

TRENCH WARFARE ON THE TAX FIELDS: BUREAUCRATIC POLITICS AND FISCAL DECENTRALIZATION IN JAPAN

Naohiko JINNO and Andrew DEWIT

1. INTRODUCTION

In Japanese political discourse, fiscal and administrative decentralization are supported by virtually all party politicians, most of the general public, and even some central-state bureaucrats. Countless papers, studies, and official pronouncements have argued that decentralization is necessary in order to, among other things, enhance the character of Japanese democracy and cope with the burgeoning costs of programmes that are best determined at the local level.¹

However, while Japan has seen some degree of administrative decentralization, there has been little if any fiscal decentralization. This is in spite of the fact that the latter is a necessary condition for further progress in the former.² In this paper we argue that the main reason there is little decentralization is that an entrenched network of institutions blocks the expansion of the locally determined tax base and politicians lack sufficient incentives to reform the system. In other words, conflicting interministerial interests maintain a condition marked by very limited fiscal autonomy among the local authorities in Japan.³

¹ There is a discussion of these issues in SAKAMOTO (1994) and SAWAI (1993).

² NORTON's *International Handbook of Local and Regional Government* (1994: 475) notes that there was some decentralization in Japan in the 1980s, "but little was done to reduce local dependence on national transfers or to increase local government's autonomous resources." This point was confirmed in a recent survey of 47 prefectural governors by the *Asahi* newspaper (21.5.1995: 1). Though 40 % thought there had been some decentralization of administrative responsibilities recently, 22 governors identified finances as a major obstacle confronting decentralization and 20 foresaw problems due to the opposition of bureaucrats who would lose their authority. Moreover, the Japanese weekly journal *Ekonomisuto* (8.5.1995: 60) argues in a recent special edition that "current plans for decentralization appear headed for the same garbage heap" built up by predecessors.

³ Note that in Japanese, the "local authorities" or *jichitai* refers collectively to municipalities, prefectures, and metropolises (such as Tōkyō and Ōsaka).

2. INSTITUTIONS AND FISCAL DECENTRALIZATION

There is no robust comparative theory to explain the degree of fiscal decentralization across countries, and constructing one seems a daunting challenge. For example, after reviewing several analyses that focus on geography and other non-institutional variables, GIBSON and BATLEY (1992: 1) are led to conclude that "there is a large variation between countries unexplained by such variables." They argue somewhat vaguely that "the wider political background" is necessary to explain the variation.

This paper looks at the "wider political background" in the Japanese case. But the goal here is not to construct a rigorous and broadly comparative theory; rather, it is to make more limited and specific observations concerning Japan – albeit at times in contrast to the French case in order to highlight certain institutional influences. That is, this paper seeks to explain the relative lack of fiscal decentralization in Japan through the way relevant institutions are organized, and how they shape the approaches taken by various actors.⁴

The layout of this paper is as follows. The first section reviews some of the debates on intergovernmental relations in Japan, and the methodologies employed to explain those relations. The second section discusses the interests and institutions involved in intergovernmental fiscal relations. The third examines two notable recent cases of tax reform and their connection to the issues that are the focus of this paper. The final section draws some conclusions based on the case studies and related information.

3. FISCAL CENTRALIZATION IN JAPAN

3.1 *The Revenue-Spending Gap*

The degree of centralized control in Japan is a fairly controversial issue, at least in academic circles. Drawing on work that questioned the common conception that highly centralized control characterized unitary states in general, recent research on intergovernmental affairs in Japan has suggested there is considerable local autonomy.⁵ This work has helped raise the debate beyond the simplistic assumption that local governments in Ja-

⁴ For an excellent discussion of the historical institutionalist approach, see STEINMO and THELEN (1992).

⁵ Much of this work followed the growth of citizens' movements and the election of local progressive politicians, which appeared to herald a significant deepening of Japanese democracy. See, for example, MURAMATSU (1986), REED (1986), SAMUELS (1983) and STEINER, KRAUSS and FLANAGAN (1980).

pan are completely dominated by the central state. On the other hand, in its revisionist zeal it appears to have overshot the limits of the evidence. In particular, it fails to look closely at the institutional dimension of fiscal control by the central authorities.

So far as intergovernmental fiscal relations are concerned, Japan's most notable features are close control of taxation at the local level and a wide gap between revenues collected locally and the level of local expenditures. According to JAIN (1989: 159), "local governments' power in terms of local taxes is highly circumscribed and subject to central approval." The Ministry of Home Affairs (MOHA) wields great authority over local governments through its role in regulating the types of taxes they may use to raise revenues and the maximum and minimum rates at which those local taxes may be set. Moreover, MOHA is empowered to oversee local debt, and to take effective administrative control of local authorities that exceed a defined limit of indebtedness.

Research by Japanese public finance scholars confirms Jain's assertion that local governments have little fiscal room in which to manoeuvre. Naohiko JINNO (1993), for example, writes that the basis of the postwar fiscal system in Japan is not the 1949–50 *Shoup reforms*, which sought to enlarge the sphere of local autonomy on the American model (STEINER 1965: 103–113), but rather the 1940 Japanese tax reform that was aimed at centralizing the fiscal system in order to mobilize resources for total war.

Jinno places much emphasis on the gap between revenues raised and monies spent at the local level. In 1989, Japan's local governments collected 34.8 % of general government tax revenues, which seems rather impressive when set alongside the 13.2 % and 13.7 % recorded in the UK and France in 1988 and 1989, respectively. Yet Japan's local governments accounted for 75.4 % of final consumption, whereas the comparable figure for the UK is 39.2 % and for France, 30.0 %.⁶

The gap between local tax revenues and aggregate local spending in Japan is an area of great political significance for central-state bureaucracies. This is because through the gap flow the various fiscal transfers that bureaucracies use to enhance their authority at the local level. Works such as those of REED (1986) and SAMUELS (1983) generally concede that MOHA exercises strict control over local taxes. But these analyses are more concerned with showing the limited effectiveness of central control via subsidies rather than examining how MOF (Ministry of Finance) and MOHA's interaction regarding taxation affects local autonomy.

⁶ See JINNO (1993: 215), Table 7.1 *Chihō seifu no ueito to zaisei toransufa no kokusai hikaku* [An International Comparison of the Weight of the Local State and Fiscal Transfers].

Certainly general and specific subsidies are an important issue in Japanese politics, as they make up a large share of local spending and are the financial pillars of the structure known as vertical administration.⁷ This phenomenon sees central state ministries dominate their counterparts at the local level through functional lines of authority. Subsidies are said to aid in reproducing this dominance because they keep local bureaux dependent on money and administrative ideas from the centre.

On the other hand, a valuable lesson from the comparative approaches is that subsidies do not grant the unparalleled degree of control that many analysts assume they do.⁸ The specifics of this debate are beyond the scope of this paper, however, because the fiscal decentralization we wish to examine involves the shift of powers to institute and adjust taxes. In other words, we want to focus on the fiscal process – the levying and collection of taxes – that takes place prior to budgetmaking and the allocation of subsidies. This initial process is dominated by MOF and MOHA, each ministry seeking to maintain its authority over the sources of revenue for the central and local states as well as to enlarge it at the expense of the other.⁹

3.2 The Intergovernmental Tax Structure

The fiscal relationship between the central and local government centres on the Local Allocation Tax (*chihō kōfuzai*) and the various subsidies noted earlier. In total, these two exceed 90 % of the fiscal transfers to the local authorities. Specifically, in 1993, of 29.8 trillion yen in total transfers from the central to the local governments, 15.6 trillion was transferred through the Local Allocation Tax and 12.2 trillion via subsidies. Note that transfers to

⁷ Or *tatewari gyōsei* in Japanese. The structure is one in which functional lines of authority – to use the language employed in REED's (1986) study – dominate areal lines. That is, the national Construction Ministry controls its counterparts at the prefectural and municipal levels. Targeted subsidies originate within the national ministries, whose favoured projects are thus implemented at the local level.

⁸ See, for example, REED (1986: 28–29) and SAMUELS (1983: 46–47).

