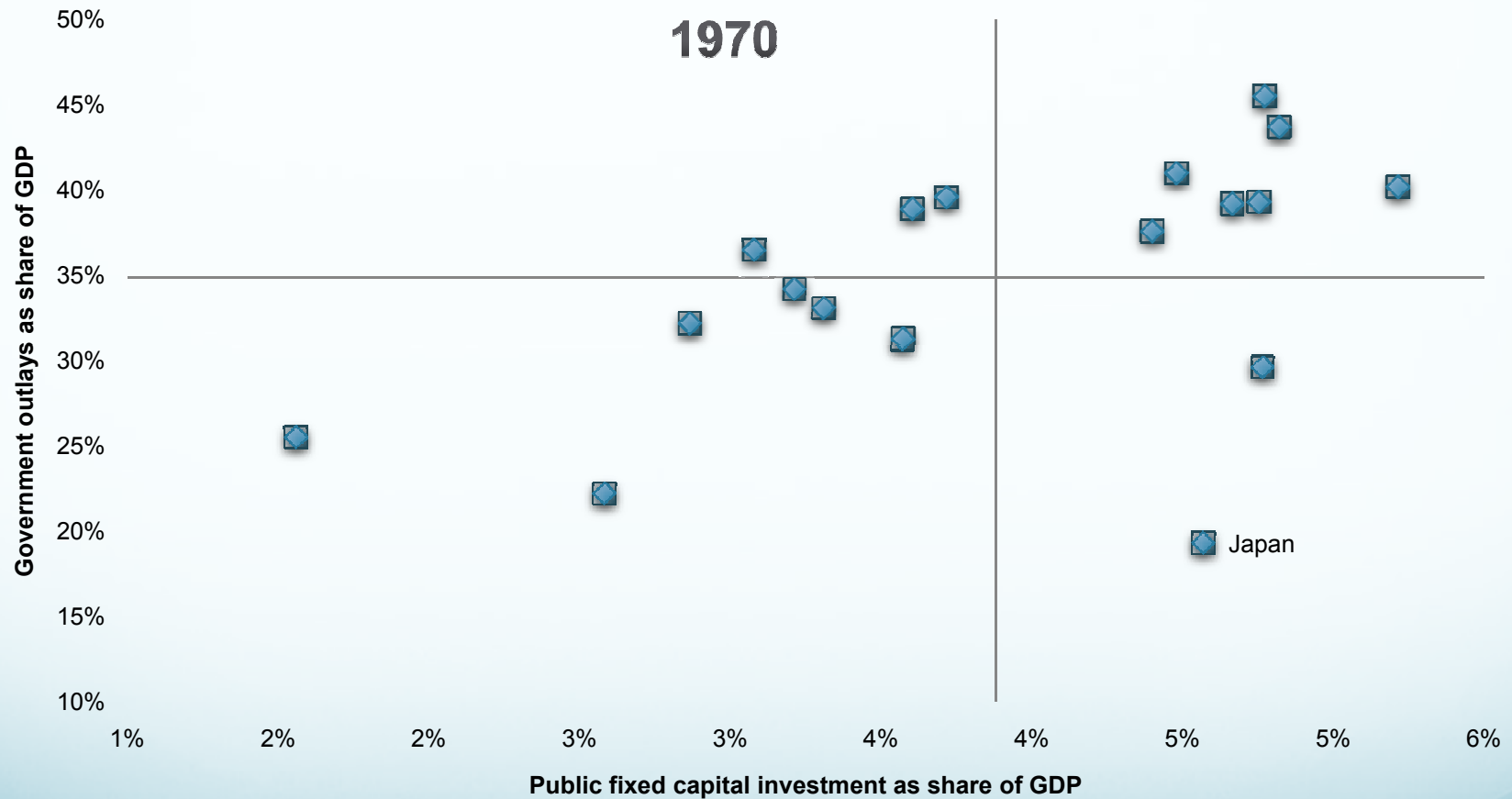


From Miracle to Cautionary Tale: the Politics of Public Spending in Japan

Gene Park
November 25, 2008

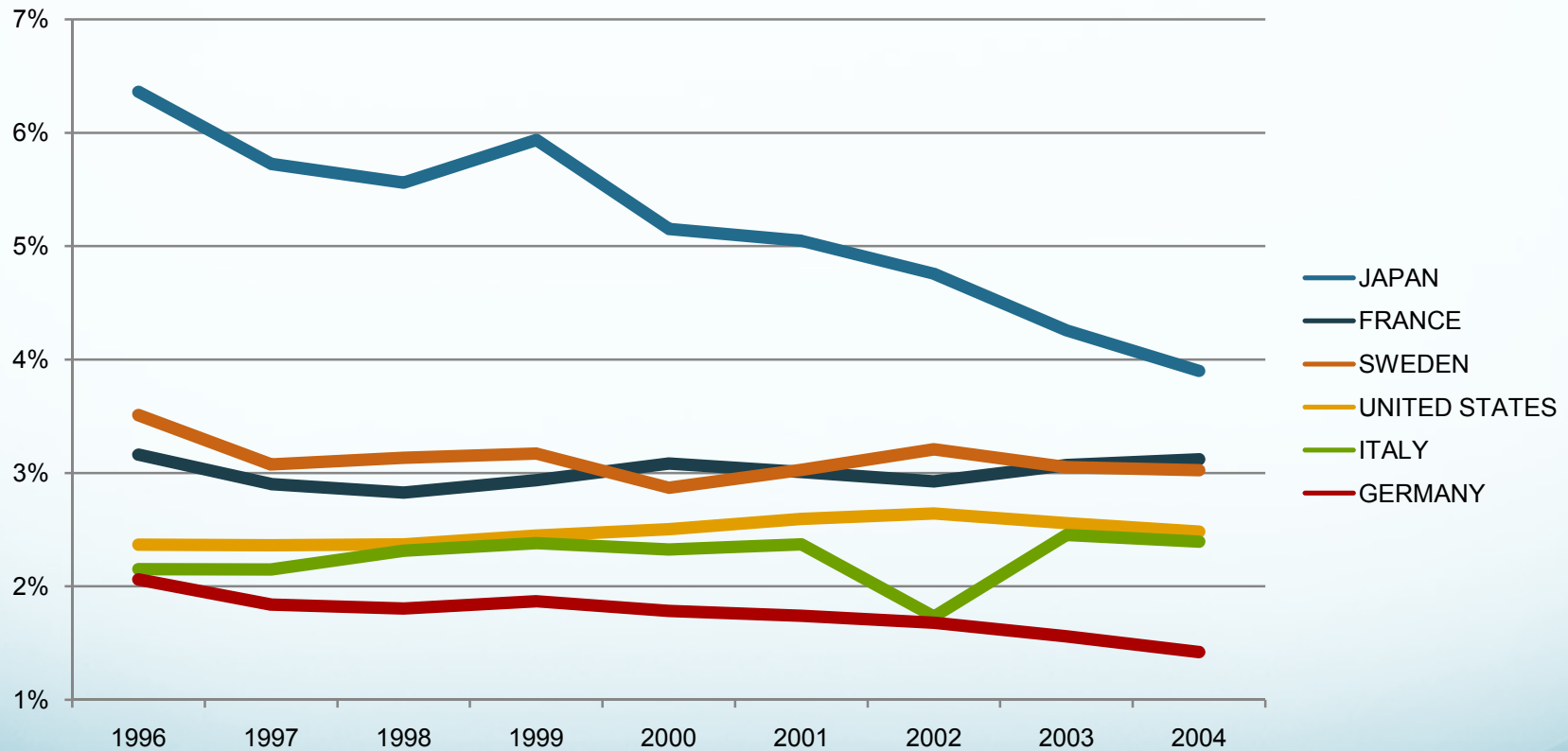
The puzzle

