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Paper Proposal:

Administrative Reform, Institutional Development and Indicators of Investment Risk in Meiji Japan

Abstract:

The question, which institutional arrangements are most conducive to economic growth and whether successful institutions can be transplanted from one country to another, remains one of the most contested issues in economic history. Studying the effects of administrative reform in 19th century Japan offers valuable empirical evidence for this discussion: Almost everywhere in the country, traditional forms of local government were replaced by Western-style institutions after the Meiji Restoration of 1868. In the course of this process, Japan's traditional political landscape of semi-autonomous feudal territories was transformed into a strongly centralized nation-state with uniform standards of jurisdiction and administrative procedure. At the same time, the internal structure of the Civil Service underwent profound changes: Not only was the performance of local government officials subjected to the central's increasingly strict supervision. Also, according to the new, merit-based staff policy individual achievement became crucial for the appointment, promotion and remuneration of civil servants, thereby considerably weakening the influence of hereditary class privileges.

The Meiji leaders' belief that Japan could preserve its sovereignty vis-à-vis the Western powers only by means of systematic economic and military development made them especially anxious about monitoring the progress of administrative modernization and industrial development. This

provides present-day historians with exceptionally detailed statistical accounts ranging from a multitude of economic indicators to district-level crime rates, court statistics or staff records of prefectural and municipal agencies.

Focusing on this material, the proposed paper asks, whether the replacement of Japan's traditionally decentralized local government system by a strong central state facilitated institutional development and removed asymmetries of information between local government officials and their superiors in the capital. Exploiting regional variation in the timing of administrative reforms and using matching techniques to identify comparable regions, the study analyzes loan interest rates in different prefectures as a measure of region-specific investment risk. Its main result is that lending rates were indeed higher in prefectures where the onset of administrative reform was delayed. Thus, the experience of 19th century Japan seems to offer empirical support for the notion that poor institutional quality in the Civil Service directly translates into higher transaction costs and a higher perceived risk of investment. Moreover, I find no evidence of “imported” Western-style institutions failing for reasons of cultural incompatibility.