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INDEPENDENCE OF LOCAL FINANCE

By Dr. Masao Kambe

FOREWORD

In present-day Japan, strengthening of the independence of local finance constitutes one of the knottiest problems requiring solution. If local community remains just a local administrative district and not a self-governing body, there will be no question of debating about the independence of local finance. So long, however, as local community enjoys the status of a public judicial person and is given the right of a self-governing body, it naturally follows that its finance be endowed with independence, and, further, not being satisfied with this, measure for its strengthening should also be taken into consideration. Especially, the recent trends in Japan of local finance suffering from deficit have come to bring to the fore various problems in sequence. In order to eliminate such deficit, for one thing, again, strengthening of local finance will be given an added importance. That the present writer has taken up this question in particular, at this juncture, is for the purpose of presenting certain material data intended for its solution.

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(1) Importance of the Independence of Local Finance

In Japan it should be conceded that whether it is advisable to have local self-government still furthered or to have it relegated, on the contrary, to a mere status of local administrative district subject to a powerful central government, poses a major problem requiring serious consideration. Immediately following the end of the Second World War, the entire Japanese territory was placed under occupation by the American armed forces. Under American guidance, it was established that local self-governing system should be fostered and strengthened. This policy resulted not directly from the initiative of the Japanese people themselves, but from the general line of policy pursued by the American occupation authorities in the early stage of the occupation, aiming, among other things, at weakening Japan as a nation. To be more explicit, it is remembered that in past years Japan always had a strong tendency toward a powerful centralization and a national unity ensured upon this foundation. This obviously failed to please the Americans, who taxed their brains to divide and disintegrate Japan. One method they hit upon, for the fulfilment of this objective, was found in measures for the strengthened local selfgoverning setup. They chose this, confident that such will be beneficial not only to the Japanese but also to the Americans. That the occupation authorities, in the latter years of the occupation, gradually came to effect a change in their policy should especially be mentioned here: Japan was to become a member of the community of the free nations, and in her capacity as an active collaborator with the camp, should once more become a strong nation. There are indications that, from this time on, their effort was slackened in relation to the avowed expansion and strengthening of local self-governing machinery in Japan. In any case, now that Japan is liberated from their occupation and has regained her independence. Japan should exercise her own initiative, no matter what American intentions once were or whether their intentions underwent a modification or not, regarding their course to proceed along in future, in which the freely-expressed opinion of the Japanese people should have its voice. It should, thus, be entirely up to the Japanese people to adjust if the present shape of local self-government is actually improperly radical or if it is sufficiently adequate and proper as it is. In the former case, measures may be taken to right the wrong, and, in the latter, it will be allowed to remain in its present shape. And if, again, it is found to be in need of further strengthening, steps may, of course, be adopted in such direction. In my opinion, the local self-governing structure which was fostered under American advice and assistance, regardless of what ulterior

intention they acted from, had better be allowed to retain its present status. Spectacular progress in this particular field has attained the stage as it is in evidence now. Likewise it should be considered unnecessary and unwise to have the democratic way of politics checked at the present stage. Of course, it may be conceded that some quarters even now envisage to have democratic pattern of politics brought back to the old Imperialism. The general trend of public opinion in the country at present moment, however, is evidently in favor of the retention of democracy as it is now acceptable. So far as the democratic politics is to be retained, it should be considered that local self-governing structure had better be maintained and strengthened even just for the purpose of retaining in its present form the democratic way of politics. Under the defunct Constitution, local autonomy in Japan had witnessed progress, though to a limited extent. It must be conceded, however, that Japan, as far as this particular aspect is concerned, was considerably behind such Western democracies as America and Britain. Tendency toward centralization was so manifest and powerful in the country. In other words, local autonomy had not yet had its roots planted deep in the ground. The roots have only recently begun to be planted, and it would be a matter for regret, indeed, to see the self-governing system retard in its progress to any extent. Our desire, thus, is on the contrary, to try to retain it in its present stage of progress, and, further, to have it strengthened for the ultimate aim of fostering Japan as a true democratic nation with a commendable working system of local autonomy. If it is agreed that local autonomy should be retained in its present form, or, rather, be strengthened further, it should go without saying that local finance, as a factor to support it, be so strengthened that its independence be further promoted. If on the contrary, local community is financially dependent upon the state with its independence weakened to the extent of such dependence, both selfgovernment and autonomous independence of local politics would be in name only. So long as local finance is equipped with an inadequate independence and has to look for state aid, chances would inevitably be multiplied for interference by the state, the result being that local autonomy degenerates into a painted bread.

