

# Economic Challenges Facing Japan's Regional Areas

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Editor

Economic Challenges  
Facing Japan's  
Regional Areas

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## FOREWORD

This publication brings together 19 articles originally prepared for an online policy information portal, SPACE NIRA (<http://www.spacenira.com/en/>), which were released in 2015/2016.

SPACE NIRA was launched by the Nippon Institute for Research Advancement (NIRA) in June 2015 with Dr. Tatsuo Hatta, President of the Asian Growth Research Institute, as its General Editor. NIRA is an independent policy research institute in Tokyo which addresses a wide range of urgent policy issues and formulates focused and timely policy proposals.

For its first year, SPACE NIRA took up issues related to economic challenges for Japan's regional revitalization. Japan's responses to them, and to the problem of an aging population in particular, are of deep interest to the nations outside of Japan. Dr. Hatta selected the topics to be considered in each section and the author of the overview chapter of each section, who then commissioned the experts best suited to address those issues.

*Economic Challenges Facing Japan's Regional Areas* is a significant and useful reference for all scholars, students, and individuals with an interest in current policy issues in Japan.

# PREFACE

## INTRODUCTION: POLICY DIRECTIONS TO MEET ECONOMIC CHALLENGES IN REGIONAL AREAS

Compared with its metropolitan areas, the productivity of Japan's regional areas is low. Against a per capita production value of 5.54 million yen for the metropolitan areas (represented by Tokyo prefecture and the nation's government-designated cities), the figure for Japan's regional areas is only 3.41 million yen.<sup>1</sup> Regional revitalization therefore represents a much-debated policy issue for Japan.

There are three policy directions in the quest to realize regional revitalization:

- (1) subsidy policies (provision of subsidies to targeted cities in regional areas)
- (2) regulatory reforms
- (3) administrative reforms

Prime Minister Abe's administration (2012 – to the present) has pursued the first and second policies, which are oriented in entirely different directions.

The **subsidy policies** have been carried out within the “Machi, Hito, Shigoto” framework. The intention has been to boost the nation's fertility rate by encouraging young people to move from Tokyo Metropolitan Area (TMA) to the regional areas that receive subsidies as winners of competitions for revitalization proposals.

The Abe administration has also pursued **regulatory reforms**, for example through removing special privileges to Agricultural Cooperatives (JAs) and admitting corporate ownership of agricultural land in a National Strategic Special Zone. It has also allowed *minpaku* (the short-term renting of rooms in private residences or entire residences) for periods as short as two days.

Another approach to promote long-term regional revitalization, but which has not been taken up by the Abe administration, is **administrative reforms** with respect to the allocation of fiscal burdens between municipal governments and the national government. Such reforms would reduce the disincentives for regional municipal governments to provide services to residents.

Of the three types of reforms—subsidy policies, regulatory reforms, and administrative reforms—the latter two may be collectively grouped under the category of “structural reforms.”

In reality, subsidy policies seeking to encourage migration of young people from metropolitan areas to regional areas will not lead to long-term regional revitalization. Structural reforms, on the other hand, will be effective in realizing long-term regional revitalization. The purpose of this volume is to demonstrate this fact, and to provide examples of some concrete structural reforms which will be particularly effective in regional revitalization.

### *Subsidy Policies: Grounded in a Misrecognition of the Facts*

I will first demonstrate the ineffectiveness of the Abe administration’s subsidy policies.

As part of its “Machi, Hito, Shigoto” fiscal measures, the government spent 1.7 trillion yen in 2015 and 1.8 trillion yen in 2016 on its regional revitalization policy (for promotion of employment in the agricultural sector, for example). By providing subsidies to regional areas, the government seeks to control the influx of population to the TMA in the hope that this will boost the birth rate of the nation as a whole; this is expected to promote national economic growth. However, this policy is based on a serious misunderstanding of the facts. Below, I will demonstrate that the government’s “Machi, Hito, Shigoto” fiscal measures are ineffective in stimulating the revitalization of Japan’s regions.

The logic of regional revitalization policies is that controlling the concentration of the population in the TMA by strengthening medium-sized

cities in regional areas will boost the national fertility rate and increase per capita productivity throughout Japan. However, the premises of this rationale do not accord with reality.

First, it is assumed that population has been flowing into the TMA, giving rise to a unipolar concentration of population in the city. However, from 1965 to 2010, the population growth rate was higher in Sapporo City, Fukuoka City, and Sendai City than in the “major cities in the TMA” (as represented by Tokyo Metropolis plus all the cities with populations of one million or more in the TMA).

