

Effects of industrial policy devices for capital investment: Lessons from Japan's cases

Mariko Hatase, Yoichi Matsubayashi

Abstract

Governments sometimes take policies to promote the activities of industries for various purposes and the recent trends are evaluated as “the revival of the industrial policies.” The post-war period of Japan showcased such policies aiming at achieving economic growth through promoting capital investments in the private sectors.

To meet the goals of industrial policies through encouraging capital investments, the Japanese government mobilised various types of policy tools, from direct controls on capital investments, controlling banking activities, public lending to various tax equipment. Though the effectiveness of these policies is subject to controversy, recent trends in drawing on micro level data allow us to reconsider the effects of past industrial policies. This paper examines the effects of major industrial policy tools to encourage capital investments during the high growth era of Japan based on firm level data for relatively large firms which led the capital investments and thus economic growth. The empirical evidence shows that such policy devices promoted capital investments through reducing the user cost of capital and providing extra funds. In addition, the examination of the relationship between applications of policy devices and sales growth of each firm indicates the positive results on sales growth, suggesting the probability of the achievement of final policy goals, promoting growth, to some extent.