Industrial Policy and Competition Policy

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1. Introduction

The market economy is based on free decision-making and activities of individual consumers and firms. In this economic system, through the market mechanism and the process of competition among firms, we can mostly achieve the good economic performance – for example, efficiency in resource allocation, improvement of productive efficiency, and technological progress. From this point of view, any economic policies for the industries are basically involved in following two categories; (1) the policies, which aim to preserve and strengthen the competition process so that market mechanism would work well, and (2) the policies to cope with “market failures.” This framework regards the market mechanism as importance, and according to this viewpoint, the role of government is rather limited.

However, actual policies for industries are not necessarily based on such market-oriented ideas. In some cases, it is suggested to restrain the domestic competition and the free trade in order to enhance the international competitiveness. It is also suggested to enforce the cooperation-oriented policies due to eliminate “excessive competition.” The Japanese industrial policy, which the Ministry of International Trade and Industry (MITI) had enforced in the postwar era, was a case in point. Actually, Japan has accomplished uncommonly high economic growth, but there are various evaluations, whether the government interventions to restrict competition would be rational for economic growth and development, or not.

This article explores the line of policies to the industries under the market economy, examining postwar industrial policy in Japan with referring to the literatures that is well acknowledged.1

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1 See for example: Komiya, R., Okuno, M. & Suzumura, K. (eds.)(1984); Itoh, M., Kiyono, K., Okuno, M. & Suzumura, K. (1991). For other information, see the reference list at the end of this article.
2. Industrial Policy

Here, in this section, let us consider the concept of industrial policy. Roughly speaking, there are two understanding of the definition of industrial policy: the first type takes it in a broad sense, which defines the industrial policy as a generic name relating to industries; the other type of definition is rather narrow, and it includes only kind of policies which restrict or eliminate competition among firms to achieve particular goals, for example, protecting and promoting industries.

According to the first type of definition, the industrial policy consists of following contents; (1) the policies in regard to the improvement of infrastructure for industries, (2) industrial structure policies concerning the resource allocation between industries (that is, industrial promotion policy, industrial adjustment policy), (3) the industrial organization policies, which do the effects on the market structure or the market conduct in individual industries. In sum, the industrial policy involves not only the policies to promote and protect individual industries, but also a kind of policies that preserve and strengthen the basis of the market economy, so-called competition policies.\(^2\)

On the second concept,\(^3\) industrial policy is different from competition policy and defined as “the policy, which affects the economic welfare of a country by intervening in the allocation of resources between industries (or sectors), or in industrial organization of specific industries (or sectors).”\(^4\) It includes following policies; (1) the policies affecting the industrial structure of a country: for example, the protection and nurture policies to strategic industry, and the adjustment policies for declining industries, (2) the policies designed to correct the market failures associated with the technological development and the imperfect information and (3) the policies seeking to raise the economic welfare through administrative intervention in the industrial organization of individual industries. It is called “industrial policy in the narrow sense,” compared to the other one.

In either case, it is important to adopt policies fitting in the principles of market economy. However, the MITI’s policies in postwar Japan, categorized as the narrow sense, were based on the competition-restrictive idea, and such political philosophy had an effect on actual competition policy of those days. Thereby, government policies for industries used to be disposed to restrict competition in the main.

In following sections, we survey the industrial policies by MITI and competition policies

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\(^2\) The framework of industrial policy stated by Prof. Komiya comes into this category. Komiya et al. (eds.)(1984), pp.3-4. The framework by Prof. Niino also stands at the same viewpoint, although the individual policies are named in different way. Niino, K. et al. (eds.) (1978), Chap.1.

\(^3\) The approach by means of the theoretical industrial organization comes at this standpoint. Itoh et al. (1991).

\(^4\) Ibid., p.4.
in postwar Japan (Section 3), and review the problem of competition restrictive policies (Section 4). Finally, we consider the line of industrial policy under the market economy, confirming the importance of competition policy (Section 5).

3. Industrial Policies in Postwar Japan

In this section, we describe the characteristics of the industrial policies in postwar Japan by focusing on the idea of policy as it has emerged, and make a survey of actual industrial policies by MITI and the competition policies from the latter half of the 1940s to the 1970s.

(1) Basic Idea of the Postwar Industrial Policy

As is commonly known, in the market economy, we respect individual freedom, and the market mechanism adjusts individual activities to satisfactory economic performance. Therefore, the government should implement kind of policies promoting competition among firms so as to preserve consumers’ benefit.

