

Phases of industrial policies in postwar Japan

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Recent research interests

- Micro-economic and financial history
 - Tetsuji Okazaki, “Productivity Change and Mine Dynamics: The Coal Industry in Japan during World War II” forthcoming in *Jahrbuch fuer Wirtschaft Geschichte*
 - Tetsuji Okazaki and Michiru Sawada, “Interbank Networks in Prewar Japan: Structure and Implications,” *Industrial and Corporate Change*, April: 463-506, 2012
- Japan’s war economy
 - Tetsuji Okazaki, “Supplier Networks and Aircraft Production in Wartime Japan” *Economic History Review* 67(3): 973-994, 2011
 - Tetsuji Okazaki, "Strategies and Organizations for Managing ‘Greater East Asia Co-Prosperity Sphere’“, CIRJE Discussion Paper Series, F-900, 2013
 - Tetsuji Okazaki, "Development and Management of Manchurian Economy under the Japan Empire, ’“, CIRJE Discussion Paper Series, F-899, 2013

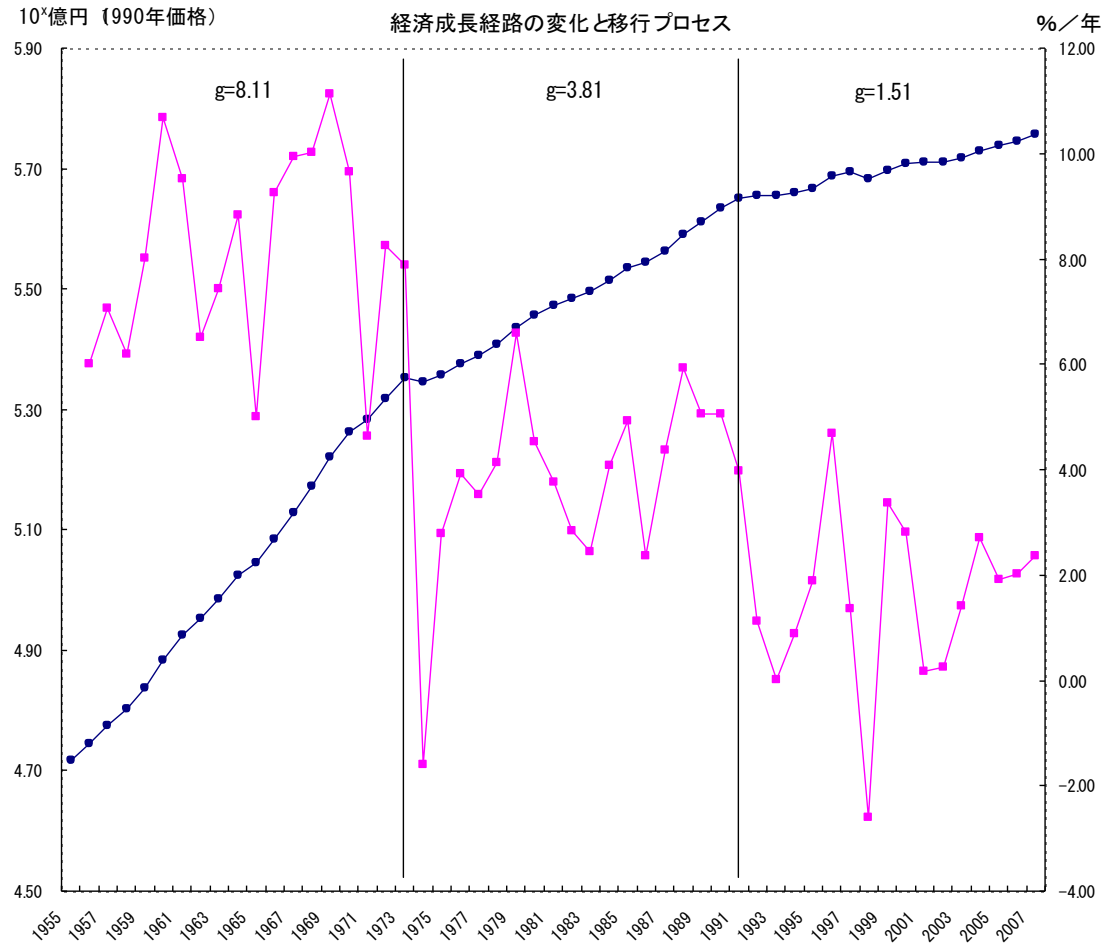
Recent research interests (cont.)

