

V. R. F. Series

No.479

February 2013

**Study of Public Goods Provision in Rural
Areas Based on the Japanese Experience**

Gao Xiaoping

日本貿易振興機構 アジア経済研究所

INSTITUTE OF DEVELOPING ECONOMIES, JAPAN EXTERNAL TRADE ORGANIZATION

Acknowledgements

First of all, I would like to extend my deepest gratitude to the Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO) for giving me such a fine opportunity as a visiting research fellow. I would like to express my sincere appreciation to all the staff and researchers of IDE for their support and help throughout my stay in Japan and also throughout the process of my research. It was my first visit to Japan, and I was not able to speak a single Japanese word confidently. Yet, I was given many opportunities to see and experience Japan, which eventually enriched my understanding of the country and the people, not only in economic contexts but also in splendid cultural contexts as well.

In particular, I would like to express my sincere thanks to my counterpart, Ms. Nanae Yamada. As a specialist on China and Chinese agricultural economy, she gladly accepted the ordeal of being my counterpart and did her best to aid me in every aspect. She was also very helpful in easing the pain of my adjustment phase. I am also indebted to IDE's researchers in the Chinese Studies Group. Ms. Mariko Watanabe, Mr. Kenji Otsuka and Mr. Bo Meng, to name just a few, did a wonderful job in commenting on and enhancing my work. I would like to thank all the other specialists at IDE as well. I have learned about many previously unknown aspects of Japan and even China through my interaction with them. I also would like to thank Mr. Shinchi Shigetomi for giving me the opportunity to join in the field trip to study the Ishimushiro Common Forest Association.

The IDE staff working in the International Exchange Division was always of great help and was readily reachable. I would like to thank Mr. Tatsufumi Yamagata, Mr. Takao Tsuneishi, Ms. Chisato Ishii and Mr. Kenji Marusaki (now working in another division) for their outstanding work and continuous efforts. Through numerous occasions of study tours, discussions and get-togethers, we were able to build a strong bond of friendship, which I deeply appreciate.

I would like to thank Mr. Osamu Tanaka, executive vice president of the Policy Research Institute in the Ministry of Finance, and other officials for giving me instruction and information on Japan's intergovernmental relationships and agricultural policies, which were invaluable for my study.

Finally, I would like to thank all the other VRFs who were with me at IDE for allowing me to enjoy the cozy international atmosphere and global friendship. My stay at IDE was a comprehensive cosmopolitan experience where many different values, views and understandings were exchanged without any barrier.

Table of Contents

Acknowledgements	i
Table of Contents.....	ii
List of Tables.....	iv
List of Figures	v
Glossary of Chinese Terms.....	vi
Abstract.....	ix
1. Introduction	1
1.1 Research Background.....	1
1.2 Research Objective.....	2
1.3 Research Scope	3
2. Public Goods Provision Mechanism in Japan’s Rural Communities	6
2.1 A Brief Introduction to Japan’s Rural Community	6
2.2 Participatory Management in Public Based on the Land Improvement Districts.....	10
2.2.1 Principles of Land Improvement Districts.....	11
2.2.2 Functions of Land Improvement Districts.....	11
2.2.3 Organization Mechanism of LIDs.....	12
2.2.4 Cost Share of Land Improvement Projects.....	13
2.3 Experience of Shinden Hamlet.....	17
2.3.1 Organization of Shinden Hamlet	18
2.3.2 Services Provided by Shinden Hamlet	19
2.3.3 Financial Situation of Shinden Hamlet	19
2.4 Experience of Commons Management in Ishimushiro Hamlet.....	21
2.4.1 Principles of the Commons	21
2.4.2 Members of Commons.....	22
2.4.3 Rights and Obligations of Common Members	22
2.5 Brief Summary.....	24
3. Main Systems Guaranteeing Supply of Rural Public Goods	25
3.1 Changes in Japan’s Agricultural Policies.....	25
3.2 The Role of Government in Rural Public Goods Provision.....	27
3.2.1 National Budget Relating to Rural and Agricultural Development	27
3.2.2 Local Budget Relating to Rural and Agricultural Development.....	34
3.3 The Administrative Systems and Practices in Japan.....	39
3.3.1 Local Autonomy in Japan.....	40
3.3.2 Decentralization Reforms in Japan	43
3.3.3 Municipal Mergers in Japan	44
3.4 The Fiscal Regime in Japan	46
3.4.1 Divisions of Responsibilities among National and Local Governments	47
3.4.2 Allocation of Financial Resources of National and Local Governments.....	52
3.5 The Role of Farmers’ Service Organizations Based on Agricultural Cooperatives.....	57
3.5.1 Organization Systems of Agricultural Cooperatives.....	57
3.5.2 Favorable Policies for Agricultural Cooperatives.....	61
3.6 Brief Summary.....	62
4. Some Measures to Improve China’s Rural Public Goods Provision — Lessons from the Japanese Experience	63
4.1 Status and Challenges of China’s Rural Public Goods Provision.....	63

4.1.1 Three Major Stages of Rural Public Goods Provision	64
4.1.2 Major Problems in Rural Public Goods Provision	66
4.1.3 Illumination of Japan's Experience	69
4.2 Promoting the Reform of Township Institutions	71
4.2.1 The Role of Township Institutions	72
4.2.2 The Problems of Township Institutions	74
4.2.3 Deepening the Reform of Township Institutions	75
4.3 Reforming the System of Rural Communities	78
4.4 Utilizing Farmers' Service Organizations	82
4.5 Brief Summary	84
5. Conclusions	85
References	87
The Author	92
List of Major Works	92

List of Tables

Table 2-1: Required Time to a DID.....	7
Table 2-2: Required Time to Living Amenities and Facilities	8
Table 2-3: Number of Rural Communities Preserving Local Resources (Nationwide).....	10
Table 2-4: Four Basic Principles Relating to LIDs	11
Table 2-5: Main Duties in Management of Irrigation Projects	12
Table 2-6: Cost Sharing for Different Projects	14
Table 2-7: Share of Investment in LIPs	15
Table 2-8: National Government's Subsidies for LIPs	16
Table 2-9: Burdan of O&M Cost (1996)	17
Table 2-10: Organization of Shinden Hamlet	19
Table 2-11: Selected Revenues of Shinden Hamlet in 1994	20
Table 3-1: General Status of Agriculture and Budget Relating to Agriculture.....	28
Table 3-2: Investment Scale of Agriculture, Forestry and Fisheries Development.....	29
Table 3-3: Structure of the Budget Relating to Agriculture	30
Table 3-4: Public Works Expenditure Relating to Agriculture, Forestry and Fisheries by Principle Items	32
Table 3-5: National General Expenditure on Improvement of Agriculture and Agricultural Villages by Principal Item	34
Table 3-6: Dependency on National Treasury Disbursements by Category	35
Table 3-7: Financial Resources of Local Agriculture, Forestry and Fisheries Budgets (FY2000)...	36
Table 3-8: Items of Local Administrative Investment.....	37
Table 3-9: Distribution of Administrative Functions between National and Local Governments ...	49
Table 3-10: National and Local Revenue of General Accounts	53
Table 3-11: Structure of Local Financial Resources.....	54
Table 3-12: Classification of Local Allocation Tax.....	56
Table 3-13: Classification of the National Treasury Disbursements	56
Table 3-14: Business Operation of Agricultural Cooperatives.....	59
Table 3-15: Framework System of Local Basic Cooperatives	60
Table 4-1: Duties Shared by Levels of Government, Rural Communities and Individual Farmers.	66
Table 4-2: Funds for Rural Public Goods Supply in Some Parts of Shandong Province	67
Table 4-3: Japan's Economic Structure from 1960 to 2000.....	70
Table 4-4: China's Economic Structure from 1978 to 2010	70
Table 4-5: Main Positive Effects and Shortcomings of the One-Case-One-Meeting System.....	79
Table 4-6: System of Rural Communities	80

List of Figures

Figure 3-1: Budget Relating to Agriculture, Forestry and Fishery by Categories.....	31
Figure 3-2: Share of Public Works Expenditure Relating to Agriculture, Forestry and Fishery	31
Figure 3-3: National General Expenditure for the Improvement of Agriculture and Agricultural Villages by Total Amount.....	33
Figure 3-4: Ratio of Expenditure on Agriculture, Forestry and Fisheries to Total Expenditure	35
Figure 3-5: Structure of Local Administrative Investment	38
Figure 3-6: Share of All Levels of Government in Administrative Investment in 2008.....	39
Figure 3-7: Hierarchy System by Level (April 2008)	42
Figure 3-8: Number of Municipalities.....	46
Figure 3-9: Ratio of Major Expenditure Items in the General Account	50
Figure 3-10: Ratio of Main Expenditures of National and Local Governments by Function	51
Figure 3-11: Ratio of Major Expenditure Items at the Prefectural and Municipal Levels.....	52
Figure 3-12: Structure of Local Financial Resources	54
Figure 3-13: Ratio of General Revenue Resources to Total Revenue for Municipalities	55
Figure 3-14: Business Function and Organization of Agricultural Cooperatives.....	58
Figure 4-1: Hierarchy in China's Administrative System (2010).....	73

Glossary of Chinese Terms

- 标准工日(*biaozhun gongzuori*) standard work day
- 财力保障(*caili baozhang*) financial guarantee
- 城区(*chengqu*) city area
- 城乡二元经济结构(*chengxiang eryuan jingji jiegou*) the dual structure in the urban and rural economies
- 村级公益事业(*cunji gongyi shiye*) village-level public works project
- 村民代表会议(*cunmin daibiao huiyi*) village meeting of all villagers or representatives
- 村民委员会(*cunmin weiyuanhui*) village committee
- 村民委员会组织法(*cunmin weiyuanhui zuzhifa*) Organic Law on Village Committee
- 村民小组(*cunmin xiaozu*) villager group
- 村民自治(*cunmin zizhi*) villager self-governing
- 党政机关(*dangzheng jiguan*) party and government organ
- 低保(*dibao*) subsistence allowance
- 地级市(*dijishi*) city at the prefectural level
- 地区(*diqu*) prefecture
- 多元主体供给机制(*duoyuan zhuti gongji jizhi*) multi-subject supply system
- 废除农业税(*feichu nongyeshui*) abolition of agricultural tax
- 改革开放(*gaige kaifang*) reform and open up
- “三农”问题(*'sannong' wenti*) problems of agriculture, rural communities and farmers
- 国家分配论(*guojia fenpeilun*) national allocation theory
- 公积金(*gongjijin*) accumulation fund
- 供销社(*gongxiaoshe*) supply and marketing cooperative
- 公益金(*gongyijin*) public welfare fund
- 户口制度(*hukou zhidu*) household registration system
- 集体经济(*jiti jingji*) collective economy
- 计划经济(*jihua jingji*) planned economy
- 计划生育费(*jihua shengyufei*) family planning fee
- 积累工(*jileigong*) accumulative labor
- 家庭联产承包责任制(*jiating lianchan chengbao zerenzhi*) household-contract responsibility system
- 全面小康社会(*quanmian xiaokang shehui*) a well-off society in an all-round way

街道办事处(*jiedao banshichu*) street community

粮食直补(*liangshi zhibu*) direct subsidies to grain growers

良种补贴(*liangzhong butie*) subsidies for superior crop varieties

乱收费(*luanshoufei*) arbitrary charges

民办交通费(*minban jiaotongfei*) private transportation fee

民兵训练费(*minbing xunlianfei*) militia training fee

民政优抚费(*youfufei*) civil special care fee

农产品储备费用和利息(*nongchanpin chubei feiyong he lixi*) expenses related to stockpiling agricultural products and associated interest payment

农村教育事业费附加(*nongcun jiaoyu shiyefei fujia*) extra charges for rural education undertakings

农村税费改革(*nongcun shuifei gaige*) reform of rural taxes and fees

农村信用社(*nongcun xinyongshe*) rural credit cooperative

农机购置补贴支出(*nongji gouzhi butie zhichu*) subsidies for purchasing agricultural machinery

农民工(*nongmingong*) rural migrant worker

农民专业合作社(*nongmin zhuan ye hezuoshe*) farmers' professional cooperative

农民专业协会(*nongmin zhuan ye xiehui*) farmers' professional association

农资综合补贴(*nongzi zonghe butie*) general subsidies for agricultural supplies

人民公社(*renmin gongshe*) people's commune

三提五统(*santiwutong*) Three and Five Deductions

社会主义新农村(*shehuizhuyixinnongcun*) New Socialist Countryside

生产大队(*shengchandadui*) production brigade

生产队(*shengchandui*) production team

省级(*shengji*) provincial level

市辖区(*shixiaqu*) district under the jurisdiction of cities

事业站所(*shiyezhansuo*) social operating station and office

统筹城乡发展(*tongchou chengxiang fazhan*) integrate urban-rural development

五保户(*wubaohu*) five guaranteed family

县级市(*xianjishi*) city at the county level

乡(*xiang*) township village

乡财县管(*xiangcai xianguan*) township finance supervised by the county

乡镇政权(*xiangzhen zhengquan*) township authority

新型农村合作医疗制度(*xinxing nongcun hezuo yiliao zhidu*) new type of rural

cooperative medical care system
行政村(*xingzhencun*) administrative village
一级政权, 一级财权(*yjizhengquan yijicaiquan*) one level of authority, one financial system
一事一议奖补制度(*yishiyiyi jiangbuzhidu*) award and subsidy system for one-case- one-meeting
义务工(*yiwugong*) compulsory labor
预算拨款(*yusuan bokuan*) budgetary appropriation
预算外资金(*yusuanwai zijin*) non-budgetary fund
镇区(*zhenqu*) township area
职能部门(*zhineng bumen*) functional department
直辖市(*zhixiashi*) municipality
中国共产党全国代表大会(*zhongguo gongchandang quanguo daibiao dahui*) CPC National Congress
中央一号文件(*zhongyang yihao wenjian*) No. 1 Central Document
自治区(*zizhiqu*) autonomous region
自治县(*zizhixian*) autonomous county

Abstract

China's provision of public goods in rural areas has been widely discussed since the early 21st century because of the undeveloped nature of rural areas. As China achieved great success in economic and social development, Chinese authorities paid great attention to the developmental problems of agriculture, rural communities and farmers, and many pro-agricultural and pro-rural policies have been implemented to build a New Socialist Countryside. Nevertheless, an urban-rural disparity still exists in many aspects, including income, living conditions, public goods provision and so on. Following the theory of public finance, provision of public goods is a major duty of the government, especially for the equalization of the urban-rural public goods supply. So, this report is designed to seek measures that will allow the Chinese government to further improve provision of rural public goods by learning about Japan's development experience.

Japan's rural development has been integrated into the overall national strategy, so today there is no obvious difference between rural and urban areas, including the public goods enjoyed by both urban and rural residents. Beginning with public goods provision in rural communities, this report analyzes participatory management in Land Improvement Districts, which has been a major success in Japan's rural public goods provision, and illustrates practices of two rural communities, the hamlets of Shinden and Ishimushiro. Since public goods provision in rural communities is guaranteed by a healthy institutional arrangement, this report accordingly studies Japan's institutional arrangement historically, including the evolution of major agricultural and rural policies, the national and local governments' financial support, the local autonomy system, the fiscal regime and the role of farmers' service organizations.

Based on these practices and China's reality, this report ultimately presents some measures that author regards as important in the present development stage. Though there are many good examples from which China can learn, the following three aspects are comprehensively related to the overall improvement of institutional arrangements: promotion of the reform of township institutions, reform of organization systems of rural communities and utilization of farmers' service organizations. While the measures learned from Japan are elucidatory, to learn from the experience of other countries including Japan does not mean to copy their practices; design of measures for provision of rural public goods in China should rely primarily on China's reality. It should be remembered that institutional arrangement is only one element that impacts rural public goods provision and that the governing concept and individual spirit also have significant effects.

1. Introduction

1.1 Research Background

Owing to the importance of rural development in China, the rural issue has always been situated at the center of development strategy. Since the implementation of reform and opening up, great changes have taken place in rural areas, especially in recent years. The report of the 16th CPC National Congress in 2002 stated that overall planning for urban and rural economic and social development was the major task for building a society that is well-off in an all-round way. Then in 2006, the abolition of agricultural tax, undoubtedly an important measure to increase farmers' income and reduce the burden on farmers, signaled the construction of a New Socialist Countryside, which marked a new historical starting point. Also in 2006, the No. 1 Central Document¹ proposed such specific tasks for building the New Socialist Countryside as coordinating rural economic construction, political construction, cultural construction and social construction. Based on all these policies, both the central government and local governments have increased public investment in rural economic and social development. The conditions in rural areas have improved significantly, with the farmers' living standard rising, agriculture developing well, agricultural infrastructure construction in rural areas strengthened, and rural education, health care, and the social security system gradually established and perfected, among others.

Based on the central spirit, there were many reforms in China's fiscal policies to improve the mechanism for promoting the provision of public goods in rural areas. After the reform of rural taxes and fees and the abolition of agricultural tax, although the government increased investment in the rural public goods supply, there was still a lack in rural infrastructure construction and other affairs, partly due to the inefficient functioning of grassroots organizations in rural areas. Some of the village committees functioned well, while some of them did not have an active effect due to their poor economic situation. Presently, the central government has already implemented an award and subsidy system for one-case-one-meeting, the decision-making system for village-level public works projects. However, in some areas, one-case-one-meeting has its own problems because of young rural labor outflow to cities. Many public works cannot be decided at the meeting. So, rather than just funding rural affairs and further clarifying inter-governmental responsibilities in rural public goods provision, it is more important to establish a sound and scientific provision mechanism in which all stakeholders, especially the organizations

¹ In China, the No. 1 Central Document is delivered at the beginning of each year to resolve one certain issue that the central government regards as important and urgent.

at the grassroots level, have their respective responsibilities to make full use of all kinds of financial resources, thus making rural development sustainable.

Japan and China have many things in common, including traditions, culture and construction process. After World War II, Japan expended great efforts in providing massive investments, loans and subsidies to agriculture, promoting rural infrastructure construction and modernization and filling the enormous gap between the urban and rural areas. During the process, the government played a crucial role, not only by budgeting but also by organizing and inspiring the parties involved to use all social resources to push forward rural development. Moreover, the public entities in rural communities, the agricultural cooperatives and other similar organizations were all devoted to rural development. So, it is meaningful for China to learn from Japan how to systematically establish such a mechanism so as to improve the efficiency and effectiveness of public expenditure and finally to increase the quality and quantity of rural public goods.

1.2 Research Objective

All the policies have had an overwhelming influence on rural development, but the dual structure in the urban and rural economies has not yet been changed completely. Therefore, the No. 1 Central Document in 2010 again emphasized the strengthening of the coordination of urban and rural development to further reinforce the foundation of agricultural and rural development, and this marked the entrance of countryside construction into a new era. It is important to gain a deep understanding of new countryside construction by pinpointing the difference between this round of rural reform and the previous round, identifying major tasks in this stage and designating specific targeted measures.

It is certain that since the central government proposed to prioritize countryside construction, the level of provision of rural public goods has been improved greatly. As to the rural and agricultural infrastructure improvement, from 2006 to 2010, 7,356 large- and medium-size reservoirs and key small reservoirs were reinforced, and the safety of drinking water for 215 million rural residents was ensured. The government awards and subsidies for village-level public works projects in 2012 are estimated at 70 billion yuan.² Rural education has been placed under a financial guarantee of the government by establishing a system in which the central and local governments share the costs proportionally, with the central government supporting the mid-western region more and giving appropriate consideration to the difficult areas in the eastern region. In 2011, over 30 million rural

² Since the exchange rates changed significantly in past decades, the currency unit adopted in this paper is based on the respective country to reflect the actual situation in the given period.

boarding school students were exempted from accommodation expenses, and 12.28 million of them from poor families in the central and western regions received living allowances. The children of rural migrant workers were generally granted access to compulsory education in cities where they lived. Per-person subsidies from the government were increased from 20 yuan in 2003 when a new type of rural cooperative medical care system was first established to 240 yuan in 2012, and the reimbursement rate was increased to 75%. Subsistence allowances for rural residents were increased from 30 yuan per month in 2007 when the rural subsistence allowance system was established all over the countryside and covered 30 million people to 90 yuan per month in 2011 when it covered 50 million people. Since trials of a new type of old-age insurance for rural residents were launched in 2008, the coverage of this insurance has been extended to more than 60% of China's counties. In 2011, 358 million people in 2,343 counties and county-level cities and districts were covered, and 98.8 million people received pensions. At the end of 2012, 130 million people aged 60 or over will receive pensions. Of course, the current pension is relatively low, at 60 yuan per year.³

Nevertheless, public resources are allocated inappropriately between cities and rural areas because, in rural areas, both medical services and education are behind their counterparts in cities. The next step is to raise the standards for all rural public goods provision to reduce the differences between rural and urban areas. In balanced development of rural and urban areas, Japan has obtained great success, not only in providing such basic public goods as education, medical care and social security, but more importantly in implementing an efficient system which ensures public goods provision. China now is stepping on the road of integrating urban-rural development with more effort to improve rural conditions, but the major task is to develop a systematic mechanism to effectively organize all resources. So, based on Japan's past experience, this research is designed to examine the major tasks in reforming the institutional arrangements for rural public goods provision in this new stage.

1.3 Research Scope

In principle, there should be no difference in public goods in rural and urban areas, for each citizen has the same right to enjoy public goods no matter where he or she lives. However, due to the specific agricultural practices and geographical characteristics of rural areas, in China the public goods provided in rural areas are artificially separated from their counterparts in cities.⁴ Though the provision of public goods in rural areas varies with

³ The data is from the Government Work Reports of 2011 and 2012 and the lecture 'China's Agricultural Policies and Development' presented by Chen Xiwen, director of the office of China's Central Rural Work Leading Group, in Tokyo on July 26, 2012.

⁴ The author thinks this is not exclusive to China because even those countries that have achieved a high level

different development strategies, the basic features of public goods cannot be changed. In this sense, 'rural public goods' in this report mostly refers to those goods benefiting agriculture, rural areas and farmers. In China, according to *Statistical Provisions on the Division between Urban and Rural Areas* approved in 2008,⁵ urban areas encompass two types. One is the city area consisting of districts' cities, cities at the county level and cities without districts. The other is the township area which includes towns where county-level governments are located and towns under the jurisdiction of the above city areas. The remaining areas are all rural areas. Most rural communities are located in towns or township villages within counties and autonomous counties⁶ which altogether accounted for over 50% of all regions at the county level. Residents living in rural areas cannot have the same public goods as those living in urban areas, and there may be two major reasons for this. One is the disparity in economic development that exists without an integration of rural and urban areas. The other is the different systems that exist for residents registered as farmers and non-farmer residents. Both of these systems are now undergoing a transformation. Japan is now at the stage where rural and urban areas have no definite boundary, so residents living in rural communities have the same public goods as those living in urban areas. However, it has taken a few decades for Japan to achieve such development. For example, projects for agricultural and rural improvement were designed to modernize rural areas. So, this paper seeks to reveal what has been accomplished in these few decades, instead of dealing with the specific public goods provision in the present age.

As to the difference between public goods and public services, there is no consensus among the community of scholars. In the theory of economics, output is usually divided into physical goods and intangible services. Similarly, such output of governments as water, electricity and power supply can be defined as physical goods, and others such as education, health care and social security can be understood as intangible services. However, the notion of public goods⁷ in economics is presented to compare it with private goods rather

of modernization and industrialization at one time implemented various policies, including different treatment for agriculture, to realize capital accumulation, though the policies differed among countries.

⁵ http://www.stats.gov.cn/tjbz/t20061018_402603208.htm

⁶ The division between urban and rural areas in China is, in some sense, based on the government's location, probably because where the seats of government of the various levels are located is also where public facilities and public services are more abundantly provided for urban residents and nearby rural residents. Villages that are near prescribed urban areas are also regarded as urban areas, and so rural communities in or near cities or districts may have a comfortable living standard. However, most villages or even towns in the counties do not enjoy such good conditions. On one hand, the author regards towns or township villages within counties and autonomous counties as rural areas generally, not specific to the statistical rural areas, and on the other hand, the concept of rural public goods may be a broader one than agricultural or rural development.

⁷ Examples of public goods include national defense, social safety, law, knowledge and education, which are intangible, as well as lighthouses and infrastructure, which are tangible.

than to define it from the external form of output. The topic of public goods in most academic articles also refers to both public goods and services. For this reason, this paper regards public goods to be the same as public services.

In Japan, there may be no definition of rural public goods since now all residents enjoy similar public goods. The scope of rural public goods in Japan refers rather to those relating to agricultural development and rural public works, which contribute more to living condition improvement. However, in China, rural public goods not only refer to the above practiced in Japan, but also include social undertakings. So, this paper will examine which institutional arrangement is beneficial for provision of public goods related to social undertakings in rural areas as well as agricultural development. Being a broad topic, matters concerned with rural public goods supply can be examined from many different perspectives. As far as China is concerned, this topic may be more complicated because it has a great population and a vast territory. The problems in different regions have their own characteristics and require corresponding policies. It is impractical to form a uniform resolution that is applicable for all cases, so from a general point of view, this report discusses some underlying elements that may explain the status of rural public goods provision and discusses some institutional arrangements that are regarded by the author as the basis for improving the efficiency of rural public goods provision. Both discussions are illuminated by the practice in Japan's administrative systems and fiscal mechanisms which have been discovered to play a crucial role in Japan's rural public goods supply, though there are still many other arrangements conducive to resolving this issue.

In Chapter 2, the author will examine public goods provision in Japanese rural communities by illustrating the participatory management in the Land Improvement Districts and the practices of two rural communities, the hamlets of Shinden and Ishimushiro. In Chapter 3, the author will analyze the institutional arrangements which guarantee rural public goods provision from the viewpoints of major agricultural and rural policies, the national and local governments' financial support, the local autonomous system and the role of farmers' service organizations. In Chapter 4, the report will present some measures that author regards as important in the present development stage.

2. Public Goods Provision Mechanism in Japan's Rural Communities

It is known that rural areas are the foundation for sustainable agricultural development and serve as the location for fulfillment of such multifunctional roles as food supply, land preservation, natural environmental conservation, cultural tradition maintenance, local people's livelihood and work and so on. The rural community, a rural society formed through farming in parts of a municipality, forms the basic unit in Japan's rural areas by performing multiple rural functions. Essentially evolved from self-generated rural social units which are formed by families who have territorial and blood relationships, rural communities generally possess communal property. There are various groups and social relationships in rural communities, and they always provide public goods related to the villagers' production and living activities, occasionally assisting in official governmental affairs and Agricultural Cooperatives' activities.