⁹ This is a little Procrustean, in the interests of analytical clarity, as Japan's complex of fuel and motor vehicles taxes includes the gasoline tax (*kihatsu yūzei*), which is earmarked for road maintenance and goes straight into the accounts of the Ministry of Construction. The tax's origins and influence on fiscal politics in Japan make for a fascinating tale (see NISHIOKA 1989), as it was the product of a very prescient Kakuei Tanaka's efforts in the early 1950s. Tanaka used the rhetoric of decentralization to secure a source of funding, one outside of the hands of MOF, for the highly politicized Construction Ministry (HAYASAKA 1987: Ch. 4). MOF was furious at the development, and has since resolutely opposed earmarked taxes (*mokutekizai*), only yielding in the 1994 case of the ill-fated People's Welfare Tax (*kokumin fukushizei*) as a stratagem for hiking the Consumption Tax.

the local authorities account for slightly over half the spending done by the central state.

The Local Allocation Tax itself comprises fixed percentages of the Consumption Tax, the Income Tax, the Tobacco Consumption Tax, and the Liquor Tax. The amount transferred in 1993 was 15.62 trillion yen, or 15.7 % of total local government revenues. There is also a Consumption Transfer Tax, but it is not as significant as the Allocation Tax, and supplied slightly less than 2 % of local revenues. The main points to note about the Local Allocation Tax are that its elemental taxes are collected by MOF and distributed to MOHA's Finance Bureau according to a formula that is negotiated between MOF and MOHA. From there, the Finance Bureau redistributes the funds, largely by a set formula,¹⁰ to alleviate discrepancies in the revenue capacities of local authorities. In other words, the wealthier areas receive no transfers.

3.2.1 Local Taxes

The main taxes collected by the local authorities are the Fixed Assets Tax (*kōtei shisanzei*), a property tax that applies to land, houses and tangible business assets, and the Prefectural and Municipal Inhabitants Taxes (*jū-minzei*), which are essentially surtaxes on the national income tax. In 1993 the Fixed Assets Tax provided 21.3 % and the combined Inhabitants Taxes 42.9 %, respectively, of local revenues. Note that these are both direct taxes. A perennial complaint of local authorities in Japan, and a major argument for fiscal decentralization, is that local revenues are 90 % dependent on direct taxes and are therefore strongly influenced by economic cycles.¹¹

3.2.2 National Taxes

At the national level, the major tax is the income tax. Personal income taxes produce 42.2 % of national revenues, and corporate income taxes bring in 24.8 % of the centre's total revenues. The Consumption Tax (*shōhizei*), enacted in 1989 and the focus of much political protest, produces 8.5 % of national revenues and is planned to be increased from its current 3 % rate to 5 % in 1997.

¹⁰ Note, however, that 6 % of the total amount to be transferred to the local authorities is placed into the special allocation fund, which does allow for ministerial discretion. According to Jain's interviews at MOHA, the local authorities are keen to win a share of the fund and make efforts to secure it (JAIN 1989: 156–7).

¹¹ The problem is particularly acute in wealthy areas such as Tōkyō, because they do not receive the Local Allocation Tax; hence they do not have a secure means of providing a fairly stable flow of revenues in spite of economic shifts.

The Land Value Tax (*chikazei*), an important example of a tax contest examined later in this paper, is levied through MOF and brings in 1 % of national tax revenues.¹²

4. BUREAUCRATIC POLITICS IN JAPAN

4.1 Conflict and Collaboration on the Tax Fields

From an institutionalist perspective, the key hindrance to decentralization in Japan is the fact that MOF and MOHA – the two most powerful central-state agencies in intergovernmental fiscal affairs – are driven by competitive pressures to stake claims to whole or partial tax fields and defend them. MOHA wants to maintain control over the tax fields that make up much of the local revenue base, whereas MOF wants to preserve its control over the taxes that fund transfers and subsidies for the local authorities. These latter taxes include the personal and corporate income taxes¹³ and the Consumption Tax. Poor strategic thinking on the part of either bureaucracy can and has allowed skillful and successful forays from the enemy camp, as was the case when MOF infiltrated the Land Value Tax into MOHA's domain of property taxation.¹⁴ As a result, MOHA defends its control of the local tax base and defines that as representing local autonomy.

MOF and MOHA also cooperate on the few occasions when their fiscal interests coincide, especially when there is a prospect of enlarging the fiscal pie. This fact – the mutual cooperation of MOF and MOHA – does not in itself imply an attenuation of local revenue-raising autonomy, as the new revenues do not have to come at the expense of the local tax base. However, the instance discussed below – the implementation of the Con-

¹² Tax statistics can be found in the MOF Tax Bureau's annual *An Outline of Japanese Taxes* (for example MOF 1993: 346–347) and NARUMI (1994²: 161).

¹³ Note, however, that MOF and MOHA share the corporate income tax base, as MOF has authority over the Corporate Tax (*hōjinzei*) while MOHA has authority over the Enterprise Tax (*hōjin jigyōzei*). Conflict between the two ministries is predicted to arise due to MOF's goal of reducing Japan's internationally high corporate tax burden in order to ameliorate pressures for hollowing out (*Nihon Keizai Shinbun* 3.5.1995: 3) The tax provides a further example of MOHA's ambiguous stance towards local autonomy, as the ministry – especially the Finance Bureau – pressures local authorities not to raise the Enterprise Tax beyond the average in order to prevent increased local corporate tax revenues from causing reductions in the amount of Local Allocation Tax from MOF (JAIN 1989: 152).

¹⁴ This event will be discussed in more detail below.

sumption Tax – shows that MOHA is also willing to make deals that do detract from local fiscal autonomy.

The contest between MOF and MOHA over tax fields is periodically noted in the Japanese press, which reports frequently on bureaucratic politics in general.¹⁵ The roots of the struggle over taxes include the general fiscal tension between the central and local levels of government in any modern democracy. In Japan, as elsewhere, the division of tax sources and revenues has long been a highly visible and political issue among elite circles.¹⁶

4.2 Bureaucratic Turf Wars

More generally, Japanese central-state bureaucracies are well known for their tendency to invade one another's established "turf" (*nawabari*) as well as fight protracted battles in order to establish control over emerging areas of economic development. The classic example of the latter type of struggle is seen in the long contest between the Ministry of Posts and Telecommunications and the Ministry of International Trade and Industry over which of the two should have industrial policymaking authority in the promising area of telecommunications.

The MOF-MOHA contest is evidently the fiscal expression of this tendency to battle over turf, or areas of administrative authority.¹⁷ However, as important as arguing that such a tendency exists is showing the institutional reasons for its manifestation in a given context. In other words, it is necessary to indicate what advantages are being pursued in a particular case and why. We will, therefore, outline the rationality behind the contests over tax fields in the following discussion of MOF and MOHA.

4.2.1 The Ministry of Finance

Japan's MOF is unusually powerful, in that it combines in a single ministry control over both national revenue collection and expenditure. The MOF Budget Bureau, for example, is widely recognized as the most powerful state agency in Japan through its dominance of the budget-

¹⁵ It is referred to as *zeigen arasoi*, or "tax field fights", as in *Kōtei shisanzei age: kuni to chihō no zeigen arasoi utsusu* [The Increase of the Fixed Assets Tax: It Reflects the Tax Field Fight Between the Central and Local Authorities] (*Nihon Keizai Shinbun* 12.12.1991: 3).

¹⁶ See, for example, SHINPO's (1994) interesting discussion of tax reforms. Also, prewar editions of the journal *Toshi Mondai* [Urban Issues] are full of articles on the tensions in intergovernmental fiscal relations.

¹⁷ On this point, see Haley's chapter on bureaucratic authority (HALEY 1991) and LEHMBRUCH (1995).

making process in the national government.¹⁸ The Budget Bureau's power is at its maximum when the debt is limited and expenditures are not frozen (i. e., MOF retains discretionary authority in allocation).¹⁹ Thus, Japan's fiscal crisis and the associated economic slowdown have seen the Budget Bureau often try to *loosen* the fiscal regime by cutting the resources transferred to the local authorities. As we will see, this pressure on local revenues helped spark the recent demands for the Local Consumption Tax.

On the revenue side, MOF's Tax Bureau is in charge of tax policymaking, while the National Tax Administration Agency (*Kokuzeichō*, NTAA), an agency affiliated to the MOF, supervises the collection of national taxes via a network of local collection offices. Hence, the Tax Bureau and the NTAA share an interest in maintaining control over the collection of taxes, the setting of tax rates, and associated activities. The NTAA, with over 56,000 employees, is clearly interested in keeping them busy.

