

## The Governmental policy of Japanese regional development in modern period

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**Abstract.** The paper researchers the modern aspects of the governmental policy of regional development in Japan, which in its evolution had many changes, based on the problem of time-varying model of general economic growth of Japan. It analyzes the mechanisms of combination of the direct and the indirect methods for encouraging and supporting regions in Japan. The paper also demonstrates the analysis of current financing system of regional policy in Japan which allows identifying the uniqueness of the regional revenues budget's formation.

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### Introduction

Analyzing modern trends and issues of government involvement in economic development in the new millennium, we can register a successful experience of many countries, both Western countries (the USA, Germany, UK, France) and Eastern countries (Japan, South Korea, China and others), which proves that the great advances in conducting effective governmental policies aimed at accelerating the development of industry and economy of the regions, as well as the welfare of population of the country.

The emphasis should be paid to the Japanese experience of governmental participation in the regional planning of the economy. It was exactly Japan, which had completely destroyed industrial basis after the Second World War, and since 1950s, it was constructing the governmental economic policy in such way, in which it can be possible to revive national industries, in condition of practically not having any type of natural resources. It should be noticed the coordinated system of financing regional development prefectures of the country, which is also a special element of the governmental policy in Japan.

Generally, the experience of the regional economic policy's formation in Japan is unique and it deserves the depth analysis and evaluation.

The majority of researchers identified a number of key areas of governmental policy of regional development in Japan: a regional industrial policy within which it was realized the "Integrated development plans of the country's territory" (1960-1970s), conducting the program "Technopolis" (1980-1990s), programs of creating the "Industrial parks" (1990-2000s) and other programs related to the reallocation of the industries [1; 2; 3; 4; 5; 6].

Japanese experience demonstrates that the governmental support of regions remaining a necessity in the market economy. They found perspective mechanisms of direct and indirect methods' combination to encourage and support the regions, as well as attracting participation of private sector in the governmental policy.

The Main Part. In Japan, the government has always been actively involved in the process of economic development of the country. The government support pursued the goal of the objectives of the Japanese economy at all stages of its development. The government develops the strategies of future economical development, defines the priorities of national industries, and widely implements the measures of export stimulations and protection from foreign competitors.

According to the common point of view, the majority of Japanese economical success in the postwar period is the result of the Japanese government, which implements by a set of policy, called Japanese government model [7]. However, there are a lot of doubts about this issue.

The main objective of economic policy in Japan remains unchanged for many years - private business and government work together to improve the country's international competitiveness.

The responsibility for the selection of the direction of economic development lies with the central ministries. The main role has the Ministry of International Trade and Industry (MITI), founded in 1949, now it was renamed in METI (Ministry of Economy, Trade and Industry) [7]. Porter M. [8] emphasized the important role of a complex system of interrelations of the Japanese government and business institutions that determined the nature of competition and cooperation in the Japanese economy.

This system includes besides METI, Ministry of Finance, Ministry of Post and Telecommunications, Bank of Japan, Agency of Economic Planning, the associations of industrialists, Keiretsu [9], Keidanren, large corporations, and others.

METI and Ministry of International Trade and Industry helped companies developing an optimal strategy of development, facilitated negotiations with foreign partners, which in turn contributed to the penetration of Japanese companies in foreign markets.

For the governmental economic policy in Japan, as well as for its regional component, is characterized by three main distinguishing features: the legislative basis (legally enshrined system of financial and economic relations between central and local levels); a clear organizational structure; the divided levels and responsibilities of political aspects.

Japanese Industrial policy at different levels – the national and the regional - has created favorable conditions for the development of a number of industries, which became the basis of the country's industrial growth, contributed to the creation of a favorable investment climate.

One foreign economist Okimoto D. says, Japanese researchers recognize that the market has two functions of great importance - "it determines the structure of private initiatives" and "it provides an excellent feedback mechanism that creates opportunities for self-regulation system", however, there are a number of its shortcomings. Therefore, Japanese people believe that for getting the desired results the "invisible" hand of the market should work together with the "visible" hand of government. This approach to the market is the most evident in the industrial policy [10].

