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Beyond National Uniformity:  
Diverging Local Economic Governance Under Japan's Decentralization Reforms

By  
Jung Hwan Lee

A dissertation submitted in partial satisfaction of the  
requirements for the degree of  
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in  
Political Science  
in the  
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Committee in charge:

Professor Steven K Vogel, Chair  
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by Jung Hwan Lee

Abstract

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by

Jung Hwan Lee

Doctor of Philosophy in Political Science

University of California, Berkeley

Professor Steven K. Vogel, Chair

Well known for its centralized local economic system under the national equity principle, Japan has experimented with transforming this regional redistribution system into a new local economic system of governance for more autonomous local economic growth over the past decade. This new local economic governance has been characterized by the increasing involvement of social actors, such as large private corporations and local communities, in policy processes.

This dissertation reveals that new local economic growth strategies for the new local economic governance have operated under very different models in different regions of Japan, although all new local programs have been introduced under the banner of public-private partnership. New partnership programs in the local economic policy arena in the 2000s have moved toward the *market model*, in which local authorities pursue growth by attracting international business resources, in the major metropolitan areas around Tokyo, Osaka, and Nagoya, whereas they have moved toward the *community model*, in which local authorities pursue growth by mobilizing local organizational resources, in the rest of Japan. The market model is embedded in market reform for deregulation that makes large private corporations' freer activities easy, whereas the community model is an attempt to strengthen the structure of endogenous networks among local authorities and local economic and social elites.

This dissertation highlights two variables to explain regional variations of local economic growth strategies: *dual local economic structures* and *diverging politico-economic coalitions*. First, under the rule of Koizumi Junichiro, a *coalition of promoting market reform* among neoliberal politicians and large private corporations has won politically over a *coalition for maintaining national equity* among politicians embedded in traditional conservative center-local linkages, local business groups, and local leadership of underdeveloped areas, in national politics. The regional redistribution mechanism stopped functioning in this political choice. Instead, market reform and local community participation have been introduced as alternatives to regional redistribution mechanisms. Second, the major metropolitan areas and other underdeveloped areas, which

came to stand on equal conditions for autonomous local economic growth strategies under decentralization reforms, are characterized by different situations in attracting private investment. The *competitive* regions of the major metropolitan areas have taken the market model as their main local economic growth strategy because they are competitive to attract private investment. In contrast, the *protected* regions outside the major metropolitan areas have taken the community model as their key local economic growth strategy because they have less competitive local economic structure of fading industries and scare population for attracting private investment.

Over the past decade, reforms for public-private partnership in the local economic policy arena resulted in the disturbance of the Japanese way of balancing market powers and local interests in the postwar period. In the postwar period, the centralized regional redistribution mechanism, led by national politicians and central bureaucracies, functioned as a tool for social integration with consideration for national equity. However, experiments with the new form of local economic governance were not successful in balancing market reform with local community mobilization. The mobilization of local community resources could not match the political role of the regional redistribution mechanism outside the major metropolitan areas. In addition, market reform, which has been more effective in the advanced major metropolitan areas, has produced increasing regional economic disparity. Japan has faced a complicated stand-off between large private corporations detached from specific localities and local communities locked in place, which were connected by national political coordination mechanisms in the postwar period. Although each of two diverging local economic growth strategies has been effective in different regions, there was no national political mechanism for mediating local variations of these localized programs in the 2000s.

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*Berkeley, California*

Junghwan

**Part I**  
**Decentralization Reforms and the New Local Economic Governance**

**Chapter 1**  
**Introduction: From National Equity to Local Partnership**

Over the past decade, the Japanese government has introduced decentralization reforms based on the principle of the public-private partnership in the local economic policy arena. Well known for its state-led local economic system under the principle of national equity, Japan has attempted to transform this nationwide redistribution system into the new form of local economic governance for more autonomous local economic growth. This new local economic governance is characterized by the increased involvement of social actors, such as private corporations and local communities, in the policy process. When the government has shifted from a top-down to a localized approach, in the 2000s, it has also moved from a state-led approach to one of public-private partnership in local land development policy, local industrial policy, and public facility management. The public-private partnership for more autonomous local economic growth has been hailed as an alternative to the state-led local economic mechanism in Japan.

In practice, however, new local economic growth strategies for the new local economic governance have operated under very different models in different regions of Japan. New partnership programs in the local economic policy arena in the 2000s have moved toward a market model in major metropolitan areas, whereas they have moved toward a community model in the rest of Japan. Although both market and community models are growth strategies under progrowth governance, so called by John Pierre (or entrepreneurialism, as termed by David Harvey), the two models vary in their main social partners, key strategies, and critical resources. In the 2000s, Japan showed clear, distinctive regional variations of local economic growth strategies with respect to how much large private corporations and local business and social communities played a key role in implementing new local economic programs.

The market model, in which local authorities pursue growth by attracting international business resources, creates an incentive structure for private investment by large corporations that are detached from specific localities. Therefore the market model is embedded in market reform for deregulation that makes large private corporations' freer activities easy. In the 2000s, the market model has been sweeping the major metropolitan areas around Tokyo, Osaka, and Nagoya with new partnership programs such as the City Rehabilitation Program, the Structural Reform Special Zone, and the Private Financial Initiative (PFI).

In contrast, the community model, in which local authorities seek growth by mobilizing local organizational resources, attempts to strengthen the structure of endogenous networks among local authorities and local economic and social elites. Therefore the core of the community model is to enhance local coordination through the increased participation of local economic and social elite groups in local economic policy. In the 2000s, the community model has settled in regions outside the major metropolitan areas with new partnership programs such as the City Planning of Downtown Development,

the Industrial Cluster Plan, and the Authorized Manager System.

Why have there been regional variations in formulating new local economic governance between the major metropolitan areas and the rest of Japan? This dissertation explains this variation with reference to dual local economic structures—competitive or protected—and diverging politico-economic coalitions for and against the postwar settlement of the national equity principle: a coalition for enhancing market reform and a coalition for maintaining national equity.

First, localities' options for new local programs have been under the influence of a political choice for a nationwide local economic system in national politics. In the 1990s, there has been the increasing confrontation between a coalition for promoting market reform among neoliberal politicians and large private corporations and a coalition for maintaining national equity among politicians embedded in traditional conservative center-local linkages, local business groups, and local leadership of underdeveloped areas. A coalition for market reform, desired to dismantle the postwar settlement, has emphasized deregulation in advanced areas and less protection in underdeveloped areas. In contrast, a coalition for national equity, desired to maintain the postwar settlement, has initially tried to stick to a package of regulation and protection. When a coalition for market reform has won over a coalition for national equity in national politics under the rule of Koizumi Junichiro, the regional redistribution mechanism stopped functioning. Instead, market reform and local community participation have been introduced as alternatives to regional redistribution mechanisms.

Second, when each locality came to stand on equal conditions for autonomous local economic growth strategies under decentralization reforms, the choices of each locality are constrained or given opportunity by their local economic structures. The industrial dualism, which has been evolved in the twentieth century, created local economic dualism between competitive regions and protected regions. Their different local economic structures are characterized by different situations in attracting private investment. Because advanced regions of the major metropolitan areas have a competitive local economic structure of technology-based industrial accumulation and large population, these regions are competitive to attract private investments and so favorable to the market model as their main local economic growth strategy than the community model. In contrast, protected regions outside the major metropolitan areas, which are less competitive in attracting large private corporations because they have a local structure of fading industries and scare population, are more favorable to the community model than to the market model.

Local variations between the market model and the community model fundamentally challenged the Japanese way of harmonizing Japan's two goals in the postwar period: to initiate rapid economic success and to maintain social harmony. Japan successfully balanced economic growth and social coordination, standing on two pillars of industrial and redistribution policy. In this system, the centralized regional economic policy functioned as the keeper of social integration with consideration for national equity. Although dual local economic structures between advanced areas and underdeveloped areas have evolved over the postwar period, conservative national politicians of the Liberal Democratic Party (LDP) and central bureaucracies had coordinated different interests with the national equity principle. A combined package of regulation in advanced areas and

protection in underdeveloped areas composed the postwar settlement in the local economic policy arena. However, the transformation toward new local economic governance through public-private partnership has produced a growing difficulty of this Japanese way of binding large private corporations and local communities. The enfeeblement of this central mechanism binding large private corporations and local communities propelled them toward claiming different territorial bases during decentralization reforms. This dissertation examines how the experiment for the new local economic governance dismantled the Japanese way of harmonizing large private corporations and local communities as well as what are the political implications of regional variations between the market and community models.

From a comparative perspective, confrontation and regional variations between the market model and the community model are not unique to Japan. Many advanced Western democracies and developing countries have been changing their local economic governance form toward partnership types in the context of a globalized world economy and pro-market or pro-community intellectual moods.<sup>1</sup> As in Japan, the reorganization of local systems under partnership with large private corporations and local communities is a demanding issue in many countries. Therefore the Japanese way of searching for a new form of local economic governance can be a noteworthy case study of global trends in decentralization.

### **Decentralization, Governance, and Partnership**

The pursuit of new local economic governance based on public-private partnership is not a phenomenon unique to Japan. The rise of governance and partnership concepts is a global phenomenon during decentralization reforms; Japan is a latecomer among advanced countries.

From a global perspective, decentralization has been in fashion since the 1970s and 1980s. In the middle of the twentieth century, government power and authority in both advanced and developing countries increased. However, during the 1970s and 1980s, globalization prompted some governments in advanced countries to note the restraints of central economic planning and management. During the same period, development theories and strategies of international aid agencies shifted from central economic planning to trickle-down theories of economic growth planning. These changes in both developed and developing countries led to decentralization reforms.<sup>2</sup>

The first wave of decentralization reforms concentrated on deconcentration, devolution, and delegation of hierarchical government structures and bureaucracies.<sup>3</sup> Deconcentration aimed to move administrative responsibilities from central ministries and departments to regional and local administrative levels by setting up field offices of national departments and transferring some authority for decision making to regional field offices. Devolution attempted to fortify local governments by giving them the power, responsibility, and resources to provide services and infrastructure and to make and

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<sup>1</sup> Andrews 2003.

<sup>2</sup> Cheema and Rondinelli 2007.

<sup>3</sup> Stevenson 2003.

implement local policies. Through delegation, national governments shifted the managing authority for specific functions to semiautonomous or parastatal organizations and state enterprises, regional planning and area development agencies, and public authorities. The first wave of decentralization reforms tried to speed up development and enhance the efficiency of delivering public services to people, while acknowledging the supreme power and responsibilities of public authorities against social sectors.

However, the growing decline of centrally planned economies and the speedy growth of international trade and investment have changed the characteristics of decentralization reforms since the mid-1980s. The second wave of decentralization reforms came with the idea of diverse players in the local policy arena. The New Public Management (NPM) argument and the civil society argument of the 1990s in some advanced countries argued that government could not be an effective service deliverer.<sup>4</sup> Rather than delivering public services directly, government should be a guide, that is, a “seer rather than row” in the words of Osborne and Gaebler.<sup>5</sup> Therefore governments must push social sectors to solve their own problems by deregulating and privatizing those activities that could be carried out more efficiently or effectively by private businesses or civil society organizations than by public agencies.

This new approach was combined with the rise of the governance concept in the 1990s.<sup>6</sup> Governance is understood to comprise institutions and processes through governments—central and local—and social sectors (private corporations and civil society organizations) interacting with each other in making public goods rather than delivering direct governmental service.<sup>7</sup> The concept of governance does not regard decision making as an arena of government but rather as a cooperative space among governments, businesses, and social organizations.<sup>8</sup>

The second wave of decentralization reforms was embedded in the rise of the governance concept. In the second wave, the contents of decentralization contained not only the transfer of power, authority, and responsibility within government—that is, from central to local—but also the sharing of authority and resources with social actors to make public policy. In this approach, decentralization is a reform tool for widening the roles of social sectors. Adherents of governance concepts argue that decentralization reforms can help to crack rigidity in hierarchical bureaucracies and support local officials and social sectors to avoid complex and time-consuming procedures and to speed up decision making. In this context, the second wave of decentralization reforms concentrated on the introduction of local partnership programs inspired by the concept of governance. The effective partnership between public agencies and social sectors is the kernel of the second wave of decentralization reforms.

Public-private partnership, the first principle in the second wave of decentralization reforms, is not totally new. Because all political institutions should

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<sup>4</sup> Hood 1998.

<sup>5</sup> Osborne and Gaebler 1992.

<sup>6</sup> Rhodes 2007.

<sup>7</sup> Rhodes 2007

<sup>8</sup> Newman 2005.

maintain a certain relationship with society, all models of government are embedded in a particular model of state-society interaction, so public-private partnership has a long history in many countries.<sup>9</sup> However, they have become significantly more popular among policy makers under ideas of governance since the 1980s.<sup>10</sup> In the second wave of decentralization reforms backed by the governance concept, public-private partnership became an ideological slogan for criticizing government-driven policies and enhancing new partnership programs.

### **The First and Second Waves of Decentralization Reforms in Contemporary Japan**

The development of decentralization reforms in Japan has proven similar to the global trend of decentralization reforms. While its start occurred later than in other advanced countries, Japan's decentralization reforms can be categorized into two phases. The first wave was the devolution of power from the central to the local with institutional changes; the second wave was the introduction of new local economic programs under the principle of public-private partnership.

In Japan, local policy processes, controlled by the central government, have been severely criticized since the 1980s. In the postwar period, national plans led by the central bureaucracy and national politicians provided a national standard for all regions, which guaranteed public investment for backward regions. Of course, there were many cases of local government measures in this high-growth era.<sup>11</sup> The flourishing of localities in postwar Japan could be found in local governments' wide functions in noneconomic policy arenas such as education, the environment, and welfare implementation. However, almost all policies were guided by the direction of the central bureaucracy's policy. Rather than an autonomous policy profile, therefore, the activity of local governments looked like lobbying to national politicians and central bureaucrats that was a way to bring in more money.<sup>12</sup> Because of national guidelines, all regions had similar policy units under the standardized policy profile. In the postwar period, a regional policy led by a central mechanism ensured a successful nationally balanced redistribution. However, many Japanese commentators have questioned the role and function of Japan's central administration in the regional policy arena since the 1980s. They argue that the rigidity in the overall political economic system and huge budget deficits in central and local government originated from the central government's severe involvement in the local policy arena and excessive public investment.<sup>13</sup> The demand for structural reform in the local policy arena has intensified since the 1980s. Therefore many ideas and debates arose in the second Administrative Reform Council (ARC) regarding reforms of the centralized administrative structure during the 1980s.

However, focusing on institutional changes for the devolution of power, the first

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<sup>9</sup> Kooiman 1993.

<sup>10</sup> Bailey 1994.

<sup>11</sup> Muramatsu, Iqbal and Kume 2001.

<sup>12</sup> Samuels 1983; Muramatsu 1986.

<sup>13</sup> Tanaka 2008

waves of decentralization reform in Japan started with political reshuffling. Decentralization became a hot topic in the reform agenda after 1993, when the LDP lost its power after a fifty-year rule. The mid-1990s was the so-called new era of the locals in Japan. The Committee for Promoting Decentralization (CPD) was organized in 1995 to make practicable reform plans for decentralization. The main task of this committee was to provide detailed plans for administrative change between the central and local governments. Its fundamental goal was to transform legal relations between the central and local governments from a hierarchy to equivalent relations.<sup>14</sup> Many administrative institutional changes were introduced under this essential goal. On the basis of recommendations of the CPD, the Decentralization Promotion Plans (DPP), legislated in 2000, abolished the delegation function system, whereby local governments acted as the local instrument of the central government; clarified the roles of the central and local governments; and devolved the authority of various administrative works from the center to prefectures and municipalities.<sup>15</sup>

In the 2000s, institutional changes for the devolution of power to prefectural and municipal local authorities continued in the arena of local tax systems. The Trinity Reform, which targeted increasing Japanese localities' fiscal autonomy, has been a key reform agenda under the Koizumi cabinet since 2002. It aimed to curtail central government's fiscal intervention and enlarge local governments' fiscal autonomy via reducing national subsidies to local governments; transferring some of its tax revenue sources to local authorities; and reviewing its tax grants to them.<sup>16</sup>

The second wave of decentralization reforms in Japan involved introducing several new local partnership programs to local economic policy under the Koizumi cabinet. The central government has introduced several new programs in the local economic policy arena to enhance local economic growth. These programs have been targeted to promote the involvement of social sectors—large private corporations and local communities—under the principle of public-private partnership. In local land development policy, the City Rehabilitation Program and the City Planning of Downtown Development were provided to the Japanese localities. In the local industrial policy arena, deregulatory programs such as the Structural Reform Special Zone and participatory programs such as the Industrial Cluster Plan have coexisted. The PFI and the Authorized Manager System have worked as tools for enhancing the involvement of social sectors in public facility management. All programs have attempted to encourage local public-private partnership as a new way for promoting local economic growth under political leadership against the state-led nationwide redistribution mechanism. Central bureaucracies and national politicians provided nationwide mechanisms of regulation and protection in all three policy arenas during the postwar period. After 2000, the Japanese government, in each policy arena, provided new programs requiring the involvement of social sectors in their planning and implementation. Therefore local public-private partnership became an essential principle of Japanese decentralization reforms in the 2000s. However, there has been the

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<sup>14</sup> CPD 1996a.

<sup>15</sup> Yagi 2004.

<sup>16</sup> Hayashi 2006.

divergence between programs partnering with large corporations and ones with partnering with local communities in each policy arena.

In local land development policy, both the City Rehabilitation Program and the City Planning of Downtown Development demanded an increasing role for social sectors. However, the City Rehabilitation Program sought to widen large private corporations' investment in land development while deregulating several restrictions on new land (re)-development. In contrast, the City Planning of Downtown Development attempted to mobilize the participation of local communities, especially local business communities. The City Planning of Downtown Development was introduced to enhance the redevelopment of downtown commercial districts in local cities. Since the alteration of the Large-Scale Retailer Law in 2000 made the opening of large-scale malls easy, the City Planning of Downtown Development program was provided to protect local commercial business communities. The Japanese government demanded distinctive participation by local communities in the City Planning of Downtown Development. Although both the City Rehabilitation Program and the City Planning of Downtown Development emphasized the heavy role of social sectors, different sectors were involved in each program: large private corporations in the former and local communities in the latter.

Local industrial policy was a subcategory of nationwide industrial location policy during the postwar period, controlled under the central mechanism. Industrial policies were the territory only of central bureaucracies: the Ministry of International Trade and Industry (MITI) and subsequently the Ministry of Economy, Trade, and Industry (METI).<sup>17</sup> However, simultaneously with decentralization reforms, localities became significant actors in employment and industrial policies.<sup>18</sup> Central bureaucracies supported localities' activities with new programs, including the Industrial Cluster Plan and the Structural Reform Special Zone.<sup>19</sup> There are two trends in promoting local manufacturing industries: the invitation of exogenous private investment and the promotion of local businesses' endogenous networks. Though attracting private investment is accompanied by incentives for exogenous large private corporation investment, the increasing participation of local business communities was key to the advancement of local business networks. The Industrial Cluster Plan is a distinctive program designed to increase local business networks and cooperation within localities with more participation by endogenous local business communities. In contrast, several local authorities have tried to induce exogenous manufacturing business investment since the 1990s, and the Koizumi cabinet provided a systematic program for this trend through the abolition of the Industrial Location Law and the legislation of the Structural Reform Special Zone. Whereas both trends aimed to enhance the participation of businesses, the attraction of exogenous investment generally targeted large private corporations, but the promotion of endogenous networks targeted local business communities.

In the former state-led system, local public authorities directly managed many local facilities for service delivery in infrastructure, welfare, education, recreation, and so

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<sup>17</sup> Johnson 1982.

<sup>18</sup> Giguère and Higuchi 2005; Nihon Seisaku Tōshi Ginkō 2001.

<sup>19</sup> Nishikawa 2008; Misono, Hattori, Omae 2008.



on. However, new partnership programs for public facility management reform have been introduced in the context of administration reform. All aim to curtail governments' fiscal burden, and therefore many programs have attempted to invite private corporations into service delivery.<sup>20</sup> There were, however, some challenging programs that aimed for the utilization of local communities' activities in managing public facilities. The PFI is a typical program to enhance the participation of large private corporations in public facility management. In contrast, through the Authorized Manager System, local (business and social) communities can be a partner with local authorities in managing public facilities. Japanese leaders have tried to draw traditional local social organizations and also non-profit organizations (NPOs) that blossomed at the local level in the 1990s into new programs for public facility management.<sup>21</sup>

Figure 1-1: Divergent Growth Strategies in the Local Economic Policy Arena

	<b>Market Model</b>	<b>Community Model</b>
	<b>Dominant in the major metropolitan areas</b>	<b>Dominant in other regions outside of the major metropolitan areas</b>
<b>Local Land Development Policy</b>	City Rehabilitation Program	City Planning of Downtown Development
<b>Local Industrial Policy</b>	Structural Reform Special Zone; Abolition of Industrial Location Law	Industrial Cluster Plan
<b>Public Facility Management Reform</b>	Private Finance Initiative	Authorized Manager System

The most significant aspect of the introduction of new partnership programs is that there have been diverging strategies in each policy arena. A strategy of market reform is common in the City Rehabilitation Program, Structural Reform Special Zones, and the PFI to attract private investment of large corporations. In contrast, a strategy of strengthening endogenous networks can be found in the City Planning of Downtown Development, Industrial Cluster Plan, and the Authorized Manager System to mobilize local business resources.

**Divergent Strategies for Progrowth Governance:  
Market Model versus Community Model**

Public-private partnership is not only a principle for promoting economic growth but also for other values such as administrative efficiency and better democratic coordination. However, economic growth has been the central goal in the second wave of Japan's decentralization reforms. Since Japanese leaders have attempted to boost local economic growth with the introduction of new partnership programs in the local economic

<sup>20</sup> Sasaki 2009.

<sup>21</sup> Isa 2008.

policy arena, progrowth governance (or entrepreneurialism) became the most dominant model among diverse types of local governance. However, there have been diverging strategies for progrowth governance under Japan's decentralization reforms.

Progrowth governance is an ideal type of local governance under Pierre's typology of managerial, corporatist, progrowth, and welfare governance.<sup>22</sup> Since local governance is a process of relationships between public authorities and social sectors in certain regions, there can be several different models of local governance reflecting different systems of values, norms, goals, key social partners, and key instruments. This means that local governance is rooted in a sum of political, economic, social, and historical factors related to relationships among national and local authorities, business, and local society. Ideal types of local governance are derived from different policy objectives, primary participants, nature of public-private partnerships, and key instruments of the locality's dominant policy programs.

Managerial governance is highly related to the NPM argument. Historically, local government has played two roles in a liberal democratic regime: it has acted as a service provider and as a political arena for local democracy.<sup>23</sup> Since the 1980s, pundits emphasizing the role of service provider have given priority to efficient institutions and processes of local service delivery. The NPM argument is a well-known efficiency-centric vision of local governance. It heavily highlights the inevitability of changing government toward mission-driven, result-oriented, and customer-driven strategies to create effective local governance. In this approach, efficiency is the top priority in local governance.<sup>24</sup> Managerial governance blurs the separation of public authority and social sectors by introducing a market mechanism in public service production and delivery and emphasizing economic efficiency as the main evaluation criterion. Therefore it lays stress on professional management over political involvement.

Corporatist governance depicts local government as a political and democratic system to include social groups and their interests in the local political and policy processes. Concerted coordination is the most distinctive feature of corporatist governance. In corporatist governance, local business and civic leaders participate in the coordination process not only through formal delegation of organized interests but also through informal interaction between local political leadership and local societies.<sup>25</sup> Principally, the corporatist governance is archetypal of the industrial advanced democracies of Western Europe. Corporatism is a tradition developed from a high degree of political involvement, strong voluntary association, and comprehensive welfare state service provision. However, corporatist governance is not unfamiliar in Japan. Coordination through a concerted process between public authorities and deliberated representation was widely seen in the national policy mechanism in the postwar period.

Ted Gurr and Desmond King labeled localities that are heavily dependent on governmental spending to maintain individual and collective existence in the advanced

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<sup>22</sup> Pierre 1998.

<sup>23</sup> Pierre 1999.

<sup>24</sup> Cheema and Rondinelli 2007.

<sup>25</sup> Brannan, John, and Stoker 2007.

capitalist societies as welfare cities.<sup>26</sup> Although welfare governance as a model of local governance in certain regions is not highly correlated with the existence of a national welfare system, redistribution is a key policy objective in both national welfare systems and welfare local governance. Welfare governance is considered a local politico-economic structure for getting better redistribution from the national state under a condition that these localities of welfare governance are less compelling in attracting private businesses. Therefore the main participants of welfare governance are national and local politicians and bureaucrats. This model is at least connected with public-private partnerships. In many countries, this central-local political linkage for redistribution is highly correlated with pork-barrel politics. National and local politicians try to get political support through public investment in their constituencies. Public investment is a method of mobilizing local citizens as clients. Therefore redistribution, accepted as reasonable to local residents, is a key policy objective. Although this model originated from ideological local political conditions of depressed regions in advanced countries, pork-barrel politics and paternalism for so-called welfare governance have existed widely everywhere, from advanced Western countries to developing countries. In Japan, this model has been embedded in regional redistribution mechanisms led by the LDP and central bureaucracies. It has been one of the pillars of conservative political linkages in rural areas in postwar Japan.

Progrowth governance is an arrangement of public and private actions to promote the local economy, and therefore its key policy objective is definitely local economic growth. This model has become the most familiar notion of local governance under the trend of the globalized market economy over the world. Even in countries in which local government funding comes primarily from the state, private businesses provide jobs, which would increase local income taxes. Although all actors are directly and indirectly related to the local economy, progrowth governance is a distinctly elitist governance model. Private businesses are the most significant participants in choices of local political leadership for key instruments or strategies in their regions.

However, progrowth governance does not have a unitary strategy for boosting the local economy. Public-private collaboration for local economic growth is embedded in political choices under the urban regime, in the words of Clarence Stone. Stone describes public-private collaboration for local economic choice as an urban regime, “an informal yet relatively stable relations with access to institutional resources that enable it to have a sustained role in making governing decisions” between local government and business.<sup>27</sup> The concerted arrangement of local economic mechanisms among local political and economic elitist groups under the urban regime shapes “distinctive policy agendas that are influenced by the participation in the governing coalition, the nature of the relationship between participants, and the resources they bring to the coalition.”<sup>28</sup> Therefore different characteristics of the local production system and its related political coalitions would produce different dominant collaborations for the urban regime and also different policy agendas, that is, different strategies for local economic growth. Splitting up models of

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<sup>26</sup> Gurr and King 1987.

<sup>27</sup> Stone 1989.

<sup>28</sup> Stone 2005.

progrowth governance is beneficial for understanding local variations of local economic growth strategies.

Diverging strategies for local economic growth in post-2000 Japan can be explained with reference to market and community models. The market model, which is connected with market reform for attracting external investment, essentially collaborates with large private corporations. In contrast, the community model, which seeks to cultivate existing economic resources, essentially collaborates with local, relatively small business community groups.

The distinctive characteristic of the market model is that localities pursue growth through attracting private investment. Local authorities do not give special treatment to existing local businesses in the market model. Instead, they organize an incentive structure for private investment regardless of a business's location. Incentives are bigger for large investments. Therefore the market model is favorable to large private corporations, although they are detached from specific localities. Therefore the nature of relations between local authorities and business is an interactive exchange of investment and incentives. Local authorities provide businesses with several benefits such as subsidies and tax favors. The market model is well combined with the neoliberal trend. In the globalized international economy, many localities in the world have accepted the market model to attract private investment.

In contrast, the distinctive characteristic of the community model is that localities seek to enhance local economic conditions through mobilizing existing local business networks. Local authorities under this model do not avoid private investment from private capital; however, their dominant strategies are to develop and intensify local, coordinated business and civil networks. A local network aims to solve local business problems and to develop strategic directions for local economic development. Since the community model is based on local organizational resources, its key strategy is to construct more institutionalized and formalized ways for local business and social elite groups to participate in local policy process. Therefore the nature of the public-private partnership in the community model features concerted coordination among local political and social elite groups, similar to corporatist governance. The feasibility of the community model is highly dependent on traditional characteristics of local (and also national) social relationships in certain regions.

In searching for the new local economic governance under Japan's decentralization reforms, progrowth governance is more notable than other ideal types of local governance. Of course, there are phenomena representing managerial, corporatist, and welfare governance in contemporary Japan. First, many Japanese local authorities were trying to outsource some of their service delivery functions through programs such as the Marketization Test and the Contracting Out. In addition, there are characteristics of managerial governance in the PFI and the Authorized Manager System. However, these two programs are also a method for boosting local economic growth, and so tools of progrowth governance. Second, corporatist governance is well combined with the community model of progrowth governance. Since corporatist governance is process driven and progrowth governance is result oriented, concurrence of these two governances is not unusual. Key instruments of corporatist governance, such as coordination and deliberation, also serve as

instruments of the community model of progrowth governance. Finally, welfare governance, in the words of Gurr and King, which could be found in regional redistribution mechanisms during the postwar period, is no more an option for Japanese localities; rather, the central government initiated several new programs to deviate from this redistribution mechanism and guide more localized growth strategies.

Figure 1-2: Four Idea Types of Local Governance and Two Local Growth Strategies

	<b>Managerial Governance</b>	<b>Corporatist Governance</b>	<b>Welfare Governance</b>	<b>Progrowth Governance</b>	
				<b>Market Model</b>	<b>Community Model</b>
<b>Policy Objectives</b>	Efficiency	Coordination	Redistribution	Growth	Growth
<b>Primary Participants</b>	Professionals	Local Leaders	Politicians	Large Private Business	Local Business Community
<b>Nature of Public-Private Partnership</b>	Competitive	Concerted	Political (the least embracing partnership)	Interactive	Interactive
<b>Key Instrument</b>	Contract	Network	Public Investment	Private Investment	Network

In the local economic policy arena, distinctive new partnership programs, heavily introduced by central bureaucracies and national politicians and partly initiated by local leadership, are categorized into market and community models of progrowth governance. In the 2000s, the City Rehabilitation Program, the Structural Reform Special Zone, and the PFI are fit to the market model. In contrast, the City Planning of Downtown Development, the Industrial Cluster Plan, and the Authorized Manager System are fit to the community model.

**Local Variations of Diverging Partnership Programs**

Divergent growth strategies, which have different social partners between large private corporations and local communities, have territorially differentiated dominances in local land development policy, local industrial policy, and public facility management reform in post-2000 Japan. New partnership programs relevant to the market model are heavily dominant in the major metropolitan areas, but ones relevant to the community model are preeminent in the underadvanced regions outside the major metropolitan areas. There is a diverging local dominance of partnership programs in the local economic policy arena and so diverging growth strategies between the market model and community model.

Local variations of partnership programs are mostly apparent in the local land development policy that will be described in detail in chapter 4. The City Rehabilitation Program is found predominantly in advanced industrial urban areas, especially in the major metropolitan areas around Tokyo, Osaka, and Nagoya. Large-scale land redevelopment of

the old commercial and residential areas has been carried out mainly in these areas due to economic efficiency. On the other hand, City Planning of Downtown Development took off in mid-sized local cities such as Toyama and Aomori. In the 2000s, these mid-sized local cities outside the major metropolitan areas have attempted to redevelop the old downtown districts with the participation of local business communities rather than developing suburban areas.

In local industrial policy, local variation is based on localities' location of nationwide industrial accumulation that will be described in detail in chapter 5. Attracting exogenous businesses has also been heavily effective in the major metropolitan areas, where manufacturing industries were highly developed during the postwar period. However, although the encouragement of endogenous business networks is a nationwide general phenomenon, localities outside the major metropolitan areas are placing more emphasis on keeping endogenous businesses. Many localities outside the major metropolitan areas turned their focus to endogenous industries in the 2000s.

However, these diverging patterns are less explicit in the public facility management reform that will be described in detail in chapter 6. The PFI and the Authorized Manager System have been broadly carried out regardless of their location. However, although the PFI has been carried out nationwide, the PFI projects have been heavily dominant in the major metropolitan areas because these areas have more large-size facilities suitable for the PFI. Since the scale of facilities does matter, there are some cases of PFI projects in localities outside the major metropolitan areas if the scale of the project is extensive. In contrast, though the Authorized Manager System has been carried out nationwide, instead of local variation, there is competition between local community groups and professional management companies in engaging public facility management. Whereas the market model is dominant in the major metropolitan areas through the PFI, there is a coexistence of the community model and managerial governance in the Authorized Manager System.

### **What Led to Variations Between the Two Divergent Strategies?**

Why did these different developments occur? Why are partnership programs of the market model dominant in the major metropolitan areas and those of the community model in other regions outside the major metropolitan areas? I suggest two independent variables to explain the diverging paths of local economic growth strategies between the market and community models. One is dual local economic structures, competitive and protected, and the other is diverging politico-economic coalitions for and against the postwar settlement of the national equity principle—a coalition for enhancing market reform and a coalition for maintaining national equity.

The choices of localities are constrained or given opportunity by their local economic structures. Competitive regions and protected regions have different features that attract private investment to undertake new programs in the local economic policy arena. Two hypotheses regarding dual local economic structures are possible:

- H1-1: If a certain locality already has a local structure of technology-based manufacturing, industrial accumulation, and large population (competitive regions), this locality is more favorable to the market model than to the community model.
- H1-2: If a certain locality has a local structure of fading industries and scarce population (protected regions), this locality is more favorable to the community model than to the market model.

In its historical industrial development, Japan showed the duality of local economic structures. The course of Japan's rapid growth shaped an industrial dualism between the "outer-focused" sector and the "inner-focused" sector.<sup>29</sup> In the postwar period, selective industrial policies were actively performed to create comparative advantages. The policies were implemented in capital-intensive industries, such as steel, shipbuilding, and heavy machinery, in the 1950s and 1960s and in technology-based industries, such as cars, computers, and other electronics, in the 1970s and 1980s.<sup>30</sup> However, many domestic-focused industries were heavily sheltered from both imports and inward foreign investment. The inner-focused sectors included agriculture, wholesale and retailing, telecommunications, transportation, banking, finance, insurance, construction, real estate, and food and beverages. Protection and subsidization of the inner-focused sector were formulated to rectify income disparities and maintain stable employment conditions in the face of fast growth.<sup>31</sup>

This industrial dualism also created local economic dualism. The outer-focused sectors have been located around major metropolitan areas, and other localities have held the inner-focused sectors. In the 1960s and early 1970s, several policies were implemented to change this local economic dualism, but the dualism was adhered to, which will be described in detail in chapter 3.

Under decentralization reforms, the competitive regions around the major metropolitan areas, which already had a local structure of technology-based manufacturing, industrial accumulation, and large population, were easily able to undertake partnership programs within the market model. Large private corporations in the outer-focused sectors and huge wholesale groups were ready to invest in these regions because of their advantages of proximity to existing industrial bases and huge populations (H1-1). However, the protected regions outside the major metropolitan areas, which had less compelling incentives for large private corporations compared to competitive regions, focused on keeping existing industries and protecting downtown retailers and small construction businesses (H1-2). Local economic dualism constrains and provides opportunities to localities.

On the other hand, national politicians and central bureaucracies have provided the option of local economic policy with confrontation and coordination among different economic interests. Under the postwar settlement for the national equity principle, a local

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<sup>29</sup> Ozawa 2003.

<sup>30</sup> Itō 2000.

<sup>31</sup> Fujii 2004.

redistribution system evolved and was intensified by political coordination by the LDP and central bureaucracies. In decentralization reforms for public-private partnership, untied politico-economic coalitions—a coalition for market reform and a coalition for national equity—became a political factor in producing diverging local economic growth strategies. Three hypotheses on national politico-economic coalitions are possible:

- H2-1: If a coalition for national equity is dominant in national politics, the postwar settlement will remain a key principle of local economic policy.
- H2-2: If a coalition for market reform is dominant in national politics, there is less regulation and more encouragement of private investment by large private corporations in competitive regions (market model).
- H2-3: If a coalition for market reform is dominant in national politics, there is an emphasis on local business networks and social participation in local economic policy processes as an alternative to a redistribution policy in protected regions (community model).

In the 2000s, there was increasing confrontation between a coalition for market reform among neoliberal politicians and large private corporations and a coalition for national equity among politicians embedded in traditional conservative center-local linkages, local business groups, and local leaderships of underdeveloped areas. Large private corporations and local communities have different visions regarding decentralization reforms. Even though they agree on the necessity of deviating from the “controlled” feature of the existing state-led local policy mechanism, they hold different attitudes regarding the “equity” feature.

The request for market reform has intensified among large private corporations, local leadership of major metropolitan areas, and neoliberal national politicians. Large private corporations want to deviate from the principle of equity under a situation of lengthy economic recession. In the 2000s, the Keidanren, the Japanese Business Federation, argued that there could be no growth without structural reform.<sup>32</sup> The federation desired the abolition of regulations restricting private investment in major metropolitan areas, the main operation bases of Japanese big businesses, and deregulation in land development and public facility management. Local leadership of the major metropolitan areas also desired less regulation over private investments in their regions. Tokyo and Osaka prefectures continued to demand the abolition of regulations restricting private land development projects and new industrial investments. The Koizumi cabinet stood on the side of large private corporations in its central policy orientation. Its key organization for policy making, the Council on Economic and Fiscal Policy (CEFP), became an arena of coordination between neoliberal national politicians and large private corporations.<sup>33</sup>

In contrast, local leadership outside the major metropolitan areas and their local business communities still want to retain the principle of national equity in the local economic policy arena. Almost all local Japanese leaders understand the problem of

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<sup>32</sup> Keidanren 2000.

<sup>33</sup> Uchiyama 2007.



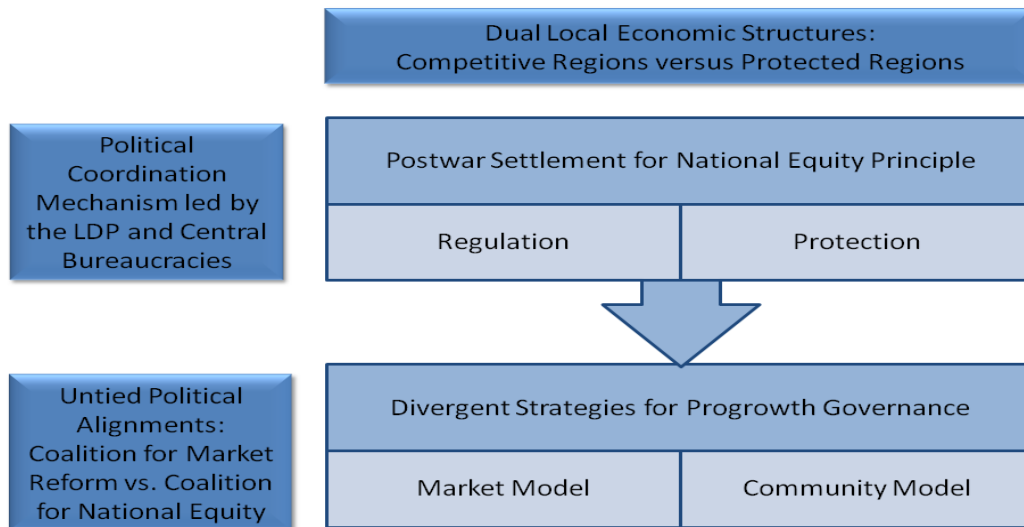
high-level budget deficits and the rigidity of the centralized policy mechanism, but they do not want to touch the principle of national equity. To many local leaders, national equity means maintaining fiscal sources for public investment, which helps local economies. Although some reformist local leaders have tried to deviate from the cost-taking structure of public investment, these reformists want to transfer their budgets to their autonomous local policies without budget cuts. Local business communities outside the major metropolitan areas—relatively small, less competitive market actors—also desire to maintain protection under the national equity principle. In addition, the “protectionist” politicians within the LDP, representing a domestically oriented world, continue to support local redistribution policy.

When a coalition for market reform was winning over a coalition for national equity in the early 2000s, local redistribution policy came to lose its core position in the local economic policy arena. H2-1 was not possible in this situation. Instead, the central government introduced the more localized partnership programs. New partnership programs relevant to the market model are well fit to competitive regions because these programs were what a coalition for market reform desired. Since the major metropolitan areas have competitiveness in attracting private investment of large private corporations, many partnership programs of the market model, aiming to abolish regulations in these regions, could fit smoothly into these regions with the support of a coalition for market reform (H2-2).

In contrast, the winning of a coalition for market reform produced several difficulties in protected regions. Protected regions could not benefit from public investment under the postwar settlement, and they are also less competitive in attracting private investment in comparison with major metropolitan areas. In this situation, the community model became an alternative to these regions because local communities already have explicit and implicit institutional frameworks to increase participation (H2-3). Local business associations, which were well organized in the twentieth century, were the distinctive local community groups enhancing participation in the 2000s. In localities outside the major metropolitan areas, local business associations, such as local chambers of commerce and industry, could be reliable partners of the community model. Central bureaucracies provided community model options to localities simultaneously with market model options. They wisely devised new programs within the community model to mobilize local business communities in protected regions, recognizing that the market model of the major metropolitan areas hurt local business communities, an important stakeholder of a coalition for national equity.

The decisive reason for the diverging paths of the major metropolitan areas and others in accepting new local economic growth strategies is that it is difficult for an effective growth strategy in competitive regions and one in protected regions to coexist. Growth in competitive regions demands deviation from the postwar settlement of regulation and protection. However, growth in protected regions needs to maintain the principle of national equity and so the postwar settlement. While the market model in competitive regions is antagonistic to postwar settlement, the community model became an alternative of protected regions to substitute protection under the postwar settlement.

