Empirical Studies on Strategic Interactions among Neighboring Municipalities in Japan

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<div align="center">論 文 内 容 の 要 旨</div>

This thesis reviews previous research on strategic interaction among local governments, and empirically examines whether municipalities change their public expenditure/ public salary levels in response to corresponding changes in neighboring municipalities. I built spatial models that took into account both spatial lag and spatial error's interdependences. The models were estimated by the GS2SLS for main analysis.

The results indicated that spatial strategic interactions on local public expenditures/ public salary levels among Japanese municipalities in the sample existed, revealed by the positive and statistically significant spatial lag coefficients at conventional levels. It is suggested that the Japanese municipalities in the study sample may consider their neighbors' choices in making local expenditure/ public salary decisions. Exceptionally, in the periods following intervention by the central government, there were significant positive impacts of changes in neighboring municipalities' public sector saFlary levels on changes in a given municipality. The results are consistent across various specifications used as robustness checks, including the use of different spatial weighting matrices, additional control variables, and spatial panel models.

The contributions of the thesis are fourfold. First, it synthesizes and categorizes recent empirical studies on strategic interaction among neighboring jurisdictions from 2005-2019. Second, it contributes to the modest literature that makes use of an exogenous variation source for the identification of spatial strategic interaction among the municipalities in a quasi-experimental approach. Third, it provides evidence of strategic interactions among governments at the local level.

The results indicate that Japanese municipalities take neighboring municipalities' decisions into consideration when they are determining their public expenditures/ public sector salary levels, which follows the logic of the yardstick competition mechanism. Fourth, it investigates how the central government's policies affect the interrelationships among municipalities by observing how the strength of strategic interaction among neighboring municipalities vary in response to changes in the central government's policies. In particular, in the research featuring strategic interaction on public salaries, I show that the central government's policies are successful in shaping the behavior of local governments, especially under a top-down policy approach. The findings and suggestions drawn from this thesis might provide useful insights for central governments in effective regional planning and fiscal policies to make expenditure flow at sub-national levels more equal and efficient.