

**INTERGOVERNMENTAL FISCAL RELATIONS
AND
JAPANESE PUBLIC FINANCE**

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By

Yoshinari Tanaka

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ABSTRACT

This thesis examines intergovernmental fiscal relations in the context of the current Japanese economy and public finance system. Through the economic stagnation since the early 1990s, public debts, both at the central and local level, have grown rapidly, which may have various negative effects on the future Japanese economy. Therefore, managing public debts should be one of the urgent objectives of Japanese public finance. In order to restructure the current public finance system and reduce growing public debts, this paper proposes fiscal decentralization as a possible alternative for making the current system more efficient and effective because it can lessen fiscal illusion both at the local government and resident levels and enhance political participation. The U.S. intergovernmental fiscal relations and state and local finance will also be explored as an archetype of highly decentralized government to determine its applicability to the Japanese reform. Economic efficiency, political participation and social equity will be key criteria for redesigning a new legal framework in Japan.

TABLE OF CONTENTS

0. INTRODUCTION.....	1
I. ECONOMIC CRISIS AND PUBLIC DEBTS.....	3
A. GROWING PUBLIC DEBTS.....	3
B. SIZE OF THE PUBLIC SECTOR AND PUBLIC INVESTMENT.....	8
C. PROBLEMS WITH THE ACCUMULATIVE DEBTS.....	17
D. ANOTHER ASPECTS OF PUBLIC DEBTS.....	27
E. COUNTER-CYCLICAL AND STRUCTURAL DEBTS.....	29
II. HOW TO REDUCE PUBLIC DEBTS.....	31
A. INFLATION.....	31
B. INCREASE REVENUE AND DECREASE EXPENDITURE.....	33
C. JAPANESE INTERGOVERNMENTAL FISCAL RELATIONS AND FISCAL DECENTRALIZATION.....	34
D. SIGNIFICANCE OF FISCAL DECENTRALIZATION.....	59
III. ROLE OF GOVERNMENT.....	64
A. THREE ROLES OF THE PUBLIC SECTOR.....	64
B. TRADITIONAL ASSUMPTION.....	66
C. NEW ARGUMENTS OVER ROLE ALLOCATION.....	68
D. CENTRALIZATION VS. DECENTRALIZATION.....	71
IV. COMPARATIVE ANALYSIS OF AMERICAN AND JAPANESE INTERGOVERNMENTAL FISCAL RELATIONS.....	83
A. BASIC OVERVIEW OF INTERGOVERNMENTAL FISCAL RELATIONS IN THE UNITED STATES.....	84
B. DEBT FINANCING AT STATE AND LOCAL LEVEL.....	88
C. SOME IMPLICATIONS FROM THE COMPARATIVE ANALYSIS.....	93
D. NEW TIDE.....	99
V. CONCLUSION.....	101