

Study Group on Reconstructing the Relationship between National and Local Governments

Subject The fundamental objective of this study group is to reconstruct the relationship between national government and regions in view of the rapidly falling birthrate and fast-aging society, depopulation, and other issues. Specifically, our main research subjects are as follows:

- (1) To consider a basic philosophy for clarifying the division of roles between the national government, prefectures, and municipalities.
- (2) To consider, based on this basic direction, the appropriate division of roles among the three levels of government in normal times and in times of crisis, and to consider frameworks for wide-area cooperation and flexible responses within individual fields of policy.
- (3) To consider systems for local government funding (in particular, with regard to local allocation taxes and local taxes), based on this division of roles.

Overview The COVID-19 pandemic has underlined the fact that countermeasures against infectious diseases are part of national security policy, and has also served as a reminder of the need to restructure the relationship between national and local governments. The autonomy and prosperity of Japan's regions is not an issue that affects individual regions alone.

It is also an issue that impinges on the viability of the nation and its economic development, and can help to improve Japan's international contributions and standing in the international community.

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This was indeed the case during the postwar period of rapid economic growth, but despite the multiple decentralization reforms that have been carried out since the collapse of the bubble economy in the 1990s (implemented through the Omnibus Decentralization Law and other legislation), many local governments nevertheless continue to face difficulties, particularly economically. The second administration of former prime minister Shinzo Abe promoted a policy of “regional revitalization,” and some regions introduced their own measures.

Although some progress has been made, the reality is that the issues have only grown more serious, including national population decline combined with depopulation in local communities, overconcentration in Tokyo, and local government revenue shortfalls.

The following factors in particular are among the reasons why various government policies have failed to achieve the hoped-for results, and why regional revitalization has been so difficult to achieve.

- (1) Lack of clarity in role sharing between national, prefectural, and municipal governments
 - Since cities, towns and villages are treated as “basic municipalities” under the Local Autonomy Law, decentralization has been carried out almost entirely in terms of a transfer of powers to these municipalities. But, despite the “great Heisei mergers” of municipalities that took place in the middle decade of the Heisei era (1989-2019), the overall size of the municipalities remains small, and

Overview

the system of administering local government on a city, town, and village basis is inefficient (there are also disputes about the right approach to decentralization in the first place).

- Although steps have been taken to consolidate provision and management across wider areas for some services, including healthcare and water/sewage utilities, these measures have so far been insufficient because of the weak powers vested in prefectural governments.
- In the event of a major natural disaster or an outbreak of infectious disease like the ongoing coronavirus pandemic, prefectural governments are unable to provide an adequate response alone, giving the national government an important role to play. This makes balancing regional autonomy and centralization of powers more difficult, and complicates the relationship between different levels of government.

(2) Funding system for local government not in line with work and responsibilities

- The sources of funding for local government (local taxes, local tax allocations, and government subsidies) do not accord with the work done by local governments. This damages regional autonomy and leads to a lack of clarity in fiscal responsibility.
- Although demand for funding increases all the time, local governments' own fiscal resources are limited, leaving them dependent on the national government.

Overview	<p>Because the guarantee and adjustment of revenue resources are carried out at the same time through regional tax allocations and other sources of funding, local governments lack an incentive to improve their own fiscal discipline (resulting in dependence on loans and national government support). Benefit levels and burdens (taxes) are not linked.</p> <p>(3) Government policy remains based on the ideal of balanced development across all regions</p> <ul style="list-style-type: none"> • Despite the major differences that exist among the prefectures and municipalities in terms of population size and geography, uniform treatment remains the basic assumption of local government policy and funding. This makes it difficult to respond flexibly in a way that matches the conditions in individual regions. Government funding and administration operate on a “convoy system” under which all local governments are treated equally in a protective manner, making political selection and concentration impossible.
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Members

Hideaki Tanaka (Leader)

Professor, Graduate School of Governance Studies, Meiji University

Nobuyuki Hiraizumi

President, Kajima Institute of International Peace

Director, Kajima Corporation

Advisor, Avant Associates, Inc.

Director, The Board Director Training Institute of Japan

Kazumasa Oguro, Ph.D.

Director, Kajima Institute of International Peace

Faculty of Economics, Hosei University

Shigeki Kunieda

Professor, Faculty of Law, Chuo University

Toshiaki Hiromitsu

Visiting Scholar, Policy Research Institute, Ministry of Finance, Japan

Motohiro Sato

Professor, Graduate School of Economics, Hitotsubashi University

Professor, School of International and Public Policy, Hitotsubashi University

Director of HIAS (Hitotsubashi Institute for Advanced Study)

Health, Hitotsubashi University

Masayuki Nakagawa

Professor, Faculty of Economics, Nihon University

Yosuke Sunahara

Professor, Graduate School of Law, Kobe University

Members

Takashi Mihara

Senior Researcher, NLI Research Institute