Population has been increasing markedly in large cities outside the TMA, as shown in Fig. 1; the overall trend in immigration has been from small cities to large and medium-sized cities throughout the nation. In other words, multipolar concentrations of population have been taking place.

Second, the government considers that encouraging the flow of the younger population away from the TMA, where the fertility rate is lower than it is in Japan’s regional areas, is an essential measure to increase the fertility rate.

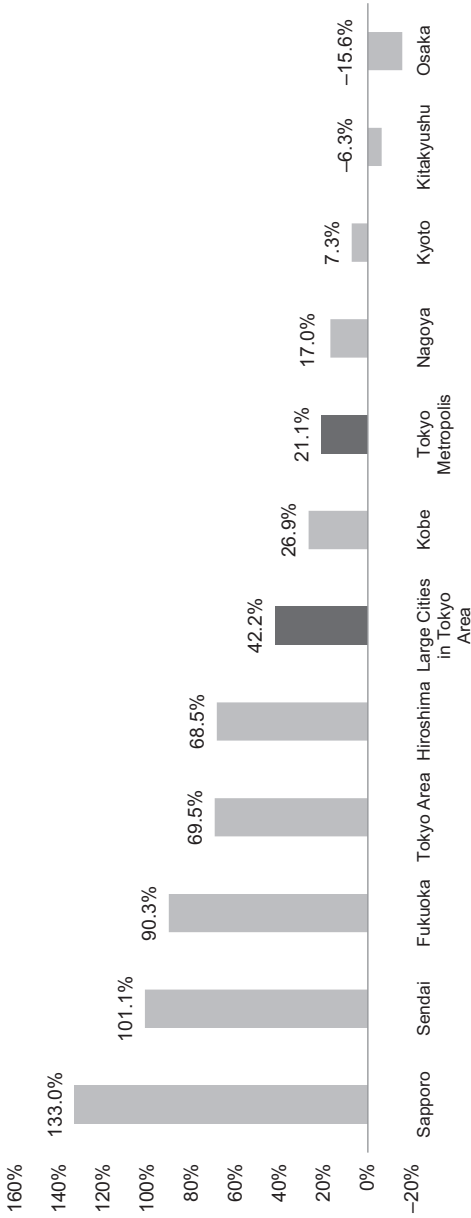
A comparison of the total fertility rates of cities of over one million people in 2010 (Fig. 2) shows that the rate for Tokyo Metropolis is indeed low among major cities (reaching 1.07 in the area of Tokyo’s 23 wards).

However, Fig. 2 shows that Yokohama City, Kawasaki City, Saitama City, Chiba City, and other cities with populations of over one million in the TMA, which function as bed towns for Tokyo Metropolis, all display fertility rates of around 1.30. This figure is higher than that of regional cities such as Sapporo City (1.08), Sendai City (1.21), and Fukuoka City (1.24).

In other words, encouraging migration away from the TMA is contrary to the goal of increasing the fertility rate of the nation.

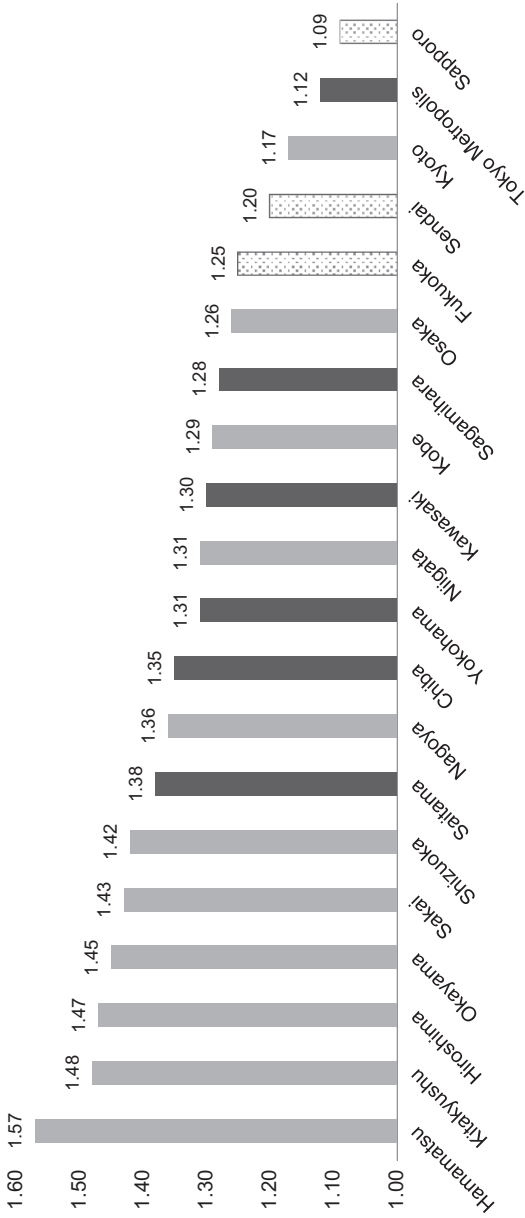
Third, the government seems to be concerned that population decline will reduce the nation’s per capita income. However, data from the past 40 years for Organization for Economic Co-operation and Development (OECD) members indicates that the growth rate of per capita GDP and population growth rate are unrelated. Increasing the rate of growth of the population will not necessarily lead to a growth in productivity (Fig. 3).