The first part of this section briefly introduces and analyzes the development and the existential predicament of Japan's rural communities. In the second part, one of the most crucial reforms, the Land Improvement Project (LIP), is examined because agricultural infrastructure provision is one kind of important public goods for rural life. LIP is also a project that makes use of the resources at all levels of government, and it also engages rural communities and farmers to promote agricultural structural improvement, increase agricultural productivity, advance rural livelihood and accelerate agricultural modernization. Next, the third and fourth parts illustrate two different cases to examine how rural communities organize the supply of public goods. The first case is Shinden Hamlet, which positively participated in LIP and was given substantial subsidies, and the second case is Ishimushiro Hamlet, which conversely took part in national projects only to a limited extent and thus retained customary routines and natural resources, which attracted anthropologists and environmental researchers from Japan and abroad to study the hamlet.

2.1 A Brief Introduction to Japan's Rural Community

During the period from the 1950s to the 1970s, along with economic development, professional organizations and comprehensive multifunctional organizations in agricultural production, business and services came into being and took over the economic functions which were originally implemented by the rural communities. Meanwhile, some of the rural administrative functions were transferred to new administrative authorities. All transformation, including urbanization, modern technological development, rural infrastructure construction and regional exploitation, brought about the polarization of the peasant class and a change in the rural social order. As the contribution of agriculture to

total output value declined, part-time farmers increased and farmers migrated to cities, the importance of communal resources was shrinking, which led to recession and subsequently to the dissolution of some rural communities. However, those communal resources, which still exist, such as common forests, irrigation facilities, cemeteries, shrines and so on, directly or indirectly uphold the rural daily routines (Li Guoqing 1999, 70-73). So, the determining factors for the existence and sustainability of such rural communities are as follow: communal use of irrigation facilities, common forests and rural roads, mutual assistance in house-building, religious offering practices and other common social customs and beliefs.

Given this background, various levels of government, enterprises, social organizations and the rural communities themselves constitute important suppliers of public goods in rural communities. The index of the accessibility of public goods is always used to measure the level of public goods supply in rural areas. Accordingly, the following tables show how public goods satisfied the needs in Japan's rural communities by presenting the time required to reach a Densely Inhabited District (DID)⁸ and the time required to reach living amenities and facilities. As surveyed on February 1, 2005, it took less than 30 minutes for approximately 70% of surveyed rural communities to reach a DID, while more than 80% or even 95% could reach living amenities and facilities within 30 minutes.

Table 2-1: Required Time to a DID

Unit: communities (Survey date: Feb. 1, 2005)

	Total number of surveyed rural communities	Less than 15 minutes	15 to 30 minutes	30 to 60 minutes	1 hour and over
Number of rural communities	139,465 (100.00%)	50,783 (36.41%)	46,333 (33.22%)	33,775 (24.22%)	8,574 (6.15%)

Note: Figures in () are percentages of the total.

Source: *The 86th Statistical Yearbook of MAFF (2010-2011)*.

⁸ DIDs are districts composed of a group of contiguous population census enumeration districts, each of which has a population density of about 4,000 inhabitants or more per square kilometer and in which the combined population of the contiguous districts exceeds 5,000, as referred to in the 2000 Population Census. 'Required time to DID' refers to the time required to travel to the center of the nearest DID from the center of a given rural community using the common mode of transportation (MAFF 2010).

Table 2-2: Required Time to Living Amenities and Facilities

Unit: communities (Survey date: Nov. 1, 2005)

	Total number of surveyed rural communities	Within rural community	Outside rural community			
			Less than 15 minutes	15 to 30 minutes	30 to 60 minutes	1 hour and over
To municipal offices	90,390 (100.00%)	2,510 (2.78%)	65,830 (72.83%)	20,060 (22.19%)	1,960 (2.17%)	40 (0.04%)
To agricultural cooperatives		5,770 (6.38%)	72,420 (80.12%)	11,210 (12.40%)	900 (1.00%)	100 (0.11%)
To elementary schools		8,320 (9.20%)	40,390 (44.68%)	30,740 (34.01%)	10,500 (11.62)	400 (0.44%)
To junior high school		3,210 (3.55%)	36,440 (40.31%)	40,450 (44.75%)	9,880 (10.93)	430 (0.48%)
To police stations or boxes		4,950 (5.48%)	72,450 (80.15%)	12,120 (13.41%)	850 (0.94%)	30 (0.03%)
To hospitals or clinics		4,910 (5.43%)	65,130 (72.05%)	17,970 (19.88%)	2,280 (2.52%)	100 (0.11%)

Note: Figures in () are percentages of the total.

Source: *The 86th Statistical Yearbook of MAFF (2010-2011)*.

According to the Census of Agriculture and Forestry conducted by MAFF, 93% of all rural communities in Japan at present hold community meetings. Topics taken up at community meetings include ‘agricultural community event plans and promotion’, ‘environmental beautification and natural environment conservation’, ‘management of farm roads, agricultural irrigation and drainage channels, and irrigation reservoirs’, ‘agricultural production matters’, ‘management of community-shared assets and facilities’ and ‘farming community welfare’ (MAFF 2010). In terms of frequency, 20,000 rural communities held meetings 5 to 6 times each year, which was the most common pattern, accounting for 15.2% of all rural communities that held meetings, followed by 17,000 rural communities which held meetings 3 to 4 times per year (13.5%).

However, as rural population declines and ages, life-related problems emerge, such as abandoned cultivated land, farmland care, wildlife damage, employment and emergency medical services. In this situation, weakened community functions and depopulation are

seen in some rural communities. During the period from 1980 to 1990, 2,255 communities lost their rural community functions, while from 1990 to 2000, 4,959 communities lost such functions. Subsequently, it was feared that 1,403 communities mainly in hilly and mountainous areas could be left uninhabited. These communities could face difficulties maintaining their community functions (MAFF 2009). A column called ‘Facts and Details’ (Jeffrey Hays 2009) also showed that communities were losing their bus services and other public transportation because of a lack of passengers, schools had shut down due to a lack of children, stores had closed and health care facilities were located far away.

The Survey on Consciousness about Rural Areas indicated that many urban residents believed that rural communities in hilly and mountainous areas should be conserved and efforts to maintain and invigorate rural communities should be promoted further (MAFF 2010). To maximize rural areas’ multifunctionality, especially in hilly and mountainous areas, a program of direct payment to these areas has been implemented since FY2000 because, being important agricultural production districts and covering approximately 70% of Japan’s total land area, hilly and mountainous areas are characterized by disadvantageous agricultural production conditions but meaningful upstream locations compared to flatlands. The direct payment system was established to encourage continuous agricultural activities to prevent the abandonment of agricultural land and to help these areas to perform multiple functions in agriculture. At the end of FY2009, 28,765 agreements were signed, covering 664,000 hectares of agricultural land. In the same year, 1,008 municipalities provided the total grants of 51,772 million yen. On average, there were 23 participants, 23 hectares of land covered and 1,820,000 yen grants per agreement. So, each participant could be granted 80,000 yen.⁹

Currently, rural communities usually make efforts to participate in local resource preservation, as shown in the table, and the most commonly preserved resource is ‘channels for irrigation and farm drainage’.

In various parts of Japan, Measures to Conserve and Improve Land, Water and Environment have been implemented to provide support for joint activities involving land and water preservation as well as support for farming activities that reduce environmental impacts. Region-wide efforts involving both farmers and non-farmers are in progress; the joint activities cover 1.43 million hectares, and the number of organizations amounts to 19,514 (MAFF 2009).

⁹ Data in this section is mainly from *The 86th Statistical Yearbook of MAFF (2010–2011)*. http://www.maff.go.jp/e/tokei/kikaku/nenji_e/86nenji/index.html

Table 2-3: Number of Rural Communities Preserving Local Resources (Nationwide)

Unit: Rural Communities

	Total	Preserving + Not Preserving	Preserving	Not Preserving	Rural Communities without Farmland
Rural Communities with Farmland	139,176	134,441	46,560	87,881	4,735
Rural Communities with Forests		106,467	20,260	86,207	32,709
Rural Communities with Reservoirs, Lakes and Marshes		42,549	24,065	18,484	96,627
Rural Communities with Rivers and Channels for Irrigation		120,410	52,527	67,883	18,766
Rural Communities with Farm Drainage		126,132	92,162	33,970	13,044

Source: MAFF (2010).

2.2 Participatory Management in Public Based on the Land Improvement Districts

Investment in agricultural and rural improvement in Japan has played a crucial role in agricultural development, of which land improvement projects have been successful in terms of participatory management. With adequate government subsidies, land improvement projects (LIP) are intended to contribute to increase of agricultural production, enhancement of farm management, conservation of national land, protection of the environment and improvement of living conditions in rural areas through promoting agricultural and rural infrastructure development, mainly land consolidation and irrigation and drainage projects. Land improvement districts (LIDs), being associations of farmers who are mainly beneficiaries of LIP, are non-profit and regulated by the Land Improvement Law to serve the interest of the public at large, for LIPs themselves are of a public-purpose nature. An LID is established by farmers voluntarily for the purpose of constructing, rehabilitating, and operating irrigation and drainage projects or other farmland improvement facilities in certain areas. The activities of LIDs have contributed to the development of rural society in Japan since irrigation and drainage projects once supported Japan's economic and social development and played a key role in the founding of this country. Not only do irrigation and drainage projects increase agricultural productivity, but

they also have a more public role in the prevention of flooding of urban areas. With the Land Improvement Law as the foundation, government-led investment as the support and stakeholders' participation as the base, LIDs have also gained a huge success in their environmental and social effects.

2.2.1 Principles of Land Improvement Districts

The LID is internationally known as a good example of Participatory Irrigation Management (PIM) because local farmers are involved in every stage of decision making and cost sharing in LIP for the establishment of LIDs, the irrigation facility construction plan, the ex-post maintenance project and daily management. (Nanae Yamada 2005) The Land Improvement Law specifies four basic principles relating to LIDs.

Table 2-4: Four Basic Principles Relating to LIDs

	Principles	Contents
1	Initial Project Request	Farmers must request the projects with at least 15 farmers submitting the initial application, and these 15 farmers must be actually engaged in cultivation, either as owners or tenants. An appraisal of the project (e.g., project area, main facilities, etc.) is then conducted, and bylaws for the LID are drafted.
2	Agreement of Majority of Farmers	At least 2/3 of the affected farmers must agree to the proposed improvements. When this 2/3 majority of farmers vote in favor of the project, then all farmers are compelled to become members of the LID and share in the cost of the project.
3	Roles of National and Local Governments and the LIDs	Irrigation and drainage projects are undertaken by LID, municipality, prefecture or national government (public corporation), depending on their scale, technical difficulties, etc.
4	Operation, Maintenance and Management	Facilities should be managed and controlled by LID areas since farmers of LID directly benefit from these activities.

Source: Prepared by the author based on Kazunori Nishimura (2004).

2.2.2 Functions of Land Improvement Districts

The primary functions of LIDs are to undertake such works as construction and improvement of irrigation and drainage projects and the subsequent operation, maintenance and management of these facilities. In addition to this, LIDs also undertake rural community sewage projects, small-scale hydropower generation projects, fish culture, cultivation of headwater conservation forests and other projects which are closely linked to

land improvement. Moreover, the functions and focus of LIDs are usually driven by changes in Japan’s agricultural policies. Since construction works for farmland projects were completed, irrigation scale expanded and specialization in LIP gradually formed, the focus of LIPs has been transformed from construction to management, especially in irrigation facilities, which are under the charge of LIDs, local water adjustment committees and hamlet irrigation associations. Formed by farmers voluntarily, hamlet irrigation associations are subsidized by LIDs to carry out their operations.

Table 2-5: Main Duties in Management of Irrigation Projects

Duty	Items	Managing body
Water resource distribution	Water intake facilities, main channels	LID
	Branch canals	Water adjustment committee
	End of tertiary canals	Hamlet irrigation association
Management of facilities	Maintenance, update, consolidation of irrigation facilities of reservoirs, head works, pumping stations and dredging main channels	LID
	Management of facilities of branch canals and tertiary canals	Water adjustment committee
	Maintenance and reinforcement	Hamlet irrigation association

Source: Prepared by the author according to Li Wen (1997).

The annual total water used in Japan is estimated at 90 million cubic meters, of which 40 million cubic meters of agricultural water use is managed by LIDs, accounting for 44% of total water used (Kazunori Nishimura 2004). Sixty-five percent of irrigation facilities and 61% of canals are also managed by LIDs. (Nanae Yamada 2005) All of these demonstrate the importance and the public role of LIDs in Japan.

2.2.3 Organization Mechanism of LIDs

LIDs have a systematic organization mechanism. A LID must hold a general meeting, which requires attendance by a majority of the members, at least once per year. If the members of a LID number more than 200, representatives should be elected from among all members for a four-year term to form a general meeting of representatives to substitute for the general meeting. The general meeting of members or representatives is the supreme organ with the power to decide on the following matters: modification of the bylaws, setup, change and abolishment of rules or regulations, issues relating to loans, budget resolution and charging fees and so on. An ordinary meeting requires attendance of more than half of the total representatives, and an initiative can be adopted when half of those in attendance are in favor of it. However, at an important meeting, the requirements for attendance and initiative adoption should be more than two-thirds.

The LID is administered by an elected board of directors and auditors at least five directors and two auditors. The LID president is usually elected from among the directors. The council of directors is in charge of routine affairs of the LID and also maintains the internal organization, including compiling member books, convening general meetings, etc. The directors are required to have one meeting every other month, with at least two-thirds of the directors in attendance, for discussion concerning convening a general meeting, advancing proposals and other issues that should be confirmed in the process of management of the LID. Auditors are responsible for supervising the performance of directors, auditing the operation and asset management of the LID and reporting the auditing results to the general meeting. On behalf of the LID, auditors sign agreements with directors. The board of auditors holds meetings twice per year or when the general auditor regards it as necessary to have a meeting in order to discuss auditing plans or setup, change and abolishment of auditing rules and regulations. Auditing should be carried out twice a year or when auditors consider it necessary or when the president is re-elected or when administrative instructions are given.

2.2.4 Cost Share of Land Improvement Projects

The costs of an LIP can be categorized into two major groups: (1) construction investment in such projects as irrigation and drainage, rural roads and farmland consolidation and (2) subsequent operation, maintenance and management expenditure. The responsibility for irrigation facility construction or rehabilitation and management is shared by the national, prefectural and municipal governments and LIDs. In general, subsidies from both national government and local prefectural and municipal governments are given for construction and rehabilitation of irrigation projects, with 67% from the national government for large-scale projects and 50% for midsize projects. LID projects can also obtain some subsidies from governments.

The budget of LIP investment from 1960 to 2000 is shown in Table 2-7, and it indicates that government subsidies accounted for a share of 70% to 90%, basically in a continuously increasing momentum. From 1980, the share of government investment remained above 80%. Additionally, LIDs had the right to receive long-term, low-interest loans from the government because, even with a capital subsidy from the national or prefectural governments, farmers could hardly pay their share of the costs at one time. Before 1980, in subsidized projects, farmers had to bear 12% to 18% of the cost with individual payment of 0.5% to 6.3%, which meant that a large part of the farmers' burden came from loans. During the 1990s, the total individual burden was less than 1% of total investment in LIPs. These figures reveal that governments played a very important role in rural infrastructure improvement

Table 2-6: Cost Sharing for Different Projects

Items	Contents	Owner	Cost- Sharing		
National Project	Large-scale or trans-regional projects and capital improvements, normally greater than 3,000 ha, i.e., large reservoirs	Nation	Investment	National subsidies	67%
				Prefectural subsidies	33%
				LID share	
			Operation, maintenance and management	National subsidies	Important, large-scale and high technical requirement projects
				Prefectural subsidies	
				LID share	Management in form
Prefectural Project	Large projects within the prefecture, normally between 200 and 3,000 ha, i.e., reservoirs, pumping stations, main channel	Prefecture	Investment	National subsidies	50%
				Prefectural subsidies	Most of remainder 50%
				LID share	Small share
			Operation, maintenance and management	National subsidies	
				Prefectural subsidies	Important and high technical requirement projects
				LID share	Management in form
LID project	Projects within the municipality, usually small projects less than 200 ha, i.e., canals, reservoirs, irrigation and drainage pipes, rural roads, farmland	LID	Investment	National subsidies	Some subsidies
				Prefectural subsidies	
				LID share	Main responsibility
			Operation, maintenance and management	National subsidies	
				Prefectural subsidies	
				LID share	Most responsibility

Source: Prepared by the author based on Li Wen (1997).

Table 2-7: Share of Investment in LIPs

		Unit: billion yen, %								
Items	Unit	1960	1965	1970	1975	1980	1985	1990	1995	2000
Total amount	Billion yen	99.6	212.4	406.8	872.6	1765.9	1763.3	2061.3	3193.1	2366.1
1. Subsidiary projects	%	87.3	90.1	91.9	92.5	95.8	96.8	98.0	98.5	99.4
(1) National and local governments	%	66.0	71.9	70.9	76.7	80.3	82.4	81.0	90.8	86.5
(2) Loans	%	7.3	5.2	3.1	3.2	3.5	4.0	6.6	2.5	3.0
(3) Farmers	%	14.2	12.9	17.9	12.7	12.0	10.3	10.4	5.2	10.0
Loans	%	9.9	8.8	11.5	11.8	11.6	9.9	10.0	5.0	9.6
Individual	%	4.2	4.1	6.3	0.9	0.5	0.4	0.4	0.2	0.4
2. Non-subsidiary projects	%	12.7	9.9	8.1	7.5	4.2	3.2	2.0	1.5	0.6
(1) Loans	%	9.7	7.5	5.7	5.9	3.3	2.4	1.8	1.5	0.6
(2) Individual	%	2.9	2.4	2.4	1.5	0.9	0.9	0.2	0.0	0.0
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Individual	%	7.1	6.5	8.8	2.4	1.3	1.3	0.6	0.2	0.4
2. Loans	%	27.0	21.5	20.3	20.9	18.3	16.3	18.4	9.0	13.2
3. Government subsidies	%	66.0	71.9	70.9	76.7	80.3	82.4	81.0	90.8	86.5
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economics statistics on agriculture and food for 2002, MAFF.

The composition ratio of LIPs has varied with agricultural policy changes. In the 1960s when efforts were focused on agricultural production, investment in irrigation and drainage projects comprised 50% to 70% of all LIP. In the 1970s, this ratio declined to less than 40% and then to around 25% from 1975 to 2000, while investment in farmland consolidation increased to more than 60% so as to save labor. When investment in land consolidation projects increased, national subsidies went up accordingly, which reduced the individual burden from 54.5% of total land consolidation project investment in 1960 to 4.4% in 1995. However on average, the farmers' burden was larger in farmland consolidation because beneficiaries of these projects were identified more easily than in irrigation projects.

With respect to management of land improvement facilities, though some large-scale facilities as dams, head works and pumping stations, which may affect vast areas, are managed by national or prefectural governments, the majority of irrigation facilities are managed by LIDs. In many cases, tertiary canals are the responsibility of community farmers. Therefore, routine operations, maintenance and management costs are basically

Table 2-8: National Government's Subsidies for LIPs

	1960	1965	1970	1975	1980	1985	1990	1995	2000
Total amount of LIP (billion yen)	39.5	98.8	240.2	560.0	1,232.1	1,235.0	1,490.9	2,556.7	2,000.2
-Public investment (%)	77.0	79.3	75.3	82.8	85.0	87.0	87.6	94.8	89.4
National subsidy (%)	55.4	59.7	56.2	55.8	55.3	54.5	50.7	57.3	59.2
-Farmers (%)	23.0	20.7	24.7	17.2	15.0	13.0	12.4	5.2	10.6
(1) Land Consolidation (%)	31.1	45.4	63.5	74.2	77.6	75.4	73.2	76.4	74.2
-Public investment (%)	45.5	65.3	68.2	79.2	82.6	84.7	86.3	95.6	88.6
National subsidy (%)	39.8	48.8	49.6	50.8	51.8	50.9	49.1	53.9	54.6
-Farmers (%)	54.5	35.0	31.8	20.8	17.4	15.3	13.7	4.4	11.4
(2) Irrigation and drainage (%)	68.6	54.6	36.5	25.8	22.4	24.6	26.8	23.6	25.8
-Public investment (%)	91.1	91.1	87.7	93.1	93.3	93.9	91.1	92.1	91.6
National subsidy (%)	63.1	68.8	67.6	70.1	67.4	65.6	55.2	68.6	72.3
-Farmers (%)	8.9	8.9	12.4	6.9	6.7	6.1	8.9	7.9	8.4

Source: Calculated by the author based on *Economics Statistics on Agriculture and Food for 2002* (MAFF 2002).

borne by the farmers, usually charged by LIDs, depending on the land area served.¹⁰ However, since land improvement facilities represent an important dimension of social capital in rural areas which make them a type of public goods, governments take a variety of measures to ensure the management of these facilities by subsidizing the advanced technologies needed to manage large-scale irrigation and drainage facilities, management systems, consolidation or repair of facilities, enhancement of management engineers' technical skills, etc. As shown below, in 1996, governments from the national level to municipalities provided subsidies of 76.5 billion yen for the management of LIPs,

¹⁰ The charges are calculated by land area, not water usage volume, because the irrigation channel is an open system and it is difficult to know the exact water usage volume. Besides these current fees which include maintenance cost and water fees, there exist special fees for construction costs and informal fees in the form of residents' association fees, which sometimes take the form of small labor, for example, mowing and dredging of small channels. (Nanae Yamada 2006).

comprising nearly one-third, and most of the subsidies went to the projects managed by various levels of government.

Table 2-9: Burden of O&M Cost (1996)

Unit: billion yen, %

Paid by	Managed by government	Managed by LIDs	Subtotal	In kind	Total	Share
National government	4.9	3.4	8.3	N.A.	8.3	3.5%
Prefectural government	29.5	5.2	34.7	N.A.	34.7	14.7%
Municipal government	20.9	12.7	33.6	N.A.	33.5	14.1%
LID	1.6	85.2	86.8	74	160.7	67.7%
Total	56.8	106.5	163.3	74	237.3	100.0%

Source: Nanae Yamada (2005).

Along with high economic growth, accelerated rural depopulation and aging pose a set of challenges for LIDs. Firstly, LID members are predominantly part-time farmers, which may undermine the functions of the LID and management of land improvement facilities. Secondly, with declining farm incomes, the steady increase in expenses for constructing and managing facilities cause small-scale LIDs, which still account for an overwhelming majority, to merge in order to benefit from economies of scale. Therefore, there is a need for advanced and strengthened safety management systems and highly trained technical workers. Responding to these new circumstances, national and prefectural governments provide additional subsidies to LIDs to cover some of the expenses.

2.3 Experience of Shinden Hamlet

Shinden Hamlet is located in Fujimi Town, Nagano Prefecture (Li Guoqing 1999, 226-265).¹¹ As a natural hamlet, Shinden also served as an administrative unit of the local government, mainly involved in delivering and recollecting all documents of the local

¹¹ This section is based on the book *The Social Development of Japan's Rural Communities: Survey on Fujimi Town* (Li Guoqing 1999).

municipal government, which is Fujimi Town, and in collecting various taxes and fees on behalf of the local government, such as inhabitant tax, fixed asset tax, automobile tax, national health insurance, national pension premiums, water use fee, sewage fees, cable telephone use fees, child care fees, public residential use fees, periodic medical checkup fees, etc., and assisting in statistical surveys and implementation of various agricultural policies and projects.

Since the agricultural cooperative was established in 1947, most economic functions have been taken over by the cooperative. In addition to conveying the agricultural policies to farmers, the agricultural cooperative maintained a close relationship with the rural community. When it came to implementing economic policies in the hamlet, the cooperative would consult with the director of the hamlet. The regular groups of the hamlet always utilized as the basic units of the cooperative to communicate with villagers. In turn, the hamlet would purchase commodities from the cooperative when there were public activities such as sports meetings, religious activities, road maintenance or river cleaning. The financial arm of the cooperative collected community member fees, fire fees and so on for the hamlet. Furthermore, the hamlet and the cooperative collaboratively established a women's group.

The governor and other officials of Fujimi Town would join in the meetings held in Shinden Hamlet to listen to the opinions of rural inhabitants. The rural inhabitants had the right to convey to the governor their advice on the development, living conditions and other issues such as improvement of roads, bridges, fire prevention, sewage works, medical facilities, protection of traditional culture and revitalization of agriculture. The rural residents were very active in rural public goods provision.

2.3.1 Organization of Shinden Hamlet

There was a four-tier organization system in Shinden Hamlet consisting of a General Assembly, a Council of Directors, regular groups and sub-groups. The General Assembly was held regularly every year and attended by the head of each family as the representative of the household. The Council of Directors, the core body for managing routine affairs, was composed of members from several specific sectors, who were responsible for implementing the resolutions made by the council in line with the decisions at the General Assembly and reporting the results to the council. The regular groups, elected by the sub-groups, were the basic operating units of the hamlet and usually owned common properties. The role they played in bringing villagers together was far more important than their role in the local government, the agricultural cooperative and the Council of Directors. Each regular group was divided into several sub-groups, each usually consisting of three to seven

Table 2-10: Organization of Shinden Hamlet

	Function	Responsibility
General Assembly	Highest authority	Examining the proposals offered by the Council of Directors, deciding on the appointment of workers, financial budget and final accounts, work planning, etc.
Council of Directors	Core administration	Holding meetings regularly, implementing the resolutions made by the General Assembly, reporting to the assembly, carrying out the tasks entrusted by the local government
Regular groups	Basic units	Holding community activities, such as sports meetings, funeral ceremonies, religious rites and so on
Sub-groups		Conveying various notifications from the community, collecting and delivering the survey questionnaires, assisting with the work of the agricultural cooperative and coordinating neighboring households

Source: Li Guoqing (1999),

neighboring households, which would take turns being in charge of the sub-group. There were 5 regular groups and 31 sub-groups in Shinden Hamlet.

Besides these semi-official organizations, there were various social groups such as religious groups, firefighting groups, community hall groups and parent meetings in the hamlet to carry out religious activities, recreation activities and mutual assistance activities. The structure of these groups was simple, with just a few residents in charge of daily affairs and activity arrangements.

