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**Subnational Governance in the European Periphery and Japan:
External Stimuli and Domestic Reorganisation**

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Abstract

The paper examines the state of subnational governance in Europe and Japan through the discussion of four country cases in the southern periphery and a review of developments in the Japanese context, keeping to a historical-institutionalist approach. The rapprochement of Italy, Greece, Spain and Portugal with European integration has since the late 1950s promoted democratization and socio-economic development in national economies that have featured a dominant state role. The introduction of the EU Cohesion Policy after 1988 acted as the external stimulus for reform in subnational governance and increased institutional competences in planning for local and regional growth. Japan's modernization has been affected by its changing relationship with the West. In the absence of intense efforts to regional integration, the central state promoted rapid transformation of the physical and built environment without a re-organisation of subnational governance or administrative power transfer. Recent developments in Japanese local government, such as local stakeholder participation in planning and the emergence of new agenda setters occur against the earlier institutional backdrop of the "developmental state" promoting modernization through central planning based on a public service characterized as impartial, non-partisan and valuing expert knowledge. The paper presents a comparative review of the emergence of subnational governance actors in Europe and Japan and argues further that, whilst constructivist institutionalism fares well in reconstructing related domestic change in the southern periphery, recent developments in the Japanese case best conform to a rational choice institutionalist perspective.

1. Introduction: Aims, Rationale and Methods

The crisis of Fordism emerging in the western world after the mid-1970s has posed new challenges for economic growth and social development. The quest for new growth models that would provide for further economic advancement and modernisation for affluent and underdeveloped areas alike has ensued until today. Within a global context of globalisation and regional integration, a significant development has been that the importance of regions as units of area and governance has grown in policy-making and scholar research alike. In the EU, further deepening through the expansion of the *acquis* has gone hand-in-hand with the development of multi-level governance, where European regions have come to take an active part in policy-making through the ground offered by the EU cohesion policy. In other parts of the world, a trend for countries to decentralise authority to lower governance tiers, such as regional and local authorities, has also been markedly evident (Rodriguez-Pose and Gill, 2005). In turn, scholar research has taken up the task of investigating these developments and their possible implications for social science. Thus, new theorisations in political science and economics have emerged that seek to explain domestic change as a result of regional integration and devolutionary processes that have taken place across the world.

This paper aims to found a dialectic between theorizations that have been developed with reference to countries of the EU's southern periphery and the context of subnational governance in contemporary Japan. The objective is to test the application of two main theory approaches as part of new institutionalism to the study of subnational governance. The paper keeps to a historical institutionalist approach with the aim to arrive at an

account of developments in the realm of local politics as part of the national governance in the southern periphery of the EU and Japan. In following this ambitious aim, the paper does not touch on the relation between decentralization and economic development, or indeed on other issues relating to fiscal federalism, such as income convergence or divergence. By examining the application in the Japanese context of two theorizations that have been developed by recourse to the European empirical reality, its wider objective is to build on and contribute to the social science exchange between Europe and Japan.

The two theoretical approaches that are applied and discussed in this paper through the study of the European southern periphery and Japan are the two variants of new institutionalism used in political science, rational choice institutionalism and sociological or constructivist institutionalism. These have been further developed recently as part of the Europeanisation literature that aims to reconstruct domestic change in EU member states within the expanding course of European integration (see Börzel and Risse, 2000). The constructivist perspective centres on a logic of “appropriateness” and a process of socialization and persuasion among actors. New formal institutions, such as policies, and informal institutions that come with them, e.g. norms and understandings exert adaptational pressures due to them not being in unison with the existing institutional structure. The two mediating factors that lead to the internalisation of new institutions are (i) the so-called *change agents* or *norm entrepreneurs* that mobilise and convince their peers through a process of argumentation and (ii) the existence of a political culture that is conducive to consent and cost sharing among actors. Constructivism institutionalism

suggests that domestic change ensues as a result of a process of socialisation and collective learning among actors that leads to the internalisation of new formal and informal institutions.

By contrast, rational choice institutionalism puts forward a logic of consequentialism; the misfit between old and new policies, institutions and processes provides new opportunities and constraints to societal and political actors for the pursuit of their interests and strategies. Such changes in a domestic political economy structure may lead to a redistribution of power among actors that in turn depends on actor capacities for seizing upon new opportunities. The two mediating factors that influence these capacities are (i) multiple veto points in a country's institutional structure, which can empower actors vis-à-vis institutional change and make them exert resistance to adaptation and (ii) formal institutions that may exist and provide actors with the resources needed to promote or prevent change, leading to a higher or lower probability of change.