Low spending but big spending effects



..and the situation remains the same

Public fixed capital formation as share of GDP



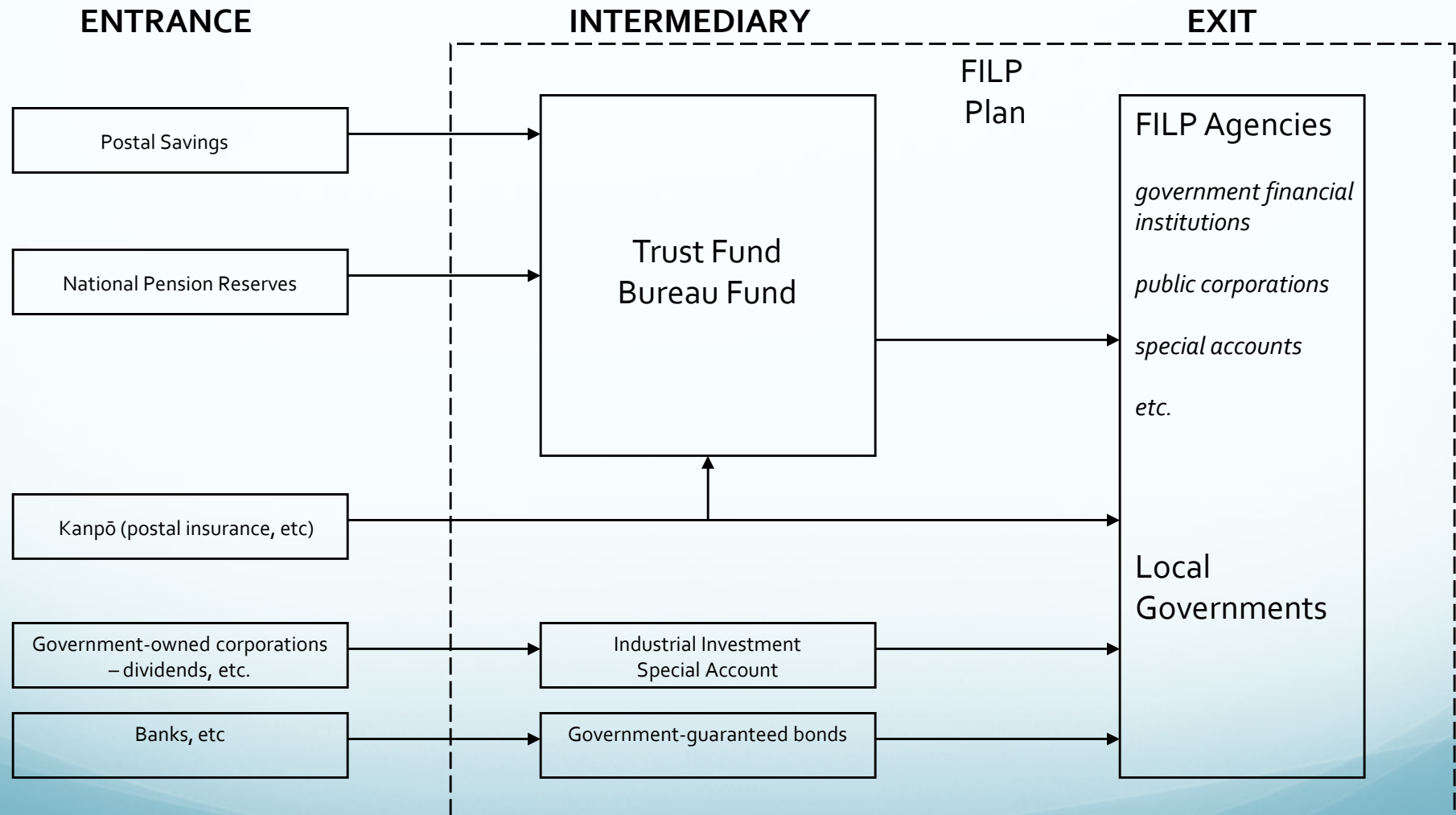
Balancing goals

- Fiscal policy and macroeconomic mix
- Industrialization strategy
- Political strategy

The argument

The Fiscal Investment Loan Program as the missing piece of the puzzle

The FILP system (until 2001)



