

Local Government Borrowing in Japan

Ichiro Oura

*Emeritus Professor of
Meiji-Gakuin University*

I. Introduction

This chapter provides an overview of local government borrowing in Japan. Section II explains the rough course of public borrowings in Japan after the World War II. Section III explains local government borrowing in local public finance system in Japan. Section IV deals with serious fiscal situation of local governments and the intergovernmental fiscal adjustment. And section V examines the newly prescribed changes in the "Local Public Finance Law" and its effects on issuing local bonds. And section VI states concluding remarks.

II. Rough course of Public Borrowing After the World War II

After the World War II, due to the high rate of economic growth since the latter half of 1950s, Japanese national government could manage its finance, not depending on public bonds for about 20 years. In 1948, three years after the surrender of War, "Public Finance Law" was revised, and the newly prescribed law was based on the principle of not issuing public bonds, that is, the government must finance the expenditures needed to manage its administration by taxes and other miscellaneous revenues other than receipts from loans. Fortunately, the continuous high rate of economic growth for 20 years could make Japanese public sector manage their finances relatively well. Although they used some manipulation, e.g. transferring some expenditure items of the general account to other special accounts or off-budgets, at least the general account of National government, which is the most important one, could keep the principle of the law rigidly.

Though issuing bonds was prohibited in principle, so-called "Kensetsu Bonds" (bonds for public works) which are issued for financing the building of physical or

mainly infrastructural assets, were permitted to issue exceptionally. So, after the oil-crisis outbreak in 1974, for the purpose of making the stumbled Japanese economy recover, goodly size of national bonds were issued during the latter half of 1970s and 1980s. However the economy would not recover easily, so the government could not help issuing even a lot of "Specially Exceptional Bonds" continuously, which were the exception of "Public Finance Law", and in order to issue them "Exceptional laws permitting Special Bond Issuance" have been established every year since then. By this means, National government has been able to manage barely its budgets to date. As the result, the sum of outstanding national debt has been increasing year by year since the latter half of 1970s, amounting to about 414 trillion yen by FY 2002.

On the other side, in case of local government finance, the article 5 of "Local Public Finance Law" which was established by National Assembly, prescribes that the issuing bonds are prohibited in principle except the following cases. That is, in such cases of (1) financing the expenditure of local government enterprises, (2) financing the expenditure for investments and advances, (3) refunding local bonds, (4) financing natural disaster relief expenditure, (5) financing public facilities for such as education, nursing children, fire fighting, roads, so on. Therefore, the bonds-revenue has been always one of recurrent revenue items in Japanese local government finance in effect. Every year, a volume of local bonds have been issued to date. And, during the period of serious public finance situation between the oil crisis and the end of 1990's, because of the existence of local bond permit system, any measures causing the increased sum of local public debts had not been adopted by National government. Rather the measure of increasing the distributed sum of local allocation tax grants to local governments had been adopted mainly. That is, for the purpose of securing the fund for distribution to local governments, the borrowing by Special Account for Local Allocation and Transfer Taxes (LAT Special Account) had been increased as intergovernmental fiscal adjustment.

LAT Special Account has the role of compensating the revenue-shortage of fiscally weaker local governments, equalizing fiscal capacities of them, in order to make them provide the standard level of public services to their residents. As mentioned above, in order to fill up the gap, the policy to make this account borrow the necessary money from the Fiscal Investment and Loan Fund which will be explained later, was adopted. The principals and interests of the borrowing are going to be redeemed by both National and local governments half and half. It was a

compromise between the Ministry of Finance and the then Ministry of Home Affairs which assumed charge of local governments. However, some say¹⁾ that it was exactly the cause of various fiscal evils after that, instead the sharing ratio of three national shared taxes, that is, individual income tax, corporate income tax and liquor taxes (at present, consumption tax and tobacco tax are added) should have been increased decisively, according to the provision of Local Allocation Tax Law.

Thereafter, in the latter half of 1980s, backed by the abrupt rise in stock and land prices, Japanese economy rushed into so called "Bubble Economy" and the public sector enjoyed high rate of fiscal dividend, being able to decrease its deficits drastically. At that time, it seemed that both National and local governments would be able to manage their finances in accordance with the principle of Public Finance Law, that is, not depending on bond issue, before long. But, the bubble economy collapsed shortly in 1992. After that, the fiscal situation of governments which depend on lots of bond-issue has continued these 10 years. With a big volume of outstanding debts, National government has not been able to issue bonds in place of local governments. So, the limit of local bond permit was relaxed and the volume of bond issue by them has increased accordingly. At present, most local governments as well as National one are troubled with dealing with an enormous sum of outstanding debts.