2. The Emergence of Subnational Governance in the Southern Periphery

The rise of subnational governance in the European periphery has proceeded with the redefinition of the role of the state in the national economy, as a domestic response to the changing international environment and specifically to the engagement with European structures. After 1981 and Greece's accession to the EU, the Iberian enlargement followed in 1986 with the entry of Spain and Portugal. Following on the fall of their dictatorial regimes, economic liberalisation ensued in Greece after the

1967-1974 dictatorial regime and started in Spain by 1985 and in Portugal by the start of the 1990s (Roccas and Padoa-Schioppa, 2001:54-62). Italy, against a backdrop of fascist autarky and corporative statism before WWII and a later stable democratic regime already by 1949, opted very early for the external orientation of its economy and proceeded with trade liberalisation, participation in the set-up of European organisations and a strong investment and export activity. These developments also rested on an earlier intense phase of industrialisation at the start of the 20th century that equally had no parallel elsewhere on the northern shores of the Mediterranean and was further facilitated by the pursuit of orthodox monetary and fiscal policies, a lack of militancy in industrial relations, sizeable rises in productivity and private savings as attributes of the Italian domestic socio-economic framework (Roccas and Padoa-Schioppa, 2001:31, 36-40). The above context allowed for socio-economic progress in Italy very early on compared to its neighbours in the southern periphery. Although state intervention and regulation were present, notably in the financial and regional policy sectors, the above depiction suggests that the case of Italy is one of divergence when compared to Greece, Spain and Portugal and of convergence with the advanced European core, at least up to the middle of the 1970s when democracy was irrevocably restored in the three afore-mentioned countries.

Despite this favourable start in the 1950s, the delimitation of underdevelopment within Italian territorial space remained sharp and coherent. Regions at the north and the centre-north of the country were those chiefly benefiting from economic expansion, while the Italian south, the Mezzogiorno, was characterised by mass migration to northern regions and central

Europe and of significant socio-economic disparities when contrasted with the Italian North, rooted to historical determinants and socio-economic realities (Leonardi, 1995:141-143, 144, 146, 159-163, Putnam *et al*, 1993:121-148). The 1960s were marked by centre-left coalition governments which did not address urban socio-economic challenges emerging as result of growth, noted principally in education and housing and in the need for further economic liberalisation. Amidst a new environment of social tensions and labour militancy, a new industrial paradigm emerged as large industrial firms worked together with smaller firms in outsourcing parts of the production process. This industrial “decentralisation” that took off after 1970 and has been seen as a “second industrial miracle” that has helped Italy sustain its alignment with advanced European central areas (Leonardi, 1995:146). Important legislative reform relating to regional governance also had been completed by 1976. However, the deterioration of public finances throughout the 1980s and the problematic characteristics of Italian politics gradually positioned the country among those in Europe that were seen as poised to gain the most from the Single Market programme and the EMU. As part of a wider effort to reshape the international position of the country as cognate with its membership of G-7 and earlier performance and status on the world scene, Italian policy-makers and scholars pioneered the introduction of the cohesion objective in the Single European Act of 1986. The new approach for a re-organised regional policy for the EU based on the Structural Funds (SFs) conceptualised the following path of evolution for local communities (figure 1). New regional development trajectories would stem out of the earlier social and historical backdrop. Based on the formal institutional decentralisation and the diffusion of entrepreneurship through

new forms of industrial organisation favouring the growth of the small firm, would provide for economic growth and social development (Nanetti, 1988, 1996:72-73, Leonardi and Garmise, 1992, Leonardi, 1995).

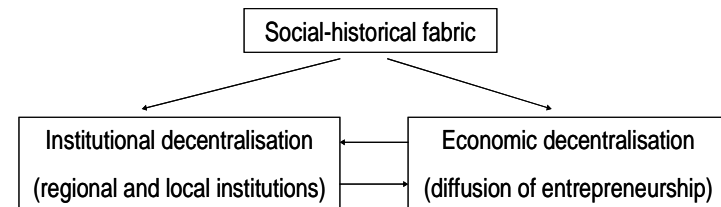


Figure 1: Local Development Model (Nanetti, 1996)

