# The Significance of Japan’s Fiscal Investment and Loan Program during Japan’s Period of Rapid Economic Growth and Possible Lessons for the Rest of Asia

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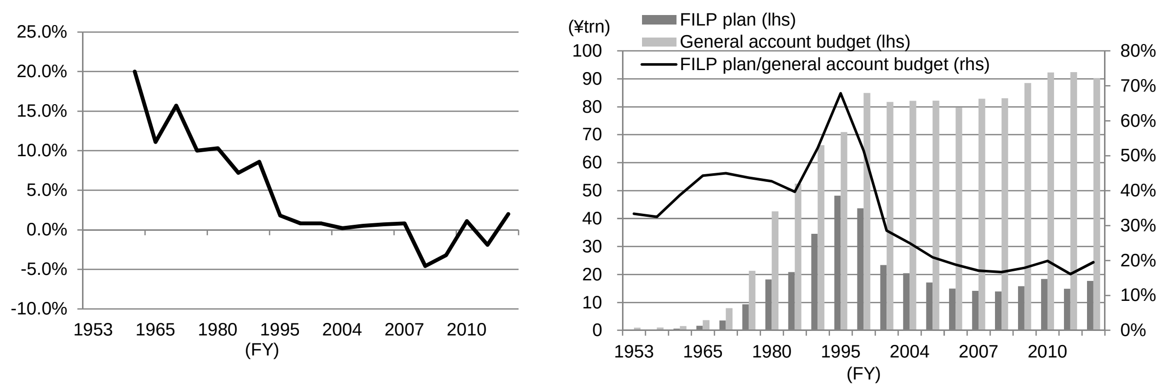
## I. Introduction

During the late 1950s and early 1960s, when Japan experienced a period of rapid economic growth comparable to that of many other Asian countries today, government fiscal policy was largely facilitated by the Fiscal Investment and Loan Program (“FILP”) (Figure 1). Over the years, FILP has played a key role in many areas of fiscal policy (Figure 2). It played a particularly important role in the post-war years, when Japan’s social overhead capital (infrastructure) lagged that of Western countries, in the construction of infrastructure such as highways and high-speed railways linking Japan’s major cities in order to raise the standard of living and increase productivity as the economy grew[1].

**Figure 1: Japan’s GDP growth rate and comparison of FILP plans with general account budgets**

Japan’s GDP growth rate

Comparison of FILP plans with general account budgets




Note: 1. GDP data for fiscal 1980 and thereafter are based on the 1993 System of National Accounts (SNA). GDP data for fiscal 2011 are estimates, while those for fiscal 2012 are forecasts.
2. Data for FILP plans and general account budgets are initial amounts.

Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance, Policy Research Institute, ”*Zaisei Touyuushi*” (FILP) in Zaisei Kin’yuu Toukei Geppou (Fiscal and Financial Statistics Monthly), No. 723, July 2012 (in Japanese). (http://www.mof.go.jp/pri/publication/zaikin_geppo/hyou/g723/723.htm)

[1] Hayashi, Hiroaki, “*Kore kara no Shakai Shihon Seibi*” (How to Finance the Provision of Infrastructure), Kaikei Kensa Kenkyu, No. 43, Board of Audit of Japan, March 2011, p. 5 (in Japanese).

**Figure 2: Examples of FILP spending**

| Area | Examples | | |
|---|---|---|---|
| Housing | Housing and Urban Development Corporation | → | Development of Tama New Town, redevelopment of Tokyo (e.g., Minato Mirai 21) |
| | Government Housing Loan Corporation | → | Funding for housing construction (1950–2006: 19.41 million housing units) |
| SMEs | Japan Finance Corporation for Small Business<br>National Life Finance Corporation | → | Loans for SMEs with otherwise limited access to private-sector funding<br>(Funding for companies such as Sony and Kyocera during their start-up and growth periods) |
| Agriculture, forestry and fisheries | Agriculture, Forestry and Fisheries Finance Corporation | → | Long-term funding for those engaged in agriculture, forestry and fisheries |
| | Japan Agricultural Land Development Agency | → | Productivity improvements to agricultural land, provision of farming land and land improvement facilities to improve farming standards |
| Education, welfare and healthcare | Japan Scholarship Foundation | → | Loans for needy students |
| | Special Account for National Hospitals | → | Modernization of major hospitals, upgrading of medical equipment (e.g., National Cancer Center) |
| Infrastructure | Japan Highway Public Corporation | → | Construction of Tomei (Tokyo-Nagoya) and Meishin (Nagoya-Kobe) expressways |
| | Japan Railway Construction Public Corporation<br>Teito Rapid Transit Authority | → | Construction of bullet train extension from Tokyo to Nagano, construction of subway lines |
| | Special Account for Airport Improvement, etc. | → | Offshore extension of Tokyo International Airport (Haneda), construction of Narita International Airport |
| | Water Resources Development Public Corporation | → | Construction of Naramata and Sameura dams to develop and use water resources |
| Environment | Japan Environment Corporation | → | Construction of pollution control facilities |
| Industry | Electric Power Development | → | Construction of dams (Miboro Dam) to provide hydroelectricity |
| | Japan Development Bank | → | Provision of long-term finance for key industries (such as electricity, steel, and the railways), investment in turnaround funds, etc. |
| | Special Account for Energy Conservation Measures | → | Storage of oil and LPG (Shibushi Oil Storage Terminal) |
| International cooperation | Export-Import Bank of Japan<br>Overseas Economic Cooperation Fund | → | Ensuring international competitiveness of Japanese companies, ensuring stable access to natural resources, and providing economic assistance to developing economies |
| Regions | Local governments | → | Providing water supply and sewerage, educational facilities, waste disposal facilities, post-disaster reconstruction, etc. |

Note: The names of some of these organizations have changed as a result, for example, of the reforms to special public corporations.

Source: Committee for Examining Basic Problems Facing FILP, "*Kongo no Zaisei Touyuushi no Arikata ni Tsuite*" (The Future of FILP), Material for the Seventh Meeting of the Committee for Examining Basic Problems Facing FILP, 25 September 2007, pp. 5–7 (in Japanese) (https://www.mof.go.jp/about_mof/councils/fiscal_system_council/sub-of_filp/proceedings/material/kihonmondai/190925_04.pdf)

According to one estimate, Asian countries will need to spend about $8 trillion on developing their infrastructure in the 11 years from 2010 to 2020 if they are to fulfill their economic growth potential[2]. It has also been said that only some $30 billion of the $726 billion/year that this equates to was generated by public-sector funds and private-sector investment combined in 2007, leaving a possible annual shortfall of about $700 billion[3]. As such, there is an obvious and urgent need for an efficient source of the necessary capital.

2 Asia Development Bank and Asia Development Bank Institute, *Infrastructure for a SEAMLESS ASIA*, 2009, p.167.

3 Ministry of Economy, Trade, and Industry, *White Paper on International Trade 2010*, 2010, p. 208 (in Japanese).

While a number of foreign countries have similar fiscal loan and investment programs, others have adopted their own distinctive approach. It is probably useful to consider such questions as whether it would make sense for other Asian countries to adopt an approach similar to the fiscal investment and loan program that helped the Japanese economy to grow rapidly in the late 1950s and early 1960s, and, if they did, which aspects they should focus on in order to make the most of it.

In this report we explain how FILP works. We then analyze it from a historical perspective. Finally, we examine whether it would make sense for other Asian countries to adopt a similar approach and, if they did, what challenges it would probably pose.

## II. FILP's role

FILP is a "means for the government to invest in and grant long-term, low-interest-rate loans to implement policies such as assisting small and medium enterprises (SMEs), building hospitals and welfare facilities, and exploiting natural resources."[4]

The government has two sources of funding for implementing fiscal policy: (1) non-repayable interest-free funds, mainly in the form of tax revenues, and (2) repayable funds (e.g., in the form of debt that has to be serviced and equity on which a dividend has to be paid). Inasmuch as FILP "is funded by the public purse backed by the creditworthiness of the state,"[5] it belongs to the second category of fiscal funding.