Figure 1-3: From the Postwar Settlement to Divergent Local Growth Strategies



### From State-Led National Equity to Divergent Local Partnerships

Japan is well known for simultaneously achieving rapid economic growth and even wealth distribution in the late twentieth century. Politics played a role in binding market and local societies in postwar Japan. Japanese leaders were distinctly sensitive to regional disparity and tried to overcome it with a combination of regulation and protection. In the postwar period, national politicians and central bureaucracies attempted to redistribute wealth on the basis of industrial sectoral balance and regional equity.<sup>34</sup>

Japanese leaders tried to protect fading industries and domestic-demand industries with policy networks, bureaucratic guidance, and inter- and intra-sector coordinations.<sup>35</sup> The policy network in each industry among businesses, central bureaucracies, and *zoku* politicians guaranteed noncompetitive, harmonious development of all industrial sectors. Industrial sectoral balance worked as a useful tool guaranteeing national equity within regional variations of industrial accumulation. Central bureaucracies, which linked with each sector on the basis of its charging affairs, functioned as pseudo-representatives of each industrial sector. Many scholars have pointed out the national leadership's coordination role as characteristic of Japanese politics. Although there are different perspectives on who led the coordination system, Inoguchi Takashi's "bureaucrat-led mass-inclusive pluralism," Sato Seizaburo and Matsuzaki Tetsuhisa's "channeled pluralism," Muramatsu Michio and Ellis Krauss's "patterned pluralism," Aoki Masahiko's "bureaucratic pluralism," Otake Hideo's "corporatism," and T. J. Pempel's "corporatism without labor" showed how the

<sup>34</sup> Calder 1988.

<sup>35</sup> Teranish 2003.

national leadership coordinated sectoral interests during the high-growth era.<sup>36</sup>

In addition, as Kent Calder argued, Japanese national leadership also tried to incorporate local interests into the conservative regime's support bases.<sup>37</sup> The LDP and central bureaucracies stood at the center of this political coordination system. In postwar Japan, national equity became the most significant principle of redistribution policy.<sup>38</sup> However, the settlement for national equity was realized in the 1970s under the Tanaka cabinet. Long political debates regarding the principle of national equity took place in postwar Japan.

National plans for regional development since the late 1950s were one of the main issues in political debates and confrontations, which usually occurred within the LDP and central bureaucracies rather than between the LDP and opposition parties.<sup>39</sup> There was strong anxiety about regional disparity, which has become a hot topic again in recent years, throughout the high-growth period beginning in the 1950s, along with weighty political pressure on national plans for much more equitable regional development from many LDP politicians. However, Japanese big business and some economic bureaucrats wanted governments to concentrate public investment in highly industrialized areas and their outskirts during the 1950s and 1960s.

The first National General Development Plan (NGDP) of the early 1960s was the result of confrontations and compromises between two opposing positions on regional development strategies. Ikeda Hayato and his advisory groups were strong supporters of concentrated public investment around the Pacific Belt, a broader region of large, highly industrialized areas from Fukuoka, Osaka, and Nagoya to Tokyo. Ikeda, who had announced the doubling income plan as a minister of the MITI in the late 1950s, believed in the significance of large private corporations' prosperity to realize his ambitious ideas and in the effectiveness of concentrated public investment in industrialized areas to boost the growth of private business.<sup>40</sup> The MITI, which worried about feeble public infrastructure in industrialized areas and understood big business groups' demands for it, was also a strong advocate of concentrated public investment for economic efficiency.

Meanwhile, there was intense political pressure on regional equitable public investment within the LDP. Miyazawa Kiichi and his Economic Planning Agency (EPA) took a role in realizing policies in the early 1960s. The EPA tried to exclude the Pacific Belt area in designating the New Industrial City in the first NGDP to diffuse industrialization itself nationwide. Therefore there were heavy confrontations between the MITI and the EPA in settling the first NGDP. The MITI responded to the EPA with a plan for the Special Industrial Renovation District in the Pacific Belt areas. The first NGDP, finally adopting both plans, was the result of compromises between two different orientations to prioritize between concentrated and equitable growth.<sup>41</sup>

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<sup>36</sup> Inoguchi 1983; Satō and Matsuzaki 1986; Muramatsu and Krauss 1987; Aoki 1988; Otake 1999; Pempel and Tsunekawa 1979.

<sup>37</sup> Calder 1988.

<sup>38</sup> Teranish 2003.

<sup>39</sup> Fujii 2004.

<sup>40</sup> Teraoka 2002.

<sup>41</sup> Fujii 2004.

Tanaka Kakuei was a symbolic figure in establishing the postwar settlement of the national equity principle. He favored equitable public policies nationwide rather than concentrating investment in industrialized areas.<sup>42</sup> His book, *Remodeling of the Japanese Archipelago*, published in June 1972, aroused widespread, intense interest. While he was a minister of the MITI under Sato Eisaku's cabinet at that time, his ideas on the relocation of industries nationwide to lessen economic disparities had been solid since his term as secretary-general of the LDP in the late 1960s. Under his leadership, the LDP formulated the Outline of City Plan, having similar arguments as his book, in 1968.<sup>43</sup>

The big-business groups and the MITI, which had supported concentrated public investment around the Pacific Belt in the late 1950s and early 1960s, showed the changing attitude regarding regional development strategies beginning in the late 1960s. In contrast to its position in the early 1960s, the Keidanren remarked on the necessity of dispersing industries into the countryside. In addition, the MITI, which had been an adherent of concentrated strategies in the 1960s, transformed its stance on the emphasis on industrial diffusion for nationwide equitable social development under the influence of Tanaka in 1971–72.<sup>44</sup> The policy trend of regional development certainly changed under Tanaka's cabinet. The increasing public investment nationwide with the protection of underadvanced areas and regulation in advanced areas became the postwar settlement for national equitable development. The increasing public investment was apparent in the 1970s. The government budget scale to GDP increased throughout the 1970s. Since the welfare budget had not significantly increased, large percentages of increasing budgets were invested in public works to provide social infrastructure nationwide, which gave Japan the label of a "construction state."<sup>45</sup> The postwar settlement of national equity was achieved in the 1970s under the rule of Tanaka Kakuei.

The postwar settlement of national equity encountered trouble beginning in the 1990s and has stopped working since the 2000s, under the Koizumi cabinet. This means that the political coordination system binding large private corporations and local communities during the postwar period stopped functioning. The Koizumi cabinet attempted to deviate from the principle of state-led national equity. The postwar settlement on the standard of national equity, that is, a combination of regulation and protection, altered to enhance local partnership. New partnership programs in the local economic policy arena worked to construct a new model of local partnership instead of national equity. However, these programs produced local variations of modes of local partnership between the market model and community model.

The search for new local governance under decentralization reform was an attempt to deviate from the state-led local policy mechanism. As in the Japanese case, however, there is tension between large private corporations and local communities in constructing new local economic governance. The Japanese case shows that market reform for large private corporations deepened regional disparity because these corporations have more

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<sup>42</sup> Murano 2002.

<sup>43</sup> Tsuchiyama 2007.

<sup>44</sup> Fujii 2004.

<sup>45</sup> McCormack 2001.

incentive to invest in competitive areas. On the other hand, in difficult situations to attract public and private investment, the protected regions concentrate more on the community model through mobilizing local communities. This community model is heavily influenced by deep social networks.

However, although Japanese leaders tried to deviate from the centralized local mechanism, the central government is still the grand master in constructing new local economic governance. While national political leadership has opened a path within the market model for large private corporations, central bureaucracies have continued to provide new local programs for mobilizing local communities. However, the defeat of the LDP in the elections of 2007 and 2009 implies that governmental support for the market model in the major metropolitan areas had overreached its bounds in the minds of the residents of the protected regions.

### **The Organization of the Dissertation**

This dissertation explores how partnership programs have been carried out under decentralization reforms in contemporary Japan and why these are locally varied. Chapter 2 reviews the first and second waves of decentralization reforms: institutional changes of devolution of powers and the introduction of partnership programs in three local economic policy arenas. Decentralization reforms are a deviation from the state-led administrative and economic systems, so this chapter will also explore how Japanese leaders took these old systems apart and discovered the nature of their new policy recommendations for localities. Chapter 3 examines why localities' choices are varied, that is, the independent variables of this research. The topics addressed include competing politico-economic coalitions (a coalition for market reform and a coalition for national equity) and dual local economic structures (competitive and protected).

Chapters 4 to 6 comprise the main body of the dissertation, discussing local land development policy, local industrial policy, and public facility management reform. In chapter 4, regional variations between the City Rehabilitation Program in the major metropolitan areas and the City Planning of Downtown Development in the mid-sized localities outside metropolitan areas are discussed. While the latter attempts to build a compact city through the participation of local communities, the former can be symbolized as a megacity, in which large private corporations are dominant in land development. Chapter 5 covers regional variation of local industrial policies. Attracting external private businesses with deregulatory programs and strengthening local internal business networks under the guidance of central bureaucracies are compared. In Chapter 6, public facility management reform is the main area of study, under the PFI and the Authorized Manager System. Although both programs originated from administrative reform to enhance administrative efficiency, the PFI is a program of the market model, whereas the Authorized Manager System is a community model program.

Chapter 7 concludes this dissertation. The chapter discusses changes and continuities caused by the introduction of partnership programs for new local governance in the era of Japan's decentralization reforms.

## **Chapter 2**

### **Institutional Changes and the Introduction of Partnership Programs**

This chapter examines the first and second waves of decentralization reforms in contemporary Japan. Japanese leaders made institutional changes for the devolution of power from the central government to prefectural and municipal authorities in the administrative system in the 1990s and in the local tax system in the early 2000s. They also introduced new programs based on the principle of public-private partnership in the local economic policy arena in the 2000s.

Under the grounding principle of institutional change, the first wave of decentralization reforms moved “from the center to the local.” Decentralization reforms were considered to be the third transformation in modern Japan, equivalent to the Meiji Restoration and the Occupation Reform.<sup>1</sup> Japanese leaders made legislation to change former administrative systems between central and local governments in the late 1990s. The Trinity Reform, which transformed local tax system, followed in the early 2000s, under the strong leadership of Koizumi Junichiro.

Decentralization reforms entered the second wave in the 2000s with the introduction of partnership programs in the local economic policy arena. These new partnership programs, aiming a change “from government to society,” were the driving force in constructing new local governance. In the local economic policy arena—local land development policy, local industrial policy, and public facility management reform—new local programs partnering with large private corporations and those partnering with local communities were introduced. The Japanese localities have attempted to construct their own local economic governance with the combined implementation of these new partnership programs.

#### **Institutional Changes: The First Wave of Decentralization Reforms**

In modern Japan, the central government has controlled local authorities with the delegation function system and the subsidy and tax reallocation system. Institutional changes in the administrative system and the local tax system were realized with political changes, although discussion of the devolution of power to prefectural and municipal authorities has continued since the 1980s. After long discussion under the Committee for the Promotion of Decentralization (CDP), the legislation of the Decentralization Promotion Plans (DPP) partially terminated the delegation function system in 2000. In addition, the Koizumi cabinet attempted to dismantle the structure of financial dependency of local authorities on central government to achieve the goals of fiscal retrenchment and decentralization through the Trinity Reform of the 2000s. Both institutional changes became specific reform plans under the coordination of confrontations among national politicians, central bureaucracies, and local leadership. Therefore the DPP and the Trinity Reform were not radical transitions but rather gradual advancements.

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<sup>1</sup> CDP 1996a.

## Political Background of Decentralization Reforms

Criticisms of the state-led local administration and economic policies flourished beginning in the early 1990s, when Japan started to struggle with the long economic recession after the bubble burst. The central bureaucracies' dominance of the overall policy process became a target of these criticisms. Some commentators, such as Miyamoto Kenichi, argued that decentralization would be the first and most important step in changing the outmoded state-led Japanese system because one of the key routes of maintaining central bureaucracies' dominance is their overall control over local administrations and policies.<sup>2</sup> In addition, the national standard, which was persuasive during the postwar period, gained a reputation for problematic rigidity and fiscal extravagance. Decentralization, giving local administrations the right to choose their own local (economic and social) policies and the responsibility for fiscal management, was claimed to be an essential reform to break the state-led system.<sup>3</sup>

Japanese leaders had discussed how to realign the central-local administrative relations in several continuing councils since the 1980s. In the Second ARC and continuing three Provisional Councils for the Promotion of Administrative Reform (PCPAR), administrative reform of central-local relations was one of the key agenda items. All councils suggested a pilot project intended to overcome the problems of the state-led Japanese central-local system. The third PCPAR, the final of four continuing councils, suggested in 1992 a pilot local government that would be more independent and responsible in local policy operations through allowing them special measures for autonomous status and special subsidies.<sup>4</sup> This idea of a pilot local government was an attempt to start decentralization reforms in specific locations rather than through general application because a complete transition would require a great deal of time.

While awareness of administrative reform of central-local relations was increasing in the national political arena, there were also strong voices regarding autonomous local systems from new local leadership in the early 1990s. New independent local leaders that appeared in the early 1990s differed from their progressive predecessors of the 1970s in their relations with political parties. They also differed from local leaders having bureaucratic experience in their strong voices on central government. Many independent governors were elected in the 1990s, including Hashimoto Daiziro of Koichi, Aoshima Yukio of Tokyo, Asano Shiro of Miyagi, Tanaka Yasuo of Nagao, and so on. They spoke strongly to national politicians and bureaucracies regarding the necessity of more autonomous local policy profiles and brought fresh political ideas such as the manifesto movement. This independent and reform-oriented local leadership demanded an increase in local autonomy in local policy operations.<sup>5</sup>

Under the condition of increasing awareness of institutional change, an attempt to transfer the general administrative system of central-local relations was realized with

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<sup>2</sup> Miyamoto 2005.

<sup>3</sup> Kitayama 2006.

<sup>4</sup> Nishio 1999.

<sup>5</sup> Asano, Kitagawa, and Hashimoto 2002; Shigeyuki Tanaka 2004.

national political change. The collapse of the long-lasting LDP rule and the rise of a non-LDP coalition cabinet in 1993 added momentum to the first wave of decentralization reforms in Japan. In 1993, when the Lower and Upper houses passed the Decision on Promoting Decentralization in concert, the coalition cabinet, comprising several ex-LDP groups and the Socialist Party of Japan (SPJ), vigorously accepted the idea of decentralization reforms. The collapse of the long-lasting LDP rule revived the reform trends.

Hosokawa Morihiro, the prime minister of this coalition cabinet, was a member of the third PCPAR. When the third PCPAR recommended decentralization and deregulation as two basic features of future administrative reform in October 1993, he and his coalition cabinet strenuously approved its values. In a cabinet decision on the Fundamental Principles for the Future of Administrative Reform in February 1994, the Hosokawa cabinet provided the ground rules for the institutional change of central-local relations, that is, giving local authorities a more independent legal status and more autonomous room for local policy operations.<sup>6</sup> After the one-year rule of Hosokawa and the two-month rule of Hata Tsutomu, a new, unusual coalition between the SPJ and the LDP also followed this direction. The Murayama cabinet approved the Fundamental Principles Regarding the Promotion of Decentralization in December 1994, and the bill based on these principles was passed in the Diet in May 1995. During the political change of 1993-95, policy differentiation for and against decentralization reforms was difficult to find. Almost all political groups agreed that Japan would need transformation in the central-local system.

The broad awakening regarding decentralization reforms deepened with the symbolic images of new political leaders such as Hosokawa having experience in local administrations. He was the first prime minister to experience the position of governorship. He had worked as the governor of Kumamoto from 1983 to 1991. Masayoshi Takemura, the chief cabinet secretary under the Hosokawa cabinet, was also the former governor of Shiga. In the initial process of developing basic principles and organization to prepare specific plans for institutional changes, their images of the locals helped to mark the mood of a new era. However, all political groups agreed on the need for decentralization reforms. Since the decisions and the bill contained only basic ideas, there was a broad consensus among Japanese leaders, who were aware of the problems of the state-led Japanese central-local system. Disputes, resistance, and conflicts came when the idea turned into concrete plans under the CPD.

### **The Committee for the Promotion of Decentralization (CPD)**

The CPD, an organization devising specific arrangements for institutional change in the central-local system, was organized within the prime minister's office in July 1995 with a six-year term after the Diet enacted the Decentralization Promotion Law. In the process of making specific propositions by the CPD, there were fluctuations in the level of its recommendations on the increase of local authorities' autonomy and the decrease of central bureaucracies' influences.

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<sup>6</sup> Nishio 1999.



The CPD was composed of seven members, including a chair and a vice chair. The Murayama cabinet appointed Moroi Ken, a consultant of the Taiheiyo Cement Company who had strongly argued for the necessity of deregulation in Japan, as the chair and Professor Horie Fukashi, a political scientist who had advised the former Democratic Socialist Party, as the vice chair. The other five members of the CPD were professors and former local chief executives: Kuwahara Keiichi, former mayor of Fukuoka; Nagasu Kazuji, former governor of Kanagawa; Professor Nishio Masaru of International Christian University; Professor Higuchi Keiko of Tokyo Kasei University; and Yamamoto Soichiro, former governor of Miyagi. All these members were in favor of government reform and decentralization.<sup>7</sup> The CPD had two subcommittees on regional development and life improvement and three working groups on administrative matters, subsidies and tax revenues, and local administrative systems. Whereas the CPD had 245 meetings in six years, it held several discussion sessions and hearings with many central bureaucracies, local officials, professionals, and businesses.<sup>8</sup> The CPD heavily scrutinized the overall central-local system, including the delegation function system and the local financial system.

From its start, the CPD did not intend to implement excessive change such as the reorganization of local administrative units (the introduction of a state system like that of the United States) and transferring the power of local administrations to citizens. It limited its recommendations to readjustments of the relationship between central bureaucracies and local administrations.<sup>9</sup>

In the process of developing its recommendations, the CPD coordinated with central bureaucracies, local leaders, and many professionals. Initially, the CPD attempted to recommend more intensive changes in the relationship between central bureaucracies and local administrations. The CPD, in the interim report, recommended the complete abolition of delegation functions and the introduction of local financial autonomy. However, after continuing discussions with central bureaucracies, its recommendations became gradual in the end. The final recommendations of the CPD did not cover local financial systems and gave room for central bureaucracies to continue their influence over local administrations.

Central bureaucracies made great effort to reduce their power losses in the institutional change of the central-local system. The Ministry of Finance (MOF) strongly refused changes in local financial systems. Therefore the local tax system was dropped from the CPD's recommendations. It became an agenda item for institutional change of the Trinity Reform under the Koizumi cabinet in the early 2000s.

In addition, other central bureaucracies considered the abolition of the delegation function system as their power lessened. The delegation function system involves local administrations executing administration affairs as agencies of the central government. The historical background of this system is the incorporation of municipal chiefs, who were leaders of traditional village units, into the national administration system during the Meiji

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<sup>7</sup> Nishio 1999.

<sup>8</sup> CDP 1996a.

<sup>9</sup> Nishio 1999.

era.<sup>10</sup> Delegation functions did not exist at the prefectural level before the American occupation because prefectural chiefs were appointed to be bureaucrats by the central government. The Occupation Reform, which transformed the legal status of prefectural chiefs from appointed bureaucrats to elected governors, was the turning point of the enlarging delegation function system. Central bureaucracies worried about losing control to local governments and distrusted the abilities of self-governing local administrations. They extended the delegation function system to the prefectural level.<sup>11</sup> Delegation functions had occupied 30% to 40% of municipal affairs and 70% to 80% of prefectural affairs before the institutional change of the late 1990s. The number of delegation functions greatly increased with administrative needs for industrial development and regional planning in the 1960s and the 1970s, reaching 561 in 1995, when the CPD started to work.<sup>12</sup>

The CPD indicated the lack of public accountability of local administrations as the most serious problem of the delegation function system.<sup>13</sup> The local chief executives did not have discretion regarding delegation functions, and local assemblies did not have the right to monitor their implementation. Central bureaucracies could control local administrations in every policy area. When each ministry monitored and controlled its own policy implementations in every locality without negotiation with local administrations, local public officials were almost obedient to national bureaucrats in related policy sectors. The CPD pointed out that the subordination of local administrations thwarted spontaneous local policy operations to fit their distinctive local characteristics. The delegation function system was considered to be a symbol of the rigidity of the state-led local administration system.<sup>14</sup>

Nishio Masaru described central bureaucracies' resistance to the CPD's original recommendations on the complete abolition of delegation functions as "offensive explanations."<sup>15</sup> Central bureaucracies rushed to committee members and advisors to explain how important their control of local administrations was in their own policy areas. They also utilized *zoku* politicians [in the case of the Ministry of Agriculture and the Ministry of Construction (MOC)] and business sectors (in the case of the Ministry of Health) in pressuring members of the CPD. Many central ministries considered the devolution of power to local authorities through the abolition of the delegation function system as a power struggle between them and the Ministry of Home Affairs (MOH).<sup>16</sup> Since the MOH broadly supervises local administrations, other ministries thought that the MOH could only influence local authorities after other ministries had lost power in each specific policy area. In addition, when the interim report was discussed, central bureaucracies were also undergoing continuing administrative reform aiming to merge relevant central ministries. Therefore central ministries were sensitive regarding the loss of their policy initiatives.

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<sup>10</sup> Kitayama 2006.

<sup>11</sup> Aoki 2006.

<sup>12</sup> Morita, Taguchi, and Kanai 2008.

<sup>13</sup> CPD 1996b.

<sup>14</sup> Aoki 2006.

<sup>15</sup> Nishio 1999.

<sup>16</sup> Nishio 1999.

The CPD's recommendations on the delegation function system were weakened in the process of coordination with central bureaucracies. The recommendation for the total abolition of the delegation function system was withdrawn. Instead, the CPD suggested the reduction of delegation functions. Therefore, in the final recommendations, the CPD recommended the elimination of 60% of delegation functions instead of total abolition.

Since it neither covered local tax systems nor accomplished the complete abolition of the delegation function system, the CPD expressed its own activity as unfinished in the final report.<sup>17</sup> The CPD's moderate recommendations were realized with the legislation of DPP.

### **Decentralization Promotion Plans**

With the recommendations of the CPD, the cabinet approved the DPP in May 1998 and prepared the bill with the inclusion of amendments to relevant laws. The bill was decided in the cabinet in May 1999, enacted by the Diet in July 1999, and announced to take effect beginning in April 2000.

The most significant feature of the DPP was its rearrangement of the legal relations between the central government and local administrations through realignment of the delegation function system. In the DPP, delegation functions were reorganized into local administrative functions (*jichi jimū*) and legally entrusted functions (*hotei jutaku jimū*). Whereas local governments have complete authority in local administrative functions, they execute legally entrusted functions as the central government's implementing agency. Therefore the transition of delegation functions to local administrative functions means the devolution of power from the central government to local authorities.

Under the DPP, 60% of former delegation function (298) cases became local administrative functions; 40% (263) remained under legally entrusted functions. In dealing with local administrative functions, local governments can make and implement their own policies, and local assemblies are able to check local executives' measures in this category. Local administrative functions broadly cover city planning, land adjustment work, and issuance of permits for hospitals, pharmacies, and restaurants. Legally entrusted functions contain affairs requiring national consideration such as the management of some welfare programs and national highways. In the category of legally entrusted functions, central bureaucracies keep control over local administrations. Although the involvement of the central government in legally entrusted functions should be a type of advice rather than an order, the power of the central government in this category remains in real policy operations.<sup>18</sup>

However, legislation of the DPP was a significant step in transforming the central-local system in Japan. After the DPP, local authorities had control of policy operation for half of the delegation functions. Although it was moderate, institutional change in the administrative system of central-local relations gave room for localities to make their own policy choices in many policy arenas that had been totally controlled by

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<sup>17</sup> CDP 2001.

<sup>18</sup> Kitayama 2006.

central bureaucracies in the postwar system. Under the conditions of this institutional change, new local partnership programs, introduced by central bureaucracies in the 2000s, were given as options, not orders, to localities.

### **The Trinity Reform**

Local financial systems, which the CPD was unable to cover in its recommendations due to the opposition of the MOF, were under transition when Koizumi Junichiro took the office of prime minister in the early 2000s. The Trinity Reform, which refers to the reformation of three key factors in local finance systems—tax revenues, tax reallocation, and subsidies—has been considered the second round of institutional changes for decentralization after the DPP. The Trinity Reform attempted to accomplish the two goals of fiscal retrenchment and fiscal decentralization that had been discussed since 2001. Under the strong political initiative of the Koizumi cabinet, a concrete shape was formed in 2004 and implemented between 2004 and 2006. Therefore, in 2007, the Trinity Reform came to the end of its first stage.

Discussion of local financial system reform started in 2001 with an emphasis on fiscal retrenchment, but it was transformed to a balanced plan between fiscal retrenchment and fiscal decentralization in 2002. The CEFP was the core organization of discussion for the Trinity Reform. The CEFP initially approached local financial system reform to solve the problem of huge fiscal deficits. The basic orientation of CEFP in the Basic Policies of Economic and Fiscal Management and Structural Reform (BP) of 2001 was the curtailment of local expenditures and subsidies to restructure the fiscal condition.<sup>19</sup> The MOF has played a key role in leading the CEFP into a plan to curtail local expenditures and subsidies.

Fiscal retrenchment for fiscal soundness has been a big concern of Japanese leaders since the 1990s. Japan's fiscal deficit (national and local) has increased since the 1970s, becoming 136% of GDP in 2001. It was notorious in comparison with other OECD (Organization for Economic Co-operation and Development) countries' average of 40% at that time.<sup>20</sup> It originated from huge public investment during long-lasting economic recessions. Japan faced a huge fiscal deficit because it actively utilized subsidies for public works to boost the economy. The plan for fiscal retrenchment was not new in the 2000s. In the late 1990s, the Hashimoto cabinet tried to initiate fiscal structure reform but failed. When the Koizumi cabinet, which intensely argued structural reform, was organized in 2001, the idea of fiscal retrenchment was again raised as a key agenda item. Under these conditions, the first emphasis of the Trinity Reform was fiscal retrenchment.

However, the Trinity Reform as a combination of fiscal decentralization and fiscal retrenchment appeared as a reform agenda item in the BP 2002, which was decided in June 2002.<sup>21</sup> The Ministry of Information and Communication (MIC) led an argument for fiscal decentralization, which had been discussed by the Council for Decentralization Reform

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<sup>19</sup> Doi 2004a.

<sup>20</sup> Idei 2008.

<sup>21</sup> CEFP 2001.

(CDR), the organization that followed the CPD beginning in 2001. However, the CDR was unable to provide precise plans for fiscal decentralization and lost its initiative to the MOF, which focused on fiscal retrenchment. Instead, The MIC put fiscal decentralization as a main policy direction for local tax reform in the CEFPP with the so-called Katayama Plan. Katayama Toranosuke, a minister of the MIC, suggested a subsidy/reallocation-for-tax swap, which means a combination of the transfer of tax revenues to localities and the curtailment of subsidies in the CEFPP, in May 2002.

The central bureaucracies of the MOF and other ministries were opposed to the Katayama Plan. The MOF opposed the transfer of tax revenues, arguing that there were insufficient fiscal capacities for tax transfer to localities. The MOF did not want to lose its control of the overall expenditures of the central government and all local authorities. Many ministries, which were linked with subsidies assigned on project-specific bases, did not desire to lose their power in their policy arenas. However, the idea of a subsidy/reallocation-for-tax swap was incorporated in the BP of 2002. Koizumi played a central role in implementing this plan. In the CEFPP, Koizumi's political choice created a path for the Trinity Reform, a combined plan for fiscal decentralization and fiscal retrenchment.

Although the Trinity Reform was indicated in the BP of 2002, the MOF and other ministries still had negative attitude to this plan in 2003, so a concrete plan with a specific scale was not easily realized. Localities played a role in advancing the Trinity Reform in 2003. Six associations of local chief executives and assemblies put pressure on the central government with a joint resolution demanding the transfer of tax revenue in May 2003.<sup>22</sup> In the process of discussion with the central government, local leadership agreed to accept the curtailment of some money to get more fiscal autonomy. The Koizumi cabinet accepted the localities' demands in the BP of 2003, which indicated a specific value of 4 trillion yen between 2004 and 2006 as a tax transfer to localities. It would be swapped with an equivalent amount of curtailed subsidies. In the 2004 fiscal year, however, the tax transfer could not match the retrenchment of subsidies, and the discontent of localities was therefore broad.<sup>23</sup> The MIC responded to the passive attitude of the MOF and other ministries by suggesting the Aso Plan, which contained a precedent tax transfer before subsidy curtailment and more concrete methods of tax transfer. Although the MOF strongly opposed this plan, Koizumi again accepted the plan of the MIC.

The Trinity Reform made a subsidy cut of 4.7 trillion yen and a tax transfer of 3 trillion yen in the 2004–6 fiscal years. Of the 4.7 trillion yen of subsidy cuts, 3 trillion yen was related to the tax transfer; 700 billion yen was recategorized into tax reallocation items; and 1 trillion yen was totally eliminated.<sup>24</sup> There have been several clashes between central ministries and local authorities regarding the curtailment of subsidies. Since central ministries did not want to cut subsidies relevant to their policy arenas, they strongly opposed it. For example, the Ministry of Education (MEXT) blocked the budget for the transition of mandatory education into a common local expenditure, and the Ministry of

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<sup>22</sup> Jichi Bunken Janarisuto no Kai 2003.

<sup>23</sup> Kawase 2007.

<sup>24</sup> Idei 2008.

Health (MHLW) tried to keep the welfare budget under its own control. Subsidies for public investments were the most significantly curtailed. While the reduction of subsidies in education and welfare was usually related to tax transfers to the localities, 60% of the subsidy reductions for public investments were totally eliminated. In three years, 1.7 trillion yen in subsidies for public investment were curtailed. On the other hand, the transfer of tax revenues of 3 trillion yen in three years created a small increase in local tax revenues. It has only increased from 41% (national tax 59%) to 44% (national tax 56%) in three years.<sup>25</sup>

The significant impact of the Trinity Reform was the fundamental shrinking of localities' budgets themselves, especially for public investment, and the differentiated fiscal conditions of localities after an increase in fiscal autonomy.<sup>26</sup> The curtailment of subsidies for public investment caused difficult conditions for protected regions that had been dependent on construction businesses attached to public works. In addition, the increase of local tax revenue produced a disparity between affluent localities and impecunious localities. Localities that managed their budget without central government tax reallocations increased from 4.3% in 2004 to 9.3% in 2006. In 2006, two prefectures and 169 municipalities were independent from central government tax reallocations. This means that there was a tendency toward disparity in localities' fiscal condition after the Trinity Reform.

Institutional changes for the devolution of power in the first wave of decentralization broke down the former local system, in which localities were dependent on the central government's direction and money. It was readjusted with the DDP and the Trinity Reform. Under these conditions, new partnership programs drawing social sectors into the local policy process have been introduced as an option, not an order.

### **Partnership Programs as New Local Economic Growth Strategies: The Second Wave of Decentralization Reforms**

In the 2000s, new programs have been introduced in the local economic policy arena under a public-private partnership; these constitute the key principle of the second wave of decentralization reforms. In the second wave, decentralization refers not only to the devolution of power from the center to the local within the governmental system but also to the sharing of authority and resources with social sectors in making public policy, that is, from government to society. New partnership programs in Japanese local policies have been distinctive in three local economic policy areas: local land development policy, local industrial policy, and public facility management reform.

Although there has been broad consensus on the necessity of public-private partnership in local policy processes within the Japanese leadership, new partnership programs in each policy arena are divided between those having large private corporations and those having local communities as their core partners. The City Rehabilitation Program, the Structural Reform Special Zone, and the PFI are distinctive programs through which

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<sup>25</sup> Idei 2008.

<sup>26</sup> Hayashi 2006.

large private corporations dominate their key partners' positions. In contrast, the role of local communities, including local business and civic communities, is more important in the City Planning of Downtown Development, the Industrial Cluster Plan, and the Authorized Manager System. In the local economic policy arena, the Japanese government introduced a combination of diverging types of partnership programs standing on the market model and community models. Different types of new partnership programs have been given to localities as options.

### **Local Land Development Policy**

The national political leadership of the Koizumi cabinet and the central bureaucracies of the MOC and subsequently the Ministry of Land, Infrastructure, Transport, and Tourism (MLIT) led to the introduction of local partnership programs in the local land development policy. While the Koizumi cabinet vigorously pushed the City Rehabilitation Program, the MLIT also provided the framework of the City Planning of Downtown Development. In the postwar period, the MOC and subsequently the MLIT controlled local urban planning under the big framework of national land planning.<sup>27</sup> Local land development policy functioned as a subpolicy for nationwide land development to enhance industrial development or compensational distribution in contemporary Japan. However, new strategies for local land development have arisen in the 2000s.

New strategies for local land development have headed in two directions in the 2000s. The Koizumi cabinet provided new programs to improve private investment in land developments, and also there has been a program to mobilize local communities to enhance local land redevelopment. In the City Rehabilitation Special Treatment Act of 2002, the Koizumi cabinet tried to terminate several regulations on private developers' projects and to designate several cities as special zones for city rehabilitation to speed up land development through private investment. In contrast, in the 2000s, the MLIT devised the City Planning of Downtown Development utilizing the *machzukuri* tradition of local communities.

**The City Rehabilitation Program.** Since 2001, the Koizumi cabinet has been much more aggressive in promoting private investment in urban planning. The City Rehabilitation Program was introduced with the City Rehabilitation Special Treatment Act in 2002. In the arena of local land development policy, land use had been severely regulated by the district designation system since the 1960s. In the earlier district designation system, (re)-development had been permitted only in downtown districts, but not in the downtown regulation district, which covered most downtown urban areas. However, this system was abolished with the revision of the Urban Planning Law in 2000.<sup>28</sup> This change made private (re)-development projects in urban areas easy.

Following this trend, the Koizumi cabinet introduced the City Rehabilitation Program to enhance private land (re)-development projects. The Koizumi cabinet considered private land redevelopment to be an efficient method of boosting economic

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<sup>27</sup> Omura 2008.

<sup>28</sup> Fukuda, Busuzima, and Ogawa 2008.

vitality. The Koizumi cabinet, which emphasized deregulation in urban planning for structural reform, tried to change the local land development system into a more market-friendly version with the legislation for the City Rehabilitation Program, establishing the Headquarters for City Rehabilitation under the prime minister's office as the executive office propelling this change.<sup>29</sup>

The core of the City Rehabilitation Program was to give incentives to private businesses' investment for local development in specific cities. This plan demanded that local governments reduce the approval period on private businesses' development projects to six months and terminate existing regulations on land use for projects. Before this plan, approval for land development by private businesses took thirty-two months on average, and in many cases, new private projects were deadlocked due to land use regulations. After the new plan was implemented, there were sixty-five development projects up until 2007, most of which were redevelopments of commercial areas in the major metropolitan areas. The Japanese government calculated that private investment under this plan totaled over 1.2 trillion yen.

#### **The *Machizukuri* Tradition and the City Planning of Downtown Development.**

The most distinctive scheme of local land development with the involvement of local communities is derived from the *machizukuri* tradition. *Machizukuri* is a voluntary community activity to improve residential conditions in all areas, including education, welfare, and the environment.<sup>30</sup> It was developed with the resident participatory movement beginning in the 1950s and was sometimes embedded in a progressive local political mood.<sup>31</sup> It had a meaning in opposition to state-led bureaucratic urbanization and local development. However, *machizukuri* was largely referred to in downtown redevelopment projects in the 2000s. It became a popular concept in the contemporary era among politicians, bureaucracies, and commentators. Japanese leaders emphasized the role of local communities under the label of *machizukuri*. *Machizukuri*, generally used in reference to town rehabilitation, became a term related to society-driven redevelopment projects.<sup>32</sup>

In the late 1990s, the central bureaucracies of the MOC introduced the City Planning of Downtown Development, embedded in the *machizukuri* tradition. The legislation for the City Planning of Downtown Development was drafted and legislated under the Hashimoto cabinet in the late 1990s. Its goal was to improve commercial and residential prosperity in downtown areas that had experienced an economic decline due to suburban development. Central bureaucracies provided the basic guidelines for this plan, and local authorities were given a right to initiate it in their areas. Although it was not obligatory to implement this plan in all regions, almost all localities have implemented it for subsidies from the central government. This plan is usually referred to as one of three *machizukuri* laws, along with the Large-Scale Store Location Law and the revised Urban Planning Law. The City Planning of Downtown Development was a tool for balancing

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<sup>29</sup> Igarashi and Ogawa 2003.

<sup>30</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>31</sup> Evans 2002.

<sup>32</sup> Hosono 2007.



market reform to enhance private land development projects in local land development policy.

Although the City Planning of Downtown Development has been operated by local governments under the guidelines and subsidies of central bureaucracies, local communities are expected to play a crucial role in its actualization.<sup>33</sup> Town management under this plan should be led by so-called *machizukuri* organizations composed of local community members. Local governments have encouraged the engagement of residents' groups in implementing the City Planning of Downtown Development in their localities. Since the City Planning of Downtown Development, in many cases, is a redevelopment plan for old downtown commercial areas, participation of the local commercial community was considered to be the most important aspect of a project's success.

### **Local Industrial Policy**

In local industrial policy, new partnership programs have been divided into programs to enhance private investments and programs to boost local business networks. While the national political leadership provided guidelines for some programs to enhance private investment and local authorities have put a great amount of energy into attracting exogenous private business, the METI is a key player in introducing programs to boost endogenous local business networks.

Local industrial policy became more important during the economic recession resulting from the burst of the economic bubble. In addition, the "hollowing-out" effect caused a rising unemployment rate and shrinkage of the working population. After peaking in 1992 at 15.69 million persons, the number of workers in the Japanese manufacturing industry declined to 12.22 million in 2003. Several factors, including the aging of the laboring population, affected this number. However, the effect of relocating factories overseas was obvious. In effect, it caused the number of workers to plummet by 1.17 million.<sup>34</sup> Since manufacturing sectors are the main factor in determining economic prosperity and the employment situation within a region, many Japanese localities experienced economic hardship in the 1990s. Therefore there was a demanding voice regarding localized maneuvers in industrial and employment promotion.<sup>35</sup> The central government has tried to support localities with new programs.

The METI introduced the Industrial Cluster Plan in 2001, which includes programs to increase local business networks and cooperation within localities. It was a localized version of the MITI's industrial policy during the high-growth era. It was similar to the MITI's industrial policy emphasizing coordination among businesses and governmental guidance of them. Therefore it can be called a localized industrial coordination system. On the other hand, many local authorities have tried to attract investment from external manufacturing businesses since the 1990s. The Koizumi cabinet provided systematic programs to enhance private investment through the abolition of the

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<sup>33</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>34</sup> Ito 2004.

<sup>35</sup> Giguère and Higuchi 2005.

Industrial Location Restriction Law and the legislation of the Structural Reform Special Zone. Therefore the new Japanese programs to improve local production systems have also varied between those for large private corporations and those for local business communities.

The trends differ with respect to how much they are embedded in the existing local industrial mechanism and how they are linked in the local production system. Programs to enhance private investment target the improvement of local economic prosperity through attracting external big businesses, whereas programs to strengthen local business networks aim to improve overall local economies with cooperation among internal local industries.<sup>36</sup>

**The Industrial Cluster Plan.** METI launched the Industrial Cluster Plan in 2001 to enhance industrial innovation through local business networks. In 2009, nineteen cluster regions were designated. Under the guidance of regional bureaus of the METI, manufacturing businesses, university researchers, and local governments have established a human resource network among them. This serves to support technological development within the consideration of unique regional industrial features and also to foster entrepreneurship within regions. The METI has provided subsidies for new business start-ups and communication between businesses and R&D institutes.<sup>37</sup>

The Industrial Cluster Plan does not explicitly aim to protect existing industries through regulation; rather, the METI and local governments hope that networks of existing industries within regions can create new opportunities. The METI has indicated that within industrial clusters, 9,800 companies and 290 universities or research institutions participated in 2007 and 34,000 projects were initiated from 2005 to 2007.<sup>38</sup> In addition, the Regional Innovation Cooperative Invention Program to broaden research institutions' participation in local production systems began in 2008.

**The Structural Reform Special Zone and Industrial Location Support Plan.** The Structural Reform Special Zone was introduced by the Koizumi cabinet in 2002. There had been several industrial protection measures and regulations constraining industrial location during the postwar period. The complete elimination of regulations nationwide requires much time to coordinate with the vested interests. In 2002, the Structural Reform Special Zone was established to provide deregulation on a trial basis in limited regions and subsequently was expanded nationwide to invigorate the economy. Up to 2009, 1,082 projects have been approved. Under this program, local governments voluntarily took special measures for their special zones.<sup>39</sup>

The Industrial Location Support Plan led by the METI in 2007 systematically attempted to make it easier for private businesses to set up factories in overall areas, including major metropolitan areas. This program attempts to respond to the hollowing out and to bring Japanese manufacturing industries back into Japanese localities. The Industrial

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<sup>36</sup> Itō 2000; Nanbo 2008.

<sup>37</sup> Nishikawa 2008.

<sup>38</sup> Futagami 2008.

<sup>39</sup> Nishio 2007b.

Location Support Center, which was founded under the Industrial Location Law, has assisted in implementing localities' spontaneous strategies to attract manufacturing industries of exogenous private businesses.

### **Public Facility Management**

Since the late 1990s, central bureaucracies have introduced several new programs for public facility management. In the former state-led system, local authorities directly managed many local public facilities in the fields of infrastructure, welfare, education, recreation, and so on. Central bureaucracies tried to guide private businesses and local social community groups into the public facility management arena.