Expanding EU competences since the SEA served to uncover the internal rigidities and inefficiency of the Italian governance structure and revealed a sizeable misfit between European practice and this domestic context (Giuliani, 2001:51-52). However a host of new developments occurring within the rebirth of Italian politics in the 1990s, coupled with Italy’s strong input in the development of further EU policies and the pressing need, as seen by the Italian polity, for Italy to enter the EMU, ameliorated this state of affairs. A key change in this regard has been the introduction of the new EU cohesion policy in 1988, building on the experience of the Integrated Mediterranean Programmes (IMPs) (Nanetti, 1996:59-64, Leonardi, 2005:40-48). The new SFs regulations defined the manner in which the new policy would be implemented. The principles of partnership, additionality, concentration, and programming were formally introduced. Partnership has referred to the ground offered for consultation and policy-making among member state central, subnational governance

and socio-economic partner organisations and the European Commission, giving rise to the multi-level mode of governance across the periphery and the EU as a whole (Leonardi, 1992:2, Marks, Hooghe and Blank, 1996). Additionality prescribed that programming would be financed through EU Structural, member state public and private funds, reflecting a new tripartite collaborative structure. Concentration and programming required the preparation of development plans by each member state in the form of single programming documents (SPDs) of regional or nationwide (sectoral) reference, addressing areas having the highest potential for growth. In the case of the southern periphery, where the entire or large parts of member state territory were of income per capita less than 75% of the EU average, SPDs composed the national Community Support Framework (CSF). Through the CSFs, cohesion policy was to be implemented on a nationwide scale and in individual regions, in an integrated manner over finite periods.¹

The new cohesion policy framework and principles has sustained the devolutionary process in Spain and provided opportunities to Spanish regions for creating links with their counterparts across the EU. In early 20th century, Spain enjoyed a long interval of parliamentary democratic regime before the four decade dictatorship of Franco. Totalitarianism had brutally reversed an earlier process of regionalisation and lasted until the mid-1970s (Pagés i Rejsek, 1996:45-50). The Spanish case can be seen as similar to Italy, as the country was more developed

¹ These have constituted the so-called first, second, third and fourth programming periods of 1989-1993, 1994-1999, 2000-2006 and 2007-2013 respectively.

than Portugal and Greece due to industry and transport infrastructure existing before the Great War. The country has presented a northeast/southwest development gradient; northern and eastern regions have benefited from industrial endowments and access to the western Mediterranean, while the south and west of the country has mainly included enclave peripheries (Morata and Muñoz, 1996:205). A further similarity is the proximity with the European core. The border with southern France has formed a favourable condition to the creation of links between Spanish territorial space and advanced European regions. While the period 1940-1960 featured political isolation, corporatist autarky and introversion, the 1960s saw significant changes in policy as the country opted for external orientation, international trade and domestic economic expansion. Spain first applied for EU membership in 1962 and then signed a preferential trade agreement with the then EC in 1970. The role of the state in administering growth was very important to the support, rather than control of economic activity. A large state bureaucracy determined resource allocation through the licencing and approval of investment, foreign exchange transactions and the regulation of credit, interest rates, taxes and subsidies. The sizeable economic expansion in the period leading to Franco's death in 1975 contributed to the peaceful transition to democracy noted in Spain between 1976 and 1978, where a climate of unanimity prevailed among social partners. However the macro-economy deteriorated further, just as in Italy, Greece and Portugal, due to heavy dependence on energy imports and the two oil shocks of 1973 and 1979. These hit the country during its transition to democracy and the in a context low growth, crisis in the banking sector and structural difficulties respectively. Unemployment rose and industrial decline ensued. Regionalisation contributed to the disorder of

public finances and tax reform and did not prevent tax evasion and further deterioration of the macro-economy. Spain however was able to overcome this negative circumstance based on the growth of its exports, accompanied by structural reforms in the industry and the labour market.

The period after 1986 and EU membership has been one of significant income and industrial output growth. The perception of the EU in Spain has been of a European international organisation fostering political stability, economic growth, aid to regions and foreign investment. Spain saw opportunities within the Single Market and EMU programmes and the evolution of EU regional policy for alleviating interregional disparities across Spanish territorial space. Regional policy prior and then next to EU membership entailed the so-called inter-territorial compensation fund, FCI (*Fondos de Compensación Interterritorial*), created in 1984 and employing the same methodology as EU regional policy (Morata and Muñoz, 1996:201). The FCI constitutes an example of a downward, yet indirect, internalization of European institutional innovation. At the international level, Spain negotiated intensely, with Ireland, Greece and Portugal rallying behind, for the creation of a further instrument in support of cohesion and compensation for socio-economic divergence across member states. The Cohesion Fund was thus created as part of the TEU with Spain as the largest beneficiary with 54.8% of total funding reserved for infrastructure and environmental projects (Marks, 1993:393, Morata and Muñoz, 1996:215).