In 1990s METI has continued regulating the development of industry, although its scope, aims and objectives have changed significantly. The several laws were signed, which aim was to support the efforts of enterprises for restructuring production. The enterprises, which want to receive support from the government, should submit to the Ministry "Upgrading production plan". If it receives approval, the enterprise has some benefits: low-interest development loans, the introduction of preferential 25% rate of depreciation for new equipment, income tax concessions, and etc. The list of enterprises includes some major companies as «Toshiba», «Hitachi», «Nissan», etc [11].

Japanese experts say that the adoption of this law shows consensus between business and government on the necessity of continuing the industrial policy, which exists as one of the areas of governmental regulation. If earlier it was a powerful mechanism for determining the strategy and course of

the industrial development of the country, nowadays it is a point impact on this process.

They expected that there would be a future gap in degree of territorial concentration of production and population, as well as in the levels of development of individual regions. In addition, the evolution of regional economic structure shows that the territorial proportions may not fully regulated by the market mechanism, in this area it requires the assistance from the government in form of the industrial policy at the national and regional levels.

Japan has a wide extensive system of regional development agencies. The strategy of regional economical policy is determined by the government. In Japan, there is a practice of taking decisions by the management based on government opinions, which provided by advisor committee. The process of regional development is carried out in the same way.

The ordinary form of participatory of the government and private sector in the implementation of regional development projects is the creation of companies of "third sector" as the optimal form of attracting private capital to social activities (infrastructure). Its activities are fixated by special laws, as well as financial incentives prescribed the methods of these companies (tax benefits).

And, with the help of the government, it were established the general rules of interaction between different participants, formed the basis of cooperation of business and science. The basis of trilateral industry cooperation ("san"), the government ("kan") and Academy of Sciences ("gaku") were laid down in the "san-kan-gaku" system, which created for the development and adoption of new technology in the railway sector. This system is actually a cross-sectoral cooperation, in which the government had initiation and practical implementation of appropriate ideas, defining the rights of participants to use these results together [4].

Planning is a crucial implementation of regional policy in Japan. The governmental economic plans with the program of public investment expenditures by industry have a significant impact on the Japanese economy on macro- and micro-level, stimulating the corporations for strategic planning of its development.

At the end of 1990s in the complex regional plans it was fixated as the main goal the social problems, and so along with the research of socio-economic potential of regions, much attention is given to identifying preferences in the social sphere. It is always using a various methods for incorporating these preferences, but the general principle is a comprehensive assessment of level of social development of the region by using the integral

indicator (net national wealth - NNW, which includes 9 groups of parameters [4]: the environment, the social infrastructure, income, housing, living environment, education, security, free time and others). For different plans for each group it is taken some of the most important indicators. Population can participate in this process through both by advisory agencies, as well as by public opinion polls.

Then, it is the next stage of planning - coordination and assessment of the project. The expertise of the plan consists of three aspects: economical (optimal allocation of resources), social (improvement of living standards of the population) and environmental.

The estimated volume of investments is allocated to 9 economic regions in different proportions, then the economic impact of investment in the form of targets growth calculated and thus it is elaborated the optimal size and structure of investment. It also carries out the calculations of the influence of the demand generated by public and private investments. On the basis of common objectives it is formed part of a plan, which include the desired image of the region at the end of the planning period, a system of goals, the most important spheres of action plan and strategic policy development.

Nowadays, the Japanese government has developed a modern anti-crisis program within the overall strategy of national industrial policy.

With the beginning of the crisis in the global economy, the Japanese government was actively involved in the economic sphere, in particular for developing and implementing the anti-crisis program. The priorities of the governmental policy began changing, the Japanese government has identified specific areas of support – social sphere, regional policy and support for small and medium enterprises.