Furthermore, the MOF Tax Bureau has a very strong sense of organizational mission, especially because the emphasis on maintaining a solid core of expertise in the bureau results in a markedly lower rate of personnel transfers elsewhere than is common for Japanese bureaucracies (MABUCHI 1989: 47–50). The NTAA has a similar sense of being an elite, at least relative to the local tax collectors. One of the major charges MOF bureaucrats make concerning local tax collectors is that they are not very professional or efficient.²⁰

4.2.2 The Ministry of Home Affairs

MOHA, though it too is a central-state ministry, has a somewhat ambiguous role. It is a direct descendant of the once extraordinarily powerful Interior Ministry (*Naimushō*) which the American Occupation deemed a bulwark of central state control and hence broke up in the early postwar years. The Interior Ministry's responsibilities were hived off to the new ministries of Construction and Labour as well as the Police Agency and

¹⁸ The power of MOF has long spawned plans to break it up, just as the Home Ministry was broken up by the postwar Occupation. Recent challenges to MOF have been reflected, for example, in the weeklies *Ekonomisuto* (10.1.1995) and *Gekkan Tōyō Keizai* (3.12.1994); this was also published in translation as "Break Up The Ministry of Finance!" in *Tokyo Business Today* (KAKINUMA and FUKUNAGA (1995)).

¹⁹ Junko KATO (1994: 60–71) makes this point in her discussion of MOF's core goals.

²⁰ MOF bureaucrats have on hand statistical tables that show the efficiency of collection at the national level is about 2.8 times greater than at the local level. MOF also claims that the local collectors' work consists mainly of copying the income tax records at the national office and making a few basic calculations in order to compute the Local Inhabitants Tax.

the Elections Management Committee. Also, mediating fiscal issues between the local and national governments became the responsibility of the comparatively weak but also relatively autonomous Local Finance Commission (*Chihō Zaisei linkai*). However, the move to recentralize the Japanese state in the wake of the Occupation saw the Commission absorbed into the Local Autonomy Agency (*Jichichō*), which also took over other responsibilities of the defunct Home Ministry. But the Local Autonomy Agency proved itself inadequate to assert local interests within the rapidly recentralizing state of Japan's post-Occupation, high-growth era. The Agency was not powerless, as it fought MOF to a stalemate concerning the Allocation Tax: both parties, exhausted from the strife of the annual rate-setting process, decided to compromise on an explicit set of rules.²¹ But the local authorities lobbied to have the Agency given ministerial status, so as to have a more effective representative in the centre of the state. Hence came the institution of MOHA in 1960.

Some of the irony of MOHA's position is conveyed by the fact that a precise transliteration of the ministry's Japanese name, *Jichichō*, renders the "Ministry of Local Autonomy." In other words, a ministry in a highly centralized state – one in which the competition for controlling turf is a defining characteristic – is charged with protecting and enhancing local autonomy. Understandably, the long-term goal of one of the major interest groups at the local level, the Prefectural and Municipal Workers' Union, *Jichirō*, is securing the fiscal and other changes that would allow the local authorities to act as a bloc, thus eliminating MOHA's role.²²

Within MOHA itself, there is a rather disparate group of bureaux and agencies, including the Fire-Defence Agency and the Elections Bureau. Generally speaking, the MOHA Finance Bureau seeks to maintain its role in redistributing the transfers from MOF to the local authorities.²³ By contrast, the MOHA Tax Bureau has a vested interest in increasing the level

²¹ A game-theory treatment of this struggle can be found in TANABE (1992).

²² AS STEINER, KRAUSS and FLANAGAN (1980: 42) point out, there is a long history of using the term "local self-government" even in highly centralized circumstances. During the wartime centralization, for example, the Home Minister claimed the moves were "elevating the true essence of local self-government." Another account of MOHA's history and organizational goals is TAHARA (1979).

²³ It is also keen to increase that role. For example, it is an open secret in MOF and elsewhere that the MOHA Finance Bureau and the MOF department responsible for MOHA's budget appropriations would like to see all subsidies become general transfers, thus giving the two agencies a great deal more to do. But one major hurdle confronting this plan is the furious opposition of ministries – especially Construction and Health – who use subsidies to maintain influence at the local level. See next footnote.

of revenues collected locally under the supervision of MOHA. However, Japanese bureaucracies tend to rotate their personnel regularly, and MOHA's broad responsibilities appear to ameliorate the sectionalism one might expect from such organizational interests. In addition, though, the diversity of functions tends to impede MOHA's capacity to accumulate expertise and thus act strategically in its contests with MOF.²⁴

The next section turns to consider the role of elected politicians in fiscal decentralization.

5. POLITICIANS AND FISCAL DECENTRALIZATION

5.1 The Mitterand Socialist Reforms in France

MOHA's ambiguous position is not altogether unusual when compared with the Ministry of the Interior in France, whose historically strong control over France's subnational authorities was the pattern for MOHA's predecessor, the Home Ministry (CALDER 1988: 290; STEINER 1965). The French Ministry of the Interior continues to be a powerful influence on the shape of French intergovernmental affairs; but its capacity to dominate fiscal issues in this sphere is restricted by quite effective political representation of local governments in the various fora of the central state. As one study of French intergovernmental affairs notes: "The mayors of the great cities and presidents of the department councils have exercised their powers at the centre as members of the Senate, the House of Assembly and of the government itself" (NORTON 1994: 151).

Moreover, the newly installed Mitterand regime of 1981 included in its top ranks many powerful former local politicians. Among others, the Socialist Prime Minister, Pierre Mauroy, and the Minister of State for the Interior and Decentralization, Gaston Defferre, had personally experienced great frustration with the central state as mayors of large cities and heads of regional councils. On top of that, the Socialist Party and its supporters were galvanized by the potential for a radical democratic project implied in the concept of decentralization, something through which they could draw a great distinction between themselves and the parties on the Right.

Self-interest later saw the governing Socialists try to distance themselves from their earlier radical policies, which had suggested they would shift power directly into the hands of the citizens. Instead they bolstered the powers of elected representatives, by implementing a major package

²⁴ The above points are based on interviews with personnel within the MOF and MOHA Tax Bureaux and the MOF Fiscal History Section.

of measures for administrative and fiscal decentralization. The measures were certainly a pallid version of the original promises. But they included transferring to the local authorities considerable authority over setting tax rates as well as making some fiscal transfers automatic. The latter restricts the ability of the central state to interfere in the calculation and subsequent distribution of fiscal transfers.²⁵

5.2 The Role of Politicians in Japan

Japan offers a fairly sharp contrast to the French experience. In the late 1980s, as we explain in more detail below, MOF and the governing Liberal Democratic Party (LDP) determined to press forward on the contentious issue of implementing the Consumption Tax, Japan's current 3% VAT-style tax. Several works, eager to prove the limits of bureaucratic authority, have examined the way business interests close to the LDP sought various exemptions and favours in exchange for acquiescing to the implementation of the tax.²⁶ But virtually all ignore the fact that MOHA put pressure on the local authorities to cease lobbying against the tax, even though its implementation cost the latter considerable fiscal autonomy through the elimination of locally collected taxes. In other words, the political channels for voicing local concerns were too weak in the Japanese case to stand in the way of greater centralization, whereas in France the political process decentralized the bureaucratic structure.

It is important, however, to avoid intimating that Japanese politicians, *per se*, are powerless in confrontations with the bureaucracy. In fact, a growing number of studies show that politicians are capable of asserting their interests when they feel they must.²⁷ Yet Japanese politicians in national legislative arenas mouth commitments to decentralization but do little of substance to oppose bureaucratic moves against blueprints for decentralization. This seeming contradiction suggests that politicians at the centre do not generally experience compelling pressures to push for

²⁵ According to Catherine GREMION's (1987) account, the Socialist ministers began to have doubts about giving up their respective ministries' fiscal levers once they were in the Cabinet. They were also heavily lobbied on this point by bureaucrats within their ministries. However, Defferre was very persistent and adroit, and hence was able to get a package of decentralization measures passed. See also CHRISTOFFERSON (1991: 55–57; 83–93), LE CACHEUX and TOURJANSKY (1992), and MORRIS (1994: 91–106).

²⁶ One of the leading figures in this effort is Michio Muramatsu. See, for example, MURAMATSU and MABUCHI (1991).

²⁷ See, for example, Kenji HAYAO's (1993) study and Margaret MCKEAN's (1993) excellent review of the literature on this issue.

wholesale fiscal and administrative decentralization. The lack of interest possibly stems from the relative political disorganization of urban consumers in Japan. They are the natural beneficiaries of a more responsive and generous allocation of services at the local level, the main point of fiscal and administrative decentralization, but they lack effective political representation.

