

THE GLOBAL
URBAN ECONOMIC
DIALOGUE SERIES

FISCAL DECENTRALIZATION IN JAPAN



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The Global Urban Economic Dialogue Series

Fiscal Decentralisation in Japan

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FOREWORD



Urbanization is one of the most powerful, irreversible forces in the world. It is estimated that 93 percent of the future urban population growth will occur in the cities of Asia and Africa, and to a lesser extent, Latin America and the Caribbean.

We live in a new urban era with most of humanity now living in towns and cities.

Global poverty is moving into cities, mostly in developing countries, in a process we call the *urbanisation of poverty*.

The world's slums are growing and growing as are the global urban populations. Indeed, this is one of the greatest challenges we face in the new millennium.

The persistent problems of poverty and slums are in large part due to weak urban economies. Urban economic development is fundamental to UN-HABITAT's mandate. Cities act as engines of national economic development. Strong urban economies are essential for poverty reduction and the

provision of adequate housing, infrastructure, education, health, safety, and basic services.

The *Global Urban Economic Dialogue* series presented here is a platform for all sectors of the society to address urban economic development and particularly its contribution to addressing housing issues. This work carries many new ideas, solutions and innovative best practices from some of the world's leading urban thinkers and practitioners from international organisations, national governments, local authorities, the private sector, and civil society.

This series also gives us an interesting insight and deeper understanding of the wide range of urban economic development and human settlements development issues. It will serve UN member States well in their quest for better policies and strategies to address increasing global challenges in these areas



Joan Clos

Under-Secretary-General of the United Nations, Executive Director, UN-Habitat

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CHAPTER 1 STATUS OF LOCAL GOVERNMENT

Virtually all countries in the world, whether explicitly federal or not, exhibit a degree of decentralization, and to that extent they share a number of common problems. How much responsibility for expenditure programmes should be given to sub-national governments? To what extent should they finance those responsibilities from own source revenues? How far should the central government go in equalizing disparities in sub-national fiscal capacities? What controls might be used to ensure responsible fiscal conduct, including with respect to borrowing obligations? While the answers to these questions are to some extent country-specific, there are a number of underlying principles that can be used to inform them. Indeed, while this paper is a case study of the evolution of multi-level fiscal decision-making in Japan, it would contain many lessons for other countries of different characteristics.

Jurisdictions

Japan's local autonomy has been guaranteed by the Constitution after the Second World War. The post-war Constitution of Japan has a chapter on local self government (Article 92)

The chapter states that regulations concerning organization and operations of local public entities should be fixed by law in accordance with the principle of local autonomy. The new Constitution articulates the government's responsibility in maintaining the minimum standard of living and decent life. Especially, the modern development of redistributive policy in Japan is based on the following article 25 of the Constitution:

(1) All people have the right to maintain the minimum standards of wholesome and cultured living. (2) The state must make efforts to promote and expand social welfare, social security and public health services to cover every aspect of the life of the people. [Article 25]

Normally, the constitution cannot specify details of tax and expenditure assignment to each level of government. This task is left for laws on local taxation, such as the Local Finance Law in Japan. Among many laws regarding fiscal issues, the Local Tax Law of Japan has been main piece that governs the division of taxing powers. The rules specified in these laws have ensured the stability and predictability of local budgetary expenditure.

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