

# The effectiveness of fiscal policy in japan economics essay



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During 1992 to 1996 period, Japan has used the fiscal policy to solve the economic problems. This reaction come in the form of 10 trillion, 2. 2% GDP until 1996 which was total 59. 6 trillion yens, 0. 2% to stimulate the economy. After the fall from 1991 to 1993 about the annual real GDP growth of Japan economy, the financial crisis had happen. But the growth rate haven turn to negative due to implement the fiscal packages. The real GDP growth rate decline to 0. 2% in 1993 and increase to 1. 1% in 1994 and finally 2. 7% in 1996. In 1992 to 1996 , expansionary fiscal policy was made, it is the problem of growing deficit happen. From 1990 to 1995, the debt of Japan was grew, Japanese become adamant and concerned about the debt control and the fiscal restraint. Due to the years from 1991 to 1996 is recession, the real GDP growth rate reach 2. 7%, 1992 to the vigorous recovery in 1996.

### **1997-1998 Retrenching Made Things Worse**

In 1997, Government of Japan was implemented a policy of fiscal consolidation strongly because of international concerns about its debt problem. They have changed expansionary fiscal policy to contractionary fiscal policy to solve the debt problem. At the period from 1997 to 1998, Japan has enacted the Fiscal Structural Reform Act, that proved to be inflexible. Despite the national recession in 1998 that has debuted in 1997 as well as Asian Crisis, it didn't allow change to the fiscal approach. This contractionary fiscal policy had made exacerbated situation compare to the previous expansionary fiscal approach. The real GDP growth rate decline from 1. 6% in 1997 to -2% in 1998. It make that the consumption spending decrease in 1998 and the happen of Asian crisis, make that the negative growth , procyclical fiscal policy and poor investor confidence happen in the

economy. This situation was made that the Japanese policymakers give up about the pursuit of expansionary fiscal policy decision to save the economy. Although give up of the contractionary approach due to the deep Asian crisis and drastic fall in GDP, but at the fact that Japan discontinued the fiscal polich approach at the end of 1998 only change to expansionary fiscal apporach. The change to the expansionary fiscal approach was not done out of confidence in fiscal policy but rather, out of pure necessity. The Fiscal Structural Reform Act Implemented the contractionary approach was failed.

### **Late 1998-2000: Return To Expansionary Fiscal Policy in an Incoherent Framework**

The economy has entered into a new recession. For the next two years of 1998, it can saw a series of stimulus packages aimed at rebounding the economy, the real growth rate increase from -2% in 1998 to -0. 1 in 1999 to 2. 9% in 2000. Under the implementation of expansionary fiscal policy, the economy of Japan was picking up. Unfortunately, crisis of 3011 had made a negative effect on the GDP growth rate which decline to 0. 2% in 2001, which also means that the expansionary fiscal policy was not sufficient. This time, the overturn in fiscal policy was even worse as it was coupled with a global recession

### **2001-2007: A Strive For Fiscal Consolidation**

The period of 1999 to 2000is a beginning of a recovery time for Japan, but unfortunately the September 11th attack and the IT crisis bubble were put an end to this time of recovery. In 2001 years, fiscal policy was changed again from expansionary fiscal policy t contractionary fiscal policy for aiming

at achieving a surplus and limiting the amount of government bond issue.

(Ihori, 2006)

Since the year 2002 the economy of Japan has been performing smoothly in terms of GDP growth. The real GDP growth rate was 0.3% which increased to 1.4% in 2003, 2.7% in 2004 and 1.9% in 2005 and it only increased a bit in 2006, 2.4% and then declined to 2.1% in 2007. Over the course of one decade, Japan had changed its fiscal policy four times, indicating a lack of commitment and inconsistency with regards to fiscal policy decisions. Since 2011, Japan has made a primary goal by the early 2010s to stop debt accumulation. Compared to the World GDP growth rate, this performance was inferior. Also that, the unemployment rate still increased, fiscal policy has failed to revive the economy. Minister of Finance expected the end of 2007 outstanding long-term debt balance was at 773 trillion yen, representing 148%. The Japanese anxiety over debt accumulation was once again, a priority of policymakers resulting in hesitation with regards to the use of fiscal policy.

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