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Articles

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While capital investments in the private sector have recently been recovering in Japan, the pace of growth remains sluggish despite strong corporate earnings. This is due to factors that are common among major industrialized nations, as well as those unique to Japan. The former include an increase in uncertainties surrounding the world economy and a decline in investment opportunities. The latter include a delay in the use of IT in providing services and the increased practice of "local production for local consumption", which involves the establishment of facilities and the manufacture of products in locations that are geographically close to the market. In order for Japan to achieve a full-scale recovery in capital investments amid the arrival of the fourth industrial revolution, the nation must be unshackled from the following three assumptions: 1) the manufacturing industry is all about making goods; 2) capital investments = tangible fixed assets; and 3) capital investments are made only by domestic companies.

Why Doesn't Investment Respond to Profitability? ─ A Panel Study of Japanese Manufacturing Firms ─
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We examine the investment behavior of Japanese manufacturing firms, using firm-level panel data for the period 1970-2014. We find that the profitability of investment, measured by marginal q, has increased over time, while the investment rate has declined. We shed light on the perceived gap between investment and marginal q by estimating a marginal q-type investment function. We find that the sensitivity of investment to profitability has declined steadily, which is partly explained by a decrease in the proportion of growth firms that exhibit strong sensitivity of investment to marginal q and an increase in the proportion of restructuring firms that exhibit weak sensitivity of investment to marginal q.

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Empirical Analysis of Research and Development (R&D) Investments: Impact of R&D Tax Credits on Corporate Behavior

Shinichi Kawaguchi 25

The goal of this paper is to validate the hypothesis that "the lower a company's ratio of flow-based retained earnings, the higher its ratio of research and development (R&D) investment to sales". Our analysis of the panel data of corporations' financial data supports this hypothesis. An R&D tax credit system, as a measure that reduces corporate taxes, greatly contributes to tax deductions, and gives preferential treatment to large corporations. However, such tax credit systems have the effect of reducing the cost of capital for corporations regardless of their size. Therefore, under an R&D tax credit system, corporations will direct their flow-based retained earnings to R&D investments because their cost of capital is lower than the cost of external funds.

Previous studies have focused on analyzing the role of R&D tax credits in promoting R&D investments by lowering the cost of capital and the impacts that stock-based internal funds and funding constraints have on R&D investments. However, the impacts of flow-based retained earnings on R&D investments have not yet been validated. Corporations will be able to reduce their capital cost by taking advantage of R&D tax credits and investing internal funds generated during the current fiscal year in R&D rather than retaining them in their coffers. The panel data analysis shows that the ratio of flow-based retained earnings was a negative factor for the ratio of R&D expenses to sales. This result clarified that, under an R&D tax credit system, corporations tend to invest the funds generated during the current fiscal period in R&D rather than retaining them as internal reserves.

Stock Market Evaluation of Disclosure of Capital Investment Information: Integrative Interpretation of Evidence of Prior Research by Meta-Analysis

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This paper applies meta-analysis and tries to interpret the evidence of prior research which clarified the market's evaluation of the disclosure of capital investment information in an integrated manner. The following three points became clear as a result of analysis. First, the stock market positively (negatively) evaluates an increase (decrease) in capital investment. Second, the stock market positively evaluates the implementation of new capital investment. Finally, there is a positive relationship between capital investment and stock returns around the date of publication.

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