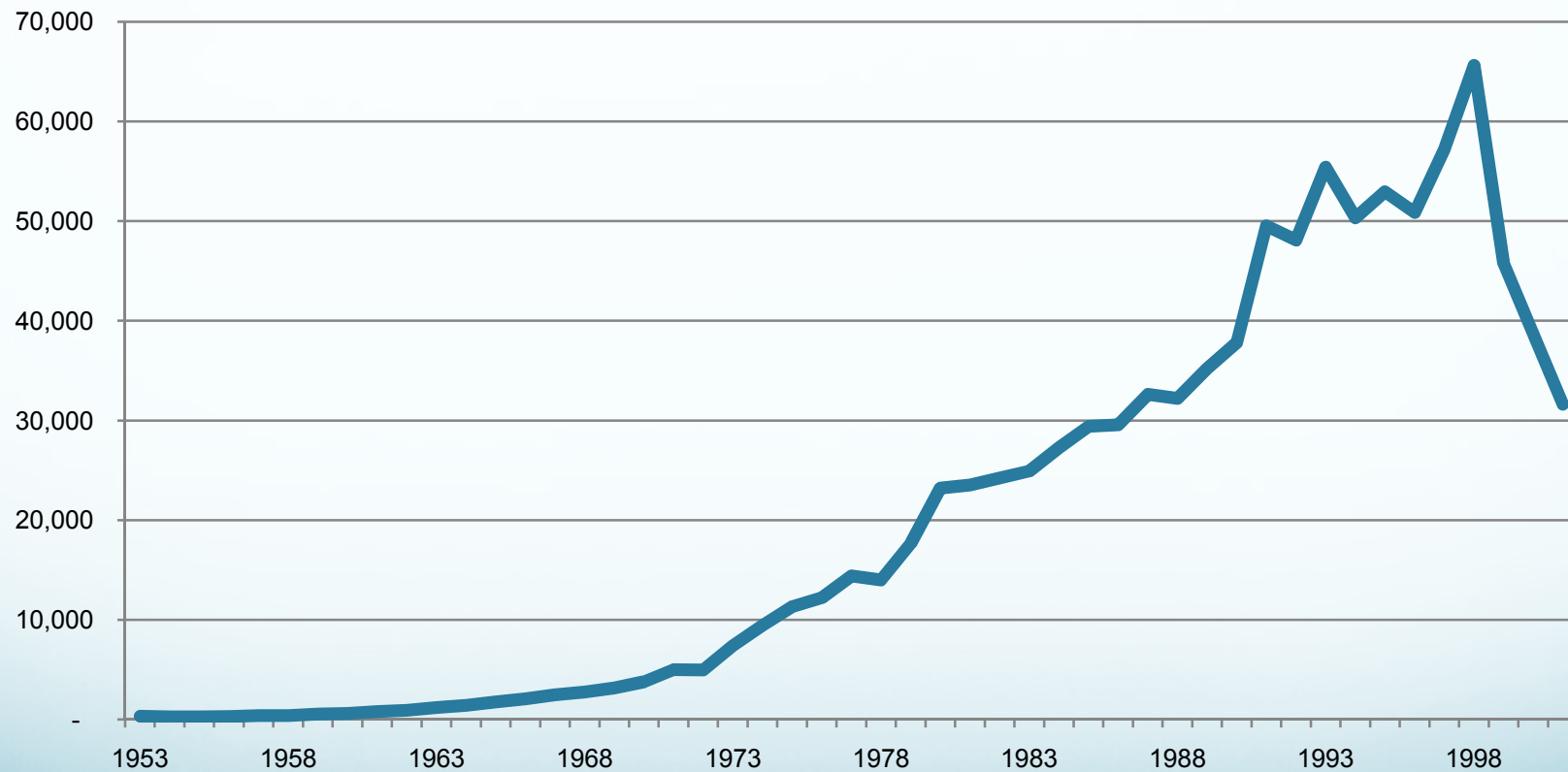
1) Similar to budget

2) Self-financing

3) Very large with rapid growth

