A FISCAL PERSPECTIVE ON THE GOVERNMENT DEBT SUSTAINABILITY AND EMPIRICAL ANALYSIS FOR JAPAN

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The sustainability of the growing Japanese government debt is a concern for many but the financial market seems to be neglecting such concern. Its growing debt level and subdued general price level are not easy to explain from the fiscal theory of the price level (FTPL) either and Japan has been a "puzzle".

This dissertation shows that the FTPL can explain the Japanese experience if the Fiscal Investment and Loan Program (FILP) is included in the scope of the government and loans in the government debt. The analysis results using the Japanese data from 1980 to 2014 show general similarities to the analyses by Cochrane (1999) and Woodford (1999) for the U.S. data in that the long and short term components of the exogenous surplus series are negatively correlated and that the policy rate is positively responding to higher expected real rate and higher consumption growth.

It further analyzes the potential negative consequence of monetary independence under the fiscal dominance. Under the fiscal dominance, the Taylor rule type monetary policy makes the convergence to the steady state a more volatile and longer path when the fiscal authority is not aiming to control the debt level, and the path becomes more volatile and longer with a more hawkish monetary policy. The policy set still reaches a steady state because of the positive surplus target, which is a different outcome from Sargent and Wallace (1981) and Leeper (1991).