

The Effect of Travel Subsidy under COVID-19 Pandemic in Japan¹

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Abstract

Using accommodation-facility-level data, we examine the effects of the subsidy program implemented by the Japanese government during the COVID-19 pandemic to stimulate travel demand nationwide. Exploiting the exclusion of travel to and from Tokyo from the program as a natural experiment, we empirically examine the effects of the subsidy not only on accommodation demand, but also on prices, sales, and welfare. We find that the subsidy significantly increased accommodation demand, especially among sightseeing-oriented facilities, while price pass-through was limited and the recovery occurred mainly through quantity expansion. A partial-equilibrium analysis further shows that most government expenditure can be interpreted as an increase in consumer surplus, and deadweight loss was also generated. These findings provide a multidimensional assessment of the subsidy in terms of both its effectiveness and its allocative implications.

Keywords: Travel subsidy; Welfare analysis; COVID-19; Tourism industry

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