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Explorations in Economic History 42 (2005) 184–201

Explorations in
Economic History

www.elsevier.com/locate/eeh

The role of the merchant coalition in pre-modern Japanese economic development: an historical institutional analysis

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Received 26 February 2003

Available online 28 October 2004

Abstract

This paper examines the economic role of the merchant coalition (*kabu nakama*) in Japan during the 18th and the first-half of the 19th century. During this period, public sector enforcement of contracts was imperfect. *Kabu nakama* substituted for the public sector, using a multilateral punishment strategy. When the government (*Bakufu*) prohibited *kabu nakama* in 1841, the growth rate of the real money supply contracted, efficiency of price arbitrage declined, and the inflation rate increased.

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Keywords: Merchant coalition; *kabu nakama*; Japan; Institution; Multilateral punishment strategy; Enforcement

1. Introduction

This paper examines the economic role of *kabu nakama*, a coalition of merchants or artisans, in Japanese economic development during the 18th and the first-half of the 19th centuries (hereafter, the Edo era). The analysis is related to three strands of

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the literature. The first is the methodological literature on institutions in economic history. North and Thomas (1973) and North (1990, 1991) have emphasized the role of institutions, especially public institutions for protecting property rights, as a prerequisite for modern economic development. More recently, Greif (1989, 1993, 1997); Aoki (2001), and Hayami and Aoki (1998) have shown self-enforcing private institutions might substitute for or complement public institutions.

The second strand is the literature on the Japanese economic development. This literature has made clear that Japan had a market economy during the Edo era (Crawcour, 1974; Crawcour and Yamamura, 1973; Duffy and Yamamura, 1971; Hanley, 1983; Ito, 1993; Miyamoto, 1989; Ohkura and Shinbo, 1978; Smith, 1973; Shinbo, 1978; Shinbo and Saito, 1989; Wakita, 1996; Yamamura, 1973; Yasuba, 1987). According to Iwahashi (1988), numerous institutions supporting economic development existed during the Edo era, including a stable political regime, a land tax system providing peasants with production incentives, the unified weights and measures, among others. However, Iwahashi (1988) does not address the issue of public enforcement of contracts, which is an essential feature of the North's framework. As discussed in Section 2, the public system for contract enforcement was seriously flawed during the Edo period.

The third strand of the literature is that on *kabu nakama*. The classic book on *kabu nakama* by Mataji Miyamoto noted that “the intermediate organizations, such as *kabu nakama*, could exist only on the condition that the state or the public authorities were not well developed . . . in pre-modern Japan, the statutory commercial law had not yet been legislated and the formal commercial rules did not exist . . . the commercial customs of *kabu nakama* were the only standards for trade, and not only did the *Bakufu's* court refer to the customs, but also each *kabu nakama* itself resolved commercial conflicts” (Miyamoto, 1938, pp.151–152). That is, Miyamoto suggested that private organizations played the role of contract enforcers in a society in which the public system of third party enforcement was imperfect, but he did not develop this insight fully nor did he test it empirically.¹

In this paper, I examine empirically the contract enforcement function of *kabu nakama*. As discussed later, the *Bakufu* prohibited and dissolved *kabu nakama* in 1842. This historical event can be regarded as a type of “natural experiment” for testing the role of *kabu nakama*. The paper is organized as follows. In Section 2, an overview of the economic development and the legal system in the Edo era Japan is provided, from which we derive the puzzle mentioned above. In Section 3, the codes of *kabu nakama* are examined and the contract enforcement hypothesis of *kabu nakama* are presented. In Section 4, the hypothesis is tested. Section 5 concludes the paper.

¹ In the 1960s and early 1970s, research on *kabu nakama* focused on its role as a part of the political regime in the Edo era (Tsuda, 1961; Hayashi, 1967; Nakai, 1971). In recent years, many researchers have focused on the *kabu nakama* as a social group composing the city community (Yoshida, 1985; Imai, 1986, 1989).

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