

Disguised Protectionism? Environmental Policy in the Japanese Car Market*

Taiju Kitano[†]
Hitotsubashi University

April 2013

Abstract

The US government criticized Japanese environmental policies, which promoted eco-friendly car (eco-car) purchases via measures such as tax exemptions and subsidies, as disguised forms of protection by arguing that the fuel economy standard for the subsidy qualification was designed to be more beneficial to domestic firms. This paper examines Japanese environmental policies from 2005 to 2009 to assess whether or not these policies were adequately formulated from an environmental perspective. The analysis compares the outcomes between the actual fuel economy standard for subsidy qualification introduced in Japan and an alternative standard suggested by the US government. Simulation results based on the structural econometric model of multi-product oligopolistic competition show that although both alternative and actual standards are comparable for average fuel economy of new cars sold, the former standard is inefficient in improving the fuel economy because it requires much larger subsidies to achieve the same average fuel economy level as the latter.

Keywords: Discrete choice model; Micro moments; Disguised protection; Environmental policy; Car market

JEL Classification: F18; L62; Q56

*The author would like to thank Minoru Kitahara, Satoshi Myojo, Ryo Nakajima, Ryo Ogawa, Hiroshi Ohashi, Minsoo Park, and participants at several conferences and seminars for their helpful comments. Financial support from the Japanese Society for the Promotion of Science (JSPS) is gratefully acknowledged. All remaining errors are my own.

[†]2-1 Naka, Kunitachi-shi, Tokyo 186-8603, Japan. Email: kitano@iir.hit-u.ac.jp