2.3.2 Services Provided by Shinden Hamlet

Common property owned by Shinden Hamlet constituted a solid financial foundation for various community-wide activities and public goods provision. The hamlet held New Year celebration parties, Go game contests, sports meetings, villager forest walks, mountain climbing activities, cultural festival activities and other recreational activities. For the elderly, the rural community organized visiting activities, arranged informational lectures on safety and other services. With respect to living conditions, the community organized villagers to sprinkle snow salt and shovel snow in winter, repair rural roads, burn bulky waste, level up parking lots, consolidate the riverbanks, reconstruct drainage ditches, repair garbage stations and so on. As to production, the community handed out seeds and pesticides, organized grass burning on idle land and weeding, conveyed technical skills of the paddy field cultivation to farmers and adjusted the production plan of the hamlet, etc.

2.3.3 Financial Situation of Shinden Hamlet

Common forest property and revenue from the operation of the property contributed to many services and activities carried out in Shinden Hamlet. The financial resources shown

in the following table indicate that Shinden had a dual function. Because of its semi-administrative role, the local government of Fujimi Town provided fiscal subsidies to the hamlet to ensure the hamlet could execute policies entrusted by the government without increasing the burden on the residents. However, the subsidies to some extent enhanced the interdependent relationship between the hamlet and the government, with the hamlet becoming more dependent on the local government.

Table 2-11: Selected Revenues of Shinden Hamlet in 1994

Items	Amount (10 thousand yen)	Share (%)
Revenues from common property	698	24.2
Community fees paid by villagers	658	22.8
Fiscal subsidies from the local government	253	8.8
Total	2882	54.8

Source: Li Guoqing (1999).

Revenue from common property comprised the largest share, at 24.2%. The commons protected and managed the common forests and savings accumulated by property operation. Every year, with the interest revenue, the commons financed the public works of the hamlet, including maintaining parking lots, building fire cocks, improving roads and paying the fees for land improvement projects. Thanks to the support from the commons, the burden of households was lessened by tens of thousands of yen and a sense of community was enhanced among residents. Besides commons forestland, the common property included the community center, the sports ground, the public cemetery, the shrine and the temple. All of these helped unite residents in their daily life.

The community collected fees from its members. In the years before 1991, fees from households were collected on the basis of their respective township tax, but after the policy of defending the right to privacy was introduced, the tax paid was not made public. From 1991 onward, the fee standard was graded into three levels: 42,000 yen, 24,000 yen and 12,000 yen. There were about ten households which were required to pay 12,000 yen due to their poor conditions such as being bedridden and aged, disabled or poor and widowed; this was decided at a meeting of the directors and was not made public. Approximately 148 households, or 90%, paid 42,000 yen, the top grade, and so this became the average community fee from that year.

The revenue of the regular groups included the group member fees, grants from the common property and the community, and other miscellaneous income. The expenditure of the regular groups went to payment for various social groups and celebratory gatherings after repairing roads in the spring and autumn.

2.4 Experience of Commons Management in Ishimushiro Hamlet

The rural commons is a customary institution nurtured in Japanese rural areas through years of close interaction between villages and the surrounding natural environment. It is usually defined as an institution or customary arrangement under which the residents of a specific locality, such as a hamlet, jointly manage and control a certain expanse of land (i.e., forests, bushes, or pasture), a fishing ground, or waters for irrigation and livelihood (Kokki Goto 2007).

Ishimushiro Hamlet is located in Koriyama City, Fukushima Prefecture, which is in the northeast part of Japan. Ishimushiro Hamlet retains many of the intrinsic features of *iriai* (rural commons) practice, including the unanimous consent principle in the decision-making process and joint civil engineering work and joint management. Their practice, especially the potential to manage resources in a sustainable way, has attracted the interest of many scholars who are working to come up with some useful resource management tools so as to deal with the modern problems, such as sustainable development, community empowerment, governance and so on.¹²

2.4.1 Principles of the Commons

One salient feature of the commons is that resources are jointly managed and controlled by a group of households residing in the local community, but not by individuals or by an organization with corporate status. The customary practice regarding the commons varies from one locality to the next, but its intrinsic form is generally characterized by two principles: (1) the right to the commons is collectively held by its members (households) that actually reside in the community, and once a household moves out the community, it loses that right and (2) important decisions require the unanimous consent of all members.

However, these principles are regarded as incompatible with the principle underlying the modern system of ownership, which allows any holder of a land title to own lands in a community, even if he/she is not living in that community, and the principle of majority rule that underlies modern democracy. In the view of upholders of modernization, public ownership characterized by ambiguously defined property rights should be replaced by private ownership to promote efficient resource allocation and thus improve rural living standards in an all-round way. So, in the process of Japan's modernization, the government

¹² Firstly, this section is based on the author's field research on the commons of Ishimushino Hamlet. The author would like to express her great gratitude to Goto-san, Hashimoto-san and Yasuda-san, three elderly Ishimushiro villagers interviewed during her field research, and all staff members at IDE who contributed to this impressive field study. Secondly, the section is also based on "Iriai Forests Have Sustained the Livelihood and Autonomy of Villages: The Experience of Commons in Ishimushiro Hamlet in Northeastern Japan", narrated by Kokki Goto and edited and annotated by Motoko Shimagami.

has implemented a series of measures to dissolve commons rights, which may prove detrimental to Japan's development, and transform them into a modern form of property rights. As to forestlands, those with readily identifiable ownership rights were classified into privately-owned forests and those without into nationally-owned forests.

Due to the above principle of unanimous consent, a forestland modernization project in Ishimushiro promoted by the government with the intent to transform the commons rights into a modern right of ownership in the 1970s failed because one villager opposed the implementation of the project, which highlights the importance of the commons.¹³ As a result, Ishimushiro retains many intrinsic features of commons practice in an intact form, which is a rare case in modern Japan.

2.4.2 Members of Commons

The community of Ishimushiro lives primarily on farming and forestry. Ishimushiro has approximately 1,000 hectares of *iriai* (or commons) forestland, which covers most of the *satoyama* (hillside forests immediately adjacent to the hamlet), which are jointly used by 90 households that belong to the Ishimushiro Common Forest Association. Though there are now about 140 households in Ishimushiro, 50 of them do not belong to the Common Forest Association and have no right to utilize the *iriai* forestlands because they moved into the hamlet after the end of World War II.

2.4.3 Rights and Obligations of Common Members

Generally, all commons members have equal rights of ownership which empower them to manage the common properties collectively. People lose their rights to use forests and water resources once they move out of the hamlet. In Ishimushiro Hamlet, with its common ownership, the most important right of commons members is partaking in the communal use of the commons forestlands, such as by harvesting thatch grass to roof houses, gathering firewood and brushwood for use as fuel, and harvesting fodder, which were indispensable for villagers to live there in the old days when there were few ways of earning cash income because they had to rely on the forestlands around the hamlet for most of the necessities of life. After the wave of modernization changed the lifestyle of most villages, Ishimushiro Hamlet being no exception, the villagers began to use kerosene and electricity, making the old days' necessities of life that came mostly from forestland utilization increasingly unnecessary. Additionally, as part-time farmers and depopulation

¹³ In fact, it was the result of single-handed opposition by the villager Kokki Goto because on one hand, he believed that the logic of majority consent would concentrate ownership of the forestlands in the hands of a few individuals and private ownership would widen the gap between the haves and have-nots, and on the other hand, he learned that the national afforestation program would reduce his own profits from keeping bees.

increased in modern times, the rights of the commons began to appear less important. Now, the primary use of commons forestlands is limited to mushroom hunting. There are some spots where commons members can harvest many expensive mushrooms, and the commons members sell them to brokers, raising money for the Forest Association's fund, which is used to pay the real estate tax charged on the commons forests and to make donations to village festivals and village-wide sports meetings. As to the obligations, firstly, commons members have to pay commons fees annually.

Without the commons' rights, non-members are also exempted from the obligations to take part in *yui*, a traditional form of mutual assistance among villagers based on the principle of equal exchange of labor. However, as members of the community of Ishimushiro, they are obligated to pay a community fee of 10,000 yen annually like the commons members and are required to participate in compulsory labor works. The community of Ishimushiro, unlike many others, chose not to carry out an Agricultural Structure Improvement Program, usually referred to as an LIP. So, the community still manages its irrigation system all by itself.¹⁴ In the spring of each year, all the farming households in the hamlet perform at least three civil engineering tasks together, namely, the work of repairing and maintaining the farm roads, repairing and maintaining the irrigation canals and dredging and repairing the irrigation dams. Such events are not entirely a day of joint civil engineering work but partly a day of divine ritual, in other words, a day of amusements and diversions when people have great fun together, catching fish in the irrigation canals and having barbecue parties.¹⁵ These activities can also be seen as one kind of public goods that suit a specific need of the local residents.

Though Ishimushiro Hamlet did not join the Iriai Forestland Modernization Project which would have made *iriai* rights invalid and converted them into modern rights based on private ownership, the villagers actively took part in the Livelihood Improvement Movement which was implemented by the MAFF and is well known as a participatory development program that includes modernizing kitchens, changing the thatched roofs into zinc-coated ones, and making many other improvements to houses. So, when it comes to

¹⁴ As shown in the above sections, in communities that have carried out the Agricultural Structure Improvement Program, all of these tasks are assumed by the LIDs, which place orders with civil engineering firms to do the work. The bills are paid out of the LIDs' annual budgets. However, Kokki Goto realized that the LIDs' practice left nothing for the village community to do on its own and lacked things to unite them and bring them together, except perhaps the job of passing around among the households the circular notices that the municipal government issues from time to time. So, he insisted on bringing back to life again in each neighborhood what are now called community-like intimate human relationships.

¹⁵ The residents of Ishimushiro still jointly dredge up the irrigation dams and repair the farm roads twice a year, in the spring and the autumn, but these events last only for a few hours each. So, the hamlet retains some customary practices, but it still cannot free itself from the influence of urbanization which has turned the rural areas into a depopulated and aging society.

ordinary public goods provision, especially those relating to living conditions and welfare such as education, health care and social security, the practices are the same as other rural communities in Japan.¹⁶

2.5 Brief Summary

The great success that Japan has achieved in countryside construction is there for the world to see. To learn about the Japanese experience, this study selected different rural communities to examine the practices in the system of public goods provision in rural areas. First of all, rural communities have participated to a great extent in public goods provision. Secondly, rural communities voluntarily participated in related projects. Thirdly, rural communities usually have a set of systematic organizations to decide on important issues and hold diversified activities to satisfy the physical and emotional needs of the residents living in their communities. Fourthly, to enjoy these services, the individuals have an obligation to pay fees or input labor. Fifthly, the government subsidizes those rural communities or individuals who participate in government-initiated projects. As specialization evolved, the function of providing public goods was gradually taken over by the government and the function of developing the economy was taken over by the market-driven organizations, so that rural communities became more specialized in providing community-wide services. However, without government subsidies, development would depend heavily on the resources owned by the communities, which could result in large disparities and unstable service provision in different communities. Through the operation of LIDs, the improvement of agricultural production facilities and rural living infrastructure was implemented jointly by government and individuals. While individuals had corresponding obligations, the government subsidized differently according the various situations of local communities. This cost-sharing system, which conforms to the principle of benefit, contributes to the efficiency of public goods provision.

¹⁶ As the article of Kokki Goto stated, in Japan since the 1980s, a number of studies have been conducted to examine the significance of the commons for their potential to manage resources in a sustainable way. However, it seems to the author that the communal land ownership and resource management of the commons of Ishimushiro have had positive effects, but residents' living conditions indeed benefit from the national program for overall modernization and urbanization. Everything has its strengths and weaknesses.

3. Main Systems Guaranteeing Supply of Rural Public Goods

The topic of the rural public goods provision involves a series of systems, including all of the national development planning, social development policies, and administrative systems which guarantee efficient provision of rural public goods. Japan's agricultural policies, local autonomy and fiscal allocation systems, on one hand provide financial, technological and human resource support to supply rural public goods, and on the other hand, make it possible for rural communities to effectively take advantage of public resources. So, this section will focus on the role of institutional arrangements such as agricultural policies, administrative systems, the fiscal regime and farmer service organizations.

3.1 Changes in Japan's Agricultural Policies

The remarkable recovery of Japan's economy is attributable not only to the reconstruction policies applied to industry but also to the major attention devoted to reforming agriculture (Mitsugi Kamiya 1996). Through vigorous programs of land reform and improvement and farsighted systems of incentives, farmers were able to convert to sophisticated farming techniques and increase agricultural production, which in turn supported the socioeconomic development of the whole country. Closely related to alterations in agricultural policies, provision of rural public goods had different features both in scale and structure, which is analyzed in subsequent parts of this section. In the period immediately after the end of World War II, the measures embodied in agricultural policies can be summarized as farmland control, land improvement, protection of cultivators' rights, improvement of farmers' income and comprehensive development of rural areas, etc.

The government's first major objective was to reform land systems and to increase food production. The extensive program of land reform¹⁷ began in 1945 and ended in 1951, and after that Japan's Diet enacted the Farmland Law in 1952. This law was designed to maintain the area of agricultural land so as to improve agricultural production through limiting diversion of farmland to other uses and preventing non-farmers from obtaining farmland. However, these policies to some extent hindered land transference; so to counteract the problems caused by small-scale farming, to improve agrarian structure and to promote land transference, several amendments to the Farmland Law were made in later years, and these exerted far-reaching effects on agricultural development. The process of

¹⁷ In the process of Land Reform, all lands belonging to absentee landlords were compulsorily purchased, and even resident landlords were permitted to keep only one hectare. The government then sold the purchased land to cultivators and tenants. Tenants were able to pay off their debts in annual installments over 24 years at an annual interest of 3.2%. As a result of democratization in rural society, an owner-cultivator land tenure system formed, replacing the landlord tenure system. However, the strict controls on farmland transactions thereafter became one major obstacle in the way of expanding agricultural scale.

modernization and urbanization demanded more area of land to support construction, and so Japan implemented a system of national land use zoning with the enactment of the Law Concerning Agricultural Revitalization Zones and the City Plan Law in 1968. By designating agricultural revitalization zones, the law specified that municipalities in these zones should draw up revitalization plans to improve agrarian structure and realize agricultural and rural development through providing agricultural infrastructure and modernization facilities as well as maintaining the area of farmland. In 1980, the Law for Promoting Effective Use of Farmland designated additional land, beyond the agricultural revitalization zones, for use in farming. Subsequently, another major event in Japan's land system was the enactment of the Law for Promoting Reinforcement of the Basis of Farm Operation of 1993, which applied integrated measures to enlarge the scale of farm operation and rearrange agricultural structure (Wang Xianping 2008, Mitsugi Kamiya 1996, Ding Hongwei et al. 2008, 116-140).

In addition to the above-mentioned set of land reforms which was adopted mainly to increase agricultural productivity and improve agrarian structure, the government also took considerable measures to advance agricultural and rural infrastructure, marked by the LIP and its accompanying measures of agricultural technical research and development. The Law of Promoting Agricultural Improvement of 1948 stipulated that it was the responsibility of prefectural government workers to provide technical guidance to farmers and popularize agricultural technology. The Land Improvement Law of 1949 further stimulated land improvement, which as mentioned above greatly helped increase agricultural production and improve living conditions in rural areas with substantial support from the government financially and technically.

Though the policies to promote food production had taken effect in many aspects including improvement of living standards of farmers, the gap between urban and rural areas was not altered. The Agricultural Basic Law, enforced in 1961, aims at increasing farm income and narrowing the income disparity between agriculture and other industries through improving agrarian structure, increasing agricultural productivity and stabilizing the price system. In line with ABL, a number of public subsidies were provided to farmers for investment in farm machinery, circulation of agricultural products, processing facilities, telecommunication equipment and so on. Along with socioeconomic changes, especially the acceleration of population aging, the increase in abandoned farmland and food safety problems, the Basic Law on Food, Agriculture and Rural Areas was enacted in 1999 to replace ABL with the aims of guaranteeing stable support of foods, developing agricultural multifunctionality and revitalizing rural areas.

During these fundamental reforms in agriculture and in rural areas, rural institutional finance and agricultural insurance systems constituted important guarantees for carrying out land reform and land improvement projects. Crop insurance had existed in Japan before the war, but the system was reorganized in 1947 when existing crop and livestock insurance schemes were consolidated under the Agricultural Disaster Compensation Law. The law also established local Mutual Relief Associations with members from farming communities (Mitsugi Kamiya 1996).

Looking back on the evolution of Japan's agricultural policies, it can be concluded that measures taken by the government in an all-around way with a focus on agricultural development promoted rural public goods provision in the aspects of reinforcing agricultural and rural infrastructure, increasing farmers' income and so on. However, what cannot be denied is that the excessive financial support to farmers from the government for agricultural development to some extent undermined the process of enlarging the scale of farm operation, weakened international competitiveness and imposed a burden on the national economy. So, while the experiences of Japan's successful agricultural development seem to hold useful lessons for developing countries, the concurrent problems should be considered seriously as well.

3.2 The Role of Government in Rural Public Goods Provision

Due to the above-mentioned policies, the scale and structure of rural public goods provision in Japan also maintained a dynamic tendency. In the first period of agricultural development, particular emphases were placed on agricultural infrastructure, such as irrigation, drainage and farmland consolidation. The second stage followed with more investment in improving rural living conditions such as rural roads and farmers' welfare, especially in buildup of social security systems for farmers. Then in the agricultural modernization period, the focus of rural public goods provision was concentrated on infrastructure consolidation and management, rural environmental protection and information modernization. Now, to deal with the problem of depopulation and aging in rural areas, pro-agricultural policies again have turned to countryside construction, agricultural land protection and agricultural multifunctionality.

3.2.1 National Budget Relating to Rural and Agricultural Development

3.2.1.1. Large Size of Overall National Budget Relating to Rural and Agriculture

In the early period of industrialization in Japan, support from the national government¹⁸ for agriculture was relatively small, even in an effort to restore agricultural production. For example, in 1955, the ratio of public expenditure on agricultural development to agricultural outputs was only 3%, but from that year on, the scale of agriculture relating to budgets remained in a continuously growth trend (Fan Jian'gang 2010). It can be seen from the following table that the related expenditure on agriculture in the general accounts of the national government increased approximately 24 times, from 139 billion yen in 1960 to its peak of 3,423 billion yen in 1995, exhibiting an average annual growth of 9.6%. In 2000, the ratio of public expenditure on agricultural development to agricultural outputs was more than 50%. However, the period from the 1960s to the 1980s was the most important stage, when the ratio of budget related to agriculture in the general accounts of the national government reached nearly 10% or more. In this period, the expenditure on industrial development accounted for more than 10% of the general expenditure of the national government, and more than one-third was invested in agriculture, forestry and fisheries. In the 1960s, the figure amounted to 40.8%, which reveals how great an emphasis the national government placed on agricultural development.

Table 3-1: General Status of Agriculture and Budget Relating to Agriculture

Unit: billion yen, %

Fiscal Year	Agriculture output	National output	Share	Budget relating to agriculture	General accounts of the national government	Share	Share of agriculture budget to agriculture output
	(A)	(B)	(A/B)	(C)	(D)	(C/D)	(C/A)
1960	1453	16681	8.7	139	1765	7.9	9.5
1965	2304	33765	6.8	346	3745	9.2	15.0
1970	3277	75299	4.4	885	8213	10.8	27.0
1975	6152	152362	4.0	2000	20837	9.6	32.5
1980	6287	248376	2.5	3108	43681	7.1	49.4
1985	7574	330397	2.3	2717	53223	5.1	35.9
1990	7938	451683	1.8	2519	69651	3.6	31.7
1995	6864	497740	1.4	3423	78034	4.4	49.9
2000	5591	504119	1.1	2874	89770	3.2	51.4
2005	4887	503187	1.0	2256	86705	2.6	46.2
2008	4709	492067	0.9	2180	88911	2.5	46.3

Source: Statistics in *Annual Report on Food, Agriculture and Rural Areas in Japan FY 2010*, 128-129.

¹⁸ To conform to Japan's usage, here 'national government' refers to the central government..

Table 3-2: Investment Scale of Agriculture, Forestry and Fisheries Development

Unit: billion yen, %

Fiscal Year	General accounts of the national government	Industrial development	Agriculture, forestry and fisheries	Share 1	Share 2
	A	B	C	B/A	C/B
1960-1969	38,869	3,879	1,584	10.0	40.8
1970-1979	210,833	22,639	7,078	10.7	31.3
1980-1989	531,393	38,853	13,186	7.3	33.9
1990-1999	765,715	38,778	12,137	5.1	31.3

Source: Prepared by the author based on *General Accounts - Settlement of Expenditure by Purpose (FY1947--2003)* provided by the Budget Bureau, Ministry of Finance, Japan.

So, concerted and sustained attempts have been made over the years to stimulate agricultural development, improve the quality of agricultural land, optimize agricultural structure, promote agricultural research and extension, improve agricultural and rural infrastructure, increase farmers' income and welfare and improve rural living conditions. Expenditure on agricultural production claimed the largest share of total national expenditure relating to agriculture, at over 50% most years, and it was mainly used to develop agriculture, livestock, fruits, and vegetables, improve production conditions and promote agricultural technologies and disaster rehabilitation. Almost 60% of the expenditure on agricultural production went to improving production conditions and the rural environment. The major measures to optimize agrarian structure included mechanization of farming, modernization of farming, subsidies to the Agriculture, Forestry and Fishery Finance Corporation, regional adjustment, farmer employment, land transference, pensions for farmers and so on. In the expenditure on optimizing agrarian structure, the share of the subsidies to the Agriculture, Forestry and Fishery Finance Corporation increased from 14.8% in 1960 to 31.8% in 1980 and remained around 30% thereafter, even reaching 44.5% in 1985. Since the 1970s' reforms were introduced in the social security system, continuous growth also occurred in pensions for farmers, accounting for about one-third of expending on improving agrarian structure after 1985. In contrast, due to overproduction of rice, expenditures relating to price stabilization and income support have undergone a downward change.

Table 3-3: Structure of the Budget Relating to Agriculture

Unit: %

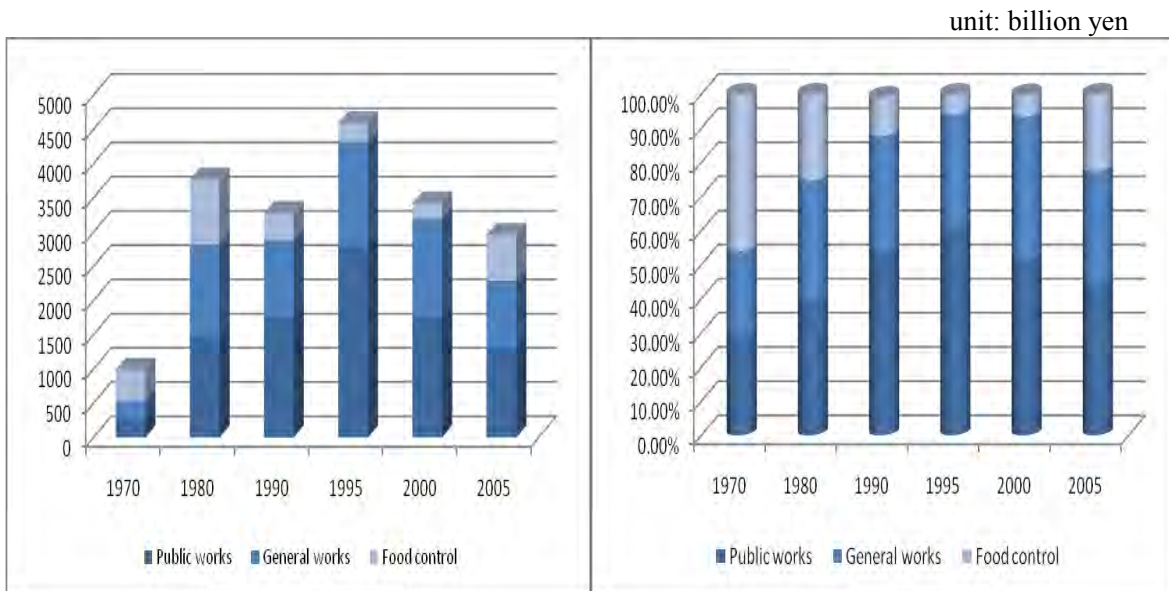
Fiscal year	Production policies	Improvement of agriculture structure	Price stabilization and income support	Improvement of welfare of farmers	Others
1960	61.0	3.4	26.1	0.4	9.6
1965	46.9	6.3	40.4	0.4	6.5
1970	42.5	5.3	47.1	0.6	5.8
1975	39.8	5.1	49.1	1.0	9.8
1980	57.7	8.7	27.4	1.5	7.1
1985	56.5	11.6	23.3	1.5	6.6
1990	64.4	11.4	14.5	1.2	8.0
1995	70.0	11.0	10.1	1.7	6.7
1999	65.7	9.3	14.7	1.4	8.3

Source: Prepared by the author based on statistics in the *Annual Report on Food, Agriculture and Rural Areas in Japan FY 2010*, 136-137.

3.2.1.2. Public Works Relating to Agriculture, Forestry and Fisheries

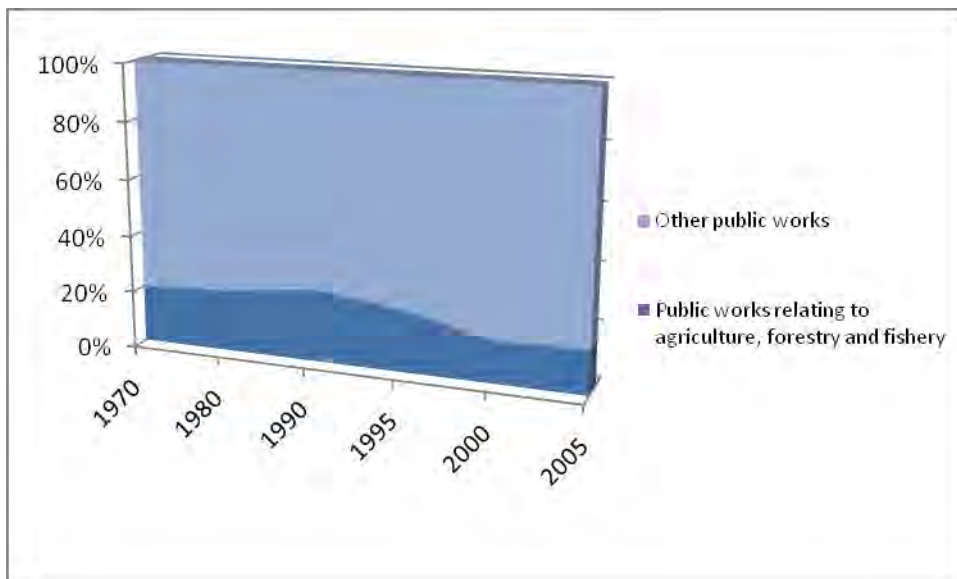
How the national government provided public goods relating to agriculture and rural areas can also be observed in the specific categories in the budget relating to agriculture, forestry and fisheries. The total budget was divided into three major categories, food control, general works and public works, among which the latter two categories were most closely related to public goods provision. The ratio of expenditure in these two categories increased 21 percentage points, from 54% in 1970 to 75% in 1985 and reached more than 90% in the 1990s. In 1995, accounting for about 6% of the budget of general accounts of the national government, the budget of MAFF was 4,600 billion yen, 94% of which was allocated to general works and public works, of which 60% was channeled to public works. Furthermore, before 2000, the public works budget relating to agriculture, forestry and fisheries had accounted for 20% or more of the total national public works expenditure.