- Spatial economic history
 - Yutaka Arimoto, Kentaro Nakajima and Tetsuji Okazaki, "Productivity Improvement in the Specialized Industrial Clusters: The Case of the Japanese Silk-Reeling Industry," PRIMCED Discussion Paper Series 16, 2011
 - Tetsuji Okazaki, Asuka Imaizumi and Kaori Ito, "Impact of Natural Disasters on Industrial Agglomeration: The Case of the 1923 Great Kanto Earthquake," CIRJE Discussion Paper Series F-602, 2011
- Economic and political aspects of industrial policies in postwar Japan
 - Kozo Kiyota and Tetsuji Okazaki, "Industrial Policy Cuts Two Ways: Evidence from Cotton Spinning Firms in Japan, 1956-1964," *Journal of Law and Economics* 53(3): 587-609, 2010
 - Kozo Kiyota and Tetsuji Okazaki, "Effects of Industrial Policy on Productivity: The Case of Import Quota Removal during Postwar Japan," RIETI Discussion Paper Series, 13-E-93
 - Megumi Naoi and Tetsuji Okazaki, "Political Economy of Trade Liberalization: The Case of Postwar Japan," CIRJE Discussion Paper Series F-898, 2013
 - Tetsuji Okazaki ed., *Tsusho Sangyo Seisakushi (History of Trade and Industrial Policies)*, vol. 3, Tokyo, Keizai Sangyo Chosakai, 2012 (in Japanese)

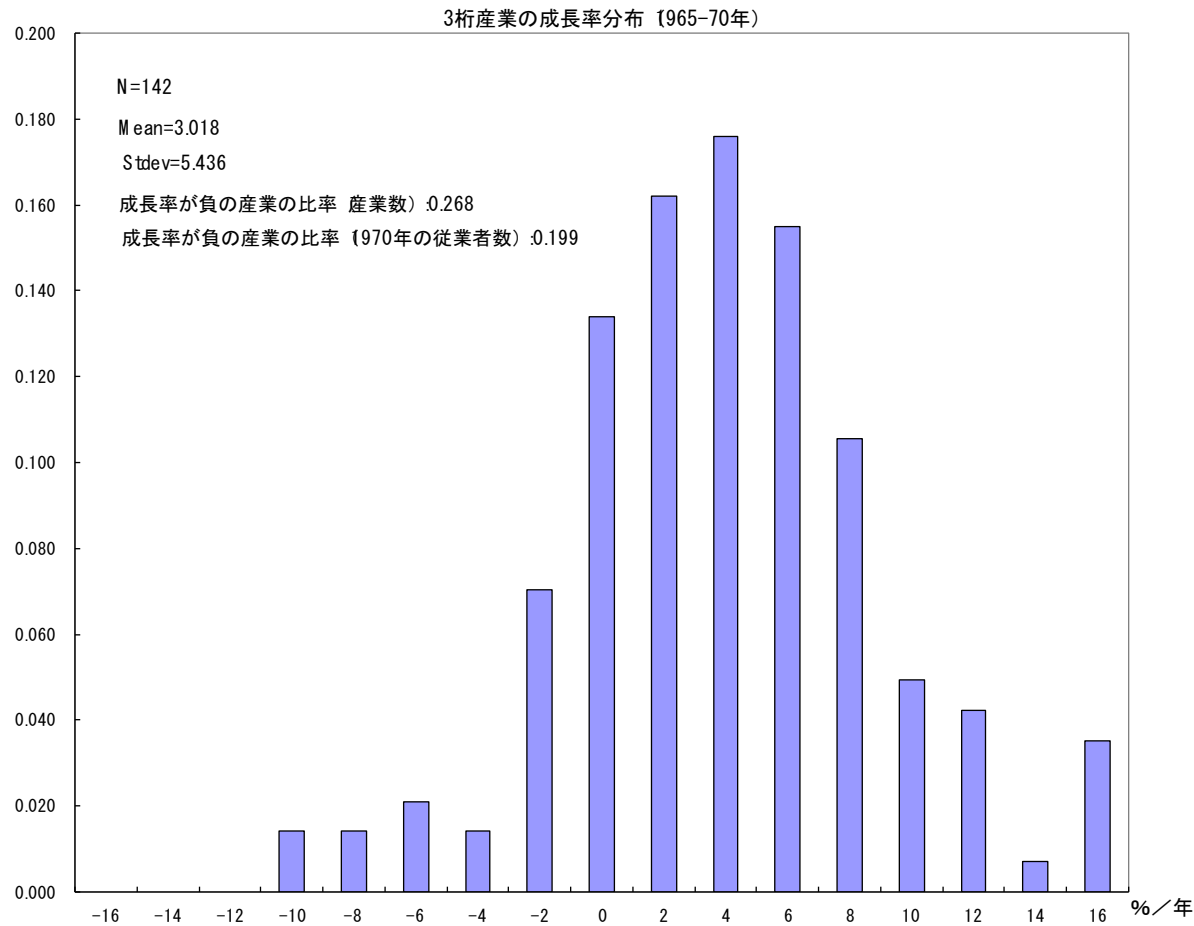
Outline: *Tsusho Sangyo Seisakushi* (*History of Trade and Industrial Policies*), vol. 3