As FILP plays an auxiliary role in fiscal policy to the general account budget funded mainly by taxation and government debt, it is sometimes referred to as the "second budget."[6] In terms of fiscal policy, FILP serves two functions: (1) to "adjust the allocation of resources" (enabling the government to supply goods and services that would not be supplied in sufficient quantities if the market mechanism were left entirely to its own devices) and (2) to "stabilize the economy" (enabling the government to supply the necessary funds to deal with changing economic circumstances and mitigate the impact of sudden economic changes).

FILP is a mechanism for implementing fiscal policy by linking repayable funds and FILP agencies in order to achieve fiscal goals as efficiently and effectively as possible in the interests of the country as a whole (Figure 3). As FILP is an integral part of fiscal policy, the two have to be coordinated. FILP plans are therefore formulated in tandem with the budget process and are subject to resolutions of the Diet. In this connection it is perhaps worth mentioning that they provide finance for long-term projects (i.e., those expected to last at least five years).

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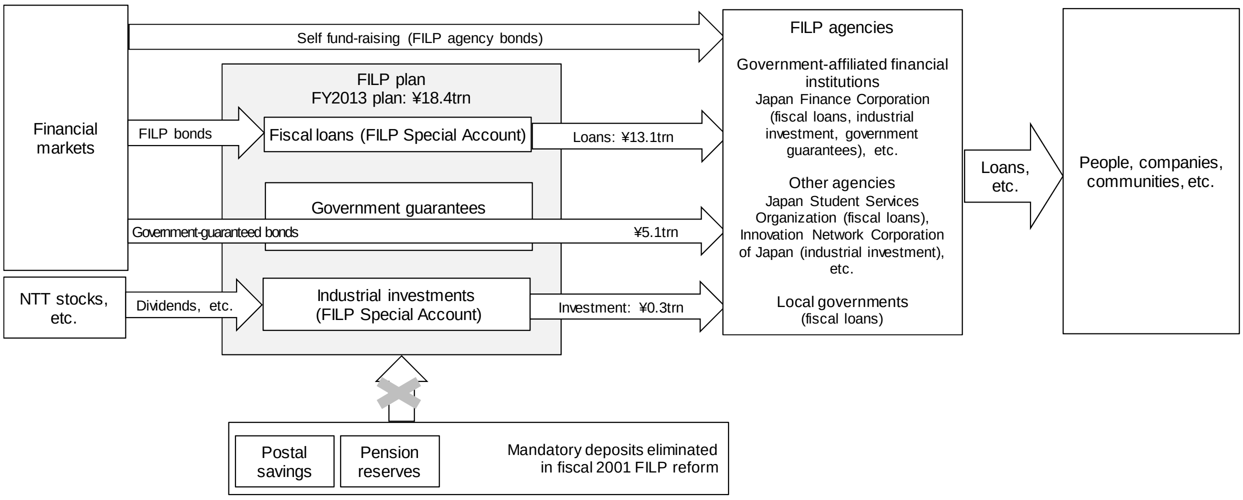
4 Ministry of Finance, Financial Bureau, *FILP Report 2012*, 2012.

5 Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai3ban)*," (Lectures on Public Finance, 3rd edition), University of Tokyo Press, 2002, p. 129 (in Japanese).

6 Sugimoto, Yuzo, "*Zaisei Touyuushi*" (FILP), in Kanazawa, Fumio (ed.), "Zaiseigaku Shohan Dai5satsu," (Public Finance, 1st edition, 5th imprint), Yuhikaku, 2011, pp. 158–159 (in Japanese).

**Figure 3: Mechanism of FILP**




Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance, Financial Bureau, *FILP Report 2012*, 2012 and Ministry of Finance, "Outline of FILP Plan for Fiscal 2013, 29 January 2013. (http://www.mof.go.jp/english/filp/filp_report/zaito2012/pdf/filp2012_eng.pdf, http://www.mof.go.jp/english/filp/plan/fy2013/zt001.pdf)

# III. How FILP works and has evolved

How FILP works underwent a radical change as a result of the FILP reforms of fiscal 2001. We therefore break down our analysis of how FILP has evolved into two phases: (1) from after the Second World War to the FILP reforms and (2) from the FILP reforms to date.

## 1. From after the Second World War to the FILP reforms

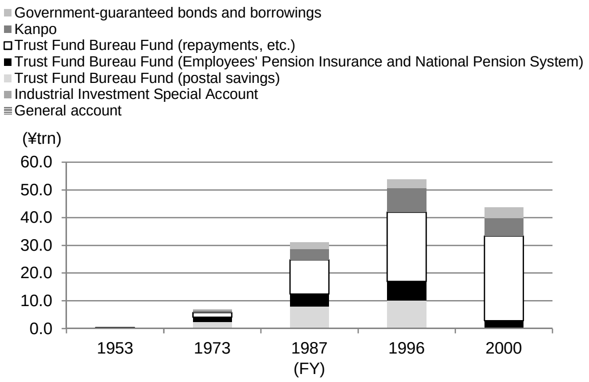
### 1) Four main sources of FILP funding until FILP reforms

The composition of FILP's sources of funding underwent a radical change as a result of the FILP reforms. In the period before the reforms FILP's expansion relied on four sources of funding (the Trust Fund Bureau Fund, the Postal Life Insurance Fund ("*Kanpo*"), the Industrial Investment Special Account Fund,[7] and government guarantees), of which postal savings accounted for the lion's share (Figure 4, left-hand chart).

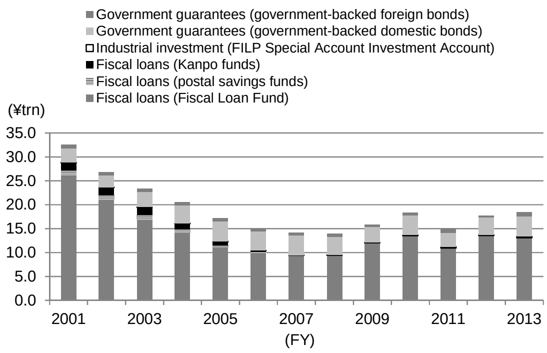
[7] In fiscal 2008 the Industrial Investment Special Account was merged with the Fiscal Loan Fund Special Account to form the FILP Special Account.

**Figure 4: FILP's changing sources of funding**

Before FILP reforms




Since FILP reforms




Note:
1. Initial budget basis.
2. The Industrial Investment Special Account for fiscal 1953 includes "counterpart funds."
3. The sources of FILP's funding changed as a result of the FILP reforms of fiscal 2001. One such change was the inclusion of government-backed foreign bonds in FILP plans.
4. The FILP Special Account Investment Account for fiscal 2001 is the figure for the Industrial Investment Special Account.

Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance, Policy Research Institute, *Zaisei Kin'yuu Toukei Geppou* (Fiscal and Financial Statistics Monthly), (in Japanese), Ministry of Finance, "*Heisei 25nendo Zaisei Touyuushi Genshi Mikomi*" (Estimated FILP Funding for Fiscal 2013), 29 January 2013 (in Japanese) (http://www.mof.go.jp/pri/publication/zaikin_geppo/index.htm, http://www.mof.go.jp/filp/plan/fy2013/h25seifuan/zt008.pdf)

The first of these, the Trust Fund Bureau Fund, consisted of postal savings deposits and contributions to the National Pension System and the Employees' Pension Insurance scheme. These were deposited in the Ministry of Finance's Trust Fund Bureau Special Account and managed collectively by the Trust Fund Bureau. In addition, the Trust Fund Bureau Fund comprised the surplus from the Special Account[8], a portion of the National Public Service Personnel Mutual Aid Pension's accumulation fund, and repayments to the Trust Fund Bureau of loans to FILP agencies.