Most programs for public facility management reform can be categorized as instruments of managerial governance because the introduction of new programs for public facility management reform was highly connected with the ideas of the NPM. The NPM, which emerged as a reaction to huge governmental expenditures and inefficiencies in public service delivery in the United Kingdom in the late 1970s, became the subject of crucial ideological reform discourses in many Anglo-Saxon countries. The NPM-initiated public administrative reform tried to transform a key principle from publicity to efficiency and the main agencies from governmental authorities to private actors.<sup>40</sup> In Japan, public facility management reform was undertaken to curtail central and local governments' fiscal burdens. The central leaders have discussed public facility management reform since the ARC in the 1980s.<sup>41</sup>

However, the Japanese central bureaucracies and local leaders introduced and accepted new programs for public facility management reform to enhance local economic growth as well as efficient management of public facilities. While the Japanese leaders attempted to boost private investment to stimulate economic invigoration through the PFI, they believed that the Authorized Manager System would help in increasing the involvement of local societies in public facility management. Therefore the PFI is fit to an instrument within the market model and the Authorized Manager System within the community model.

Whereas the central bureaucracies of the MIC led to the introduction of the Authorized Manager System, the central bureaucracies of several ministries, including the MIC, the MITI, and the MOC, were involved in the introduction of the PFI, and there were also political considerations regarding its effects in boosting the economy by national political leadership.

**The Private Financial Initiative.** The PFI was introduced with the Private Financial Initiative Promotion Law in 1999. It attempted to promote private businesses' investment in building and managing public facilities and social infrastructure. Therefore it is similar to the *Minkatsu* (private power) policy of the 1980s because both are programs to attract private investment in constructing new social infrastructures and public facilities

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<sup>40</sup> Hood 1998.

<sup>41</sup> Egawa 2008.

requiring huge spending. Under the *Minkatsu* policy, there was a lot of private investment in building large infrastructure in the late 1980s. Because the central government encouraged local governments to build many facilities for welfare and recreation at that time, the *Minkatsu* policy played a role in providing supplementary financing to these public facilities.<sup>42</sup> However, the Third Sector, which had been founded to manage these public facilities, now presented major problems for the Japanese localities because, after the bubble burst, public facilities could not attract appropriate demand, producing huge deficits that local authorities had to pay.<sup>43</sup>

However, under the long-lasting economic recession, private investment for public facilities has been continually attractive to the central government, private business, and local authorities. National political leaders and central bureaucracies have argued that private investment in public facility management would help to boost the economy and reduce fiscal burdens. To private business, this meant new business opportunities. In addition, with the condition of shrinking subsidies from the central government, some local authorities were also in favor of private investment in public facilities. The PFI, a program to enhance private investment in public facilities, became popular in the 2000s. The number of projects undertaken under the PFI has been growing, especially in the construction of local authorities' public facilities. Unlike the *Minkatsu* policy promoting private investment in large infrastructure projects such as airports, roads, and big sports facilities, private investment under the PFI was more concentrated in facilities related to education, culture, and welfare.<sup>44</sup> The PFI is a partnership program for large private corporations. Unlike the Authorized Manager System, civic organizations are not allowed to be involved in the PFI. Public-private partnership under the PFI occurs only between public authorities and large private corporations.

**The Authorized Manager System.** The Authorized Manager System is a kind of agency transfer of facility management to social sectors. The Authorized Manager System was introduced with the revision of the Local Autonomy Law and the Administrative Reform Promoting Law in 2003. In this program, local authorities were required to transfer facility management conducted by public authorities themselves and semipublic agencies to an authorized manager, which could be a private business, civic organization, or extragovernmental organization, in September 2006. Therefore the Authorized Manager System began operating nationwide in 2005.<sup>45</sup>

Under this program, the authorized manager can determine user fees and avoid heavy regulation from public authorities. The most important thing is that civil associations can manage public facilities. Because new agencies under the Authorized Manager System do not need to build facilities themselves but just take over their management, civic organizations without great funding are able to participate in this program. In addition, central bureaucracies of the MIC have encouraged participation of civic organizations in

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<sup>42</sup> Minkatsu Purojekuto Kenkyūkai. 1987.

<sup>43</sup> Iriya 2008.

<sup>44</sup> Noda 2004.

<sup>45</sup> Chiiki Kyōdōgata Manejimento Kenkyūkai. 2004.

the Authorized Manager System.<sup>46</sup> They tried to draw the NPOs, which blossomed at the local level in the 1990s, and also traditional community organizations into new programs for public facility management. The MIC tried to construct a system of direct civil participation in public service delivery through the Authorized Manager System. The Authorized Manager System is an instrument for broad civil engagement in policy making and implementations as core actors but not as reactive consumers.<sup>47</sup>

### **Diverging Types and Local Variations of Partnership Programs**

In the 2000s, there have been apparently diverging patterns between programs for large private corporations and those for local communities when central bureaucracies and national political leaders introduced new partnership programs in the local economic policy arena. The City Rehabilitation Program, the Structural Reform Special Zone, and the PFI seek increasing involvement of private business investment. They can be categorized as instruments of the market model. In contrast, the City Planning of Downtown Development, the Industrial Cluster Plan, and the Authorized Manager System are programs to enhance the participation of local communities: local business groups as well as local civic organizations. Those programs intending to promote the participation of local communities are instruments of the community model because they aim to strengthen endogenous local networks.

Therefore the market model and community model are given to localities as options through the introduction of new partnership programs. Localities' choices are never exclusive between programs of the market model and programs of the community model; however, there is a dominant path in each locality. The most significant trend is that there are local variations between the major metropolitan areas and other regions, especially in local land development and industrial policy.

In local land development policy, local variation of localities' choices is clearly found between the major metropolitan areas and other local cities. Special emergent zones of the City Rehabilitation Program now total sixty-five cases. Among them, the major metropolitan areas around Tokyo, Osaka, and Nagaya contain forty-six cases. In contrast, among eighty-three cases of the City Planning of Downtown Development, only ten are located around these big three metropolitan areas. Most of the cases are located in mid-sized local cities outside the major metropolitan areas. This local variation between the City Rehabilitation Program and the City Planning of Downtown Development is most explicit among three local economic policy arenas.

In local industrial policy, there is both strengthening of internal business networks and attracting of external private businesses in all localities. Programs for two trends—the Industrial Cluster Plan for strengthening internal business networks and the Structural Reform Special Zone and the abolition of regulations on industrial location for enhancing external business networks—have been applied nationwide. However, the crucial point is the different consequences of attracting external private businesses in major metropolitan

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<sup>46</sup> Kashiwagi 2007.

<sup>47</sup> Brannam, John, and Stoker 2007.

areas and in other regions. In the Kanto area around Tokyo and the Chubu area around Nagoya, empty locations for manufacturing businesses are becoming scarce in the 2000s.<sup>48</sup> In addition, digital and energy businesses are recovering their vigor in the Kansai area. With respect to the number of external businesses attracted, these three areas took only 17.4% in 1990, but the percentage increased to 33% in 2007.<sup>49</sup> This trend originated from the dominance of partnership programs for large private corporations in these metropolitan areas. In contrast, other localities outside the major metropolitan areas have experienced difficulties in attracting external private businesses. Although the encouragement of internal business networks is a general phenomenon nationwide, localities outside metropolitan areas are placing more emphasis on keeping local internal businesses. Many localities outside major metropolitan areas turned their focus to local internal industries in the 2000s.<sup>50</sup> Therefore differing local effectiveness of new programs of the market model in major metropolitan areas and those of the community model in other localities outside major metropolitan areas can be also explicitly found in local industrial policy.

In public facility management reform, local variation between partnership programs of the market model and those of the community model is less explicit, unlike local land development and industrial policies. The PFI projects have been mostly carried out in major metropolitan areas. Although there are PFI projects in underdeveloped regions because of the extensive scale of facilities constructed by the PFI, over half of projects are concentrated in the major metropolitan areas. Because the scale of a project does matter, the major metropolitan areas have more large facilities profitable to private investors, mainly large construction businesses. Therefore the market model became dominant in the major metropolitan areas with the PFI project in facility management reform. In contrast, the Authorized Manager System can be found in all localities regardless of economic condition and population. The distinctive feature of the Authorized Manager System is that local community organizations and professional management companies are competing for the managerial position of public facilities. Therefore the community model led by local social leaders and managerial governance propelled by professional management companies have coexisted in the Authorized Manager System. Although local variation is less explicit, there is a tendency toward divergence of large private corporations and local communities in constructing their favorable local economic governance in public facility management reform.

Local variations of partnership programs imply diverging paths of localities for their models of new local economic governance between the market model and community model. Why have these diverging paths occurred?

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<sup>48</sup> Nihon Ritchi Center 2008.

<sup>49</sup> Nihon Ritchi Center 2008.

<sup>50</sup> Masaaki Itō 2003.

### **Chapter 3**

## **The Dual Local Economic Structures and Political Alignments Untied**

Why are partnership programs of the market model dominant in the major metropolitan areas while those of the community model are dominant in other regions outside the major metropolitan areas? Here I explain the diverging paths between the market and community models with reference to the local economic structures (competitive vs. protected) and the diverging politico-economic coalitions (a coalition for market reform and a coalition for national equity) after political alignments for the postwar settlement were untied.

First, in the historical development of industrial locations, Japan clearly showed industrial dualism between the competitive areas and the protected areas. Its globally competitive industries have been located mainly around the major metropolitan areas of the Pacific Belt, from Fukuoka, Osaka, and Nagoya to Tokyo, where the industrial concentration and population influx intensified in the twentieth century. In contrast, other regions outside the major metropolitan areas had globally noncompetitive industries in each period and were dependent on the central government's protection and public investment. In the 2000s, when new programs were provided in the local economic policy arena, the differences in their economic structures produced large gaps in localities' competitiveness in attracting private investment, which is the fastest and easiest way to create visible outcomes for the local economy.

Second, the political winning of a coalition for market reform over a coalition for national equity escalated different local paths of economic growth strategies. Tension between a coalition for market reform and a coalition for national equity intensified in the 2000s. When the national political leadership made a political choice for market reform in the local economic policy arena, the major metropolitan areas accepted programs of the market model with respect to their competitiveness in attracting private investment. However, this political choice by the Koizumi cabinet made a coalition of national equity difficult to continue their preference on redistribution policy dependent on public investment. When programs to maintain equity are impossible for its adherents, the second option is programs to maximize participation. Local political leadership and the local business communities turned their attention to programs of the community model, which were introduced by central bureaucracies.

### **The Dual Local Economic Structures**

The choices of localities are constrained by their local economic structures. The competitive regions and the protected regions had different conditions to attract private investment in the 2000s, and this is the first factor producing local variation. The dual local economic structures are a structural factor affecting local variations of dominant local governance. Although there have been several political interventions to change dual local economic structures, especially in the 1970s, the dual local economic structures between the competitive and the protected regions, historically evolved through industrial development, has remained a strong constraining factor for localities' choices in the local

economic policy arena.

### **Concentrated Industrial Development and the Pacific Belt**

In the early twentieth century, the Japanese manufacturing industry became much more concentrated in the Hanshin areas (around Osaka), and in the postwar period, the Kyoyoko (around Tokyo) and the Chukyo (around Nagoya) areas attracted many manufacturing facilities. Three major metropolitan areas have dominated and led Japan's high economic growth. The first NGDP was the combination of a political intervention to overcome industrial concentration by diffusing industrial facilities nationwide and a political stance to create a better business environment in areas of industrial concentration.

In the early twentieth century, the textile industry dominated Japanese manufacturing and was concentrated in the Hanshin area. In 1909, the Hanshin industrial area produced 30% of the national total of manufactured products. The Kyoyoko industrial area's share was only 15%; the Chukyo industrial area had 10%; and the Kitakyushu industrial area had 3%. Therefore the Japanese manufacturing industries started with an Osaka-based unipolar concentration structure.<sup>1</sup>

After the Second World War, government-guided industrial investments first concentrated on material and energy industries such as steel and electricity. At the same time, machine industries developed quickly in the Kyoyoko industrial area. In the late 1950s, the Kyoyoko industrial area reached the same level of production as the Hanshin industrial area in terms of its share of total national manufacturing output. The Tokyo-Osaka bipolar concentration structure replaced the Osaka unipolar concentration structure.<sup>2</sup>

The Japanese economy was in a high-growth stage simultaneously with the transition to the Tokyo and Osaka bipolar concentration structure of the late 1950s. The real growth rate of the GNP of six years (1955–62) was 10% annually; the growth rate of private plant investment was 23.7% annually. This rapid growth of investment and production was described as a situation in which “investments bring investments.”<sup>3</sup> Because postwar manufacturing reconstruction was carried out mainly in the four big existing industrial areas (Hanshin, Kyoyoko, Chukyo, and Kitakyushu) that had been formed in the prewar period, it soon faced a shortage of plant sites. The newly constructed manufacturing plant sites were concentrated near the existing industrial areas. Because the desired conditions for plant sites included proximity to ports and big, highly consuming cities, well-developed irrigation systems, and good living environments for employees, areas near existing industrial sectors of metropolitan areas were competitive.

The concentration of manufacturing industries caused a widening income gap between urban and rural areas. Because the heavy and chemical industries, such as steel, petrochemical, and shipbuilding, were concentrated around four existing industrial areas, a population influx from rural areas to these industrial areas was inevitable. Therefore

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<sup>1</sup> Fujii 2004.

<sup>2</sup> Omura 2008.

<sup>3</sup> Itō 2000.



industrialization and urbanization were occurring simultaneously. Well-developed industrial areas became the most urbanized areas. This population influx produced a rise in land prices in the major metropolitan areas. Beginning around 1960, land prices rose annually over 30% (33% in 1961 and 41% in 1962) in Tokyo. The widening economic disparity and the problems of urbanization (skyrocketing land prices and poor living environments) became political issues around 1960.<sup>4</sup>

The Pacific Belt plan was a part of the Income Doubling plan under the Ikeda cabinet in 1960. Its official goal was to rectify regional economic disparities and prevent excessive overcrowding on the basis of private businesses' "rationality." Although the Ikeda cabinet included remedying economic disparities and regulating industrial location as the goal of the plan, the highest priority was consideration of private businesses' rationality.<sup>5</sup> Therefore it planned to construct new industrial districts near the four existing industrial areas, which could be a belt following the Pacific coast. The Pacific Belt had the advantage of proximity to consuming cities, existing industrial areas, and an abundant labor force. Although the government regulated more industrial location inside the existing industrial areas, the Pacific Belt plan produced the extension of major metropolitan areas but not a nationwide diffusion of industrial sites. In the 1960s, based on this idea, new steel factories were located at Kimitsu (Chiba), Oita (Oita), Fukushima (Hiroshima), Mizushima (Okayama), and Kashima (Ibaraki), and new petrochemical factories were located at Oita (Oita), Fukushima (Hiroshima), Sakai (Osaka), Mizushima (Okayama), and Kashima (Ibaraki). Therefore Oita, Mizushima, and Kashima were planned as general industrial complexes. In addition, the electronics, automobile, and machine industries, which started to develop in the 1960s, were also located near big metropolitan areas.<sup>6</sup>

There was opposition to the Pacific Belt plan from other regions outside of the Pacific Belt such as Hokkaido, Tohoku, and Ura-Nihon (the western areas of Honshu). Moreover, some LDP politicians criticized it as a concentration plan that would cause more regional disparity.<sup>7</sup> The first NGDP was introduced within this context. As mentioned in chapter 1, the first NGDP in the early 1960s was the result of confrontations and compromises between two opposing positions on regional development strategies. In devising the first NGDP, the MITI and the EPA proposed different industrial location policies. The MITI, which followed the ideas of Ikeda, supported concentrated industrial development in the Pacific Belt, but the EPA drafted more equitable industrial location policy. The New Industrial City policy of the EPA planned fifteen new industrial locations, mainly outside the Pacific Belt: Hokkaido, Hachino (Aomori), Akita Bay (Akita), Sendai Bay (Miyagi), Iwagi and Koriyama (Fukushima), Niigata (Niigata), Toyama (Toyama), Matsumoto (Nagano), Nakaumi (Tottori and Shimane), southern Okayama (Okayama), Tokushima (Tokushima), Toyo (Ehime), Oita (Oita), Hyuga and Nobeoka (Miyazaki), and southern Kyushu (Shiga, Fukuoka, and Kumamoto). These new industrial cities were evenly distributed nationwide. In contrast, the Special Industrial Renovation District Plan

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<sup>4</sup> Fujii 2004.

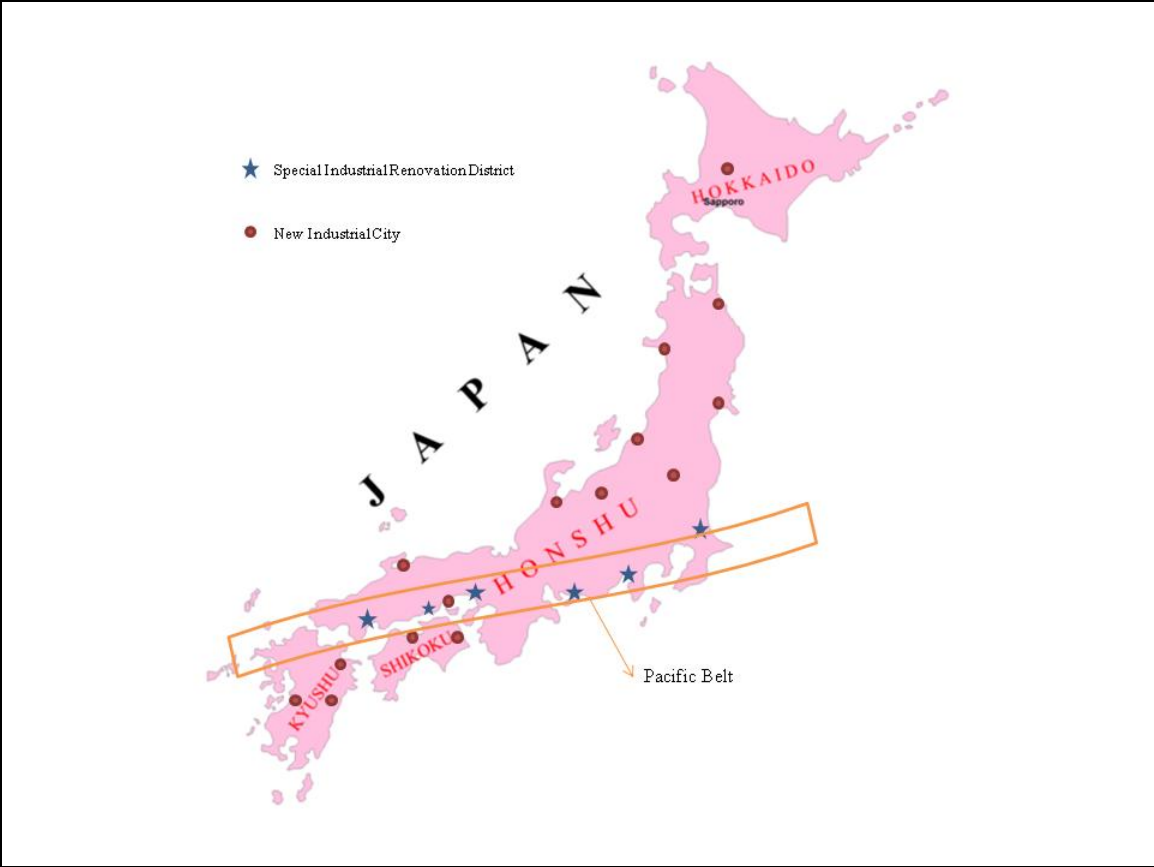
<sup>5</sup> Omura 2008.

<sup>6</sup> Nakamura and Miyazaki 1998.

<sup>7</sup> Omura 2008; Fujii 2004.

of the MITI targeted concentrated investment in six industrial districts within the Pacific Belt: Kashima (Ibaraki), east Higashisuruga (Shizuoka), Higashimikawa (Aichi), Harima (Hyogo), Bingo (Hiroshima), and Shunan (Yamaguchi). The first NGDP included both these plans in its regional development districts.<sup>8</sup>

Figure 3-1: New Industrial Cities and Special Industrial Renovation Districts



**Industrial Restructuring of Local Economic Structure in the 1970s**

There was a big change in industrial location policy with the Tanaka cabinet of the 1970s. Tanaka Kakuei became the prime minister with a plan to remodel the Japanese Archipelago that emphasized equitable regional development. The MITI also changed its basic principles of industrial location policy. It strengthened regulation on new industrial locations within the established industrial areas around Tokyo and Osaka and promoted the relocation of manufacturing plants to undeveloped regions.<sup>9</sup> Industrial relocation became a core of local industrial policy in the 1970s that will be described in chapter 5.

In addition, private businesses pursuing low land prices and low wages started

<sup>8</sup> Itō 2000.  
<sup>9</sup> Itō 1989.

moving toward undeveloped regions. Therefore, in the early 1970s, the population influx to metropolitan areas declined sharply, and regional economic disparity declined. Among the three big metropolitan areas, population influx became a phenomenon only in the Tokyo area. The Osaka and Nagoya areas experienced more population outflow in the 1970s. Although there was population inflow from rural areas into these two areas, there was more population outflow toward Tokyo from them. Therefore the Tokyo-Osaka bipolar concentration structure lessened with the scaling down of the Osaka area's economic power in the 1970s.<sup>10</sup>

The first oil shock in 1973 transformed Japan from a high-growth economy to a stable-growth economy. It mostly hurt the Pacific Belt areas, where capital-intensive industries were concentrated. Industrial complex regions requiring more resources and energies could not maintain high growth rates because of the high price of petroleum. In contrast, damage to localities outside the Pacific Belt caused by the oil shock was comparatively gradual. Instead, they were helped by enormous public works. In addition, because of the relocation of some machinery industries outside the metropolitan areas, localities outside the Pacific Belt became economically stronger.<sup>11</sup>

A comparatively limited population influx into major metropolitan areas in the 1970s helped develop the nationwide urbanization of mid-sized cities, so there was an increase of local small and medium businesses supporting local urban places. Moreover, the great public investment, undertaken since the 1970s, increased the portion of construction businesses in local economies.<sup>12</sup> Changes in the international economic structure and equitable regional development strategies in the 1970s lowered regional economic disparities.<sup>13</sup>

### **Reenlarging Regional Disparities and the Impact of the Burst Bubble**

In the 1980s, however, regional economic disparity grew again. Economic gaps between the three big metropolitan areas and other localities increased from 1980 to 1987. Specifically, the increasing gap between the Tokyo area and other areas was noteworthy. The Tokyo unipolar economic structure was a prominent phenomenon in the 1980s. Although industrial relocation toward localities outside the Pacific Belt continued in the 1980s, manufacturing products and their value added were concentrated in big metropolitan areas. This is because there was a tendency toward capital concentration in metropolitan areas, although manufacturing industries spread nationwide. Therefore regional economic disparity, which had declined in the 1970s, again grew in the 1980s.<sup>14</sup>

The development of service industries in metropolitan areas was the main reason for growth in regional economic disparity. Among a variety of service industries, the financial sector led the way in the Tokyo unipolar economic structure. Because Tokyo took

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<sup>10</sup> Omura 2008.

<sup>11</sup> Itō 2000.

<sup>12</sup> Hasumi, Nitagai, and Yazawa 1997.

<sup>13</sup> Omura 2008.

<sup>14</sup> Itō 2000.

on the role of an international financial center (like New York and London), various economic resources were concentrated in Tokyo. Tokyo became a center of the globalized economy, growing as a strategic operation base for multinational corporations. This trend intensified in the era of the bubble economy in the late 1980s. As demand for offices in Tokyo rapidly increased, land prices in Tokyo's downtown skyrocketed, and price increases spread throughout the Tokyo metropolitan area.<sup>15</sup>

Although there was a similar enlargement of regional economic disparities in the 1950s and 1960s, it had a different cause in the 1980s. In the 1950s and 1960s, economic disparity originated mainly from the concentrated location of material industries. Because capital-intensive material industries were located primarily around big metropolitan areas in the 1950s and 1960s, localities without these industries experienced comparative underdevelopment. In the 1980s, the development of IT, communication networks, and transportation fundamentally transformed the industrial structure. Instead of the heavy and chemical industries of the 1970s, technology-intensive industries such as electronics led the Japanese industrial development in the 1980s. Regional economic disparities widened as newly developed high-technology industries became concentrated in big metropolitan areas.<sup>16</sup>

The bubble that burst in the early 1990s caused nationwide stagnation. However, its impact varied locally. Because of the excessive rise of land prices during the bubble economy, big metropolitan areas experienced more severe economic stagnation than other regions. In contrast, the influence of the burst bubble was relatively small in other regions because they had not faced an excessive increase in land prices. In addition, localities outside big metropolitan areas were assisted with great public investment, undertaken as a countermeasure to the recession. Moreover, because of the continued industrial relocation during the period of the bubble economy, some localities outside big metropolitan areas developed processing and assembly plants. However, this effect was limited to localities near metropolitan areas. The effect of industrial relocation was preeminent in the Tokai area between Kanto and Kansai. In contrast, areas distant from Tokyo, such as Tohoku and Kyushu, were not significantly affected by industrial relocation during the period of the bubble economy. Therefore industrial relocation in the 1980s extended a zone of well-developed industrial areas near the Pacific Belt but not nationwide.<sup>17</sup>

### **The “Competitive” Areas versus the “Protected” Areas**

Japan developed dual local economic structures. Its globally competitive industries have been located mainly around the Pacific Belt, which was developed around major metropolitan areas. While capital-intensive industries, such as steel, shipbuilding, and heavy machinery, were developed around the Pacific Belt under governmental guidance in the 1950s and 1960s, technology-intensive industries, such as automobiles, computers, and electronics, were also located in the same places in the 1970s and 1980s. In contrast, other

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<sup>15</sup> Omura 2008.

<sup>16</sup> Omura 2008.

<sup>17</sup> Itō 2000.

regions outside the Pacific Belt had globally noncompetitive industries during each period. Since the 1960s, several measures have been implemented to protect and boost industrial development in these localities. The industrial relocation policy and huge public investment were the most significant policy tools used to protect these localities. In the postwar settlement of the national equity principle since the 1970s, protection for these noncompetitive localities continued.

However, the effect of industrial relocation, which had been carried out since the 1960s, was not nationwide. It only extended a zone of advanced industrial areas. Moreover, service industries also had a dual structure. In major metropolitan areas, big wholesalers and land developers were highly developed with large populations and capital. However, local retailers and construction businesses in regions outside big metropolitan areas remained relatively small and highly dependent on public investment. Therefore the historical development of industrial location in the twentieth century structuralized the dual local economic structures between the competitive and protected regions. This is similar to the difference between “Lexus” areas and “Olive Tree” areas described by Thomas Freidman.<sup>18</sup>

The different local economic structures created different conditions for localities in establishing new partnership programs in the local economic policy arena. Competitive regions could easily attract private investment. Because the competitive regions of major metropolitan areas already have a local structure of technology-based manufacturing industrial accumulation and plentiful populations, they are competitive in attracting big businesses of the outer-focused industrial sectors, large construction businesses, and large wholesalers. However, the protected regions are less competitive in attracting private investment. In the postwar period, they were incorporated into a conservative political system through public investment from the central government, based on the postwar settlement of the national equity principle. However, in the new environment of localities’ open choices for their own programs, they are facing a hard time finding investors equivalent to the public investment of previous years without the central government’s combined intervention of regulation and protection in the local economic policy arena.

### **Political Alignments Untied: Market Reform versus National Equity**

In the 2000s, there was an intensive confrontation between a coalition for market reform and a coalition for national equity regarding local economic policy. Although the LDP and central bureaucracies could coordinate different interests to maintain the national equity principle during the postwar period, the postwar settlement for national equity became a disputed topic among national politicians, local leadership, business, and local community groups. A coalition for market reform among large private corporations, neoliberal politicians, and local leadership of the major metropolitan areas opposed maintaining the postwar settlement and argued urgently for market reform in the local economic policy arena. In contrast, a coalition for national equity among conservative politicians embedded in paternalistic center-local linkages, local leadership outside the

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<sup>18</sup> Friedman 1999; Ozawa 2003.

major metropolitan areas, and local business and civic community groups desired to maintain redistribution mechanisms in the local economic policy arena and worried about the effect of market reform that would produce large economic gaps between the competitive major metropolitan areas and other regions.

Large private corporations are the most notable constituent of a coalition for market reform, which was also backed politically by Koizumi and his fellows. Large private corporations had been an important stakeholder of the postwar settlement of national equity. They accepted the necessity of restraint in pursuing their short-term interests to maintain social integration and harmony, which would return them to a long-term stable condition of productivity. However, in comparison with other liberal reforms in national economic policy arenas such as labor and finance, their demands for deregulation in the local economic policy arena were stronger. They wanted to enhance private investment in localities where new private investments had been limited by several regulations. Their request for market reform in the local economic policy arena was accepted by Koizumi and his fellows in national politics. The Koizumi cabinet believed that deregulation in the competitive localities would be the key tool in boosting the national economy as well as local economies. The localities of the major metropolitan areas were also very much in favor of this reform goal because they had a competitive local economic structure to attract private investment.

A coalition for market reform is inevitably confronted with a coalition for national equity. Because protection in the protected localities was a package with regulation in the competitive localities in the postwar settlement, many localities outside the major metropolitan areas opposed market reform. Their desire for protection should be accompanied with regulation in the competitive localities because of the dual local economic structures. When the Koizumi cabinet clearly stood on the side of a coalition for market reform, opposition to it came from within the LDP and opposition parties. However, when the Koizumi cabinet successfully propelled programs of the market model in local economic policy and shrank fiscal spending on local public investment, they stood on the defensive.

When a coalition for market reform was winning over a coalition for national equity, the community model for mobilizing local internal resources, which developed in the tradition of strong local societies, became an influential alternative in the local economic policy arena to the protected regions. There was consensus regarding the necessity to maximize local participation among almost all actors. All national and local political leaders, central bureaucracies, businesses, and local communities agreed that more local participation would help local economic conditions. In localities outside the major metropolitan areas, local business associations became a key actor for mobilizing local community resources. Therefore new programs of the community model could be dominant in regions outside the major metropolitan areas. Central bureaucracies devised a scheme for enhancing the community model in protected regions. Because they well recognized that the market model of the major metropolitan areas hurt local business communities, an important stakeholder of a coalition for national equity, they provided programs of the community model as a tool for balancing market reform.

## Request for Market Reform to Enhance Private Investment

Large private corporations are the most significant advocate of market reform; therefore they continuously demand the abolition of regulation, mainly in the competitive regions. The Keidanren has utilized the metaphor of the “globalized state” to argue in favor of market reform.

The Keidanren started to use the term *globalized state* in “The Keidanren Vision 2020,” published in January 1996. When the Keidanren welcomed Hashimoto Ryutaro’s inauguration as prime minister—marking the LDP’s return to power—it vigorously emphasized the necessity of structural reform to enhance the robust activity of private businesses. It suggested lowering the corporate tax rate, increasing the consumption tax, increasing the rate of people’s direct charge in the national pension, liberalizing and deregulating labor laws, and decentralizing reforms.<sup>19</sup> The Keidanren argued that these structural reforms would create better conditions for multinational corporations. The multinational corporations covered in “The Keidanren Vision 2020” are definitely the big Japanese private business groups. The notion of the globalized state was justified given that Japan should give and take with the multinational corporations to stay at the center of the globalized economic system. The Hashimoto cabinet accepted the Keidanren’s globalized state idea with the Hashimoto Administrative Reform Vision, using the catchphrase “Stronger state and localities through give and take with the multinational corporations.”<sup>20</sup> Several reform agendas from “The Keidanren Vision 2020” were adopted around 2000.

In the 2000s, the Keidanren fortified its power in setting the national reform agenda under the Koizumi cabinet. After 2001 administrative reform, merging ministries and creating new agencies, the CEFPP became an arena in which large private corporations coordinated with the national political leadership regarding the direction of governmental policy.<sup>21</sup> Okuda Hiroshi, the CEO of Toyota and chairman of Nikkeiren, the Japan Federation of Employers Association, took part in the CEFPP from 2001 to 2006 and actively supported several reform projects of the Koizumi cabinet.<sup>22</sup>

In 2003, the Nippon Keidanren, an emerging association between the Keidanren and the Nikkeiren, published its first vision, “A Vibrant, Attractive Nation in the Twenty-first Century.” Japanese big businesses kept their focus on the globalized state, emphasizing support for multinational corporations. Under the main slogan “From made-in-Japan to made-by-Japan,” Japanese business pursued a state system supporting multinational corporations. Its key requests to political leadership were to support technological innovation, to tune infrastructure for private businesses, and to lower the corporate tax rate.<sup>23</sup> All suggestions, such as tax reform for corporations and investors, were made to strengthen large private corporations’ competitiveness.

However, large private corporations’ suggestions in their various publications do

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<sup>19</sup> Keidanren 1996.

<sup>20</sup> Kamo, Okada, Tsuruta, and Tsunoda 2009.

<sup>21</sup> CEFPP 2001.

<sup>22</sup> Okada 2008.

<sup>23</sup> Nippon Keidanren 2003.

not directly mean an aggressive political stance in the policy process; rather, they have showed quite a gradual approach in arguing about liberal market reform in actual policy process. They have expressed careful concerns about the long-term effects of liberal market reform that would hurt social soundness and thus the economic effectiveness of Japan.<sup>24</sup> In addition, most industrial associations contain some that stand to gain and some that stand to lose as a result of liberal market reform. Therefore their demands regarding liberal market reform in national economic arenas such as labor and finance are not bold in the actual policy arena.

However, their demands for market reform in the local economic policy arena are comparatively strong. There has been consensus among big businesses—regardless of their industrial sectors—for the termination of long-standing regulations regarding industrial location and land development in the major metropolitan areas. The major metropolitan areas are where big businesses' investments can be returned at a high rate.<sup>25</sup> These competitive regions have been subject to several regulations to maintain national equity. Large private corporations wish to dismantle this to maximize growth. Mitarai Fujio, the CEO of Canon, chair of Nippon Keidanren, and thus a member of the CEFP, asserted the necessity of the so-called Heisei Incoming Double Plan through the concentration of economic investment for better economic growth.<sup>26</sup> Large private corporations have demanded the dismantling of the postwar system that has regulated private investment in major metropolitan areas, that is, competitive regions.

### **Political Support for Market Reform**

Market reform in the local economic policy arena became actualized as the political agenda of liberal political leadership by Koizumi Junichiro in the 2000s. In the postwar period, however, the LDP, Koizumi's party, had stood on the twin pillars of a globally competitive world and a domestically oriented one through industrial and redistributive policy. Therefore the policy preferences of LDP politicians diverged between "internationalist" and "protectionist."<sup>27</sup> Even in the 1990s, the LDP continued to diverge in this manner. In the 2000s, the LDP conservatives, who have maintained their constituency through their public policy, were strongly opposed to liberal market reform. Their policy direction was one of the reasons to increase public investment under the Obuchi and Mori cabinets. However, Koizumi and his fellow liberal LDP reformists agreed with large private corporations' requests for market reform instead of maintaining the postwar settlement of regulation and protection.<sup>28</sup>

The slogan of structural reform, which Koizumi considered to be an urgent and indispensable task for the future of Japan, is a symbol of his cabinet. The basic idea of structural reform was introduced in the BP of 2001 of the CEFP. In the BP of 2001,

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<sup>24</sup> Vogel 2006.

<sup>25</sup> Igarashi and Ogawa 2003.

<sup>26</sup> Mitarai 2008.

<sup>27</sup> Pempel 1998.

<sup>28</sup> Yanbe 2007.



structural reform was defined as system changes to make it easy for capital and labor to flow into growth sectors. Under a categorization into growth sectors and stagnant sectors, the Koizumi cabinet expects that growth sectors will sustain future Japanese economic growth.<sup>29</sup> Therefore Koizumi and his associates agree with large private corporations' globalized state idea. In addition, they took the stance that economic disparity is a natural phenomenon and that excessive governmental intervention to lessen disparity would hinder the competitiveness of the growth sectors. In 2006, Koizumi answered in the Diet that the economic disparity is good for enhancing competitiveness.<sup>30</sup> This stance produced significant opposition from his party, the LDP. Some of the LDP politicians who desired to keep the principle of national equity resisted Koizumi's stance in favor of economic disparity. However, in the process of the postal reform, which was the highest priority of the Koizumi cabinet, and the following election, Koizumi won the battle, with the LDP politicians preferring the national equity principle.<sup>31</sup>

The Koizumi cabinet's market-friendly attitude was highly influenced by Takenaka Heizo. Takenaka, an economist at Keio University, became the minister of economic and fiscal policy within the Koizumi cabinet in 2001 and led the CFP. He fundamentally believed in the market mechanism as well as the notion that government should support growth sectors to increase returns. He has been severely criticized as the source of increasing economic disparity under the Koizumi cabinet. He has admitted it without regret. He openly states in his autobiography that disparity is essential in the market mechanism as it stimulates liveliness in private businesses.<sup>32</sup> He utilized the CFP in applying the structural reform agenda. His operation of the CFP is not in the traditional style. Rather than following the guidance of central bureaucracies, he discussed the issues with four nongovernment members of the CFP before a formal meeting of the council and tuned the coordinated arguments with them at the council. In addition, he took full advantage of Koizumi's support. Since Koizumi's final remarks in the CFP were profoundly influential, Takenaka tried to keep Koizumi's support for his reform direction.<sup>33</sup>

Miyauchi Yoshihiko, often called "Mr. Deregulation," also had a huge influence on the direction of the Koizumi cabinet. He is the chairman and CEO of ORIX Corporation and served as president of the Council for Promoting Regulatory Reform, an advisory board to the prime minister under the Koizumi cabinet. While criticizing excessive investment in rural areas, he argued for concentrated governmental investment in urban and metropolitan areas to produce better competitiveness.<sup>34</sup>

Regional disparity in private investment between major metropolitan areas and other regions has been heavily affected by this political orientation to favor market reform. Koizumi's associates, including Takenaka and Miyauchi, have led the Koizumi cabinet into market reform in the local economic policy arena. Unlike many LDP conservative politicians arguing the importance of maintaining local public investment and retaining the

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<sup>29</sup> CFP 2001.

<sup>30</sup> Shimada and Fujinami 2006.

<sup>31</sup> Murano 2002.

<sup>32</sup> Sataka 2009.

<sup>33</sup> Takenaka 2006.

<sup>34</sup> Arimori 2006.

national equity policy, Koizumi has consented to apply market reform in the local economic policy arena.

### **Proponents of Maintaining the Equity Principle**

The political stance in favor of the national equity principle has been very strong in the postwar period. National political leaders—some of the LDP and opposition parties—and local leadership have an orientation to maintain equity. In addition, there has been strong concern among intellectuals about liberal reform dismantling the principle of national equity. However, the side in favor of maintaining equity has been on the defensive under Koizumi's rule.

Arguments for liberal market reform are not fully supported by all intellectuals in Japan. There have also been strong antiliberal market reform arguments. Critics of liberal market reform generally give credit to consensus and fairness over the need to encourage efficiency in the Japanese economic system. To them, reckless liberal market reform merely destroys fairness without bringing about any permanent improvement in efficiency. They hope to keep the virtues of the Japanese economic system, even with structural changes in the international environment.<sup>35</sup>

Economic disparity is the greatest concern of those with an antiliberal market reform orientation. They strongly opposed to Koizumi's structural reform because it has enlarged economic disparities. They argue that during the Koizumi rule, the benefits of economic growth went to big, private businesses, not to mid-sized and small businesses, inward-oriented sectors, households, or localities outside metropolitan areas.<sup>36</sup> In addition, they point out that the increase in the number of temporary workers and contract labor that originated from labor market reform worsened employees' quality of life.<sup>37</sup> In local mechanisms, they argue that regional economic disparity intensified with the implementation of programs of the market model.<sup>38</sup>

Local leadership outside major metropolitan areas has been highly sensitive to maintaining local systems under the national equity principle. Thirty-eight prefectures (excepting only the localities of major metropolitan areas: Chiba, Saitama, Tokyo, Kanagawa, Shizuoka, Aichi, Osaka, Hyogo, and Fukuoka) organized in 1997 the Local Union for Promoting Social Infrastructure in an effort to stop shrinking governmental subsidies.<sup>39</sup> The opposition to market reform intensified with the implementation of the Trinity Reform. Contrary to the localities' original expectations, the Trinity Reform resulted in worsening local financial situations. Katayama Yoshihiro, a former governor of Tottori Prefecture, criticized the Trinity Reform and mentioned the possible veto of Toshiba products in 2003 because Nishimuro Taizo, the president of Toshiba, was the chairman of the CDR.<sup>40</sup> Although it was unrealistic, it shows how sensitive some localities were

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<sup>35</sup> Gao 2000.

<sup>36</sup> Okata 2008.

<sup>37</sup> Motoshige Itō 2008; Shirakawa 2008.

<sup>38</sup> Takabayashi 2005.

<sup>39</sup> Kajiwara 2001.

<sup>40</sup> Shigeyuki Tanaka 2004.

regarding their fiscal conditions. Local interests desire to maintain the principle of equity.

However, local leadership's stance on national equity has not been coherent. To many local leaders, national equity meant maintaining fiscal sources for public investment, which helped local economies. For example, Kajiwara Hiromu, a former governor of Gifu Prefecture, took initiative in establishing the Local Union for Promoting Social Infrastructure to keep public works.<sup>41</sup> However, some reformist local leaders have tried to deviate from the cost-taking structure of public investment. For example, Asano Shiro, a former governor of Miyagi Prefecture, and Tanaka Yasuo, a former governor of Nagano Prefecture, argued for the demolition of the governmental subsidy system for public works.<sup>42</sup> These reformist local leaders wanted to transfer their budgets to their autonomous local policies without budget cuts.

All this illustrates how a coalition for market reform cannot avoid a clash with a coalition for national equity. Market reform to enhance private investments for growth, concentrated mainly in the competitive regions, led to the impracticability of maintaining protection and public investments for national equity combined with regulations in the competitive regions.

