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Local Government Finance in the Age of Devolution

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Contents and objectives

The 20th century has been called the era of centralized authoritarian rule. On the other hand, the 21st century is known as the era of devolution. In this lecture, I will first explain the reasons why a decentralized society, that is, devolution, has become necessary. Second, I will give a general outline on the OECD system of fiscal relations across government levels. Third, I will examine the present state of the reform for decentralization that has been undertaken in Japan in recent years, and fourth, I will investigate the situation of local government finance in the age of devolution in reference to the principles of the European Charter of Local Self-Government.

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1. Causes of devolution

(1) The accountability crisis

The necessity of devolution has been an issue of discussion in industrialized countries since the mid-1970s. Three reasons can be given for this development.

First, the expansion of functions exercised by national governments after World War II triggered a crisis of accountability, i.e., governments were held accountable by the electorate for their deeds, chiefly for public finance. The reason for the rapid postwar expansion of government functions can be seen in the development of governmental policies aiming at the welfare state and at the stabilization of the economy, a tendency that has been common to all industrial countries. However, this trend has been questioned due to the financial crisis since the late 1970s and due to doubts over the effectiveness of governmental policies. Consequently, a review of the system became urgent. In many countries, it was the national government that was responsible for both the decision-making process and the implementation of policies regarding the welfare state and economic stabilization, and thus the new reform aimed at devolution in those areas. This devolution was pursued in two ways.

First, through a reform of the public sector using policies of remarketization mainly based on privatization. Remarketization was realized either through the sale of state-run businesses to private entities, through deregulation, or through entrustment to private companies.

Second, through a revision of the public sector consisting in the transfer of functions from the national government to local self-governing bodies. By transferring authority or finances to local governments, this reform aimed at expanding the self-determination of citizens and at increasing the efficiency and effectiveness of the public sector while also saving money.

Devolution thus was accomplished based on two measures: on the one hand the transfer of functions from the public sector to the private sector (privatization and remarketization), and on the other hand the transfer of authority from the national government to local governments (decentralization).

(2) Rapid advance of globalization

The second reason why devolution became necessary was the need to respond to the rapidly advancing globalization which required a system able to sustain the stability of livelihood at the local level. The progressing globalization of people, goods, capital and information caused a rapid deterioration in State-performed functions which had hitherto sustained the framework of production and daily life. While production activity now took place at the global level, individual daily life and expenditures still took place at the local level. Accordingly, a system capable of responding to the globalization of production while supporting livelihood at the local level became necessary.

(3) Democratization in developing countries and marketization in socialist countries

The third cause for the advance of devolution has its roots in developing and socialist countries where problems in exploiting dictatorships or centralized economic management systems escalated and finally caused a shift towards democratization and marketization. The trend toward devolution was especially accelerated after the network of economic globalization took root in these countries. The way in which devolution was carried out, however, differed greatly from country to country, thus reflecting their respective and widely different pre-modern history and traditions of local management.

2. Outline of OECD fiscal relations across government levels

I will now outline how the above mentioned state of the recent devolution appears in the fiscal relations across government levels in the member countries of the OECD.

(1) Extent of decentralization from the viewpoint of annual expenditure by local governments

As shown in Table 1, the share of sub-national government spending in

general government spending greatly differs from country to country.