- Challenges for the MITI after the end of the high growth
- Traditional industrial policies: Early 1980s
- Criticism from the U.S. and the change in the policies: Late 1980s
- Industrial policies for the structural reform of the economy: 1990s-2000s

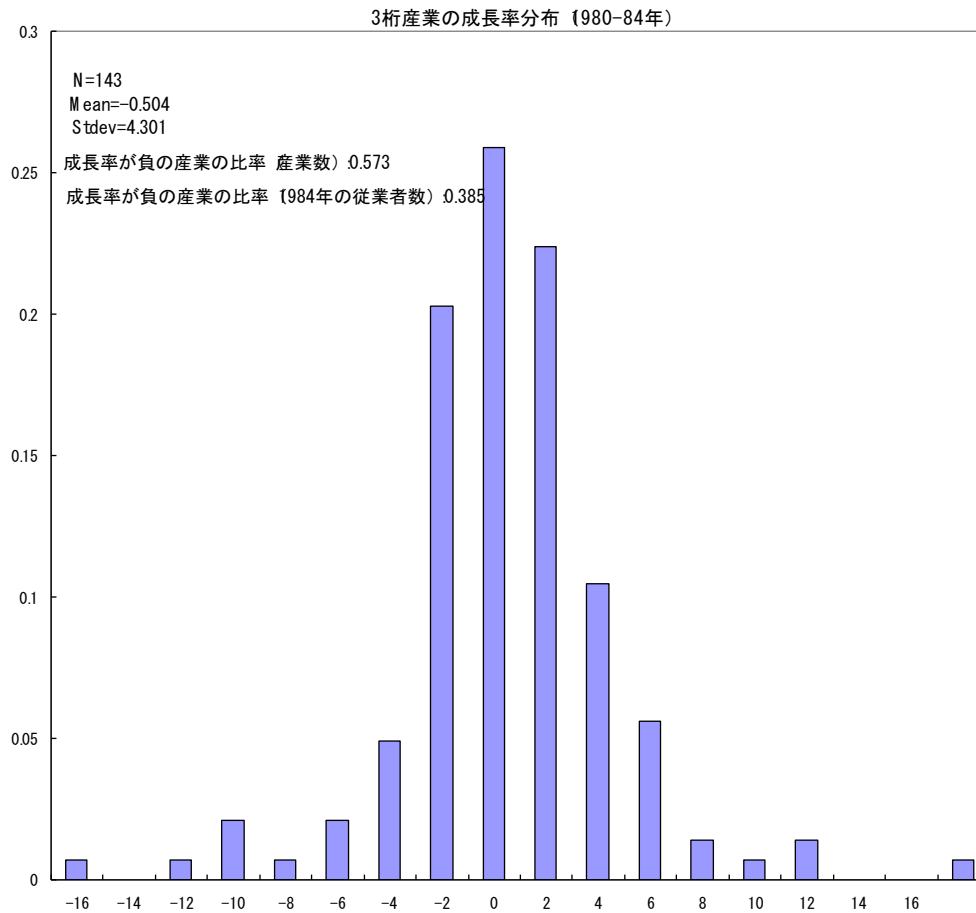
Phases of economic growth



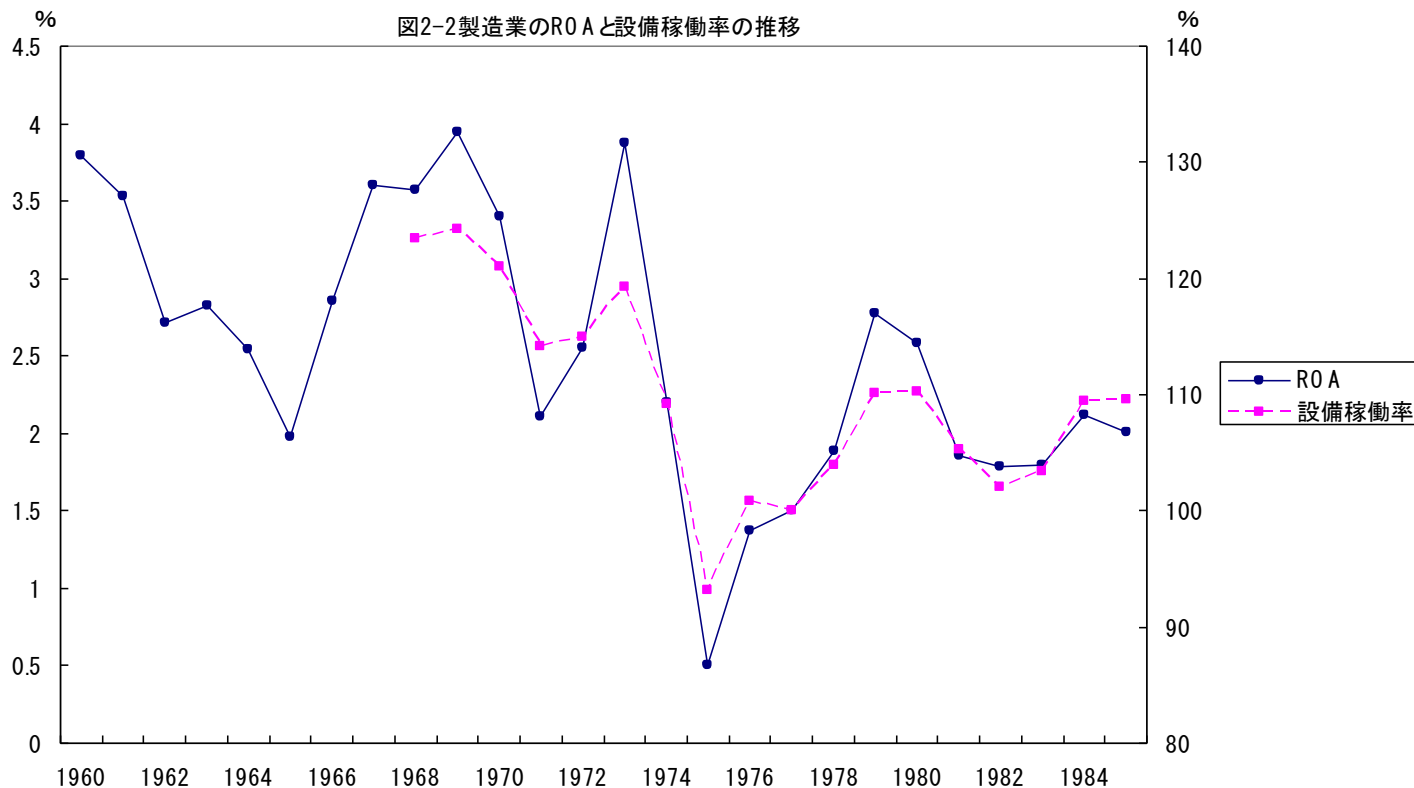
Distribution of employment growth rates for manufacturing industries, 1965-70