(2) Limitations on Independence of Local Finance

That the proper fostering of a local self-government system is necessary as a prerequisite to the proper growth of democratic politics, and that the independence of local finance is of paramount necessity for the perfection of local self-governing system, have been fully enunciated in the foregoing

lines. It is most desirable that local finance is disposed of according to the free will of the individual local community, that annual expenditures be determined freely according to its will, and that the source of its revenue be decided individually according to the conditions prevailing in each particular community, entirely independent of central directions nor dependent upon its help. It must be conceded, however, that the avowed independence of local finance is originally imbued with an inherent contradiction that a full-fledged and absolute independence of local finance is something which can only be hoped for but can never be realized. This brings us face to face with two phases of limitations inherent therein.

A) Legal Limitations

In the first place, local finance is subject to the state-stipulated laws. As far as this is concerned, there can be no question of a perfect independence. While having an independent personality and will, local community cannot extricate itself from the predestined premise that it stands within the state and under its will. Impossible is it that it disengages itself from the central control exercised by the state. Before the needs of the state as a whole, it will have to bow ; it will have to act in such a way that national interest be promoted and national loss averted. Part of administrative matters as well as finance conducted by the state may be commissioned to local governments to the extent that such is considered advisable in the light of national interest. If the state stipulates it by laws, the only recourse permitted to local government is just to act accordingly. This will naturally entail payment to the local government of financial subsidy and aid by the state to cover the expense involved. This, in other words, is to affirm that the independence of local finance is impaired to that extent. Even in handling such administrative matters as are considered peculiar to a local community, the permissible scope of such handling will have to be dictated by state laws. Especially with regard to some phases of such affairs, their proper handling, as a matter of fact, is imposed upon the local government in question by the state as an obligation. Excepting this particular phase, the remainder only will thus be left to be handled under its own judgement and capability,—this is, the only perceivable phase where the independence of local finance may be retained in an unimpaired form. Even when a local community intends to issue public bonds for the purpose of covering its financial deficit or of starting a new enterprise, the state will be asked to exercise controls and limitation on the precise purposes, amount and methods of issuing such bonds inasmuch as uncontrolled freedom of a local government in this respect will be liable to pose a hindrance to the state in the way of its intentions to issue national bonds and of conducting smoothly

its industrial and financial policy. Before the requirements of the state, thus, the local government has simply to give up its place. The same applies to taxation: if a local government is left free to make decision about the various categories of taxes, methods of levying them and their amount, such will be liable to trespass upon the fundamental right of the state with regard to taxation. Thus, the state is required to stipulate a set of local tax laws, according to which a local government will be allowed to collect taxes. In this case, again, proper limitations are unavoidable with regard to the categories and amount of taxes to be collected as well as the method of collecting them, the main objectives being that the national interest may not be impaired. This amply shows that the so-called independence of local finance is never absolute, in nature but is relative, conditional and restrictive. Subordinate, though, to these limitations imposed by the state, a local self-governing body still has an ample room left to maintain the independence of its finance through a full operation of its capability and through its individual invention and devices and without national help. How far it can exercise its financial autonomy, however, is largely dependent upon the difference of conditions among each of specific local communities. Thus, it is seen that the alleged independence of local finance is subject to various controls exercised by the state, in the same way as an individual, while enjoying an independent personality as an autonomous individual, is still predestined to confine his existence with its state and, as such, is required to respect national interest and act in such a way that the latter may not be impaired. The local community, thus, stands under the state and is given a restricted independence, while the latter directs the former and restricts the scope of freedom it may be allowed to act in. It must not be forgotten, however, that the proper functions of the state in this respect are not just to restrict, but aid, at the same time. In case of a local community so weak financially, being unable to attend even to ordinary administrative matters, the state will be disposed to make a state subsidy available with which to overcome such difficulties. Proper vigilance, however, will have to be exercised lest some local self-governing organization, taking advantage of such a system, should indulge in back-of-the-scene maneuverings with the aim of securing such state subsidies to an amount far exceeding actual needs, to the detriment of the interests of not only the state but also of other organizations ranking on the same level. Such sinister tendencies will be liable to be noticed even among some of the financially-stable communities as well as others lacking proper and adequate financial backing. Such will inevitably result in an impairment of the interests of the state and other similarly-situated organizations as well. This, furthermore, will amount