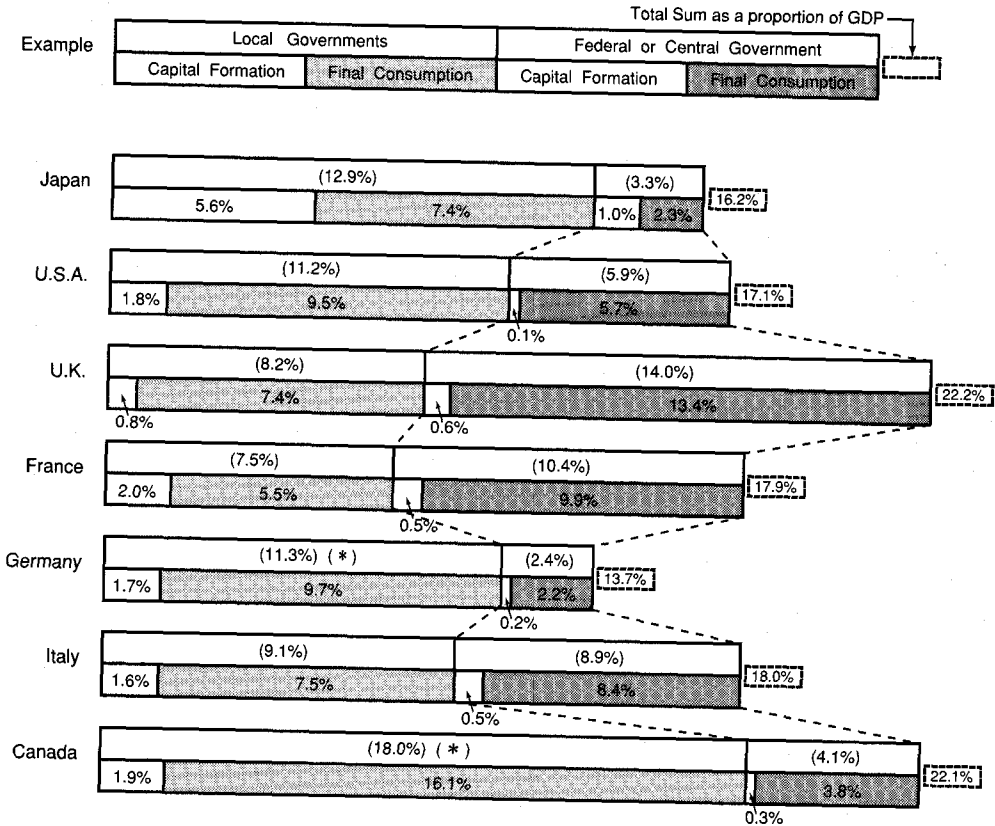
III. Local Government Borrowing in Local Public Finance System in Japan

Contrary to the centralized local Public finance system before the World War II, the system after the War was expected to change into a decentralized one, based on Local government's autonomy. However, because of National government's paternalistic intervention in local government finance which existed in the system, for example, assigning the limits of local taxing power, a huge sum of National government disbursements for specific purposes (specific purpose grants), and the fiscal equalization system distributing local allocation tax grants in the way of National view point, which was essentially instituted to be unrestricted, general purpose

1) Takayose, S., [5], p.160.

grants, Japanese local public finance system was extremely centralized one in essence. Again, local borrowing was set under National government permission and has been used as one of the controlling measures to centralize, or equalize local public services, in a sense. Of course, one purpose of bond-permit system has been to coordinate local borrowings under the leadership of National government, from the macro-economic viewpoint.

However, the long-established centralized system like this was not necessarily wrong one. Under the detailed controls operated by the departments of National government, public services have been provided equally all over the land, and essential public services to meet the basic needs are secured to be provided on National minimum level. So, even the citizens living in the out-of-the way place enjoy



Notes: 1 Based on the figures in [NATIONAL ACCOUNTS DETAILED TABLES 1960/1997 VOLUME II] (OECD)

2 (*) includes [Local Government] and [State or Provincial Government]

3 Capital Formation includes [Gross Fixed capital formation] and [Purchase of land, net]

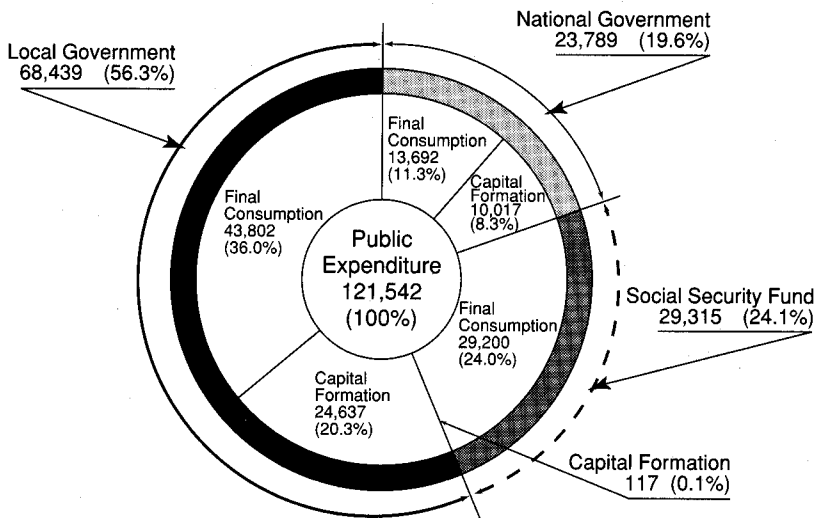
Source: Data by the Ministry of Finance, 2001.

Fig. 1 The Expenditure of General Government, (1997) (Except Social Security Fund)

surprisingly ample public services compared with the tax-raising power of their belonging local governments. That is, for about 50 years after the defeat of the War, large scale of transfer of government revenue from the urban, metropolitan areas to the agricultural, mountainous and seaside areas has been implemented consistently, and it has helped to enforce the construction of an egalitarian society in Japan.

In this country, the weight of local government expenditure in public sector is relatively big. The ratio of local public finance to GDP is 12.9%, as shown in Fig. 1, which is a match for federal states like Germany, Canada. Another characteristic of Japanese local public finance is the high percentage of the expenditures for public investment. The ratio of public investment to GDP is 61.6%, the biggest figure among the most developed countries, and about 80% of the investments is implemented by local governments. Fig. 2 shows the composition of public expenditures in Japan in FY 2000. We can see that local governments are bigger than National one as a spender of public money, the former shares 56.3% of all the public expenditures, the latter shares only 19.6% of them, local government's expenditures are nearly three times bigger than National one, and the former is 2.5 times bigger concerning the public capital formation.

