

The Great Heisei Consolidation: A Critical Review

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1. The Great Heisei Consolidation: Facts and Findings

The Japanese central government pushed ahead

with the nationwide consolidation of municipalities from 1999 through 2006, in line with the Law for Exceptional Measures on Municipal Mergers (hereinafter referred to as the Municipal Merger Law). The move was accelerated under the administration of then-Prime Minister Koizumi Junichiro, who took office in April 2001.

Japan has undergone three major waves of municipal consolidation since the Meiji Restoration. The first wave, often referred to as the Great Meiji Restoration, came in 1888 and 1889, coinciding with the introduction to Japan of the modern local government system. The number of municipalities was reduced from 71,314 to 15,859 through this first round of mergers. The second one, known as the Great Showa Consolidation, took place between 1953 and 1961 as part of the nation's efforts to cope with the changes brought about by the so-called post-war reforms. The number of municipalities was slashed from 9,868 to 3,472 (Tokyo's 23 wards, created after World War II, are not included in these figures, which also applies to all relevant figures mentioned later in this essay).

Table 1. Numbers of Municipalities by Prefecture

Rankings In reduction rate	Prefecture	As of March 31, 1999				As of April 1, 2006				Ratio of reduction (b / a) bet. 1999 & 2006
		Total (a)	City	Town	Village	Total (b)	City	Town	Village	
1	Hiroshima	86	13	67	6	23	14	9	0	26.7%
2	Ehime	70	12	44	14	20	11	9	0	28.6%
3	Nagasaki	79	8	70	1	23	13	10	0	29.1%
4	Oita	58	11	36	11	18	14	3	1	31.0%
5	Niigata	112	20	57	35	35	20	9	6	31.3%
43	Nara	47	10	20	17	39	12	15	12	83.0%
44	Hokkaido	212	34	154	24	180	35	130	15	84.9%
45	Kanagawa	37	19	17	1	35	19	15	1	94.6%
46	Tokyo	40	27	5	8	39	26	5	8	97.5%
47	Osaka	44	33	10	1	43	33	9	1	97.7%
Nationwide		3,232	670	1,994	568	1,820	779	844	197	56.3%

Source: Ministry of Internal Affairs and Communications.

How can the third and latest wave, often referred to as the Great Heisei Consolidation, be compared with the preceding two? In the latest round, the number of municipalities was nearly halved from 3,232 in 1999 to 1,820 in 2006. Some prefectures saw the numbers of municipalities drop to almost one-fourth while others witnessed little change. This shows that the latest consolidation did not proceed evenly across the nation. Rather, the consolidation affected western Japan and rural areas more than eastern Japan and urban areas.

Table 2. Numbers and Ratios of Municipalities by Population Size as of April 1, 2006

Population Sizes	Below 10,000	10,000-50,000	50,000-100,000	100,000-200,000	200,000-500,000	500,000-1,000,000	1,000,000 and above
Numbers (Ratios)	503 (27.6%)	779 (42.8%)	276 (15.2%)	150 (8.2%)	86 (4.7%)	15 (0.8%)	11 (0.6%)
Cumulative Numbers (Cumulative Ratios)	503 (27.6%)	1,282 (70.4%)	1,558 (85.6%)	1,708 (93.8%)	1,794 (98.6%)	1,809 (99.4%)	1,820 (100.0%)

1) Population data taken from the 2005 census.

2) The 10,000-50,000 bracket does not include 50,000; the same rule applies to other population size brackets.

Source: Ministry of Internal Affairs and Communications.

Let us look here at how population sizes of municipalities changed after the Great Heisei Consolidation. According to the 2005 national census, the average size of municipalities, as calculated by the total population (=119,270,000) divided by the number of municipalities (=1,820), stood at around 66,000. However, this average figure does not necessarily represent the realities accurately. A closer look at the figures seems to present a different picture. At the time of the census, 26 big cities with a population of 500,000 and above existed, accounting for 25 percent of the total population despite representing a mere 1.4 percent of the total number of municipalities. On the other hand, municipalities with a population of less than 50,000, which thus do not fulfill the legal requirement for city status, numbered 1,282 and accounted for 70.4 percent of the total number of municipalities. Yet smaller municipalities with a population of less than 10,000 numbered 503, representing 27.6 percent of the total number of municipalities.

