

Fiscal Structural Reform and the Household Economy

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Abstract

Japan is now in a serious financial crisis. Outstanding government debt amounts to 120 percent of GDP. The theme of this paper is to criticize the fiscal policy that has been implemented since fiscal year 1982 and offer suggestions on how to restore fiscal balance and present an alternative strategy to fiscal current policy. The current government strategy for the fiscal structural reform is to cut expenditures related to the household economy such as social security, education, and housing. On the other hand, public investment, defense and ODA have been left out of the tight budget control. These two aspects of the strategy should be criticized. First, we need more active government involvement in the policies that sustain the household economy such as social security. The share of spending on these policies in total government outlay is relatively small compared to European countries. Second, the key to restoring fiscal balance is to reduce the spending on public investment because it is the main cause of the fiscal deficit. The ratio of public investment to GDP in Japan is more than three times as high as other developed countries. Our alternative strategy is the exact opposite of current government policy. The first step of our strategy is to significantly cut public investment. The second step is to shift the budget spending from public investment to other areas that support the household economy such as social security.