

Historical Development of Japanese Local Governance Vol. 8

**Volume 8 The Period of Stable Economic Growth –
A Time of Maturation and Change in the
System of Local Autonomy
(1975 – 1992)**

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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.

August 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, one of a series which started to appear in 2010, is one result of collaboration that started in 2005 between the Institute for Comparative Studies in Local Governance, National Graduate Institute for Policy Studies, and the Council of Local Authorities for International Relations, under the title, “Project on the overseas dissemination of information on the local governance system of Japan and its operation”. For the purpose of implementing the project, a “Research committee for the project on the overseas dissemination of information on the local governance system of Japan and its operation” was established, and a chief or deputy chief with responsibility for each part of the project have been designated.

Within the framework of the above project, we began to study in 2008 how to establish and take forward a self-contained project under the title “Historical Development of Japanese Local Governance”. The project will comprise the publication of 10 volumes in the form of booklets which will examine the formation, development process and history of local governance in Japan. We are convinced that the results of the research that underlies this project will be of immense use in the comparative study of local governance in many countries. The work has been taken forward primarily by the core team members listed below, and it is planned that all the research will be brought together by the publication, one at a time, of a booklet authored by each team member during 2010 and 2011.

(Chiefs):

Hiroshi IKAWA	Professor, National Graduate Institute for Policy Studies
Akio KAMIKO	Professor, School of Policy Science, Ritsumeikan University

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Atsushi KONISHI	Director-General, Research Dept., Japan Intercultural Academy of Municipalities
Nagaki KOYAMA	Formerly Associate Professor, Graduate School of Library, Information and Media Studies, University of Tsukuba (until March 2009)
Makoto NAKADAIRA	Professor, Graduate School of Human and Socio-Environmental Studies, Kanazawa University (since May 2010)
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This booklet, Vol. 8 in the series, “Historical Development of Japanese Local Governance” is authored by Prof. Makoto Nakadaira and gives an account of the development process and history of local governance in Japan in the period 1975-1992.

The period (1975-1992) covered by this volume is one in which the Japanese economy experienced a transition to a low growth rate, and one in which administrative reform, directed by central government, was taken forward against the background of the economic recession caused by 2 oil shocks. In the financial world too, the period is marked by the depression caused by the high yen rate in the wake of the Plaza Accord, the influence of the bubble economy and the slide into depression after the collapse of the bubble, and the dizzying speed of change to a system of calculating income and expenditure in terms of isolated fiscal years. It is within this context that this volume introduces the history of local governance and changes in local finance on the basis of the content of the times and the movement of national policies.

From now on too, we aim to strengthen this series, by continuing to examine and research the formation and development of local governance in Japan.

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

Lastly, I need to thank Mr. Maurice Jenkins for his work in translating this booklet into English from the original Japanese booklet.

August 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

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Introduction

This volume, Volume 8 in the history of the formation and development of local governance in Japan, deals with the period (1975-1992), when the Japanese economy went through a stage of transition from the period of high economic growth before the oil shock to a period when economic growth was relatively stable, averaging about 4%. More specifically, just when Japan thought it was recovering from the influence of the minus growth period caused by the first oil shock and reaching a level of 5% or so, the second oil shock (1979) inflicted a further impact. This was followed in turn by the outbreak of the Iran-Iraq war (1980), causing the level of economic growth to fall again, to 2% or so. It is against this kind of background that we must see the great efforts put into countermeasures against pollution by the Japanese government in the 1970s, as symbolized by the “anti-pollution Diet” of 1970. At the same time, the Japanese people united in taking measures aimed at reducing energy consumption, and by the use of creative ingenuity, Japan almost succeeded in overcoming the effects of the second oil shock mentioned above. Taking a different perspective, the recovery of the Japanese economy, thanks primarily to increased exports to the U.S., generated severe frictions in Japan-U.S. relations in the area of exports and other matters. In 1985, in accordance with the Plaza Accord, the U.S. dollar was greatly devalued in relation to the Japanese yen as well as other currencies. The result of this devaluation was a recession caused by the high value of the yen, but the effects of this were overcome by the use of technological innovation and management rationalization, which in turn generated a sharper focus on the strengths of Japan’s management style and led to the term “Japan as Number One”. In broad terms, the “bubble economy” lasted for 51 months, from December 1986 through February 1991, the third longest economic boom period since the end of World War II. However, in a climate in which interest rates were low due to support for export industries and an expansion of domestic demand, investment funds in search of high profits concentrated on shares and land, leading to a steep rise in the cost of these commodities. Starting with the collapse of share prices in 1990, real estate values fell, and the worsening of company

profits led financial institutions to rush to offer funds to real estate agents. The worsening condition of the management of these institutions expanded to the whole of the industrial sector, forming the transition to the depression of the years from 1993 to 2002, that are summed up by the appellation “the lost decade”.

Against this kind of background, the period examined in this volume was one in which the effects of the oil shock were still reverberating, while administrative reform under national leadership was seriously called for, and the rationalization of state-run projects, as symbolized by such phenomena as the privatization of Japan National Railways, was taken forward. Looking more specifically at the rationalization of administrative tasks, while the central government formed the primary focus, the influence of such rationalization did extend to the system of local governance, as can be seen in such ways as the rationalization of the agency-delegated function system. However, from the point of view of the expansion of local duties and functions, it was not carried out with sufficient thoroughness.

In the financial area, local finances sustained severe damage from the economic recession resulting from the oil shock, although financial equilibrium was later restored for a short time through the effects of the economic bubble. However, in the economic recession following the collapse of the bubble, imbalances in income once again became a matter of concern, which can in turn be linked to an increase in local indebtedness incurred through local bonds issued in the context of repeated economic countermeasures.

Matters specifically concerned with local governance will be dealt with under the following headings.

Chapter 1 takes as the background context administrative reform at the level of central government and local governments, and sets out various ways in which reform is realized, including a re-evaluation of the transfer of authority and the agency-delegated function system, as well as a re-appraisal of the pattern of intervention by central government and the imposition of necessary regulations.

Chapter 2 deals with local finance.

Chapter 3 is concerned with balanced land development and the formation of regions (the Fourth National Comprehensive Development Plan and the creation of the hometown concept).

Chapter 4 is concerned with reform of the electoral system (the introduction of a proportional representation system for the election of members of the House of Councillors).

Chapter 5 deals with reform of the system of public officials.

1 Administrative reform

1.1 The emergence of the Second Provisional Commission and the promotion of administrative reform

In response to economic changes, economic countermeasures were implemented by the government, but the outcome of the need to compensate for the shortfall in tax revenue was that the government had to increase its reliance on national bonds. In 1981, the Suzuki Cabinet made a decision to establish the Second Provisional Commission for Administrative Reform (hereafter Second Provisional Commission) with the objective of restoring financial soundness without recourse to a tax increase. Doko Toshio, a prominent business leader, was appointed as head of the Commission, which pursued its investigations into financial and administrative reform measures. The Commission met five times in all, and presented its final report in March 1983 to the then Nakasone Cabinet. The report made several reform proposals, among which the primary one was a proposal to privatize 3 public corporations. As a continuation to the work of the Second Provisional Commission and with the aim of further pursuing the supervision of administrative reform, the Provisional Administrative Reform Council (hereafter, Admin Reform Council) was established in the same year, 1983. Thereafter, the Second Admin Reform Council was established in 1987 under the chairmanship of Ohtsuki Bunpei, and this was followed in turn by the establishment in 1990 of the Third Admin Reform Council under the chairmanship of Suzuki Eiji. By these means, assurance was provided of the supervision of administrative reform, while new proposals continued to be put forward. Classic examples that can be cited of the implementation of financial and administrative reform are the privatization of 3 public corporations, as referred to above, the privatization of Nippon Telegraph and Telephone Public Corporation and the abolition of the state monopoly of the Japan Tobacco and Salt Public Corporation in 1985, as well as the dismemberment and privatization of Japan National Railways in 1987.

Turning our attention to the relationship between central government and local governments, in its “Third Report (Fundamental Report) on Administrative Reform”, issued in July 1982, the Second Provisional Commission, referred to above, put forward proposals for a rational division of functions between central government and local governments and for the desirable pattern of local administrative and financial reform. Specifically, the report stated that a fresh look should be taken at division of functions between central government and local governments from the perspectives of “locality-centered perception”, “efficiency” and “comprehensiveness”. At the same time, with the aim of promoting administrative reform, the report set forth, as a fundamental concept, clarification of the positioning of the device of “making choices and bearing the burden” within the framework of local administrative and financial policy. Furthermore, with specific regard to the rationalization of duties concerned with agency

delegated functions, for the immediate future, a rationalization of at least 10% was set as a target over a 2-year period, including matters such as getting approval and permission. It was also decided to consider the establishment of a separate investigating body to deal with various matters, including the issue of intervention by central government as well as the rationalization of necessarily imposed regulations. Looking next at the issue of rationalizing and increasing the efficiency of the system and the operation of local finances, emphasis was put on the thinking underlying the concept of “making choices and bearing the burden” within the framework of basing the provision of administrative services on the autonomy of local areas. At the same time, attention was drawn to voices advocating the strengthening of revenue adjustments between different local governments. Furthermore, the rationalization of the system of subsidies to local governments was set out as an objective. The report also pointed out, with reference to the way in which the local administrative system responded to the issue of wide-area administration, that existing municipal administrations were not able to respond to the new everyday living zones. It further said that in the long term, an issue to be addressed was that of how to abolish the differences in scale and ability between municipalities, while on the other hand, the examination of the administrative structure of regional zones resulting from wide-area expansion at prefectural level was an issue to be dealt with. And with the aim of streamlining and increasing the efficiency of administration at national and local government level, the report set out the objective of streamlining and increasing the efficiency of local administration, which accounts for a major part of administration as a whole.

