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# Centralization in Japan and the Significance of the Interchange Activities in the North Pacific

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## Preface

This paper aims to examine the important role of interchange activities between Hokkaido and other Northern Pacific areas; especially, interchange between Hokkaido and the Pacific coast of Canada and Alaska, in light of recent developments on the Japanese scene. Industrial activities and population have been concentrated in the three metropolitan areas of Tokyo, Osaka, and Nagoya during the period of high economic growth. Differences in per capita income between these metropolitan areas and other local areas also increased at the same time.

The total development policy of national land has been undertaken so as to maintain consistency with the policy of high economic growth started in 1960. This policy aimed to decentralize industries and population, but it was difficult initially to make it compatible with the high rate of economic growth in Japan. The tendency toward concentration continued until the disadvantage of congestion in advanced areas was revealed as a serious problem.

After 1970, the difference of per capita income between the three greatest metropolitan areas and other local areas has gradually decreased, keeping step with the decentralizing tendency of industry and population. This tendency became clear after the first oil crisis in 1973.

Soon afterwards, however, the difference in various economic indices between the Tokyo area and others including Osaka and Nagoya, has expanded again.

The recent situation is usually called "one-point concentration in Tokyo". It can be said that Japan consists of two countries, one Tokyo and one the rest of the nation. To improve such a situation, many ideas such as transfer of the capital and decentralization of governmental function are being proposed. It would be difficult for Japan to alter its centralized political and economic system, however.

Hokkaido as well as Kyushu, far from the metropolitan area, cannot be expected to take responsibility for a part of the capital's function.

Nowadays, Kyushu in the southern part of Japan, is attempting to increase interchange activities between herself and the southern Asian countries. Interchange activities in the North Pacific will play an important role for Hokkaido in future just as does the interchange between Kyushu and the South Asian countries now.

In Section one, I will show the situation pertaining in each area of Japan, and give an outline of the concentration tendency toward in the period of high economic

growth. Secondly, I will analyse the reason why such concentration appeared during that period.

In Section three, I will show Japan's centralized system, especially relating to the tax system. In Section four, I will explain the important role of inter-change activities between Hokkaido and the North Pacific as a strategy for the regional development of Hokkaido.

## 1 The Central and the Local Areas in Japan

A recent event in Japan has been the proposal by various groups of businessmen, members of the academic society, and other groups who are interested in regional problems, to promote various types of projects.

Not only the less advanced areas but also the advanced ones have serious problems, namely, congestion, an abnormal rise in land prices, and so on.

Therefore, there are many large-scale infrastructure development projects which are being undertaken in Tokyo or the Kansai, the most representative of which is construction of the New Kansai International Airport.

In the less advanced areas, many types of projects are being undertaken. The overseas interchange project that I refer to is one of them.

The aim of such projects is different according to the character of the area. In advanced areas, especially in Tokyo, the aim is to solve the land problem, and in many local areas, to stimulate a stagnant economy.

In the paragraphs to follow I would like to explain in more detail some of the background to the current problems.

In the course of high economic growth in Post-World-War II Japan, both population and industry have concentrated on the advanced areas, namely, the three big population centers of Kanto, Chubu, and Kinki. These three metropolitan areas can be described as follows: Kanto, including three big cities, Tokyo, Kawasaki, and Yokohama; Chubu ... Nagoya; and Kinki ... Osaka, Kyoto and Kobe.

From a national perspective, then, Japan is usually divided into two types of regions, those referred to as the central or advanced areas, the three big metropolitan areas of Kanto, Chubu, and Kinki; and the local or less advanced areas representing the rest of the country. While at the present time the term central has come to mean metropolitan areas, it is important to note that even now residents of Kinki and Chubu often consider themselves to be living in local areas, and the designation "central" has been accepted by them only in recent years. This change in classification is one indication of rapid economic growth in Japan, especially the growing concentration of population and industry.

