Personnel Systems in Japanese Local Governments

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Abstract
Personnel systems and policies can have a substantial influence on the quality of local government. This paper shows that Japanese local governments provide stable and well-paid careers. Indeed, pay scales are slightly higher than those of central government staff. As a result, Japanese local governments have attracted good staff into their ranks and built up strong human resource capacity over time. Moreover, the tendency for a brain drain to the central government has been restrained. Also, the similarity of personnel systems across local government units has led to a convergence of skill bases across such units over time.
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Foreword

This paper was prepared for a project on Local Government Development in Japan. The project was organized by the World Bank Institute under the auspices of the Program for the Study of Japanese Development Management Experience financed by the Policy and Human Resources Development Trust Fund of the Government of Japan.

The principal objectives of this Program are to conduct studies on Japanese and East Asian development management experience and to disseminate the lessons of this experience to developing and transition economies. Typically, the experiences of other countries are also covered in order to ensure that these lessons are placed in the proper context. This comparative method helps identify factors that influence the effectiveness of specific institutional mechanisms, governance structures, and policy reforms in different contexts. A related and equally important objective of the Program is to promote the exchange of ideas among Japanese and non-Japanese scholars, technical experts and policy makers.

The papers commissioned for this project cover a number of important issues related to local government development in Japan. These issues include: the process of controlled decentralization; increasing political inclusiveness; redistributive impact of local taxes and transfers; allocation of grants; municipal amalgamation; personnel exchanges; personnel policies; agency-delegated functions; and local policy initiatives.

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Personnel Systems in Japanese Local Governments

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Introduction

Although Japan's local government system has been the subject of research from many different angles, few have focused on its personnel and pay systems. Such systems are the foundations upon which an organization’s work is performed, and this is true also of local governments. When discussing the decentralization of power, the capability of local governments to handle the administrative duties that may be transferred to them is often an important issue. It is therefore necessary to discuss in detail the characteristics of local governments' personnel administrations and organizations.

In order to proceed with decentralization in Japan, it is necessary to improve the quality of the local government employees who will actually handle the administrative work. Expectations from local governments are also very high these days. They are not only required to attain certain "national minimum" levels in various areas of administrative activity and service but also to cater to the particular and special needs of their communities. Under such circumstances, much more importance attaches to the quality and capability of local governments.

Local governments depend more on their manpower in comparison with the national government, which makes it more important for them to hire capable persons and to develop the capabilities of these employees to the greatest degree possible. In order to do this, it is necessary to provide adequate compensation and treatment, but the financial resources available for personnel costs are limited. The improvement in the treatment of employees and fiscal issues are often in an "either-or" relationship, and must be traded off against each other. A major issue faced by local governments is how to draw out the capabilities of their employees under the restraints imposed by limited fiscal resources.

In the pre–World War II period, the Interior Ministry was responsible for personnel matters involving high-level bureaucrats of the prefectures, and prefectural governors were appointed by the interior minister. The pay of such high-level bureaucrats in local governments was also based on the wage scales of the national civil service, which meant that there were no pay differences among the prefectures. Personnel and pay policies of the prefectures were the subject of national policy; the local governments, without the transfer of power through decentralization, merely had to faithfully carry them out. Under the postwar local government system, however, the publicly elected heads of the local government were given the ultimate responsibility regarding personnel and pay matters. In other words, authority regarding personnel administration and pay had been devolved to the local level. In contrast to the prewar Interior Ministry, national government ministers no longer appointed the bureaucrats of local governments, and personnel administration issues were handled locally. With respect to pay systems as well, national laws only established general principles, and the determination of specific wage scales, standards, and amounts were left to each local government.

This situation created a fiscal problem at the local level. Pressure by the local governments' labor unions resulted in an overall raising of pay standards, particularly when the unions strongly demanded pay raises for the lower-ranking positions on the wage scales. The local governments' labor unions often functioned as an important vote-gathering machine for the heads of government. This was why many such heads of government established
wage scales that reflected the concerns of the labor unions. While the local legislatures were theoretically supposed to act as supervisors, they often adopted whatever proposal the head of government made regarding personnel and pay systems, because discussion of such systems consisted mostly of highly technical issues that were not amenable to debate.

These institutional problems were rectified by Ministry of Home Affairs directives, which were carried out through the establishment of standard job-grade classification tables. Unlike practices in the pre–World War II period, the Home Affairs Ministry did not rule the local governments and determine their pay standards; rather, it carried out a loose form of guidance by establishing the standard tables, which served as a model. Since legal sanctions cannot be used under the current legal system, guidance through the standard tables was selected from the options available. This system was designed to effect a delicate balance between the needs to respect the autonomy of the local governments and to prevent their excesses. The local governments accepted the standard tables.

Standard job-grade classification tables not only established rules pertaining to promotions and job grades for the purposes of determining pay, but also delineated the layers of authority or rank of an organization, and thereby the number of such layers within that organization. In this paper, the personnel and pay systems of Japan's local governments will be analyzed, with a focus on the standard job-grade classification tables, which regulate promotions, training, pay, and the organizations of local governments.

**Personnel and Pay Systems of Local Governments**

The degree of legal regulation of the personnel and pay systems and organizations of local governments and their ability to establish ordinances and rules, although fundamental issues, are often not sufficiently understood. With this in mind, the personnel and pay systems of Japan's local governments will be considered.

**Overview of Personnel and Pay Systems of Local Governments**

As of April 1, 1995, there were approximately 3,278,000 local government employees who were included in the regular service. When classified by organization, approximately 1,726,000, or just over half, were employees of prefectural governments. This group—with the employees of ordinance-designated cities, it numbered roughly 250,000—made up more than 60 percent of all local government employees. In addition to such civil servants, municipal employees numbered approximately 726,000; employees of towns and villages, 376,000, and employees of special wards, 80,000. On average, each local government had just under 1,000 employees (992.2 employees per government). When viewed by organization, prefectural governments had an average of 37,000 employees, while designated cities had 21,000; other cities, 1,100; and towns and villages, 140 employees. Of the 1,726,000 employees of prefectural governments, 950,000 were primary and secondary schoolteachers and administrators, 220,000 were police officers, and 570,000 were other general government employees (330,000 of this last group were in the general administrative job category) (MoHA 1995).

Since the early 1960s, the number of local government employees has increased steadily, from 2,110,000 in 1963 to 2,360,000 in 1968, 2,740,000 in 1973, 3,070,000 in 1978, and 3,230,000 in 1983. This trend leveled off, however, with the administrative reforms of the Second Provisional Commission for Administrative Reform. Increases in the amount of work performed by local governments has been handled by employees who were freed from other tasks when the governments increased efficiency. There are currently just under 1,200,000 national government employees, which means that there are approximately 4,500,000 government employees in Japan, when local government employees are included.
This is just below 8 percent of the working population of Japan, which is extremely low compared with the percentage in other advanced industrial countries (19 percent in England, 22 percent in France, 32 percent in Sweden, and 15 percent in Germany and the United States) (OECD 1991). In Japan, it is said that the resources of the relatively few bureaucrats are fully utilized on administrative duties alone (Muramatsu 1994).

The basic principles of the personnel and pay systems of local governments are contained in the statutes of the Local Public Service Law and Local Autonomy Law, and each local government has established its own bylaws and regulations based on these two laws. Regarding personnel administration, the Local Public Service Law only states that hiring and promotion decisions will be based on proven merit and equality. The methods of conducting entrance examinations or the specific standards to be used for promotions must be determined by the regulations and internal rules of each local government. Entrance examinations are to be conducted separately by each local government, and, as a rule, persons accepted or hired by a local government are expected to remain until retirement. Employees are also selected for promotion according to the standards set by each local government. While local governments have discretion over whether to use tests to determine an employee's eligibility for promotion, and if so, what such tests will include, all local governments are largely similar in that they have adopted the Japanese personnel administration practice of hiring new graduates, training them through on-the-job training (Off-JT) and periodic off-the-job training (OJT) within the organization over a long period of time, and gradually promoting those deemed qualified for higher positions.