In what can be seen as an acknowledgment of receipt of the Third Report of the Second Provisional Commission, the 19th Local Government System Research Council issued in 1982 an “opinion concerning the preferred pattern of local government administration and finance and of administrative reform”. The “opinion” fundamentally supported the government’s position in promoting administrative reform, but emphasized that the fundamental direction of administrative reform at the level of central government and local governments should be one of aiming at simplification and increased efficiency and that together with this, the foundation of reform should be seen as being located in decentralization. The “opinion” also indicated a number of points which the government should take into consideration when implementing the report of the Second Provisional Commission. These can be enumerated as follows. With regard firstly to the reform concept of “making choices and bearing the burdens”, there are many cases where it is necessary to make a more comprehensive and multi-faceted examination from among the specific issues to be examined. Mention is made of the need to reexamine the policy formulation method used in local financial planning, which uses the formula of calculating income and expenditure fiscal year by fiscal year. With particular regard to achieving a revenue balance among local governments by such means as raising the standard tax ratio used in

calculating the standard financial revenue acquired from local allocation tax, the “opinion” points to the danger that in a significant number of cases, the autonomy and independence of local government financial operations will be damaged. A separate issue is that of strengthening revenue adjustment by such means as re-appraising the distribution methods of local transfer tax and the standards for dividing corporate enterprise tax, as well as increasing the flexibility of excess-rate taxing and of extra-legal ordinary taxes, i.e. taxes not covered by the Local Tax Law of 1950. In these areas, items could be found which did not fit the stated objectives when examined from the perspective of the character or mechanisms of the tax system and which had in-built limitations from the point of view of the reality of the system’s operations. The “opinion” suggested that when due consideration was given to all the matters enumerated here, there was a need to proceed with caution when dealing with the items to be examined.

The Second Provisional Commission issued its fifth and final report in March 1983, and in this report too, it adhered to the way of thinking set out in the third report referred to above. Importance was put on reducing the amount and holding down the expansion of local administration, and it was stressed that any administrative duties which fell outside the boundaries of standard administration should be dealt with by reference to the principle of “making choices and bearing the burdens”. In addition, with regard to local branch offices of central government ministries and agencies, specific suggestions were made to the effect that jurisdictional areas should be unified, and that multiple chains of command should be united. Specific countermeasures regarding the rationalization of subsidies were also put forward, and on the matter of the body in which the authority to issue permission or approval was vested, a list was enumerated of items which should be delegated (agency-delegated functions) to the governors of prefectures. It was also suggested that the system of local officials appointed by central government and dealing with such matters as social insurance, land transportation and employment stability should be abolished.

With regard to the rationalization of such matters as the agency-delegated function system and matters of giving approval and permission, referred to in the frequently appearing reports of the Second Provisional Commission, the draft of a “Law concerning the Simplification, Rationalization and Rearrangement of Administrative Duties” was presented to the Diet in September 1983 and enacted in December of the same year. Under this law, 30 items concerned with the delegation of agency functions were abolished or reduced, 11 items were converted into duties delegated to prefectures or municipalities, and 4 items were made subject to the transfer of authority. At the same time, 39 items in 26 laws concerned with the granting of approval and permission were rationalized.

1.2 Movements subsequent to the Provisional Commission

In March 1983, the term of office of the Provisional Commission came to an end, and it was immediately succeeded, as mentioned above, by the First Admin Reform Council (Provisional Administrative Reform Council). The Local Administrative Reform Promotion Sub-Committee of this body pursued an investigation into the pattern of intervention in local government matters by central government and the rationalization of necessarily imposed regulations, and in December 1984, the said Sub-Committee issued a report entitled, "Rationalization of the intervention in local government matters by central government and of necessarily imposed regulations". The general direction adopted in the report was that any intervention or imposition of regulations concerned with the duties carried out by local governments should in principle be limited to occasions when such action was truly necessary in order to achieve uniform application throughout the country or to carry out wide-area adjustment, and that as far as possible, the stance adopted by central government should be one of paying due respect to the autonomy of local governments. Within the framework of this general policy, the report made specific recommendations regarding the abolition and amelioration of intervention by central government and the imposition of necessary regulations, as well as operational improvements. Indicating acceptance of the content of the report, the "Law concerning the rationalization of intervention in local government affairs by central government and other matters" was enacted, and in this way, the implementation of regulatory amelioration was achieved.

Following this same pattern, the sub-committee also looked at the agency-delegated function system and matters of giving approval and permission, and issued in July 1985 a "Report on agency delegated functions as well as on the desirable pattern of authority for giving permission and approval on central government and local government levels". Listing specific items, the report suggested the abolition of certain agency-delegated tasks, the conversion of such tasks into local organizational duties, and the rationalization of the process of transfer to municipalities. Furthermore, the report suggested that local assemblies should be enabled to demand an investigation and examination as well as an audit of agency-delegated functions, and that on the basis of such a demand by a local assembly, the authority to carry out an audit or a general inspection should be vested in audit committee members. With regard also to the system of filing a suit against a professional execution order, the report advocated separation of the procedures for implementation by proxy and for dismissal from office. Further, the report suggested, listing individual cases, that with regard to the desirable pattern of the authority to give approval and permission, efforts should be made to take forward the transfer of authority to prefectures or to prefectural governors, and the delegation of authority to central government branch offices.

On the other hand, on the issue of the agency-delegated function system, the 20th Local

Government System Research Council issued a report in February 1986 entitled, “Report concerning currently urgent issues to do with agency-delegated functions”, which took a rather different view from that of the sub-committee referred to above. Specifically the Government System Research Council took the view that fundamentally the agency-delegated function system should be abolished, and that improvements should be made in cases where immediate abolition was not possible, further (and here they took the same view as the sub-committee of the Provisional Council) that the rights of intervention of local assemblies and audit committee members should be extended, that with regard to the system of filing suits against professional execution orders, the system of dismissal from office should be abolished. Finally, with regard to the system of implementation by proxy on the instructions of the minister in charge, they said that it should be possible to lodge an expression of dissatisfaction with the Prime Minister, and that even in a case where this was not approved, they demanded that provision should be made for the possibility of filing a suit for annulment of the order made by the minister in charge.

In March 1986, the draft of a “Law for revision of part of the Local Autonomy Law”, aimed at a general re-appraisal of the agency-delegated function system, was presented to the Diet, but it was abandoned before the discussion stage was completed, and it was not until April 1991 that the law was finally enacted. Under this revision, the system of filing suit against a professional execution order was revised so that in the event that the following conditions were met, namely, firstly that a governor acted in violation of such an order or neglected to implement it, secondly that it would be difficult to make rectification by means of some other device, and thirdly that the public interest would be harmed if the matter were simply left to lie, then the minister in charge could recommend, by the use of a written notification, that the violation be rectified or that supervision and implementation of the duty in question be carried out. In the event of the recommendation not being followed, a written order could be issued, and in the event of that too not being obeyed, the Supreme Court of Japan could issue a judgment requiring the said duty to be implemented. In the event of the governor failing to obey the court’s judgment, the minister in charge could implement the said duty by proxy.

With regard to individual items concerned with the rationalization of agency-delegated functions, as proposed by the Local Administrative Reform Promotion Sub-Committee of the Admin Reform Council (see above), the draft of a “Law concerned with the ordering and rationalization of duties undertaken by local governments as organs of the state” was finalized, and the law was duly enacted in December 1986.

1.3 A re-appraisal of the distribution of duties and authority between central government and local governments

As mentioned above, the Second Admin Reform Council was established in April 1987. At

first, it did not take local governance as its primary target, but in November of the year of its establishment, following the formulation of the policy of “The Creation of my Hometown” by the Takeshita Cabinet, the Council turned its attention to examining the links between central government and local governments. At the beginning of 1989, the “Sub-Committee on Links between Central Government and Local Governments” was created, and in December of the same year, the Second Admin Reform Council issued its “Report on Links between Central Government and Local Governments and Other Matters”. In the Report, the Council stated that with regard to the distribution of authority between central government and local governments, the division of functions should be reviewed, and as far as possible, the functions of central government should be simplified. Unlike past thinking concerning the division of functions, it is possible to see here a movement in the direction of decentralization from the center to local areas. The Report went further and suggested the rearrangement and diversification of local governments with a view to raising their level of administrative and financial ability so that they would be able to function as a mechanism for handling the effects of decentralization. Specifically, the Report proposed the creation of core cities, the creation of a system of prefectural unions, and the creation of a system of municipal unions. The proposals for unions were in fact a re-appraisal of suggestions previously made by the Local Government System Research Council, targeted at the delegation of authority. The said Report was taken up by the 22nd Local Government System Research Council, which debated such problems as wide-area administrative systems of unions, etc., and the desirable pattern of urban systems including the transfer of duties suited to the scale and ability of cities. These deliberations were continued in the 23rd Local Government System Research Council, and decisions were taken on the results, leading to the publication in April 1993 of the “Report concerning wide-area unions as well as core cities”.

