

# Identifying the Effect of Central Grants Program on Local Government Behavior: The Case of Public Assistance in Japan \*

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## Abstract

Local governments in Japan are partially funded by the central government to implement public assistance for the needy in their jurisdictions. This paper exploits the institutional interplay of the Japanese intergovernmental transfers to identify the effects of central funding on the locally implemented social programs. Our results indicate that local governments on average respond to an increase in the central funding by protecting more of their residents. This does not contradict to the traditional view of the Japanese government that more of central funding increases unnecessary expenditures for public assistance by local governments. However, such an increase does not have to be unnecessary. Given a low take-up rate in the country, our results rather indicate that central funding can be an effective policy instrument to protect more of the needy.

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