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Japan's Big-Works Stimulus Is Lesson

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Shiho Fukada for The New York Times

The soaring Marine Bridge in Hamada, Japan, built as a public works project, was almost devoid of traffic on a recent morning.

By MARTIN FACKLER Published: February 5, 2009

HAMADA, Japan — The Hamada Marine Bridge soars majestically over this small fishing harbor, so much larger than the squid boats anchored below that it seems out of place.

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Road-building in Oda, in Shimane Prefecture. Critics say Japan focused too much on building roads and other infrastructure.

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And it is not just the bridge. Two decades of generous public works spending have showered this city of 61,000 mostly graying residents with a highway, a two-lane bypass, a university, a prison, a children's art museum, the Sun Village Hamada sports center, a bright red welcome center, a ski resort and an aquarium featuring three ring-blowing Beluga whales.

Nor is this remote port in western Japan unusual. Japan's rural areas have been paved over and filled in with roads, dams and other big infrastructure projects, the legacy of trillions of dollars spent to lift the economy from a severe downturn caused by the bursting of a real estate bubble in the late 1980s. During those nearly two decades, Japan accumulated the largest public debt in the developed world — totaling 180 percent of its \$5.5 trillion economy — while failing to generate a convincing recovery.

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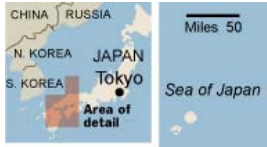
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Beluga whales in Hamada blowing bubble rings at an aquarium built by public works spending.



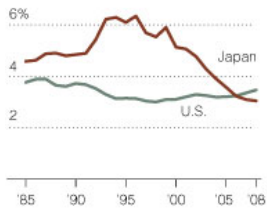
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Hamada was a beneficiary of public works spending.

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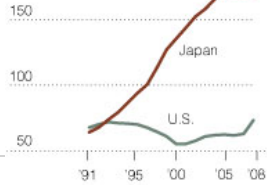
After Japan's real estate bubble burst in the early 1990s, the country began a series of large infrastructure projects.

Government investment as a percentage of G.D.P.



But the spending had mixed results, and the country now has the largest public debt in the developed world.

Government debt as a percentage of G.D.P.



Source: O.E.C.D. THE NEW YORK TIMES

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Now, as the Obama administration embarks on a similar path, proposing to spend more than \$820 billion to stimulate the sagging American economy, many economists are taking a fresh look at Japan's troubled experience. While Japan is not exactly comparable to the United States — especially as a late developer with a history of heavy state investment in infrastructure — economists say it can still offer important lessons about the pitfalls, and chances for success, of a stimulus package in an advanced economy.

In a nutshell, Japan's experience suggests that infrastructure spending, while a blunt instrument, can help revive a developed economy, say many economists and one very important American official: Treasury Secretary [Timothy F. Geithner](#), who was a young financial attaché in Japan during the collapse and subsequent doldrums. One lesson Mr. Geithner has said he took away from that experience is that spending must come in quick, massive doses, and be continued until recovery takes firm root.

Moreover, it matters what gets built: Japan spent too much on increasingly wasteful roads and bridges, and not enough in areas like education and social services, which studies show deliver more bang for the buck than infrastructure spending.

"It is not enough just to hire workers to dig holes and then fill them in again," said Toshihiro Ihori, an economics professor at the University of Tokyo. "One lesson from Japan is that public works get the best results when they create something useful for the future."

In total, Japan spent \$6.3 trillion on construction-related public investment between 1991 and September of last year, according to the Cabinet Office. The spending peaked in 1995 and remained high until the early 2000s, when it was cut amid growing concerns about ballooning budget deficits. More recently, the governing Liberal Democratic Party has increased spending again to revive the economy and the party's own flagging popularity.

In the end, say economists, it was not public works but an expensive cleanup of the debt-ridden banking system, combined with growing exports to China and the United States, that brought a close to Japan's Lost Decade. This has led many to conclude that spending did little more than sink Japan deeply into debt, leaving an enormous tax burden for future generations.

In the United States, it has also led to calls in Congress, particularly by Republicans, not to repeat the errors of Japan's failed economic stimulus. They argue that it makes more sense to cut taxes, and let people decide how to spend their own money, than for

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the government to decide how to invest public funds. Japan put more emphasis on increased spending than tax cuts during its slump, but ultimately did reduce consumption taxes to encourage consumer spending as well.

Economists tend to divide into two camps on the question of Japan's infrastructure spending: those, many of them Americans like Mr. Geithner, who think it did not go far enough; and those, many of them Japanese, who think it was a colossal waste.

Among ordinary Japanese, the spending is widely disparaged for having turned the nation into a public-works-based welfare state and making regional economies dependent on Tokyo for jobs. Much of the blame has fallen on the Liberal Democratic Party, which has long used government spending to grease rural vote-buying machines that help keep the party in power.

But some Western economists who have studied Japan's experience say the stimulus accomplished more than it is now given credit for. At a minimum, they argue, it saved the economy from an outright, 1930s-style collapse.

Moreover, they say, any direct comparison of Japan and the United States is inevitably misleading, because Japan has spent so much more over the years on infrastructure. Having neglected its roads, bridges, water treatment plants and more over the years, the United States is bound to generate a greater payback for such spending than would Japan.