Domestically, the 1988 review of regional policy and the Structural Funds have demonstrated a considerable challenge to and degree of misfit against centripetal governance patterns,

bargaining politics between regional and central government and the Spanish territorial governance framework. This framework evolved in a zigzag and discontinuous fashion, by granting regional autonomy to the Basque and Catalan national groupings and then, in an act of balance, extending that to all other regions (Morata and Muñoz, 1996:199-201). In this context, Spanish regions have pressed for increased institutionalisation of their participation in European MLG domestically, while internationally they formed subnational governance partnerships and organised representation at the core areas of European institutions. Catalonia has lead the way to the formal (with the Committee of the Regions) and informal institutionalisation of European regional politics with key initiatives, such as the Four Motors for Europe and C6 regional and municipal associations respectively (Morata and Muñoz, 1996:202-204). The implementation of regional policy in the period 1989-1993 does not present us with any notable redefinition of the role of the state in regional development. Morata and Muñoz argue that regional governance organisations were involved in policy preparation, yet not in the final formulation; beyond that what is otherwise reported is a very limited social actor and private sector participation. Once policy implementation started, programme fragmentation, financial management gridlocks and a lack of co-ordination among different levels of government have chiefly characterised cohesion policy implementation in Spain over the period 1989-1993. International activism, yet high structural misfit and preoccupation in the domestic context have mainly opposed and characterised the impact of Europe through regional policy in Spanish politics and policy in the 1990s.

Portugal's shared trait with Greece is peripherality; they share no land border with, are distant and fully peripheral from central Europe. Despite Portuguese seafaring and colonialism, Portugal was subject to influence and control by Britain and Spain and never developed to a truly global European power. Portugal began the 20th century without any earlier industrial endowment. After a short interval of parliamentary democracy, a totalitarian regime was established in 1926 under Salazar that lasted until 1974. Isolation from Europe and introversion were paramount until the 1960s. After WWII the country also opted for a gradual external orientation and recorded high economic growth and industrial expansion. No sizeable re-orientation of the workforce to industry and away from agriculture was noted however. Industrial development in this case hinged on domestic and foreign investment leading to modernisation, productivity increases and export growth. In a similar manner to its other Mediterranean partners, Portugal was able to reap benefit from the unwavering growth and development in the Western world through tourism, immigrant remittances, exports and foreign investment. An important part of the country's resources however were being drained away in Africa as Portugal was engaging in colonial warfare. These developments were noted against a domestic backdrop of corporatist autarky, repression of economic liberty and the labour movement. The economy was subject to statist control by a large bureaucracy and national economic policies were drafted within a narrow circle of government officials and large private industrial, financial actors and land owners.

Restraints to economic freedom started being relaxed as late as 1968 with succession at the top of the dictatorial regime. EC membership had been sought since 1972 and dictatorship ended

with the April 1974 officers' revolution, largely precipitated by developments in the African front. Parliamentary democracy was finally restored in 1976 and extensive nationalisations in industry and finance followed, notably in sectors mostly hit by the crisis of Fordist mass production. Deterioration of productivity in agriculture and partial collectivisation, disproportionately enhanced the state's role in the economy and weakened the private sector. In the years that followed, political instability, emigration from Africa and ensuing macro-economic imbalances went hand-in-hand with further economic growth. Economic policy was reviewed and assistance by the International Monetary Fund (IMF) was agreed upon prior to EC membership in 1986. Portugal entered the Community being politically irresolute, having a hefty state sector and in need of structural reform in the banking and industry sectors (Roccas and Padoa-Schioppa, 2001:34-36, 45-57). The EU was seen as a safe, technocratic haven of stability and prosperity. Its influence in redefining the domestic institutional framework and alleviating authoritarianism in public administration had been evident since pre-accession.

After 1986, the Portuguese had to cope with the implementation of cohesion policy and the challenge of the 1992 EU Presidency (Magone, 2001:119-121, 125-126). EU membership provided a backdrop of institutional stability as the fragile democracy headed away of the pre-accession period that saw nine governments in office, based on the mediating factor of a skilled prime minister's leadership, that of Anibal Cavaco Silva. Silva promoted restructuring and modernisation over two terms of parliamentary majority and government office that were later termed domestically as "the decade of reforms". The Portuguese case, against a misfit of governance structure and mediating

political rhetoric and will, suggests a gradual transformation of domestic structures towards efficiency and transparency as a response to European public policy requirements (ibid.:122, 128). Structural reform and macro-economic stability were catered for as the labour market was further liberalised, the constitutional provision on the irreversibility of nationalisations was amended in 1989 and the escudo was included in the EMS in 1992 (Roccas and Padoa-Schioppa, 2001:62). The role of European regional policy was very significant: "European regional policy in the form of the structural funds became one of the central policies pushing the Portuguese political system towards a democratic governance system" (Magone, 2001:122-123). As a response to regional policy, the Portuguese government reformed field administration and prompted civil society participation in governance, particularly in the period of formulation of the Portuguese CSFII. Civil society groups were consulted, albeit in a limited manner, in drafting the nationwide development programme. Implementation and monitoring were partially devolved to the country's regional and municipal governance tiers, whilst central government maintained control. The technical requirements of documentation and measurement involved in the CSF further improved the methodical and planning capacities of Portuguese central and field administration (ibid.:125-127). Finally, in the period of 1994-1999, the socialist government expanded on this earlier basis to further promote decentralisation, enhance the country's economic structure towards the tertiary sector through further CSF programming on education, competitiveness and infrastructure. Regional actors have mobilised along the Portuguese-Spanish border through the INTERREG and other European programmes. However, the formalization of regionalism in Portugal as practiced through the EU cohesion

policy came to a halt in 2003, as the public referendum on this issue had a negative outcome in stock.