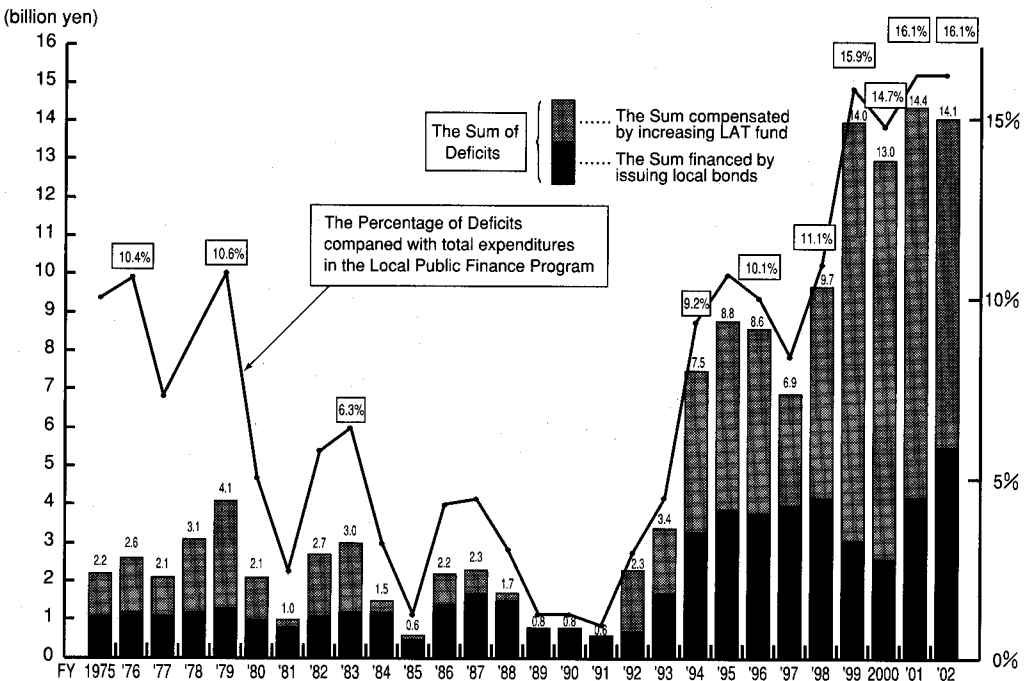
Therefore, if National government intends to enlarge the sum of public investment as fiscal policy, it does implement this policy through the increase of just the expenditure of local government investment. In this case, if National govern-



Source : Chiho Zaisei, (Local Public Finance : Monthly Bulletin), April, 2002, Institute of Local Finance

Fig. 2 Composition of Public Expenditures (FY 2000) (billion yen)

ment disburse the money, using the means of matching grants, naturally the burden of local governments (the equivalent local expenses) can not help but increase. In this connection, the ratio of National government disbursements to local revenue is a little under 40% in all, a serious number to the local autonomy. By this means, respectable amount of local expenditures are supposed to be under the control of National government official's decision making indirectly. Should a local government not have enough tax revenue to finance the corresponding local burden of the grants, it can not help depending on the increased distributed sum of local allocation tax grant, or the increased permission of issuing local bonds. Fig. 3 shows the transition of local government deficits in Japan for 22 years from FY 1975 to FY 2002. The solid line depicts the transition of the percentage of the deficits compared with the sum of Local Public Finance Program, which is the estimates of all local governments' revenues and expenditures of the next year, produced by the Ministry of Home Affairs (present Ministry of Public Management, Home Affairs, Post and Telecommunications, we will express it MOGA, Ministry of General Affairs from now on). Since FY 1975, when the growth rate of Japanese economy changed into