Pay and the kinds of allowances, other than salaries, that can be paid are specified in the Local Autonomy Law, and other basic principles, such as those concerning function-based pay, are contained in the Local Public Service Law. As long as these basic principles are followed, the establishment of actual salary scales and the amount and the conditions for the payment of allowances are left to the local governments' discretion, to be determined by their bylaws and regulations according to their individual circumstances. Such local government regulations tend to be relatively similar, however, because of the guidance of MoHA, among other things. (This will be discussed later.) The Local Public Service Law has set the retirement age at 60. Upon retirement, the retiree receives a retirement allowance, which is standard practice in Japan. Pensions are regulated by national law, and local government employees have established and participate in a pension plan as a group.

**Hiring and Promotion**

The initial portion of a typical civil service examination consists of a written test; the final step is an oral examination. As a rule, it is customary practice for all of the applicants who pass the examinations to be hired on April 1 of the following year. After they have been hired, the administrative tasks surrounding their employment are usually

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1. It is sometimes said that Japan's borderline-area organizations, such as its special corporations (Tokushu Houjin), are used to perform administration work, but in reality, even if employees of the so-called special corporations, the national government-affiliated corporations (Nippon Telephone and Telegraph, Japan Railways, and Japan Tobacco), and the local governments' affiliated organizations (such as local public corporations) are included, Japan has fewer than 5,500,000 public service employees, which is just over 10 percent of the working population. Even if such borderline-area organizations are included in the public service sector, therefore, Japan's public service sector is extremely streamlined compared with other countries.

2. In the case of national government employees, the civil service examination is conducted by the National Personnel Authority (NPA), and each ministry interviews applicants who wish to be employed there and decides for itself whether to hire them. Therefore, passing the civil service examination of the NPA does not necessarily mean that one will be hired by a given ministry.
conducted by the personnel section; in the national government, the authority over personnel
is fragmented.

It has frequently been pointed out that Japan’s central government attracts the best
and brightest Tokyo University graduates. In comparison, little reference has been made
overseas regarding the abilities and talents of local government employees. Recently,
however, the number of Japanese university students who wish to join the local civil service
has increased greatly. In 1994, over 600,000 persons took the regular competitive civil service
examinations of local governments; only 1 out of every 12 applicants was accepted. In the
case of applicants for the upper-grade examinations of prefectural governments, 120,000
persons applied (95 percent were students at four-year colleges), and just under 9,000
passed, or just 1 of 14 applicants (MoHA data, 1994, 1995). With few exceptions, the
prefectural governments hold their examinations on the same day, which means that few
applicants are counted twice. In addition, ordinance-designated cities also hold their civil
service examinations on the same day. In other words, approximately one-fourth of the total
of roughly 500,000 students graduating from four-year colleges every year take the civil
service examinations of local governments. This rate is even higher for graduates in the
humanities and social sciences. Many college graduates also take the middle-grade
examinations, which are considered to be one rank lower (47 percent of the applicants taking
the middle-grade examinations of prefectural governments were graduates of four-year
colleges; MoHA data, 1994, 1995).

More than a few college students clearly want to join the civil service of local
governments at any cost. Many reasons can be given for this ambition. For example, some
are attracted by the opportunity to perform public service, while others want to become
involved in providing services to residents of their area. A major reason, however, is the
"treatment" received by local government employees. Generally speaking, the salaries of local
government employees are higher, and the possibility of transfers to a distant place relatively
lower, than those of national government employees. For a young person who is looking for
employment close to home, and who wishes to live there for the rest of his life, the local
government would thus be a very good place to work.

After being hired, the new civil servant is repeatedly transferred, and is gradually
promoted to higher positions. The rank of a given position relative to other positions is
determined by the standard job classification table (SJGCT, which will be explained later).
Generally speaking, an upgrading to a higher position on such a table is closely connected
with a promotion in position or rank. In contrast to practices in the United States, persons are
not hired from outside to fill high positions.\(^3\)

Each local government has discretion over such matters as how many applicants of
each educational background to accept, how they are selected and promoted, when they are
promoted, and whether to subject them to a written exam when they are under consideration
for promotion. In addition, the number of job grades, which defines the relative level of a
position, is determined separately by each local government.\(^4\) The general practice, however,
is to promote those who were hired straight out of college in the same year at the same pace,
up to a certain position (the "slow promotion system"), and to use selective promotions only
to fill positions above a designated rank. The critical points are promotion to section chief
and manager, and the various personnel administration sections have tried a number of
methods of making such promotions. On average, a person who is hired right out of college

\(^3\) While some national government bureaucrats are seconded to local governments, and prefectural and municipal
governments exchange personnel from time to time, these are temporary assignments, and the person being
transferred ultimately remains a member of his original organization or government.

\(^4\) As explained earlier, however, the local governments tend to have the same number of job grades.
is promoted to section chief at about the age of 34, and to manager at about 43. (On average, promotions to the mid-level positions of assistant manager and manager substitute are made at around age 40; see Chihou Jichi Kenkyuu Center 1985).

Training

Since newly hired government employees in Japan are untrained, initial training is important. The importance of such training has become even more firmly established recently, because the administrative environment has become increasingly strict.

Government employees' training may be broadly divided into three types: on-the-job training (OJT), which is given at the employee's workplace by his administrators or supervisors; off-the-job training (Off-JT), which is typically given at an employees' training center by the Education Department or other department responsible for employee training; and by temporary assignment to an educational or other organization outside the government.

The training of a new government employee begins immediately after the individual has been formally accepted into the civil service, before assignment is made to a particular office. This involves training in basic knowledge, skills, and attitudes and the development of a mind-set that is appropriate for the civil service. After completing this primary basic training, which usually continues for two to four weeks, the new employees are assigned to their respective offices, where they receive OJT as they carry out their day-to-day duties. In many cases, they are then required to take Off-JT every few years. Such Off-JT differs from the primary basic training—the trainee is given an opportunity to review and reflect upon his current responsibilities, along with an opportunity to acquire new knowledge and skills in preparation for a possible transfer or promotion to another office or a higher position. Off-JT gives the trainee an opportunity to explore the limits of his abilities.

OJT. It has frequently been pointed out that Japanese organizations place great importance on OJT, and this holds true for government organizations as well. The administrative office is rapidly undergoing change, and many activities that have been revised or newly created to cope with such change cannot be adequately explained in manuals. The only way to develop the necessary personnel—that is, to train government employees in the knowledge and skills they need to conduct such activities—is through OJT. The characteristics of the Japanese office and style of work, primarily the oobeya-shugi (the large room or open office) and the so-called slow promotion system are suited to such training. In one large room, an individual can absorb the necessary knowledge and skills by watching and listening to senior workers in the same office; the crux of one job can be transmitted smoothly from a senior to a younger worker, because the senior employee need not fear being outstripped by a young worker under the slow promotion system.

Off-JT. Almost all of the prefectural governments have their own training centers, and their personnel systems are set up so that every employee periodically undergoes training. The personnel systems typically call for an employee to receive the training appropriate for a new job grade, either before or after the individual has been promoted to a new job grade on the SJGCT.

Hyogo Prefecture's government will be used as an example here, in order to see the kind of Off-JT given at the prefectural level. New Hyogo Prefecture employees receive primary basic training in April, immediately after they are hired, and undergo a secondary basic training period of approximately 10 days about six months after assignment to their respective offices, where they received OJT. Some of the Off-JT is performed at the training center, where the trainees stay overnight. This provides trainees with an opportunity to get better acquainted with each other and strengthens their bonds of solidarity. As the employee's pay grade rises, the program requires that he receive new training appropriate for his new grade—that is, take “the Regular Employee, Part Two (Ri-in Nibu) training” in the fourth
year after employment, “the Regular Employee, Part Three (Ri-in Sanbu) training” in the eighth year, and “the Chief (Shunin) Training” in the tenth year (which is the second year after promotion to chief).