Figure 3-1: Budget Relating to Agriculture, Forestry and Fishery by Categories



Source: Prepared by the author based on Japan's Rural Public Finance (Sekino Mitsuo 2007, 99).

Figure 3-2: Share of Public Works Expenditure Relating to Agriculture, Forestry and Fishery



Source: Prepared by the author based on *Japan's Rural Public Finance* (Sekino Mitsuo 2007, 99) and *General Accounts - Expenditure by Principal Expenditure Item (FY1958--2003)* provided by the Budget Bureau, MOF, Japan

Public works in Japan include conservation of forests and rivers, road improvement, improvement of harbors, fishing ports and airports, housing and urban development, waterworks, sewage systems, waste management, agriculture and farm village infrastructure improvement, forestry and fisheries development and national disaster restoration and adjustments. Corresponding works in agriculture, forestry and fisheries are improvement of agriculture and agricultural villages, forestry public works, improvement of basic conditions for fisheries, seaside improvement, subsidies for development of rural areas and disaster restoration.

Table 3-4: Public Works Expenditure Relating to Agriculture, Forestry and Fisheries by Principle Items

Unit: million yen, %

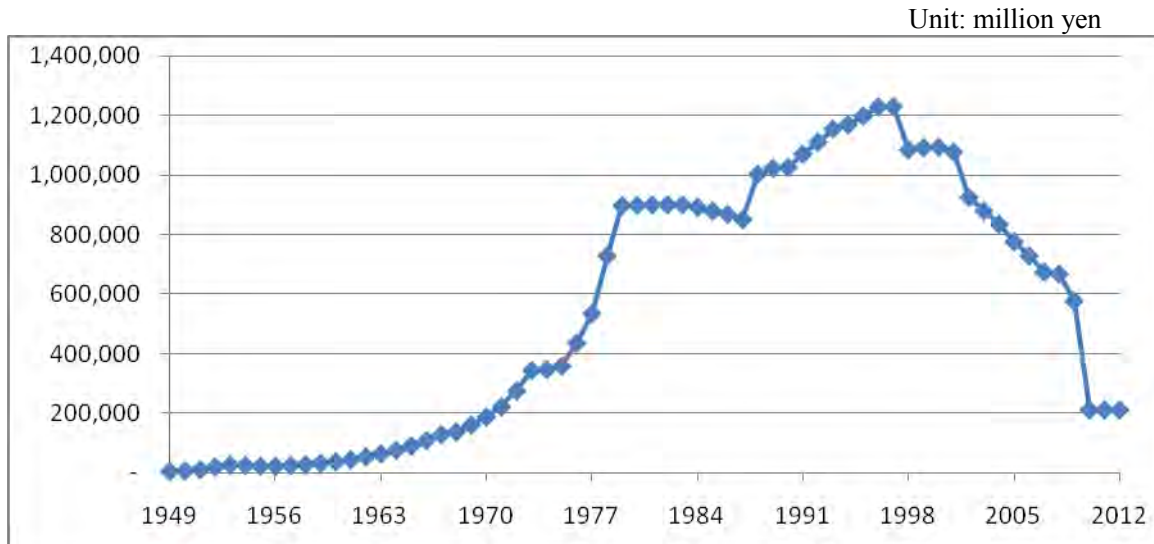
Item	Amount			Share		
	FY2008	FY2009	FY2010	FY2008	FY2009	FY2010
1 Improvement of agriculture and agricultural villages	667736	577220	212939	60.3	58.0	32.4
2 Forestry public works	267885	260925	187030	24.2	26.2	28.5
(1) Forest land control	105250	99190	68833			
(2) Improvement of forests	162635	161736	118197			
3 Improvement of basic conditions for fisheries	133937	119860	82227	12.1	12.0	12.5
4 Seaside improvement	18635	17965	4900	1.7	1.8	0.7
5 Subsidies for development of rural areas	-	-	150000	0.0	0.0	22.9
6 Disaster restoration	19250	19250	19250	1.7	1.9	2.9
7 Total	1107443	995220	656346	100.0	100.0	100.0

Source: *Statistical Yearbook of MAFF (2008-2011)* (86th, 85th, and 84th editions).

3.2.1.3. High Investment in Agricultural and Rural Infrastructure

Japan's authorities have always attached great importance to agriculture, rural areas and farmers' living standards, with public investment covering the fields of production, circulation and living conditions. In this process, the government particularly invested highly in improving infrastructure, which was crucial for improvement of agricultural production and living conditions. Funds were usually provided for improving agricultural production infrastructure, rural living conditions, conserving and managing rural lands and so on. Responding to the increased scale of farming operations, such improvement measures effectively reinforced the linkage between urban and rural areas in material goods and information, and thus played an active role in increasing agricultural productivity and solving the fund shortage in agricultural development.

Figure 3-3: National General Expenditure for the Improvement of Agriculture and Agricultural Villages by Total Amount



Source: Prepared by the author.¹⁹

Just as the figures indicate, from 1949 to 1997, public expenditure on rural and agricultural infrastructure was in a sustained upward trend, reached one peak in the 1970s and remained at a level standard until 1987, after which the expenditure again entered a new uptrend from 1988 to 1998, exceeding 1,000 billion yen and reaching its peak of 1,228 billion yen in 1998. Meanwhile, in the past three decades when basic improvement of agricultural production conditions became stable, the ratio of this part to the total infrastructure improvement decreased by 17 percentage points, from 69.4% in 1980 to 52.8% in 2000. Correspondingly, investment in rural infrastructure improvement climbed to 392 billion yen in 2000, almost twice the 1980 level of 195 billion yen.

¹⁹ The author would like to thank Arihiro Urushibata, director of the Agriculture, Forestry and Fishery Division, Ministry of Finance, Japan, for providing the related data.

Table 3-5: National General Expenditure on Improvement of Agriculture and Agricultural Villages by Principal Item

Unit: billion yen, %

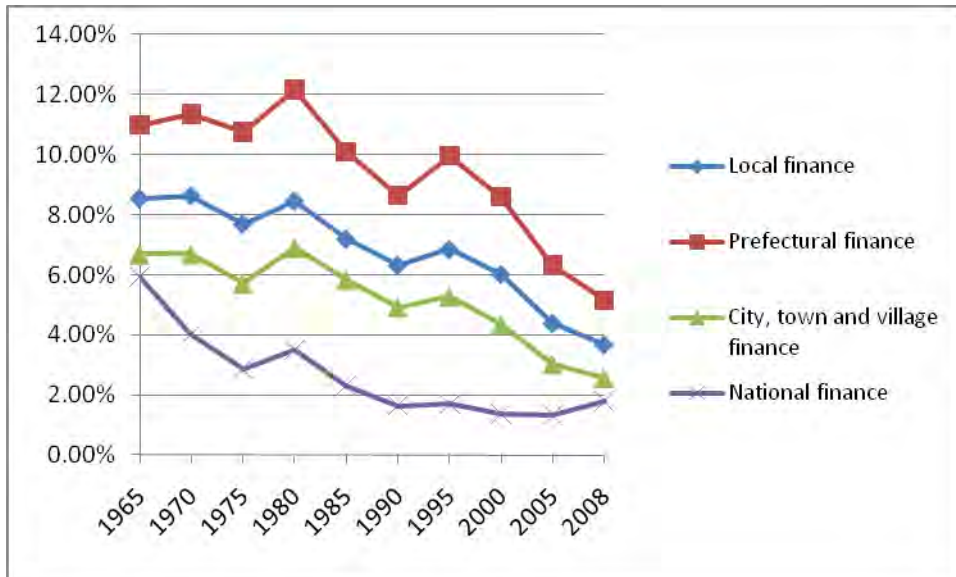
FY	Agricultural production infrastructure	Improvement of rural areas	Preservation of farmland	Total	Share		
					Agricultural production infrastructure	Improvement of rural areas	Preservation of farmland
1980	622	195	80	897	69.4	21.7	8.9
1985	608	190	80	878	69.3	21.6	9.1
1990	672	256	98	1027	65.5	24.9	9.6
1993	677	370	106	1154	58.7	32.1	9.2
1995	652	427	116	1196	54.6	35.7	9.7
1997	645	454	128	1228	52.6	37	10.4
2000	577	392	123	1092	52.8	35.9	11.3
2004	458	256	119	834	55	30.7	14.4

Source: Prepared by the author based on *Japan's Rural Public Finance* (Sekino Mitsuo 2007, 99).

3.2.2 Local Budget Relating to Rural and Agricultural Development

Similar to the national government, the period during which local governments, including the prefectural level and municipal level, most strongly supported agriculture, forestry and fisheries was also from the 1960s to the 1980s. The following figure indicates that public expenditure on agriculture, forestry and fisheries from government of all levels has generally been in a downward trend, mainly due to the fact that rural and agricultural development has entered a mature stage. The share of agricultural expenditure to the total expenditure of local governments was higher than the corresponding figure of the national government. Moreover, the share at the prefectural level was higher than that at the municipal level. This reflects the fact that local governments shouldered great responsibility for local rural development. However, in terms of the average amount, public expenditure on agriculture by the prefectural governments was almost twice that of the municipal governments.

Figure 3-4: Ratio of Expenditure on Agriculture, Forestry and Fisheries to Total Expenditure



Source: Prepared by the author based on *Ordinary Accounts of Local Governments - Settlement of Expenditure by Purpose and Function (FY1964--2008)*, Local Administration Bureau, MIC, Japan.

Local governments depended heavily on the national government to fulfill its responsibilities, especially in the 1970s and 1980s before Japan carried out decentralization reform. Of the total budget of local governments, 20% or more came from the national treasury disbursements. In 1980, as much as 40% of agricultural, forestry and fishery expenditure came from the national treasury disbursements. The funding of public welfare was similar, which indicates that local governments' support for rural public goods supply depended heavily on the national government.

Table 3-6: Dependency on National Treasury Disbursements by Category

Unit: %

FY	Education	Civil engineering work	Public welfare	Agriculture, forestry and fishery	Sanitation	Total
1970	22.8	22.7	46.4	34.6	16.7	20.7
1980	24.9	26.1	44.7	40.1	12.1	22.6
1990	19.7	11.6	28.8	26.2	8.6	13.3
2000	18.4	14.1	28.6	28.7	7.7	13.9
2003	18.9	15.4	26.7	32	8.9	14.4

Source: *Japan's Rural Public Finance* (Sekino Mitsuo 2007, 102).

In the year 2000, the total financial resources for local agriculture, forestry and fisheries could be categorized into five major types, of which the general financial resources comprised the largest share, at 40.2%, followed by the national treasury disbursements at 28.7%. However, the financial structure of prefectural budgets for agricultural, forestry and fishery differed greatly from those of municipalities. With the national treasury disbursements accounting for 36.9% of the total prefectural agricultural budget and 11.2% in other specialized financial resources, the total specialized funds comprised nearly 50%, which meant that half of prefectural expenditures on agriculture were designated. However, municipal government had relative freedom in decisions on how to support agriculture with more general financial resources, which comprised 50.1% of the total agricultural budget.

Table 3-7: Financial Resources of Local Agriculture, Forestry and Fisheries Budgets (FY2000)

Unit: billion yen, %

	Prefecture	Share	Municipality	Share	Total	Share
National treasury disbursement	1320	36.9	25	1.4	1345	28.7
Prefectural disbursement	—	—	446	24.6		
Shares and charges	233	6.5	33	1.8	119	2.5
Local bonds	577	16.1	235	13	808	17.2
Other specialized financial resources	399	11.2	145	7.9	533	11.4
General financial resources	1050	29.3	931	51.3	1846	40.2
Total	3581	100	1817	100	4693	100

Source: *Japan's Rural Public Finance* (Sekino Mitsuo 2007, 102).

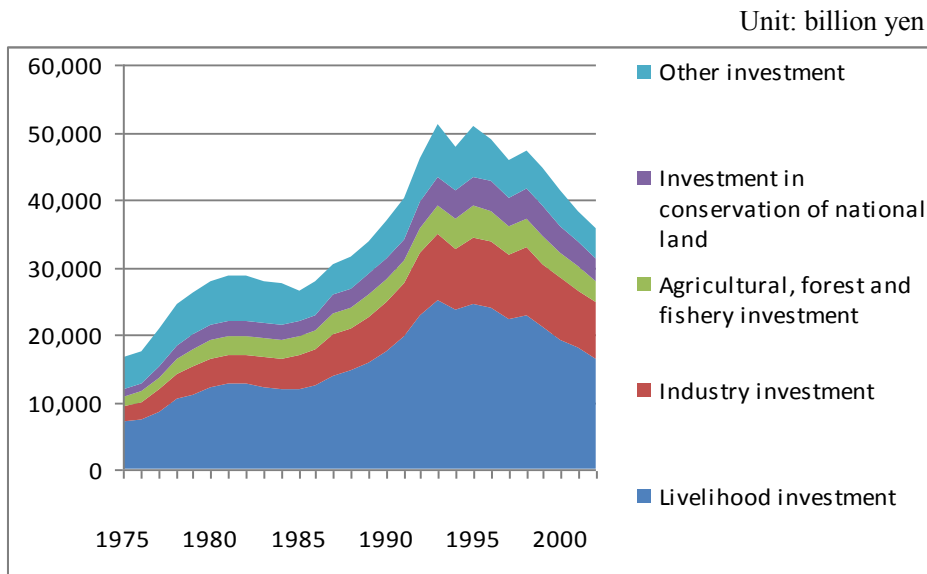
Another examination of local administrative investment indicates that, besides agricultural promotion, local governments' duties regarding provision of public goods covered an extensive range, including livelihood investment, industry investment, investment in conservation of national land and so on.

Table 3-8: Items of Local Administrative Investment

Livelihood investment	<p>City, town and village roads</p> <p>Streets</p> <p>City planning</p> <p>Housing</p> <p>Environmental sanitation</p> <p>Welfare</p> <p>Educational facilities</p> <p>Water supplies</p> <p>Public sewerage</p>
Industry investment	<p>National highways and prefectural roads</p> <p>Harbors</p> <p>Airport</p> <p>Industrial water</p>
Agricultural, forestry and fishery investment	
Investment in conservation of national land	<p>Forest and river conservation</p> <p>Seashore conservation</p>
Other investment	<p>Unemployment measures</p> <p>Disaster restoration</p> <p>Government office repairs</p> <p>Railways</p> <p>Subways</p> <p>Electricity</p> <p>Gas</p> <p>Residential land formation</p> <p>Other</p>

Source: Local Administration Bureau, MIC.

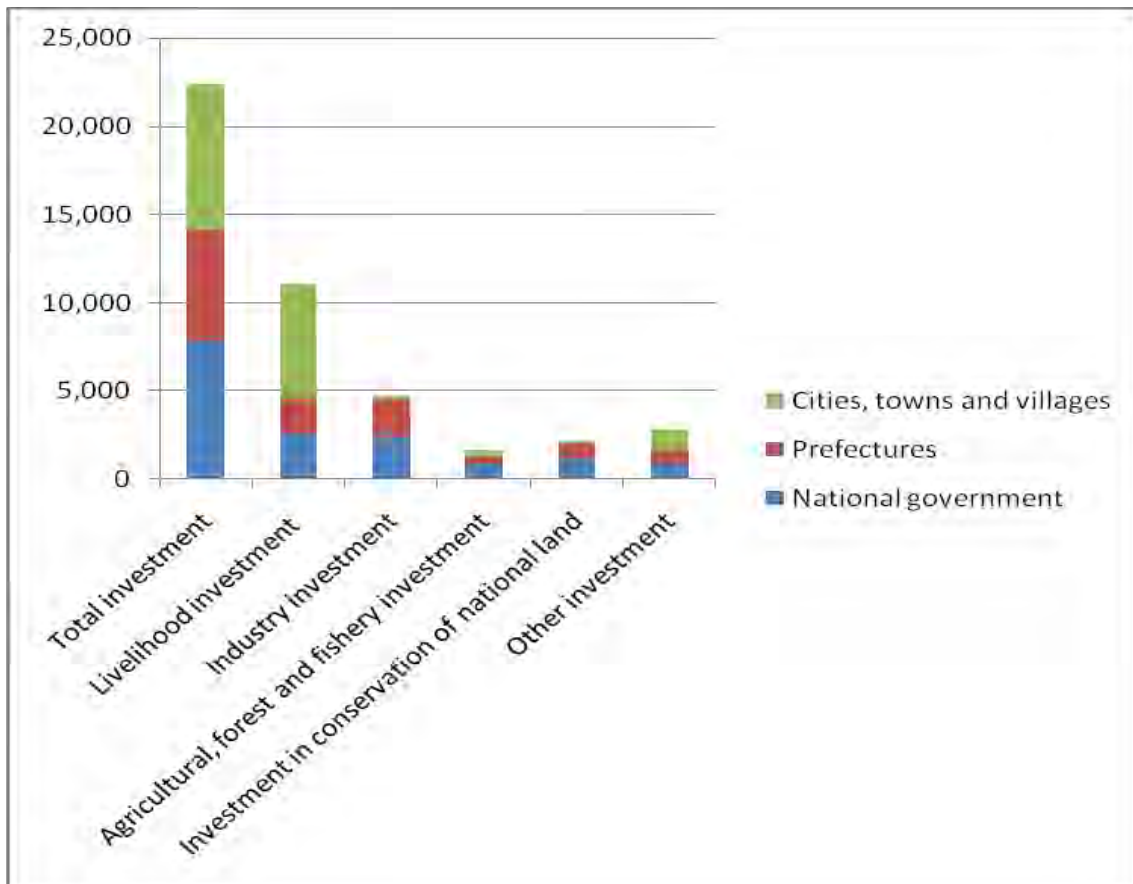
Figure 3-5: Structure of Local Administrative Investment



Source: Prepared by the author based on *Administrative Investment (FY1975--2002)*, Local Administration Bureau, MIC.

As of 2008, in all administrative investment, the national government accounted for 35.2%, with prefectural governments at 27.9% and cities, towns and villages at 36.9%. In particular, the national government's shares in industry investment, agricultural, forestry and fishery investment, and nation land conservation investment all exceeded 50%. National and prefectural investment in these three major categories totaled more than 80%, while cities, towns and villages only shouldered a small share. This indicates that the efforts of cities, towns and villages were concentrated on livelihood improvement.

Figure 3-6: Share of All Levels of Government in Administrative Investment in 2008



Source: Prepared by the author based on *Investment by Work Purpose and Burden Share (FY1990--2008)*, Local Administration Bureau, Ministry of Internal Affairs and Communications.

3.3 The Administrative Systems and Practices in Japan

Japan's local autonomy, decentralization and municipal mergers are the three major characteristics of Japan's governance. The common objective of these three points is to empower local governments with substantial capacity to provide public goods efficiently and effectively. Thanks to this institutional mechanism, the quantity and quality of public goods in Japan are on a relatively high level, which we can experience when we stay in Japan. Thus, people living in rural areas can have the same public goods, such as sanitation, education, health care, social security and so on, as urban citizens, and this causes rural communities to concentrate on providing community-wide public goods that can better satisfy the specific needs of the local residents.

3.3.1 Local Autonomy in Japan

Japan is a constitutional monarchy with a parliamentary government. The Japanese Constitution, which went into effect on May 3, 1947, specifies that governmental power is separated into three independent branches: legislative, executive and judicial. Within such a framework, local autonomy has its basis in the nation's Constitution, which determines the basic nature and principle of local autonomy, for local autonomy is indispensable to democracy. In Chapter VIII of the Constitution, four articles clarify that local autonomy includes autonomy by both local governments and residents and ensure the legislative, administrative and financial authority of local governments. In accordance with Article 92 of the Constitution which provides that 'regulations concerning organization and operations of local public entities shall be fixed by law in accordance with the principle of local autonomy',²⁰ a series of laws relating to local autonomy have been enacted, such as the Local Autonomy Law, Local Public Service Law, Public Offices Election Law, Local Finance Law, and Local Tax Law. Among these, the most important and basic one is the Local Autonomy Law which was adopted in 1947 and came into effect concurrently with the Constitution. The provisions of the Local Autonomy Law deal mainly with the status of local authorities, residents' affairs, legislative assemblies and financial affairs, and other important administrative matters. It also specifies the relationship between the central government and local governments and the relationship among local governments.

Japan's local autonomy system adopts a two-tier structure. Local governments in Japan, called local authorities or local public entities in terms of law, include two basic types, prefectures as regional government units and municipalities as basic local government units. 'Prefecture' refers to the geographical units of *to*, *do*, *fu*, and *ken* in Japanese terms. As of April 1, 2011, Japan had 47 prefectures,²¹ within which were 1,724 municipalities, plus the 23 wards (*ku*) in metropolitan Tokyo. Each prefecture consists of numerous municipalities, but in terms of their administrative systems, prefectures and municipalities are mutually independent, with no hierarchical relationships between them. Municipalities are the basic level of authority dealing with affairs close to the lives of residents and providing basic public goods, while prefectures are responsible for those affairs which municipalities cannot effectively conduct and other broad issues that can unite and coordinate the relations among municipalities. Prefectures do give guidance and advice to municipalities from their more regional perspectives on a variety of issues, and they perform various licensing and permit functions.

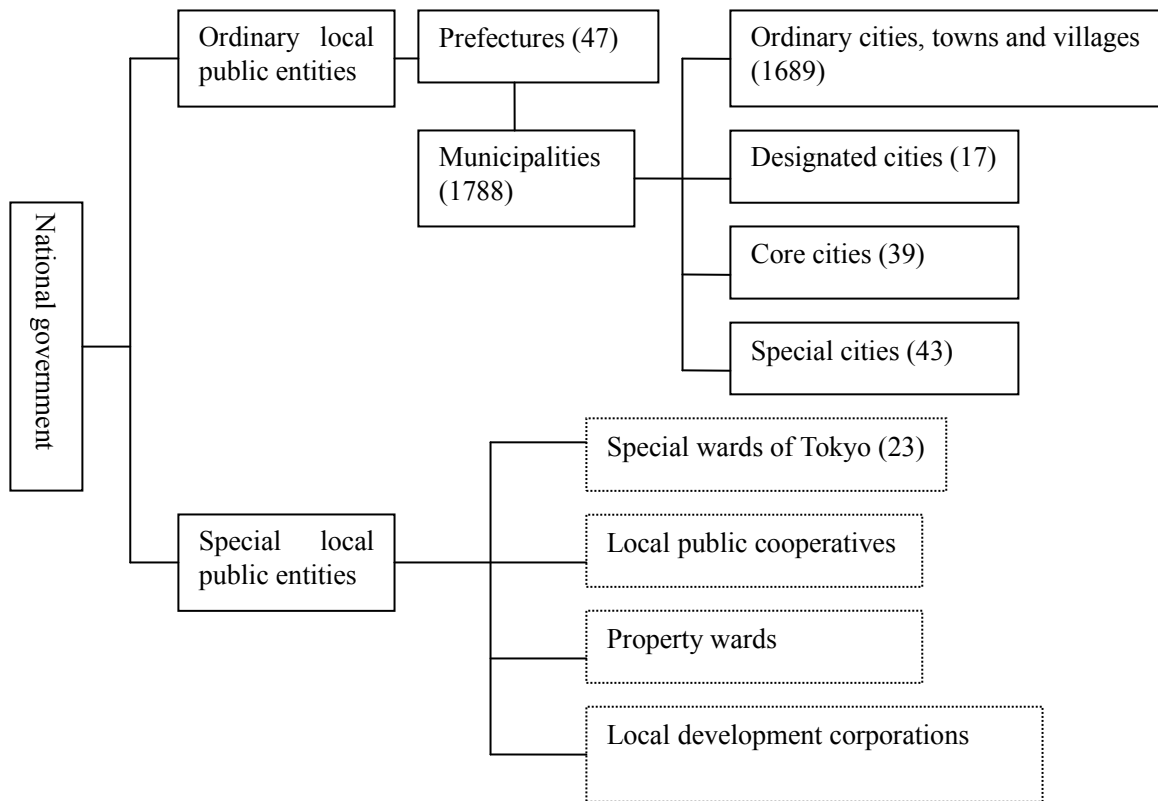
²⁰ <http://www.sangiin.go.jp/eng/law/index.htm>

²¹ They are Tokyo (*to*), Hokkaido (*do*), Osaka (*fu*), Kyoto (*fu*) and 43 other prefectures (*ken*).

To improve performance of public goods supply, municipalities are divided into four types because of the large differences in the scale of each municipality. Besides ordinary municipalities, there are three other special municipalities with enhanced power: designated cities, core cities and special cities, and they are differentiated by the extent of the authority transferred by the prefectures. For example, municipalities that satisfy certain population criteria (i.e., 500,000 people or more) are eligible for designation as ‘Cabinet-order designated cities.’ This designation gives them the administrative and fiscal authority equivalent to that of prefectures, especially in such fields as social welfare, education, sanitation, urban planning and so on. Cities with a population of more than 300,000 can be designated as core cities and cities with a population of more than 200,000 as special cities. Both of them are capable of dealing with the same affairs as designated cities, excluding those matters that are more efficiently and uniformly handled by prefectures across their broader jurisdictions.

