

Public Choice Versus the Dual State: A Comparative Analysis of the Distribution of Functions between Central and Local Governments in Japan and Korea

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Abstract: This paper analyzes and compares the distribution of the state functions between the central and local governments of Japan and Korea in the 1980s and the 1990s. The public choice and the dual state models are applied. The former explains the functional allocation between different tiers of government in terms of the self-interested behavior of related rational actors, while the latter explains it in terms of the structural solving of the different and contradictory roles of the modern capitalist states. The Japanese data prove the relevance of the public choice model: i.e., the expenditure for allocational policy was conducted mainly by local governments, while redistributive policy was conducted by the central government. The Korean data show the opposite case, which does not fit into the propositions of the public choice model. Instead, the Korean data proves the relevance of the dual state model: i.e., the expenditure for social consumption was conducted mainly by second-tier local governments, while those for social expenses and social investment were conducted mainly by the central and first-tier local governments. The Japanese case did not support the dual state thesis: i.e., more than 60% of Japan's social consumption spending was conducted by the central government. The differences between Japan and Korea can be explained by the different paths of institutionalization of local autonomy in the two countries.

INTRODUCTION

The distribution of state functions between the different levels of the government varies in each country, even in countries with a similar state form or political ideology. Throughout their histories, Korea and Japan have achieved a significant institutional isomorphism in public administration through intimate interactions and exchanges with each other. The two countries share a number of institutional similarities, especially in central-local government relationships. One of the important differences, however, is the different time span of institutionalization of local autonomy. Korea has experienced a shorter period of local autonomy than Japan.

This paper analyzes and compares the similarities and differences of the distribution of state functions between the central and local governments in Korea and Japan. For this purpose, the public choice and the dual state model are applied. Before discussing the empirical findings, the institutional backgrounds of local-central relations in Korea and Japan will be reviewed and the theoretical backgrounds of the two models discussed.

INSTITUTIONAL AND THEORETICAL BACKGROUNDS

Institutional Developments

Both Korea and Japan are unitary states and have a two-tier system of local government. Korea has a first-tier local government that is comprised of 16 *Shi* and *Do* and a second-tier of 278 *Shi*, *Kun*, and *Ku* (Jung, 1996). Japan has a first-tier local government comprised of 47 *To*, *Do*, *Fu*, and *Ken* and a

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second-tier of 3,255 *Shi, Cho* and *Son* (Shindo, 1984).

The modern systems of autonomous local governments in Korea and Japan were implemented immediately after World War II. Before then, there were some institutions and practices that could be regarded as components of autonomous local governance even from today's perspective. It was after the World War II, however, that a local autonomy based on a constitutionalism of liberal democracy was institutionalized in both countries. Since then, each country's practices of local autonomy have differed significantly.

Japan enacted the so-called 'New Constitution' of 1947 to establish autonomous local governments and the 'local autonomy law' came into effect based on that provision. In the same year, local councils were formed, and the local chief executives were elected by universal suffrage (Shindo, 1984). Japan has successfully kept the autonomous local government system relatively stable since then (Muramatsu, 1988).

Korea also instituted local autonomy in the constitution of the First Republic of 1948, and enacted the 'local autonomy law' based on the provision. In 1952, local councils were established for the first time and local chief executives were elected through universal suffrage. After 1961, however, local autonomy was suspended under the authoritarian rules of the military dictatorship. As the transition toward democratic government gained momentum in the late 1980s, the Korean government instituted a series of reforms to prepare for the resurrection of local autonomy. The local councils were formed again in 1991, and since 1995, the local chief executives have been elected by popular vote.

Despite such differences in the institutionalization of local autonomy, Korea and Japan have a number of similar centralized intergovernmental institutions. Following the post-World War II reforms and the emergence of autonomous local governments, it was expected that a number of central government

functions, especially policy implementation functions, would be transferred to local governments. Rather than transfer those functions to local governments, however, the central governments of both countries retained their conventional functions through various institutional arrangements. For example, the central government organized 'special local administrative agencies' to conduct policy implementation directly at the local level. Currently, the Korean central government ministries have 316 special local administrative agencies, and the Japanese government has 189 (Jung, 1996; Abe, Shindo & Kawato, 1994).