Table 1. Indicators of fiscal decentralisation

	Sub-national government spending and employment				Sub-national government revenues			
	Share in general government spending ¹		Employment as a share of total public employment		Share in general government ²		Attribution of tax revenues as percentage of total tax ³	
	1985 ⁴	2001 ⁵	1990 ⁶	2001 ⁷	1985 ⁴	2001 ⁵	1985	2001
Federal countries								
Australia	..	..	76.7	83.3	..	..	18.6	17.2
Austria ⁸	28.4	28.5	62.6	62.3	24.6	21.4	23.8	18.9
Belgium	31.8	34.0	..	..	11.4	11.3	4.8	28.6
Canada ⁹	54.5	56.5	84.7	86.0	50.4	49.9	45.4	44.1
Germany	37.6	36.1	87.6	88.5	31.9	32.4	30.8	29.2
Mexico	..	..	..	..	..	..	1.0	3.1
Switzerland	..	..	..	..	..	..	44.1	40.4
United States	32.6	40.0	81.8	85.5	37.6	40.4	32.7	31.7
Unitary countries								
Czech Republic	..	..	32.3	34.0	..	..	..	10.6
Denmark	53.7	57.8	..	..	32.3	34.6	28.4	33.8
Finland	30.6	35.5	74.7	77.8	24.8	24.7	22.4	22.4
France	16.1	18.6	..	45.8	11.6	13.1	8.7	9.3
Greece	4.0	5.0	..	87.8	3.7	3.7	1.3	1.0
Hungary	..	..	65.5	65.1	..	..	..	5.5
Iceland	..	..	..	..	..	..	18.6	24.3
Ireland ⁹	30.2	29.5	13.2	11.3	32.3	34.6	2.3	1.9
Italy	25.6	29.7	..	20.6	10.7	17.6	2.3	12.2
Japan	46.0	40.7	..	..	26.8	26.0	26.0	25.9
Korea ⁸	..	..	32.3	34.8	..	..	..	17.8
Luxembourg	14.2	12.8	94.8	92.5	8.0	7.4	6.6	5.6
Netherlands	32.6	34.2	27.5	25.6	11.4	11.1	2.4	3.5
New Zealand	..	..	12.2	9.5	..	..	6.5	5.6
Norway ¹⁰	34.6	38.8	..	..	22.5	20.3	17.7	16.3
Poland ⁸	..	..	6.5	6.2	..	..	..	18.3
Portugal	10.3	12.8	..	..	7.6	8.3	3.5	6.5
Slovak Republic	..	..	..	..	..	..	..	3.8
Spain	25.0	32.2	47.1	63.6	17.0	20.3	11.2	16.5
Sweden	36.7	43.4	..	..	34.3	32.0	30.4	30.8
Turkey	..	..	84.2	85.5	..	..	10.2	13.1
United Kingdom	22.2	25.9	..	..	10.5	7.6	10.2	4.1
Average¹¹	29.8	32.2	55.2	57.0	21.5	21.9	16.4	17.8

1. Excluding the transfers paid to other levels of government. National Accounts data.
2. Excluding transfers received from other levels of government and including tax sharing arrangements. National Accounts data.
3. Including tax sharing arrangements. Revenues Statistics data.
4. Or earliest year available: 1986 for Ireland; 1987 for the Netherlands and the United Kingdom; 1990 for Japan, Luxembourg and Norway; 1991 for Germany; 1993 for Sweden; 1995 for Austria, Belgium, Denmark, Finland, Greece, Portugal and Spain.
5. Or latest year available: 1996 for Ireland; 1997 for Canada; 1999 for Portugal; 2000 for Japan, Luxembourg and the United Kingdom.
6. Or earliest year available: 1991 for Germany and New Zealand; 1994 for Poland; 1996 for the Netherlands; 1997 for Czech Republic, Hungary and Turkey.
7. Or latest year available: 1998 for Greece and Italy; 1999 for France; 2000 for Austria, Germany, the Netherlands, Poland, Turkey and the United States.
8. Public sector employment data are registered in full time equivalent.
9. Data based on SNA68 methodology.
10. The share in general government revenues is expressed in per cent of mainland government revenues.
11. Simple average of federal and unitary countries. Under each heading, the average takes into account only countries for which data are available for both years.

Source: Joumard & Kongsrud [2003]

While the share is high in federal countries such as Canada, the United States and Germany as well as in unitary countries such as Scandinavian countries like Sweden and Denmark as well as in Japan, the ratio is relatively small in the United Kingdom and in Italy. As shown in Table 1, a close examination of the change of the percentage of local government spending in general government spending for fiscal 1985 to 2001 shows that in a large number of countries there is an upward trend in local expenditure. There are in fact only few countries that show a downward trend. The countries with the largest increase are the United States (+7.4points), followed by Spain (+7.2points) and Sweden (+6.7points).

As for Japan, its local government spending share in general government spending has substantially declined during the above-mentioned period. Despite this, the ratio to the Gross Domestic Product (GDP) shows a slight plus. This reflects the fact that administrative reforms have rapidly been introduced in order to respond to finances deeply in the red, and that local expenditures have been restrained to a much larger extent than State public finances. As will be seen below, the devolution reform in Japan was based on this process.

Next, when we compare the change in the share of sub-national government spending in general government spending with the change in the share of local government revenue in general government revenue, we can confirm that there has been a tendency toward an increasing disparity between the two in a large number of countries. This means that intergovernmental fiscal transfer has come to play an important role. This tendency is especially striking in unitary countries, primarily in Sweden and Norway, where the share of local expenditure is high. If local expenditure items are grouped by function, it becomes evident that, as Table 2 shows, spending in the areas of education, health, social security & welfare and transport & communication is high.

There is a trend toward decentralization in the field of public services that have a nationwide spending and income redistribution effect.

Figure 1 shows the tendency shown in Table 1 once more by indicating the change in the share of local expenditure in general government expenditure on the horizontal axis, and the corresponding change in the share of local revenue in general government revenue on the vertical axis.

This figure clearly shows a big leap in the share of local expenditure in a large number of countries during the period of 1985 to 2001.