On the other hand, in May 1988, the 21st Local Government System Research Council issued a “Report on the transfer of authority from central government to local governments”, which strongly advocated the formation of a multi-polar distribution of national land aimed at correcting the uni-polar concentration on Tokyo, and with a view to realizing these proposals, recognized the importance of forming regional societies vibrant with a rich sense of individuality and embodying, over the country as a whole, the different characteristics of various local and regional areas. With this objective in mind, it was important, the report said, to get away from the hitherto existing prioritization of national policies, and to take, as the core, local governments which were comprehensive administrative autonomous bodies in the local areas concerned; each of these autonomous bodies should then exercise its ingenuity and creativity, the most significant premise being the assured existence of an administrative and financial system which enabled the local governments concerned to formulate policies in an autonomous

and effective manner, hence the transfer of authority was a matter of urgency. As items of immediate relevance, charged with realizing the transfer of authority, the report cited the use of land, the formation of urban communities, and industrial policies. However, none of these items was immediately realized.

In December 1989, the 22nd Local Government System Research Council issued a “Report on the desirable form of small towns and villages”. In addition to urging the local promotion of small-sized towns and villages, the report made suggestions for improvements in organizational management, in the form of points concerned with their system of administrative operations; not only that, the report also referred to the necessity for diversification so that the process of simplifying and increasing the effectiveness of organizational configurations could be carried out, and attention is drawn to the suggestions concerning the need for supplementary and proxy-related matters carried out by other local governments. Specifically, it recommends that many different options are examined, including the utilization of general meetings of towns and villages, the simplification of administrative committees and attached organs, and the use of wide-area municipal zones consisting of several small-sized towns and villages and centered on a core city, or supplementary and proxy-related, prefectural measures, including the introduction of a Council-Manager System. Furthermore, the report also said that it was necessary to take such measures as utilizing multiple cooperatives in the context of setting up wide-area administration systems, re-evaluating the Special Measures Law on Mergers with a view to smoothing the way for autonomous mergers to take place, and giving due consideration to depopulated regions.

In September 1990, the 22nd Local Government System Research Council issued a “Report concerning the system of the Tokyo metropolis and Tokyo wards”. The report stated firstly that it was necessary in the future too to have still fuller discussions on the preferred pattern of the system for large cities in general and of the system for the metropolitan zone in particular. While examination of these topics should be appropriately continued, for the immediate future, within the context of administration that is close to the everyday concerns of residents, duties should as far as possible be transferred to special wards. At the same time, while it was important, the report said, to show due concern for guaranteeing the total integrity of the administration of large cities, the system of special wards also needed to be re-appraised in the direction of strengthening the autonomy and independence of special wards. Specifically, matters that should be appropriately dealt with included the transfer to special wards of duties such as those concerned with the collection and transport of general garbage, the abolition of adjustment bylaws in the form of special measures concerned with the special wards, reconstruction of the Standing Council of the Metropolis and Special Wards, revision of the financial adjustment system between Tokyo metropolis and the special wards, and transfer to the governor of Tokyo

metropolis of authority to grant permission and approval; the above said, it was deemed appropriate that the character of special wards should, as hitherto, be that of special local government bodies.

2 Local finances

2.1 The great depression in local revenue and expenditure in the mid-1970s

The structural change in the national economy resulting from the first oil shock took the form of a severe impact on fiscal revenue at national and local levels. In fiscal 1975, a sharp drop in tax revenue occurred part way through the fiscal year, and from this point on, as a result of continuing economic stagnation, fiscal revenue continued to slow down markedly over a period of several years. On the other hand, from the point of view of expenditure, because of the need to devise many different kinds of financial measures in such forms as the expansion of public investment designed to maintain economic buoyancy, the lack of equilibrium in financial balances increased much more markedly, generating a revenue shortfall in local finances amounting to several trillion yen in each financial year, and leading to a critical downturn in the economy.

In the face of this financial disequilibrium, from the mid-1970s on, central government and local governments alike had no choice but to issue large numbers of bonds, and were forced into a state of financial dependence on borrowed money. In terms of national finances, the total of revenue derived from two sources, namely 1) special measure national bonds (deficit bonds) bonds issued to compensate for the shortfall in general revenue, and 2) construction bonds, which were allocated to the revenue from publicly managed enterprises, amounted in every fiscal year from 1975 on, to about 30% of national revenue, and in fiscal 1979 in particular, reached around 40% of the initial budget. In terms of local finances too, in order to compensate for the revenue shortfall, which also amounted to several trillion yen in each financial year, the insufficiency in the amount of local allocation tax was managed, in addition to the regular issuing of local bonds, by borrowing from the trust fund bureau funds. It was in these ways that equilibrium in the financial balances was aimed at. In the same way as a national level, it was also at local level that in fiscal 1979 in particular, faced with a revenue shortfall of 4.1 trillion yen, there was a tremendous increase in the issuing of local bonds amounting to 1.64 trillion yen, while borrowing for local allocation tax reached the unprecedented figure of 2.28 trillion yen. The drop in the local allocation tax revenue total was somehow managed by means of expanding the borrowing from the trust fund bureau funds, but in the case of local governments in which there was still a tax revenue shortfall, the issuing of deficit bonds was approved for the first time in 1975.

Through the latter half of the 1970s and the first half of the 1980s, the result of the financial

situation inevitably became one of dependence on borrowed funds, and at the end of fiscal 1984, the total balance of national bonds stood at 122 trillion yen, of which 54 trillion bonds was accounted for by special national bonds. This amount was made up of a balance of 40 trillion yen in local bonds in the ordinary account, 8 trillion yen charged to the ordinary account as redemption money taken from the publicly managed enterprise account, and 6 trillion yen representing a borrowing for local allocation tax, making a total balance of borrowed money amounting to 54 trillion yen. Looking also at individual local governments, there were over 1,000 in which, in fiscal 1984, the ratio of the charge to public bonds (the ratio in relation to the general revenue from public bonds) exceeded 20%. It is clear from these figures that both national and local financial management had suffered a marked loss of flexibility.

2.2 Expenditure restraints / tax increases; escape from dependence on borrowing

On the basis of the circumstances outlined above, the largest issue in the context of national finance and local finances from 1975 and into the 1980s was how to manage an escape from dependence on public bonds and borrowed income, and how to rebuild financial structures and restore mobility in financial responses. With these aims in mind, the basic direction set was that in the area of national financial policies, in parallel with the promotion of administrative reform, policies of restraint aimed at thoroughly tackling general expenditures in particular would be devised, the continuing increase in the issuing of national bonds would be radically reduced, and at the very least, financial rebuilding would aim at escaping from a situation of dependence on deficit bonds. From fiscal 1982 onwards, expenditures were severely restrained in terms of aiming at a zero ceiling or a minus growth ceiling at the time of making budgetary demands.

The severe expenditure restraint policies of the kind outlined here impacted on local finances in the context of a lowering of national treasury subsidies, but on the other hand, were effective in achieving restraint in the issuing of national bonds, so that in fiscal 1985, the real deficit ration dropped to around 23% of the income from the issuing of national bonds, resulting in the beginning of an increase in fiscal income when combined with the economic recovery caused by the expansion of domestic demand. In fiscal 1990, the level of dependence on national bonds was cut to around 11%, and the government succeeded in escaping from special measure national bonds. In the area of local finances too, following the same direction as central government in the area of financial policies, efforts were made from fiscal 1981 onwards to put severe restraints on expenditures and to reduce borrowing. The result of these efforts was that the revenue shortfall in ordinary income was abolished, and an equilibrium in income and expenditure balances was achieved. In fiscal 1987, the first year after tax reform, the increase in income did not reach expected levels in the light of a decrease in taxation, and a revenue shortfall was generated in the standard income and expenditure balances. However, there is no

doubt that this was no more than a temporary phenomenon, and that fundamentally, income and expenditure were brought into a state of equilibrium. Subsequently, thanks to the continuing growth of tax income accompanying the process of economic recovery, by about fiscal 1981, local financial policies had resulted in repayment of almost all the money borrowed, at one point in excess of 6 trillion yen for local allocation tax. Furthermore, funds had also been accumulated to repay the vast sum in local bonds issued to plug the gap in the form of revenue shortfall, so that at least temporarily, financial health and soundness was restored.