Compared with the above requirement, the postwar industrial policies in Japan, if anything, included the thought of a controlled economy rather than the one that respects the market mechanism. In those days, a catch-up type policy was regarded as important in order to gain the international competitiveness against the western countries, so the government implemented the policies which based on the following opinion; (1) the production must be given first priority, and (2) the fruitless competition should be excluded. Prof. Noguchi names these ideas “production priority doctrine” and “doctrine of ‘equity of result’.” According to him, the postwar policies were carried out under the recognition; that is (1) the improvement of productivity in all industrial fields resulting in an improved standard of living; (2) for this purpose, collaboration of people is necessary and it is essential to equally deliver the obtained result to them.

As is generally known, the Antimonopoly Act was established in 1947, so there has been the system to preserve the sound market economy since then. However, as mentioning later, it was amended to relax in 1953, based on the grim economic conditions and the critics that the All-American pro-competitive idea did not fit in the fragile economy in Japan. As a result, the competition-restrictive protection policies came to be implemented in various industries. In this way, the industrial policies with the idea against market principle had occupied the main position in postwar ages.

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5 Prof. Noguchi named the economic system based on this type of thought “the 1940 Regime.” Noguchi, Y. (1995).
(2) Actual Industrial Policies by MITI

Now, let us describe the actual policy in those days. Concretely, we take up (1) the policies that attempt to protect and promote the key industries from the late 1940s to the 1950s, (2) the industrial reorganization policies dealt with the trade and capital liberalization in the 1960s, and (3) the industrial adjustment policies in the 1970s. Each of them involved in the basic idea stated previously.

First, we consider the protection and promotion of basic or strategic industries. From 1946 to 1948, the “priority production system” was carried out in order to promote steel and coal mining industries. The allocation of the limited government capital, foreign-currency holdings and imported raw materials for both industries was given top priority in those days to make a foothold of Japan’s postwar recovery in economy and industry. In the 1950s, the protection and promotion to key industries was effected with preferential measures on the tax system and the special financing by the Japan Development Bank aimed at key industries (the steel, coal mining, shipbuilding, electric power industries, and so on). The industries with potential growth (the synthetic fibers, plastic, petroleum refining, petrochemical and electronics industries, and so on) were also subjects for protection and promotion. Then, in 1956, the Law on Extraordinary Measures for the Promotion of Machine Industry was legislated. This implement was based on the idea that rationalization is required in the machine parts industry, mainly consisting of small businesses, in order to strengthen the industrial basis like the automobile and the machining tools industries. Furthermore, in those ages, the Antimonopoly Act was amended to relax. Especially, the amendment in 1953 permitted the two types of cartel: rationalization cartel and depression cartel. In this respect, we can also recognize that the government in those days intended to eliminate fruitless or excessive competition.

Next, let us examine the policies in the 1960s. As the competition with foreign enterprises became the real issue, the opinion that “we must strengthen the international competitiveness by eliminating the domestic excessive competition and enlarging size of business” became more powerful, and then industrial reorganization was attempted by promoting mergers. Actually, large-scale mergers occurred in the 1960s. Moreover, for

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6 The priority production system aimed at the entirety of steel and coal mining industries for protection and promotion, but in the industry rationalization policy and the protection and promotion measures in the 1950s, the superior enterprise in the said industries became the subject of preferential measures. 
7 This law was legislated as a temporary statute for 5 years but it was prolonged two times afterward. It has been enforced for 15 years. 
8 There is no doubt that the merger supporting measures by the government really promoted mergers, but it is interesting that the private enterprises had reluctance in accepting the way of government leading style. This is nothing else but the appearance of this fact, which the Bill on Extraordinary Measures for the Promotion of Specific Industry was discarded. It is also a good example that the consolidation plan for automobile manufacturers by MITI failed after all.
strategic industries such as the automobile industry and the computer related fields, the protective trade measures were taken in order to strengthen the international competitiveness. These industries show outstanding growth afterward, but one influential opinion is that the success owes not to the protective trade measures themselves but to their being “time-bound.” To sum up, the threat of facing the competition with foreign enterprises in the near future gave a strong incentive to domestic enterprises to improve efficiency; as a result, they could strengthen their competitiveness.\(^9\)

Finally, we go on the adjustment policies for the declining industries after the oil crisis. Entering the 1970s, the period of low growth, it was the subject of policy to protect the industries, which had lead to excessive production capacity and fell into a structural recession where the reconstruction seemed extremely difficult. The Law on Extraordinary Measures for the Stabilization of Specific Industry enacted in 1978 had an intention to assist these structural recession industries in renovating old facilities and scrapping excessive facilities. As the Law became a time limited, the Law on Extraordinary Measures for the Structural Improvement of Specific Industry was legislated in 1983 instead, which was continuously to progress the adjustment support policies for these industries.