The second source of FILP funding before the reforms (namely, *Kanpo*) consisted of the surplus, accumulation fund, and repayments of the Postal Life Insurance Fund (*Kanpo*) and Postal Pension Special Accounts. The Postal Life Insurance Fund had been managed in house by the (former) Ministry of Posts and Telecommunications since April 1953. However, a portion of the Postal Life Insurance Fund was treated as a contribution to FILP.

The third source of FILP funding (namely, the Industrial Investment Special Account) consisted of (1) interest on and repayments of loans made on the account and (2) payments of surpluses earned by the (former) Export-Import Bank of Japan and the (former) Japan Development Bank, to both of which the account had contributed capital. Also, from fiscal 1986, the government's shares in companies such as Nippon Telegraph and Telephone (NTT) were held in this account, with the dividends paid on those shares also being credited to it.

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[8] Excluding cases where the Special Account for the Government Debt Consolidation Fund holds government bonds.

The fourth source of FILP funding (namely, government guarantees), which has remained essentially the same pre and post the FILP reforms, was the use of a government guarantee to make it easier for FILP agencies to raise the capital they needed on the markets on favorable terms.

The most important of these four sources of funding was the Trust Fund Bureau Fund, which accounted for approximately 80% of the funds during the entire period up to the FILP reforms. Crucial to this was the rapid growth in postal savings deposits during the period of rapid economic growth, as a result of which they came to account for some 40–50% of FILP funds during the 1970s (Figure 4, left-hand chart)[9]. From the 1950s to the 1980s postal savings accounted for about 10% of household savings. Since the 1990s, however, the figure has been about 20%. As Hayashi (2002) has pointed out, "while it is quite normal for social insurance funds to accumulate in the hands of governments as welfare states develop, what has made Japan different is its enormous postal savings, which have financed fiscal investment on an unparalleled scale."[10]

There are mainly two reasons why Japanese households have placed so much of their savings in the Post Office: (1) the Post Office has a nationwide network of branches as a result of its postal services, including branches in remote areas where it would be unprofitable for private-sector financial institutions to operate, and (2) the Japanese people have a high degree of trust in their government and see the Post Office as a safe depository for their savings[11]. Another reason for the increase in postal savings, in our view, is that the Post Office's flagship savings product, the *teigaku* savings account, offers a combination of features of a fixed-term savings account and a no notice savings account that it would be impossible for a private-sector financial institution to offer: namely, the ability to withdraw money without penalty after only six months from an account that pays a fixed rate of interest over a long period. However, as competition with the private sector intensified in the 1980s (i.e., after the period of high economic growth), the privileged position of postal savings has been called into question, and the advantages of *teigaku* savings accounts have been reduced as interest rates have been deregulated.

9 The outstanding amount of postal savings topped ¥1 trillion in the 1960s, ¥10 trillion in fiscal 1972, ¥100 trillion in fiscal 1985, and reached ¥262 trillion in February 2000. Since then, following the Post Office's reincarnation as a public corporation and privatization, it has declined to ¥175,635.3 billion as of the end of March 2013. (Source: Yu-cho Foundation, Postal Savings Assets Research Center, "*Yuubin Shikintou no Doukou (Heisei 23nendo)*" (Trends in Postal Savings (Fiscal 2011)), 2012, p. 61 (in Japanese); Japan Post Bank, "*Heisei 25nendo 3gatsuki, Kobetsu Zaimushohyou no Gaikyou*" (Overview of Financial Statements, March 2013), 15 May 2013, p. 5; Sugimoto, Yuzo, "Zaisei Touyuushi" (FILP), in Kanazawa, Fumio (ed.), "*Zaiseigaku Shohan Dai5satsu*," (Public Finance, 1st edition, 5th imprint), Yuhikaku, 2011, p. 167 (in Japanese).

10 Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai3ban)*," (Lectures on Public Finance, 3rd edition), University of Tokyo Press, 2002, p. 133 (in Japanese).

11 Konishi, Sachio, "*Kin'yuu Jiyuuka to Zaisei Touyuushi*" (Financial Deregulation and FILP), in Yoshida, Kazuo, Hayashi, Yoshitsugu, Jinno, Naohiko, Iino, Yasushi, Ihori, Toshihiro, and Konishi, Sachio, "*Zaisei Shisutemu (Shohan, Dai2satsu)*" (Fiscal System (1st edition, 2nd imprint)), Yuhikaku, 1999, p. 283 (in Japanese).

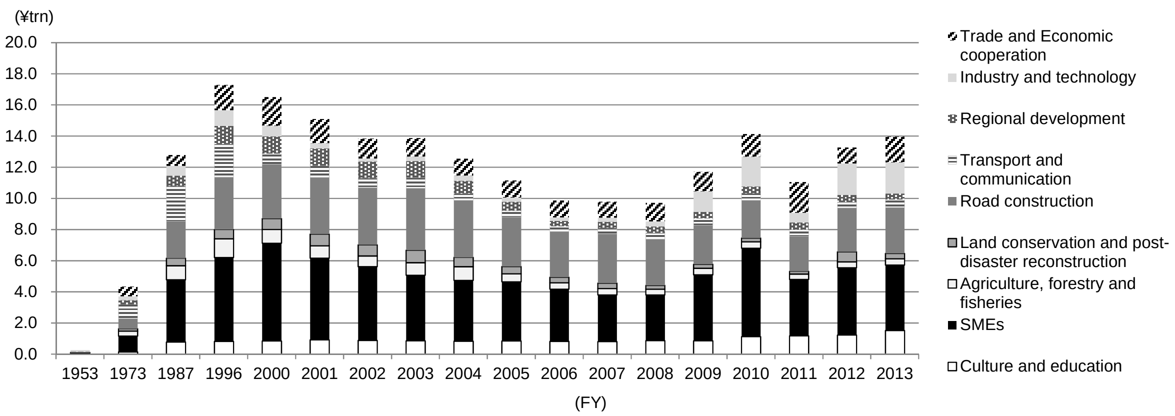
## 2) Growth of FILP funding until FILP reforms

### A. From post-war reconstruction to rapid economic growth in the 1950s and 1960s

Although the Japanese government has managed money in one way or another ever since the early Meiji Period (i.e., since 1868), it has only done so in an organized way similar to the current FILP program since 1953 (i.e., after the Second World War)[12]. From fiscal 1953, when FILP started, until the mid-1950s, FILP played a major role in bankrolling Japan's post-war reconstruction. From the mid-1950s until the early 1970s (i.e., during the period when Japan's economy grew at an average of about 10% a year), FILP quintupled in size.

As for the uses to which FILP was allotted, the focus during the post-war reconstruction period was on developing Japan's key industries. During the period of rapid economic growth, however, the range of uses was extended from fostering economic growth and structural change to improving the country's infrastructure, which had lagged behind that of Western countries, and increasing its housing stock to satisfy the growing demand for home ownership. This was further extended to include public works programs such as road construction and support for SMEs (Figure 5).

**Figure 5: Changing uses of FILP funds (general-purpose funds, initial plan basis)**




Note: A table showing the different uses of FILP funds was first produced following the amendment of the Act Concerning the Funds of the Trust Fund Bureau in 1961. The breakdown for fiscal 1953 is an unofficial calculation using the same method as that first used in fiscal 1961.

Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance, Policy Research Institute, Zaisei Kin'yuu Toukei Geppou (Fiscal and Financial Statistics Monthly) (in Japanese), Ministry of Finance, "Heisei 25nendo Zaisei Touyuushi Shitobetsu Bunruihyou" (Breakdown of Uses of FILP Funds in Fiscal 2013), 29 January 2013 (in Japanese) (http://www.mof.go.jp/pri/publication/zaikin_geppo/index.htm, http://www.mof.go.jp/filp/plan/fy2013/h25seifuan/zt009.pdf)

As the range of uses for FILP was extended, the number of FILP agencies grew, with separate agencies being set up for different policies and industries. Public-sector financial institutions such as the (former) Japan Development Bank played a key role in channeling FILP funds to particular industries and sectors. The (former) Japan

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12 Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai3ban)*," (Lectures on Public Finance, 3rd edition), University of Tokyo Press, 2002, p. 137 (in Japanese).