The Greek case suggests a highly 'top-down' process of change, a high degree of misfit and a gradual convergence between rhetorical endorsement of European integration discourse and practice and institutional internalisation in terms of norms, rules, regulations and policies. The years following EU membership in 1981 suggest a problematic relation of Greece with the EU and the international system. Greece, an associate member country of the EU since 1961, suffered a dictatorial military regime in 1967-1974. The regime fell after the Turkish military deployment in the northern part of Cyprus. The Greek application for EU membership was submitted in 1975, upon the restoration of democracy and the cease of armed conflict in Cyprus. The newly founded socialist party PASOK and the Greek Communist Party opposed the idea of membership for Greece and further European integration. The debate on membership centred on recent experiences of alleged intervention in the national affairs and the ideological division between East and West, rather than on looking at the socio-economic characteristics of Greece and the possible impact of membership². Shortly after EU membership, Greek socialists assumed power and firstly submitted an aid memorandum based on the country's "special" profile. However, they soon realized that EU membership in itself and their domestic policy goals,

² A somewhat parallel approach underpinned the reception of the Greek application for membership in western Europe. European leaders were stressing the significance of the country for European culture and civilisation, whereas administration and people were largely unaware of the actual current social and economic conditions of the country (Pettifer, 1996:18).

notably their 1983-1987 five-year plan aimed to establish a model of regional planning and policy, where “bottom-up” endogenous local development strategies were to be combined with top-down financial discipline, were only sustainable through increased cooperation with and funding from the EU (Andrikopoulou, 197-200, Featherstone, 1996:4, Ioakimidis, 1996:43). PASOK’s domestic and foreign policy mix led to alienation with Europe and deterioration of the Greek macroeconomy. In the background however, the pre-accession procedure and membership contributed to the stabilisation of democracy and institutions. Public administration struggled to adequately manage with membership rights and obligations, while its various tiers collaborated with European institutions and created links with counterpart organisations in other member states.

PASOK’s espousing of the Single Market programme after 1985 exposed the degree of mismatch with European structures and the main areas that needed be addressed. These have been the absence of planning for policy, the narrow engagement of society in governance and the reform of the state, which by that time had evolved into an over-centralised entity, mainly located within the capital area, of gigantic proportions and reach (Alogoskoufis, 2000:141-142, Roccas and Padoa-Schioppa, 2001:52, 57-59). The two stabilisation programmes that were agreed in 1987 and in 1991 were not seen through. Adaptation however continued through the EU cohesion policy as Greece had to provide for the subnational administrative apparatus needed for IMP implementation. The new concepts of subsidiarity (implementation decentralised to the appropriate governance level), partnership, monitoring and evaluation posed considerable challenges for the Hellenic public administration

and its organisational culture, as related notions of spatial delimitation, project documentation and data collection, co-ordination in administration, collaboration and fairness among civil service located at the centre and periphery. Beyond the only formal administrative structure of the 55 prefectures (*nomi*), run at that time by government-appointed prefects with the aid of the local governance representative organisations, the entire territory was initially divided in six areas, while shortly after the start of the first IMP, law 1622/86 on “Democratic Planning, Regional Development and Local Government”, part of the legislation comprising the 1983-187 five-year plan, provided for the thirteen administrative regions called *Perifereies*. Each Region would be headed by the government-appointed General Secretary³ who chairs the Regional Council (composed by appointed central state and local government representatives, having planning responsibilities only) and supported by a locally based field administrative organisation as part of the national public administration structure (Papageorgiou and Verney, 1992:140-141). This delimitation formed the basis for the planning and implementation of regional programming under the three CSFs of 1989-1993, 1994-2002 and 2000-2006. For the period 1989-1993, EU structural funding corresponded to 170% of Greek FDI, while for 1994-1999, the annual direct GNP impact has been of 3.4% and gross fixed capital formation laid at 11.9% (Mitsos, 2001:307, 314).

³ Reference to the role of the Regional General Secretary in this piece of legislation is along the lines of, “the direct representative of the government responsible for the implementation of the government’s policy in the region” (Ioakimidis, 1996b:349).