(3) Policies for Restricting Competition:

Exemption from the Application of the Antimonopoly Act

Thus, in postwar Japan, the protection policy for individual industry was enforced with a different recognition from the market principle (that is, competition principle). Furthermore, the idea that cooperation among firms is beneficial in some cases had an effect on actual competition policy. Here, let us take up the competition policies of those days, especially focusing on exemptions from the application of the Antimonopoly Act.

As mentioned earlier, the Antimonopoly Act was established in 1947, formed part of the economic democratization policies. At that time, to construct democratic economic order, the dissolution of the \textit{zaibatsu} (family-run conglomerates) and the decentralization of excessive economic power were enforced, and the Antimonopoly Act was enacted in order to preserve the condition resulting from those policies. Needless to say, the Antimonopoly Act takes a leaf from the US Antitrust Laws, and involves in (1) restriction of concentration (prohibition of private monopolization, restriction of mergers and acquisitions), (2) prohibition of cartels, (3) prohibition of unfair trade practices. Highly important, it was much stricter than the Antitrust Laws in the US for example, there were provisions to exclude the unreasonable disparity in business capability and to restrict mergers and acquisitions strictly. In the US of those days, the antitrust policy tended to be severe. So this tendency seems to effect on the enactment of the

\(^9\) Itoh et al. (1991), pp.131-133.
primitive Antimonopoly Act with strict provisions.

However, there were some criticism against the primitive Antimonopoly Act from the first; that is, (1) the enactment of such strict provisions was nothing but kind of punishment to Japan, (2) All-American pro-competitive idea was basically incompatible with the Japanese tradition to respect “spirit of harmony”. Indeed, for example, provision of excluding unreasonable disparity in business capability was too strict to be established in the US. So the primitive Antimonopoly Act came to be amended in 1949\(^{10}\), and 1953.

Especially, the amendment in 1953 caused competition policies to weaken. As is generally known, there has been the following exemptions in the primitive Act; that is, (1) inherent conducts of natural monopoly\(^{11}\), (2) exercise of intangible property rights, and (3) certain activities of cooperative association, which aim at mutual assistance for smaller businesses and consumers\(^{12}\). Besides, in 1953, several exemptions of the Antimonopoly Act were introduced. In Japan of those days, special procurement demands by Korean War had gone, and business conditions came to be depressed. Under bad economy, the industries suffering from overproduction required to admit cartels. After the occupation policy ended in 1952 with the entry into the Treaty of San Francisco, there was a growing tendency to amend the Antimonopoly Act in order to make it consist with the Japanese traditional idea. So, depression cartels, rationalization cartels, and resale price maintenance on appointed goods were exempted from the Antimonopoly Act\(^{13}\). Now, here, let us show the reason for these exemptions\(^{14}\).

\(^{10}\) The amendment in 1949 involved as follows; (1) although the primitive Act provides that business concentration through acquisition or holding of stock should be prohibited in principle, they amended to prohibit only where the effect of acquisition or stockholding may be substantially to restrain competition in any particular field of trade; (2) on mergers and acquisitions, and international agreements or contracts, they changed from prior approval to prior notification procedure.

\(^{11}\) This provision was abolished in 2000, because pro-competitive policy came to be regarded as effective on improving efficiency in such kind of markets.

\(^{12}\) It is said that this type of small enterprises cartel exemption has been based on two reasons; that is, (1) the thought of right to existence (that means to provide opportunities for small businesses to live with big business), (2) the concept of workable competition (that means competition becomes effective by gathering small businesses to countervail big business). Goto & Suzumura (eds.) (1999), p.387.

\(^{13}\) At the time, small- and medium-sized company cartels came to be allowed more expansive than before. In 1952, the Law on Extraordinary Measures for Stabilization of Specific Small- and Medium-sized Company was enacted. In the next year, 1953, it changed to a permanent law, the Small and Medium Enterprise Stabilization Law. And after it was amended twice, Small and Medium Enterprise Organization Law was established in 1957. The purpose of the Law is to promote the development and stabilization of small businesses. According to the Law, the cooperative corporation subject to law occasionally has nonmember accede and enable to control their activities.