Table 2. Spending by sub-national governments by main categories
In per cent of total sub-national governments' expenditure 2001 or latest year available

	General public services		Public order and safety		Education		Health		Social security & welfare		Housing & community amenities		Transport and communication ¹		Other	
	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local	State, Region or Province	Local
Federal countries																
Australia (1998)	10.7	13.7	8.2	2.4	29.4	0.4	20.1	2.1	4.8	6.3	3.4	18.7	8.8	27.5	14.7	28.9
Austria	13.0	17.6	0.5	1.9	19.9	16.1	23.3	12.3	18.4	21.4	4.1	3.9	17.8	17.8	3.0	9.0
Belgium	14.6	20.7	0.2	10.0	42.9	20.5	0.8	2.0	16.9	15.9	2.5	2.4	17.2	13.0	5.0	15.7
Canada	1.8	6.1	3.5	8.9	23.2	40.5	31.9	1.1	16.3	7.4	1.4	5.5	3.7	12.6	18.1	17.8
Germany (1996)	5.8	7.4	8.0	3.4	21.9	13.0	8.0	14.5	17.1	24.6	4.1	15.3	5.7	6.0	29.4	15.9
Switzerland (2000)	5.1	8.4	8.2	4.5	24.7	23.0	16.6	18.3	17.8	14.8	2.1	8.2	9.8	7.2	15.8	15.5
United States (2000)	3.4	5.8	4.5	10.8	31.0	44.1	21.9	8.7	18.1	7.5	0.7	2.1	7.9	6.1	12.6	14.9
Non-weighted average	7.8	11.4	4.7	6.0	27.6	22.5	17.5	8.4	15.6	14.0	2.6	8.0	10.1	12.9	14.1	16.8
Unitary countries																
Czech Republic		12.3		1.8		24.2		1.1		8.2		20.9		15.8		15.7
Denmark		4.1		0.4		13.1		16.5		57.2		0.9		4.2		3.6
France		36.2		2.3		16.4		0.7		9.9		6.2		10.3		18.0
Hungary (2000)		15.7		1.1		27.9		16.4		13.3		13.8		3.6		8.1
Iceland (1998)		4.2		1.2		28.2		0.9		15.5		5.3		9.1		35.7
Ireland (1997)		2.3		1.8		11.3		45.5		5.2		14.9		11.3		7.8
Luxembourg		19.5		1.7		16.1		0.9		4.6		9.1		21.0		27.1
Netherlands ² (1997)		9.4		3.4		17.9		2.6		22.6		20.0		6.7		17.4
Norway (1999)		5.5		0.9		22.2		32.5		17.6		6.4		4.5		10.4
Poland		7.0		4.2		27.8		24.8		8.0		11.4		10.1		6.7
Slovak Republic		28.4		3.2		0.3		0.7		1.7		41.5		12.7		11.4
Spain ¹ (2000)		25.3		5.7		25.8		4.2		3.9		6.5		18.2		10.5
Sweden		12.0		1.0		21.0		25.6		27.6		2.9		5.5		4.3
United Kingdom (1998)		4.0		12.3		28.7		0.0		32.5		5.4		4.9		12.2
Non-weighted average		13.3		2.9		20.1		12.3		16.3		11.8		9.8		13.5

1. Economic services in the case of Austria, Belgium, Denmark, France, Luxembourg, Spain and Sweden.

2. Provincial and local governments.

Source: Joumard & Kongsrud [2003]

Fig.1 Changes in the share of sub-national governments in the total revenue and spending: Changes expressed in percentage points 1985¹-2001²



1. Or earliest year available: 1986 for Ireland; 1987 for the Netherlands and the United Kingdom; 1990 for Japan, Luxembourg and Norway; 1991 for Germany; 1993 for Sweden; 1995 for Austria, Belgium, Denmark, Finland, Greece, Portugal and Spain.

2. Or Latest year available: 1996 for Ireland; 1997 for Canada; 1999 for Portugal; 2000 for Japan, Luxembourg and the United Kingdom.