The ten year period before 1994 and the 2nd EU programming period provides evidence of a shift from a rhetorical to structural internalisation of policy outlook, objectives and instruments. After the rise of Simitis at the top of PASOK's partisan hierarchy by early 1996, EMU entry emphatically became an aim of national strategic importance and a beacon for policy-making⁴. The main development in subnational governance has been the appointment of prefects by election, instituted in 1994. Furthermore, the modernizing impact of the EU has been evident in the further liberalisation of the Greek economy. The descent of the economic role of the state was attained through disbanding of a plethora of regulations hindering competition, the independence of the Bank of Greece, the liberalisation of the banking system with the divestment of state-owned financial organisations, foreign investment, the incorporation of EU legislation on transparency and the unimpeded operation of markets through regulation. Moreover, EU membership has enabled Greece to address earlier policy inconsistencies and develop a host of new government policies. Regional policy featured emphatically in those as new operational units of special remit were created to take on specific tasks⁵, evidencing further improvement in managerial and operational independence and expertise on behalf of the public sector (CEC, 1994:117-118, Ioakimidis, 2001:83-88, Simitis, 2002:36). The programming logic, co-operative outlook needed on behalf of both central national and subnational

⁴ See for example the prime minister's parliamentary defence speech of the 1997 yearly budget (Simitis, 2002:89-104)

⁵ The same contributor notes however that these improvements did not go hand-in-hand with the enhancement of operational efficiency in public administration. We shall return to this point in the context of researching regional policy implementation in chapters 3, 4 and 5.

officials and the multi-dimensional character of regional programming continued to pose challenges to the Greek public administration and provided further ground for change. Overall, analyses of the period suggest a significant re-arrangement of the centre-periphery relationship to the benefit of Greek regions (see Ioakimidis, 2001:84-86). Finally, a concurrent prominent feature is a reported process of social evolution. Numerous social associations, such as non-governmental organisations and interest representation groups established themselves in Greece, challenging earlier topical reports⁶ of a weak civil society. National policy-making process began to offer a podium to the economy and society, as major pressure groups and socio-economic associations, such as the Union of Greek Industrialists (*SEV*) and the General Labour Confederation (*GSEE*) were invited to come up with formed opinion on policy and more often than not started producing their own, regular, policy reviews and recommendations (Ioakimidis, 2001:88-89). After 2002 and entry to the EMU, Greek economy and policy-making have been reported as not at odds anymore but in step and tune with the EU and global economy (Ioakimidis 2001:78, 82, 88, Simitis, 2002:163-168).

3. Subnational Governance and Regional Development in Japan

The emergence of subnational governance in the Japanese context can be studied through a viewpoint similar to the one

⁶ On aspects of Greek civil society and social capital endowments see Mossialos and Mitsos (2000:3-5, 16-17,) and the work by Paraskevopoulos (1998:136-140, 200:220-221).

used for developments in Europe. A separation of the period from WWII to the present day in two intervals of 1950-1975 and 1976 to the present also hinges on the local and regional dynamic for more local autonomy becoming more vigorous after the mid-1970s (Grémion, 2002:72).

Before WWII, huge economic inequality between urban and rural areas in Japan led to an increase in disputes between landlords and tenant farmers. Social discontents eventually ended up supporting the totalitarian regime and invasion to neighboring countries. During the US occupation, American reformers thought that rural poverty had led Japan to its WWII Asian campaigns. Agrarian land reforms were then implemented that distributed land across tenant farmers. These reforms greatly contributed to the realization of economic democracy in post-war Japan and constituted the foundation of the Japanese egalitarian society. The reforms gave political power to the rural farming population, which at that time consisted of 70% of national population taking part in national elections.

The post-war regional development Japanese landscape has featured the following developments. A first change in the traditionally centralized governance framework was the introduction of a new, dual representation (mayor and council) electoral system at local government level. Mayors were elected by the local councils, which were in turn composed of members elected by voters. This reform was considered important by US reformers for the introduction of democracy in post-war Japan and was realized through the mediating factor of local group and citizen pressure for control over their own environment and the activism of progressive mayors. However, the reform was

largely unsuccessful, despite the implementation of the Local Autonomy Law and the new Constitution supporting the principles of the reform. Many centralization features continued to exist, with the Ministry of Home Affairs (MHA) having a nodal hierarchical role in Japanese centre-periphery relations (Grémion, 2002:72, Kidera, 2006), while the number of Japanese municipalities was also reduced from 10,443 in 1950 to 3,245 in 1960. These decentralized institutions were created during Japan's remarkable post-war recovery, comprising of high economic growth and the development of social care. The national government, as a response to the voting power of the rural population, realized investments in rural areas to correct regional inequality, in particular through industrial infrastructure build. This regional development programme was implemented by the central bureaucracy through various long term economic development plans. In the 1970s, it was evident in regions that this infrastructure programme had led to environmental degradation and urban sprawl, bringing about a politicization of local politics, the mobilization of citizens and leftist political groups (Krauss, 1985:248).