The local government employee is often sent to a special administrative training center, a graduate school, Jichi (local autonomy) University, or elsewhere outside his ministry to receive training. Hyougo Prefecture has been energetically sending its young staff members to such outside institutions; staff has been sent to the officers' development and training program at the Jichi University (six to seven persons yearly), as well as to graduate schools in Japan, such as those at Tsukuba, Saitama, Osaka, and Kyoto Universities to develop staff members who will have the professional knowledge needed to scientifically plan and implement public policy (three to four persons yearly). In addition, hands-on training through the performance of administrative work at national government ministries, Japanese overseas embassies, or private corporations (the trainee is seconded to such a ministry, embassy, or corporation) and study at a foreign graduate school (chiefly in an MBA or MPA program at an American university, with one or two persons sent yearly) are other available training opportunities. Another program involves sending young staff members to the ministries of other countries for training for a period of two weeks, in accordance with their respective training plans (approximately 10 persons are sent yearly). For each such program, the prospective trainee's parent section calls for applicants, and then subjects them to a review of their past records, a written test, and an oral examination. Those who pass this selection process are then sent to their respective training programs. After completing their training, the trainees are often assigned to offices, such as a policy planning office, where they can use their newly acquired knowledge or experience.

Off-JT is continued, even after the employee is assigned to a managerial or supervisory position. After one is promoted to section chief (Kakaricho) of the home office, “Supervisory Position Training, Part One (Kantokushoku Kenshu Ichibu),” is initiated, followed by “Supervisory Position Training, Part Two (Kantokushoku Kenshu Nibu)” four years after promotion. After being promoted to deputy manager (Fuku-Kacho), “Managerial Position Training, Part One (Kanrishoku Kenshu Ichibu)” is initiated, and after promotion to manager, “Managerial Position Training, Part Two (Kanrishoku Kenshu Nibu)” is given. Such training is called for in the rules governing personnel in the local governments.5

Compensation System

The monthly compensation of the local government officer consists of a monthly salary, which makes up about 80 percent of his total compensation, and several allowances. Salaries are determined by grades (this is the same as the grade as used in the SJGCT, which is explained later) in a salary schedule, and each grade contains 15–30 pay steps. Although the Local Public Service Law prescribes the principle of function-based wages, noting that “the salary must be paid according to the difficulty and complexity of duties and the level of responsibilities,” seniority is more important in wage-setting than it is in other countries. That is, the wage differentials resulting from differences in position and ranking are relatively small compared with periodic wage increases.

Wage increases that correspond to wage revisions in the private sector are implemented almost every year across all grades. A 2–3 percent wage raise is also given at least once every year. Numerous pay steps are set for each grade, so that the employee continues to receive pay raises past the age of 50, even if one is not promoted to a higher grade. Pay increases at the time of advancement and promotion to a higher grade are relatively small,

5 See Tsuda 1988. The above-mentioned examples are based on the interviews conducted by the author with the employees of Hyougo Prefecture's government.
however, while the differential at each pay step becomes wider in higher grades, and the differences eventually become greater (merit accumulation) (Inatsugu 1996).  

Other than monthly wages, bonuses are also provided three times a year. The total usually amounts to a little more than five months of wages.

When a civil servant retires, a retirement allowance is provided. The amount is calculated as the monthly wage at the time of retirement, multiplied by a given number of months. This number becomes greater the longer one has worked for the government, up to the maximum—for example, up to 62.7 months of salary is paid in the national public service. This allowance plays an important role in establishing the morale and morals of government employees. If one is fired, he or she will lose more than 60 months, or 5 years, of salary. Furthermore, the calculation is based on the salary at the time of retirement, which is the highest career salary. Because this allowance plays a role in mortgages, government employees are very sensitive about corruption, which may lead to their dismissal.

As mentioned earlier, the salary of local government employees usually has been higher than that of national government employees. There are several possible explanations for this. One is that the governor, mayor, or other local government chief may have established bylaws governing pay that inflated salaries, including his, when such pay was not covered by national law, when the system permitted the local government to determine its own pay, and when the government chief needed the cooperation of the employees' labor union. The applicability of the Labor Standards Law to local government employees, but not to national government employees, also affects pay levels.

Another explanation considers the need to secure capable persons. National government employees are able to wield more far-ranging powers and are guaranteed a higher social status than local government employees. When one considers that their amakudari positions (places to where they will "descend from heaven" after they retire) are guaranteed, and that they will receive substantial retirement pay and security after amakudari, their real total lifetime earnings are extremely high. The national government therefore had no problem securing capable persons, even if the monthly salaries were relatively low. In comparison, the status of local government employees is somewhat lower, and their self-respect is often damaged during negotiations with national government bureaucrats. In addition, they have relatively fewer places where they may amakudari. A higher monthly salary has been needed to enable local governments to secure the necessary number of capable persons.

**Personnel System, "Japanese Style"**

The features of the Japanese public personnel system are the "merit accumulated system" and the "slow promotion system." The slow promotion system allows many new graduates to be hired simultaneously. The new hires are promoted on the basis of their contributions and merits accumulated over many years. It is only after ten years that there will be differences in pay and promotion among those who entered the same company in the same year. The merit accumulated system includes accumulation of evaluations over the long term, which are utilized at times of advancement and promotion and reflected in the treatment of the personnel, all with the premise of lifetime employment and a seniority-based wage

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6 These models are based on the actual data of promotion and payment. Model One is an average employee who is ultimately promoted to manager, while Model Two is an excellent employee who is ultimately promoted to director general. This table shows that wage differences appear gradually, and when these individuals retire, there is about a 22 percent difference in their monthly salaries. When the extra amounts of managerial allowance and bonus are added, Model Two receives 50 percent more yearly than Model One. Their retirement allowances also differ by 25 percent.
system. In this system, the contributions of a worker, whether positive or negative, influence his career over the long term.

As assessments of individual workers are accumulated, differences in the speed of promotion emerge, followed by differences in wages. Assessments made by one's immediate superior are rarely linked with short-term rewards. Past contributions are gradually accumulated and are used as the basis for determining job transfers, promotions, and advancement. These job transfers, promotions, and advancements then become the basis of the next job transfer, promotion, and advancement, and so on. This can be described as a lifelong system of competition, but it also permits morale to be maintained over the long term (Itoh 1994).

Common to the merit accumulated system and the slow promotion system is a ranking hierarchy (Aoki 1988, Chapter 3). These hierarchies can be seen in the civil service sector, as well as in the private sector. Differences in promotion among the new graduates who are hired simultaneously are not seen for about ten years, but after that, would-be executives are selected gradually. As already mentioned, the promotion to section chief or manager is the critical point, and at that point, a severe pyramid-shaped competition takes place. The wage differences, whether one is promoted or not, are not so large, but although it may be small in amount, eventual differences determined by whether or not one is promoted do emerge (a characteristic of the merit accumulated system). At every grade of duty, pay steps up to the retirement age are set so that wages will increase with seniority. Therefore, there are few problems of deterioration of morale that would be caused by the cessation of pay raises. One who is not promoted aims at the next chance; the retirement allowance also plays the role of mortgage, so everyone has the incentive to work hard.

In the Japanese government workplace, the division of duties is ambiguous, and duties can be allocated to individuals in a flexible manner. The physical environment that guarantees such a division of labor is one in which all who pursue the same task work in the same room. Individual rooms are rarely offered to those at the level of manager and below. This division of tasks and the (unpartitioned) workplace are called "oobeya-shugi" (large room, or open office).

