

Coordination without Consolidation: Coercive Governance and Urban Development

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Abstract

Can criminal organizations facilitate economic coordination in the aftermath of wartime destruction? Does their involvement promote or impede structural transformation over the long run? We study these questions in postwar Tokyo, where Japanese yakuza organizations coordinated commercial activity after the devastating air raids of 1945. Combining historical records of prewar organizational presence with longitudinal data on businesses, land parcels, and redevelopment, we use a difference-in-differences design comparing similarly devastated neighborhoods with and without prewar yakuza networks. These networks accelerated commercial recovery and fostered dense entertainment districts while leaving landholdings and occupancy rights fragmented. Over subsequent decades, however, these neighborhoods experienced slower land assembly and large-scale redevelopment, despite growing opportunities for more intensive land use. We explain this divergence through a model in which coercive organizations coordinate and collect rents from small businesses but cannot translate their informal control into legally enforceable claims on the returns from formal redevelopment. The transition to formal development therefore threatens the income of the organizations that enabled the initial recovery, creating incentives to preserve fragmented rights and the activities from which they extract rents. Historical evidence on market governance and redevelopment negotiations supports this mechanism. Our findings show how illicit governance can shape both the emergence of urban agglomerations and the limits to their subsequent transformation: the arrangements that enable early coordination can endogenously create barriers to later development.