Distribution of employment growth rates for manufacturing industries, 1980-84



Operation rate of equipment and profitability (ROA) for manufacturing industries

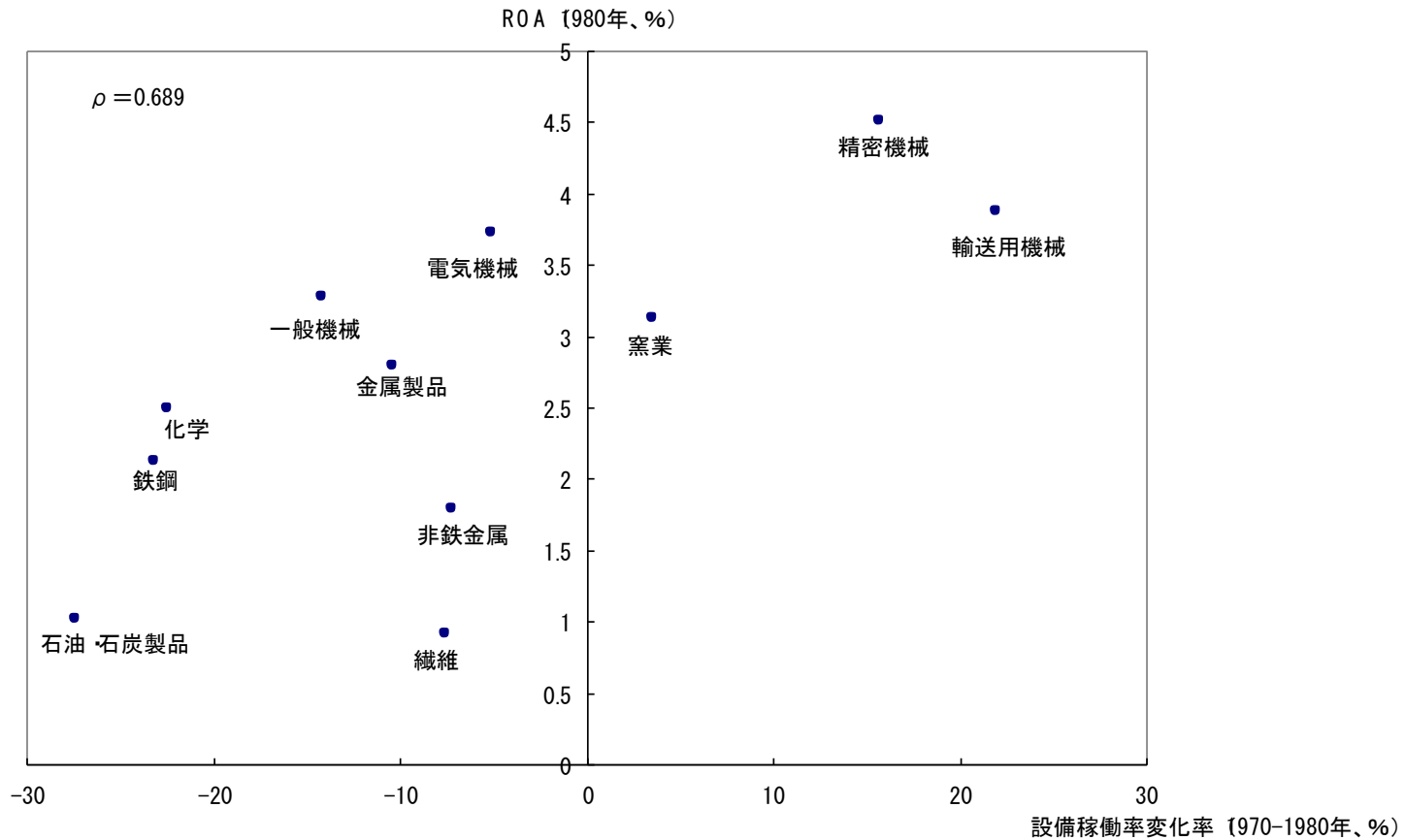


資料：ROAは法人企業統計 財務省webページ、設備稼働率は 鉱工業生産動態統計Ⅱ。

注：設備稼働率は1985年を100とした指数。

Correlation between operation rate and ROA

図2-3収益性と設備稼働率の相関



“Vision” of industrial policies in the 1980s (MITI 1980)

- Role of industrial structure policy
 - Complementing the market mechanism in case it is difficult for the market economy to achieve “an industrial structure desirable from a long-term standpoint”
 - Achieving an industrial structure based on the dynamic comparative advantage
 - Coping with external dis-economy including environmental problems
 - Facilitating industrial adjustments
 - Shifting resource from declining sectors to growing sectors

“Prospect and challenges for basic material industries” (MITI 1981)

- Background of the report
 - MITI set up the Research Group of Policies for Basic Material Industries, in 1981
- Aims
 - Summarizing the issues on the present state, position in the industrial structure, policy measures for basic material industries
- Contents
 - Bipolarization of the economy between assembly industries and basic material industries
 - Excess capacity and low profitability in basic material industries
 - Increase in energy prices
 - “Excess competition”
 - Increase in the vintage of capital
 - Issues to be examined
 - A new law succeeding the Special Industries Stabilization Law (1978)