Income differences between the central and local areas have increased in the Post-World-War II period. Per capita income in each prefecture is approximately as follows: If average income per capita is established as 100, Tokyo was 138 in 1950, while Kagoshima to the South was 73, the difference being 65 points. Concerning the comparison between the three big metropolitan areas and other local areas, average income per capita of the former was 115, while that of other local areas was 95 in the same year. This gap has widened since 1955. In 1970,

the peak of high economic growth, Tokyo had a per capita income level of 156, and Kanagawa, immediately adjacent to it, had the rank of 3. In contrast, Kagoshima to the South, one of the poorest prefectures in Japan, stood at the rank of 46 and income 56, respectively. It should be emphasized that these three metropolitan areas comprise only 9 prefectures and only one-seventh of the total area of Japan, yet support approximately one-half the total population of the country. In contrast, the non-metropolitan or local areas of the country have experienced dramatic population decreases.

*Table 1* shows the population trend and per capita income in each block from 1960 to 1980. We can easily see that population has been more and more concentrated in the metropolitan areas.

These three indices show a parceling tendency. The aforementioned observation about population concentration is further reflected by comparing income levels and the industrial structure of various prefectures. A simple graph shows, for example, that the ratio of manufacturing to the total sales volume of all industries or the total number of employees, can represent its horizontal axis, while per capita income represents its vertical axis. By taking the combination of both indices by prefecture, the trend swings clearly to the right. In contrast, if we measure the ratio of primary industries within the total industrial structure on the horizontal axis, and per capita income levels on the vertical axis, the correlation curves downward and to the right. Generally speaking, the industrialized regions are advanced. These areas, as noted in part above, correspond to Japan's four main industrial zones which have existed since the pre-war period, corresponding to Tokyo-Yokohama, Osaka-Kobe, Aichi, and Northern Kyushu. Each zone faces one of the larger bays in the Japanese islands. An additional point about the analysis presented so far is that it aids in the identification of less advanced areas in Japan, corresponding to Kyushu, Shikoku, Northern Tohoku, San-in to the west of Japan facing the Sea of Japan, and Hokkaido. These areas are generally less industrialized although a key objective of each prefecture or region has been to encourage industrialization and, in fact, this objective has been realized to a certain extent during the period of rapid economic growth. This has been especially true since 1962, the year in which a comprehensive national development policy was initiated. But even in this case the main focus was on the Pacific Coast, which has the most favorable attributes for industrialization. The western and northern coasts of Japan, corresponding to the Sea of Japan, in contrast, have not industrialized as rapidly due to environmental circumstances and decline in trade with the Soviet Union.

#### Features of the National Development Policy

A policy of high economic growth was begun in 1960, although the growth rate had already increased after 1951 as influenced by the Korean War. This policy was characterized by the income-doubling program. Many policies (industrial, agricultural modernization, etc.) were planned so as to be consistent with the idea of an income-doubling program.<sup>1)</sup> Planning of the total development of national land was one of them.<sup>2)</sup> The first plan for the total development of national land was established in 1962. Its main idea was to promote high economic growth,

using all national land effectively. However, it was required that the efficiency of both public and private investment should take precedence over other purposes, for example, contraction of the income difference between advanced areas and the less advanced areas. Concerning the efficiency of investments, concentrated areas are more favourable than are other areas.

The planning authority adopted the development policy's main points which resulted in the idea of Pacific Coast beltzone development. By 1965 or 1970, the negative effect of excess concentration in big city areas has gradually become a serious problem.

The second total development of national land was planned in 1969.

This plan aimed to disperse industrial location more than the first plan did. It was characterized by the dispersion of factories, but central administration was more and more concentrated in the Tokyo area.

The dispersion of population and industry was slightly achieved partly by the dispersion policy and partly by disadvantages of congestion in the metropolitan areas. Evidence can be found in the following index. *Figure 1* shows the trend in transfer of population between the three metropolitan areas and other local areas. The weak line shows the number of migrations from local areas to the three metropolitan areas.

