

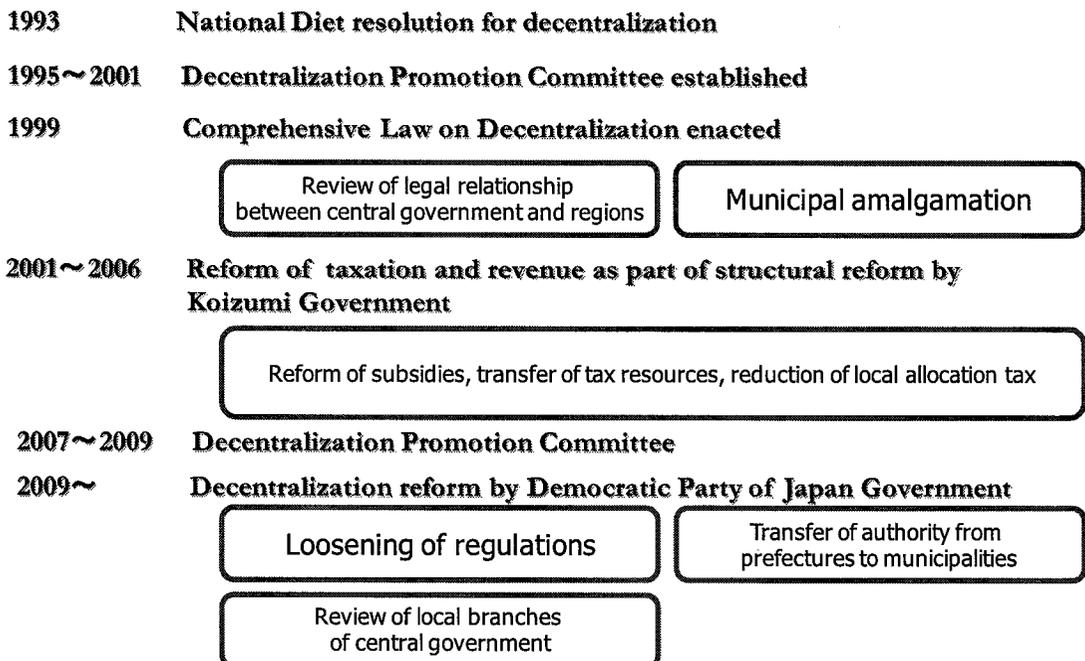
## Municipal Amalgamation in Japan: Background, Experiences, and Outcomes

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### 1. The decentralization movement

It is now generally understood that decentralization reform in Japan began in 1993, the year in which both houses of the Japanese Diet passed a resolution in support of decentralization, as shown in Fig 1. The Decentralization Promotion Committee that was established soon after recommended passage of the Comprehensive Law on Decentralization, which was subsequently enacted in 1999. The Law primarily sought to rationalize the legal relationship between the central and regional governments while simultaneously promoting municipal amalgamation.

**Fig1: The decentralization movement**



The motivation for amalgamation has been entirely political. Led by the Liberal Democrats, the governing parties have sought to continue promoting a policy of amalgamation that most opposition parties had been pursuing for some time. In the early years of the twenty-first century, the Koizumi Administration pursued the following financial and taxation reforms:

- reduction in central government grants and subsidies;
- transfer of tax resources from central to regional governments; and
- reduction in local allocation tax.

The last - reducing local allocation tax - influenced municipal amalgamation.

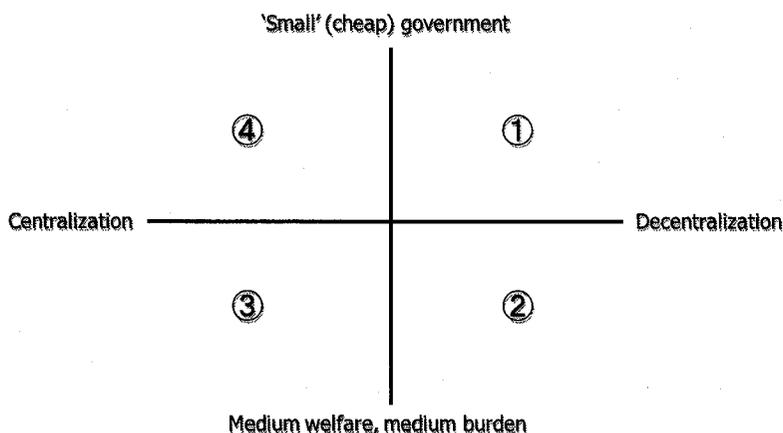
The Democrats came to power in 2009, but decentralization reform has been ongoing. There are, however, no plans for further municipal amalgamation at present.