Temporary Law for Structural Reform of Special Industries (1983)

- Aims
 - Drawing up “Basic Plans for Structural Reform” for the “special industries” to dispose equipment systematically, increasing production and firm scale , and improving production modes
- Special industries
 - Industries under structural recession designated by the government ordinance, including steel making (open hearth and electric furnace), aluminum refining, chemical fabric, chemical fertilizer, petro-chemical, etc.
- Basic Plans for Structural Reform
 - Categories and capacity of the equipment to be disposed
 - Ways to dispose excess equipment
 - Plans of jointing businesses, cooperation, merger, etc.

Testing the effects of the Temporary Law for Structural Reform of Special Industries

- $Y_{it} = \alpha_i + \beta LAW_{it-1} + \gamma_t YEAR_t + e_{it}$
 - Y_{it} : Performance of industry i in year t
 - ROA, TFP growth, labor productivity growth
 - LAW_{it-1} : Dummy variable that equals to 1, if the industry was designated as the special industry in year $t-1$, and 0, otherwise
 - $YEAR_t$: Year dummy
- Panel data at the 3-digit industry level for 1980-86 (840 industry-year)

Estimation results

Dependent variable	ROA		TFP growth		LP growth	
Law	0.0339	***	0.104	***	0.114	***
1980	0.0328	***	0.0639	***	0.025	
1981	0.0262	***	0.0571	***	0.024	
1982	0.0199	***	0.047	***	0.022	
1983	0.0117	***	0.0304	*	-0.001	
1984	0.0158	***	0.00792		0.004	
1985	0.0175	***	0.0274	*	0.030	*
Const.	0.0452	***	-0.0271	**	0.042	***
Obs	840		840		840	
Groups	120		120		120	
R ² within	0.113		0.025		0.014	
between	0.015		0.003		0.001	
overall	0.019		0.001		0.002	
Industry fixed effect	Yes		Yes		Yes	

Note: *** Statistically significant at 1% level.

* Statistically significant at 10% level.

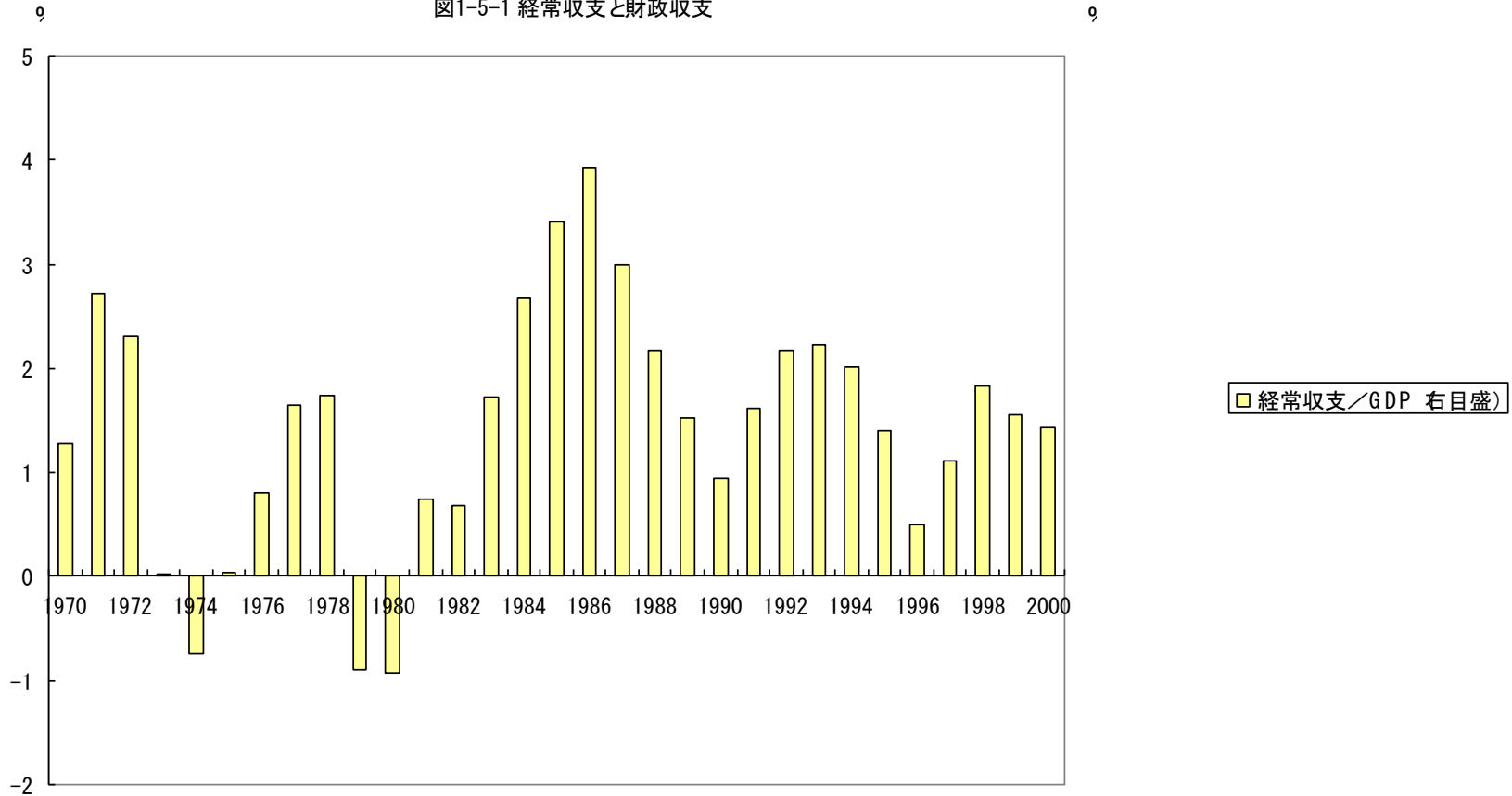
Japan- U.S. Industrial Policy Dialogue (1983-84)

