

Political Party as an Agent for Sub-national Governments: Comparative Study of Japan and Canada

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Abstract

This paper deals with how party organization plays a role in intergovernmental relations in Canada and Japan. This paper will compare these two countries focusing on the negotiation between the central and sub-national government on financial transfer cut from the central and sub-national government. Central governments in these two countries have implemented financial transfer cut to sub-national governments since the 1990s. In Japan, the central government has significantly changed the financial transfer system since the 2000s. Canadian federal government also carried out financial transfer cut since 1996. This paper will examine whether the difference of party system in Japan and Canada would affect the result of financial transfer cut and reveal the importance of party organization in shaping the negotiation between the central and sub-national government.

1. Introduction

This paper will clarify how sub-national governments¹ work on the policy-making process at the central government by focusing on financial transfer cut from the central to sub-national governments. How do sub-national governments try to protest against the financial transfer cut through the intergovernmental negotiation? To investigate the factor which influence the intergovernmental negotiation this paper will compare two countries; Canada and Japan. Both countries carried out the

¹ In this paper, sub-national governments mean prefectures in Japan and provinces in Canada.

financial transfer cut, but the result of Japan was slightly different from that of Canada. Japanese prefectures partially succeeded at reflecting their interest in the reform although Canadian provinces did not. Why does this happen?

This paper focuses on the party organization to answer this question. Canada represents the country where party organization is completely separated between the central and sub-national government. On the other hand, Japan is often pointed out that the patronage linkage between the central and local party is quite strong, and therefore, the party organization between the two levels of governments is strongly connected.

A lot of studies have been done about the relation between party organization and intergovernmental relations. Most of them, however, have placed too much emphasis on how intergovernmental relations affect the party organization². Therefore, past literatures have overlooked the reverse causal relation. It is how party organization would affect intergovernmental relations. In fact, some important studies since the 1980s have pointed out that party organization is the key for local governments to make their voice heard at the central government³. Therefore, this paper tries to fill this gap in the past research by focusing on the party organization connection between the central and sub-national government.

Japan would be the typical example with a strong party connection between the central and sub-national government. The LDP and DPJ, two major parties in Japan, have established local branches in all prefectures. As a result, sub-national governments can work on the ruling party at the central government through party organization. In contrast, Canada would be the best example where the party organization is divided between the central and provincial government⁴. Parties at the federal government have local branches at provinces, but they are different from the provincial party organization. Thus, provincial governments in Canada do not have the party route to work on the ruling party at the federal government and the negotiation between the federal and provincial governments is said to be similar to the diplomacy⁵.

This paper will compare these two countries focusing on the negotiation between the central and sub-national government on financial transfer cut from the central and sub-national government implemented since the 1990s. Financial transfer from the central to sub-national governments is one of the main revenue sources for sub-national governments in most countries in the world. Sub-national governments should make every effort to avoid the cut. Canadian federal government carried out financial transfer cut since 1996. In Japan, the central government has significantly changed the financial transfer system since the 2000s. This paper will examine whether the difference of party system in Japan and Canada would affect the result of financial transfer cut and reveal the importance of party organization in

² Caramani (2004), Chhibber and Kollman (2004), Hopkin (2009), Hopkin and Houten (2009), Thorlakson (2009), Fabre (2010).

³ For example, see Ashford (1982).

⁴ See Simeon (2006).

⁵ Simeon (2006).

shaping the negotiation between the central and sub-national government.

2. Past Studies

A large number of studies have dealt with intergovernmental relations and its consequences on decision making at the central government. Recent studies especially pay their attention to the partisanship at central, sub-national and local governments. However, less attention is paid to the party organization itself. In the following part, this paper will review the past studies which are possible to explain the difference of Canada and Japan.