The dotted line shows the number of migrations from the three metropolitan areas to local areas, and the solid line shows excess transfer. The number of migrations from local areas to the three metropolitan areas had increased in the period of high economic growth and showed a peak in 1970 when economic growth approximately arrived at its peak at the same time. After 1970, transfer from local areas to the three metropolitan areas began to decrease. Transfer from the three metropolitan areas into local areas has also increased though the number is relatively small. As a result, excess transfer into the three metropolitan areas was high and its index peak was 1961. After 1970, transfer into the three metropolitan areas began to decline, while an increasing tendency to transfer from the three metropolitan areas to local areas has continued. As a result, the number of excess transfers from local areas to the three metropolitan areas decreased until 1976. Seeing such a phenomenon, both government authority and journalism called it the U-turn of migration. However, the U-turn has not continued. Since 1977, excess transfer into the three metropolitan areas has began to increase again. But it was fairly different in character from its tendency in the period of high economic growth. It was only the Tokyo area where transfer-in exceeded transfer-out. In the other two metropolitan areas, transfer-out has continued.

The graphic situation can be seen in *Table 2*. Figures show excess migration. The number of excess transfers from other areas has radically increased in Tokyo since 1981, while in the other two metropolitan areas it has continued to decline. The total sum of excess transfers into the three metropolitan areas has gradually increased after it showed a minus value in 1976.

We then conclude that the nature and significance of concentration is different before the first oil crisis and after it.

The period of high economic growth can be characterized by concentration in the three metropolitan areas, and the period after the first oil crisis can be

characterized by the word "one-point" concentration.

An interesting fact relates to the relationship between migration and interregional income. A significant correlation exists between excess transfer into the three metropolitan areas and the difference of per capita prefectural income. *Figure 2* shows a trend in the number of excess transfers into the three metropolitan areas and a trend of variance in the difference of per capita prefectural income. The solid line shows the number of excess transfers into the three metropolitan areas, and the dotted line shows the variance of difference in per capita prefectural income. Two indexes show parallel movement. It can be said that the concentration means an expansion of income differences at the same time. We must point out that concentration does not only mean that of the population and industry, but also of culture, political power, etc.

## 2 Reasons for the Regional Concentration of Industrial Activity in Japan

It should be noted, parenthetically, that there are many reasons why the Pacific Coast of Japan has emerged as the dominant industrial zone. First, the absence of any extensive natural resources in Japan has led to massive imports of energy and raw materials through the major ports, entry points which could also be used for export of finished products. Second, there is the historical fact that most of the industries in Japan contributing to high economic growth in the Post World War II period — such heavy industries as iron and steel, shipbuilding, automobiles, and petrochemicals, — have located their facilities on the Pacific side of the country. Even with the creation of a new comprehensive development plan named the Second National Land Total Development Plan in 1969, which aimed to disperse industries throughout the country, the Pacific Coast has remained the dominant industrial zone. As we have noted above, population during the last decade has not dispersed in Japan, but has been further concentrated in the three main metropolitan areas.

Partial failure of the 1969 policy requires analysis which goes beyond historical or natural resource circumstances. I would suggest that the industrial Pacific zone can be further explained by noting that most manufacturing firms have two branches, a production branch and an administrative branch. While factories tied to the production branch may be dispersed, the administrative branch relies heavily on its central location. The central administrative function is not only tied to particular places, but also has the capacity to absorb population, thus reinforcing its location in metropolitan areas. In contrast, as automation continues in the production branches of many heavy industries, their capital-intensive character becomes dominant.

The city of Tokyo therefore emerges as a key site capable of supporting the administrative functions of many industries in Japan. But the universality of the Tokyo pattern comes into question in comparison with that of the U.S., a country where most home offices of heavy industry are not located in Washington, D.C. In Japan, at least, Tokyo is key not only because it is the center of political affairs in the nation, but also because it is the focus of central administrative functions in the Japanese economy. This phenomenon suggests that executive functions and business activities are closely tied to each other in Japan. It is in Tokyo that

business leaders and bureaucrats — the officials who interpret policy and make decisions which support or permit economic development — can maintain close contact with each other.

