

Spatial crowding-out and crowding-in effects of government spending on the private sector in Japan

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Abstract

This paper investigates spatial crowding-out and crowding-in effects of government spending on the private sector in Japan, using prefectural panel data in the period from 2002 to 2013. We demonstrate that there are positive correlations of the private economic activities between neighboring prefectures, intensifying crowding-out effects of government consumption. On the other hand, when such spatial spillover is controlled for, crowding-out effects of public investment are shown to be negligible. Further, our subsample analysis reveals some noticeable regional differences such as crowding-in effects of government consumption on private consumption in Kanto (the Tokyo Metropolitan area) and those of public investment on private consumption in Shikoku (a rural island). Our findings imply that the policymakers should take into account such spatial spillovers and regional differences in order to rejuvenate the regional economy with enlivening and without harming the private demand.

Key Words: Spatial spillover; Government spending; Crowding-out effect; Crowding-in effect