to a disgrace on the part of such community in question; it will be an infringement upon the local self-governing and autonomous system. It goes without saying, thus, that every local community, under limitations duly exercised by state laws, should exert its own endeavours to the utmost possible, resort to every means and recourses available in order that its required expenses be covered locally. Pride should be found in the fact that no state aid is rendered necessary and, even in case such is unavoidable, that the amount asked for be kept at the lowest level possible. And here should the independence of local finance find its proper starting point.

B) De Facto Limitations

While the limitations as referred to in the preceding lines may be experienced by every and all local communities, those mentioned herein may occur only in some. To be more precise, these will be experienced by such local community which is financially weak, where this very fact poses limitation on its financial independence. In case of a local organization which is more or less well-off, establishment of any number of categories of local taxes and determination of the amount will be possible with a comparative ease despite various limitations and controls duly imposed by state laws, and thus, amply cover expenses required locally. If it is deemed necessary to issue new local bonds, it will be under no difficulty in meeting such need, notwithstanding legal limitations, because it enjoys a sufficient credit to finance it. In case of a financially weak community, on the contrary, the situation is entirely different. Under the limitations imposed by laws, it will be unable to raise a revenue required for attending to all necessary administrative affairs. Lack of adequate credit will stand in the way of its effort to raise public bonds, because the market will turn a deaf ear to its appeals. Here the state will be required to intervene to help it; recourse, in most cases, will be made to the local lease taxes and subsidiary taxes, with which to cover up its financial deficit. In some cases, the state will forward the political funds to back up its attempt to raise local bonds. If the matter comes up to this, there will be no question of the independence of local finance, and instead, there will remain a total dependence upon the state. Thus, it will be seen that the very weakness, financially, of a local community at once constitutes a limitation on the hopedfor independence of its finance. Again, this is a case where a local community, with ample economic background, under normal conditions, may, in the face of a natural disaster, or in sudden economic recession, find itself powerless to finance its own expenses or, consequently, look to the state for emergency assistance. Accompanied with all these limitations, the avowed independence of local finance can never be perfect. It should be hoped, however, that, even under

such limitations, the financial independence of local self-governing organization be given as full a play as possible.

(3) Local Autonomy in Expenses

Among the expenditures relative to a local community, there are a number of items which it is not in a position to decide on unilaterally. Such items, tending to run counter to the principle of local autonomy, usually amount to a considerable number. As such may be cited those which, under the stipulations of relevant laws, a local community or its subordinate organizations are obliged to attend to; others, which, similarly under the stipulations of relevant laws, a local community or its subordinate organizations are asked to perform under the commission by either the state or a prefecture; still, others, again under the stipulations of relevant laws, a local community or its subordinate organizations are directed by either the state or a prefecture for their proper disposition and also, those, which according to the prefectural statutes, are either dictated or commissioned to a local community or its subordinate organizations for proper disposal. The expenses involved therein may, as a whole, be labelled obligatory expenditures. Regarding these particular items, a local community will have no autonomy. In spite of this, however, it may be too much to say that the entire range of such expenses is divorced from their independence. Disposition of similar business, dependent upon the special devices on the part of the local officials attending, may not involve such amount of expenses as would otherwise be required, and herein will be found room for a play, to a certain extent, allowed to the alleged independence of local finance. This is to say, in other words, that some of the local authorities in charge of these matters are required to rectify their attitude relative to their disposition. Now, such obligatory expenditures, as a matter of fact, occupy a comparatively high percentage in the total budget of a local community. To cite an example: according to the publication entitled "Finance of Cities and Towns in the Environs of the City of Osaka", a certain suburban city, which, in the fiscal year 1952 did not find it necessary to have the counter-poise subsidy paid by the state, had to expend as much as 79.2 % of its total budgetary expenditures as such obligatory expenditures. The high percentage required for this particular item of expenditures is liable to induce some of local government authorities to shift the responsibility for inviting a deficit in their finance to this particular circumstance. This attitude, of course, deserves criticism, for, the same category and amount of administrative basis may not necessarily demand

the expenditure of the same amount of expenses according to what attitude the officials in charge actually adopt.