The most recent two elections showed what local residents thought of Koizumi's LDP. The Democratic Party of Japan's (DPJ) overwhelming victories in the Upper House election in 2007 and the Lower House election in 2009 were based on local residents' shift to the DPJ.<sup>43</sup> Rather than local residents considering the DPJ to be more able, feelings of opposition to Koizumi's reform to maximize growth played a crucial role in these elections.

### **High Expectations for Local Community Participation**

The protected regions, for which a coalition for national equity desired to keep redistribution policy, found that this redistribution policy was difficult to maintain because of political choices made by the Koizumi cabinet. Instead of maintaining national equity, mobilizing local internal economic resources has arisen as an alternative growth strategy in the protected regions outside major metropolitan areas.

Since the 1990s, an emphasis on residents' participation in local administrations' policy processes has been another feature of Japanese opinion leaders in both the central and local governments. The residents' voluntary, active engagement was considered an alternative to the rigid state-led system and to the market-driven efficiency principle.

Reformist local leaders in the 1990s tried to create a systematic route for civic engagement in local administrative processes. The information disclosure system was one of the crucial aspects of civic participation, so public disclosure was one of the most important tools of local reformist leaders. Civic movement groups had called for the passing of the Public Information Act since the 1980s. Ahead of the central government, local governments began passing the Information Disclosure Ordinance in the 1980s and

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<sup>41</sup> Kajiwara 2001.

<sup>42</sup> Asano 2006; Tahara and Tanaka 2001.

<sup>43</sup> Yamaguchi and Kaneko 2009.

1990s.<sup>44</sup> The Public Information Act was passed at the national level only in 1999. Reformist local leaders tried to allow for residents to access many administrative processes. They utilized information disclosure as a reform tool to bring freshness into administrative systems and to fight antireformist local assembly groups. The reform local leaders' basic idea was that civil active engagement in the public administrative system would be the most significant method of enlivening localities.<sup>45</sup>

Participatory reform orientations have been spread broadly with the decentralization reform process. In the 2000s, many localities enacted the Principal Ordinance of Local Autonomy, known as the "constitution of locality." Since the enactment at Niseko-cho of Hokkaido, it has become a fashion. It clearly claims that citizen autonomy is the primary principle of local administration, indicating how citizens can become involved in administrative processes.<sup>46</sup> In addition, local leaders and researchers believing in the citizen autonomy principle created the national network forum, a "'Small but Shining' Local Autonomy Forum," in 2003. This forum opposed liberal market reform and emphasized citizen participation as an alternative. It argued that liberal market reform influenced by the globalized state ideas of big business caused severe economic disparity and dismantled local communities. Instead of liberal market reform, it suggested active civic participation at the level of small local units.<sup>47</sup>

The boom in NPO activity since the 1990s was another source of increasing local community participation in the local policy process. Many national and local leaders have thought that collaboration with the NPOs would advance local communities' participation in local administration.<sup>48</sup> After the experience of impassioned volunteer activity in response to the 1995 Hanshin earthquake, the NPOs acquired eligibility as a crucial actor in local governance. In the 2000s, many NPOs actively engaged in several fields such as welfare, community organization, education, culture, sport, environment, and health care.<sup>49</sup>

However, although the NPOs' activity has been distinctive since the 1990s, Japanese local communities have shown a high level of social networks and participation even before the 1990s. The Japanese local societies were famous for active community care and resident movement. However, this did not have a unitary characteristic. Whereas local economic and social influential power elites dominated local business organizations (e.g., local chambers of commerce and industry) and traditional village associations, some resident organizations have been developed through the left-wing civic movement. During the postwar period, the former had kept their political link with conservative LDP politicians, but the latter had been a base for progressive local leaders in the 1970s and 1980s. The former were originally locked in their localities, and the latter were also highly interested in local issues, with an emphasis on fairness and the environment.<sup>50</sup>

Almost all the Japanese civil society groups have tended to be the localized social

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<sup>44</sup> Asano, Kitagawa, and Hashimoto 2002.

<sup>45</sup> Katayama 2007.

<sup>46</sup> Uchinaga 2006.

<sup>47</sup> Okata 2008.

<sup>48</sup> Hieiri Soshiki Hyōka Kenkyūkai 2008.

<sup>49</sup> Isa 2008.

<sup>50</sup> Imai and Matsushita 2008.

organizations.<sup>51</sup> These localized social organizations are key actors in the local coordination system because most of them are locked into place. As Robert Pekkanen argues, Japanese civil society has a dual structure.<sup>52</sup> Under governmental systematic control with incorporation laws, financial and tax restrictions, and regulatory actions, civic organizations are encouraged at the local level. This is helping the stable development of new localized coordination systems among local leadership, local businesses, and community residents.

When a coalition for market reform was winning over a coalition for national equity in the national politics during the Koizumi rule, the noncompetitive protected regions have dominantly implemented programs of the community model to utilize local resources rather than programs of the market model. Implementation of the market model is too hard in protected regions because these regions are less competitive in attracting external private investment in comparison with major metropolitan areas.

### **Market Reform in the Competitive Regions versus Community Mobilization in the Protected Regions**

The dual local economic structures and competing politico-economic coalitions for market reform versus national equity have produced diverging paths in implementing different partnership programs of the market model and of the community model in the 2000s between the major metropolitan areas and other regions.

The dual local economic structures between the competitive regions and the protected regions, which developed in the twentieth century, produced different conditions to attract private investment. Private businesses have more incentive to invest in the competitive regions of major metropolitan areas if the same rules are applied to all localities.

Political choices for market reform intensified the diverging paths of major metropolitan areas and other regions. In the 2000s, there was an intense confrontation between a coalition for market reform and a coalition for national equity. Because the national political leadership stood on the side of a coalition for market reform, there has been strong political pressure for structural reforms to dismantle the postwar settlement of a combination of regulation in the competitive regions and protection in the protected regions. Many partnership programs, such as the City Rehabilitation Program and the Structural Reform Special Zone, attempted to abolish regulations in the competitive regions to maximize growth through private investment. Therefore partnership programs of the market model can be smoothly fit to major metropolitan areas.

In contrast, other regions outside major metropolitan areas find it difficult to maintain equity under the Koizumi cabinet's reform policies. While the continued paternalistic redistribution mechanism was dismantled by the national political leadership, localities outside major metropolitan areas also became unable to utilize the market model

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<sup>51</sup> Yamasaki 2009; Nakata 2007.

<sup>52</sup> Pekannen 2006

because of major metropolitan areas' compelling competitiveness. The alternative option was to mobilize local endogenous business community resources. In the 2000s, central bureaucracies attempted to provide partnership programs to strengthen local economies through increased participation by local business and civic communities such as the City Planning of Downtown Development, the Industrial Cluster Plan, and the Authorized Manager System. As an alternative, partnership programs of the community model became dominant in the protected regions outside major metropolitan areas in the local economic policy arena in the 2000s.

## **Part II** **Balancing Market Reform with Participation**

### **Chapter 4** **The Megacity versus the Compact City in Local Land Development Policy**

Local variations in land development policy between the market model in the major metropolitan areas and the community model in the rest of the country have been planned and guided by the central government, unlike local industrial policy, in which two models have been introduced nationwide but have had different effects at the local level. The Koizumi cabinet and central bureaucracies of the MOC and subsequently the MLIT have introduced different partnership programs for the major metropolitan areas and other regions in local land development policy. The City Rehabilitation Program attempted to enhance private land development projects in the major metropolitan areas, whereas the City Planning of Downtown Development tried to improve the downtown commercial districts of mid-sized cities by involving local communities.

In local land development policy, the national political leadership wanted to maximize growth through the City Rehabilitation Program, which gave incentives to private land developers. The Koizumi cabinet viewed large-scale private land development as one of the most efficient methods for strengthening the national economy. In the postwar period, the central government regulated and protected local land development. Whereas the Urban Planning Law and the Construction Standard Law regulated concentrated investments in urban metropolitan areas, the Large-Scale Law protected small retailers from large wholesalers. The government abolished or revised these laws around 2000 to promote private investment; this trend continued with the City Rehabilitation Program under Koizumi.

While market reform has dominated local land development policy in major metropolitan areas, central bureaucracies of the MOC and subsequently the MLIT devised a new program to protect local business communities. However, a new program did not aim to maintain national equity. Instead, mobilizing local business communities became the central goal of the City Planning of Downtown Development. Central bureaucracies adopted the tradition of *machizukuri* in designing this plan. Because the government acknowledged differences in local economic structures between the major metropolitan and other areas, it provided them with different options. Therefore local differences between market and corporatist models are most obvious in local land development policy.

#### **Regulation, Community, and Reform of Land Development Policy**

In the postwar period, there have been two trends in local land development policy: the state-controlled regulation system and district redevelopment by resident participation for better living conditions. While central bureaucracies controlled land development policy to ensure nationally balanced development for the national equity principle, there was a tradition of district redevelopment fueled by community-oriented participation, or *machizukuri*. The 2000 reform package included the deregulation of

private businesses' land redevelopment and the incorporation of *machizukuri* into government-supported programs for small local retailers.

## History and Structure of Central Regulation

Central bureaucracies' regulation of land development has intensified in the major metropolitan areas during the postwar period for the national equity principle. After the Nakasone cabinet used private land development projects to strengthen the economy, there has been increasing pressure to relax the regulations on private land development in the major metropolitan areas.

Central bureaucracies have regulated the land development policy arena since the prewar period. In Japan, the term *tosikeikaku* (urban planning) was coined with the introduction of the Urban Planning Law in 1919.<sup>1</sup> The law was meant to construct urban social infrastructure, such as roads, bridges, waterworks, and parks, as part of Japan's modernization. In response to the rapid expansion of urban areas around Tokyo and Osaka, the Japanese government worked to control chaotic development and create an urban social infrastructure. The distinctive feature of this era's land development policy was the centralized control under the Home Ministry, which maintained sole authority over all land development.<sup>2</sup> Despite attempts at local autonomous land development by Seki Hajime, the former mayor of Osaka, the Home Ministry completely controlled urban planning. Ikeda Hiroshi, the first section chief of urban planning in the Home Ministry, started the tradition of central control in urban planning policy. He argued for land use regulation and construction by technocrats. He pointed out that land development and construction should be calculated by central technocracies to supply comprehensive on-time urban infrastructures. Indeed, there is a long tradition of central mechanisms dominating Japan's land development policy.<sup>3</sup>

The American Occupation (1945–52) abolished the Home Ministry and enacted the Local Autonomy Law. Under the Shoup Recommendation, urban planning policy became a local policy arena. However, the MOC, a divided part of the Home Ministry, maintained its supremacy in land development policy throughout the postwar period. Discussions of the abolition of the Urban Planning Law were delayed and eventually discontinued in the 1950s. Central bureaucracies and local officials opposed the idea that municipal units should take over urban planning policy; rather, central bureaucracies believed that social infrastructures should be under national control, and local officials, especially in rural areas, did not have a strong desire to assume responsibility.<sup>4</sup> Therefore land development policy became a delegation function, a system implemented by local officials but controlled by central bureaucracies. However, although these bureaucracies controlled land development, they could not prevent urban sprawl, especially during the 1950s and 1960s. Since rapid economic growth was the first national goal, Japanese leaders

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<sup>1</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>2</sup> Takayose 1990.

<sup>3</sup> Takayose 1990.

<sup>4</sup> Shiraishi, Tomino, and Hirohara 2002.



tolerated and sometimes encouraged industrial accumulation.

The principle of national equity appeared in the 1960s. However, national equity had not been a central principle of the first NGDP, which was shaped by Ikeda's Income Doubling Plan of 1962. The Incoming Doubling Plan concentrated infrastructure investment around the Pacific Belt and in large metropolitan areas.<sup>5</sup> However, the second NGDP in 1968, issued by the Sato cabinet, extended infrastructure investment nationwide. Tanaka's nationwide development idea influenced the second NGDP. His concept, the Outline of City Plan and Remodeling of the Japanese Archipelago, consisted of the nationwide broadening of industrial facilities and urban social infrastructures.<sup>6</sup> The second NGDP led to the revision of the Urban Planning Law; the Construction Standard Law and the Urban Redevelopment Law were enacted in 1968. These three laws provided nationwide ground rules for land development. While strengthening regulation of land development around metropolitan areas, the laws broadened investment in social infrastructure to improve the quality of nationwide urbanization.<sup>7</sup>

Regulation of land development, especially in large metropolitan areas, intensified in the 1970s. In 1970, land use zones were subdivided and the index for floor space was restricted under the Construction Standard Law. In addition, urban planning zones, which were more heavily regulated, were extended by the revision of the Urban Planning Law in 1974.<sup>8</sup> These regulations came with a new political environment. In the 1970s, progressive local leaders were elected in metropolitan areas such as Tokyo, Kanagawa, Osaka, and Kyoto. These leaders opposed the proliferation of high-rise buildings and enacted ordinances restricting their construction. In addition, courts began to recognize citizens' right to sunshine, which had been restricted by rampant urban development. The Japanese bureaucracy responded in the late 1970s with the district planning system, which required coordinated redevelopment within a district.<sup>9</sup> The third NGDP, under the Fukuda cabinet, also emphasized national equitable development and regulated urban areas. Ohira Masayoshi's concept of a Garden City heavily influenced the third NGDP, and more regulations were applied to land development, especially in metropolitan areas.<sup>10</sup>

In strengthening the regulation of land development in the 1970s, the government also began targeting the expansion of large wholesalers. Regardless of their location inside and outside downtown areas, large wholesalers were having a negative impact on small retailers. The Large-Scale Retailer Law replaced the Department Store Law in 1973. The Large-Scale Retailer Law regulated the size of malls as well as their operating days and hours through compulsory coordination with small retailers. While large malls (over three thousand square meters) in cities like Tokyo, Osaka, and Nagoya were regulated, the size of regulated malls in other areas was strengthened from fifteen hundred square meters in 1973 to five hundred square meters in 1979. This legislation was intended to protect small

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<sup>5</sup> Fujii 2004.

<sup>6</sup> Tanaka 1972.

<sup>7</sup> Murano 2002.

<sup>8</sup> Igarashi and Ogawa 2003.

<sup>9</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>10</sup> Jitsu 2004.

retailers from large wholesalers.<sup>11</sup>

In the early 1980s, the Nakasone cabinet changed the trend of land development. Under the slogan “Reconstruction of government finance without a tax increase,” Nakasone promoted urban redevelopment through private investment. Because urban redevelopment is related not only to construction and real estate businesses but also to steel, cement, electricity, and automobile businesses, it can be an effective means of strengthening an economy.<sup>12</sup> Nakasone’s “urban renaissance” policy, designed to deregulate land development, was praised by private businesses such as the *Keidanren*, *Keizaidoyukai* (Japan Association of Corporate Executives), construction business associations, and real estate business associations. His deregulatory urban renaissance policy produced intensive private investment in the construction of buildings, offices, and mansions around the major metropolitan areas. Although these projects contributed to economic growth, the skyrocketing of land prices culminated in the real estate bubble of the 1980s.<sup>13</sup>

In the late 1980s and 1990s, there was an attempt to slow urban redevelopment. In 1989, the Kaifu cabinet enacted the Land Standard Law, emphasizing publicity in land development. This law was based on the principle of “returning land developers’ interests to society.” In addition, the Miyazawa cabinet tried to scale down the boom of private land development with revision of the Urban Planning Law and the Construction Standard Law. However, in the 1990s, the Down Zoning Plan was abandoned in the postbubble economy. The sharp drop in land prices resulting from the severe economic recession affected land development mainly in metropolitan areas. The MOC, large private businesses, and the leadership of metropolitan areas agreed not to reregulate land development policies.<sup>14</sup> This caused land redevelopment to continue in the major metropolitan areas throughout the 1990s. This boom in land redevelopment was concentrated around large metropolitan areas. The Koizumi cabinet promoted this trend with its City Rehabilitation Special Zone Program in the 2000s.

### ***Machizukuri* Tradition**

Though central bureaucracies have controlled local land development policy, Japan also has a tradition of resident participation in district redevelopment. *Machizukuri*, which started as a resident movement, became a component of the community’s involvement in district redevelopment projects. *Machizukuri*, a term combining *machi* (village) and *zukuri* (making), was an alternative to bureaucratic-centric urban planning and has more recently become a popular concept in local land development policy.<sup>15</sup>

The term *machizukuri* entered widespread use in the 1950s. At first, it was not meant as a means of land development but instead indicated residents’ participatory activities in policy arenas such as social welfare, improvement of living conditions, and

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<sup>11</sup> Fukuda, Busujima, and Ogawa 2008.

<sup>12</sup> Igarashi and Ogawa 2003.

<sup>13</sup> Narita 1995.

<sup>14</sup> Igarashi and Ogawa 2003.

<sup>15</sup> Evans 2002.

local democratic movements. Local social welfare associations sometimes referred to their activities, such as volunteering and collecting donations, as *machizukuri*; associations dedicated to the improvement of living conditions had the catchphrase “*Machizukuri* without mosquitoes and flies”; many local democratization associations mentioned “*machizukuri* in our hand.” A common feature in these movements was the establishment of the village or district as the boundary of activities and the use of residents’ participatory activities to reach their goals. Therefore *machizukuri* in the 1950s consisted of residents’ associational activities for solving problems in their town.<sup>16</sup> This meaning of *machizukuri* is still used today.

However, in the 1960s, *machizukuri* began to designate participatory district improvement programs against bureaucratically planned land development programs. *Machi* (village) stood against *toshi* (city); *zukuri* (making) against *keikaku* (planning). In the high-growth period, central bureaucracies’ urban planning stressed the establishment of urban social infrastructures, but less so in terms of improving old residential and commercial districts. Therefore the motto of “Village against city” was intended to give priority to maintaining village communities and improving living conditions in residential and commercial districts. The concept implied that residents should take control of land development instead of allowing central bureaucracies to determine how their land would be used.<sup>17</sup> This framework emphasized a community’s active participation. *Machizukuri* is therefore related to land development policy. This type of *machizukuri* originated in the commercial and residential districts of urban metropolitan areas. The Sakaehigashi district of Nagoya city as well as the Maruyama and Mano districts of Kobe city are pioneers of *machizukuri* in terms of land development policy.

*Machizukuri* in the Sakaehigashi district of Nagoya city started in the late 1950s under the leadership of retailers and became a significant land development movement with the involvement of researchers and engineers in the 1960s. The Sakaehigashi district primarily suffered from an inner-city problem: the hollowing out of the central area of Nagoya city. Miwata Haruo, a futon retailer, initially planned the co-redevelopment of neighboring shops, but after a trip to the United States, he broadened his idea to district-wide redevelopment in the late 1950s. In 1962, he organized neighboring retailers into the Sakaehigashi Redevelopment Promotion Association under the slogan of “*Machizukuri*.” The association promoted redevelopment with the coordination of residents; to protect their mutual interests; and to give priority to residents’ autonomous plan. The Sakaehigashi district’s redevelopment was advanced with a master plan in 1964.<sup>18</sup>

Local residents’ dissatisfaction with their poor living conditions was a starting point for *machizukuri* in the Maruyama and Mano districts of Kobe city. In the course of rapid construction of an urban social infrastructure, including many industrial facilities, the Maruyama and Mano districts became rife with air pollution, traffic, and noise. In response, residents of the Maruyama district started an antidevelopment civil movement in 1963. The movement became known as the “fighting Maruyama,” the *machizukuri* movement. The

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<sup>16</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>17</sup> Shiraishi, Tomino, and Hirohara 2002.

<sup>18</sup> Kishi, Araki, Koizumi, and Watanabe 1995.

Maruyama District Culture and Security Council, a *machizukuri* organization, was formed in 1965. In addition, a *machizukuri* movement in the Mano district started from an antipollution movement. In 1965, a Mano Welfare Association began as a *machizukuri* organization. Mori Yoshijo, the chair of a village association and retired postal worker, led this movement. Kobe city has supported these *machizukuri* movements from the late 1960s. Instead of following the example of Haraguchi Chuziro, a mayor who was stressing rapid industrialization and construction of heavy social infrastructure, Miyazaki Tatu, a mayor at that time, emphasized antipollution and community-based land development and criticized the construction of social infrastructures that threatened residential neighborhoods. Under these circumstances, *machizukuri* movements in Kobe city received strong support from Kobe city officials. In the Mano district, an antipollution *machizukuri* movement became a form of district redevelopment in the 1970s. When the MOC introduced the district planning system in the 1970s, the Mano *machizukuri* organization made its district into Kobe city's first designated district under this system.<sup>19</sup>

Since the 1960s, these participatory *machizukuri* movements have remained a tradition of community-oriented land redevelopment. However, although *machizukuri* began as a reaction against the state-led construction of heavy social infrastructures, central bureaucracies soon incorporated it into the nationwide framework of land development policy. The word *machizukuri* has been used in the construction white papers of the MOC and the land, infrastructure, and transportation white papers of the MLIT. Sometimes it has been used with land redevelopment projects, despite its characteristics. Land redevelopment projects by private businesses in urban commercial areas have also been called *machizukuri*. The community-oriented *machizukuri* was incorporated into government programs in mid-sized local cities in the 1990s.<sup>20</sup>

### **The Rise of Two Divided Mechanisms since the late 1990s**

In the late 1990s, the Japanese government introduced new local land development programs. The City Rehabilitation Program, which was one of the most distinctive reform programs in the Koizumi cabinet, had been discussed since 1998. In addition, with the abolition of the Large-Scale Retailer Law and the legislation of the Large-Scale Retailer Location Law, discussions of the City Planning of Downtown Development began in 1998. While the City Rehabilitation Program was focused on land redevelopment around major metropolitan areas, the City Planning of Downtown Development attempted the redevelopment of commercial areas in mid-sized local cities.

Land redevelopment in metropolitan areas appeared to be a leading economic policy in the Obuchi cabinet. The Economic Strategy Council, which Obuchi Keizo appointed in 1998, suggested city rehabilitation as one of numerous policies to revive the economy during a prolonged recession. Land redevelopment through city rehabilitation was considered a solution to massive numbers of bad bonds. While a fall in land prices was a crucial reason for these bad bonds, booming real estate businesses were once again

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<sup>19</sup> Konno 2001.

<sup>20</sup> Shiraishi, Tomino, and Hirohara 2002.

regarded as a solution.<sup>21</sup> However, the Obuchi cabinet did not make it a key policy on its agenda; instead, the Obuchi cabinet increased nationwide public investment.

However, two Councils for Promoting City Rehabilitation were organized in Tokyo and Osaka in 1999, and their preliminary activities became the groundwork for the City Rehabilitation Program of the Koizumi cabinet. The Tokyo council declared Tokyo's future as a global city and suggested concentration of public investment in metropolitan areas. The Osaka council also emphasized the necessity of increasing public investment in metropolitan areas and distinctively highlighted the problem of Tokyo's unipolar system. Political, economic, and academic leaders on these two councils strongly stood on the side of private businesses. The report from the Tokyo council indicated the need for a fast, on-time process of granting permission for land redevelopment.<sup>22</sup> This orientation influenced the revision of the Land Expropriation Law in 2001 under the Mori cabinet. Although it added compulsory consultation with social groups in land development projects, it indicated social groups as the deliberation committee for maintaining social infrastructure at the national level and associations which prefectural leaders assigned at the local level. Rather than considering social opinions, it made a fast way to approve land development projects initiated by private businesses.<sup>23</sup>

In addition, there was a transition in local retail policy in 1998. The Large-Scale Retailer Law, which had intensified regulation of large-scale wholesalers since 1973, was abolished in 1998 and replaced with the Large-Scale Retailer Location Law. This change came from an internal drive toward deregulation and external pressures for liberalization. The establishment of the WTO in 1995 created pressure to abolish the regulation of big wholesalers. In the WTO system, an agreement of service industries prohibited restrictions on the number and volume of service suppliers. In this circumstance, the Large-Scale Retailer Law was considered a nontariff barrier to retail businesses of multinational corporations.<sup>24</sup> In addition, large-scale malls in the 1990s faced a decline in growth, although the number of start-ups increased from 794 in 1989 to 2,269 in 1996.<sup>25</sup> As a result, there was a strong request on behalf of large-scale wholesalers for the deregulation of large-scale retailers' operation hours and sizes. The transition from the Large-Scale Retailer Law to the Large-Scale Retailer Location Law took place in this growth-oriented environment. The preliminary goal of the Large-Scale Retailer Location Law was to protect the "neighboring zones" of large-scale retailers but not to protect small retailers. It only regulates transportation, parking, noise, and waste from large-scale malls but does not address their size or days and hours of operation. In addition, malls, which should be following the new rules, ranged from one thousand square meters but no more from five hundred square meters under the former Large-Scale Retailer Law.<sup>26</sup> After the passage of the Large-Scale Retailer Location Law, the number of new large-scale malls did not increase significantly. However, the number of superlarge malls over ten thousand square

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<sup>21</sup> Kensetsu Seisaku Kenkyūjo 2004.

<sup>22</sup> Igarashi and Ogawa 2003.

<sup>23</sup> Igarashi and Ogawa 2003.

<sup>24</sup> Fukuda, Busujima, and Ogawa 2008.

<sup>25</sup> Hosono 2007.

<sup>26</sup> Hosono 2007.

meters did increase. Between 1999 and 2004, 399 superlarge malls opened, mostly in suburban areas, which were better at meeting the requirements of the Large-Scale Retailer Location Law, which considered the effect of new malls on neighboring zones.<sup>27</sup> Therefore the increase in superlarge suburban malls hollowed out the downtowns. This problem remains severe in mid-sized local cities that have large areas of vacant land.

The City Planning of Downtown Development was introduced simultaneously with the Large-Scale Retailer Location Law in 1998 to provide a new way to protect downtown retailers. The City Planning of Downtown Development Law was a package that included the Large-Scale Retailer Location Law and a revision of the Urban Planning Law. It is essentially a promotional program for the redevelopment of downtown commercial districts through local residents planning with the support of local authorities and subsidies from the central government. In initiating this program, the Japanese government tried to use *machizukuri*, the tradition of civil participation in land development through the leadership of the Town Management Organization (TMO), a community-oriented organization in commercial districts led by the local chamber of commerce.<sup>28</sup> The City Planning of Downtown Development became the most noteworthy program in the mid-sized local cities in terms of local land development policy during the 2000s.

In the last decade, two preeminent programs, the City Rehabilitation Program and the City Planning of Downtown Development, have enhanced land redevelopment through the involvement of social sectors. However, they have shown differences in terms of their main partners and where their activities are carried out. While large private corporations, mainly large construction companies and land developers, have dominated the City Rehabilitation Program in the major metropolitan areas, local business organizations in downtown commercial areas have been key actors in the City Planning of Downtown Development.

### **Remodeling the Megacity with the City Rehabilitation Program**

The City Rehabilitation Program, which transformed the landscape of metropolitan areas, especially Tokyo, attempted to improve the economy by encouraging private investment. Since the economic effectiveness of land redevelopment was greater in the competitive regions of metropolitan areas, the Koizumi cabinet applied this program in these regions. The Headquarters for City Rehabilitation accelerated the implementation of this program because the Koizumi cabinet was determined to increase the number of private land development projects. It abolished several regulations for private land developers in metropolitan areas and provided incentives. This has produced a boom in the construction of skyscrapers in major metropolitan areas.

### **The Rise of the Headquarters for City Rehabilitation**

The Koizumi cabinet has considered the City Rehabilitation Program to be a key

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<sup>27</sup> Fukuda, Busujima, and Ogawa 2008.

<sup>28</sup> Kobayashi 2007.

method of boosting the economy and quickly implemented this program under the strong leadership of Koizumi.

The Mori cabinet determined the establishment of the Headquarters for City Rehabilitation, but the Koizumi cabinet put it into effect. The Mori cabinet adopted a policy of city rehabilitation as one of several economic measures. In the Emergent Economic Measures, enacted under the Mori cabinet, were measures “to flood unused lands and so rehabilitate urban areas as the globalized place.” In addition, the Emergent Economic Measures emphasized cooperation with local authorities. This meant incorporating Tokyo’s city redevelopment plan into a national policy. Like the Obuchi cabinet’s strategy for rehabilitating the Japanese economy, the Emergent Economic Measures strategy was mindful of the effect of land redevelopment for dissolving bad bonds that had partly originated from a fall in land prices. Many Japanese leaders have considered the real estate boom to be a solution for the long-lasting economic recession.<sup>29</sup>

Koizumi enthusiastically accepted the establishment of the Headquarters for City Rehabilitation. In his first speech to the joint session of the Lower and Upper houses in May 2001, he declared the necessity of the Headquarters for City Rehabilitation to promote city rehabilitation and increase global competitiveness. In the same month, the Headquarters for City Rehabilitation started to function. The Headquarters for City Rehabilitation has a prime minister as chair and all ministers as members, and its secretariat works under the control of the chief cabinet secretary.

In the first meeting of the headquarters on May 18, 2001, Koizumi declared several principles concerning city rehabilitation policy. First, he stated that the metropolitan areas of Tokyo and Osaka, which had taken over the central functions of Japan, were losing their global competitiveness. City rehabilitation should encourage these areas’ global competitiveness. Second, city rehabilitation policy should absorb the private sector’s finances into urban areas, which could then create an increase in demand in the economy of a metropolitan area. Third, to promote private investment, it would be necessary to reevaluate the regulation system in the land development policy. Fourth, city rehabilitation policy would not only help grow the economy but would also work as a crucial part of structural reform. Fifth, city rehabilitation policy should be carried out in cooperation and partnership with local authorities and businesses. The Koizumi cabinet insisted that this program was a way to enhance private land development projects in major metropolitan areas.<sup>30</sup>

Before the headquarters designated a City Rehabilitation Special Zone, it pushed forward three ambitious projects in the last six months of 2001. The first project focused on urban planning for antiearthquake procedures in Tokyo and Osaka; the installation of high-density recycling facilities in urban areas in Tokyo, Kanagawa, Chiba, and Saitama; and the encouragement of the PFI in the construction and management of central governmental facilities. The first project was not directly related to specific measures for enhancing private land development projects.<sup>31</sup>

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<sup>29</sup> Igarashi and Ogawa 2003.

<sup>30</sup> Headquarters for City Rehabilitation 2001a.

<sup>31</sup> Headquarters for City Rehabilitation 2001b.

The second and third projects contained detailed programs relating to public investment in improving social infrastructure in metropolitan areas. The defining characteristic of the second project was the concentration of public investment in metropolitan areas to improve social infrastructure for private land development projects. The first task was to improve international airports. At Narita Airport, the second runway was scheduled to open in 2002, but because of opposition from a farming landlord, it was delayed. Thus the first task was to open it as soon as possible. In addition, a fourth runway at Haneda Airport and a second runway at Kansai Airport were to be constructed. The second task was the extension of port terminals to allow for twenty-four-hour access. The third task was the construction of Tokyo's outer beltway, which had been delayed for thirty years because of residents' opposition. The fourth task, the building of a life science industrial park in Osaka, also required massive public investment in infrastructure for 743 hectares. The headquarters tried to direct public investment in metropolitan areas under a principle of efficiency. These four tasks required a massive economic investment that Koizumi denounced as a problem relating to Japan's fiscal deficit.<sup>32</sup>

The third project had two tasks: to redevelop crowded districts in metropolitan areas and to make practical use of existing facilities easy. The first task was to improve crowded districts nationwide, covering a total of eight thousand hectares (two thousand hectares each in Tokyo and Osaka) within ten years. For this goal, the headquarters indicated the necessity of constructing unaccomplished roads and the intensive utilization of less-used and unused lands for residents. Unaccomplished roads were roads that had been planned in the postwar period but not built. The use of less-used and unused lands for residents was meant to redevelop residential areas into ones of high floor space index. The details of the second task were to use public rental apartments and to make it easy to switch land designated for public use to private use. The idea of using public rental apartments implied the redevelopment of public rental apartments with low floor space indexes into high-rise apartments.<sup>33</sup>

In these three projects, the goal of the headquarters was to stimulate real estate business and thus to restore their economic vitality. Nationwide, equitable public investments could not help the Japanese economy in the 1990s, and the Koizumi cabinet realized that the economic effect of concentrated investment in metropolitan areas would be better. This orientation deepened with designation of City Rehabilitation Special Zones.

### **City Rehabilitation Special Zones**

The designation of City Rehabilitation Special Zones was a core project of the City Rehabilitation Program. City Rehabilitation Special Zones, in which central and local governments provided incentives for private land development projects, were concentrated in the major metropolitan areas.

The designation of City Rehabilitation Special Zones started with the Emergent Measure for Promoting Private Investments in Urban Land Redevelopment adopted in the

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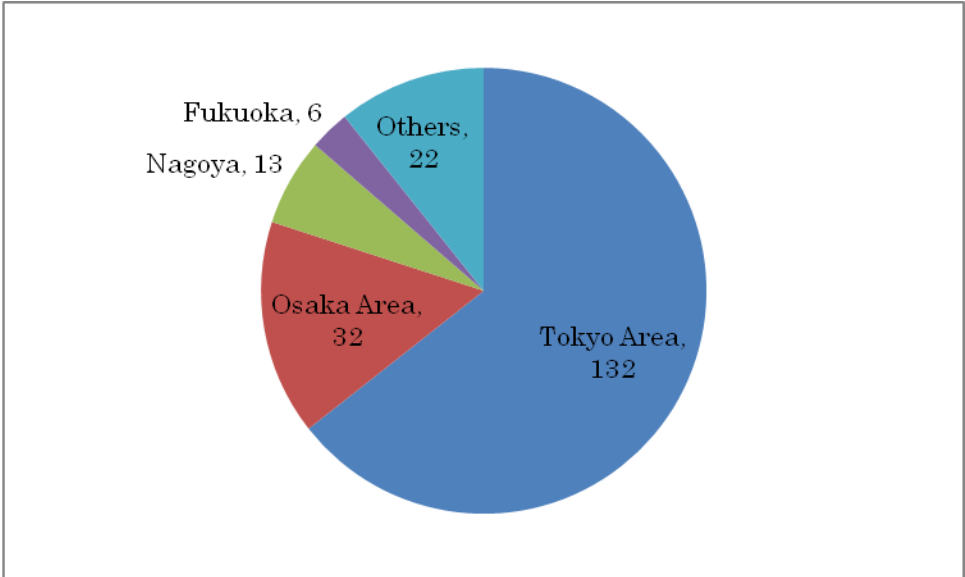
<sup>32</sup> Headquarters for City Rehabilitation 2001c.

<sup>33</sup> Headquarters for City Rehabilitation 2001d.



third meeting of the Headquarters for City Rehabilitation in August 2001. This measure clearly indicated that the headquarters pursued private investment in urban land redevelopment to end the economic recession. As a following action, it released public notice of urban land redevelopment plans. In November 2001, the headquarters announced the result of applications of urban land redevelopment plans. The applied plans totaled 286. There were 205 suggestions from private businesses and 155 from local public corporations, but 76 cases overlapped. Plans for the Tokyo metropolitan area dominated plans for other areas. Among the 205 cases from private businesses, the Tokyo metropolitan area comprised more than half, at 132<sup>34</sup> (Figure 5).

Figure 4-1: National Trends of Private Land Development Projects Applications (November 2001)



Source: Headquarters for City Rehabilitation

In addition to redevelopment applications, the headquarters collected information on the needs of private businesses. All private business needs were for maximizing their interest from land development projects and making land redevelopment projects easy. The headquarters summarized private business needs into three categories. The first category was the need to shorten the duration of and decrease procedural complexity in redevelopment plans. In this category, private businesses requested a scaled-down agreement ratio of residents for land redevelopment, the curtailment of burying cultural asset investigations, and deregulation of the Large-Scale Retailer Location Law. The second category was the abolition of regulation. This included the abolition of locational restrictions on university and industrial facilities in downtown areas, the easier switching of land use designations, the dissolution of preservation areas around ports, and the loosening of regulations concerning floor ratio space index, the right to sunlight, and required parking

<sup>34</sup> Headquarters for City Rehabilitation 2001d.

lots for buildings. The third category was the speedy support of public agencies such as road construction near new redevelopment areas, the improvement of transportation systems, subsidies for land redevelopment, and a tax break for land redevelopment. The headquarters worked to incorporate these deregulatory requests from private businesses into the City Rehabilitation Special Measures.<sup>35</sup>

The City Rehabilitation Special Measures were decided in the cabinet in February 2002, passed the Houses in March, were promulgated in April, and took effect in June. These measures indicate that the headquarters have a right to designate City Rehabilitation Special Zones; that private businesses could advance a redevelopment plan with the agreement of only two-thirds of residents; that prefectural authorization made an exception of private businesses' redevelopment plans within the City Rehabilitation Special Zone; that redevelopment is kept free from regulations concerning land use, floor space indexes, height, and the right to sunlight; and that there were financial supports for private businesses' land redevelopment. Therefore the headquarters addressed most of the needs of private businesses with this new legislation. Revisions of the Urban Planning Law, the Construction Standard Law, and the Urban Redevelopment Law quickly followed suit.

The headquarters designated the first special zones in July 2002. Seventeen zones equaling 3,515 hectares (2,370 hectares from seven zones in Tokyo, 947 hectares from eight zones in Osaka, 141 hectares from the Minato Mirai zone in Yokohama, and 57 hectares from the Eastern Zone of Nagoya station in Nagoya). The second special zones were designated in October 2002, including 2,246 hectares from twenty-eight zones. Outside of two zones in Sapporo, a zone in Sendai, and a zone in Takamatsu, twenty-four other zones were located in metropolitan areas throughout Japan (ten in Tokyo, eight in Osaka, two in Nagoya, and four in Fukuoka). Almost all redevelopment plans suggested from private businesses in 2001 were incorporated within these designations.<sup>36</sup> Sixty-five zones have been designated City Rehabilitation Special Zones until 2007. Among the sixty-five special zones, two-thirds were within the Tokyo and Osaka areas (Figure 4-2).

The landscapes of Tokyo, Osaka, and Nagoya were changed by the City Rehabilitation Program. In Tokyo, preceding large-scale redevelopments in Shiodome and Roppongi had been planned since the 1990s and were completed in 2004 and 2006, respectively. Land redevelopment in these areas with new multiuse buildings intensified the time-worn image of Tokyo's main central area around Tokyo station. Although there had been the Conference for Promoting Land Redevelopment in Otemachi, Marunouchi, and Yurakucho since 1988, land redevelopment in this area was slow. In the City Rehabilitation Special Zone Program, zones including Tokyo station and Yurakucho are the most distinctive in Tokyo. There are eighteen land redevelopment projects completed or in progress on behalf of private businesses through the City Rehabilitation Special Zone Program. Most of the projects enjoyed the benefits of heightened floor space indexes, a simplified environmental assessment, and a speedy investigation of burying cultural assets. In Osaka and Nagoya, trends are similar. The neighboring zones of Osaka station and Nagoya station are extensive under the influence of the City Rehabilitation Special Zone

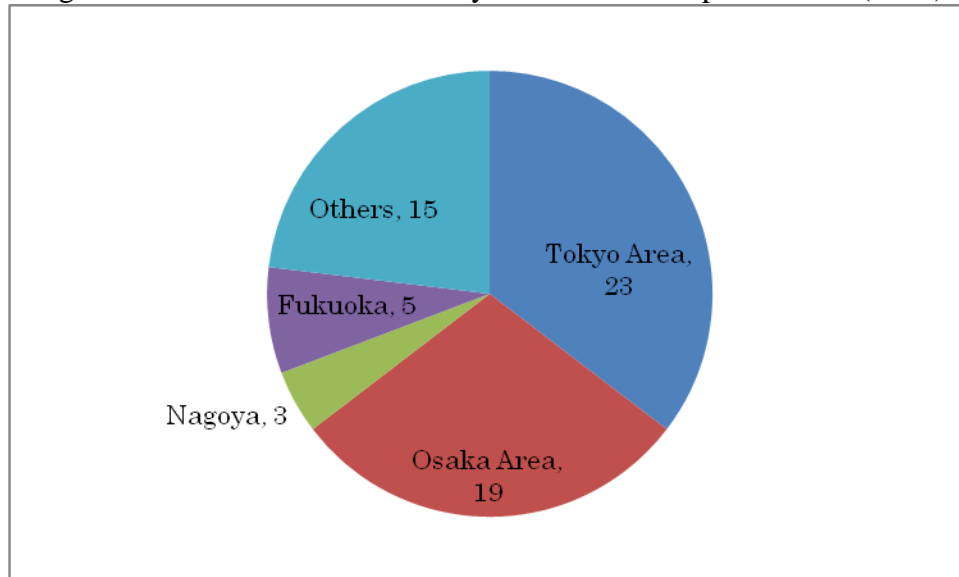
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<sup>35</sup> Headquarters for City Rehabilitation 2001d.

<sup>36</sup> Igarashi and Ogawa 2003.

plan. There are eleven projects in the Osaka station zone and nine projects in the Nagoya station zone. In Nagoya, the Midland Square redevelopment project conducted by Toyota and the *Mainichi* newspaper enjoyed a heightened floor space index, which grew from 1,000% to 1,428%. The Osaka station is under redevelopment within the City Rehabilitation Special Zone, having also received the benefit of a heightened floor space index, which grew from 600% to 800%.<sup>37</sup>

Figure 4-2: National Trends of City Rehabilitation Special Zone (2007)



Source: Headquarters for City Rehabilitation

The City Rehabilitation Program supported the dominance of the market model in major metropolitan areas in terms of local land development policy. Private investment for land redevelopment projects has been strengthened by the Koizumi cabinet's goal of maximizing growth. Koizumi has pushed for the fast adoption of large private corporations' (mainly private land developers and construction businesses) requests for relaxing regulations in these localities. In this process, coordination between the central government and large private corporations has been well orchestrated. However, there was no room for national equity. Therefore the City Rehabilitation Program has been blamed for regional disparities under Koizumi's rule.