Since 2008, the Japanese government began taking the anti-crisis measures, which are characterized by a clear structuring. The ongoing crisis program has three main objectives:

1. "Withdrawal of public disturbance" (emphasis on the maintenance of a stable standard of living and employment, improving health and social care and support of education);

2. Creation of "society of stability" (by energy saving, supporting agriculture, forestry and fisheries, which help bringing food self-sufficiency to 50 per cent);

3. Facilitate adaptation to the new cost structure and strengthening the growth potential growth by supporting of small and medium-sized enterprises.

For achievement of these goals it was adopted supplementary budgets. Collectively, the

budgetary allocation for the anti-crisis program includes 750 billion yen, including 120 billion for direct payments and tax breaks (approximately 2% of GDP). The Japanese government has identified three priority areas: daily-life of people, small and medium enterprises, and regional policy.

The budgeted anti-crisis measures (2009) for supporting people's daily-life include: unemployment insurance, supporting for domestic demand directly by people (the introduction of annual subsidies per adult - 12 thousand per child - 20 thousand), establishment of a fund to encourage the introduction of new jobs in the regions; tax cuts for a person. The support for small and medium enterprises includes guarantees for emergency loans and special loans (income tax reduction for small and medium-sized enterprises to 18%).

The third direction of support through additional budget has been defined regional policy. Its new components include: decentralization of power, empowerment of local and regional authorities; compensation of declining tax revenues, increasing the share of the remaining national taxes in the region, the creation of conditions for the formation of regional development funds.

Entering the new millennium in conditions of global crisis, in Japan it has developed a "Strategy for a New Economic Growth", which in addition to indicated anti-crisis measures was elaborated the main directions for the long term period - high environmental standards (energy-saving technologies, reducing of the greenhouse effect, the active use of new forms of energy), high standards of health and high life expectancy, development of a new strategy for information and communication technologies; mobilization of internal resources of the country (the creation of well-known brands, tourism, etc.).

One of the fundamental principles of the anti-crisis policy of Japan was identified as the principle of statehood. In times of crisis it is important to return the government to the economy of the region. However, the forms and the mechanism of its presence must be new, and the nature of government regulation completely changed. Deregulation needs to be replaced by regulation.

#### **Financing system of regional policy in Japan**

The necessity of revising the existing system of financing of local government, compounded total deficit of state and local finances, prompted the government in 1990s elaborated two objectives - decentralization and consolidation of cities, towns, villages by merging process.

Since 1993, Parliament ordered the government to begin the decentralization process. The ratio of state and local taxes at the time was 6 to 4, while the ratio of costs accordingly – 4 to 6. As

before, the government allocated to local authorities considerable funds in the form of various subsidies, the purpose of which was determined and controlled by the power of the center [12].

The local authorities has resistance against the governmental policy on reduction of government subsidies, Koizumi government has put forward the concept of "Package reform in three areas", which refers to the simultaneous implementation:

1) Reduction of government subsidies for education, social services, local public utilities and the like;

2) Program of transforming in local level its own tax sources of funding;

3) Reforms of existing tradable tax.

According to this governmental policy since 2003 the government subsidies to the regions have been reduced by about 560 billion yen. In period of 2004 - 2005 it continued the reduction of assignable tax by almost 12%, and it was a great shock to the administration of prefectures. Because of this the local governments are faced with a serious problem of lack of funding. In the future, because of dissatisfaction with the local authorities and the general mistrust of this reform, the Cabinet decided to revise this policy.

As for the objection of integration of cities, towns and villages, the aim was to reduce the cost of administrative services. It was given the task - to reduce the number of primary units of local government from the number of 3447 (2001) to 1000-1500 units, about in 3 times. The role of government was to create favorable conditions for the merger. It was adopted a series of laws aimed at promoting mergers and by 2013 the number of units of local government was reduced to 1719 units [5].

At modern stage of governmental funding of regional development policy includes three main areas:

1) Public investment in infrastructure construction, as well as targeted funding programs for regional development;

2) Allocation of financial resources from local budgets;

3) The provision of preferential loans and tax incentives to private companies for their involvement in the economic development of less developed regions included in the governmental plans.

