

Local public finance in Japan

Junshichiro Yonehara

Centre for Research on Federal Financial Relations
The Australian National University, Canberra

Research Monograph No. 36



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Though Japan has come to play a considerable part in the world economy, little is known in Western countries of its arrangements in the field of local public finance. This monograph is intended to fill this gap. It investigates the whole area of local public finance in Japan, at both the prefectural and municipal levels, including expenditure responsibilities, taxation powers and the different kinds of intergovernmental grants arrangements. As Japan is a unitary country, the central government has strong controlling powers over both levels of local government.

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AUTHOR'S PREFACE

This monograph is a review of local public finance in Japan. Owing to its rapid economic growth, Japan has become a major industrial country which, because of its economic links with other countries, needs to be well understood by people in those countries. But Japan is not a country which is easy to understand. There is a wide difference in cultural background as between the people in modern Western countries and the people of Japan. Family relationships, social conditions and the economic system also differ greatly, while the peculiarities of the Japanese language inhibit mutual understanding.

If this monograph should help Australians and other English-speaking people in their understanding of Japan (and especially of local public finance in Japan), the author's work at the Centre for Research on Federal Financial Relations in the Australian National University will have been rewarded.

The Centre provided an ideal professional environment for writing the monograph and the author records his thanks to those who assisted him in preparing it. Professor Russell Mathews, Director of the Centre, arranged for the author to receive a Visiting Fellowship and helped to make his visit both fruitful and enjoyable. Professor Mathews, Ms P. de Lacy and Mr W.R.C. Jay read the whole of the original draft and made many valuable comments which helped to improve the style and content of the monograph. However, any errors or weaknesses which remain are the responsibility of the author.

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Junshichiro Yonehara

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May 1981

R.L. Mathews

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Prefectures and Municipalities

As is the case in many other countries, Japan has three levels of government: the national government, prefectural governments and municipal governments.

At the highest level government, the national government has responsibilities which extend over the whole of Japan.

The country is divided into prefectures,¹ each of which has its own prefectural government. The prefectures form the second level of government. Before World War II, the governor of a prefecture was appointed by the national government, but he is now elected by direct vote of the inhabitants of the prefecture. The deputy governor and chief accountant are appointed by the governor with the consent of the prefectural assembly.

The territory of each prefecture is further subdivided into municipalities,² which thus form the third level of government. The number of municipalities in a prefecture differs from prefecture to prefecture, but on average there are about 70. The mayors of municipalities have been elected by direct vote of citizens since before World War II.

In this monograph, the term 'local government' is used to describe both prefectural and municipal governments. In Australia, local government as the third level of government needs to be distinguished clearly from the autonomous level of State governments. In Japan, however, as in unitary countries generally, prefectural governments and municipal governments are similar in that both are subordinate to the national government. The national government treats them similarly, often as a single group. Because problems concerning prefectural governments sometimes overlap and usually have a close connection with those of municipal governments, it is pointless to draw a distinction between them. They are treated together as part of local government, local being interpreted for this purpose as subnational.

At 1 April 1979, there were 47 prefectures and 3,255 municipalities in Japan.³ The number of prefectures has been stable for a long time. It decreased by one in 1945, when the Okinawa Islands came under the control of the Allied Forces, but returned to the original number in 1973 when the Islands were returned to Japanese rule. The number of municipalities has decreased steadily from 10,520 in 1945 to 4,768 in 1956 and 3,372 in 1966.

¹ In Japan four different titles have historically been given to prefectures: 'To', 'Do', 'Fu' and 'Ken'. So far as the structure and functions of government are concerned, there are no differences among 'Do', 'Fu' and 'Ken'. The Tokyo prefecture (in Japanese 'Tokyo To') is the only government which does not fit easily into the definition of a prefecture, because it combines the functions of prefecture and municipality.

² There are three different titles for municipalities: 'Shi', 'Cho' and 'Son'. 'Shi' means city, 'Cho' means town and 'Son' means village. Usually, the population of a city exceeds 50,000 while that of a town exceeds 7,000. The functions performed by a city are somewhat wider in scope than those of towns and villages, although the difference is very small. Ten large cities designated by the national government (such as Osaka, Yokohama and Nagoya) carry out some important functions which are usually the responsibility of prefectural governments. The functions of towns are the same as those of villages.

³ Ministry of Home Affairs, *Chiho Zaisei Hakusho* (White Paper on Local Public Finance), 1980 edn, p. 164.

The fall between 1945 and 1956 was brought about by a 'Law to Promote the Merger of Towns and Villages', which was enacted in 1953. The law provided special privileges to those municipalities which merged under the guidance of the central and prefectural governments. These special privileges included generous provision for grants, authorisation of local loans and an increase in the number of councillors which was permitted under local government laws.

The basic philosophy of this law was that municipalities were generally too small for the efficient supply of newly developing services. Although the law expired in 1965, a similar law entitled 'Law Concerning Special Measures for Municipal Merger' is currently in force.

Intergovernmental Division of Functions

Although the relationships between a national government and regional governments (such as state, provincial, dominion or prefectural governments) differ from one country to another, the relationship in federal countries is usually distinguished from those in unitary countries.⁴ In a federation, the national government and state governments are independent of each other. The national government has constitutional responsibility for such functions as foreign affairs, defence, and the currency; regional governments have no powers to make laws in these spheres. But regional governments in their turn are quite independent of the national government in certain fields, which typically include functions such as education, health services and transportation. Thus it may be said that, in a federation, the public sector is divided into two independent parts, each of which has constitutionally defined rights and responsibilities in its own sphere.

In a unitary country, on the other hand, regional governments are creatures of the national government and draw their powers from it. Their activities are wholly determined by the nature of the legislation which is enacted by the central government. The powers and functions which regional governments possess are those which the central government decides to confer upon them. Thus the essential characteristic of a unitary country is that the powers of regional governments are delegated and are wholly derived from the central government.

In a federation, the powers of the national government are restricted by the Constitution while other powers, usually residual powers, are allocated to regional governments.

Intergovernmental Relations in Japan

Article 92 of the Japanese Constitution declares that 'regulations concerned with the organization and operation of local public bodies shall be determined by laws in accordance with the principle of local autonomy'. Since the term 'laws' refers to statutes enacted by the national assembly, it follows that the activities of local governments are basically predetermined by the national government.

Subject to this constraint, local public bodies (local governments) have the power to enact regulations. Article 94 of the Japanese Constitution provides that 'local public bodies shall have the right ... to enact their own regulations within the law'. These regulations are usually called 'by-laws'. As may be inferred from Article 94 of the Constitution, by-laws are valid only when they are not in conflict with national laws.

⁴ See, for example, R.L. Mathews and W.R.C. Jay, *Federal Finance*, Nelson, Melbourne, 1972, pp. 1-2; R.L. Mathews, *Issues in Australian Federalism*, The Tenth R.C. Mills Memorial Lecture, University of Sydney, Sydney, 18 October 1977; and K.C. Wheare, *Federal Government*, 4th edn, Oxford University Press, Oxford, 1967.

Some authors have argued that, in Japan, the central government and local government are equal partners; that there is no element of control or subordination in their relations.⁵ But such a view conflicts with reality, because nearly all the activities of local government are controlled by national laws. Local government can act according to its own will only when there is no conflict with national laws. But the network of national laws spreads into every field of government, and only narrow areas are left to the initiative of local government. Insufficient access to revenue may also inhibit local initiatives.

Thus Japan may be said to be a highly centralised unitary country. The national government exercises very detailed and stringent controls over the whole range of local government activities. It is not too much to say that there are no local government activities in which national government expresses no interest at all.

The dominating influence of the national government is partly due to the lack of any clear division of governmental functions among the three levels of government. At present, governments at all levels share responsibility in almost all fields of public administration. For example, in the case of elementary school education, the national government determines the curriculum; authorises the textbooks to be used; prescribes various standards such as the number of teaching hours in a week, class sizes and physical dimensions of class-rooms; and undertakes research directed to the improvement of education. Prefectural governments conduct examinations to provide a list of qualified teachers from which municipal educational boards select new staff for their schools, and pay the salaries of teachers, who are appointed by municipal educational boards. The actual operation of elementary schools is the responsibility of municipal governments. They construct elementary school buildings and determine the zones from which the schools draw their pupils. They employ teachers and ancillary staff and bear running expenses other than teacher salaries.

When the Shoup Mission visited Japan after World War II it was surprised by the intricacy of the division of governmental functions in Japan. It considered the situation inimical to the establishment of responsible government and advised Japanese authorities to assign particular functions to each level of government. The purpose of this recommendation was to establish clearly which level of government was responsible for each function. But the recommendation was not adopted, partly because of the national government's reluctance to weaken its control over local government and partly because of the inability of local government to carry out various functions efficiently and independently.

Types of Local Government Activity: Delegated and Entrusted

In Japan, a distinction is made between activities which are 'delegated' to local government and activities which are 'entrusted' to them.⁶ Delegated activities are allotted to local government by national law. They are activities which are considered appropriate for local authorities to undertake and include the services which have been traditionally performed by local government. Schools, roads, flood control and water supply are examples of delegated activities.

⁵ T. Ogita, *Chiho Zeizaisei Seido* (System of Local Tax and Public Finance), Gakuyo Publishing Co., Tokyo, 1975.

⁶ The term 'delegated activities' is derived from the Japanese 'Kōkyō Zimu'. The delegation to local government is effected by Article 2 of the Local Autonomy Law (Chiho Jichiho).

Entrusted activities are essentially the responsibility of national government but are entrusted to local government for reasons of administrative convenience. They are thus activities which local government performs in an agency role. Entrusted activities are further divided into two categories, those entrusted to local public bodies and those entrusted to the heads of the executive organs of public bodies, such as governors, mayors, heads of educational boards and so on.⁷

Local assemblies have the same powers in relation to activities entrusted to local public bodies as they have in relation to delegated activities. Local assemblies can make regulations or take other action within the limit of national laws. But local assemblies have no powers at all in relation to activities entrusted to the heads of local executive organs. When a local government carries out activities entrusted to the executive head, the executive organ of local government acts in the capacity of an agent of the national government. It is entirely under the control of the national government and must perform the activities entrusted to it in accordance with the direction of the minister in charge. In this case, the governor of a prefecture is responsible to the minister in charge, while a mayor acts under the supervision of the governor who is the deputy of the minister in charge.

Mandamus

When a governor acting as an agent of the national government violates the law or a ministerial order, or if he is in default, the minister in charge may use mandamus proceedings to correct the situation. Mandamus proceedings arise and are dealt with as follows:⁸

- (a) When the national government becomes aware of a governor's default or illegal act in relation to a national function, the minister in charge will instruct the governor to take corrective measures within a specified period.
- (b) If the governor fails to take corrective measures, the minister in charge will file a suit in a high court for a writ of mandamus.
- (c) If the court issues a writ of mandamus and if the governor fails to comply with the writ, the minister in charge will file suit in the same high court for confirmation of non-compliance.
- (d) If the court hands down a decision favourable to the minister in charge, that minister may himself make the necessary decisions on behalf of the defaulting governor.
- (e) The prime minister has power to dismiss a defaulting governor.

Mandamus proceedings may also be applied to mayors. In such a case, a governor acts as deputy for the minister in charge. It is very unusual for mandamus proceedings to proceed beyond the first step.

⁷ The term 'activities entrusted to local public bodies' is an English translation of 'Dantai Inin Zimu', while the term 'activities entrusted to the heads of the executive organs of public bodies' is an English translation of 'Kikan Inin Zimu'.

⁸ Local Autonomy College and Ministry of Home Affairs, *Local Government in Japan*, (Unpublished Booklet), Tokyo, 1974.

II REVENUES OF LOCAL GOVERNMENT

SOURCES OF REVENUE

The revenues of local government for 1975 are set out in Table II-1, the data for prefectures and municipalities being shown in adjoining columns. It can be seen from the table that the revenues of prefectural governments are similar in composition and amount to those of municipalities.

Table II-1

REVENUES OF PREFECTURES AND MUNICIPALITIES, 1975*

	Prefectures		Municipalities		Total	
	¥ million	%	¥ million	%	¥ million	%
Local taxes	4,280,955	29.6	3,873,886	30.1	8,154,841	31.3
Local transfer taxes	149,050	1.0	99,107	0.8	248,157	1.0
Local allocation tax	2,392,218	16.5	2,078,834	16.1	4,471,052	17.2
Prefectural tax transferred to municipalities	- 159,354		159,354	1.2	-	
Sub-total (General revenue)	6,822,223	47.1	6,218,181	48.2	12,874,049	49.4
Contribution towards improvement	192,554	1.3	167,737	1.3	251,598	1.0
Fees and charges	194,331	1.3	234,908	1.8	429,238	1.6
National specific purpose grants	3,909,648	27.0	1,923,024	14.9	5,832,673	22.4
Special traffic safety grants	29,623	0.2	19,972	0.2	49,595	0.2
Prefectural specific purpose grants	- 719,900		719,900	5.6	-	
Revenue from property	148,878	1.0	243,122	1.9	392,001	1.5
Donations	16,980	0.1	87,162	0.7	100,661	0.4
Local loans	1,617,748	11.2	1,642,115	12.7	3,179,896	12.2
Miscellaneous	1,544,168	10.7	1,641,270	12.7	2,934,707	11.3
Total	14,476,153	100.0	12,890,391	100.0	26,044,417	100.0

* Fiscal year commencing 1 April 1975.

Source: Ministry of Home Affairs, *Chiho Zaisei Hakusho* (White Paper on Local Public Finance); 1977 edn, p. 218.

Local Taxes

Local taxation is the largest of all revenue items, though it provides only about 30 per cent of total revenues. There is a body of opinion that the tax revenue of local governments should be increased. However, the differing taxable capacities of local governments makes this difficult. Some governments can increase their tax revenue greatly by introducing new taxes or raising existing tax rates; others, however, can only moderately increase their tax revenue by using such measures. This explains why local tax revenue plays only a relatively small role in Japanese local public finance. The local tax system in Japan will be reviewed in more detail in Chapter IV.

Local Transfer Taxes¹

Local transfer taxes are levied by the national government on behalf of prefectural and municipal governments. They are levied on the same tax bases as national taxes, so that duplication in assessment and collection is avoided.

At present there are five local transfer taxes: the local road transfer tax, the special tonnage transfer tax, the liquefied petroleum gas transfer tax, the motor vehicle tonnage transfer tax and the aviation fuel transfer tax. The local road transfer tax is levied on gasoline and collected by the national government together with its gasoline tax. It is earmarked for local government expenditures on roads and is allocated on the basis of the area and length of road in each locality.

Special tonnage tax is levied on the net tonnage of ships engaged in foreign trade when they enter authorised foreign trade ports, and is collected with the national government's tonnage tax. The revenue collected at each port is wholly transferred to the local municipality and is not earmarked for a specific purpose.

The national government levies a fuel tax on liquefied petroleum gas used in motor vehicles. Half the revenue from this tax is nominated as the liquefied petroleum gas transfer tax and is allocated to prefectures and ten large cities for expenditures on roads.

A quarter of the motor vehicle tonnage tax, which is levied annually or biennially on the owners of motor vehicles according to the weight of vehicles, is transferred to municipalities as the motor vehicle tonnage transfer tax, again for expenditures on roads.

Two-thirteenthths of the revenue from aviation fuel tax is transferred as aviation fuel transfer tax to municipalities where airports are located and to adjoining municipalities. It is specifically allocated for expenditures related to airports including the costs of aircraft noise abatement and the provision of public facilities in and around terminals. From 1979 a part of this tax has been transferred to prefectural governments.

¹ In translating technical terms from Japanese into English, it is sometimes difficult to convey an exact meaning. For the Japanese 'Chiho joyo zei' the words 'local transfer tax' - as used in the *Outline of Japanese Tax System* by the National Tax Agency - have been selected as conveying the nearest translation. However, Professor H. Itoh used the words 'local allocation tax' in his article, 'Equalization of Local Finance in Japan', *Finanzarchiv*, Neue Folge, Band 26, Heft 1, 1967.

Local Allocation Tax

Local allocation tax is a literal translation of the Japanese 'Chiho kofuzei',² meaning the tax revenue allocated to local government. It is an unconditional, non-specific equalisation grant from the national government to local governments - in other words, a tax sharing grant. It will be described in more detail in Chapter V.

Prefectural Tax Revenue Transferred to Municipalities

There are three prefectural taxes, the revenues of which are partly or wholly transferred to municipal governments. The light oil delivery tax is levied by prefectural governments on light oil used in diesel engine vehicles. Revenue from this tax is allocated for main roads expenditures. As ten large cities are taking over the management of main roads from prefectural governments, a part of the revenue from this tax is transferred to those cities.

Another prefectural government tax, the automobile acquisition tax, is levied on purchasers of automobiles. Seventy per cent of the revenue from the tax, after deduction of collection costs, is transferred to municipal governments for expenditures on roads under their management. The tax is collected by prefectural governments as a matter of administrative convenience.

Golfers are subject to an entertainment tax imposed by prefectural governments. Municipalities where golf courses are located receive half the revenue from this tax by way of compensation for loss of revenue from real property tax on buildings which might otherwise have been constructed.

*Beneficiaries' Contribution Towards Improvement*³

Article 224 of the Local Autonomy Law provides: 'When a service by local government provides benefit only to a few people or only to people in a certain district, local government may levy a beneficiaries' contribution on those people who receive special benefit from the service. The contribution should be appropriated to the cost of the service and the amount of the charge for a person should not exceed the value of benefit which he receives'.

Beneficiaries contributions can therefore be imposed by local governments under by-law and the revenue therefrom appropriated to the cost of public services such as the construction of sewerage systems, streets and irrigation systems. Such levies are made usually on landowners but sometimes on the owners of buildings. However, at the present time levies of this kind appear to be decreasing.

² The Ministry of Home Affairs used the term 'local allocation tax'. Professor H. Itoh translated 'Chiho kofuzei' as local transfer tax: H. Itoh, *op. cit.* In the *Outline of Japanese Tax System*, *op. cit.*, the term 'local grant tax' is used for 'Chiho kofuzei'.

³ 'Beneficiaries' contributions to improvement' is used here as an English translation of 'Buntankin oyobi futankin'. The amount of the prefectural beneficiaries' contribution which is recorded in Table II-1 includes contributions by municipalities towards the cost of public facilities which are provided by prefectural government and benefit people in the municipalities.

Fees and Charges

Prefectural governments collect fees for high school education, rent from prefectural welfare housing and so on.⁴ They also impose charges for driving permits, restaurant licences, and the inspection of weights and measures.⁵

The revenue obtained by municipal government from fees comes from such sources as nursery school fees, rent from municipal welfare housing and sewerage charges. Most municipal revenue from charges is derived from the issue of exemplified certificates such as family registration certificates, residential registration certificates, attested copies of registered documents, and the like. Some municipalities, usually small cities and towns, charge for garbage collection.

Specific Purpose Grants by the National Government⁶

Specific purpose grants account for about half the total transfers from the national government to local governments. They are usually conditional with the national government exercising stringent control over their use. Further details will be given in Chapter VI.

Special Traffic Safety Grant⁷

Moneys from fines imposed for violation of traffic regulations are collected by the national government and transferred to local governments as a 'special traffic safety grant'. The grant is made specifically for expenditures on traffic safety facilities, such as traffic signals, road signs, pedestrian crossing bridges, footpaths and cycle paths. The special traffic safety grant falls within the category of specific purpose grants but is usually separated from other specific purpose grants on the ground that the moneys are derived from fines rather than tax revenue.

Prefectural Specific Purpose Grants⁸

Prefectural specific purpose grants are transferred from prefectural governments to municipal governments. They are similar in nature to specific purpose grants made by the national government and, like those grants, are usually conditional. About one-half of prefectural specific purpose grants is directed to the construction of public facilities. Sometimes prefectural specific purpose grants are themselves financed by national specific purpose grants.

⁴ The word 'fee' is used here as an English translation of 'Shiyoryo'. Shiyoryo literally means a user fee for public facilities.

⁵ The word 'charge' is used here as an English translation of 'Tesūryo'. Tesūryo literally means a share of the cost of services provided by government at the request of citizens.

⁶ 'National specific purpose grant' is an English translation of 'Kokko shisyutsukin' and seems to represent the character of kokko shisyutsukin most adequately. Professor H. Itoh's translation is 'specific grant': H. Itoh, *op. cit.* The Local Autonomy College's translation is 'national disbursement' (in *Local Public Finance in Japan*, unpublished pamphlet, 1973); while the National Tax Bureau translates it as 'national subsidy' in the *Outline of Japanese Tax System, op. cit.*

⁷ 'Special traffic safety grant' is an English translation of 'Kotsu anzentaishaku tokubetsu kōfukin'.

⁸ 'Prefectural specific purpose grant' is an English translation of 'Ken shisyutsukin'.

*Revenue from Property*⁹

Two types of revenue are included under this heading. The first consists of proceeds from the sale of government property. In earlier times, some municipalities obtained a substantial proportion of their revenues from the sale of timber from municipal forests. But owing to the increase in the size of local budgets, such proceeds now make up only a small proportion of total receipts. The second form of revenue from property consists of fees charged for the use of public facilities for purposes other than their primary use, e.g. rent collected from a restaurant situated in an administrative building.

Donations

Article 4-V of the Local Finance Law prohibits the exaction of donations. However, voluntary gifts by citizens are welcomed.

Local Loans

Local governments also obtain funds by raising public loans. The raising of such loans is controlled by the national government. Prefectural governments cannot issue bonds without the permission of the national government. Similarly, municipal governments cannot issue bonds without the permission of the prefectural government. The aggregate amount which may be borrowed is subject to the fiscal policy of the national government. When the economy is depressed, the central government will authorise increased borrowings by local governments so as to encourage increased public expenditure. Further details are given in Chapter VII.

Miscellaneous

Besides the sources of income mentioned above, various items appear on the revenue side of local government budgets. These include revenue from profit-making activities, interest on deposits, balances brought forward from the last fiscal year and transfers from business undertakings. The profit-making activities include sporting activities of various kinds (such as horse racing, bicycle racing, motor bicycle racing and motor boat racing) and lotteries.

CLASSIFICATION OF REVENUES

General Revenues and Specific Purpose Revenues

The revenues of local governments may be divided into specific purpose revenues and general purpose revenues.¹⁰ Specific purpose revenues can be appropriated only for a predetermined specific purpose. National specific purpose grants, prefectural specific purpose grants and local loans are typically classified as being for specific purposes.

⁹ 'Revenue from property' is an English translation of 'Zaisan syūnyū'.

¹⁰ 'Specific purpose revenue' is an English translation of 'Tokutei zaigen', and 'general revenue' is an English translation of 'Ippan zaigen'.

General purpose revenues, as their name implies, can be appropriated for any purpose. Local taxes and the local allocation tax (tax sharing grants) fall into this category. However, some earmarked revenues, such as local road transfer tax and liquefied petroleum gas transfer tax, are usually classified as general revenues because they may be used to finance any expenditures connected with roads. Taxes specified, say, for the improvement of a certain part of a particular highway would be classified as specific purpose revenues.

Local governments prefer general revenues because specific purpose revenues restrict their freedom to allocate funds to what they see as areas of need. Those who attach great importance to local autonomy tend to call for an increase in general revenues relative to specific purpose revenues.

Many of the local government revenues mentioned above can be classified as independent revenues or dependent revenues.¹¹ Independent revenues are those levied and collected by local government, while dependent revenues are transferred, donated or borrowed from other sources. Local taxes, beneficiaries' contribution towards improvement, revenue from property, fees and charges are the main items of independent revenues. Local governments determine the amount of these levies and collect the proceeds themselves.

On the other hand, local transfer taxes, the local allocation tax and national specific purpose grants are typically classified as dependent revenues. They are all transferred from the national government and their amount is determined by the national government. Local loans are now classified as dependent receipts because the amounts which can be issued are controlled by the national government.

From local government's point of view, independent revenues are more advantageous than dependent revenues, because they enhance the autonomy of local government. Dependent revenues tend to diminish local control over the budget; a budget based entirely on dependent and specific purpose revenues would bring local government wholly under the control of the national government. Of course such a situation is unlikely to arise, but local government is conscious of the dangers. Another disadvantage of dependent revenues is that the community becomes less conscious of the cost of local government services, because the individual is not called upon to make any direct financing contribution. This could be an obstacle to the efficient allocation of resources.

¹¹ 'Independent revenue' is an English translation of 'Jisyu zaigen' and 'dependent revenue' is an English translation of 'Izon zaigen'.

III OUTLAYS OF LOCAL GOVERNMENT

CLASSIFICATION OF OUTLAYS BY FUNCTION

The outlays of Japanese local government can be classified in two ways: by function and by economic categories. Classification by function covers the amounts spent by local governments for various purposes, such as education, health and public works. On the other hand, classification by economic categories provides information about the impact of local government activities on the economy.

Table III-1 gives a functional classification of outlays in 1975 for both prefectural and municipal governments. The content of each item is explained in the following paragraphs.

Table III-1

FUNCTIONAL CLASSIFICATION OF LOCAL GOVERNMENT OUTLAYS: 1975 FISCAL YEAR

	<u>Prefectural Government</u>		<u>Municipal Government</u>		<u>Net Total</u>	
	¥ million	%	¥ million	%	¥ million	%
Local assembly	33,557	0.2	165,641	1.3	199,197	0.7
General administration	791,749	5.5	1,732,718	13.8	2,358,057	9.2
Social welfare and social security	857,459	6.0	2,183,405	17.3	2,835,656	11.1
Health and sanitation	729,226	5.1	1,058,847	8.4	1,754,428	6.8
Labour relations	152,423	1.1	141,381	1.1	290,860	1.1
Agriculture, forestry and fisheries	1,548,547	10.8	719,182	5.7	1,972,288	7.7
Commerce and industry	700,218	4.9	310,818	2.5	997,055	3.9
Public works	2,734,132	19.0	2,472,677	19.6	5,100,704	19.9
Fire protection	75,174	0.5	389,058	3.1	454,775	1.8
Police	1,048,699	7.3	-	-	1,048,642	4.1
Education	4,498,929	31.3	2,469,172	19.6	6,914,541	27.0
Debt charges	508,985	3.5	653,462	5.2	1,114,617	4.3
Miscellaneous	706,774	4.9	294,361	2.3	613,648	2.4
Total	14,385,873	100.0	12,590,721	100.0	25,654,468	100.0

Local Assembly¹

Most of the outlays classified as payments for local assemblies are appropriated for the salaries of members of the assemblies and clerical employees in assembly offices. They also include various amounts necessary for the operation of the assemblies.

¹ 'Outlays for local assembly' is an English translation of 'Gikaihi'.