(4) Local Autonomy in Taxes

1) General

Taxes play an important rôle in the local revenue in augmenting local autonomy. In some local community, its financial situation is so sound and its tax revenue so adequate that it, even under various legal constraints, may be enabled to discharge not only such matters as are obligatory but also those which are intended purely for the benefit of the local population without recourse to state aid and free from state intervention. Here, limitations usually imposed on local autonomy will remain just nominal and immaterial. Again, an ample revenue accruing from a specific property peculiar to a local community will be bound to play a highly significant rôle in expanding the local autonomy. While if a local community is in a position to finance its administrative needs with a local tax revenue, it will not be in need of financial aid from the state, such will, at the same, be bound to stimulate implementation of the local politics in that it automatically shoulders due responsibility in its relation to the component members of the community. Because of the existence of such tax, it will be subject to criticisms from the component members with regard to the propriety, amount and the method of levying and further, the balance, if ever, between the volume of administrative matters involved and the amount of the tax collected. This will, as a matter of fact, render it out of question to shift the responsibility for any dissatisfaction over to the imperfection and inadequacy of the state-stipulated institutions. Comparison will, of course, be made with other local communities working under the same taxation structure. If it is found that the tax levied is unduely heavy in the light of administrative matters, and enterprises actually carrier out, complaints from its component members will be found to come up one after another, eventually forcing the officials of the community to seriously reflect upon their conducts. The existence of the tax, thus, will make the responsibility on the part of local community distinct and unequivocal, which, in other words, will mean that [these officials, in their turn, will, by the force of the circumstances, become really serious-minded in the conduct of their official duties.

2) Independence in Special Taxes

Now taxes carry a difference to the extent to which they specifically are independent.

A) Independent Taxes

There is no question that the independent taxes are imbued with the more pronounced autonomy than any other taxes. Among these will be cited the Fixed Property Tax which, of all local taxes presently in force in Japan, levied by local cities, towns and villages, brings a considerably big revenue with a high degree of independence. This is a tax imposed and levied by cities, towns and villages through their own organs, where there is no room for the state to intervene. Herein local autonomy is most unequivocally expressed. Although it is theoretically subject to the overall taxation system stipulated by the state, it does have no recourse to the state with regard to its imposition and levying. No aid from the state is required here. The local administration, in its own force, fixes the applicable criterion with respect to property selected for levying, according to which a fixed amount is levied through its own organs. Next comes the Tobacco Consumption Tax, newly established, as falling in this category (it must be conceded, however, that this may well be interpreted as a surtax to be added to the state's tobacco monopoly revenue).

B) Semi-Independent Taxes

To be labelled as semi-independent are Local Residence Tax and Enterprise Tax, for these, while independent in some respect, are somewhat dependent upon the state, and, because, to the extent that they are dependent thereon, their intrinsic autonomy is detracted. These taxes, of course, are levied at the hand of local communities, including prefectural government, through their own organs, against taxable objects. However, in determining the criterion thereof, that fixed by the state is utilized, and, in this respect, it unavoidably entails a feature making it a semblance of a surtax to the state tax. To be more precise, levying of local residence tax is enforced on the basic criterion of the taxable income, as stipulated by the state, with regard to Income and Corporate Taxes, while, the enterprise tax, imposed by the prefectural Government, makes use of data prepared by the state relative to these two state taxes in actual levying.

