

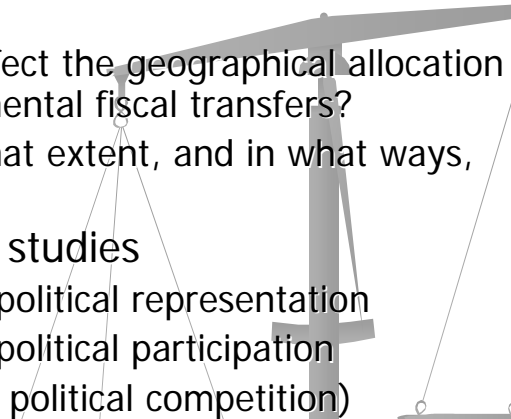
Political Impacts on Intergovernmental Fiscal Transfers in Japan



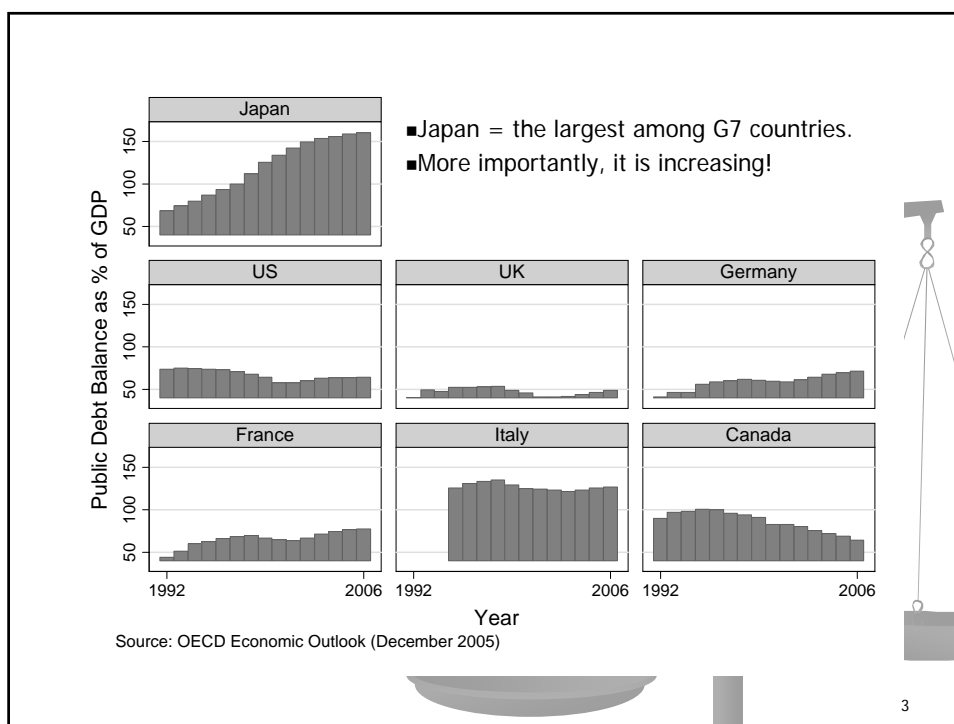
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Introduction

- Questions
 - Does politics affect the geographical allocation of intergovernmental fiscal transfers?
 - If it does, to what extent, and in what ways, does it matter?
 - Three statistical studies
 - The impacts of political representation
 - The impacts of political participation
 - (The impacts of political competition)
- 

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Importance – Fiscal Crisis

- More statistics suggesting seriousness
 - The public debt balance is about JPY 16.96 millions (USD 137 thousands) per household with 4 people.
 - The public debt balance at the end of FY2006 \approx the tax revenue in FY2006 $\times 12$
 \approx the total public debts of *all* developing countries $\times 1.6$

Source: http://www.mof.go.jp/zaisei/con_03_g01.html

“Hojokin” & Fiscal Crisis

- Intergovernmental fiscal transfers (so-called “hojokin”)
 - Regarded as one of the main determinants of Japan’s fiscal crisis
 - One of the focused reform areas under the current and previous administrations
 - (Most importantly, for this research) regarded as inefficient due to political involvement

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Paper 1

Political representation

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Outline

- Question
 - Does reapportionment in a legislature affect intergovernmental fiscal transfers?
- Data
 - Municipality-level data before and after the 1994 electoral reform
- Main finding
 - The equalization in voting strength resulted in an equalization of total transfers per person.