Finance Corporation for Small Business and the (former) People's Finance Corporation contributed to the effort to support SMEs, while the (former) Japan Highway Public Corporation and the (former) New Tokyo International Airport Authority helped to channel FILP funds into infrastructure projects. Similarly, the (former) Housing and Urban Development Corporation and the (former) Government Housing Loan Corporation channeled funding into house building. As a result, the number of FILP agencies more than tripled from 14 in fiscal 1953 to 20 in fiscal 1955 and 48 in fiscal 1965[13].

It is perhaps worth mentioning that, since the government's general account also grew rapidly during this period, FILP remained at about 30–40% the level of the general account. However, FILP also began to contribute fiscally to the general account once the Ministry of Finance began issuing government bonds in fiscal 1965. This was because the Trust Fund Bureau began to underwrite some of the bonds in order to ensure a smooth take-up.

### B. From end of period of rapid economic growth to just before FILP reforms

FILP's role began to change when the period of rapid economic growth ended. Following the two oil crises of the 1970s, Japan's period of rapid economic growth came to an end and was replaced by a period of steady economic growth of around 3%. During this period, corporate investment declined, and liquidity began to exceed the demand for capital. This was followed, in the late 1980s, by a period of surplus liquidity generated by an appreciating currency and a trade surplus. This fueled an asset boom, which burst in the early 1990s, dragging the economy down with it.

From the mid-1970s to the early 1980s, FILP spending on housing and support for SMEs increased to the point where, if spending on the living environment is included, it accounted for nearly 60% of FILP. This was also a period when FILP was used to finance developments some of which offered not particularly high returns. These included the construction of (1) large new towns and academic new towns near major cities, (2) regional industrial centers, and (3) health resorts for pensioners. FILP spending on housing and the living environment increased again in the 1990s, to the point where it accounted for roughly half of FILP spending, as part of the public works programs initiated in order to stimulate the economy after the asset boom of the 1980s turned to bust.

The number of FILP agencies, which reached 52 in fiscal 1975 and stood at 51 in fiscal 1985, declined in the 1980s when the (former) Nippon Telegraph and Telephone Corporation, the (former) Japan Air Lines Company, and (the former) Japanese National Railways (JNR) were privatized. However, the number increased again (to 65 in fiscal 1987) when the privatization of JNR led to the formation of some new agencies, including the Japanese National Railways Settlement Corporation (the JNR Settlement Corporation) and the Shinkansen Holding Corporation. However, the

13 Yoshida, Kazuo, Konishi, Sachio, "*Tenkanki no Zaisei Touyuushi*" (FILP at a Crossroads), Yuhikaku, 1996, pp. 91–94 (in Japanese).

number declined again (to 60 in fiscal 1995) when five JNR-related organizations, excluding the JNR Settlement Corporation, ceased to be FILP agencies[14].

From the 1970s to the mid-1980s, FILP remained at about 30–40% the level of the general account as spending on the general account rose significantly, partly because the issuance of government bonds increased significantly in order to finance economic stimulus measures. From the mid-1980s, however, FILP increased from about 40% the level of the general account to around 70% by the mid-1990s as it was used to finance the economic stimulus measures implemented when the asset boom of the late 1980s, which had been fueled by currency appreciation and surplus liquidity, turned to bust in the early 1990s.

It is perhaps worth mentioning that the aforementioned use of FILP to underwrite the issuance of government bonds, which began in fiscal 1965, peaked at about 30% of issuance in the 1980s. During this period, FILP not only helped to support public works investment and public-sector financial institutions but even general account income at a time when tax revenues were declining. The amount underwritten then declined in the 1990s to reach zero in fiscal 2000 as the take-up by the private sector increased. However, about 20% of outstanding government bonds were still underwritten by the Trust Fund Bureau as of fiscal 2000[15].

From fiscal 1987 some of the funds that had previously been deposited with the Trust Fund Bureau were managed either in house or entrusted to outside fund managers. The aim was to achieve a better return on postal savings and make public pension funds more viable. Until then, postal savings had been deposited in their entirety with the Trust Fund Bureau. Under the new approach, some of the postal savings were borrowed back from the Trust Fund Bureau at the same interest rate as that at which the entire amount had initially been deposited there. The borrowed funds were then invested in bonds and other market instruments to achieve a higher rate of return than if the entire amount had been left on deposit with the Trust Fund Bureau in order to improve its finances. The aim of the new approach was to enable postal savings to compete with private-sector financial products at a time of rapid interest rate deregulation[16]. Starting in fiscal 1987 with an initial investment amount of ¥2 trillion, the new approach continued until fiscal 2001 (i.e., until the FILP reforms), with funds under management reaching ¥57.4 trillion by the end of fiscal 2000. Most of the funds were invested in government, local government, or other public-sector bonds.

Following the collapse of the asset boom of the late 1980s, the relative level of market interest rates and FILP interest rates reversed. More precisely, the lending rate

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14 Yoshida, Kazuo, Konishi, Sachio, "*Tenkanki no Zaisei Touyuushi*" (FILP at a Crossroads), Yuhikaku, 1996, pp. 95–98 (in Japanese).

15 Watase, Yoshio, "Kokusai Un'youmen kara Mita Zaisei Touyuushi Seido no Kaikaku to Kadai" (Reforming FILP from the Point of View of Debt Management), Reference, Vol.57 , No.12, National Diet Library, Research and Legislative Reference Bureau, December 2007, p. 19 (in Japanese).

16 Sugimoto, Yuzo, "*Zaisei Touyuushi*" (FILP), in Kanazawa, Fumio (ed.), "*Zaiseigaku Shohan Dai5satsu*," (Public Finance, 1st edition, 5th imprint), Yuhikaku, 2011, p. 171 (in Japanese).

to FILP agencies became higher than the market rate as the rate on deposits with the Trust Fund Bureau Fund, which had been held at a low level, was raised as a result of the move to deregulate interest rates. As a result, FILP agencies' competitive edge over their private-sector rivals rapidly declined and FILP funds under management rose[17], reaching ¥9 trillion in fiscal 2000.

## 2. From FILP reforms to date: current FILP system following reforms

### 1) Moves towards reforming FILP

During the 1990s, fiscal reconstruction became one of the main challenges facing Japan as the country was only able to free itself from its general account dependence on deficit-financing bonds for three years (fiscal 1991–1993). It was against this background that the *Fiscal Structure Reform Law* was passed in January 1997 under the Hashimoto government[18] and that, subsequently, as part of the proposed reforms to central government, it was decided to overhaul the FILP system that had survived intact since it was established after the Second World War.

Although FILP had demonstrated its effectiveness as a policy tool for channeling household savings into the provision of social overhead capital, its critics pointed out a number of risks as the economy matured and market mechanisms became more established. These included (1) the possibility that the requirement to deposit all postal savings and public pension reserve funds with the Trust Fund Bureau might have led to the special public corporations[19] becoming bloated and inefficient, (2) the possibility that the deposit rate might have been set to favor public pension funds and other depositors and led to unfavorable lending rates that increased the FILP agencies' borrowing costs, and (3) the possibility that FILP loans might have been granted without proper consideration of the cost of subsidies and other policies with the risk of increased future costs to the public purse.

It was against this background that FILP was reformed in fiscal 2001 in order to make the system more efficient and more in accord with market principles.