Promoting migration away from the TMA therefore does not constitute a growth strategy.



**Fig. 1** Rates of population increase in major Japanese cities (1965–2010). Source: Daitoshi Tokei Kyogikai, Daitoshi Tokei Hikaku Nenpyo (Chronological Tables of Comparative Statistical Data for Major Cities). Note 1: Tokyo Area consists of Tokyo Metropolis, Kanagawa Prefecture, Chiba Prefecture, and Saitama Prefecture. Note 2: Large Cities in Tokyo Area consist of Yokohama City, Kawasaki City, Saitama City, and Tokyo Metropolis





**Fig. 2** Total fertility rates of government-designated cities and the Tokyo Metropolitan Area. Source: Vital Statistics 2010, Ministry of Health, Labour and Welfare; Social and Demographic Statistics, Ministry of Internal Affairs and Communications

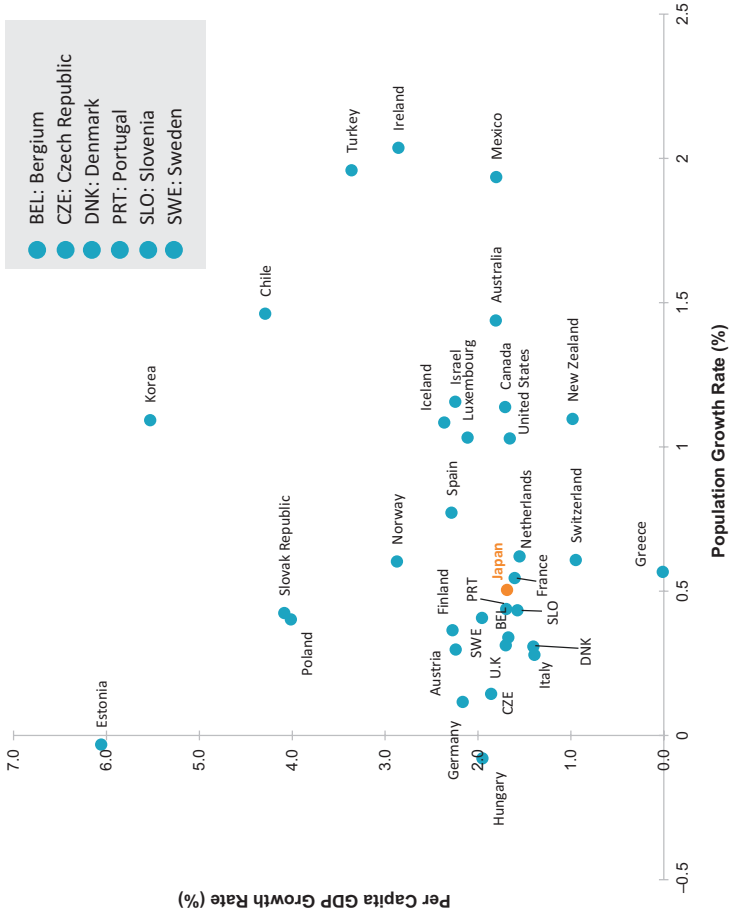


Fig. 3 Growth of per capita GDP and population (average: 1970–2011). Source: OECD Health Statistics 2013; OECD Factbook 2009, 2014

*Structural Reforms: Driving Force for Regional Revitalization*

Structural reforms remove institutional impediments which limit the growth of the industries in which regional areas possess a comparative advantage. Industries in which regional areas possess a clear comparative advantage are: (1) primary industries such as agriculture and fisheries; (2) the tourist industry; and (3) the elderly services industry. Of these, **barriers to entry** set up to protect existing interests impede the growth of (1) and (2), while the current status of local public finance impedes the growth of (3).