General Administration²

The outlays for general administration cover the costs of various activities which, although they do not directly contribute to the welfare of citizens, are indispensable to governmental activities. The outlays of the treasurer's office, the taxation office, the planning office and the personnel office are the main items in this group. Capital outlays appropriated for the construction of office accommodation for non-enterprise activity and public halls are also classified under this heading.

Social Welfare and Social Security³

Outlays for social welfare and social security have shown the most rapid rate of increase in the last five years. Their proportion of the net total outlay of all local governments thus rose from 7.7 per cent in 1970 to 11.1 per cent in 1975.

Outlays for social welfare and social security are subdivided into five categories: general social welfare, welfare for the aged, welfare of children, allowances for the poor and assistance for the victims of disasters.⁴ In the 1960s about half the outlay on social welfare and social security was directed to allowances for the poor. But recently welfare payments for the aged and for children have greatly increased.

In 1975, the highest percentage (35 per cent) of the total outlay for social welfare and social security was expended on welfare for children. The main reason for the increase in this item was a rise in the number of nursery schools. During the era of rapid economic growth in Japan, many young people moved from rural to urban industrial areas. In the countryside grandparents play a role in the raising and care of children, and the demand for nursery schools is very low. But in urban areas grandparents are less accessible and there are many working mothers. The demand for nursery schools is therefore very high. The introduction of allowances for children has also contributed to the increase in welfare payments for children.

Welfare payments for the aged have increased because of the medicare system introduced on 1 January 1973. Under this system, medical and hospital fees for the aged are borne by municipal governments.

The amounts appropriated for the victims of disasters are usually quite small.

Health and Sanitation⁵

About half the outlays by municipal governments on health and sanitation are directed to garbage collection and disposal. Under this heading municipal governments also provide isolation hospitals for infectious diseases.

² 'Outlays for general administration' is an English translation of 'Somuhi'.

³ 'Outlays for social welfare and social security' is an English translation of 'Minseihi'.

⁴ 'Outlays for general social welfare', 'welfare for the aged', 'welfare of children', 'allowances for the poor' and 'assistance for the victims of disasters' are the English translations of 'Shakaifukushihi', 'Rojinfukushihi', 'Jidofukushihi', 'Seikatsuhogohi', and 'Saigaikyujohi' respectively.

⁵ 'Outlays for health and sanitation' is an English translation of 'Eiseihi'.

The outlays for health and sanitation by prefectural governments are directed to various purposes: the prevention of infectious diseases, geriatric diseases⁶ and mental diseases is a typical purpose. Many public health activities are carried out by health offices⁷ which are located all over the country. Most of these offices, other than those located in big cities, are established and managed by prefectural governments.

*Labour Relations*⁸

Almost all outlays by municipal governments in connection with labour relations are expended on public works which are instituted to provide work for the unemployed.⁹

Outlays on labour relations by prefectural governments are directed to various items. For example, the cost of local labour relations boards which arbitrate on conflicts between labour and management,¹⁰ the cost of vocational training schools and the construction of houses for persons retrenched from declining industries. Houses for the retrenched employees, whose rent is subsidised, are built in newly developing areas. The aim of this form of assistance is to promote the movement of workers from declining to developing locations and industries.

*Agriculture, Forestry and Fisheries*¹¹

Local governments make financial provision for the promotion of primary industries in their own areas. Outlays of this kind are classified under the heading of agriculture, forestry and fisheries. As might be expected, this item is of minor importance in urban areas.

*Commerce and Industry*¹²

Local governments also promote commercial and industrial activities within their boundaries. About 70 per cent of the assistance given under this heading is made up of loans to small-scale enterprises.

*Public Works*¹³

Most outlays on public works are capital outlays directed to the construction of roads, bridges, parks, waterways, harbours, airports and so on. At one time, outlays on the construction of dwellings to be let at uneconomic rents to persons

⁶ 'Geriatric disease' is an English translation of 'Seijinbyo'.

⁷ 'Health office' is an English translation of 'Hokensho'.

⁸ 'Outlays for labour relations' is an English translation of 'Rōdōhi'.

⁹ 'Public works for unemployed' is an English translation of 'Shitsūgyō taisaku jigyo'.

¹⁰ 'Local labour relations board' is an English translation of 'Chiho rōdō iinkai'.

¹¹ 'Outlays for agriculture, forestry and fisheries' is an English translation of 'Norinsuisangyōhi'.

¹² 'Outlays for commerce and industry' is an English translation of 'Shōkōhi'.

¹³ 'Outlays for public works' is an English translation of 'Dobokuhi'.

below a stipulated income level were classified under the heading of social welfare and social security, but they now fall into the category of public works.

Outlays for public works constitute one of the two largest items in the budgets of both prefectural and municipal governments. In the years when the national government adopts an expansionary fiscal policy, expenditure on public works outstrips other items in the outlay budget. Conversely, when an anti-inflationary policy holds sway, expenditure on public works diminishes.

Fire Protection

Almost all aspects of fire protection are the responsibility of municipal governments. Ambulances come under the control of the fire protection authorities.

Police

Most police activities are the responsibility of prefectural governments although the national government exercises fairly tight control over police activities. Lower-rank policemen are employed by prefectural governments, but high-ranking police officers are employees of the national government.

Education

The outlays for elementary schools (for children aged 6 to 12) and middle (or junior high) schools (for children aged 12 to 15) are large, both for prefectural and municipal governments. As mentioned in Chapter I, prefectural governments pay the staff salaries in these schools. Municipal governments bear all other costs, such as construction outlays and recurrent expenses other than wages and salaries.

Nearly all high schools are prefectural schools, outlays on which constitute about 7 per cent of the total outlays of prefectural governments. The number of young people wanting to attend high school has greatly increased in the last twenty years. This has forced prefectural governments to spend considerable sums on high school buildings.

In normal years, outlays on education by local government exceed those for any other function and are high both for prefectural and municipal governments.

Debt Charges

Outlays on debt charges comprise payments for the redemption of and interest on local public loans, together with other incidental expenses such as the cost of printing security certificates and book-keeping costs.

Miscellaneous

The miscellaneous item includes the following expenses: restoration costs after disasters,¹⁴ appropriations to cover deficits incurred in the previous fiscal year,¹⁵ and transfers of tax from prefectural to municipal governments.¹⁶

¹⁴ 'Restoration costs after disasters' is an English translation of 'Saigai fukkyūhi'.

¹⁵ 'Appropriations to cover deficits incurred in the previous fiscal year' is an English translation of 'Zen-nendo kuriage juyokin'.

¹⁶ This was referred to in Chapter II.

CLASSIFICATION OF OUTLAYS BY ECONOMIC CATEGORIES

The economic classification of expenditures distinguishes between recurrent expenditure on goods and services, investment outlays and transfer payments. Local government outlays can be similarly classified but with some differences.

The outlays of local government by economic categories are set out in Table III-2, the data for prefectures and municipalities being shown in adjoining columns.

Table III-2

ECONOMIC CLASSIFICATION OF LOCAL GOVERNMENT OUTLAYS: 1975 FISCAL YEAR

	Prefectural Government		Municipal Government		Net Total	
	¥ million	%	¥ million	%	¥ million	%
Wages and salaries	6,036,573	42.0	3,428,137	27.2	9,464,711	36.9
Non-personal current expenditure	494,685	3.4	1,052,508	8.4	1,547,193	6.0
Repairs and maintenance	105,631	0.7	184,700	1.5	290,330	1.1
Personal allowances	529,495	3.7	1,298,822	10.3	1,828,317	7.1
Subsidies	1,264,338	8.8	637,430	5.1	1,139,128	4.4
Ordinary capital outlays	3,931,672	27.3	4,079,301	32.4	7,622,292	29.7
Other capital outlays	390,571	2.8	275,179	2.2	601,925	2.3
Debt charges	498,981	3.5	648,781	5.2	1,099,931	4.3
Transfers to reserves	39,728	0.3	229,400	1.8	269,127	1.0
Loans	974,870	6.8	418,313	3.3	1,334,032	5.2
Miscellaneous	119,331	0.8	338,150	2.7	457,482	1.7
Total	14,385,873	100.0	12,590,721	100.0	25,654,468	100.0
Of which:						
Unavoidable outlays	7,065,049	49.1	5,375,740	42.7	12,392,960	48.3
Discretionary outlays	4,322,243	30.0	4,354,480	34.6	8,224,217	32.1

*Wages and Salaries*¹⁷

All wages and salaries paid by local governments, except those for temporary and part-time employees, are recorded under the heading of wages and salaries. Persons employed on construction projects are included for this purpose. Wages and

¹⁷ 'Wages and salaries' is an English translation of 'Zinkenhi'.

salaries amount to more than 40 per cent of the total outlays of prefectural governments. This is mainly because elementary and middle school teachers, and policemen, are paid by prefectural governments. Employers' contributions paid by local governments to social insurance funds, are also included under the heading of wages and salaries.

The average salary of a local government employee is a little higher than that of a national government employee. At 1 April 1976, the average salary of a local government employee was 8.8 per cent higher for prefectures, 13.1 per cent higher for nine large cities, 12.0 per cent higher for other cities and 0.2 per cent lower for towns and villages than that of a national government employee. In 1976, when local government sought an increase in grants from the national government, these salary differentials were the cause of a major dispute between the two levels of government. The national government insisted that the high level of local government salaries was the main reason for the financial difficulties being experienced by local government, and took the view that any higher grants which might be awarded would be absorbed in higher salaries for local government employees.

*Non-Personal Current Expenditure*¹⁸

Nearly half of non-personal current expenditure is directed to the purchase of the goods and services necessary for the daily work of government. Non-personal current expenditure also includes such expenses as wages for temporary and part-time employees, travelling expenses and payments to outside organisations which, as agencies of government, carry out governmental functions.

*Repairs and Maintenance*¹⁹

Outlays under this item are those required to keep public buildings and other facilities in good condition.

*Personal Allowances*²⁰

Local governments provide cash benefits in several areas. Important allowances are those for the poor, for children and for the aged. Most of the allowances for the aged take the form of medical and hospital fees, which became the responsibility of local government on 1 January 1973. These are not direct cash benefits but, in the statistics on local government finance, they are classified as allowances. There are also some allowances for the sick.

*Subsidies*²¹

Most prefectural government subsidies are grants to municipal governments. Municipal governments provide many kinds of subsidies to various citizen groups such as neighbourhood associations, aged persons' clubs, community clubs for children, sportsmen's clubs and the boy scouts.

¹⁸ 'Non-personal current expenditure' is an English translation of 'Bukkenhi'.

¹⁹ 'Repairs and maintenance' is an English translation of 'Iji hoshyhi'.

²⁰ 'Personal allowances' is an English translation of 'Fujohi'.

²¹ 'Subsidies' is an English translation of 'Hojohi'.

Capital Outlays

Capital outlays in local public finance are divided into three categories: capital outlays for restoration work following disasters, capital outlays for unemployment relief work, and ordinary capital outlays.

*Ordinary Capital Outlays.*²² Most capital outlays by local governments fall into the category of ordinary capital outlays. About half the ordinary capital outlays relates to public works such as roads, bridges, parks and welfare housing. School buildings are also an important sub-item. As can be seen from Table III-2, ordinary capital outlays constitute one of the largest of all outlay items as classified by economic categories.

Other Capital Outlays. Capital outlays for restoration work after disasters and capital outlays for unemployment relief are classified as other capital outlays. The amount of capital outlays for the restoration of public facilities after disasters depends, of course, on the incidence of major disasters. Nowadays public facilities are more solidly constructed than in former times, and the percentage of this item as a proportion of outlays has gradually fallen. The share of outlays for unemployment relief also decreased during the era of rapid economic growth.

Debt Charges

Outlays on debt charges in the economic classification are almost the same as debt charges in the functional classification, but the former excludes such incidental expenses as the cost of printing certificates and book-keeping expenses.

*Transfers to Reserves*²³

Local governments make provision for future expenditures by transferring funds to reserves in times when there are budget surpluses or when large expenditures are expected to be incurred. Reserve accounts are separated from general accounts and transfers to reserves are treated as outlays from general accounts. On the other hand, when reserves are terminated, the balances are transferred back to general accounts and are included in miscellaneous receipts.

*Loans*²⁴

In an attempt to promote industrial and commercial activities in their localities, local governments make loans to business enterprises. Sometimes local governments also make loans to individuals.

Miscellaneous

This item includes the following outlays: investment in private enterprises and in enterprises which are partly private and partly public, subsidies to public enterprises operated by local governments, and the provision of amounts required to meet any deficits incurred in the previous fiscal year.²⁵ Water supply undertakings, sewerage systems, transportation systems and hospitals are examples of subsidised public enterprises.²⁶

²² 'Ordinary capital outlays' is an English translation of 'Futsu kensetsujigyohi'.

²³ 'Reserve' is an English translation of 'Tsumitatekin'.

²⁴ 'Loans' is an English translation of 'Kashitsuokekin'.

²⁵ This is a translation from the Japanese 'Zen-nendo kuriage juyokin'.

²⁶ In some cases, subsidies to these undertakings are included in 'subsidies'.

INDICES OF BUDGETARY CONDITION

A balanced budget is not necessary at national government level. Rather, from the viewpoint of compensatory public finance budget deficits are necessary in times of depression. There are no fears that the national government will be unable to meet its debts. Its solvency is unquestionable since it has central bank backing. But it is important for local governments, with their limited financial capacity, to achieve balanced budgets. A local government which fails to balance its budget may find itself unable to meet its debt charges and this will have serious consequences. It is thus very important for local governments to ensure that their budgets are both sound and flexible.

Unavoidable Outlays and Discretionary Outlays

Some local government outlays are unavoidable or are mandatory.²⁷ In Table III-2, wages and salaries, personal allowances and debt charges are classified as unavoidable outlays. In Japan people are usually employed for a life-time and it is almost impossible for a local government to retrench employees for financial reasons. A new graduate leaving school to take up employment with a local government is thus virtually assured of secure employment until he retires. Wages and salaries are therefore classified as unavoidable expenses.

Local governments are required by law to provide allowances of the kind mentioned above. Because they are mandatory these can also be regarded as unavoidable expenses. Outlays for debt charges are obviously unavoidable expenses. Redemptions of and interest payments on local public loans are contractual in nature and the terms of the loan must be met.

On the other hand, local governments have a wide discretionary power over capital outlays. Some capital outlays are considered to be unavoidable, for example those for school buildings for compulsory education. But the amounts involved in these unavoidable outlays are comparatively small and most can be easily deferred. In the bottom line of Table III-2, all capital outlays (that is, both ordinary capital outlays and other capital outlays) are treated as discretionary outlays. The smaller the proportion of unavoidable outlays to total outlays, the more flexible is the budget. Table III-2 shows that this proportion for prefectural government was 49.1 per cent for prefectural governments and 42.7 per cent for municipal governments in 1975. These percentages were a little higher than in previous years and indicate a lessening of flexibility in local government budgets. In other words, a high proportion of unavoidable expenses can be treated as an indication of budget rigidity. A high proportion of capital outlays, on the other hand, indicates a flexible budget because these can be reduced when a local government is experiencing financial difficulty.

*The Ratio of Recurrent Expenditure to Normal Revenue*²⁸

The ratio of recurrent expenditure to normal revenue is often taken to be an indication of the budgetary condition of local government. It shows the extent to which normal general revenue is directed to recurrent annual expenditures. If the ratio were 100 per cent then all the normal revenue would be committed to recurrent expenditure and there could be no provision for capital outlays. The ratio is rather like Engels's coefficient applied to local public finance. (Engels treated the percentage of income spent on food as an index of prosperity.)

²⁷ 'Unavoidable outlays' is an English translation of 'Gimuteki keihi'.

²⁸ 'The ratio of recurrent expenditure to normal revenue' is an English translation of 'Keijoshushi hiritsu'.

More specifically, recurrent expenditure means the annual current expenditures which arise from wages and salaries, non-personal current expenditure, repairs and maintenance, personal allowances, subsidies and debt charges. Normal revenue comprises the annual revenues from ordinary taxes (those not earmarked for specific purposes), local transfer tax and local allocation tax. The ratio is usually about 70-80 per cent. When it exceeds 80 per cent, a budget is tight and measures to reduce current expenditures or to increase current revenues may be warranted.

IV LOCAL TAXES

OUTLINE OF THE LOCAL TAXATION SYSTEM

The budgets of the national government and local governments are closely linked. It is therefore appropriate to consider transfers of tax revenues between national and local governments at this point.

Transfers of Tax Revenue

It may be seen in Table IV-1 that the national government's tax revenue (64 per cent of total tax revenue) appears far greater than that of local government. However, more than half of the national government's revenue is transferred to local government. While some tax revenue is transferred from local to national government such transfers are comparatively small. The final share of tax revenue accruing to the national government is therefore not as large as might be expected from the original collections.

Table IV-1

TRANSFERS OF TAX REVENUE BETWEEN NATIONAL AND LOCAL GOVERNMENT: 1975 FISCAL YEAR

Source		Amount ¥ billion	Proportion %	
A	National taxes	145,068	64.0	
B	Local taxes			
C	Prefectural	42,810	}	18.9
D	Municipal	38,739		17.1
	Total	81,548		36.0
		226,616		100.0
E	Transfers from national to local government ^a	94,816	65.3 (E/A)	
F	Transfers from local to national government ^b	2,668	3.3 (F/B)	
G	Final allocation to national budget (A - E + F)	52,920	23.4	
H	Final allocation to local budgets (B + E - F)	173,696	76.6	

^a Transfers from national to local government comprise local transfer taxes, local allocation tax and the national treasury's specific purpose grants.

^b Transfers from local to national government are contributions towards improvements for public works carried out by the national government.

Source: Ministry of Home Affairs, *Chiho Zaisei Yōran* (Summary of Local Public Finance), Chiho Zaimukyōkai, 1977.

In 1975, the national government's revenue was only 23.4 per cent of total tax revenue. The remaining 76.6 per cent was allocated to local government.

However, in 1975 the national government raised considerable funds from the issue of bonds so that the above proportions are not typical of those for earlier years. As the national government cannot reduce specific purpose grants to local government even if its tax revenue falls, the share of tax revenue available to the national government falls in times of recession. In the five years 1971 to 1975 inclusive, the share of total tax revenue available to the national government averaged 31.7 per cent.

Table IV-1 demonstrates that the tax revenue accruing to prefectural government in 1975 was slightly above the amount received by municipal government. However, prefectural government obtains a high percentage of its revenue from corporation taxes, so that in times of prosperity prefectural revenue far exceeds that of municipal government.

Outline of the Tax System

Taxes can be grouped into four main categories: taxes on individual income, taxes on corporation income, property taxes and taxes on goods and services. The first three are direct taxes and the last is indirect. In Table IV-2 the tax revenues of all levels of government are classified in this way.

Table IV-2

TAX REVENUE OF NATIONAL, PREFECTURAL AND MUNICIPAL GOVERNMENTS^a 1975 FISCAL YEAR

<u>Tax Base</u>	<u>National</u>		<u>Prefectural</u>		<u>Municipal</u>	
	¥ billion	%	¥ billion	%	¥ billion	%
Individual income	54,823	37.8	7,873	20.3	13,596	31.7
Corporation income	42,654	29.4	17,033	44.0	6,207	14.5
Property ^b	6,041	4.2	5,523	14.3	18,735	43.7
Goods and services	36,260	25.0	8,222	21.3	4,165	9.7
Other ^c	5,289	3.6	41	0.1	153	0.4
Total tax revenue	145,068	100.0	38,692	100.0	42,856	100.0

^a In this table, municipal taxes collected by Tokyo To are classified as municipal taxes. For this reason, the figures for total prefectural tax and total municipal tax are different from those given in Table IV-1. As mentioned in footnote 1 of Chapter I, 'Tokyo To' is a combination of Tokyo prefecture and Tokyo city.

^b Vehicle tonnage tax levied by the national government is included in tax on property.

^c Stamp duty levied by the national government, mining right taxes, hunters' licence tax and hunting tax levied by prefectural governments and the business office tax levied by municipal governments are classified as other taxes.

Source: As for Table IV-1.

As can be seen from the table, governments at each level obtain much of their revenue from direct taxes. In the case of the national government, about two-thirds of all tax revenue come from income tax. Individual income tax yielded nearly as much as corporation income tax in 1975, but in prosperous years the latter yields higher revenues.

About half of prefectural tax revenue comes from corporation tax. Prefectural government budgets are thus vulnerable to recession. Proposals have been made to replace corporation taxes with, say, a value-added tax in order to overcome this problem.

Municipal governments depend heavily on property taxes. But recently, especially in the years of rapid economic growth, income tax has played a more important role in municipal budgets. Indirect taxes are a minor source of income for municipal governments.

Autonomy in Local Taxation

In a federal system, state taxes differ from one state to another. Japan, however, is a unitary country, and the tax systems of local governments throughout the country are very similar. The Local Tax Law which was enacted by the National Assembly prescribes the taxes which can be imposed by local government, defines the tax base in each case and nominates tax rates. Tax by-laws made under the national legislation enable local governments to impose taxes.

The Local Tax Law allows local government discretionary power over taxes in only three respects. In some cases local governments can select the rate of a local tax. For some minor taxes the Local Tax Law prescribes a specific rate, but in other cases it recommends a standard rate to be adopted in normal circumstances. A maximum rate is usually set which must not be exceeded by local government. Local government can determine its tax rate within the limit allowed by this maximum. A local government is entitled to adopt a rate lower than the standard rate, but this is seldom done because the national government may respond by reducing approvals for borrowing.¹ The Local Tax Law does not give the national government power to control the selection of tax rates by local governments but in fact local governments seek informal agreement from the national government to any tax rate which departs from the standard rate.

Local governments can also exercise discretion in levying taxes which are not prescribed in the Local Tax Law. Such taxes can be imposed, with the approval of the national government, when a special financial need arises for which no provision has been made under the Local Tax Law.

Such taxes must comply with the following conditions:

- (a) the tax must not result in double taxation in such a way as to impose an excessively heavy burden on the taxpayer;
- (b) the tax must not seriously disturb commodity flows between local areas;
- (c) the tax must not be such as to produce undesirable effects from the viewpoint of national policy;
- (d) the tax base must be located within the boundaries of the local government imposing the tax; and
- (e) government allowances such as cash benefits must not be taxed.

¹ This will be elaborated upon in Chapter VII.

At present there are few of these non-listed taxes.² At the prefectural government level there are two, and at the municipal level there are eight. These non-listed taxes will be described later in this chapter.

Local government also has some discretion in the imposition of such taxes as the city planning tax³ and improvement taxes.⁴

Other taxes are mandatory upon local governments, except in some special cases where their imposition is considered inappropriate both by local and national government. In the unlikely event that local government failed to impose a mandatory tax without first obtaining the national government's approval, the national government would reduce its allotment of local allocation tax.

THE PRINCIPAL LOCAL TAXES: ORDINARY TAXES

The revenues from prefectural taxes and municipal taxes are shown in Tables IV-3 and IV-4 respectively. Local taxes are divided into ordinary taxes⁵ (that is, general revenue taxes which are not specified for a particular purpose) and earmarked taxes. These tables show that almost all tax revenues accruing to prefectures and municipalities are derived from ordinary taxes. In the case of prefectures, the tax which produces the greatest revenue is the business tax,⁶ which contributes about 40 per cent to total revenues. The second most important prefectural tax is the prefectural inhabitant tax⁷ which produces about 25 per cent of total prefectural tax revenue. Thus about two-thirds of total prefectural tax revenues are raised by these two taxes.

In the case of municipalities, nearly half the total tax revenue is derived from the municipal inhabitant tax, and about one-third from the fixed property tax.⁸ So these two taxes produce more than 80 per cent of the total municipal tax revenues.

² 'Non-listed tax' is an English translation of 'Hōteigaizei'.

³ 'City planning tax' is an English translation of 'Toshikeikakuzei'.

⁴ 'Improvement tax' is an English translation of 'Suirichiekizei' and 'Kyōdōriyō-shisetsuzei'.

⁵ 'Ordinary tax' is an English translation of 'Futsūzei'.

⁶ 'Business tax' is an English translation of 'Zigyozei'.

⁷ 'Inhabitant tax' is an English translation of 'Jūminzei'.

⁸ 'Fixed property tax' is an English translation of 'Koteishisanzei'.

Table IV-3

PREFECTURAL TAX REVENUE BY SOURCE:
1975 FISCAL YEAR

Source		¥ million	Per cent
1	<u>Ordinary taxes</u>		
	Prefectural inhabitant tax		
	Individual	739,285	19.1
	Corporation	<u>249,754</u>	<u>6.5</u>
		989,040	25.6
	Business tax		
	Individual	47,994	1.2
	Corporation	<u>1,453,523</u>	<u>37.6</u>
		1,501,517	38.8
	Real property acquisition tax	181,365	4.7
	Prefectural fixed property tax	2,072	0.1
	Prefectural tobacco consumption tax	135,590	3.5
	Motor vehicle tax	368,893	9.5
	Entertainment tax	50,043	1.3
	Dining and drinking tax	267,453	6.9
	Mining right tax	529	0.0
	Hunter's licence tax	1,993	0.1
	Prefectural non-listed tax	183	0.0
	Total	3,498,740	90.4
2	<u>Earmarked taxes</u>		
	Motor vehicle acquisition tax	174,990	4.5
	Light oil delivery tax	193,967	5.0
	Hunting tax	1,521	0.0
	Total	370,478	9.6
3	<u>Abolished taxes</u>	6	0.0
	TOTAL TAX REVENUE	3,869,224	100.0

Table IV-4

MUNICIPAL TAX REVENUE BY SOURCE:
1975 FISCAL YEAR

	Source	¥ million	Per cent
1	<u>Ordinary taxes</u>		
	Municipal inhabitant tax		
	Individual	1,359,634	31.7
	Corporation	<u>620,719</u>	<u>14.5</u>
		1,980,353	46.2
	Fixed property tax		
	Land	653,862	15.3
	Buildings	506,780	11.8
	Plant and machinery	329,281	7.7
	Transfers	<u>57,514</u>	<u>1.3</u>
		1,547,437	36.1
	Municipal tobacco consumption tax	238,127	5.6
	Light motor vehicle tax	27,517	0.6
	Electricity tax	148,163	3.5
	Gas tax	13,164	0.3
	Mineral products tax	2,779	0.1
	Timber delivery tax	2,876	0.1
	Special land-holding tax	102,791	2.4
	Municipal non-listed taxes	4,228	0.1
	Total	<u>4,067,437</u>	<u>94.9</u>
2	<u>Earmarked taxes</u>		
	Spa tax	7,153	0.2
	City planning tax	195,498	4.6
	Business office tax	15,206	0.4
	Improvement tax	265	0.0
	Total	<u>218,122</u>	<u>5.1</u>
3	<u>Abolished taxes</u>	58	0.0
	TOTAL TAX REVENUE	<u>4,285,617</u>	<u>100.0</u>

The Inhabitant Tax on Individuals

The prefectural inhabitant tax is similar to the municipal inhabitant tax. Both taxes are levied on individuals and corporations. However, there are some differences between prefectural and municipal tax rates.