It appears, therefore, that the Great Heisei Consolidation was characterized by significant disparities in terms of both geographical distribution and population size.

2. Why was the consolidation necessary?—Lack of Goals and Justification

The Great Meiji Consolidation was aimed at making municipalities large enough to carry out the compilation of family registers, tax collection, military conscription and compulsory education. By contrast, the Great Showa Consolidation was mainly intended to build administrative units that could manage secondary education, a new task assigned to municipalities through the post-war reforms. With these specific agendas, the central government laid out the conditions each new municipality had to meet in the first two rounds of consolidation. In the Meiji consolidation, a decree issued by the interior minister stated that a newly created administrative unit should in principle have 300 to 500 households. In the Showa consolidation, a law stipulated that the standard population size of a municipality should be more than 8,000.

However, the central government forcibly pushed through the Great Heisei Consolidation without presenting any specific and persuasive objectives or standards. As a result, financial incentives turned to be the only driving force. The most cru-

cial of these was the issuance of special local bonds. Under this scheme, newly merged municipalities are allowed to issue special bonds for 10 years after merger to cover up to 95 percent of the costs of public works projects to build a new administrative unit, with the central government pledging to finance 70 percent of the repayment of the bonds' principal and interest through tax allocations (*chihō kōfu zei*).

Only recently Yamasaki Shigetaka, a senior official of the Internal Affairs Ministry who had played a leading role in the government merger drive, revealed what he called his personal view on the purpose of the plan (Yamasaki 2004, 2005). According to Yamasaki, the purpose was, put simply, to recreate municipalities into "comprehensive administrative units" (*sōgō gyōsei shutai*) that were suited to an era of devolution.

In my opinion, there are two meanings of the expression "comprehensive administrative unit": one meaning indicates an entity that can provide administrative services efficiently with limited resources; the other an entity that can carry out a wide range of administrative services on its own, including such tasks as disposal of garbage and human waste, fire fighting and nursing care services, which are often undertaken by partial cooperatives (*ichibu jimu kumiai*) or wide-area unions (*kōiki rengō*) rather than individual municipalities.

A document released by the Internal Affairs Ministry (MIC 2003), which Yamasaki himself refers to, suggests that the per-capita cost for administrative services surges when the population of a municipality is below 10,000. It also suggests that the so-called wide area services mentioned above are most often handled by an entity with a population of around 100,000, be it a partial cooperative, a wide-area union or an individual municipality. This data indicates that in order for a municipality to be an effective administrative service provider, it should have more than 10,000 residents, while it should have more than 100,000 residents in order to be a comprehensive service provider.

As we see from Table 2, however, municipalities that do not meet the first condition number 503, or 27.6 percent of the total, while those that do not

fulfill the second condition number 1,558, or 85.6 percent.

The basic guidelines on municipal consolidation presented by the Internal Affairs Minister in May 2005, in accordance with Article 58 of the newly enforced Municipal Merger Law, cited as a goal of the merger initiative the dissolution of small municipalities with a population of less than 10,000 people. This was the first time in the recent merger drive that the central government officially defined any benchmark for population size. Some merger promotion plans drafted by prefectures have advocated creating cities populated by more than 100,000 people together with the abolishment of municipalities inhabited by less than 10,000 people (Nara Prefecture 2006).

3. Financial Effects of Municipal Mergers

Why is it imperative for the central government to dissolve smaller municipalities and merge them into more effective administrative units? One major motive is obviously to help restore the nation's fiscal health.

In recent years, the general account budget of the central government stands at around 80 trillion yen with 50 trillion yen covered by taxes and the remaining 30 trillion by the issuance of government bonds. On the spending side, 50 trillion yen is disbursed for policy implementation, 15 trillion for tax allocations to local governments, and the remaining 15 trillion for the redemption of government bonds. This means that every year fiscal deficits increase by 15 trillion yen.

If costs for administrative services by small municipalities can be reduced through mergers, this will allow the central government to make a drastic cut in local tax allocations, given that small municipalities receive relatively generous allocations. Among three major options for reducing fiscal deficits—tax hikes, reductions in policy implementation costs and cuts in local tax allocations—the central government apparently prioritized the latter, deeming it the easiest means to cut spending.

