

Under control vs self-reconstruction after fiscal bankruptcy on municipalities *

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July 11, 2019

Abstract

The purpose of this paper is to analyze fiscal effects after fiscal bankruptcy on municipalities using Synthetic Control method to comparative case studies. We contribute to the literature by analyzing fiscal effects of bankrupt municipalities after the fiscal bankruptcy in Japan. In particular, we focus on how bankrupt municipalities recover after the fiscal bankruptcy by comparing "under the control of central government" with "self-reconstruction". Our main contribution is the finding that reconstruction under the control of central government rapidly decrease investment expenses while gradually decreasing personnel and non-personnel expenses. On the other hand, self-reconstruction can achieve to quickly complete the fiscal reconstruction in a short period by rapidly decreasing not only investment expenses but also personnel and non-personnel expenses.

JEL Classification: H72, H73, H74, H77

Keywords: fiscal bankruptcy, fiscal rule, synthetic control method, comparative case studies

*The authors acknowledge the financial support received from the JSPS (No. 18K01662), (No.16K13371), (No. 15H03361), (No. 17K13752).

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