Another typical example is the central government's 'agency delegation,' by which the central government delegates tasks to local governments but does not make any jurisdictional changes. In the 1990s in Korea, 48% of all local governments' tasks, and in Japan, 80% of all first-tier tasks and 50% of all second-tier tasks of local governments were 'tasks of agency delegation' from the central government (Jung, 1996; Abe, Shindo & Kawato, 1994; Muramatsu, 2001).

In addition, the Korean and the Japanese central governments have retained a number of effective control mechanisms on local governments' personnel management, public finance and budgeting, and reorganizations (Abe, Shindo & Kawato, 1994; Jung, 1996).

Theoretical Models

Two models provide a consistent and sophisticated rationale for the distribution of state functions between central and local governments. The models are the public choice model and the dual state model and their core assumptions, propositions, and implications of the models are examined below.

The Public Choice Model

According to the public choice model, the func-

tional allocations between central and local governments within the state apparatus are a 'rational' choice by citizens and public officials who are concerned with individual welfare. The 'rational' citizens want to maximize the share of benefit (i.e., public services) in proportion to the share of costs (i.e., tax and service charges). The 'rational' public officials are 'entrepreneurs' who try to maximize the amount of revenue in lieu of providing public services to the citizens.

The effect of public services on the individual welfare of public officials and citizens differs depending on public policy. Therefore, the 'rational' choice by each rational citizen and public official differs according to policy. Eventually, the state functions are allocated differently between different levels of governments according to policy type. Three types of public policy can be identified: i.e., "redistributive policy", "allocational policy", and "developmental policy". According to policy type, the state functions are allocated between the central and local governments as in Table 1 (Peterson, 1979; 1981; Dunleavy, 1984).

First, redistributive policies are policies that provide public services to a group of citizens by revenues from a separate, usually richer, group, thereby redistributing income from one group of citizens to another. Examples of such programs are public assistance, social security, social insurance, public health care and public housing. Benefits given to citizens by these public services are inversely proportional to the cost (i.e., tax and

services charges) that citizens pay. It is inefficient for the local governments to provide the services competitively. Thus, the central government eventually controls these services.

Second, developmental policies are policies that promote economic growth and attract new taxable industries and residents, but maintain only a marginal increment of public service demands. Examples include regional development projects as tourism, transportation and communication, and social overhead capital. Unlike redistributive policies, the beneficiaries are responsible for most of the cost for the programs. Thus, the distribution of state functions varies, depending on what portion of the benefits is "internalized" in the region.

Third, allocational policies provide benefits to all the citizens of the region, but they are paid for from the general budget of the government. Examples include public services such as police, fire fighting, garbage collection and environmental services. Allocational policies provide benefits equally to all citizens within the community. Each individual citizen however evaluates benefits differently and does not share the cost equally because the cost comes from general treasury. Local governments eventually conduct this type of public services since competition between local governments for the services maximizes the efficiency of the programs.

One of the implications of the public choice model is that the redistribution is not effective at the local government level, and these "limits of local govern-

Table 1. Policy Types and Levels of Government: Public Choice Perspective

Policy types	Government levels	Characteristics
Redistributive policy	Central government	Allocating resources to individuals and groups in reverse proportion to their taxes.
Developmental policy	Regional or central government	Those who benefit from the public services pay for the full cost.
Allocational policy	Local government	Simply providing a variety of benefits and services for the community.

Sources: Peterson, 1979; Dunleavy, 1984.

ments” are the result of ‘rational’ choices that public officials and citizens make in order to maximize their individual welfare (Peterson, 1979: 310~311).

The Dual State Model

According to the dual state model, the distribution of state functions between central and local governments is explained by the following four-stage combination of the state expenditure types and the decision-making modes (Saunders, 1981; 1984).

First, the state expenditure can be categorized into three types. (1) Social expenses are to secure a social consensus among the members within a community. This type of state expenditure is necessary for the system maintenance of the state, although it does not contribute directly to enhancing profits in areas such as spending for law and order, defense, and some legitimation functions. (2) Social investment is to provide means of production for capital. Examples include public spending to provide human capital in areas such as education and training, and to provide physical capital in areas such as social overhead capital constructions. (3) Social consumption is to reduce labor costs, such as public expenditure for social insurance and collective consumption.