2.1. Political Leadership

First, the political leadership is one of the key factors in the policy making at the central government. In Japan, as a result of electoral reform in the 1990s which changed the SNTV system to the single member district system at the Lower House election, the prime minister has been more influential in the central policy making process⁶. In addition, a lot of studies in Comparative Politics have pointed out that the single member district enhances the leadership of prime minister⁷. Especially, some studies argue that financial transfer cut is key idea in accomplishing smaller government in both Canada and Japan⁸. However, these studies almost ignore sub-national government in their research because they focus on only central government policy making. Therefore, sub-national governments seem to be powerless in influencing the decision making at the central government.

In this sense, it is difficult to answer the difference between Japan and Canada by the political leadership. In Canada, the federal government changed the financial transfer to provincial governments under the Chretien Administration since 1995. In 1995, the Canadian federal government announced to introduce the combined CHST (Canada Health and Social Transfer) instead of the former separate EPF (Established Program Financing) and CAP (Canada Assistance Plan). In 1992, the Former EPF constituted 53% and CAP accounted for 18% of the total transfer (39.2 billion dollars). In 1995-96, the sum of EPF and CAP was 29.9 billion dollar. However, in 1996-97, when CHST was introduced, the transfer decreased to 26.9 billion dollars and in 1997-98, it was 25.1 billion dollar⁹. In these two years the transfer decreased by about 15% (see Table 1 next page).

⁶ See Machidori (2012).

⁷ This type of system is often said as the *Westminster Model*. See Lijphart (1999).

⁸ Iwasaki (2002), Harder and Patten (2006).

⁹ See Iwasaki (2002: pp.166-167). See also Vaillancourt (2000) for further details about Federal-Provincial Transfer.

Table1 Provincial Revenue in Canada (1995-1998)

	1995	1996	1997	1998
Income tax	52,608 (1.00)	55,283 (1.05)	58,938 (1.12)	61,441 (1.17)
Consumption tax	36,754 (1.00)	37,331 (1.02)	39,203 (1.07)	42,157 (1.15)
Other tax	18,467 (1.00)	19,339 (1.05)	19,494 (1.06)	20,248 (1.10)
Investment Income	17,009 (1.00)	18,435 (1.08)	18,456 (1.09)	15,814 (0.93)
Financial transfer	31,388 (1.00)	26,592 (0.85)	25,455 (0.81)	28,880 (0.92)
Other Income	12,941 (1.00)	12,906 (1.00)	13,742 (1.06)	15,981 (1.23)
Total	169,165 (1.00)	169,885 (1.00)	175,288 (1.04)	184,521 (1.09)
GDP Growth Rate (t-1)	4.80%	2.81%	1.62%	4.22%

Source: Statistics Canada. OECD: GDP Growth. Revenue changes compared with 1995 are in (). In Million Canadian Dollars.

From 2001, under the Koizumi Administration, several structural reforms have been carried out.¹⁰ The financial transfer reform labeled, the *ōTrinity reforms*¹¹, consisted of three simultaneous reforms in the areas of local allocation tax, subsidies and tax revenue sources.¹²

First, the local allocation tax was reduced from 2001. In 2000, the amount of local allocation tax was 21.8 trillion yen (21.7% of the annual revenue of local governments), but it decreased to 17.0 trillion yen in 2004 (18.2% of annual revenue). This amounts to roughly a 20% reduction in four years. Secondly, subsidies from the central to local governments were reduced by three trillion Yen in the 2005 to 2007 fiscal period (20% cut) and, at the same time a 3 trillion yen tax revenue source is going to be transferred from central government to local governments¹³ (See Table2 next page).

These reforms are thought to bring a wider range of variance among prefectures. In the past, differences or inequity among local governments were corrected by a local allocation tax and subsidies, but such redistribution has been eliminated, and sub-national and local governments have to rely more on their own resources.

¹⁰ For example, the privatization of postal services, privatization of the road construction agency and a reformed budget making process have been carried out by the Koizumi Administration.

¹¹ See Kitamura (2005); (2006) for further details about the *ōTrinity reforms* in Japan.

¹² Takero Doi points out that the trinity reforms lack local bonds reform. He claims that it is important to establish a local governmental system based on market mechanisms (Doi 2004).

¹³ It is some parts of Income Tax, calculated by the population of each municipality.

