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**WHO HELPS STATE FINANCING AS A “FISCAL AGENT”:
BRIEF COMPARISON OF GERMANY WITH JAPAN**

Takaharu, SHIMADA

Adjunct Researcher, Faculty of Economics, Keio University, Tokyo, Japan

Why did Japan plunge into a fiscal crisis? This is currently one of the biggest puzzles in Japan. By comparing the structural features of state financing in Germany with those in Japan, this article aims at casting a new light on this matter.

“Fiscal agents” play vital roles in supporting state financing especially when states need to issue a large amount of securities in order to meet public demands. A “fiscal agent” as the subject of this research is mainly the Bundesbank in Germany, and the Bank of Japan or the Fiscal Investment and Loan Program in Japan. The purpose of this article is to clarify the similarities and differences between Germany and Japan concerning fiscal and monetary coordination between the government and the central bank.

Germany fell into economic and fiscal crisis in 1975, and then the Bundesbank implemented the pegging operation (large-scale bond purchasing policy for pegging bond price), which was an exceptional measure in post-war Germany, to help state financing in June. In March 2001, economic and fiscal crisis in Japan also made the Bank of Japan carry out an unprecedented measure, the so-called Quantitative Easing Policy, to overcome deflation. However, while the Bundesbank abandoned its policy stance in only 5 months, the Bank of Japan maintained its policy stance until March 2006. Such a clear difference would shed a new light on the issue about the present fiscal crisis in Japan. Consequently a detailed comparative analysis should be required.

To achieve the aim of this study, this article is divided into two main parts. First, the structural traits of state financing in Japan will be outlined using mainly some secondary sources, and then we will examine the question, “what kind of roles the Fiscal Investment and Loan Program and the Bank of Japan played in leading Japan to a serious fiscal crisis?” Secondly, we will consider the question, “why the pegging operation was implemented and immediately abandoned in Germany?” using primary sources.

Two essential points in this paper will be briefly described below. The first point is that when Germany and Japan fell into economic and fiscal crises, the central banks in both these countries made efforts to support state financing. The second point is that the Bundesbank abandoned the pegging operation shortly after the Bundesbank came to regard the policy as ineffective, but the Bank of Japan kept implementing the Quantitative Easing Policy for a while even if it was risky. The Bundesbank has never carried

out such risky policies since the Bundesbank abandoned the policy stance, and Germany maintained relatively low debt to GDP ratio at least until its reunification. On the contrary, Japan postponed implementing full-scale fiscal reform including tax increase through the Quantitative Easing Policy, though the debt to GDP ratio had already been extremely high due to the continuous tax cuts and the large-scale public works brought about by Japanese unique welfare state structure, even before the Bank of Japan introduced such a policy. Hence, Japan plunged into the unprecedented fiscal crisis.

Could existing theoretical frameworks account for the difference in fiscal performances between the two countries? For example, some emphasized the importance of institutional settings and pointed out that large-scale budget deficit in Japan was formed because the Bank of Japan was not independent of the Ministry of Finance. This framework can seemingly account for the differences in fiscal performances between Germany and Japan, because Germany, which has a highly independent central bank, the Bundesbank, recorded relatively low debt to GDP ratio, while Japan, which has a central bank, which is highly dependent on the government, the Bank of Japan, fell into a fiscal crisis.

However, even the Bundesbank, which is highly independent of the Federal Ministry of Finance, tried to support state financing by implementing the pegging operation when Germany was faced with economic and fiscal crisis, even if the Bundesbank had to take a certain risk. Moreover, in 1997 the new Bank of Japan law came into force to strengthen its central bank independence, but the Bank of Japan seemingly reinforced its cooperation with the Ministry of Finance after the reform. Furthermore, before the Fiscal Investment and Loan Program reform was implemented, a huge amount of Japanese Government Bonds was held by the Trust Fund Bureau, so huge financial support from the Bank of Japan was not required. Given this fact, the government's debt in Japan was not caused by the existence of the highly dependent central bank, but by that of the Trust Fund Bureau which could strongly support state financing. In addition, the Quantitative Easing Policy accelerated the pace of its accumulation.

Hence, it seemed that such a framework could not show us a proper mechanism which accounts for the differences in fiscal performances among countries. In order to comprehend such a mechanism, we need to further examine how and why "Fiscal Agents" came to support state financing and why they decided to strengthen or weaken its cooperation with the government in historical context. Especially, in a crisis, actors are likely to be faced with uncertainty which would force them to abandon their customary practice which could stabilize society until a crisis occurs and to look for new possibilities to stabilize it. In such a critical moment, some institutional explanations, which seem to be rational as a theoretical framework, might lead to serious misreading of history.