The inhabitant tax on individuals has two elements: a lump sum tax and a tax on income. The standard amount of the lump sum tax is ¥500⁹ per annum at prefectural level, while at municipal level it varies according to the size of the municipality. It is ¥2,000 for cities with a population of more than 500,000, ¥1,500 for cities with a population of more than 50,000 but not exceeding 500,000, and ¥1,000 for other municipalities. This tax has something of the characteristics of a fee for membership of the local community. Differences in the level of municipal lump sum taxes indicate differing levels in public services provided.

The individual inhabitant tax on income is a form of income tax. However, the level of exemption is lower than that for income tax levied by the national government, and its rate is less progressive than that imposed by the national government. This is true for both prefectural and municipal inhabitant tax. In the case of the municipal inhabitant tax, the standard rate imposed is moderately progressive, ranging from 2 per cent on incomes not exceeding ¥300,000, to 14 per cent on incomes of more than \$49 million. The maximum rate is one-and-a-half times the standard rates. The standard rate of the prefectural inhabitant tax on individuals is 2 per cent on all incomes not exceeding ¥1,500,000 and 4 per cent on any higher income. Although a maximum rate is not specified for this tax, all prefectures observe the standard rate.

The individual inhabitant tax on income is levied on the income of previous years. This enables the local government to use data obtained in the collection of the national income tax and the findings of investigations by the national tax authority.

Municipal governments usually collect both the prefectural inhabitant tax on individuals and the municipal inhabitant tax on individuals. As the inhabitant tax on individuals is the largest source of tax revenue for municipal governments, some municipalities attempt to attract residents with higher incomes so as to increase their fiscal capacity.

Inhabitant Tax on Corporations

The inhabitant tax on corporations also comprises a lump sum tax and a tax on income.

The standard amounts of the lump sum tax differ according to the size and type of company. They range, in the case of the prefectural inhabitant tax from ¥2,000 to ¥200,000, and in the case of municipal inhabitant tax from ¥8,000 to ¥800,000.

The tax on corporation income is really a surcharge on the amount of corporation tax levied by the national government. Though some minor adjustments are made, the tax is based on the amount of corporation tax paid to the national government. In the case of the prefectural inhabitant tax the standard rate is 5.2 per cent and the maximum 6.2 per cent. In the case of the municipal inhabitant tax the standard rate is 12.1 per cent and the maximum 14.5 per cent.

At 1 April 1977, 44 prefectures and 1,391 municipalities had adopted a rate higher than the standard rate. Local assemblies are usually reluctant to impose a heavy burden on individuals, but corporations may be taxed heavily. Corporations have no right to vote and politicians need not fear their reaction. As is the case almost everywhere, Japanese politicians are conscious of their prospects of re-election and are therefore concerned not to offend their electors.

⁹ The lump sum tax and tax rates mentioned in this chapter without reference to date of introduction came into operation on 1 April 1980.

Business Tax

Business tax has played an important role in prefectural government revenues since the modern local system was established about a century ago. Before World War II the business tax was imposed not on income but on sales revenue, the number of employees or the value of buildings. The Report of the Shoup Mission, on which the present Japanese local tax system is based, proposed that business tax should take the form of a value-added tax. This proposal was carefully considered but proved unacceptable to taxpayers. Business tax was finally imposed as tax on income.¹⁰

The business tax is now considered to be based on the benefit principle, that is as a return for prefectural public services which benefit business enterprises. In calculating the income on which the national government's corporation tax is levied, the prefectural business tax is allowed as a deduction.

Business tax is levied both on incorporated and unincorporated business undertakings. In Table IV-3, the tax on the latter is classified as a business tax on individuals. The standard rate of business tax on unincorporated undertakings ranges from 3 to 5 per cent, depending on the type of undertaking. For instance, the standard rate for retail shops is 5 per cent, for animal husbandry 4 per cent, and for medical practitioners 3 per cent. The standard rate for incorporated undertakings ranges from 6 to 12 per cent, depending on income. The maximum rate is 1.1 times the standard rate. At 1 April 1977, only four prefectures set a rate higher than the standard rate. Prefectural governments cannot impose a higher standard tax rate on incorporated undertakings than on unincorporated undertakings, because the national government prohibits taxes which discriminate between the two.

Fixed Property Tax

Municipal governments levy fixed property tax on owners of land, buildings and tangible assets (usually plant and machinery) used for business purposes. An owner-occupier of a domestic dwelling is also subject to the tax. Motor vehicles are taxed separately. In Table IV-4, the revenue from tangible assets is listed under the heading of plant and machinery.

Fixed property tax is levied on the assessed value of property. The Local Tax Law requires that the valuation should be at current market price. Land and buildings are revalued every three years according to standards for the valuation of fixed assets prescribed by the Ministry of Home Affairs. Prefectural governments determine the land values at one or two central locations in each municipality. Municipal governments determine land values in other areas by comparison with those fixed by the prefectural government. Assessed values appear to be, on average, about half the market price.

However, the recent increase in land values has been surprising. Values have risen about fifty-fold over the last twenty years. A number of measures have been introduced in an attempt to alleviate the burden of the real property tax on land. For instance, the annual rate of increase in property tax on land cannot exceed 40 per cent, the tax base for residential land has been reduced to less than half the assessed value, and the tax base for small residential blocks (that is, less than 200 square metres) has been reduced to a quarter of the assessed value.

Agricultural land is assessed at a low valuation. The assessed value of agricultural land did not change in the period 1963 to 1975 except in the metropolitan areas of Tokyo, Osaka and Nagoya. Since 1976 such values have begun to rise slowly, but they are still relatively low.

¹⁰ Business taxes on electric power companies, gas companies, life assurance companies and loss insurance companies are levied not on the income but on the revenue of the undertakings.

Generally, the base for property tax on buildings is the replacement cost less depreciation. Strictly, buildings should be revalued every three years, but in fact this rule is not enforced and the original valuation is accepted year by year. The failure to enforce the requirement for revaluation has caused a wide discrepancy in the assessed values of established and new houses. This is a problem which must be remedied.

No difficulties arise in the valuation of tangible assets for business use, their value in the undertaking's balance sheet being adopted as the tax base.

Real property tax, as such, is not levied on property owned by the national government, prefectural governments, the Japan Public Monopoly Corporation (which manufactures and sells tobacco, alcohol and salt), the Japan National Railway Corporation and the Japan Telegraph and Telephone Corporation. These bodies originally paid nothing to municipal governments in respect of their real property. However, municipal governments exerted pressure for them to submit to the real property tax and a compromise was reached. Under this, the national and prefectural governments pay levies on property not directly used for administrative purposes, and the three public corporations pay levies on half the value of all their property. These payments are called transfers¹¹ rather than real property taxes, but this is really a matter of terminology.

The standard rate of the real property tax is 1.4 per cent, and the maximum rate is 2.1 per cent. Special reductions are made in a number of cases. For instance, tax on international aircraft is reduced by two-thirds and tax on railway carriages is reduced by half for the first five years. Some facilities and equipment used in anti-pollution measures are exempt.

Other Local Taxes (Ordinary Taxes)

Besides the major taxes mentioned above, local governments impose various other taxes. For the benefit of readers interested in taxation problems these other taxes will be briefly explained in this and the following sections. The order of dealing with them is arbitrary.

Real Property Acquisition Tax¹²

The real property acquisition tax is a prefectural government tax levied on those acquiring land or buildings by purchase or gift. Those who inherit land and buildings are not subject to the tax. The tax base is the assessed value of the land and buildings, and the standard rate is 3 per cent.¹³

Prefectural Fixed Property Tax

As a rule fixed property tax is levied by the municipal government in whose locality an asset is located. However, when the assessed value of business assets owned by a taxpayer is so high as to produce more revenue than a municipality needs, the prefectural government is entitled to make its own assessment on part of the assets in question. For instance, if a hydro-electric power generating station with an

¹¹ 'Transfers' are 'Kōfukin' and 'Nōfukin' in Japanese.

¹² 'Real property acquisition tax' is an English translation of 'Fudōsan syutokuzei'.

¹³ The tax base of the real property acquisition tax is the same as that for the fixed property tax.

assessed value of ¥1,000 million were located in a mountain village with a population of 3,000, half the asset would be taxed by the prefectural government. This arrangement was introduced to reduce inequalities in fiscal capacity among municipalities.

Tobacco Consumption Tax

In Japan the production and sale of tobacco is wholly controlled by the Japan Public Monopoly Corporation. Before World War II, monopoly profits were directed to the revenue of the national government. Now, more than half the profit is allocated to local governments as the tobacco consumption tax. The quantity of tobacco sold within various localities is used as the basis for tax allocation. More specifically, this quantity multiplied by the average price of tobacco is the tax base. The tax rate is fixed at 10.3 per cent for the prefectural tobacco consumption tax and at 18.1 per cent for the municipal tobacco consumption tax.

Taxes on Motor Vehicles

Owners of motor vehicles are subject to motor vehicle tax levied by prefectural governments¹⁴ on individual vehicles. Taxis, buses and trucks belonging to transportation companies are lightly taxed in order to keep transportation charges down. Tax rates are based on the cubic capacity of engines and the length of vehicles between axles. The standard amount of the annual tax is ¥129,000 for the largest class of vehicle in private use and ¥24,000 for commercial vehicles with cylinder capacities of less than 3,000 cubic centimetres.

Motor vehicles with cylinder capacities of less than 500 cubic centimetres are classified as light motor vehicles and are subject to a light motor vehicle tax levied by municipal governments.¹⁵ Motor cycles are also subject to the light motor vehicle tax. Standard tax differs according to the type of vehicle. It ranges from ¥700 to ¥6,500 annually.

As the number of motor vehicles has increased rapidly the revenue from motor vehicle tax has risen accordingly.

Entertainment Tax¹⁶

Persons using commercial amusement facilities are subject to entertainment tax imposed by prefectural governments. Pachinko (pinball game) machines, billiard tables, bowling rinks, dance halls and golf courses are examples of amusement facilities on which the tax is levied. Basically the tax is set at 10 per cent of user fees. But as the tax is indirectly collected from the owner of the facility, the tax is usually determined by reference to the number of facilities. As mentioned in Chapter II, half the entertainment tax obtained from golf courses is transferred to the municipalities in which the golf courses are located.

Dining and Drinking Tax¹⁷

Patrons of restaurants, bars and cafeterias are subject to a dining and drinking tax levied by prefectural governments. At 1 April 1981, the exemption limit was ¥2,000.

¹⁴ 'Motor vehicle tax' is an English translation of 'Jidōsyazei'. Sometimes Jidōsyazei is translated as 'automobile tax'.

¹⁵ 'Light motor vehicle' is an English translation of 'Keijidōsha'.

¹⁶ 'Entertainment tax' is an English translation of 'Gorakushisetsu riyōzei'.

¹⁷ 'Dining and drinking tax' is an English translation of 'Ryōri insyokutō syōhizei'.

Guests at hotels, motels and the like are also subject to this tax. In these cases the exemption limit is ¥4,000 for a night's stay and a ¥1,500 basic deduction is applied.

The standard rate of the dining and drinking tax is 10 per cent. It is one of the most difficult taxes to administer, because there is no sure way of enforcing it.

Electricity Tax

Electricity users are subject to a tax levied by municipal governments. The tax base is the charge for electricity, with the exemption limit set at ¥3,600 per month. The rate of tax is fixed at 5 per cent. This tax is subject to exemptions prescribed by the Local Tax Law. For instance, electricity used for street lighting, electric cars, school buildings and welfare facilities is exempt, as is electricity used for the production of important commodities such as coal, iron, steel, copper, zinc and aluminium.

Gas Tax

Gas is widely used in urban areas as domestic fuel. A gas tax is levied by municipal governments where the amount paid for gas exceeds ¥10,000 a month. The rate of tax was 4 per cent in 1975, 3 per cent in 1976 and, since 1977, has been 2 per cent. Some users, for example schools, are exempted from the tax.

Taxes on Mining

Individuals and companies who acquire mining rights are subject to a mining right tax levied by prefectural governments.¹⁸ The tax rate is ¥180 per 10,000 square metres for prospecting areas, and ¥360 per 10,000 square metres for operating mines. In the case of mining rights for oil and combustible natural gas, the tax rate is reduced by one-third.

Those who engage in mining are subject to a mineral products tax levied by municipalities. The standard tax rate and the maximum tax rate are 1 per cent and 1.2 per cent respectively. The tax base of the mineral product tax is the value of mineral production. In the case of mines with a monthly production under ¥2 million, a reduced standard rate of 0.7 per cent and a maximum rate of 0.9 per cent apply.

*Hunter's Registration Tax*¹⁹

Annual registration tax is collected by prefectures from hunters. The tax rate differs according to the type of licence and ranges from ¥3,000 to ¥9,000.

*Timber Delivery Tax*²⁰

The first purchasers of timber after logging are subject to a timber delivery tax levied by the municipality in which the timber is produced. Either the price or the quantity of timber is used as the basis of assessment. When the price is used as the tax base the standard tax rate is 2 per cent with a maximum of 3 per cent. When the quantity of timber is used as the tax base, the rate is determined by the assessing municipality.

¹⁸ 'Mining right tax' is an English translation of 'Kōkuzei'.

¹⁹ 'Hunter's licence tax' is an English translation of 'Syuryō menkyozai'.

²⁰ 'Timber delivery tax' is an English translation of 'Mokuzai hikitorizei'.

Special Land-Holding Tax

Municipal governments introduced a special land-holding tax in 1973 as a means of checking speculative acquisition of land.²¹ This tax is levied on two aspects of ownership: on land-holding and on acquisition.

The tax on holding is levied annually on land acquired after 1 January 1969. The tax base is the purchase price of the land and the tax rate is 1.4 per cent. The real property tax is allowable as a deduction from this tax.

The tax on acquisition applies to persons and companies acquiring land. The tax base is again the cost of acquisition, and the rate of tax is 3 per cent. The real property acquisition tax levied by the prefectural government is deducted from this tax.

When the area of the land concerned is smaller than the prescribed area (which varies from 2,000 to 10,000 square metres depending on the municipality) the land is exempted from the tax.

Non-Listed Taxes

As pointed out above, local government can institute a tax which is not prescribed in the Local Tax Law if the national government agrees. At present there are only two prefectural non-listed taxes, the oil price adjustment tax and the nuclear energy tax. The former is levied in Okinawa prefecture and the latter is levied on atomic power stations in five prefectures.

On the other hand, at the municipal level, there are eight non-listed taxes. They are the dog tax, the advertisement tax, the merchandise coupon tax, the gravel tax,²² the timber carrying tax,²³ the villa tax,²⁴ the cultural scenic spot tax and the yacht and motor-boat tax.

The dog tax is levied on dog owners according to the number of dogs they own. At present four municipalities levy this tax.

Seven municipalities levy an advertisement tax on advertisers using posters, signboards, neon signs and hand bills. This tax is usually levied only in metropolitan areas.

Department stores and other large retailers sell merchandise coupons (gift vouchers) on which a tax is levied according to the value of the coupon. Sixteen municipalities levy this tax which of the non-listed taxes produces the highest municipal tax revenue.

At present, seven municipalities impose a timber carrying tax rather than the timber delivery tax. These taxes are similar. However, the timber carrying tax is imposed not on those using the timber within the municipalities in which it was grown but only on purchasers transporting timber over the border.

Eight municipalities impose a gravel tax on gravel producers. The tax is imposed to compensate for the damage caused to roads by the heavy vehicles used to carry the gravel.

²¹ The special land-holding tax is supplementary to the fixed property and real property acquisition taxes. If the tax base for these two taxes was actual market price, the special land-holding tax would not be required.

²² 'Gravel tax' is an English translation of 'Jarisaisyuzei'.

²³ 'Timber carrying tax' is an English translation of 'Mokuzaiiyusyutsuzei'.

²⁴ 'Villa tax' is an English translation of 'Bessōtōsyoyūzei'.

The villa tax was introduced in 1976 by Atami city and is based on the floor area of the villa.

The yacht and motor-boat tax was introduced in 1977 by Miura city; the rate of tax varies with the type of boat.

Visitors to the Tōsyōgū Shrine in Nikkō and tourists to the Chūsonji Temple in Hiraizumi are subject to the cultural scenic spot tax.

SPECIFIC PURPOSE OR EARMARKED TAXES

Under the Local Tax Law, prefectural governments must levy the following three earmarked taxes: motor vehicle acquisition tax, light oil delivery tax and hunting tax.²⁵ Municipal governments must impose the spa tax²⁶ and the business office tax.²⁷ In addition, prefectural governments may levy an improvement tax²⁸ and municipal governments may impose a city planning tax,²⁹ an improvement tax and a land development tax. In fact, the land development tax has never been levied by any municipality. Revenues are obtained from land developers by other means.

Motor Vehicle Acquisition Tax

When a person or a company acquires a motor vehicle, a motor vehicle acquisition tax is levied by the prefectural government in whose area the car is registered. The tax base is the value of the motor vehicle. The tax rate is 3 per cent for commercial vehicles, and 5 per cent for private cars. As mentioned in Chapter II, almost all revenue from this tax is transferred to municipal governments and used to finance expenditures on roads.

Light Oil Delivery Tax

A light oil delivery tax is levied by prefectural governments on persons or companies taking delivery of light oil from wholesalers. The tax rate is ¥24,300 per kilolitre. The revenue from this tax is earmarked for expenditures on main roads. As mentioned in Chapter II, part of this revenue is transferred to ten large cities.

Hunting Tax

Prefectural governments levy an annual hunting tax on those who take out a hunting licence. The amount of the tax differs according to the type of licence and ranges from ¥2,000 to ¥6,000. Revenue from the hunting tax is earmarked for expenditure on the protection of wildlife.

Spa Tax

The spa tax is levied by municipal governments on those using certain natural hot mineral springs. Spa bathing is considered to be a form of recreation and only spas located in hotels and recreational and amusement centres are affected. The standard rate of the tax is ¥150 per person per day and the resulting revenue is earmarked for expenditure on sanitation, tourist facilities and fire protection.

²⁵ 'Hunting tax' is an English translation of 'Nyūryōzei'.

²⁶ 'Spa tax' is an English translation of 'Nyūtōzei'.

²⁷ 'Business office tax' is an English translation of 'Jigyōsyōzei'.

²⁸ 'Improvement tax' is an English translation of 'Suirichiekizei' and 'Kyōdoshisetsuriyōzei'.

²⁹ 'City planning tax' is an English translation of 'Toshikeikakuzei'.

City Planning Tax

Municipalities which undertake public works under the City Planning Law may levy a city planning tax on the owners of land and buildings located in the city planning area prescribed by the law. The tax base is the assessed value of land and buildings. A standard tax rate is not prescribed for the city planning tax, but a maximum rate is fixed at 0.3 per cent. The revenue from the tax is earmarked for public works nominated in the City Planning Law, specifically for streets, urban parks, waterways and the improvement of old run-down areas. The city planning tax is collected with the real property tax.

Business Office Tax

The business office tax was introduced in 1975 to strengthen the fiscal capacity of highly urbanised cities in metropolitan areas. At present it is levied only in cities with populations of 300,000 or more. The tax has two elements - a tax on newly-constructed buildings and a tax on business activities.

When a building for business use is constructed or extended, the owner is subject to the business office tax. The tax is levied at the rate of ¥6,000 per square metre of new floor space.

The tax on business activities is assessed on two tax bases: the first, imposed on building owners, is levied on the floor space used for business at the rate of ¥500 per square metre per annum; the second is levied on the total amount of salaries at a rate of 0.25 per cent of salaries.

The revenue from the business office tax is earmarked for improvements to urban public facilities, such as roads, subways, parking lots, parks, sewerage systems, waterways, libraries, hospitals and nursery schools.

Improvement Tax

In some cases municipal governments levy an improvement tax on the beneficiaries of municipal improvements. This tax is an alternative to the contribution towards improvement which was discussed in Chapter II. Usually the improvement tax is levied in respect of public facilities provided for agriculture and forestry purposes. Warehouses for agricultural products, farm and forest roads, and irrigation canals are examples of public facilities which are partly financed by the improvement tax. In recent times, however, this tax seems to have fallen out of favour with municipal governments.

ABOLISHED TAXES³⁰

The amounts shown in Tables IV-3 and IV-4 in respect of abolished taxes represent the amounts recovered for arrears of taxes which have been abolished. The tax system changes year by year; sometimes a new tax is introduced or an existing tax is abolished. However, any arrears of taxes which have been abolished must still be paid.

³⁰ 'Abolished tax' is an English translation of 'Kyūzeikarano syunyu'.

PURPOSE OF THE LOCAL ALLOCATION TAX

Equalisation of Fiscal Capacity

The main purpose of the local allocation tax is to equalise fiscal capacity among local governments. As was explained in the preceding chapter, the tax systems of local governments are almost identical throughout the country. Of course there are some differences, but from the viewpoint of tax revenue, they are quite trivial. But differences in the tax base are significant, especially those between local governments in highly industrialised areas and those in mountainous areas or on small islands.

As shown in Column A of Table V-1, the Tokyo and Osaka prefectures have the highest tax revenues on a per capita basis. Both are located in big metropolitan areas. On the other hand, per capita tax revenue is lowest in Kagoshima prefecture, which is located at the southern end of Kyusyu Island with many small Pacific islands within its territory. As can be seen from the table, the per capita tax revenue in the Tokyo prefecture is nearly four times that of Kagoshima prefecture. The main purpose of the local allocation tax is to compensate for such discrepancies in the taxable capacity of local governments. As shown in Column B of Table V-1, the average revenue per capita from local allocation tax is much higher in Kagoshima than in Tokyo prefecture. Consequently, when the revenues from local taxes and those from the local allocation tax are totalled, the difference in the average revenue per capita in the two prefectures is greatly reduced (see Column C).

The financial position of local government depends not only on its capacity to impose taxes but also on the costs of providing public services. A local government may find a high taxable capacity more than offset by the heavy costs of providing public services. Usually the cost of public services is high in densely inhabited urban areas. Per capita expenditure on parks, police, anti-pollution measures and welfare facilities may be higher in urban areas. The cost of public services is also high in sparsely inhabited municipalities because of diseconomies of small scale. Differences in the figures in Column C are partly related to these factors.

Ensuring Adequacy of Revenue

As mentioned earlier, the national government exercises detailed control over the whole spectrum of local public finance, from the services provided by local government to the taxes they impose. National government policy is to ensure that local governments have sufficient funds to provide public services for which they are responsible at a reasonable level. The local allocation tax is the most important means of achieving this aim.

The local allocation tax is derived from the revenues obtained from three national taxes: income tax, corporation tax and liquor tax. If the allocation made is insufficient to bring local government revenues up to a reasonable level, the allocation may be increased or some other method found of increasing local government funds. As a percentage of the revenues from these national taxes, the local allocation tax was increased eight times between 1954 (when it was 20 per cent) and 1966 (when it became 32 per cent).¹ In recent years, however, when the national government has been experiencing financial difficulties, it has resisted any proposal to increase local allocations.

¹ It was raised to 22 per cent in 1955, 25 per cent in 1956, 26 per cent in 1957, 27.5 per cent in 1958, 28.5 per cent in 1959, 28.9 per cent in 1962, 29.5 per cent in 1965 and 32 per cent in 1966.

Table V-1

FISCAL EQUALISATION AT THE MUNICIPAL LEVEL:
1975 FISCAL YEAR

Prefecture	Income Per Capita	Tax Revenue Per Capita				Local Allocation Tax		Sum of (A) and (B)
		Inhabitant Tax on Individuals	Inhabitant Tax on Corporations	Real Property Tax	Other Taxes	Total Municipal Tax (A)	Per Capita (B)	
	¥'000	¥	¥	¥	¥	¥	¥	(C) = (A + B) ¥
<u>Rich Prefectures:</u>								
Tokyo	1,631	21,949	13,070	22,788	11,258	69,065	1,835	70,900
Osaka	1,386	15,472	9,207	19,659	9,104	53,442	8,978	62,420
Kanagawa	1,260	17,213	5,197	18,780	8,230	49,420	6,806	56,227
<u>Poor Prefectures:</u>								
Kagoshima	722	5,583	2,260	6,371	3,675	17,889	39,799	57,688
Aomori	747	6,228	2,058	7,990	3,849	20,125	34,139	54,269
Iwate	801	6,501	2,339	7,665	3,569	20,074	37,469	57,543

Note: The figures in this table show the average of all municipalities within each prefecture.

Source: 'Chihō Zeihonō ichibuō kaiseisuru horitsuan kankei shiryō' (Data Relating to the Amendment in the Local Tax Law), *Chihō Zaimu Kyōkai*, Tokyo, 1977.

When the national government's Budget is brought down each year, it has appended to it The Program of Local Public Finance² for the following year. On its revenue side, this program sets out the estimated revenues from local tax, local transfer tax, local allocation tax, the national specific purpose grants, local loan raisings and fees and charges. On the expenditure side, it records wages and salaries, non-personal expenditure for general administrative activities, capital outlays, repairs and maintenance, debt charges and subsidies to public corporations. There are several sub-items for some categories. The most important feature of this program is the method of balancing revenues and expenditures.³ From 1955 to 1965, the major balancing item was local allocation tax, but in recent years loan raising has assumed the greatest importance.

Guidelines for Local Public Finance

The Program of Local Public Finance is not a simple estimation of receipts and payments. It outlines the program which the national government recommends local governments to follow in the succeeding twelve months. While local governments are not bound to conform to the program, it can certainly be regarded as indicative of the amounts needed to supply public services at a reasonable level.

STRUCTURE OF THE LOCAL ALLOCATION TAX

Determination of the Amount of the Local Allocation Tax

Article 6 of the Local Allocation Tax Law provides: 'The local allocation tax shall be equal to 32 per cent of income tax, corporation tax and liquor tax'. Thus the percentage of revenues from the three national taxes to be transferred as local allocation tax is prescribed by legislation and has remained at 32 per cent since 1966.

However, some qualifications to this rule must be noted. Local allocation tax is calculated in the following way: first, the national government estimates revenue from the three national taxes, and transfers 32 per cent of this estimated revenue to a special account, the Local Allocation and Transfer Tax Special Account.⁴ At the end of the fiscal year, however, the estimated revenues and the actual revenues are usually found to differ. The difference is corrected in the following year's Budget. If the estimated amount transferred in the previous fiscal year was less than the amount taken as a percentage of actual revenues, the shortfall is added to the amount transferred from the general account in the current year. Conversely, if the amount of local allocation tax is overestimated, the amount transferred from the general account in the current year must be reduced by the amount of the previous year's excess.