Second, modes of public decision-making fall into the following three types; (1) the bureaucratic mode of traditional hierarchy, (2) the corporatist mode of cooperation through negotiations with social groupings, and (3) the pluralistic mode of consensus building within a broad range of citizen participation through negotiation and competition.

Third, the following three situations are possible

results from the above state expenditure types and decision-making modes. (1) Social expenses spending for social consensus are bureaucratically administered. (2) Social investment spending for production is administered in a corporatist way. (3) Spending for social consumption and for legitimating forms of social expenses is determined by broad consensus.

Fourth, state functions are allocated amongst the central and the local governments as follows. (1) Social expenses spending is administered by the central government. By doing so, outside threats to state system maintenance is minimized. (2) Social investment expenditures are administered by the central government and quasi-government organizations, which are isolated from citizen control. By doing so, profits are guaranteed. (3) Expenditures on social consumption are pluralistically administered by local governments. By doing so, conventional images of representative democracy and state neutrality are maintained but the limitations posed by local governments being constitutionally relegated to second or third tier status remain the focal point.

Consequently, the distribution of state functions between central and local governments is institutionalized in a fundamental dualism that maintains the state functions for social expenses and social investment at the central level and maintains social consumption expenses at the local level of government (Table 2). One of the implications of the dual state thesis is the limit of local governments. The institutional dualism is a by-product of the conflict of interests between classes. The state functions for the maintenance of law, order, defense and the

Table 2. State functions and levels of Government: The Dual State Thesis

State function	Social consensus	Production	Social Integration
State expenditure	Social expenses	Social investment	Social consumption
Decision-making	Bureaucratic	Corporatist	Pluralistic
Government level	Central (political)	Central (non-political)	Local

Sources: Saunders, 1981; 1984.

enhancement of profits are all insulated from pluralistic policy-making at the local level. At the local government level, state competitive policy-making only provides the third order state function, “collective consumptions”.

EMPIRICAL FINDINGS

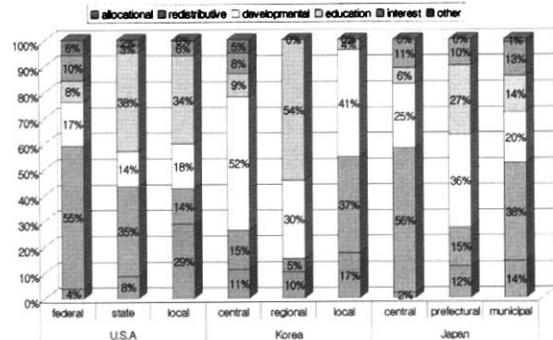
The public choice and the dual state model describe and explain the functional distribution between the central and local governments in Korea and Japan. The analyses are based on state expenditures between the late 1980s to the late 1990s, at three different levels of government in both countries.

Testing the Public Choice Model

The public choice model was first applied empirically to the United States, and proved the relevancy of the model in the country (Peterson, 1979). In the 1960s and the 1970s, the functional distribution between different levels of government fit the public choice model: i.e., the federal government administered expenditures primarily for redistributive policies, while the second-tier local governments (i.e., cities) administered the expenses primarily for allocational policies (Figure 1 & Figure 2). The public choice model was applied to Korea and Japan of the late 1980s and 1990s with the significantly different results between the two countries (Jung, 2001).