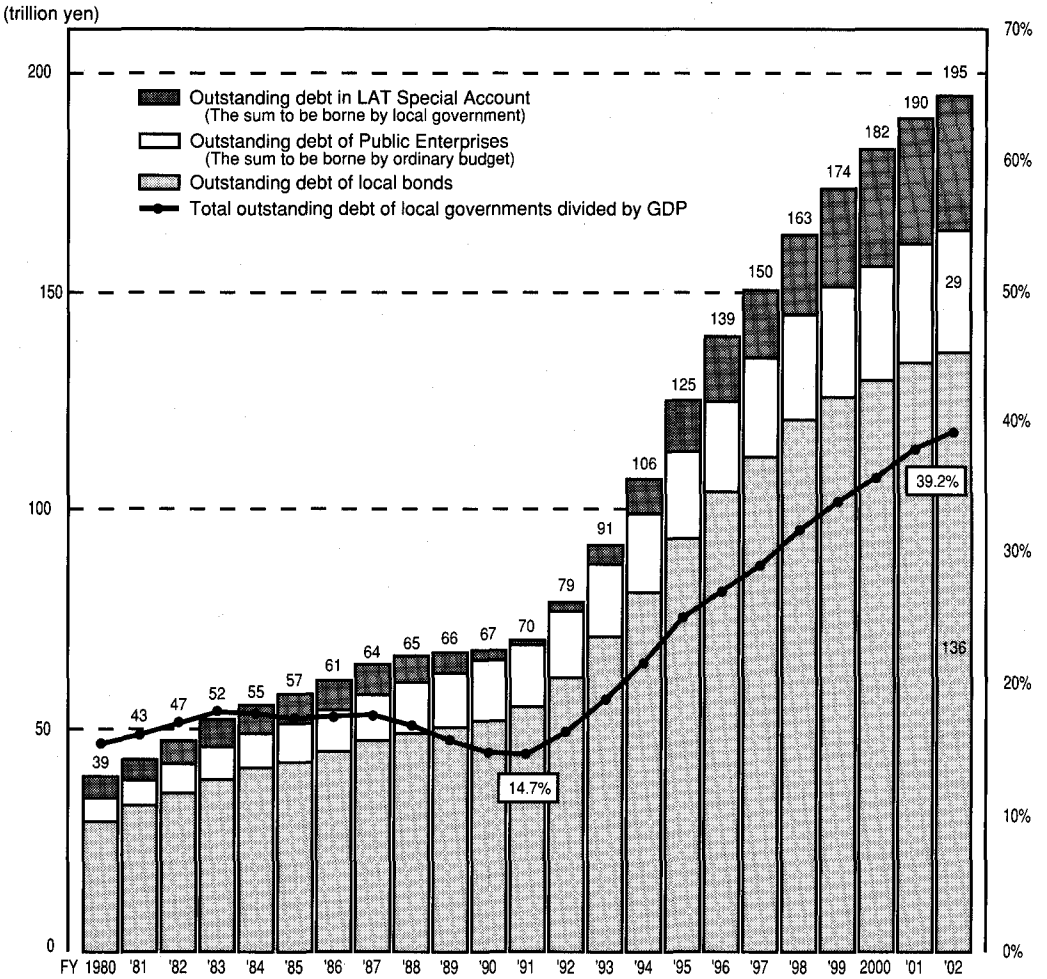


Note : (1) The figures are ones of final budgets. (The figure of FY 2002 is one of initial budget)
 Source : Data by the Ministry of Finance, 2002.

Fig. 3 Transition of Local Government Deficits in Japan

low, we can see the decreasing trend of deficits toward the end of Bubble Economy in 1992, which was the last year of it, and the deficits fell at only less than 1 % of total figures of the program in FY 1991.

However, for 10 years after the collapse of Bubble Economy, the figures of local deficits rose abruptly, arriving at the top one of 15.9% in FY 1999, and it has shifted rather horizontally to date. We can see also that the supplementation of the deficits, which had increased in 1990s, was made very much through the borrowing by LAT Special Account, not by individual local government borrowing. Especially these 4 years, the rate of dependence on the borrowing by LAT Special Account has been



Source : Data by the Ministry of Finance, 2002.

Fig. 4 The Transition of Outstanding Debt of All Local Government

much over 50% of total local borrowings.

Fig. 4 shows the transition of local debts. The outstanding local debts have increased nearly up to 40% compared with GDP in FY 2002. Considering the serious fiscal situation of National government in addition, it is acknowledged as an alarming situation to the public sector in all. The figure shows that the borrowing by LAT Special Account after the collapse of Bubble Economy increased especially abruptly among various measures of local borrowings. Of course, it is unnecessary to say that the increase of local bonds has been remarkable. But we can say that economic fluctuation has been related much closely to the sum of borrowing in LAT Special Account or the extent of change of the debts in it than the sum of other kind of borrowing.

Judging from the facts described above, we can say the characteristics of local public finance in Japan are the following.

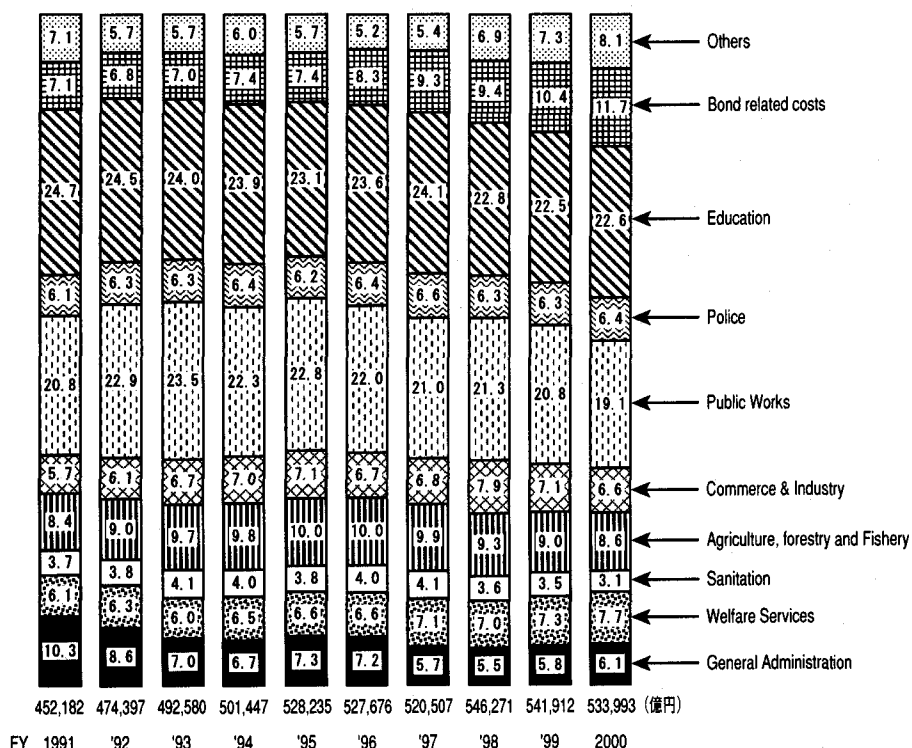
- (1) Respectable part of public services in Japan are provided by local governments.
- (2) The decision-making of local governments is intervened heavily by the departments of National government, in the process of disbursing special grants and by the centralized details of National laws and ordinances.
- (3) Large scale of redistribution of fiscal resources from metropolitan areas to mountainous, seaside and agricultural areas has continued for a long time.
- (4) As the result, every community residents can enjoy almost similar level of essential public services all over the nation.