Table2 Prefectural Revenue

	2001	2002	2003	2004
Local Tax	17405.5 (1.00)	15556.6 (0.89)	15425.5 (0.89)	16216.8 (0.93)
Local Allocation Tax	11075.0 (1.00)	10818.3 (0.98)	9978.5 (0.90)	9309.3 (0.84)
Subsidy	9563.3 (1.00)	8301.7 (0.87)	7842.2 (0.82)	7173.6 (0.75)
Prefectural Bond	6517.2 (1.00)	7531.6 (1.16)	7652.0 (1.17)	7159.6 (1.10)
Miscellaneous Revenue	5145.1 (1.00)	4684.3 (0.91)	4534.3 (0.88)	4591.7 (0.89)
Others	4236.1 (1.00)	4571.7 (1.08)	4378.4 (1.03)	4455.5 (1.05)
Total	53942.3 (1.00)	51464.2 (0.95)	49810.9 (0.92)	48995.5 (0.91)
GDP Growth Rate (t-1)	2.9%	0.2%	0.3%	1.4%

Source: The Ministry of Internal Affairs and Communication. The Cabinet Office (System of National Account) for the GDP Growth. Revenue changes compared with 2001 are in (. Billion Yen.

Seen from the point of reduction, both Canadian and Japanese sub-national governments lose financial resources because of the central government reform implemented with the strong leadership of prime ministers. This would be supportive to the political leadership argument. However, there is another aspect in the transfer cut reform. It is about the tax point transfer. In the process of reform, Canadian provinces insist on increasing the tax point transfer. This means that although they accept the decline of financial transfer, they can enhance the autonomy of finance at the same time. However, the federal government denies this pressure about the tax point transfer from the provincial governments.

In Japan, however, the central government admits the tax point transfer to prefectural governments. In addition, this is carried out by increasing the major tax resources to sub-national and local governments. The central government of Japan decreases the income tax rate, and the sub-national and local governments can increase the residence tax. The residence tax is one of the major tax resources for the sub-national and local governments in Japan. Although the Ministry of Finance Japan which is sometimes seen as the strongest government organization in Japan strongly opposes to the reduction of income tax rate, sub-national governments achieve a positive outcome.

As shown in this section, both in Canada and Japan political leadership plays an important role in starting the transfer cut to sub-national governments. From this point, the leadership hypothesis may explain how the reforms started, however it cannot explain why there are difference between Canada and Japan. That is, Japanese prefectures obtain tax point transfer in the reform, although Canadian provinces could not that, even lost the tax point transfer.

2.2. Governmental and Political Institution

Many studies have dealt with how local governments affect the central government decision making.

One of main argument about this is that governmental institution plays an important role. Some scholars argue that the parliament at the central government itself sometimes represents sub-national governments. This is especially explicit at federal countries (Watts 2008).

Another governmental institution is the government itself. For example, some ministries at the central government works like an agency of sub-national government. This linkage between central and sub-national governments is based on vertically integrated governmental administration. A lot of scholars point out this kind of governmental route. Especially, many scholars have revealed that the ministry of internal affairs in Japan behaves to protect sub-national and local governments' interest in the central government policy making process (Kitamura 2009).

From these governmental and political institution view point, we can argue as the followings. If there is a governmental and political institution which represents sub-national governments at the central government, decision making at the central government would be supportive to sub-national governments, and vice versa.

First, this paper will think about the parliament system in Canada and Japan. The Lower House in Canada and Japan adapts the similar electoral system based mainly on single member district. In this sense, the Lower House does not differentiate Canada and Japan in terms of the representation of sub-national government.

Second, as mentioned above, the upper house represents sub-national interest in a lot of federal countries. For example, the US senate represents the States in the US. This is accomplished by providing even seats to each state. Germany is another example. The Bundesrat is a typical example of the upper house which represents sub-national governments. The Bundesrat has a veto to the proposed law which relates to sub-national governments. In this point, sub-national governments in Germany have a direct access to policy making at the central government.