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17 Lent to FILP agencies at the same rate as the rate on deposits with the Trust Fund Bureau Fund. (Arima, Toshinori, "*Zaisei Touyuushi Shikin to Shouken Shijou—Risuku Kanri to no Kankei*" (FILP Funds and the Securities Market: From the Perspective of Risk Management), Shiga University, Department of Economics, Annual Research Bulletin, Vol. 11, Shiga University, 2004, p. 7 (in Japanese)).

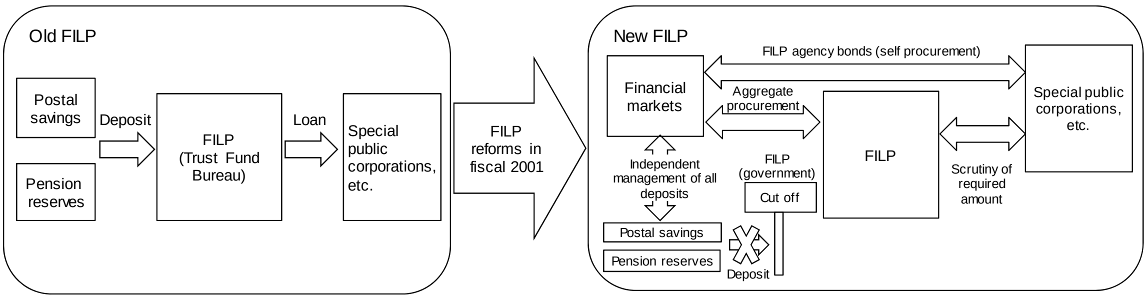
18 However, the Obuchi government submitted a bill, passed in December 1998, to suspend most of the provisions of the *Fiscal Structure Reform Law*.

19 Special public corporation: a corporation established directly by law or a corporation that needs to be especially established by a special law (excluding independent administrative institutions, *Ministry of Internal Affairs and Communications Act of Incorporation*, Article 4, Item 154-15).The term denotes an independent organization established by a special law when the government is seeking to engage in an essential activity that lends itself to commercial management and would be unlikely to be performed efficiently by a normal public agency because of restrictions to which it is subject. As well as being subject to special public control to ensure that it exercises public responsibility, an independent organization is otherwise granted as much independence and flexibility as possible to enable it to operate efficiently.

## 2) Details of FILP reforms

The reforms radically altered the existing flow of funds to and from FILP (Figure 6). As far as FILP's inflows were concerned, the requirement that all postal savings and public pension reserve funds be deposited with the Trust Fund Bureau was abolished. Instead, they were required to be invested in the market under the aforementioned new approach to fund management[20]. In addition, FILP had to generate the funds it needed by issuing "FILP bonds" (a type of government bond). The aim of this was to ensure that FILP raised all the funds it needed from the market in the most efficient way. As a result, FILP bonds became the main source of FILP funds, and fiscal loans have started to play a core role amongst the three channels of funding (fiscal loans, the Industrial Investment Special Account Fund, and government guarantees) (Figure 4 right-hand chart).

**Figure 6: Image of FILP reforms**




Note: 1. Government guarantees and industrial investments are omitted for the purpose of simplification
2. There was no mandatory deposit for postal insurance ever before the FILP Reform.
Source: Ministry of Finance, Financial Bureau, FILP Report 2012, 2012, P.8. (http://www.mof.go.jp/english/filp/filp_report/zaito2012/pdf/filp2012_eng.pdf)

By forming a direct link between FILP inflows and FILP outflows, the FILP reforms disentangled the previously entangled link[21]. Until the FILP reforms, the Trust Fund Bureau paid a rate consisting of the yield on 10-year government bonds + 0.2% on postal savings and public pension reserve funds deposited with it. This tended to inflate the cost of the funds available to FILP agencies. As a result of the reforms, however, the cost of these funds has declined in most cases as these agencies can now issue bonds with the same coupon as government bonds of the same maturity[22].

Furthermore, until the FILP reforms, the Trust Fund Bureau relied mainly on seven-year postal savings deposits and public pension fund reserves for its income but lent most of these funds for periods varying between five and 30 years, thereby posing a risk of interest rate volatility as a result of the mismatch between its assets and its

[20] Postal savings and pension fund reserves are currently invested in the market by Japan Post Bank and the Government Pension Investment Fund (GPIF), respectively, which manage their assets in accordance with their own policies and decisions.

[21] Iwamoto, Yasushi, "*Zaitousai to Zaitou Kikansai*" (FILP Bonds and FILP Agency Bonds), Financial Review, No. 47, Ministry of Finance, Policy Research Institute, October 1998, p. 135 (in Japanese).

[22] Tomita, Toshiki, "*Zaitou Kaikaku no Uso to Jitsu*" (Fiscal Reform: Fact and Fiction), Toyo Keizai Inc., 2008, p. 123 (in Japanese).

liabilities. Since the reforms, however, FILP agencies have been able to issue FILP bonds for periods varying between two and 30 years. In addition, they are now able to make it a condition of their loans that their lending rates are reviewed every 10 years if they choose to do so. These reforms have reduced this risk of interest rate volatility.

FILP's outflows were also reviewed to ensure that the operations of the FILP agencies served to complement those of the private sector. Also, where their operations were considered necessary, the FILP agencies were required to fund them by issuing FILP agency bonds backed by their own creditworthiness. In addition, the FILP agencies were required to disclose more information (in the form of policy cost analyses)—not only to enforce discipline but also to enable outsiders to judge whether their operations were appropriate and their finances on a sound footing.

### 3) Post-2001 reforms

There have been reforms of both FILP income and FILP expenditure since the reforms of fiscal 2001. The main reforms have been (A) reforms of the special public corporations, (B) reforms of public-sector financial institutions, and (C) reforms of the Post Office[23].

### A. Reforms of special public corporations

As successive governments have sought to implement fiscal consolidation, attention has focused on FILP expenditure on special public corporations. In December 2001, the government announced a plan to rationalize Japan's special public corporations in which the focus would be on not just restructuring them but also on reviewing their operations. Following this, all of the corporations had their operations reviewed and were restructured (by being abolished, merged, privatized or turned into independent administrative agencies[24]), accordingly.

As a result, (1) of the 168 special public corporations that were affected by the reforms by April 2009, 148 (or just over 90%) had been either abolished, merged, privatized or turned into independent administrative agencies, and (2) fiscal spending (including spending on special public corporations that had become independent

23 Other reforms that have been carried out since the FILP reforms include the following reforms to key fiscal issues such as the special accounts and state assets and liabilities: (1) drawing down the interest rate fluctuation reserves of the Fiscal Loan Fund Special Account and transferring them to the Special Account for the Government Debt Consolidation Fund, (2) merging the Fiscal Loan Fund Special Account and the Industrial Investment Special Account, and (3) securitizing FILP loans. (Committee for Examining Basic Problems Facing FILP, "*Kongo no Zaisei Touyuushi no Arikata ni Tsuite*" (The Future of FILP), June 2008, p. 1 (in Japanese).)

24 Independent administrative institutions: organizations whose legal status was clarified by the *Basic Law on the Reform of Central Government Ministries* promulgated in June 1998. They are established to properly perform services essential for daily life and the stability of society and the economy but which need not be performed by the state itself and might not be performed properly if they were outsourced to the private sector.

administrative agencies) in fiscal 2008 was roughly ¥2 trillion less than just before the reforms (in fiscal 2001).[25, 26]

### B. Reforms of public-sector financial institutions

The reforms focusing on spending on special public corporations also resulted in a review of the operations, scale, and organization of public-sector financial institutions. Under a blueprint for the reform of public-sector financial institutions announced by the government in June 2006, these institutions were relegated to the role of complementing private-sector financial institutions. As a result, (1) they were required to limit their operations to what was considered necessary, to undergo restructuring, and to reduce their outstanding loans (as a proportion of GDP) by 50% in order (2) to make them more effective as public-sector financial institutions, while (3) private-sector financial institutions were also expected to respond to emergencies. This was followed, in May–June 2007, by the passing of related legislation and, in October 2008, by its implementation by individual financial institutions.