IV. Serious Fiscal Situation of Local Governments

As we have seen in the preceding sections, local government's fiscal situation of today is quite serious. The following points are indicated. Firstly, the effective rate of bond-dependence of local government (including the borrowing by LAT Special Account) is 15% in FY 2002, the highest rate after the War. Secondly, in the end local governments have resulted in holding a huge amount of debt amounting to 195 billion yen in total, in FY 2002 (more than 65% of GDP). Thirdly, individual local government's fiscal situations are seemed to be serious, too, some of which are troubled with high servicing costs. About half of local governments have more than 15% of the rate of servicing cost to their general revenue which consists of tax

revenue and ordinary LAT grant. Some say that 15% of servicing cost is the most critical stage of local government finance. Fourthly, the pressure for increasing local expenditure is expected certainly for the future, because in addition to the increasing sum of redemption costs of the debts, the obligatory expenditure for health care insurance and nursing care insurance for the elderly are going to increase rapidly in the near future. Further, local governments can't recourse to a benevolent National government this time, because it is more troubled with settling its big outstanding debt.

Fig. 5 shows the transition of the expenditure in local public finances. As shown in the figure, the percentage of bond-related costs (redemption of the principals and debt-servicing expenditures) is increasing steadily in the latter half of 1990's as the result of expanding outstanding local debt. The figure shows that it constitutes 11.7% of the expenditures of all local governments in FY 2000. And that of welfare services has the symptom of increasing in the future.



Source : Chiho Zaisei, January 2002, p. 86.

Fig. 5 Transition of the percentages of the Expenditures in Local Public Finances (by Purpose)

If that is the case, why such a serious fiscal situation has been brought about, in spite of the existence of local bond-permit system, and locals with weaker fiscal capacity were checked not to issue their bonds by the system? One reason is National government's fiscal policy. In order to recover the stumbled Japanese economy, National government has continued to create effective demand through issuing-bond policy. One method of this fiscal policy was to use local governments, main providers of public goods & services, and to make them issue their bonds. Thus, the public works like roads, bridge construction and others, implemented as fiscal policy, were financed by the receipts from public loans under the situation of the depressed economy and low tax revenue.

That is to say, the reasons why local governments have relied on the borrowing so heavily are (1) fiscal policy adopted by National government and (2) local government's optimism on the estimates of redemption costs for the future, that is, their expectation for the aides by National government.

As Fig. 6 shows, local governments could push on their infrastructural investment through locally initiated discretionary programs actively. It was accelerated by the particular scheme of Local Allocation Taxes, which subsidized a part of investment expenditures by the increased sum of LAT grants. The measure is the modification-coefficient of the expenditure for local undertakings in the LAT system. It is one of the eight modification-coefficients of the system, and calculates the burden of local public works, which is the principals and interests of the expenditure, in the standard fiscal needs of the concerned government.

The percentage points of this coefficient in the standard fiscal needs have increased a little less than double for 20 years between FY 1980 and FY 2000.²⁾ It is doubtless that this measure contributed very much to the enlargement of infrastructural investment. So far, concerning the redemption costs of local infrastructural bonds, 80% of them has been calculated in the fiscal needs of the year through the modification-coefficient of local undertakings or bond-related cost item, and the remaining 20% of them has been financed by increasing the unit costs of the concerned expenditure items. Clearly LAT system has been used connectingly with local bond permit system as the fiscal equalization tool for local governments.

2) Omura, S. et. al., [10], p.196.

The laws and ordinances in force prescribe that the issuance of local bonds are permitted only for the purpose of financing investment expenditures in principle. Again the above-mentioned modification-coefficient which increases the distributed sum of LAT grant in the case of locally initiated undertakings has been implemented. Both characteristics of Japanese intergovernmental adjustment system have made local governments feel their investment expenditure cheaper, and have caused them to enlarge it without having little incentives to curb their investment expenditure.