2.3 The collapse of the bubble economy

It is appropriate at this point to look more closely at what caused the success of the dynamic financial measures in the form of policies aimed at correcting the large-scale disequilibrium in income and expenditure balances generated from 1975 on. The answer can be found firstly in the efforts made to restrain expenditures and reduce borrowing at the level of central government and local governments. Combined with this factor, a further answer can be found in the expansion of the economy brought about by measures devised in the context of economic policies and financial relaxation policies and implemented following the Plaza Accord of 1985. The background to these policies was the need to cope with the depression and high yen rate generated by countermeasures adopted by major countries in the face of external imbalances. Specifically in the case of Japan, the large-scale natural increase in fiscal revenue derived from the economic expansion known as the bubble economy had the result of enabling Japanese national finances to escape from a state of dependence on deficit national bonds, and at the level of local finances, went as far as enabling the massive amount of borrowing to be repaid.

However, the bubble economy collapsed, and the waves of the long-term depression which came after its collapse brought about a large-scale fall in land prices and accompanying confusion in the financial order. When these factors were added to the ongoing hollowing-out of the industrial sector, the result was an unparalleled structural recession which came to be termed a deflationary spiral. This led in fiscal 1982 to the beginning of a sharp fall in fiscal revenue, and thereafter, the economy continued to languish, but on the other hand, public investment over a period of 5 years, representing the concrete implementation of economic recovery policies, reached a total of 45 trillion yen. With this source of revenue to draw on, an increased number of national construction bonds and local bonds were issued, while special measures resulting from an expansion of consumption were implemented in such forms as a reduction of income tax and residents' taxation. In ways such as these, it was possible to trace a severe worsening of the financial situation.

Specifically, from fiscal 1994, looking first at the national level, Japan was once again forced to resume the issuing of national deficit bonds, from the burden of which the economy had at

last been liberated. In the area of local finances too, following the national trend, the economy took a sharp turn for the worse; in fiscal 1992 and 1993, a revenue shortfall in excess of 1 trillion yen was generated, and from fiscal 1994, the shortfall worsened still further, coming to exceed 5 trillion yen, including the impact resulting from a reduction in residents' tax. Combined with the effect of the issuing of revenue shortfall countermeasure bonds and tax reduction compensation bonds, the Japanese economy once again fell into a state of dependence on renewed borrowing for local allocation tax. Local finances too, having once overcome the hardships of the late 1970s, were brought face to face with a new structural crisis.

Table 1 Local Revenue Shortfall (1975-84) and Devices to Counter the Effects of This

Fiscal year 1975	supplemented sum	2,183.2 billion yen	For the local allocation tax special account	1,120 billion yen
			Bonds to cover the local tax revenue decrease	1,063.2 billion yen
Fiscal year 1976	initial sum	2,620 billion yen	Emergency special local allocation grant	55.9 billion yen
			For the local allocation tax special account	1,314.1 billion yen
Fiscal year 1977	initial sum	2,070 billion yen	Increased issuing of local bonds as financial countermeasure bonds, etc	1,250 billion yen
			Emergency special local allocation grant	95 billion yen
			For the local allocation tax special account	940 billion yen
Fiscal year 1978	initial sum	3,050 billion yen	Increased issuing of local construction bonds	1,035 billion yen
			Emergency special local allocation grant	150 billion yen
			For the local allocation tax special account	1,550 billion yen
Fiscal year 1979	initial sum	4,100 billion yen	Increased issuing of local construction bonds	1,350 billion yen
			Emergency special local allocation grant	180 billion yen
			For the local allocation tax special account	2,280 billion yen
Fiscal year 1980	initial sum	2,055 billion yen	Increased issuing of local construction bonds	1,640 billion yen
			Emergency special local allocation grant	130 billion yen
			For the local allocation tax special account	895 billion yen
Fiscal year 1981	initial sum	1,030 billion yen	Increased issuing of local construction bonds	1,030 billion yen
			Change in the method of redeeming money borrowed from the local tax allocation account	191 billion yen
			For the local allocation tax special account	19 billion yen
Fiscal year 1982	supplemented sum	2,711.9 billion yen	Increased issuing of local construction bonds	690 billion yen
			For the local allocation tax special account	1,543.3 billion yen
Fiscal year 1983	initial sum	2,990 billion yen	Bonds to cover the local tax revenue decrease	1,168.6 billion yen
			Special measures addition to the total amount of local allocation tax	113.5 billion yen
			Emergency special local allocation grant	700 million yen
			For the local allocation tax special account	1,895.8 billion yen
Fiscal year 1984	initial sum	1,510 billion yen	Bearing one-half of the interest on the special account	-344.6 billion yen
			Increased issuing of local construction bonds	1,324.6 billion yen
			Change in the method of redeeming money borrowed from the local tax allocation account	128.9 billion yen
			Special measures addition to the total amount of local allocation tax	176 billion yen
			Increased issuing of local construction bonds	1205.1 billion yen

[Source] Yano, Kouichiro. *The Local Tax and Financial Policy System*, 8th revised ed. p.265. Gakuyo Shobo.
 "Revenue shortfall" denotes the estimated amount of revenue shortfall that will be incurred within the context of the local financial planning process.

Table 2 Local Revenue Shortfall (1992-94) and Devices to Counter the Effects of This

Fiscal year 1992	supplemented sum	1,568.2 billion yen	Measures to counter the effects of reduced national tax revenue For the local allocation tax special account	1,568.2 billion yen
Fiscal year 1993	supplemented sum	1,667.5 billion yen	Measures to counter the effects of reduced national tax revenue For the local allocation tax special account	1,667.5 billion yen
Fiscal year 1994	initial sum	5,879.9 billion yen	Measures to counter the effects of reduced revenue from income tax and residents' tax For the local allocation tax special account	1,243.2 billion yen
			Issuing of bonds to cover the decrease in tax revenue	1,646.1 billion yen
			Other measures to counter revenue shortfall	
	supplemented sum	719 billion yen	Special measures addition to the total amount of local allocation tax For the local allocation tax special account	176 billion yen 1,674.7 billion yen
			Extending the period for redemption of money for the local allocation tax special account Utilization of the remainder of the local allocation tax special account fund Issuing of revenue shortfall countermeasure bonds	197.9 billion yen 40 billion yen 900 billion yen
		Measures to counter the effects of reduced national tax revenue For the local allocation tax special account Fixing the total amount of local allocation tax	719 billion yen (568 billion yen)	

[Source] Yano, Kouichiro. *The Local Tax and Financial Policy System*, 8th revised ed. p.267. Gakuyo Shobo.
"Revenue shortfall" denotes the estimated amount of revenue shortfall that will be incurred within the context of the local financial planning process.

2.4 Re-appraisal of the burden of national treasury subsidies

One of the biggest problems in the area of local financing in Japan from 1985 on was the device to lower the ratio of the burden of national treasury subsidies within the framework of the national policy of sound financial restructuring; the issue led to continuing fierce conflict and debates between central government and local governments. Firstly, in fiscal 1985, a new measure was set out by the government within the framework of a policy aimed at restraining general expenditures. Specifically, it was proposed that specified national treasury assistance funds should be uniformly reduced by about 10 percent; the funds identified as the target for such a reduction constituted the operating expenses in excess of half the support ratio for such matters as national treasury assistance for daily livelihood support expenses. It was also proposed that with the justification of guaranteeing a sufficient number of projects to implement the expansion of internal demand, the ratio of the burden of national treasury subsidies for publicly managed projects should be uniformly reduced. However, on this point, as a result of a very fierce reaction from the local government side, it was stipulated that the reduction was a temporary measure, valid for one year only, and that an increase in the burden on the local government side would be met by a special calculation of the overall size of the local allocation tax as well as an increase in the issuing of local government bonds.

Furthermore, at the time of drawing up the budget in fiscal 1986, it was decided, in advance of the actual budget compilation, that on the basis of the results of an examination carried out by the Support Funding Problems Examination Committee, composed of persons of knowledge and authority, a provisional reduction would be implemented for a three-year period through fiscal 1988. Specifically, in addition to reducing from 80% to 70% the debit ratio of national treasury

funding assistance for livelihood support, it was decided firstly that a system reform should be implemented (revising jurisdictional measures so as to make a change from the hitherto adopted pattern of agency-delegated duties to organizationally delegated duties, and specifying through bylaws concrete conditions for the objects of such measures) with regard to national treasury assistance for child welfare, elderly welfare, the welfare of physically handicapped persons, and the welfare of mentally handicapped persons; in terms of specific figures, it was decided that the support ratio was to be reduced from 80% to one-half, and further, that in order to ensure the continuing expansion of domestic demand with regard to publicly managed enterprises, the provisional reduction of the national treasury assistance ratio should be continued from the point of view of guaranteeing a sufficient number of such enterprises. The increase in the burden on local governments that accompanied these measures would be met by a special increase in the rate of local tobacco consumption tax (the present-day tobacco tax), a special calculation to determine the total rate of the local allocation tax, and an increase in the issuing of local bonds.

