

Estimating the Effects of Central Grants on Decentralized Social Programs: a Case of School Expense Assistance in Japan

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Abstract

This study examines the effects of a change of central grant system for the school expense assistance (SEA) in Japan in 2005 when its 50 percent matching rate was lifted and replaced with an increase in general transfers through the system of Local Allocation Tax (LAT). Our identification strategy exploits that fact that the matching grants were closed-ended and the compensations were made only to LAT receiving municipalities. These differences in the transfer reception allow us to identify the effects of the SEA central grants as well as to decompose the effects into price and income effects. Our analysis shows that the reform indeed suppressed SEA expenditures. The loss of the SEA matching grants reduced per recipient SEA benefits by about 5,400 JPN yen (US\$50) for students in the first year of elementary school and about 12,200 JPN yen (US\$130) for those in the first year of junior high school. Our evidence also demonstrates that the size of the recipients decreased by the reform, although the eligibility criteria for the SEA benefits responded little.

Key Words: school expense assistance, fiscal transfers, difference-in-differences, Japan
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