The above basic local governments can also be regarded as ordinary local public entities. Other than them, in Japan there exist other types of special local public entities, which may be inter-prefectural or inter-municipal and which do not have particular features such as direct elections or legislative authority but are unions of local public entities for specific services, such as for schools, waterworks and waste management. The Local Autonomy Law establishes four types of special local public entities: special wards, local public cooperatives, property wards and local development corporations. Each of the 23 wards of Tokyo is legally equivalent to a city, except that some services such as firefighting, fresh water supply and sewage are handled by the Tokyo Metropolitan Government. Local public cooperatives are organizations established by two or more local authorities to deal with issues more efficiently and effectively. A property ward is established to manage property, such as mountain forests, that is owned within a municipality and mainly lies in agricultural or mountain villages, along with things like irrigation ditches, marshes, cemeteries, housing lots, agricultural land and hot springs. Local development corporations are established by two or more ordinary local public entities to carry out initiatives such as acquisition and development of land and construction of public facilities.

Figure 3-7: Hierarchy System by Level (April 2008)



Source: Yutaka Oinuma (2010).

The practices of Japan's local autonomy system are all based on the principle of improving resident welfare. As regional governments encompassing municipalities, prefectures are designated to handle wide-scale regional affairs, communication and coordination among municipalities and supplementary affairs for municipalities. However, as the foundation of local governments, municipalities are designated to deal with affairs other than those handled by the prefectures. As a part of the governing system of the whole nation, local governments and national government are in a mutually dependent and mutually complementary relationship.

3.3.2 Decentralization Reforms in Japan

Though the local autonomy system was established in Japan long ago, there remained an obvious remnant of centralized administrative system. The national government always had an effect on local governments by delegating functions, duties or responsibilities to them. It has long been pointed out that not only did this create ambiguity as to which level of government was responsible for these duties, but also local governments were regarded as subordinate administrative agencies of the national government. In order to rectify this situation, to enhance the independence and self-government of local governments, thus to further clarify the division of responsibilities between the national government and local governments, decentralization reforms were introduced in Japan, characterized by amendment of the Local Autonomy Law and other relevant laws. To promote decentralization in a comprehensive and systematic way, decentralization reforms began in May 1995 when the Decentralization Promotion Law was enacted, followed by the setup of the Decentralization Promotion Committee which made great preparations for the decentralization promotion plan. In July 1999, the Decentralization Package Law was promulgated and took effect in April 2000.

Within the amended law, local governments shouldered broad responsibility for performing administrative functions in their regions, independently and comprehensively. The national government was charged with responsibility primarily for those affairs that were best handled in a nationwide manner, such as international affairs. In addition to the clarification of the roles, a further measure to create a new relationship of equality and cooperation between national and local governments was to abolish the system of delegated functions imposed upon local governments by the national government. Accordingly, all responsibilities to be assumed by local governments were restructured into two categories, autonomous functions and statutory entrusted functions. Furthermore, in line with the amended law, involvement of national administrative agencies in local governments was restricted to those cases which were permitted by laws or ordinances, and involvement arising from individual laws must be limited to the minimum necessary. In the promotion of decentralization, not only was the authority of the national government transferred to prefectures, but that of prefectures was transferred to municipalities as well.

Even in recent years, Japan has still been undergoing further decentralization promotion, marked by enactment of the Decentralization Reform Promotion Law in December 2006. In this round of decentralization, recommendations were made for identification of specific powers of the national government in the areas of life design planning and urban design planning and delegation of them to local governments as well as abolishment, or handing over to local governments, of local branch agencies of national government.

As shown above, intergovernmental relationships in Japan are undergoing deeper reform with more authority transferred to prefectures and then to cities, towns and villages in more and more specific areas. Although decentralization reforms were suited for many objectives, such as ensuring equal status for local governments and national government, developing unique and dynamic local societies, and responding to socioeconomic changes, the leading reason was based on the conviction that local governments, which are closest to residents' daily lives, can perform administrative functions in the most effective way to meet the diverse needs of residents living in their communities.

3.3.3 Municipal Mergers in Japan

Since local governments, especially the municipal level, are closest to the daily lives of residents, the size of the administrative jurisdiction has a direct impact on the effect of municipal functions. If the size of the administrative jurisdiction is too large, it may make it inconvenient for households to make full use of a variety of facilities around their communities. In contrast, too small a size of the administrative jurisdiction may, on one hand, complicate the construction of large-scale public works such as schools and libraries because of lack of financial resources, and on the other hand, may exert a great burden on local residents because a relatively large administrative staff increases personnel expenses. In Japan, to follow the principle of cost efficiency, administrative boundaries of municipalities, the basic local public entities, have been undergoing constant adjustment.

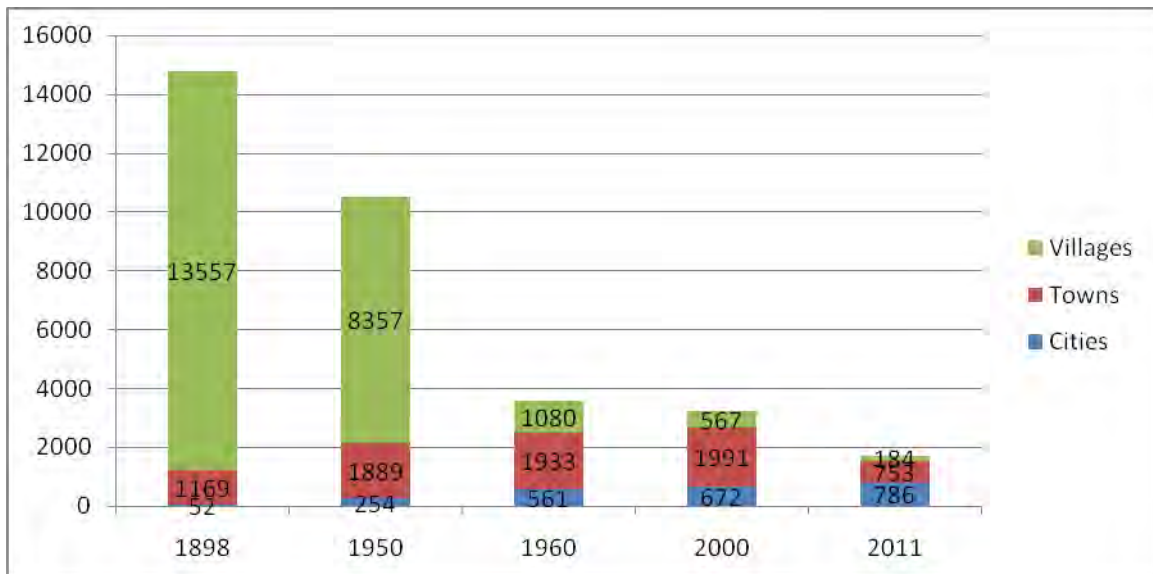
In order to strengthen the administrative and fiscal foundation of the municipalities and thus to improve the efficiency and effectiveness of such public goods provision as education, public works, social assistance and so on, municipal mergers were promoted by law. Since introduction of the modern autonomy system in 1888, there have been three rounds of major municipal mergers in Japan, through which the number of municipalities has decreased continuously. First, in the Great Meiji Consolidation, prior to the implementation of the municipal system in 1889, the roughly 70,000 cities, towns and villages at that time were merged into about 15,000 entities. The size of the municipalities was determined in light of Japan's first nationwide four-year compulsory primary education system which was planned in 1886. To implement the project, municipal mergers began based on the assumption that 300 to 500 households was a suitable number for a standard-size municipality in which at least one primary school should be built (Jiao Bifang and Sun Binbin 2009, 30-48).

A second wave of mergers, known as the Great Showa Consolidation, came after World War II, from 1953 to 1961, based on the Law for Promoting Municipal Mergers. During this period, the 10,000 or so municipalities decreased by about two-thirds, to 3,574 in 1960.

Since the local autonomy law specified the duties of the national government, prefectural governments and municipal governments respectively, municipalities, as the local public entities, were allocated more new duties, such as building and managing middle schools, firefighting and delivering social welfare and health care to the residents of their communities. The size of municipalities at that time could not meet the demand because of insufficient financial resources. The new population standard of a usual municipality was around 8,000 persons to allow at least one middle school in one municipality. As a result, the administrative and financial powers of the municipalities were enhanced, which was helpful for the development of local autonomy and, in particular, for responding to the urbanization which accompanied the period of high economic growth.

In recent years, along with new local autonomy system reforms and progressive decentralization, the so-called Great Heisei Consolidation took place in 1999, with the number of municipalities reduced to 1,724 in April 2011 from 3,232 at the end of March 1999, a decrease of more than 45%. During this period, in line with the principle of autonomous municipal merger provided by the old Special Mergers Law, the national government had to respect the decision to merge or not made by the municipalities; meanwhile, the national government also had to actively promote mergers by taking special measures. Thus, financial measures were usually used, such as a system of special bonds for mergers in which 70% of the redemption cost for principal and interest of special local bonds used to fund improvements after a merger could be compensated by local allocation tax revenue. So, municipalities have continuously grown in size to better deal with their expanded administrative authority and to acquire the administrative and financial capabilities necessary to handle the more sophisticated and complex issues that have accompanied social and economic development.

Figure 3-8: Number of Municipalities



Source: Prepared by the author based on *Number of Cities, Towns and Villages and Population by Size of Population*, Statistical Survey Department, Statistics Bureau, Ministry of Internal Affairs and Communications.

The program of municipal mergers in Japan is a major part of the administrative reform, which creates the basis of local autonomy and plays an important role in pushing forward Japanese urbanization, modernization and rural social and economic development. The mergers not only help strengthen the regional economic power, but more importantly, improve the economies-of-scale of public goods supply by reducing the administrative cost, expanding the coverage of public facilities and increasing utilization efficiency. Before the mergers, the beneficiaries of one municipality's services, including libraries, cultural centers, sports facilities and other public facilities, may have been limited to the residents living in the exact municipality. Either it was impossible for other residents to receive the services or they had to pay higher user fees. However, municipal mergers changed that situation by allowing more residents access to services and improving utilization of various public facilities, and mergers also enabled municipalities to concentrate on large-scale public works rather than on building redundant projects within their administrative boundaries.

3.4 The Fiscal Regime in Japan

The rights of the people are specified in the Constitution, in which Articles 25 and 26 clearly state that all people have the right to maintain minimum standards of wholesome

and cultured living and to receive an equal education corresponding to their ability. So, the state shall use its endeavors for the promotion and extension of social welfare and security and of public health, and for the free provision of compulsory education. Such a concept of minimum standard not only applies to the citizens living in urban areas but also to the residents of rural areas. A sound fiscal regime is needed to fulfill these obligations. As shown above, one of the most important objectives of the administrative reforms was to appropriately distribute the duties between the national and local governments, with local government more responsible for the provision of public goods that are closely related to daily lives. The construction of a comprehensive administrative institution which can cover almost all of the supplying of these public goods also means that those people living in rural areas can enjoy the same public goods as citizens living in urban areas, both quantitatively and qualitatively. These reforms guaranteed an equal development opportunity in rural and urban areas. Accompanying the administrative reform in Japan was the fiscal structural development. A system combining national tax, local tax, local allocation tax, national treasury disbursement and other transferred revenues was formed to make all levels of government financially capable of fulfilling the function of providing public goods.²²

3.4.1 Divisions of Responsibilities among National and Local Governments

The ‘principle of municipal priority’ and the ‘principle of subsidiary’ are embodied in the Local Autonomy Law, which guides the allocation of functions between prefectures and municipalities. After decentralization reform, the functions of local governments were divided into two types, autonomous functions and statutory-entrusted functions. Statutory-entrusted functions are those that were originally the responsibility of the national government but were entrusted to local governments through laws or ordinances based on the thinking that local governments could provide them more efficiently, but at the same time, the national government has retained the responsibility for ensuring proper implementation of the statutory-entrusted functions. All other functions performed by local governments are local autonomous functions. The difference between autonomous functions and statutory-entrusted functions is that stronger national-government involvement is permitted in the latter functions.

As stated above, prefectures are designated to handle wide-scale, regional affairs (e.g., prefectural roads, harbors, forest and river conservancy, public health centers, vocational

²² Here, the author has discussed, in some detail, a successful experience of Japan, in her view, in which healthy economic development was witnessed. However, the author does not intend to imply that these systems were perfect. For example, the system also made local governments, especially the depopulated towns and villages, highly dependent on the national government’s transfers and farmers dependent on government subsidies.

training, police), communication and coordination affairs relating to municipalities (e.g., advice, recommendations and guidance concerning rationalization of municipal organization and operations), and supplementary affairs for municipalities (e.g., high schools, museums, hospitals). Municipalities are designated to handle affairs other than those dealt with by the prefectures. Affairs dealt with by municipalities can be summarized as five major groups. They are affairs relating to the fundamentals of residents' lives (e.g., family registers, resident registration, street addresses), safety and health (e.g., fire service, garbage disposal, water supply, sewage), social welfare (e.g., public assistance within the area of cities, nursing insurance, national health insurance), and establishment and management of various facilities (e.g., public halls, citizens' halls, day care facilities, elementary and junior high schools, libraries). Functions are allocated based on the idea that, whenever possible, they should first go to the municipalities, then to the prefectures, and only when these governments cannot handle a task should it go to the national government.

This format is mostly based on the principle of efficiency. However, in the actual allocation of affairs among the national government, prefectures and municipalities, in many cases efficiency cannot be thoroughly achieved for all stages in a particular category, but rather, affairs are divided functionally at each stage in a given category. In Japan's local autonomy system, the allocation of affairs is 'fusion type' rather than 'separation type' allocation. (CLAIR, 2010)

Table 3-9: Distribution of Administrative Functions between National and Local Governments

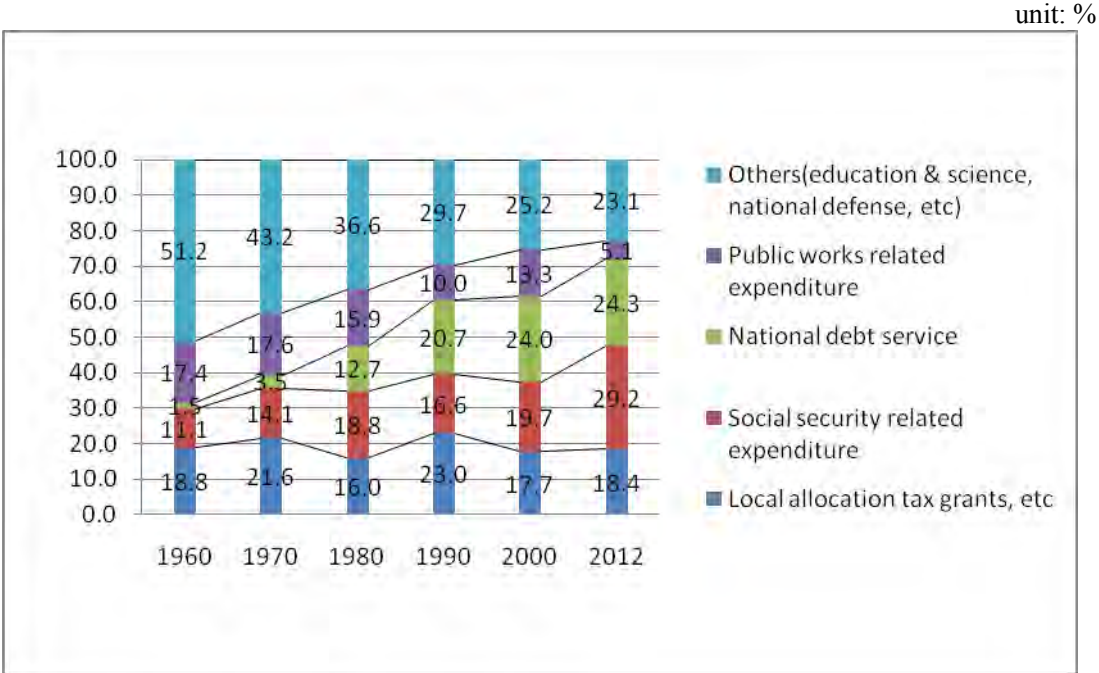
Fields	National	Local	
		Prefecture	Municipalities
Public infrastructure	<ul style="list-style-type: none"> - National highways - National roads (designated section) - First-grade rivers 	<ul style="list-style-type: none"> - National roads (others) - Prefectural roads - First-grade rivers (designated section) - Second-grade rivers - Ports - Public housing - Urbanization promotion areas and urbanization control areas 	<ul style="list-style-type: none"> - Urban planning (Land Use Zones and urban facilities) - Municipal roads - Locally-designated rivers - Ports - Public housing - Sewage
Education	<ul style="list-style-type: none"> - Universities - Government subsidies for private educational institutions (universities) 	<ul style="list-style-type: none"> - High schools, schools for special education - Salary for teachers of primary and secondary schools, personnel management - Government subsidies for private educational institutions (from kindergarten to high schools) - Public universities (certain prefectures) 	<ul style="list-style-type: none"> - Primary and secondary schools - Kindergartens
Social welfare	<ul style="list-style-type: none"> - Social insurance - Doctors' licensing - License for medicine 	<ul style="list-style-type: none"> - Daily life support (town and village areas) - Welfare for children - Health centers 	<ul style="list-style-type: none"> - Daily life support (city areas) - Welfare for children - National health insurance - Nursing care insurance - Waterworks - Waste management - Health centers (certain cities)
Others	<ul style="list-style-type: none"> - Defense - Foreign affairs - Monetary policies 	<ul style="list-style-type: none"> - Police - Occupational training 	<ul style="list-style-type: none"> - Family register - Basic resident registration system - Fire fighting

Source: MIC (2009).

The following figures illustrate the overall expenditure and its structure relating to public goods provided by the national government and local governments. In Japan, along with the entrance of economic and social development into a stage of stabilization, expenditure relating to public works fell drastically from more than 17% in the 1960s and 1970s to the

present 5.1%. However, government social security expenditure has increased because of the progress in population aging, resulting in another increase in government bond issuance.

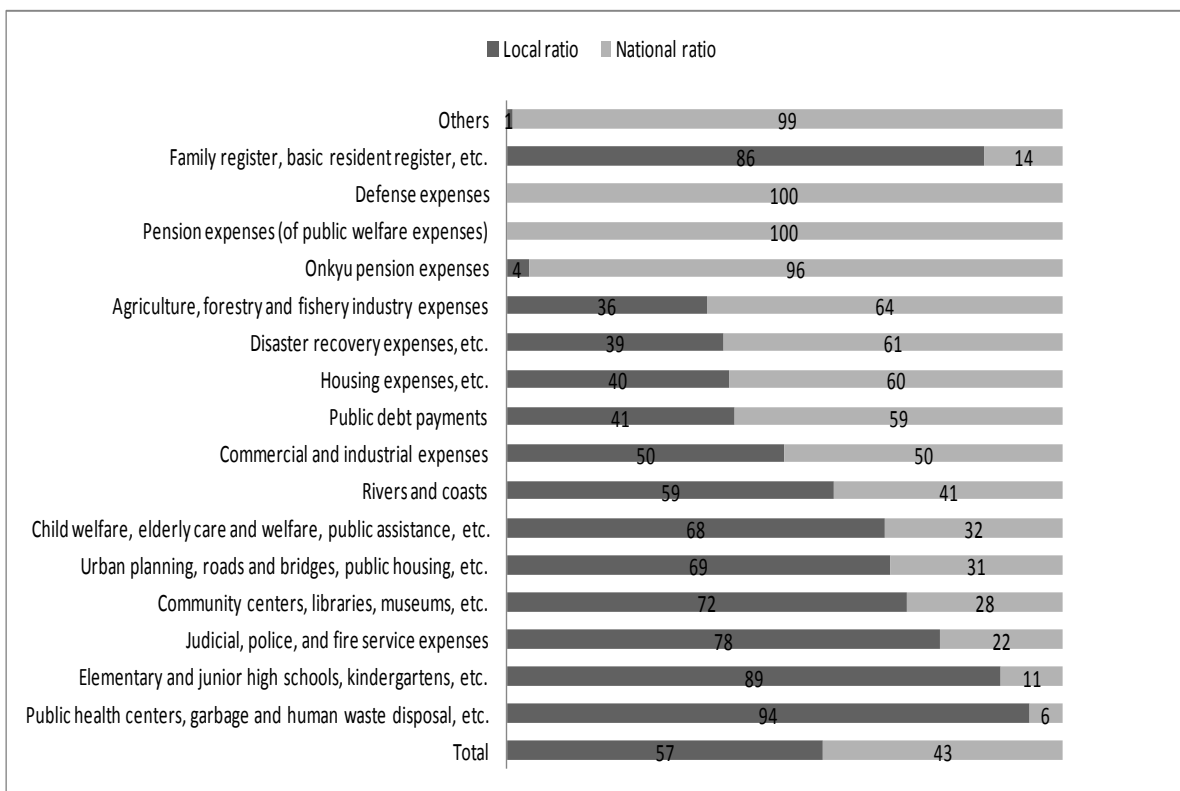
Figure 3-9: Ratio of Major Expenditure Items in the General Account



Source: *Japan's Fiscal Condition* (MOF 2011).

Although prefectures and municipalities fulfill a major role in the lives of the citizens of the nation, in various administrative areas, including the construction of public works related to roads, rivers, education, public health, social welfare and environmental protection, the national government and local governments share the responsibilities. Local expenditure ratios are higher than national levels chiefly in areas that are deeply related to daily life, such as public education, health and sanitation, police and fire services and sewage systems. Since farmers can enjoy the same social services as citizens as mentioned above, this means that the above public goods provided by local governments were also delivered to rural residents. However, looking at agriculture, forestry and fishery industry expenses in 2009, the ratio of national government expenditure was 64%, which was 28 percentage points higher than that of local government (MIC 2011, 3).

Figure 3-10: Ratio of Main Expenditures of National and Local Governments by Function

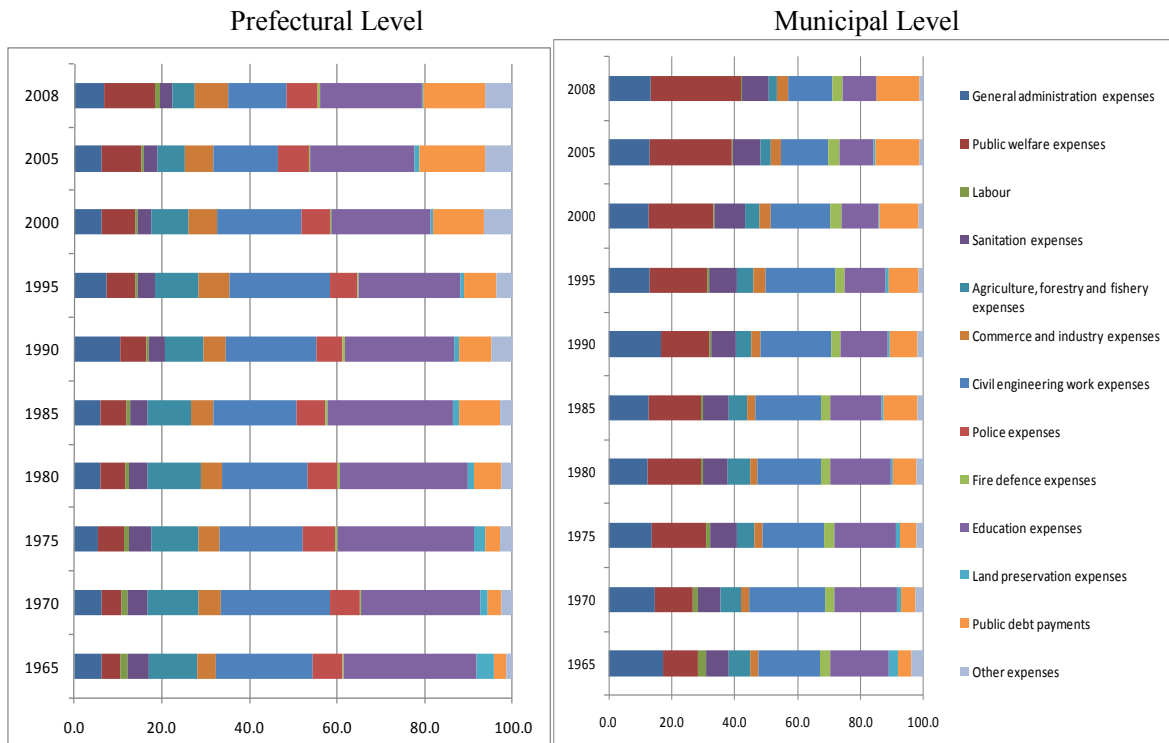


Source: *Japan's Fiscal Condition* (MOF 2011).

The focus of different levels of the local government varied with their respective responsibilities. In prefectures, resources are mainly used for education expenses, public welfare expenses, education expenses and civil engineering work expense, in that order.²³ However, in municipalities, the order is as follows: public welfare expenses, general administrative expenses and civil engineering work expenses. Expenses in agriculture, forestry and fishery reached the highest level in the period from the 1960s to the 1990s, with prefectures accounting for more than 10% of the total and municipalities for nearly 7%. The share of public welfare expenses both in prefectures and municipalities has increased greatly, essentially doubling, which has helped improve the livelihood of residents.

²³ 'Public welfare expenses' refers to expenses for the construction and operation of welfare facilities for children, the elderly, and the mentally and physically disabled, etc., and for the implementation of public assistance, etc. 'Education expenses' refers to expenses for school education and social education, etc. 'Civil engineering work expenses' refers to expenses for the construction and maintenance of public facilities, such as roads, rivers, housing and parks.

Figure 3-11: Ratio of Major Expenditure Items at the Prefectural and Municipal Levels



Source: Prepared by the author based on *Ordinary Accounts of Local Governments - Settlement of Expenditure by Purpose and Function (FY1964--2008)*, Local Public Finance Bureau, Ministry of Internal Affairs and Communications.

3.4.2 Allocation of Financial Resources of National and Local Governments

With respect to allocation of financial resources of national and local governments, as practiced in most of other countries, there are three basic blocks of revenue in Japan: national revenue, local revenue and revenue transferred from the national government to local governments. Without considering the various populations, sizes and original financial resources of different local governments, including prefectural and municipal levels, they are basically given the same authorities and duties, respectively, so it is necessary to set up systems to adjust their financial resources and achieve relative equalization so as to provide standardized public goods which can satisfy the rule of equal national treatment. The financial transfer system was thus established to verify that local governments have sufficient financial resources to provide the legally prescribed level of projects and public services.