## 2. Decentralization reform and municipal amalgamation

Decentralization in Japan under the Koizumi government incorporated reforms intended to achieve 'small' government. Traditionally, there was no link between the size of government and decentralization (Fig 2). After the Koizumi administration the path to smaller government gradually faded and under the current Democrat administration the aim is medium to large government.

Both administration and opposition agree with decentralization and there is no move toward centralization. Criticism of bureaucrats is rife in Japan and 'bureaucrat bashing' and the debate on decentralization are linked in the political context.

Fig2: Decentralization reform: Small and Large government



As shown in Fig 3, until it was revised in July 1999, the aim of the Municipal Amalgamation Law of 1965 was to remove barriers to voluntary amalgamation. Under the umbrella of the Comprehensive Law on Decentralization, the intent was changed to



The aim of the great amalgamation of the Meiji Era in the 1880s was to establish a municipal system that would constitute a modern system of local government. At the time, the number of municipalities was reduced to one fifth, or around 15,000.

The great amalgamation of the Showa Era took place from the latter half of the 1940s through to the end of 1950s. In that time the system of local government was consolidated through post-war reforms, which resulted in many basic local governments being given duties and authority. The Municipal Amalgamation Promotion Law of 1953 cited as its target towns and villages with populations of 8,000 or more. The number of municipalities was reduced to one third, or around 3,500.

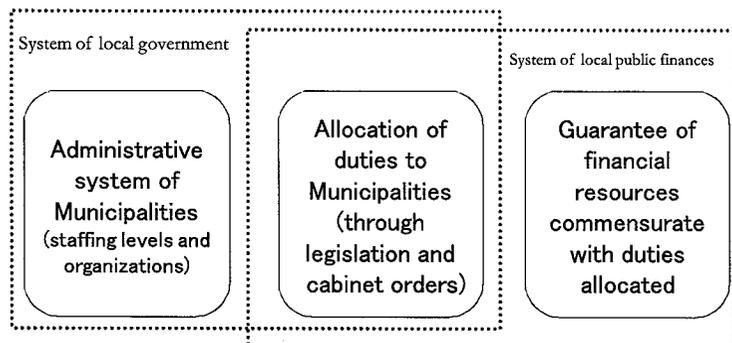
The great amalgamation of the Heisei Era has not been driven by similar changes in the system of local government. Its context is declining populations, growth in the number of small entities and the mounting public finance crisis.

### 3. Core issues in municipal amalgamations and results

Under the law local governments are entities established by the central government in order that the central government can, through legislation and ordinance, delegate to them a certain level of duties. In as much as the central government delegates duties to local governments, through the system of local government the central government must establish administrative organizations appropriate to the duties delegated and secure necessary staffing levels. At the same time, the central government must guarantee financial resources commensurate with the duties delegated through the system of regional public finance (Fig 4).

Municipal amalgamation is not an issue of the system of regional public finance, but an issue of the system of local government. The primary aim is to put in place a region appropriate to the duties delegated and a local government of appropriate scale. In Japan the delegation of duties to basic local governments had been constantly growing. By contrast, populations had been declining and there were many small towns and villages.