Under "oobeya-shugi", everybody in the same room divides jobs among themselves, while at the same time cooperating and covering up for each other. It becomes difficult to evaluate each worker's job achievements (contribution to the pursuit of the objectives of each section or division) on an individual basis. Since all workers can evaluate one another's performance, however, a market price for a person can be set. In other words, mutual monitoring helps create a market. Then, the objective evaluations of each individual are accumulated, creating a long-term market price, which is reflected back to the individual through long-term rewards. Even while the simultaneous entry–simultaneous promotion is in progress, the accumulation of evaluations leads to future differences, and fierce competition develops.

According to Masahiko Aoki, "The J-firm (typical Japanese organization, which is characterized by decentralization in the information structure of the organization and a complementing centralization in its system of personnel administration) assesses the value of an employee by his or her contextual skill, which is developed over a relatively long period of time. The J-firm has evolved a system of individual incentive schemes with which to evaluate and reward its employees over a long-term basis for competing in the development of such contextual skills, while using them cooperatively" (Aoki 1988, p. 50). This applies exactly to the public sector in Japan.

The Japanese central and local governments seem to have adopted an efficient personnel and wage system. It mobilizes employee resources to the maximum with the slow promotion system and the merit accumulated system. The mutually complementary
personnel and wage system, physical environment (ooheya-shugi), ambiguous job division, and the practice of working cooperatively have created the efficiency of the Japanese public sector. The very low percentage of public sector workers within the total work force compared with other industrial nations will provide some support for this argument.

In local governments, personnel management is conducted intensively by a central personnel section. This may allow the slow promotion system or the merit accumulated system to achieve better results compared with the central government, where personnel management is fragmented among the ministries.

As can be seen from the above, the SJGCT are used in the personnel and organizational management of each local government, and they play a role in promotions, training, and the determination of pay. In the following section, the number of job grades in local governments will be examined, using the SJGCT as a guide.

**Organization of Local Governments: Ranks and the Standard Job Grade Classification Tables**

According to organization theory, the size of an organization is the most important factor governing its systems and structure. Peter Blau surveyed 53 employment security agencies in his detailed research on organizations, both in their entirety and in parts, and attempted to produce a deductive theory that could consistently explain the survey results. Blau’s theory consists of the following two propositions, each of which is an inductive generalization of the survey results (Blau 1970).

- First, increasing size generates structural differentiation in organizations along various dimensions at decelerating rates.
- Second, structural differentiation in organizations enlarges the administrative component.

The question is whether the relationship between an organization’s size and its structural differentiation rate, especially its rate of vertical structural differentiation, applies to Japanese local governments, particularly the prefectural governments.

**Regulations Governing Horizontal Structural Differentiation, and their Lack in Vertical Structural Differentiation**

Japanese law contains provisions—in the Local Autonomy Law—regarding the horizontal differentiation of organizations, but has no legal provisions regarding their vertical structural differentiation. Article 158 of the Local Autonomy Law specifies the number of bureaus or divisions that prefectural governments should have. It specifies that metropolitan areas (Tokyo is the only one) should consist of ten bureaus (kyoku); Hokkaido, nine divisions (bu); and the other prefectures, four to eight divisions, depending on their population. It also lists a number of divisions as examples. Naturally, each local government has established its own regulations regarding the division and assignment of duties and the establishment of divisions and departments (ka), taking into account their circumstances. It is customary for local governments, upon consultation with and notification of the minister of home affairs, to establish more divisions than the number specified in the Local Autonomy Law. With respect to municipalities, townships, and villages, including ordinance-designated cities, the Local Autonomy Law states only that "the number of divisions and departments which are necessary for the duties under its authority to be divided and assigned may be established," thus permitting each of the 3,200 local governments to establish its own work-division regulations. While many of the organizations of the local governments are similar to one another, each government has created the organization that best suits its particular needs.
While this sort of simple regulation regarding the legal specification system is in place, the law does not contain any definite regulations regarding the vertical division of functions, such as whether departments and sections (kakari) should be established within each division, or if some sort of mid-level managerial position should be established between the division and department heads. In principle, therefore, each local government is legally able to establish or not establish, managerial positions. For example, one small local government in Saitama Prefecture established only the positions of mayor and deputy mayor as special positions, and classified all of the other employees under these two positions as ordinary unranked staff members (Tanaka 1989). This rather extreme setup has existed there for 27 years—that is, an organization without the customary manager and section chief positions has survived for that period of time. Furthermore, this sort of organization not only violates no laws, but has often been appreciated by the citizens under its jurisdiction for its quickness of action. As this example shows, no law in Japan that regulates the vertical structural differentiation of local governments, which permits each one to decide the sort of organization it wants, it should be possible to conclude that "in Japan's local governments, organization size (measured in number of employees, in particular employees of the General Administrative Class) and the number of ranks or positions it has, correlate with each other." It has been believed that the bigger the organization, the more its vertical structural differentiation will develop. What do the actual data and surveys show?

The Number of Differentiated Layers in Prefectural Governments

How many layers are there in the organization of prefectural governments? There is a surprising lack of general, all-encompassing surveys. Among the few that do exist, a 1982 survey by the National Federation of Local Personnel Commissions (a nationwide liaison group of the personnel boards of the prefectural and ordinance-designated city governments) showed the number of layers in prefectural governments, as displayed in Table 1 (Zenkoku Jinji Iinkai Rengoukai 1983).

According to the results of the survey, the most commonly found organization in prefectural governments was one that had six layers of responsibility. From the top, this included the general manager (bu-cho), deputy general manager (ji-cho), manager (ka-cho), assistant manager (ka-cho-hosa), section chief (kakari-ch), and office staff (shuji). A five-layer organization—director chief (kyoku-cho), general manager, manager, section chief, and office staff—was the most commonly found model in the organizations of ordinance-designated city governments.

Table 1: The Number of Differentiated Layers in Government

<table>
<thead>
<tr>
<th>Government</th>
<th>Number of differentiated layers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Prefectures</td>
<td>5</td>
</tr>
<tr>
<td>Percent</td>
<td>10.6</td>
</tr>
<tr>
<td>Ordinance-designated cities</td>
<td>8</td>
</tr>
<tr>
<td>Percent</td>
<td>66.7</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
</tr>
<tr>
<td>Percent</td>
<td>22.0</td>
</tr>
</tbody>
</table>

From the original data of the survey conducted by the Local Government Research Records Center, I examined the relationship between the numbers of prefectoral government employees (of the general administrative class) and the numbers of differentiated layers in that organization. The result is displayed in Figure 1. The size of the local governments surveyed varied greatly, from more than 30,000 employees to less than 3,000, and the relationship between size and the number of layers of responsibility is not clear in the figure. The correlation index $R^2$ was calculated to be 0.0092, which indicates that there is no correlation between the number of employees and the number of layers of responsibility in the organization. Regardless of the lack of legal restrictions and the widely differing sizes of local governments, Blau's rule does not apply. The reason for this must be identified. The National Federation of Local Personnel Commission survey mentioned above showed that close to 60 percent (57.4 percent) of the prefectures had six-layer organizations. It seems that the key to solving the question about the applicability of Blau's rule lies here, in the relationship between the job-ranking and pay systems.

The Relationship Between Ranks and the Standard Job Grade Classification
Table: A Substitute for Job-Ranking Systems

Because a job-ranking system has not been used in Japan, the job responsibilities of each position cannot be clearly identified. While the responsibilities of divisions and sections have been codified, the responsibilities of the individual employees assigned to each division and section are not clearly specified in writing, and the location of such employees on pay scales is also unrelated to any job-ranking system.

When first hired, new civil servants receive orders that assign them to a section within a division, where they become a member of that section, in which older employees have already been carrying out their responsibilities as a group. This is different from a system in which the work as a whole is divided into pieces small enough to enable specific duties to be assigned to individual employees, whose authority and responsibilities are also clearly defined.