How about Canada and Japan? Canada is definitely the federal state, however the upper house of Canada, the Senate, does not represent provinces of Canada. Indeed, the Prime Minister of federal Government of Canada selects the member of the Senate, therefore, the member is not elected by the public directly. This promotes the senate members of Canada to build loyalty to the Prime Minister or the Central government rather than provincial governments. Japanese Upper House uses both the mixture of the SNTV and SMD, and PR system similar to the Lower House. Therefore, the Upper House of Japan does not represent sub-national governments directly.

As shown in this part, the parliament system in Canada and Japan takes similar system at both Lower and Upper House. This would mean that the parliament system argument can not apply directly for Canadian and Japanese case.

Third, this paper discusses about the governmental organization. We have to discuss two points about the governmental organization. First, the government ministry sometimes represents sub-national governments. In both Canada and Japan, the central ministries often are seen as the agent of sub-national

governments. Second, there is a specified ministry which is in charge of intergovernmental relations in Canada and Japan.

In Canada, there is the office of intergovernmental relations (OIR) in the Privy Council¹⁴. Although it is true that OIR is not the independent government ministry, it has its own minister. This means that this organization is at least seen as important as other ministries in the government.

In Japan, the ministry of internal affairs (MIA) stands for sub-national and local governments. It is often said that the MIA behave in favor of sub-national and local governments in the negotiation of intergovernmental transfer (Kitamura, 2009).

In sum, the governmental organization in Canada and Japan plays a similar role in the negotiation of intergovernmental relation. In this sense, the governmental organization theory cannot fully explain the difference between Canada and Japan.

2.3. Partisanship and party organization

Recent studies of intergovernmental relations cast their focus on the political party in influencing the decision making at the central government (Eaton 2004, Rodden 2006, Bonvecchi and Lodola 2011, Rodden and Wibbels 2010). These studies point out that the political party is one of the key factors in representing the interest of sub-national governments at the central government. They suggest that the central government promote governmental reforms in favor of subnational governments if the partisanship between the central and sub-national governments is coincident. This is because the central government tries to protect sub-national governments in order to enhance the influence of the party at both the central and local governments. On the other hand, if the partisanship is different between the two levels of governments, the central government tries to centralize the governmental system. In sum, the central decision making reflects sub-national interest when the partisanship of central and sub-national governments is same.

As mentioned above, recent research focuses particularly on the partisanship at the central and sub-national government¹⁵. However, they fail to capture the role of political party organization itself. As pointed out in the 1980s, political party organization is the key influence route in the representation of sub-national governments at the central government¹⁶. However, such studies in the 1980s remain at the level of describing how this type political route is in each country. In this point, it is necessary to broaden how the variety of political route influences political outcome in each country. This paper will focus on this side of political route; party organization. In this point, this paper contributes to broaden the relevance of party route from the local to central government.

Although there are a lot of studies in the 1980s which deal with how party organization influences on

¹⁴ See Savoie (1999) for further details about the centralized government of Canada.

¹⁵ However, originally studies in party politics tends to ignore this aspect (see Panebianco 1988).

¹⁶ See Ashford (1982).

the intergovernmental negotiation, recent studies on party organization seem to ignore this role of party organization. In this sense, this paper looks closer about the party organization in terms of party connection between the central and sub-national level.

Then, why does the central party takes care of sub-national government? The logic would be the same as the case of partisanship theory mentioned above. The public would consider the central and regional parties as the same when the party label is the same. If the national party ignores the demand from the local party, it means that the national party ignores the demand from the local people. Therefore, the national party cannot ignore the local interest being afraid of the punishment at the election from the public.

However, there would be another reason. It is that the national party rely human resources on sub-national and local party branch. First, the national party rely latent candidates for the national election on sub-national and local party organization. In most democratic countries, the certain parts of national parliament members come from the provincial and local level. Second, the national party members depend on local party organization for the election campaign. Without the local party organization, the national party cannot carry out the election campaign.

