

Urban-Regional Redistribution and the Heisei Mergers of Local Municipals

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Major Issues

1. LAT grants redistributes income from urban to rural areas.
2. The Heisei Municipal Merger
3. Movements for Regional Integration
4. Why fiscal integration needed? – lessons from the EU.

LAT grants

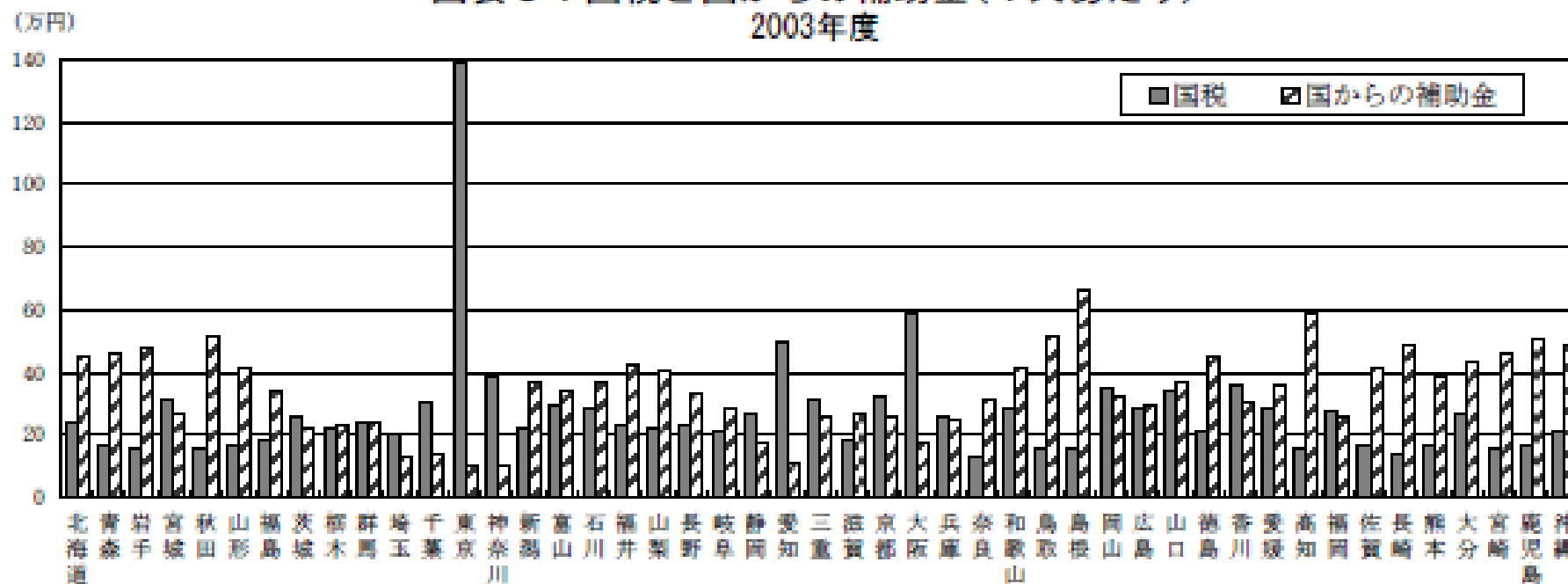
- Local Allocation Tax (LAT) grants from the central government have a function of interregional income redistribution.
- The size of the LAT grants is proportional to the deficit (=expenditures minus revenues) of the local municipals.
- If the local municipals raise local tax revenues, then the grants they receive from the central government is reduced.

Taxation in Japan

- Most tax payments are divided into the state and local government revenues.
 - Income: 10-40% to state, 10% to local.
 - Consumption: 6.3% to state, 1.7% to local.
 - Corporate Tax: around 30% to state, less than 10% to local.
 - Estate Tax: 100% to local.
- Tax payments are concentrated to urban area.
- Urban municipals pay more than receive to (from) the central government.

State Taxes and Subsidies per person

図表3：国税と国からの補助金(1人あたり)
2003年度



資料：国税庁「国税庁統計年報書」、総務省「地方財政統計年報」、「住民基本台帳人口要覧」

http://www.tr.mufg.jp/houjin/jutaku/pdf/c200601_2.pdf

図表9：都道府県別の受益と負担

補助金－国税＋国直営の行政サービスの便益
1人当たり実質額の現在価値：1990年基準
期間：中年平均

期間	1955-2002	1955-1974	1975-1989	1990-2002
北海道	21.8	8.0	22.6	42.1
青森	27.9	10.9	29.1	52.8
岩手	28.7	10.9	29.8	54.9
宮城	7.4	4.3	7.7	11.7
秋田	28.4	10.1	29.1	55.8
山形	24.6	10.4	25.0	45.8
福島	19.7	9.1	20.8	34.6
茨城	9.9	6.2	10.6	14.9
栃木	8.2	4.5	6.1	16.4
群馬	8.2	3.6	7.9	15.9
埼玉	4.1	1.7	4.8	7.0
千葉	2.2	2.9	3.8	-0.8
東京	-69.7	-25.1	-73.4	-134.2
神奈川	-11.9	-10.3	-10.8	-15.7
新潟	18.4	8.3	19.0	33.3
富山	12.0	5.5	12.0	21.9
石川	13.6	6.7	15.0	22.4
福井	18.4	8.7	17.8	33.9
山梨	21.3	10.8	22.9	35.6
長野	14.9	7.5	17.6	23.0
岐阜	12.1	5.1	12.6	22.1
静岡	1.3	-0.0	0.2	4.6
愛知	-13.9	-5.2	-15.0	-26.1
三重	9.3	4.3	10.5	15.6
滋賀	13.3	7.3	11.6	24.6
京都	-2.2	-2.8	-2.4	-0.9
大阪	-22.9	-12.8	-23.1	-38.3
兵庫	-0.1	-5.3	-0.2	8.1
奈良	17.8	7.8	17.8	33.4
和歌山	16.0	4.2	17.9	32.2
鳥取	30.1	12.0	29.7	58.4
島根	37.2	14.3	38.6	71.0
岡山	8.7	4.1	10.0	14.5
広島	6.4	0.8	5.5	16.0
山口	11.9	4.1	13.5	21.9
徳島	26.1	11.4	28.5	46.1
香川	8.8	5.9	8.9	13.3
愛媛	17.9	7.7	19.4	31.7
高知	35.0	13.4	36.4	66.7
福岡	9.0	3.1	10.5	16.1
佐賀	25.9	10.7	26.8	48.2
長崎	28.7	10.8	29.7	54.9
熊本	23.6	10.1	24.5	43.4
大分	22.7	9.0	23.4	43.0
宮崎	28.7	11.9	29.3	53.7
鹿児島	30.0	12.0	30.4	57.3
沖縄	38.6	—	30.6	52.0