However, more significant departures from the rule sometimes occur. For example, in 1968, when a boom in business greatly increased revenues from the three national taxes, ¥83.4 billion was not transferred but was reserved for future use. The national government took this action partly because it wished to stabilise the annual amounts of local allocation tax transferred but also because its fiscal policy at that time was directed to restraining demand. On the other hand, in the

² 'The Program of Local Public Finance' is an English translation of 'Chiho zaisei keikaku'.

³ N. Ishihara, *Gendai Chihozaisei Uneiron (Management of Local Public Finance in Recent Years)*, Gyosei Publishing Co., Tokyo, 1976, pp. 36-37.

⁴ 'Local allocation and transfer tax special account' is an English translation of 'Kofuzei oyobi joyozei haifukin tokubetsu kaikei'.

last three fiscal years, the Local Transfer and Allocation Tax Special Account has been supplemented by fairly large borrowings. Such loans were ¥1,100 billion in 1975, ¥1,314 billion in 1976 and ¥1,036 billion in 1977. The loans were raised partly because of pressure from local governments and partly because the policy of the national government has been to assure local governments of the funds necessary to provide a reasonable level of public services.

The Ordinary Allocation Tax and the Special Allocation Tax

The local allocation tax is allocated partly (94 per cent) as an ordinary allocation tax and partly (6 per cent) as a special allocation tax.

The special allocation tax is intended to compensate for shortfalls in the ordinary allocation tax. It is transferred in the following circumstances:

- (a) Funds may be provided to meet special financial needs which are not covered by the ordinary allocation tax, for example the election of local assemblymen which takes place every four years, expenditure on the prevention of epidemics and diseases which occur in certain areas, and expenditure on the protection of historic buildings.
- (b) When revenue from local taxes is overestimated, the shortfall is supplied from special allocation tax. Local tax revenues are estimated in accordance with a formula prescribed by the national government. The use of the formula can result in an overestimation of revenues for some local governments and an underestimation for others. As the ordinary allocation tax is based on the excess of expenditure needs over revenue, an overestimate of tax revenue reduces the amount of ordinary allocation tax. The special allocation tax is used to make up the difference.
- (c) The ordinary allocation tax is calculated annually. Increases in financial needs or reductions in tax revenues can occur after the revenues have been estimated. For instance, a typhoon may cause damage requiring heavy expenditure. The special allocation tax is often used to meet these unexpected calls on funds.

Computation of the Ordinary Allocation Tax

The ordinary allocation tax is paid to local governments (prefectures and municipalities) whose basic financial needs exceed their basic revenue. These matters will be dealt with in detail in the following section.

As a rule the amount of ordinary allocation tax allocated to each local government is equal to 'deficiencies', that is the excess of financial needs over basic revenue. Where basic revenue exceeds basic financial needs, no transfer of ordinary allocation tax is made, but the local government concerned is entitled to retain the excess.

As the percentage of ordinary allocation tax is prescribed by law, the amount available for transfer does not necessarily cover the total deficiencies of local governments. Some adjustment is therefore needed. When the amount to be transferred as ordinary allocation tax exceeds the sum of the deficiencies, the difference is appropriated to the special allocation tax. When the amount of the ordinary allocation tax is less than the sum of the deficiencies an adjustment coefficient of less than one is applied to the basic fiscal needs of all local governments.

The adjustment coefficient α is calculated using the following formula:⁵

$$\alpha = 1 - \left(\frac{T - A}{B} \right)$$

where T = the sum of deficiencies
 A = the fund for the ordinary allocation tax
 B = the sum of the basic financial needs of
 local governments whose basic financial
 needs exceed their basic revenues

Thus, when the amount of ordinary allocation tax is less than the sum of deficiencies, the local allocation tax transferred to a local government is calculated using the following formula:

$$\begin{aligned} O &= \alpha N - R \\ &= N - R - N \left(\frac{T - A}{B} \right) \end{aligned}$$

where O = the ordinary allocation tax granted to a
 local government
 N = its basic financial needs
 R = its basic revenue

Under this formula, some local governments, whose excess of needs over revenues is small, may not receive a transfer of ordinary allocation tax.

Local governments which receive ordinary allocation tax are classified as subsidised public bodies.⁶ Those which do not receive it are called unsubsidised public bodies,⁷ the latter term denoting financial strength. The ratio of basic revenue to basic financial needs can be taken as an index of financial capacity. The official statistics on local public finance show the average of this ratio for the three previous years under the heading 'Index of Fiscal Capacity'.⁸

BASIC FINANCIAL NEEDS

Concept of Basic Financial Needs

Since the local allocation tax is intended to cover the deficits of local governments, basic financial needs are calculated as the reasonable and standardised financial needs arising from the natural, social and geographical conditions of local government.⁹ The calculation is based on clear and objective data. Subjective value judgments by officials of the higher level government are excluded from the calculation in order to avoid discriminating between local governments. The actual revenues and expenditures of individual local governments is also ignored in order to eliminate policy differences resulting in, say, unduly low taxation or excessive expenditure by a local government.

⁵ The Local Allocation Tax Law makes $(T - A)/B$ the adjustment coefficient.

⁶ 'Subsidised public body' is an English translation of 'Kofudantai'.

⁷ 'Unsubsidised public body' is an English translation of 'Fukofudantai'.

⁸ 'Index of fiscal capacity' is an English translation of 'Zaiseiryoku shisu'.

⁹ Ministry of Home Affairs, *Local Allocation Tax System in Japan* (unpublished pamphlet), 1974, pp. 14-15.

Basic financial needs are intended to be financed from general purpose revenues. Consequently, expenditures financed from specific purpose revenue are not included in the calculation of basic financial needs. Most specific purpose revenue is provided by other levels of government, so that the main purpose of the local allocation tax is to overcome any insufficiency in revenue-raising capacity, especially taxable capacity, in respect of revenues which local governments are responsible for raising themselves.

Computation of Basic Financial Needs

In calculating basic financial needs, the activities of local government are first divided into six categories. In the case of prefectural governments these are police, public works, education, welfare and labour relations, industry and commerce, and other administrative activities. All of these categories, other than police, are in turn subdivided. For example, public works expenditure is divided into expenditure on roads and bridges, rivers, harbours, and other public works. Municipal government expenditures are similarly divided into categories, although there are some differences in the classification.

The second step is the calculation of the general revenue needed for each of these sub-items using the following formula:¹⁰

$$\begin{array}{ccccccc} \text{Financial} & = & \text{Unit of} & & \text{Modification} & & \text{Unit} \\ \text{needs} & & \text{Measurement} & \times & \text{Coefficients} & \times & \text{cost} \end{array}$$

The unit of measurement for each item is a figure which provides an appropriate measure for the cost of the service selected.¹¹ The numerical value of the unit of measurement must leave no room for manipulation or discrimination by officials. An element derived from reliable statistics is an example of an appropriate unit of measurement. Of course the unit of measurement must reflect as accurately as possible the financial needs of the service.

For example, the number of police employees is taken as the unit of measurement for financial needs in respect of police services, area is selected for current expenditure on roads, and the length of roads is selected for capital outlay on roads.

It is difficult to measure precisely the amount needed to provide a given public service using a single measure. Nevertheless, as the formula set out above indicates, basic financial needs are calculated in relation to the unit of measurement, ignoring the economies of scale and sometimes the diseconomies of scale which often appear in the provision of public services. In order to allow for these and other such factors, modification coefficients are applied to the unit of measurement.¹²

Finally, the cost per unit is multiplied by the modified unit of measurement to arrive at the financial needs of the particular service. The basic financial needs of a local government are the total financial needs of all services.

¹⁰ The financial needs for current expenditure and financial needs for capital outlays are usually calculated separately.

¹¹ 'Unit of measurement' is an English translation of 'Sokuteitani'.

¹² 'Modification coefficient' is an English translation of 'Hosei keisū'.

Modification Coefficients

Modification coefficients are divided into the following eight categories:

(a) *Class Modification Coefficients*¹³

When the unit of measurement is subdivided into classes and different costs are expected for each class, class modification coefficients are applied. Class modification coefficients are those used in calculating the financial needs of a high school. The unit of measurement for the school is the number of students. But there are different kinds of students - those taking ordinary courses, those taking agricultural courses, those taking engineering courses, and those taking commercial courses. Expenses for each course are likely to differ so class modification coefficients are introduced to take these differences into account.

(b) *Size Modification Coefficients*¹⁴

Sometimes economies of scale or diseconomies of scale can be found in the production costs of public services. When economies of scale exist, lower unit costs should be applied as the unit of measurement increases in size; and when diseconomies of scale prevail, higher unit costs should be applied as the unit of measurement becomes larger. Size modification coefficients are used in these cases.

(c) *Density Modification Coefficients*¹⁵

There are many kinds of density modification coefficients. The important ones are as follows:

A population density coefficient is applied to those activities for which travelling and communication expenses vary according to the density or dispersion of population.

The number of cars using roads obviously affects road maintenance costs. An automobile density coefficient is therefore applied to road maintenance costs.

(d) *Modification Coefficients for Special Factors*¹⁶

Public expenditure by local governments differs in accordance with differences in social, economic or institutional characteristics in the different localities. The individual characteristics are taken into account to some extent in the calculation of financial needs by applying modification coefficients for special factors. These modification coefficients can be roughly divided into two types - those applied to current expenditure and those applied to capital outlay.

The most important coefficient applied to current expenditure is that applied to municipalities according to the degree of urbanisation. Municipalities are classified into twenty classes according to their degree of urbanisation. The idea behind this classification is that the normal cost of public services in highly urbanised areas is likely to be higher than that in rural areas.

¹³ 'Class modification' is an English translation of 'Syubetsu hosei'.

¹⁴ 'Size modification' is an English translation of 'Dankai hosei'. The Ministry of Home Affairs, *op. cit.*, translated this as 'grade modification'.

¹⁵ 'Density modification' is an English translation of 'Mitsudo hosei'.

¹⁶ 'Modification coefficients for special factors' is an English translation of 'Taiyo hosei'. The Ministry of Home Affairs, *op. cit.*, translated this as 'conditional modification'.

Similar coefficients are applied to current expenditures for the promotion of primary industry. Municipalities are classified into five classes according to their industrial complexion. These coefficients are applied in order to promote less developed areas.

Municipalities which are responsible for a wider range of public services than normal receive a higher allocation of funds than other municipalities. Modification coefficients based on differences in the range of expenditure responsibilities are used for this purpose. For example, such coefficients are applied to the financial needs of the ten large cities which are taking over prefectural government responsibilities to provide certain public services.

Two kinds of modification coefficient are applied to capital outlays to allow for special factors. One is the 'investment modification coefficient' which is based on the condition of public facilities. As mentioned previously, the ultimate purpose of local allocation tax is to equalise the level of public services throughout the country. Higher capital outlays must therefore be allocated to local governments whose public facilities are inadequate. The investment modification coefficient is applied to take account of these special financial needs.

Another such modification coefficient is based on the amount of public works expenditure. The value of this modification coefficient depends on the estimated amount of capital outlays incurred by the local government. The aim is to reflect the actual financial needs of capital outlays in the calculation of basic financial needs.

(e) Modification Coefficients Applied to Cold Areas¹⁷

Local governments in North Japan, where there is a long, severe winter, have special financial needs. These include additional allowances for employees to cover the cost of heating, the cost of heating in government buildings and the cost of snow clearance. Modification coefficients are applied to provide extra funds for these special needs.

(f) Modification Coefficients to Allow for Rapid Population Growth¹⁸

There are three kinds of modification coefficients applied in areas of rapid population growth. One of them is used merely to update the population figure which is used as the unit of measurement. In Japan a census is taken every five years. But in some local areas the population increases greatly every year and the figure used as the unit of measurement must be adjusted.

The second of these modification coefficients is applied to capital outlays. As new residential areas develop and population increases, local governments must provide increased public facilities. New roads must be constructed, as well as extensions to water supply and sewerage systems, and other essential services must be provided. The modification coefficient was introduced into the calculations in order to include these capital outlays in basic financial needs.

The third such modification coefficient is similar in aim to the second. It is applied separately to capital outlays for school buildings for primary and middle schools.¹⁹ The value of the coefficient is related to the increase in the number of classes.

¹⁷ 'Modification coefficient applied to cold areas' is an English translation of 'Kanrei hosei'.

¹⁸ 'Modification coefficient to allow for rapid population growth' is an English translation of 'Zinkokyuzo hosei'.

¹⁹ A middle school is a junior high school for children aged 12-15 years.

(g) *Modification Coefficients Related to a Rapid Decrease in Unit of Measurement*²⁰

When the value of the unit of measurement decreases rapidly, the financial needs of the service concerned are generally not reduced proportionately. This is partly because of the rigidity of administrative procedures, and partly because of the cost of adjusting to the new situation. The coefficient is applied to minimise any rapid reduction in local allocation tax in municipalities where population is decreasing.

(h) *Modification Coefficients Related to Financial Capacity*²¹

These modification coefficients are applied to restoration expenses arising from disasters and to debt charges. The purpose of these coefficients is to assist local governments of limited fiscal capacity.

Unit Cost

Unit cost is calculated as the standard cost for each unit of measurement. It is calculated by using as standard a notional local government which is not subject to abnormal natural and social conditions, and which provides public services at a reasonable and appropriate level. As mentioned above, the local allocation tax is intended to cover deficiencies in revenues. In calculating unit cost, therefore, financial needs met from earmarked revenues are excluded.

At present, the notional local government is postulated as a prefecture with a population of 1.7 million and an area of 6,900 square kilometres, or as a municipality with a population of 100,000 and an area of 160 square kilometres.

A range of standard characteristics is also assumed for each public service. For example, in the calculation of fiscal needs for agricultural expenditure by prefectural governments, the following conditions are assumed: the number of farms is assumed to be 100,000; the area of farm land 100,000 hectares; and the number of agricultural co-operatives 170.

For some public services provided by municipal government, for example primary and middle school education, the unit cost is calculated on the basis of a standard scale of activity. In the case of primary schools, the unit cost per school is calculated on the assumption that the number of pupils is 810, the number of classes 18, the number of non-teaching staff 6, and the floor space of the building 4,162 square metres.

BASIC REVENUE²²

Basic revenue is general revenue appropriated for purposes of meeting the basic financial needs of local governments. The computation of basic revenue is done on the basis of objective indices and the amount of actual revenue is not used except in a few special cases.

²⁰ 'Modification coefficients related to a rapid decrease in unit of measurement' is an English translation of 'Suchikyugen hosei'.

²¹ 'Modification coefficients related to financial capacity' is an English translation of 'Zaiseiryoku hosei'.

²² 'Basic revenue' is an English translation of 'Kijun zaisei shūnyū'.

Basic revenue is the sum of the local transfer tax and a prescribed percentage of the standardised local tax revenue.²³ The prescribed proportion is 80 per cent for prefectural governments and 75 per cent for municipal governments.

Total local tax revenue is not included in basic revenue for the following reasons. First, it is almost impossible to allow for the total financial needs of all local governments in a uniform formula. Many local governments have financial needs peculiar to their own localities for which some part of tax revenues must be set aside. Secondly, if all tax revenues were included in basic revenue, there would be no funds to meet the special needs of particular local governments. Thirdly, if total tax revenues were included in the calculation of basic revenue, any increase in local tax revenues would reduce the local allocation tax by the same amount. Obviously this would discourage local governments from developing their areas and enlarging the tax base within their territories.

The whole of the revenues from the local transfer tax is included in basic revenue, partly because all revenues from the local transfer tax are supposed to finance expenditures which are included in basic financial needs, and partly because the local transfer tax is collected by the national government and has no connection with tax collection by local governments.

The difference as between the percentage of standardised revenues appropriated to meet basic financial needs at municipal level (75 per cent) and that at prefectural level (80 per cent) arises from the essential differences between the two levels of government. The services of prefectural governments are standardised on a national basis and their financial needs are easily calculated. But municipal governments vary greatly from cities with populations of three million to mountain villages with populations of a thousand. The variations make it difficult to gauge accurately municipal financial needs by reference to objective standards. Therefore less of their tax revenue is standardised and greater discretion is left to the individual municipalities.

²³ 'Standardised local tax revenue' is the tax revenue which local government can obtain from its tax base under the standard tax rate. The revenues from non-listed taxes are excluded from the standardised tax revenue.

INTRODUCTION OF SPECIFIC PURPOSE GRANTS

Objectives of Specific Purpose Grants

Specific purpose grants can be divided into three categories, as will be explained in a later section. The objectives of these three categories of grants are somewhat different, but they share the following main characteristics.

The most important objective of specific purpose grants is to secure a reasonable level of local government services. It is national government policy to equalise the level of services for prefectural and municipal governments in all fields of local government activity. Charles Tiebout argued about twenty years ago that the special virtue of local government was diversity in the supply pattern of public services among localities.² But the aims of the Japanese Government are contrary to this theory. There is some opposition to the national government policy from academics, but because Japan is homogeneous both in race and culture it is generally accepted by the Japanese people. It is often acknowledged in articles on public finance in Japan, that specific purpose grants are indispensable to the achievement of uniformity in the provision of public services.³ They are a very effective method of securing compliance by local governments in providing a uniform standard of services.

In the theory of public economics, specific purpose grants are regarded as a means of securing an optimal allocation of resources when the existence of external costs and benefits would lead to a sub-optimal provision of services by individual local governments. Although this theory does not influence the making of specific purpose grants in Japan, the thinking underlying such grants is probably very similar. Article 10 of the Local Public Finance Law provides that 'all or a part of the expenses enumerated below ... shall be borne by the national government in view of the fact that such expenses ... affect the interest of both the nation and the localities'.

Specific purpose grants are also provided to assist local governments with financial difficulties. The bulk of financial assistance to local government is given through the local allocation tax. But when the financial position of a local government is threatened by a specific difficulty, a specific purpose grant can be made.

¹ Specific purpose grants made by the national government are called 'Kokko shisyutsukin' in Japanese. The literal translation of the term is 'national treasury disbursement'. 'Kokko shisyutsukin' has been translated as 'grants-in-aid' by Professor Itoh, and 'national subsidies' by the Local Autonomy College in *Local Public Finance in Japan*, Jichi Kenshu Kyokai, 1973.

² C.M. Tiebout, 'A Pure Theory of Local Expenditure', *Journal of Political Economy*, October 1956.

³ M. Shibata, *Chiho Zaiseino Shikumito Unei (The Local Public Finance: Its Framework and Operation)*, Revised edn, Ryōsyō Fukyukai, 1975, pp. 27-28.

RELATIVE IMPORTANCE OF SPECIFIC PURPOSE GRANTS

Specific Purpose Grants in the Budgets of Local Governments

The national government makes many kinds of specific purpose grants to local governments. If the minor ones are included, the number of specific purpose grants could exceed a thousand. Table II-1 shows that specific purpose grants are an important item in local government revenues (see p. 5 above).

In the case of prefectures, the share of specific purpose grants accounts for 27 per cent of revenues. This is the second largest item after revenues from prefectural taxes. In the case of municipalities, the proportion of specific purpose grants in total revenues is 14.9 per cent. This is the third largest item after municipal taxes and the local allocation tax. Prefectural governments receive a high percentage of specific purpose grants because of the wide range of responsibilities which are entrusted to the heads of the executive organs of prefectural governments (governors).⁴

The functions of local government are often divided into subsidised activities and non-subsidised activities. The subsidised activities are those whose cost is partly financed by specific purpose grants. The non-subsidised activities are those which do not attract specific purpose grants. Expenditure on subsidised activities is estimated to be more than 50 per cent of total prefectural expenditures and about 30 per cent of municipal expenditures.

Distribution of Specific Purpose Grants

Table VI-1 outlines the distribution of specific purpose grants as shown in the classification of the Ministry of Home Affairs. As can be seen from the table, about 40 per cent of total specific purpose grants, both for prefectural and municipal governments,⁵ consists of subsidies for ordinary construction outlays. This is the largest single specific purpose grant in both cases. The second largest specific purpose grant for prefectural governments is the subsidy for compulsory education. This includes a 50 per cent subsidy for the salaries of teachers in primary and middle schools.⁶ In the case of municipal governments, the second largest specific purpose grant is the subsidy for cash benefits for the poor. The national government provides 80 per cent of these allowances.

TYPES OF SPECIFIC PURPOSE GRANTS

Specific purpose grants are divided into three categories: the national government's contribution,⁷ the national government's 100 per cent payment⁸ and the national government's subsidy.⁹

⁴ For the activities entrusted to the heads of the executive organs, see Chapter I.

⁵ For ordinary construction outlays see Chapter III, p. 17.

⁶ Sometimes middle school is translated as 'junior high school'.

⁷ 'The national government's contribution' is an English translation of 'Kokko futankin'.

⁸ 'The national government's 100 per cent payment' is an English translation of 'Kokko itakukin'.

⁹ 'The national government's subsidy' is an English translation of 'Kokko hojokin'.

Table VI-1

DISTRIBUTION OF SPECIFIC PURPOSE GRANTS:
1975 FISCAL YEAR

	Prefectures		Municipalities		Net Total	
	¥ million	%	¥ million	%	¥ million	%
Subsidies for compulsory education	1,338,447	34.2	13,289	0.7	1,351,736	23.2
Cash benefits for the poor	146,650	3.8	402,537	21.1	549,187	9.4
Welfare allowances for children	72,127	1.8	196,968	10.3	269,095	4.6
Medical expenses of tuberculosis sufferers	44,384	1.1	19,820	1.0	64,204	1.1
Expenses of mentally ill patients	75,733	1.9	-	-	75,733	1.3
Welfare allowances for the aged	31,004	0.8	192,337	10.1	223,341	3.8
Ordinary construction outlays	1,557,059	39.8	758,142	39.7	2,315,201	39.8
Restoration works after disasters	245,801	6.3	63,842	3.3	309,643	5.3
Public works for the unemployed	24,361	0.6	45,057	2.4	69,418	1.2
Other	373,804	9.6	579,241	11.5	593,315	10.2
Total	3,909,640	100.0	1,911,233	100.0	5,820,873	100.0

Source: *Chiho Zaisei Hakusho* (White Paper on Local Public Finance), 1977 edn, p. 256.

The National Government's Contribution

In Japan, the national government bears part of the responsibility for some of the public services provided by local government. Most of these are activities entrusted to local governments or to the heads of their executive organs. The national government is expected to share the cost of these activities and this is the basic reason for the national government's contribution.

The national government's contribution is itemised according to the type of the expenditure for which it is intended. The first item, which is detailed in Article 10 of the Local Public Finance Law, covers contributions towards expenditure on education, health, welfare, assistance to agriculture and other matters. The items which attract this contribution are strictly defined in the Local Public Finance Law. They include salaries and pensions for personnel in compulsory education, the construction of schools, expenses for poor relief, medical expenses under national health insurance, and allowances for children.¹⁰

The second item is set out in Article 10-2 of the Local Public Finance Law. It covers contributions to capital outlays on civil engineering works. The items which attract this contribution are also strictly prescribed in the Local Public Finance Law. Contributions under this item provide financial assistance for projects which may benefit people in an area extending beyond that of the local government undertaking the expenditure. Most of these contributions are directed to public works which are undertaken in accordance with the long-range program prepared by the national government.¹¹ These works include construction and improvement of important civil engineering projects such as those involving roads, rivers, coastlines, harbours and urban public facilities (such as streets, parks and sewerage mains), and construction of nursery schools and other welfare facilities.

The third class of national government contribution is set out in Article 10-3 of the Local Public Finance Law. These contributions are directed to expenditures resulting from disasters. The items which attract these contributions are also prescribed by the Local Public Finance Law. They include disaster relief projects and the restoration of public facilities damaged in disasters.

The National Government's 100 Per Cent Payment

Some public activities operated by local governments are fully financed by the national government because they are of national importance. Examples include the election of national assembly members, the compiling of statistics and research conducted for the benefit of the national government, the registration of aliens, activities concerning quarantine and the administration of health insurance, and the provision of the national annuities, workmen's compensation insurance, unemployment insurance, and sailors' insurance. All these activities are entrusted to the heads of the executive organs of local governments. The Local Public Finance Law does not provide a comprehensive list but rather gives examples of the type of expenditure which will be fully financed by the national government.¹²

¹⁰ The list of activities which attract this grant is given in Appendix 3.

¹¹ In Japan a long-range program for each public activity is usually prepared for the time-span of five years.

¹² See Appendix 3.

The National Government's Subsidy

Article 16 of the Local Public Finance Law provides that the national government may grant subsidies to local governments only if such subsidies are found to be specially necessary for the execution of its policies (the incentive subsidy) or for the financing of the local governments (the financial subsidy).

The purpose of the incentive subsidy is to encourage local governments to perform specific functions which the national government considers important. There are a large number of incentive subsidies. It is often said that every department of the national government has at least one such subsidy to ensure that its directions are observed by local governments.

The financial subsidy is not used so often because financial assistance to local governments is generally provided through the local allocation tax. Financial subsidies are most often directed to the payment of interest on and redemption of local public loans.

DISBURSEMENT OF SPECIFIC PURPOSE GRANTS

The Rate of Subsidy

Most specific purpose grants are conditional. The degree of support provided by national government differs from grant to grant. Generally, the rate of grant for redistributive payments such as allowances for the poor is high, as are the rates of grant for public works in which the national government has an interest, such as trunk roads which form part of the nation-wide road network. Table VI-2 gives examples of the rates of specific purpose grants.

Table VI-2

EXAMPLES OF RATES OF SPECIFIC PURPOSE GRANTS

Items		Rate
		%
Cash payments for the poor		80
Public works in respect of rivers	Large rivers	75
	Rivers flowing through several prefectures (first class)	66 $\frac{2}{3}$
	Rivers flowing within a prefecture (second class)	50
Sewerage systems	Construction of mains	60
	Construction of effluent disposal plants	66 $\frac{2}{3}$
Garbage disposal plants		25
Salaries of school teachers engaged in compulsory education		50

Generally, the rate of subsidy under each type of grant is uniform throughout the country. But in some cases rates can differ. One example is to be found in grants for the construction of primary school buildings. Normally the rate of subsidy is 50 per cent, but in Okinawa prefecture it is 90 per cent and in islands situated far from the mainland or areas where the number of pupils is increasing rapidly it is 66 $\frac{2}{3}$ per cent.

Calculation of Specific Purpose Grants

Specific purpose grants are not based on actual expenditures by local governments but on standard costs calculated by the national government. Usually the standard cost is less than actual cost and local governments claim that grants are inadequate. Standard costs are likely to be lower than actual costs because both the standard unit cost and the standard output are estimated conservatively. In addition, items included by local governments in the estimation of costs are often disallowed by the national government.

A numerical example might be helpful in explaining the differences.