\(^{14}\) As the other change in the amendment of 1953, the provision to exclude the unreasonable disparity in business capability was cancelled. In this context, new items were added in prohibition of unfair trade practices; that is, (1) abuse of dominant bargaining position, (2) interference with a
**Depression Cartel** It was thought that promoting free competition in recession-ridden industries would include serious risks to bring ruin on themselves and to inflict irreversible damage on the economy. If firms agreed to limit volume of production and sales, they could avoid overproduction and keep supply and demand in balance. So, depression cartels had been regarded as useful measure to get over the recession\(^{15}\).

**Rationalization Cartel** It means collusive activity among firms to promote rationalization; that is, technological advancement, quality improvement, and cost reduction. In this type of cartel, firms were permitted to agree on standardization of products, allocate product classes among participants, share technology, collectively dispose of wastes and byproducts, and so on. In the high-growth period, the significant challenge for the Japanese industries were production rationalization and enhancement of international competitiveness. In this regard, collusive activity was considered as one of effective measures\(^ {16}\).

**Resale Price Maintenance** It is unlawful in principle, because of restricting free trades and activities and restraining intra-brand price competition among sellers. However, the amendment in 1953 introduced the exemption of RPM on branded daily commodities and copyrighted work. That is because unfair trade practices as unjust law price sales and switch selling were frequently used in the retail markets of those days, thereby it seemed to damage small retailers and consumers. In 1953, government permitted RPM for 9 appointed goods; for example, cosmetics, pharmaceutical products, toothpaste, caramel candy, and so on. After the 1970s, the price-maintained merchandise had been limited to certain cosmetics and nonprescription healthcare products, and finally, in 1997, all price-maintained merchandise was revoked. However, the resale price of copyrighted works has been permitted as an exemption.

Furthermore, we should take up *gyosei-shido* (administrative direction). It means direction from competent authorities to private company, not based on any laws. So, fundamentally there is no compelling power over firms. Nonetheless, it had worked well to restrict competition among firms for the certain purpose, e.g., recovery from the recession. In particular, informal administrative advices had promoted coordinated conduct among firms in the industries subject to the MITI’s protection policies. *Kankoku-sotan* (recommended operation cut-down) is a case in point. While it resulted in similar effect to cartels, it was hard to regulate such kind of coordinated conduct by the cartel regulations, which targeted collusive activities

\(^{15}\) Depression cartel exemption was abolished in 1999.

\(^{16}\) Rationalization cartel exemption was also abolished in 1999.
among firms. From the viewpoint of competition policy, there was serious problem. But *kankoku-sotan* had been repeatedly enforced in 1952 and from 1957 to 1964.

As just described, we can see the competition-restraining and cooperation-oriented policies had been enforced to develop and stabilize industries in those days.

4. Evaluation of the Industrial Policy

Then, we will consider the effects of the competition-restraining and cooperation-oriented policies. In this section, I will take up (1) the infant industry protection argument, (2) economic analysis about excessive competition and (3) industrial adjustment policy.

(1) Infant Industry Protection Argument

First, I will examine the infant industry protection argument in reference to the protection and promotion policy of the basic or strategic industries.\(^\text{17}\) According to this theory, a temporary protection of certain industries is effective to develop the industries, and it would lead to the increase of economic welfare all over the country.

As a requirement of “infant industry,” it is pointed out that (1) Marshallian externalities, and (2) the dynamic scale economy. In this case, it is impossible to develop and reach the maturity only by efforts of private companies, because of great deal of set up costs. So, it is preferable for the economic welfare that the government protects and promotes the industries, which will be profitable by affording a temporary protection. On this occasion, it is also necessary that the current value of social advantage by the protection and promotion exceed the social cost of the policy enforcement.

As previously stated, the protection and promotion policy was enforced for the basic or strategic industries. Actually, some industries among them might meet the requirements of infant industry. However, it does not mean that the MITI selected the objectives according to the theory as above.\(^\text{18}\) In addition, many skeptical evaluations are stated today; that is, it is not sure that uncommonly growth depended on the MITI’s policy, and that this kind of policy had a lot of social cost over the social benefit.

\(^{17}\) For further details of the infant industry protection argument, see *Ibid.*, Chap.4.