### 3 Centralization of the Tax System

The effect of policy on the business investment climate can be discussed in terms of the national tax system. The current taxation system, borrowed in the large part from the United States — the so-called Shoup System — is based on the relationship between national and local tax. Total tax revenue consists of two types, namely, a national tax and a local tax. At least two-thirds of the total revenue in Japan is collected through the national tax. Both personal income tax and corporate income tax are collected through the national tax system. Property taxes, on the other hand, are local taxes. Many types of indirect taxes (the tobacco tax, etc.) were local taxes before the new tax reform to introduce a general consumption tax was enacted.<sup>3)</sup>

An analysis of tax revenue and expenditure is extremely interesting. In the case of revenue, income rate at the national level is twice that at the local level.

In terms of expenditure, however, twice as much revenue is paid out by local government than by the national government. This means that a significant amount of tax revenue of the central government is transferred to the local government, whose total tax equals only one-third the total national revenue. Such a transfer clearly has the effect of redistributing income at the interregional level. We can characterize the Japanese tax system as one that promotes income redistribution because tax revenue from the more advanced areas, where tax income is higher, is being redistributed to the less advanced areas. This revenue transfer is called the "delivery tax to the local areas". This tax transfer is based on such criteria as the difference between the required fiscal size of a local area and its possible local tax revenue. The Poorer areas cannot help but rely on transferred taxes, often depending on the central government for 60 to 70 per cent of its expenditures. It is often said, for example, that many local areas are only 30 percent autonomous since they rely on the central government for two-thirds of their tax revenue. This situation reinforces the view that the Japanese political system is highly centralized in terms of its influence on local as well as large metropolitan areas. Interregional income redistribution is one example of the way in which local areas rely on the central government at the expense of a local autonomy. Ironically, local autonomy — the ideal of a democratic form of the government — was one of the reasons for the importation of the Shoup Tax System into Japan. The discrepancy between policy and the current situation is very clear cut.

In short, the tax story is one example of the way in which Japan is a highly centralized country, in spite of the "local autonomy" ideal since the central government has power to regulate local government due to its great fiscal influence through the national tax system.

Given these circumstances, it is not surprising to note that almost all the prefectures and local cities have a Tokyo office for the purpose of maintaining good relations with the central government. In addition, many officials of the local

government dwell in Tokyo. A similar pattern is found in the private sector since the central offices of many firms are located in Tokyo to maintain contact with financial intermediaries and public agencies. In turn, local firms have representatives in Tokyo to maintain contact with larger firms. And finally, Tokyo boasts a tremendous concentration of universities; of the two million students in Japan, an estimated sixty percent of them live in Tokyo or the surrounding area.

All this means that fairly high amounts of money are transferred from the local to the metropolitan areas; in the case of Tokyo it becomes the center not only of the administration but also of economy and culture. Again, local autonomy may be one of the ideals of post World War II democracy in Japan but, in fact, the situation is almost the opposite. The central government retains much more power than the local governments.

#### 4 Recent Tendency of One-Point Concentration in Tokyo and Responses of Local Areas to It

As we have seen, the excess transfer of population into the Tokyo area has rapidly increased since 1980, the reason for this tendency given as follows: Tokyo has become one of the centers in international finance. The center of international financial markets was once the city of London, from which it shifted to Wall Street in New York after the end of World War I.

The recent status of Tokyo looks familiarly like the phenomenon that Wall Street once was, although its size and influence is relatively smaller than Wall Street's. Such a status brought on by the fact that Japan became a strong creditor nation through the accumulation of a favorable balance of trade. Many offices of foreign enterprise have therefore located in Tokyo. Another reason for one-point concentration in Tokyo is the fact that the number of factories established, especially in heavy industry, have decreased since the end of high economic growth. If the high economic growth caused by expansion of the manufacturing industry had continued, dispersal of the industrial location which appeared for a few years in the 1970's might have increased, so that the tendency toward concentration might have been weakened. However, the Japanese industrial structure changed considerably.

For these reasons, one-point concentration in Tokyo was brought about. The fourth total plan for national land development established in 1987 described Tokyo as a "World City". Many people in other areas protested against such a description because authorities had justified the apparent necessity of extreme concentration in Tokyo.

The plan was somewhat revised against strong protest in local areas. The general public, however, could not help but realize the fact that such a strong tendency toward concentration in Tokyo had to continue, lest cracks in Japan's economy — and the world's — should appear. To break the deadlock, various ideas were proposed by many specialists. These proposals can be classified by the following three types: The first is transfer of the capital city which aims to disperse the central-administration function.