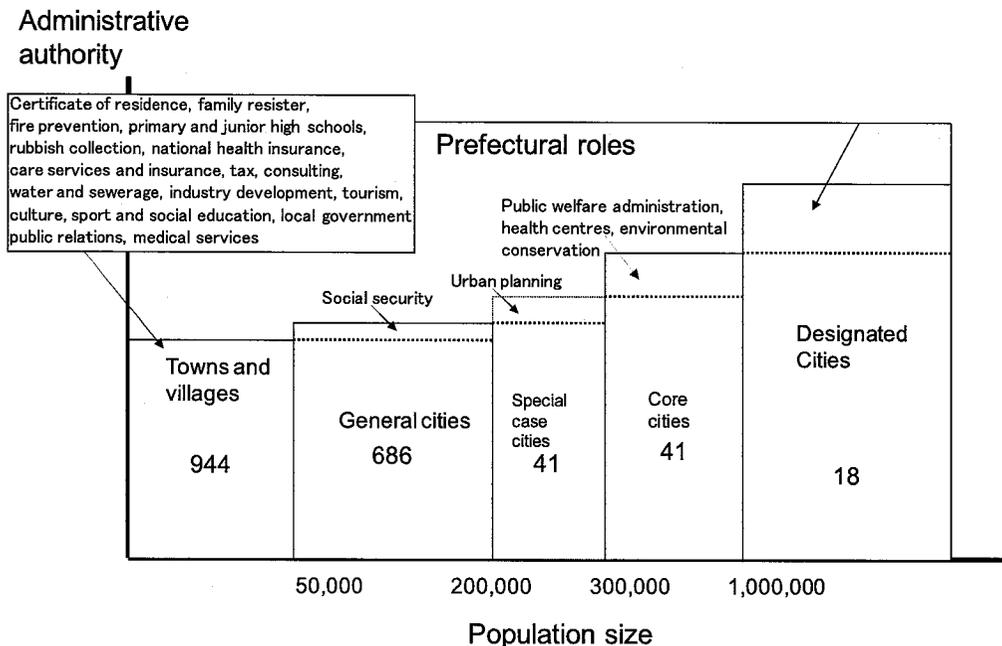
The motivations for the central government to switch from the original voluntary amalgamation to promoting municipal amalgamation were political, but it is safe to say there was more than sufficient need.



**Fig4: Core issues in municipal amalgamations**

Significant duties have been delegated to basic local governments, or municipalities. Even the smallest towns and villages have been delegated such a volume of duties as to constitute comprehensive bureaucracies. Prefectural governments exist to supplement basic local government, and are local government-centrist. These are the most prominent features of the Japanese system of local government.

**Fig5: Disparity in size and authority of municipalities**



Designated cities shoulder the bulk of the administrative duties of the prefectures, with core cities and special-case cities being delegated duties accordingly. The duties not fulfilled by municipalities are the responsibility of prefectures. As shown in Figure 5, the bulk of municipalities are general cities, or towns and villages, between which there is almost no differential in authority. Up until 20 years ago, there was no such thing as core cities or special case cities. General cities had largely the same authority as towns and villages, and only designated cities were given markedly greater duties and authority.

There has been a significant reduction in local governments with populations of less than 20,000 as a result of the great amalgamation of the Heisei Era. Particularly marked has been the reduction in small towns and villages. The number of municipalities with populations of less than 10,000 has fallen from half to a quarter of the total, as shown in Table 2.

**Table2: Variation in number of municipalities  
pre and post Heisei Era great amalgamation, by population**

scale of population	number of municipality	(ratio)	cumulative number	(ratio)	number of municipality	(ratio)	cumulative number	(ratio)	number of municipality	cumulative number
	31-Mar-99				31-Mar-06				rate of decrease	
under 1,000	42	( 1.3 )	42	( 1.3 )	22	( 1.2 )	22	( 1.2 )	47.6	47.6
1,000 – 5,000	635	( 19.6 )	677	( 20.9 )	196	( 10.8 )	218	( 12.0 )	69.1	67.8
5,000 – 10,000	860	( 26.6 )	1,537	( 47.6 )	270	( 14.8 )	488	( 26.8 )	68.6	68.2
10,000 – 20,000	712	( 22.0 )	2,249	( 69.6 )	333	( 18.3 )	821	( 45.1 )	53.2	63.5
20,000 – 30,000	274	( 8.5 )	2,523	( 78.1 )	196	( 10.8 )	1,017	( 55.8 )	28.5	59.7
30,000 – 40,000	168	( 5.2 )	2,691	( 83.3 )	157	( 8.6 )	1,174	( 64.4 )	6.5	56.4
40,000 – 50,000	94	( 2.9 )	2,785	( 86.2 )	106	( 5.8 )	1,280	( 70.3 )	-12.8	54.0
50,000 – 100,000	227	( 7.0 )	3,012	( 93.2 )	280	( 15.4 )	1,560	( 85.6 )	-23.3	48.2
100,000 – 200,000	115	( 3.6 )	3,127	( 96.8 )	149	( 8.2 )	1,709	( 93.8 )	-29.6	45.3
200,000 – 300,000	41	( 1.3 )	3,168	( 98.0 )	39	( 2.1 )	1,748	( 95.9 )	4.9	44.8
300,000 – 500,000	43	( 1.3 )	3,211	( 99.4 )	48	( 2.6 )	1,796	( 98.6 )	-11.6	44.1
500,000 – 1,000,000	11	( 0.3 )	3,222	( 99.7 )	14	( 0.8 )	1,810	( 99.3 )	-27.3	43.8
over 1000000	10	( 0.3 )	3,232	( 100.0 )	12	( 0.7 )	1,822	( 100.0 )	-20.0	43.6
total	3,232	( 100.0 )			1,822	( 100.0 )				