### **The Compact City in the City Planning of Downtown Development**

The government allowed other regions outside of the major metropolitan areas to use the community model in local land development policy with the City Planning of Downtown Development in the 2000s. When the Koizumi cabinet terminated regional policy based on the national equity principle, central bureaucracies introduced a program

<sup>37</sup> Tanizawa 2007; Headquarters for City Rehabilitation 2006.

within the community model by mobilizing local participation. The government has wisely provided an incentive for local business communities' participation in land redevelopment outside metropolitan areas. Local business communities have also adopted this program in the context of a tradition of deep local social networks.

The City Planning of Downtown Development was introduced with deregulation for large-scale retailers in 1998. Whereas the Large-Scale Retailer Location Law and the revision of the Urban Planning Law deregulated large malls, the City Planning of Downtown Development was intended to compensate by protecting local small retailers. This program tried to encourage local business communities to play spontaneous roles in boosting downtown economic activity. When this plan was revised in 2006, the emphasis on the leading roles of the local business community was strengthened and systematized.

### **The Rise of the City Planning of Downtown Development**

Central bureaucracies of the MOC and following the MLIT devised the City Planning of Downtown Development for protecting local small business communities. Instead of providing national standards for protecting them, the government introduced local measures based on communities' participation.

The City Planning of Downtown Development attempted to remedy the hollowing out of downtown areas in mid-sized local cities. Deregulation in the Large-Scale Retailer Location Law exacerbated the problem, and so to protect local small retailers mainly located in downtown areas, the City Planning of Downtown Development was installed and enacted in 1998. The plan subsidized revitalization programs in downtown commercial areas at the municipal level through public-private partnership between local authorities and local societies. Local communities determined their own plans through coordination with municipal authorities, and municipal authorities helped them with matching public works such as the improvement of roads, parking lots, and transportation systems and the adjustment of land use in downtown districts.

This plan was partly a transition of local retailing policy from general measures for protecting overall small retailing businesses to localized measures for improving retail space and partly a combination of local retailing policy and local land development policy. Though the MOC initiated and operated this program, it was the work of several ministries, including the MITI and the MOH. The Bureau for Promoting the City Planning of Downtown Development was founded as a charging agency. This bureau collected applications, checked eligibility, and provided grants.

Each municipal locality could apply for one district under this subsidy program, and this district had to be a downtown zone of small retailers. Before its revision in 2006, 690 districts in 606 municipal localities applied. Because there were no detailed guidelines on applicable localities' sizes and populations in the framework, nationwide applications were accepted. However, over 50% of the total applications were from small-sized cities under 100,000 people. Mid-sized cities with populations between 250,000 and 500,000 were also actively involved. Over 60% of these mid-sized cities applied to the program.<sup>38</sup>

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<sup>38</sup> Hosono 2007.

The application process was intended to include the participation of local communities, mainly the commercial sector (e.g., the local chamber of commerce). Whereas groups of local communities made plans for improving commercial activities within downtown districts, the municipal authorities provided hardware-like plans for improving social infrastructures. Local social organizations involved in this program were titled as TMOs, which were also generally called *machizukuri* organizations.

### **The Mechanism of the Town Management Organization**

In the City Planning of Downtown Development, participation of local business communities was first institutionalized through the TMO. The City Planning of Downtown Development Law placed the TMO at the center of this program. The TMO is an organization designed to manage operations in designated commercial districts. It should lead the plan to improve commercial activities through coordinating retailers' interests within the district, planning festivals or bargain sales, providing customer services, and planning redevelopment of designated districts. In the law, the TMO should be organized by a local chamber of commerce, a semipublic foundation, or a semipublic foundation company. Members of the TMO generally include a board member from the chamber of commerce, representatives of retailers, local residents, and experts on commerce and land development.<sup>39</sup>

Local districts desiring an application to the City Planning of Downtown Development must first organize their TMO. The governmental subsidy in this program was fundamentally financial supports to these TMOs. While the TMOs were fully supported in terms of their activities in investigation for district plans and in public hearings from the central government (half) and the municipal authority (half), their activities for the TMOs' independent management received two-thirds of the expenses. In addition, there were special loan programs for the TMOs' activities, which were recognized as pertinent works with the City Planning of Downtown Development and tax reduction benefits.<sup>40</sup>

The TMO system was an attempt to make a partnership between local authorities and local commercial communities. The central bureaucracy designed this localized partnership to allow local residents to solve local issues on their own. In the process, the TMO was an arena of discussion and coordination between local officials and representatives of local retailers, mainly members of the chamber of commerce. It also functioned as a management organization. The TMO system was transformed with the revision of the City Planning of Downtown Development Law in 2006. In the new system, the TMOs developed into a *machizukuri* company or a *machizukuri* NPO, which assume the responsibility for redevelopment and district management. The Council for Downtown Development has undertaken the function of the coordination of authorities and local communities.

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<sup>39</sup> Kobayashi 2007.

<sup>40</sup> Hosono 2007.

## The Revision of the City Planning of Downtown Development

Central bureaucracies revised the City Planning of Downtown Development in 2006 to improve the plan's effectiveness through selectively applying the plan to fewer localities. In addition, the idea of a compact city that concentrates land use in downtown areas became a central goal of the revised plan.

The revision of the City Planning of Downtown Development Law originated from a negative evaluation of this program's impact on designated districts' economic situations. In 2004, the MIC investigated the effect of the City Planning of Downtown Development project in 121 cases that had been designated before 2000. The result was no progress in population levels, number of retail shops, or sales volume. In addition, in a survey of the Japanese Chamber of Commerce and Industry, 70% of respondents were pessimistic about the future economic effects of the City Planning of Downtown Development; therefore the central bureaucracies considered change.<sup>41</sup>

There were several problems with the City Planning of Downtown Development. At first, the Large-Scale Retailer Location Law was antagonistic to it. Under the Large-Scale Retailer Location Law, suburban areas were the easiest places for new malls. The land in suburban areas was more inexpensive. In addition, the revised Urban Planning Law's zoning system has a loophole. Land for agricultural use was not off limits for commercial facilities. Land for agricultural use, which was not included in the maintaining zone from urbanization, can be easily found near mid-sized local cities. The more important problem in the City Planning of Downtown Development was the ill-preparedness of many localities. Many localities considered this plan as an opportunity to obtain governmental subsidies. Many of them lacked a detailed plan for development. In addition, many of the TMOs did not have sound financial sources, and therefore the extensive redevelopment of a commercial downtown district, which was needed for bringing more customers, was too much for them.<sup>42</sup>

The revision of three *machizukuri* laws was carried out with these considerations. The revised Urban Planning Law extended the banned zone for opening new large-scale malls. The banned zone now included land for agricultural use, which in turn would limit the amount of land for large-scale malls. Instead, this revision simplified the process of opening large-scale malls in downtown districts. The central bureaucracy interpreted that the suburbanization of large-scale malls was worse for small local retailers than was their presence in downtown districts.<sup>43</sup>

The revision of the City Planning of Downtown Development Law was more comprehensive. In the former system, the central government took almost all applications from localities and gave them subsidies. Over six hundred localities applied for this program, but its effect was difficult to quantify. Therefore, in the new system, the central bureaucracy undertook a principle of "selection and emphasis."<sup>44</sup> The central government

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<sup>41</sup> MIC 2004.

<sup>42</sup> Atushi Suzuki 2007.

<sup>43</sup> Hosono 2007.

<sup>44</sup> Headquarters for City Planning of Downtown Development 2006.

thus had a right to screen localities' applications and adopted relatively fewer cases.

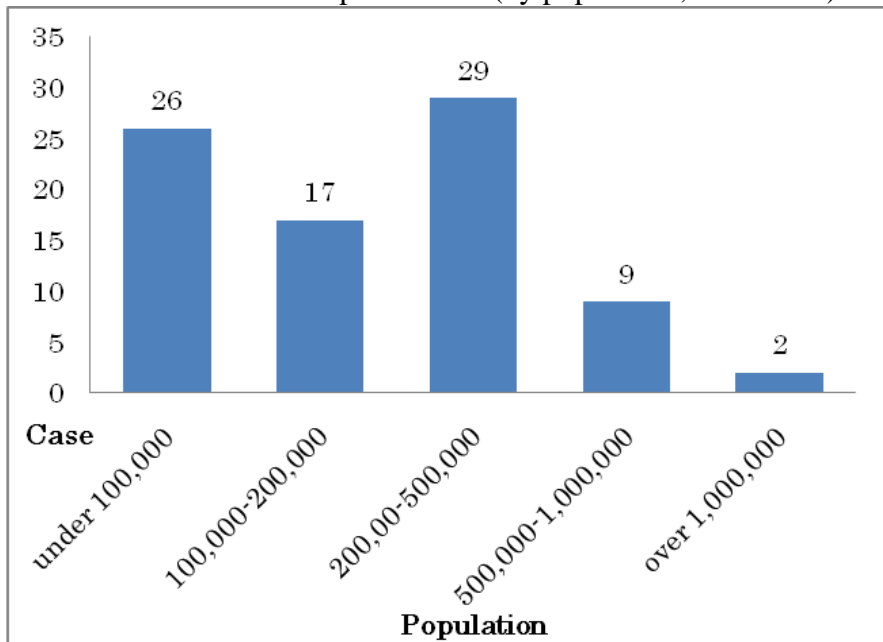
The revised City Planning of Downtown Development Law clearly declared a compact city as its goal, which was missing from former versions of the law. This is a clear change in local land development policy. The principle of local land development policy had been an extension of developed land from downtown to the suburbs. Central and local authorities guided this extension with promotion of new towns and the construction of public facilities such as universities, large-scale hospitals, and community centers outside downtown areas. However, the idea of a compact city is intended for an accumulation of commercial, industrial, public, and residential functions within relatively small areas. It aims to create an urban area in which residents can do all the activities they wish without a long commute. This idea gained popularity in the 2000s because Japan has become an aging society and is facing environmental problems. The scattered residences are now a hindrance to elder care and to environmental preservation. In contrast, the residences in downtown areas provide elders with easy access to public and commercial facilities. In addition, vacant suburban areas are more beneficial to environmental preservation than suburban sprawl. Under this concept, the revised law promotes the location of public facilities downtown as well as the growth of commercial districts. The central bureaucracy tried to incorporate this idea into the revised plan. This idea has been implemented through increasing the floor space index in land redevelopment projects of downtown districts and therefore is also a beneficial land redevelopment project for downtown districts.<sup>45</sup>

Until June 2009, the Headquarters for City Planning of Downtown Development had selected a total of eighty-three plans from eighty-one municipal localities. Among them, the mid-sized local cities having a population between one hundred thousand and five hundred thousand occupy forty-six cases (Figure 4-3). Most of the selected cases are located outside big metropolitan areas. Only twelve cases were taken from three major metropolitan areas (Figure 4-4). The key target localities in the revised City Planning of Downtown Development are mainly local cities that function as the core both administratively and economically. This program is trying to increase economic vitality through land redevelopment and other new projects in downtown commercial districts.

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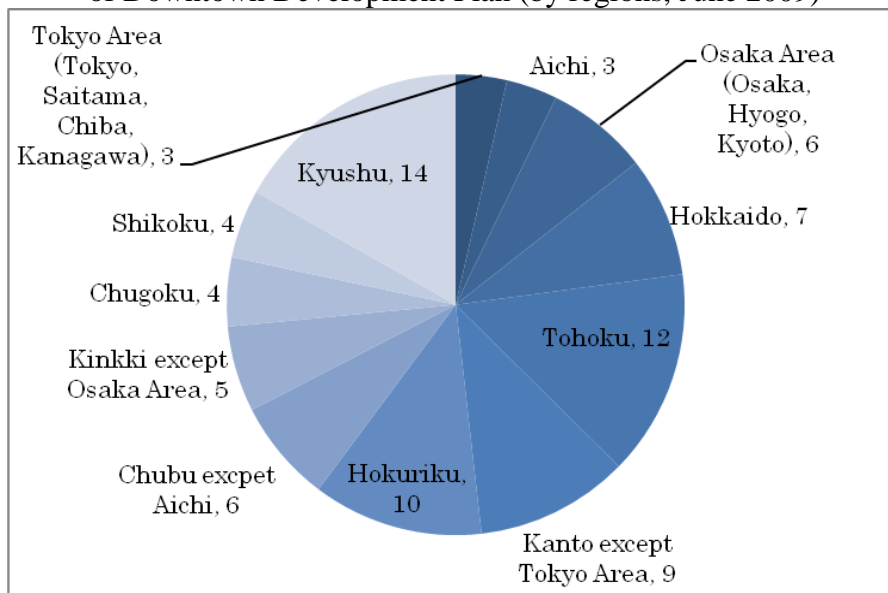
<sup>45</sup> Headquarters for City Planning of Downtown Development 2006.

Figure 4-3: Municipals Designated in the Revised City Planning of Downtown Development Plan (by population, June 2009)



Source: The Center for Supporting Councils for Downtown Development

Figure 4-4: Municipals Designated in the Revised City Planning of Downtown Development Plan (by regions, June 2009)



Source: The Center for Supporting Councils for Downtown Development



## **The Council for Downtown Development and *Machizukuri* Companies**

The government systemized local participation in the revised plan with the Council for Downtown Development. The revised plan maintains the principle of public-private partnership in the process of downtown development. Though it abolished the TMO system, it required the operation of the Council for Downtown Development in each project. The TMOs, which were a key arena in the earlier version, are specialized *machizukuri* companies or *machizukuri* NPOs, which manage commercial activities and redevelopment within districts.

Whereas the TMO in the earlier system had been responsible for decisions and management, there is a division of labor in the new system. It was difficult for the TMO to incorporate many other social groups. In addition, the role of local authorities in the TMOs was unclear under the earlier legislation, but in reality, local authority had a huge influence on their management. The revised law clarifies the decision-making process with the Council for Downtown Development. This council is generally organized with the participation of the local authority, local chamber of commerce, retailers, local transportation company, local community organizations, NPOs, and the *machizukuri* company.<sup>46</sup> Therefore it is a more consolidated institution for public-private partnership. It is a localized version of a deliberation council for downtown development. Although almost all members have informal networks and acquaintances, this council is a more formalized arena of participation. The TMO continues functioning with the *machizukuri* companies. In many cases, *machizukuri* companies are the same as TMOs. However, many of them are now stock companies that receive investments from authorities, the chamber of commerce, and other organizations.<sup>47</sup>

Therefore the principle of public-private partnership between local authorities and local communities was strengthened with the 2004 revision of the City Planning of Downtown Development Law. The government led mid-sized local municipal localities to utilize the community model by using social networks well embedded in Japanese local society.

### **Two Leading Cases: Toyama City and Aomori City**

The Headquarters of City Planning of Downtown Development selected Toyama city and Aomori city as the first cases in the revised plan of February 2007. Two localities have been trying to improve downtown districts by enlisting the participation of local business communities. Since the City Planning of Downtown Development demands several common requirements, two localities have shown similar patterns. However, there have been slight differences. While the Toyama municipal office has more actively engaged in this plan, the Aomori Chamber of Commerce has played a more central role.

Toyama city (population of four hundred thousand) has been a central city of the

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<sup>46</sup> Headquarters for City Planning of Downtown Development September 5 2006.

<sup>47</sup> Atushi Suzuki 2007.

Toyama Prefecture. Before 2007, it had maintained constant effort to vitalize its downtown district within the framework of the 1998 system. The *machizukuri* Toyama Inc. was established as a TMO in 2000 for the downtown development project and has worked for synthetic parking lots in the downtown commercial district and hosted workshops about downtown development. However, the deterioration of buildings and the closing of department stores such as Seibu and Nagasakiya in the early 2000s caused an even greater slump in the downtown district's commercial vitality.<sup>48</sup>

In this situation, Toyama city passionately participated in the revised downtown development plan. The application process advanced under the leadership of Toyama city. The Toyama Chamber of Commerce and *machizukuri* Toyama Inc. are founders of the Toyama Council of Downtown Development. However, Toyama city has a huge influence because Toyama city owns 50% of stock in *machizukuri* Toyama Inc. (17% from the Toyama Chamber of Commerce, 20% from local retailers, and 13% from others) and dispatches two officials to this company (a total of ten full-time employees).<sup>49</sup> Therefore Toyama city can precede the application process with the cooperation of the Toyama Chamber of Commerce. Members of the Toyama Council of Downtown Development include representatives from Toyama city, the Toyama Chamber of Commerce, *machizukuri* Toyama Inc., Daiwa Toyama, the Association of Toyama Downtown Retailers, Toyama Local Trail Inc., Hoku Bank, Hoku Gas Inc., Toyama Women's Chamber of Commerce, and CEB (local media).<sup>50</sup> Key leaders in this council are a bureau director of urban planning of Toyama city and a chair of the Toyama Chamber of Commerce.

*Machizukuri* Toyama Inc. is carrying out several programs. To attract residents to the downtown district, it rents a vacant store and operates a public cinema, a resting place, and a food court, in addition to maintaining public parking lots. It has also published an official guidebook of the Toyama downtown district and has made a mileage card to be used within the district.<sup>51</sup> In addition, its more significant role is as a supporter of downtown land redevelopment. Toyama's downtown development plan includes several redevelopment projects of time-worn commercial buildings or streets. *Machizukuri* Toyama Inc. is working as an advisor to landowners and tenants and as a mediator between city hall and commercial districts.

Aomori city, the other case in the first selection from February 2007, was one of the most successful cases under the earlier system of the City Planning of Downtown Development. The redevelopment of Aoga shopping street, led by Aomori city, was a distinctive case. Though it was a redevelopment project of a commercial street, it transferred the Aomori Citizen Library to a new building.<sup>52</sup> The new building became a combined center for commercial and cultural activities in the downtown district. At the same time, the Aomori Chamber of Commerce organized the TMO Aomori as its subunit in 2000. Unlike Toyama's *machizukuri* Toyama Inc., which Toyama city mostly controlled,

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<sup>48</sup> Toyama City 2006.

<sup>49</sup> Machizukuri Toyama, Inc. webpage (<http://www.tmo-toyama.com/index.html>).

<sup>50</sup> Toyama Council of Downtown Development webpage (<http://www.tmo-toyama.com/torikumi/cyuusin2/index.html>).

<sup>51</sup> Toyama City 2006.

<sup>52</sup> Hisashige 2008.

the TMO Aomori was under the control of the Aomori Chamber of Commerce. A bureau director of commerce and industry of Aomori city was an observer but not a member of the Aomori TMO. Activities of the Aomori TMO were similar to those of TMOs in other localities. It led the creation of Bazazyu Square, a commercial pedestrian zone; managed public parking lots; and planned events. In addition, it coordinated retailers with the motto “One shop, a type of commodity.”<sup>53</sup> Aomori city was selected as the first case because it had kept downtown development projects on the basis of the compact city idea before the introduction of the revised system in 2006.

In the revised system, Aomori city maintains the principle of the compact city. Aomori city planned downtown redevelopment of an accumulation of residences and commercial establishments. Redevelopment of the commercial district was led by the Aomori Council for Downtown Development. This council, which is required in the new system, was organized in November 2006. It included the Aomori Chamber of Commerce and the Aomori Station-Front Redevelopment Building Inc. as two leading founders. The Aomori Station-Front Redevelopment Building Inc. (of which Aomori city owns 50% of stock) is a management company of the Auga shopping center. Unlike *machizukuri* Toyama Inc., it has only three full-time employees and has maintained its business of managing the Auga shopping center.<sup>54</sup> The role of the *machizukuri* company is heavily overseen by the Council of Town Management, a subunit of the Aomori Council for Downtown Development. The Aomori Council for Downtown Development has a general assembly, a steering committee, and a Council of Town Management; a general assembly and a steering committee that include representatives of the Aomori Chamber of Commerce, the Association of Aomori Downtown Retailers, several local public companies, NPOs, and academia, all of whom play a deliberative function in downtown development planning. However, this council holds a management function through the Council of Town Management. A town manager, appointed by the Aomori Council for Downtown Development, leads the Council of Town Management. The Council of Town Management maintains the functions of the TMO Aomori.<sup>55</sup>

The influence of the Aomori Chamber of Commerce is stronger than that of the Toyama Chamber of Commerce. While the Toyama municipal office has been heavily involved in the management of downtown development through the *machizukuri* Toyama Inc., the role of the Toyama Chamber of Commerce has leaned toward deliberation. However, the Aomori Chamber of Commerce has retained the influence of management through its holding of the Council of Town Management.

### **Planned Local Differences in Local Land Development Policy**

Each of both new programs—the City Rehabilitation Program and the City Planning of Downtown Development—in local land development policy has been separately planned for the major metropolitan areas and other regions. Unlike local

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<sup>53</sup> Aomori City 2006.

<sup>54</sup> Auga Shopping Center webpage (<http://www.auga.co.jp/com/index.php>).

<sup>55</sup> Aomori Chamber of Commerce 2007.

industrial policy, in which policies have been applied nationwide but had different local effects, the central government provided different localized measures for the major metropolitan areas and other regions. The breakdown of regulation in the major metropolitan areas and protection in the rest of Japan does not mean the introduction of universal measures. The local differences in local land development policy had been considered by the central government before the introduction of new programs. Therefore the market model and community model are not wholly an open choice of localities in these programs but rather a guided course for localities in local land development policy.

The central government's guidance in the form of different localized measures, after dismantling the postwar settlement of regulation and protection, has deepened regional disparities. Though the community model outside the major metropolitan areas has been well handled with the help of local deep social networks, mobilizing internal business networks has not proven an alternative to postwar settlement based on the national equity principle for stimulating the local economy. Therefore large-scale land redevelopment in the major metropolitan areas under the City Rehabilitation Program, which was accompanied by the cutting away of public investment outside the major metropolitan areas, created the feeling among local societies that they were alienated and unprotected from national politics. These feelings, ironically, have strengthened community participation by maximizing internal potentials within localities.

## **Chapter 5**

### **Exogenous Investment versus Endogenous Networks in Local Industrial Policy**

In local industrial policy, programs of the market model and of the community model have been introduced nationwide by the central government. However, its effectiveness has shown clear local variation between the major metropolitan areas and other localities. Although the central government gave several general options, localities' choices have been heavily constrained by their local economic structures. However, like local land development policy, the competitiveness of programs of the market model in major metropolitan areas explains local variations in local industrial policy. The loosening of regulation of industrial location in metropolitan areas has enhanced the market model in these areas, while regions outside these areas have concentrated on the localized cooperation programs relevant to the community model, which central bureaucracies have simultaneously provided.

In the postwar period, industrial relocation was the kernel of local industrial policy. The postwar settlement of a combination of regulation in metropolitan areas and protection elsewhere had driven industrial relocation toward less advanced regions. However, the maturation and globalization of big corporations in Japan has limited the appropriateness of regulation in metropolitan areas and industrial relocation policy.

Several new measures for enhancing private investment for new industrial facilities have been applied since the late 1990s. While some have attempted to increase private investment for constructing the market model nationwide, the major metropolitan areas have been freed from regulation on industrial locations under a political choice to maximize growth. They could attract more external private business than other regions because they are competitive. Therefore the market model in local industrial policy has effectively operated in the major metropolitan areas.

On the other hand, central bureaucracies have simultaneously introduced the localized coordination system with several measures for small and medium businesses and the Industrial Cluster Plan. They have not eliminated industrial policy but rather localized it. They have attempted to construct a coordination system among businesses within certain areas. Therefore a new program for the community model, which has been introduced by central bureaucracies, can be seen as a localized version of industrial policy of the high-growth era. A local coordination system, a backbone of programs of the community model, has been well adopted by local business communities because they are familiar with this coordination system. Since localities outside the major metropolitan areas have been less competitive in attracting private investment, they have favored strengthening networks fit to the community model, which is familiar to them.

#### **Regulation and Promotion of Industrial Relocation**

The Japanese government promoted industrial relocation as a method for nationwide redistribution. Since the late 1960s, regulation of new industrial facilities in the major metropolitan areas and promotion outside major metropolitan areas was a package in the history of postwar industrial location policy. While central bureaucracies have guided

the coordinated development in each industrial sector on the national level, they have also tried to enhance industrial relocation under political pressures for national equity. Therefore industrial relocation dominated local industrial policy in the postwar period.

A package of regulation and promotion of industrial relocation was enshrined in three pieces of industrial legislation: the Laws of Restriction of Industrial Development in the Kanto and Kansai areas, the Industrial Relocation Promotion Law, and the Industrial Location Law. They formed the backbone of the promotion of industrial relocation to achieve national equity in industrial development. Though these legislations have constrained the opening and extension of industrial facilities in metropolitan areas, the technopolis policy in the 1980s was the final program for promoting local industrial relocation. However, the increase in foreign direct investment (FDI) among Japanese corporations since the late 1980s made local industrial relocation within Japan difficult to implement. As a result, new policy orientations emphasizing deregulation for external private investment and networks for internal local development have grown since the 1990s.

### **From Concentration to Relocation**

The Tanaka cabinet structured nationwide equity in industrial development. Though constraints on constructing new facilities in some districts of the major metropolitan areas started in the late 1950s and the New Industrial City Plan had the goal of constructing a new industrial complex outside the Pacific Belt in the 1960s, industrial relocation policy was intensified under the Tanaka cabinet in the 1970s.

The reconstruction of manufacturing in the early postwar period produced industrial concentration and regional economic disparities. Because there was heavy reconstruction of manufacturing in the four large industrial areas (Hanshin, Kyoyoko, Chukyo, and Kitakyushu) in the 1950s, the income gap between urban and rural areas widened.<sup>1</sup> While the Ikeda cabinet attempted to concentrate industrial investment around the Pacific Belt, requests for a more equitable national distribution of industrial development grew. The LDP and central bureaucracy attempted to balance efficient investment with equitable distribution. The legislation regulating new facilities within metropolitan areas was the first move toward industrial relocation.

The first target was Tokyo. The Law of Restriction of Industrial Development in the Kanto metropolitan area was applied to special wards, Musashino city, and Mitaka city in 1959. This legislation constrained the construction of new industrial facilities over sixteen hundred square meters and universities over two thousand square meters in the designated locations. This law was reinforced in 1962 by the regulation of extensions of facilities in these areas (industrial facilities over one thousand square meters and universities over fifteen hundred square meters). The application of this legislation was broadened in 1964 to Yokohama, Kawasaki, and Kawaguchi in Kanagawa Prefecture. Simultaneously, the same regulations were extended to the Kansai areas (Osaka, Sakai, Higashiosaka, Kyoto, Amakasaki, Asiya, and Kobe cities) with the Law of Restriction of

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<sup>1</sup> Numajiri 2002.

Industrial Development in the Kansai area.<sup>2</sup>

The first NGDP in 1962 included the New Industrial City plan, intended to encourage local dispersion of industrial facilities. However, these efforts did not stop the industrial concentration around the Pacific Belt. The restrictions in selective administrative districts encouraged an extension of the industrial areas but not fundamental relocation.

Policy orientation toward industrial relocation was intensified in the 1970s with the appearance of the Tanaka cabinet. Through the framework of the Remodeling of the Japanese Archipelago, the Tanaka cabinet attempted to promote industrial relocation to achieve national equitable industrial development. The core task for the Remodeling of the Japanese Archipelago was to encourage the development of several new local cities with populations of over 250,000 through industrial relocation.<sup>3</sup> Tanaka envisioned a balance between urban metropolitan areas and rural areas through nationwide industrialization. Industrial relocation was the essence of this blueprint.

The Industrial Relocation Law was enacted in 1972. This legislation targeted both the regulation of industrial facilities in the highly industrialized areas and the promotion of new industries in rural areas. It divided a territory into areas from which an outflow of industrial facilities was promoted and areas within which industrial growth was promoted. The government reinforced the regulation of new construction and extension of industrial facilities in the former areas.<sup>4</sup> This legislation also broadened the regulated zone into wider areas of the Kanto and Kansai areas from their several municipal areas that had already been regulated. In the newly regulated areas, the government planned to offer businesses benefits to relocating their industrial facilities into the less advanced localities of subsidies and financial favors.

The government specified a first tentative plan for industrial relocation on the basis of this legislation in 1972. However, this first plan was modified under the oil shock in 1973. After the first oil shock, the Japanese economy faced a falling economic growth rate, and the government reconsidered the international competitiveness of Japanese corporations. This weakened the original plan for industrial relocation. In the original plan of 1972, the goal was to downsize half of industrial locations by 1985 in those areas from which an outflow was being promoted. However, a revised plan in 1977 set a downsizing goal of 30% for these locations. The amended plan of 1977 planned to downsize the industrial production of a portion of the Pacific Belt areas from 68.9% to 58.7%–60.5% from 1974 to 1985. At the same time, it planned to increase industrial production in other areas: from 2.4% to 3.3%–4.0% in Hokkaido, 5.3% to 7.8%–8.4% in Tohoku, 2.8% to 2.9%–3.0% in Shikoku, and 5.9% to 8.1%–8.2% in Kyushu.<sup>5</sup> Therefore the revised plan sought to locate 70% of new industrial facilities in the growth promotion areas between 1976 and 1984.

The government created new subsidy systems for this plan. The industrial relocation promotion subsidy was granted to municipal authorities or private businesses

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<sup>2</sup> Kiyonari 1986.

<sup>3</sup> Tanaka 1972.

<sup>4</sup> Kiyonari 1986.

<sup>5</sup> Nihon Ritti Center 1983.

based on the land size of the facility in cases where industrial facilities were moved to areas of growth promotion. In addition, credit was granted to assist local public authorities with the development of new industrial lots, and private companies that relocated their facilities also received financial incentives.<sup>6</sup>

The industrial relocation plan was partially successful. Between 1974 and 1984, 66% of the construction of new industrial facilities took place in the growth promotion areas, which was close to the planned 70%. However, in 1984, the proportion of industrial production in the Pacific Belt areas was still 67%, similar to the 68.9% of 1974. The percentage of industrial production in the Pacific Belt areas had not been decreased. The development of industrial lots in the areas of growth promotion was also delayed. The plan set a goal of forty thousand hectares of new industrial lots outside the Pacific Belt areas between 1974 and 1984, but only seven thousand hectares had been developed by 1984.<sup>7</sup>

The industrial relocation plan dominated local industrial policy in the 1970s after the initiation of the Tanaka cabinet. However, this plan was only partially effective, and it could not break the dominance of the Pacific Belt areas in industrial production. In addition, the rise of knowledge-based industries created the need for a new policy for nationally equitable industrial development.

### **Technopolis Policy**

Technopolis policy was the final attempt at nationally equitable industrial development through industrial relocation. Since the late 1970s, high-technology industries such as the semiconductor, computer, IT, and biotechnology industries have developed rapidly. Technopolis policy aimed to enhance national equitable industrial development through the nationwide location of these industries.

The third NGDP formed the background of technopolis policy. Industrial relocation based on nationwide industrialization was criticized by the third NGDP, which was influenced by Ohira Masayoshi's Garden City idea. While the third NGDP declared a transition to the "Age of Locality," it also claimed the necessity of developing in harmony with the environment. Therefore the processing and assembly plants of the chemical, machinery, metal, and steel industries, which were the main targets of the industrial relocation plan of the 1970s, were not considered leading industries for the harmonious development of localities. Instead, the high-tech industries, which are not associated with environmental pollution and high distribution costs, were considered appropriate industries for localities from the late 1970s.<sup>8</sup>

The MITI had had ideas about the location of high-tech industries within localities since 1979, which culminated in a report on the "technopolis construction idea" in 1981. It planned local cities that were based on a harmony between exogenous high-tech industries and local residents' lifestyles. The MITI originally planned to initiate this policy within one or two case localities. However, after the public announcement of this idea, there were

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<sup>6</sup> Nihon Ritti Center 1973.

<sup>7</sup> Nihon Ritti Center 1983.

<sup>8</sup> Itō 2000.



applications from about forty cities. This “technopolis fever” did not allow adherence to the MITI’s original idea. Because attracting a technopolis had become a matter of national political interest, political considerations of national equitability were involved in the selection for its location.<sup>9</sup> In 1982, nineteen areas were selected for investigation, and after investigation, the Law of Promotion of High-Tech Industry Location Development (the Technopolis Law) was enacted.

Several conditions were required for such a designation, such as a mother city population of over 150,000, an engineering college within the area, and a transport infrastructure (airports or highways). However, these conditions were not significant barriers to selection; rather, political considerations of national equitability played a key role in “technopolis fever.” Therefore almost all prefectures outside the Pacific Belt could have a technopolis. Twenty areas were approved by 1985, with six more added after a revision in 1986: two in Hokkaido and one each in Aomori, Iwate, Akita, Miyagi, Yamagata, Fukushima, Tochigi, Niigata, Toyama, Yamanashi, Nagano, Shizuoka, Hyogo, Okayama, Hiroshima, Yamaguchi, Kagawa, Ehime, Fukuoka/Shiga, Oita, Nagasaki, Kumamoto, Miyazaki, and Kagoshima.<sup>10</sup> While there were no selections within the three big metropolitan areas, the twenty-six selected areas were distributed nationwide within the bounds of political considerations.

The original logic of building autonomous and sustainable local economies through the high-tech industry changed into nationwide equitable public investment, and this produced excessive overlapping designations compared to the MITI’s initial plan.<sup>11</sup> Central bureaucracies of the MOF were skeptical about technopolis policy. The MOF bureaucracies thought it would be another nationwide construction of industrial lots without economic calculation.<sup>12</sup>

The distinctive characteristic of technopolis policy was that prefectural authorities planned to make their technopolis with the support of the central government. However, because all localities wanted to attract high-tech industries, this promoted an excess of industrial lots. The MITI originally also planned for the designated areas to develop an endogenous industrial system after attracting exogenous businesses. However, there was more concentration on the construction of new social infrastructures than on building up endogenous networks of the local industrial system.<sup>13</sup>

To central bureaucracies of the MITI, technopolis policy stood between the traditional orientation of industrial relocation and the new consideration of an internal local industrial network. Many of the latter’s features became a part of the new local industrial policy direction of the 1990s. However, in the 1980s, the mechanism of industrial relocation still dominated technopolis policy, with less consideration for local internal industrial systems.

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<sup>9</sup> Takeuchi 2006.

<sup>10</sup> Itō 1998.

<sup>11</sup> Takeuchi 2006.

<sup>12</sup> Itō 1998.

<sup>13</sup> Takeuchi 2006.

## Hollowing Out Effects and Local Industrial Development Ideas

The industrial relocation policy encountered significant changes in the economic environment during the 1990s. Many Japanese corporations had increased their portion of outward FDI since the late 1980s. The strong Japanese yen in the international capital market strengthened the outward FDI of Japanese corporations in place of domestic investment. The economic recession after the bubble burst in the early 1990s worsened this trend. Japanese corporations decreased their domestic investment, and their production portion outside of Japan continued to increase.

Overall the production of Japanese corporations outside of Japan increased from 5% to 18% between 1988 and 2002 (13% to 37% in the case of corporations having foreign industrial facilities).<sup>14</sup> The hollowing out of industry became a national issue with this growing outward FDI. The manufacturing portion of the Japanese economy shrank from 24% to 22% between 1990 and 2001. The decline in the size of its workforce was even more striking: from 24% in 1990 to 20% in 2001.<sup>15</sup> In the 1990s, the hollowing out of industry from the growing outward FDI has been considered a threat to Japan's economic fundamentals.

This new economic environment dismantled the mechanism of a package of regulation and promotion of industrial relocation. Because there was little incentive for domestic investment, industrial relocation policy lost its relevance; rather, there was a strong demand to end the regulation of industrialized urban areas. Instead of relocation for national industrial equitability, the deregulation of industrialized urban areas became a priority to attract domestic investment by Japanese corporations in the 1990s. The Japanese government has slowly moved its policy direction. The abolition of several regulatory constraints on construction and the extension of new industrial facility was realized in the early 2000s under the Koizumi cabinet. Several deregulatory reform policies, such as the Structural Reform Special Zone program and the abolition of the Laws of Restriction of Industrial Development in Kanto and Kansai areas and of the Industrial Location Law, attempted to increase the attraction of exogenous private investment nationwide. However, these deregulatory measures were effective in industrialized urban areas but not in underindustrialized areas.

Strengthening local internal businesses simultaneously became one of the priorities of local industrial policy in the 1990s. The necessity for local industrial policy to strengthen local businesses had been mentioned since the third NGDP in the late 1970s. In addition, under technopolis policy, internal development was again emphasized, stressing the necessity of cooperation between local research institutes and new high-tech industries. Local industrial networks were also considered as a supporting tool to increase the effectiveness of industrial relocation for external private investment. However, during the first period of technopolis policy (1983–90), local industrial policy prioritized external private investment. In the second period (1991–95), more emphasis was placed on the need

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<sup>14</sup> METI 2002.

<sup>15</sup> METI 2002.

to achieve local internal development through strengthening local industrial networks.<sup>16</sup>

With an awareness of the difficult environment for attracting external investment, there was the continuing question of the extent to which external private investment increased industrial development within localities. Although attracting external private investment easily produced growth in local economies, there has been a skeptical view about the extent of its local diffusion.<sup>17</sup> Instead, strengthening local internal industries emerged as an essential part of local industrial policy in the 1990s. New legislation, such as the Special Measures for Innovative Activities of Small and Medium Businesses in 1995 and the Law for Promotion of New Business Innovation in 1998, emphasized support for local cooperative innovation as well as for independent business innovation. They attempted to strengthen local industrial networks. The orientation toward local internal development in this legislation was continued with the Industrial Cluster Plan in the early 2000s.

In the 2000s, two methods of promoting external investment and strengthening local internal industry coexisted. Deregulation was the method of promoting external investment, whereas encouragement of local business networks was the chief method for strengthening local internal industry.

### **Attracting Private Industrial Investment**

Attracting private investment in the manufacturing sectors has become a nationwide competition in the 2000s, with several deregulatory measures. The Koizumi cabinet has abolished several regulatory constraints on the construction and extension of industrial facilities in metropolitan areas and provided measures for boosting local economies by attracting external private investments. The Koizumi cabinet's goal of maximizing growth was the rationale for deregulation. National equitable industrial development was no longer a priority.

All localities have been competing for private industrial investment. Therefore they have been creating their own incentive mechanisms for private industrial investment. Although most localities have made an effort to attract external investment by providing subsidies and tax breaks, metropolitan areas and their neighboring localities, which already have better conditions for business activities and have been freed from regulation, have been more successful in promoting external investment. Therefore the market model became dominant in the major metropolitan areas because there was a gap in the effectiveness of promoting external investments between the competitive regions and the protected regions in local industrial policy.

### **The Structural Reform Special Zone**

The Structural Reform Special Zone program was a way to enhance the localized measures fit to localities' conditions. Although it did not only attempt to enhance industrial

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<sup>16</sup> Takeuchi 2006.

<sup>17</sup> Hirose 2008.

investments, it has been used to relax regulations on industrial location.

The Koizumi cabinet introduced the Structural Reform Special Zone program to promote the initiation of localized measures for deregulation in 2002. The Structural Reform Special Zone program was established to construct deregulatory mechanisms within the designated areas before the new deregulatory measures were applied nationwide. This was a shortcut to avoid a lengthy national discussion.

The Council for Regulatory Reform suggested this program in March 2002.<sup>18</sup> In April 2002, it reached to the CEF, a powerful decision-making arena during the Koizumi cabinet. Hiranuma Takeo, a minister of the METI, and four members from private sectors (Okuda Hiroshi, chairman of Nippon Keidanren; Ushio Hiro, special adviser to the Japanese Association of Corporate Executives; Honma Masaaki, an Osaka University professor; and Yoshikawa Hiroshi, a University of Tokyo professor) suggested two similar proposals for special zones to the CEF.<sup>19</sup> Although essentially agreeing with this idea, Katayama Toranosuke, a minister of the MIC, worried about the possibility of confusion resulting from the coexistence of a nationwide regulatory system and a sporadic deregulatory mechanism.<sup>20</sup> However, there was consensus within the CEF on the necessity for special zones of deregulation in the Koizumi cabinet. Sporadic deregulatory zones were considered to quicken deregulatory reforms, which have been considered for reviving the Japanese economy.

After two months, the BP 2002 of the CEF included the idea of a special deregulation zone in government policy, and the ensuing process was swift. The Bureau of the Promotion of Structural Reform Special Zones was installed within the cabinet and immediately transferred to the Headquarters for the Promotion of Structural Reform Special Zones in July. The Headquarters soon requested the first applications from localities for a special zone in July–August 2002. With these first applications, the Law of Structural Reform Special Zones was established in December 2002.<sup>21</sup>

The distinctive feature of the Structural Reform Special Zone program was its autonomous local mechanism for deregulation. Though the central government maintained the right to designate special zones, it did not subsidize them. Therefore local authorities were required to provide their own fiscal management for the programs they applied. Although there was no restriction on the eligibility of applications, almost all applications were made by municipal authorities. After receiving the applications, the Headquarters investigated their appropriateness and effectiveness through discussion with relevant ministries. It then drew up a manual of deregulatory measures as a guideline. The localities that were accepted could apply their own deregulatory measures within the designated zone. These measures were not based on the revision or abolition of regulatory legislation; rather, they were special treatments within the designated zones. If the regulatory legislation was revised or abolished, a special zone lost its status.

The Structural Reform Special Zone program has not been limited to any special

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<sup>18</sup> Council for Regulatory Reform 2002a.

<sup>19</sup> CEF Record of the Meeting of April 24 2002.

<sup>20</sup> CEF Record of the Meeting of April 24 2002.