The second is the idea of a Tokaido megalopolis. It asserts that Tokaido,



which includes three metropolises, can be regarded as one big-city area. It will take only one hour from Tokyo to Osaka by means of a new type of high speed transportation system called "linear motorcar" in the near future. It means that the New Kansai International Airport will be fairly able to become a substitute for Narita Airport which is now facing serious congestion problems.

These two proposals are geared to promote concentration into the advanced areas, along the Pacific coast area. Hokkaido and Kyushu will not be radically affected — yet.

The third idea, which is just our idea, is as follows.

If a dispersion of the central administration is to be undertaken, the function will not be transferred into Hokkaido or Kyushu which are far from the center of Japan. The geographical position of both Hokkaido and Kyushu should rather be taken into account. These two areas will be expected to develop an interrelationship with other countries abroad. The countries which Kyushu and Hokkaido face, respectively, are full of contrasts. Kyushu faces Asian countries which are newly developed or developing countries on the one hand, and Hokkaido faces a less developed area in the developed countries, namely, the north-western region of Canada, Alaska, and Far Eastern Russia.

The most important role of Hokkaido through inter-exchange activities with other areas is one of transit trade, specially its function as import base from these countries and export base to central Japan. Japan has a fairly large market. Eighty-seven per cent of its GNP is consumed by domestic demand. This means that the rate of export in GNP is only thirteen per cent, and it is a very small ratio compared with countries other than the United States.

To solve trade friction between the U.S. — Japan or EC — Japan, it is important that Japan promote imports, though trade friction cannot be easily solved only by the expansion of domestic demand. Of course, Hokkaido is a part of Japan and not an independent country. But we can conceptualize that Hokkaido might be regarded as an independent country. If so, Japan the nearest neighbour of Hokkaido is the largest market for Hokkaido. We Japanese have had a strong identity as Japanese compared to citizens of other nations. Therefore, we have also had an illusion that all the areas within Japan have a common interest with Japan in her relationship with foreign countries.

Japan is not a country of federalism. On the contrary, Japan is too highly centralized. This is the reason why so many people in the local areas have clung tenaciously to above-mentioned illusion. Recently, however, a change in the attitudes of people in the local areas is beginning to surface, especially in Kyushu and Hokkaido. To put it bluntly, it is the thought that we don't have to be faithful for Japan any longer.

There are in existence ideas for promoting imports, the establishment of a free trade zone, deregulation in air transportation (making possible the entry of foreign air services), etc., among which also are many obstacles. However many the obstacles, nonetheless, we believe that the only way out of the present impasse is to decentralize the Japanese political and economic systems.

## Footnotes

- 1) The program was proposed by Prime Minister Hayato Ikeda, who was a typical rationalist in 1960. The high economic growth policy was initiated by him.
- 2) One of the most important features of Japanese economic policy could be found in the consistency among various policies in the period of high economic growth. The planning which had a priority to other plans was income-doubling program. Other policies and plans such as modernization of agriculture, modernization of manufacturing industry, the total development of national land and the regional development were undertaken so as to be consistent with the idea of the income-doubling program. The regional development plan in each prefecture was also planned so as to be consistent with the planning of the total development of national land.
- 3) Shoup tax system was characterized by the effect of income redistribution. It had two types of redistribution. The one was redistribution among income classes and the other was redistribution among regions.