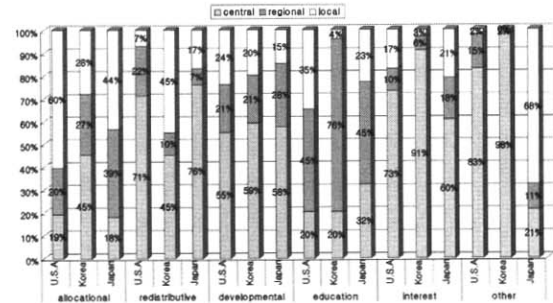
In Korea, the ratio of state expenditure did not fit the proposition of the public choice model (Figure 1 & Figure 2). The central government executed 45% of all the expenditures for allocational policies. On the other hand, the second-tier local governments executed 50% of all expenditures for redistributive policies. In Japan, the ratio of expenditure approximated the public choice model (Figure 1 & Figure 2). The second-tier local governments mainly administered the expenditures for allocational policies, while the central government

Figure 1. Functional Distribution of State Expenditure between Different Levels of Governments in the USA, Japan and Korea.



Sources: Peterson, 1979; Jung, 2001. Notes: The Japanese and Korean data are for the fiscal year of 1997, while the American 1973.

Figure 2. Distribution of State Expenditure between Different Policy Types in the US, Korea, and Japan.

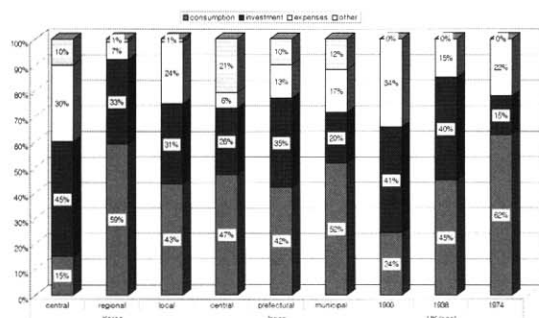


Sources: Peterson, 1979; Jung, 2001b. Notes: The Japanese and Korean data are for the fiscal year of 1997, while the American 1973.

mainly administered redistributive policy expenditures.

The results summarized above show that the functional distribution between central and local governments in Japan is similar to the United States, mostly befitting the public choice model. A significant difference between the two countries is that Japanese second-tier local governments executed more expenditure for redistributive policies than allocational policies; while in the United States the case was the exact opposite. The ratio of redistri-

Figure 3. Functional Distribution of State Expenditure by Different Levels of Governments in the UK, Japan and Korea.



Notes: The Japanese and Korean data are for the fiscal year of 1997, while the British data is for 1900, 1938 and 1974.

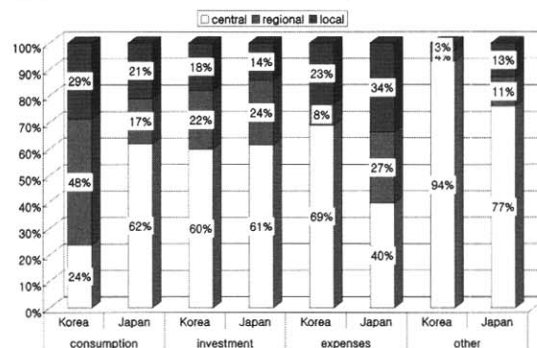
Sources: Dunleavy, 1984; Jung, Moon & Choi, 2001.

butive policies is as high in the second-tier local governments in Japan as in Korea, but higher than in the United States. This does not fit the public choice model of few redistributive policies being conducted at the second-tier local governments. The proportion of the expenditures for allocational policies executed by the central government in Korea is much higher than in the United States or Japan. This can be explained because the Korean government has spent a large proportion of its budget on defense and police functions of which the central government is in charge. The distribution of developmental policies between the different levels of governments is almost same in Korea, Japan, and the United States.

Testing the Dual State Model

The dual state model was first applied to the case of United Kingdom (Dunleavy, 1984). Until 1910, British local governments spent more for social investment than for social consumption. The amounts spent were almost equal in the 1920s and the 1930s. After 1940, however, the government spent more on social consumption than social investment. In fiscal year 1975, for example, the

Figure 4. Distribution of State Expenditures by Different Types of Expenditure in the UK, Japan and Korea.



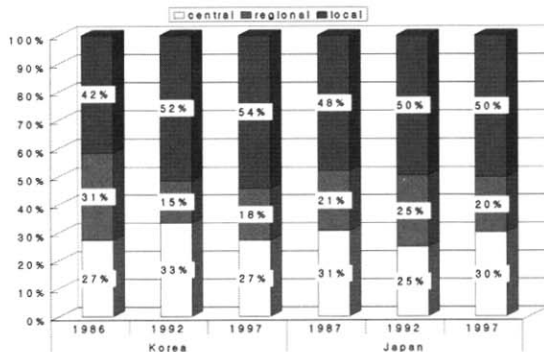
Note: The Korean and Japanese data are for the fiscal year of 1997.

