

Budget Deficit Should be Considered Necessary Cost for Japan's International Contribution

By TSUKASAKI Kimiyoshi

The biggest contribution today's Japan is supposed to make to the international community is to recover its domestic demand as soon as possible and thereby to take the initiative in reviving the world economy. Meanwhile, if Japan, on the contrary, should have to see China's continuing economic growth as a lifeline for its own economy, relying solely on China's expanding domestic demand, Japan would soon end up being look upon as a "baggage," instead of a "contributor," and lose its footing not only in Asia but also in the international community.

Seeing that self-sustained recovery is unlikely, it is therefore imperative that Japan should spur its economy by implementing fiscal and monetary policies. Under the circumstances, as monetary policy has already been relaxed to the maximum, any shortfall should be covered by taking fiscal actions. If fiscal actions are taken, budget deficit will soar. However, the soaring budget deficit at the present phase should be considered as necessary cost for Japan to make contributions to the international community. While some would argue that the current budget deficit is being inflated by the stymied process of "cutting wasteful spending" initiated by the Hatoyama Administration as part of its measures to secure funds in implementing its newly-launched policies, we should nevertheless wait and see.

It is necessary to trim "wasteful spending." However, it is difficult to distinguish wasteful projects and beneficial ones. It is therefore important to take time to determine the benefits of each project in a longer perspective. Besides, we should note that the definition of "wasteful spending" in a time of boom is different from that in a time of recession. John Maynard Keynes says that even "to dig holes in the ground and then fill them up" is a beneficial project in a time of recession.

The Democratic Party of Japan (DPJ) is obliged to fulfill its promise on the budget expenditure pronounced in its election manifesto. It should not resort to easy tax increases merely because it cannot trim wasteful spending. Besides, to curtail beneficial projects without determining its utilities in the longer time perspective would be the last thing it should do. Although wasteful spending must be eliminated when economic recovery is achieved, in order to attain that goal, we need time to determine whether each spending is wasteful or not and so does our economy to recover.

(This is the English Translation of an article written by Prof. TSUKASAKI Kimiyoshi, Associate Professor of Kurume University, which originally appeared on the BBS "Hyakka-Seiho" of JFIR on November 2, 2009.)