3. Excluding transfers received from other levels of government.

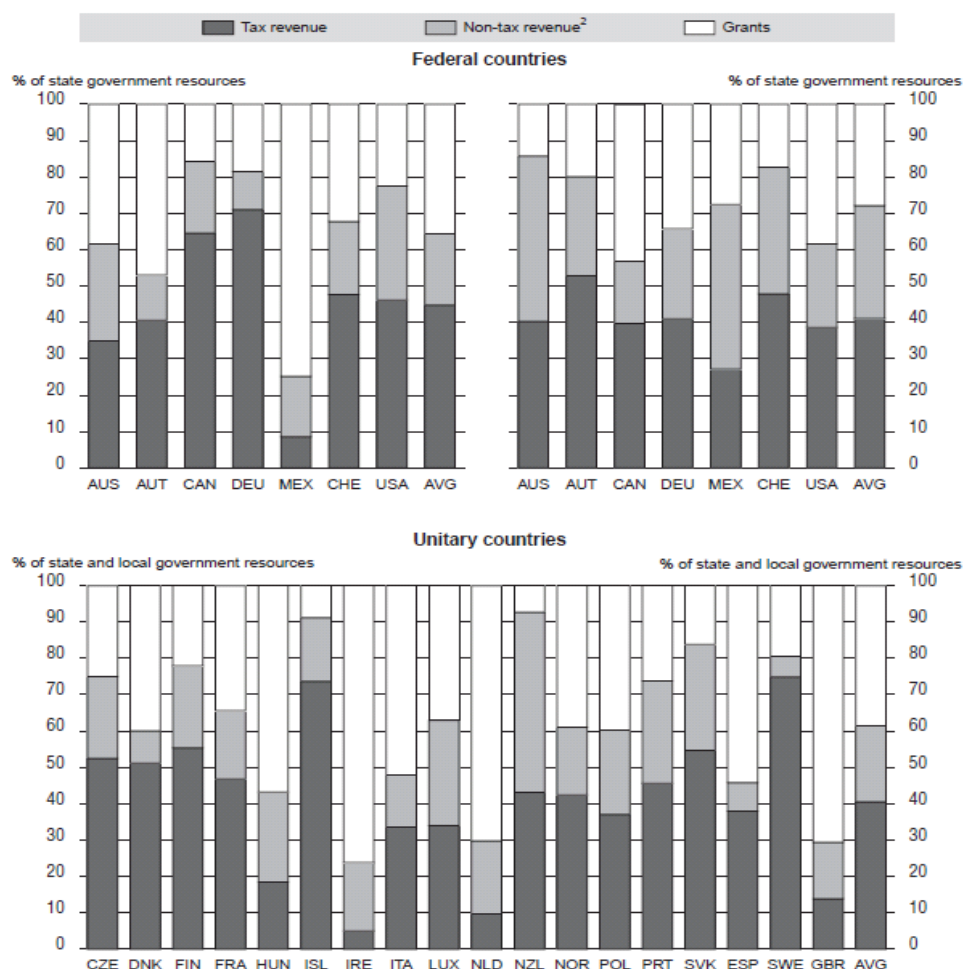
4. Excluding transfers paid to other levels of government.

Source: Joumard & Kongsrud [2003]

(2) The state of local government financial resources

As shown in Figure 2, the composition of local financial resources varies from country to country. The share of the local tax revenue, which is an independent local financial resource, is high in such federal countries as Germany, Canada, Switzerland and the United States, but rather low in Austria and Australia, while in unitary countries it is high in Scandinavian countries such as Sweden and Finland, but quite low in the United Kingdom and the Netherlands.

**Fig.2 Composition of sub-national government financial resources:
As a percentage of total financial resources (1999)**



1. For non-tax revenue: 1984 for Switzerland, 1997 for France, Ireland, Luxembourg, Netherlands and Spain, 1998 for Iceland, Norway, Portugal and United Kingdom.
2. Non-tax revenues include: operating surpluses of public enterprises controlled by sub-national governments; property income; fee, sales and fines; contributions to government employee pension funds and capital revenues.

Source: Joumard & Kongsrud [2003]

The ratio of intergovernmental fiscal transfers from the State to local authorities such as government grants is directly related to the ratio of local tax revenue in local financial resources, and thus increases or decreases accordingly.

There are two types of government grants: first the *general grants* whose purpose it is to equalize disparities in financial power among local governments and to secure necessary financial resources, and second the *specific grants* which are earmarked for specific expenditures. With regard to intergovernmental fiscal transfer it can be said that the larger the percentage of general grants is, the more freedom results for local authorities regarding the use of their financial resources. While there has been an increase in functions performed by local governments, the financial power of local authorities varies considerably as it reflects the state of the respective local economy. Along with the rapid advance of devolution, this situation, also known as the financial power gap, has triggered an urgent need to apply financial equalization. The degree of freedom regarding local financial resources therefore not only depends on the ratio of local tax income, but also to a great extent on general grants as intergovernmental fiscal transfers.

