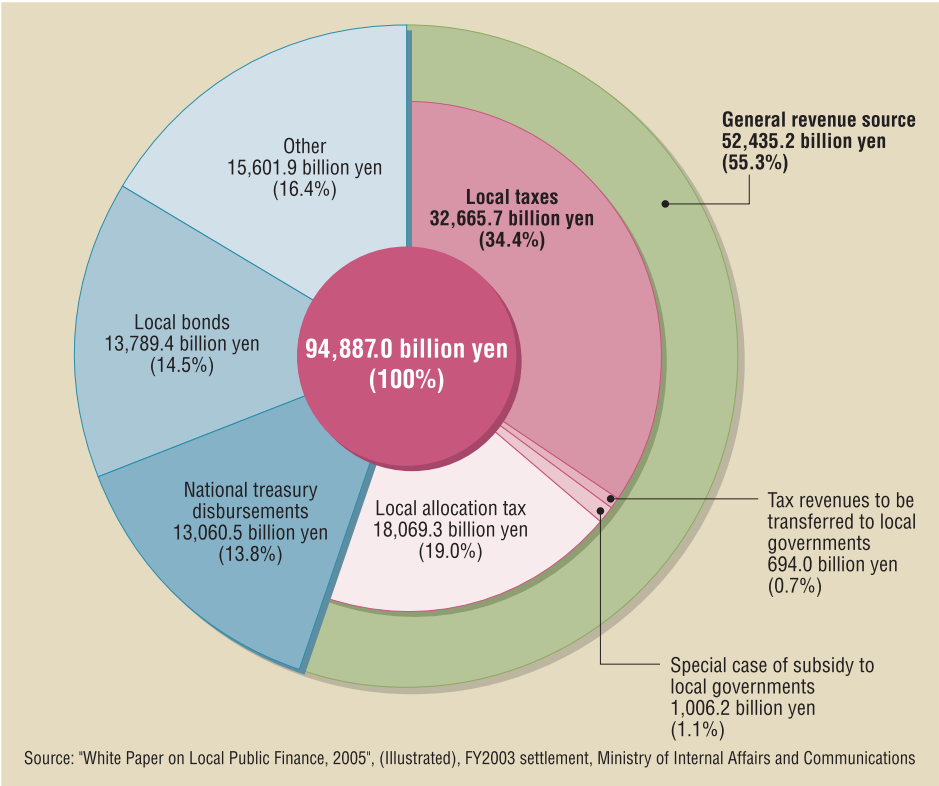
Distribution of Financial Resources between national government and local governments



# Revenues of Local Governments

While local governments play an important role as the primary provider of administrative services, local government tax revenues account for only 30% of total national tax revenues.

Component ratios of major items in revenue accounts



# Objectives of the "Trinity Reform"

It is the objective of the 'trinity reform' to develop a new administrative system under which the autonomy and independence of local communities is to become paramount and in tandem with a shift to a decentralisation of government power. The impetus for the 'trinity reform' comes from the political doctrine that calls for a transformation in focus on the way in which government is run; also known as "from the public to the private sector" and "from the national to the local governments". Thus, the result will be to create a clear division of roles between national government and local governments.

In order to promote the decentralization of government power when local finances are severely constrained, we need to increase

local government flexibility in dealing with both revenues and expenditures and, consequently, we need to achieve structural reform to bolster their independence. Specifically, we need to develop a revenue system that is based at the local level and controlled locally. At the same time, it is necessary to abolish and/or reduce the involvement of national government in local finances. Presently, national government dominates local government expenditures by means of a system of statutory control and centrally determined subsidies.

With regard to revenues, it is desirable to reduce local government financial dependence on national funds to the greatest extent possible. Instead, local governments should

be more autonomous, emphasising local taxes as the major source of revenues. Moreover, local governments then ought to be able to balance revenues and expenditures locally to the greatest extent possible. We believe that this will clarify the relationship between local governments and their residents with respect to their individual priorities for the services they provide. Also, it will promote administrative and financial reform in both national and local governments.

In order to facilitate the structural reform so described, we need to carry out a sweeping review of (1) national treasury subsidies; (2) the distribution of tax resources, including the transfer of tax resources; and (3) the local allocation tax.

## Specific Measures in the "Trinity Reform"

The following reform measures will be promoted in FY 2006.

### 1. Reform of national treasury subsidies

These reform measures include the abolition and/or reduction of subsidies by about 4 trillion yen. For FY 2005 and FY 2006 the aim is to abolish and/or reduce subsidies by approx. 3 trillion yen.

### 2. Revision of tax resource distribution, including the transfer of tax resources

Tax revenue sources will be transferred to local governments for those projects that need to be continued at local levels despite the fact that these projects may be included in the discontinued tax loss re-imbursement system.

The review will aim at the transfer of tax revenue sources amounting to approx. 3 trillion

yen.

Tax revenue sources will be transferred from the national income tax to the local individual inhabitant tax in FY 2006.

### 3. Reform of the local allocation tax

The local allocation tax will come under a complete review with the aim of reducing the use of this tax sharing system.

## CLAIR Activities

In addition to providing support to projects initiated by Japanese local governments for the advancement of international exchange, the Council of Local Authorities for International Relations (CLAIR) performs research on systems and issues of local public finance and administration overseas. The Council also provides support for the overseas activities of Japanese

local governments, as well as for the training of local civil servants and the promotion of local level internationalization. In doing so, CLAIR aims to contribute to the development of local government.

To achieve these goals, CLAIR engages in a wide range of activities, in conjunction with its domestic branches and overseas offices. CLAIR's main

activities are:

1. Development of overseas offices
2. Implementation of international exchange projects
3. Coordination of the Japan Exchange and Teaching (JET) Programme
4. Implementation of international personnel development programs
5. Collection and dissemination

of information on international exchange.

6. Publication of the *Jichitai Kokusaika Kyokai Forum Monthly*
7. Publication of the CLAIR Report
8. Distribution of information on international exchange lectures and specialists
9. Assistance for kye local international exchange groups

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