As for local politicians in Japan, not being in the central state, they cannot exert the same massive reformist influence of their counterparts in France. In fact, when decentralist local politicians did come to power in Japan, in the 1993 Hosokawa Administration, there were rather high expectations of reform. But the efforts that were made were deflected by the central bureaucracies, which calculated correctly that the coalition government was too weak to enforce its will in such areas. It was indeed high irony that Hosokawa's tenure as Prime Minister was effectively ended when he acquiesced to MOF's desire to hike the Consumption Tax – as noted earlier, a tax implemented at the cost of much local fiscal autonomy – to 7%.²⁸

6. TRENCH WARFARE ON THE PROPERTY AND CONSUMPTION TAX FIELDS

The most recent tax struggles between MOF and MOHA are the intensive campaigns that focussed on the Land Value Tax and the Local Consumption Tax (*chihō shōhizei*). Together, these examples highlight well the institutional interests, discussed above, which impede movements to local fiscal autonomy. We will describe the two episodes in turn.

6.1 The Land-Value Tax

As even casual observers of Japan are aware, the price of land in Japan is simply astronomical. In the late 1980s, during the Bubble Economy's vast inflation of asset values, commentators cheerfully pointed out such absurdities as the fact that the market value of Japanese real estate exceeded that of the entire United States, even though the latter is about 25 times Japan's size. But rapidly rising land prices were not a new phenomenon in Japan, as the latter half of the 1950s and the early 1970s also saw speculative booms that in fact exceeded the year-on-year increase of the late

²⁸ See *Sankei Shinbun* (10.5.1994: 1), where Hosokawa confides to former Prime Minister Takeshita "I tried to use the power of MOF, but instead I was used." Also, on the relative weakness of local politicians in Japan, see KOIKE (1995).

1980s.²⁹ The boom of the 1970s was deflated quite rapidly by a policy of monetary restraint, and a similar policy has forced current land prices well below their peak values of 1990. However, in 1990 there was less talk of turning off the lending faucets that were dispensing seemingly endless streams of yen to even the most dubious of investors. The concern was that doing so would unduly depress the supply of housing and might also bring on a credit crunch of the sort then evident in the moribund American economy (*Ekonomisuto* 1.12.1990: 6).

Instead, attention was focussed on reforming the tax system to discourage speculation on land. There was considerable scope to undertake such a policy reform, as the local authorities, who evaluate the Assessment Standard (*hyōka suijun*) on which the Fixed Assets Tax is based, had evidently been reluctant to match increases in market prices with increases in the local standard. The latter is the basis for the Fixed Assets Tax, and had declined from a 1979 average of 61.4 % of the official valuation price to 36.3 % in 1991. The levels reached in urban areas were particularly low, as the central districts of Tōkyō stood at 21.9 % in 1991, while comparable areas of Ōsaka reached 14.6 % in the same year (ISHI 1993²: 350). The clear implication is that local governments were making adjustments “in order to avoid raising the property tax burden” (ISHI 1993²: 350). Such problems were examined in detail from April of 1990 by the Subcommittee on Land Taxation of the Government Tax Advisory Commission (GTAC), a body generally recognized to be dominated by the Ministry of Finance’s Tax Bureau.

6.1.1 Skirmishing Within the Tax Advisory Commission

The GTAC is one of a large number of institutions known generically as deliberation councils (*shingikai*). Many are fairly inconsequential in policymaking, but some – such as the GTAC – are important sites where representatives of major interest groups are brought together to debate appropriate turns in public policy. MOF bureaucrats play a central role in selecting representatives for the GTAC, determining the information they will discuss, and even writing up their final report; but the product of the discussions is not regarded as a sham (at least outside of the critical left of Japanese academe).

A more subtle process is at work, one in which bureaucrats learn about positions and perceptions among major interest groups in their areas of

²⁹ Note the chart in Hiromitsu ISHI (1993²: 344). Much of the information in this section is drawn from ISHI’s (1993²) chapter on “Land Tax Reform” as well as Shigeto TSURU (1989).

authority, while the represented interests are brought into policymaking and thus are encouraged to compromise with one another. Such features give a fairly high degree of credibility to the institution, as an adjunct to more effective policy design and implementation. MOF is thus usually able to manipulate the debate along desired lines but not thereby grossly erode the GTAC report's legitimacy. A strong report can give a policy initiative a considerable degree of momentum.³⁰

Moreover, in the initial stage of the Land-Value Tax debate, the Subcommittee was headed by Professor Ishi, whose views are known to be rather congenial with those of the MOF Tax Bureau. Whether this fact had a strong influence on the deliberations and their outcome is difficult to determine, but certainly people in MOHA and elsewhere believe it did. In fact, there was a major controversy at the time of Ishi's appointment, as other prospective members read the appointment as a signal that MOF had a set policy goal in mind.³¹

The Subcommittee identified two main alternatives for bolstering the tax regime so as to discourage speculation in land. The first alternative was to strengthen the existing tax system, which meant – among other things – raising the evaluation standards in order to reflect increased asset values. The second was to set up a national tax to cope with the gap between assessed and market values, by taxing the speculative increase in property values among businesses and wealthy landholders. When the local authorities and MOHA were asked, during the Subcommittee's deliberations, about the first alternative, they rejected it arguing that the Fixed Assets Tax was designed to serve as a stable revenue base for municipalities and was governed by the benefit principle rather than by the ability to pay.

The generally accepted argument, among people who study the politics of public finance in Japan, is that MOHA was concerned that placing a higher burden on the Fixed Assets Tax would lead to fierce opposition among local landholders, especially business groups. The problem was

³⁰ General information on deliberation councils is plentiful. See, for example, HARARI (1995) and SCHWARTZ (1993). Also, John CAMPBELL argues that an important part of bureaucratic influence on policymaking is "getting the SGK's [i. e., deliberation councils] in line" (from an e-mail exchange with Campbell on 26 February, 1995). On the importance of the GTAC, one that "stands like a mountain among the rest", see KAKIZAKI (1979).

³¹ These comments are based on interviews at MOF and MOHA, with public finance economists of Tōkyō University who have participated in GTAC deliberations, and Tōkyō University Professor Kiichi Fujiwara. Note that, generally speaking, public finance people in Japan are identified as sympathizers either of MOF or MOHA – which in itself is indicative of the extent of bureaucratic involvement in society and the degree of conflict between the two ministries.

that the proposal to raise the Assessment Standard would have seen a much heavier burden imposed on politically powerful interests, who would have vigorously lobbied the local authorities; the latter in turn would have communicated the opposition to MOHA. Hence, MOHA declined to allow the Fixed Assets Tax to be used for the purpose of damping down speculative fever in land price hikes, which at the time were still accelerating in major centres such as Ōsaka and Tōkyō. It is also probably the case that MOHA did not believe the tax had much of a chance of being enacted, as an impressive array of business interests stood against it. Reflecting MOHA's excessive organizational diversity and rather limited manpower, the ministry essentially did not have the capacity to anticipate MOF's strategy, and thus committed a self-confessed blunder.³²

6.1.2 The MOF Invasion of MOHA's Domain

MOF then leapt at this chance to invade a corner of the Fixed Assets Tax field. MOF representatives on the Subcommittee pointed to MOHA's reluctance to use the Fixed Assets Tax for the extremely important goal of cooling speculative investment, and proposed instead that a new national tax be implemented to this end. In retrospect, the real problem underlying speculative behaviour in Japan was the excessively loose monetary policy being employed by the MOF-dominated Bank of Japan (NOGUCHI 1994: 313). At the time, however, MOF was able to clothe its desire for a corner of the Fixed Assets Tax field in the garb of disinterested policymaking.

MOF's interest in the Fixed Assets Tax field has several facets. One is surely institutional memory, as the predecessor to the Fixed Assets Tax is the Land Tax, which was under the purview of MOF until American-inspired reforms in the early postwar period saw it transferred to the local authorities. This outcome is said to be highly regretted within MOF because the Land Tax was regarded as the epitome of a national tax, one which even applied to members of the royal family. Moreover, and more concretely, the administration of the tax involved the regular collection of information on landholding, a source that was lost with the transfer of the tax to the local authorities.³³ Hence, the MOF people pushed to secure a separate tax from the Fixed Assets Tax, one managed and collected by the central state. The October 1990 report of the GTAC thus dutifully advised

³² MOHA people themselves describe the episode in such terms. See also *Gekkan Tōyō Keizai* 18.5.1991.