<sup>21</sup> Nishio 2007b.

policy; rather, it has covered welfare, education, and industrial location to administrative systems. The program had thirteen categories for special zones: the international distribution system, a cooperative system between industry and research, industrial revitalization, IT, agricultural promotion, interconnection of urban and rural areas, educational promotion, day care, welfare, *machizukuri*, local administrative reform, environment and energy, and international cooperation.<sup>22</sup> There were 1,082 special zones designated between the first selection (April 2003) and the twentieth selection (July 2009). Of these, 721 special zones were withdrawn after the application of nationwide deregulatory measures, and 361 zones now remain.<sup>23</sup>

Among the thirteen categories, the international distribution system, the cooperative system between industry and research, and the revitalization of industry were closely related to local industrial policy. Most measures for cooperation between industry and research targeted easier employment of foreign workers to supplement the shortage of local workers, whereas the enlargement of port facilities was a key measure for international distribution.<sup>24</sup> On the other hand, several methods of attracting external private investment have been found in the field of industrial revitalization. Among sixty-nine special zones identified for industrial revitalization, this was in process in thirty-two zones in 2009. Most measures for industrial revitalization that were undertaken in 2009 relate to deregulation of the brewing industry and weight limits on cargo capacity.<sup>25</sup> However, thirty-seven zones for industrial revitalization that have now been withdrawn were related to land development to attract external private investment and to deregulation from measures of the Industrial Relocation Law.

Among these thirty-seven zones, seventeen were targeted to allow the leasing of land developed by local public corporations. Local public corporations for land development have been public agencies invested by local governments to provide land for public use. In April 2003, 1,555 local public corporations for land development had a total of 26,667 hectares nationwide. Of this land, 7,540 hectares had remained unused for at least ten years. Because there were restrictions on land use developed by these public corporations, local public corporations could not use their lands for private use. Seventeen zones for industrial revitalization removed the restriction on leasing these lands to private corporations. Leading zones where this deregulation occurred were in Hyogo, Mie, Fukuoka, Wakayama, Ishikawa, and Ibaraki prefectures. In 2003, these localities removed the land-use regulations developed by local public corporations and started to lease land to private businesses (25,000 square meters in Hyogo, 5,200 square meters in Mie, 8,600 square meters in Fukuoka, 400,000 square meters in Wakayama, 109,600 square meters in Ibaraki, and 8,000 square meters in Ishikawa).<sup>26</sup> These localities were able to attract private businesses through this deregulatory measure. For example, Takasago city in Hyogo Prefecture attracted the Mitsubishi Brand Industry Inc. and Kagome Inc., a

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<sup>22</sup> Nishio 2007b.

<sup>23</sup> Headquarters for Structural Reform Special Zone 2009.

<sup>24</sup> Headquarters for Structural Reform Special Zone 2009.

<sup>25</sup> Headquarters for Structural Reform Special Zone 2009.

<sup>26</sup> 21seiki Seisaku Kenkyūsho 2004.

Nagoya-established food company.<sup>27</sup>

Though the leasing of public corporations' land to private businesses began in the special zone localities around large metropolitan areas, it soon became a nationwide phenomenon. Most localities applied a special zone for this measure, including Hokkaido, Aomori, Fukushima, Tochigi, Chiba, Niigata, Gifu, Kagawa, and Kumamoto. It became a nationwide practice to attract external private investment using the Structural Reform Special Zone program. Similarly, Chiba Prefecture was able to attract the investment of the American developer AMB Property Corporation in the distribution facility near Narita Airport. Chiba Prefecture applied for a special zone to deregulate the principle whereby public agencies had a compulsory role in developing supplementary land of an airport.<sup>28</sup>

Three zones for industrial revitalization were exempted from the Industrial Relocation Law. Sakai city and Higashiosaka city in Osaka Prefecture and Amagasaki city in Hyogo Prefecture applied for special zones to release them from the restriction on the start-up of industrial facilities in their areas. These localities had been within areas from which an outflow of industrial facilities was promoted under the Industrial Relocation Law. They applied for special zones in 2004 (Amagasaki city) and 2005 (Sakai and Higashiosaka cities) before the abolition of the Industrial Relocation Law in 2006. Their application for special zones aimed to attract high-tech industrial facilities. Sakai city tried to attract Sharp and Amagasaki city invited Matsushita.<sup>29</sup>

These localities attempted to make it easy to attract external private investment through the Structural Reform Special Zone program. The Structural Reform Special Zone program was not only for attracting private business. Several deregulatory measures were applied in diverse fields. The central government extended the deregulatory measures after examining their effectiveness in the designated zones.

### **Abolition of the Industrial Relocation Law**

The Koizumi cabinet abolished the Laws of Restriction of Industrial Development in the Kanto and Kansai areas as well as the Industrial Relocation Law, which had been the backbone of the Japanese industrial location policy since the 1970s. There had been a strong request to deviate from equitable national industrial development, which had been a principle of industrial location policy since the Tanaka cabinet. The Keidanren argued that the regulation of industrial locations within large metropolitan areas and promotion of industrial locations within underindustrialized areas had become obsolete. It declared in its 1996 policy statement for a new national grand development plan that a national industrial relocation policy could not match the growth of new high-tech industries.<sup>30</sup> The Deliberation Committee of Industrial Structure of the MITI had also considered the abolition of this legislation since the late 1990s.<sup>31</sup> Under the Koizumi cabinet, this

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<sup>27</sup> 21seiki Seisaku Kenkyūsho 2004.

<sup>28</sup> 21seiki Seisaku Kenkyūsho 2004.

<sup>29</sup> Hirose 2008.

<sup>30</sup> Itō 2003.

<sup>31</sup> Itō 2003.

deregulatory trend was intensified. The Law of the Promotion of New Industrial Cities and the Law of the Promotion of the Special Industrial Renovation Districts were abolished in 2001. While the New Industrial City and the Special Industrial Renovation districts, which were constructed in the 1960s, had lost their effectiveness, legislation backing these plans remained until 2001. Because these plans targeted the relocation of large, capital-intensive facilities, they were no longer appropriate in the 2000s.

This began the deregulation of industrial location policy under the Koizumi cabinet. In July 2001, the Council for Regulatory Reform suggested reconsidering the regulation of industrial locations to promote new industry and innovation. The Deliberation Committee of Land Development of the MLIT declared in November 2001 that the Law of Restriction of Industrial Facility in the Kanto and Kansai areas should be abolished because it was no longer effective.<sup>32</sup> The Law of Restriction of Industrial Development in the Kanto metropolitan area and the matching law for the Kansai area were both abolished in July 2002. The Koizumi cabinet, which gave priority to stimulating the Japanese economy by encouraging economic activity in large metropolitan areas, claimed that regulation of industrial location only weakened private business investment in Japan. This was based on the judgment that regulation of industrial location had only produced growing FDI and the hollowing out of industry.

The abolition of this legislation generated increasing investment by large Japanese private corporations in metropolitan areas, especially after 2002. Additionally, 584 Japanese corporations returned to Japan in 2004 alone. The Nippon Keidanren evaluated that the deregulation of industrial location within large metropolitan areas was strengthening the economy.<sup>33</sup>

In an extension of this trend, the Industrial Relocation Law was abolished in April 2006. Instead, the Promotion of Industrial Location Law was enacted in 2007. This new legislation does not provide for the separate treatment of highly industrialized and underindustrialized areas. Under this legislation, local authorities are expected to construct their own local industrial location policies for attracting external private investment.<sup>34</sup>

### **Localities' Competition for Attracting Private Investment**

In the deregulation of local industrial location policy, most localities have formulated their own policies to attract external private investment by offering incentives. Although the deregulatory trend emphasizes autonomous policy profiles, localities attempt to attract private investment in similar ways. Most localities have a subsidy from local authorities, a special bureau for private investment, a one-stop system from consultation to operation, and a reward system.

Among forty-seven prefectures and eighteen designated cities, fifty-one localities have a subsidy system of over 1 trillion yen (by 2007 standards). In 2007, the maximum

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<sup>32</sup> Itō 2003.

<sup>33</sup> Nippon Keidanren 2006.

<sup>34</sup> Kawato 2008.

subsidy in Osaka Prefecture for attracting private business was 15 trillion yen.<sup>35</sup> Eleven localities had a subsidy system of over 5 trillion yen at the maximum level. In addition, there are no subsidy limits in the Iwate, Ibaraki, and Hyogo prefectures or in the cities of Sendai, Niigata, Kyoto, and Hiroshima.<sup>36</sup> The huge subsidies originate from the intensive competition for private business. Since Mie Prefecture brought Sharp's LCD TV plant to Kameyama city in 2002, competition has intensified and subsidies have increased. In addition, 90% of these localities have a special bureau for private investment, generally under the governor's or mayor's office, and 70% operate a one-stop office for private business start-ups.<sup>37</sup>

The development of these measures in municipal localities has been slow in comparison with prefectures and designated cities. In a survey conducted by the Industrial Location Center (*Nihon Ritti Center*) in 2007, only 30% of municipal localities were trying to attract private investment. The size of a locality matters. Whereas 90% of municipal localities with populations over five hundred thousand have such measures, few municipal localities with populations under ten thousand do.<sup>38</sup>

Though most prefectures, designated cities, and large municipal authorities make an effort to attract private business, there is a growing disparity in the outcome of these efforts. Nationwide, new industrial facilities have increased in size and number since 2002. However, three large metropolitan areas have been the most successful.<sup>39</sup> In the number of new locations of industrial facilities from 2000 to 2007, the Tokyo area increased from 6.9% to 8.4%, the Osaka area from 6.8% to 7.5%, and the Nagoya area from 12% to 17.1% (Figure 5-1).

Japan's large corporations have continued to construct new facilities in large metropolitan areas: Sharp's LCD TV plant in Kameyama city in Mie Prefecture and its LCD panel plant in Sakai city in Osaka Prefecture; Panasonic's plasma TV plants in Ibaraki city in Osaka Prefecture and Amagasaki city in Hyogo Prefecture; Panasonic's LCD panel plant for IPS Alpha in Mobarra city in Chiba Prefecture.<sup>40</sup> The industrial facilities of these corporations combine both development and production, and these corporations therefore prefer metropolitan areas, which already have good infrastructure, research institutes, and a skilled workforce.

The growth of plant investment in the Osaka area in the 2000s has been remarkable. The Osaka area had been hurt by the Law of Restriction of Industrial Facility in the Kansai area and the Industrial Relocation Law. Many corporations located in the Osaka area had moved to Nagoya areas since the 1970s. Since the abolition of the law in 2002, the annual growth rate of plant investment in the Osaka areas has been over 10%<sup>41</sup> (Figure 5-2).

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<sup>35</sup> Hirose 2008.

<sup>36</sup> Hirose 2008.

<sup>37</sup> Hirose 2008.

<sup>38</sup> Hirose 2008.

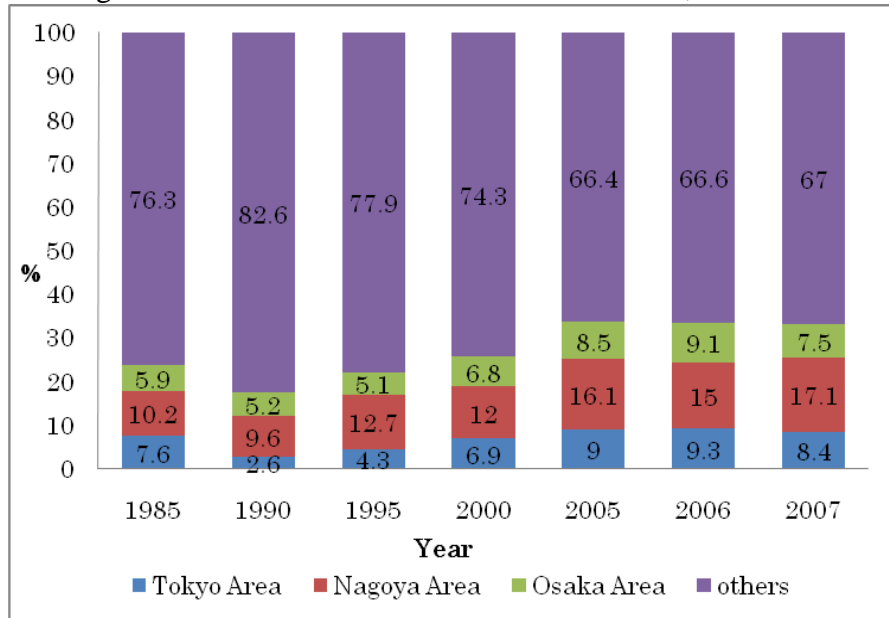
<sup>39</sup> Nihon Ritti Center 2008.

<sup>40</sup> Nihon Ritti Center 2008.

<sup>41</sup> Nihon Ritti Center 2008.

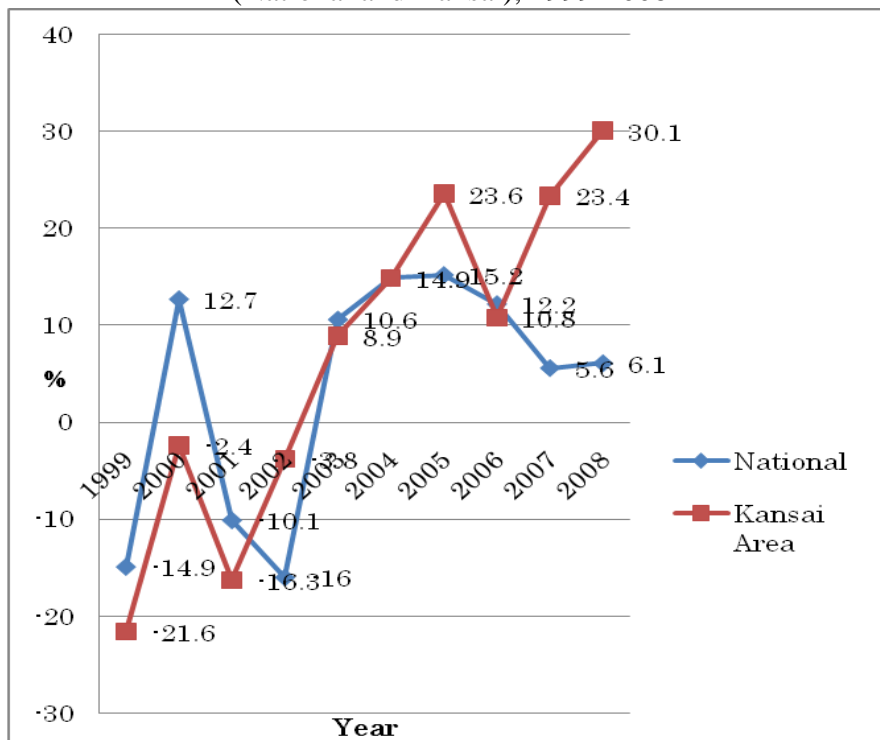


Figure 5-1: National Trends of Plant Investment, 1985-2007



Source: Nihon Ritti Center (Japan Industrial Location Center)

Figure 5-2: The Annual Growth Rate of Plant Investment, (National and Kansai), 1999-2008



Source: Nihon Ritti Center (Japan Industrial Location Center)

The deregulatory movement in national policy on industrial location has produced a concentration of plant investment by large private corporations in the large metropolitan areas. There has been an increasing disparity in the attraction of external private investment in the 2000s. Other regions outside these large metropolitan areas have experienced difficulty drawing in private business. Instead of the high-tech industries, the location of new call centers occurs in underindustrialized areas. Many corporations have moved their call centers outside of the large metropolitan areas to benefit from cheaper labor. In the ten years from 1998 to 2008, the call centers of many banks, insurance companies, telecommunication companies, and wholesalers have been located in Hokkaido, Tohoku, Hokuriku, Chugoku, Kyushu, and Shikoku.<sup>42</sup>

The Koizumi cabinet has provided a nationwide system for the market model through a sporadic deregulatory system of the Structural Reform Special Zone program and the abolition of regulations of industrial facilities over the major metropolitan areas. New nationwide measures for the market model were against the postwar settlement of a package of regulation and promotion in local industrial policy. Since nationwide mechanisms do not have a uniform effect on all localities, differences in the ability to bring in private investment have led to the dominance of the market model in the major metropolitan areas.

### **A Case of Attracting Exogenous Investment: Sakai City, Osaka Prefecture**

Sakai city is a distinctive case of attracting external investment in the 2000s. While it had developed from capital-intensive steel industries and had been constrained by the Law of Restriction of Industrial Facility in the Kansai area and the Industrial Relocation Law before the 2000s, it attracted Sharp's LCD panel plant in 2007. Because of the facilities' size and Sharp's huge investment plan, Sakai city became a notable case with Sharp's LCD TV plant being located in Kameyama city in Mie Prefecture and Matsushita's plasma TV plant in Amagasaki city in Hyogo Prefecture during the 2000s.

On July 31, 2007, Sakai city in Osaka Prefecture announced that Sharp's LCD panel plant would be coming to Osaka. After failing to attract Sharp's LCD TV plant in 2002, Osaka Prefecture made huge efforts to attract Sharp's LCD panel plant. Osaka Prefecture competed with Mie Prefecture, which won in 2002. To avoid another failure, Osaka Prefecture aggressively sought private investment, increasing subsidies for private businesses that constructed industrial facilities.<sup>43</sup> Osaka Prefecture and Sakai city finally won Sharp's LCD panel plant after competing with Himeji city in Hyogo Prefecture in 2007. Sharp announced that it would invest 380 trillion yen in the construction of a new plant in Sakai city from November 2007, and the plant opened in March 2010.<sup>44</sup>

Sakai city has been well known for Nippon Steel Corporation since 1962. Although it has a long commercial tradition dating from the Sengoku period, Sakai has become renowned as an industrial city. However, the Nippon Steel Corporation

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<sup>42</sup> Nihon Ritti Center 2008.

<sup>43</sup> Hirose 2008.

<sup>44</sup> Osaka Jichitai Mondai Kenkyūjo and Sakai-shi Kigyo Ritchi to Machizukuri Kenkyūkai 2008.

discontinued operation of its blast furnace in 1990, leaving 233 hectares of unused land in Sakai city, where Sharp based its new facility, purchasing it for 60 trillion yen (part of Sharp's total investment of 380 trillion yen) in 2007.<sup>45</sup>

Whereas Osaka Prefecture provided a subsidy for Sharp's construction of a new facility, Sakai city offered Sharp a ten-year tax break. After failing to win Sharp's LCD TV plan in 2002, Osaka Prefecture increased the subsidy from 3 trillion to 15 trillion yen, revising the Osaka Prefectural Ordinance for Promoting Industrial Location in April 2007, just before the settlement of Sharp's investment. It also reduced the land acquisition tax for Sharp's purchase of land from the Nippon Steel Corporation. Sharp's land was not included in the designated areas for tax breaks in the Osaka Prefectural Ordinance for Promoting Industrial Accumulation before 2007, but Osaka Prefecture revised this ordinance to include Sharp's new land in the designated areas in August 2007, just after the settlement of Sharp's investment. Sakai city devised a tax break with the enactment of the Sakai Municipal Ordinance for Promoting Industrial Location in 2005. This stated that Sakai city would cut four-fifths of property tax over ten years for corporations newly located in Sakai city's seashore areas. This would amount to a reduction of 50 trillion yen in ten years (2010–19) for Sharp.<sup>46</sup> Osaka Prefecture and Sakai city considered that large-scale private investment leads to great benefits in employment, consumption, and taxation, despite the huge subsidy and tax breaks.

A distinctive feature in the Sakai case is that the competition for large high-tech industrial facilities was among localities of the large metropolitan areas and their neighbors. In the survey conducted by the Industrial Location Center, the most significant factors in deciding the locations of new facilities by large private corporations were the availability of highly skilled labor and convenient access to global transportation.<sup>47</sup> Local government support is the next factor. Therefore competition for private investment is a concern of localities in the large metropolitan areas. Because competition has intensified within these areas, the market model's dominance has also escalated there.

### **Strengthening Local Business Networks**

At the same time, central bureaucracies of the METI have introduced measures for strengthening local networks among businesses within regions, such as the Law for Promoting New Activity of Small and Medium Business and the Industrial Cluster Plan, since the late 1990s. Within a situation of dismantling the package of regulation and promotion of industrial relocation, the market model has looked to be dominant in local industrial policy. However, central bureaucracies did not eliminate their guidance of industrial sectors. They have attempted to construct a localized coordination system among industrial businesses through decentralizing their objectives. In the 2000s, central bureaucracies introduced the localized coordination system relevant to the community model through enhancing local business networks. This partly embodies a means of

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<sup>45</sup> Osaka Jichitai Mondai Kenkyūjo and Sakai-shi Kigyo Ritchi to Machizukuri Kenkyūkai 2008.

<sup>46</sup> Osaka Jichitai Mondai Kenkyūjo and Sakai-shi Kigyo Ritchi to Machizukuri Kenkyūkai 2008.

<sup>47</sup> Nihon Ritti Center 2008.

protecting small and medium businesses and partly the decentralization of sectoral guidance.

The localized coordination system relevant to the community model does not directly confront measures for the market model in local industrial policy. The market model has been combined with the community model in localities having an aggregated accumulation of technology-based industries and competitiveness for private investment like the major metropolitan areas. However, outside metropolitan areas, strengthening local networks by central bureaucracies' new measures prevailed in the 2000s. While they are less competitive in constructing the market model, the dominance of the community model has been facilitated by a tradition of cooperation among small and medium businesses.

### **Industrial Accumulation and Local Small and Medium Businesses**

Since the 1990s, central bureaucracies have changed their goal from protection to local internal development. During the postwar period, protection had been a key goal of the policy of small and medium businesses. Because these businesses generate a large portion of employment, supporting them has been a significant means of spreading national wealth. However, since the 1990s, central bureaucracies have begun to assist small and medium businesses' creative development.

The Small and Medium Business Standards Law of 1968 was intended to reduce disparities in wages and production efficiency between large corporations and small and medium businesses. This legislation provided several measures for promoting the modernization and mechanization of small and medium businesses and protecting some of them from the hierarchical subcontracting system.<sup>48</sup> While it had protected small and medium businesses, many of these businesses had accumulated technology in the 1970s and 1980s. Therefore there was a conceptual change in the understanding of small and medium businesses. Rather than being weak and vulnerable, small and medium businesses took charge of large parts of economic development.

In the 1990s, the core of the small and medium business policy transformed from modernization to technological innovation, from protecting existing businesses to assisting inauguration of new ones.<sup>49</sup> Several pieces of legislation were passed: the Law for Promoting Local Industrial Accumulation in 1997, the Law for Promoting Inauguration of New Business in 1998, and the Law for Promoting New Activity of Small and Medium Business in 1999. These laws enacted local measures for small and medium businesses.

These measures attempted to enhance the potential for local industrial accumulation. Local industrial accumulation has several benefits for entrepreneurs. Information networks and learning effects provide a more stable environment for small and medium businesses. It can also reduce the risk to new start-up firms related to the accumulated industries.

There are three types of local industrial accumulation in Japan. The first type is the accumulation around metropolitan areas. Many small and medium businesses in the

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<sup>48</sup> Itō 2003.

<sup>49</sup> Nihon Chūshō Kigyō Gakkai 2007.

machinery and metalworking industries are clustered around metropolitan areas such as Tokyo, Osaka, and Nagoya. The second type is a company town. Many subcontracting small and medium businesses have concentrated near a central company. This industrial accumulation requires a hierarchical production system. The third type is the accumulation of businesses producing specialized products. These industries (in Japanese, *jiba* industries) are located nationwide. Whereas this type of industrial accumulation near metropolitan areas has provided daily consumer goods, many small and medium businesses producing durable consumer goods or luxuries such as textiles, ceramics, and furniture have been clustered in other local areas.<sup>50</sup>

Globalization and the recession necessitated measures for locally accumulated small and medium businesses. Small and medium businesses in all types of local industrial accumulation have experienced hardship since the late 1980s due to the growing outward FDI, the hollowing of industry, and the recession. Under these circumstances, the Temporary Special Measures for Promoting Industrial Accumulation of Specific Small and Medium Business were enacted in 1992 to assist businesses of the first type. However, under pressure from small and medium businesses, this law was replaced in 1997 by the Law for Promoting Local Industrial Accumulation, which included the other two types of industrial accumulation among its policy objectives. Under this law, small and medium businesses could benefit from subsidies, financial favors, and tax breaks when developing new technology and products or entering new markets.<sup>51</sup>

Simultaneously, there was a change in the way technological innovation was encouraged, from making new industrial sites to assisting existing businesses. The Law for Promoting Inauguration of New Business was enacted to increase technological innovation and new business start-ups in 1998. Although it replaced the Technopolis Law and the Brain Location Law, it was very different from them. The new legislation attempted to utilize existing industrial accumulation to increase technological innovation and new business start-ups but not to create new industrial sites, which had been a goal of the technopolis plan.<sup>52</sup>

Several laws emphasizing local internal development were incorporated into the Law for Promoting New Activity of Small and Medium Business in 1999. This legislation reinforced the role of local authorities in constructing a support system for new activities and innovation of small and medium business. Once the prefectures and designated cities had set up a central supporting institution for new activities, this institution, in cooperation with local authorities, became a one-stop center to support new activities of local small and medium businesses. This institution was expected to take advantage of local business networks through coordination among authorities, local chambers of commerce and industry, local financial agencies, and public-certified examination institutions.<sup>53</sup>

Under the new system for local small and medium businesses in 1999, local partnership between local authorities and local industrial sectors are the kernel of local

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<sup>50</sup> Seki and Satō 2002.

<sup>51</sup> Nihon Chūshō Kigyō Gakkai 2007.

<sup>52</sup> Itō 2003.

<sup>53</sup> Nihon Chūshō Kigyō Gakkai 2007.

industrial policy for locally accumulated small and medium businesses. Central bureaucracies of the METI systemized this localized coordination system with the Industrial Cluster Plan in the 2000s.

### **A Case of Local Coordination for Small and Medium Businesses: Textile Industry in Fukui Prefecture**

In Fukui Prefecture, an effort to strengthen networks between local authorities and local industrial businesses has been highly promoted in the textile industry sector. Under several measures provided by the central government, Fukui Prefecture has institutionalized a support center for the textile industry and utilized it as an arena for cooperation with the Fukui Chamber of Commerce and Industry and local associations in the textile industry.

The textile industry has been one of the chief *jiba* industries in Fukui Prefecture. The textile industry holds the greatest share of employment and the greatest number of businesses among Fukui's manufacturing industries (23.6% of employment and 27.3% of businesses in Fukui's manufacturing industries in 2006).<sup>54</sup> In addition, Fukui Prefecture has been the top producer of polyester, lace, and knitted fabrics in Japan (2004 figures). However, the size of its businesses, employment, and production scale has been shrinking in the last decade. Most small and medium businesses in the textile industry have faced tough competition from China's cheap labor.<sup>55</sup>

The Fukui prefectural government devised several ways to boost businesses in the textile industry. The Fukui Industrial Support Center, established by the Fukui prefectural government as a local public corporation in 1971, has become a one-stop support center under the Law for Promoting New Activity of Small and Medium Business in 1999. The Fukui Industrial Support Center has provided financial favors to local small businesses and strengthened local business networks. It has provided low-interest loans to small and medium businesses, and also has had a loan system for constructing cooperative facilities among small and medium business.<sup>56</sup>

Promotion for constructing local business networks has been intensified with an autonomous subsidy system. In 2007, the Fukui prefectural government established a Fund for Utilizing Local Resources, which has been managed by the Fukui Industrial Support Center. Subsidies from this fund are granted to applicants from small and medium businesses selected by the Fukui Industrial Support Center. In the three years from 2007 to 2009, fifty-six projects were selected and subsidized.<sup>57</sup> There are two categories of subsidy in this fund. The first is a traditional subsidy program that supports the development of new products, market surveys, and the opening of new market outlets through subsidization of half of expenses (under 5 million yen). The second category is a program for strengthening networks through the subsidization of joint activities of small and medium businesses. Fukui Prefecture has concentrated on innovation within localities by strengthening

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<sup>54</sup> Fukui Prefecture 2009.

<sup>55</sup> Kawato 2008.

<sup>56</sup> Kawato 2008.

<sup>57</sup> Fukui Industrial Support Center website (<http://www.fisc.jp>).

networks of local businesses in this program.

Therefore the community model has been dominant in Fukui Prefecture. Because it does not have competitive economic structures for attracting private investment of high-technology industries, it has been heavily concentrating on strengthening local business networks to create new innovation from existing local small and medium businesses.

### **Industrial Cluster Plan**

Central bureaucracies of the METI have systemized the guidance of localized measures for enhancing local business networks with the Industrial Cluster Plan in 2001. They have attempted to construct a community model in every locality. However, community models under the Industrial Cluster Plan would be different in the major metropolitan areas and other localities. In the major metropolitan areas, large companies are central to local collaboration; elsewhere, the network of small and medium businesses is a main target.

The METI utilized Porter's concept of clustering for its Industrial Cluster Plan in 2001. Porter popularized the concept of clusters in *The Competitive Advantage of Nations* (1990). He defined a cluster as "a geographically proximate group of companies and associated institutions in a particular field, linked by commonalities and complementarities."<sup>58</sup> After stressing the importance of geographic economics and the concept of clusters, many countries gave priority to cluster development in industrial policy. The concept of industrial clusters is similar to that of industrial accumulation but also incorporates technological innovation.

In Japan, the METI introduced industrial clusters to initiate programs for both local industrial revitalization and technological innovation. Therefore the Industrial Cluster Plan unifies measures for technological innovation (the Law for Promoting Inauguration of New Business) and measures for endogenous development for small and medium businesses (the Law for Promoting Local Industrial Accumulation).<sup>59</sup>

In the Industrial Cluster Plan, the METI has extended the zones of networks from the prefectural or municipal level for each project to cover three or four prefectures. In the first term of the Industrial Cluster Plan (2001–5), nineteen projects were carried out nationwide (four in Kansai; three in Kanto; two each in Tohoku, Tokai, Chugoku, and Kyushu; and one each in Hokkaido, Hokuriku, Shikoku, and Okinawa). The regional bureaus of the METI have played a key role in initiating each project of the Industrial Cluster Plan because most zones of each cluster project match with areas of the METI's regional bureau.

In constructing local networks within each cluster, the METI has constructed a new type of business association within a broader area. They are the main actors in developing the detailed measures in the zone of their project, with the cooperation of the METI regional bureau. These associations provide an arena for strengthening networks,

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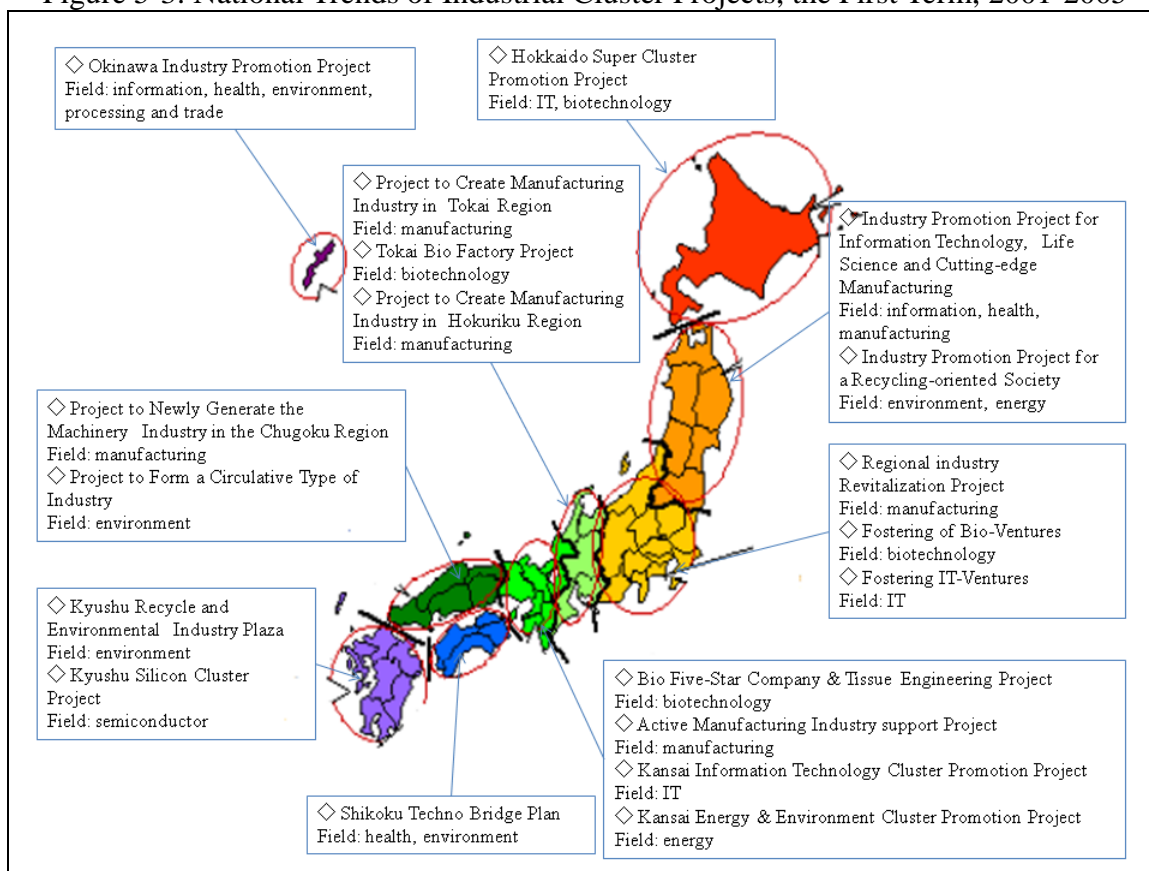
<sup>58</sup> Porter 1990.

<sup>59</sup> Sangyō Cluster Kenkūkai 2005.

which is the first goal of the Industrial Cluster Plan.<sup>60</sup> Business associations in contemporary Japan had only existed on the basis of industrial sectors or administrative localities. However, this new type of business association under the Industrial Cluster Plan is located between sectors and localities.

The Industrial Cluster Plan is not an attempt to totally decentralize industrial policy. The METI has created a new arena of industrial policy. Because of each cluster's broader area, regional bureaus of the MITI have practically led specific projects, and so the METI maintains its leadership of industrial policy. Instead, the METI has attempted to continue sectoral coordination within the localized networks. Given Japan's tendency of local accumulations of many industrial sectors, the METI could influence sectoral coordination under the Industrial Cluster Plan. Since each cluster covers four or five neighboring prefectures having similar industrial structures, each cluster has its central industrial sectors. Therefore the Industrial Cluster Plan is helping sectoral coordination.

Figure 5-3: National Trends of Industrial Cluster Projects, the First Term, 2001-2005



Source: METI

The METI has had different goals within the Industrial Cluster Plan for

<sup>60</sup> Sangyō Cluster Kenkūkai 2005.



metropolitan areas and for other local areas. It has classified three types of industrial clusters. The second category is less related to local economic structures than are the first and third. The first type has been aiming at industrial revitalization within the three metropolitan areas. In the first category, large corporations in the major metropolitan areas exist at the core of industrial activity. In this first type of cluster, the goal has been to strengthen networks between large corporations and small and medium businesses. The second type of industrial cluster does not relate to local industrial accumulation. Like Silicon Valley, it promotes venture start-ups from research institutions. The third type of industrial cluster is to revitalize *jiba* industries, which had been developed by accumulations of small and medium businesses producing specialized products in a given area, in other regions outside of the major metropolitan areas. In the third type, business networks have already been developed and strengthened by small and medium business policy, and therefore the preferential measure has been to maintain and bolster local business networks pursued in the former small and medium business policies.<sup>61</sup>

The nineteen projects in the first term of the Industrial Cluster Plan have been carried out in four industrial fields (manufacturing, IT, biotechnology, and energy). The three fields of IT, biotechnology, and energy have been mainly related to venture start-ups from research institutions and industrial revitalization of the metropolitan areas. Some projects in the manufacturing field have measures for *jiba* industries. Although both the Project to Create Manufacturing Industry in the Tokai region (Aichi, Mie, and Gifu) and the Project to Create Manufacturing Industry in the Hokuriku region (Ishikawa, Toyama, and Fukui) have set revitalization of the manufacturing industries in their zones as their policy objectives, these two projects have extremely different targets.

The Project to Create Manufacturing Industry in the Tokai region attempts to develop technological innovation in the IT, mechanical, electronics, automobile, materials, and biotechnology industries. Many large corporations and small and medium businesses of these industrial sectors have been concentrated in the Tokai area.<sup>62</sup> Therefore the Project to Create Manufacturing Industry in the Tokai region provides business networks between large corporations and small and medium businesses on the basis of industrial sectors. In contrast, although the Project to Create Manufacturing Industry in the Hokuriku region was intended to develop new high-tech industries such as nanotechnology, its core has been to revitalize existing local industries.<sup>63</sup> In this cluster project, industrial revitalization consists of localized measures for local small and medium businesses.

Central bureaucracies of the METI have tried to construct the community model in every locality with the Industrial Cluster Plan. The coordination system of the community model was not unfamiliar to national bureaucracies and industrial businesses of all sizes. In the postwar period, the MITI had guided industrial development by coordination with business associations in a basis of industrial sectors. In the 2000s, the METI has localized the policy arena of its guidance but has still maintained the feature of coordination led by its central bureaucracies. The community model, however, in the Industrial Cluster Plan has

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<sup>61</sup> Sangyō Cluster Kenkūkai 2005.

<sup>62</sup> METI 2006.

<sup>63</sup> METI 2006.

different characteristics in the major metropolitan areas and other localities. In the major metropolitan areas, a sectoral coordination between large corporations and small and medium businesses has taken center stage, whereas elsewhere, a localized cooperation among local small and medium businesses has been the focal point.

### **Nationwide Application, Different Local Effects**

In local industrial policy, programs for the market model, attracting external private investment, and ones for the community model, strengthening local business networks, have been applied nationwide but have had different local effects in the 2000s.

New programs for the market model have caused competition for external private businesses. However, major metropolitan areas and their neighboring localities have been winning because of their competitive local economic structures. Therefore the market model is the only story of the advanced regions in the 2000s. A reform to dismantle the package of regulation and promotion of industrial relocation is the determining factor in this disparity.

However, measures for the underdeveloped localities were not abolished. Central bureaucracies have transformed the main mechanism from promotion of industrial relocation to strengthening local business networks since the late 1990s. In the 2000s, the METI has intensified the localized measures with the Industrial Cluster Plan. The METI is the chief actor in introducing programs of the community model in local industrial policy. The Industrial Cluster Plan has attempted to construct the community model based on intense participation of local business in the major metropolitan area and also in underdeveloped localities. However, the localized coordination system has been differently systemized between sectoral guidance in the major metropolitan areas and localized cooperation among small and medium businesses in other regions.

## Chapter 6

### Professionals versus Social Leaders in Public Facility Management Reform

New partnership programs for public facility management were applied nationwide in the 2000s. However, whereas the PFI has been carried out in major metropolitan areas because of their ability to attract private investment, the Authorized Manager System has been developed nationwide regardless of local economic conditions. However, unlike the Industrial Cluster Plan having different characteristics between the major metropolitan areas and other regions, the Authorized Manager System shows local cooperation similarly across Japan. The distinctive feature of the Authorized Manager System is that professional private businesses have competed with local community groups for partner status in public facility management. Whereas large private corporations, mainly general contractors, have dominated the PFI, local community groups and specialized management companies have coexisted as an entity in charge of public facilities in the Authorized Manager System.

Both the PFI and the Authorized Manager System were introduced as a way of shrinking the fiscal burden by outsourcing the management of public facilities (and by constructing them in the case of the PFI) in administrative reform. Therefore both programs originated from the NPM discourse, which argues for the transition of the key principle in public service delivery from publicity to efficiency and of its main agencies from governmental public authorities to private sectors. In the state-led system, local authorities had managed local public facilities directly or through public corporations. Since new partnership programs attempted to reduce public authorities' direct involvement in managing public facilities and to enhance professional management by private sectors, they can be categorized as managerial governance programs.

Since the 1980s, Japanese leaders have discussed the introduction of a managerial mode through administrative reform. Whereas administrative reform attempted to lessen the regulatory system, it also tried to open a "government-made market" (*Kanseiichiba*) to private sectors. The opening of a government-made market, which brings the participation of private sectors into public service delivery through privatization, transfer of operations to the private sector, or consignment of operations to the private sector, has been a main topic of subsequent councils for administrative reform (the second ARC, 1981–83; the first PCPAR, 1983–86; the second PCPAR, 1987–90; and the third PCPAR, 1990–93). Following these councils, the Committee for Administrative Reform (1994–2001), the Council for Regulatory Reform (2001–4), and the Council for the Promotion of Regulatory Reform (2004 to present) have continued to search for a way to open the government-made market.<sup>1</sup> Since the PFI and the Authorized Manager System have been introduced in this context, maximizing efficiency in public facility management has been their goal.

However, they are not the only NPM programs. Although it has been highly related with efficiency, maximizing growth through making new markets for private investment has been a top priority of the PFI. In the 1990s, the Japanese government regarded the PFI as a solution to the recession, along with encouraging land development projects by private

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<sup>1</sup> Hareyama 2005.

businesses. Therefore the PFI, which lent new business opportunity to large private corporations, mainly general contractors, is a program for enhancing the market model of progrowth governance.

In addition, the Authorized Manager System was also a way of enhancing local economic conditions. The Japanese government has tried to combine local communities' direct civic participation with professional management companies in the Authorized Manager System. Since local community groups and professional management companies in the Authorized Manager System can be in charge of local public facilities, localities have the choice between managerial governance and the community model of progrowth governance.

There have not been significant local variations in implementing the Authorized Manager System, whereas the PFI has been implemented more in the major metropolitan areas. Since the PFI needs some scale for profitability, there have been more projects profitable to private business in the major metropolitan areas. Therefore the PFI can be found in underdeveloped areas if a project is planned on an extensive scale such as the Kochi Health Sciences Center. On the other hand, the Authorized Manager System has been dominated by the participation of local community groups, although the growth of professional management companies has also been notable. Deep social networks have driven the participation of local community groups nationwide, whereas professional management companies have become rivals of these groups.