- Opinion of the U.S. government
 - “Competitiveness of Japanese firms in the U.S. market has been fostered by the targeting policies, and hence it is unfair”
 - “Temporary Law for Structural Reform of Special Industries aims at survival of declining industries, and hence it is a non-tariff import barrier”

Economic conflict between Japan and the U.S.

経常収支/GDP (右目盛)

図1-5-1 経常収支と財政収支



“Maekawa Report” (1985)

- “Continuing surplus in the current balance of payments is now at the critical level for the harmonized development of the world economy as well as for the management of the Japanese economy”
- “We should aim at reducing current surplus to the internationally harmonious level as the mid-term national policy target”
- “For that purpose, it is emergent to implement the epoch making structural adjustment and transform the Japanese economy to the economy internationally harmonious”

Temporary Law for Facilitating Transformation of Industrial Structure (1987)

- Aims
 - Transforming the industrial structure to that harmonious to the international economic environment
 - Facilitating specific firms to adjust to the new economic environment and taking measures to stabilize and develop specific regions
- Difference to the Temporary Law for Structural Reform of Special Industries (1983)
 - Specific firms and regions, not industries, as the targets
 - Not including the articles that exempt the Antimonopoly Law

Implication of the Temporary Law for Facilitating Transformation of Industrial Structure (1987)

- Interview to Shinji Fukukawa, ex-vice-minister of MITI (1986.6-88.6)
 - “We decided not to extend the Temporary Law for Structural Reform of Special Industries and to take special measures to local recession. By legislating the Temporary Law for Facilitating Transformation of Industrial Structure, we selected good structural adjustment projects of individual firms to be helped, and ceased the policy of excess capacity disposal focusing on individual industries.
 - “The Temporary Law for Structural Reform of Special Industries (1983) was the last policy that focused on individual industries”

Testing the effects of the Temporary Law for Facilitating Transformation of Industrial Structure (1987)

- $Y_{it} = \alpha_i + \beta LAW_{it-1} + \gamma_t YEAR_t + e_{it}$
 - Y_{it} : Performance of region i in year t
 - Growth rate of employment/real sales in region i
 - LAW_{it-1} : Dummy variable that equals to 1, if the industry was designated as the special region in year t-1, and 0, otherwise
 - $YEAR_t$: Year dummy
- Panel data at the city, town and village level for 1986-89 (12,396 region-year)

Estimation results

Dependent variable	Employment growth		Real sales growth	
Law	0.0295	***	0.0481	***
1986	-0.0163	***	-0.0070	*
1987	-0.0130	***	-0.0020	
1988	0.0137	***	0.0309	***
Const.	0.0150	***	0.0544	***
Obs.	12936		12936	
Groups	3234		3234	
R ² within	0.0214		0.0144	
between	0.0085		0.0090	
overall	0.0119		0.0068	
Region fixed effect	Yes		Yes	

Note: *** Statistically significant at 1% level.