One of the most influential regional policy instruments in the Japanese case have been the Comprehensive National Development Plan (CNDP) put together by the Ministry of Land Infrastructure and Transport (MLIT). This created the ground for the strengthening of links between the MPs, bureaucracy, businesses and strong interest groups (e.g. farmers' cooperatives) through clientelistic politics and did not nurture indigenous development in rural regions. Since the 1990s, such clientelism favoured through public works construction projects was highly criticised by urban voters, who were now the majority due to the migration in towns and cities,

and the intellectuals. The construction of infrastructure was thought as not being an effective policy instrument to boost regional economies. In turn, Japanese governments suffered from accumulated financial deficits due to overinvestment in the previous period, while the state of Japanese public economics was also influenced by the trade friction between Japan and the USA in the 1980s. After 1994, public funding available to Japanese local government started to deteriorate and by 2003 funding shortages reached an amount outstanding of 199 trillion yen, 2.8% up from the figure of 1991, whilst the ratio of local government debt to GDP was 40.7%.

Special case subsidies provided by the central bureaucracy have been the remedial instrument for Japanese subnational governance funding problems ever since 1976, where fund shortages were met not by reductions in local expenditure but through the increase of transfer payments. The MHA is identified as the key actor that has intervened at the local level to provide for extra funding and thus protect partisan interests, chiefly those of the LDP (Kidera, 2006:2). Local government finance used to provide a range of local welfare and utility services (schools, roads etc) are financed in Japan through three distinct instruments. Concerns on the local allocation tax system in particular were raised by academic experts in public finance the 1980s. However, these could influence institutional reform as they could not participate in policy-making. Reform of the local public finance system had to wait for change to be thought out and introduced by actors in the governance system as highlighted below.

Proceeds through direct taxation amount to 35% of total available funds. The Local Allocation Tax and other national

treasury disbursements provided by the central government correspond to 15% and 48% respectively.⁷ Thus, local governance fiscal expenditure heavily relies on transfers by the central government; a dominant role is exercised by (mainly) the MHA and the Ministry of Finance (MoF). In particular, the role of the MHA is identified as dominant. The MHA is endowed with overall planning of the local public finance, the estimation and delivery of the total amount of the Local Allocation Tax to each local government unit. Furthermore, through the composition of the yearly budget and national accounts, it has a leading position over the determination of treasury disbursements to local governance. However, once the Japanese local public finance system changed in 2004 and 2005 through the so-called “Trinity Reform Package” advanced by prime minister Koizumi, the two ministries did not exercise their roles as above (Kidera, 2006:5-6).

The Trinity Reforms introduced by the Koizumi government in 2004 and 2005 aimed at reducing subsidies, delegate revenue-raising powers through taxation and scale down the Local Allocation Tax amounts awarded to local governance. It further provided the ground for the emergence of new actors in local public finance. Firstly and since its establishment in 2001, the Council on Economic and Fiscal Policy (CEFP), established to reflect the views of private sector experts in economic policy and resembling the Greek expert councils set up in preparation for the 1994-1999 CSF, has provided contributions that have been endorsed by the Japanese Cabinet. Against the earlier

⁷ Source: Local Finance Bureau, Japanese Ministry of Internal Affairs and Communications, http://www.soumu.go.jp/english/c-zaisei/pdf/finance_2.pdf, accessed 22nd March 2007.

backdrop of the absence of expert input to policy-making, the CEFPP has formed the “playmaker” of the Koizumi government politics and policy. Since 2001, it advocated the proposed local finance reform in its wider discourse on the reconstruction of the Japanese economy, while it also assumed the powers of the Committee for the Promotion of Decentralisation (and at least one key actor of CPD) that had worked on the delegation of powers to subnational governance in the 1990s and ceased its activity in 2001. Subsequently, the national government budget for 2002 saw a reduction in the provision for local public finance for the first time (Kidera, 2006:7, 10-12).

Following further work by the CEFPP that outlined further local finance reductions, in May 2004 prime minister Koizumi demanded from the National Governors’ Association (NGA), one of the six national associations that promote closer cooperation among local authorities, to put together the list of local government subsidies to be reduced. As these organizations have been very much inactive in policy-making in previous years, this request constituted an important institutional innovation, as it staged the scene for the following developments in the subnational realm. The NGA prepared the reductions list in collaboration with the other five local governance associations and requested from the prime minister that a new consultative institution be established with the participation of local governance, one that would formally reflect and issue its opinion on the Trinity Reform. The establishment of the “Deliberative Body of the Central Government and Local Municipalities” by the Japanese prime minister in late 2004, where ministers, representatives of the executives and the local council presidents participated, prepared the ground for the Trinity Reform in 2005.