Canadian political party is generally characterized by divided party organization between the federal and provincial level. Although they use the same name (Ex. Liberal Party, Conservative Party, etc.), they establish totally independent organizations each other. For example, there are the Ontario branch of Liberal Party of Canada and the Ontario Liberal Party separately. In addition, the public also recognize these differences between the federal and provincial level.

However, there is the only exception in Canadian party system. The Bloc Quebecois is the federal party established by the Parti Quebecois. The Bloc represents the interest of Quebec at the federal politics. In this point, the Bloc Quebecois would behave to reflect the interest of Quebec in the policy making process of transfer cut.

In Japan, contrary to Canada, the party label at the central and prefectural level is seen as the same. Each prefecture has the branch of national party (ōKenrenō) and both national and prefectural politicians belong to the branch. Especially, the national Diet members rely heavily on local politicians for their election campaign. In this sense, the connection between the central and local is quite strong.

Regarding to the resource of future candidate of national election, Canadian party differs significantly from Japanese party. The number of politicians who experienced local politician would be one of the best variables to examine how the national party rely their human resources to local party organization. In 1995, when the Chretien government carried out the transfer cut, such politicians at the Lower House of Canada shares less than 10%¹⁷. On the other hand, the share of Japanese Lower house in 2003 when

¹⁷ Parliament of Canada, <http://www.parl.gc.ca/common/index.asp?Language=E> (access: May 26, 2013). See also (Chhibber and Kollman 2004, p.190). They point out that the number of national politicians in Canada who experience local politician before getting the national politician has decreased since the 1980s.

Koizumi transfer cut was more than 30% which is the most major human resource for the national party¹⁸.

As mentioned in this section, political party theory is not persuasive because it cannot explain the difference between Canada and Japan. So we need another theory to explain the Canadian and Japanese case. When the party organization at the central and regional level is connected, the central government has to consider the regional interest. In the following section, this paper examines which hypothesis would be the most persuasive by comparing institutional arrangement and tracing policy making process in Canada and Japan. To examine this hypothesis this paper will analyze the intergovernmental relations in Japan and Canada.

3. Intergovernmental Relations in Canada and Japan

It is said that today, Canada is one of the most decentralized of existing federal systems (Watts 1996, p.111).¹⁹ There are four major features of the structure of Canadian fiscal federalism; (1) The Constitutional division of legislative, taxation, and expenditure powers, (2) the evolved pattern of tax allocation, sharing, and harmonization, (3) the system of intergovernmental transfers to bridge the gap between revenue and expenditure responsibilities, that is, to reduce vertical and horizontal fiscal imbalances, and (4) the process by which fiscal arrangements are made by the federal and provincial governments (Brown 2002, p.60).

On the other hand, Japan is a unitary system with a three-layer structure consisting of the central, prefectural and municipal levels of governments. Connecting the central government and local governments like prefectures or municipalities, there were two main institutional settings which shaped the intergovernmental relation in Japan.

One is agency-delegated function (ōKikan Inin Jimuō). This agency-delegated function is unique to the Japanese intergovernmental system. For example, passport services, urban planning and national elections were implemented by prefectures or municipalities as agency-delegated functions. These functions composed 80% of work in prefectures and 40% in municipalities. As a result, public expenditure at the local government level was 60% of total public spending and local public expenditure accounts for about 20% of GDP.²⁰

These functions, such as passport services or national elections, are seen as the central government's responsibility due to their nature and they are associated with the national civil service. However, these tasks were delegated to local governments by law or government decree, and sub-national and local governments or sub-national and municipal governors implemented these projects in place of

¹⁸ See Yomiuri Shimbun (2004).

¹⁹ See also Bakvis and Skogstad (2002), and Simeon and Robinson (2004). See also Shah (1995) for further details about intergovernmental fiscal relations in Canada.