* Statistically significant at 10 % level.

Temporary Law for Facilitating Business Innovation of Specific Firms (1995)

- Aims
 - Facilitating business innovations that specific firms implement to cope with the various and structural changes in the domestic and international economic environment
- Contents
 - Approving “plans of business innovations” by specific firms to give financial support

Testing the effects of the Temporary Law for Facilitating Business Innovation of Specific Firms (1995)

- $Y_{it} = \alpha_i + \beta LAW_{it-1} + \gamma_t YEAR_t + e_{it}$
 - Y_{it} : Performance of firm i in year t
 - TFP growth and labor productivity growth
 - LAW_{it-1} : Dummy variable that equals to 1, if the innovation plan of a firm was approved by the Law in year $t-1$, and 0, otherwise
 - $YEAR_t$: Year dummy
- Panel data at the firm-level for 1994-99 (5,316 firm-year)

Estimation results

Dependent variable	TFP growth		LP growth	
Law	0.0738	*	0.0855	**
1994	0.4116	***	0.0082	
1995	0.0479	***	0.0222	
1996	0.0877	***	0.0857	***
1997	0.0662	***	0.0626	***
1998	0.0213	*	0.0238	***
Const.	0.0153	***	-0.0041	
Obs.	5316		5316	
Groups	886		886	
R ² within	0.016		0.023	
between	0.000		0.000	
overall	0.014		0.020	
Firm fixed effect	Yes		Yes	

Note: *** Statistically significant at 1% level.

** Statistically significant at 5% level.

* Statistically significant at 10% level.

“Vision of industrial policies in the 1990s” (1990)

- As a result of the collapse of the socialist bloc in the East Europe, conflicts within the Western countries will manifest themselves
- The conflicts will not confined to the international trade, but will expand to investment, technology, finance, and structural aspect including institutions and customs
- Concerns on Japan’s economic power is increasing in the international society, and furthermore distrust to Japan’s social structure and culture is arising

Final Report of the Subcommittee on the Fundamental Issue of the Industrial Structure Council (1994)

- “New policy tools”
 - So far, MITI has stressed the idea of inducing industries to a desirable industrial structure, given the institutions, customs and regulations
 - From now on, we should not regard institutions and regulations as given, and industrial policies should focus on neutralization of institutions, making general rules, deregulation and correction of private customs, to strengthen the market mechanism

Structural reform policy by Hashimoto Cabinet (1996-98)

- “Six reforms”
 - Administration, economic structure, financial structure, social security, fiscal structure, education
- General-policy speech by Hashimoto (1996.11)
 - Thorough elimination and relaxation of regulations, reforms of institutions on corporations and labor
 - Making Japan an attractive arena for industrial activities
- MITI’s initiative
 - The vice-minister of MITI gave a lecture on the report by the Industrial Structure Council to Hashimoto (1996.10)
 - Hashimoto instructed the minister of MITI to draw up a plan on the economic structure reform coordinating other ministries (1996.11)

Industrial policies as the policies for the economic structure reform

- Interview to Osamu Watanabe, ex-vice-minister of MITI (1996.8-1997.7)
 - Under the Hashimoto and Obuchi Cabinets, MITI was responsible for the structural reforms of the economy
 - It was for the first time that MITI negotiated with the other ministries over the jurisdictions, concerning the issues on economic structure reforms
- Reorganization of the government (2001)
 - Act for Establishment of the Ministry of Economy and Industry
 - “Promotion of economic structure reforms” as its jurisdiction

Summary: Phases of industrial policies

- Traditional industrial policies: Early 1980s
 - Focusing on individual industries
 - Adjustment based on cooperation of private firms
 - Exemption of the Anti-monopoly Law
- Transition from traditional industrial policies: Late 1980s
 - Focusing on selected firms, not the industry as a whole
 - No exemption of the Anti-monopoly Law
 - ← Criticism on industrial policies by the U.S.
- Industrial policies as the policies for the economic structure reform: 1990s-2000s
 - Reforms of institutions and regulations

Possible future topics

- Economic and political aspects of Industry Revitalization Law (1999-)
- Industrial and trade policies for semiconductor industry since 1980s