単位：万円

- Doi (2006) calculates the total effects of the interregional income redistribution across prefectures.
- For 1990-2002, the sign is significantly negative for Tokyo, Kanagawa, Aichi, Osaka, meaning that tax revenues dilute to other prefectures.

http://www.tr.mufg.jp/houjin/jutaku/pdf/c200601_2.pdf

注：実質化は、県内総生産デフレーターを用いた。現在価値化には、公定歩合をGDPデフレーター上昇率で実質化したものを用いた。
資料：国税庁「国税庁統計年報書」、総務省「地方財政統計年報」、「住民基本台帳人口要覧」、内閣府「県民経済計算年報」

Moral Hazard

- The “standard fiscal demand” (SFD) of each local municipal is automatically calculated and reported to the central government.
- Then the central government compensates for the deficit (=SFD-revenues).
- The remaining expenditure is financed by issuing local debts, which need to be approved by the central governments.
- Therefore the local municipals have no incentive to develop their own revenue resources.

The “30% autonomy”

- Most local public investment must be approved by the central government.
 - Local metro (subways)
 - Shinkansen
- Some of the large public investments were approved for the excuses to welcome foreign visitors to the Olympic Games.
 - Tokaido Shinkansen (1964)
 - Sapporo municipal subway system (1972)
 - Nagano Shinkansen (1998)

The Heisei Municipal Mergers

- In 1995, the government launched a new program to encourage those local municipals (cities, towns, and villages) to merge with each other.
- If multiple municipals merge to a single municipal, the latter can issue “exceptional debts” that will be reimbursed up to 70% by the central government, **until 10 years have passed since the merge.**
- They can use the debt revenue to renovate local public infrastructure.
- # of municipals: 3232 (1999) ->1718 (2014)

Remain independent

- Many local municipals remain independent, because
 1. They have abundant revenues resources enough for them to stay independent (business and industries).
 - Large factories
 - Nuclear power plants
 2. They are afraid of the burden of the remaining debts, since the government subsidies will be abolished after 10 years have passed since the merge.

Tragedy of Yubari City

- Yubari City in Hokkaido has lost its population from 120,000 in 1960 to less than 10,000 in 2007.
- The reason is
 - Yubari has the largest coal mine in Japan but Japanese industries no longer need domestic coal.
 - In the 1980s, the city invested in tourism, by building an amusement park, developing skiing grounds, and inviting international film festivals.
 - All the projects were financed by issuing debts with government subsidies.
 - The city was left with huge unpaid debts after all the projects miserably failed in 1990s.

Movements for Prefectural Mergers

- In the Heisei Mergers, the government has no plan to merge prefectures.
- However, scholars and experts of local autonomy argue that prefectures should merge to form an integrated “state” (*doh*) within each region.
- For example, all the seven prefectures are suggested to form the Kyushu Doh (九州道).

Why Regional Integration?

- Now local governments are directly connected to the central government located at Tokyo.
- Income is redistributed between the central and local governments.
- Large cities prosper and their population increases within each region.
- Income inequality is not so high among regions as among prefectures.
- Local issues can be more efficiently handled by local than central governments.
- The government can manage the income redistribution system more efficiently, if it redistributes not by prefectures but by regions.

The Osaka “Metropolitan” Plan

- In 2010, Tohru Hashimoto, Osaka prefecture governor, launched his plan
 1. to abolish Osaka city and Sakai city,
 2. create the Osaka special 20 districts, and
 3. merge all the cities to form a new Osaka Metropolitan prefecture, following the model of the Tokyo metropolitan prefecture.
- (April 2015) His plan was denied by the referendum by the Osaka citizens.

“special” local governments

- Tokyo is different from other prefectures in the sense that
 - The center of Tokyo is divided into 23 districts, each of which has its own mayor and assembly of representatives.
 - The Tokyo prefectural governor has a strong command over the issues within the 23 districts.
- 20 designated cities: Sapporo, Sendai, Osaka, Kyoto, Kitakyushu, Fukuoka, ...
 - Some cities that have more than 500,000 population can be designated by the government,
 - and the prefecture delegates selected tasks and authorities to the delegated cities.

Pros and Cons of the Osaka Metropolitan Plan

- Pros:
 - The prefecture can directly control the districts and use their abundant tax revenues for the prefectural policies.
- Cons:
 - Designated cities (Osaka and Sakai) lose their relative independence from the prefecture.
 - Abundant tax revenues of designated cities are redistributed to poor municipals within the prefecture.