Does government promote or disturb capital accumulation?
Evidence from Japan's high-growth era

Mariko Hatase [†], Yoichi Matsubayashi[‡]

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Abstract

Governments occasionally intervene in private sector economic activities to promote particular industries and thus enhance economic growth. During Japan's high-growth era, the government utilized various policy tools to intervene in private sector capital investments. We examine the effects of these policy actions on capital accumulations. Employing firm-level data sets and identifying policy actions using historical records, we find that government intervention partly affected firms' capital investment decisions. For some industries, such as steel, investment-promoting policy tools achieved relatively higher resource allocation of capital to labour. The policy actions aimed at curbing investments occasionally resulted in lower allocation of capital to labour, but had contradictory effects on some industries and enhanced capital investments. The latter phenomenon was observed when the government attempted to control private sector capital investments based on the current share of production or production capacities.

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†Bank of Japan

‡Graduate School of Economics, Kobe University