

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

- ▶ Estimate the effect of credit supply on various economic outcomes
- ▶ Exploit a natural experiment
 - ▶ The Japanese government commuted the hereditary pension of former samurai into government bonds
- ▶ Results
 - ▶ Short run: samurai shares positively associated with firm establishment, capital investment, and average capital firm
 - ▶ Long run: initial samurai share associated with per capita output growth conditional on early adoption of railways

Things to like

- ▶ Relevant question
- ▶ Shock: conversion of pensions into government bonds
 - ▶ Large
 - ▶ Plausibly exogenous
- ▶ Can estimate both short- and long-run effects

Comments

- ▶ Nature of the shock
- ▶ Is there a fiscal shock in addition to the credit shock?
 - ▶ Debt-financed fiscal consolidation?
- ▶ Discuss minimum holding period of 5 years

Comments

- ▶ Short run regressions
 - ▶ $Y_{it} = \beta_0 + \beta_1 \text{SamuraiShare}_{it} + \delta_i + \delta_t + e_{it}$
- ▶ Does it make sense to exploit variation in *SamuraiShare* over time?
 - ▶ Discuss whether these changes are truly exogenous
- ▶ Why not $\Delta Y_{it} = \beta_0 + \beta_1 \text{SamuraiShare}_{i0} + \delta_t + e_{it}$?

Comments

- ▶ Is *SamuraiShare* a good proxy for credit supply?
 - ▶ Samurais bring more credit to a region but also some other factors: more/less education, wealth...?
- ▶ Why restrict sample to prefectures with stable samurai share?
 - ▶ You don't want stable shares, you want exogenous changes
- ▶ Placebo tests (Angrist and Pischke, 2008)
 - ▶ Test for pretrends:
$$Y_{it} = \beta_0 + \beta_1 \text{SamuraiShare}_{it} + \beta_2 \text{SamuraiShare}_{i,t+1} + \delta_i + \delta_t + e_{it}$$
 - ▶ Add prefecture-specific trends:
$$Y_{it} = \beta_0 + \beta_1 \text{SamuraiShare}_{it} + \delta_i + \delta_t + \delta_i t + e_{it}$$
- ▶ Cluster standard errors

Nice paper!!!
Thank you!!!