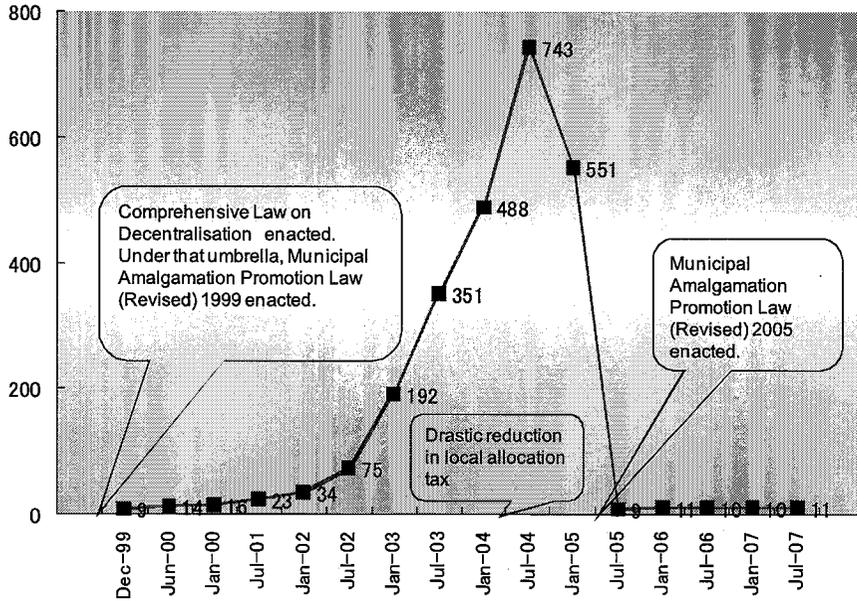
#### 4. Amalgamation and fiscal conditions

To achieve municipal amalgamation, statutory amalgamation consultation committees must be established to discuss the process. Thus, the number of amalgamation consultation committees is a measure of the level of consideration being given to amalgamation. When the Comprehensive Law on Decentralization and the Municipal Amalgamation Promotion Law of 1999 were promulgated there was almost no increase in amalgamation consultation committees. Subsequently, when in fiscal 2004 major cuts were made in the local allocation tax, the cuts became the impetus for a huge increase in the number of consultation committees (Fig 6).

