

# Fiscal Adjustment in Japanese Municipalities

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## Abstract

This paper studies how Japanese municipalities restore their fiscal balance after a budget shock. The results show that fiscal adjustments to a shock are mainly made by subsequent changes in government investment: about 83-100% of a permanent unit innovation in grants and own revenue is adjusted by changes in government investment. The contribution of government expenditure in balancing local budgets is much larger in Japan than in other countries. In contrast to the role played by the expenditure side, the municipalities' own-source revenue, and grants from the higher-level government play a limited role in the adjustment process of local budget balancing. In addition, it is observed that government investment is highly volatile in Japan than in other countries. The additional analysis based on the population size is also made to study how the adjustment process differs among municipalities with different size.

JEL Classification. H70; H72; H77

Keywords. Dynamic fiscal adjustment, municipal policy

Full paper is here

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