The local governance budget and Trinity Reform of 2004 were met with dissatisfaction by local actors. The MHA stance was also critical. The Minister put together a project team to look at the proposed reforms; it then forwarded an opinion on their implementation that was of favour to local public finance, as it took on board the negative perspective of local authorities and centred on the exclusive decision authority of the MHA over the budget vis-à-vis the MoF and central government.⁸ The discussion of the 2005 reform started in the spring of 2004 in a CEFPP session, with a disagreement between the MHA Minister Aso Taro, who suggested a reorganization of public finance favouring localities, and his MoF counterpart Tanigaki Sadakazu who criticized the proposal. While the LPD itself feared that a wholesale adoption of the new reform would damage the support enjoyed by local politicians, prime minister Koizumi set himself the amount of tax resources transfer and simultaneously requested that the NGA puts together the reduction list to meet this amount. In turn, local authorities thought that while the reduction in subsidies was an unfavourable outcome for them, they very much welcome the transfer tax powers, viewed also as a first milestone towards a more inclusive role for them in future local public finance reform. The transfer of tax power was contingent on the list of subsidies reaching the required amount of three trillion yen. Intensive consultations followed between the NGA and the rest of Japanese subnational governance representative associations.

⁸ Opposition between the MHA and the MoF on local public finance dates back to the second half of the 1970s, where in an era of troubled national finances, the MHA wanted to raise the allocation rates to local finance, to the disagreement of the MoF (Kitamura, 2000:21-23, as cited in Kidera, 2006:9).

The final list was decided through a large majority and was brought to the central government by way of a presentation and discussion of the proposed cuts with the prime minister. The presidents of the six national associations submitted the list to Koizumi and requested the establishment of the deliberative body that would include representatives from the central and local governments to have local opinions directly reflected in the Trinity Reform. This organization was set up in 2005, and the subsidies reduction list was seen through, despite opposition by central government ministries and agencies.

4. Conclusions

This paper has offered a review of developments in the subnational realm in Europe's southern periphery and Japan, as part of the wider impact of the ever-expanding course of European integration and Japan's democratization and economic development since the end of WWII. The influence of integration has been identified as constituting a profound multidimensional effect of change in the member state cases reviewed. The EU regional policy, in involving the EU Commission, national central government and subnational organisations, has been further identified as a key driver of change, promoting economic liberalization, growth and socio-economic modernisation across European territory. In particular, European developments have been mainly connected with the regional tier of governance. This is principally attributed to the underlying policy rationale developed for the re-organised EU cohesion policy in 1988. In Japan, related developments since the 1950s have mainly concerned

municipalities, communities and their representative organizations.

In the southern periphery, the impact of Europe has featured most prominently in the regionalisation of governance systems. Generally, the prospect of EU membership has provided reference and support for democratisation, economic liberalisation and development. The structure of cohesion policy and the emergence of multi-level governance provided the ground for a new institutional context that has favoured actor collaboration and exchange. EU regional policy prompted administrative reform, promoted the growth of civil society in Greece and Portugal and helped Spanish regions network with counterparts elsewhere in the EU in seizing new opportunities and resources for local and regional development. Subnational actors across the periphery perceived the new opportunity structure as one of modernization, advancement and funding for their local polities and communities. In turn, mediating factors at national level, such as government leaders and milestone national aims such as the EMU have provided the ground for domestic change and the re-organisation of the governance structure in Italy, Greece, Spain and Portugal as per the evolving framework of European governance.

In Japan, subnational governance reform has largely been precipitated by problems in public finance. The Koizumi neo liberal Trinity Reform Packages have been a response to this financial crisis. Through the discussion of the interaction between the MHA and the MoF and the mobilization against the reforms at the subnational level, our analysis suggests that the re-organisation of Japanese local public finance is best viewed through rational choice institutionalism. Furthermore, our

analysis comes near to the Samuels thesis that the Japanese central bureaucracy is multi-centred rather than monolithic and seems to stimulate translocal co-operation and the mobilization towards local autonomy (Krauss, 1985:251). At any rate, while the Japanese government promised to promote local autonomy, an alternative regional policy through local initiatives has not been established, although decline in rural economy and economic inequality between classes have now come to constitute key policy challenges for the Japanese government. A recent newspaper survey shows that citizens question about the abilities of local governments as local public administrations for long time relied on the guidance of ministries about strategic policy-making (in social/health service, education, economic planning).

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