Tax incentives and investment in reality: Evidence from Japan's high-growth era

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Abstract

Tax devices have occasionally been adopted as policy tools to promote economic growth in major industrialised countries after WWII. In Japan, various accelerated depreciation schemes, under the name of "special depreciation," were employed as major devices to stimulate investments. In this paper we manually collect firm–level data series in the heyday of the device from the mid–1950s to the early 1970s. The finding with new data are; the aggregated special depreciations amounts hit two peaks when the schemes were expanded, applying special depreciations tax incentives were prevailed among listed companies, and the actual amounts vary across firms with strong upward biases. The detailed examination of each firm's financial statements indicates that each firm retains its discretion when applying the scheme, sometimes choses not enjoying the full benefits. Empirical analysis with new data sets figure out that firms having relatively less capitals to labour tend to use larger amounts of special depreciations, hinting the government achieved its policy goal. Increases in the numbers of designated machines for the scheme, once considered as representing the inefficiency of the scheme, actually activated the usage of schemes by firms. The effects of the schemes changed over time in accordance with institutional changes; the impact of institutional reform expanding export enhancing special depreciation in 1964 is considerable.

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