### **Blue Ocean for Private Corporations in the Private Financial Initiative**

The Law for Promoting Maintenance of Public Facility Using Private Finance (PFI law) of 1999 has created a new market for large construction businesses, or *zenekon*. The central government devised this program to improve the economy and reduce the fiscal burden on public facilities. Its initial goal put the PFI fit to the market model and managerial governance. However, there has been a controversy over the PFI's effect on localities' fiscal conditions.<sup>2</sup>

Although both the central government and local authorities can use the PFI in constructing and managing their public facilities, local authorities' PFI projects comprise almost 70% of all PFI projects. In addition, half of these projects have been carried out in the major metropolitan areas. Since the scale of the project does matter in taking the PFI, the PFI has been vigorous in these areas. However, even in localities with a low population density, the PFI project has been carried out if the scale of the project was large.

### **The Introduction of the PFI**

The Japanese government copied the PFI from the United Kingdom. The PFI program, which had been carried out as an NPM reform program under the Thatcher cabinet, was introduced in an environment that welcomed administrative reform.<sup>3</sup> The

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<sup>2</sup> Obayashi and Iriya 2009.

<sup>3</sup> Harada and Matsumura 2006.

privatization of public service delivery, the essence of a PFI program, was central to NPM arguments.

The Hashimoto cabinet allowed central bureaucracies to devise detailed plans in the late 1990s. While the MOH took the initiative, other ministries have participated in the planning of the PFI. The MITI and the MOC held ministerial study groups for the PFI in 1997: a Study Group for the Society-Led Infrastructure of the MITI and the Committee for Investigation of a New Way for Maintenance of Social Infrastructure Inducing Private Investment of the MOC.<sup>4</sup> In addition, the EPA organized the Study Group for Promoting the PFI in September 1998. There was competition among central ministries over leadership in initiating the PFI. Since the PFI did not violate central bureaucracies' control power in their main policy arena, there was no opposition to the introduction of the PFI.

The PFI was designed to strengthen the Japanese economy. In the three governmental economic measures of the late 1990s—Special Economic Measures for the Twenty-first Century of November 1997, Comprehensive Economic Measures of April 1988, and Emergent Economic Measures of November 1998—the PFI program was regarded as a way of offering private businesses new market opportunities.<sup>5</sup> Like the City Rehabilitation Program, the PFI was a way of helping construction businesses and financial sectors after the real estate bubble burst.

Since the PFI was supposed to apply nationwide, there was no significant opposition from the LDP politicians. Instead, the LDP submitted a bill allowing the government to invest directly in the facilities of the PFI program and guarantee payment of their debts. There was a political consideration that public facilities that would be constructed and managed by the PFI should be within a governmental guarantee to relieve residents' anxiety. The government responded that a governmental guarantee would make no difference between the Third Sectors, causing a high fiscal burden, and new facilities of the PFI program.<sup>6</sup>

After investigations, discussions, and coordination between central bureaucracies and politicians, the PFI Law (without the problematic characteristics found in the Third Sectors) passed both Houses in July 1999 and took effect in September 1999. After the enactment of the PFI Law, the PFI Promotion Office was established under the Cabinet Office in August 1999.<sup>7</sup> The office provided the general rules for the PFI program with the Basic Policy for Maintenance of Public Facility through Private Investment in March 2000.<sup>8</sup>

The rule of the PFI is value for money (VFM). On the basis of the guidelines for the PFI program provided by the central government, public agencies should determine if the PFI is more efficient than direct investment. The VFM rule is applied when public agencies calculate the merits or demerits of introducing the PFI program. The VFM is determined along two tracks. First, public agencies should calculate the total costs of public

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<sup>4</sup> Obayashi and Iriya 2009.

<sup>5</sup> Kensetsu Seisaku Kenkyūjo 2000b.

<sup>6</sup> Iriya 2008.

<sup>7</sup> Kensetsu Seisaku Kenkyūjo 2000b.

<sup>8</sup> Kensetsu Seisaku Kenkyūjo 2000b.

agencies' self-contained investments and quantify the potential risks in the process of construction and management. The total of potential public expenses and risks is called the public sector comparator (PSC). After that, public agencies compare the PSC with the expenses that they should pay to private businesses for constructing and managing facilities. The VFM is the margin between them. The PFI program is only applicable when the VFM is positive.<sup>9</sup>

Private businesses cannot enter the PFI program without assuming some of the risks. Since public agencies do not automatically guarantee the fiscal performance of facilities built and managed by private businesses, they should also calculate the VFM. While the Japanese government adopted the PFI program, it intended to overcome the issue of moral hazard, which could be often found in facility management by the Third Sectors.

### **Similarities and Differences between the Minkatsu and the PFI**

The PFI program is similar to the Minkatsu program of the Nakasone cabinet. The Minkatsu program was a policy of mobilizing private investment in constructing social infrastructure. It helped the economic boom in the 1980s but was also considered a source of the Third Sector problem in the 1990s. Since the Minkatsu program and the PFI program were intended to use private investment to construct public facilities, they have fundamental similarities. However, there are differences in the mechanisms of both programs such as the targeted facilities and risk sharing.

First, public agencies cannot directly invest in the construction and management of public facilities of the PFI program. In the Minkatsu program, public agencies were stockholders of the Third Sectors, which were organizations for building and managing new public facilities. Although private investments were made, public agencies also invested in constructing public facilities. The average percentage of public investment in the Minkatsu program was 35% in three metropolitan areas and 47% in other regions.<sup>10</sup> Public agencies (central government, local governments, or publicly financed corporations) established a semipublic organization, the Third Sector, to manage infrastructures and facilities constructed by the Minkatsu program. In the Minkatsu program, it was necessary to provide enough funds without delay for building new facilities. However, in the PFI program, public agencies are the only clients. Without investment by public agencies, private businesses are the sole investors in constructing public facilities. Public agencies approve private businesses' rights of management during the settlement period and buy their services or let users pay for their services.

Second, the targets of the Minkatsu program concentrated on large-scale social infrastructure. However, public facilities constructed through the PFI program are broad in their scale and functions. There were fifteen categories of public facilities in the Minkatsu program. They were limited to large research institutes, telecommunication facilities, airports, ports, terminals, railroads, and large commercial facilities.<sup>11</sup> In the 1980s, the

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<sup>9</sup> Mitsuhashi and Sakakibara 2006.

<sup>10</sup> Kensetsu Seisaku Kenkyūjo 2002.

<sup>11</sup> Miyaki 2000.

Nakasone cabinet stressed the maintenance of large-scale social infrastructure and attempted to introduce private investment. However, the targeted facilities are broader in the PFI program. There are seven categories in the PFI program: education and culture (e.g., schools, libraries); life and welfare (e.g., facilities for social welfare for the aged); health and environment (e.g., hospitals, waste disposal facilities); industry (e.g., sightseeing facilities, commercial facilities, agricultural promotion centers); town development (e.g., roads, parks, harbors); public safety (e.g., police stations, firehouses, prisons); and government buildings and accommodations.<sup>12</sup> The PFI program privatized wide areas of public services. While most private investment went to equipment-style infrastructure in the Minkatsu program, the PFI program targeted broader privatization up to lifestyle public facilities.

Third, public agencies do not guarantee all risks of private investment in the PFI program. There is a system of sharing the risks of constructing and managing facilities. In contrast, public agencies under the Minkatsu program had a responsibility for the financial conditions of the Third Sectors. Since the recession of the 1990s put most of the Third Sectors in the red, the fiscal burden on the public agencies greatly increased. Therefore the Minkatsu program is one source of the Japanese government's huge fiscal deficits.<sup>13</sup> However, because public agencies are not stockholders of the facilities of the PFI program, there is no absolute responsibility in the PFI program. Instead, public agencies insert an article about the risk burdens on a contract document with private businesses.

However, the risk burden sometimes becomes a matter of dispute among public agencies and private businesses. In many cases, the article on the risks (change of interest rates, irresistible forces, and price fluctuations) just indicates burden sharing among public agencies and private businesses without detailed explanation.<sup>14</sup> Therefore it sometimes produces disputes, especially for facilities that are running a deficit.

The Japanese government attempted to avoid the problem of the Minkatsu program and the Third Sectors in the PFI program. Public agencies are mostly service providers in the PFI program and never guarantee that they will assume all the risk.

## **Warrantees and Incentives for Private Businesses in the PFI**

However, although public agencies will not assume all the risk, the PFI contains subsidies and incentives for land and electricity use to private businesses. In addition, some type and operation models guarantee the benefits on private businesses' investments.

There are three types of PFI programs. Build-Operate-Transfer (BOT) requires private businesses to construct the facilities, operate them during the settlement period, and then transfer ownership to the public agencies that made the contract. Build-Transfer-Operate (BTO) requires private businesses to construct the facilities, transfer the facilities' ownership to public agencies, but continue to operate the facilities during the settlement period. Build-Own-Operate (BOO) requires private businesses to

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<sup>12</sup> PFI Promotion Office 2008.

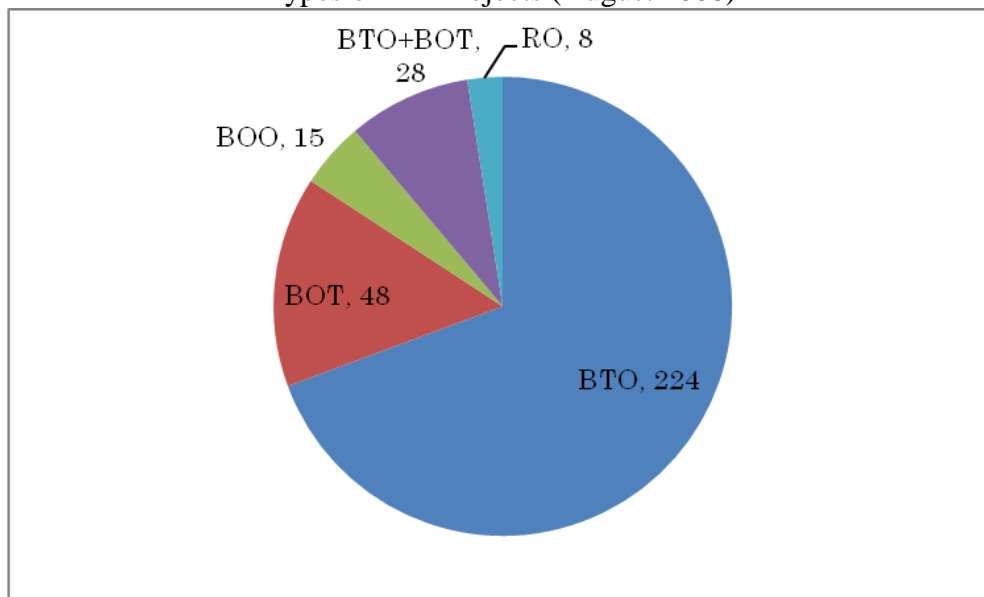
<sup>13</sup> Takayose 1989.

<sup>14</sup> Obayashi and Iriya 2009.

construct and operate facilities without transferring ownership.

The BTO type is the most commonly used PFI program, accounting for 69% of all projects (224 of 323) as of August 2008.<sup>15</sup> Both public agencies and private businesses prefer it. Public agencies consider that it guarantees publicity of the facilities if the agencies acquire the ownership of the facilities as soon as possible. Private businesses want to avoid the problem of potential deficits from facility management. Because ownership of the facilities is in the hands of public agencies, deficits are a problem for public agencies. Private businesses can receive their management expenses, if deficits are not the fault of private businesses; such mistakes are difficult to verify.<sup>16</sup>

Figure 6-1: Ownership and Management Types of PFI Projects (August 2008)



Source: PFI Promotion Office

There are three types of payment projects in the PFI program. In a service purchasing project, public agencies pay all service fees and provide services to users. In contrast, users pay private businesses directly for operating facilities in the independent profit projects. The joint venture projects combine the first two types. Most of the projects are the service purchasing type. This type accounted for 67% (219 of 323) of all PFI projects in 2008. Since public agencies do not have a responsibility to guarantee the financial conditions of facilities in the PFI program, service purchasing projects for public agencies serve as a kind of minimum warranty for private businesses. Therefore the service purchasing project has become the most common PFI program.<sup>17</sup>

Although private businesses take risks in the PFI program, they have several

<sup>15</sup> PFI Promotion Office 2008.

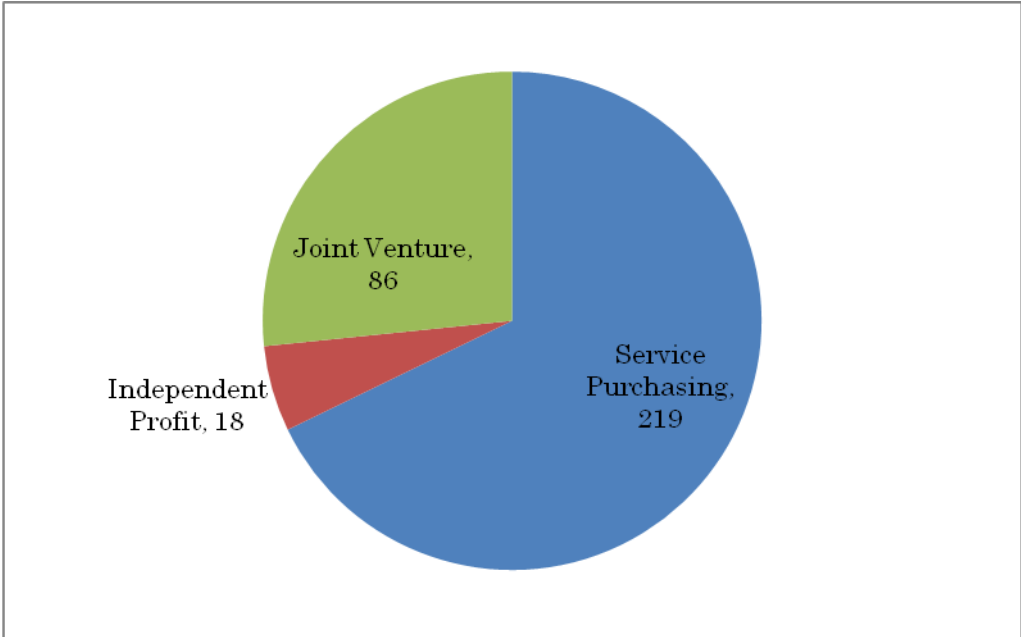
<sup>16</sup> Obayashi and Iriya 2009.

<sup>17</sup> PFI Promotion Office 2008.



incentives. First, they can benefit from a governmental subsidy for the construction of public facilities. The central government has provided subsidies to public works conducted by local governments and publicly financed corporations. The central government extended the subsidy system to the PFI projects conducted by private businesses. Regardless of public agencies and private businesses, subsidies go toward the construction of new public facilities. In 2008, governmental subsidies were given to 88% of the BTO-type projects and 69% of the BOT-type ones.<sup>18</sup> In addition, public agencies provide free leasing of land owned by the agencies and free or cheap electricity. Because facilities are for public use, the central government made this incentive structure to attract private interests.

Figure 6-2: Payment Types of PFI Projects (August 2008)



Source: PFI Promotion Office

**The PFI and Large Private Businesses**

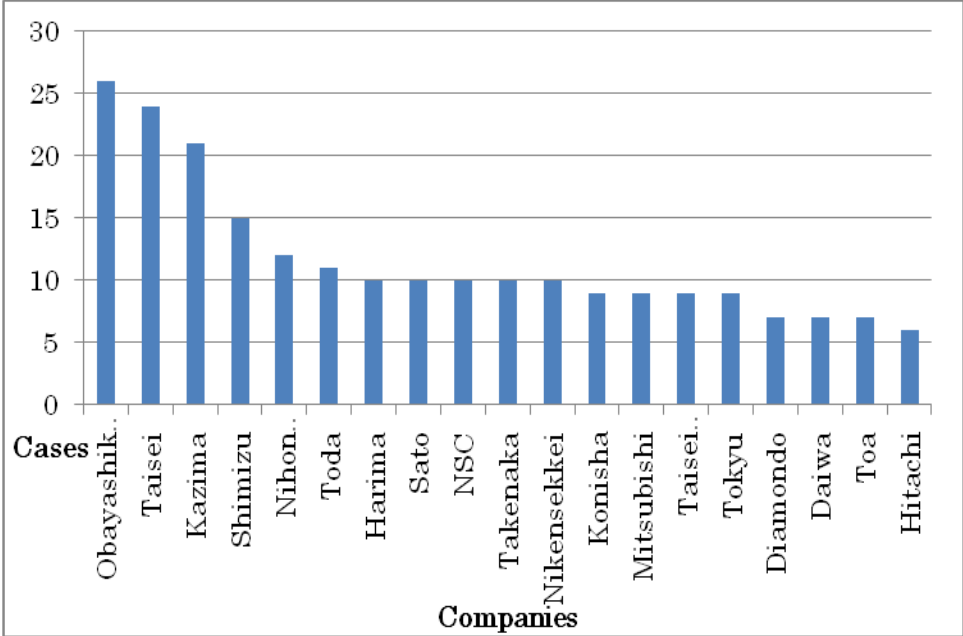
Japan’s big private businesses considered the PFI program an opportunity to open new markets. In a survey of the Keidanren in 1998, 94% of private businesses expressed interest in participating in the PFI program. Seventy-four percent of respondents thought of the PFI program as an opportunity to expand the scope of their businesses.<sup>19</sup> The Japan Project-Industry Council (JAPIC), an association of large land developers and construction businesses, viewed the PFI program as a way to introduce new business as a combination of construction and maintenance.<sup>20</sup> When the PFI was discussed in the central bureaucracies and among politicians, large construction companies established a division

<sup>18</sup> PFI Promotion Office 2008.  
<sup>19</sup> Keidanren 1998.  
<sup>20</sup> JAPIC 1999.

for PFI programs, including Obayashikumi in 1998 and Kagoshima and Toda in 1999. Commercial banks started offering financial advice on the reliability of projects, calculating risk burdens, and providing financing at the beginning of projects.<sup>21</sup>

Large construction companies and financial institutions cooperated in launching the PFI project. While making a tender offer, construction companies generally set up a new company for construction and management of a new facility. The new company for the project receives funds from commercial banks, makes contracts with insurance companies for possible risks, and contacts its parent company when building a new facility. Because projects of the PFI program require the combined capabilities of planning, construction, maintenance, and management, large construction companies have an advantage. They can reduce costs better than small local companies can. Therefore large construction companies dominated bid competitions for PFI projects. Using 2008 as a benchmark, large construction companies (*zenekon*) topped the ranking in acceptances of projects in the PFI program: Obayashikumi, twenty-six; Taisei, twenty-four; Kazima, twenty-one; Shimizu, fifteen; Nihon, twelve; Toda, eleven; Harima, ten; Sato, ten; NSC, ten; Takenaka, ten; Nikenseikei, ten; Konisha, nine; Mitsubishi, nine; Taisei, nine; Tokyu, nine; Diamond, seven; Daiwa, seven; Toa, seven; Hitachi, six.<sup>22</sup>

Figure 6-3: Leading Companies of PFI Projects (2008)



Source: PFI Promotion Office

Consequently, there have been ongoing local advocates of considering small local companies and local residents. Most localities have demanded that small construction businesses participate in the construction process and that local residents be employed in the whole process of construction and management.<sup>23</sup> In a survey by the Cabinet Office in

<sup>21</sup> Mitsuda and Sugita 1999.  
<sup>22</sup> PFI Promotion Office 2008.  
<sup>23</sup> Obayashi and Iriya 2009.

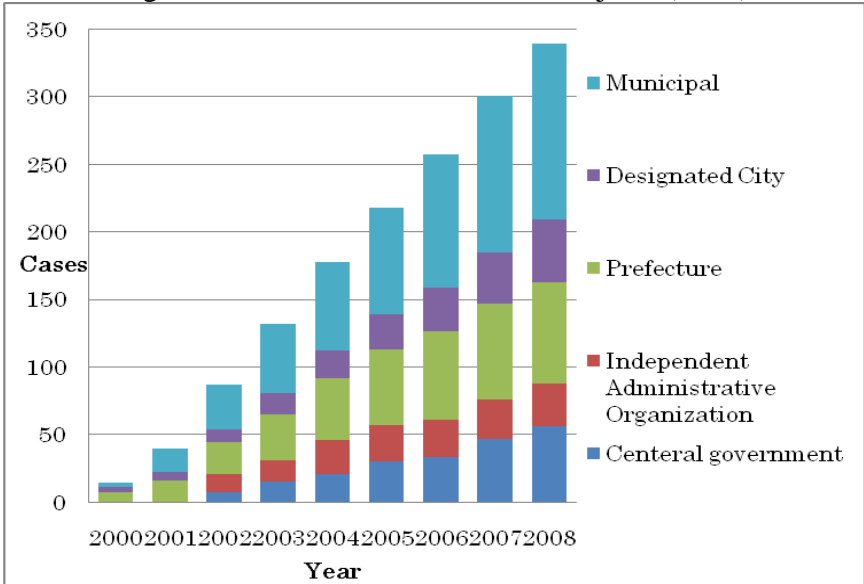
2008, 70% of the companies that accepted projects answered that they would allow local companies to be involved in the construction process.<sup>24</sup> However, large parts of all projects, including planning and directing construction, maintenance, and management, are carried out by big private companies that are detached from specific localities, so the effect of local revitalization within the PFI program was not significant.<sup>25</sup> The PFI program became much more an arena for large private construction companies.

**Dominance in the Major Metropolitan Areas**

While local authorities dominate the PFI program, half of projects have been carried out in the major metropolitan areas. Up to 2008, the central government made contracts for fifty-four projects in the PFI program, whereas prefectures, designated cities, and municipalities have 238 projects, or 75% of all PFI projects. Tokyo Prefecture and its cities topped other localities in the number of PFI projects (twenty-two), followed by Kanagawa (nineteen), Nagoya (eighteen), and Osaka (thirteen). Since these localities have huge populations, it is easier to attract private investment. In contrast, there are no projects within the prefectures of Aomori, Gunma, Nara, Wakayama, Tottori, and Miyazaki.<sup>26</sup>

However, unlike the City Rehabilitation Program, the PFI program has been planned for nationwide application. The extensive scale of public facilities like Kochi Health Science Center makes the PFI fit localities even without significant population aggregation.

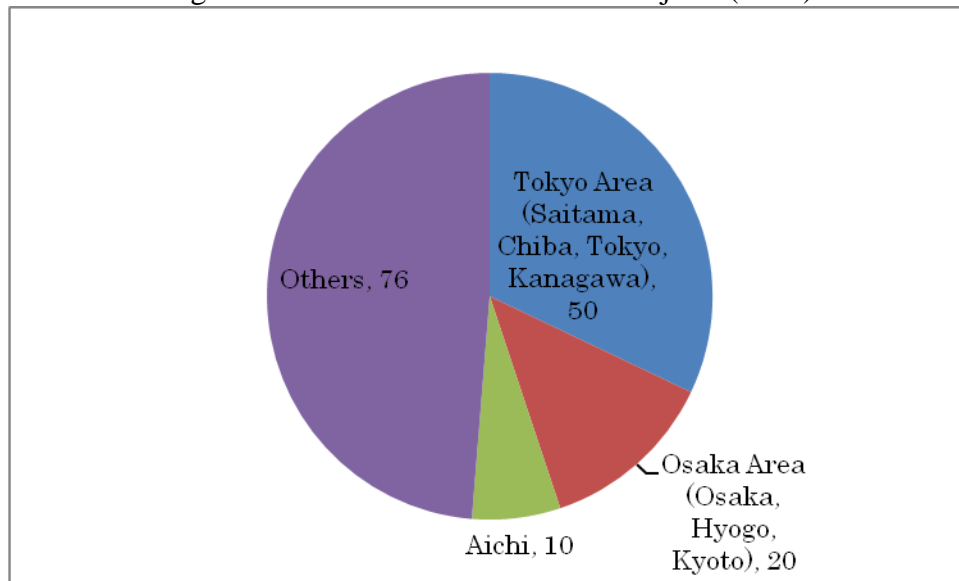
Figure 6-4: Administrators of PFI Projects (2008)



Source: PFI Promotion Office

<sup>24</sup> Cabinet Office 2008.  
<sup>25</sup> Obayashi and Iriya 2009.  
<sup>26</sup> PFI Promotion Office 2008.

Figure 6-5: National Trends of PFI Projects (2008)



Source: PFI Promotion Office

### A Case of Kochi Health Sciences Center

The Kochi Health Sciences Center shows tension between metropolitan-based private businesses and local communities in the PFI project. Although this center proved that the PFI project can be fit to underdeveloped localities if it is profitable, it also showed that the PFI has a loophole for risk sharing between public authorities and private businesses.

The Kochi Health Sciences Center was the first hospital project built and managed by the PFI program. Kochi Prefecture and Kochi city planned to build a new hospital outside the city's downtown area; the hospital would be a joint undertaking by the Koichi Prefectural Central Hospital and the Kochi Municipal Hospital. While the Kochi Public Joint Group between Kochi Prefecture and Kochi city for the construction of the Kochi Health Sciences Center has operated since 1998, the utilization of the PFI program emerged in 2000.

In February 2001, the Kochi Public Joint Group put this project out to tender offers. After reviewing four applications, the group accepted Orix Corporation's bid. Orix defeated a consortium led by Matsui Trading Company in July 2002.<sup>27</sup> This project gained national attention as the first hospital to be built through the PFI program. In addition, Miyauchi Yoshihiko, the chairman of the Orix Group, who was also the president of the Council for Promoting Regulatory Reform under the Koizumi cabinet, was active in publicizing the benefits of deregulatory reform.<sup>28</sup>

<sup>27</sup> Iseki 2007.

<sup>28</sup> Arimori 2006.

Kochi Medical PFI Corporation, a consortium led by Orix Corporation, was established for this project. This company was entrusted with the construction of the facility from 2002 and its management until 2030. The Kochi Public Joint Group calculated that the PFI suggested by Orix Corporation could save 18.6 trillion yen until 2030.<sup>29</sup> During contract negotiations with Orix Corporation, the Kochi Prefectural Assembly stated that a large private corporation taking over building and managing the Kochi Health Sciences Center should involve small local companies in the construction process and employ local residents. The Kochi Public Joint Group agreed with the Kochi Medical PFI Corporation that 77% of the new hospital's employees would be local residents.<sup>30</sup>

The Kochi Health Sciences Center opened in March 2005. Although this hospital met its goal of providing better medical services to Kochi residents, it failed to fulfill its goal for sound management. In the four years up to 2008, the center had deficits of 700 million yen. The Kochi Medical PFI Corporation failed to decrease material costs. In Orix's original plan, most of the VFM was expected to come from lower material costs. Orix suggested that these material costs could be reduced to 23.4% of the hospital's total income. However, these costs exceeded 30% in all four years. Therefore there is a dispute between the Kochi Public Joint Group and the Kochi Medical PFI Corporation. Though Kochi Medical PFI Corporation argues that the cost overruns are inevitable due to a medical facility's special characteristics, the Kochi Public Joint Group demanded a curtailment of expenses.<sup>31</sup> The case of the Kochi Health Sciences Center shows that there are many loopholes in the PFI program and a lack of clarity about risk burdens among public agencies and private businesses.

The PFI program was introduced to boost the economy and maximize efficiency. During the planning process, there was no significant opposition. It has been considered to benefit private business and also public authorities. Large private businesses could find a new market through the PFI. Because the PFI demands combined potentials of construction, financing, planning, management, and so on, large general contractors have dominated this new market of the PFI. The dominance of the major metropolitan areas indicates that the size of projects does matter in the initiation of the PFI project.

However, some cases of deficits and withdrawals of private businesses have tarnished the PFI's reputation. Since poor results of some PFI projects have added to the fiscal burden on local authorities, many residents see the behavior of the private businesses as unethical. Cases like Kochi Health Science Center have given the impression that private businesses harm local society. This reaction to the failed cases of the PFI has fueled the present opposition to liberal reforms.<sup>32</sup>

### **Competition for Partner Status in the Authorized Manager System**

The Authorized Manager System is also an effort to open the government-made

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<sup>29</sup> Iseki 2007.

<sup>30</sup> Iseki 2007.

<sup>31</sup> Obayashi and Iriya 2009.

<sup>32</sup> Obayashi and Iriya 2009.

market to private sectors. The Authorized Manager System was introduced in 2003 to transfer managerial privileges from public agencies to authorized managers in public facilities management. While an original goal of the introduction of the Authorized Manager System was to maximize efficiency, it was also an attempt to boost the local economy with community mobilization. Therefore it contains characteristics of both managerial governance and the community model of progrowth governance.

Within the Authorized Manager System, participation of local community groups in public facility management has been increasing nationwide. In addition, extragovernmental organizations, which were local public corporations, have been transformed into semipublic corporations more independent from local authorities and more embedded in local communities. In contrast, professional management companies trying to take over public facility managerial privileges have been also expanding nationwide. Therefore there has been competition between local community groups and private businesses specialized in professional management.

### **The Introduction of the Authorized Manager System**

Like the PFI program, the Authorized Manager System was implemented in the context of administrative reform. The Authorized Manager System is a gradual administrative reform because the central government has planned a slow transition, but it is also a drastic approach because it has been applied nationwide.

While the Council for Regulatory Reform has offered that a new program using private sector potential like the PFI should be widened into public facility management,<sup>33</sup> the CERP propelled its enactment with the central bureaucracies' detailed plan. When the Koizumi cabinet announced the opening of the government-made market to private sectors as one of the structural markets in BP 2001 of the CERP, central bureaucracies of the METI and MIC started to make plans regarding how to open the government-made market. Under the strong leadership of the Koizumi cabinet, the MIC's plan of local public facility management reform evolved into the Authorized Manager System.

When the MIC submitted it as one of its reform plans (with local administrative reform and local fiscal reform) to the CERP, there was consensus on its speedy operation, unlike for the local fiscal reform plan. Despite strong opposition from the MOF to the MIC's local fiscal reform plan (Trinity Reform), the introduction of the Authorized Manager System was comparatively smooth. Because it was not an arena central to other central ministries, there was no opposition from other ministries to the MIC's plan.<sup>34</sup>

After discussion, the bill was presented to both Houses in the form of a revision of the Local Autonomy Law. The revision stipulated that local authorities should involve diverse private sectors in local public facility management. The revision of the Local Autonomy Law passed in June 2003, and the Authorized Manager System took effect in September 2003.

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<sup>33</sup> Council for Regulatory Reform 2002.

<sup>34</sup> Ueyama and Himori 2008.

## **From the Managerial Commission System to the Authorized Manager System**

The introduction of the Authorized Manager System was a transition from the managerial commission system that had been maintained since 1968.

Local public facilities are defined by the Local Autonomy Law as “facilities for promoting residents’ quality of life.” This concept was included in the Local Autonomy Law in the revision of 1968.<sup>35</sup> Before then, all public facilities had been prescribed as properties handled by public authorities. With the new definition of a public facility, the revised law of 1968 produced the managerial commission system for public facilities.

The managerial commission system was intended to provide services of local public facilities with the establishment of public corporations for facility management or the entrusting of managerial privileges to public-purpose associations.<sup>36</sup> The transition from the managerial commission system to the Authorized Manager System indicates a change in the organizational qualifications for managing public facilities. The revision of the Local Autonomy Law in 2003 allowed diverse private sectors to manage public facilities.

There are several differences between the managerial commission system and the Authorized Manager System. The most distinctive difference is the organizational qualifications for managing a public facility. In the managerial commission system, public corporations and public-purposed associations were only qualified as managers of public facilities. Public corporations are governmental bodies that were established with full investment by public authorities. These corporations are generally established only for the management of specific public facilities. Public-purposed associations include agricultural cooperative associations, forestry associations, village associations, and the Red Cross. Because they had functioned as keepers of social stability, they could acquire the qualifications for managing public facilities.

Since the revision of the Local Autonomy Law in 1991, extragovernmental organizations have been qualified as managers of public facilities. Extragovernmental organizations are foundations or corporations for managing specific public facilities, similar to the situation of most public corporations. The difference between extragovernmental organizations and public corporations is that private sectors can invest in extragovernmental organizations. An extragovernmental organization could manage public facilities, if public authorities invested in more than half of the extragovernmental organizations’ stocks. Therefore extragovernmental organizations for managing public facilities were still under the influence of public authorities.

In contrast, the Authorized Manager System does not require any specific qualifications for public facility management. Any organization can be a manager of a public facility under the new system.<sup>37</sup> The new legislation does not ask a juridical body to determine qualifications. The law does, however, prohibit management by individuals. Therefore public facility management is now open to private businesses, local community

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<sup>35</sup> Idei 2005.

<sup>36</sup> Harada and Matsumura 2006.

<sup>37</sup> Mitsuhashi and Sakakibara 2006.

organizations, and NPOs as well as public corporations, public-purposed associations, and extragovernmental organizations. The Authorized Manager System offers the same opportunity for public facility management to traditional managerial bodies (public corporations, public-purposed associations, and extragovernmental organizations) and private sector entities (private businesses and NPOs).<sup>38</sup>

The second difference is assigning prospects for public facility management. In the traditional managerial commission system, public authorities designated an organization as a subject for public facility management or usually established a new organization with the sole purpose of managing a specific public facility without a competitive bid. However, the Authorized Manager System requires competitive bids. Although public authorities can avoid bids for public facility management for specific reasons, a bidding system is the rule in the Authorized Manager System.<sup>39</sup>

The third difference is the contract period, which was not stipulated in the traditional managerial commission system. If an organization was designated or established as the subject of public facility management, this organization could keep its priority status. However, under the revised Local Autonomy Law in 2003, the organization designated as the manager of a public facility cannot guarantee its priority. Public authorities should contact the organization that had been selected during competitive bidding. In addition, the manager of a public facility should provide the public authorities with an annual report on its records.<sup>40</sup>

Several new rules in the Authorized Manager System, like contract, bidding, and diverse private sector participation, show the characteristics relevant to managerial governance. However, the Authorized Manager System also contains characteristics relevant to the community model. Though it provides qualification to local community organizations, an exception to the bidding rule has made it easy for local community organizations to participate in the Authorized Manager System.

### **Nationwide Trends of the Authorized Manager System**

The Authorized Manager System has been compulsorily applied to all localities. Therefore its operation did not concentrate on any specific field or locality. Under the revised Local Autonomy Law of 2003, the Authorized Manager System is only a choice unless local authorities choose direct management. Although there was a grace period for postponing its implementation, the central government demanded that local authorities choose between the Authorized Manager System and direct management. Thereafter the Authorized Manager System has been applied nationwide.

As of April 2009, 70,022 public facilities were managed under the Authorized Manager System. Prefectural governments introduced the new system in 6,882 public facilities, designated cities applied it to 6,327 facilities, and municipal authorities chose

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<sup>38</sup> Idei 2005.

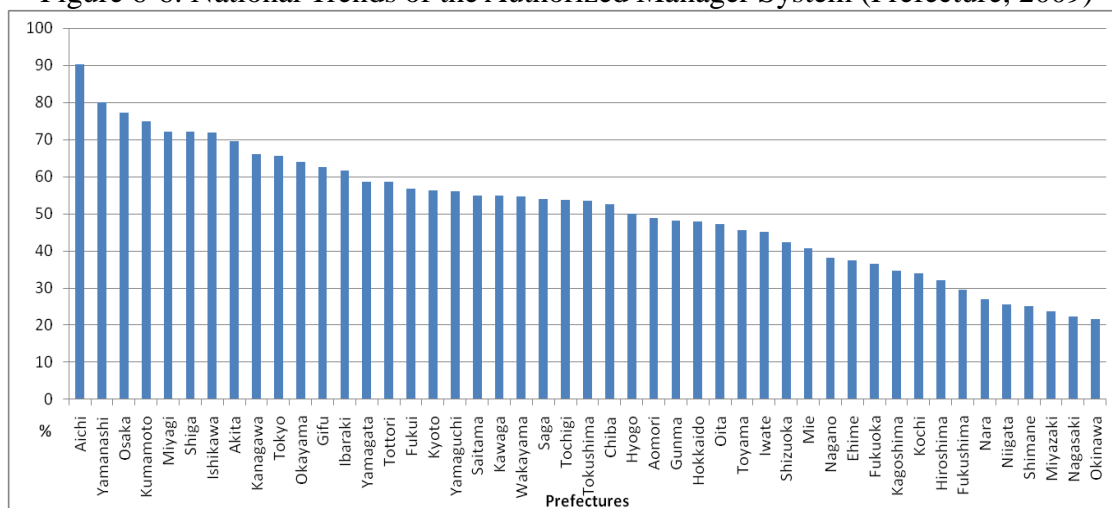
<sup>39</sup> Idei 2005.

<sup>40</sup> Idei 2005.



56,813 facilities for its implementation.<sup>41</sup> Most localities have introduced the Authorized Manager System. The operating ratio of the Authorized Manager System in prefectural governments' public facilities, excluding public residential facilities, varies from 21% in Okinawa to 90% in Aichi. Although Aichi ranks first and Osaka third (77%), Tokyo remains just slightly above the national median. There is no significant causality between the introduction of the Authorized Manager System and localities' sizes and populations. Yamanashi (80%), ranked second, and Kumamoto (75%), ranked fourth, do not have local economies and populations comparable with those of Aichi and Osaka. In addition, Hokkaido ranks first in the number of all public facilities of the prefectural government, designated cities, and municipal cities operating under the Authorized Manager System (5,717). There are no significant local variations in the introduction of the Authorized Manager System.<sup>42</sup>

Figure 6-6: National Trends of the Authorized Manager System (Prefecture, 2009)



Source: MIC

The Authorized Manager System applies to recreation and sport facilities (gyms, pools, golf courses, vacation facilities, etc.), industrial facilities (exhibition halls, information centers, etc.), basic infrastructure (parking lots, parks, waterworks, etc.), cultural facilities (community centers, museums, etc.), and social welfare facilities (elderly care centers). In the MIC survey, while cultural facilities account for the largest portion of facilities within the Authorized Manager System (31.5%), all other fields have a similar portion of facilities of about 20%.<sup>43</sup>

The Authorized Manager System produced new participation by private businesses, local community organizations, and NPOs in public facility management. While there are 10,375 facilities operated by private businesses nationwide (14.5%), NPO-operated

<sup>41</sup> MIC 2009.

<sup>42</sup> MIC 2009.

<sup>43</sup> MIC 2009.

facilities are relatively few, at only 2,311 (3.3%). However, organizations developed under the traditional managerial commission system still dominate public facility management: extragovernmental organizations, 27.5%; public corporations, 0.6%; and public-purposed associations, 42.6%. Among public-purposed associations, village associations and self-governing associations maintain control of half of the facilities operated (22.6% of all cases).<sup>44</sup>

Table 6-1: Fields and Managers of the Authorized Manager System (2009)

	Private business		extra-governmental organization		public corporation		Public-purposed associations		village association		NPOs		others		total	
Recreation and sport	3,925	28.6	4,956	36.1	110	0.8	2,036	14.8	1,169	8.5	894	6.5	1,821	13.3	13,742	100
Industrial facilities	1,614	22.6	1,037	14.5	29	0.4	3,197	44.8	1,576	22.1	185	2.6	1,076	15.1	7,138	100
Basic infrastructures	3,440	15.6	9,348	42.3	177	0.8	5,674	25.7	2,861	12.9	210	1	3,252	14.7	22,101	100
Cultural facilities	1,003	7.3	2,377	17.3	40	0.3	8,783	64	7,937	57.9	532	3.9	982	7.2	13,717	100
Social welfare facilities	393	2.9	1,557	11.7	78	0.6	10,134	76.1	2,308	17.3	490	3.7	672	5	13,324	100
<b>Total</b>	<b>10,375</b>	<b>14.8</b>	<b>19,275</b>	<b>27.5</b>	<b>434</b>	<b>0.6</b>	<b>29,824</b>	<b>42.6</b>	<b>15,851</b>	<b>22.6</b>	<b>2,311</b>	<b>3.3</b>	<b>7,803</b>	<b>11.1</b>	<b>70,022</b>	<b>100</b>

Source: MIC

These results show continuity and change in public facility management. Extragovernmental organizations are transforming into managing agencies under the Authorized Manager System, while keeping their original purpose and functions. However, the Authorized Manager System has changed its attitude toward management. Because there is no guarantee of their ongoing management, they try to produce better results to receive a more favorable evaluation.<sup>45</sup>

Public-purposed associations are still managing many public facilities, especially cultural ones. These associations manage 64% of cultural facilities; village associations and self-governing associations manage 57.9% of all cultural facilities.<sup>46</sup> Most community centers and resident-close cultural facilities are still under the management of local community associations. Although most of the cultural facilities in the hands of local community groups used the Authorized Manager System without a competitive bid, these groups should make a contract with public authorities about their ongoing management. This would formalize these groups' roles under the Authorized Manager System.

The growth of private businesses in public facility management is remarkable. They are now operating ten thousand facilities. Their activities are distinctive at facilities requiring users' direct payment such as recreational and sporting facilities and basic industrial facilities. As policy makers expected, private businesses can make new markets through the Authorized Manager System. Public authorities can also reduce fiscal burdens by outsourcing public facilities to private businesses. There is an expectation that public facilities operated by private businesses will increase in the future.<sup>47</sup>

<sup>44</sup> MIC 2009.

<sup>45</sup> Nakagawa and Matsumoto 2007.

<sup>46</sup> MIC 2009.

<sup>47</sup> Nakagawa and Matsumoto 2007.

## **Extragovernmental Organizations, NPOs, and Private Businesses**

In the Authorized Manager System, extragovernmental organizations and NPOs sometimes became an arena of social networks. In contrast, professional management companies have increased their presence in public facility management and competed with localized organizations.