\(^{18}\) For example, to promote the heavy chemical industrialization during the high-growth period of the economy, the vision that the industry to be promoted should be selected by adopting (1) the elastic standard for incomes and (2) the increase ratio standard of comparative productivity was indicated. Concerning this vision, Prof. Komiya points out that the necessity of governmental intervention is exiguous because an industry which has high income elasticity of demand and high increase ratio of productivity generally shows a tendency to automatically develop through market activities, and he also indicates the policy of those days was based on interventionism. Komiya et al. (eds.) (1984), p.8.
For example, the priority production system in the recovery phase in Japan looks natural as the measure. But as the method of subsidy, the Reconstruction Finance Corporation adopted issuing the reconstruction finance bonds underwritten by the Bank of Japan, so it resulted in rapid inflation between 1946 and 1949. Hence, we should remember that the growth of industries could be achieved at the great expense.  

Regarding the industrial rationalization policies in the 1950s, there is another evaluation about “the priming effect,” which means that the financing by the Japan Development Bank of a specific industry (or enterprise) promoted financing by the private financial institutions. Although this effect might bring about the quick growth of industries, it also encouraged a sort of “distorted” resource allocation; that is, a success of policy was supported by virtue of the increase of demand in a bullish tone; otherwise there would be a possibility to immediately hold excessive facility. Certainly, such a rapid growth might not be obtained without support by the government, but we should take notice that the government could not necessarily have an exact knowledge about “ optimum production capacity” and that there was a strong probability to create a big loss in the resource allocation.

Anyway, the rigorous standards are necessary to implement the protection policy by the government. From the standpoint of respecting the market principle, government intervention should be limited to the case where the “market failures” are verified. Concretely speaking, the government policy is required when the private enterprises have no incentive for the innovation due to the spillover effect, through which the benefit cannot be exclusively hold by the innovator. The development of fundamental technologies is a case in point. Regarding technological progress, however, we should consider the possibility that protective measure may create a moral hazard. At any rate, we have to examine “the cost of the protective policies.”

Thus, not to mention the theory, the protection and promotion of a particular industry would be able to cause diverse problems and social costs.

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19 For example, Itoh et al. (1991), p.16.
20 However, Prof. Miwa points out that the “priming effect” did not exist. Miwa, Y. (1998), pp.166-168.
21 Virtually, many industries were included that were once the subject of protection and promotion during the high-growth period of economy in the type of structural recession industry after the oil crisis in Japan.
22 For example, the shipbuilding industry had become proud of achieving the world’s top order receiving rate in only 10 years in postwar Japan. In addition, the export of steel to the United States showed outstanding production development; it rapidly increased from 4.5 million tons in 1967 to 7 million tons just one year later in 1968. Itoh et al. (1991), p.259.
23 Ibid., p.45.
(2) Problem on “Excessive Competition”

In the industrial policies in postwar Japan, the idea that “fruitless competition” or “overly intense competition” should be eliminated is evident both on the industrial promotion policies and adjustment policies for declining industries. That is, the competition among too many or rather small-size firms tends to result in worse economic performance, since they cannot enjoy the economies of scale. Additionally, under such kind of competition, any firms cannot make enough profit to remain business. Therefore, from this standpoint, it is effective to support the entry restriction measure and the pro-merger policy in order to eliminate “excessive competition.”

Regarding this argument, the traditional industrial organization theory (TIO) points out that the shortage of competition causes excessive competition. When the market mechanism effectively works, only the efficient firms remain and the economic performance of the industry would improve. On the other hand, the absence of active competition permits the inefficient firms to survive. So, to promote competition is the most effective way to achieve efficiency.

The neo industrial organization theories (NIO; that is, the theoretical industrial organization), however, states the different argument.\(^{24}\) According to the “excess-entry theory,” the situation called “excessive competition” exists at least in theory. That is, when the economies of scale exist and the goods competing firms produce are strategic substitutes, increasing the new entry would cause inefficiency on production, because of reducing the individual output of existing firms. In addition, there would be the loss due to the duplicate investment. In this case, restricting the additional entry increases the economic welfare.