Table 3-10: National and Local Revenue of General Accounts

National revenue of general accounts	Local revenue of general accounts
-Tax and stamp receipts	-Local taxes
-Receipts from government enterprises and properties	Ordinary
-Receipts from the sale of government properties	Special purpose
-Miscellaneous receipts	-Local transferred tax
-Public bond issues	-Special grants to local governments
-Surplus in preceding fiscal year	-Local allocation tax
	-Treasury disbursements
	-Local bonds
	-Rents, charge and fees
	-Miscellaneous receipts - local

Source: Local Public Finance Bureau, Ministry of Internal Affairs and Communications.

As to their income (from taxes), the allocation of tax revenue between the national and all local governments was 3:2, with the national government receiving a greater share. However, due to large-scale financial transfers from the national government to local governments by means of local allocation tax, national treasury disbursements and so on, the ratio at the final expenditure stage was more or less 2:3, with the local governments receiving more. However, the table below indicates that the share of financial transfer revenue to local financial resources has been in a downtrend, from 40% or so in the 1970s to 30% in recent years. This is the result of financial decentralization, which has endowed local governments with more independent revenues that can better satisfy the needs of local residents.

The revenue of local governments came mainly from local taxes, national treasury disbursement, local allocation tax and local bonds, in which local taxes accounted for more than one-third, another one-third was the total of local allocation tax and national treasury disbursements, and local bonds and other revenues constituted the remaining one-third. Prefectures and municipalities have roughly the same financial resources. In recent years, the general financial resources, including local tax, local transfer tax,²⁴ special local grants, local allocation tax, etc., constituted around 50% to 60% of ordinary local revenues.

The local tax system, which consists of prefectural tax and municipal tax, is built to guarantee that local governments, both prefectural and municipal, can provide public goods based on their own discretion. Generally, revenues from the prefectural inhabitant tax and enterprise tax comprise more than 50% of the total, followed by local consumption tax at more 15% and automobile acquisition tax at about 10%. Municipal tax revenues are mostly

²⁴ Here, local transfer tax is collected as a national tax and transferred to local governments.

comprised of municipal inhabitant tax and fixed asset tax, with each contributing more than 40%.

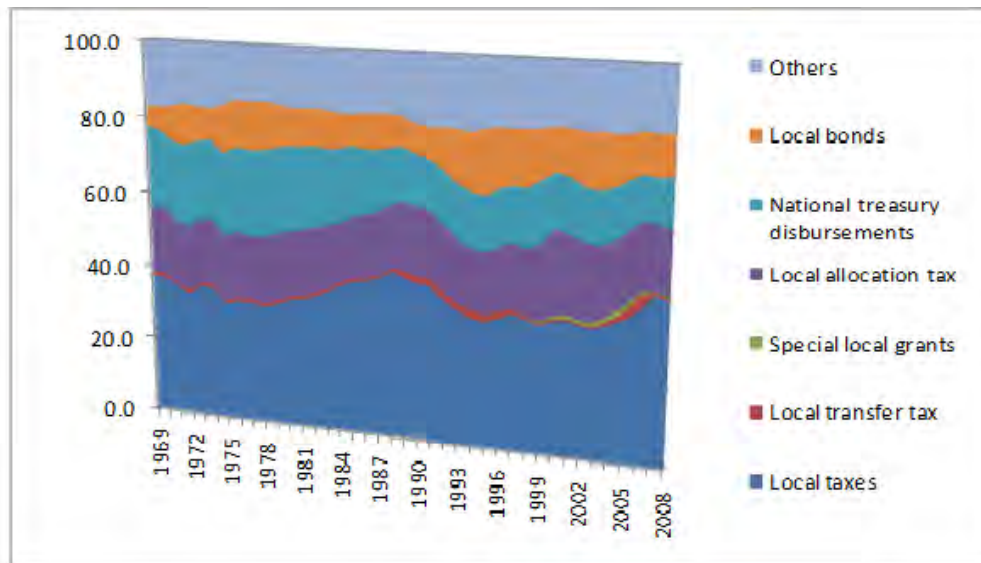
Table 3-11: Structure of Local Financial Resources

Unit: %

FY	General Financial Resources					National treasury disbursements	Local bonds	Other revenue resources
	Local taxes	Local transfer tax	Special local grants	Local allocation tax	Subtotal			
1970	37.1	1.1		17.8	56.0	20.6	6.4	17.0
1975	31.3	1.0		17.2	49.5	22.3	12.2	16.0
1980	34.0	0.9		17.3	52.2	22.4	10.1	15.2
1985	40.6	0.8		16.4	57.8	18.1	7.8	16.2
1990	41.6	2.1		17.8	61.5	13.2	7.8	17.5
1995	33.2	1.9		15.9	51.0	14.8	16.8	17.4
2000	35.4	0.6	0.9	21.7	58.6	14.3	11.1	15.9
2005	37.4	2.0	1.6	18.2	59.2	12.7	11.2	16.8
2008	42.9	0.7	0.6	16.7	60.9	12.6	10.8	15.8

Source: Prepared by the author based on *Ordinary Accounts of Local Governments - Settlement of Revenue by Item (FY1969-2008)*, Local Public Finance Bureau, Ministry of Internal Affairs and Communications.

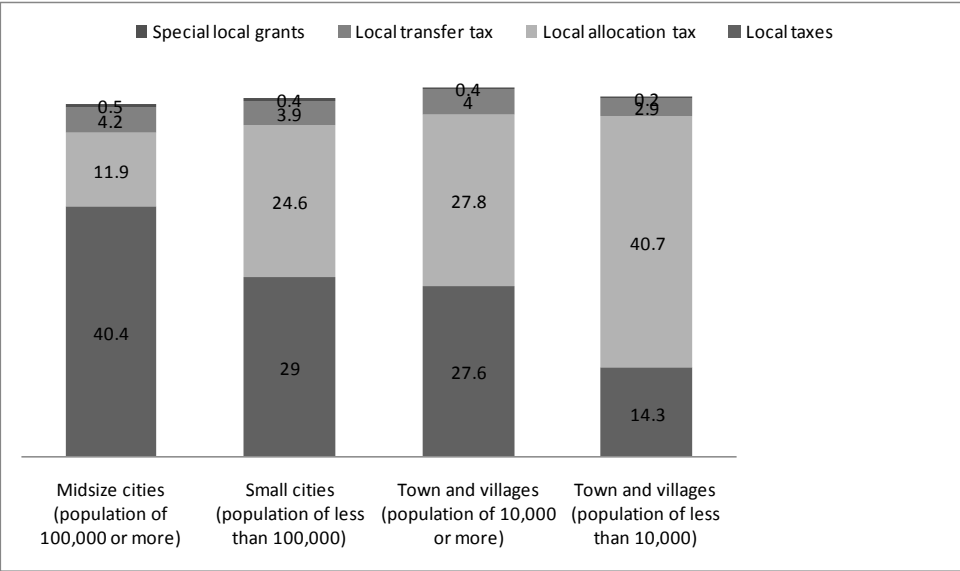
Figure 3-12: Structure of Local Financial Resources



Source: Prepared by the author based on *Ordinary Accounts of Local Governments - Settlement of Revenue by Item (FY1969-2008)*, Local Public Finance Bureau, Ministry of Internal Affairs and Communications.

Of course, the percentage of each component of the general financial resources differs depending on the region due to the varied economic situations. As the figure shows, local taxes were 13 percentage points higher in cities than in normal towns and villages, but after local allocation taxes were transferred from the national government, the percentage of general financial resources in different regions was almost equal. This reflects how local allocation tax functioned to adjust the imbalance between local governments so to guarantee that local governments provide standard public goods in each region by preventing such characteristics as the size of population from creating significant differences.

Figure 3-13: Ratio of General Revenue Resources to Total Revenue for Municipalities



Source: CLAIR (2010).

As stated before, items included in the financial transfer system are as follow: local transfer tax, special grants to local governments, local allocation tax, national treasury disbursement and others, with the latter two comprising the major part. To compensate for the gaps in tax revenue among local governments, the local allocation tax system has been established to distribute a prescribed portion of the national tax to local governments according to their financial resources. The total amount of local allocation tax available is linked to national tax revenue, being comprised of a set percentage of certain revenue sources, mainly 32% of income tax, 34% of corporate tax, 32% of liquor tax, 29.5% of consumption tax and 25% of tobacco tax revenues in recent years. However, the actual percentages may differ somewhat from those prescribed above. This part of the transfer is also regarded as general financial

resources which is equal in importance to local tax revenues and can be used by the local government freely, without limitation to any specific item. The national government is prohibited from attaching conditions to or restrictions on its use, which makes the local allocation tax essentially different from other national transferred revenue, whose uses are specified.

Table 3-12: Classification of Local Allocation Tax

Item	Description
Ordinary allocation tax	Used to cover financial shortfalls in local governments in a fair manner and accounts for 94% of all payments.
Special allocation tax	Used to cover financial shortfalls that cannot be dealt with by the ordinary allocation tax, including disbursements due to disasters or unique circumstances in the region concerned, and accounts for the other 6%

Source: *Local Government in Japan* (2010) Council of Local Authorities for International Relations (CLAIR).

In contrast, there are the national treasury disbursements which are earmarked for specific programs and projects and cannot be diverted to other purposes. There are broadly three types of national treasury disbursements: national treasury obligations, grants and payments for delegated functions. The table above shows that the national treasury disbursements have decreased by almost half in their share of total local revenue resources, from more than 20% in the 1970s. Much debate remains about the need to loosen the allocation requirements, particularly for national treasury grants, or to convert them into general revenue sources.

Table 3-13: Classification of the National Treasury Disbursements

Item	Description	Typical example
National treasury obligations	Disbursements in cases where responsibilities are shared by the national government and local governments, and the latter handles all implementation that should be compensated by national government financially	Payments relating to compulsory education
National treasury grants	Incentives to promote specific measures	Standards for facilities
Payments for delegated functions	Payments to cover programs which were originally the responsibility of the national government but were entrusted to local governments out of consideration for convenience and efficiency	Election expenses for members of the National Diet

Source: Prepared by the author based on a 2006 report delivered by MOF, China.²⁵

²⁵ http://www.mof.gov.cn/preview/tfs/zhengwuxinxi/diaochayanjiu/200806/t20080620_47587.html

Finally, one thing that cannot be neglected is Japan's local bond revenue, which on average accounts for more than 10% of local revenue resources. Local bonds may be issued to cover expenses for things such as publicly-owned corporations, disbursements and loans, refinancing of local bonds, disaster emergency projects and maintenance of public facilities. In principle, when issuing local bonds, prefectures must consult with the Minister of Internal Affairs and Communications, and municipalities must consult with their governor. In the past, local governments were required to obtain authorization from the Minister of Internal Affairs and Communications or their governors in order to issue local bonds. However, the Comprehensive Local Autonomy Law changed this authorization system to a consultation system after April 2006. Local governments may take out long-term, low-interest loans of public funds after consulting and receiving the approval of the Minister of Internal Affairs and Communications or others.

3.5 The Role of Farmers' Service Organizations Based on Agricultural Cooperatives

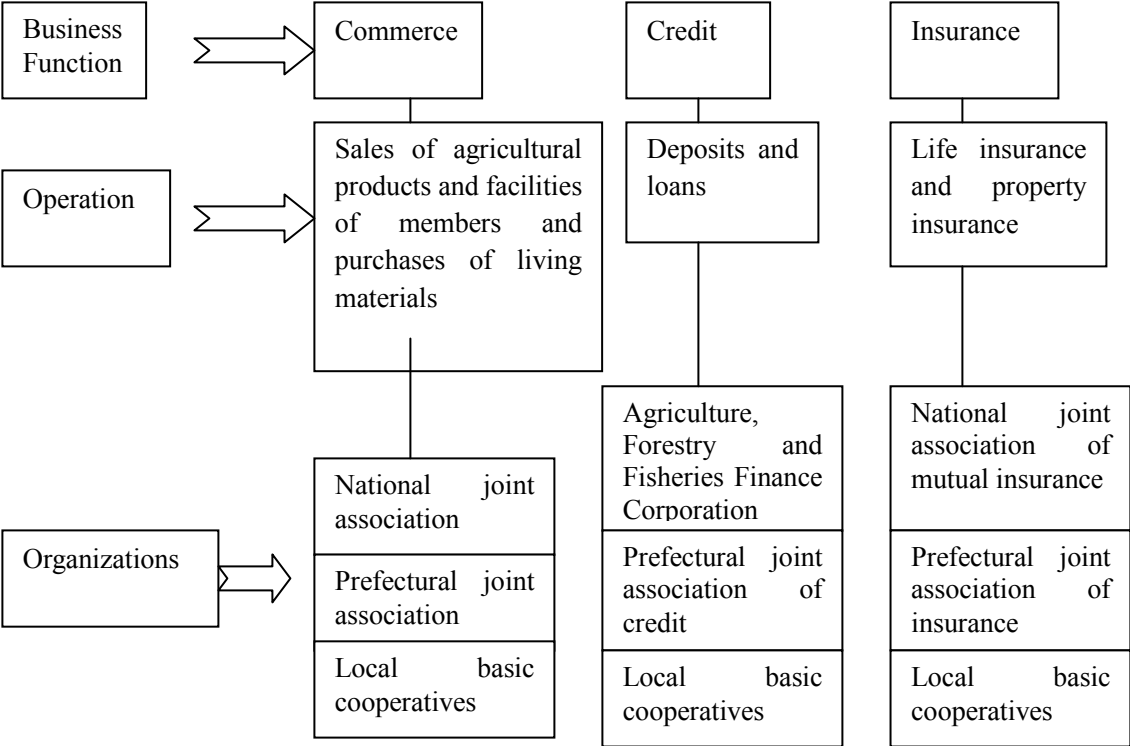
Farmers' service organizations have always played a crucial role in improving the welfare of farmers; this is true especially of agricultural cooperatives which have assisted in the implementation of government policies such as price stabilization measures and financing schemes. In addition, agricultural cooperatives unite all farmers to enlarge agricultural productivity and improve the social status of farmers. New forms of agricultural cooperatives were first established by law in 1947. Like agricultural cooperatives, forestry and fishery cooperatives were also created to provide financing, marketing and supply of goods in their corresponding fields. Theoretically, the services provided by the farmers' service organizations are similar to those specific community-wide services provided by the rural communities, both of which are beneficial to a certain range of people and are able to exclude non-members from benefiting.

3.5.1 Organization Systems of Agricultural Cooperatives

By the mid-1950s, about 12,500 general-purpose cooperatives had been set up covering every village in Japan, providing farmers with such services as credit and technical guidance, marketing of farm products, supply of farm goods and household commodities. Besides the general purpose cooperatives, another 15,000 specialized cooperatives were established to deal with special services. Federations of cooperatives were also organized at both the national and local levels to assist in large-scale marketing and financing of agricultural businesses (Mitsugi Kamiya 1996).

Originally, agricultural cooperatives had a three-tier organizational system, ranging from the national joint association of agricultural cooperatives to the local basic cooperatives, which had close relations but were independent business operations. They cooperated and assisted each other following the principle of equality and independency. Since the reform was introduced to merge the prefectural joint associations into the national joint association in 1990, the new two-tier system of the national joint association of agricultural cooperatives and municipal cooperatives has been established.

Figure 3-14: Business Function and Organization of Agricultural Cooperatives



Source: Prepared by the author (Ding Hongwei et al. 2008).

Table 3-14: Business Operation of Agricultural Cooperatives

Functions	Items	Main operation
Circulation	Processing and marketing agricultural products	Combining small-lot products of members for sales to ensure them a favorable position in the market
	Providing means of production and livelihood	Applying flexible price policies for large-scale farmers; Enhancing the planned purchase of agricultural machinery, improving the utilization of old machinery and providing large-scale machinery rental services; Purchasing fertilizers, pesticides, fodder, farm machinery, oil, rice and other commodities and means of subsistence for farmers; Providing specifically for members with various types of processing, storage and training center facilities, such as rice processing centers, tea processing plants, beef cattle fattening centers
Production	Serving production	Organizing farmers to introduce improved varieties, build high-quality production livestock farms, speed up cattle fattening and so on; With the leadership of cooperatives, some professional farmers voluntarily set up wheat production groups, sericulture groups, livestock production groups, horticulture groups, and vegetable and flower groups and carry out agricultural technology seminars, joint transport and other activities
	Technical training	Promoting advanced agricultural technology and training farmers through a number of workshops and training courses, creating experimental fields for new pesticide or fertilizer application, carrying out countermeasure research on abnormal weather freezing, organizing flower growers to visit and learn from other advanced areas, holding flower exhibitions and competitions and so on
Finance	Credit and insurance	Providing farmers with agricultural credit services and actively promoting fire insurance, agricultural insurance, traffic accident insurance and other short-term mutual assistance
Social security	Pensions and medical insurance	Improving the social welfare by developing mutual assistance undertakings, including property protection, nursing, housing and so on

Source: Prepared by the author (Liu Guanghui 2008).

Table 3-15: Framework System of Local Basic Cooperatives

Organizations	Functions	Responsibilities
General assembly of members or representatives	High authority and decision making organ	Democratically deciding on all issues, regularly holding the annual meetings in which the operation report of the previous year is reviewed, the annual planning is decided, the final accounting statement and the surplus and loss settlements are approved, and the directors and auditors are elected and appointed
Board of directors	Executive institution	In line with the guidance given by the general assembly, organizing and carrying out all activities, implementing the supervision of local cooperatives and resolutions of the meeting
Board of supervisors	Supervisory organization	Auditing the property of the cooperatives, monitoring the work of the directors

Source: Prepared by the author.

Mostly related to seedling, plowing and leveling, plant protection, and post-harvest processing and storage, the services offered by cooperatives cover a very wide range, from production to processing and marketing, from material distribution to technological development, from facilities and equipment to finance and insurance, and from medical care to living welfare. Cooperatives have a sound and efficient information system covering the whole nation. Of the information it provides, more than 71% relates to agricultural production and 59% relates to living situations, statistically (Wang Meiling et al. 2010). Farmers can purchase fertilizers and other inputs on credit from the cooperatives. Funds for equipment, machinery and land improvement are also available through cooperatives. Agriculture, Forestry and Fisheries Finance Corporation was established in 1953 to finance these investments through long-term, low-interest loans. The state also provided grants to the cooperatives to cover interest losses on loans.

Within the framework of entrepreneurial governance, Japanese agricultural cooperatives provide services rooted in contractual joint cooperation. Through participating in market operation, agricultural cooperatives help members sell their products and at the same time provide members with the goods and services that they need, which effectively satisfy individual demand for different services. With these services, farmers can standardize the variety and quality of their crops and can also enjoy the merits of economy of scale by entrusting service organizations with such work as mentioned above. So, it may be said that the structure of Japanese agriculture, formerly characterized by small-scale farming with small land holdings, has been turned into a structure of large-scale operations, including joint operations with small land holdings.

3.5.2 Favorable Policies for Agricultural Cooperatives

In fact, agricultural cooperatives have double roles. On one side, they join the farmers originally operating in a decentralized mode closely with the national market. The local basic agricultural cooperatives will collect information on production, sales and demands and then send this message to the prefectural and national joint association. At the same time, they will convey the feedback of the dynamic market information to farmers so that farmers can precisely know the market trends and plan accordingly. On the other side, they function as a bridge between farmers and different levels of government by helping to convey agricultural policies to farmers and carry out all agricultural policies. Local basic agricultural cooperatives support local governments by serving as a supplementary unit of the governments. For example, when local governments implemented important agricultural policies such as price policies on agricultural products, food control systems and prohibiting farmland from non-agricultural use, they usually had the cooperation and assistance of agricultural cooperatives.

To enable the function of agricultural cooperatives, the government has granted them favorable policies in terms of administrative, legal, financial and tax systems. The government tax rate on agricultural cooperatives is normally lower than on other corporations; for example, the corporate tax rate for agricultural cooperatives is 10% lower than that on other corporations (Li Kexin et al. 2011). Moreover, nearly half of the investment in infrastructure construction for production, circulation, processing, storage, transportation and health centers came from government subsidies. A specialized division, responsible for the affairs of cooperatives, was set up in MAFF. As much as one-fifth of the public budget relating to agriculture, forestry and fishery was implemented by cooperatives. The support and subsidies from the governments constitute an incentive element to promote such farmers' service organizations as agricultural cooperatives to assist in public goods provision for farmers and for agricultural and rural development.

However, the government has been criticized for providing too many subsidies for too many years, creating a situation in which the purpose of the subsidies has become ambiguous and the subsidies have lost their originally intended meanings. Meanwhile, as a result of the depopulation trend in rural areas and increasing number of part-time farmers, the facilities and services provided by agricultural cooperatives have been underutilized. Not only is the agricultural cooperatives' influence somewhat weakened, but their condition is also in a downtrend, with increasing non-performing loans and a lower service level. So, reforms have been made to reevaluate subsidiary projects.

3.6 Brief Summary

In the process of rural public goods provision, Government resources and social resources constitute strong bases. Firstly, placing great importance on improving agricultural production, rural livelihood and farmers' income, Japan implemented the appropriate policies to balance rural and urban development. Secondly, local autonomy ensured that local governments could make full use of their resources to provide public goods for their citizens more efficiently. Thirdly, responsibilities of governments from national to the prefectural and municipal level were clearly defined in the related laws, and meanwhile, public financial resources were allocated appropriately to local governments so that they were not only accountable for but also capable of providing public goods. Fourthly, social organizations, such as agricultural cooperatives, directly or indirectly supported by government, greatly participated in providing services for rural areas and agricultural development.

4. Some Measures to Improve China's Rural Public Goods Provision — Lessons from the Japanese Experience

Both being East Asian countries, agricultural operations in China and Japan are characterized by being small scale and scattered. The per capita arable land area of these two countries is relatively small. Beyond this, the two countries once underwent an important development stage when the importance of agriculture gave way to industry in a pattern of government-led modernization and urbanization which resulted in an enlarging of the disparity between urban and rural areas in aspects of income and living standards. Accordingly, to reconstruct the national economy, the governments from the national level to the local level have instituted a set of measures by mobilizing all kinds of resources, to provide public goods relating to agriculture, rural areas and farmers' living conditions. In this regard, there are experiences and lessons that China can learn from Japan. Meanwhile, a fact that should not be neglected is that differences in political systems, economic capabilities, development modes and so on may make it necessary for China to rely more on its reality rather than merely copying what other countries, including Japan, have done. So, the first part of this section will review the status and challenges of China's rural public goods provision so as to examine how China could learn from Japan. Subsequently, based on comparison, detailed learning will be developed in the following parts.

4.1 Status and Challenges of China's Rural Public Goods Provision

There have been different opinions in the academic community on the topic of China's rural public goods provision. Some thought that China's rural public goods were mainly provided by the government (Li Hua 2005), while some regarded the supplier as a multipart body encompassing different levels of government and the villagers themselves (Xiong Wei 2002). In fact, in the process of institutional evolution of rural public goods provision, there has developed a complicated state in such provision. Gao Jianguo et al. argued that after the establishment of people's communes in the 1950s, rural public goods in China were supplied by the rural communities driven by the government which, by enacting administrative directives and policies instead of directly providing public goods in rural areas, encouraged rural communities to realize self-supply (Gao Jianguo et al. 2008). So, most scholars thought that, as a result of the shortage of government investment, the provision of rural public goods, largely supplied by rural communities which owned limited resources, could not catch up with agricultural and rural development, and this exerted a negative impact on improvement of living standards of farmers and constituted a factor that enlarged the disparity between urban and rural areas. However, it seems to the author that the reasons behind this problem are more complicated than those mentioned above for the

mechanism of rural public goods provision, including the main supplier, scope, method, financial resources, etc., has undergone a series of changes which conform to the national development strategy and national reforms in every field.

4.1.1 Three Major Stages of Rural Public Goods Provision

Firstly, during the stage of people's communes from 1958, following national administrative instructions, rural public goods²⁶ were nearly all provided by the rural communities²⁷ under a framework of three-level ownership by the communes, production brigades and production teams. At that time, people's communes controlled almost all rural resources, so they took major responsibility for rural public goods supply including primary education, health care, irrigation projects and farmland consolidation etc.²⁸ Though farmers could not freely express their needs for public goods and even their private goods were made public, which restrained their incentives and made development unsustainable, it is said that the organized collective characteristics of the peoples' communes ensured a relatively stable provision of rural public goods (Zhang Jun 1996).

Secondly, after the implementation of the household-contract responsibility system in 1978, agricultural productivity improved greatly and the township village economy gained a well-developed strength which supported the provision of rural public goods of this period. At the same time, the township system was restored to replace the system of people's communes, and the concept of villager self-governing was adopted. Correspondingly, rural public goods were mainly supplied at the level of towns and villages with township governments guiding and administering the village committees, legal organizations of rural

²⁶ The fiscal theory compatible with the planned economy was national allocation theory. Though in this period there was no statement on rural public goods, the services provided for agriculture and rural areas were the same as public goods. For the continuity of the study, this report adopted the expression 'rural public goods', but it should be noted that during this period, the services included not only public goods but also private goods.

²⁷ The function of people's communes was similar to the present township authority, both of which are kind of grassroots political organizations. However, as the unit leading the production brigades and teams, the communes organized the provision of rural public goods, so this section regards people's communes as large rural communities.

²⁸ Some scholars (Lin Wanlong, Li Bin et al.) thought that in the period of people's communes and prior to rural tax and fee reforms, without adequate system guarantee, the provision of rural public goods was not covered by the formal fiscal system. Of course, simply from the point of the provision method and the financial resources, it is easily misunderstood that the rural public goods were not supplied by the government. However, it is unreasonable to compare a fiscal system based on the national allocation theory with that of public finance because national revenues and expenditures under these two different theories were quite different. From a broader point of view, financial resources controlled by the people's communes were similar to public resources, so it cannot be said that the governments did not finance the provision of rural public goods. At that time, the resources controlled and managed by communes, production brigades and teams were relatively abundant, but lack of an incentive mechanism and lagging economic development made the provision inefficient at a low level.

communities. Their financial resources included budgetary appropriation, Three and Five Deductions²⁹ and other self-raised funds from rents, sales of land-use rights and township village enterprises' profits and so on. Additionally, compulsory labor and accumulative labor³⁰ formed two main investment channels for rural road construction, soil and water conservation, irrigation and afforestation projects.³¹ However, without restrictive regulations, non-budgetary funds evolved into some kind of arbitrary charges which not only overburdened farmers but also deviated from their original function of funding public goods supply. This situation lasted until the rural tax-fee reform was carried out in 2000.