The job-ranking system is a scientific method of personnel administration and was heavily influenced by the American system when it was created. During the late 1940s and early 1950s, the National Personnel Authority (NPA), other ministries, and many localities jointly laid the groundwork for the implementation of this system, expending an enormous amount of energy in the process, with the full intention of introducing it to Japan. The Job-Ranking Bureau of the NPA, however, which led this effort and grew greatly in size during the process, was later downgraded to the Job-Ranking Division, and today, after further reorganizations, the name has disappeared entirely.

One reason the job-ranking system was not adopted in Japan was the strong opposition—from its creation—of both the sections responsible for personnel and the government employees' unions. A more basic reason, however, was that performance based on a system of rigid, detailed job descriptions was incompatible with the Japanese workplace, where job duties were assigned to, and performed by, groups rather than individuals, where the duties of individuals were outlined in a flexible manner, and where labor and management had a cooperative relationship (Kagoshima 1987). Because the job-ranking system was not implemented, the organization of the workplace was unclear. This, however, enabled more flexible assignments and more efficient use of the staff. As M. Muramatsu has noted, it can

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7 Chihou Jichi Kenkyuu Siryou Center 1980. Fortunately, I had the chance to utilize the original data of this survey. I am extremely obliged to Professor Masao Tao of the Faculty of Economics, Kyoto University, for his cooperation in permitting me to use the data.
be said that the objective of Japanese organizations was to improve the efficiency of the organization as a whole, rather than to clarify the authority and responsibility of individual employees, which therefore differed from the aim of job-ranking systems (Muramatsu 1994, p. 98).

Nevertheless, it has been recognized that there is a need to classify and reorganize job functions, and to make orderly decisions regarding the organizational placement, pay, and hiring of new employees based on this classification. In place of a job-ranking system, the pay scale currently in use almost entirely fulfills that function. As will be mentioned later, it is said that after the function-based salary system was established in 1957, the pay scale essentially worked as a job-ranking system (Kagoshima 1990). Function-based pay, as it is written in the Pay Law, classifies the duties of employees according to the sort of pay scales in effect, and specifies their responsibilities on the SJGCT according to their position or rank, with the responsibilities of a given position being viewed equally, regardless of the organization. In this way, the pay scale functions in place of a job-ranking system.

As used here, the SJGCTs are tables that specify standard job functions, which are used to determine the appropriate equivalent pay grade for a given employee's duties, when such classification is based on the difficulty, complexity, and degree of responsibility involved in those duties. Such tables are supposed to be established according to the bylaws and regulations of each local government. As of 1982, many prefectural governments had established SJGCTs with eight grades. This is probably because many of the governments set up their tables so that they would conform with the MoHA notice, "How to Make Appropriate the Pay and Other Systems of Local Civil Servants" (Notice by the administrative vice minister of home affairs, September 25, 1972).

Although this MoHA notice is not legally binding, many of the prefectures have adopted SJGCTs and pay scales that largely conform with it. This is probably because such local governments judged that, from the standpoint of obtaining the approval of the legislature and residents of the prefecture, it would be most desirable to establish pay scales that conform with the notice. According to the notice, the prefectures are able to set up an eight-grade pay scale, from seventh grade through special first, and six ranks are specified, in order of responsibility, from the top: general manager, deputy general manager, manager, assistant manager, section chief, and office staff (the last is further subdivided into three classes).

As Ronald Dore mentions (Dore 1973, Chapter 3), it is characteristic of Japanese companies that (a) rank determines grade (that is, the rank that determines the treatment and position of an employee) and (b) rank determines managerial position (the class that identifies a position in the line of command or reporting requirements). Since managerial positions are limited in number (such posts cannot be increased, from the standpoint of efficiency), grades are separated from managerial positions in order to permit everyone to be promoted (simultaneous promotions).

Strictly speaking, while the grade classifications of the SJGCT are the same as the grade classifications mentioned in (a) above, and do not necessarily correspond with the level of managerial positions, both are the basis for the ranking hierarchy. In addition, when structural differentiation occurs, the SJGCT is also naturally revised, and, in some cases, rules for allotting duties are determined based upon the SJGCT. The number of ranks is therefore loosely connected with the standard job-grade classification table, which was originally a table of grades. The majority of local governments surveyed in the National Federation of Local Personnel Commission study mentioned above had a six-layer organization, because many local governments had developed their SJGCTs based on this MoHA notice. The SJGCTs are the factors that determine organization and play an important role in promotions, training, and the determination of pay. How they were formed, and how
the history of the pay system and function-based pay came to act as a substitute for a job-ranking system, will be reviewed in the next section.

Changes in Personnel Pay Systems and MoHA’s Guidance

The Pre-World War II Personnel Pay System

One of the characteristics of the prewar bureaucracy was that civil servants of that era were "servants of the emperor." The purpose of bureaucrats' pay during this period was to guarantee their position as the emperor's servants and to preserve their honor. Decisions regarding pay were made through Imperial Decrees, and came under the emperor's supreme authority. Pay scales were organized according to how close to the emperor the official in question was (for example, whether he was directly appointed by the emperor, Choku-Nin Kan; through a minister's recommendation and subsequent Imperial Decree, Sou-Nin Kan; or appointed by a minister, Han-Nin Kan), and a range of grades and pay was determined according to this scheme, with promotion after a given span of years. In addition to such officials, there were many employees under private contracts who were not treated as government officials. At this time, autonomous local governments did not exist, and the local government officials could be divided into three types, or layers: regional officials (officials of the national government), who came under the jurisdiction of the Local Official System; public officials, who were under the Prefectural System; and private employees, who came under the authority of both.

A characteristic of the prewar personnel and pay system of public officials was that there was a disparity, based on differences in the official's social class. Reforms were later carried out, and this disparity decreased. Furthermore, the anti-inflationary measures implemented during the war did not include pay raises, but rather the establishment and increase of a welfare-type allowance, which resulted in the further reduction of the disparity in pay (Nihon Koumuin Seidosi Kenkyuukai 1993).

From the End of the War to 1956

The defeat in the war led to drastic reform of the governing principle, and the status of bureaucrats as the emperor's servants was revoked. This was a major change in the basic framework of personnel administration. In the Constitution, civil servants were positioned as servants of the overall citizenry. The status-based system was abolished. The wage system, which had started its transformation to a cost-of-living wage system, became increasingly based on the cost of living during the post-war inflation.

In 1948, what had become a complicated pay system was reorganized and simplified, and the Law Regarding the New Salary System for Government Employees went into effect. In this law, all employees were included in one unified pay scale, which consisted of 15 pay grades. While this system had some elements of job-rank-based pay, one of its features was the equal pay raises given to all categories, up to a certain pay grade, regardless of whether the recipient was actually promoted. The process that took place from 1940 to 1948 thus saw a transformation of the civil servants' pay structure into one that was aimed at ensuring the recipient's living, emphasized his duration of service, and acknowledged little difference by position (Nihon Koumuin Seidosi Kenkyuukai 1993).

Under the new, postwar Constitution, the newly established Local Public Service Law stipulated that each local government was supposed to set its own pay bylaws. Since the officials of the local governments charged with setting such regulations lacked the expertise to make them on their own, they turned to the national government for a model. Many local governments simply did not establish their own pay laws, based on the transition period
measures of the new Local Public Service Law. Such local governments directly applied the laws regarding national civil servants' pay to their own employees.

**Major Revisions of 1957 and the Home Affairs Agency Notice**

The pay scale mentioned above, which had little difference in pay between officials of high and low rank, eventually came under criticism. In response, the NPA, through recommendations and reports, introduced a number of revisions that gave greater consideration to differences in job function; the introduction of an eight-grade pay scale was the largest. This major revision involved the type and structure of pay scales. Job types were organized into clusters, according to the characteristics of the job duties involved, and 8 types of pay scales, with a total of 16 tables, were established. Each of these new scales specified that the amounts of pay raises would differ according to grade (this structure was solidified by the additional revisions of 1960). This new pay system was implemented as one in which each grade received a different salary, and job functions played a key role. It is the basis of today's pay scales (Ozaki and others 1993). Of course, while the term function-based pay is used, the pay is still heavily influenced by length of service.