As a result of the resulting restructuring, (1) the Japan Finance Corporation was established in October 2008[27], (2) the (former) Development Bank of Japan and the (former) Shoko Chukin Bank became semigovernmental organizations[28] (also in October 2008) before being fully privatized, and (3) the (former) Japan Finance Corporation for Municipal Enterprises was abolished (also in October 2008) and the (former) Japan Finance Organization for Municipal Enterprises established as a joint venture by local governments[29]. However, since the global financial crisis and the resulting recession as well as the Great East Japan Earthquake of March 2011, events that were not envisaged when these reforms were planned, these institutions have generally been able to play a greater role in implementing urgent government policies than was originally expected.

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25 Cabinet Office Administrative Reform Group, "*Tokushu Houjintou Kaikaku no Seika*" (Outcome of the Reforms to Special Public Corporations), April 2009 (in Japanese).

26 Japanese cabinet approved a series of decisions on independent administrative institutions, including (1), in December 2007, nearly six years after the implementation, in January 2001, of the *Act on General Rules for Independent Administrative Institutions*, a plan to radically restructure 101 agencies, (2) in December 2009, after a change of government, a plan for further radical restructuring, and, i a “basic policy” for the first stage of this radical restructuring in January 2010/ (Source: Cabinet Office Administrative Reform Group, "*Dokuritsu Gyousei Houjin Kaikaku no Gaiyou*" (Overview of Reform of Independent Administrative Agencies) (in Japanese)).

27 The Okinawa Development Finance Corporation was due to merge with the Japan Finance Corporation in fiscal 2012. However, following the enactment of the *Law Amending the Law on Special Measures for the Promotion and Development of Okinawa*, this was postponed until fiscal 2022. Similarly, the international arm of the Japan Finance Corporation, the Japan Bank for International Cooperation (JBIC), was hived off from the Japan Finance Corporation in April 2012 to form an independent organization (with the same English name).

28 Special status company: special public corporations that have become joint-stock companies wholly or partly owned by the state.

29 The (former) Japan Finance Organization for Municipal Enterprises became the Japan Finance Organization for Municipalities in June 2009.

## C. Reforms of the Post Office

The FILP reforms resulted not only in the abolition of the requirement that all postal savings be deposited with the Trust Fund Bureau but also in a renewed focus on the role of postal savings in government administrative and fiscal policy. As we have seen, postal savings deposits began to grow more rapidly in the 1980s than deposits with private-sector financial institutions as a result of the Post Office's being able to offer more attractive products, especially *teigaku* deposits. This marked the beginning of a period of increasing competition between the two and the beginning of moves to privatize the Post Office.

When Ryutaro Hashimoto became prime minister, consideration was originally given to privatizing the Post Office as part of the move towards administrative reform. However, the enactment of the *Basic Act on Central Government Reform* in June 1998 made it clear that privatization would not be an option and that all three parts of the Post Office (postal services, postal savings, and postal pensions) would become part of a public corporation. As a result, the former Postal Services Agency became Japan Post in April 2003.

However, even after the Post Office became a public corporation (Japan Post), there were repeated moves to privatize it as a result of plans for it to compete with the private sector (e.g., when Junichiro Koizumi, who had long advocated its privatization, became prime minister in April 2001[30]). This led, in 2005, to the promulgation of the *Postal Service Privatization Act* and, in October 2007, to the privatization of the Post Office as Japan Post Group and its break-up into four major entities. However, this was later reconsidered, and, in October 2012, Japan Post Service and Japan Post Network were merged and the Japan Post Group restructured as four instead of five entities.

## 4) Impact of FILP reforms

## A. Reduction in size of FILP

The reforms to each of FILP's different operations as well as to its inflows and outflows led to a drastic reduction in its size. In particular, its different operations were reviewed by the FILP Subcommittee of the Fiscal System Council in 2004–2005 from the point of view of policy needs and fiscal soundness. As a result, FILP agencies that had become insolvent were required to rationalize their operations, while, in July 2005, all FILP agencies became subject to a new auditing system. In addition, in fiscal 2005 those agencies that had radically overhauled their operations were allowed to make early repayments of FILP funds without having to pay compensation. As a result of all these reforms, the total size of FILP operations[31]

[30] The term of the prime minister was 26 April 2001 to 26 September 2006.
[31] This figure excludes the fund management operations of the postal savings, *kanpo*, and public pension fund operations.

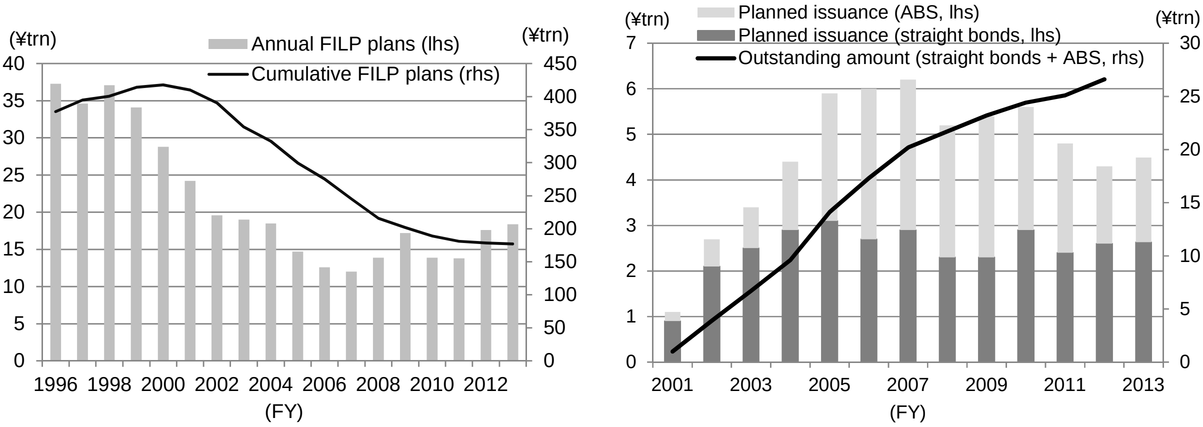
declined by roughly 60% from a peak of ¥60.4 trillion in fiscal 1996 to ¥26.5 trillion in fiscal 2007[32].

On a flow basis, FILP plans continued to decline in size until fiscal 2007. However, they began to increase again in size in fiscal 2008 as a result of policy responses to the global financial crisis and the Great East Japan Earthquake[33]. On a stock basis, however, they are due to decline in size by roughly 40% from a peak of ¥417.8 trillion in fiscal 2000 to ¥177.2 trillion in fiscal 2013 (Figure 7, left-hand chart). One of the results of this decline in the size of FILP plans has been that one of the aims of the FILP reforms (namely, that the role of the FILP agencies should be to complement the private sector) has been achieved as the flow of funds from private-sector financial institutions to households has increased.

**Figure 7: Annual and cumulative amounts of FILP plans and FILP agency bonds**

Annual and cumulative amounts of FILP plans

Annual and cumulative amounts of FILP agency bonds




Source: 1. Annual amount of FILP plans is based on actual figures. Data for period through fiscal 2000 are on a general-purpose FILP fund basis. Data are actual through fiscal 2011. Data for fiscal 2012 and fiscal 2013 are on a plan basis.

2. Planned issuance of FILP agency bonds is the initially planned amount. Data for fiscal 2013 are on a plan basis. The cumulative issue amount of FILP agency bonds is the actual amount issued in fiscal 2001–fiscal 2011 and the estimated amount issued in fiscal 2012.

Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance, Financial Bureau, FILP Report 2012, 2012, pp. 8–9; Ministry of Finance, Policy Research Institute, "Zaisei Touyuushi" (FILP) in Zaisei Kin'yuu Toukei Geppou (Fiscal and Financial Statistics Monthly), No. 723, July 2012 (in Japanese); Ministry of Finance, "Heisei 25nendo Zaisei Touyuushi Keikaku no Gaiyou" (Overview of FILP Plan for Fiscal 2013), 29 January 2013 (in Japanese); Ministry of Finance, "Heisei 25nendo Zaisei Kikansai no Hakkou Yotei" (Planned Issuance of FILP Agency Bonds in Fiscal 2013), 29 January 2013 (in Japanese) (http://www.mof.go.jp/english/filp/filp_report/zaito2012/pdf/filp2012_eng.pdf, http://www.mof.go.jp/pri/publication/zaikin_geppo/hyou/g723/723.htm, https://www.mof.go.jp/filp/plan/fy2013/h25seifuan/zt002.pdf, https://www.mof.go.jp/filp/plan/fy2013/h25seifuan/zt005.pdf)

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32 Tomita, Toshiki, "*Zaitou Kaikaku no Uso to Jitsu*" (Fiscal Reform: Fact and Fiction), Toyo Keizai Inc., 2008, p. 124 (in Japanese).

33 Examples of the use of FILP funds to mitigate the impact of the economic and financial crisis that followed the collapse of Lehman Brothers include "safety net loans" to SMEs, emergency loans from the Japan Finance Corporation, and emergency assistance for the overseas operations of Japanese companies. Examples of the use of FILP funds to mitigate the impact of the Great East Japan Earthquake of March 2011 include financial assistance for Japanese companies and local governments (to prevent and mitigate the impact of natural disasters). (Mukoyama, Isamu, "*Kuni no Shin'youryoku o Ikashi, Teikosuto de Shikin Choutatsu—Minkan de wa Jitsugen Konnan na Jigyou o Shien Suru! Zaisei Touyuushi no Jitsuryoku o Tettei Kaibou*" (Use Japan's Credit Rating to Borrow Cheaply and Support Projects Unlikely to Attract Private-Sector Funding! A Thorough Analysis of FILP Power), Finance, Vol. 48, No. 8, November 2012, p. 16 (in Japanese).)

### B. Issuance of FILP bonds

FILP agency bonds, issuance of which began in the spring of 2001 as a result of the FILP reforms of fiscal 2001, are issued by individual FILP agencies on open financial markets without explicit government guarantees. The amount of FILP agency bonds issued initially increased but has since failed to do so as a result of the changes in the scale of their operations. However, the outstanding amount of FILP agency bonds issued has continued to increase and stood at an estimated ¥26.6 trillion as of the end of fiscal 2012 (Figure 7, right-hand chart).

As FILP agency bonds are issued without any explicit government guarantee and are subject to market scrutiny, they were expected to encourage FILP agencies to disclose more information and be more efficient. However, critics also pointed out (1) that this could lead to a higher cost of capital for operations that were essential to government policy, (2) that this, in turn, could increase the burden on the public purse, and (3) that the agencies could become oversized and undisciplined if it was assumed that their bonds had an implicit government guarantee[34]. According to a June 2008 report by a Ministry of Finance committee on the future of FILP, the cost and benefits had to be considered when deciding the amount of bonds FILP agencies should be allowed to issue and those agencies that issued an appropriate amount of bonds should be allowed to continue to do so[35].

# IV. The significance of Japan's Fiscal Investment and Loan Program and possible lessons for the rest of Asia

### 1. Significance of FILP in driving Japan's economic growth and financing its infrastructure

Many other countries have a similar fiscal investment and loan program financed by social insurance contributions and postal savings (Figure 8)[36].

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34 Ministry of Finance, Fund Operation Council Subcommittee, "*Zaisei Touyuushi no Bapponteki Kaikaku ni Tsuite*" (Outline of Fundamental Reform of the Fiscal Investment and Loan Program), 27 November 1997.

35 Committee for Examining Basic Problems Facing FILP, "*Kongo no Zaisei Touyuushi no Arikata ni Tsuite*" (The Future of FILP), June 2008, p. 2 (in Japanese).)

36 Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai3ban),*" (Lectures on Public Finance, 3rd edition), University of Tokyo Press, 2002, pp. 146–147 (in Japanese); Shindo, Muneyuki, "*Gyouseigaku Sousho 2*, *Zaisei Touyuushi*" (Public Administration Series 2, Fiscal Investment and Loan Program), University of Tokyo Press, 2006, p. 15 (in Japanese).

**Figure 8: Examples of Utilization of Loans in Europe and the United States (extract)**

| | US | UK | Germany | France | Japan |
|---|---|---|---|---|---|
| Comprehensive unified credit accommodation by the government | Federal Credit Program | None | None | None | FILP Plan |
| Government loan balance (as of end-fiscal 2011) | $2,855bn <¥254trn> | £105.6bn <¥15trn> | €123.6bn <¥17trn> (as of end-fiscal 2010) | €56.9bn <¥7trn> | ¥181trn |
| Major sector eligible for financing | Private sector | Public sector (local governments, etc.) | Public sector (Kreditanstalt für Wiederaufbau (KfW) group, etc.) | Private sector | Public sector (government-affiliated financial institutions, local governments, etc.) |
| Main target areas | Housing, SMEs, education, local development projects, agriculture, trade | Social infrastructure, SMEs, education | Housing, social infrastructure, SMEs, agriculture | Housing, social infrastructure, SMEs, trade/foreign aid | SMEs, social infrastructure, education/welfare/medical care, trade/foreign aid, housing, agriculture |

Note:
1. Figures are calculated based on the foreign currency conversion rate provided in Article 11, Paragraph 2, Item 4 of the Official Spending Regulation (Finance Ministry Ordinance No.94 established in 1947).
2. Figures may change in accordance with revision of statistical data in each country.
3. In the case of the "government loan balance," the figures of the general government are noted for Germany and France, and the figures of the central government are shown for the other countries (for Japan, the figures show the FILP balance).
4. Based on Analytical Perspectives- Budget of the U.S. Government Fiscal Year 2013 (Office of Management and Budget), United Kingdom Economic Accounts, Quarter 4 2011 (Office for National Statistics), Financial Accounts for Germany 2005 to 2010 (Deutsche Bundesbank), Comptes financiers trimestriels- France 4e trimestre 2011 (Banque de France), etc.

Source: Ministry of Finance, Financial Bureau, FILP Report 2012, 2012, p.16. (http://www.mof.go.jp/english/filp/filp_report/zaito2012/pdf/filp2012_eng.pdf)

According to Hayashi (2002), France's program is the most similar[37]. However, it is probably fair to say that the sheer scale of Japan's FILP compared with other, similar programs suggests that it has not only played a major role in driving Japan's economic growth and financing its infrastructure but been an integral part of government fiscal policy.

There are two main factors for FILP to play a significant role.

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37 A French government financial institution, the Caisse des Dépôts et Consignations, has a similar function to that of the former Trust Fund Bureau in that it lends tax-exempt funds collected by savings banks and the Post Office for purposes such as housing and infrastructure investment. It lends money (for a maximum of 60 and an average of 32 years) mainly for the construction and refurbishment of housing for low-income families and for infrastructure projects. (Source: Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai3ban)*," (Lectures on Public Finance, 3rd edition), University of Tokyo Press, 2002, p. 147 (in Japanese); Hayashi, Takehisa, "*Zaiseigaku Kougi (Dai2ban)*," (Lectures on Public Finance, 2nd edition), University of Tokyo Press, 1995, p. 148 (in Japanese); FILP Subcommittee of the Fiscal System Council, "*Eikoku, Furansu ni Okeru Zaisei Touyuushi Ruiji Seido ni Tsuite*" (British and French Systems Similar to Japan's Fiscal and Investment Loan Program), 21 June 2011, p. 4 (in Japanese).)

The first is that, until the fiscal 2001 reforms, FILP was an efficient means of using the state's creditworthiness to attract stable long-term funds such as postal savings at fixed rates of interest and allocate them efficiently to sectors that would drive economic growth. In other words, by adapting to private-sector indirect finance, FILP enabled the public sector to tap a stable source of indirect finance[38].