³³ Note that the MOF's management of the Inheritance Tax does bring in related information, but only when the taxpayer dies.

there be a new national tax on land, one based on assessment of the asset value itself in accordance with the landowner's ability to pay.

6.1.3 MOHA's Counterattack

MOHA reacted swiftly to this proposal, and began to argue against it in the Subcommittee. Seeing that MOF was rapidly marshalling its forces to infringe on the Fixed Assets Tax field, the MOHA bureaucrats also later presented their alternative proposal to the ruling Liberal Democratic Party's Tax Advisory Commission (LDPTAC).³⁴ Driving the MOHA bureaucracy, according to published reports (*Nihon Keizai Shinbun* 30.11.1990: 5), was the concern that MOF's presence in the property tax field would limit MOHA's ability to draw increased revenues from it. This new proposal was clearly a desperate effort to outflank MOF's manoeuvres, as MOHA abruptly reversed its argument that the Fixed Assets Tax could not be used for cooling the speculative fever in the nation's property markets. MOHA's new approach was to propose a staged increase, over 5 years, to bring assessments from about 10–20 % of actual land values, in major urban areas, to around 70 %.

The shift of the tax debate from the GTAC to the LDPTAC was an important phase in each ministry's strategy. MOF had dominated the debate in the GTAC itself as well as in the Subcommittee on Land Taxation, and this gave it momentum going into the more clearly politicized arena of LDPTAC. Though GTAC had become subordinate to the LDPTAC in the 1980s, its recommendations on policy matters were still taken seriously in the latter – indeed, the LDPTAC was itself dominated by a coterie of party tax policy experts whose roots were often to be found in MOF (YAMAGUCHI 1993).

MOHA, for its part, kept up its pressure to maintain the existing property tax system and use it to control land prices. This position in fact had some sympathizers among the members of the LDPTAC and its temporary Subcommittee on Land Taxation; but there was also considerable doubt that MOHA would be able to secure an increase in the Evaluation Standard in the face of opposition from local interests (*Nihon Keizai Shinbun* 9.11.1990: 2; *Nihon Keizai Shinbun* 30.11.1990: 5). In addition to this doubt, there was a very strong sense among political actors that something had to be done about the land-price problem, even though interest-

³⁴ This Commission was once little more than a pale imitation of the MOF-controlled GTAC. But for a number of reasons, including a growing interest in tax relief in a slowing economy and an expansion of the expertise of certain politicians, the LDPTAC came to wield more authority than GTAC, at least on politicized tax issues.

group pressures on the issue were immense. The Left of the Japan Socialist Party, including the party's major support-group, *Jichirō*, in fact supported the MOF position because of the argument that it would be equitable to tax speculative profits accruing to landowners.³⁵

MOF's proposed outline for the new tax was considerably amended in the LDPTAC, especially through a reduction of the rates and the introduction of a nest of exemptions. This part of the process appears to have been of greatest interest to analysts, as the episode showed how MOF's tax policy proposals are altered in the political arena.³⁶ On the other hand, one can argue that a lot of the important political moves came prior to that. Intensive lobbying in the LDPTAC rendered the tax ineffective as a counter-measure to the land-price spiral. But MOF was able to infringe on the local tax base, secure revenues of 6.2 trillion yen (1993), and gain access to the treasured information concerning corporate taxpayers – all in the face of determined opposition from business organizations and MOHA.³⁷

6.2 The Local Consumption Tax

The struggle over the Local Consumption Tax took place from the late fall of 1993 to the fall of 1994. Resolving the issue saw compromises made among the various bureaucratic interests involved, but did little or nothing to advance the ostensible goal of fiscal decentralization.

MOHA, or at least its Tax Bureau, has sought to secure a Local Consumption Tax since the mid-1980s debates on what kind of new indirect tax ought to be introduced in Japan.³⁸ At one level, this objective is rooted in the simple desire among bureaucrats to have something to do: The Tax Bureau in MOHA would clearly gain in authority over what it currently possesses were there a Local Consumption Tax to make decisions about.

At another level, the aim stems from MOHA's sense that a portion of the tax rightfully belongs at the local level. The reason for this is that the enactment of the Consumption Tax saw the simultaneous elimination of several

³⁵ From an interview with the chief editor at the *Jichirō* Political Affairs Department.

³⁶ There are surprisingly few studies of the episode, but one is the Socialist Party politician KAN Naoto (1992).

³⁷ MOHA has not given up on reclaiming the tax. There were plans to hammer out a policy position and present it to the GTAC at the beginning of hearings for fiscal 1995 (in April 1995), but the Kōbe Earthquake caused a massive diversion of MOHA's manpower away from tax-related issues. This is further evidence of how MOHA is organizationally handicapped by its broad range of responsibilities.

³⁸ Some of the history of the debate on this point is reviewed by the MOHA-affiliated LOCAL FINANCE ASSOCIATION (1994: 42–102).

local taxes, including the Gas and Electricity Taxes. MOHA sought revenue replacement for the eliminated and rationalized local taxes, but went along with the overall idea of the Consumption Tax and even tried to suppress dissent from local authorities that came under popular pressure to oppose the new tax.³⁹ In part, the *quid pro quo* for MOHA's support of the Consumption Tax came via the enactment of the Consumption Transfer Tax, which generally made up for the revenue sources lost via the enactment of the Consumption Tax.

There appear to be two major reasons why MOHA went along with the elimination of the local taxes. The first of these is the simple fact that the individual local consumption taxes were narrow in their incidence and hence comparatively costly to collect. There is a strong competitive pressure on tax collection cost from MOF, which certainly makes MOHA – responsible for the local tax agencies – wary of excessive costs.⁴⁰ This would suggest that MOHA supported the Consumption Tax because of efficiency gains and the chance of having a piece of a growing fiscal pie. The latter prospect stems from the expectation that the Consumption Tax is likely to be raised gradually to near-European levels.⁴¹

Second, MOHA came under pressure from the LDP, which had decided – under former Prime Minister Takeshita – to implement a Consumption Tax but at the same time avoid the political backlash that destroyed the previous Nakasone Cabinet and before it the Ohira Cabinet. Personalities tend to be emphasized here as well, as the LDPTAC was under the control of Sadanori Yamanaka, who is generally regarded as having possessed great authority and credibility through his knowledge of the tax system and his forceful character. These political considerations and actors are said to have brought MOHA in line with the objective of securing the Consumption Tax.

The pressure from LDP politicians reflects their willingness to get seriously involved in policymaking processes when their core interests are involved. In the case of the Consumption Tax, there had been two previous failures to introduce a major indirect tax. Both of these experiences cost the LDP much in the way of political capital and momentum in po-

³⁹ In fact, there was also some opposition inside the LDPTAC to detractions from local fiscal autonomy via the tax reform, but it was evidently ineffective; see *Nihon Keizai Shinbun* 1.6.1988: 3.

⁴⁰ MOF Tax Bureau personnel have tables comparing the tax collection costs at the local and the national levels conveniently on hand for visitors. The raw data tend to suggest that local tax collectors are inefficient, a conclusion MOF people are only too happy to confirm. In fact, the problem is that many local taxes require on-site inspections and so forth, and give only a moderate return in revenues.

⁴¹ This hypothesis has been supported through interviews at MOF.

licymaking. The LDP had often sought to model circumstances so as to maximize the opportunity to get its preferred version of tax reform implemented. This was evident, for example, in the failed effort by Prime Minister Nakasone, as he put ten personally selected experts onto the GTAC as a means of controlling the character of the deliberations going on in the council and the nature of the report that it would issue (HAYAO 1993: 72). On the other hand, the fact that MOHA put up no visible fight against the Consumption Tax suggests that it was not opposed to the policy, largely because of the prospect of an enlarged pool of revenues and because it did not formally control the rates of some of the local taxes.

6.2.1 *Getting The Tax on the GTAC Agenda*

As the above indicates, there are good reasons to suspect MOHA's commitment to local fiscal autonomy when it comes to making decisions on the Consumption Tax. The pressure for the Local Consumption Tax in 1993 began with strong appeals from the Prefectural Governors' Association (*Zenkoku Chijikai*) and the other of the six associations of local leaders (*Chihō Roku Dantai*), which collectively are the lobbies for locally elected politicians. They had, under the leadership of former Tōkyō Governor Suzuki, set up a special group to study the expansion of local fiscal autonomy. On October 26, 1993, they published a report called "An Emergency Appeal Concerning Replacement of the Local Transfer Tax with a Local Consumption Tax as Part of Thoroughgoing Tax Reform."⁴² Their main concern was that the ongoing discussions on tax reform included a seemingly unstoppable momentum towards an income-tax cut as well, due to party competition and concerns about the length of the *Heisei Recession* (which did not end until late 1994).