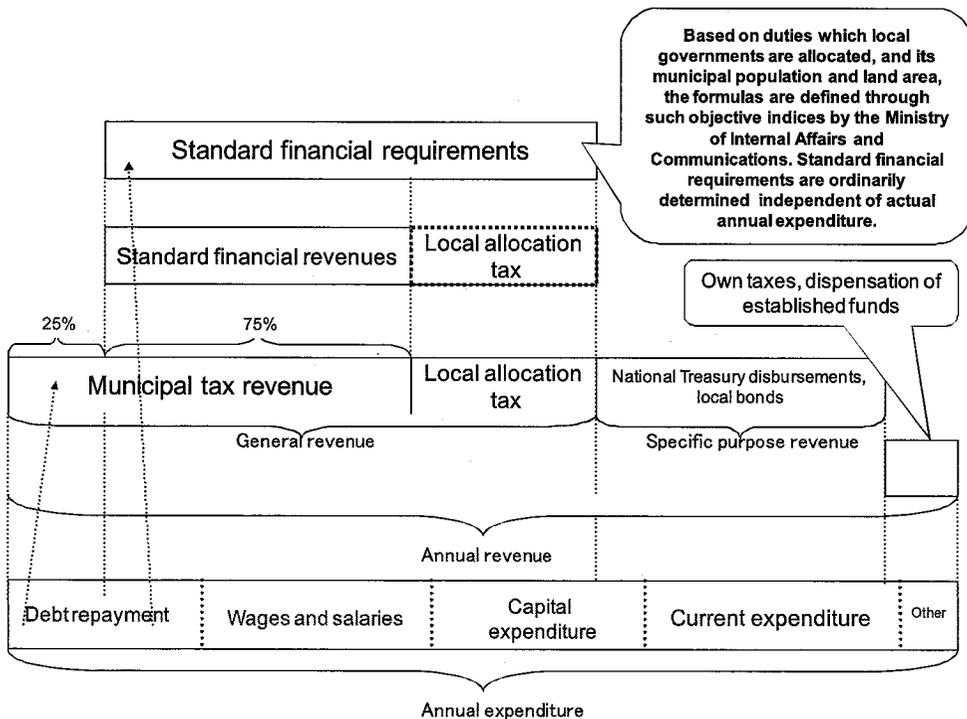
Since enactment of the Municipal Amalgamation Promotion Law of 2005 the decline in financial incentives has also had an effect and there has been little increase in the number of consultation committees.

The local allocation tax is predicated on duties being delegated to municipalities and is a mechanism for guaranteeing there is no shortfall in financial resources based on objectively measured standard financial requirements. In other words, it is a mechanism designed to guarantee financial resources such that even entities with limited tax revenue are able to perform the duties delegated.

**Fig6: Changing numbers in amalgamation consultation committees**



**Fig7: Outline of the local allocation tax system**

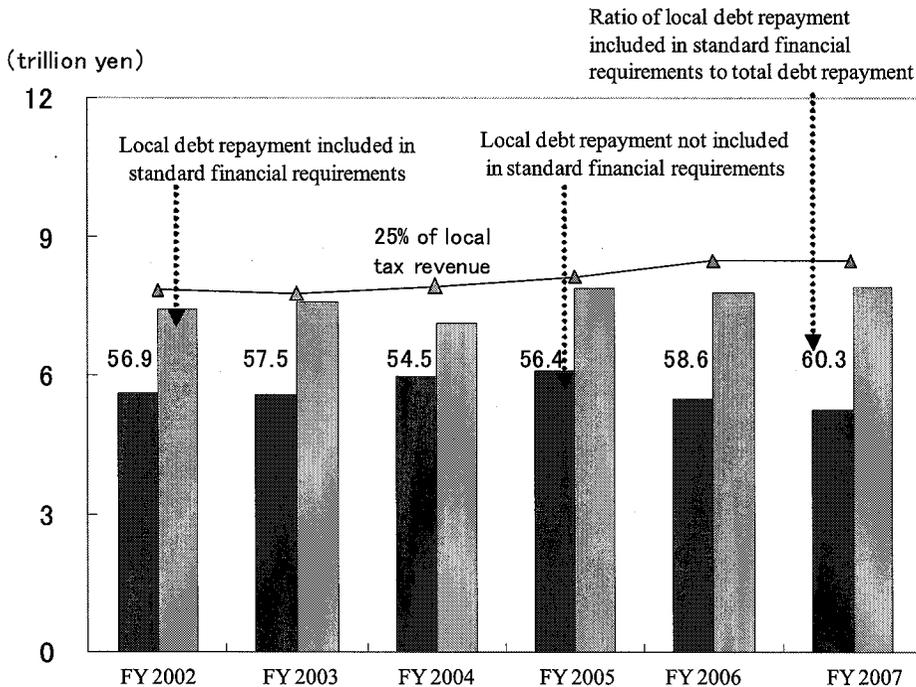


As shown in Fig 7, however, the fact that 25% of tax revenue is excluded from the financial resource guarantee. This is the primary cause of disparity in financial capability among entities. Conversely, as debt repayment is not included in its entirety in calculating standard financial requirements, at the very least 25% of regional tax revenue must exceed the debt repayment not factored into standard financial requirements.