3. Japan's decentralization reform and the resulting policies

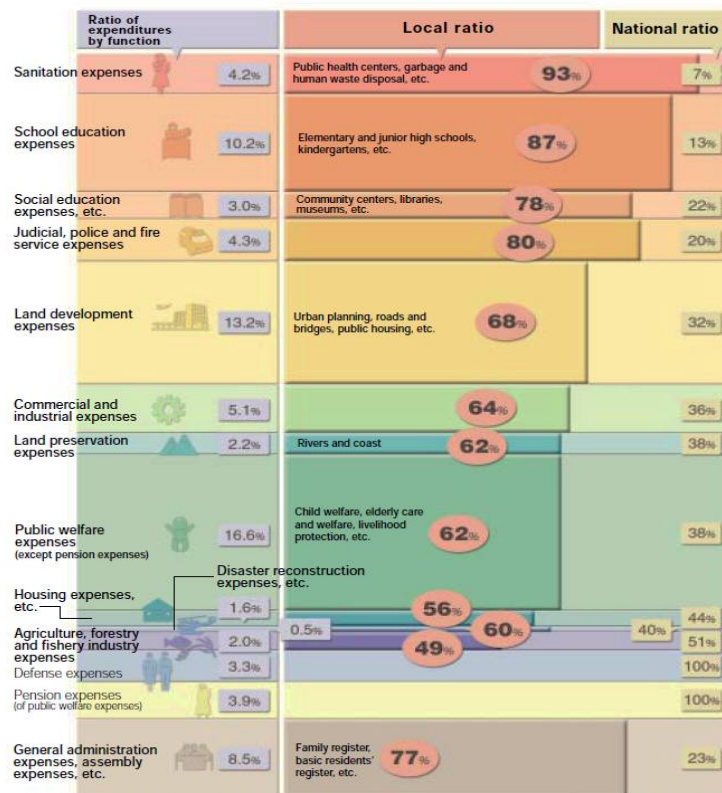
- (1) The expansion of discretion of local governments in performing their tasks and the decentralization reform

The path taken by Japan in recent years in the area of reforms for decentralization can be traced by examining the activities of the *Council for the Promotion of Decentralization* established in 1995 and active until 2001, and by investigating the so-called *trinity reform* that was initiated shortly after that. The *Council for the Promotion of Decentralization* emphasized “the need for policies that expand self-government by authorities; priority is given to policies aiming at the reduction and abolition of State participation in local affairs rather than to those aiming at a transfer of functions.”

As shown in Table 1, among unitary countries the share of local expenditure in Japan is relatively high, and as shown in Figure 3, local governments in Japan shoulder nearly all functions except those of national

defense, public pensions and judicial affairs. However, it was considered a major problem that these functions were State-delegated functions with almost no discretion of the local government in their enforcement. Such delegated functions constituted “a framework in which governmental functions were delegated by the national government to citizen-elected prefectural governors or heads of municipalities whose local governments handled and implemented these tasks as subordinate institutions of the State.” It is said that approximately 70 percent of tasks in prefectures and 30 percent of tasks in municipalities belonged to that category.

Fig.3 Shares of national and local governments in main expenditures by function in Japan



Source: Ministry of Internal Affairs and Communications [2006]

Consequently, the major achievements of the *Council for the Promotion of Decentralization* consisted in the abolition of such State-delegated functions which had constrained local autonomy during the postwar era. Functions were now newly divided into local autonomous functions on the one side, and legally mandated functions on the other side.

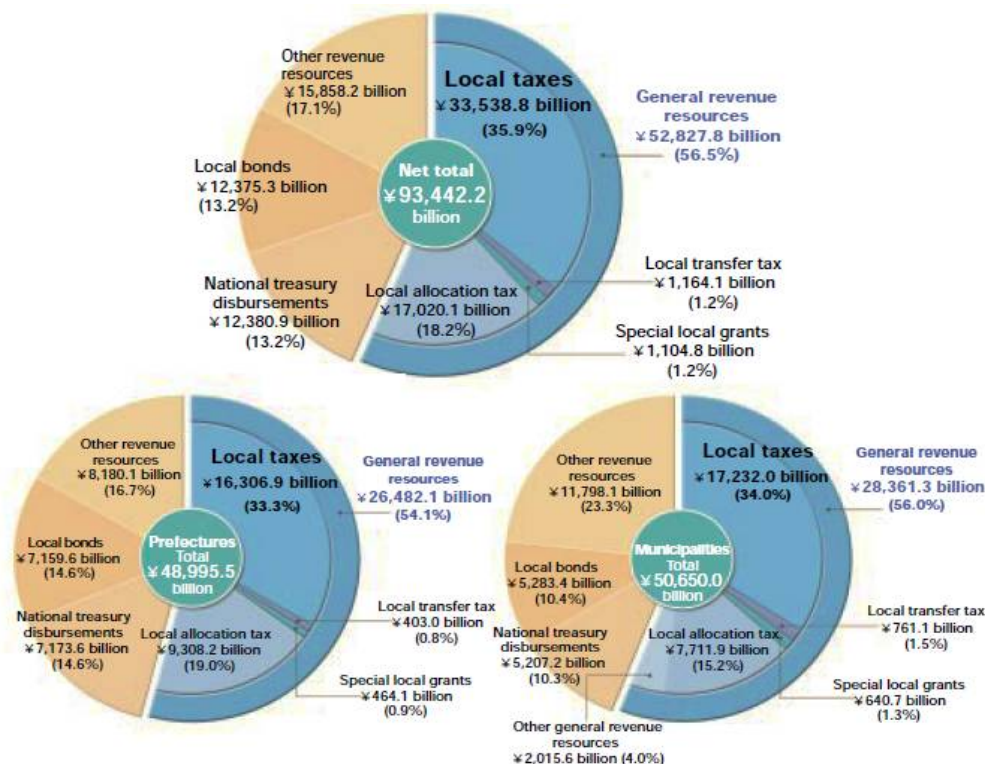
Thanks to the abolition of State-delegated functions, it was now clear that all tasks, including legally mandated functions, were to be fully handled by autonomous local bodies.