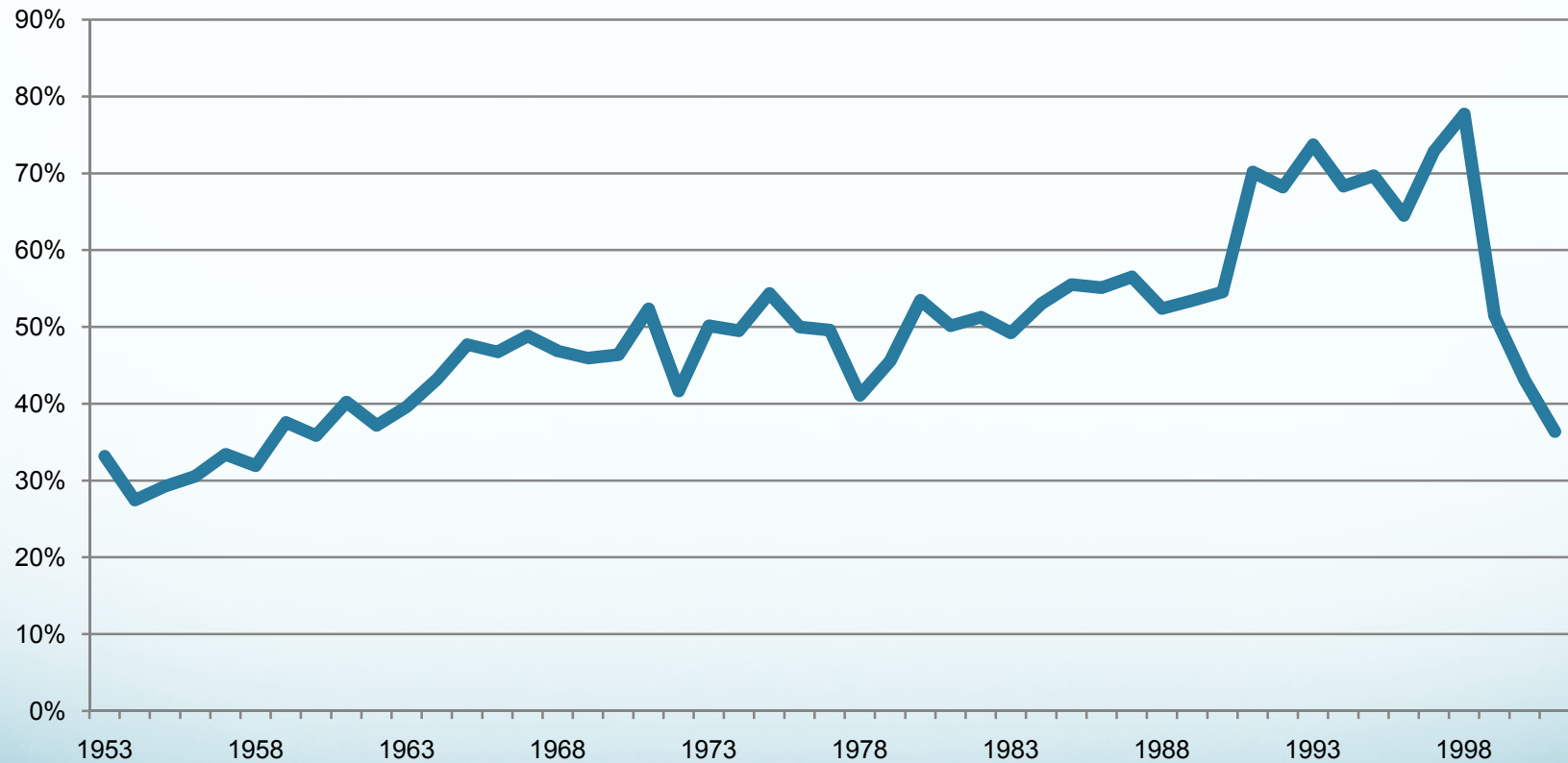
A rapidly growing source of funds

FILP Plan, yen (billions)