Such a tax cut would not only produce revenue losses for the central state but the local authorities as well, as the latter's income-based Inhabitants Tax was also slated for trimming. To the local authorities, who were already suffering greatly because of the havoc the recession was playing with their direct-tax centred tax structures, a further decline in revenues was unacceptable. And as we have already seen, MOF's Budget Bureau was simultaneously pressing to cut transfers via the Allocation Tax. Hence, the local authorities appealed to MOHA to intervene on their behalf.

This course of action speaks volumes about the relative political impotence of the local authorities in the Japanese state system. As noted above, the French unitary state system provides more direct means for the asser-

⁴² See the summary in the annual CHIHŌ ZAIMU KYŌKAI (1995: 48–49).

tion of local interests. Also, the British have a network of agencies that provide forums for bargaining between the centre and the local authorities. Conversely, on fiscal matters the British Treasury stands in a class of its own when there is no compensating assertion of party political power (JOHN 1994). But in Japan, the locals have MOHA as a precarious counterweight to the power of the central state, and especially MOF (KOIKE 1995: 44–45).

MOHA clearly stands in a relation of dominance vis-a-vis the local authorities, but it is not in a position to ignore local demands whenever it likes. This is especially the case when the locals are virtually unanimous on an issue. The ironic aspects of its role notwithstanding, MOHA's function as a bureaucracy is to represent the local interest to the central state; and were MOHA to become seriously negligent in this regard, it could well find itself bypassed in favour of other means of representation, especially by the larger metropolitan areas such as Tōkyō and Ōsaka. Certainly in some administrative areas – i. e., not in taxation matters – local actors have found various means of exploiting the inter-agency competition implied by the term “vertical administration” (*tatewari gyōsei*) (SAMUELS 1983: 32–34).

As a result, MOHA made a surprise proposal to the GTAC in November of 1993, and argued that the deliberations of the GTAC should consider the possibility of a Local Consumption Tax,⁴³ an issue that had been mooted as far back as 1978, but had lacked the necessary coalition of interests to drive its implementation. In 1993, however, there was in place a coalition government whose most prominent members – including then Prime Minister Hosokawa – had in the past been prefectural governors and mayors. They had moved *decentralization* back to the centre of the political agenda, at least as political rhetoric. Moreover, the Socialist Party was strongly represented in the cabinet, being the largest of the coalition partners, and was being pressed by its largest interest group, *Jichirō*, to lobby on behalf of the Local Consumption Tax.⁴⁴

But MOHA's submission to the GTAC was quite coolly received by the largely MOF-selected members and the MOF Secretariat. The MOF people evidently did their best to cast the MOHA arguments as ill-conceived, as MOHA bureaucrats reported a great degree of frustration to the press (SANO 1994). What MOHA was seeking in the late fall of 1993 was to

⁴³ Interestingly, the MOHA Tax Bureau appears to have inserted the demand that the tax be collected locally, as collection is not specified in the report by the local authorities.

⁴⁴ *Jichirō*, as the representative agency of local employees, had an obvious interest in supporting the shift of resources to local governments.

have an explicit statement of intent to study the Local Consumption Tax issue written into the mid-term report of the GTAC, a report that was presented to the ruling coalition on November the 19th of that year. But the MOF personnel in the GTAC Secretariat were adamant that this be avoided, as they were very keen to maintain their control over the Consumption Tax field. Their stubbornness so upset the MOHA Minister, Ito, that when the report was being presented he noted that the Local Consumption Tax should be a major issue in the current period of decentralization. He then lowered his voice and said that the GTAC was not in fact a government tax commission (*seifu zeichō*) but rather one run on behalf of the central authorities (*kokuzeichō*) (*Sankei Shinbun* 23.11.1993: 9).

With the delivery of the GTAC mid-term report, deliberations came to a close for the year. The GTAC would not resume meetings until the opening of the next fiscal year, in April of 1994. In the interim, MOHA and MOF organized their arguments and firmed up their coalitions of supporters for another round of contests over the Consumption Tax field.

6.2.2 Clouded Compromise

The initial step taken in April of 1994 was to put the Local Consumption Tax issue to a subcommittee of *learned persons*, in which MOHA was able to insert some of its chosen academics alongside MOF's coterie of supporters. Here the debate centred on theoretical issues concerning local taxation and included the detailed study of foreign models. The subcommittee also heard submissions from the agencies involved in the tax contests as well as other interested parties. During one session, MOHA revealed its self-interested conception of fiscal decentralization by proposing a relatively strict model of control for a local consumption tax. This even upset many of the MOHA-linked members on the subcommittee, as they believed it was the principle of local fiscal autonomy that was the centre of the debate, not how MOHA ought to go about substituting its control over part of the tax regime for that of MOF's (*Nihon Keizai Shinbun* 8.5.1994: 4).

Meanwhile, MOF and MOHA began a very public war in the press even as they negotiated behind the scenes among their Tax Bureaux. Press reports began to carry strong statements from MOF personnel that the MOHA position was immature and irrational, and that it reflected MOHA's alleged desire to recapture the vast bureaucratic turf of its infamous predecessor, the Interior Ministry. MOHA was equally scathing of MOF, suggesting that MOF was simply desirous of maintaining control of taxes, as it was when it introduced the Land Value Tax (*Sankei Shinbun* 15.6.1994: 9).

In one very revealing episode, an internal memo from MOF's Tax Bureau found its way into the hands of a reporter for a major and highly respected economic weekly. The magazine included the memo in an article that focussed on MOF's reasons for opposing the Local Consumption Tax. According to the memo, control of tax collection and distribution of the revenues are the bases of MOF's authority, and thus losing control over even a portion of the Consumption Tax would be anathema. Moreover, the memo claimed the struggle was a good opportunity to trim MOHA's wings somewhat,⁴⁵ as well as reinforce the local authorities' fiscal dependence on the centre.⁴⁶

The issue became a focus of party politics as well, with the LDP no longer in a position to govern alone. The ruling coalition had earlier set up a special committee for studying tax policies, and the Socialists made very clear their desire to see the implementation of a Local Consumption Tax. There was even a certain leniency on the issue within the LDP, though the party's tax experts – who were strongly linked to MOF – resolutely opposed the tax and especially local collection. The other coalition partner, the Sakigake, opposed local collection of the tax on the grounds of a narrow interpretation of administrative reform, which is a potent slogan in Japanese politics.

The stalemate over the tax dragged on through the summer of 1994 and into the early fall, with neither MOF nor MOHA willing to concede on the central point of local collection. MOF knew it would have to make some concession because of the presence of the Socialists in the cabinet and MOF's desire to get their agreement or at least acquiescence to an increase in the Consumption Tax. The delicacy of the matter can be appreciated by the fact that only several months before, the Socialists created endless headaches for the Hosokawa and Hata coalitions because many members on the left of the party were elected in 1989 on an anti-Consumption Tax platform. They were reluctant to go into the summer 1995 Upper House elections having agreed to a hike in a tax they were elected to eliminate.

Most important for our purposes here is the fact that a compromise was eventually worked out, and announced by Takemura, the leader of the Sakigake and the Minister of Finance. The details include the implemen-

⁴⁵ Other press reports indicate that MOF was not the only ministry concerned about MOHA's increasing authority due to possible moves towards decentralization. See, e.g., KATO (1994: 1).

⁴⁶ The article is in *Gekkan Tōyō Keizai* (1994) as well as in KAKINUMA and FUKUNAGA (1995). Note that interviews in the MOF Tax Bureau and Fiscal History Section have elicited only denials that such a memo was produced by MOF. One interviewee was adamant that the magazine in question was little more than a scandal sheet.

tation of a 1 % Local Consumption Tax that by law is collected – “for the time being”⁴⁷ – on behalf of the local authorities and as part of the existing Consumption Tax (which is to be increased to 5 % on April 1, 1997). The revenues of the new local tax are to be transferred to MOHA and thence to the local authorities.