The types of structural reforms effective for regional revitalization can therefore be classified as (1) **regulatory reforms** and (2) **administrative reforms** of local public finance.

THE CONTENTS OF THIS VOLUME

The purpose of this volume is to outline directions for the future expansion of structural reform efforts as economic challenges for regional revitalization.

The present volume is therefore structured as follows:

Group One: Regulatory Reforms

Part I: Agricultural Policy

Part II: Fisheries Policy

Part III: Tourism Policy

Group Two: Administrative Reforms

Part IV: Public Service Sectors for the Elderly

Part V: Measures to Address Japan's Low Birth Rate

Part VI: Local Government Fiscal System

Each part consists of three or four chapters.

A word on Group Two, "Administrative Reforms," is in order. This group begins by discussing regional decentralization measures necessary for the development of the elderly services industry and the childcare industry. It then discusses overall directions for the reform of systems that currently distort incentives for regional municipal governments to provide public goods and services. Part V, "Measures to Address Japan's Low Birth Rate," which analyzes the factors that affect the birth rates of cities, will demonstrate that reform of the regional decentralization system will

be more effective than the provision of subsidies to regional municipal governments in promoting regional development in the long run.

In the following we list all the parts of this volume and the authors of the chapters included in each part. The first chapter in each part is an overview chapter.

### *Group One: Regulatory Reforms*

The most effective approach to increase productivity in regional areas is the removal of barriers to entry in industries in which regional areas possess a comparative advantage—the primary industries and the tourism industry.

The Abe administration has taken the first step in reforming JAs (Japan Agricultural Cooperatives) and Agricultural Committees. It must take these reforms further, enabling corporations to own farmland anywhere in the country. Similarly, in the fisheries industry, it will be essential for the government to give corporations the chance to win fishing rights through a bidding system rather than continuing to grant monopolies to the Fisheries Cooperative Associations. Deregulation of the practice of *min-paku* will also stimulate the tourism industry in regional areas.

Deregulation that encourages new corporate entries into agriculture and other industries in regional areas would generate a spontaneous upsurge of diverse new ideas, activating regional economies; the government's subsidies for these industries would not. The provision of subsidies to regional areas may, however, be justified in the case of partially compensating for the lost income of those who would lose their existing privileges as a result of structural reforms. This would facilitate the realization of deregulation.

#### *Part I: Agricultural Policy (Masayoshi Honma; Kazunuki Ohizumi and Kazuhito Yamashita)*

The key to revitalizing Japan's agricultural industry will be removing the barriers to entry to the industry.

The chapters in Part I emphasize the importance of creating a fully coordinated food supply chain from production to consumption. However, as Kazunuki Ohizumi points out in Chap. 2, the development of a food supply chain of this type has been impeded in Japan by the isolation of the production side from the consumption side by the Staple Foods Act (in

the case of rice) and by the system of Designated Producers in the case of milk. Ohizumi argues that the fully fledged promotion of Japan's agricultural industry will necessitate fundamental reform of the systems that separate the two sides.

Kazuhiro Yamashita argues in Chap. 3 that it is Japan's JAs that stand behind the antiquated distribution system described by Ohizumi. The functions of the national organization that implemented agricultural regulation on behalf of the national government during the Second World War were carried over into the JA system in the postwar period. This means that the JAs were positioned as the end administrator for the implementation of agricultural policy from their very beginning, and have been granted a variety of special privileges as a result of this status.

Yamashita argues that the JAs have contributed to the decline of Japan's agricultural industry by stubbornly clinging to these special privileges. In particular, the government's policy of maintaining high rice prices has enabled the JAs to continue to collect service fees. The policy of maintaining high rice prices encompasses the reduction of acreage for rice cultivation and the setting of prohibitive tariffs on rice imports. Yamashita argues:

Despite being protected by high tariffs, Japan's domestic market is shrinking as a result of the decline in the nation's population. The realization of greater price competitiveness for high-quality Japanese rice through the scrapping of the acreage reduction system would not only render tariffs unnecessary, but would also open up export markets throughout the world. This will be the key to the revitalization of Japanese agriculture.

