Structural Reforms, Innovation and Economic Growth*

Kosuke Aoki† University of Tokyo‡

Naoko Hara Bank of Japan§

Maiko Koga Bank of Japan¶

April 2017

Abstract

This paper constructs a growth model of the distance from the world technology frontier to argue that firms' incentives to innovate and the government's decision on implementing reforms can be mutually reinforcing. This complementarity may, however, result in a country falling into a self-perpetuating low productivity trap. Certain types of structural change, initiated either by the private sector or by the government, can help the country to escape from this trap.

Keywords: Economic Growth, Economic Reform, Productivity Gap

JEL: O11, O43

*We thank Hibiki Ichiue, Sohei Kaihatsu, Takushi Kurozumi, Ichiro Muto, Saori Naganuma, Koji Nakamura, Ko Nakayama, Toshitaka Sekine, Toshinao Yoshiba for productive discussions and helpful comments. Aoki thanks financial support from the Center for Advanced Research in Finance (CARF, University of Tokyo) and the JSPS Grant-in-Aid for Scientific Research No. 24223003. The views expressed in this paper do not necessarily reflect those of the Bank of Japan.

†Corresponding author

‡Faculty of Economics, University of Tokyo, 7-3-1 Hongo, Bunkyo, Tokyo, 103-0033 Japan, email: kaoki@e.u-tokyo.ac.jp

§Research and Statistics Department, Bank of Japan, 2-1-1 Nihonbashi-Hongokucho, Chuo-ku, Tokyo, 103-8660 Japan, email: naoko.hara@boj.or.jp

¶Research and Statistics Department, Bank of Japan, 2-1-1 Nihonbashi-Hongokucho, Chuo-ku, Tokyo, 103-8660 Japan, email: maiko.koga@boj.or.jp