

Effects of Capital Misallocation on Japanese Economy

Undercapitalization in the accommodations and eating & drinking services.

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Summary

- The Japanese economy has continued to grow at a low level since the bursting of the asset bubble in 1991. Some previous studies have pointed out that one of the reasons for this is the misallocation of factors of production. In fact, when the real GDP growth rate since 1994 is broken down into TFP factors, capital input, labor input, capital allocation, and labor allocation, it is mainly the labor input factor that has been negative, but the capital allocation factor has also brought downward pressure in recent years.
- Looking at the state of capital allocation by industry, we find that there are some industries with insufficient capital-equipment ratios in non-manufacturing. The sense of inadequacy in the capital-equipment ratio is particularly remarkable in the accommodations, eating and drinking services, and by the 2010s it had worsened further in comparison to the 2000s. The background to this is thought to be the fact that unprofitable enterprises remain in the market and the turnover of enterprises is declining. Another factor behind underinvestment is that labor costs are cheaper than capital.
- If service demand recovers in the aftermath of the corona crisis and wages rise due to tightening of labor supply and demand, capital misallocation in the accommodations, eating and drinking services can be expected to improve. Most of these companies are small and medium-sized enterprises (SMEs). Many SMEs and micro-enterprises have higher financing costs than large enterprises. Increasing scale through M&A, etc. is also expected to contribute to improving the allocation of capital. Although public support agencies serve as hubs for SME M&A, their capacity is overwhelmingly insufficient. In addition to public-private partnerships, it will also be important to review the salary systems of these public support agencies, such as raising the salaries of specialist personnel, so that more workers with expertise will flow into these agencies.

Attention

This report is a summary translation. The official document is only in Japanese.