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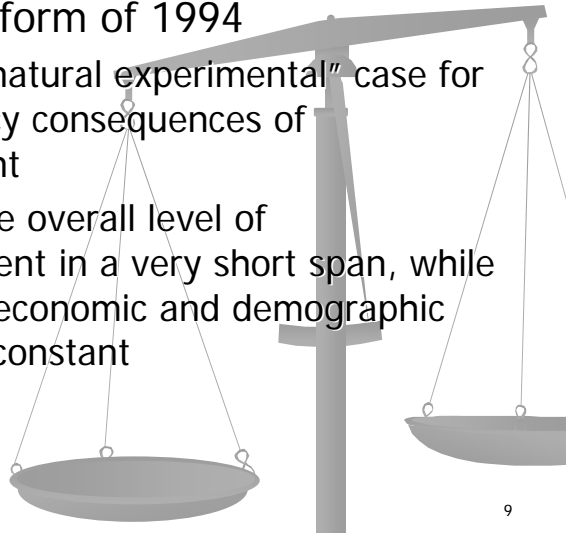
Electoral Reform of 1994

- Lower House elections, 1925-1993
 - The SNTV (Single Non-transferable Vote) System with multi-member districts
- Lower House elections, 1996-
 - A combination of the SMD (single-member districts) system and PR (proportional representation) system.
 - Introduction of new single-member districts & complete redrawing of district boundaries

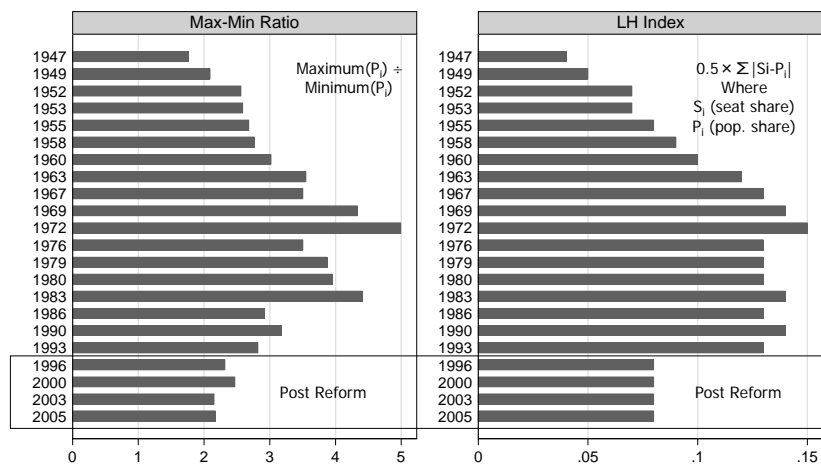
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A Natural Experiment

