

Infrastructure 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 public investment, which is not related to the current state of the economy in the Japanese prefectures. The empirical results show that the public investment unrelated to the state of the current macroeconomic circumstances in each prefecture causes fluctuations in the regional economy. This result suggests that the increase in public investments as a part of income distribution among the regions may overheat the regional economy and that the decrease in investment after 2001 have very seriously exacerbated the regional economy’s slump.

Keywords: Public investment in infrastructure; Discretionary policy; Volatility of the regional economy

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