Thirdly, after the establishment of the public finance framework, in line with standardizing public revenues, the rural tax-fee reform was implemented comprehensively in 2000, which greatly reduced farmers' burden. However, due to the lack of corresponding public financial resources because public expenditure reform had not extended into rural areas, rural public goods provision fell into a dilemma of insufficiency, both quantitatively and qualitatively. So, a round of overall rural reform began in 2006 when government abolished agricultural taxes and increased investment in rural road construction, irrigation projects, environmental protection, compulsory education, rural cooperative medical care, social security and so on. Thus, the role of rural communities in public goods provision decreased, but since the government cannot and should not provide all public goods, it is still necessary for rural communities to supply village-wide public goods and to satisfy the specific needs of different communities where they have efficiency advantages. To meet this requirement, a set of reforms, especially in institutional arrangements, should be continued in the near future to ensure that efforts from all social levels, including central government, local government, rural communities and farmers' organizations, receive optimal returns.

²⁹ This refers to the accumulation fund, public welfare fund, management fee, extra charges for rural education undertakings, family planning fee, militia training fee, civil special care fee and private transportation fee.

³⁰ Compulsory labor was invested in afforestation, flood fighting, renovation of school buildings and so on, while accumulative labor was mainly invested in construction of irrigation projects. In terms of a standard work day, each rural able-bodied person was to undertake a commitment of 5-10 units of compulsory labor and 10-20 units of accumulative labor annually. Accumulative labor was usually used in the slack season.

³¹ Rural public goods provision in this stage was informal partly because financial reform lagged behind market economic development. The fund-raising ability of different towns and villages varied with their economic development, which certainly resulted in different provision of rural public goods in different regions. For example, those few villages where township enterprises or a collective economy were well developed could assume the responsibility of providing almost all rural public goods, including infrastructure, education, medical care and so on. However, most villages with poor economic conditions provided limited public goods through raising funds or collecting fees from villagers.

4.1.2 Major Problems in Rural Public Goods Provision

According to the report on the implementation of central and local budgets for 2011, national expenditure on agriculture, rural areas and farmers totaled 2.9342 trillion yuan, an increase of 21.2% compared to the previous years, accounting for 26.9% of the 10.89 trillion yuan total expenditure of that year. This figure consists of 1.0393 trillion yuan for supporting agricultural production, 143.9 billion yuan for direct subsidies to grain growers, general subsidies for agricultural supplies, subsidies for superior crop varieties and subsidies for purchasing agricultural machinery, 1.624 trillion yuan for developing rural education, health and other social programs, 127 billion yuan for expenses related to stockpiling agricultural products and associated interest payments. The scale is not small by simple comparison with Japan, but on average, the figure is quite small for China as it has a large population that is more than 10 times that of Japan.

Table 4-1: Duties Shared by Levels of Government, Rural Communities and Individual Farmers

Categories	Items	Governments	Rural communities	Individual farmers
Rural infrastructure and sanitation	Water supply	3	1	2
	Electricity	3	1	2
	Inter-village roads	2	1	3
	Village road	3	1	2
	Park	3	1	2
	Waste disposal	3	1	2
	Sanitation	3	1	2
Primary education	Rural primary school	1	2	3
	Kindergarten	3	2	1
Medical care	Health center	3	2	1
	Cooperative medical care	1	3	2
	Rewards for family planning	1	2	3
	Physical examination for pregnant women	1	2	3
Pension and social assistance	Support for five guaranteed family ³²	3	1	2
	Social old-age insurance	3	2	1
	Subsistence allowance for rural residents	1	2	3

Note: The figures '1', '2', and '3' refer to the turns of duty sharing among governments, rural communities and individual farmers.

Source: Gao Jianguo et al. (2009, 54).

³² This refers to the aged, the infirm, old widows and orphans who are guaranteed food, clothing, medical care, housing and burial expenses).

Table 4-2: Funds for Rural Public Goods Supply in Some Parts of Shandong Province

Funds Items			Level of government				Rural communities	Individuals	Social	Loans of rural communities
			Central and provincial level	Prefectural level	County level	Township level				
Rural infrastructure	Water supply	Tap water					√	√	√	√
		Well water						√		
	Electricity				√			√		
	Communication				√			√		
	Village road		√			√		√	√	√
	Village radio station						√			
	Agricultural service station						√			
	Public safety						√	√		
Medical care	Health center						√	√		
	Cooperative medical care		√	√	√	√		√		
Primary education	Primary school	Facilities	√	√	√	√	√	√	√	
		Salaries			√			√		
	Kindergarten						√	√		
Pension and social assistance	Nursing home					√	√			
	Disaster relief		√	√	√	√	√		√	
	Social assistance					√	√			
	Special care		√	√	√	√	√			

Note: Duties of individuals include fund raising, individual contribution and labor service. 'Social fund' refers to investment from outside business entrepreneurs and social donations.

Source: Prepared by the author (Gao Jianguo et al. 2009, 38).

The above tables indicate that, presently, all stakeholders mutually share the cost of rural public goods supply, similar to the practice in Japan. Provincial and above-provincial governments have gradually taken responsibility for rural public goods provision, especially in education, medical care and social security. However, other than these three categories, county and township governments and rural communities and individuals shoulder more responsibility. The construction and maintenance of village infrastructure are mostly under the charge of rural communities, and individual farmers are the second-largest undertakers. As a matter of fact, representing the rural communities, village committees are the foundation of the political regime and are responsible for organizing the supply strictly in line with national policies. However, though the government specifies the category, scope and quantity of rural public goods and the responsibility of the local grassroots governments to organize the rural communities (mainly in the form of village committees) to put policies into practice, instead of providing financial resources directly, the government requires the related rural communities to utilize matching resources to fulfill the work of providing the government-ordered rural public goods. So, such a system of upper-decision and lower-implementation has brought about the following problems.

The efficiency and effectiveness of rural public goods supply is undermined because 1) without the government's substantial financial support, the scale of the funds from the rural communities is too small to meet the demands, 2) the lengthy top-to-bottom financial chain scatters the financial resources from all levels of government to different divisions in the public sector, thereby removing any benefit from economies of scale, 3) the top-to-bottom supply system also causes the rural public goods supply to deviate from the actual needs of different regions, with their diversified features such as geographical location, development stage and production conditions and 4) even for rural communities, the supply of public goods is made to conform to the policy demand of the government and is not based on the individual farmers' voluntary expression of needs.

Disparity in rural public goods provision among different regions is enlarged because most public goods are provided by rural communities, which differ largely in social resources. Those located in developed regions can also benefit from the generally favorable economic situation and achieve a well-developed public goods supply. Rural collective economies and village enterprises in the eastern regions of China can help provide funds for rural public goods, and even during the process of rural tax-fee reform when Three and Five Deductions and agricultural taxes were abolished, the provision of rural public goods in these rural communities did not suffer from the decrease of these revenues. For example, rural infrastructure conditions in some parts of Beijing, Shanghai, Zhejiang and Jiangsu are not inferior to their counterparts in urban areas. However, conditions are reversed in rural communities in underdeveloped regions, where the provision of public goods is far below

average, directly restraining rural development and living standard improvement. It is understandable and reasonable for differences to exist among regions, but how to make controllable and rational is a major task for the central authority.

With the ongoing progress towards marketization, market forces will play a more important role in rural public goods provision, but within the framework of public finance, it is known that the government cannot free itself from its duty of providing basic public goods, so it is indispensable for the government to avoid over-provision of public goods by private sectors, which may exert too much burden on farmers and reduce the overall standard of rural public goods. The setting up of a rational and effective mechanism of public goods provision should require all stakeholders, including government, rural communities and individuals, to cooperate in an integrated manner with each responsible for tasks in which it has respective advantages.

4.1.3 Illumination of Japan's Experience

From the point of development strategy, Japan focused more on balancing urban-rural relations by standardizing such public goods provision as education, social security and health care. After implementing the strategy of letting some people get rich first for over 20 years, presently China has transformed the strategy to balanced development. To achieve success, the first step should be taken to eliminate the disparity in public goods provision between urban-rural areas.

Industrialization and urbanization have laid a great capital foundation for Japan's socioeconomic development, which not only created the conditions for agricultural development, countryside construction and farmers' living standards improvement, but also made government, social organizations and rural communities capable of providing the corresponding public goods. The table below shows that China's present employment and economic structure has some similar features to that of 1960s' Japan. Some scholars³³ hold the view that China's policies for agricultural and rural development also resemble the practices which Japan implemented in the 1960s. On one hand, as a result of the previous unbalanced development strategy, the poor rural situation made it imperative for the government to concentrate on rural public goods supply. On the other hand, the fast progress of industrialization made it possible for all stakeholders to contribute to the resolution of rural problems. So after all, it seems that further promotion of rural

³³ As Qian Xiaoping said, the following characteristics make China's present agricultural situation similar to that of Japan's during the 1960s and 1970s: family-based operation, processing industrialization and urbanization, and transformation of the social structure with a decreasing share of agriculture in the national output and fast development of the second and tertiary industries.
<http://news.sohu.com/20060224/n242004061.shtml>

development should be based on economic strength by promoting industrialization and urbanization.

Table 4-3: Japan's Economic Structure from 1960 to 2000

Year	Employed persons			Gross domestic product		
	Primary industry	Secondary industry	Tertiary industry	Primary industry	Secondary industry	Tertiary industry
1960	32.7	29.1	38.2	12.8	40.8	47.0
1970	19.3	34.0	46.6	5.9	43.1	50.9
1980	10.9	33.6	55.4	3.5	36.2	60.3
1990	7.1	33.3	59.0	2.4	35.4	62.2
2000	5.1	29.2	64.5	1.7	28.5	71.7

Source: *Statistical Handbook of Japan*.³⁴

Table 4-4: China's Economic Structure from 1978 to 2010

Year	Employed persons			Gross domestic product		
	Primary industry	Secondary industry	Tertiary industry	Primary industry	Secondary industry	Tertiary industry
1978	70.5	17.3	12.2	28.2	47.9	23.9
1990	60.1	21.4	18.5	27.1	41.3	31.6
2000	50.0	22.5	27.5	15.1	45.9	39.0
2010	36.7	28.7	34.6	10.1	46.8	43.1

Source: *China Statistical Yearbook 2011*.

In 2010, China's urbanization rate went up to 49.9% from 17.9% in 1978. As shown by the *Report on China's City Development* conducted by the Chinese Academy of Social Science, the urbanization rate in 2011 was 51.27%, surpassing 50% for the first time as the urban permanent resident population, which had reached 691 million persons, outnumbered the rural resident population. Nevertheless, China's level of urbanization still lags behind the 63.3% of 1960s' Japan. Moreover, China's urbanization statistics include a large number of migrant farmer workers, rural residents who became urban residents in the suburbs and farmers living in districts just re-designated from counties who do not integrate themselves into the urban lifestyle; their living standards and consumption patterns have not actually transformed from their old routines practiced in rural areas. It is estimated that these groups number around 200 million.³⁵ Also, according to the report, in the next 20 years, over 200

³⁴ <http://www.stat.go.jp/english/data/handbook/c03cont.htm>

³⁵ From the lecture 'China's Agricultural Policies and Development' presented by Chen Xiwen, director of the

million farmers will continuously transfer to urban employment and residence. The two groups of around 200 million each, totaling 400 to 500 million, require the same public goods provision as other citizens have in terms of employment, housing, social security, education and so on. The demand from these groups, which constitute more than one-third of the total population can be said to present a great task for the government. Improvement of the system of rural public goods provision means not only providing jobs to increase input to rural areas or agriculture, but also to improve the institutional arrangement which ensures farmers and those semi-citizens can enjoy a stable level of public goods.

China's clarification of rural areas and rural population is complicated because of the household registration system (*hukou*) and large-scale rural-urban migration, which make the topic of providing rural public goods complex. Moreover, presently residents living in rural areas may not conduct farming or even be rural *hukou* residents. Not all farmers whose occupation is agriculture live in the countryside. Even migrant farmer workers who have physically resided in cities for an extended period of time are not regarded as urban citizens and cannot enjoy the same public goods in the cities in most aspects. In addition, there are a few indigenous farmers residing in prosperous regions, though having lost their cultivated land, they earn a living from several sources, including land compensations, rents from overbuilt home spaces and dividends from village collective enterprises; this combined income can provide them with a comfortable living standard commensurate with that enjoyed by urban *hukou* residents in the cities. Considering the complexity of the situation, this report can only respond to the universal or macroscopic situation by focusing on some arrangements at the grassroots level, especially below the county level where more rural communities are distributed, where agricultural output constitutes a great proportion, and also where living conditions are poorer.

4.2 Promoting the Reform of Township Institutions

The township level includes towns³⁶ and villages. Since most rural communities are distributed in towns and villages, the township institution is the closest to rural public goods provision. The improvement of township institutions not only contributes to public goods provision in rural areas, but more importantly to the public goods provision needed by those semi-citizen farmers who largely live in towns.

office of China's Central Rural Work Leading Group, in Tokyo on July 26, 2012.

³⁶ Though towns may be included in the urban areas, public goods standards in many towns within counties or autonomous counties are relatively low, so the analysis combined towns and villages together.

4.2.1 The Role of Township Institutions

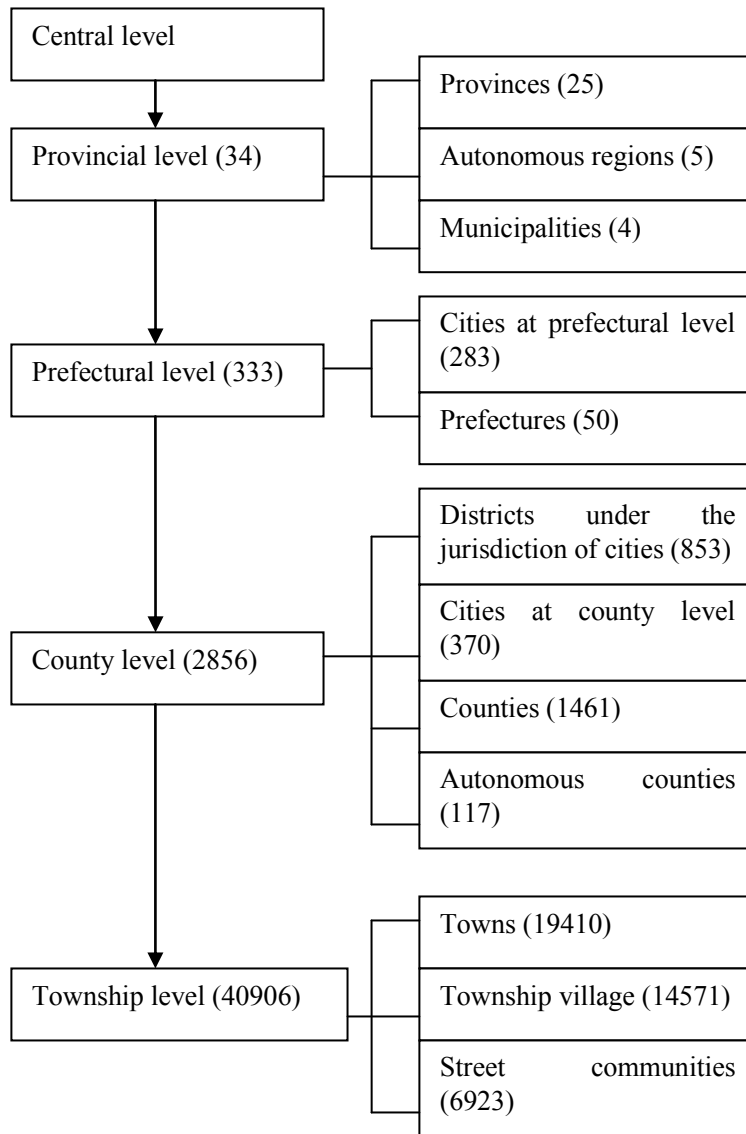
In Japan, municipalities, including cities, towns and villages, take major responsibility for rural public goods supply. Meanwhile, as a result of municipal mergers, the promotion of urbanization has helped to make full use of public resources, thereby bringing the benefit of economies of scale. Shigeru Yasuhara, a famous Japanese sociologist, argued that as the basic local autonomous unit, municipalities were the most important because most kinds of national policies relating to residents' lives were implemented through municipalities which established close interaction with local residents by providing public goods and which can convey the local residents' needs and demands (Li Guoqing 1999, 182).³⁷ Other than fulfilling the duties entrusted by national institutes and reporting the local situations to the national authorities, cities, towns and villages undertake their fundamental functions by ensuring that local residents enjoy basic civil rights and live in a stable and safe society. The essential feature of local administrative affairs is their public nature, which is mostly represented by municipalities and which brings local residents together. Construction and management of public facilities and implementation of public policies, including agricultural development, initiatives to increase farmers' revenue, environmental improvements, taxation adjustment, personnel management, community centers (*kominkan*), libraries and other matters relating to public safety and security are all carried out on the level of cities, towns and villages.³⁸

In comparison, township governments, the grassroots units of the China's five-tier administrative system, are closest to residents' lives, so it seems that the township governments should be more efficient in terms of providing public goods for rural areas, agriculture and farmers, which suggests that one of the most important tasks in countryside construction is to build up township institutions to implement the duties of the public sector.

³⁷ See Otohiko Hasumi and Shigeru Yasuhara. 1982. *Local Life Revitalization: Conditions for Local Autonomy and Local Independency*, 229

³⁸ The author once noticed that there were many notes on community activities and events, such as the open time of the community center and the library and other daily public activities in the local paper, which indicates that the concept of public interest is embedded in the mind of local government. So, it is possible that the institutional arrangement is just one element which affects public goods supply, and the service philosophy may have much more influence on the effects of public goods supply.

Figure 4-1: Hierarchy in China's Administrative System (2010)



Note: Figures in () are the number of regions.

Source: *China Statistical Yearbook 2011*.

The number of tiers of local administrative units that should be established in order to carry out administrative duties is influenced by various factors in each country, including geographical conditions, population size, content of local administrative services, and degree of centralization of power. With a large population and vast territory, China adopts a five-tier administrative structure, including a central level, provincial level (province/municipality/autonomous region), prefectural level (prefecture/prefectural-level

city), county level and township level. Vertically, the level of a Chinese province is similar to that of a Japanese prefecture, and the level of a county is similar to Japan's municipal level,³⁹ so that from this perspective, the county authority should be the basic unit in charge of daily public goods supply. However, in the aspect of administrative jurisdiction, the population size and land scale of China's township level more closely approximates that of Japan's cities, towns and villages. Most rural communities are located in towns and villages; towns have a more urban appearance and more people are engaged in urban-type work such as commerce and industry. However, there is no difference in the duties handled by their governing bodies. From the early 1960s to the 2000s, the number of cities, towns and villages, which remained at 3,200 or so, were characterized by a declining number of towns and villages and an increasing number of cities. In 2000, the average area of municipalities was 117 sq. km, the average population of cities was over 100,000 and the average population of towns and villages was below 10,000. As of the end of 2010, China had 34 provincial regions, 333 prefectural-level regions, 2,856 county-level regions and 40,906 township-level regions, with 19,410 towns, 14,571 villages and 6,923 street communities.⁴⁰ With respect to the scale of administrative jurisdiction, the average area of township levels was 235 sq. km, as much as twice of Japan's municipal average area.

Accordingly, it is inappropriate for the county level to function as the basic unit directly in charge of providing local residents with public goods because the scale of its administrative jurisdiction is too large for it to carry out the administrative services efficiently. China's township government should assume the major responsibility of local public goods provision, especially the rural public goods. This requires the strengthening of capacity building of township governments by empowering them with the corresponding autonomy and by improving their institutional settings, organizational forms and management systems which are essential for them to implement public duties.

4.2.2 The Problems of Township Institutions

The nation manages the activities of vast rural areas through most township governments, but the role of the township governments in public goods supply was in the process of weakening, especially after the adoption of the revenue-sharing system. Within the system, the revenue of township governments became unstable because their legal financial resources mainly came from a few scattered, small taxes which could be difficult to collect. During the early period of implementation, the revenue-sharing system was carried out

³⁹ The author thinks that China's prefectural level can be regarded as similar to Japan's prefectural level or municipal level, but generally the county level is closer to local residents. Since this paper primarily discusses the basic grassroots, the author chose the county level as the basic counterpart to the prefectural level.

⁴⁰ The data is from 'Divisions of Administrative Areas in China (End of 2010)', *China Statistical Yearbook 2011*.

between the central government and provincial governments. Within the province, the fiscal allocation mechanism was not standardized, which made the revenue of the most basic level of the administrative structure, the township level, become more unstable. Since comprehensive rural reform was implemented in 2006, the central and provincial governments have gradually allocated more financial resources to sub-provincial governments through increasing fiscal transfer payments to improve the local governments' financial capacity, which is conducive to ensuring the basic level of local public goods provision. However, compared to their administrative duties, there is still a large shortfall in township governments' service to their local residents. The public goods provision cannot satisfy the needs of local residents, either in quantity and quality.

Moreover, it is proved that more than being the agents of national interests, township governments are also actors who possess their own interests. With the current administrative system, township governments will engage more in pursuing their own benefits rather than taking into account rural public goods provision, which has already deviated from the principal of maximizing the interests of the residents, including farmers. The focus of township government remains on local economic development by absorbing outside investment to increase tax revenues. The motivation to provide public goods is inadequate for townships governments. On one hand, holding the view of being responsible to the governments of upper levels, they always mobilize all resources to implement the tasks indicated by the upper levels, not all of which conform to local residents' needs. Sometimes when they engage in public activities, they would rather provide those mandatory goods required by the higher authorities or those new, visible or tangible projects which can achieve instant effectiveness or which can boost their political performance. On the other hand, because the county authorities actually control personnel arrangements and financial powers, township governments lack autonomy, which may also lead to an inadequate capacity to provide public goods.

4.2.3 Deepening the Reform of Township Institutions

There are different arguments on the reform of township institutions. For example, the survey conducted by the Chinese Hainan Reform and Development Research Institute in 2005 indicated that 1) 46.6% of experts and scholars surveyed regarded streamlining government organizations as the proper orientation of township institutional reform and advocated realization of township autonomy, 2) 32% proposed to transform township governments into agencies of county governments by abolishing townships and 3) 16.5% recommended merging villages into towns.⁴¹

⁴¹ Hainan Reform and Development Research Institute, 'The Eleventh Five Reform: Situations, Objectives

It can be concluded from the above survey that a majority of experts thought the reform of township institutions could take the way of streamlining the township government departments or even abolishing these grassroots units. From the present difficulties and insufficiencies that township institutions are encountering, the suggestion is to a certain degree understandable. First of all, the autonomy of the township governments is extremely limited, and this can be explained from three points. The township institutions have no personnel rights; most staff members of party and government organs are appointed by the county institutions, and employees of public service units are adjusted by their corresponding superior county departments. The township institutions actually have no financial powers even though China is regulated by 'one level of authority, one financial system' because financial resources are rare and the system of township-finance-supervised-by-county has been promoted. The township institutions have no enforcement power because farmers have no tax payment duties, which means there is no use for a police force as there is no enforcement. The township executive capacity is undermined greatly since the various public service units in towns and villages are subordinated to the superior functional departments in counties and are not under the supervision of the township governments, which leads to a situation where the responsibility is separated from the executive authority and there is a lack of united overall force.⁴² Secondly, the combination of financial difficulties and mechanical imperfection made township governments more dependent on the superior governments in terms of public goods provision. Under such circumstances, the township governments would pursue self-serving objectives rather than public-serving objectives and sometimes even turned themselves into profit-making organizations by deviating from their original function of working for the public benefit. With such township governments, how could people not doubt the need for their existence?

However, as the basic grassroots governments, township governments are regarded as playing an essential role that cannot be replaced by other higher-level governments. Simply streamlining the government by reducing governmental employees and merging operating organs would not improve the local public goods provision. That is why the previous streamlining reform has not met expectations but instead has run into a vicious circle of streamline-expansion-streamline again-expansion again. Moreover, though the central

and Tasks', http://www.sdpc.gov.cn/tzgg/zhd/t20050810_41499.htm

⁴² The social operating stations are mostly under the dual leadership of counties and towns or villages. The first mode is called vertical administration, in which the superior sectors in counties directly control the stations, while the township institutions have no real power. The second is called a functional system, in which the township institutions control the stations with professional guidance from the superior sectors. The third is called a vertical and functional combined system, in which the superior sectors and township institutions jointly control the stations. With these systems, the management of service stations is fragmented without comprehensive overview.

government has already taken a series of policies to support agricultural and rural development with gradual increments in rural education, sanitation, social security and welfare, without a fully-functional township institution to integrate all resources, the resources to finance the supply of rural public goods are dispersed, in the hands of different public service units. Therefore, reforms that pursue streamlining or abolishment of township organizations will neither be effective in solving rural problems nor promote the integration of urban and rural development.

The above argument seems far too one-sided for the advocates of streamlining or abolishment because they hold their view simply from the point of occasional functional dislocation of township governments without in-depth analyses on the underlying reasons and attribute all faults to the expansion of township organizations which have resulted in overburdened farmers. Towns and villages are social connection centers which join cities and rural areas together and transmit between national authorities and rural societies. However, due to their large population and territory, towns and villages became neglected, which conflicted with the duties they were supposed bear and ultimately brought about the less-than-ideal situation. Taking the historical evolution, function definition and reality of township institutions into account, we can see that the important target should be centered on enhancing the management capacity of township governments, which can effectively serve the purpose of improving rural public goods provision.

Combined with the mission of promoting the overall rural development, the focus of township institutional reform is the improvement of its mechanisms rather than alteration in the size of its institutions. In line with the goal of transforming the function of township governments from self-serving to public-serving, it is necessary to establish fully capable township governments which not only have independent financial resources but also are capable of utilizing all available resources to supply public goods with the instruction of superior governments. In that case, the framework of public finance could be said to truly be established because it is implemented all the way down to the basic grassroots. However, since most economies of towns and villages are still undergoing a development process, it should take some time to build up the full capacity of township institutions. In addition, township institutional reform alone cannot solve the problem because there may be great differences in the level of public goods provision in different regions, and this makes it indispensable for governments to balance the situation by paying more attention to regions that are underdeveloped or have scarce resources.