C) Surtax

Formerly there was in existence a surtax to the state tax, imposed by a local community, which has now ceased to exist. Such, in substance, was a category entirely dependent upon the central Government, materially detrimental to the autonomy of local taxation. It is a fact, however, that, even in levying such surtax, there was an upper limit fixed, within the framework of which a local community would be allowed a margin for freedom of decision. This, it would be safe to say, amounts to an autonomy. Compared with such as subsidiary tax and lease tax, which are one-han-

dedly handed to the local community by the state within a certain amount fixed by the latter, the surtax as mentioned above had actually an advantage of enjoying more freedom. The prefectural residence tax, newly inaugurated, amounts, as a matter of fact, to a surtax to the local residence tax. It does not signify that the prefectural Government relies on the state on this account; it does, on the contrary, mean that it thereby evinces its dependence on the local community, being deprived of its own autonomy to that extent.

D) The Lease Taxes

Under this category come such taxes, like the admittance tax and gasoline tax, a certain percentage of the revenue accruing from which (90 % or 1/3) is leased to the local government on the basis of a fixed standard of the financial requirements of prefectures as well as Hokkaido and the Tokyo Metropolis. The standard as referred to above is usually on the basis of the population or road area in the district in question. Seen from the beneficiary local community, such taxes should constitute one of the entire range of independent tax revenue upon which it may rely financially. However, the fact remains that they are not such taxes which are locally levied and collected but are simply leased by the state, which actually levy them. In this sense, they are never independent taxes with which the state has nothing to do. The lease of these taxes are carried out to all local governments, irrespective of whether the local recipient in question is financially well-off or not. This inevitably leads to the general tendency that the beneficiaries in dispersing the funds thus leased, are inclined to be lenient-minded even to the extent that the money is lavishly expended. On the other hand, a local community which normally is financially destitute, usually finds such funds more abundant than those levied in its own administrative area, because they flow in from such areas which are administered by community other than its own. This naturally tends to deprive the local officials in charge of the sense of responsibility in connection with expenditures from this funds in proportion as their reliance adds to its extent.

E) Subsidiary Taxes

This category includes such taxes, which, constituting part of state taxes, like the income tax, corporation tax and beverage tax, are particularly handed over to such local governments which are in need of outside help in order to administer such administrative affairs as are to be administered by every local community. Thus, this may, also, in a sense, be viewed, according to the provision of the law, to be liable to be incorporated into its system of revenue upon which it may rely. Particularly, the difference between the basic financial revenue and the basic financial requirements

should be expected, as far as a financially-deficit local community is concerned, to constitute its own legitimate revenue. However, it must be noted that it is up to this appraisal by the state with regard to such subsidiary taxes as may be adjudged too small in amount. Further, occasion arises only too frequently that difference of opinion occurs between the state and the local community in question regarding the commutation of the amount of the basic difference. Room for negotiations exists here, and it may be only too natural for the local community to desire to solicit as much amount as feasible from the state, and should, on this account, resort to a vigorous "campaign of petitions". The fixed ratio among the three taxes, as referred to above, may subsequently be liable to be altered, as they are subject to the financial capability of the state. Revision of the ratio may, again, entail a series of petitionary campaigning. Viewed in this light, they may hardly be labelled as independent revenue sources in a true sense of the term; on the contrary, they may even be considered to be less independent than the lease taxes mentioned in the previous paragraph. Further, inasmuch as this, in particular, is given to financially-deficit communities and not to all local governments, this may, in a sense, be called a sort of subsidy. It would, thus, be more appropriately called a dependent source of revenue rather than an independent one. The fact is that, here there is room for negotiation between the state and the specific local community with regard to the commutation of the difference accruing between the basic revenue and basic financial requirements, with the unavoidable consequence that in case the state decides on an amount, which the community in question considers unduly small, the latter may launch upon a series of vigorous movements of petition with an aim to influencing the former so that it may be inclined to become more generous-minded.