The implications of the tax for local fiscal autonomy do not, however, appear very promising. MOHA at first saw the compromise as a defeat, but of late MOHA bureaucrats have taken to referring to it as a “soft victory.” The reason is that they believe the wording of the compromise represents a toehold for later justifying a shift of the tax completely within their sphere of authority. The local authorities, on the other hand, give the impression of being less than enthusiastic. Some of their representatives have, for example, expressed concerns regarding MOHA’s designs on the tax, as the regulations governing the distribution of the revenues remain as yet somewhat ambiguous.⁴⁸

7. CONCLUSIONS

This paper has attempted to demonstrate that there is a struggle between MOF and MOHA over tax fields and that this constitutes a hurdle for fiscal decentralization. We have also sought to show that this particular turf war is part of a more general pattern of bureaucratic activity in the Japanese state.

Yet we have also tried to show that politicians, at least those at the national level, are very effective in pursuing what they deem to be their own interests. That they do not push hard on the issue of fiscal decentralization thus suggests that they do not have compelling reasons to. Local politicians, on the other hand, have good reasons to seek fiscal decentralization; but they are hindered from achieving their goals by the need to act through MOHA in getting their desired policy option on the agenda and formulated into law.

The Local Consumption Tax was in fact a very important test case for these arguments, as all the local authorities were acting in unison. This is not often the case, as the wealthy and poorer prefectures have obvious differences of opinion concerning issues such as the desirability of the Local Allocation Tax. MOF tried very hard to split the local authorities on the Lo-

⁴⁷ In Japanese: “*tōbun no aida*”. On this provision, see CHIHŌ ZAIMU KYŌKAI (1995: 98).

⁴⁸ These doubts were expressed by prefectural tax officials.

cal Consumption Tax issue, claiming that it would exacerbate regional disparities, but it was unsuccessful. This lack of success clearly owed a great deal to the fact that the governor of Tōkyō, Suzuki, was unusually well-connected and credible as the leader of the movement among the local authorities. However, that even a unified lobby of all the local authorities, led by Suzuki, could not secure a very satisfactory result speaks volumes about the limits of local politicians' powers. As we have described above, the comparative example of France highlights Japan's problem of local representation by such an ambiguous institution as MOHA.

The main point to make here is that in contests over taxes, the institutionally derived goals of MOF and MOHA strongly influence policy outcomes. However, these bureaucratic agencies also operate in a political context that is capable of modifying their influence, and at times even their perceptions of their best interests. The study of intergovernmental fiscal politics can thus help shed light on the more general question of how Japanese bureaucracies influence policymaking processes.

REFERENCES

- Asahi Shinbun* (Tōkyō): *Zaigen, kanryō o kenen: bunkenka 47 chiji ni kiku* [Worries About Finances and Bureaucrats: 47 Governors are Heard on the Topic of Decentralization], 21.5.1995, p. 1, morning edition.
- CALDER, Kent (1988): *Crisis and Compensation: Public Policy and Political Stability in Japan*. Princeton: Princeton University Press.
- CHIHŌ ZAIMU KYŌKAI (1995): *Kaikaku: chihō zeisei shōkai. Heisei 6-nen* [Details on Local Tax System Reform 1994]. Tōkyō: Chihō Zaimu Kyōkai.
- CHRISTOFFERSON, Thoma (1991): *The French Socialists in Power, 1981–1986: From Autogestion to Cohabitation*. Delaware: University of Delaware Press.
- Ekonomisuto* (Tōkyō): *Kinyū kikan shuhanron no taitō* [The Rise of the Principle Lending Agency Argument], 1.12.1990, p. 6.
- Ekonomisuto* (Tōkyō): *Seiji no ba de henkaku no ishikettei o okonau shika nai* [Decisive Change Can Only Arise on the Political Stage], 8.5.1995, p. 60.
- Ekonomisuto* (Tōkyō): *Nippon Ōkurashō kaitairon* [The Argument for Breaking Up Japan's Ministry of Finance], 10.1.1995, pp. 60–61.
- Gekkan Tōyō Keizai* (Tōkyō): *'Chika' de mōkeru jidai wa owatta* [The era of making money from land-price inflation is over], 18.5.1991, no page number.
- Gekkan Tōyō Keizai* (Tōkyō): *Ōkurashō o kaitai seyo* [Break Up the Ministry of Finance], 3.12.1994, pp. 50–57.

- GIBSON, John and Richard BATLEY (1992): Introduction: Trends in Financing European Local Governments. In: *Local Government Studies* 18, 4, pp. 1-6.
- GREMION, Catherine (1987): Decentralization in France: A Historical Perspective. In: ROSS, George, Stanley HOFFMAN, and Sylvia MALZACHER (Eds.): *The Mitterand Experiment*. Oxford: Oxford University Press, pp. 63-92.
- HALEY, Alex (1991): *Authority Without Power: Law and the Japanese Paradox*. Oxford: Oxford University Press.
- HARARI, Ehud (1995): *Mass Media Participation in Japanese Public Policy Processes: The Case of Shingikai*. Paper presented to the ISS Contemporary Japan Group, University of Tōkyō, March 1995.
- HAYAO, Kenji (1993): *The Japanese Prime Minister and Public Policy*. Pittsburgh: University of Pittsburgh Press.
- HAYASAKA, Shigezō (1987): *Seijika Tanaka Kakuei* [The Politician Kakuei Tanaka]. Tōkyō: Tōkyō Kōronsha.
- ISHI, Hiromitsu (1993²): *The Japanese Tax System*. Oxford: Oxford University Press.
- JAIN, Purnendra (1989): *Local Politics and Policymaking in Japan*. New Delhi: Commonwealth Publishers.
- JINNO, Naohiko (1993): Nihongata zei, zaisei shisutemu [The Japanese-Style Fiscal System]. In: OKAZAKI, Tetsuji and Masahiro OKUNO (Eds.): *Gendai Nihon keizai shisutemu no genryū* [The Sources of the Contemporary Japanese Economic System]. Tōkyō: Nihon Keizai Shinbunsha, pp. 211-244.
- JOHN, Peter (1994): Central-Local Government Relations in the 1980s and 1990s: Towards a Policy Learning Approach. In: *Local Government Studies* 20, 3 (Autumn), p. 423.
- JOHNSON, Chalmers (1989): MITI, MPT, and the Telecom Wars: How Japan Makes Policy for High Technology. In: JOHNSON, Chalmers, Laura TYSON, and John ZYSMAN (Eds.): *Politics and Productivity: How Japan's Development Strategy Really Works*. New York: Ballinger Publishing, pp. 177-240.
- KAKINUMA, Shigeki and Hiroshi FUKUNAGA (1995): Break Up the Ministry of Finance. In: *Tokyo Business Today*, January, pp. 6-12.
- KAKIZAKI, Norio (1979): Shingikai: kanryō e no hōshin no kiseki [Deliberation Councils: Places of Service to the Bureaucracy]. In: *Ekonomisuto* (Tōkyō) 31.7.1979, pp. 82-87.
- KAN, Naoto (1992): *Kokkai ronsō ,tochi seisaku'* [The Diet Dispute Over Land Policy]. Tōkyō: Shihyōron.
- KATO, Junko (1994): *Bureaucratic Rationality in Question: Tax Politics in Japan*. Princeton: Princeton University Press.

