Efficacy of Fiscal Policy in Japan: Keynesian and Non-Keynesian Effects on Aggregate Demand

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Using a nonlinear fiscal policy model, we analyze the efficacy of fiscal policy in Japan. We also test whether the effect is linear or nonlinear, which has never been tested. Our empirical results reveal that an increase in government expenditure causes a decrease in private consumption when the government debt/GDP ratio is high. Also, the results from our linearity test support a nonlinear effect of fiscal policy rather than a linear effect. In addition, the estimated threshold value indicates that the Japanese economy has been in the high ratio situation from around 1998.

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