(5) Local Autonomy in Subsidies

There is no need to reiterate that the subsidies as a matter of fact deprive the local government of its independence. The state intervenes to make decisions about the administrative matters and enterprises undertaken by the local community, which constitute the objectives for which such subsidies are granted, as well as about their amount. This naturally causes the state to interfere with its intrinsic authority as its background, which, on the other hand, the local community to launch upon a series of behind-the-scene maneuvers in an effort to allure as generous subsidies as possible. Of course, it cannot be denied that granting of such state subsidies are accompanied, to a certain extent, with national importance and significance,

It may, thus, be said that the state is obliged to defray them, while the local governments are entitled to receive them. This, especially, applies in cases where the state has commissioned some administrative matters for the local government to take care of. It is a fact, however, that a subsidy does not necessarily constitute a revenue coming from a local government but it does come from what the state has levied from all over the country. A subsidy is given by the state spurred by a general consideration and, from this, it is evident that a local government, as far as it is concerned, is totally dependent upon the state, and thus, the former is incapacitated to enjoy its own independence. Of course, in some cases, the local government may take the lead in making decisions about a grant, because such, as a matter of principle, is given out to meet local requirements. In such cases, again, the local community has first to apply to the state for such subsidy, which, before being decided upon, has to be approved by the state. Decision, of course, is made by the states will, and, as far as this is concerned, the local community is entirely dependent upon the state, while, on the other hand, it would be too much to say that the local government is intrinsically entitled to receive it. There can be no autonomy of the local community in this connection, it being induced to become subservient to the state, to which it may have to direct its offensive of maneuvering. In this, other evils will naturally accompany. It is desirable, therefore, that the grant of a subsidy be accompanied with as little maneuvering campaign as possible, and, in turn, that the local government be dependent upon the state as little as possible. Regarding such evils as mentioned above, the 1954 annual report compiled by the Board of Audit makes a clear-cut statement. First of all, the report cites the fact that, in an effort to squeeze as bountiful subsidies as possible from the state as well as for other purposes, the local governments at present are deeply imbued with the tendency for placing the first emphasis upon their own system of petitioning aimed at the central government. Every local government literally compete in setting up its respective branch offices in Tokyo, where a certain number of resident officials are stationed. Bribes are advanced to the members of the Diet as well as government officials. The money thus expended actually constitutes a big item among the expenditures defrayed by the local community for unnecessary purposes. Secondly, it often occurs that, in petitioning the central government, the local community is liable to exaggerate the importance of an enterprise for which a subsidy is solicited. In actually spending the money thus gained, a tendency is often unavoidable that the need of economy is relegated to the background. The situation is made worse as engineering ability is often lacking. In spite of the inevitability that a portion

of the cost involved in the execution of an enterprise has to be shouldered by the local government, the latter lacks such financial capability as to shoulder the burden. This, unavoidably, entails such eventuality that the work, once started, refuses to show progress as scheduled. Settlement of accounts, after the work has been finished, are often conducted on the basis of expenses exceeding the expenditure actually needed for it. Sometimes, an existing establishment is pulled down simply for the purpose of using the money granted for the construction of a new one, though the one now in existence is amply sufficient for the purpose for which it was originally set up. In other cases, again, application for one item of project is made separately to more than one government office. This means that money is being squandered for no purposes or that the money involved is unduly large in amount, which in other words, implies that unnecessary expenditures are incurred upon both the state and local government. Thirdly, the report advises that the state, in this connection, should exercise its authority of supervision. As a matter of fact, however, such supervision is not being exercised fully and properly, because, for one thing, the state, on its side, has to face so many applications, and, naturally, is not in a position to actually investigate one by one. Investigation, as far as the fact stands, is conducted by letter. This formula, in practice, sometimes induces the state to become unduly generous, while this generosity often comes out of a consideration of certain behind-the-scene personal connections. Consolation, of course, will be found if the project is carried out precisely according to the design for which the subsidy has been granted. Even when such is not the case, official confirmation is often given out that the project has been executed just in accordance with the conditions of subsidizing. With regard to an engineering work being projected, relief may be in that a written confirmation of completion is in need, and, therefore, there naturally is a limit to an unauthentic statement. In the case of a subsidy, being granted for running administrative matters, there can be no question of a written confirmation being prepared to appraise the extent to which the work has witnessed progress. A report submitted by the local government in question regarding the progress of the work will, thus, be approved for settlement without even investigating it on the spot. When things come to the extreme, it sometimes happens that the difference found between the money defrayed by the state treasury and that reported to have been received by the enterprise organization in question is overlooked without being checked beforehand. In appraising the cost of a project, work may be advanced with an optimistic mood as a settlement will eventually be made sooner or later, and, in the face of a failure in the progress of work,