Suppose a municipal government constructed a primary school building of 500 square metres in area at a cost of ¥100,000 per square metre, and linked this by a corridor (costing ¥2 million) to the established part of the school. The total cost of construction would thus be ¥52 million, and with a subsidy of 50 per cent the municipal government should get a grant of ¥26 million. However, the national government might estimate that the cost of construction was only ¥80,000 per square metre; it might decide that an area of 400 square metres would be adequate for the new school building; and it might disallow the cost of the corridor. In this case the national government would make a specific grant of only ¥16 million towards the cost of construction. This would fall short of the local government's expectations by ¥10 million.

Such shortfalls in specific purpose grants obviously place an increased financial burden on local governments. The Japanese term for these shortfalls is translated as 'excess burden on local government'. In the above example, the excess burden is ¥10 million, which can be analysed as follows: the excess burden caused by the low valuation of unit cost, ¥4 million; the excess burden caused by the low estimate of floor space, ¥5 million; and the excess burden caused by the disallowance of the cost of the corridor, ¥1 million.

The national government and local government are in constant disagreement over the excess burden on local government. Local governments criticise the national government's specific purpose grants as always inadequate. The national government, on the other hand, argues that many of the excess burdens complained of by local governments arise not from inadequacy in the grants but from extravagance on the part of local governments. The national government will not subsidise services which it considers to be provided at a level far above standard.

Applications for Specific Purpose Grants

Local governments must apply to the national government for specific purpose grants. Some applications, such as those in respect of cash payments to the poor and allowances for children, are automatically accepted. But the situation is not so clear in other cases. The amount that the national government can make available to local governments is, of course, determined by the national Budget and the number of applications which can be acceded to is governed by Budget priorities.

National government officials consider the applications and accept some of them. The criteria for acceptance are not published. Applications are screened when the national government is preparing the budget for the next fiscal year. Governors, mayors and high-ranking officers of local governments visit Tokyo to support their

applications and to lobby for favourable consideration. Members of the National Assembly may also bring political pressure to bear in support of specific proposals.

When an application is rejected the cost of the particular project must be met by the local government from its own resources or the project must be postponed and another application made at a later date. Failure to obtain a specific purpose grant can thus retard local government activity.

The system of specific purpose grants creates a close link between corresponding departments of national and local governments. For example, an officer in the public works department of a local government may come under the control of an officer of the Ministry of Construction and sometimes that control is more direct than that exerted by the head of the local government body itself.

INTRODUCTION

Traditional Attitude to Borrowing

The theory of local public finance in Japan has regarded borrowing as a source of funds to be resorted to only in case of special financial need. It is less acceptable than other forms of finance because it gives rise to future financial claims against local government.

This attitude is reflected in Japanese laws governing loan raising by local governments, which strictly limit the purposes for which loans may be raised.

Recent Developments in Local Debt Policy

More recently, however, local loans have come to be used for a wider range of purposes than those traditionally regarded as sound. One purpose is to achieve an equitable distribution of the tax burden over several generations. If the full cost of constructing a facility is met from revenue at the time of construction, taxpayers at that time bear the whole burden. Future taxpayers, although they benefit from the facility, are not called upon to contribute. In order to distribute the tax burden equitably between generations, part of the cost can be financed by a floating loan. By this means later generations of taxpayers contribute to the cost through loan repayments.

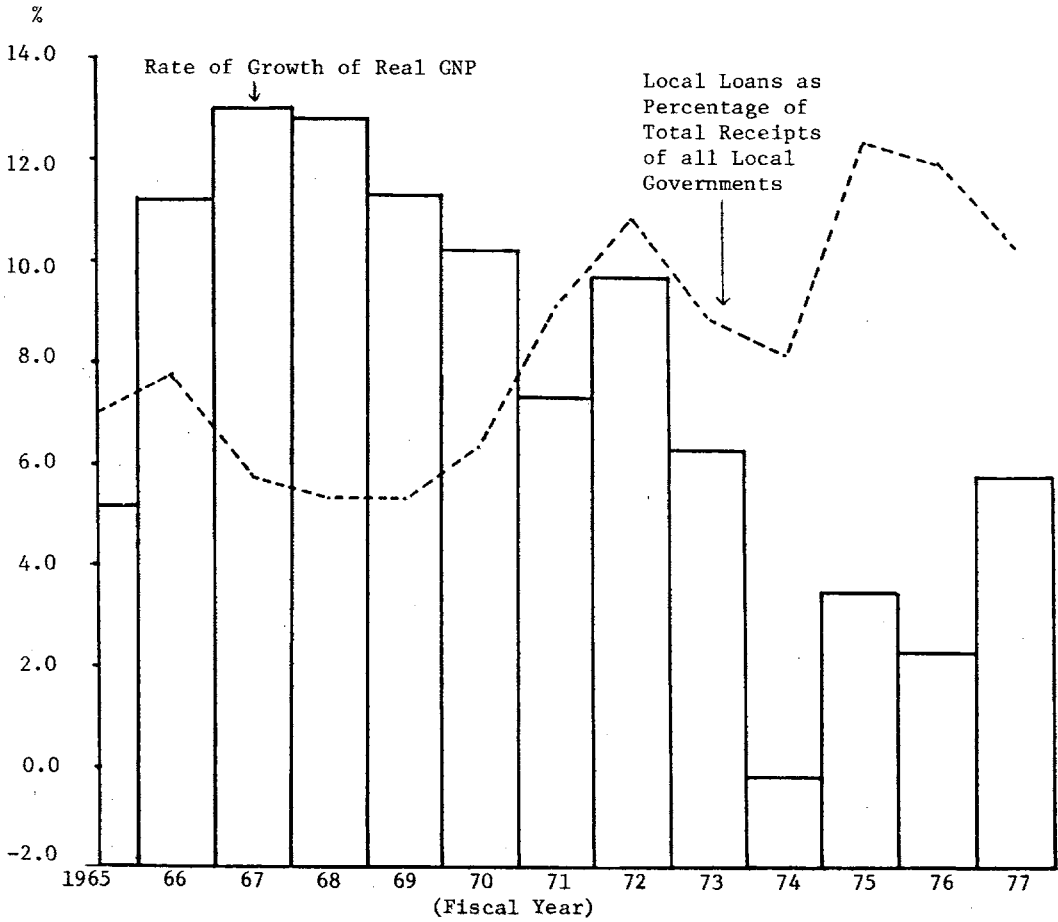
Most loans are used to finance capital outlays. The national government usually gives an insufficiency of recurrent revenue as the reason for loan raisings, but the underlying motive is the equitable distribution of the tax burden.

A more significant development is the use of loan finance by local governments to assist in implementing fiscal policy. Chapter IV demonstrates that about two-thirds of public expenditure in Japan is made at local government level. So the national government must rely on the co-operation of local government to implement its fiscal policy. It is impracticable to alter the local tax system and the local allocation tax to compensate for changes arising out of the trade cycle. The local tax system and the proportion of national taxes allocated to local government are both fixed by statutes, which can be amended only by the Diet. Changes are rare. Local loans, on the other hand, can be increased or decreased by executive action, and such changes are accompanied by an easing or tightening of restrictions on banks. As can be seen from Figure VII-1, the proportion of local loans in the total receipts of local governments increased greatly in the years when the national government adopted an expansionary fiscal policy. In 1971 and 1972 the national government embarked on an internal inflationary policy in order to reduce the surplus in the external balance of payments.

At the beginning of the 1974 fiscal year, when oil prices increased sharply, the national government adopted a deflationary policy, but changed the direction of its policy in the latter half of the year.

Figure VII-1

PROPORTION OF LOCAL LOANS IN THE RECEIPTS OF LOCAL GOVERNMENTS



Source: *Chiho Zaisei Tokei Nenpo* (Statistical Year Book of Local Public Finance), 1980 edn.

LIMITATIONS ON LOCAL LOAN RAISING

Local Loan Program

Local governments are prohibited from raising loans without the approval of a higher level of government. Prefectures and the ten large cities obtain permission from the national government while other cities, towns and villages seek approval from prefectural governments. Each year the national government lays down the rules governing approvals for local loan raising and publishes the Local Loan Program.¹ This program is drawn up at the same time as the Local Public Finance Program² and the Fiscal Investment and Loan Program³ (that is, the national program of loan expenditure and loan raising).

The Local Loan Program gives an estimate of the loans to be raised from various sources and outlines the purposes for which the loan proceeds are to be expended. Although the amounts estimated in the Local Loan Program are not binding, they indicate the amounts which are considered adequate from the point of view of national economic policy.

Legal Restrictions on the Use of Loan Funds

As a rule, loan receipts may be used only for specified purposes. Moreover, the purposes for which local loans may be raised are strictly limited by various laws relating to local public finance.

Article 5 of the Local Public Finance Law sets out the main limitations. This Article provides that expenditures by local governments, apart from those listed below, must be financed from revenues other than loan receipts:

- (a) expenditures by local public enterprises engaged in activities such as transportation, gas and water supply;
- (b) investment and loans (including the cost of procuring land or buildings for investment or rental purposes);
- (c) expenditure arising from the conversion of local loans;
- (d) expenditure arising from disasters, for example, emergency aid, repairs, reconstruction works and relief for victims; and
- (e) construction outlays for public facilities such as schools and other educational facilities, nursery schools and other welfare facilities, fire protection facilities, roads, rivers and harbours, and the cost of lands procured for future use.

Special laws provide that certain other outlays may be financed from local loans. For example, it may be convenient, in order to reduce the burden of wages and salaries, for a local government to encourage early retirement on the part of some of its employees, by increasing the amount of lump sum retirement benefits available.⁴

¹ 'Local loan program' is an English translation of 'Chihosai keikaku'.

² For 'Local public finance program' see Chapter IV.

³ 'Fiscal investment and loan program' is an English translation of 'Zaisei tōyūshi keikaku'.

⁴ At present no compulsory retirement age is prescribed for local employees. A local government cannot dismiss an employee on account of age and some employees continue working, on good salaries, beyond the age of 70. In Japan, the salary is rarely reduced as the employee grows older.

The funds needed to cover the increase can be financed from local loans. Expenditure on anti-pollution measures may also be financed from local loans.

Permission to Raise Loans

Local governments seek permission to raise loans by applying to the next level of government. Applications for large projects are checked individually, but for small projects only the total amount of borrowing is determined for each unit of local government.

Loan raising is subject to many rules and limitations. First the ratio of total cost which may be financed by local loans is determined by the national government. For example, in 1975, 85 per cent of the costs of welfare housing for the poor⁵ borne by municipal governments could be financed through local loans and 75 per cent of the construction costs of primary school buildings. Secondly, the maximum amount which may be borrowed for each item is determined in the loan program. This amount depends on the purpose of the loan and the size of the local body.

The limitations imposed on local governments in raising local loans depend on the local governments' financial positions. One limitation reduces the amount of local loan raising permitted for local governments which derive considerable revenue from commercial activities such as horse racing and speed boat racing. Another limitation is imposed on any local government which levies a tax at a rate below the standard rate. In the latter case, local governments are not permitted to issue loans for construction outlays of the type prescribed in Article 5-(5) of the Local Public Finance Law.

Local governments with considerable outstanding indebtedness are also restricted in issuing loans. Those which spend more than 20 per cent of general recurrent revenues on debt charges may issue loans for only a limited number of activities deemed to be essential to the daily life of the community.

Local governments with large budget deficits may not issue loans for the construction outlays prescribed in Article 5-(5) of the Local Public Finance Law without special permission from the national government. To obtain this, a local government must submit a budget reconstruction plan designed to eliminate the deficit under the supervision of the national government.⁶ If the plan is accepted by the national government, the local government can issue a local loan for construction outlays. But in such a case the local government's autonomy is severely restricted. It must observe the plan approved by the national government and accept direction from the national government in its daily transactions.

SOURCES OF FUNDS FOR LOCAL LOANS

Funds from Foreign Countries

Sometimes local governments float loans in foreign countries. Osaka prefecture, Osaka city, Kobe city and Yokohama city have floated loans in West Germany, while Tokyo To has floated one loan in Luxembourg and one in New York. Coincidentally, all loans issued in foreign countries have been used for harbour works. All were guaranteed by the national government.

⁵ For welfare housing, see Chapter III.

⁶ 'Budget reconstruction plan' is an English translation of 'Zaisei saiken keikaku'.

Funds from the National Government

Post Office agencies act as savings banks by accepting savings deposits from individuals. These funds are then lent to public and quasi-public organisations.⁷ The Post Office also manages a life insurance system and an annuity system, contributions to which are another source of local loan funds. The funds are used in accordance with the Fiscal Investment and Loan Program mentioned above. Significant proportions of these funds are channelled into local loans. Funds from savings deposited with Post Office agencies are under the control of the Minister of Finance, while funds from contributions to the life insurance and annuity systems are under the control of the Ministry of Postal Services.

These funds are lent to local government at a lower rate and for a longer term than funds from private financial institutions. Consequently, local governments see more advantage in borrowing from the national government. This is one of the reasons why an allocation of funds by the national government is necessary in connection with local loans. At present more than 40 per cent of local loans is provided from national government funds.

Funds from Private Financial Institutions

Local governments borrow considerable amounts from private financial institutions such as banks, insurance companies, credit unions and the like. Approximately the same amount is borrowed from these financial institutions as is borrowed from the national government.

Funds from the Public Enterprise Loan Corporation

There are many loan corporations such as the Housing Loan Corporation, the Small Private Enterprise Loan Corporation and the Medical Loan Corporation. One, the Public Enterprise Loan Corporation, specialises in loans to public enterprises engaged in providing services such as transportation, water supply and hospitals.⁸

A proposal to establish a loan corporation which would make loans to local government is currently being debated.

Funds from the Bond Market

A few large prefectures and cities with established reputations can sell their bonds on the open bond market. However, most local governments are prohibited from selling their bonds on the bond market through an underwriter. They can only sell their bonds directly to lenders who have some connection with them.

Use of Bonds to Meet Obligations

In normal cases, local governments issue securities so as to obtain funds intended to finance assets. Sometimes, however, they issue bonds as a means of discharging other liabilities or financial obligations. In this case the bond is used as a kind of bill of exchange. For instance, when a local government reclaims part of the seashore it may issue bonds to fishermen as compensation for loss of

⁷ A part of these funds is directed to private companies through publicly operated financial institutions.

⁸ 'Public enterprise loan corporation' is an English translation of 'Kōei kigyō kinyūkōko'.

fishing rights. This type of bond is called a transfer bond.⁹ About twenty years ago, local governments often used transfer bonds for the acquisition of land. But nowadays, owing to the rapid increase in land prices, land owners prefer to be paid in cash.

⁹ 'Transfer bond' is an English translation of 'Kōfu kōsai'.

NATIONAL CONTROL OR LOCAL AUTONOMY

One of the most distinctive features of local public finance in Japan is probably the strict control which the national government exercises over local governments. As seen in preceding chapters, the national government retains more or less controlling power not only over the whole of the revenues of local governments but also over the whole range of local expenditure.

There is widespread criticism of this stringent central control on the ground that it violates the autonomy of local government. Many writers argue that local governments should have greater powers of self-determination over their own functions. Some radicals contend that the national government should surrender all control over activities which are purely local in character. Certainly the national government's control over local public finance is extremely detailed, especially over expenditures which are partly financed by specific purpose grants. In the case of construction works, even the brands of materials and parts are sometimes specified by the national government. Too great control by the national government interferes with the efficient supply of local public services and impedes the incentive for local self-government to act responsibly.

However, it would seem unwise completely to eliminate central control which, to a certain extent, is necessary for the maintenance of the orderly operation of local public finance. In the first place, national government control facilitates the supply of comparable local public services throughout the country. As discussed in Chapter VI, it is the national government's policy to secure equal access to local public services for citizens wherever they may be.¹ Such equality of services could not be expected if local governments were completely autonomous.

If the theory of welfare economics based on individual preference were adopted, and different preferences for public services in different areas assumed, equality in the supply of public services might not seem desirable. However, such differences in preferences appear to be insignificant. Rather, the demand is for services similar in quality to those of neighbouring localities. Moreover, the policy of the national government creates a sense of even-handed treatment which wins wide acceptance of national government intervention. Equality of public services is considered to be more important than catering to local preferences.

National government control over local public finance can also be justified from the viewpoint of national fiscal policy. It is acknowledged that the national government must pursue a countercyclical fiscal policy which is beyond the capabilities of local government.² But, as already mentioned, more than two-thirds of net total government expenditures are the responsibility of local governments. Local government expenditure must therefore be treated as an important element in national fiscal policy and it follows that national government control is necessary to ensure the effectiveness of that policy.

¹ The ultimate purpose of national government control is to assure all local governments of the standard of service level which is considered adequate by the national government.

² See W.A. Oates, *Fiscal Federalism*, Harcourt Brace Jovanovich, New York, 1972, Chapter 1.

The third factor which justifies national government control is the existence of external effects which flow from the public activities of local governments. In a small, densely-populated country like Japan, a local government's activities can have effects beyond its own area of responsibility. In metropolitan areas, city districts are not clearly separated from each other in relation to many of the local services provided. So, for example, insecticide sprayed in one city can benefit neighbouring cities; while a well-equipped general hospital operated by a central city will take patients from surrounding cities. On the debit side, smoke from a city garbage disposal plant can offend residents in an adjacent city. Also taxes imposed in one locality, not only have effects on other areas but can also cause various economic side-effects such as the relocation of firms and people or changes in commodity flows.³ National government control over local governments is one means of preventing local government activities which may have undesirable consequences for neighbouring localities.

PROBLEMS CONCERNING THE GRANT SYSTEM

As pointed out above, there are two kinds of grants in Japan: the local allocation tax (general equalisation grant) and the specific purpose grant. The local allocation tax seems to be working fairly successfully and has largely achieved its purpose of equalising the fiscal capacity of local governments. Equality in fiscal capacity is a necessary condition for securing equal access to public services as referred to in the previous section.

However, the local allocation tax is not without its critics. The main source of complaint is the method used to calculate basic financial needs.⁴ This is to be expected because the amount of tax allocated is related to local government financial needs as calculated. For example, a local government area experiencing rapid population growth may object that the financial needs for the construction of new nursery, primary and middle school buildings have not been sufficiently taken into account in calculating its basic financial needs. Or a municipality in a rural area may complain that its basic financial needs are inadequate because unfavourable modification coefficients have been applied. However, these complaints are minor.

The specific purpose grant is also an important means of securing equal access to local public services throughout the country. Such grants are made to local governments on condition that they meet the requirements laid down by the national government. Were these requirements not met, the national government could call on the local government to refund the grant in whole or in part. It might also reduce the amount of local allocation tax transferred.

The detailed nature of the requirements attached by the national government to specific purpose grants can cause inefficiency and frustration. The requirements cover most aspects of providing the service to be funded and often ignore the true needs of a particular locality. While the need for national control is acknowledged, perhaps the aims of the central government would be better facilitated if local governments were allowed more latitude in the application of the grants within the national government's broad policy.

³ The area subject to external effects has expanded as the system of communication and transportation has developed.

⁴ Basic revenue is determined mostly by objective circumstances, and there is little room to change the methods of calculation.

The second problem with specific purpose grants is that the amounts made available by the national government are inadequate for the purposes of local government. As indicated in Chapter VI, the total applications for grants by local governments usually exceed the amount of the national budget. Local governments therefore often adopt special tactics to ensure favourable consideration of their applications for grants. Failure to obtain approval may mean that local governments postpone certain activities to the next fiscal year when they hope that grant funds may be provided.

The excess burden arising from the inadequacy of specific purpose grants is partly due to inadequate appropriations by the national government. The difficulty can best be overcome, perhaps, by reducing the large number of specific purpose grants and increasing the appropriation for particular grants. Many specific purpose grants are made for similar purposes. The most important of these could be subsidised and the others abolished.

REVISION OF THE LOCAL TAX SYSTEM

As described in Chapter IV the Japanese tax system is based chiefly on income tax. This is true both at national and local government levels. The importance of income tax is emphasised in the theory of public finance, because it contributes both to the equitable redistribution of disposable income and to stabilisation of the business cycle. But every tax has its disadvantages and it is a mistake to depend too heavily on one form of tax. When a particular tax is over-employed in an economy its marginal benefits seem to decline while its marginal disadvantages increase. A tax system is therefore better if it takes the form of a balanced mix of various types of tax.

The tax on individual incomes creates a number of problems for the Japanese government. One is the inequitable distribution of the tax burden over different types of income. Although there are no exact figures, it is generally believed that the tax burden on business income is about half of that on wages and salaries, and the tax burden on agricultural income is only one-third of that on wages and salaries. Moreover, the Japanese tax law discriminates in favour of some income earners, for example medical practitioners. This leads to individuals attempting, by legal or illegal means, to reduce their taxable income.

Income tax is therefore not necessarily a fair tax. Sales tax imposed at a relatively high rate on luxury items seems more likely to distribute the tax burden fairly. The proportion of tax revenues derived from taxes on goods and services is very small in Japan. At local level, especially, commodity tax is levied only on a few goods such as tobacco, light oil, timber, electricity and gas. Common consumer goods such as furniture, electrical equipment and jewellery are taxed only by the national government. Any future reorganisation of the tax system to increase local tax revenues should include a consumption tax. Such a tax would partly offset the present inequities in the tax system.

The introduction of a consumption tax also seems advisable as a means of stabilising tax revenue. Income tax revenues, especially those from corporate income, are subject to great fluctuations. In prosperous times such revenues increase rapidly, but they decline sharply at the first signs of recession. More than half of prefectural tax revenues comes from the tax on corporate income. In some industrial areas more than two-thirds of tax revenues are derived from this source. Prefectural governments have generally been affluent during times of rapid economic growth, when their tax revenues have increased by more than 20 per cent annually. But in recent years when the Japanese economy has been in decline, the rate of increase for prefectural tax revenues has slowed conspicuously. In 1975, tax revenues decreased by more than 20 per cent compared with the previous year in some prefectures. This undoubtedly caused financial difficulties for prefectural governments.

It cannot be assumed, at this stage, that the Japanese economy will again experience the high growth rate which it had shown until 1970. It is to be expected that it will fall into recession from time to time. The stability of tax revenues therefore seems to be more important for prefectural government than ever before. It seems obvious that prefectural governments should limit their dependence on revenues derived from the corporation tax. This could be done by introducing an indirect tax as a partial substitute for the corporation tax. The new tax, which could take the form of a retail sales tax, a wholesale sales tax, a turnover tax or a value-added tax, would provide a more stable source of prefectural revenues.

In recent years informal discussions have been held between the Ministry of Home Affairs and some localities such as Tokyo and Yokohama. The discussions have concerned taxation on corporations. Some localities including Tokyo have wanted to tax large business corporations more heavily than small business corporations and have proposed increasing the rates of the business tax and the real property tax only for large business corporations. They have justified this proposal on the grounds that large business corporations have greater financial ability to pay taxes and also that they benefit more from the public services provided by local government. However, the Ministry of Home Affairs has resisted this proposal on the ground that it violates the provisions of the Local Tax Law. The debate has thus concentrated on the interpretation of the tax law rather than the economic effect of the proposal. Common sense dictates that tax policy should ultimately be decided on the basis of its economic effects. There are two aspects to be considered when judging the desirability of local tax policy. One is the economic effect of the policy in the locality where the policy is adopted. The other is the economic effect that will occur in other localities. On the first aspect, the pure theory of resource allocation condemns a discriminating tax as distorting resource allocation. No general comment can be made on the latter aspect because the situation differs from one case to another. However, many localities in rural areas have expressed strong objections to the proposal of Tokyo and others. Their objections have arisen from the fear that the proposal might decrease the local allocation tax to which they might be entitled in future years.⁵

PROBLEMS CONCERNING LOCAL LOANS

As outlined in Chapter VII, no local government can float a loan without the permission of a government at the next level. Many local governments object to this system and claim the right to issue bonds freely at their own discretion.

The procedures laid down for loan applications are indeed complicated and time-consuming for local government officers. It may be wise to simplify the procedures. Nevertheless some control over local loans seems necessary at national level and the application procedures should not be entirely abolished.

First, if borrowing were left to the discretion of local governments some might borrow excessively and be unable to repay their loans. Even with the strict controls imposed by the national government, some local governments are in a precarious financial situation, and informally seek special help from higher-level governments. Unrestrained borrowing by local governments could well lead to a government's bankruptcy and bring about confusion in the money market.

⁵ In calculating income for tax purposes the local government business tax and the real property tax are allowed as deductions. So an increase in these taxes reduces the total amount of national corporation income tax, and this in turn reduces the total amount of the local allocation tax.

Because of the controls and assistance provided by higher-level governments, no local government has faced bankruptcy to this date. Local governments thus have a good credit record.

Secondly, the adjustment of the total amount of local loans is one of the most important fiscal measures which the national government, as the body responsible for countercyclical policy, must retain. The two aspects of fiscal policy, taxation and expenditure, are recognised. But in Japan changes in the tax system have not often been used for adjusting fiscal policy. This is partly because the tax system is very complicated, with numerous special provisions, so that it is difficult to change part of it without causing distortions in other areas. Any change would also have to be considered from the viewpoint of its political acceptability. Bills amending tax legislation are usually slow in passing the Diet. Policy differences on taxation as between the Government and the Opposition make tax changes difficult.

Thus, in Japan fiscal policy is controlled more through adjustments to government expenditure. However, as mentioned before, about two-thirds of total government expenditures are made at local government level. So the countercyclical variation of local government expenditure is really indispensable to the Japanese economy. The present national government is controlling this by adjusting the total amount of local loans. The national government can increase or decrease the amount of local loans at any time by requiring local governments to increase or decrease their expenditures. The government can act independently of the Diet in this matter.

There are two measures which might be adopted to facilitate local loan raising. First, a financial corporation specialising in lending money to local government could be established. At present about half of total local loans is raised from private financial institutions such as banks, insurance companies and credit unions. These institutions are subject to the monetary policy of the Ministry of Finance and the central bank (Bank of Japan). It is therefore difficult to borrow from them when monetary policy is tight. Up to this point, Japanese fiscal policy and monetary policy have usually been directed to the same ends and no serious problems have been encountered. However, at some future time the fiscal and monetary policies might diverge with adverse consequences for local loan raising.

There is already a public financial corporation specialising in loans to local public enterprises. It is suggested that another corporation be established to make loans to local government for general purposes.

Secondly, a grant system should be set up to provide funds to cover interest and redemption payments on local loans. As pointed out above, the raising of local loans is an important measure in fiscal management at the national level. Thus local loan raising is of benefit to the national government, which should therefore bear part of the responsibility for meeting the debt charges. In recent years the number of local loans raised has greatly increased as a consequence of an expansionary fiscal policy. The amount of borrowings by some local governments seems excessive when compared with their financial capacity and it would seem likely that they will need financial assistance in the near future. The national government already has several forms of piecemeal assistance for debt charges. For some local loans, interest payments are subsidised by specific purpose grants. Assistance in meeting interest payments is also given through the special allocation tax, but this is limited to local governments undergoing budget reconstruction under the supervision of the national government. Financial assistance in respect of debt charges is also given by way of the local allocation tax to financially weak local governments such as those situated on small islands far from the mainland, or in mountainous areas where population is gradually decreasing. A comprehensive grant system for debt charges would cover all these cases as well as local loans raised to facilitate national fiscal policy.