...more rapid growth than the budget

FILP relative to the general account budget



FILP: harmonizing goals

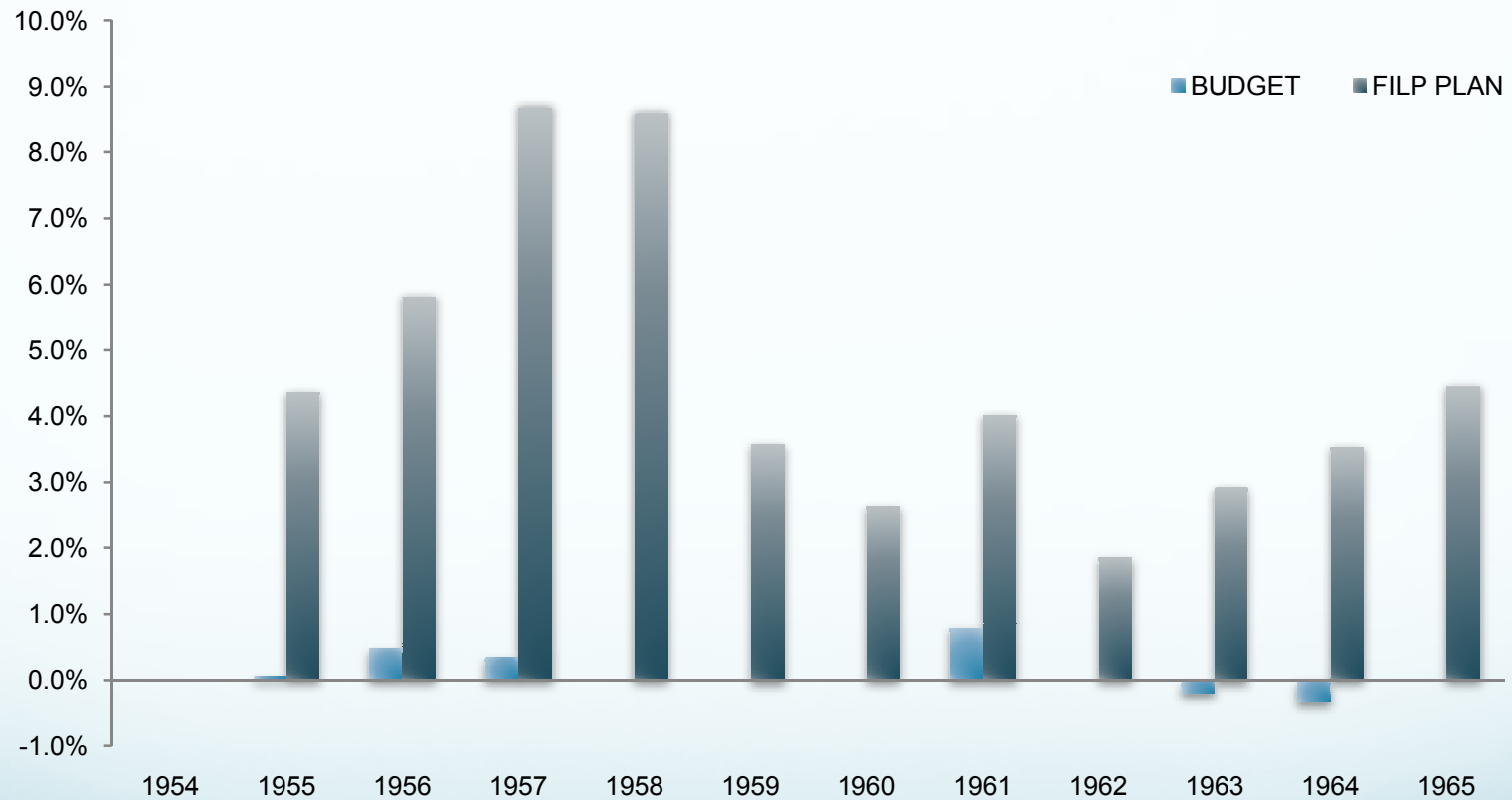
ACTOR	Government Leadership (until 1970)	MOF	Spending Ministries	Politicians	Electorate
GOALS	Fiscal restraint, rapid industrialization and political and electoral support	Fiscal restraint	Expand projects and policies	Get and or stay elected	Compensation and preferential treatment
BUDGET	Limit expenditures, no debt	Limit expenditures, no debt	Maximize budget expenditures	Maximize budget expenditures	Maximize budget expenditures
TAXES	Low taxes	Low taxes	N/A	Low taxes	Low taxes
FILP	Liberal use of FILP	Liberal use of FILP	Liberal use of FILP	Liberal use of FILP	Liberal use of FILP