FILP's role was particularly important if we consider (1) that until Japan's period of rapid economic growth its national income was low and the supply of private-sector savings fell short of the demand for them, and (2) that, with the exception of the long-term credit banks that still existed at that time, it was difficult for deposit-taking institutions to make long-term loans without facing asset and liability management problems (such as the risk of interest rate volatility).

Many Asian countries are similar to Japan in that they rely heavily on indirect finance in the form of bank deposits[39]. Some countries also have postal savings systems similar to Japan's.

It goes without saying that Asian countries have the option to borrow from the private sector rather than adopt a system similar to FILP in order to finance what is likely to be a growing need for infrastructure. According to Mochida (2008), however, it is risky for countries with a weak financial system to rely on short-term bank credit and the need to refinance it in order to finance their infrastructure. For example, if commercial banks rely on property as collateral, there is a risk that fluctuations in the price of land could affect the provision of infrastructure[40]. If the price of land in a country that depended on short-term bank credit and the need to refinance it for its infrastructure declined, there is a risk that that the provision of infrastructure could be inadequate.

Yoshino and Hirano (2010) point out that, although Asian domestic savings rates are generally high, just over 90% of portfolio investment in Asia has been undertaken by investors from outside Asia (e.g., the United States and Europe) ever since the Asian currency crisis of 1997[41]. Adopting an approach similar to that of FILP could be a good way of harnessing these savings so that they could be used to satisfy the demand for infrastructure investment in Asia.

The second reason we believe FILP has been important is that it has complemented tax revenues and borne much of Japan's fiscal burden in an effort to sustain economic growth. As Japan was relatively late in establishing a stock market, it has pursued a

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38 Shigemori, Akira, Tsuruta, Hiromi, and Ueda, Kazuhiro, "*Basic Gendai Zaiseigaku (Dai3ban)*" (Basic Public Finance, 3rd edition), Yuhikaku, 2009, p. 318 (in Japanese).

39 Yoshino, Naoyuki, "*Ajia no Kin'yuu Shijou*" (Asian Financial Markets), Keio University Press, 2005, pp. 107–108 (in Japanese).

40 Mochida, Nobuki, "*Chihousai Seido Kaikaku no Kihonteki Souten*" (Main Issues regarding Reform of Japan's Local Government Bond System) in Kaizuka, Keimei and Ministry of Finance, Policy Research Institute (ed.), "*Bunkenka Jidai no Chihou Zaisei*" (Local Government Finance in the Age of Devolution), Chuo Keizaisha, 2008, p. 215 (in Japanese).

41 Yoshino, Naoyuki and Hirano, Tomohiro, Fiscal Stability, the Infrastructure Revenue Bonds and Bank Based Infrastructure Funds for Asia, *GEM Working Paper*, European Centre for International Economic Policy, November 2010, pp. 4-6.

growth track aimed at catching up with the West ever since the Meiji Period. However, its relatively late emergence as a capitalist economy meant that it did not have the capital reserves it needed and found itself on a rather frail fiscal footing[42]. This is why FILP was needed to supplement tax revenues in order to finance the provision of infrastructure.

In this connection, Park (2011) points out that FILP played a number of important fiscal roles. For example, (1) it helped to suppress budget spending and therefore made it easier to cut taxes without sacrificing budget balance; (2) low tax rates boosted private savings and investment, and, by keeping budget spending low, the government, helped by rapid economic growth, could also maintain budget discipline; (3) a balanced budget not only allowed the government to use monetary policy more aggressively, they also prevented private sector crowding out and helped the government manage its international balance of payments; and (4) by relying on FILP, the government's policy of budget restraint did not come at the expense of its other policy priorities or the ruling party's political goals[43]. Furthermore, it has also pointed out that FILP provided the state with a large and growing pool of financial resources around which the government built a sprawling parastate apparatus that it used to channel investment to accelerate industrialization and to finance the ruling party's political strategy.

Other Asian economies have a wide range of options for financing their future infrastructure needs. These include government bonds, private-sector finance (bank loans, infrastructure funds, and public-private partnerships), loans from multilateral development banks, and official development assistance as well as tax collection. However, they may find it worth their while considering a system such as FILP that not only complements tax revenues and enables governments to meet greater fiscal needs but also eases political constraints, raises capital efficiently, and disburses it effectively.

## 2. Points to consider if Asian economies adopt FILP: problems raised by FILP

Although FILP has played a major role in Japan's economic development and infrastructure provision, this role and the need for it have changed as the Japanese economy has matured, and the fiscal 2001 reforms revealed just how bloated fiscal policy had become and how lacking it was in discipline.

Judging by the history of FILP, the most important thing for any other Asian economy that adopted such a system would be to ensure that it was efficient. In particular, in Japan's case, the provision of infrastructure, including, for example, urban highways, tended to have a major impact through Japan's period of rapid economic growth. However, as the provision of infrastructure proceeded, the impact on economic growth, including that of projects in less densely populated areas, was not always particularly great.

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42 Shigemori, Akira, Tsuruta, Hiromi, and Ueda, Kazuhiro, "*Basic Gendai Zaiseigaku (Dai3ban)*" (Basic Public Finance, 3rd edition), Yuhikaku, 2009, p. 318 (in Japanese).

43 Gene Park, *Spending without Taxation*, Stanford University Press, 2011, pp. 247-248.

Since the use by FILP of repayable funds assumes that FILP will be able to repay those funds and earn a return on them at some point in the future, good governance requires adequate transparency and disclosure to enable an assessment of whether future, and not just present, returns are likely to justify the costs. In Japan's case, however, it was only relatively recently (namely, as a result of the FILP reforms of fiscal 2001) that an analysis of policy costs along these lines was adopted. The high rates of economic growth enjoyed by many Asian countries are likely to make it relatively easy for them to satisfy this efficiency requirement. However, if they are planning to adopt a system such as FILP, we believe they would be well advised also to adopt a system for analyzing policy costs sooner rather than later in order to ensure that the system they adopt is efficient and does not lead to an increase in the fiscal burden.

In addition, a system such as FILP has the political and fiscal advantage of enabling governments to spend without have to raise taxes. Therefore any failure to maintain fiscal discipline and ensure full disclosure risks damaging a country's fiscal profile, including its general account. This is another reason why it is important for countries adopting a system such as FILP to ensure not only that there is a system for analyzing policy costs but also that disclosure is of a high standard.

## V. Conclusion

The aim of this paper was to examine such questions as whether it would make sense for other Asian countries, which face considerable demand for infrastructure, to adopt an approach similar to the fiscal investment and loan program that helped the Japanese economy to grow rapidly in the late 1950s and early 1960s, and, if they did adopt such a system, which aspects they should focus on in order to make the most of it.

It is well known that FILP played a major role in Japan's economic development by converting postal savings and pension fund reserves into long-term, fixed-rate loans that proved an efficient way of funding the provision of infrastructure. In addition, it not only complemented tax revenues and bore much of Japan's fiscal burden in an effort to sustain economic growth but also enabled the ruling party to implement its political strategy and remain in power, thereby maintaining political stability.

However, the FILP reforms of fiscal 2001 demonstrate the need for any Asian country considering the adoption of a system such as FILP also to adopt some system of analyzing the policy costs and ensuring full disclosure to ensure that the system is efficient and contributes to economic growth.

Asian countries have a wide range of options for financing the demand for infrastructure they are likely to face. These include tax revenue, government bonds, private-sector capital, loans from multilateral development banks, and official development assistance as well as FILP. If the countries of Asia are to continue to enjoy solid economic growth, they will need to decide on a suitable means (or combination of means) of raising the capital they need to finance their demand for infrastructure and regularly monitor whether this is still the most efficient and effective means of doing this.

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