Subsequently, in fiscal 1987, the support ration for publicly managed enterprises was provisionally further lowered, but when the time limit for the provisional lowering was reached, in fiscal 1989, there was a strong demand from the local government side, at the time of making budgetary calculations, that the national treasury assistance ratio should be restored to its former level, and the result of the fierce debate that developed was that national treasury assistance for daily livelihood support was set at 75%, while what had been a provisional assistance ratio of 50% in respect of national treasury support funding for elderly welfare and child welfare was made permanent, and arrangements were devised for a part of the support funding for other operating expenses to be raised. On the other hand, as a revenue device for meeting the increased burden imposed on local governments, the addition of 25% of national tobacco tax to the total amount of local allocation tax was implemented as a permanent system reform. With regard to national treasury assistance funding for publicly managed enterprises, it was decided that the system would be examined afresh within the context of renewing a provisional measure until fiscal 1990. The outcome was that the support assistance ratio was raised for the time being to its former level, and a provisional device was put in place to ensure its continuance for a period of 3 years; during this time, a comprehensive examination of the system was taken forward from the perspective of systematizing and simplifying it, and in fiscal 1993, reforms were made a permanent part of the system.

2.5 The creation of consumption tax

In order to compensate for the revenue shortfall that resulted from the strengthening of welfare policies, attempts were repeatedly made by the Ohira Cabinet to introduce consumption tax, but every attempt failed, and finally after about 10 years of dispute, a decision to introduce

it was made by the Takeshita Cabinet in 1988; the Consumption Tax Law was promulgated in December of that year, and the tax was implemented in April 1989 at a rate of 3%. In the initial period after implementation, the whole of consumption tax revenue was treated as national tax revenue, but subsequently, part of the tax revenue was incorporated into the local allocation tax fund, and became a part of local tax revenue.

3 Balanced national development and the creation of locally distinctive areas

3.1 The Third National Comprehensive Development Plan and planning for new wide-area municipal zones

It was during the 1970s that Japan sustained the impact of 2 oil shocks, and the resulting damage inflicted on the economy and on society was very considerable. The distance separating the actual situation from the realization of plans put forward in the New National Comprehensive Development Plan, such as large-scale project concepts and the establishing of a communications network, became much greater, and against this background, as a result of economic stagnation and other factors, the flow of population from local areas into cities became comparatively restrained, while feelings of local autonomy were heightened, manifesting themselves in what was known as the “age of local areas”. It is within this context that the planning and development of a “comprehensive environment for human living”, which encompassed the harmonious adjustment of people and nature, was seen as a basic objective. More specifically, the “settled living zone concept”, as the embodiment of thinking concerned with development, was advocated in the Third National Comprehensive National Development Plan, approved by a cabinet decision of November 4, 1977. The concept took specific shape in the form of a “garden city concept”, advocated by then Prime Minister Ohira in the following year, 1978.

Against this kind of background, wide-area municipal zones, which already had a record of achievements lasting close to 10 years, were identified as the core of a new attempt to promote and establish local and regional society on the basis of the concepts of garden cities as well as of settled living zones. From fiscal 1979 through fiscal 1981, “new, wide-area municipal zone plans” were formulated within the framework of wide-area municipal zones that covered the whole country; the major characteristics of the plans could be summarized as follows.

- 1) The target of the plans, with culture at the core, was defined as community policies, comprising the establishment of facilities related to sport and recreation, medical care, welfare, and residential life.
- 2) They got to grips, in a positive, proactive way, with policy measures aimed at such factors as the promotion of local industry aimed at encouraging local residential settlement.
- 3) They aimed at establishing comprehensive service systems which put stress on both

hardware and software, and brought both of these together in a unified way.

- 4) The participation of prefectures was sought at the plan formulation stage, and prefectural projects were incorporated in the plans.
- 5) At both the plan formulation stage and the project implementation stage, efforts were made to introduce systems which reflected the thinking of local residents.

Financial support was provided by local comprehensive project establishment bonds, which were issued as targeted support for “urban community special countermeasure projects”, implemented as an integral part of projects based on the implementation plans for wide-area municipal zones.

Furthermore, in the initial stages of formulating wide-area municipal zone policies, large cities as well as those areas deemed to have equivalent characteristics were excluded as targets of such policies. That said, it was recognized that large cities did have distinctive characteristics, differentiated by locality, and that in order to get to grips with the kinds of phenomena that constituted staple features of large cities, such as a sudden increase in population, urban sprawl, and so on, there was a need for very close cooperation between cities in respect of such matters as land use planning, the allocation of land for factories and residential use, sewerage networks, high-level medical care, welfare facilities, non-combustible garbage disposal, and so on. In this situation, with the aim of proactively developing wide-area administration in large city areas too, the establishment of large city region wide-area administrative zones was begun in 1977. The cities, towns and villages which constituted large city region wide-area administrative zones established wide-area administrative structures, and in order to get to grips on a joint basis with the administrative issues that were characteristic of large city regions, new plans for the designated zones, designed to match the formulation of plans for new wide-area municipal zones, were formulated from fiscal 1979, and projects based on the said plans were implemented.

3.2 The Fourth National Comprehensive Development Plan

The content of the Third National Comprehensive Development Plan was, broadly speaking, concerned with the promotion of local areas and the control of the development of large cities. Its duration was planned to extend for about 10 years from 1977. During the period of the Plan, the Ohira Cabinet did try and tackle such matters as the concept of garden cities, but as a result of a number of factors, including the setbacks arising from Prime Minister Ohira’s sudden death, it is impossible to claim that the Third Plan adequately reflected the realities of national land planning administration. Hence, the validity of the period of the Plan expired without any concrete, large-scale results being shown. The Fourth National Comprehensive Development Plan began with an examination of the feeling of crisis, and the feeling of having reached a deadlock as a result of the depression caused by the high yen rate in the wake of the Plaza

Accord of 1985. During the process of examination, the unipolar concentration on Tokyo intensified, and there was a full-scale upward movement of land prices in the Tokyo metropolitan zone; the result was that the bubble economy was at its peak when the Fourth Plan was endorsed by a Cabinet decision on June 30, 1987.

The Fourth National Comprehensive Development Plan advocated as its basic objective the formation of a “multi-polar land structure”, aiming to promote the balanced development of national land as a whole, in response to socio-economic changes such as those in population and the unipolar concentration of many functions in Tokyo. Specifically, a multi-polar dispersed national land structure was defined in the following terms: “a national land structure which has as its foundation safety and security that is also mellifluous, and that has many poles or focal points, each with their distinctive characteristics and functions, without any excessive concentration of population or of various functions such as those in the economy or the administration in specially designated localities; there should also be a dynamic interchange between different regions, and on an international level, between nations, that is mutually complementary and stimulating”. As a device to assist with the effective realization of this objective, an “exchange network concept” was put forward. The main pillars supporting this concept are the following 3 points.

- 1) The concept should be promoted on the basis of the creativity and ingenuity of the localities and regions concerned; it should exhibit a diversity of directions, and its elements should have a distinctive individuality, inherent in the individual character of the localities or regions concerned, with focal points that included the following: a focal point consisting of the functions of a core city; a focal point centered on cutting-edge technology and industry; a focal point centered on distinctive agriculture and fishing industries; a focal point that encourages interaction with abundant natural surroundings, and a focal point aimed at encouraging international exchange.
- 2) The establishment of a basic transport communications system and an information and communications system should be taken forward by central government itself, or on the basis of leadership and guidance by central government. Specifically, efforts should be made to construct and develop a high-speed transportation network that would make it possible to travel back and forth between major cities in the space of a day, and to develop a nationwide high-speed information and communications network and raise the level of freedom of access to information by means of reducing the cost of long-distance communication.
- 3) As measures to develop the infrastructure of exchanges, opportunities for exchange in many different kinds of fields, including culture, sports, industry and the economy, should be formed through liaisons between national, local and private-sector organizations. With

this aim in mind, a wide variety of exchanges should be promoted, activating the distinctive characteristics of local areas and regions, in such ways as wide-area exchanges between cities and farming villages, the formation of industry and technology networks, the organization of events, international exchanges between cities and so on.

The target date for the expiration of the validity of the Fourth National Comprehensive Development Plan was set at 2000.

Turning to legal measures, the Law Concerning the Promotion of a Multi-Polar National Land Structure was enacted in 1988; matters taken forward under this law included changes in the location of national administrative organs, the establishment of core cities designated as core cities in the metropolitan zone, and the establishment of local promotion focal points aimed at the promotion and development of local areas. Numerous other laws were also enacted around this time including the Comprehensive Health Resort Establishment Law (1987), the Kansai Cultural Science Research City Construction Promotion Law (1987), the Law concerning the Promotion of Selected Enterprises to Increase the Level of Sophistication of Local Areas (1988), the Local Hub Areas Law (1992), and the Law for the Establishment of the Development of the Osaka Bayside Area (1992). As can be seen from these examples, many different development laws were enacted, and various projects were planned and initiated in all parts of the country, but they were not sufficient to correct the excessive concentration on Tokyo. The subsequent result was that many of the above-mentioned projects were greatly affected by the collapse of the bubble economy and financial insecurity, and the financial situation of both central government and many local governments deteriorated, making a reappraisal inevitable.