Sources: Jung, Moon & Choi, 2001.

local governments spent 67% of total expenditures on social consumption and only 8% on social investment. Therefore, in the late 20th century Britain when there was a proliferation of welfare state policies the dual state model is valid. The results of the dual state model applied to Korea and Japan show that the model fits Korea better than Japan (Figure 3 & Figure 4).

First, the ratio of central government's social expenditure is higher in Korea (with 69%) than compared to Japan (with 40%). Hence, for social expenditures the dual state model fits Korea better than Japan. The higher proportion of social expenses by the Korean central government is due to the expenditures for defense and police. Likewise, the lower proportion of social expenses by the Japanese central government is a result of the relatively lower spending on defense and police functions. Other than the defense and police expenditures, the two countries show a very similar pattern: i.e., the central government's percentage of social expenditures were 30% in Korea and 29% in Japan; first-tier local governments spent 21% in Korea and 22% in Japan; and the second-tier local governments spent 49% in Korea and 49% in Japan (Figure 5).

Figure 5. Distribution of Social Expenses by Different Levels of Government in Japan and Korea: without National Defense and Police.



Sources: Jung, Moon & Choi, 2001.

Second, the share of the central government of the total social investments is similarly high both in Korea with 60%, and Japan with 61%. The first-tier local governments also low in Korea with 22%, and Japan with 24% as are the second-tier local governments (Korea 18%; Japan 14%). Therefore, both countries fit into the dual state model for social investment. However, the proportion of social investments of the total expenditures of each level of government is different in Japan and Korea. The proportion of the social investments of the central government was 45% in Korea and 26% in Japan, the first-tier local governments was 31% in Korea and 20% in Japan, and the second-tier local governments was 33% in Korea and 35% in Japan. Hence, the dual state model fits Korea better than Japan.

Third, the proportion of the central government's total social consumption is lower in Korea (with 24%) than in Japan (62%). In addition, the proportion of social consumption of total expenditures conducted by the central government is lower in Korea (15%) than in Japan (47%). The share of the second-tier local government's of the total social consumption in Korea increased gradually from 7% in 1986 to 19% in 1992, and 29% in 1997, while it remained relatively unchanged in Japan with 21%

in 1987, 23% in 1992, and to 21% in 1997. Furthermore, the proportion of social consumption of the total expenditures of the Korean second-tier local governments increased to 43% in 1997. The Japanese second-tier local governments also spent 50% of its total expenditures on social consumption. However, the share of the second-tier local governments of total social consumption was smaller than that of the central government. In general, in terms of social consumption Korea better fits the dual state model.

CONCLUSION

The results of the empirical research on the distribution of state functions between the central and local governments in Korea and Japan can be summarized as follows.

First, Japan fits the public choice model, as does the United States, whereas Korea does not. This can be explained by the different experiences of local autonomy between the three countries. Korea has had a relatively shorter experience with local autonomy than Japan, and the United States. One of the prerequisites of the public choice model is the possibility that citizens and public officials can make rational choices for individual utility-maximization. It is understandable then that Korea with its briefer experience with local autonomy does not fit the model on the functional allocation between central and local governments.

Second, Korea better fits the dual state model than Japan. This also can be explained by Korea's briefer experience of local autonomy as well as its relatively later democratization.

Such empirical findings suggest that citizens' preferences are neither aggregated nor appropriately responded to at the local level in Korea. Both the Korean and the Japanese governments have been conducting administrative reforms toward decentralization since the late 1990s (Kim,

1999; Chae, 2000; So, 2001; Muramatsu, 2001; Shiroyama, 2002). It has been observed at least so far that Japanese government has been more successful in the reforms than the Korean government. Considering the results of this study, however, the latter needs to conduct more decentralization-oriented reforms than the former.

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