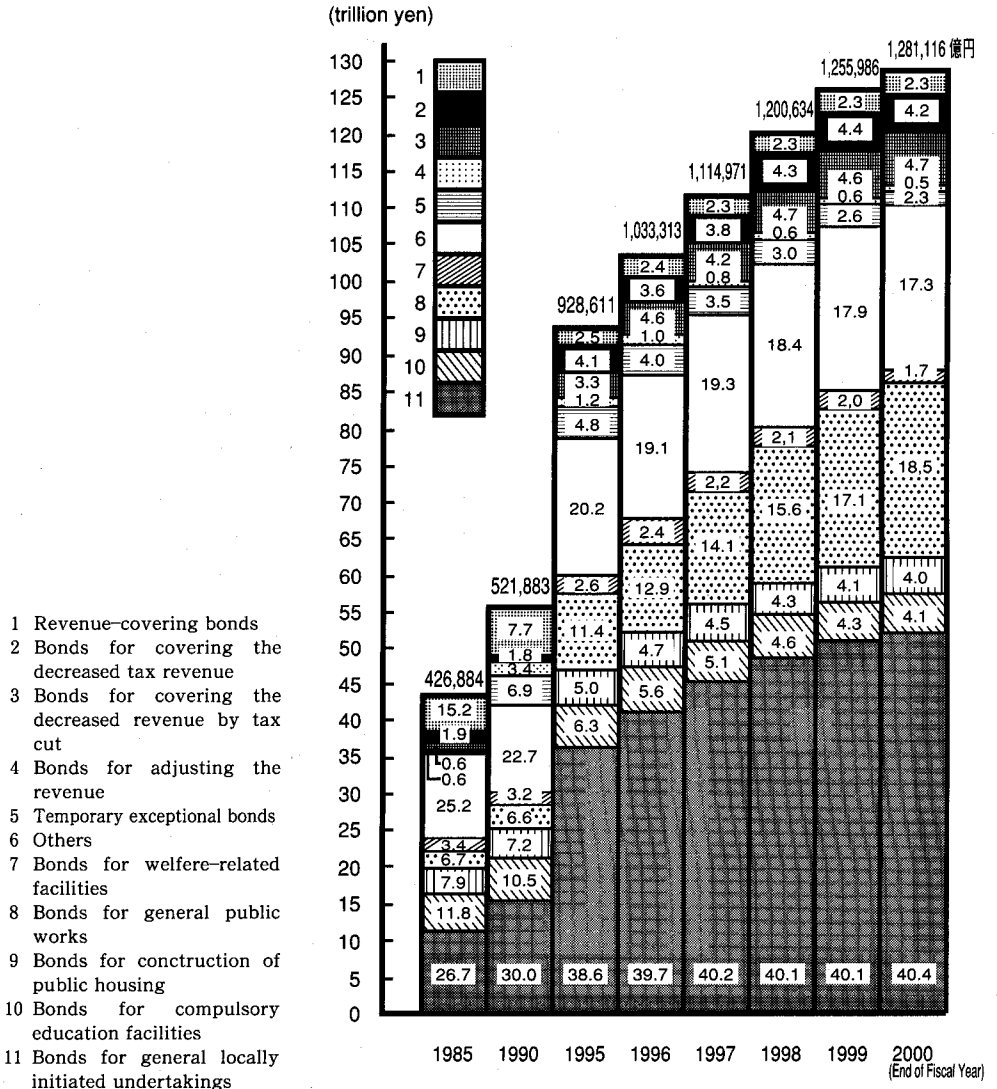


Fig. 6 The Transition of the sum of Outstanding local bonds (by Purpose)

Kaneko criticized National government's policy for the reason that local public finances were forced to use as life-conservation devices for groaning Japanese economy, that is, they were used as operating units of National fiscal policy.³⁾ As a result, Japanese economy seemed to recover its strength, at least in flow side, but in stock side the volume of wrong financial credits has been increasing steadily. Also the volume of local governments' debt has attained at the highest level in main developed nations in the world.

However, Takayose explained differently like the following.⁴⁾ They had often asserted that the crisis of Japanese local government finances were deepened by the shifting of fiscal strain of National government, but it's not necessarily true. The fiscal resources have been supplied enough by National government, to fill up the revenue-expenditure gap of operating local administration. Rather, the way to distribute fiscal resources among them was problematical. That is, the way how National government distributed the resources among local governments was not efficient, or did not give them any incentives to make their expenditure save. At any rate, in order to compensate the revenue-shortage shortly, total sum of local bond permit was enlarged, and the enlarged sum was distributed in accordance with the realities of the activities of local governments. He says that the way to distribute the limit of bond-permission without regarding any social, economic changes was the most important problem.

As one of the merits of Local Bond Permit system, we indicated in the above section that it has brought an equalized society in which the citizens living in any local jurisdiction enjoy about the same level of infrastructures and public services. Even local governments with weaker fiscal capability can issue their bonds on equal terms, with a sense of security. And the bond-permit is granted with no great differences to all the local governments in turn.

Doi analyzed Japanese second level of government, or Prefectural government's bond permit system as the subject of investigation.⁵⁾ He asserts that the system of Local Bond Permit works as a policy tool of fiscal equalization. The borrowing of local governments from private financial institutions works as a financial discipline,

3) Kaneko, M., [13].

4) Takayose, S., [5], p. 160.

5) Doi, T., [10], p. 12.

because it is harder for local governments (prefectures) with worse financial situation to borrow with lower interest rates. On the contrary, in the case of government funds, National government tends to distribute public funds with lower interests and longer maturity, to local governments whose financial capability index is lower, and gives them implicit subsidies for their interest payments. (Most of those local governments are situated in the rural areas.) So, they may lose incentives to improve their wrong fiscal situation. They can borrow relatively easily through the bond permit system, without striving to search for any lender giving them loans with good terms in the financial market.

Doi has found some facts about the functions of local bond permit system in Japan. They are the following. Prefectures whose financial capability is lower have higher ratios of outstanding borrowing from the fund of Fiscal Investment and Loan Program than those of the total funds, and faces lower effective interest rates. Also prefectures which attempt to shorten the terms of redemption of their bonds face higher effective interest rates, and so on. Judging from these facts, he concludes that the present local bond permit system (especially the permission of borrowings from the FIL funds) doesn't work for maintenance of fiscal discipline of local public finance. In other words, we guess that prefectures which can not issue publicly subscribed bonds have borrowed more from the FIL funds compared with their fiscal capabilities. That is to say, the local bonds permit system in Japan which doesn't take an examination of financial market, is likely to make them issue excessively. The conclusion shows the similarity of B. Grewal's words that external controls over subnational borrowing perversely contribute to excessive borrowing in the subnational governments in Australia.⁶⁾