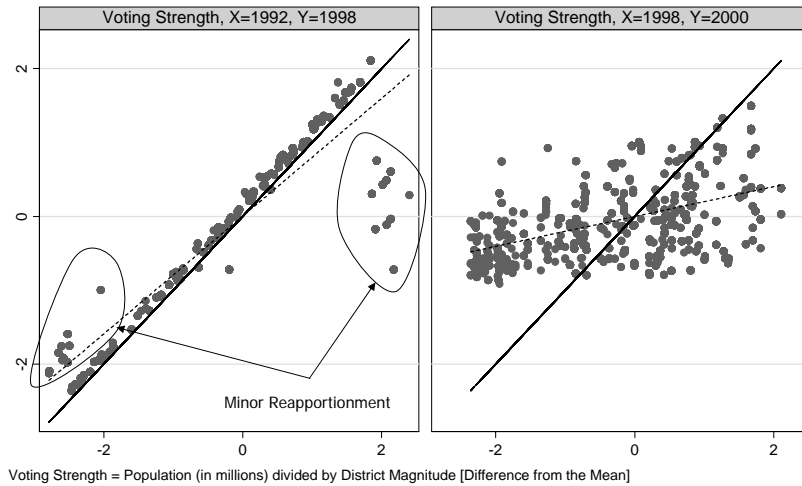
- The electoral reform of 1994
 - An important “natural experimental” case for examining policy consequences of reapportionment
 - Reduction in the overall level of malapportionment in a very short span, while holding social, economic and demographic factors almost constant



Level of Malapportionment



Reapportionment



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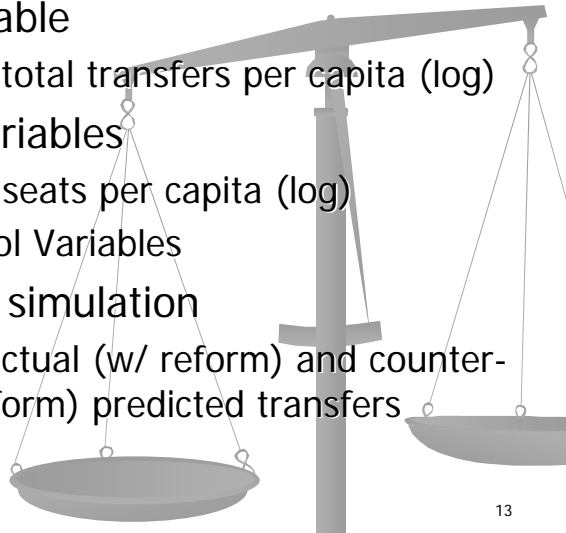
Why does it matter?

District	Allocated Amount	Beneficiaries	Allocation Per Capita
1	JPY 3000	10 people	JPY 300
2	JPY 3000	5 people	JPY 600
3	JPY 3000	3 people	JPY 1000

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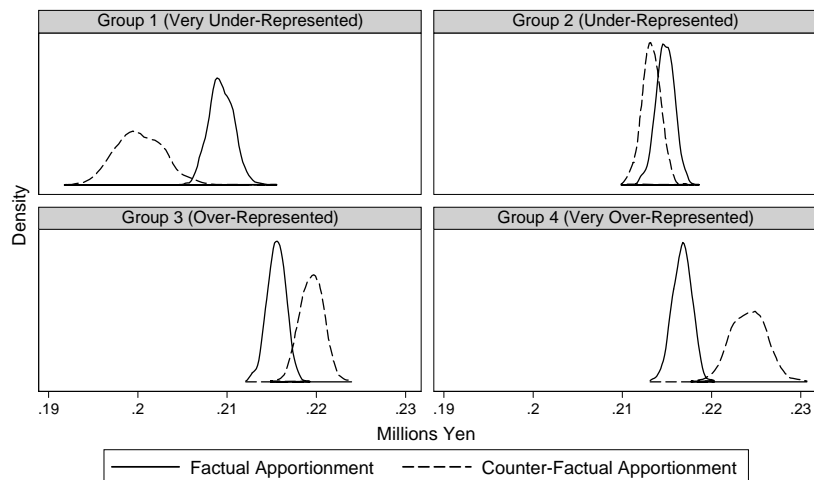
Methods

- Dependent variable
 - The amount of total transfers per capita (log)
- Independent variables
 - The number of seats per capita (log)
 - 10 Other Control Variables
- Post-estimation simulation
 - Compare the factual (w/ reform) and counter-factual (w/o reform) predicted transfers



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Results



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Conclusion

- Equal votes → Equal money
 - Also see Ansolabehere, Snyder and Gerber (2002) for the US Court-Ordered Redistricting
- Suggestions
 - The malapportionment of seats is not merely a constitutional/normative problem. We need more active debates on its policy consequences.
 - The max-min ratio should not be used.