(2) The trinity reform and fiscal decentralization

After the accomplishment of these reforms which gave local governments the authority to fully handle and implement their tasks, a further reform aiming at fiscal decentralization, the so-called *trinity reform*, was carried out during the period from 2004 to 2006.

As shown in Figure 4, the revenue of local governments in Japan is made up from 35.9% local taxes, 18.2% local allocation tax, 13.2% national treasury disbursements, 13.2% local bonds and 17.1% other revenue resources.

Fig.4 Revenue breakdown of local governments in Japan (FY 2004)



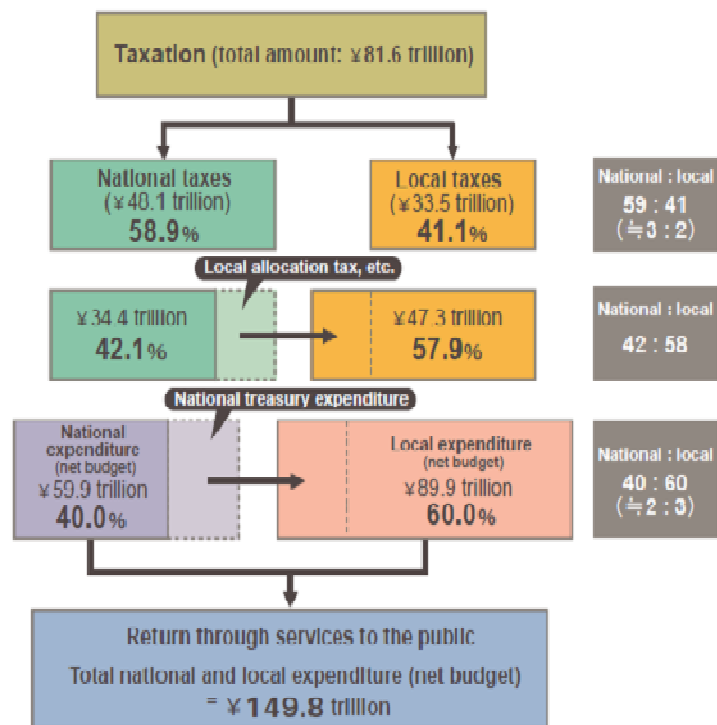
Source: Ministry of Internal Affairs and Communications [2006]

The local allocation tax and the national treasury disbursements constitute a fiscal transfer from the State to local governments. Local

allocation tax comes in the form of general grants aimed at the equalization of financial power of local governments in order to secure local financial resources, while national treasury disbursements come in the form of specific grants which are earmarked for a specific purpose. For this reason, local allocation tax, along with local taxes, belongs to the category of general revenue resources whose use and purpose can be decided by local governments.

As shown in Figure 5 regarding fiscal 2004, while the tax revenue disparity rate between national and local governments stands originally at 59:41, the final revenue disparity changes to a rate of 40:60 in favor of local governments due to fiscal transfers in the form of local allocation tax and national treasury disbursements.

Fig.5 Distribution of financial resources between the national and local governments in Japan (FY 2004)