Following this major pay-scale reform in 1957 by the national government, the local governments had to establish new bylaws or revise existing bylaws to reflect the types, structure, and grade classifications of the national government's new pay scales. The deputy chief of the Home Affairs Agency, the forerunner of MoHA, issued a notice on June 1, 1957, "Regarding Revisions of the Pay Systems of Local Government Employees," in which guidance was given regarding types, applicability, and grade classifications of pay scales, based on the pay system of national government employees. Many local governments, lacking sufficient expertise regarding pay systems, decided that the system outlined in the Home Affairs Agency notice was the most rational possible, and accepted it. Compared with the eight-grade system used by the national government, the notice set a six-grade standard for the prefectural governments, and it called on cities, towns, and villages whose scale of administrative activities was even smaller to set up a simpler pay grade system.

**Later Changes in the Pay Scale and MoHA's Guidance Regarding Pay**

The notice issued along with the revisions of 1964 stated that prefectural governments should have a seven-degree pay scale, in which the first grade (general manager-level) of the local governments' pay system would be the equivalent of the second grade in the national government's pay system (manager-level), with subsequent pay grades being rated similarly—that is, local governments' pay grades were equal to the national-level pay grade, which was nominally one lower in rank.8

In 1972, MoHA finally recognized that the rankings of standard functions of prefectural government employees were too low relative to the ranking of functions of national employees. Therefore, MoHA agreed to permit the local governments to adopt an eight-grade pay scale similar to the national government's scale. As a result, most of the local governments reevaluated grade classifications and standard functions.

In this 1972 notice, in addition to referring to grade classifications, MoHA called for reforms in the operation of the pay system, which had become distorted through such practices as watari, which gave equal pay to everyone of the same duration of service,

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8 Jichi-rou (the All-Japan Prefectural and Municipal Worker's Union) criticized this as follows. "A rational basis for treating as equivalent ranks managers of the national government and general managers of the local governments has never been explained. Rather, this notice was drafted to fit the practice of the personnel exchanges between the national and local governments which were already taking place." Jichi-rou 1992, pp. 23–24.
regardless of whether they had been promoted or not. Such practices were originally created for expediency.

From the mid-1960s onward, the emergence of new policies, such as those related to environmental protection, and the increased need for administrative services, created by rapid urbanization, made it necessary for the local governments to secure a large work force. They began to compete with private corporations for new employees. Faced with this need to attract large numbers of new workers, and because the respective civil servants' unions had gained power as the base of support for the governors, the local governments made huge improvements in the treatment of their employees, such as increases in starting pay, improvements in allowances, increases in bonuses, improvements in pay standards through **watari**, the shortening of the period between pay raises, and the payment of high retirement benefits.

In 1967, a Public Service Personnel Division (PSPD) was created within MoHA, and Kaname Kamada, the first general manager, noted (Honma 1994, pp. 185–86):

> The biggest problem at the time, with respect to local government employees, was that service discipline had become extremely loose. From 1963 onwards, many progressive local governments sprang up here and there, as if they were riding the crest of the wave of high economic growth, or in some cases, local governments retreated in the face of heavy pressure by unions, and as a result, pay systems had become quite disorganized. The average pay of local government employees was ten percent higher than that of national employees, as calculated by Laspeyres’ formula. At the time, it was necessary to reform local government employees' pay, in order to prevent local government finances from becoming inflexible and to improve residents' welfare.

From 1974, after the oil crisis, MoHA started to publicly identify the local governments with a high Laspeyres index (which was the relative value of the pay of local government employees compared with that of national employees, with the latter at a value of 100) by releasing their names to the press, and began to make serious efforts to reduce the disparity of pay levels between national and local government employees. Public interest and criticism increased as a result of such disclosures, and the pay of local government employees became a major issue in the combined local elections of the spring of 1975. Citizens' movements seeking to correct the high pay of local government officials also became quite active, and in that year, PSPD published the "Handbook on the Local Government Employees' Pay Problem," and outlined in fine detail its views on pay standards. PSPD has continued to give administrative guidance to prefectural governors, mayors of ordinance-designated cities, and the personnel commission chairmen of both (Jichisyou Koumuin-bu, annual).

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9 The official announcement of Laspeyres’ formula index, which was made by MoHA, produced unexpected effects. Before the announcement, it was believed that the pay level of local governments was low. But through the announcement, people discovered that the level was high, and many capable university graduates flocked to the entrance examinations of local governments. Although there are fluctuations caused by business conditions, generally speaking, the number of applicants to local governments has continued to increase.

10 Another of MoHA’s guidance efforts is carried out through **Zenkoku Soumubucho Kaigi**, the National Meeting of Director Generals of General Affairs Departments of all prefectures and ordinance-designated cities. This meeting is usually held in August, after the recommendation by the NPA. Several MoHA bureaucrats, including the director-general of the Local Administration Bureau, give administrative guidance about the problem of personnel, wage, finance, and so on at the meeting. Local governments that adopted a policy differing from MoHA's standard were criticized there. Another feature of this meeting is that the majority of participants (the *soumubucho*, or director general, of each prefecture) are seconded from MoHA, so the meeting has an aspect of an alumni meeting.
From the early 1980s, MoHA, taking advantage of the Nakasone reforms, increased its efforts to "make appropriate" the pay of local government employees through guidance, and in some cases through the personnel network of MoHA bureaucrats who were seconded to local governments. In a few cases, MoHA subjected governments that would not follow its guidance to fiscal sanctions, such as restricting their ability to issue bonds or reducing their special tax allocations. Few local governments were subjected to such strong direct measures by MoHA, however, and with most local governments, MoHA applied only indirect pressure by providing information to citizens' movements and the press through the release of information to the public, which citizens needed to carry out their opposition activities.

The government employee labor unions have strongly criticized such guidance by MoHA regarding their pay from the standpoint of ensuring the independence of local governments. The practice of *watari* carried out by a number of local governments in the 1970s, however, created many problems, including reduction of employee incentive. The direct and indirect guidance of MoHA through the press and local legislatures brought about a gradual revision in the distorted pay structure. As a result, employees' pay began to show differences that reflected promotions or the lack thereof, and the Japanese merit accumulated system, which contributes to the maintenance of the employee incentive to work, started to function among local government employees, as well as national employees. In this manner, MoHA's guidance regarding pay played a significant role in the normalization of government employees' personnel pay systems and incentive structures.

**MoHA's Guidance and the Circumstances of the Local Governments**

From the above, several conclusions can be drawn. In the case of Japan's local governments, (1) the number of differentiated layers does not increase along with an increase in the size of the organization; (2) the number of differentiated layers is specified only indirectly and loosely in the SJGCT prepared by MoHA, and therefore tend to be similar across the nation; and (3) steps are being taken to incorporate into the layers of responsibility the "staff" positions that were established to prevent any decrease in motivation created by the distorted personnel makeup of local governments. Such steps and the guidance of MoHA, given through its SJGCT, have defined the number of ranks or layers of responsibility by conflict and compromise. The above conclusions imply that local governments' systems of managerial positions, which had been standardized before World War II, were left to the discretion of the local government. For a while, however, few such governments established new ranks on their own. Although the size of local governments increased, the number of managerial ranks did not. This was because of the SJGCT and the indirect guidance of MoHA, conducted through such tables. Blau's theorem thus does not apply to Japan's local government organizations, at least at the prefectural level. In many ways, the number of managerial ranks are regulated, albeit indirectly and loosely, by the SJGCT issued by MoHA, and thus tend to be similar nationwide.