Masayoshi Honma summarizes Part I as follows:

While the agricultural cooperatives might cling to the old system, farmers are moving forward. Rice farms on a scale of 100 to 200 hectares are appearing throughout the country, and many fruit and vegetable farmers are making use of information and communications technology (ICT) and other new technologies. In the area of dairy farming also, producers and distributors who supply unpasteurized milk without involvement with designated organizations are also appearing.

The issue for agricultural policy will be how to support these new developments, and how to bring the majority of farmers within its purview. It will be important above all not to impede their activities, and essential to

fundamentally reform the systems which break up food chains. Further desirable initiatives would be the abolition of the acreage reduction system, the re-examination of the systems governing agricultural land which impede the free acquisition of land, and the adoption of policies to encourage greater efficiency in the operation of agricultural cooperatives and increased competition between the cooperatives in order to further advance the reform of the organizations.

*Part II: Fisheries Policy (Masayuki Komatsu; Kojun Hamada and Mari Koyano)*

Japan's fishing industry has displayed the most conspicuous decline among OECD member nations. One cause of this decline is the lack of a Total Allowable Catch system for both coastal fishing and deep-sea fishing. Japan employs so-called "Olympic-style" fishing—a system under which all fisheries operators are required to cease fishing when the total catch volume has reached a preset limit. Fisheries operators therefore compete to catch fish as quickly as possible, with the result that juvenile fish are caught. This works against the preservation of fisheries resources.

By contrast, countries including Norway, Canada, and the USA, from which Japan imports fish, apply an Individual Quota (IQ) system, in which a specific catch volume is allocated to each ship. Because of this, all ships attempt to catch only mature fish of the size with the highest market value. This has the effect of preserving resources. The application of this system in Japan has been prevented by opposition from existing fisheries operators.

However, Japan's first IQ system has been recently applied to shrimp fishing on Sado Island. Kojun Hamada's chapter discusses the effects of the introduction of this system. Under this project, fishermen have been able to harvest shrimp during the period when unit prices are highest. This has increased average prices and offered the shrimp fishermen significant benefits in a short period. Mari Koyano's chapter provides an overview of the current status of management of sea urchin and sea cucumber resources, and presents an evaluation of the legal issues surrounding the management of these resources.

In Chap. 4, Masayuki Komatsu indicates that the introduction of this first IQ system was made possible by the participation of the Niigata Prefecture administration.

*Part III: Tourism Policy (Yasushi Shinohara; Yoshitaka Mizoo and Kumiko Tomikawa)*

The tourism industry is one in which each regional area possesses an individual comparative advantage. The number of inbound tourists to Japan is growing rapidly, and exceeded 20 million in 2016. As Yasushi Shinohara indicates in Chap. 7, the easing of existing tourism-related regulations affecting the acceptance of foreign tourists will raise the quality of tourism services in the nation.

The most essential regulatory reform related to the tourism industry in Japan is reform in the area of *minpaku*. With the increasing number of inbound tourists, the shortage of floor space in Japan's hotels has become more apparent. Moreover, tourists from overseas want to experience the Japanese lifestyle, and would therefore often prefer to stay in private homes rather than hotels. Normal houses are also more convenient, offering access, for example, to kitchens and washing machines.

In recent years, the development of easily accessible accommodation-intermediary services such as Airbnb has resulted in the increasing offering of *minpaku* accommodation in Japan. But this is, strictly speaking, illegal, because it has been stipulated that an individual or business renting out a residence for a period of less than one month is regarded as a hotel business, and must satisfy all the requirements of a hotel business, such as having a front desk.

In response to these new developments, *minpaku* was legalized for a stay longer than six days within National Strategic Special Zones, and the first reform measures have been put into effect in Tokyo's Ota Ward. In addition, in September 2016 it became possible to offer *minpaku* accommodation for periods from two days and upwards in National Strategic Special Zones throughout the nation.

The Act on Land and Building Leases does not stipulate a minimum rental period, and rooms therefore technically can be rented for periods commencing from one night. However, Article 2 of the Hotel Business Act defines a hotel business as one that provides accommodation in exchange for a fee, and specifies the conditions defining accommodation as the use of bedding. In other words, in practice, a rental arrangement which involves the provision of a change of sheets is regarded as a hotel business. Therefore, *minpaku* arrangements, which involve renters fixing

their own meals and doing their own washing, represent a rental of a normal residence. The considerable political power of the hotel industry has, as it were, produced a distortion of the law, resulting in the application of restrictions.