There are several problems to apply this logic to actual policy enforcement, however. First, it is doubtful whether or not the government would be able to know the optimum number of firms. Second, when product differentiation is important or technological innovation occurs actively, the entry restriction would possibly have harmful effects damaging the diversity or restraining the new innovation. Third, the entry restriction would reduce or eliminate the threat of new entry, and decrease the incentive to improve efficiency of existing firm. Furthermore, the policy measures to eliminate the excessive competition have side effects, which bring more excessive competition. In other words, the production quotas to avoid excessive producing would possibly cause the excessive investments, if the quotas were based on the production capacity each firm hold. As a result, the industry would be suffered from excessive capacities and excessive production, contrary to the original purpose. For instance, in steel and petroleum refining industries during the 1950s and 1960s, any firm developed the furious competition of capital investment in order to get the advantageous quotas.\(^{25}\) It seems that this type of


competitions was caused by the expectations depending on the above logic.

Thus, competition-restricting measures involve some possibilities of occurring social costs, so we must carefully examine the government intervention reducing competition, even though it could theoretically contribute to improve the economic welfare.

(3) Problems on the Industrial Adjustment Policy

Finally, let us go on competition-restricting measures for the industrial adjustment.26

Industrial adjustment means to move the factors of production in a declining industry into a growing field or a field at a comparatively superior position. This problem appears as the economic condition around industries and the international competitiveness change. In this section, we will consider the problems of industrial adjustment along with the change of trading conditions from the international viewpoint.

When the currency value of a country increases and its trading condition improves, various changes are created in aspects of the economy and industry. The improvement of trading conditions originally increases the economic welfare of an entire country. However, since the domestic products become expensive compared to imported goods, the industries, which compete with imports, tend to get into trouble. Needless to say, if the factors of production in these industries smoothly shift to a field at a comparatively superior rank (domestically or internationally), a more preferable outcome can be achieved. But industrial adjustment does not necessarily proceed without friction. Particularly, when the industry damaged by changing conditions occupies a big share of the whole economy, serious unemployment problem may occur, and then some relief measures may be required to keep economic stability.

The industrial adjustment policy includes some measures; for example, (1) the protective trade policy (that is, the import restriction measures such as a high tariff rate or import relief, or the request for voluntary export restraint), (2) competition restriction measure (that is, the allowance of recession cartel or rationalization cartel), (3) employment support measures (subsidy to the wage payment), and (4) supporting for abandoning excessive facilities and for introducing new technology. All of them ease the impact on the said industry and the rapid increase of unemployment.

However, on the other hand, there are problems for the enforcement of policy in the former these cases. For instance, (1) the protective trade policy distorts the economic effect of the trading condition improvement sacrificing the advantage to consumers, and (2) cartel allowance measures are nothing more than the sacrifice of merits that the competition possesses. Moreover, (3) although employment support measures contribute to preserve the economic

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stability, it cannot be denied that the measures would produce the inefficient resource allocation.

To sum up, these measures are not the fundamental solutions of industrial adjustment problem, but just kind of temporary ones at all. Nonetheless, once these measures are actually adapted, it is likely to continue them for a long time, so the cost caused by policy implementation becomes higher. After all, the protective measures against the market principle possibly have a bad influence on the economic welfare.

Therefore, we should consider the way to promote the adjustment that the factors of production in declining field shift to growing fields. That is, the so-called “Positive Adjustment Policy” should be enforced to realize effective resource allocation in line with market mechanism.

5. Principle of the Industrial Policy

We have considered the industrial policies in the postwar Japan. In this section, on the basis of the above consideration, we will examine what the industrial policy should be.

As indicated in the introduction of this article, the market mechanism and the process of competition among firms are effective to achieve the economic efficiency and progress. So, when we enforce the policy for the industries, it should be limited to dealing with the “market failures.”

Many modern economists would agree on this view. However, considerable differences arise in the range of government intervention according to how we grasp the “market failures.” For example, in the analysis by the TIO, it is necessary to carry out some policies to create and maintain the competitive environment, and to cope with market failures, such as the supply of public goods, natural monopoly and externality. To put it concretely, the competition policy is the fundamentally important policy for the basis of free economy. Additionally, regarding policies for industries, the following policies are also necessary; that is, (1) the industrial infrastructure policies, which arrange the industrial basis, (2) the policies on the natural monopoly, and (3) the policies regarding the technological progress, which has positive externalities and the characteristics as public goods. From this viewpoint, the protection policies for infant industries and declining industries are not important, but harmful, because such kind of policies are against the market principle or market mechanism.