3.3 The creation of the hometown concept

With the formation of a multi-polar dispersed-type national land structure as the goal, and with the aim of providing support for autonomous and independent local communities, the Takeshita Cabinet set out a support plan policy in the form of the “hometown creation” concept. “Hometown creation” rested on three main pillars. Of these, the most famous and that one that attracted the greatest amount of debate was that of the so-called “hometown creation enterprise”, or more specifically, an “enterprise that is thought out and implemented by a locality acting on its own initiative”. From fiscal 1988 through the following fiscal year, the sum of 100 million yen was granted uniformly to municipalities as a support measure for a one-off enterprise. Specifically, because the money was granted as part of the local allocation tax, it was not granted to local governments which were not in receipt of local allocation tax, but the fact is that those governments which were excluded from the grant were those which originally possessed sources of revenue of which they could dispose freely. There was a debate about the uniformity of the granting of 100 million yen to each individual local government, but the project was

determined on the basis of the principle that more support should be given to financially weak local governments, and the policy measure can be said to have been unprecedented in that it was stipulated that central government, in a way never before experienced, would not intervene in the way in which the grant was used. More specifically, it was stipulated that each municipality would think out for itself the way in which the grant was to be used, since its purpose was to promote the local area concerned; the result of this stipulation was that every municipality was urged to compete with other municipalities in putting forward unique ideas, which ranged very widely, from the utilization of sightseeing events to the construction of monuments and the procuring of special drums, through to wind-powered electricity generation projects, to local governments which dug for hot springs, to those which created a fund and used the operating profits. For its part, central government made efforts to introduce and disseminate information on case studies of projects, adopting an attitude of wanting to encourage competition among municipalities in formulating policy ideas. From the outset, this enterprise conceived by central government, was criticized as an example of a non-targeted administrative exercise, and at the implementation level too, there were projects among those devised by municipalities that attracted criticism. However, that said, it is worthy of being considered significant that in accordance with its stated direction, the government departed from its usual practice of selecting only those projects to be given support, and instead obliged local governments to formulate policies for themselves and to draft these on their own responsibility, compelling them adopt a basic attitude of accepting criticism and evaluation, and taking the opportunity to instill this way of thinking in local governments, regardless of the financial scale concerned.

The second of the three pillars mentioned above was that of hometown municipal zones. Like the first pillar, this pillar also had the objective of accelerating the formation of a multi-polar, distributed national land pattern, and it had, as its foundation, the wide-area municipal zone policy. The basic concept was one of implementing the selection of “hometown municipal zones” as model zones which encompassed within a single unit a local city incorporating the autonomous development of the locality concerned as well as the surrounding area of the city. By such means as establishing a hometown municipal zone fund, comprehensive, prioritized promotion could be established and taken forward. The fund was set up in 1989, and as a result of contributions from prefectures as well as from participating municipalities, the amounts in the fund varied, ranging from 500 million to 2 billion yen, and a variety of projects were implemented by using the operating profits, including a wide-area tourism project, a health promotion and sports development project, a local industry promotion project, a project concerning measures to promote a long-lived society, and a regional exchange project.

The third pillar was the Japan Foundation for Regional Vitalization (known as the “Hometown Foundation”), launched in 1988. This had the objective of enabling contributions to

regional promotion to be made by private sector companies. Specifically, what was enabled was no-interest financing implemented by local governments, whereby through co-operative financing with local private-sector enterprises, financing with money borrowed at lower than commercially available rates was made possible. The financing was targeted at private sector (including third sector) enterprises, in the case of prefectures or designated cities, at those enterprises which had 10 or more newly recruited employees, and in the case of other municipalities, at those which had 5 or more such employees. Furthermore, the nature of the financing was that up to 20% of the total sum lent (up to 25% in the case of depopulated areas) was to be provided at zero interest rates by local governments (repayment period 5 to 15 years, including an initial 5 years before repayment began), while the remaining sum required was to be lent by private-sector financing institutions. The objects of the financing included the following: setting up the foundations of transport or communication enterprises; the establishment of urban infrastructure facilities; promotion of local industries; resort and tourism promotion; and culture, education, and welfare enterprises. Administrative duties concerned with the implementation of the loan and with repayment, as well as comprehensive examination and auditing, would be carried out by the Hometown Foundation, and local governments were able to issue local bonds drawing on these funds, while part of the redemption interest of the local bonds was offset by local allocation tax.

Of the three pillars referred to above, the “hometown creation enterprise concept” and the “municipal zones policy” aimed to provide support to the administration of municipalities or to wide-area municipal zones, while in the case of the third pillar, namely “hometown financing”, support was targeted at private sector enterprises. It was thought possible, by devising these three pillars in unison, to create independent and autonomous local areas which would be filled with a rich individuality and vitality. Subsequently, local governments put their energies into quasi-independent enterprises, thereby enabling autonomous and independent policies to be developed, but on the other hand, there was criticism that the development of independent enterprises by means of local bonds became the underlying cause of the financial difficulties following the collapse of the bubble economy.

3.4 Responses to the problems of excessive urban density and depopulation

With a view to responding to the depopulation problem, the Law on Emergency Countermeasures for Depopulated Areas was enacted in 1970, and policies adopted under this law included measures to establish social capital facilities in the form of roads and the like, as well as measures to restrain population outflow by injecting new vigor into local industries. The law was enacted as legislation introduced by a Diet member in the form of legislation with a specific duration, in this case, 10 years, and when the validity of the law expired in 1980,

another law was enacted, entitled the Special Measures Law on the Promotion of Countermeasures for Depopulated Areas, also in the form of a law valid for 10 years. When the validity of this law expired in 1990, the Special Measures Law on the Revitalization of Depopulated Areas was enacted in its stead. After the first of these three laws was enacted, it was possible to discern a slowing down of the flow of population into the urban zones of Japan's three largest cities, but in the 1980s, the flow once again increased, and in particular, the question of how to correct the unipolar concentration on Tokyo became an issue of great urgency.

It was the 1970s when the efforts of local governments to get to grips with the increase in urban density and the limitless expansion of urban areas, by such means as administrative guidance based on guidelines for residential development, became the object of sharply focused attention. Against the background of such factors as the rejection of water supply contracts, the application of forcible measures was refused in lawsuits. However, there was a perceptible rise in the autonomy-related consciousness of local citizens focusing on the distance between themselves and local government administration in relation to such matters as the need for development regulations, adjustments between local residents and development enterprises, and so on. In this situation, the 16th Local Government System Research Council issued in June 1976 a "Report on policies aimed at contributing to a heightened level of awareness of autonomy among local residents". In its report, the Council suggested policies aimed at strengthening the autonomy of local residents, including such measures as the partial introduction of a system of ballots by residents, and much of the content of the Council's suggestions was realized.

4 Reform of the election system

4.1 The introduction of a proportional representation system with a binding list of candidates

By means of the revision of the Public Office Election Law in August 1982, the existing national electoral district system for the election of members of the House of Councillors was replaced by the introduction of a proportional representation system, under which candidates would be elected by a binding roll, from a single constituency covering all the prefectures of Japan. Reasons that can be adduced for the revision are as follows.

- 1) The work and costs necessary under the hitherto existing national constituency system had become enormous;
- 2) The choice of candidates was difficult for electors;
- 3) The proposed new system would make it easier to obtain suitable candidates for election to the House of Councillors;

4) In consideration of the important role played by political parties at this time, renewal in the direction of a system which placed weight on political parties as such was needed.

Be the above as it may, the intention was to eliminate the harm caused by the hitherto prevailing system, under which the connection between electors and the persons elected was very slim and only famous persons or propertied persons could be elected.

The proportional representation system with a fixed electoral roll means that a list of candidates, to which a numerical order beginning with 1 has been assigned, are presented to the electorate by each political party, and that electors simply have to ballot for a political party. The first step is that the number of persons elected from each political party is decided on the basis of the number of votes obtained by each party respectively. The persons corresponding to this number are then taken in numerical order, as elected candidates, from the prepared roll of candidates. For the method of deciding on the number of candidates to be elected, the D'Hondt formula is applied. Under this formula, the number of votes cast for each party is allocated, in the numerical order, 1, 2, 3 and so on, so that the candidates with the largest number of votes are elected, until the number of seats available for new members is reached. In a case where 2 or more candidates have the same number of votes, then when the total number of Diet seats filled up to that point exceeds the number of seats available for re-election, the result is decided by lottery.