Returning to a more natural interpretation of rental business and hotel business, the *minpaku* allowed in National Strategic Special Zones is defined as house rentals, and offered under conditions such as the keeping of a register of renters by the landlord (in part as an anti-terrorism measure) and the establishment of a liaison to resolve any trouble that may arise with neighbors. The background to this development is discussed by Kumiko Tomikawa in Chap. 9.

An important requirement for the revitalization of the tourism industry in regional areas will be that each region takes the lead with regard to tourism services in its own region, as pointed out by Yoshitaka Mizoo in Chap. 8. The formulation of tourism plans for specific regions suited to a diverse range of tourists will be indispensable to the development of tourist areas. Traditionally, however, only specialized travel managers who had passed an examination covering a wide range of subjects were authorized to formulate travel plans. Thus, individuals possessing expertise related only to a specific region could not pass the required examination, and therefore have not been put to use in responding to the increase in inbound tourism. Because of this, a new qualification enabling travel managers to formulate travel plans for a specific region has been established in Semboku City, a National Strategic Special Zone. If this relaxation of restrictions were to be extended to the entire country, it would be possible to realize the region-led revitalization of the tourism industry proposed by Mizoo throughout Japan.

### *Group Two: Administrative Reforms*

Another type of reform that will be effective in promoting regional revitalization is **administrative reform** of the system of allocation of fiscal burdens between municipal governments and the national government. However, this is not a simple matter of pushing ahead with regional decentralization.

The types of services that municipal governments offer may be classified as the following:



- (1) Provision of standardized national services for residents, such as medical care, education, and social security. The national government requires local governments to offer such services at or above a standard level throughout the nation.
- (2) Provision of local public goods, such as community centers, libraries, and concert halls. Each municipal government is expected to choose its level of service provision.

The national government is responsible for all expenses for the former services, while municipal governments are responsible for the expenses of the latter services.

However, a certain level of fiscal adjustment by the national government is considered necessary in order to reduce the disparities in ability-to-pay between different municipalities. This may be called “fiscal equalization.”

The resulting division of fiscal responsibility between the national government and municipal governments is shown by ① through ③ in Table 1. The principle here is that the national government decides the amount of fiscal resources to be allocated for the services it provides, and municipal governments have complete discretion in the application of fiscal resources for the services they provide.

In actuality, however, the current system for the division of the fiscal burden functions not as shown by ① through ③, but as shown by ④ through ⑦. In other words, municipal governments are granted discretion in disbursing fiscal resources which they should not disburse at their discretion, as shown in ⑤, while they are granted only a small margin of discretion in relation to resources over which they should have complete discretion, as shown in ⑥. This situation distorts incentives for municipalities to provide services.

Box ① in Table 1 encompasses services which should be solely financed by the national government, but in reality municipalities are required to partially finance them, as shown in ⑤. This gives municipalities an incentive to control any influx of elderly residents into the municipality, because this will reduce its financial burden. This is discussed in Parts IV and V.

Local public goods need to be financed in part by municipal governments and in part by the national government, as fiscal equalization measures between municipalities. Part VI, which considers the system of local public finances, demonstrates that incentives for municipal governments are distorted even with respect to the provision of public goods.

**Table 1** Discretion of municipal governments over expenditure

Category of expenditure		(a) National-level services <small>(Medical services, education, protection of livelihood, etc.)</small>	(b) Local public goods <small>(Community centers, concert halls, elderly services, etc.)</small>
Resources	In principle	① Central government	② Municipal government
	In reality	④ Central government	③ Central government (Fiscal equalization) ⑥ Municipal government ⑦ Central government (Fiscal equalization)

Revenue the amount of which municipal governments cannot control

Revenue the amount of which municipal governments should control in principle, but cannot in reality

Revenue the amount of which municipal governments can control

*Part IV: Public Service Sectors for the Elderly (Wataru Suzuki; Yasushi Iwamoto and Masayoshi Hayashi)*

Regional areas, in which land rents are lower, clearly possess a comparative advantage in the provision of elderly services, such as the establishment and management of nursing homes.

Nevertheless, few retirees move to regional areas. One reason for this is that regional municipalities do not welcome influxes of elderly residents. For example, municipal governments are often reluctant to allow the construction of new care facilities in their nursing care project plans. Migration of the elderly from metropolitan areas to regional areas disadvantages regional municipal governments, because these governments are then required to shoulder a considerable financial burden for social insurance (nursing care insurance, National Health Insurance, etc.), while the elderly pay only a small amount in local taxes.