One of the forms of implementation of the government budget as it relates to regional development is subsidies having a strict target orientation.

Revenues in the government budget of Japan is completed from taxes, stamp duty (50%) and government loans (50%) (prefectural and municipal loans).

**Table 1. Income part of local budgets (average prefectural data)**

	2003		2012		2013	
	Trillion yen	%	Trillion yen	%	Trillion yen	%
Prefectural taxes	32.7	34.4	36.0	44.0	36.5	44.5
Tradable taxes	19.7	20.8	17.5	21.4	17.1	20.9
Target donations (from central budget)	13.0	13.8	11.8	14.4	11.9	14.5
Local loans	13.8	14.5	11.2	13.7	11.2	13.6
Others	15.6	16.5	5.4	6.5	5.4	6.5
Total	94.8	100	81.9	100	81.9	100

Prepared by using [5; 12; 13; 10; 14; 15; 19].

**Table 2. Expenditure part of local budgets (average prefectural data)**

	2012		2013	
	Trillion yen	%	Trillion yen	%
Expenditure on governmental wages	21.0	25.6	19.7	24.1
General administrative expenditure (expenditure on social welfare, insurance, medical service and others)	31.1	38.0	31.8	38.8
Expenditure on extending the economy of regions and providing employment	1.5	1.8	1.5	1.8
Service of Prefectural loans (bonds)	13.1	16.0	13.1	16.0
Investment expenditure	10.9	13.3	10.7	13.1
Others	4.3	5.3	5.1	6.2
Total	94.8	100	81.9	100

Prepared by using [12; 13; 10; 14; 15; 16; 17; 18; 20].

The significant increase in prefectural tax revenue in local budgets is a good trend that shows less dependence on the center budget.

The most costly budget item (almost 40 %) of the expenditures of local budgets is "General administrative taxes", such a high percentage is due to the problem of Japan's aging population.

We note that from the middle of 2013, the Japanese government decided to cut the wages of civil employees by almost \$ 1 trillion yen and use the funds to the financing the expenditure of the 2011 earthquake's victims [19].

The third largest expenditure item "Service prefectural and municipal loans", it is due to Japanese special feature from other developed standard in terms of government and local loans.

### Conclusion

In the Japanese economy the government plays a great role, demonstrating the effectiveness of their interventions for coordination and interfacing of regional interests, private business and population, conducting systematic industrial policy. The government promptly responds to changes in the global economy and make more elaborate clear plan of action, according to the new conditions of economic development.

Thus, we note that despite of the shortcomings and possible adjustments, the economic policies of Japan throughout all history demonstrated its efficacy. Japan has a great experience in government regulation policy - postwar recovery period of completely destroyed industry (1945) - unbundling of zaibatsu - Japanese family corporation; restructuring of the industry after the oil shocks of 1973 and 1979, when the government repurpose many industries and conducted extensive retraining policy,

1980s - the policy of eliminating of uncompetitive industries and support competitive and 2000s - the recovery phase after the disaster in 2011. All of the shifts in industrial production were carried out by the government through the mechanism of Japanese industrial policy. The participation of the government in the economical development contributed to the planning of building a strong industrial base in Japan, it is a tool of government involvement in industrial restructuring in times of crisis.

A key aspect is the government planning of the economy, in which private business and government working together to increase the international competitiveness of the country. This requires a clear distinction between the functions and responsibilities of the designated bodies to develop effective feedback mechanisms that allow for flexibility of the economy.

In regard to funding for the regions of Japan, we note that for many years the deficit of local finance is constantly increasing, and the government has a heavy burden of funding the region, which consist of redistribution of taxes, subsidies.

The government's priority is to reduce the tradable tax and encourage prefectures to increase self-sufficiency. The government makes it clear that in a difficult situation it would help, but the government is still waiting for initiatives from the regions.

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