- KATO, Yoshiaki (1994): Chihō bunken chakuchi e no michi: kengen ijō gu-taisaku naku [The Road to Decentralization: No Concrete Policies for Transferring Authority]. In: *Nihon Keizai Shinbun* 22.10.1994, p. 1, morning edition.
- KOIKE, Osamu (1995): Seisaku nettowāku to seifu aida kankei [Policy Networks and Intergovernmental Relations]. In: *Chūō Daigaku Shakai Kagaku Kenkyūjo Kenkyū Hōkoku* 16, February, pp. 27–46.
- LE CACHEUX, Jacques and Laure TOURJANSKY (1992): The French Decentralization Ten Years On: Local Government Finances. In: *Local Government Studies* 18, 4, pp. 28–38.
- LEHMBRUCH, Gerhard (1995): The Segmentation of Government in Comparative Perspective. In: *Social Science Japan*, No. 3, April, p. 6.
- LOCAL FINANCE ASSOCIATION (1994): *Heisei 6-nen kaisei: chihō zeisei shōkai* [Reform: Details on the Local Tax System, 1994]. Tōkyō: Chihō Zaimu Kyōkai.
- MABUCHI, Masaru (1989): Ōkurashō shuzeikyoku no kikan tetsugaku [The Organizational Philosophy of the Budget Bureau of the Ministry of Finance]. In: *Rebaisan* 4, pp. 41–57.
- McKEAN, Margaret (1993): State Strength and the Public Interest. In: ALLINSON, Gary and Yasunori SONE (Eds.): *Political Dynamics in Contemporary Japan*. Ithaca: Cornell University Press, pp. 72–104.
- MOF (Ministry of Finance) (1993): *An Outline of Japanese Taxes*. Tōkyō: Tax Bureau, Ministry of Finance.
- MORRIS, Peter (1994): Local Government in a Centralized State. In: MORRIS, Peter (Ed.): *French Politics Today*. Manchester: Manchester University Press, pp. 91–106.
- MURAMATSU, Michio (1986): Centre-Local Political Relations in Japan: A Lateral Competition Model. In: *The Journal of Japanese Studies* 12, pp. 303–327.
- MURAMATSU, Michio and Masaru MABUCHI (1991): Introducing a New Tax in Japan. In: KERNELL, Samuel (Ed.): *Parallel Politics: Economic Policy-making in Japan and the United States*. Washington, D. C.: Brookings Institution, pp. 184–210.
- NARUMI, Masayasu (1994²): *Gendai Nihon no chihō jichi to chihō zaisei* [Local Autonomy and Local Finance in Contemporary Japan]. Tōkyō: Kōjinsha.
- Nihon Keizai Shinbun* (Tōkyō): *Ryōinzei, sekiyuzuei nado shingata kansetsuzei o tanjun heika: Ōkura, Jichishō, Jimin Zeichō ni teiji* [MOF, MOHA Present a Report to LDPTAC on Bringing Several Local Taxes into the New Indirect Tax], 1.6.1988, p. 3, morning edition.
- Nihon Keizai Shinbun* (Tōkyō): *Jimin Zeichō, tochi hoyūzei minaoshi kyōgi: Jichishō-an ni hiteiteki* [Negative Stance Towards the Ministry of Home

- Affairs' Plan in the LDP Tax Council Meeting on the Land-Ownership Tax], 9.11.1990, p. 2, morning edition.
- Nihon Keizai Shinbun* (Tōkyō): *Shintochi hoyūzei go-nengo minaoshi hatsugen, Ōkura, Jichiryō-shō ni 'shukudai'* [Comments on the 5 Year Later Revision of the New Land-Ownership Tax: Homework for the Ministry of Finance and the Ministry of Home Affairs], 30.11.1990, p. 5, morning edition.
- Nihon Keizai Shinbun* (Tōkyō): *Kōtei shisanzei age: kuni to chihō no zeigen araso-utsusu* [The Increase of the Fixed Assets Tax: It Reflects the Tax Field Fight Between the Central and Local Authorities], 12.12.1991, p. 3, morning edition.
- Nihon Keizai Shinbun* (Tōkyō): *Chihō shōhizei-an* [The Plan for the Local Consumption Tax], 8.5.1994, p. 4, morning edition.
- Nihon Keizai Shinbun* (Tōkyō): *Sangyō 'kudōka' soshi nerau* [The Goal of Blocking the Hollowing-Out of Industry], 3.5.1995, p. 3, morning edition.
- NISHIOKA, Toshirō (1989): 'Dōro San Hō' no seitei kettei [The Process of Setting Up the Three Road Laws]. In: *Tōkyō Shiritsu Daigaku Gakkai Zasshi* 30, 1, pp. 355–405.
- NOGUCHI, Yukio (1994): The Bubble and Economic Policies in the 1980s. In: *The Journal of Japanese Studies* 20, 2 (Summer), p. 291–330.
- NORTON, Alan (1994): *International Handbook of Local and Regional Government*. Aldershot: Edward Elgar Limited.
- REED, Steven (1986): *Japanese Prefectures and Policymaking*. Pittsburgh: University of Pittsburgh Press.
- SAKAMOTO, Chūji (1994): Seifu aida zaisei kankei no kaikaku to bunkenka [Decentralization and Reform of the Intergovernmental Fiscal System]. In: *Okayama Daigaku Keizai Gakkai Zasshi* 26, 2, pp. 78–102.
- SAMUELS, Richard (1983): *The Politics of Regional Policy in Japan: Localities Incorporated?* Princeton: Princeton University Press.
- Sankei Shinbun* (Tōkyō): *Zei: butaiura tsuibazeriai: chihō dokuji zaigen meguri kōbō* [Behind the Scenes in Tax Reform: a Close Contest in the Skirmishing Over Resources for Local Fiscal Autonomy], 23.11.1993, p. 9, morning edition.
- Sankei Shinbun* (Tōkyō): ([Zeisei] bakudan) *Seisaku rinen de shōchū ni, rekidai shushō mo [tsukaisute] ka: Ōkurashō no enshutsu* [MOF's Show: The Tax Bomb – Did They Use Up Other Prime Ministers Through Their Policies?], 10.5.1994, p. 1, morning edition.
- Sankei Shinbun* (Tōkyō): *'Chihō shōhizei' sōsetsu, ryōshō no ante zaigen bundori kassen hakunetsu, sanpi meguri ippo mo yuzurazu* [Setting up the Local Consumption Tax: The Fight between MOF and MOHA for Stable Revenues is White-Hot, and Neither is Yielding an Inch], 15.6.1994, p. 9, morning edition.

- SANO, Masato (1994): Jishu zaigen jūjitsu, shuhō ni ikichigai: jiritsu no rinrenka sumu, Ōkurashō ,zeisei konran' to hanpatsu [There Are Conflicting Ideas on How to Enhance Independent Revenue Sources. The Idea of Independence is Hazy, and MOF is Strongly Opposed to What It Calls 'Tax Confusion']. In: *Nihon Keizai Shinbun* 4.5.1994, p. 5, morning edition.
- SAWAI Masaru (1993): Bunkenteki zaisei kōzō o kangaeru [Thinking About a Decentralized Financial Structure]. In: *Uerufea* [Welfare] 13, pp. 24–27.
- SCHWARTZ, Frank (1993): Of Fairy Cloaks and Familiar Talks: The Politics of Consultation. In: ALLINSON, Gary and Yasunori SONE (Eds.): *Political Dynamics in Contemporary Japan*. Ithaca: Cornell University Press, pp. 217–241.
- SHINPO, Tetsuo (1994): Meiji reinendai no chihō gyōsei: Naimushō to Ōkurashō no sōkoku [Local Administration in the Early Meiji Era: The Conflict Between the Ministries of Home Affairs and Finance]. In: *Hōgaku Seijigaku Ronkyū*, Winter, pp. 629–655.
- STEINER, Kurt (1965): *Local Government in Japan*. Stanford: Stanford University Press.
- STEINER, Kurt, Ellis KRAUSS and Scott FLANAGAN (1980): *Political Opposition and Local Politics in Japan*. Princeton: Princeton University Press.
- STEINMO, Sven and Kathleen THELEN (1992): Historical Institutionalism in Comparative Politics. In: STEINMO, Sven, Kathleen THELEN, and Frank LONGSTRETH (Eds.): *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press, pp. 1–32.
- TAHARA, Soichirō (1979): Jichishō: zenkoku jichitai o shuchū ni shi Naimushō chakuryū wa nani o nerau [MOHA: What Does the Ministry That Has Descended Directly from the Interior Ministry and Holds the Local Authorities in the Palm of Its Hand Want?]. In: TAHARA, Soichirō (Ed.): *Nihon no kanryō, 1980* [Japan's Bureaucrats in 1980]. Tōkyō: Bungei Shunjū, pp. 34–66.
- TANABE, Kunio (1992): 1950-nendai ni okeru chihō zaisei chōsei seido no kōzō to henyō [The Structure of and Changes to the Local Finance Adjustment System in the 1950s]. In: *Neipo Seijigaku* 1992, pp. 115–138.
- TSURU, Shigeto (1989): The Political Economy of Urban Land: The Right of Property and the Price Revolution. In: BOWLES, Samuel, Richard C. EDWARDS, and William G. SHEPHERD (Eds.): *Unconventional Wisdom: Essays on Economics in Honor of John Kenneth Galbraith*. Boston: Houghton Mifflin, pp. 145–187.
- YAMAGUCHI, Jiro (1993): Seiji to gyōsei [Politics and Administration]. In: *Shisō* 4 (April), p. 68–89.