Beyond that, proponents of Keynesian-style stimulus spending in the United States say that Japan's approach failed to accomplish more not because of waste but because it was never tried wholeheartedly. They argue that instead of making one big push to pump up the economy with economic shock therapy, Japan spread its spending out over several years, diluting the effects.

After years of heavy spending in the first half of the 1990s, economists say, Japan's leaders grew concerned about growing budget deficits and cut back too soon, snuffing out the recovery in its infancy, much as Roosevelt did to the American economy in 1936. Growth that, by 1996, had reached 3 percent was suffocated by premature spending cuts and tax increases, they say. While spending remained high in the late 1990s, Japan never gave the economy another full-fledged push, these economists say.

They also say that the size of Japan's apparently successful stimulus in the early 1990s suggests that the United States will need to spend far more than the current \$820 billion to get results. Between 1991 and 1995, Japan spent some \$2.1 trillion on public works, in an economy roughly half as large as that of the United States, according to the Cabinet Office. "Stimulus worked in Japan when it was tried," said David Weinstein, a professor of Japanese economics at [Columbia University](#). "Japan's lesson is that, if anything, the current U.S. stimulus will not be enough."

Most Japanese economists have tended to take a bleaker view of their nation's track record, saying that Japan spent more than enough money, but wasted too much of it on roads to nowhere and other unneeded projects.

Dr. Ihori of the University of Tokyo did a survey of public works in the 1990s, concluding that the spending created almost no additional economic growth. Instead of spreading beneficial ripple effects across the economy, he found that the spending actually led to declines in business investment by driving out private investors. He also said job creation was too narrowly focused in the construction industry in rural areas to give much benefit to the overall economy.

He agreed with other critics that the 1990s stimulus failed because too much of it went to roads and bridges, overbuilding this already heavily developed nation. Critics also said decisions on how to spend the money were made behind closed doors by bureaucrats, politicians and the construction industry, and often reflected political considerations more than economic. Dr. Ihori said the United States appeared to be striking a better balance by investing in new energy and information-technology infrastructure as well as replacing aging infrastructure.

Japan's experience also seems to argue for spending heavily to promote social development. A 1998 report by the Japan Institute for Local Government, a nonprofit policy research group, found that every 1 trillion yen, or about \$11.2 billion, spent on social services like care for the elderly and monthly pension payments added 1.64 trillion yen in growth. Financing for schools and education delivered an even bigger boost of 1.74 trillion yen, the report found.

But every 1 trillion yen spent on infrastructure projects in the 1990s increased Japan's gross domestic product, a measure of its overall economic size, by only 1.37 trillion yen, mainly by creating jobs and other improvements like reducing travel times.

Economists said the finding suggested that while infrastructure spending may yield strong results for developing nations, creating jobs in higher-paying knowledge-based services like health care and education can bring larger benefits to advanced economies like Japan, with its aging population.

"In hindsight, Japan should have built public works that address the problems it faces today, like aging, energy and food sources," said Takehiko Hobo, a professor emeritus of public finance at Shimane University in Matsue, the main city of Shimane. "This obsession with building roads is a holdover from an earlier era."

The fruits of that obsession are apparent across Shimane, a rural prefecture about the size of Delaware where Hamada is located. Each town seems to have its own art museum, domed athletic center and government-built tourist attraction like the Nima Sand Museum, a giant hourglass in a glass pyramid. The prefecture, with 740,000 residents, even has three commercial airports able to handle jets, including the \$250 million Hagi-Iwami Airport, which sits eerily empty with just two flights per day.

In Hamada, residents say the city's most visible "hakomono," the Japanese equivalent of "white elephant," was its own bridge to nowhere, the \$70 million Marine Bridge, whose 1,006-foot span sat almost completely devoid of traffic on a recent morning. Built in 1999, the bridge links the city to a small, sparsely populated island already connected by a shorter bridge.

"The bridge? It's a dud," said Masahiro Shimada, 70, a retired city official who was fishing near the port. "Maybe we could use it for bungee jumping," he joked.

Koichi Matsuoka, a retired professor of policy at the University of Shimane in Hamada, said useless projects like the Marine Bridge were the reason that years of huge spending had brought few long-term benefits here. While Shimane has had the highest per capita spending on public works in Japan for the last 18 years, thanks to powerful local politicians like the deceased former Prime Minister Noboru Takeshita, its per capita annual income of \$26,000 ranked it 40th among Japan's 47 prefectures, he said. He said the spending had left Shimane \$11 billion in debt, twice the size of the prefectural government's annual budget.

Still, local officials in Hamada warn that their city's economy will collapse without public works, though they recognize the spending cannot continue forever. They offered their

own lesson to American communities in the Obama era: when you choose public works projects, be sure to get ones with lasting economic impact.

Among Hamada's many public works projects, the biggest benefits had come from the prison, the university and the Aquas aquarium, with its popular whales, they said. These had created hundreds of permanent jobs and attracted students and families with children to live in a city where nearly a third of residents were over 65.

"Roads and bridges are attractive, but they create jobs only during construction," said Shunji Nakamura, chief of the city's industrial policy section. "You need projects with good jobs that will last through a bad economy."

Makiko Inoue contributed reporting.

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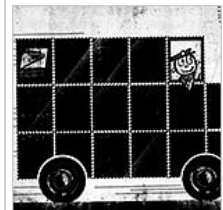
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