**What Was the Objective of MoHA's Guidance Regarding Pay?**

The first and most important objective is related to fiscal problems. The competition for public funds between MoHA and the Ministry of Finance (MoF) was so fierce after the oil crisis and fiscal retrenchment that some corrective and standardized measures had to be taken to improve the bargaining position of MoHA, particularly in getting the LAT fund. This fiscal consideration was the most dominant factor of the guidance. In addition, as the first PSPD general manager noted, another objective was to prevent the fiscal sclerosis of local government finances. Japan's local governments have the legal right to establish their own pay systems, at least on paper. While some argue that residents or the legislature should keep watch over this
process, it would be difficult to determine the level of a pay system. In addition, a particular government employee's pay could not be criticized for reasons of privacy. Since the government employee's union is an important base of voter support for the governors, many governors tend to accept the demands of the union. If left fully to the local governments, therefore, the governments would tend to establish increasingly high levels of pay for themselves. Periodic pay raises, which are a Japanese characteristic, would make up a large portion of this, and personnel costs would steadily increase, even without a base-up, or increase in base pay. MoHA therefore took on the role of supervisor and began to oversee pay standards and is trying to prevent local government finances from becoming inflexible.

The second objective is to attempt the thorough implementation of job-function pay systems. As mentioned earlier, a characteristic of Japanese pay practice is the merit accumulated system. The essence of providing incentives is said to be to slowly but surely creating a difference by giving competent employees better pay. In comparison, the *watari* system once used by a number of local governments did not let anybody get ahead, and employees lost the incentive to work (Inatsugu 1996, pp. 121–26). While some local governments, under the leadership of strong governors, attempted reforms on their own, many local governments could not have made the necessary reforms if it were not for the strong backing of MoHA.

One of the reasons that MoHA's notice called for pay scales and standard job-grade classification tables similar to those of national government as part of its guidance on pay was the cost involved. MoHA's PSPD had only about 50 employees. Of these, fewer than 20 could be involved in pay administration issues. It was impossible for such a small number of people to give guidance regarding pay to the 3,300 local governments. While the PSPD has left the guidance of ordinary cities, villages, and towns to the Regional Affairs Departments of the prefectural governments, it is still far too short of manpower. The department concluded that it would be easier to give guidance if the object of its guidance were standardized. If the pay scales applied were the same, it would be easy to determine what rank or pay grade was in question, making it simpler to handle issues such as low or high pay standards, shortened periods between pay raises, or any of the issues mentioned earlier, and to make comparisons with national government standards.

There was a side effect of MoHA’s guidance. Unified pay scales and the SJGCTs facilitated personnel. It is quite easy to determine the appropriate pay rank when a national government employee is seconded to a local government and later taken back, as is often the case, if the pay scales used by both governments are the same. If the local government that received the seconded national employee used different pay scales than the SJGCTs from the national government, both the local government and the seconding ministry would have to negotiate extensively regarding the ranking of the seconded employee. The cost involved would be substantial.

*Reasons for the Local Governments' Acceptance of Pay-Related Guidance*

While the pay-related guidance of MoHA involved fiscal sanctions, most of the guidance involved no coercion; in particular, the guidance regarding the SJGCTs involved no coercion at all. Several reasons can be given for local government acceptance of such guidance, regardless of the lack of coercion. The local governments have acquired benefits by establishing the SJGCTs and unifying their managerial ranks in compliance with the MoHA notice.

When a government establishes its own pay scale, it must first carefully study the pay scales of nongovernmental employees and the circumstances surrounding the pay of other local governments, and it must analyze the pay scale of the national government, before it can draft its own proposal. The proposal must then be shown to the union, and the two must toss it back and forth as revisions are made. Even after an agreement is reached with the
union, a substantial amount of *nemawashi*, or behind-the-door negotiations and agreements, is needed before the proposed bylaw can be submitted to the legislature. Even at that stage, the government would probably have difficulty stating, if asked, why that particular pay scale is rational. The work and cost that must be expended on such procedures is quite substantial. In comparison, if the national government's pay scale and the SJGCT are used by the local governments, this cost will be extremely low. Even the legislature is likely to be satisfied with the simple explanation, "it was determined according to national standards."

When the national government and a local government negotiate with each other, the practice is to select a negotiator from one's own side who is appropriate in rank to the negotiator from the other side. By using a nationally standardized job-grade classification table, it is easy for anyone in any government to determine the rank of a particular officer. Mistakes in selecting negotiators are thus avoided. It is also easy to determine who is higher in rank than another, which allows mistakes in determining seating orders or the order in which to consult persons for *nemawashi* to be avoided. It is also easier for the local governments to hold negotiations regarding the ranking of an employee with a national ministry to which it wishes to second (in this case, *ama-agari*, or "ascending into heaven") that employee. The same benefits are realized when a prefectural government seconds an employee to a city, town, or village within the prefecture.

In Japan, many conferences are held among prefectures that are geographically close to one another, or prefectures that share a common circumstance or issue—that is, prefectures with an ordinance-designated city within their boundaries—and participants exchange important information. They tend to include persons of the same rank, such as a General Managers' Conference, which would include general managers of the prefectural governments, or a Managers' Conference, which would host the managers of prefectural governments, and a wide variety of information is exchanged at such meetings. From the standpoint of the local governments, such horizontal exchanges of information are extremely important, no less so than their relations with the national government. When holding such conferences, it is important that only persons of the same rank be invited. If persons of differing ranks participate, the density of information exchanged would be different, and the information exchange itself might not go so smoothly.

A similar phenomenon can be seen in written exchanges of information or notices among the local governments. The practice is for such written material to be addressed to persons of equivalent rank, such as from a general manager to another general manager, or a manager to another manager, of another local government. The recipient of such a message finds that this method makes it easier for him to conduct studies related to the issue raised or to seek a decision on the subject, and to do both within his own government.

In connection with fiscal systems, all of the individual personnel costs of local governments, such as those related to regional fiscal projects, special tax allowances, and other subsidies, are calculated using the pay levels of national government employees as the standard. Under present circumstances, in which local government finances are highly dependent on the national government, it cannot be denied that salaries and allowances are decisively affected by the examples of national employees, because if these amounts were higher than the national standard, it would be a burden for each local government. As seen above, the number of differentiated layers tend to be the same nationwide. In some cases, however, the number of differentiated layers of government increase.

In order to prevent loss of employee motivation through distorted personnel makeup or other causes, some local governments create staff positions, which are then incorporated with line positions. Although this is like putting the cart before the horse, seen from the standpoint of organization theory, it was an inevitable choice if employee morale were to be maintained, given Japan's lifetime employment system. According to Blau's
theory, the number of ranks in an organization is supposed to increase along with its size, but as seen above, this is not applicable to Japan's local governments. This could be because the regulation of pay systems by MoHA, through its SJGCTs, determined the number of ranks in local governments. Nevertheless, in order to maintain employee motivation, it is sometimes necessary to establish positions that primarily benefit the individual persons to be appointed to them and are necessitated by differences in the makeup of the employees of each local government, because promotions are made from within in Japan. Some examples can be seen where grades or positions are newly established, and built into the "line" system.

It can be said that the number of ranks are determined by the conflict between MoHA's SJGCTs, which realized the demand for standardized administrative activities nationwide, and the pressure for promotions, created by the internal promotion system. In summary, the structural differentiation of Japan's local governments was influenced more by the age and educational backgrounds of the groups that made up the organization than by the size of the organization.

As mentioned earlier, to maintain employee morale within a system of internal promotions, it was effective in Japan, where the external job market is closed (few people transfer from one employer to another in mid-career), to apply the rule of fair competition and to promote those who entered in the same year at the same time, up to a given level (the slow promotion system). The so-called Japanese style of management had adopted this method, and the national civil service has also followed it until now. (Inatsugu 1996, pp. 1–57). The local governments were also able to adopt a slow promotion system without experiencing structural differentiation until the mid-1970s, because the organization was continuously expanding, and few employees were college graduates. The number of positions necessary for an effective slow promotion system became insufficient, however, for a number of reasons.