it would be found to be highly difficult to decide on who actually has to shoulder the responsibility for such. Delay in submitting a report on the completion of work as well as about the settlement of accounts is frequent, which, in its turn, causes a delay in making a certificate of completion by a state minister in charge available. Sometimes the delay may extend over a period of three or four years. In the interval, natural disaster may occur to the extent that there is no confirming whether the work has really been completed nor deciding on where the responsibility involved will have to be placed. This may be too much of an inside story; such irregularities as are alluded to in the preceding lines do not, of course, apply to all cases. It may, however, be safe to say that, even though such happens in exceptional cases only, subsidies, which are liable to deprive the local government of its independence, are often accompanied with a tendency to give birth to such. This naturally leads to the conclusion that the grant of subsidies should be mitigated in number as much as possible, and confined, in exceptional cases, to the following: 1) Fresh or exceedingly special project, 2) Large-scale construction or repair work, 3) Reconstruction work after a natural disaster, and 4) Such work as is commissioned by the state.

(6) Local Autonomy in Public Bonds

An influential local community backed by its own credit, is in a position to freely avail itself of public bonds. However, in actual practice, it is subject to the control consequential to the national policy in general, regarding finance, economy and industry. To the extent that such state policy is not directly affected, the local community, without aid from the state, may make good of public bonds autonomously. At the present moment, the local government in Japan is subject to various control and limitations imposed by the state. In spite of this, however, some of influential communities may utilize public bonds more or less independently of state intervention. The fact is, however, that many of the financially-weak local governments are naturally not only subject to state control but actually are in a position to look for state help. Remedy of this situation in future may, perhaps, be found in the setting up of a communal organization, which local governments may be allowed to utilize with an aim to lessening state help as much as possible. Further, in order to promote the local autonomy in regard to public bonds, the conditions for issuing such bonds will advantageously be made much simpler (for instance, the conditions will had better be confined to the maintenance of a certain fixed ratio between the amount to be issued in bonds and the capacity of redeeming them) as well as the

procedures of issuing involved be rendered less complicated than they actually are now.

(7) Fundamentals for Independence of Local Finance

While it goes without saying that the independence of local finance is a matter of utmost importance, and, as such, has to be promoted as much as possible, it may be desired that measures be taken to lessen the amount of work commissioned to the local communities by the state and the subsidies involved, to make simpler the conditions and procedures relative to the issuance of public bonds, and, to implement the local taxes, particularly independent taxes. What is more fundamental and essential, however, is an improvement in the attitude on the part of local officials in charge of disposal of financial matters. Such will weigh much also in the proposed improvement of the situation now prevailing in local finance, where deficit has invariably come up to the fore. The most important thing, in this connection, is the observance of a clear-cut responsibility, execution of their respective obligations on the part of local governments, in strict obedience of state directions, and the least possible dependence upon state help. Deficit should scrupulously be guarded against; the principle should be set up that local revenue is formulated in the light of expenditures as well as that expenditures be measured according to the amount of revenue expectable. Balance of revenue and expenditures alone should be considered not enough; disappearance of deficit should be followed by the appearance of a surplus. A surplus, if ever realized, should be put aside for future use. Economy should be the first consideration in expenditures, while the capability of the citizens in general to shoulder the burden should first be taken up in connection with assessing the revenue, especially, the taxes to be levied. Expenditures should be such that the revenue, thus assessed, can sufficiently meet. Reticence, as far as feasible, should be exercised in contemplating issuance of public bonds. Least dependence upon state subsidy should be aimed at. Most essential of all, petitioning for subsidy should rather be considered as a disgrace, and, thus, should serve as a warning to the officials of local government. Only when all these have been accomplished, will the independence of local finance be firmly set up. The present state of things in Japan, in this connection, leaves much to be desired, indeed. At the same time that a cry is high for the promotion and extension of local autonomy, virtually endless queues of petitioners are finding their way to Tokyo. How to dispose of this contradiction, in an effective way; poses now a superlative problem to be solved.