PREFACE TO APPENDICES

The following appendices are extracts from the English translations of Japanese statutes governing local public finance. Unfortunately, the translations do not cover the most recent amendments but they include extracts from the Local Autonomy Law of 1974, the Local Public Finance Law of 1970 [also called Local Finance Law], the Local Allocation Tax Law of 1970 and the Local Road Transfer Tax of 1969. The amendments which have been made have not involved any basic revisions in the laws.

In the appendices some terms are different from those appearing in the translation used in this monograph. For example, 'unit of measurement' for the calculation of basic financial needs is translated as 'yardstick' in the Local Allocation Tax Law. Modification coefficients which are applied to units of measurement are also translated in different ways. 'Grade modification' is used instead of 'size modification' and 'conditional modifications' instead of 'modification coefficients for special factors' in the translation of the Local Allocation Tax Law. And often the word 'State' is used to indicate the national government or the nation. This word was deliberately avoided in the monograph because it represents a regional government in a federal country. As can be appreciated, the selection of terms is the most difficult problem in translation. However, the author hopes that the reader can correctly infer from the context that, even if different English terms are used in translation, the original Japanese is the same.

APPENDIX 1

PROVISIONS GOVERNING THE BASIC CHARACTER OF LOCAL PUBLIC BODIES (LOCAL GOVERNMENTS)

[Local Autonomy Law, Articles 1-2, 2, 3 and 4]

EXTRACT FROM LOCAL AUTONOMY LAW

(Classification of Local Public Bodies)

- Article 1-2 Local public bodies shall be classified into ordinary and special local public bodies.
2. To (metropolis), Do (district), Fu (urban prefecture) or Ken (rural prefecture) and cities, towns or villages shall come under ordinary local public bodies.
 3. The special wards, unions of local public bodies, property wards and local development corporations shall come under special local public bodies.

(Corporate Status and Affairs of Local Public Bodies)

- Article 2 Each local public body shall be considered as a legal entity.
2. Each ordinary local public body shall, in addition to its own community affairs, perform the affairs devolving upon itself by laws or by cabinet orders duly authorised by laws, and other administrative affairs within its area, unless reserved for the State.
 3. The preceding paragraph contemplates that, unless otherwise provided for in laws or in cabinet orders duly authorised by laws, each ordinary local public body will generally perform the following affairs:
 1. to maintain public order of the locality, and preserve the safety, health and welfare of the inhabitants and visitors;
 2. to construct or maintain parks, playgrounds, squares, greens, roads, bridges, rivers, canals, reservoirs, irrigation and drainage waterways, dykes, etc., and to regulate the rights to use them;
 3. to operate water supply, sewerage, power, gas, transportation (street-car, automobile, maritime, etc.) and other services;
 4. to construct or maintain docks, piers, wharves, warehouses, sheds and other facilities necessary for maritime and land transportation and to regulate the rights to use them;
 5. to establish or maintain schools, laboratories, experimental stations, libraries, civic halls, museums, gymnasiums, art galleries, exhibition centres, public halls, theatres, musical pavilions and other establishments relating to education, science, culture or promotion of industries, and to regulate the rights to use them;
 6. to establish or maintain hospitals, quarantine wards, sanitariums, disinfecting stations, maternity hospitals, housing, hostels, dining-halls, bath-houses, public lavatories, public pawnshops, work relief centres, charitable facilities such as poor-houses, facilities for children's welfare such as nurseries, infirmaries and correction houses, facilities for the welfare of the aged such as old men's homes, rehabilitation and relief facilities

for the physically handicapped, detention houses, butcheries, garbage and sewage disposal plants, crematories, cemeteries, and other establishments relating to health and sanitation, social welfare, etc., and to regulate the rights to use them;

7. to deal with the matters relating to health and sanitation and refinement of public morals, such as cleaning, disinfection, beautification, noise control, and to prohibit acts prejudicial to public morals or cleanliness;
8. to prevent crimes, forestall disasters, save and protect victims of disasters, preserve traffic safety, etc.;
9. to relieve, help or nurse, or rehabilitate minors, the poor, the sick, the aged, widows, physically handicapped vagrants, the insane, inebriates, etc.;
10. to deal with the matters relating to labour unions, conciliation of labour disputes, labour education and other labour relations;
11. to manage forest, meadows, land, markets, fishing grounds and collective workshops, and otherwise undertake commercially operated enterprises deemed to be necessary for the promotion of public welfare;
12. to carry out mountain and river development, agricultural land development, arable land re-adjustment, reclamation of land from public waters, city planning, re-zoning of land and other land improvements;
13. to deal with the matters relating to promotion of industry such as protection and encouragement of inventions, improvements, local specialities, etc.;
14. to protect and maintain buildings, pictures, works of art, historic places, places of scenic beauty and other cultural property;
15. to make investigations and prepare statistics necessary for the performance of the affairs of the ordinary local public body;
16. to deal with the matters relating to official registers, identification, registration, etc. for the inhabitants, visitors and other persons deemed necessary;
17. to protect consumers, encourage saving and inspect meters, various products, cattle, etc.;
18. to establish regulations pursuant to pertinent laws upon the structure, facilities, area and density of buildings, open spaces, zoning based on the residential, commercial, industrial or other conditions of life of the inhabitants, etc.;
19. to use or expropriate personal estate and real properties for public purposes of the locality in accordance with law;
20. to adjust and co-ordinate the activities of the

public bodies and others within the area of the ordinary local public body;

21. to levy and collect local taxes, or to collect assessments, charges, admission dues or fees; and
 22. to establish and manage a fund.
4. The city, town and village, as basic local public bodies, shall generally perform the affairs prescribed in paragraph 2 and exemplified in the preceding paragraph, except those devolved upon To, Do, Fu or Ken under paragraph 6. However, they may perform the affairs prescribed in paragraph 6, item 4, according to their scale and capability.
 5. The city, town and village shall, with the approval of their respective assembly, establish basic policies to accomplish the comprehensive and planned administration within their areas, and perform the affairs in line with such established policies.
 6. To, Do, Fu or Ken, as comprehensive local public bodies comprising cities, towns and villages, shall, among the affairs prescribed in paragraph 2 and exemplified in paragraph 3, perform generally the following affairs, which cover a wider area, or require uniformity in performance, or relate to liaison and co-ordination of cities, towns and villages, or exceed the scale of work which ordinary cities, towns or villages are deemed to properly handle:
 1. the affairs which cover a wider area, such as preparation of overall development plans of the locality, mountain and river development, water utilisation (exploitation of hydro-electric resources, etc.), conservation and development of forest, fishery and other natural resources, improvement of industrial conditions of the locality, construction, improvement and maintenance of roads, rivers, canals and other public facilities, and land improvement (reclamation of waste land, foreshore, etc.) of a big scale;
 2. the affairs which require uniformity in performance, such as maintenance of the proper standard of compulsory and other education, and of protection and custody of cultural property, administration and operation of the police, maintenance of the proper standard of social welfare activities and social insurance, regulation of medical and pharmaceutical affairs, maintenance of the proper standard of public hygiene, including prevention of epidemics, matters relating to labour union and labour relations including conciliation of labour disputes, employment security, and land expropriation, regulation of various business enterprises, inspection of meters, inspection of various products, matters relating to various tests and permissions, statistical surveys on industry, population movements and other important subjects, and supervision over the national health insurance associations and other public organisations;
 3. the affairs which relate to liaison and co-ordination of cities, towns and villages, such as liaison between the State and the cities, towns and villages, advice, recommendations and guidance to improve organisation and operation of cities, towns and villages, mediation, arbitration and adjudgment for the maintenance of closer relationships between cities, towns and villages,

establishment of general standards of business performance in cities, towns and villages, adjudgment, decision or adjudication on appeal for review or other complaints; and

4. the affairs which exceed the scale of work which ordinary cities, towns or villages are deemed to properly handle, such as establishment and maintenance of senior high schools, schools for the blind, the deaf and the weak-minded, laboratories, experimental stations, libraries, museums, gymnasiums, art galleries, exhibition centres, hospitals, clinics and other health and medical facilities, work relief centres, old men's homes and other social welfare facilities, workmen's halls and other welfare facilities, playgrounds, etc., protection and custody of cultural property, relief of the needy, the physically handicapped and the victims of disasters, rezoning of land, guidance and promotion of agriculture, forestry, fishery, small or medium-sized enterprises and other industries, and protection and encouragement of local specialities.
7. To, Do, Fu and Ken as well as cities, towns and villages shall not interfere with each other in the performance of their affairs.
8. Of the affairs prescribed in paragraph 2 ... are those devolving upon To, Do, Fu or Ken by laws or by cabinet orders duly authorised by laws, except those provided for in this Law or cabinet orders issued thereunder.
9. Of the affairs prescribed in paragraph 2 ... are those devolving upon cities, towns and villages by laws or cabinet orders duly authorised by laws, except those provided for in this Law or cabinet orders issued thereunder.
10. An ordinary local public body may not interfere with such State affairs as:
 1. affairs relating to judicial matters;
 2. affairs relating to penal punishment and national disciplinary actions;
 3. affairs relating to national transportation and communication;
 4. affairs relating to postal services;
 5. affairs relating to national institutions of learning and research;
 6. affairs relating to national hospitals and sanitariums;
 7. affairs relating to national navigation, meteorological and hydrographic institutions; and
 8. affairs relating to national museums and libraries.
11. Each special local public body shall perform its affairs in accordance with the provisions of this Law.
12. The provisions of laws and ordinances relating to local public bodies shall be interpreted and executed in accordance with the principle of local autonomy. Further, the provisions of laws and ordinances relating to special local public bodies shall be interpreted and executed in conformity with the characteristics of such bodies as stipulated in this law.

13. Local public bodies shall, in performing their affairs, make best efforts to achieve the maximum effects with the minimum expenses for the welfare of the inhabitants.
14. Local public bodies shall always co-operate with each other to adjust their size to improve their organisation and operations.
15. A local public body shall not perform its affairs in conflict with law. Further, a city, town or village or a special ward shall not perform its affairs in conflict with by-laws of To, Do, Fu or Ken concerned.
16. Any action of a local public body which has contravened the preceding paragraph shall be null and void.

(Name)

Article 3

Each local public body shall bear such name as it has hitherto used.

2. The alteration of the name of To, Do, Fu or Ken shall be effected by law.
3. The alteration of the name of local public bodies other than To, Do, Fu and Ken shall be effected by by-law with the approval of the governor of To, Do, Fu or Ken, unless otherwise provided for in this Law.
4. The governor of To, Do, Fu or Ken shall, when he has given approval under the preceding paragraph, immediately report thereon to the Minister of Home Affairs.
5. Immediately upon receipt of the report under the preceding paragraph, the Minister of Home Affairs shall announce to the public and inform the chiefs of national government agencies concerned to that effect.

(Establishment or Removal of Office)

Article 4

The seat of the office of a local public body as well as its removal shall be stipulated by by-law.

2. In establishing or moving the seat of the office in accordance with the preceding paragraph, consideration shall be paid to the traffic conditions, geographical proximity to other public offices, etc., so as to maximise the convenience to visitors.
3. The enactment, amendment or revocation of the by-law stipulating the seat of the office requires the consent of two-thirds of the members present in the assembly of the local public body.

APPENDIX 2

PROVISIONS GOVERNING THE BUDGETARY PROCEDURE
OF LOCAL PUBLIC BODIES

[Local Autonomy Law, Articles 208 to 233-2]

EXTRACT FROM LOCAL AUTONOMY LAW

(Fiscal Year)

Article 208 The fiscal year of the ordinary local public body shall begin on the first day of April every year and end on the thirty-first day of March in the following year.

2. The expenses in each fiscal year shall be financed with the revenues of the current fiscal year.

(Accounts)

Article 209 The ordinary local public body shall have general and special accounts.

2. A special account may be established by by-law in order to meet the need of accounting for specific revenues and expenditures aside from the general revenues and expenditures for the purpose of carrying on specific activities of the ordinary local public body or otherwise financing specific expenses with specific revenues.

Section II BUDGET

(Integration into Budget)

Article 210 All estimated revenues and expenditures within each fiscal year shall be integrated into the budget of revenues and expenditures.

(Budgeting)

Article 211 The chief executive shall prepare a budget and secure the approval of the assembly prior to the beginning of each fiscal year. The chief executive shall make best efforts to submit the budget to the assembly at least thirty days (in case of To, Do, Fu or Ken or specified cities as referred to in paragraph 1 of Article 252-19) or twenty days (in case of other cities or towns or villages) prior to the beginning of each fiscal year.

2. The chief executive shall provide budgetary explanations as provided in cabinet order to accompany the budget.

(Continuing Appropriation)

Article 212 If necessary for the purpose of financing such projects of the ordinary local public body as may take two or more fiscal years to complete, appropriation covering two or more fiscal years may be made in the budget, which shall stipulate the annual payment schedule as well as the total sum of such expenditure.

2. Such appropriation covering two or more fiscal years shall be referred to as continuing appropriation.

(Biennial Appropriation)

Article 213 As for any fund which is anticipated to be left unused at the end of the fiscal year, by the nature of such fund or for the reasons arising after the coming into force of the budget, authorisation may be made in the budget for such balance to be carried over into the succeeding fiscal year.

2. Such appropriation authorising to carry over into the succeeding year shall be referred to as biennial appropriation.

(Obligation)

Article 214 Except as authorised in the budget, the ordinary local public body shall not obligate itself beyond the limits of appropriations duly made in the budget.

(Contents of the Budget)

Article 215 The budget shall be divided into the following sections:

1. the budget of annual revenues and expenditures;
2. continuing appropriations;
3. biennial appropriations;
4. authorised obligations;
5. local public bonds;
6. floating debt;
7. transfers of money between sections in the budget of annual expenditures.

(Division of the Budget)

Article 216 The budget of annual revenues shall be divided according to the nature of revenue into sections, which in turn shall be divided into subsections; the budget of annual expenditures shall be divided according to the purpose of expenditure into sections and subsections.

(Reserve Fund)

Article 217 A reserve fund shall be appropriated in the budget of annual revenues and expenditures, to provide for any unforeseen needs. However, such reserve fund may be dispensed with in special accounts.

2. No money of the reserve fund shall be expended for any purpose expressly voted down by the assembly.

(Supplementary Budget)

Article 218 The chief executive may prepare a supplementary budget to submit to the assembly, if any need of supplementing or otherwise amending the existing budget arise from the circumstances subsequent to the preparation thereof.

2. The chief executive may, as occasion demands, prepare a temporary budget covering a specific period of a fiscal year to submit to the assembly.
3. Such temporary budget shall lose its force when the regular budget for the fiscal year comes into force. Any disbursement or obligation made under such temporary budget shall be considered as having been made under the regular budget of the fiscal year.
4. If, in a special account for a public enterprise designated by by-law which finances its operational expenses chiefly with the revenue accruing from its own business activities, deficiencies arise in such operational expenses due to the expanded business of such enterprise, the chief executive may appropriate the concomitant increment of revenue realised from the expanded business to such increased need of expenses (except those specified in cabinet order). He shall report on such appropriation to the assembly at the next meeting.

(Transmittal of the Budget)

- Article 219 The president of the assembly shall transmit the budget to the chief executive within three days from the resolution thereon.
2. The governor of To, Do, Fu or Ken or the mayor of cities, towns or villages shall, immediately upon receipt of the budget so transmitted, report it to the Minister of Home Affairs or the governor of To, Do, Fu or Ken respectively, and publish its outline to the inhabitants, unless he find it necessary to be returned for reconsideration or to go through other procedures.

(Execution)

- Article 220 The chief executive shall prescribe procedures for execution of budget in accordance with the standards established by cabinet order, and shall execute the budget pursuant thereto.
2. The money appropriated in the budget of expenditures may not be transferred between sections or between subsections. However, if authorised in the budget, such money may be transferred between subsections, insofar as necessary for the execution of budget.
3. Except for the money appropriated in the biennial appropriation, no part of money appropriated in the budget of expenditures for a fiscal year may be expended in the succeeding fiscal year. However, such portion of the money, obligated within the fiscal year but for any inevitable cause left unexpended at the end of the fiscal year (including the money for expenses incidental to public works or other projects for which such obligation has been made), may be carried over into the succeeding fiscal year.

(Investigation)

- Article 221 The chief executive may demand reports on the actual or estimated state of revenues and expenditures from commissions or commissioners or any competent organ thereunder, make field investigations on their execution of budget, or request them to take necessary measures in conformity with the results of such investigations, in order to assure proper execution of budget.
2. The chief executive may make investigations on, or demand reports from, contractors of public works, suppliers of goods, recipients (direct or indirect) of subsidies, grants-in-aid, loans, etc. or those commissioned to make investigations, examinations, researches, etc.
3. The provisions of the preceding two paragraphs shall apply *mutatis mutandis* to any corporation in which the ordinary local public body has invested beyond the extent specified in cabinet order, and any corporation for which the ordinary local public body obligates itself by guaranteeing the repayment of the principal of loan or its interest, or by compensating its losses or otherwise.

(Limitation on By-laws)

- Article 222 The chief executive shall not submit to the assembly any by-law or other bills which involve a financial burden, unless necessary budgetary measures therefor are secured.
2. The chief executive, commissions or commissioners or organs thereunder shall not issue or amend regulations or other stipulations which involve a financial burden, unless necessary budgetary measures therefor have been secured.

(Local Tax)

Article 223 Each ordinary local public body shall have the right to levy and collect local taxes, as determined by law.

(Assessments)

Article 224 Each ordinary local public body may, except as provided in cabinet order, collect assessments from the beneficiaries of its project, to the amount proportionate to the benefit they receive, to appropriate to necessary expenses related thereto, if the benefit of such project is limited to a particular part of its inhabitants or of its area.

(Charge)

Article 225 Each ordinary local public body may collect charges for the use of administrative property permitted under paragraph 3 of Article 238-4 or the utilisation of public facilities.

(Charge and Admission Dues)

Article 226 Cities, towns and villages may collect charges for the use of public property under Article 238-6 and admission dues from persons who are authorised to join in the use of such property under paragraph 2 of the same article.

(Fee)

Article 227 Each ordinary local public body may collect fees for its services made in the interest of particular persons.

2. Each ordinary local public body may, in accordance with cabinet order, collect fees for the services of the State, other local public bodies or other public organisations performed by the chief executive or commissions, in the interest of particular persons, unless specially provided in other laws.
3. Fees collected under the preceding paragraph shall be paid into the treasury of the ordinary local public body.

(By-law on Assessments, etc.)

Article 228 Matters related to assessments, charges, admission dues and such fees as provided in paragraph 1 of the preceding article shall be fixed by by-law, and matters related to such fees as provided in paragraph 2 of the same article shall be fixed by regulation, unless fixed by laws or cabinet orders duly authorised by laws.

2. Such by-law or regulation may include the provision to impose upon any person who has by deception or other unjust means evaded his assessments, charges, admission dues or fees administrative fines not to exceed five times the amount so evaded.
3. Furthermore, such by-law or regulation may include the provisions to impose administrative fines not to exceed 10,000 yen on any default in assessments, charges, admission dues or fees.

(Appeal for Review)

Article 229 Any person dissatisfied with an action taken in connection with collection of charges or fees by an organ referred to in paragraph 1

of Article 138-4 may appeal for review to the chief executive of the ordinary local public body.

2. Appeal for review from an action of organs other than those referred to in the preceding paragraph on collection of assessments, charges, admission dues or fees shall be made to the chief executive, even if he is not the administrative agency of the next higher instance to such organs.
3. Appeals for review or exception against an action on collection of assessments, charges, admission dues or fees shall be made within thirty days from the day following such action, notwithstanding the provisions of the first sentence of paragraph 1 of Article 14 or Article 45 of the Administrative Complaint Review Law.
4. The chief executive shall consult the assembly to decide upon appeals for review or exception against an action mentioned in the preceding paragraph.
5. The assembly shall form its opinion within twenty days from the day of such consultation.
6. No suit may be filed with the court against an action mentioned in paragraph 3, until adjudication or decision is given on appeal for review or exception as referred to in paragraph 4.

(Local Public Bonds)

Article 230 Each ordinary local public body may issue local public bonds, as provided in its budget, in cases prescribed by law.

2. The purpose of issuance, the maximum amount, the method of issuance, the interest rate and the method of liquidation of such public bonds shall be fixed in the budget.

(Revenue Collections)

Article 231 Revenues shall be collected by fixing the amount claimable and notifying the obligor of such claim, as provided by cabinet order.

(Stamps, etc.)

Article 231-2 The ordinary local public body may issue stamps for collection of charges and fees, as provided by by-law.

2. When revenues are collected by means of stamps, sales of stamps shall be credited to the revenues.
3. Revenues of the ordinary local public body where a banking institution is designated in accordance with Article 235 may, as provided by cabinet order, be paid in by means of transfer account or in securities, except those revenues to be paid in stamps.
4. If securities paid in accordance with the preceding paragraph be repudiated, such revenue shall be considered as having been non-existent from the beginning. Necessary matters concerning the disposition of such repudiated securities shall be fixed by cabinet order.
5. Except in cases where revenues are to be paid in stamps, cities, towns or villages where no banking institution is designated in accordance with Article 235 may, as provided by cabinet order, accept commission from their debtors for collecting money on securities presented by them and using the money so collected for making payment.

(Default)

Article 231-3

The chief executive shall fix the new term and press for payment, if assessments, charges, admission dues, fees or administrative fines or other revenues of the ordinary local public body are not duly paid in by the fixed term.

2. When the chief executive presses for payment in accordance with the preceding paragraph, he may collect fee and interest for delay, as prescribed by by-law.
3. If any person, pressed in accordance with the preceding paragraph for payment of assessments, admission dues, administrative fines or fees or other revenues of the ordinary local public body prescribed by law, shall not comply therewith by the newly fixed term, the chief executive may institute a process against him for recovering the fee and interest for delay under the preceding paragraph as well as such revenue in arrears, in the same manner as for recovering local taxes in arrears. Such claims shall come after national and local taxes in the right of priority.
4. The refund of the revenue or fee or interest for delay as well as the conveyance, regular or by public announcement, of documents relative to collection or refund of such revenue or fee or interest shall follow the instances of those of local taxes.
5. Appeals for review of an action of organs other than the chief executive under the preceding four paragraphs shall be made to the chief executive, even if he is not the administrative agency of the next higher level to such organs.
6. Appeal for review or exception against an action under paragraphs 1 to 4 shall be made within thirty days from the day following such action, notwithstanding the provisions of the first sentence of paragraph 1 of Article 14 or Article 45 of the Administrative Complaint Review Law.
7. The chief executive shall consult the assembly to decide upon appeal for review or exception against an action mentioned in the preceding paragraph.
8. The assembly shall form its opinion within twenty days from the day of such consultation.
9. No suit may be filed with the court against an action under paragraphs 1 to 4, until adjudication or decision is given on appeal for review or exception as referred to in paragraph 7.
10. No public action shall be conducted upon attached properties pending the proceeding under paragraph 3.
11. The proceeding under paragraph 3 may be instituted outside of the area of the ordinary local public body.

Section IV EXPENDITURE

(Scope of Expenditures)

Article 232

Each ordinary local public body shall bear the expenses necessary for the performance of its own affairs and other expenses falling thereon by laws or cabinet orders duly authorised by laws including such expenses as are necessary for the management or execution of the affairs of the State, other local public bodies or other public organisations within the power of the chief executive, commissions or commissioners or organs under the control thereof.

2. When the State, by law or cabinet order duly authorised by law, causes any ordinary local public body or the chief executive, commissions or commissioners or organs under the control thereof to perform, manage or execute the affairs of the State, the State shall take necessary measures for financing the expenses needed therefor.

(Contribution or Subsidy)

Article 232-2 The ordinary local public body may give contributions or subsidies insofar as is necessary for the public interest.

(Obligation)

Article 232-3 Any contract or other action which would put the ordinary local public body under a promise of expenditure (referred to as obligation) shall be made in accordance with law or budget.

(Disbursement)

Article 232-4 The chief accountant or treasurer may disburse no public money of the ordinary local public body, unless so ordered by the chief executive.

2. The chief accountant or treasurer may, even if ordered under the preceding paragraph, disburse no money until he has confirmed that such obligation is not against law or budget and that the amount of money so obligated is duly fixed.

Article 232-5 No disbursement may be made but for its creditors.

2. Disbursement of the ordinary local public body may, according to cabinet order, be made by means of advanced funds, payment on account, advance payment, payment from the revenue, remittance or transfer account.

(Cheque)

Article 232-6 Disbursement of the ordinary local public body where a banking institution is designated under Article 235 shall, according to cabinet order, be made by drawing a cheque upon the banking institution in lieu of paying in cash or by transmitting a transfer slip thereto. However, the chief accountant or treasurer may upon request of a creditor pay a small amount in cash or cause the banking institution to pay in cash, in lieu of drawing a cheque.

2. Such banking institution shall make payment upon presentation of the cheque drawn by the chief accountant or treasurer, even if it was drawn more than ten days before, insofar as it is presented within one year.

Section V FINAL ACCOUNTS

(Statement of Accounts)

Article 233 The chief accountant or treasurer shall in accordance with cabinet order prepare a statement of accounts for each fiscal year to submit, together with deeds and other documents prescribed by cabinet order, to the chief executive within three months after the closing of accounts.

2. Such statement of accounts and other documents shall be referred to the audit of the inspection commissioners.

3. The chief executive shall submit to the assembly for certification the statement of accounts so audited and the comments of the inspection commissioners, prior to the meeting for deliberation of the next regular budget.
4. The chief executive shall accompany such statement of accounts with messages describing the results of important policies pursued during the fiscal year accounted for and other documents prescribed by cabinet order.
5. The chief executive shall submit the statement of accounts and the resolution of the assembly certifying it to the Minister of Home Affairs (in the case of To, Do, Fu or Ken) or to the governor of To, Do, Fu or Ken (in the case of cities, towns or villages), and make public the outline thereof.

(Disposition of a Surplus)

Article 233-2 Such surplus as may have accrued in the accounts at the end of a fiscal year shall be transferred to the revenue account of the next fiscal year. However, the whole or part of such surplus may be by law or by resolution of the assembly paid into a fund instead.

PROVISIONS GOVERNING THE LOCAL ALLOCATION TAX

[Extracts from Local Allocation Tax Law and
Extract from Local Public Finance Law, Article 26]

EXTRACTS FROM THE LOCAL ALLOCATION TAX LAW

(Object of this Law)

Article 1 The object of this Law is to contribute toward realisation of the principles of local autonomy and to strengthen the self-dependence of local bodies, by equalising the financial resources of local bodies and by assuring the systematic operation of local administration through the establishment of allocation standards of local allocation tax, without impairing the rights of such local bodies to administer their property, perform their affairs and execute their administration autonomously.