The Internal Affairs Ministry released its estimates for the cost-cutting effects of municipal

mergers after the Great Heisei Consolidation had peaked (MIC 2006b). The estimates indicate that with regard to 557 municipalities newly created between 1999 and 2006, the average annual amount to be saved after 2016 will be 1.8 trillion yen. The bulk of this amount, if the estimate proves true, will be deducted from local tax allocations.

The tax allocation is, however, expected to inflate as long as the central government has to help repay the special bonds issued by merged municipalities. Therefore, the question is whether a reduction in the tax allocation brought about by mergers will offset an increase in the tax allocation stemming from the repayment of the special local bonds. To put this differently, the question needs to be asked whether or not the government's merger initiative can be justified from the perspective of fiscal consolidation. The central government has not provided any satisfactory answer to this question. We can only assume that the government is of the view that the balance sheet will return to the black over the long term.

4. Unexpected Effects of Municipal Mergers

The Great Heisei Consolidation, on the other hand, had some side effects that the central government had never intended. First of all, amid the merger boom, information disclosure, particularly the disclosure of fiscal data, and residents' participation in municipal decision-making, were encouraged. For example, a total of 418 referendums were held on merger plans between 2001 and March 2005. In stark contrast, the number of referendums held between 1996 and 2000 was only ten, most of which concerned plans to construct nuclear power plants or industrial waste disposal facilities (Ueda 2003, 2005).

Secondly, a decline in the numbers of heads and assembly members of municipalities can have significant political implications. According to estimates compiled by the Internal Affairs Ministry, the number of municipal assembly members is likely to fall to 38,942 after 2006, down more than 30 percent from 56,533 in 2003 (MIC 2006a).

For political parties with relatively weak organizational bases, municipal assembly members are

the most reliable grassroots activists as well as the most significant vote-gathering machines for the national, prefectural and municipal elections. A decline in their numbers inevitably causes a decline in grassroots activists and vote-gathering machines for such parties.

In addition, the falling number of municipal assembly members is certain to push up the minimum number of votes required to get elected to a municipal assembly. It may be expected, as a result, that rural-style pork-barrel politics, which are heavily dependent on community bonds and blood ties, will be eliminated over time and be replaced by urban-style, issue-oriented politics.

Hitherto, the main governing Liberal Democratic Party has stayed in power by utilizing its local assembly members as vote-gathering machines and doling out favors to rural areas through the national and local governments. While former Prime Minister Koizumi pledged to destroy his own party and succeeded in his attempt to some extent, he fell short of establishing a new vote-gathering machine and a new election strategy to replace the old LDP politics. Therefore, it is quite likely that the LDP may face a structural crisis in the near future at the nationwide level as a result of the short-term effect of reduced vote-gathering machines and the long-term effect of the advent of urban-style, issue-oriented elections.

Viewed from another perspective, the LDP and its coalition partner New Komeito may further strengthen their alliance, as the LDP will need Komeito's help even more badly because of its powerful vote-gathering machine, i.e., the *Sōka Gakkai*.

In 2007, the unified local elections and the Upper House election are held in the same year, a rarity that occurs only once in 12 years. It has been pointed out that in such double-election years, the LDP tends to lose in the Upper House polls as the party's local assembly members cut back on their activities immediately after their own elections (Ishikawa 1984). Attention is now focused on whether such a tendency will be aggravated by the party's loss of vote-gathering machines as a result of recent municipal mergers.

In the unified local elections in April, the LDP won 47.6 percent of all contested prefectural assembly seats, down from the 49.7 percent it held before the elections, while the largest opposition Democratic Party won 14.7 percent, doubling the previous proportion from 7.8 percent (Komeito is up from 6.8 to 7.1 percent; the Communist Party down from 4.1 to 3.9 percent; the Social Democrats down from 2.8 to 2.0 percent). It remains to be seen whether the LDP's setback in the latest unified elections signals its structural crisis or predicts its defeat in the Upper House election in July. We should watch carefully what will happen in the upcoming polls.¹

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¹ This article was written about one month before the July 29th election for the Upper House of Parliament. In the election, the main governing Liberal Democratic Party suffered a heavy defeat, winning only 37 seats—far below the level of the 64 of the contested seats it had held before the polls.