On the other hand, according to the analysis by the NIO, “market failures” means the state that the price mechanism could not operate as the price theory shows. From this viewpoint, the actual market is originally imperfect, so there is room for improvement of the economic welfare by government interventions. Therefore, the NIO examine the economic effects of the narrow-sense industrial policy theoretically. The excess-entry theorem and the infant industries
argument are cases in point. In NIO, both the competition promoting policy and the competition restricting policy are equal at the point of “intervening in the market process.”27 So, in the analysis, it shows that the government intervention, not only pro-competitive measure, but also protectionism or cooperative-oriented policy, can be effective to achieve better performance in some industries. Comparing with the analysis by the TIO, it gives us a somewhat positive impression for the narrow-sense industrial policies, such as protection policies on infant industries or declining industries, and the policies on excessive competition.

Certainly, the actual market does not necessarily function perfectly as to offer the optimum resource allocation. However, there are considerable problems on the government intervention, which is based on the market imperfectness compared with the theoretical ideal. Of course, the theorists of NIO point out such problem as “government failures.” That is, the actual government is not “almighty,” so it is possible that government intervention may have a bad influence on the economy; for example, it may damage the incentive for higher efficiency of private enterprise. With reference to this point, I think that Hayek’s opinion, a Novel prize laureate, is very important. He regards the market competition as the “process to discover the knowledge,” and he points out that the market economy is preferable since there is only imperfect knowledge we can get and use in substance. To put it specifically, in order to achieve allocation efficiency, we need any knowledge regarding demand and supply, for example, the information about the raw materials and resources, production cost, and moreover, the tastes and needs of consumers and its change. These kinds of knowledge are possessed individually by “man on the spot,” that is, each person who is directly concerned with consumption or production. So it is important how to reflect this “scattered knowledge as fragmented information in the society” onto the economy. Exactly, the market economy based on the individuals’ independent activity is more excellent than other economic systems.

Therefore, when we think about the industrial policy, we should understand the inherent operation of the market like that above, and consider so as to make the most of its merits. As mentioned above, in postwar Japan, kinds of competition-restricting measures had been implemented for many times under the exceptional application to the Antimonopoly Act. However, most of the industries under the competition restricting circumstances have a tendency to result in rather poor performance,28 so we should attach importance to the competition principle in enforcing industrial policy.

Hence, it is needless to say that the competition policy should be placed at the center in the broad sense of industrial policy. Then some policies dealing with “market failures” are

27 Itoh et al. (1991), pp.149-150. This is the difference from the traditional industrial organization.
28 For example, it is often pointed out that the price gap between domestic and foreign is rather wide in regulated industries.
required. On this occasion, we should carefully investigate whether or not the government policy (even if it is to cope with “market failures”) would damage the consciousness of self-responsibility that any firm originally possess, whether or not it would cause moral hazard, or whether it would harm the good performance through market process, or not.

Let us consider the research and development. It is one of important factors for economic development, but the market mechanism cannot always achieve the good results on it. That is, (1) there is hardly enough incentive for R&D unless the inventor could control the result of the R&D by himself. And on the other hand, (2) on the strategically important area, it is possible that the duplicate investment would occur and bring about losses. Under these circumstance, some policies on R&D may be effective to increase economic welfare: for example, (1) the subsidy to the R&D of private enterprises, (2) establishment of public research institutes and (3) establishment of the R&D associations. But the supporting measures by the government could involve the risk that causes moral hazard. Concerning the research and development association, we cannot deny the probability to result in reducing competition among the composed firms. At this point, it is also necessary to consider how to reflect the strong point of competition.

6. Conclusion

In the article, we discussed the various problems concerning industrial policy looking back over the industrial policies in postwar Japan. Especially when the development of domestic industries and the reinforcement of the international competitiveness are in pursuit, the environmental arrangement and supporting measures by the government may be requested. However, though well in theory, we should pay attention that the actual policy intervention is concomitant with various costs and side effects. So it is necessary to examine the effect of the government intervention in light of severe criteria, even if it aims to cope with the “market failures.” In any case, it is essential to recognize the original force of the market process and the possibility of the government failures. From this point of view, we should consider the role of government.

29 Prof. Suzumura points out that the authorities have: (1) the power to quickly and promptly see through where and why the functional disorder of the market mechanism is caused, (2) the administrative authority and means to be able to economically carry out the necessary regulations to cure functional disorders and (3) wide view and insight ability to a certain extent, which is able to judge the possibility that the long term, indirect influence of regulation may cause all the worse deterioration of the economic result. Goto & Suzumura (eds.) (1999), p.406.
【Bibliography】


