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‘Modern banking reforms and financial activities of indigenous merchants: A case from Japan in the late nineteenth century’

Following the opening of the treaty ports in 1859 and Meiji Restoration in 1868, Japan instituted a series of drastic reforms, successfully modernized, and achieved prolonged economic growth. Among other entities, national banks structured as joint stock companies according to the US model played a key role in the modernization of the country by providing the society with liquidity and integrating the national financial markets. I explore the factors that led to the success of the national banks by constructing new datasets characterizing the origins of the national banks and the viability of individual national banks. I then perform regressions with this database to test whether the origins of the banks affected their viability and regional economic growth. Empirical results from econometric analysis and case studies demonstrate that commoners who engaged in commercial activities played a key role in Japan’s modernization as the founders of the national banks.

An average marginal increase in the bank viability shows that if the founders of a bank were commoners, not former samurai, the survival rate went up by 23 percent. This finding suggests that the commoners’ capacity to run financial institutions helped the national banks operate more viably. It also turned out that if a bank was established in an area where notes were issued earlier, during the Edo Period, or if the founder of a bank originated from such an area, the survival rate rose by 31 percent. Hence, the past experience of issuing paper money also seemed to contribute to the smooth operation of modern banking.

Next, I employ cross-section OLS regressions to detect how the volume of the bank capital classified by the bank origins affected later economic growth at the prefectural level. The per capita capital of commoner banks significantly contributed to the per capita economic growth, while that of samurai banks and banks with previous note-issuing experience did not. The contribution of commoner banks to the regional economic growth endured into the early 20th century. When only surviving banks are counted, these banks contributed more to the regional economic growth than the failed or merged banks.

This study contributes to several existing literatures. First, it evinces how banks that originated as providers of commercial finance played a pivotal role in Japan’s economic development. Japan’s experience in the early Meiji Period accords with the view presented by Rajan and Zingales (2001): the transformation of indigenous merchants to modern bankers was effective in kick-starting modern economic growth.

Second, this study contributes to the debate on the source of the early development of Japan’s modernization by showing that commoners played a more important role than samurai in driving economic development through their banking activities in the early Meiji Period. The present study suggests that future research on merchant activities may be more useful than further analysis of the one-time effect of the allocation of the samurai bond, which was distributed to the former samurai when the government halted the payment of stipends to them.