4.3 Reforming the System of Rural Communities

The core of the new countryside construction can be oriented towards improving the system of public goods provision in rural areas. As the tie that connects farmers, rural communities undoubtedly will affect the performance of rural public goods provision. There is no law or theory that can define the range of public goods that rural communities should provide. Following the principle of effectiveness, what rural communities provide should be confined to the community-wide or village-wide goods which are exclusive to residents living in the community. However, in practice, the scope of public goods provided by rural communities varies with different systems in different countries. In China, rural communities experienced a transformation from all rural public goods provision to the community-wide goods, which is compatible with China's development strategy, economic system and fiscal system. As the government has increased input in agriculture and rural areas year on year, the provision of rural public goods has undergone a change from community-dominant to government-dominant, which ultimately evolved into a single-sourcing situation for rural public goods because of over-dependency on the government. The gradually weakened function of rural communities will drive the provision of public goods to a low level. So after the government assumes the major responsibility for providing basic rural public goods, the function of rural communities should be further strengthened rather than weakened to realize self-service and satisfy the specific and diversified needs at a higher level. Through reforming related systems, a new system for provision of rural public goods characterized by joint participation of the government and the rural community should be established.

Each town and village is composed of a certain number of rural communities, which play a role in assisting the government in providing public goods and autonomously organize the farmers living in their communities to participate in community-wide goods supply. Therefore, the systems of rural communities, including decision-making, operation and management systems relating to the range and scale of public goods and the capital to fund the supply, directly affect the efficiency of rural public goods provision.

After several waves of municipal mergers, the rural communities or hamlets in Japan become administrative units within towns and villages and assist towns and villages in carrying out some local administrative activities, which makes them function dually as semi-administrative units and as rural autonomous organizations, similar to China's administrative villages. As discussed above, Japan's rural communities have played an important role in village-wide goods, especially in the periods when the government put efforts into rural and agricultural improvement projects. With rural communities' participation and sufficient government support in terms of funds, technology and human

resources, most rural areas stepped on the road of modernization which improved agricultural production and living conditions and increased farmers' revenues. In comparison, the systems in Japan's rural communities are more standardized and organized, in which all household members to a large extent participate in local affairs and the committee of directors, the core organization of rural communities, has great autonomy in the decision-making and execution process. However, in China, due to the political framework and historical factors, the rural communities are given more administrative functions with less autonomy. The fact of financial shortage also requires them to be more dependent on the decisions made by the government, which constrains the rural communities from executing their functions. Take the one-case-one-meeting system⁴³ of rural public works, for instance, in which the government regulates the labor force and the fund-raising ceiling that can and should be used in the public works of rural communities, which can tend to make the situation divorced from reality.

Table 4-5: Main Positive Effects and Shortcomings of the One-Case-One-Meeting System

Positive effects	Shortcomings
1. The ceiling on fund raising prevents farmers' burden from rebounding in that the system puts an end to arbitrary charges, fund raising, fines and quotas. 2. The system promotes autonomy in deciding rural public goods provision. 3. The system places supervision on the utilization of the public resources. 4. The system accelerates the democratic process of rural communities.	1. It is difficult to discuss the case. With most young labor outflowing to cities, those left in rural areas are less educated and attach less importance to public matters, which always results in inadequate participation. 2. It is difficult to make a resolution because villagers benefit differently from the projects and individualism always makes a consensus impossible, especially in cases of maintaining roads and bridges shared by several villages. 3. One-case-one-meeting evolved into several-cases-one-meeting. 4. It is difficult to raise the required funds within the stipulated time. 5. The operation sometimes deviates from the regulations. For example, some villages do not conform to the rules of the ceiling standard or do not hold the village meetings of representatives or discuss items that do not apply to the system and so on.

⁴³ The system of one-case-one-meeting refers to the decision-making system in rural communities used to decide on fund raising and labor needed for providing public works, such as the construction and maintenance of village farmland, irrigation, roads, bridges, afforestation, village environment and so on. Following the principles of acting within the limits of resources, benefiting all residents, deciding democratically, adopting ceilings and disclosing financial situations, the village-wide public works are to be discussed and decided in village meetings of all villagers or representatives, and the facilities formed are owned jointly and managed by the village executive committee. Established to replace the eliminated accumulative funds which originally financed public works and public welfare services, the system was designed in 2000 to solve the problem of inadequate rural public goods provision and standardize the distribution relationship between the nation and individuals. However, years of practice indicate that the system might not have achieved its anticipated success because shortages in rural public goods provision continue.

Source: Prepared by the author. The present institutional arrangement for China's rural communities can be divided into three basic tiers: villager meetings or meetings of village representatives, villager committees and villager groups. Though they are the executive institution of autonomous rural communities, the committees of villagers or villager groups are strongly affected by the administrative constraints imposed by the government. Sometimes, they serve more as the authority of collective ownership economic systems, directly determining the usage, management and distribution of the collectively owned resources. Consequently, the public goods provided do not meet the true expectations of the villagers, and this undermines the effectiveness of public goods supply.

Table 4-6: System of Rural Communities

Organizations	Major responsibility
Village meetings or meetings of village representatives	In charge of village-wide affairs such as setting up the rules and regulations of villages, electing and removing the members of meetings, decision making and so on
Villager executive committees	In charge of routine affairs, including public works, coordination works and other administrative activities directed by township governments
Villager groups	Directly in charge of affairs relating to villagers' benefits, such as the division of contract lands, mutual assistance, irrigation and so on

Source: Organic Law on Village Committees.

All in all, after the rural comprehensive reform, rural communities increasingly have relied on supply of public goods by the government, which is considered by many scholars to be government-dominant provision that weakens the role of rural communities. Thus, establishment of a multi-subject supply system for rural public goods based on the true demand has been planned in which organizations of rural communities will undertake the responsibility for community-wide goods supply by utilizing the resources and mobilizing the villagers of their rural communities, while the government provides them with the corresponding support and help.

The first step is to define the scope of public goods which rural communities should be mainly involved in providing. On one hand, the beneficiary in a certain social sphere of rural community-wide public goods is always defined, so the community goods provision can be carried out on the level of rural communities. Diverse and specific demands for community-wide public goods also make it necessary for rural communities to make their own decisions on the scope of their special community goods instead of having them regulated uniformly by the government, which is impossible and impractical.⁴⁴ On the other

⁴⁴ For example, in rural areas which have a large average annual rainfall and which are located in river basins,

hand, the scope of rural community-wide goods is normally limited to the items for living and production that are commonly needed by community villagers, typified by those necessary for management and maintenance of village roads and irrigation facilities, agricultural services, environmental protection, rural cultural activities and mutual assistance. Within the framework of the socialist market economic system and public financial system, the government's responsibilities cannot be substituted even though rural communities will take charge of community-wide goods provision due to their specific demands. In addition to direct financial subsidies to rural communities, legal measures, administrative policies, loans and tax preferences should be implemented to support rural communities and other social organizations for participating in rural public goods provision.

Secondly, the financial resources owned by the rural communities to provide public goods should be guaranteed in two ways: by raising funds from beneficiary villagers and by government subsidies. Though the government has taken over responsibility for such public goods provision as compulsory education, medical care and social security, there are still many rural goods mainly provided by rural communities. Abolishment of rural taxes and fees, and compulsory and accumulated labor, which is expected to remove a heavy burden from villagers, has reduced the financial and labor sources for public goods provision. The truth is that without enough funds, it is impossible for the rural communities to provide the public goods described above even though theoretically it is to their advantage to self-provide community-wide goods such as small- and medium-size farmland and irrigation facilities, community safety and so on. A precondition for the rural communities or individual villages to participate in public activities is financial capacity. In some developed regions with better economic foundations where the one-case-one-meeting system is effective, villages are more willing to improve their condition and have the financial ability to fund public goods, so there are fewer problems in the provision of community-wide goods. In contrast, in most rural communities trapped in poverty, it is irrational to rely on villagers to self-provide those goods, and demanding self-reliance would only drive them into another dilemma. In conclusion, even though rural communities are responsible for provision of some public goods, the role they play is more supplementary than primary, which means that, in order to fulfill their corresponding responsibilities, they need government support, even in the provision of community-wide goods.

Thirdly, the organizing systems, including for decision making, finance, execution and monitoring, should be reformed to enable village autonomy. Though the village level is not included in China's current political and administrative framework, in many issues, it is

demands for flood control and infrastructure construction are naturally urgent, and these demands basically will not appear in those rural areas which are subject to drought and need irrigation facilities instead (Fan Liming et al. 2008, 167).

always regarded as subordinate to township governments. Actually, the township government exerts its influence on the village level through the management of village directors, village finance and village agreements with the government. The lack of autonomy in rural affairs makes villagers prefer to regard those affairs that are originally closely related to their benefit as one kind of compulsory and extra burden and keep stay aside, which ultimately results in insufficient participation in the provision of rural public goods. So, to further promote the development of rural services by transforming the status from compulsory to voluntary, reforms should be implemented to rationalize the management system of rural communities.

4.4 Utilizing Farmers' Service Organizations

Farmers' service organizations, mostly established on the basis of professional cooperation, which is feasible in a decentralized, small-scale operation, normally operate businesses that are conducive to agricultural production and marketing and living conditions of rural areas. Though following the rules of market mechanism, the organizations, unlike other for-profit corporations, are usually set up voluntarily by specific members with common expectations, so they have evident advantages to satisfy the diverse needs of individuals.

The evolution of Japan's rural communities shows that with socioeconomic development, the functions of the original rural communities have gradually been taken over by a variety of market-oriented, entrepreneurial and professional organizations. These farmers' service organizations, directly providing services or indirectly exchanging their time, labor or financial resources, have played an important supplementary role in rural public goods supply by participating in the management of rural affairs and assisting in the administrative work of local government. Following the spontaneous, voluntary and mutually beneficial mechanism, they achieved the success of villagers' self-service and mutual aid service. Japanese agricultural cooperatives and land improvement districts as well as various agricultural or rural-related associations not only have become an important force in assisting in the implementation of rural policies, but also positively promote the undertakings of rural public goods provision. Their meaningful functions have garnered them substantial, long-standing support from government, which means that the farmers' service organizations and the government are in a state of mutual benefit to each other.

Since China introduced the reform of the household-contract responsibility system in 1978, various farmer organizations and associations have been formed to promote agricultural and rural development, including farmers' professional cooperatives, farmers' professional associations, rural credit cooperatives, supply and marketing cooperatives and so on. However, China's farmers' service organizations are characterized more by small-scale,

decentralized and unbalanced development in different regions without a normalized system, and more concentrated on production and pursuit of profit than public goods provision. The function played by them is limited compared to Japan.

Policies and measures to promote, guide and support the development of various modern farmers' service organizations should be implemented to effectively build a bridge between farmers and markets as well as between farmers and the government. The first measure is to establish and improve related laws and regulations to clear and define the nature and legal status of farmers' service organizations. Though the Law on Farmers' Professional Cooperatives was implemented in 2007, regulations on farmers' associations and other organizations are not normalized yet. So, sound rules and regulations on internal management should be established and improved to standardize the operation of farmers' service organizations, including business operation, marketing, property protection, finance, monitoring and so on. If it is impractical to form a nationwide joint association, it would be possible to set up provincial joint associations to unite organizations regionally. The second step would be to create favorable policies, including financial subsidies, low-interest loans and tax incentives, for farmers' service organizations which are actually operated on the principle of benefitting farmers. Administrative instruction instead of command is needed to guide the farmers' organizations to learn more about the national development strategy so as to properly plan on their own. Thirdly, it is necessary to develop comprehensive service organizations as well as specialized organizations.

Information about the experience of other countries should be placed in the context of that country. For example, the strength of Japan's farmers' service organizations may easily make an impression that the government can rely on such organizations to provide rural public goods. However, there are two points that should be noted. One is that the public function played by the organizations has its boundaries, similar to rural communities, which means they should function in the fields where they have advantages in providing goods whose beneficiaries are definitely recognized. Secondly, the government should take its corresponding responsibility. Actually, the formation and development of farmers' service organizations require a good economic, systematic and cultural background. Obviously, without the ability to pay, how can individual farmers join the cooperative associations and how can the associations carry out business operation? Thus, the pledge to establish a variety of public goods suppliers may be reduced to an empty promise. Since those non-members in poor economic conditions are excluded from the services that are normally provided for members, the disparity among farmers will be enlarged. Responding to these underlying problems, to establish a well-functioning system of farmers' service organizations which can be truly effective in boosting agricultural development and

improving rural living conditions, the government should strengthen its support for undeveloped regions and further promote economic development.

4.5 Brief Summary

Although China has attained great achievements in the process of new countryside construction, there is still a disparity in urban-rural public goods provision. To fulfill the mission of integrating urban-rural development, which is primarily characterized by equal opportunity for rural and urban citizens to enjoy public goods, requires a competent and capable grassroots institution. In China, the township institutions directly serve the citizens, so firstly it is suggested in this report to deepen the reform of township institutions by increasing their autonomy. Secondly, the rural communities' role cannot be neglected even with more financial support from the government. Instead, the responsibilities born by the rural communities and individual farmers should be strengthened by improving the participatory system. Thirdly, various farmers' service organizations should be utilized more in the service of agricultural production, rural areas and farmers.

5. Conclusions

As a result of this study, it was found that examination of the systems and practices employed in Japan to provide rural public goods reveals how Japan developed its agriculture and rural areas, how it promoted local autonomy and how much its government spent on each category. It cannot be determined from numerical comparison alone whether Japan's practices would be effective in China since each nation has its own features, including traditional cultures, humanistic conditions, political bases, economic systems, development strategies and so on. Moreover, China is now undergoing accelerated economic development. With its improved public financial conditions, China's government at all levels has already increased input in agriculture-related fields. So, resolution of the problems existing in China should also depend on China's own realities, not merely on learning what other countries have experienced. Nevertheless, as to institutional arrangements for public goods provision, there are still some disciplines that may be common in most countries.

In most countries that have undergone a period of strategic development characterized by intense promotion of industrialization while the agricultural sector lags behind, the government subsequently has taken many measures to balance urban and rural development, from creating pro-agricultural policies to increasing governmental input, which simultaneously places the government at the core of the public goods provision system. First of all, the experiences of Japan illustrate that overall agricultural modernization cannot be realized by depending on the agriculture sector alone. Japan has enacted more than 130 laws and regulations relating to agriculture, rural areas and farmers that directly specify the scale, structure and pattern of rural public goods provision (Tang Xianglong 2011). Besides the legal systems, the public expenditure on agriculture and rural areas ensures the basic rights of beneficiaries. Secondly, subsidies from the government are classified and targeted at different projects in accordance with the specific strategy of different periods and the attributes of different public goods. Thirdly, different suppliers, including the government, agricultural cooperatives, rural communities and other farmer organizations, have been united cooperatively. Fourthly, and more importantly, responsibilities among all levels of government are clearly defined and implemented accordingly. Finally, financial resources have been allocated in line with a well-designed system to ensure that local governments are financially capable of providing a minimum scale of public goods to the residents and autonomously deciding on their local public affairs.

Since China has already attached great importance to rural development by enacting a set of pro-agricultural and pro-rural policies and providing substantial financial support, the impending mission is how to make effective use of these resources by further promoting

institutional arrangements. The major conclusion of this report is that the next step is to strengthen the reform of those grassroots units most closely related to rural areas, including township institutions, village organizations and farmers' service organizations, that have a deep understanding of farmers' demands and that also have advantages in utilizing resources in a systematic manner, given the qualified competence.

The comparison also indicates that though there are some differences in structure, the total amount and the ratio of investment in rural development and some institutional arrangements such as the overall fiscal mechanism are to some extent similar in China and Japan. For example, as to the financial relationship between the central government and local governments, fiscal transfer payments from the central government to local governments have increased year on year in recent years. In fiscal 2011, the allocation of the revenue between the central and local governments was nearly 5:5. After tax rebates and transfer payments from the central government, the allocation was almost 1:9, with the local governments receiving a greater share, which shows that almost all public goods are provided by local governments with financial support and direction from the central government. However, the dilemma is that there are too many administrative tiers in China to further clearly define responsibilities among provinces, municipalities, counties, towns and villages. Another aspect that is similar to Japan is the fact that responsibility for public goods provision is shared among the central government, local governments and other organizations, which theoretically will contribute to a healthy participatory and cooperative situation. However, conversely in China, this results in a situation in which no one is willing to take responsibility, and everyone pushes the buck to the other. So, it seems that institutional arrangement is only one element that impacts rural public goods provision, and the governing concept and individual spirit do, in fact, have significant effects.

References

Written in English language:

Achim Fock et al. 2007. "China Improving Rural Public Finance for the Harmonious Society", Document of World Bank, Rural Development, Natural Resources and Environmental Sustainable Development Department, East Asia and Pacific, Region, Report No. 41579-CN

Achim Fock et al. 2007. "China Public Services for Building the New Socialist Countryside", Document of World Bank, Rural Development, Natural Resources and Environmental Sustainable Development Department, East Asia and Pacific, Region, Report No. 40221-CN

CLAIR (Council of Local Authorities for International Relations). 2010. "Local Government in Japan"

Ethan Michelson.2011. "Public Goods and State Society Relations: An Impact Study of China's Rural Stimulus", Indiana University-Bloomington, Working paper #4

Harvey Shapiro. 1963. "Economies of Scale and Local Government Finance", Land Economics, Vol. 39, No. 2, pp. 175-186

House of Councillors, the National Diet of Japan, "Constitution of Japan"

Ichiro Aoki. 2008. "Decentralization and Intergovernmental Finance in Japan", Policy Research Institute, Ministry of Finance, Japan, PRI Discussion Paper Series (No.08A—04)

Jeffrey Hays. 2009. "Urban and Rural Life in Japan "

Kazunori Nishimura. 2004. "Overview of Land Improvement Districts"

Kokki Goto. 2007. "Iriai Forests Have Sustained the Livelihood and Autonomy of Villages: Experience of Commons in Ishimushiro Hamlet in Northeastern Japan", Working Paper Series No. 30, African Centre for Peace and Development Studies, Ryukoku University, Kyoto

Luo Renfu et al. 2007. "Elections, fiscal reform and public goods provision in rural China", Journal of Comparative Economics 35 (2007) 583–611

MAFF, Japan. "Annual Report on Food, Agriculture and Rural Areas in Japan" FY 2010, FY2009

MAFF, Japan. 2010. "Efforts toward Revitalization of Rural Areas"

MAFF, Japan. 2010. "World Census of Agriculture and Forestry"

MAFF, Japan. The 86th, 85th, 84th Statistical Yearbook of MAFF (2008~2011)

Masaru Mabuchi. 2001. "Municipal Amalgamation in Japan", the International Bank for Reconstruction, and Development, the World Bank, Stock No. 37175

MIC (Ministry of Internal Affairs and Communications), Japan. 2009. "Local Autonomy in Japan: Current Situation & Future Shape"

MIC, Japan. "White Paper on Local Public Finance, 2011", pp3

Mitsugi Kamiya. 1996. "Japanese Agriculture- Lessons for Development", Japan FAO Association, Tokyo

MOF, Japan. 2011. "Japan's Fiscal Condition"

Nanae Yamada. 2005. "Irrigation and River Basin Management in Japan: Toward Sustainable Water Use", Promoting Sustainable River Basin Governance — Crafting Japan-U.S. Water Partnerships in China, Chapter 6, pp.83-101

Nobuki Mochida. 2001. "Taxes and Transfers in Japan's Local Public Finances", The International Bank for Reconstruction, and Development, the World Bank, Stock No. 37171

Oinuma Yutaka. 2010. "Outline of Local Autonomy in Japan"

Robert J. Smith. 1961. "The Japanese Rural Community: Norms, Sanctions, and Ostracism", American Anthropologist, New Series, Vol. 63, No.3, pp. 522-533

Sayuri Shirai. 2004. "The Role of the Local Allocation Tax, and Reform Agenda in Japan-Implication to Developing Countries", the 21st Century Center of Excellence Program, "Policy Innovation Initiative: Human Security Research in Japan and Asia", Graduate School of Media and Governance, Keio University, Japan, Policy and Governance Working Paper Series No. 32

Shigeki Morinobu. 2003. "Japanese Tax Reform toward Vitalizing Japanese Economy", Policy Research Institute, Ministry of Finance, Japan, PRI Discussion Paper Series (No.03A—01)

Takero Doi. 2004. "A Missing Link in Decentralization Reform in Japan: 'Trinity Reform Package' ", Policy Research Institute, Ministry of Finance, Japan, PRI Discussion Paper, Series (No.04A—08)

Zhong Sheng. 2011."Towards China's Urban-Rural Integration: Issues and Options", International Journal of China Studies, Vol. 2, No. 2, pp. 345-367

Written in Chinese language:

Ding Hongwei et.al.2008. "New Examination on Japan's Economy: Comparative Discussion on Japan and China", Beijing: China's Market Press, pp116-140

Fan Jian'gang. 2010. "Analysis on Determinants of the Growth Transition of Japan's Public Expenditure on Agriculture", Beijing: Japanese Research Journal, Vol.6

Fan Liming, Shi Shaobin et al. 2008. "Equilibrium of Public Goods Demand and Supply in New Countryside Construction", Beijing: China Financial & Economic Publishing House, pp. 167

Gao Jianguo. Gao Gongjing. 2008. "Rural Community Provision for Rural Public Goods: System Development and Structure Change", Shanghai, Journal of Social Science, vol.3

Gao Jianguo. Gao Gongjing. 2009. "Rural Community Provision System for Rural Public Goods", Jinan, Shandong: Shandong People's Press, pp.54, pp.38

Hainan Reform and Development Research Institute. 2005. "the Eleventh Five Reform: Situations, Objectives and Tasks"

Jiao Bifang, Sun Binbin. 2009. "Study on Japanese Modern Rural Construction", Shanghai: Fudan University Press, pp30-48

Li Bin. 2004. " Analysis on Off-institutional Supply for Public Goods at Township Level", Beijing: China's Social Science Publishing House

Li Guoqing. 1999. "the Social Development of Japan's Rural Communities: Survey on Fujimi-Cho", Beijing: China's Social Science Publishing House, pp226-265

- Li Hua. 2005. "China's Rural Areas: Public Goods Provision and Public Financial Innovation", Beijing: China Economic Science Press
- Li Kexin. Xie Yuantai. 2011. "Analysis on Financial Policies for Japan's Agricultural Cooperatives", Beijing: China Farmer Cooperatives Research Journal, vol.1
- Li Shi. 2008. "Rural Migrant Workers in China: Scenario, Challenges and Public Policy", Policy Integration and Statistics Department International Labour Office, Geneva, Working Paper No. 89
- Lin Wanlong et al. 2007. "Private Provision of Rural Public Goods: Influencing Factors and Policy Choice", Beijing: China Development Press
- Lin Wanlong. 2003. "Study on the Transformation of China Rural Community Public Goods Supply System", Beijing: China Financial & Economic Publishing House
- Liu Guanghui. 2008. "Japan's Agricultural Cooperatives and Lessons for China's Specialized Farmer Cooperative Organizations", Baoding, Hebei: Journal of Study on Japan, vol. 4
- Liu Qiming. 2009. "Successful Experience and Enlightenment of Japan's Land Improvement Systems", Beijing: World Agriculture Research Journal, vol.1
- Li Wen. 1997. "Japan's Land Improvement Districts", Beijing: World Agriculture Research Journal, vol. 1
- MOF, China. 2006. "Japan's Public Finance and Economic Policies"
- Qian Xiaoping. 2006. "What We Can Learn from Japan in Building New Countryside"
- Song Min et al. 2010. "Research on Japanese Environmentally favorable Agriculture", Beijing: China Agriculture Press
- Tang Xianglong. 2011. "Regulations on Japan's Countryside Construction", Beijing: Township construction Journal, Vol. 4
- Wang Meiling. Chen Xin. 2010. "International Experience in Rural Public Service Provision and Enlightenment", Beijing: Management Observation Journal, vol.4
- Wang Xianping. 2008. "Development of Japan's rural land systems and Illumination", Beijing: China's Rural Economy Journal, Vol. 10

Wang Yonghui et al. 2011. "International Comparison on Rural Urbanization and Rural-urban Integration", Beijing: China's Social Science Publishing House

Wu Xinye. 2006. "Research on Non-governmental Organizations at China Grassroots Level", Beijing: Beijing University Press

Xiong Wei. 2002. "Analysis on Rural Public Goods Provision and the Method Choice", Beijing: China Rural Economy Journal, vol.7

Zeng Fusheng et al. 2006. "Equilibrium of Public Goods Demand and Supply", Beijing: China Agriculture Press

Zhang Jun. 1996. "China's Rural Public Goods Provision: Changes after the Reform", Chongqing: Journal of Reform, Vol.5

Shuzo Teruoka. 2011. "150 Years for Japanese Agriculture from 1850 to 2000)", Beijing: China Agricultural University Press

State Council, China. 2005. "Notification on Deepening the Reform of Rural Compulsory Education Fund Guarantee System"

Written in Japanese language:

Sekino Mitsuo. 2007. "Japan's Rural Public Finance", Takasuga Press

MAFF, Japan. "Economics statistics on agriculture and food for 2002"

MAFF, Japan. "Statistics of Annual Report on Food, Agriculture and Rural Areas in Japan FY 2010"

The Author

Dr. Gao Xiaoping obtained her B.A. and M.A. in Economics from the Central University of Finance and Economics and her Doctorate in Economics from the Graduate School of the Research Institute for Fiscal Science of China's Ministry of Finance. She is currently an Associate Senior Researcher at the Research Institute for Fiscal Science of China's Ministry of Finance.

Dr. Gao Xiaoping's research interests focus on social and economic problems in China with special reference to fiscal theory and policy, tax theory and policy, public financial management theory and practice, fiscal transfers and local fiscal management.

This paper is the result of her seven-month stay at the Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO) in Chiba, Japan, from April 23, 2012, to November 22, 2012, as a Visiting Research Fellow.

List of Major Works

1. 2010. "Study on Fiscal Policies for Eco-compensation in China", Economic Science Press.
2. 2010. "Establish a Sound and Scientific Mechanism for Eco-compensation", *Journal of China Public Finance*, Vol. 16.
3. 2009. "Study on Equalization of Basic Public Services in Local Areas in China", Research Paper No. 55, Research Institute for Fiscal Science, MOF, China.
4. 2007. "Utilizing Tools of Pricing, Taxing, Fee and Rent Charging to Reform Mineral Resources Distribution System", Research Paper No. 59, Research Institute for Fiscal Science, MOF, China.
5. 2007. "Study on Fiscal Policies for Social Development in Tibet Agricultural and Pastoral Areas", *Economic Research Reference* Vol. 5F-1.