²⁰ See Mabuchi (2004).

the central government.²¹ In this sense, sub-national and local governments, and sub-national and municipal governments are regarded as agencies of the central government. It has often been pointed out that agency-delegated functions have many problems.²² For instance, local parliaments were prohibited from interrupting or influencing agency-delegated functions. They could not enact measures concerning agency-delegated functions, although sub-national and local governments implemented these functions. Another problem was that the prefectural governor or city mayor had to obey the central government's orders, despite the fact that community residents directly elect their governor and mayor. This means that a governor or a mayor could not act in manner that reflect the opinion of community residents in cases where their actions would run against the central government's intentions.

Another aspect of institutional friction between the levels of government concerns financial transfers from the central government to local governments. This transfer takes two forms. One is the local allocation tax (*ōChiho Kohfu Zeiō*) and another is a subsidy (*ōHojo Kinō*). First, the local allocation tax is determined based on the shortage of local governments' finance. The central government can reallocate financial resources among local governments by this local allocation tax. Local governments can use this transfer for any purpose, therefore this transfer can be considered as one of the independent financial resources available to sub-national and local governments. This transfer has played a role in redistributing financial resources to support rural areas because local governments in rural areas are more likely to face adverse financial conditions than those in urban areas. Consequently, rural areas, having smaller populations, have received more local allocation tax per capita.²³ The other type of transfer is a subsidy. It is for a specific purpose determined by the central government, and sub-national and local governments cannot use it at their discretion. This transfer has been mainly used for community development.

Intergovernmental relations have experienced radical changes since the 1990s in a wave of decentralization in Japan. The first wave came in the middle of 1990s. In 1995, the Committee for the promotion of decentralization was established in the General Administrative Agency of the Cabinet based on the Law for the promotion of decentralization. This committee had made recommendations five times, and as a result, the Comprehensive Law on Decentralization (*ōChiho Bunken Ikkatsu Hoō*) was enacted in 1999.

During this stage, the most significant change in intergovernmental relation was the elimination of agency-delegated functions imposed upon local governments by the central governments.²⁴ About 560 functions were delegated to local governments as a result of the decentralization reform. As a result of

²¹ This setting enabled the central government to concentrate its financial and human resources on policy-making instead of providing civil services (see Mabuchi 2004, pp.181-182).

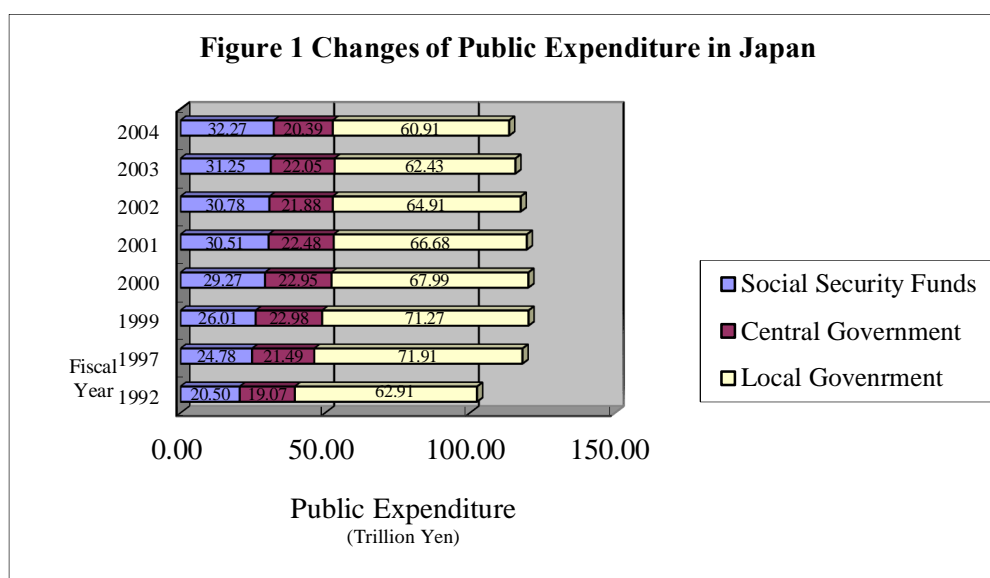
²² See Mabuchi (2004).

²³ See Mabuchi (2004).