An extragovernmental organization became more independent from local authorities in its operation but more embedded in local social networks. For example, the Mie Prefectural Culture Promotion Corporation, an extragovernmental organization of the Mie prefectural government, was fully funded by the prefecture but has transformed itself. It has operated the Mie Prefectural General Culture Center since 1994. This corporation was established for the construction of the center with investment from the prefecture. Although the corporation was the manager of the center, half the center's employees (thirty-five of seventy in 1999) were officials of the prefectural government. The center was the first of Mie Prefecture's public facilities to apply the Authorized Manager System. Although there was an application process for this corporation and other candidates, the corporation became the authorized manager for the center in October 2004. This corporation emphasized its experience and suggested several plans for the improvement of services such as the extension of operation hours and a new payment system. In the Authorized Manager System, this corporation should operate facilities more effectively because of reevaluation and reselection. Therefore it devised more autonomous measures and events.

The corporation was reselected as an authorized manager in 2006. At the second bid, almost ten private businesses participated in an explanatory session held by the prefectural government. However, the corporation was the only applicant and remained the authorized manager of the center. This pattern was typical during the transition from the traditional managerial commission system to the Authorized Manager System. Most of the extragovernmental organizations emphasized their experience during the selection process and were retained as authorized managers.<sup>48</sup> In addition, extragovernmental organizations are embedded in local personal networks of authorities, businesses, and cultural and academic leaders. These organizations are networks for local influential social leaders.<sup>49</sup>

However, some extragovernmental organizations dropped out of the competitive bidding for an authorized manager. For example, the Gunma Development Corporation, which Gunma Prefecture fully owned, was left out of a bid to become an authorized manager of Gunma's prefectural golf courses. Instead, a private business became the new manager. The Katsushika Municipal Culture and International Exchange Foundation lost to Kyodo Tokyo Inc., an art performance management company, in a bid for the Katsushika Symphony Hills and the Kameari Lirio Hall, both of which are cultural facilities in Katsushika Ward, Tokyo.<sup>50</sup>

The participation of the NPOs in the Authorized Manager System is also

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<sup>48</sup> Nakagawa and Matsumoto 2007.

<sup>49</sup> Kashiwagi 2007.

<sup>50</sup> Ueyama and Himori 2008.

embedded in the social networks of local influential social leaders. For example, the Bank of Arts Okayama, an NPO, is the authorized manager of Renaiss Hall, an art facility in Okayama Prefecture. The prefecture opened Renaiss Hall in October 2005, after restoring the building, which had been the Okayama branch of the Bank of Japan. When it opened Renaiss Hall, Okayama Prefecture made the Bank of Arts Okayama the authorized manager for Renaiss Hall. When the prefecture held an explanatory session for a competitive bid for Renaiss Hall, three private businesses attended along with the Bank of Arts Okayama. However, only the Bank of Arts Okayama and OHK, a local broadcasting company, submitted bids. The Bank of Arts Okayama was established just one year before Renaiss Hall's new opening. The Bank of Arts Okayama targeted the management of Renaiss Hall from its establishment and was organized by diverse local businessmen without any sectoral specialization. This NPO had been transformed from the Association for the Preservation of the Building of the Former Okayama Branch of the Bank of Japan. In 1999, this organization was formed to renovate an historical building, with the cooperation of local businessmen and the prefecture. These businessmen believed that a new arts facility in the downtown area would revitalize the local economy. Okayama Prefecture attempted to rally community support for the renovation plan by enlisting the participation of influential businessmen. When the Authorized Manager System was required for facility management, this association became an NPO. This shows that the participation of NPOs in the Authorized Manager System is embedded in local social networks among influential local leaders.<sup>51</sup> Local social networks are very significant in the involvement of community associations and NPOs under the Authorized Manager System. These local community groups became formal private partners in the Authorized Manager System.

In contrast, some private businesses, such as Suntory Publicity Service, specialize in public facility management. This company managed eight public facilities nationwide in 2009: Shimane Prefectural Art Museum, Yokohama Kanagawa Ward Culture Center, Tokyo Edogawa Ward Culture Center, Yamaguchi Prefectural Culture Hall, Kamakura Art Center, Osaka Central Public Hall, Tokyo Chiyoda Ward Library, and Okazaki City Civil Center.<sup>52</sup> Suntory Publicity Service, which was established for the management of Suntory Hall by the Suntory Group, expanded its business territory by using the Authorized Manager System. Because Suntory Publicity Service has extensive experience in managing cultural facilities, it has targeted the take-over of authorized managers for local cultural facilities. Like Suntory Publicity Service, several private businesses have specialized in facility management since the inception of the Authorized Manager System. The Authorized Manager System created a new market for them, as did the PFI for large construction businesses.

The Authorized Manager System has the characteristics of managerial governance and the community model of progrowth governance. From its start, it attempted simultaneously to mobilize local social networks and reduce the government's fiscal burden. The Authorized Manager System shows that privatization is not the only option for increasing efficiency. Community mobilization is one way of lightening the governmental

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<sup>51</sup> Ueyama and Himori 2008.

<sup>52</sup> Suntory Publicity Service webpage (<http://www.sps.sgn.ne.jp>).

burden by using local social networks of influential leaders.

### **Mobilizing Professionals and Social Leaders for Increasing Efficiency**

The PFI and the Authorized Manager System have been introduced to enhance the efficiency of public facility management (and also construction in the PFI). While the PFI has utilized large private corporations, the Authorized Manager System has led both local communities and private business to take part in its framework. Therefore, although an initial goal of two programs was to construct managerial governance with the efficient management of public authorities, the PFI is fit to the market model, whereas the Authorized Manager System has incorporated features of the community model.

Large private corporations, especially big construction businesses, dominate the PFI programs. The PFI programs demand large financial investments and highly specialized experience in construction. Therefore large private corporations have an advantage in the PFI program. In contrast, local community groups are the majority in the Authorized Manager System, although the activities of private businesses are rapidly growing. The localized organizations for public facilities are deeply embedded in local social networks. Therefore the Authorized Manager System has intensified the informal leverage of local social leaders. However, there is growing competition between the localized organizations and specialized private businesses. It is still too early to determine how many private businesses will replace these organizations. However, although private businesses are growing, local social groups are also formalizing and systemizing their participation within the Authorized Manager System.

The PFI and the Authorized Manager System for public facility management reform have been applied nationwide. However, PFI projects concentrated on the major metropolitan areas because scale matters in PFI projects. Therefore there were PFI projects in underdeveloped regions because of a project's extensive size. In contrast, it is hard to find local variation between the major metropolitan areas and other regions in the operation of the Authorized Manager System. Instead, professional private businesses detached from localities and local community groups locked in localities vie for the status of private partnership in the Authorized Manager System.

**Part III**  
**Continuity and Change in Japan's Decentralization Reforms**

**Chapter 7**  
**State, Market, and Society Under Localized Partnership**

New local programs that I have discussed in previous chapters have been the Japanese experiment for promoting the role of social sectors under the banner of public-private partnership, which has become a fashion across the world over past decades. The Japanese reform discourses for public-private partnership have sometimes claimed that the increasing role of social sectors in innovation for more localized policy mechanisms would transform the Japanese model of a political economic system from a uniform one to a more plural one, from top-down to bottom-up, on a large scale. However, since all political institutions have a certain history of and characteristics to their relations with social sectors, reforms for enhancing public-private partnership cannot keep away from the question of how to change former state-society relations. Japanese leaders have not radically transformed the mode and style of Japanese state-society relations over the past decade. Although state supremacy has been one of the characteristics of the Japanese political economic system, the Japanese government has always shown a considerably high degree of partnership with social sectors, both large private corporations and local communities, in the postwar period. In Japan, reforms for public-private partnership were not a radical transformation but rather a reviving innovation of existent cooperative state-society relations, while maintaining the mode and style of them.

The Japanese state has been a grand master in renewing these familiar state-society relations as local economic growth strategies. Although two new local economic growth strategies—the market model and the community model—are assumed to be out of state-led control and driven from more social sectors' initiatives, the Japanese central government maintained its leadership in framing new society-driven local economic strategies. It has utilized cooperative features of large private corporations and local communities in initiating new local economic growth strategies and also led the construction of localized partnerships for more autonomous local economic growth, instead of a nationwide regional redistribution system. On the one hand, the central government has been accustomed to new environments of increasing powers of more globalized large private corporations and of more evolved community groups. On the other hand, the central government has found a new effective way of mobilizing social resources to facilitate its governing while keeping its status of both designer and supervisor. Rather than shrinking capacity and autonomy, the Japanese state has readjusted its own role and also the role of social sectors.

However, reforms for public-private partnership in the local economic policy arena over the past decade resulted in the disturbance of the Japanese way of balancing the market and local society in the postwar period. Reforms for public-private partnership in local economic policy have been embedded in both market reform and civic participation. However, the evidence from chapters 4–6 shows that market reform and civic participation, encouraged under the banner of public-private partnership, have not been well combined

nationwide. Market reform has settled in the major metropolitan areas, but civic participation has been more phenomenal in regions outside the major metropolitan areas. Japanese political leaders have accepted and sometimes led these local variations of reform. Though they recognized the effectiveness of market reform in advanced major metropolitan areas, they also desired that local community participation could be an alternative for social integrity instead of a nationwide regional redistribution mechanism. However, balancing market reform with civic participation in the local economic policy arena was not successful in the political context. Active local community participation outside the major metropolitan areas could not match the political role of regional redistribution mechanisms. Whereas market reform produced visible economic effects in the short term, local community participation has only invisible long-term effects. The discourse of regional disparity, which originated from noticeable consequences of market reform in the local economy policy arena, became a political disaster to the LDP. The defeat of the LDP in two recent elections (2007 and 2009) reveals that local communities are not happy with the dominance of the market model in the major metropolitan areas. Japan is now facing a complicated standoff between large businesses and local communities, which were connected by national political coordination mechanisms in the postwar period.

### **Reforms of Public-Private Partnership Embedded in Familiar State-Society Relations**

Cooperation between the public and the private has been emphasized as a pivotal instrument in theories of governance at different institutional and analytical levels. In public administration, governance has emerged as a core analytic concept for a transition of governmental direct service delivery to interactive creation of collective goods between governments and social sectors, as R.A.W. Rhodes argued.<sup>1</sup> In urban politics, a set of power structures between local authorities and local social power elites and their interventions in local policy processes is considered a determinant of characteristics of local governance, as Clarence Stone and Gerry Stoker argue.<sup>2</sup> Regardless of using governance concepts, interactive political and policy processes between the government and market actors have been examined in both advanced and developing countries in the field of political economy.<sup>3</sup> All intellectual moods since the 1990s have revealed that cooperative inclusion of social sectors into policy processes is the most significant factor in producing a more effective governing system. Under the new environment of the globalized economy, with the rising power of multinational corporations and the increasing activities of civil society like consumer movements, and the environment movement outside of orthodox political arenas, over past decades, promarket and prosociety intellectual moods have hailed reforms for encouraging the role of social sectors and shrinking the dominance of the government at diverse institutional levels with the slogan of public-private partnership

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<sup>1</sup> Rhodes 2007.

<sup>2</sup> Stone 1989; Stoker 1998.

<sup>3</sup> Hall 1986; Hollingsworth, Schmitter, and Streek 1994; Evans 1995.

across the world.<sup>4</sup>

In Japan's decentralization reforms, public-private partnership has been also a leading slogan in transforming the Japanese local economic policy system. Public-private partnership has been a key principle of decentralization reforms since the CDP started to work for its recommendations, as seen in chapter 2.<sup>5</sup> In the early 2000s, the Koizumi cabinet declared that its first reform goal was to transfer the Japanese political economic system into a "society-initiated" one, with reforms increasing the role of social sectors, and to attempt to incorporate this reform goal into decentralization reforms.<sup>6</sup>

There have been high expectations of fundamental transformations in the Japanese political economic system with reforms for public-private partnership over diverse policy arenas from both promarket intellectuals, such as Takenaka Heizo and Yashiro Naohiro, and prosociety intellectuals, such as Sakamoto Yoshikazu and Yamaoka Yoshinori.<sup>7</sup> Promarket intellectuals have considered reforms for public-private partnership as a way of increasing large private corporations' capacity against the government with liberal market reform. In contrast, prosociety intellectuals have claimed that the increasing activities of the NPOs were the evidence of civil social groups' rising capacity against the government and also that reform for public-private partnership would enhance their role and capacity. Although there are significant differences in main social sectors driving new programs of reform for public-private partnership, both different intellectual trends have shared an opinion that reforms for public-private partnership in decentralization reforms would transform the Japanese political economic system into a more plural one. The increasing capacity of social sectors is considered a driving force for a new system reflecting diverse social interests instead of governmental control over overall social sectors.<sup>8</sup>

However, the evidence from chapters 4–6 reveals that state intervention has not been shrunk but readjusted under reforms for public-private partnership. Rather than the new era of market or society, reforms of public-private partnership have readjusted state-society relations that evolved in the postwar period. Public-private partnership is not a totally new phenomenon. All political systems have a certain style of relating to society. Therefore all models of political systems have their own model of state-society relationship.<sup>9</sup> State-society relations have long histories that are embedded in a particular political system. Although Japan has been well known for its state supremacy, the Japanese political system has been embedded in the depths of cooperative coordination with social sectors. The Japanese government has coordinated with private corporations in advancing industrial policy,<sup>10</sup> while deep social networks have functioned as an informal coordination mechanism between conservative political leadership and local community groups.<sup>11</sup> The Japanese political and bureaucratic leaders have realigned these relations between

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<sup>4</sup> Barnes, Newman, and Sullivan 2007.

<sup>5</sup> The CDP 1996a.

<sup>6</sup> Uchiyama 2007.

<sup>7</sup> Takenaka 2006; Yashiro 2003; Sakamoto 2005; Yamaoka, Hayase, and Ichikawa 2001.

<sup>8</sup> Furukawa 2003.

<sup>9</sup> Kooiman 1993.

<sup>10</sup> Okimoto 1989; Samuels 1987.

<sup>11</sup> Curtis 1983.



governmental and social sectors in reforms for public-private partnership.

The Japanese government has carried out industrial policy with cooperation with business associations and industrial sectoral associations. Rather than order, the Japanese government has utilized guidance. The Japanese planners have developed policy networks in each industrial sector, which has helped improve bureaucratic guidance on overall investment calculation and protection of small and medium companies within a certain sector.<sup>12</sup> Close ties to business have functioned as something like “exchange relations” of corporatism in the Western European countries.<sup>13</sup> The government, which has maintained deep relations with private businesses, has traditionally worked to balance different interests on the basis of sectoral coordination.<sup>14</sup> Similar sectoral cooperation with private business has been maintained in reforms for public-private partnership. There has been active involvement of specific business sectors in each policy arena. In local land development policy, large land developers have benefited from the City Rehabilitation Program. Several programs for attracting private industrial investment have helped large manufacturing corporations, while large construction businesses (*zenekon*) have largely dominated the field of PFI projects. Market-conforming partnering has been well suited to the Japanese style because the Japanese political system has been already accustomed to cooperative coordination with private business.

On the other hand, Japan was famous for the vigorous activities of its local residents on behalf of community care and local development.<sup>15</sup> Although central government and local authorities have wholly dominated formal policy processes, local community groups have highly influenced the national and local policy arena through intense informal networks with national and local politicians. Local business organizations and traditional town associations were strongly connected with conservative LDP politicians in the postwar period. Local communities have provided political support to conservative LDP politicians, and conservative LDP politicians have returned special treatment for local development with public investment. This compensatory mechanism has been developed within informal local social networks.<sup>16</sup> These local social networks maintained the supreme position of civic participation in new programs of the community model in the 2000s. Although many commentators expect the rising of the NPOs different from traditional community organization in the new era,<sup>17</sup> social networks of local influential community groups like the chamber of commerce and industry and traditional village associations have continued to work as main social partners of new programs relevant to the community model. In addition, many local NPOs are embedded in local influential leaders’ social networks, as seen in chapter 6. Mobilizing local societies was not new, but new programs relevant to the community model have enhanced more formalized networks in local societies.

In the 2000s, partnership programs in the local economic policy arena have not

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<sup>12</sup> Teranishi 2003.

<sup>13</sup> Pempel and Tsunekawa 1979.

<sup>14</sup> Otake 1999.

<sup>15</sup> Garon 1998.

<sup>16</sup> Ishikawa and Hirose 1989.

<sup>17</sup> Tamura 2003.

attempted to form fully novel state-society relationships; rather, they were an attempt to realign the characteristics of existing state-society relationships. Instead of national settlement, the localization of the coordination mechanism became a new principle of the state-society relationship.

The localization of the coordination mechanism was not a natural product of decentralization. Instead, the central government has provided localized measures in the local economic policy arena instead of national considerations based on the postwar settlement. In the postwar period, different social interests had been coordinated in national politics. However, national politics under the Koizumi cabinet has dismantled the postwar settlement and thus lost its function of nationwide coordination among different interests. The Koizumi cabinet was not inclusive of interests of local communities. The Koizumi cabinet devised localized measures for enhancing economic growth in the major metropolitan areas, which yielded the most efficient results. On the other hand, new programs of the community model have attempted to formalize local community groups' participation according to local policy mechanisms. Central bureaucracies of the MLIT, the METI, and the MIC have provided a refreshed local coordination system, which was implemented by increasing local community groups' participation through giving them more formalized arenas like the Council for Downtown Development in the City Planning of Downtown Development, cluster associations in the Industrial Cluster Plan, and the Authorized Manager System. Because local community groups had a long tradition of deep social networks, their participation in local policy processes has been vigorous. However, since national politics stopped working as a national coordination system, the vigorous participation of local community groups is locked in place.

Public-private partnership is embedded in familiar state-society relations. Inclusive coordination mechanisms between the government and social sectors in the postwar period have sustained under reforms of public-private partnership. However, new partnership programs have facilitated the localization of this coordination mechanism.

### **The Changing State Intervention for Fostering the Renewed Partnership**

The key goal of decentralization reforms was to deviate from state supremacy in the local policy process since the CDP started to discuss detailed plans.<sup>18</sup> Some commentators, such as Furukawa Shunichi, consider that Japan would deviate from a state-led system through more autonomous local policy profiles suited to local unique conditions and increasing involvement of social sectors in these policy profiles.<sup>19</sup> This high expectation of new public-private partnerships heavily originated from high evaluation of the degree and styles of state intervention in the postwar period. State supremacy in the policy process has been considered a key characteristic of the Japanese political economic system.<sup>20</sup> Criticism of state supremacy intensified in the 1990s after the economic bubble burst. State intervention, which was considered to generate rapid economic growth and a

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<sup>18</sup> CDP 1996a.

<sup>19</sup> Furukawa 2002.

<sup>20</sup> Johnson 1982; Noguchi 1995.

balanced distribution of wealth in the postwar period, has been blamed as the origin of an inflexible political economic system since the 1990s. Although the state-led mechanism provided a path for rapid economic growth and social integration, it has been blamed as an obstacle to achieving more efficient or more plural social development.

There have been two reform orientations against state supremacy in the Japanese reform discourse since the 1990s. Whereas adherents of free market arguments have claimed that the state-led mechanism impeded market competition and thus efficiency, proponents of civil society arguments have criticized the state-led mechanism as hampering the participation of civic groups in the policy process. Two reform orientations cooperatively coexisted in the mid-1990s when several political coalitions—the Hosokawa, Hata, and Murayama cabinets—between conservative and progressive political leadership led a reform trend. Intellectuals of diverging perspectives on how to deviate from state supremacy collaborated with each other. Some intellectuals who became brains of Koizumi Junichiro, such as Honma Masaaki, Shimada Haruo, and Atota Naosumi, cooperated with the Rengo-RIALS, a thin branch of the Rengo (Japanese Trade Union Confederation), when the Rengo-RIALS prepared its reform plan.<sup>21</sup> Though the Rengo-RIALS considered that future reforms should be for enhancing the lives of workers and ordinary people, it agreed with intellectuals arguing for the market principle that reforms should reduce or abolish state intervention in economic and social policy processes. Before the Hashimoto cabinet, a return of the LDP's rule in the late 1990s, there had been cooperation between pro-market reform orientation and pro-society reform orientation regarding state intervention. Although these two perspectives were severely confronted under the Koizumi cabinet, both perspectives share the same goal of reducing state supremacy.

In the local economic policy arena, state supremacy has been also severely criticized. Adherents of free market arguments have considered that a postwar settlement of regulation and protection was the main reason for Japan's huge budget deficit and also for Japanese corporations' increasing FDI.<sup>22</sup> In contrast, pro-society intellectuals consider that hierarchical orders from the central government and their nationwide implementation have been a hurdle to increasing local community groups' engagement in their localities and making their own policy profile fit their local characteristics.<sup>23</sup> Therefore state supremacy has been attacked from both pro-market and pro-society perspectives. New local programs based on public-private partnership have been introduced in the context of criticism of state supremacy.

However, the evidence of previous chapters reveals that new local partnership programs, devised for promoting the involvement of social sectors, have not dismantled state intervention in the local economic policy arena. Although the introduction of new partnership programs has been expected to shrink the role of the government and increase the involvement of social sectors, the Japanese government has maintained its initiatives in designing a new framework for the localized measures that have been considered a tool for deviating from the state-led local policy system. Instead, the localized programs have

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<sup>21</sup> Yamaguchi 2007.

<sup>22</sup> Mamiya Suzuki 2007.

<sup>23</sup> Okada 2009.

helped to enhance the central government's control, even in the era of decentralization. Decentralization reforms were an attempt to promote local authorities' autonomy and capacity through institutional changes like the abolition of the delegation function system and the transfer of subsidies to local taxes. However, new local programs for improving the involvement of social sectors became a way of maintaining the central government's control over local policy arenas that local authorities expected to become more autonomous, because new local partnership programs have been given new subsidies and rules that central government are handling.

The central government under the Koizumi cabinet was a key driver of introducing new local programs. Local growth strategies under the increasing involvement of social sectors have been introduced under the central government's increasing intervention in policy processes. Koizumi himself has been enthusiastically involved in speeding up the implementation of the City Rehabilitation Program from the first month of his rule, as seen in chapter 4. Deregulation in land development could be promptly progressed under Koizumi's strong leadership. In addition, after revision in 2006, the City Planning of Downtown Development has been controlled by central bureaucracies of the MLTI. Local projects of the City Planning of Downtown Development have been permitted, subsidized, and evaluated by central bureaucracies of the MLTI. Hiranuma Takeo, a minister of the METI, has led the discussion of the Structural Reform Special Zone in the CEFP in 2002, although he later confronted Koizumi over postal reform. In addition, the deliberation councils of the METI and MLTI have led the discussion for the abolition of several legislations on regulations of industrial facilities, following deregulatory reform directions of the Koizumi cabinet. Besides, the Industrial Cluster Plan has been totally framed by the METI and implemented under the guidance of regional bureaus of the METI, as seen in chapter 5. The MIC of Katayama Toranosuke has introduced several administrative reform agendas, including the Trinity Reform and the Authorized Manager System, which could decrease the involvement of the central government in the local policy process, in the CEFP in 2002. The central government has never allowed social sectors and localities to do anything they want. Instead, the government has provided localities and social sectors with well-organized plans of applicable localized measures. The localized measures do not mean that localities have achieved autonomous policy profiles. Instead, the central government has guided a path by which localities may deviate from the state-led system in the local economic policy arena. The Japanese central government has realigned its intervention while keeping its closer cooperative ties with social sectors.

State intervention has not shrunk under reforms for more involvement of social sectors. The increasing visibility of social sectors does not naturally connect with the diminishing intervention of the state. State and society can simultaneously reinforce their capacity.<sup>24</sup> The notion of state autonomy against society and dogmatic criticisms on state supremacy misleads the understanding of reforms for promoting social sectors' roles in policy processes.<sup>25</sup> The transition toward enhancing free market activities and increasing civic participation does not guarantee the breakdown of state intervention. Instead, the state

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<sup>24</sup> Evans 1995.

<sup>25</sup> Levy 2006.

regenerates its roles in the changing system.

### **Balancing Market Reform with Civic Participation and the Legacy of Japanese Redistribution Style Based on Region**

However, reforms for promoting the involvement of social sectors during Koizumi's rule have produced the breakdown of the Japanese way of balancing market and local society. Although the Japanese government had maintained a high degree of cooperation with large private corporations and local communities in the postwar period and could have utilized this cooperation in implementing reforms for public-private partnership in the era of decentralization reforms, there has been no explicit cooperative linkage between large private corporations and local communities. Although Japan has constructed a system similar with corporatism, Japanese leaders have only developed implicit, informal political cooperation networks with each of them. Reforms in public-private partnership could utilize cooperative ties with both large private corporations and local communities but could not incorporate both of them into a unilateral framework. Instead, there has been the coexistence of market reform and civic participation, standing in different territories.

The evidence from chapters 4–6 shows that market reform and civic participation, encouraged under the banner of public-private partnership, have not been well combined nationwide. Market reform has been dominant in the major metropolitan areas, whereas civic participation has been prosperous in other regions outside the major metropolitan areas. Local measures that are suited for local economic conditions have been considered most desirable in the era of decentralization reforms. Koizumi and his fellows acclaimed this with a policy doctrine “to leave local policies within the hands of localities as far as possible.”<sup>26</sup> Local variations of local economic growth strategies between market reform and civic participation have been accepted and sometimes led by the Koizumi cabinet.

However, the localized measures and their territorially different effectiveness have severely hurt political coordination mechanisms binding large private corporations and local communities, which were only connected through the LDP and central bureaucracies. The Japanese political and bureaucratic leaders could incorporate large private corporations into a conservative regime with selective industrial policies and inter- and intrasectoral guidance. On the other hand, regional redistribution mechanisms functioned as a tool for accommodating local residents into a conservative regime. Since at least the 1970s, regional redistribution mechanisms based on the principle of national equity have been maintained as distinctive feature of the Japanese political economic system. After Tanaka Kakuei built a mechanism of regional redistribution with a high level of public investment, local economic policies have been the most significant tool for wealth redistribution.<sup>27</sup> A local tax system was critical to maintain a regional redistribution system because public investment for the underdeveloped regions has been the core of local economic policies. The return rate of tax payments of each local administrative unit has been highly

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<sup>26</sup> Uemura and Tanaka 2006.

<sup>27</sup> Fujii 2004.

differentiated to fill local economic gaps.<sup>28</sup> Unlike the welfare state of several Western European countries that put class in the center of their redistribution mechanisms, Japan has continued a redistribution mechanism based on regional balance. Japanese leaders could gain political support from local residents under this Japanese redistribution style.

Koizumi and his fellows have attempted to dismantle the structure of public investment for a regional redistribution mechanism. Instead, they desire that active local community participation in new local economic programs be an alternative to regional redistribution mechanisms. Mobilizing local community resources has been salient because local economic and social communities have a long tradition of active participation and are embedded in deep, informal face-to-face networks. However, it could not be an alternative to a regional redistribution system on the basis of an economic standard. Strengthening the local community network, a key goal of several new programs of the community model, was hard to produce noticeable economic effects in the short term. In contrast, programs of the market model generated visible economic effects such as the construction of new industrial facilities and multiuse buildings in major metropolitan areas. Until the rule of Koizumi, local residents outside major metropolitan areas maintained their political support to the LDP, which had functioned as a keeper of regional redistribution mechanisms in the postwar period. However, they withdrew their political support to the LDP in the elections of 2007 and 2009 because Koizumi's LDP was no longer one they wanted. The political coordination system in which the LDP and central bureaucracies had bound market and local society has not functioned under Koizumi's rule. Instead, there has been a political confrontation between a coalition for market reform and a coalition for national equity, as seen in chapter 3. The decline of the LDP in the two most recent elections demonstrates that it was destructive in the standard of national integrity to substitute regional redistribution systems with a combination of market reform in the major metropolitan areas and community participation in other regions.

The discourse of regional disparity is a backlash against Koizumi's market reform, which has been blamed for disturbing the regional redistribution system, a backbone of national integrity. The discourse of regional disparity has dominated national politics after the rule of Koizumi. The so-called disparity society has been a big concern of the Japanese intellectuals and media in the late 2000s. Because most Japanese have considered themselves middle class in the postwar period,<sup>29</sup> the debate over disparity had great impact on the psychology of Japanese people. Many commentators have blamed the liberal market reform of the Koizumi cabinet for the overall increasing disparity in Japanese society.<sup>30</sup> With problems of increasing gaps in income, jobs, welfare, and education, regional disparity has been considered a threat to national integrity, which the Japanese people have considered their proud achievement in the postwar period.

Regional disparity was not a new issue. Because it has always been a political issue since the 1950s, national politicians tried to rectify it through a combination of

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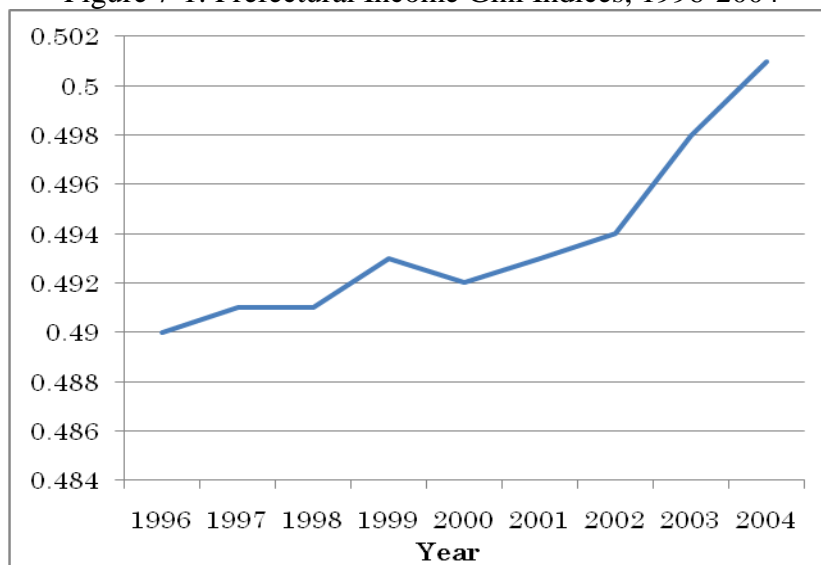
<sup>28</sup> Dewit and Steinmo 2002.

<sup>29</sup> Hashimoto 2009.

<sup>30</sup> Yanbe 2007.

regulations in developed localities and protection in underdeveloped localities.<sup>31</sup> A postwar settlement of the national equity principle was a political product for rectifying regional economic disparities. However, unlike the postwar period, when both developed localities and underdeveloped localities achieved a high rate of economic growth, but developed localities showed better performance, there have been distinctive differences between economic growth in the developed localities and economic downfall in the underdeveloped localities (Figures 7-1 and 7-2).

Figure 7-1: Prefectural Income Gini Indices, 1996-2004



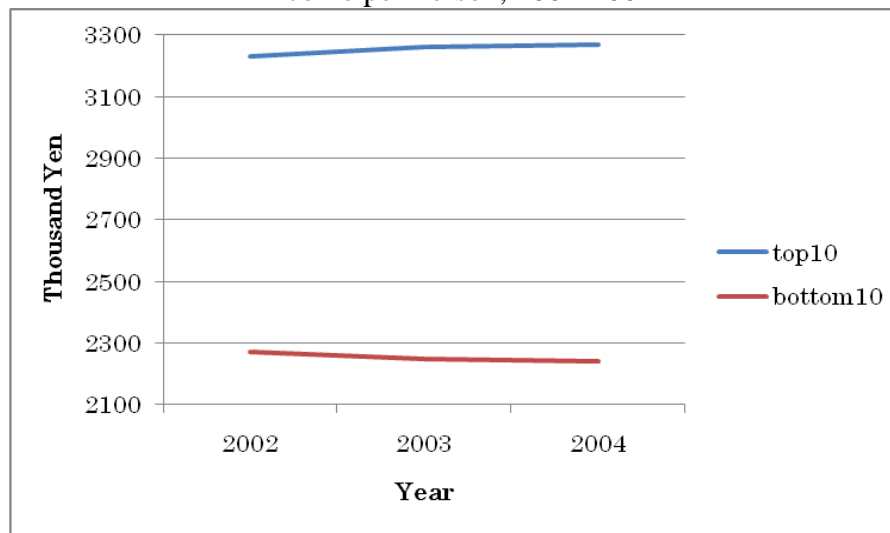
Source: Cabinet Office. Kenmin Keizai Keisan  
 (Annual Report on Prefectural Accounts)  
 (<http://www.esri.cao.go.jp/jp/sna/toukei.html#kenmin>)

During Koizumi's rule, shrinking local public investment has produced lagging economic growth in the underdeveloped localities, whereas lessening regulation of private land development and industrial locations has helped promote relatively better economic vitality in the major metropolitan areas. Although there has been debate on the depth of regional disparity, it has been considered a result of Koizumi's political choices in the minds of residents of the underdeveloped localities.<sup>32</sup> Therefore it produced a great political impact. The intensification of local residents' feelings that they have been detached and unprotected from national politics, along with their dissatisfaction over governmental supports for enhancing the market model in developed localities, were the decisive reasons for the decline of the LDP.

<sup>31</sup> Fujii 2004.

<sup>32</sup> Motani 2007; Miyazawa 2009.

Figure 7-2: Diverging Trends of Prefectural Income per Person, 2002-2004



Source: Cabinet Office. Kenmin Keizai Keisan  
 (Annual Report on Prefectural Accounts)  
 (<http://www.esri.cao.go.jp/jp/sna/toukei.html#kenmin>)

However, Koizumi did not suffer from the discourse of regional disparity during his rule. Koizumi successfully achieved a triumph for his political choices within the LDP and against opposition parties. He displaced the LDP members who confronted him on a postal privatization bill in the 2005 Lower House election. He maintained the LDP's political dominance in the underdeveloped localities, and also achieved overwhelming victory in the metropolitan areas while successfully labeling opposition parties, including the DPJ, as antireform political groups.<sup>33</sup>

However, the discourse of disparity changed this political scene after Koizumi's departure. Abe Shinzo, Koizumi's successor, acknowledged the necessity of responding to disparity issues, although he clearly followed Koizumi's direction for market reform. The "rechallenge policy" was his effort to rectify the problem of part-time works. However, he could not and did not transform Koizumi's frame of liberal market reform. Instead, Abe turned his main concerns to noneconomic conservative agendas for constitutional change and education.<sup>34</sup> He has ambivalently remained on economic liberalization. Although he acknowledged broad discontent over economic liberalization, his cabinet maintained an identical direction with the Koizumi cabinet on economic issues. Since the LDP has been fully under the influence of Koizumi and his policy direction, it was less feasible that Koizumi's successor change the LDP's policy direction.

Although Abe Shinzo desired to alter main political issues from disparity originated from economic liberalization to conservative political agendas such as

<sup>33</sup> Hiwatari 2006.

<sup>34</sup> Watanabe 2007.



constitutional change, the DPJ successfully made use of disparity discourse in the 2007 Upper House election. Ozawa Ichiro of the DPJ led the campaign with the catchphrase “The most important things are locals and living.” Although he had been an adherent of economic liberalization, Ozawa clearly stood against liberal reform causing enlarging disparity in the labor market and the termination of the postwar settlement that had been based on the national equity principle.<sup>35</sup> The DPJ campaign was persuasively successful. In the 2007 Upper House election, the DPJ acquired the majority because it effectively defeated the LJP in the single-seat constituency, mainly regions outside the major metropolitan areas.<sup>36</sup> The DPJ and its collaboration parties won twenty-three seats among twenty-nine single-seat constituencies (79%), while it only gained twenty-three seats among forty-four multiseat constituencies (53%).

Local residents who had supported the LDP for a very long time turned to the DPJ in 2007. The psychology of regional disparity was a decisive factor in this switchover of the underdeveloped localities. Under the postwar settlement, local society had been connected with the national political coordination system through its support of the LDP. However, local residents’ feelings that they are detached and unprotected from national politics intensified, as did their discontent with the LDP, since the Koizumi cabinet heavily emphasized the lessening of regulation, which would promote growth in the major metropolitan areas, and the decreasing of protection, which would hurt the underdeveloped localities. The DPJ succeeded in transforming the local residents’ feelings into votes by utilizing the discourse of regional disparity.

Koizumi’s LDP successors, Abe Shinzo, Fukuda Yasuo, and Aso Taro, could not recover political support from local residents. They did not speed up more liberal reforms, nor did they set up a new framework for protection of underdeveloped localities. In addition, their weak leadership and unviable insights produced discontent within the majority of the Japanese people. Therefore the defeat of the LDP in the 2009 Lower House election was more than the product of a switchover of local residents to the DPJ. The DPJ achieved nationwide victory as a result. However, rather than support for the DPJ, feelings against regional disparity and its origin, Koizumi’s LDP, have played a crucial role in these elections. Therefore local residents’ support for the DPJ is overwhelmingly fragile.

Koizumi’s experiment for deviating from a regional redistribution system resulted in the termination of the political coordination mechanism binding large private corporations and local communities. Although each of two diverging local economic growth strategies has been effective in different regions, there was no national political mechanism for mediating local variations of these localized programs in the 2000s. The postwar settlement of national equity has evolved and developed under the long-lasting rule of the LDP, and its cessation delivered the breakdown of the rule of the LDP.

### **Future Prospects**

The Japanese government has introduced new partnership programs over the last

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<sup>35</sup> Mikuriya 2009.

<sup>36</sup> Shiratori 2009.

decade by dismantling the postwar settlement of the national equity principle, and this led to local variations between the market model and community model. Although the government has provided a way to mobilize local internal community resources that was effective in regions outside the major metropolitan areas, this could not be an alternative for balancing with market reform that was effective in the major metropolitan areas. This reform process ended with the defeat of the LDP in the most recent two elections.

Since the DPJ has emphasized its intent to rectify problems of Koizumi's market reform, including regional disparity, the DPJ-led coalition set up several institutional changes and policy directions to reverse Koizumi's market reforms. The Hatoyama cabinet established the Government Revitalization Unit to substitute for the CEFP, which has functioned as an arena for leading market reform and coordination with large private corporations over the last decade. Although the Government Revitalization Unit is a deliberation council similar to the CEFP, there is great difference in what kinds of private members participate. The Hatoyama cabinet avoids private members representing interests of large private corporations, that is, leaders of the Nippon Keidanren in the Government Revitalization Unit. Instead, the Hatoyama cabinet assigned intellectuals and businessmen representing diverse voices from local leadership, labor, and Keizaidoyukai: the Japan Association of Corporate Executives such as Katayama Yoshihiro, a former governor of Tottori Prefecture, Kusano Tadayoshi, a chairman of Rengo-RIALS, a think tank of Rengo, Yoshigawa Hirokazu, a CEO of DOWA Holding Co. Ltd., and Mogi Tomosaburo, a CEO of Kikkoman company. In addition, the DPJ-led coalition has attempted to reverse a Koizumi-era postal reform and labor market reform.

Under the slogan of "Local sovereignty," the DPJ-led coalition increased tax relocation to localities without increasing the tax burden of local residents under the leadership of Kan Naoto and Fujii Hirohisa. This is the most distinctive difference of the DPJ-led coalition from Koizumi's policy direction on regional redistribution mechanisms. However, the DPJ-led coalition has not tried to return to the postwar settlement of regulation and protection. Local partnership programs introduced under the Koizumi cabinet are not discontinued under the Hatoyama cabinet. While the DPJ-led coalition continues to implement programs of both the market model and community model, there is a change in mood and style of implementing these programs. The government cautiously takes an approach to enhancing private investment in local land development and industrial policy, unlike the hasty attitude of the Koizumi cabinet. Regarding programs of the community model, the government vigorously continues to promote local communities' involvement in the local economic policy process. However, the DPJ-led coalition takes synthetic consideration of diverging strategies' nationwide effects. The consideration of a synthetic approach to balance programs of the market model and community model has emerged since the rule of Fukuda Yasuo. In 2007, the Fukuda cabinet merged several agencies for the City Rehabilitation Program, Structural Reform Special Zone, and City Planning of Downtown Development into a combined headquarters to lead these programs to consider more national balanced effectiveness. The DPJ-led coalition is following this synthetic consideration. In local economic policy arenas, it is expected that routine adjustments of new programs introduced under the Koizumi cabinet continue with more synthetic consideration of national equity, rather than with a return to the system of the

postwar settlement.

In the big picture, however, the DPJ-led coalition does not aim to recover the principle of national equity with local economic policy. Instead, the DPJ-led coalition is turning to universal protection mechanisms, like the child allowance, instead of local public investment that targets specific localities. As Yamaguchi Jiro explains, the DPJ-led coalition is heading toward a social democratic regime under the emphasis of a universal welfare system. If the DPJ-led coalition, or a new national political leadership, can construct a new way of binding market and local society with universal protection mechanisms similar to the welfare state, local economic policy will lose its effectiveness in binding market and local societies in Japan.<sup>37</sup> However, the remaining question is how to handle the dual local economic structures. Since the dual local economic structures remain, local economic policy is likely to work as one of the tools in the Japanese redistribution mechanism.

Koizumi's experiment with localized measures has not been only for market reform. The Japanese government has also provided several ways for promoting local internal community participation. The problem is that political leadership under Koizumi's rule has neglected cautiously to balance market reform with local participation. If we look back to the history of Japanese local economic policy, we will see the ebb and flow of concentrated growth and national equity, as seen between the 1960s under Ikeda Hayato and the 1970s under Tanaka Kakuei. Koizumi's reform of local economic policy can be seen as an effort to overcome Tanaka's regional redistribution system. In the late 2000s, the backlash against Koizumi's reform became dominant in the national political arena. However, it is not feasible for Japan to rapidly transform its own system overall because Japan has seldom shown rapid transformation in innovating its political and economic systems. Even the transformation from Ikeda to Tanaka was characterized by an accumulation of readjustment and gradual innovation. In coming years, we can expect a similar pattern of readjustment and gradual innovation rather than rapid transformation in a political effort to construct a new Japanese political economic system after Koizumi. In this process, the role of national political leadership would still be the most important factor because national politics determines the speed and scale of readjustment and innovation of the Japanese political economic system, although a goal of reform is a decrease in state intervention and an increase in society involvement.

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<sup>37</sup> Yamaguchi 2007.

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