In the case of National Health Insurance, the central and prefectural governments only finance a part of the medical benefits. The remainder is financed by insurance premiums and by the tax revenue of the municipal government. This means that the financial burden on the municipality increases as the number of elderly residents increases. The same is true of nursing care insurance. As Masayoshi Hayashi points out, this provides municipal governments with an incentive to discourage the immigration of elderly citizens into their regions by not approving the construction of new care facilities.

In Chap. 10, Wataru Suzuki summarizes the view that municipal governments would welcome an influx of elderly residents if the public financing system were reformed to ensure that such an influx would not increase the social-insurance related financial burden on the municipal governments.

In the case of National Health Insurance, these reforms would involve:

- (1) maintenance of the current municipality-based framework;
- (2) calculation of a “model benefit” for people in each age cohort based on the average per person benefits for that age cohort throughout the entire country (the older the cohort, the higher the model benefit amount would be, reflecting the higher risk of illness);
- (3) provision by the national government of an amount corresponding to the model benefit to each participant (this represents the “risk structure adjustment” between municipalities proposed by Yasushi Iwamoto in Chap. 11);

- (4) provision by municipalities of the excess of the total realized benefit payments over the total model benefit payments for local elderly insurance subscribers.

As a result, National Health Insurance for the elderly would be financed in principle by national tax revenue alone rather than by regional taxes or insurance premiums. This mechanism would reduce the average burden on municipalities to zero. However, if, for example, a municipality were negligent in applying preventive measures, resulting in the payment of benefits higher than the model benefit for a resident's age, then the difference would be made up by the municipality.

If these reforms were implemented, influxes of elderly people would be welcomed by regional municipalities since they would bring with them the model benefits financed by the central government. Municipal governments would then begin to approve the construction of new care facilities more willingly than before. The regional cities which succeeded in attracting retirees would also benefit from increased sustainable employment opportunities in the services industry. As a result, young people would also move to the regional cities. As this demonstrates, regional areas can achieve growth through their specific comparative advantages.

In Chap. 12, Masayoshi Hayashi reveals that the same problems are also found in the nursing care insurance system. He unravels the complex division of the financing burden of the existing National Health Insurance system among various levels of government.

In Chap. 13, Hatta (2017) elucidates the proposal and estimates that the “the model benefit” or “standardized expense” for the national health insurance would be 125,000 yen for each additional resident younger than 65, and 556,000 yen for each additional resident older than 65.

*Part V: Measures to Address Japan's Low Birth Rate (Tatsuo Hatta; Masayuki Nakagawa and Wataru Suzuki)*

In order to address the nation's declining fertility rate, the government believes it is necessary to encourage migration of the younger population away from the TMA, because the fertility rate of Tokyo is among the lowest of large cities in Japan. However, as Fig. 2 shows, Yokohama City, Kawasaki City, Saitama City, Chiba City, and other cities with populations of over one million which function as bed towns for the Greater Tokyo Area all display fertility rates of around 1.30. This figure is higher than that

of regional cities such as Sapporo City (1.08), Sendai City (1.21), and Fukuoka City (1.24). This indicates that encouraging migration away from the TMA is inconsistent with the original goal of increasing the fertility rate of the nation as a whole.

Why, then, is the fertility rate of Tokyo itself low? In Chap. 15, Masayuki Nakagawa argues as follows: Female students and new graduates move to Tokyo from regional areas for education or in search of employment. When these women marry and look towards starting a family, they move to suburban cities such as Chiba and Saitama to take advantage of lower rents. Because of this, the fertility rate of Tokyo remains low, while the fertility rates of its peripheral cities are relatively high.

In the case of the majority of other large cities in Japan, a significant proportion of the suburban areas are incorporated within the boundaries of the city area itself, and their fertility rates are therefore higher than that of Tokyo, where the greater proportion of the suburban areas are outside the city area. According to Nakagawa, the data indicate that in the cases of Sendai City, Fukuoka City, and Sapporo City, the marriage rate is high in the suburbs and low in the central city. That is, the trend observed in Tokyo is also observed in these cities. Therefore, the fiscal measures being pursued by the government to encourage young people to move to regional areas from the TMA will be ineffective as a measure to increase the fertility rate of the nation as a whole.

Instead, reform of the local public finance system would be effective for this purpose. Wataru Suzuki argues that the system of local public finances has needlessly lengthened the waiting list for childcare in various areas of the TMA, and has reduced the fertility rates of these areas.