(Meanings of Terms)

Article 2 The following terms as used in this Law shall mean as follows:

- (1) 'Local allocation tax' shall mean a certain proportion of income tax, corporation tax and liquor tax respectively computed under Article 6 which is granted by the State to each local body to enable it to perform its functions.
- (2) 'Local body' shall mean To, Do, Fu or Ken or city, town or village.
- (3) 'Local administration' shall mean the administration of a local body (including its organ, insofar as the administration is financed by the local body).
- (4) 'Basic financial needs' shall mean the amount computed under Article 11 for the purpose of scientific measurement of the financial needs of a local body.
- (5) 'Basic financial revenues' shall mean the amount computed under Article 14 for the purpose of scientific measurement of the financial resources of a local body.
- (6) 'Yardstick' shall mean a yardstick established for each category of local administration to estimate the scale of local administration according to each category and to serve as the basis of the amount of local allocation tax for each fiscal year.
- (7) 'Unit cost' shall mean the cost for each unit of the yardstick (after modification under paragraph 1 of Article 13, where applicable), based upon the model expenses of a standardised local body for its local administration on a reasonable and appropriate level and for the maintenance of standard facilities, according to Do, Fu or Ken and city, town or village. In computing such unit cost, the expenses to be financed with subsidies, contributions, fees, charges, shares or other related revenues and with the revenues from local tax falling outside of basic financial revenues shall be excluded. The standard sum of expenses for local administration of each category, on the basis of which the ordinary allocation tax is computed, shall be determined by multiplying such unit cost by the numerical value of the yardstick.

(Basic Principles)

Article 3 The Minister of Home Affairs shall always endeavour to accurately establish the financial status of each local body and, in accordance with this Law, allocate with fairness the total sum of local allocation tax (hereinafter referred to as 'allocation tax') to the local bodies whose financial needs exceed their financial revenues, to make good such deficiencies.

2. The State shall, in granting allocation tax, respect the principles of local autonomy and shall attach no conditions or impose no limitations on the use thereof.
3. Each local body shall do its best to maintain a reasonable and appropriate level of administration, and see that it conforms at least to the minimum standards of scale and quality established by laws or cabinet orders duly delegated by laws.

(The Total Sum of Allocation Tax)

Article 6 The allocation tax shall be equal to 32 per cent of income tax, corporation tax and liquor tax respectively.

2. The total sum of allocation tax to be granted every fiscal year shall be calculated by aggregating 32 per cent each of the estimated revenues of income tax, corporation tax and liquor tax in a fiscal year, plus such portion of the allocation tax for the preceding fiscal years which has yet to be granted, or less such amount granted over and above the due amount in the preceding fiscal years.

(Kinds of Allocation Tax)

Article 6-2 The allocation tax shall be classified into ordinary and special allocation taxes.

2. The aggregate sum of the ordinary allocation tax for each fiscal year shall be equal to 94 per cent of the sum referred to in paragraph 2 of the preceding article.
3. The aggregate sum of the special allocation tax for each fiscal year shall be equal to 6 per cent of the sum referred to in paragraph 2 of the preceding article.

(Revision of the Amount of the Special Allocation Tax)

Article 6-3 If the aggregate sum of the local allocation tax for a fiscal year exceeds the aggregate of the sum computed for each local body under the first sentence of paragraph 2 of Article 10, such excess shall be added to the aggregate sum of the special allocation tax for the fiscal year.

2. If the aggregate sum of the local allocation tax continues to show a considerable difference from the aggregate of the sum computed for each local body under the first sentence of paragraph 2 of Article 10 for several consecutive fiscal years, the systems of local finance or local administration shall be revised or the rates prescribed in paragraph 1 of Article 6 shall be changed.

(Estimates of Revenues and Expenditures)

Article 7 The Cabinet shall every fiscal year prepare a document on the estimates of revenues and expenditures of the whole of the local bodies for the following fiscal year which include the items below and submit it to the Diet as well as make it public.

- (1) The estimates of the total revenues of the whole of the local bodies and the itemised accounts of the following:
 - a. the tax base, tax rate, estimated amount to be imposed and estimated revenue of each tax item;
 - b. charges and fees;
 - c. debts to be raised;
 - d. disbursements from the national treasury.

- (2) The estimates of the total expenditures of the whole of the local bodies and the itemised accounts of the following:
 - a. the itemised total expenditures and the difference from the corresponding amount of the preceding fiscal year;
 - b. the total expenditures financed wholly or partly with disbursements from the national treasury;
 - c. the fund for payment of principal and interest on local debts.

(Ordinary Allocation Tax)

Article 10 The ordinary allocation tax shall, as provided by the following paragraph, be granted each fiscal year to those local bodies whose basic financial needs exceed their basic financial revenues.

2. The sum of the ordinary allocation tax to be granted to each local body shall be equal to the excess of its basic financial needs over its basic financial revenues (hereinafter in this article referred to as 'deficiencies'). However, if the total sum of deficiencies throughout all the local bodies exceeds the aggregate sum of the ordinary allocation tax, it shall be equal to the sum calculated by the following formula:

$$D - N \times \frac{T - A}{B}$$

where

D = deficiencies of the local body
 N = its basic financial needs
 T = total sum of deficiencies
 A = aggregate sum of the ordinary allocation tax
 B = aggregate sum of the basic financial needs of those local bodies whose basic financial needs exceed their basic financial revenues

3. The Minister of Home Affairs shall determine the sum of the ordinary allocation tax to be granted under the preceding two paragraphs, not later than the thirty-first of August every year. However, in the case of an increase of the aggregate sum of the allocation tax or in other justifiable cases, the sum of the ordinary allocation tax may be determined or the already determined sum of the ordinary allocation tax may be revised, on or after the first of September.
4. The Minister of Home Affairs shall inform the local body of the sum of the ordinary allocation tax determined or revised under the preceding paragraph.
5. Even though the already determined sum of the ordinary allocation tax for some local bodies be revised under the second sentence of paragraph 3, the already determined sums of the ordinary allocation taxes for other local bodies shall not be affected thereby.
6. If the aggregate sum of the ordinary allocation tax to be granted in a fiscal year falls short of the total sum of the ordinary allocation tax to be granted to each local body as computed under the second sentence of paragraph 2, such deficits shall be covered from the sum of the special allocation tax for the same fiscal year.

(Basic Financial Needs)

Article 11 The basic financial needs shall be computed by multiplying each unit cost by the numerical value of the applicable yardstick which has been modified under Article 13 and adding together the results thereof.

(Yardstick and Unit Cost)

Article 12 The yardsticks of the expenses for local administration shall be as enumerated below in the column of yardsticks, according to the categories of local bodies and of the expenses.

Local Bodies	Expenses	Yardsticks
Do, Fu and Ken	I Police Expenses	Number of police personnel
	II Civil Engineering Expenses	
	1. Road and Bridge Expenses	
	(1) Working Expenses	Area of roads
	(2) Investment Expenses	Length of roads
	2. River Expenses	
	(1) Working Expenses	Length of rivers
	(2) Investment Expenses	Length of rivers
	3. Harbour Expenses	
	(1) Working Expenses	Length of quays in harbours (including fishing ports)
	(2) Investment Expenses	Length of outlying facilities in harbours (including fishing ports)
	4. Other Civil Engineering Expenses	
	(1) Working Expenses	Population
		Length of coastal security facilities
	(2) Investment Expenses	Population
		Length of coastal security facilities
	III Education Expenses	
	1. Elementary School Expenses	Number of educational personnel
		Number of schools
	2. Junior High School Expenses	Number of educational personnel
		Number of schools
	3. Senior High School Expenses	
	(1) Working Expenses	Number of educational personnel
	(2) Investment Expenses	Number of pupils
	4. Other Education Expenses	Population
		Number of pupils of schools for the blind, deaf, and weak-minded
	IV Welfare and Labour Expenses	
	1. Poor Relief Expenses	Rural population
	2. Social Welfare Expenses	
	(1) Working Expenses	Population
	(2) Investment Expenses	Population
	3. Sanitation Expenses	Population
	4. Labour Expenses	Number of factory workers
		Number of unemployed

Do, Fu and Ken	V	Industry and Economy Expenses	
	1.	Agricultural Administration Expenses	
		(1) Working Expenses	Number of farms
		(2) Investment Expenses	Area of arable land
	2.	Forestry Administration Expenses	
		(1) Working Expenses	Area of forests
		(2) Investment Expenses	Area of forests
	3.	Fishery Administration Expenses	
		(1) Working Expenses	Number of fishermen
		(2) Investment Expenses	Number of fishermen
	4.	Commercial and Manufacturing Administration Expenses	Number of persons engaged in commerce and manufacturing
	VI	Other Administrative Expenses	
	1.	Taxation Expenses	Sum of Do, Fu or Ken tax
	2.	Pension Expenses	Number of pensioners
	3.	Other Expenses	
		(1) Working Expenses	Population
		(2) Investment Expenses	Population
	VII	Disaster Recovery Expenses	Expenses for principal and interest payments on local debts for the purpose of disaster recovery projects
	VIII	Special Debt Redemption Expenses	Expenses for principal and interest payments on special debts authorised for the purpose of public projects or other specified projects
	IX	Special Project Redemption Expenses	The sum of local debts authorised in FY1966 for the purpose of public projects or other specified projects
Cities, Towns and Villages	I	Fire Fighting Expenses	Population
	II	Civil Engineering Expenses	
	1.	Road and Bridge Expenses	
		(1) Working Expenses	Area of roads
		(2) Investment Expenses	Length of roads
	2.	Harbour Expenses	
		(1) Working Expenses	Length of quays in harbours (including fishing ports)
		(2) Investment Expenses	Length of outlying facilities in harbours (including fishing ports)
	3.	City Planning Expenses	
		(1) Working Expenses	Population within the city planning areas
		(2) Investment Expenses	Population within the city planning areas
	4.	Sewerage Expenses	
		(1) Working Expenses	Population within the densely populated areas
		(2) Investment Expenses	Population within the densely populated areas

Cities,
Towns and
Villages

5.	Other Civil Engineering Expenses	
	(1) Working Expenses	Population
	(2) Investment Expenses	Population
III	Education Expenses	
1.	Elementary School Expenses	
	(1) Working Expenses	Number of pupils Number of classes Number of schools
	(2) Investment Expenses	Number of classes
2.	Junior High School Expenses	
	(1) Working Expenses	Number of pupils Number of classes Number of schools
	(2) Investment Expenses	Number of classes
3.	Senior High School Expenses	
	(1) Working Expenses	Number of educational personnel Number of pupils
	(2) Investment Expenses	Number of pupils
4.	Other Education Expenses	
	(1) Working Expenses	Population
	(2) Investment Expenses	Population
IV	Welfare and Labour Expenses	
1.	Poor Relief Expenses	Urban population
2.	Social Welfare Expenses	
	(1) Working Expenses	Population
	(2) Investment Expenses	Population
3.	Health and Sanitation Expenses	Population
4.	Expenses for Garbage Collection and Disposal	
	(1) Working Expenses	Population
	(2) Investment Expenses	Population
5.	Labour Expenses	Number of unemployed
V	Industry and Economy Expenses	
1.	Agricultural Administration Expenses	
	(1) Working Expenses	Number of farms
	(2) Investment Expenses	Number of farms
2.	Commercial and Manufacturing Administration Expenses	Number of persons engaged in commerce and manufacturing
3.	Other Commercial Expenses	
	(1) Working Expenses	Number of persons engaged in forestry, fishery and mining
	(2) Investment Expenses	Number of persons engaged in forestry, fishery and mining
VI	Other Administrative Expenses	
1.	Taxation Expenses	Sum of city, town or village tax
2.	Census Expenses	Number of persons with permanent domicile within the area
3.	Identification Expenses	Number of families
4.	Other Expenses	
	(1) Working Expenses	Population
	(2) Investment Expenses	Area Population
VII	Disaster Recovery Expenses	Expenses for principal and interest payments on local debts for the purpose of disaster recovery projects

VIII	Special Debt Redemption Expenses	Expenses for principal and interest payments on special debts authorised for the purpose of public projects or other specified projects
IX	Redemption Expenses for Debts for Remote Place Improvement Projects	Expenses for principal and interest payments on local debts authorised for the purpose of remote place improvement projects
X	Special Project Debt Redemption Expenses	The sum of local debts authorised in FY1966 for the purpose of public projects or other specified projects.

- Article 12
2. (Omitted)
 3. The unit costs according to the measurement units enumerated in paragraph 1 shall be fixed in Annex to this Law.
 4. If it is necessary to revise the unit cost due to a change in the system relative to local administration or other special reasons, special measures may be taken upon such unit cost by cabinet order only if the Diet is out of session. In such a case, the government shall take a step to amend this Law in the next session of the Diet.

(Modification of Yardsticks)

- Article 13
- With respect to the area, number of pupils of senior high schools, sum of Do, Fu or Ken tax or city, town or village tax and such other yardsticks as may be further classified according to the difference in cost per unit, the numerical values thereof may be modified according to such classes.
2. The modification of the numerical value of a yardstick under the preceding paragraph (hereinafter referred to as 'class modification') shall be made by multiplying the numerical value of each class of the yardstick by the ratio prescribed by order of the Ministry of Home Affairs on the basis of the difference in cost per unit.
 3. The numerical value computed under the preceding two paragraphs and paragraph 1 of the preceding article shall be modified by multiplying by the modification index computed under paragraph 4 on the basis of the following conditions of each local body:
 - (1) grading on the basis of the size of population, number of pupils of elementary schools and the numerical values of other yardsticks;
 - (2) population density, length of road per automobile, number of workers per factory or shop, amount of tax per inhabitant and such others;
 - (3) conditions of local bodies;
 - (4) coldness and snowfall.
 4. The modification indices for numerical values of yardsticks, as provided for in the preceding paragraph shall be prescribed by order of the Ministry of Home Affairs according to each category of expenses and each yardstick, on the basis of each of the following methods:

- (1) The modification under item 1 of the preceding paragraph (hereinafter referred to as 'grade (or scale) modification') shall be made upon such administrative expenses as may increase or decrease successively according as the numerical value of the yardstick increases or decreases. The index of grade modifications shall be determined by dividing the numerical value computed by the ratio prescribed by order of the Ministry of Home Affairs by means of excessive regression or progression by the numerical value computed without using such ratio. With respect to such expenses as may increase or decrease according to the differences in administrative powers, etc. so that the modification under item 3a. below is applicable, the index of such grade modification may be determined by multiplying the numerical value of the yardstick for such expenses by the ratio prescribed by order of the Ministry of Home Affairs in accordance with the degree of such increase or decrease.
- (2) The modification under item 2 of the preceding paragraph (hereinafter referred to as 'density modification') shall be made upon such administrative expenses as may increase or decrease successively according as the population density, length of road per automobile, number of workers per factory or shop, amount of tax per inhabitant and such others (hereinafter referred to as 'density, etc.') increases or decreases. The index of density modification shall be determined by dividing the density, etc. computed by the ratio prescribed by order of the Ministry of Home Affairs by means of excessive regression or progression by the density, etc. computed without using such ratio.
- (3) The modification under item 3 of the preceding paragraph (hereinafter referred to as 'conditional modification') shall be made upon the administrative expenses whose unit cost increases or decreases according to the conditions of a local body. The index of conditional modification shall be determined in the following ways:
 - a. The conditional modification for Do, Fu or Ken:
First, multiply the numerical values of the yardsticks for each category of cities, towns or villages within the area (if the use of such numerical values is impracticable or improper, the population or other numerical values specified by order of the Ministry of Home Affairs may be used in lieu thereof) by the ratio prescribed by order of the Ministry of Home Affairs for each category of the whole or a part of cities, towns or villages on the basis of the degree of increase or decrease according to the differences in the quality and quantity of administration or in administrative powers, etc.
Second, add together such products obtained for all the cities, towns or villages within the area.
Third, add together the numerical values of the yardsticks for all the cities, towns or villages within the area without using the above-mentioned ratio.
Fourth, divide such sum by the sum obtained by the second calculation above. The resulting quotient is the index sought for.

- b. The conditional modification for cities, towns or villages: First, multiply the numerical value of the yardstick by the ratio prescribed by order of the Ministry of Home Affairs for each category of cities, towns or villages on the basis of the degree of increase or decrease according to the differences in the quality and quantity of administration or in administrative powers, etc. Second, divide such product by the numerical value computed without using such ratio.
- c. The conditional modification for the capital expenses specified by order of the Ministry of Home Affairs: First, obtain the numerical value by using the ratio prescribed by order of the Ministry of Home Affairs on the basis of the degree of need for such capital expenses according to the conditions of public facilities etc., measured by the indices specified by order of the Ministry of Home Affairs. Second, divide such numerical value by the numerical value computed without using such ratio.
- (4) The modification under item 4 of the preceding paragraph (hereinafter referred to as 'coldness modification') shall be made upon the administrative expenses whose unit cost increases according to the degree of coldness or snowfall. The index of coldness modification shall be determined as follows: First, multiply the numerical value of the yardstick for the region (with respect to the expenses prescribed by order of the Ministry of Home Affairs for which the use of such numerical value is impracticable or improper, the population may be used in lieu thereof) by the ratio prescribed by order of the Ministry of Home Affairs on the basis of the degree of increase of expenses for each region in accordance with the difference in compensation, coldness or snowfall. Second, divide such numerical value by the numerical value computed without using such ratio.
5. The numerical values of the yardsticks shall, except as provided in paragraph 10 below, be modified according to the categories of local bodies and the expenses thereof as tabulated below:
- (Abbreviations: C for class, G for grade, D for density, Con for conditional, Col for coldness modification.)

Local Bodies		Expenses	Yardsticks	Modification
Do, Fu and Ken	I	Police Expenses	Number of police personnel	G, D, Con and Col
	II	Civil Engineering Expenses		
	1.	Road and Bridge Expenses		
		(1) Working Expenses	Area of roads	C, D, Con and Col
		(2) Investment Expenses	Length of roads	C and Col
	2.	River Expenses		
		(1) Working Expenses	Length of rivers	Con and Col
		(2) Investment Expenses	Length of rivers	Con
	3.	Harbour Expenses		
		(1) Working Expenses	Length of quays in harbours (including fishing ports)	C, Con and Col

Do, Fu and Ken	(2) Investment Expenses	Length of outlying facilities in harbours (including fishing ports)	Con
4.	Other Civil Engineering Expenses		
	(1) Working Expenses	Population	G, D, Con and Col
	(2) Investment Expenses	Population Length of coastal security facilities	Con Con
III	Education Expenses		
1.	Elementary School Expenses	Number of educational personnel	Con and Col
2.	Junior High School Expenses	Number of educational personnel	Con and Col
3.	Senior High School Expenses		
	(1) Working Expenses	Number of educational personnel	C, Con and Col
		Number of pupils	C, Con and Col
	(2) Investment Expenses	Number of pupils	Con and Col
4.	Other Education Expenses	Population Number of pupils of schools for the blind, deaf and weak-minded	G, D, Con and Col C, Con and Col
IV	Welfare and Labour Expenses		
1.	Poor Relief Expenses	Rural population	D, Con and Col
2.	Social Welfare Expenses		
	(1) Working Expenses	Population	G, D, Con and Col
	(2) Investment Expenses	Population	Con and Col
3.	Sanitation Expenses	Population	G, D, Con and Col
4.	Labour Expenses	Number of factory workers Number of unemployed	D, Con and Col Con
V	Industry and Economy Expenses		
1.	Agricultural Administration Expenses		
	(1) Working Expenses	Number of farms	G, D, Con and Col
	(2) Investment Expenses	Area of arable land	Con
2.	Forestry Administration Expenses		
	(1) Working Expenses	Area of forests	Con and Col
	(2) Investment Expenses	Area of forests	Con
3.	Fishery Administration Expenses		
	(1) Working Expenses	Number of fishermen	C, G. Con and Col
	(2) Investment Expenses	Number of fishermen	Con
4.	Commercial and Manufacturing Administration Expenses	Number of persons engaged in commerce and manufacturing	C, G, Con and Col

VI		Other Administrative Expenses		
	1.	Taxation Expenses	Sum of Do, Fu or Ken tax	C, D, Con and Col
	2.	Pension Expenses	Number of pensioners	C
	3.	Other Expenses		
	(1)	Working Expenses	Population	G, D, Con and Col
	(2)	Investment Expenses	Population Area	Con and Col Con
VII		Disaster Recovery Expenses	Expenses for principal and interest payments of local debts for the purpose of disaster recovery projects	C
Cities, towns and villages	I	Fire Fighting Expenses	Population	G, Con and Col
	II	Civil Engineering Expenses		
	1.	Road and Bridge Expenses		
	(1)	Working Expenses	Area of roads	C, Con and Col
	(2)	Investment Expenses	Length of roads	Con and Col
	2.	Harbour Expenses		
	(1)	Working Expenses	Length of quays in harbours (including fishing ports)	C, Con and Col
	(2)	Investment Expenses	Length of outlying facilities in harbours (including fishing ports)	Con
	3.	City Planning Expenses		
	(1)	Working Expenses	Population within city planning areas	Con and Col
	(2)	Investment Expenses	Population within city planning areas	Con
	4.	Sewerage Expenses	Population within the densely populated areas	D and Con
	5.	Other Civil Engineering Expenses		
	(1)	Working Expenses	Population	G, Con and Col
	(2)	Investment Expenses	Population	Con
III		Education Expenses		
	1.	Elementary School Expenses		
	(1)	Working Expenses	Number of pupils Number of classes Number of schools	D, Con and Col Con and Col Con and Col
	(2)	Investment Expenses	Number of classes	Con and Col

Cities, towns and villages	2.	Junior High School Expenses		
	(1)	Working Expenses	Number of pupils	D, Con and Col
			Number of classes	Con and Col
			Number of schools	Con and Col
	(2)	Investment Expenses	Number of classes	Con and Col
	3.	Senior High School Expenses		
	(1)	Working Expenses	Number of educational personnel	C, Con and Col
			Number of pupils	C, Con and Col
	(2)	Investment Expenses	Number of pupils	Con and Col
	4.	Other Education Expenses		
	(1)	Working Expenses	Population	G, D, Con and Col
	(2)	Investment Expenses	Population	Con and Col
IV		Welfare and Labour Expenses		
	1.	Poor Relief Expenses	Urban population	G, D, Con and Col
	2.	Social Welfare Expenses		
	(1)	Working Expenses	Population	G, D, Con and Col
	(2)	Investment Expenses	Population	Con and Col
	3.	Health and Sanitation Expenses	Population	G, D, Con and Col
	4.	Expenses for Garbage Collection and Disposal		
	(1)	Working Expenses	Population	D, Con and Col
	(2)	Investment Expenses	Population	Con
	5.	Labour Expenses	Number of unemployed	Con
V		Industry and Economy Expenses		
	1.	Agricultural Administration Expenses		
	(1)	Working Expenses	Number of farms	G, Con and Col
	(2)	Investment Expenses	Number of farms	Con
	2.	Commercial and Manufacturing Administration Expenses	Number of persons engaged in commerce and manufacturing	G, Con and Col
	3.	Other Industry and Economy Expenses		
	(1)	Working Expenses	Number of persons engaged in forestry, fishery and mining	Con and Col
	(2)	Investment Expenses	Number of persons engaged in forestry, fishery and mining	Con
VI		Other Administration Expenses		
	1.	Taxation Expenses	Sum of city, town or village tax	C, G, D, Con and Col
	2.	Census Expenses	Number of persons with permanent domicile within the area	G, Con and Col

Cities, towns and villages	3.	Identification Expenses	Number of families	G, Con and Col
	4.	Other Expenses		
	(1)	Working Expenses	Population	G, D, Con and Col
			Area	C
	(2)	Investment Expenses	Population	Con and Col
			Area	Con
VII		Disaster Recovery Expenses	Expenses for principal and interest payments on local debts for the purposes of disaster recovery projects	C

Article 13
(contd)

6. If any two or more of grade, density, conditional and coldness modifications are simultaneously applied, one combined modification index for such two or more categories shall be determined, or each index computed for each category (or combined index for two or more categories) shall, as provided by order of the Ministry of Home Affairs, be successively multiplied or added together.
7. In the case of conditional modifications, cities, towns or villages under item 3 of paragraph 4 shall, as provided by order of the Ministry of Home Affairs, be classified according to the points which are given to their population within the densely populated areas, economic structure, and other yardsticks indicating the difference in quality and quantity of administration, or be classified according to the difference in their administrative powers, etc.
8. In the case of coldness modifications, the regions under item 4 of paragraph 4 shall, as provided by order of the Ministry of Home Affairs, be classified according to the areas of cities, towns or villages on the basis of the difference in compensation, coldness and snowfall.
9. Exceptions may be made by order of the Ministry of Home Affairs to the provisions of the preceding eight paragraphs with respect to the computation methods of modification indices and numerical values of modified yardsticks for the local bodies with fast growing populations, local bodies whose numerical values of population, number of schools and other yardsticks have dropped abruptly, local bodies affected by abolition, creation, division, merger or redemarcation of local bodies, and local bodies being members of a union (which refers to a partial union (single purpose authority) under paragraph 1 of Article 284 of the Local Autonomy Law or an administrative union under paragraph 3 of the same article of the same law).
10. The numerical values of the yardsticks relative to the disaster recovery expenses and the special debt redemption expenses shall, as provided by order of the Ministry of Home Affairs, be modified according to the proportions of such numerical values to the tax revenues of the local bodies.
11. Except as provided in the preceding ten paragraphs, necessary matters relative to the computation methods of the modification index shall be provided by order of the Ministry of Home Affairs.

(Basic Financial Revenues)

Article 14 The basic financial revenues shall be equal to the total sum of the following revenues:

(1) For Do, Fu or Ken

- i estimated revenue of ordinary taxes (exclusive of non-statutory taxes) of Do, Fu or Ken computed by the basic tax rates (as for the amusement facilities tax of Do, Fu or Ken comprising cities, towns or villages where golf links are located, the estimated revenue of such tax computed by the basic tax rate, less 80 per cent of the estimated amount of the grant-in-aid relative to the amusement facilities tax to be granted to the cities, towns or villages where golf links are located under Article 112-2 of the Local Tax Law (Law No. 226 of 1950) (hereinafter referred to as 'amusement facilities tax grant'));
- ii estimated revenue of automobile acquisition tax of Do, Fu or Ken computed by the basic tax rate, less 80 per cent of the estimated amount of the grant-in-aid relative to the automobile acquisition tax to be granted to cities, towns or villages under Article 699-32 of the Local Tax Law (hereinafter referred to as 'automobile acquisition tax grant');
- iii estimated revenue of light oil purchase tax, or, in case of Do, Fu or Ken comprising cities specified under paragraph 3 of Article 7 of the Road Law (hereinafter referred to as 'specified cities'), the estimated revenue of light oil purchase tax of such Do, Fu or Ken computed by the basic tax rate, less 80 per cent of the estimated amount of the grant-in-aid relative to the light oil purchase tax to be granted to such specified cities under paragraph 1 of Article 700-49 of the Local Tax Law (hereinafter referred to as 'light oil purchase tax grant');
- iv estimated revenue of local road transfer tax and petroleum gas transfer tax of Do, Fu or Ken;
- v estimated revenue of the grants-in-aid to To, Do, Fu or Ken comprising State estates under paragraph 1 of Article 16 of the Law for Grants-in-aid and Contributions to Cities, Towns and Villages Comprising State Estates, etc. (Law No. 82 of 1956) (hereinafter referred to as 'grants to To, Do, Fu or Ken') and the contributions to To, Do, Fu or Ken comprising the estates of public corporations under paragraph 2 of the same article (hereinafter referred to as 'contributions to To, Do, Fu or Ken'), both computed by the basic rate.

