

# On the Role of Policy Interventions in Structural Change and Economic Development: The Case of Postwar Japan\*

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January 14, 2009

## Abstract

In this paper, we study the structural change occurring in Japan's post-World War II era of rapid economic growth. We use a two-sector neoclassical growth model with government policies to analyze the evolution of the Japanese economy in this period and to assess the role of such policies. Our model is able to replicate the empirical behavior of the main macroeconomic variables. Three findings emerge from our policy analysis. First, neither price and investment subsidies to the agricultural sector, nor industrial policy play a crucial role in the rapid postwar growth. Second, while a government subsidy for families in urban areas could have facilitated migration from the agricultural to the non-agricultural sector, such a policy would not have improved the overall performance of the Japanese economy. Finally, had there existed a labor migration barrier, the negative long-run level effect on output would have been substantial.

Keywords: Two-sector growth model; Structural change; Government policies

JEL Classification: E1, O1, O41

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\*This project has been supported by the Research Institute of Economy, Trade, and Industry (RIETI). We would like to thank Fumio Hayashi and Edward Prescott for useful comments and discussions. We also acknowledge the significant contribution of Shuhei Aoki through his superb research assistance. We also benefited from the useful comments of Koichi Hamada, Hiro Kasahara, Keisuke Otsu, Tetsushi Sonobe and other seminar participants at FASID, GRIPS, RIETI, University of Tokyo, Yale University, and 10th Macroconference in Tokyo. Usual disclaimers apply.

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