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Paper 2

Political participation

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Outline

- Question
 - Does political participation affect the geographical allocation of intergovernmental fiscal transfers?
- Data
 - Japanese municipality-level data, 1991-2003
- Main finding
 - The more actively citizens participate, the larger the transfers per person.

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Political Participation

- Definition
 - “Activities by private citizens that are more or less directly aimed at influencing the selection of governmental personnel and/or the actions they take” (Verba and Nie 1972)
- Various modes of participation
 - Voting in elections
 - Many other activities in political processes
 - Financial contributions, direct contacts, etc.

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Existing Studies

- Argument
 - Reelection-seeking incumbents listen to “voices” (policy needs) of participants more attentively than those of non-participants.
- Empirical findings
 - Voter turnout affects policy outcomes.
 - E.g., Fleck (1999), Mueller and Stratmann (2003), Martin (2003),

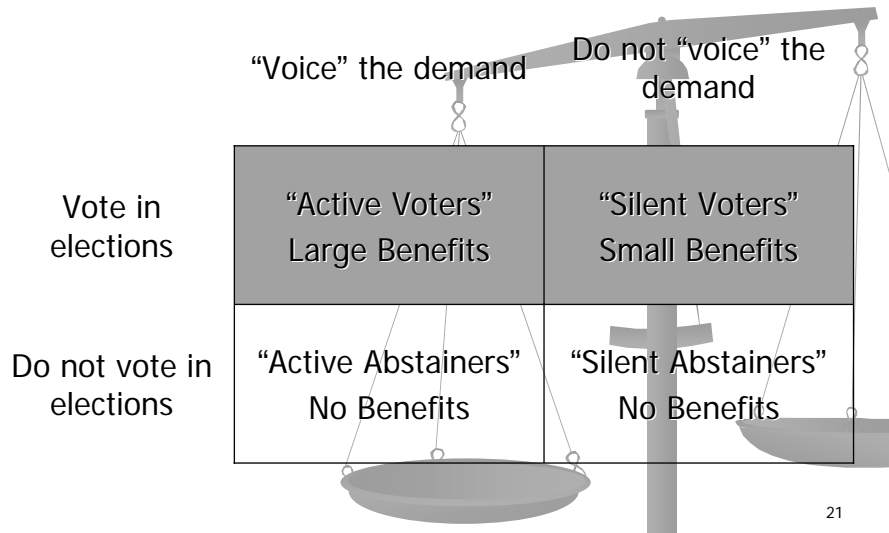
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Our Study

- Argument
 - Even among those who vote in elections, citizens who participate in other activities can extract larger distributive benefits than those who do not.
- Implication
 - Voter turnout matters, but other modes of participation also matter.

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Heterogeneous Voters



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Measurement Error

- Valid measure
 - Weighted voter turnout
 - = voter turnout weighted by how much those who turn out to vote can communicate their demand for benefits to policy makers through more direct modes of political participation
- Invalid measure
 - Voter turnout
 - Measurement error → “Attenuation bias”