First, it was no longer possible to create new positions for those to be promoted, because local government organizations stopped expanding (the end of organizational expansion). Second, the percentage of applicants for local government employment acceptance tests who were graduates of four-year colleges grew sharply, because administrative activities became more complex and multifaceted, and more college graduates began seeking employment with local governments (rise in educational background). Finally, college graduates of a certain entry class, who had been hired in large numbers, simultaneously reached the age of eligibility for promotion to managerial positions (Inatsugu 1996, pp. 162–72). Each local government then began to adopt the policy of creating additional mid-level positions. By doing so, a decline in employee morale was prevented in many cases, a number of such positions, which had initially been created only as a kind of "certification," were gradually incorporated into the line of work, and began to create problems of efficiency.

A director of Osaka City, which has the largest number of municipal workers (53,000) of any of the ordinance-designated cities, said frankly that the reason for establishing so many staff positions was that they were important for the treatment of employees from the standpoint of personnel administration. When the employees who had been hired en masse in connection with the expansion of administrative activities reached a certain age, and when following previous personnel practices resulted in a smaller percentage being promoted to managerial positions or in delays in such promotions, employees were likely to feel more anxiety because the possibility of promotion appeared to be vanishing, and to experience dissatisfaction regarding selective promotions and appointments, and anger or resignation because of delays in promotion, rather than the need to compete more fiercely with each other. Under such circumstances, positions "equivalent to section chief" or "equivalent to manager" emerged, taking advantage of the increase in volume, diversification, and professionalization of administrative activities. Such staff positions were then incorporated into the work line, ultimately resulting in the increase in the ranks of the organization (Hirano 1987).
Up to 1982, Osaka City had only five ranks in its organization—director general, general manager, manager, section chief, and office staff. The position of Shukan, which was a staff position, was considered the equivalent of manager, and was often substituted for manager in the line of command. The ranking then became: director general, general manager, Shukan, section chief, and office staff. In 1982, because the number of Shukan had grown dramatically, some of these positions were retitled "manager substitute," in an effort to strengthen the unity of the section. As a result, the line of work became: director general, general manager, manager, manager substitute, section chief, and office staff, a six-layer arrangement. What had once been a staff position had become incorporated into the line. Currently, each manager has more than one manager substitute on staff.

The National Federation of Local Personnel Commissions report states the following (Zenkoku Jinji Iinkai Rengoukai 1983):

It is ordinary practice to have a staff-type position, in addition to line-type positions such as section chief or manager, at each level of managerial rank. In the case of prefectural governments, only 26 governments (55.3 percent) replied that they had a "staff" position equivalent to the rank of director general or general manager, but most had such equivalent positions in the case of other managerial ranks [Table 2]. The rule is that persons are to be promoted first to the equivalent "staff" position, and since the "staff" position is in the line of command, to be appointed to a "line" position from an equivalent "staff" position can be viewed as a "promotion" in reality. If this view is taken, the actual number of ranks is much greater (than indicated by the survey results). 11

<table>
<thead>
<tr>
<th>Grade</th>
<th>Prefecture</th>
<th>Ordinance-designated cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>General manager</td>
<td>26</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>Deputy general manager</td>
<td>33</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Manager</td>
<td>46</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Assistant manager</td>
<td>42</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Section chief</td>
<td>46</td>
<td>0</td>
<td>12</td>
</tr>
</tbody>
</table>


As the number of staff positions increases, a movement begins to incorporate them into the line, because the role of mid-level staff positions, which have a chimera-like existence in the Japanese group-centered decisionmaking system, is unclear, and attention must be paid to the incentive for those occupying staff positions. This movement becomes pressure for an increase in the number of ranks. An unlimited increase in the number of ranks would, however, hurt job efficiency. In addition, the benefits gained through horizontal networks, as outlined above, would be less if a local government established too many of its own ranks. It

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11 The 8-grade salary scale of the national civil service was revised to an 11-grade scale in 1985. The 8 grades were subdivided with the intention of thoroughly implementing the principle of job- and function-based wages. This revision resulted in more of a wage differential, whether one is promoted or not. Many local governments have adopted an 11-grade salary scale, following the example of the national civil service; 43 out of 47 prefectures had adopted this scale by 1994.
can thus be said that MoHA's guidance, given through its SJGCT, has acted as a deterrent to such increases in ranks.

The personnel administration needs of the local governments are just as important as the need for standardized administration. It can be said that the indirect control of MoHA, conducted through its SJGCTs, was able to balance these demands successfully.

**Review and Conclusion**

Capable young persons are recruited, and their abilities are furthered, within the organization in Japanese personnel pay systems. The core of the effort to develop such systems and methods is the merit accumulated system, which pays attention to ensuring that each employee's pay is in balance with that of the other employees, and bases differences in pay on promotions, or the lack thereof, and the slow promotion system, which promotes all persons in the entry group of a given year at the same pace for about 10 years. Common to both is a ranking hierarchy, and the SJGCTs play the important role in these systems. Through their use, both Japan's national and local governments have been able to adopt a system that allows maintenance of employee incentives.

In the 1970s, a number of local governments accepted union demands and switched to a pay system based solely and uniformly on the number of years in service. This, however, nullified the incentive-providing function of the merit accumulated system and drastically worsened employee motivation. The pay systems of local governments later returned to normal through MoHA guidance, both direct and indirect, with the latter performed through its SJGCT and the circumstances of the local governments that accepted such guidance. It became possible to maintain a Japanese version of the merit accumulated system. While not fully tied to differentiated layers, this permits differences in pay to gradually develop through promotion, or the lack of promotion. Matched with a system based on lifetime employment, this helped to mobilize the resources of all government employees.

The current practice in Japan is to hire a person under the presumption of lifetime employment, and to assign that employee as office staff to a department or section that is carrying out duties as a group. This person is then gradually trained through OJT within the organization until his abilities are identified; he is then transferred to a suitable position. In some cases, a suitable position for the person is temporarily created. This is not in accordance with the principles of organization theory, but it is sometimes necessary to maintain the employee’s motivation and to ensure the efficiency of the organization as a whole. The number of layers, as measured in ranks or positions, within Japanese organizations, and in particular those of its local governments, is not necessarily correlated with the size of the organization. Peter Blau's argument, that the number of layers in an organization is correlated with the size of the organization, does not apply in Japan.

In contrast, in Japan, it can be said that the percentage of employees within an organization who are of an age appropriate for promotion to a certain rank have some sort of influence. Because the age-group and educational-background-centered work force structure became distorted, it was difficult to maintain employee motivation unless many new positions were provided. In response to this problem, the local governments prepared many staff positions. Although some local governments incorporated such staff positions into their line, the indirect guidance of MoHA, performed through its SJGCTs, served as a check on the unlimited incorporation of such staff positions. The role of MoHA in taking action against the problems, which would arise if such influence were slowly permitted to solidify, has been important.

As a result of guidance through the SJGCTs, the names and number of ranks are relatively similar nationwide, and this has produced many benefits, such as facilitating the creation of networks among local governments. Through such personnel pay systems and the process of creating local government organizations, MoHA and local governments, while
using each other skillfully, have built up a more efficient organization and personnel pay system.

Finally, I must take up the issue of local government capacity, or the efficiency of its employees. The average capability of newly hired local government employees is probably somewhat lower than new hires of the national government, which has succeeded in recruiting a small number of the best and the brightest. However, the number of participants in the slow promotion competition is larger in the local governments (generally more than 100 persons), than in the central government (approximately 30 persons in each ministry). Because the upper-category new entrants are more numerous in the local governments, there may be harsher competition among employees at the local level than at the central level, which may lead to improved capacity of local government employees.

Moreover, personnel management at the national level is more fragmented because of rivalries among ministries, while at the local level it is more centralized. In other words, Aoki’s J-firm thesis is more applicable to local government than to the central government. This may also lead to added efficiency of local government employees.

**Bibliography**