EVIDENCE

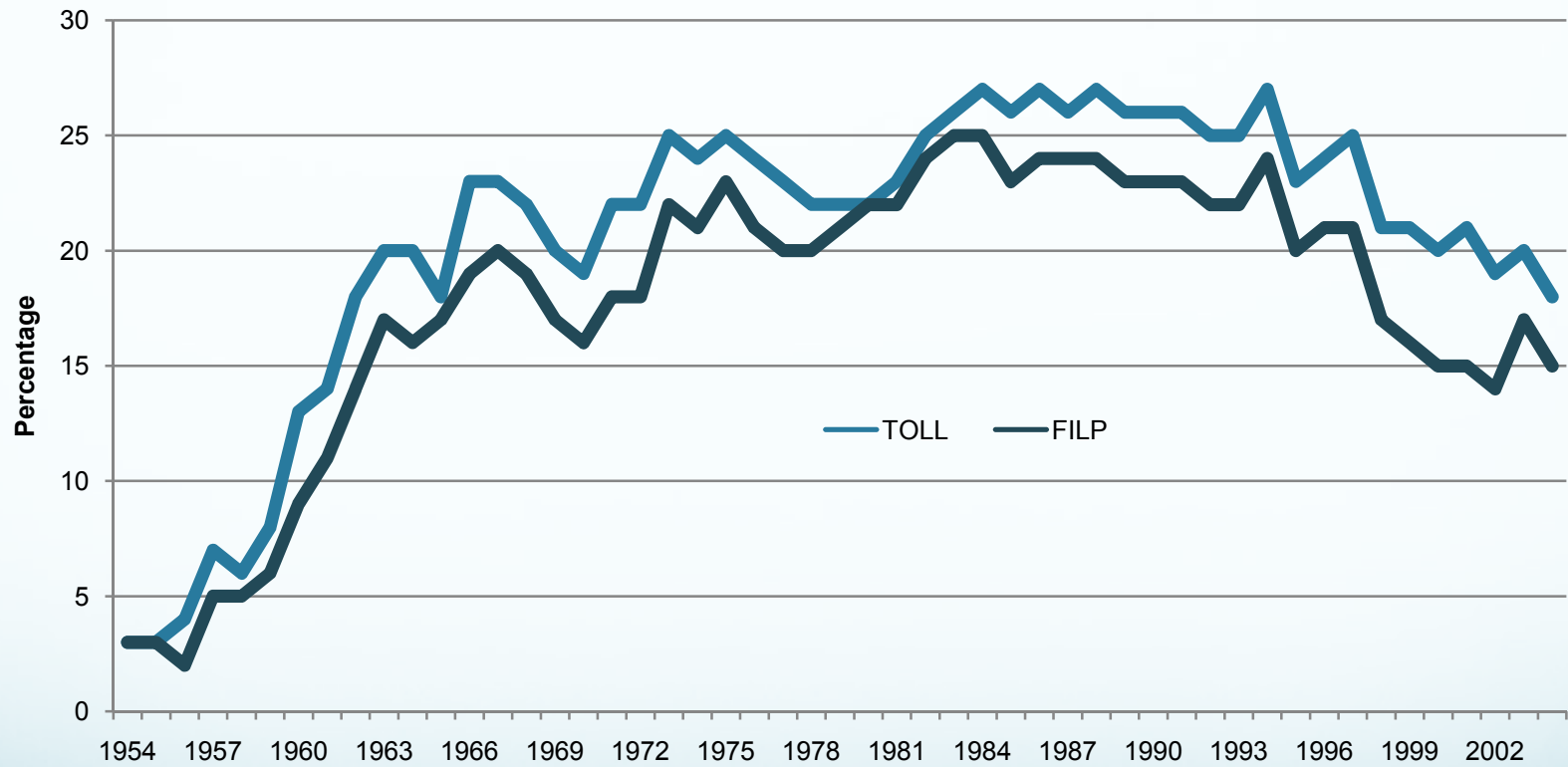
Managing the budget

Using FILP as an extension of the budget

FILP and the “revival” budget negotiations



Example: using FILP for highways



What FILP financed

National Income Doubling Plan

Summary of Income Doubling Plan Allocations by Key Area (Yen 100,000,000)

	1961	1962	1963
Inducing Capital to Advanced Industries			
Budget	1	3	4
FILP	89	92	94
Trade and Economic Cooperation Promotion			
Budget	9	13	16
FILP	87	112	145
Enhancing Human Resources and Promoting Science and Technology			
Budget	101	127	156
FILP	1	3	5
Social Capital Enrichment			
Budget	338	426	533
FILP	512	717	843
Easing the Dual Structure Problem and Securing Social Stability			
Budget	689	788	948
FILP	263	342	401

Conclusion

Implications

- FILP as the key to Japan's Janus-faced political economy
- Setting Japan in comparative context