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Variables

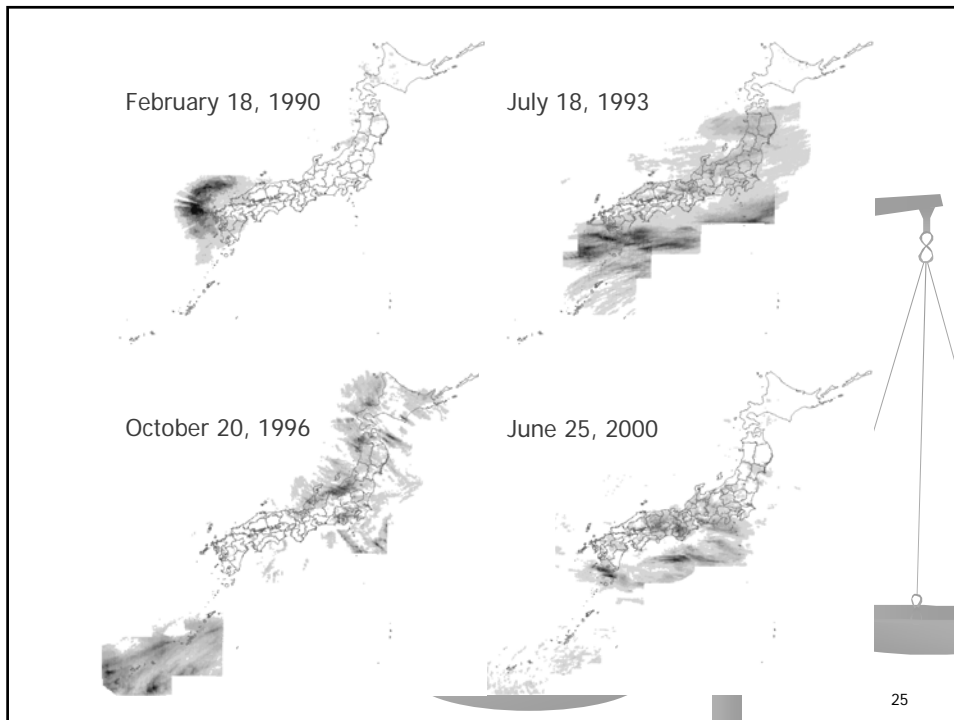
- Dependent variable
 - The amount of total transfers per capita (log)
- Independent variables
 - Voter turnout in Lower House elections (%)
 - This variable needs to be instrumented.
 - 10 Other Control Variables
 - Municipality-specific fixed effects (N=3,155)
 - Year-specific fixed-effects

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Instrumental variables

- Instrumental variables
 - Total rainfall (in 0.1mm)
 - Total rainfall (squared)
 - Number of candidates per seat
- Variations matter (in fixed-effect models)
 - Significant variations *within each municipality*
 - Due to different seasons of elections
 - Due to the electoral reform in 1994

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Result

If voter turnout increases by 10% points, how much per capita transfers changes?

Assumption	Result
Voters are <u>homogenous</u> in terms of how much they “voice” the demand via other channels.	+1.0%
Voters are <u>heterogeneous</u> in terms of how much they “voice” the demand via other channels.	+13.5%

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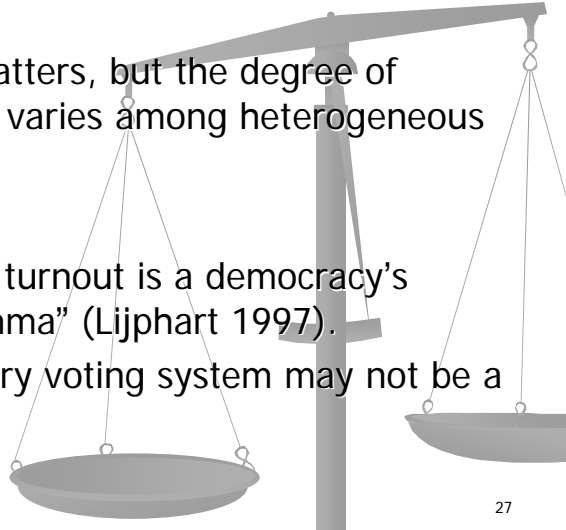
Conclusion

- Finding

- Participation matters, but the degree of responsiveness varies among heterogeneous voters.

- Implication

- Declining voter turnout is a democracy's "unsolved dilemma" (Lijphart 1997).
- But a compulsory voting system may not be a solution.



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Thank you.



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