Figure 1. *Transfer of Population into Three Metropolitan Areas*

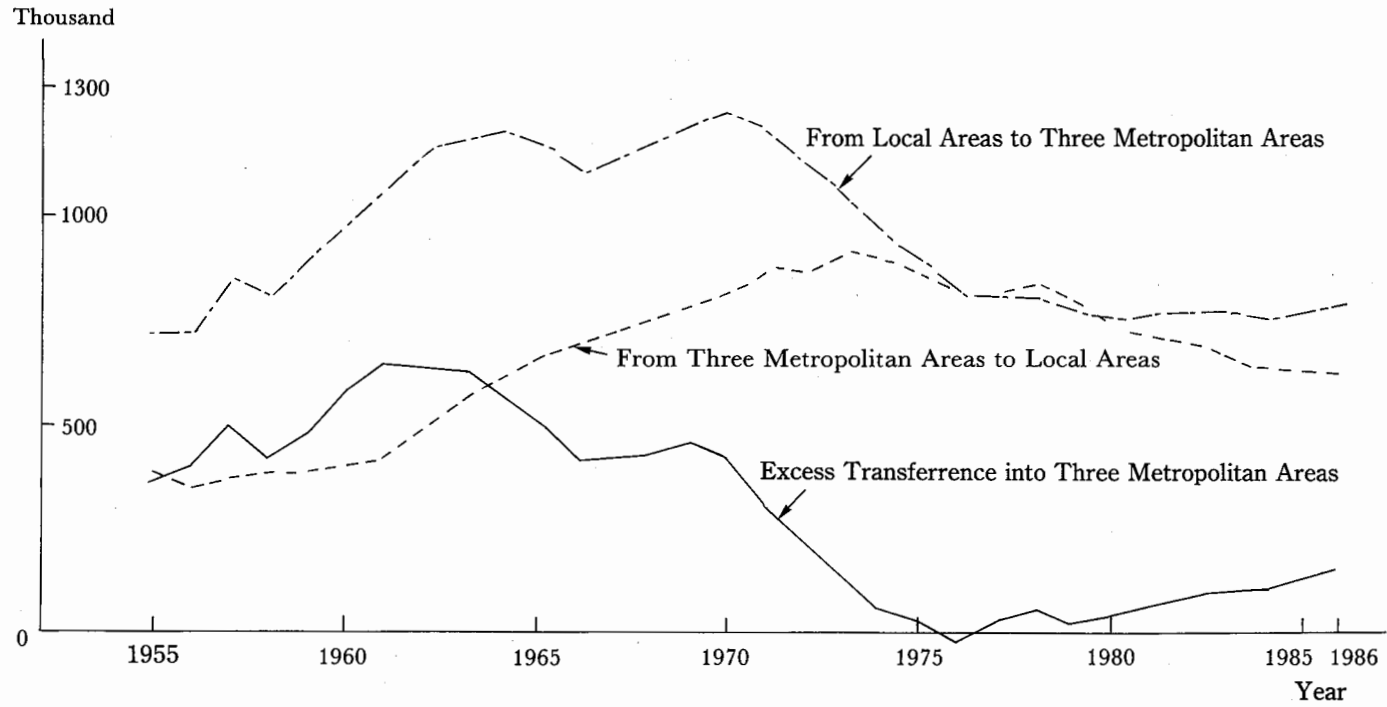
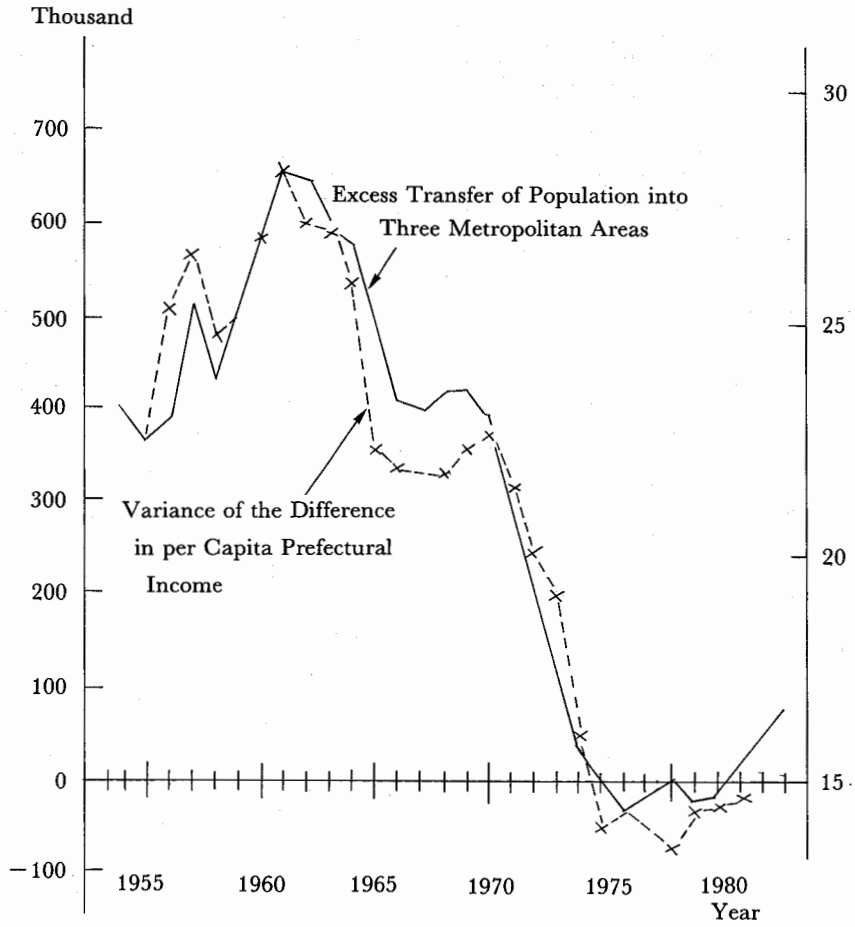