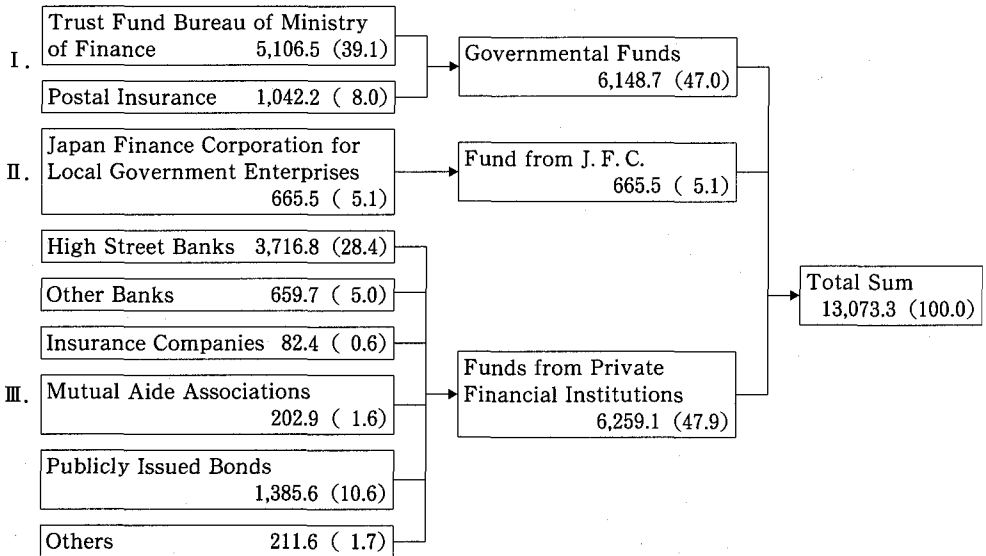
By the way, Fiscal Investment & Loan Funds System in Japan was the system which the Ministry of Finance controlled all the money collected as parts of administration through various schemes, e.g. Postal savings, National Pension, Employees Pension and so on, and it forced them to save the money in the Trust Fund Bureau of itself, managing it for seeking return. In addition, Postal Life Insurance Fund, Industrial Investment Special Account, Government Guaranteed Bonds and Borrowings, whose principals and interests are guaranteed to be paid by National

6) See Grewal, B., [14].

government, are included in the program.

As Fig. 7 shows, the funds for local government bond come from three sources. They are governmental fund, the fund from Japan finance corporation for local government enterprises, and private fund. The first one is the money which are collected universally from the citizens all over Japan. In FY 1999, governmental fund was 47.0% of total FIL-funds, 6 trillion 149 billion yen, an important source as well as funds from private financial institutions. We can see that the fund from Trust Fund Bureau is about 80% as a proportion of governmental funds.

Originally, issuing bonds through these funds began as the efficient way to use the existing big volume of money held by National government. And the money has been utilized as the main fund for "Fiscal Investment and Loan Fund Program". The program has been used in the past half century as flexibly usable tools for National fiscal policy, and has been called "the Second Budget", because of its importance on Japanese public sector, and it has been presented to National Assembly, as reference data, every year. This system of compulsory saving was the major cause for enormous sum of money to flow into FIL fund automatically, and to have been put use to not necessarily efficient investments.



Source: Chiho Zaisei Hakusho (White Paper on Local Government Finances) Ministry of General Affairs, 2001, pp. 312-313

Fig. 7 The sources of Funds for Local Government Bonds (in 1999 fiscal year)
: billion yen, (%)

V. The revision of Local Public Finance Law

However, by the revision of Local Public Finance Law conducted in July 1999, local bond permit system was scheduled to be abolished in FY 2006, and changed into the consultation system with the Minister of General Affairs (in the case of prefectural governments) or with the Governor of Prefectural governments (in the case of cities and municipalities) not later than FY 2006. The details of the consultation system are the followings.

- (1) The scope of local undertakings which can depend upon local bond revenue is to be defined clearly by the statutes of National government.
- (2) Only the local bonds that are agreed upon in the consultation can be appropriated with public funds, and the sum of money needed to redeem the principals and interests of them is to be added up in the Local Public Finance Program.
- (3) In the case of issuing bonds without the consultation with the Minister or the Governor, local governments must report about it to the concerned local assembly in advance.
- (4) The Minister of MOHA (present MOGA) draws the criteria of agreement in the consultation, plans the Local Government Bond Program, and open them to the public every year.
- (5) Certain kinds of deficit-financing local governments, both those imposed high rate of limiting bond-issuance and the deficit-financing local public enterprises, still must take the permission exceptionally, for reasons of keeping the credibility of local bonds in all, and so on.
- (6) Local governments which impose their taxes at lower rates than the standard ones prescribed in the Local Tax Law, still must take the permission of the Minister or the Governors, when they issue bonds for the purpose of financing the construction of public facilities.

And in the course to FY 2006, this vicious compulsory saving system was innovated in FY 2000 and any one of the following three ways was going to be used for local governments to borrow money from so-called FIL funds. (1) Individual institutions (including local governments) which are the objects of investing FIL funds issue their own FIL bonds separately. (2) Individual institutions issue "Government guaranteed bonds" for FIL funds, under the guarantee of National gov-

ernment. (3) National government issue its FIL bond on behalf of local governments collectively. So far most of local governments have borrowed their needed money, using the method of (3).

However, the new management of local public finance is certainly coming near. The commission for "Research on Local Bonds" (an organization in MOGA) recommends introducing mini open-bidding local bonds in the near future.⁷⁾ Unfortunately at present, most local governments think that open-bidding bonds will cost more for them than the ones purchased privately by various financial institutions (Enko local bonds). The reason is that most of the latter bonds are ones with the redemption at fixed date, and they are not paid any fees, so it seems that the servicing cost is cheaper.

Komiya says it is misunderstanding.⁸⁾ They compare open-bidding bond with the bond which is purchased privately by various institutions, under the condition of the same redemption period, but it's meaningless because they have different average redemption period. Although the bonds purchased privately are ones with the redemption at fixed date, they are issued like the bonds with redemption of maturity, at present. So open-bidding bond's terms of issuance are seen to be worse, if we take account of average redemption years. Local governments don't understand this fact rightly and avert their eyes from open-bidding bonds.