²⁴ See Mabuchi (2004).

reform, 11 works were eliminated,²⁵ 20 were transferred to the central government,²⁶ 255 were transferred to local governments (called *ōJichi Jimu* [Local governmental functions]),²⁷ and 275 were delegated again to local governments by law (called *ōHoutei Jutaku Jimu* [Functions delegated by law]).²⁸ At the same time, the involvement in local governments by central governments was reconsidered and it was established that such intervention the affairs of local governments by the central government have to be based on law and in writing.

As shown above, decentralizations before 2000 can be focused on relations between the central and local governments. However, when the influence of the reforms on public expenditure is considered, its impact appears to be somewhat limited. To see the impact of reform before 2000, I will compare the public expenditure in 1999, just before the reform, and in 2001 just after the reform.



Source: *ōWhite Paper on Local Public Finance 2006 [Chihou Zaisei Hakusho]ō*.

Figure 1 shows the change of public expenditure in Japan which includes social welfare funds,²⁹ central government expenditures and local governments' expenditures amounted to roughly 120 trillion yen in 1999. After the 2000 reform, it was at about the same level (119 trillion yen in 2001). Considering public expenditure as a whole, decentralization to 2000 had quite a limited impact. Local governmental expenditures, including both sub-national governments and municipalities, were 71 trillion yen in 1999 and 67 trillion yen in 2001. As a result of reform, the local public expenditures have slightly decreased, but it is important to note that there still exists the financial transfer from the central to sub-national and

²⁵ Ex. Foreigners' registration card admission service and so on.

²⁶ Ex. Administration of National Park, etc.

²⁷ Ex. Urban Planning, permission of business license, etc.

²⁸ Ex. Granting a passport, national election, social security, etc.

²⁹ This fund is for the national pension scheme and its main resource is the pension premium.

local governments. Decentralization reform before 2000 did not change financial intergovernmental relations or the revenue structure of local governments. This enabled sub-national and local governments to implement policies without considering financial problems seriously.

Japanese prefectural governments have a limited ability to pay for their expenditures from their own financial resources. In Japan, prefectural governments play an intermediate role between the central government and municipal governments. Prefectural governments rely heavily on financial transfers from the central government to supplement their revenue which includes residential tax, corporate income tax, and prefectural bonds.³⁰ Financial transfers (Local Allocation Tax and Subsidies) from the central government to the prefectures constitute about 30% of their total revenue. Local Tax accounts for about 30%, prefectural bonds consist of 15%, and miscellaneous income accounts for about 15%. There are strong constraints imposed by the central government on prefectures in issuing prefectural bonds, and prefectural governments cannot alter tax rates freely by their own authority.

4. Political Process of Transfer Cut

In this section, this paper will examine the party organization hypothesis by exploring the policy making process of financial transfer cut in Canada and Japan more closely. This paper focuses how political parties at the central government behave in the policy making process.

4.1. Transfer Cut in Canada

As mentioned before, Chretien Government Proposed the 1995-96 budget including the transfer cut in February 1995³¹. Provincial governments opposed to this budget and decided a strong protest at the 1995 Premiersø conference in August³². After negotiating at several meeting between the federal and provincial governments, provincial governments proposed to increase the tax point transfer at the First Premiersø Conference. However, the federal government of Canada refused this proposal from provincial governments³³.

Then, how did the political party at the federal government react to the transfer cut? It was the Chretien Government which is based on the Liberal Party. Did someone support the proposal from provincial governments? Within the Liberal Party there is just minor opposition to the transfer cut. The left wing group in the Liberal Party opposed to the transfer cut because they think it would bring the

³⁰ See Ma (1997).

³¹ See Phillips (1995) and Cohn (1996) for details about the transfer cut.

³² Trembelis (1996), *The Ottawa Citizen* August 23, 1995, *The Globe & Mail*, August 26, 1995.

³³ *The Toronto Star*, December 16, 1995.

social welfare cut operated by provincial governments³⁴. However, even the left wing group did not support the proposal of increasing tax point transfer.