Figure 2. *Trend in Excess Transfer of Population into Metropolitan Areas and the Difference of Per Capita Prefectural Income*



(Note) According to Sorifu, "Report of Migration" and Economic Planning Agency, "Annual Report of Prefectural Economy."

Table 1. *Population Growth in 8 Blocks of Japan*

Block \ Year	Total Population in Each Block (Thousand)					Population Growth in Five Years				Population Growth in Ten Years	
	1960	1965	1970	1975	1980	1960-65	1965-70	1970-75	1975-80	1960-70	1970-80
Hokkaido	5,039	5,172	5,184	5,338	5,576	2.64	0.23	2.97	4.46	2.88	7.56
Tohoku	9,326	9,108	9,031	9,233	9,572	△ 2.34	0.85	2.24	3.67	△ 3.16	5.99
Kanto	23,003	26,200	29,495	32,838	34,893	13.90	12.58	11.33	6.26	28.22	16.26
Chubu	18,050	18,803	19,634	20,838	21,671	4.17	4.42	6.13	4.00	8.78	10.37
Kinki	14,031	15,776	17,401	18,831	19,522	12.44	10.30	8.22	3.67	24.02	12.19
Chugoku	6,945	6,871	6,997	7,366	7,586	△ 1.07	1.83	5.27	2.99	0.75	8.42
Shikoku	4,121	3,975	3,904	4,040	4,163	△ 3.54	△ 1.79	3.48	3.04	△ 5.27	6.63
Kyushu	13,787	13,304	13,017	13,460	14,072	△ 3.50	△ 2.16	3.40	4.55	△ 5.58	8.10

Table 2. *Excess Transfer of Population in Three Metropolitan Areas*

(Unit : thousand)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Tokyo Metropolitan Area	65.8	44.4	56.8	69.7	53.1	49.9	74.9	89.5	109.3	112.6	122.6	155.7
Nagoya Metropolitan Area	△ 9.6	△ 11.8	△ 2.8	△ 3.4	△ 6.3	△ 2.6	△ 1.7	△ 1.9	△ 4.0	△ 2.3	6.9	11.0
Kansai Metropolitan Area	△ 35.2	△ 42.8	△ 44.9	△ 39.9	△ 40.9	△ 35.0	△ 27.7	△ 21.4	△ 12.8	△ 11.2	△ 18.9	△ 8.5
Total	21.1	△ 10.2	9.1	26.4	6.0	12.3	45.5	66.1	92.5	99.1	110.6	158.2

(Note) 1. From The Statistical Bureau of Sorifu, "Report of Migration".

2. Three metropolises means

- ① Tokyo Metropolitan Area...Saitama, Chiba, Tokyo, Kanagawa.
- ② Nagoya Metropolitan Area...Gifu, Aichi, Mie.
- ③ Kansai Metropolitan Area...Kyoto, Osaka, Hyogo, and Nara.