Because under this system, the chances of being elected are decided by the order of each candidate on the roll of candidates, great power is vested in the person(s) responsible for compiling the roll. In order to avoid this concentration of power, the practice was adopted of fixing a quota for the number of party members on whose support a candidate could count, and then deciding the ranking order of the candidates in accordance with the extent to which this quota was reached. However, various kinds of trouble occurred one after the other, such as cases where large numbers of supporters included those who simply allowed their name to be used, or where assembling large numbers of supporters cost a great deal of money, or where it was thought that figures from the entertainment world would attract a large number of supporters, but the results in terms of high ranking did not necessarily always match the expectations, and so on. In the end, with the payment of party affiliation fees for supporters by LDP members acting as the immediate trigger, the proportional representation electoral roll system was revised into the form of a non-binding roll.

The proportional representation system resulting from the above reform was implemented in the 13th election for members of the House of Councillors, held in 1983. The result of the election was that 76 Diet members were elected from local constituencies, and 50 members from the proportional representation constituency.

4.2 Political funding

Against the background of the Lockheed bribery scandal, involving payments to the office of former Prime Minister Tanaka, the Political Funds Control Law was completely revised in July 1975. Under the revision, a ceiling on contributions was introduced for the first time, and public disclosure of the income and expenditure of political organizations was strengthened. Five years later, by means of a further revision of November 1980, disclosure of financial information on political contributions to individual politicians was made compulsory.

In 1988, with the Recruit scandal (an insider trading and corruption scandal) acting as a trigger, political reform, in terms of implementing radical reforms to the election system and the political contribution system, became a major political issue, and at the time of the Miyazawa Cabinet in 1992, a number of regulations in the form of emergency reforms were newly established, including those to do with political fund-raising parties, financial disclosure by political organizations, and restrictions on the use of political contributions.

5 Reforms to the system of public officials

5.1 Introduction of a system of fixed tenure

A system of fixed tenure is a system whereby a public official can be made to retire, without any administrative action on the part of a person with appointive power, simply by virtue of the fact of having reached a set age. In the case of any kind of corporate body whatever, it is indispensable that an administrative system of retirement is put in place, so that a new generation can take over the reins and the vitality of the organization can be maintained. In the public service sector, however, no system of fixed tenure was introduced in the long period following enactment of the Local Public Service Law; instead of such a system, organizational encouragement of retirement was implemented. Such encouragement of retirement was nothing more than the performance of a rote action, and was not necessarily a system that guaranteed that retirement would take place. In these circumstances, there was a rise in the awareness that it was indispensable to put in place planned procedures for the administration of retirement in the public sector in the same way as already existed in the private sector. On the basis of a revision of the Local Public Service Law carried out in 1981, a system of fixed tenure was introduced from March 31, 1985. In the private sector at this time, it was customary for people to retire when they reached their late fifties, but in the context of the imminent advent of a rapidly aging society, with the aim of revising employment practices in the direction of utilizing the working capacity of aged persons, the target was set of framing economic and employment policies so as to make 60 the general retirement age. In the private sector too, a change in the direction of setting 60 as the general retirement age gathered momentum. Against this background, and with reference specifically to the introduction of a fixed term of tenure into the public sector, it was

stipulated that a retirement age of 60 should be introduced from the start of the introduction of the system of tenure introduced in 1985 and described above.

5.2 Introduction of a five-day working week

The introduction of a five-day working week aimed to enable people to recover from mental and physical fatigue caused by working, and at the same time enable them to enjoy a more relaxed lifestyle. It was felt that such a measure would be of great significance in the recovery of a sense of humanity in life. It was therefore decided that in accordance with the principle of meeting changing conditions, as applied to public officials, a five-day working week should be introduced in the public sector, based on the trends observable in the private sector.

In its report of August 1973 concerning public sector wages, the National Personnel Agency (hereafter NPA) of the Japanese government clarified the content of a number of matters, including “recognition that the stage had been reached of thinking of introducing a five-day working week system for officials in the public sector”. Following this report, trials were implemented at national and local government level, and on the basis of the results of these trials, the NPA reported, in August 1979, the planned introduction of a system of 5 free days every 4 weeks for public officials. The government then considered the matter further, and as a result, the law concerning the salary of general public service officials was revised in November 1980, and the system of 5 work-free days in every 4-week period began to be implemented from March 1981. With regard to local public officials too, notifications were issued by central government to local governments regarding points to be borne in mind in the context of revision of the laws and implementation of the revised laws.

Subsequently, in August 1987, the NPA issued a report concerning implementation of a system of 6 work-free days in every 4-week period, and in November of the same year, the law was revised, and the new system began to be implemented from April 1988. With regard also to local public officials, communications were issued in November and December 1987, stipulating that the following three preconditions must be implemented prior to any change in the system. 1) Implementation had to be within the limits of the existing budget and personnel structure; 2) In order to avoid sudden change in the administrative services provided, efforts should be made to establish a system for dealing with administrative duties, including such matters as improvements in the methods of handling such duties, and a reappraisal of the allocation of personnel; and 3) Efforts should be made to raise the level of ability of public officials and to shorten the excessively long duration of working hours. At the same time, the communications emphasized strongly that measures should be taken to rectify the working hours of local government officials, which were out of step with the national system and were shorter than the hours worked by central government officials.

Progress subsequently continued toward the complete implementation of a five-day working week, with 2 work-free days in every seven-day period. From February 1989, financial institutions such as banks also stopped offering counter service on Saturdays, and on the basis of this trend, the NPA issued in August 1991, a recommendation that a five-day working week should be implemented. On the basis of this recommendation, a five-day working week was introduced completely for national public officials from May 1992, and in the case of local governments too, a five-day working week was introduced in one local government after the other, accompanying the closure of local government offices on Saturdays.

5.3 The mutual aid system for local government officials

Since the enactment of the Local Public Service Mutual Aid Association Law in 1962, various improvements were added, and with the establishment of a public welfare system for local government officials as the central point, have remained up to the present day. However, in the context of the massive changes in Japan's socio-economic circumstances, demands were made for a more stable operation of the mutual aid system. One problem which is linked to present-day circumstances is that of the unification of the public pension system. By means of a cabinet decision of February 24, 1984, a reform of the system aligned with the purpose of the reforms aimed at introducing a basic pension system within the framework of the mutual aid pension was implemented. In this way, a public pension system reform was realized in 1985. On the other hand, as part of the same cabinet decision, a goal was set of completing the unification of a public pension system by 1995, but problems continued to occur in respect of such matters as the unification of insurance rates between on the one hand the mutual aid system for local and national government officials and on the other hand, the employees' pension plan, as well as mechanisms for classifying accumulated funds. Right up to the present time, the problem of unifying various systems of employees' insurance remains unresolved.

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[Attachment]

Table 3 Population, National Income, Central Government Expenditure, Local Expenditure, Local Tax Revenue, Consumer Price Index over the Years

(Unit: thousand people (population), hundred million yen (national income, local tax revenue), billion yen (central govt. expenditure & local expenditure), 100 (CPI year2005, % (percentage change))

Year (Fiscal year)	Population	Percentage change	National income	Percentage change	Central government expenditure	Percentage change	Local expenditure	Percentage change	Local tax revenue	Percentage change	Consumer price index	Percentage change
1975	111,940	-	1,239,907	-	22,758	-	25,654	-	81,548	-	55.7	-
1976	113,094	1.0	1,403,972	13.2	26,655	17.1	28,907	12.7	95,641	17.3	61.0	9.5
1977	114,165	0.9	1,557,032	10.9	31,138	16.8	33,362	15.4	110,052	15.1	66.0	8.2
1978	115,190	0.9	1,717,785	10.3	36,937	18.6	38,347	14.9	122,371	11.2	68.8	4.2
1979	116,155	0.8	1,822,066	6.1	41,808	13.2	42,078	9.7	140,315	14.7	71.3	3.6
1980	117,060	0.8	2,032,410	11.5	46,007	10.0	45,781	8.8	158,938	13.3	76.9	7.9
1981	117,902	0.7	2,118,783	4.2	48,991	6.5	49,165	7.4	173,255	9.0	80.6	4.8
1982	118,728	0.7	2,200,091	3.8	50,547	3.2	51,133	4.0	186,286	7.5	82.9	2.9
1983	119,536	0.7	2,312,854	5.1	54,216	7.3	52,307	2.3	198,413	6.5	84.4	1.8
1984	120,305	0.6	2,431,547	5.1	52,998	△ 2.2	53,870	3.0	214,939	8.3	86.3	2.3
1985	121,049	0.6	2,610,890	7.4	55,148	4.1	56,293	4.5	233,165	8.5	88.1	2.1
1986	121,660	0.5	2,680,934	2.7	56,541	2.5	58,717	4.3	246,282	5.6	88.6	0.6
1987	122,239	0.5	2,818,190	5.1	60,729	7.4	63,220	7.7	272,040	10.5	88.7	0.1
1988	122,745	0.4	3,039,679	7.9	64,494	6.2	66,402	5.0	301,169	10.7	89.3	0.7
1989	123,205	0.4	3,222,073	6.0	70,851	9.9	72,729	9.5	317,951	5.6	91.3	2.2
1990	123,611	0.3	3,483,454	8.1	74,191	4.7	78,473	7.9	334,504	5.2	94.1	3.1
1991	124,101	0.4	3,710,808	6.5	75,627	1.9	83,807	6.8	350,727	4.8	97.3	3.4
1992	124,567	0.4	3,693,236	△ 0.5	77,141	2.0	89,560	6.9	345,683	△ 1.4	98.9	1.6
Average rate of increase		0.6		6.6		7.4		7.6		8.9		3.4

[Source] Produced by author using the following publications.