Other political parties neither support the provincial proposal except for the Bloc Quebecois (BQ). The BQ was strongly against the transfer cut in the Parliament discussion. As the BQ was the first opposition party, they said no to the transfer cut. However, their opposition was limited to the cut to the Province of Quebec. However, the BQ was against the budget mainly because it invades the independency of Quebec. The BQ emphasizes only the interest of Quebec. They proposed an amendment of budget focusing the elimination of transfer cut, but it was turned down.

In sum, the political party in Canada did not play a role in representing provincial interest at the federal government except for the BQ. As a result, the federal government decided to cut the financial transfer. In addition, the proposal of increasing tax point transfer from provincial governments was also denied by the federal government.

4.2. The Case of Japan

The Koizumi Administration implemented the financial transfer cut in Japan. Prefectural governments could not influence the decrease of transfer cut same as Canadian provinces, but they obtained the tax point transfer instead. This paper will look at how prefectures got this fruit.

Sub-national and local governments requested the tax point transfer instead of cutting the financial transfer. They mentioned that the tax point transfer must be the main tax resource. However, at the first time in May 2003, the central government tried to cut financial transfer first, and postpone the argument of tax point transfer³⁵. Of course prefectures strongly opposed to this saying that the tax point transfer is the baseline for cutting the financial transfer (Governors of Kyoto, Osaka, and Hyogo). Other governors in Tohoku and other areas also made comments supporting this comment.

What is different from Canadian case, the major party members supported the request from prefectures. Some members of the LDP supported the comment and said that it is not the first to cut the transfer, but the first to transfer tax point. This support changed the central government slightly and the Minister of Finance announced that the central government can transfer the tax point which is seen as appropriate to sub-national and local governments. However, this did not mean the central government would transfer the main tax resources. The Ministry of Finance planned to transfer only minor tax resources such as Gas Tax, Tabaco Tax, and Alcohol Tax, all of which are seen to be shrinking in the future.

After this announcement, prefectures did not give up getting the main tax resource. In October and December 2003, governors discussed with the executive of LDP about this issue requesting the tax point

³⁴ The Globe & Mail, June 26, 1995. Phillips (1995), p.88.

³⁵ Jinno (2006).

transfer in the major tax resources like consumption tax or residence tax³⁶. In spite of these request from prefectures, the central government decided to transfer the Tabaco Tax in the fiscal year of 2004 at the Government's Tax Commission on December 15, 2003.

Governors immediately raised an opposition to this decision. Following to the opposition, the LDP members also opposed to this decision and the LDP's Tax Commission announced that the government should renounce the transfer of Tabaco tax. This is the totally opposition to the government commission which is the formal government commission. In addition, the LDP's Tax commission decided to transfer the tax point from the Income Tax of the central government to Residence Tax of sub-national and local governments. This LDP decision overturned the decision of government commission and finally, the central government decided to transfer the tax point in the area of residence tax.

5. Conclusion

As examined above, there is a significant difference between Canada and Japan in how sub-national interest is reflected the decision making at the central government.

In Canada, provincial governments cannot earn any result in negotiating with the federal government. In Japan, prefectural governments cannot prevent the central government from cutting the financial transfer either. However, they extract concessions from the central government in transferring the tax point.

There are several hypotheses which can explain these differences. However, most of them cannot fully explain the Canadian and Japanese cases. Only party organization hypothesis seems to explain the difference of Canada and Japan. In Canada, the party organization is separated between the federal and provincial level. This lack in party organization brings the lack of representation of provincial interest at the federal government. There is an only exception of Bloc Quebecois, but the majority seats are occupied by the Liberal Party. In Japan, on the other hand, party organization is strongly connected between the central and local level. This connection encourages central party to represent local interest at the central government. In this sense, a political party may work as one of the key channels for sub-national governments to represent their interest at the central government.

Of course, this study is just a starting point. This paper is just a single comparative research of Canada and Japan. However, this study opens up the new view point in the study of intergovernmental relation. To build a solid foundation, we need to explore this dimension of study.

³⁶ See Kitamura (2005).

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