

Local Public Sector Investment and Regional Business Fluctuations in Japan*

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Abstract

This paper examines the relationship between regional business fluctuations and the “discretionary” change in local public sector investment, which is not related to the current state of the economy in the Japanese prefectures. We perform this following Miyazaki (2011). The empirical results show that the public investment unrelated to the state of the current macroeconomic circumstances in rural region causes fluctuations in the regional economy. This result suggests that the increase in infrastructure investments to the rural area may overheat the regional economy and that the decrease in investment after 2001 have very seriously exacerbated the regional economy’s slump in the local part of Japan.

Keywords: Local public sector investment; Discretionary policy; Volatility of the regional economy

JEL classification : E32, E62, H30, H54, R53

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