However, if they wanted to issue open-bidding bonds, smaller local governments might not gain a good estimate in the financial market, in general. So, they are likely to borrow privately from financial institutions in their jurisdictions. Thus mini open-bidding local bonds would not be issued in large scale, and the regions in which they issue the bonds would be limited only to their neighboring areas. Probably they would issue their bonds with the help of financial institutions in the area.

The point to be noticed is that the expenditure financed by the mini open-bidding bond revenue is not necessarily earmarked for any specific administration. Again any local government can issue the bonds, if it wants. Up to now, so-called open-bidding local bonds have been permitted to issue for only 28 relatively large,

7) Komiya, D., [9], pp. 210-215.

8) *Ibid.*, p. 211.

urban local governments, and the issuance has been in the hand of the Ministry of General Affairs, the unified bargaining scheme having been adapted. Therefore, newly open-bidding local bonds will encourage local autonomy certainly.

VI. Concluding Remarks

Local government borrowing in Japan has been under control of National government through the local bond permit system for half a century. It has been used as one of the connected measures of horizontal intergovernmental fiscal adjustment system. By this measure, even a financially weaker local government has been made to issue its bonds with relatively favorable terms, on a stabilized condition. In addition, the redemption costs of their outstanding debt have been calculated in the yearly standard fiscal needs of them in the LAT system, and the way to redeem them relatively easily has been secured to date by National government. In other words, it has been used as a vertical intergovernmental fiscal adjustment system, too. In short, nationally imposed controls over borrowing powers of local governments in Japan have helped to provide equalized local public goods & services to all over Japan.

However, under the depressed Japanese economy in the 1990s, local governments have been utilized as the main operating units of national fiscal policy, and the global limit of local bond issuance has been enlarged and the policy of making locally initiated undertakings increase has been adopted. With a huge amount of outstanding debt, it seems that National government cannot keep the policy to bear a half of the burden of the borrowing by LAT Special Account, and to mitigate the burden of redemption cost of local government debt.

In other words, Japanese local government bonds have a variety of functions to perform. It deserves not only for raising money to local governments, but also for equalizing local public goods & services and for helping national fiscal policy. In 1975, for the purpose of compensating about 2 trillion yen of the revenue shortage of LAT Special account, the same amount of borrowing was executed in the account. Some say that it was the beginning of abnormal way of managing local public finance. However, we can say that it stopped the substantial collapse of LAT system.

In any case, up to this time, by the bond-permit system, local government bonds have been placed nearly outside the progressive liberalization of financial market

and protected with the fixed rates of interests by national policy. However, the new arrangements would expose individual local governments to the scrutiny of harsh financial markets. As Takayose said,⁹⁾ making local governments issue their bonds openly in the financial markets might lead to making them subject to the control by the citizens and the markets.

From now on, in accordance with the law executed in FY 2000, in order to encourage the decentralization of local public administration, the scope of issuing open-bidding local bonds can not help but expand. Fortunately Japan has an ample capital to absorb all the public bonds, and open-bidding bonds will strengthen local fiscal autonomy definitely. On the other side, fiscally weaker local governments will face the severe reality of financial market, and they may often not be able to issue their bonds. At least they will face the less favorable terms. With due regard to such state of things, the unification of small scale of local governments with a bigger, fiscally stronger one is being promoted by National government.

Here follows a little bit of comparison between Japanese local bonds and Australian states' bonds.

(1) In Australia, the arrangements have been revised by the agreements between Commonwealth government and the State governments. On the contrary, in Japan, the arrangements have been revised mainly in the form of laws, as the compromise between the Ministry of Finance and the Ministry of General Affairs which acts on behalf of local governments.

(2) In 1978, in Australia, Loan Council which has the role of controlling States' bonds approved new guidelines for States' borrowing, for the purpose of pushing economic growth, and in the latter half of 1970's especially the borrowing by State owned enterprises increased abruptly, and most of the increased States' bonds were out of Loan Council's control.¹⁰⁾ There was a move to escape from Loan Council's control in Australia, for example, new ways of borrowing were groped by the states, under the weaker borrowing limits in 1970's and 1980's. However in Japan, such a move has not occurred at least in local governments' side, even when the global limit of borrowing was loosened. That is, in issuing bonds, Japanese subnational

9) Takayose, S. [5], p.165.

10) Grewal, B., [14].

governments would not escape from National government's control easily.

(3) In the latter half of 1980's, in issuing State bonds, Global Limit Approval was adopted by Loan Council in Australia. Commonwealth government used this approach as the tool of cutting the States' borrowing. Therefore, total sum was decided on the basis of both last year's sum, and from the view point of macro-economic policy. And the sum was allocated based on State's population in turn, without taking account of State's fiscal needs.¹¹⁾

On the other hand, in 1990's after the collapse of Bubble Economy, Japanese National government used the enlargement of local bonds' global limit as the measure of stimulating stagnant economy. But in allocating the bonds among local governments, little attention was paid to individual local government's real financial needs. It is interesting to see that in both nations, in allocating bond's issuance, individual subnational governments' financial needs were not paid so much attention, and the public money were spent inefficiently.

(4) By the agreement signed in 1990 in Australia, the States themselves were about to redeem the debts which Commonwealth government had issued on behalf of States. And the debt would be transferred to the States by FY 2005 - 2006.¹²⁾ In Japan, local bond permit system would be abolished in FY 2006 and issuing bonds would depend more on the financial market. Almost at the same time, subnational governments in both nations will be forced to manage their finances more autonomously, being exposed in the harsh financial markets.

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11) Grewal, B., [15], p. 14.

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