- 1 Data for population was taken from "Historical Statistics of Japan New Edition (Vol.1)" (Editorial Supervision: Statistics Bureau Ministry of Internal Affairs & Communications. Japan Statistical Association.)
- 2 Data for national income was taken from "Local Finance Manual" (Institute of Local Finance, December 2007)
- 3 Data for central government expenditure was taken from "Local Finance Manual" (Institute of Local Finance, December 2007). Total amount of the central government expenditure is the net amount of settled accounts including the general accounts, and the following 9 special accounts: local allocation tax and local transfer tax, national forest service projects, national land improvement projects, port development, road development, airport development, flood control, oil related and energy supply-demand advancement structure measures, welfare insurance and power source development promotion measures.
- 4 Data for local expenditure was taken from "Historical Statistics of Japan (Vol.1)" (Editorial Supervision: Statistics Bureau, Ministry of Internal Affairs and Communications.) (Data is ordinary account, and the duplication between the prefectures and municipalities has been adjusted to be net total.)
- 5 Data for local tax revenue was taken from "Local Finance Manual" (Institute of Local Finance, December 2007)
- 6 Data for consumer price index was taken from "Historical Statistics of Japan (Vol.4)" (Editorial Supervision: Statistics Bureau, Ministry of Internal Affairs and Communications.)

**Volume 8 (1975-1992): The Period of Stable Economic Growth –
A Time of Maturation and Change in the System of Local Autonomy**

Trends of the Era and National Policy	Trends in Local Administration (Local Administration / Local Tax and Finance Policy)
1976 (Dec.) Fukuda Cabinet launched (policy)	1975 (July) "Report on the desirable system of local government finances, centered on policies designed to correct the increasing rigidity of local government finances" by the 16th Local Government System Research Council (admin) 1976 (June) "Report on policies aimed at contributing to a heightened level of awareness of autonomy among local residents" by the 16th Local Government System Research Council (admin) 1976 (Oct.) "Report of the drafting committee on the desirable pattern of the system of local finances" by the 16th Local Government System Research Council (finance)
1978 (Dec.) Ohira Cabinet launched (policy)	
1979 The Second Oil Shock (current)	1979 (Sep.) "Opinion on the desirable pattern of the local government administrative and financial system following the response to the new socio-economic situation" by the 17th Local Government System Research Council (admin, finance)
1979 (Autumn) Dissolution of the House of Representatives by the Ohira Cabinet; moves toward financial restructuring and administrative reform without a tax rise even after failure to introduce general consumption tax (policy)	1979 (Dec.) "Opinion of the Chief of the Local Government System Research Council on local tax and financial countermeasures in fiscal 1980" by the 18th Local Government System Research Council (finance)
1980 (July) Suzuki Cabinet launched (policy)	
1980 (Sep.) Outbreak of Iran-Iraq War (current)	
1981 (Mar.) Establishment of the Provisional Commission for Administrative Reform (policy)	1981 (July) "Opinion regarding local administration and finance and the desirable pattern of administrative reform" by the 18th Local Government System Research Council (admin, finance) 1981 (Nov.) "Report by a sub-committee on the desirable pattern of the local administrative and financial system" by the Local Government System Research Council (admin, finance)
1982 (Aug.) Introduction of a proportional representation system for the election of members of the House of Councillors (current)	1982 (July) "Third report on administrative reform" by the Provisional Commission for Administrative Reform (admin) 1982 (Sep.) "Opinion concerning the desirable pattern of local administration and finance and of administrative reform" by the 19th Local Government System Research Council (admin, finance)
1982 (Nov.) Nakasone Cabinet launched (current)	
1983 (Mar.) Establishment of the Provisional Administrative Reform Council (policy)	1983 (Mar.) "Fifth (final) report on administrative reform" by the Provisional Commission for Administrative Reform (admin)
1983 (Apr.) Cabinet resolution "On future economic countermeasures" (policy)	1983 (Nov.) "Sub-committee report on the desirable pattern of wide-area administration" by the 19th Local Government System Research Council (admin) 1983 (Dec.) Enactment of the "Law concerning the Simplification, Rationalization and Rearrangement of Administrative Duties" (admin) 1984 (Dec.) Report on "Rationalization of the intervention in local government matters by central government and of necessarily imposed regulations" by the Local Administration Reform Promotion Sub-Committee of the Provisional Administrative Reform Council (admin)

1985 (May) Privatization of the Nippon Telegraph and Telephone Public Corporation; abolition of the state monopoly of the Japan Tobacco and Salt Public Corporation (current)	1985 (July) Report on "Agency-delegated functions as well as the desirable pattern of authority for giving approval and permission at national level and local levels" by the Local Administration Reform Promotion Sub-Committee of the Provisional Administrative Reform Council (admin)
1985 (Sep.) The "Plaza Accord", aimed at correcting the high value of the dollar (policy)	1985 (July) Implementation of the "Law concerning the rationalization of intervention in local government affairs by central government and other matters" (admin)
1985 (Oct.) "Countermeasures to support the expansion of internal demand" (policy)	
1985 (Dec.) Law concerned with the rationalization of regulations pertaining to the granting of approval and permission for private-sector activities (policy)	
	1986 (Feb.) "Report concerning currently urgent issues to do with agency-delegated functions" by the 20th Local Government System Research Council (admin)
1986 (Apr.) Report by the Advisory Group on Economic Structural Adjustment for International Harmony (Maekawa Report) (policy)	1986 (Feb.) "The direction of the promotion of administrative reform in local governments" (local administrative reform guidelines) (admin)
1986 (Apr.) Establishment of the Economic Structural Adjustment Committee within the Economic Countermeasures Cabinet Commission (policy)	
1986 (Spring) Revision of the National Assets Law; introduction of a trust system for the disposal of nationally owned assets (policy)	1986 (May) Revision of the Local Autonomy Law; introduction of a trust system for publicly owned assets (admin)
	1986 (June) "The basic direction of administrative and financial reform in local governments in the future", issued by the Provisional Administrative Reform Council (admin, finance)
	1986 (Dec.) Enactment of the "Law concerning with the ordering and rationalization of duties undertaken by local governments as organs of the state" (admin)
1987 (Feb.) Submission to the Diet, and then withdrawal, of a proposed sales tax (policy)	
1987 (Apr.) Second Admin Reform Council (policy)	
1987 (Apr.) Dismemberment and privatization of Japan National Railways (current)	
1987 (Apr.) Report of the Economic Structural Adjustment Special Sub-Committee of the Economic Deliberation Council (policy)	
1987 "Guidelines for structural readjustment", issued as recommendations of the Economic Deliberation Council (policy)	
1987 (May) Emergency economic countermeasures (policy)	
1987 (June) Cabinet decision on the Fourth National Comprehensive Development Plan (policy)	
1987 (Nov.) Takeshita Cabinet launched (policy)	
1987 (Nov.) Privatization of Japan Airlines (current)	
	1988 (May) "Sub-committee report concerning the desirable pattern for local governments in line with the change in the socio-economic situation", issued by the 21st Local Government System Research Council (admin)
	1988 (May) "Report concerning authority delegated to local governments by the state", issued by the 21st Local Government System Research Council (admin)

<p>1989 (Aug.) Kaifu Cabinet launched (policy)</p>	<p>1988 (May) "An opinion concerning local administrative and financial reform and the desirable pattern of tax reform", issued by the 21st Local Government System Research Council (admin, finance)</p> <p>1989 (Dec.) "Report on the desirable form of small towns and villages", issued by the 22nd Local Government System Research Council (admin)</p> <p>1989 (Dec.) "Report on Links between Central Government and Local Governments and Other Matters", issued by the Second Admin Reform Council (admin)</p> <p>1990 (Sep.) "Report concerning the system of the Tokyo metropolis and Tokyo wards", issued by the 22nd Local Government System Research Council (admin)</p>
<p>1991 (Dec.) Miazawa Cabinet launched (policy)</p>	<p>1991 Partial revision of the Local Autonomy Law: the system of filing suit against a professional execution order (admin)</p> <p>1991 (Dec.) "Opinion concerning the basic thinking on the local allocation tax system" by the 23rd Local Government System Research Council (finance)</p>
<p>1993 (Aug.) Hosokawa Cabinet launched (policy)</p>	<p>1993 (Apr.) "Report concerning wide-area unions as well as core cities" by the 23rd Local Government System Research Council (admin)</p>

[Note] In this table, "current" denotes matters concerned with the current of times, "policy" matters concerned with national policy, "admin" matters concerned with local administration, and "finance" matters concerned with local financial policy.