

Politico economic equilibrium: Dynamic general equilibrium analysis about public capital and regional allocation

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Abstract

We are interested in how political factors affect on Japanese governmental economic policy, and how the affected policy influenced regional growth. We analyze the influence by a dynamic general equilibrium model. We construct a multi-regional economy model, and introduce the concept of an endogenous policy making process and public capital. The parameters of the model are estimated to fit Japanese postwar data by evaluating non-stationary transition. As a result, firstly we show that the political factors truly affect the economic resource allocation. Especially, a number of the seat in the congress plays a important role. Secondly, we present that a concentrated investment is more preferable than a diversified policy, and that the political factors keeps the economic policy away from the optimal policy. When households can move between the regions freely, the concentrated policy maximizes social welfare. In addition, the policy can be Pareto improvement from the current policy affected by the political factor.