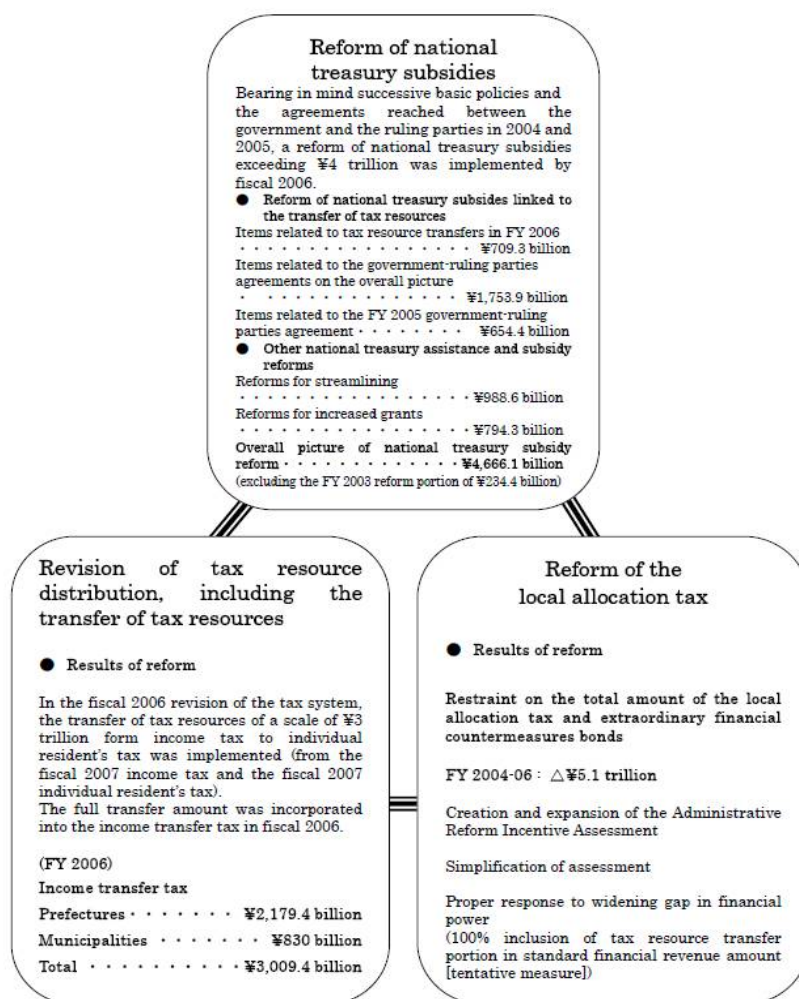
Source: Ministry of Internal Affairs and Communications [2006]

The purpose of the above-mentioned *trinity reform* was to cut national treasury disbursements while also transferring corresponding tax resources from the State to local governments in order to enhance local autonomy over

financial resources. The name *trinity reform* signals that three revisions were to be implemented simultaneously: a reform of the national treasury subsidies, a revision of the distribution of tax resources, and a reform of the local allocation tax.

As shown in Figure 6, as a result of the trinity reform a portion of the national income tax became the so-called individual resident's tax, which is a local income tax. In this way, a tax resource transfer of ¥3 trillion was realized. On the other hand, as a result of the reform of the national treasury subsidies, the amount of fiscal transfers from the State to the local governments decreased by ¥4.6 trillion, and the reform of the local allocation tax brought about an additional cut in local revenue of ¥5.1 trillion.

Fig.6 Trinity reform and results up to FY 2006



Source: Ministry of Internal Affairs and Communications [2006]

Therefore, even though it is true that local governments obtained new fiscal resources in the amount of ¥3 trillion, it is also a fact that as an end-result of all three reforms local governments lost a total of ¥6.7 trillion in financial income. The main reason for this development is the fact that the reform for devolution was originally initiated in order to reduce the enormous deficit of the finances of the national government. In the end of fiscal 2007, the ratio of combined debts for state and local governments to GDP is an excessive 148:100.

(3) Remaining tasks concerning fiscal decentralization after the trinity reform

With regard to Japan's decentralization reforms up to now, there are four remaining tasks that must be dealt with in order to successfully continue fiscal devolution.

First, there is a need to establish an independent institution dealing with fiscal relations between the national government and local governments in which members of local governments are formally included. In fact, whenever reforms for devolution are undertaken by the central government, the central government's expectations are obviously easily met. It is however necessary that the intentions of local governments are duly reflected on a yearly basis within the frame of a formal institution, above all regarding the amount and calculation method of the local allocation tax, the adjustment of the tax rate for income taxes, and the issuance of local bonds.

The second issue that must be addressed is a further transfer of tax resources to local governments. Given the current distribution of functions between the State and the local governments, transfers of fiscal resources aiming at a ratio of 1:1 between national tax revenue and local tax revenue are needed. In doing so, items of taxation chosen for fiscal revenue transfer should be those which indicate a low disparity among local governments, such as the proportional tax rate portion of the income tax and the consumption tax.

Third, there is the task of reducing national treasury disbursements. Treasury subsidies in the form of specific grants should be further cut because of the need to generalize revenue resources.

The fourth task involves the reform of the local allocation tax. The

function of the local allocation tax is to equalize the financial power of local self-governing bodies and to secure their financial resources. There are those who claim that an abolition of the local allocation tax system can be linked to a higher degree of self-determination of local governments over their finances. However, such a policy would neglect to reflect the real circumstances of local areas. Today, a wide gap in financial power reflecting the unequal nature of local economies is an unavoidable fact, and as the experience of many countries shows, some kind of equalization system is necessary.

