The Samurai Bond: Credit Supply and Economic Growth in Pre-War Japan

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1. What is the main question(s) raised in the paper (the issue)?

The authors try to exploit the short-run and long-run impact of a historical and quasi-experimental credit supply boom on economic growth. To be more specific, after the former samurais' hereditary stipends were compulsorily replaced with government bonds in 1876's Japan, where there were ongoing economic reforms and industrialization, to what extent the regional difference of bond issuance accounted for the following disparity of regional and sectoral development within the country?

2. Why should we care about it (the significance)?

As many scholars have been focused on the negative correlation between massive credit supply and economic growth, few has discussed the opposite story, especially for a less financially-developed economy where credit movement is rather impossible. Examining the quasi-experimental event is beneficial for interpreting causal effects of financial development , especially the amplification on early access to infrastructure. Lastly, the impact of an exogenous credit supply can differ with respect to regions and sectors, as most preceding works failed to take within-country variation into consideration.

3. What is the author's answer (the findings)?

Bond value per capita had amplified the positive effects of early access to infrastructure (railways), which validates samurais' financial aids on productivity-enhancing technology during that period of time. Also, it resulted in growth in the tertiary sector and recession in the primary sector, and had led to the structural change in Japan as labor force was reallocated into the tertiary sector (mostly from the primary sector). The effects were persistent and had attenuated over time.

4. How did the author get there (the strategy)?

As a benchmark analysis, the authors regress per capita income growth on per capita samurai bond value and its interaction with the number of railway stations per capita at the prefecture level. Aside from pooling the regional growth altogether, they examine sectoral effects separately. Arguing for the robustness and other prevailing hypotheses of samurai's impact on economic growth, they respectively used national banking capital per capita, national bank ownership by samurai as the proxies of capital injection. To further examine the effects on structural transformation, they then regress change in the ratio of the labor force for one sector over another on the similar set of explanatory variables.