According to Suzuki, municipalities which expand their budgets for childcare will find themselves facing an influx of “childcare refugees” from surrounding municipalities, which will have the effect of increasing the city’s expenditure on childcare. This explains why large cities with long childcare waiting lists find it difficult to shorten these lists even if they initially expand their childcare budgets.

The fundamental solution to this problem is for the central government to provide a model benefit for childrearing support measures to each of the nation’s municipalities. With this model benefit, the central government would finance municipalities for the full amount necessary for standard childcare services. As a result, municipalities would experience zero burden in implementing standard childrearing support measures. Thus, the increase in childcare expenses due to population influx would be

matched by increased support from the government, thus eliminating the problem of undersupply of childcare services. This reform of fiscal measures would allow municipalities to develop childcare facilities as desired, with no concern over an influx of “childcare refugees.” All things considered, this could be expected to have a significant effect in addressing Japan’s declining birth rate.

Note that the concept of the central government’s provision of “model benefits” for childcare support discussed in Part V is closely related to that for health and nursing cares for the elderly discussed in Part IV.

*Part VI: Local Government Fiscal System (Motohiro Sato; Wataru Kobayashi and Tomomi Miyazaki)*

Turning now to the allocation of the fiscal burden for local public goods, a portion is funded by municipalities themselves (② in Table 1), and a portion is financed by the national government (③ in Table 1) as a fiscal equalization measure.

In Chap. 19, Tomomi Miyazaki indicates that in the case of ②, which municipalities themselves should be able to finance at their own discretion, it is actually institutionally difficult for municipalities to exercise their discretion, as indicated in ⑥. This difficulty is caused, among other things, by the fact that the effective property tax rate is reduced for small residences as a special measure (reducing the value evaluation standard for taxation to one-sixth of the assessed value). The property tax is thus not functioning as a benefit tax. Miyazaki recommends reforms to ensure full levying of property tax as a benefit tax.

On the other hand, the portion of the expenditure financed by fiscal equalization measures from the central government, over which, in principle, municipalities should not exercise their own discretion (③ in Table 1), can actually be increased by the municipalities, shifting the resulting fiscal burden to the central government.

Moreover, because the government guarantee of fiscal resource provision extends to local government bonds, the interest rate of these bonds has been reduced to the level of government bonds. As Motohiro Sato points out in Chap. 17, this “low rate of interest on local government bonds renders the actual cost of public projects and public facilities (including risk) unclear.”

Sato goes on to indicate that local residents are hardly aware of the costs involved in policies and projects decided on by local governments. He attributes this to the fact that “local governments have previously

functioned as little more than subsidiary organs of the central government, implementing policies and projects that the central government formulated and financed.”

In order to address this issue, in Chap. 18 Wataru Kobayashi points to three important issues related to local allocation tax grants: (1) the scope of and standards for the guaranteed fiscal resources; (2) the measurement of the “ability-to-pay” of local governments; and (3) reform of the fiscal system for local governments not receiving local allocation tax grants.

## CONCLUSION: THE STRUCTURAL REFORMS ESSENTIAL TO REGIONAL REVITALIZATION

The key to an economic growth strategy is to transfer resources from low-productivity sectors to high-productivity sectors.

Companies involved in primary industry and the elderly services industry can achieve a high level of productivity in regional areas, with their rich natural environments and broad areas of land. By contrast, most companies involved in cutting-edge international industries can achieve high productivity in large cities, where they can take advantage of the agglomeration economy.

Regional revitalization initiatives based on the “Machi, Hito, Shigoto” framework are attempting to encourage the relocation of corporations engaged in cutting-edge industries in metropolitan areas to regional areas, while leaving in place the existing systems that impede corporate participation in primary industry or the migration of the elderly to regional areas. Such policies are similar to refusing access to the sports field to a child with an outstanding talent for baseball and offering that child nothing but mathematics textbooks.

If companies, young people, and the elderly are able to freely migrate between regional areas and metropolitan areas, they will be able to choose the location in which they will achieve their highest productivity. This approach to regional revitalization fits in with the “third arrow” of Abenomics. Reform of regulations to allow the entry of companies to the agricultural, tourist, and childcare and elderly services industries in regional areas, in addition to the reform of local public finance, will be essential to the realization of the potential of Japan’s regional areas.

## NOTE

1. Calculated from 2013 prefectural accounts (production-side; actual) and estimated population. Note that Shizuoka City, Sakai City, Hamamatsu City, Sagamihara City, and Kumamoto City do not announce total production figures, and are therefore not included among government-designated cities here.



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