One of the problems of using the local allocation tax as a system for fiscal equalization consists in the fact that the system reflects the central government's objectives and intentions when the policies are made, and that an increasing trend toward specification of grants has taken place. Moreover, over a period of more than ten years, there has been a continued shortage of funds to pay the full amount of local allocation tax. There is a need for an independent institution which can handle fiscal relations between the State and local governments in such a way that the full amount for local allocation tax is secured. Moreover, such an institution should engage in creating a new, adequate distribution method for the allocation of general grants.

4. The competitive model and the cooperative model of fiscal decentralization

(1) Fiscal federalism and the competitive model of decentralization

Fiscal federalism is one of the prevailing economic theories based on the concept of decentralization. This theory claims the superiority of decentralization based on the following four fundamental assumptions.

First, the assumption that only local public goods are taken into account, next that local taxation is based on the benefit principle, third that residents' movement in the area is free, and fourth that spill-over of the benefit of local public goods into other regions does not take place.

The theory estimates that if under these conditions residents move in the region while taking into account the standard of public services as well as the cost (taxation) in each area (the so-called voting on foot),

competition among local governments will be stimulated and provision of efficient public services will result. This kind of prevailing theory can be called the *competitive model of fiscal decentralization*. In fact, current decentralization which is based on the belief that, as far as possible, the public sector should be privatized, is actually an application of this competitive model of the theory. According to this belief, functions that have to do with income distribution and economic stabilization are more effectively performed by the State than by local governments. Therefore, even functions that are actually carried out by local governments such as education, social welfare and community development are curtailed in this competitive type of the decentralization reform.

The reason why today in Japan there are less and less local governments with an ability to fully perform their functions in spite of the results of the reform for devolution can be traced to the above-mentioned belief in competitive decentralization which strongly appears in many aspects of policy implementation in Japan.

This tendency exists even though, as shown in Figure 2, many countries which have implemented decentralization have local governments which shoulder functions such as education, health, social welfare and transport & communication, tasks which have a nationwide expenditure effect and contribute to income redistribution. There is a need for a new approach to this issue based on the thought that decentralization must be carried out in such a way that these kinds of functions are kept at the local level.

(2) The European Charter of Local Self-Government and the cooperative model of decentralization

The European Charter of Local Self-Government, which was enacted in 1985 and came into effect in 1988 has gained attention and its principles have been suggested as a reference when decisions regarding the promotion of devolution are made. The Charter can be ranked as a document which outlines the basic principles for local autonomy in the age of globalization with European integration in sight.

The Charter has been highly rated for basing the concept of local autonomy on the 'subsidiary principle' which advocates the importance of

basic self-governing bodies as outlined in Article 4 of the Charter which states that “public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen.” The term ‘subsidiary principle’ refers to the concept that the responsibility for community management should be assumed, as far as possible, by local citizens, and only next by local governments, regional governments and the State in that order. It advocates a type of self-government that is based on citizen participation in which interference by superior governmental bodies is limited and in which complementation and support provided by higher levels of government to lower levels are clearly defined. In this sense, the ‘subsidiary principle’ constitutes an important pillar in local self-government in the age of globalization.

The principle does not consider local governments as entirely independent competitive bodies, but as entities with independent decision-making capabilities which cooperate with the State while also obtaining its support. The principle also implies that in local governments, citizens take actively part in community governance as the main actors rather than being the buyers of public services.

Furthermore, in Article 9, the Charter lists a number of basic principles which include regulations for:—the freedom to determine expenditure priorities, —an adequate relationship between financial resources and the tasks of local authorities, —local authorities’ powers of taxation and local accountability, —the fact that certain sources of local authority finances are relatively unresponsive to the effect of inflation and other economic factors, —a call for the institution of a financial equalization procedure, —consultation of local governments during the preparation of the relevant legislation, —the fact that a grant for a specific purpose does not undermine a local authority’s freedom and —access to loan finance for capital investment.

In decentralized public finance it is thus necessary for the revenue to be composed on the one side by local taxes which make up an important part of the revenue, and on the other side by general grants which have the function of complementation and fiscal equalization. Moreover, there is a need for local self-governing bodies to promote citizen participation in various fields and to decide on the local budget while clearly defining local accountability.

This, in fact, is the type of decentralization that can be called ‘cooperative’ (Mochida [2004]).

The concept of cooperative decentralization as suggested in the European Charter of Local Self-Government is not only a useful model for future decentralization reform policy-making in Japan, but it may also serve as an important guideline for decentralization reform efforts in other Asian countries, namely in Vietnam.

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