In fact, when regional public finances are aggregated from all local governments show that in total, 25 per cent of regional tax revenue exceeds total debt repayments not factored into standard financial requirements (Fig 8).

Looking at individual entities, however, it is apparent that is not the case for all. Particularly for entities where tax revenue is low, 25 per cent tax revenue is such a small amount that there is every likelihood of over-borrowing when revenue falls below debt repayments not factored into standard financial requirements.

**Fig8: Comparison of 25% municipal tax revenue and debt repayments not factored into standard financial requirements**



Entities with over-borrowings, where the ratio of debt repayments not factored into standard financial requirements to 25% of tax revenue is less than one, are typically small. There are only eight among cities with populations of 100,000 or more (Table 3).

As there are many among small entities that have over-borrowings, cuts in local allocation

tax mean the smaller the entity the more it will be financially constrained.

It is conceivable that the cuts in local allocation tax contributed to municipal amalgamation because the smaller the entity the higher was the degree of financial constraint. This phenomenon is not, however, necessarily correctly understood by individual local governments.

**Table3: Ratio of 25% of municipal tax revenue to debt repayments not factored into standard financial requirements by population**

		Scale of population and of fiscal year 2010							total
		~5,000	~10,000	~10,000	~100,000	~300,000	~800,000	800,001~	
Ratio of 25% of local tax revenue to debt service not included in standard financial requirements	~0.3	62	15	5	0	0	0	0	82
	~0.6	85	81	88	24	11	0	0	279
	~1.0	42	81	152	119	7	0	0	401
	~1.2	5	79	53	70	27	4	2	180
	~1.5	12	25	52	83	28	4	4	208
	~2.0	5	21	66	115	54	29	6	296
	2.0~	14	27	104	131	72	19	2	369
Total		225	269	520	542	189	56	14	1,815

Broadly, there are four administrative operation issues that confront a local government after amalgamation:

- staff cuts and organizational rationalization
- sound fiscal operation
- forming a regional local government organization; and
- creating an organizational culture for post-amalgamation local governments.

Based on questionnaires distributed to local government employees, the merits and demerits of municipal amalgamation are as follows.

Merits:

- more staff and greater expertise
- more training opportunities;
- greater transparency and commitment to compliance with legislation and ordinances
- ability to undertake urban development; and
- the emergence of competitive relationships among municipal office staff.

Demerits:

- less ability to provide services that are finely tuned to resident needs
- difficult to achieve easy sharing of views between staff
- need to integrate and divest similar facilities, such as accommodation and halls.

Taken in aggregate, these issues illustrate that the benefit of amalgamation is a larger

organization in balance with its duties and authority, but the negative is that even having amalgamated, the organisation does not function as a single local government.

## 5. Conclusions

- The great amalgamation of the Heisei Era resulted in a reduction in the number of municipalities by almost half of the pre-Heisei number, with the greatest level of amalgamation occurring among the smallest entities.
- While the past two great amalgamations were a result of reform of the system of local government, the great Heisei amalgamation was influenced by decentralization reform and worsening regional public finances.
- Japanese decentralization reform under the Koizumi government was in the direction of small government, however, the current aim is large or medium-sized government.
- The aim of municipal amalgamation is to enhance local government organizations in preparation for the delegation of duties to municipalities.
- The need for municipal amalgamation is given context by major delegation of duties to municipalities, and with the exception of some major cities - despite large variation in municipal populations - duties are as far as possible delegated uniformly to basic local governments. As a result, small towns and villages are significantly disadvantaged in terms of administrative performance.
- Conversely, municipal amalgamation was thought to be necessary to overcome financial crises in most local governments.
- The system of local allocation tax at the core of the Japanese system of regional public finance is a mechanism for guaranteeing financial resources such that even entities with limited tax revenue are able to perform their duties, but because guarantee of financial resources is not complete in relation to debt repayment, it is easy for entities with low tax revenue - typical among small organizations - to slip into over-borrowing. For that reason, drastic cuts in local tax allocations create a tendency for the financial circumstances of small entities to worsen.
- Financial crisis in small entities is the reason the great amalgamation of the Heisei Era progressed.
- The benefit of amalgamation is that an organization becomes larger and comes into balance with its delegated duties and authority, but it takes time for it to function as a single local government.

## References

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