(2) For cities, towns or villages:

- i estimated revenue of ordinary taxes (exclusive of non-statutory taxes) of the city, town or village computed by the basic tax rates;
- ii an amount equal to 75 per cent of the estimated revenue of the amusement facilities tax grant to be granted to the city, town or village;
- iii an amount equal to 75 per cent of the estimated revenue of the automobile acquisition tax grant to be granted to the city, town or village;

- iv estimated revenue of special tonnage transfer tax to be granted to the city, town or village;
 - v estimated revenue of the grants-in-aid to cities, towns or villages comprising State estates under paragraph 1 of Article 2 of the Law for Grants-in-aid and Contributions to the Cities, Towns and Villages Comprising State Estates, etc. (hereinafter referred to as 'grants to cities, towns or villages') comprising the estates of public corporations under paragraph 2 of the same article (hereinafter referred to as 'contributions to cities, towns or villages'), both computed by the basic rate.
- (3) For specified cities:
- i estimated revenue of ordinary taxes (exclusive of non-statutory taxes) of the specified city computed by the basic tax rates;
 - ii an amount equal to 75 per cent of the estimated revenue of the amusement facilities tax grant to be granted to the specified city;
 - iii an amount equal to 75 per cent of the estimated revenue of the automobile acquisition tax grant to be granted to the specified city;
 - iv an amount equal to 75 per cent of the estimated revenue of the light oil purchase tax to be granted to the specified city;
 - v estimated revenue of special tonnage transfer tax, local road transfer tax and petroleum gas transfer tax of the specified city;
 - vi estimated revenue of grants and contributions to the specified city both computed by the basic rate.
2. The basic tax rates as referred to in the preceding paragraph shall be the rates equal to 80 per cent (in the case of Do, Fu or Ken tax) or 75 per cent (in the case of city, town or village tax) of the standard rates as referred to in item 5 of paragraph 1 of Article 1 of the Local Tax Law or, as for local taxes with no such standard rates, the same rates as provided for in the same law; the basic rate as referred to in the preceding paragraph shall be the rate equal to 80 per cent (in the case of grants and contributions to To, Do, Fu or Ken) or 75 per cent (in the case of grants and contributions to cities, towns or villages) of the rate prescribed in paragraph 1 of Article 3 of the Law for Grants-in-aid and Contributions to Cities, Towns and Villages Comprising State Estates, etc., or the rate obtained by multiplying 75 per cent by the rate prescribed by order of the Ministry of Home Affairs with regard to the grants to cities, towns or villages comprising State forests as referred to in item 3 of paragraph 1 of Article 2 of the said law.

(Recommendation)

Article 20-2 If any administrative organ finds in connection with its own administration any substandard local administration due to the negligence of the local body in keeping the scale and quality of administration prescribed by laws or cabinet orders duly authorised by laws, it may present a recommendation to the local body to take corrective measures.

2. The administrative organ shall in advance inform the Minister of Home Affairs of the recommendation which it intends to present under the preceding paragraph.
3. If the local body fails to follow such recommendation, the administrative organ may request the Minister of Home Affairs to reduce the whole or a part of the allocation tax to be granted thereto, or to order the refund of the whole or a part of the allocation tax already granted.
4. When such request is made, the Minister of Home Affairs shall, upon hearing the plea of the local body reduce the whole or a part of the allocation tax to be granted thereto, or order the refund of the whole or a part of the allocation tax already granted, except when he finds that there have been disasters or other extenuating reasons. The provisions of paragraphs 6 to 8 of Article 19 shall apply *mutatis mutandis* to such action.
5. The amount of allocation tax to be reduced or to be ordered refunded under the preceding paragraph may not exceed the expenses which would be dispensed with because of such substandard local administration due to the negligence in keeping the scale and quality of administration prescribed by laws or cabinet orders duly authorised by laws.

(Sum Reduced or Refunded)

Article 20-3 When the whole or a part of the allocation tax to be granted is reduced under paragraph 4 of the preceding article or under Article 26 of the Local Finance Law, such amount reduced shall be counted in the aggregate total of the special allocation tax for the current fiscal year.

2. When the whole or a part of the allocation tax already granted is refunded, or the surcharge is paid in under paragraphs 2 to 5 of Article 19, or paragraph 4 of the preceding article, or under Article 26 of the Local Finance Law, such amount refunded or paid in shall be counted in the aggregate total of the allocation tax under paragraph 2 of Article 6 in the fiscal year following such refund or payment, or in the fiscal year next thereto, and shall be counted in the aggregate total of the special allocation tax for the same fiscal year.

EXTRACT FROM LOCAL PUBLIC FINANCE LAW

(Reduction of Local Allocation Tax)

- Article 26 If any local public body has paid an excessively large amount of expenses over and above the limits or has been remiss in the collection of revenues, contrary to the provisions of law, the State may reduce the amount of local allocation tax to be granted thereto, or order it to repay a part of the amount of local allocation tax already granted.
2. The amount of local allocation tax which the State may reduce or order a local public body to repay under the preceding paragraph shall not exceed the amount it has overpaid or has been remiss in collecting contrary to the provisions of law.

APPENDIX 4

PROVISIONS GOVERNING SPECIFIC PURPOSE GRANTS BY THE NATIONAL GOVERNMENT

[Local Public Finance Law, Articles 9 to 22]
(also called Local Finance Law)

EXTRACTS FROM THE LOCAL PUBLIC FINANCE LAW

(Burden of Local Public Body)

Article 9 All the expenses for the affairs of the local public body or the organs thereof (except those affairs delegated by the governor of To, Do, Fu or Ken to the mayor of a city, town or village under paragraph 2 of Article 153 of the Local Autonomy Law and those affairs which the personnel of a city, town or village shall under the direction of the governor or To, Do, Fu or Ken assist in executing under paragraph 3 of the same paragraph) shall be borne by such local public body. However, this rule shall not apply to the expenses for the affairs enumerated in the articles following Article 10-4.

(Burden of the State)

Article 10 All or a part of the expenses enumerated below shall be borne by the State, in view of the fact that such affairs performed by the local public body or the organs thereof, in accordance with law affect the interests of both the State and the local public body, and the State is expected to positively bear such expenses in order to assure the smooth performance thereof:

1. expenses for salaries and pensions of compulsory education personnel and educational materials for compulsory education;
 - 1-2 expenses for long-term benefits of mutual aid (co-operative) associations of compulsory education personnel (including expenses for additional costs necessary for long-term benefits of mutual aid associations);
 - 1-3 expenses for construction of buildings for compulsory education schools;
 - 1-4 expenses for compensation for accidents incurred in line of duties by school physicians, dentists and pharmacists of compulsory education schools;
2. expenses for poor relief;
3. expenses for health offices;
4. expenses for prevention of tuberculosis, statutory epidemics, venereal disease, parasites and leprosy;
5. expenses for vaccination;
6. expenses for mental hygiene [health];
 - 6-2 expenses for narcotic supervisors and medical treatment of addicts of narcotics, hemp and opium;
7. expenses for rehabilitation and assistance of the physically handicapped;
 - 7-2 expenses for counsel offices for women and counsellors for women;
 - 7-3 expenses for assistance of the weak-minded;
 - 7-4 expenses for medical examinations, accommodation and funeral services of the aged and old men's homes and special old men's homes;
8. expenses for health guidance and health examinations of pregnant women and children, counsel offices for children, stations for temporary protection of children, protection of premature

babies, physically handicapped children and children ill of articular and other tuberculosis, facilities for welfare of children and adoptive parents;

8-2 expenses for the execution of business as well as provision of medical treatment and payment of medical expenses of the national health insurance;

8-3 expenses for the execution of business as well as provision of the medical care allowances to the victims of the atomic bombs;

9. expenses for general job training schools and job training schools for the physically handicapped;
10. expenses for guidance and supervision of agricultural co-operative associations, forestry associations and fishery co-operative associations.
11. expenses for increased production of good seeds of principal agricultural products;
12. expenses for agricultural commissions;
13. expenses for plant quarantine;
14. expenses for guidance and supervision of agricultural mutual aid organisations;
14-2 expenses for soil conservation;
15. expenses of projects for co-operative agriculture;
16. expenses for health [quarantine] stations for cattle;
17. expenses for prevention of cattle [disease] epidemics;
18. expenses for cocoon test stations;
19. expenses for afforestation plans of private forests, maintenance of security forests and protection of forestry improvement;
20. expenses for projects of forestry improvement;
21. expenses for prevention and extermination of noxious insects, etc. of forests;
22. expenses for co-ordination of fishery relationships;
23. expenses for overall development plans of specified regions;
24. expenses for promotion of industrial education;
25. expenses for facilities used in school libraries and purchase of books therefor;
26. expenses for encouragement of attending schools for the blind, deaf or weak-minded.

(Construction Projects)

Article 10-2 All or a part of the expenses for civil engineering works enumerated below shall be borne by the State, if such projects are, as provided by law or cabinet order, carried out by local public bodies or the organs thereof in accordance with integrated plans established in conformity with national economy;

1. expenses for establishment and improvement of important civil engineering facilities related to roads, rivers, embankments, sea-coasts, harbours, etc.;

2. expenses for establishment and improvement of important agricultural, forestry and fishery facilities related to woodland, forest roads, fishing ports, etc.;
- 2-2 expenses for works for prevention of landslides and debris crumbling;
3. expenses for important city planning projects;
4. expenses for construction of public housing;
5. expenses for building of facilities for children's welfare and other facilities for social welfare;
6. expenses for land improvement and exploitation;
7. expenses for work relief projects.

(Expenses Related to Disasters)

Article 10-3 A part of the expenses for the measures related to disasters enumerated below shall be borne by the State, if the local public bodies or the organs thereof which shall by law or cabinet order take such measures cannot find financial resources commensurate with the financial needs under the Local Tax Law (Law No. 226 of 1950) or the Local Allocation Tax Law (Law No. 211 of 1950):

1. expenses for disaster relief projects;
2. expenses for recovery projects for disaster-damaged civil engineering facilities related to roads, rivers, embankments, sea coasts, harbours, etc.;
3. expenses for recovery projects for disaster-damaged agricultural, forestry and fishery facilities related to prevention of woodland erosion, forestry roads, fishing ports, etc.;
4. expenses for recovery projects for disaster-damaged facilities constructed by city planning projects;
5. expenses for recovery projects for disaster-damaged public housing;
6. expenses for recovery projects for disaster-damaged schools;
7. expenses for recovery projects for disaster-damaged facilities for social welfare or health and sanitation;
8. expenses for recovery projects for disaster-damaged facilities or arable land under land improvement or exploitation projects.

(Expenses Not Borne by Local Public Bodies)

Article 10-4 None of the following expenses affecting solely the interest of the State shall be borne by local public bodies:

1. expenses for election of members of the Diet, people's review of judges of the Supreme Court and national referendums;
2. expenses for statistics and research conducted solely for the use of the State;
3. expenses for alien registration;
4. expenses for quarantine;
5. expenses for tests of medicines;
6. expenses for control of opium (except as provided by item 6-2 of Article 10);

7. expenses for health insurance, day labourers' health insurance, welfare annuity insurance, national annuity, workmen's compensation insurance, unemployment insurance, sailors' insurance, children's allowance and allowances for special children;
8. expenses for creation and maintenance of homesteads and control of uses of agricultural land;
9. expenses for investigation of unrepatriated nationals.

(Proportion of Burdens)

Article 11 The objects and computation standards of the expenses enumerated in Articles 10 to 10-3 as well as the proportions to be borne by the State and local public bodies shall be determined by law or cabinet order.

(Financial Needs)

Article 11-2 That part of the expenses enumerated in Articles 10 to 10-3 which shall be borne by the local public body shall be included in the amount of its financial needs to be considered in the computation of local allocation tax granted thereto under the Local Allocation Tax Law. However, such rule shall not apply to the expenses enumerated in item 8-2 of Article 10, item 4 of Article 10-2 and item 5 of Article 10-3.

(The Affairs of the State)

Article 12 Except as provided by law or cabinet order, the State shall not shift to local public bodies the expenses for the performance of the affairs outside of the power thereof.

2. Such expenses include *inter alia*:
 1. expenses for establishment, maintenance and operation of organs of the State;
 2. expenses for the National Police Agency;
 3. expenses for the Defence Agency;
 4. expenses for the Maritime Safety Agency;
 5. expenses for justice and criminal administration;
 6. expenses for educational and research facilities of the State.

(Newly Added Affairs)

- Article 13 When new affairs are by law or cabinet order added to the affairs of local public bodies, the organs thereof or the organs of the State whose expenses are borne by local public bodies, the State shall take necessary measures to finance such newly added affairs.
2. Any local public body dissatisfied with such financial measures may tender its letter of opinion to the Diet through the Cabinet.
 3. Upon receipt of such letter, the Cabinet shall without delay present it to the Diet together with its own opinion.

Articles 14 and 15 Deleted

(Subsidies)

Article 16 The State may grant subsidies to local public bodies, only if such subsidies are found specially necessary for the execution of its policies or for the finance of local public bodies.

(Share of the State)

- Article 17 The State shall disburse to local public bodies the amount to be borne by the State under Articles 10 to 10-4 for the affairs enumerated in the same articles performed by such local public bodies, the organs thereof or the organs of the State whose expenses are borne by such local public bodies (hereinafter referred to as 'share of the State').

(Share of Local Public Bodies)

- Article 17-2 When a part of the expenses for the affairs enumerated in Articles 10-2 and 10-3 performed by the State is to be borne by local public bodies under law or cabinet order, such local public bodies shall disburse such amount (hereinafter referred to as 'share of a local public body') for the State.
2. The local public body benefiting by the civil engineering works conducted by the State on rivers, roads, embankments, harbours, etc. shall be informed of the estimated amount of its share in advance of the commencement of such works. It shall be likewise informed of a radical change in the estimated amount of the share due to change, etc. in the projects.
 3. Any local public body dissatisfied with the estimated amount of its share, of which it is informed under the preceding paragraph, may present its opinion to the Cabinet through the Minister of Home Affairs.

(Sufficient Disbursement)

- Article 18 The amount of the shares, subsidies or other disbursements of the State to local public bodies (hereinafter referred to as 'disbursements of the State') shall be computed on the basis of the amount necessary and sufficient for such local public bodies to perform the affairs for which such disbursements are paid.

(Time of Payment)

- Article 19 The disbursements of the State shall be paid in advance of the time of the expenditures.
2. The provisions of the preceding paragraph shall apply *mutatis mutandis* to the shares and other disbursements of local public bodies to the State.

(Commissioned Works)

- Article 20 The provisions of the preceding two articles shall apply *mutatis mutandis* to the disbursements to be borne by the State or local public bodies, when the works of the State are commissioned to local public bodies or vice versa.

(Letter of Opinion)

- Article 20-2 Any local public body dissatisfied with the computation and the time of payment of disbursements of the State or disbursements to be borne by the State under the preceding article, conditions attached to the payment of such disbursements and directions or other acts done at the time of the payment of such disbursements, may present its opinion to the Cabinet through the Minister of Home Affairs or tender a letter of opinion to the Diet through the Cabinet.
2. The provisions of paragraph 3 of Article 13 shall apply *mutatis mutandis* where the preceding paragraph is applicable.

(Bills Burdening Local Public Bodies)

Article 21 Each Minister of the State shall hear the opinion of the Minister of Home Affairs upon the drafts of laws and orders within his power in advance of submission to the Cabinet meeting in case of drafts of laws and cabinet orders or in advance of promulgation in case of drafts of orders, if such laws or orders are to impose a financial burden upon local public bodies.

(Budget Items Burdening Local Public Bodies)

Article 22 Each Minister of the State shall hear the opinion of the Minister of Home Affairs upon such parts of the estimates of annual revenues and expenditures and obligations within his power as may impose a financial burden upon local public bodies, at the time when he sends to the Minister of Finance the documents as provided in paragraph 2 of Article 17 and paragraph 2 of Article 35 of the Finance Law (Law No. 34 of 1947).

PROVISIONS GOVERNING LOCAL LOANS

[Local Public Finance Law (also called Local Finance Law)
Articles 5, 5-2, 5-3:
Local Autonomy Law, Articles 230, 250]

EXTRACTS FROM THE LOCAL PUBLIC FINANCE LAW

(Limitations on Local Debts)

- Article 5 All expenses of a local public body shall be financed from its revenues other than local debts. However, local debts may be raised to finance:
1. the expenses for transportation, gas, water supply and other enterprises undertaken by the local public body (hereinafter referred to as 'public enterprises');
 2. investments and loans (including such expenses for procurement of land or other property to be invested or rented);
 3. expenses for renewal of local debts;
 4. expenses for temporary measures, recovery works and relief measures in time of disaster;
 5. expenses for recovery works of wartime destruction and construction works for such public or governmental facilities as schools and other educational facilities, nurseries and other welfare facilities, fire defence facilities, roads, rivers, harbours and other construction, when the rates of ordinary taxes (except Do, Fu or Ken tobacco excise, city, town or village tobacco excise, mining tax, hunting tax, electricity tax, gas tax and non-statutory taxes) of such local public bodies are, without exception, not less than the standard rates.
2. No special ward may finance the expenses enumerated in item 5 of the preceding paragraph with local debts, except when Tokyo-To is duly qualified to do so.

(Term of Redemption)

- Article 5-2 The term of redemption of local debts raised in accordance with item 5 of paragraph 1 of the preceding paragraph shall be so prescribed as not to exceed the life span of the public or governmental facilities constructed with such money. This rule shall also apply to renewal of such local debts.

(Issuance of Bonds)

- Article 5-3 The local public body wishing to raise local debts by means of issuance of bonds may publicise, accept subscriptions and deliver in accordance with cabinet order.
2. Such bonds may be issued at a discounted value.
 3. Such local debts may be redeemed by lot, in accordance with cabinet order.

EXTRACTS FROM THE LOCAL AUTONOMY LAW

Article 230 Each ordinary local public body may issue local public bonds, as provided in its budget, in cases prescribed by law.

2. The purpose of issuance, the maximum amount, the method of issuance, the interest rate and the method of liquidation of such public bonds shall be fixed in the budget.

Article 250 The ordinary local public body shall for the time being obtain the approval of the Minister of Home Affairs or the governor of To, Do, Fu or Ken, as prescribed by cabinet order, before floating a loan or changing the manner of flotation, interest rate or the manner of liquidation of the existing loan.

APPENDIX 6

PROVISIONS GOVERNING LARGE CITIES

[Local Autonomy Law, Articles 252-19, 252-20 and 252-21]

EXTRACTS FROM THE LOCAL AUTONOMY LAW

Chapter XII EXCEPTIONS FOR BIG CITIES

(Specified Cities)

Article 252-19 Cities specified by cabinet order with a population of over 500,000 (hereinafter referred to as 'specified cities') or mayors or commissions or other organs thereof may as provided by cabinet order perform or manage or execute the whole or a part specified by cabinet order of the following affairs which would otherwise be performed or managed or executed under laws or cabinet orders duly delegated by laws by To, Do, Fu or Ken or by the governor or commissions or other organs thereof:

1. affairs related to children's welfare;
 2. affairs related to social workers;
 3. affairs related to the physically handicapped;
 4. affairs related to poor relief;
 5. affairs related to treatment of persons fallen ill or dead on the road;
 6. affairs related to loans, etc. for the welfare of widows and children;
 - 6-2 affairs related to welfare of the aged;
 - 6-3 affairs related to insurance for mothers and children;
 7. affairs related to prevention of epidemics;
 8. affairs related to prevention of disease;
 9. affairs related to food sanitation;
 10. affairs related to regulation of cemeteries, burials, etc.;
 11. affairs related to business regulation of entertainment halls, hotels and public bath-houses;
 12. affairs related to prevention of tuberculosis;
 13. affairs related to city planning;
 14. affairs related to land rezoning;
 15. affairs related to control of outdoor signs.
2. As for the matters specified by cabinet order which would otherwise require permission, authorisation, approval or other similar action of the governor or a commission of To, Do, Fu or Ken, or be subject to rectification, suspension, restriction, interdiction or similar directive or order thereof, in connection with the performance or management and execution of the affairs of specified cities or mayors or commissions or other organs of such specified cities, under laws or cabinet orders duly authorised by laws, it may be provided by cabinet order that such permission, authorisation or other action shall be dispensed with or such provisions of law as may authorise such directive or order shall not be applicable thereto, or that they shall require permission, authorisation or other action, or be subject to directive or order, of the competent Minister, in lieu of the governor or a commission of To, Do, Fu or Ken.

(Ward)

- Article 252-20 Each specified city shall by by-law divide its area into wards, for each of which shall be created a ward office or, if necessary, detached offices thereof, in order to locally divide the affairs within the power of the mayor.
2. The places, names and areas of jurisdiction of ward offices or detached offices thereof shall be determined by by-law.
 3. The post of chief of ward office or of detached office shall be filled by an administrative official.
 4. There shall be an election administration commission in each ward.
 5. The provisions of paragraph 2 of Article 4 shall apply *mutatis mutandis* to the place and area of jurisdiction of ward office and its detached office; the provisions of paragraph 2 of Article 175 shall apply *mutatis mutandis* to the head of such office; and the provisions related to the election administration commission of a city in Volume II, Chapter VII, Section III shall apply *mutatis mutandis* to the election administration commission of a ward.
 6. Except as provided in the preceding five paragraphs, necessary matters concerning wards of specified cities shall be fixed by cabinet order.

(Delegation to Cabinet Order)

- Article 252-21 Except as provided by laws or cabinet orders duly delegated by laws, necessary matters in cases where a city is specified in accordance with paragraph 1 of Article 252-19 shall be fixed by cabinet order.

APPENDIX 7

THE LOCAL ROAD TRANSFER TAX

THE LOCAL ROAD TRANSFER TAX

(Local Road Transfer Tax)

Article 1 The total revenue of the local road tax (on gasoline) collected (by the State) under the Local Road Tax Law (Law No. 104 of 1955) shall be transferred in the name of the local road transfer tax to each To, Do, Fu or Ken or city specified under paragraph 3 of Article 7 of the Road Law (Law No. 180 of 1952) (hereinafter referred to as 'specified city').

(Standards of Transfer)

- Article 2 The transfer tax shall be transferred to each To, Do, Fu or Ken or specified city in proportion to the total extension [length] and area of ordinary national highways and To, Do, Fu or Ken roads (exclusive of those maintained at no cost to such grantee and other roads enumerated by order of the Ministry of Home Affairs) within its area (the area of a specified city being excluded from the area of To, Do, Fu or Ken).
2. Half of the transfer tax shall be transferred in proportion to the extension of such highways and roads, and the other half in proportion to the area thereof.
 3. As for To, Do, Fu or Ken or specified city, whose basic financial revenues computed in accordance with Article 14 of the Local Allocation Tax Law (Law No. 211 of 1950) (or Article 14 and paragraph 1 of Article 21 of the same law, in case of To) as the basis of its local allocation tax for the preceding fiscal year exceeded its corresponding basic financial needs computed in accordance with Article 11 of the same law (or Article 11 and paragraph 1 of Article 21 of the same law, in case of To), the amount equal to twenty per cent of such excess shall be withheld from the amount of the local road transfer tax for the current fiscal year which would be otherwise transferable to such affluent body under the preceding two paragraphs. The amount so withheld, however, shall not exceed two-thirds of the amount as computed in accordance with the preceding two paragraphs. If the amount exceeds the amount obtained by applying the rate as set by cabinet order to the local road transfer tax transferred in the current year as the tax for the preceding fiscal year, the excess amount also shall be withheld from the above amount.
 4. If the basic financial revenues or needs to be used as the basis of the local transfer tax for the current fiscal year are anticipated to undergo a considerable change, owing to the enactment of a new law or the amendment or abolition of an existing law, necessary modifications may be made, in accordance with order of the Ministry of Home Affairs, to the amount so withheld.
 5. The amount withheld under paragraph 3 above shall be transferred to the To, Do, Fu or Ken or specified cities other than such affluent bodies in proportion to the extension and area of highways and roads in the same manner as provided in paragraphs 1 and 2.
 6. The extension and area of highways and roads referred to in paragraph 1 or in the preceding paragraph shall be computed in accordance with order of the Ministry of Home Affairs. Provided, however, that in consideration of kind of road,

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classification of road by width and other circumstances,
the area may be modified according to the provisions of the
ministerial ordinance of the Ministry of Home Affairs.

(Instalments)

Article 3 The transfer tax for each fiscal year shall be paid in the following instalments.

In: Instalments

August The amount of yields of the local road tax from April to July plus or minus the difference between the amounts of such tax yields anticipated and realised in March of the preceding fiscal year.

December The amount of yields of the local road tax from August to November.

March The amount of yields of the local road tax from December to February plus the amount of such tax yields anticipated in March.

2. If any instalment shall have been underpaid or overpaid, the difference shall be added to, or deducted from, the next instalment.

(Fraction)

Article 3-2 Any fraction less than 1,000 yen shall be ignored in the computation of each instalment under the preceding two articles.

(Data)

Article 4 The governor of each To, Do, Fu or Ken or the mayor of each specified city shall, as provided by order of the Ministry of Home Affairs, submit to the Minister of Home Affairs the data to be used for computing the amount of the transfer tax.

(Error)

Article 5 If the Minister of Home Affairs discovers in his computation of the amount of the transfer tax already transferred any error as may require correction, he shall, as provided by order of the Ministry of Home Affairs, make a necessary adjustment upward or downward to the next instalment subsequent to such discovery.

(Appropriation)

Article 6 No part of the local road transfer tax shall be appropriated for the purposes not related to roads.

(Exceptions)

Article 7 Exceptions shall be provided for by cabinet order to the provisions of Article 2 above for a specified city which has newly come to take charge of the maintenance of highways and roads under paragraph 2 of Article 13 and paragraph 1 of Article 17 of the Road Law.