1 Introduction

As the 1980s ended there was talk of Tokyo becoming the financial capital of the world, and it was fashionable to ask whether other countries should be adopting Japan's industrial policy and financial system. By the late 1990s many analysts were arguing that Japan's problems could not be solved using the policies that had become commonplace during the preceding four decades of mostly boom. To some observers, this means Japan should drop everything that characterized its "traditional" economic system. All the "Japanese" aspects of the system were to be purged, so that the economy could become more open, free, and international. In short, it is common to assert that Japan's economy must undergo a "globalization," which often is meant as the equivalent of "Americanization."

But the problems at the end of 1990s do not necessarily mean that all aspects of the economy must be changed. Moreover, an overnight leap to a US-type system may not be feasible or desirable. To understand how the Japanese system will and should change, one needs to understand how the system came into being and what is wrong with it.

1.1 Focus

This book focuses on the Japanese financial system, because it was at the center of the difficulties in the 1990s and is poised for major change in the 21st century. Special attention is given to the close nature of the bank-firm relations that characterized Japanese finance in the period of rapid economic growth (roughly 1955–73). We call Japanese corporate finance based on such a close bank-firm relationship "bank-centered financing." It has been most clearly observed in the major corporate groups in Japan, whose nature and antecedents are discussed in Appendix 1.1. We examine how bank-centered financing developed over time, what roles it played in the rapid economic growth, when it started to change, and how it will be transformed in the future.

Our analysis of the evolution of the financial system is framed in terms of the answers to four questions about each of the four regimes the system has evolved through since the late 19th century and the regime that is emerging in the 21st century. The questions are: How do households hold their savings? How is business financing provided? What range of services is being provided by banks? What is the nature and extent of bank involvement in corporate governance? This provides a consistent analytic framework for what has happened since the (1868) Meiji Restoration. These are also the questions that are the core of the debate about reforms for the 21st century.

A guiding principle in our analysis is that whenever possible we will bring data to bear to support our argument. While most of the conclusions in this book are the outgrowth of rigorous academic research that we and others have published previously, we believe that the reader should not have to rely on "appeals to authority." Too often discussions of Japan are clouded by unsubstantiated claims. Our view is that if we cannot present some simple numbers to support our analysis, we have not done our job.

Understanding past and coming changes depends on an appreciation of the rationale for the antecedents of the incumbent system. Hence the stress on historical perspective and historical background. World War II marked a major discontinuity; for practical reasons and (at the time, widely held) theoretical beliefs about the process of economic development, the Occupation and Japanese authorities continued a number of wartime practices. (For example, mobilization for development was seen as not all that different from mobilizing for war.) For a long time the system worked, and the carried-over ideas received much of the credit. This success colored the nature and pace of changes.

1.2 Lessons

What are the lessons from our look at the 130-plus years of evolution of the Japanese financial system? We see two recurring themes.

First, the behavior of financial institutions, savers, and borrowers can by and large be explained using standard economic analysis. One does not need a new set of tools to describe and appreciate the superficially unique financial system that evolved in Japan. Rather, one has just to recognize the shocks and the prevailing regulatory environment that put the Japanese financial system onto a specific evolutionary path. From there, the patterns become familiar and easy to understand.

Second, the major shifts in the system involved regulatory changes, many of which were reactions to important economy-wide disturbances. These were, in turn, often related to large external shocks. Thus, the disruption of the China and Pacific wars and subsequent Occupation directly affected the nature of Japanese finance. The 1970s oil shock triggered the deregulation that gradually transformed the system over the next three decades, although the maturing of the Japanese economy meant that this transformation was bound to happen even without the oil shock. Finally, the Big Bang of the mid-1990s was formulated as the final step in the deregulation, moving at least the nominal structure of Japan's financial system to the forefront of the global system that has evolved centered on New York and London.

1.3 Overview

Between the beginning of Japan's modernization in the late 19th century and the end of the 20th century, Japan's financial system has gone through four distinct periods. The following provides a brief explanation of how the four eras flow into each other. The largely chronological structure of the book means it can be usefully read as a history of Japanese finance, but our larger intent is an analysis of the system's evolution and response to changing circumstances. Having understood the past four regimes, the fifth one, into which Japan is now moving, becomes much easier to understand.[1]

The first financial regime starts in the 19th century and continues until the beginning of Japanese hostilities with China in the late 1930s. In Chapter 2 we show that in comparison with the postwar period, this era was characterized by the relatively low importance of banks in the financing of corporations. For instance, bank financing of large firms was often less important than bond financing. Even among the large industrial alliances known as zaibatsu, bank financing was not a very important funding source during this period.

In contrast, securities markets were quite active. New shares were routinely issued by the leading corporations and shares traded actively on stock exchanges and over-the-counter. The trading was done by a

1. Another author with a similar periodization is Patrick (1972). He divides the first regime into a formative period (to the time of the Russo-Japanese War) and the period during which the prewar system matured.

diverse group; the banks as a rule did not own much equity and the notion of "shares held in friendly hands" was rarely mentioned. Bond markets were also deep and vibrant. It was not unusual to see years where more net corporate funding was done in bond markets than through bank borrowing.

Understanding this era is important because it dispels several myths about the Japanese financial system. Most importantly, prewar history demonstrates that Japanese are not inherently averse to relying on capital markets for financing. Quite the contrary. Thus, in Chapter 3 we explain how regulations passed as part of 1930s militarization worked to overturn the prewar financing system. The central feature of these regulations is that they progressively transferred more and more power to the banks in general and to zaibatsu banks in particular.

The late 1930s and early 1940s was the time when bank financing became the dominant funding source for most of the industrial firms involved in the war effort. During this period the depth of the ties between specific firms and banks increased noticeably. The shift was completed with the designation of specific banks as being responsible for the financing of specific militarily important firms. This meant that the lending coalitions that had previously characterized banking relations were replaced by one-on-one lending. In many ways this shift marked the start of the tight ties between firms and banks that are the hallmark of bank-centered financing.

That the exigencies of war upset peacetime practices is not itself remarkable. But, during the late 1940s and early 1950s, a number of events reinforced the patterns established during the war and turned them into the practices of postwar bank-centered financing. Probably most significant among these actions was the method used to settle the insolvency that plagued the immediate postwar economy. Japanese firms ended the war with a large amount of debt owed to banks and to each other. Most of this was incurred to facilitate production of items essential to the war effort, and both the trade credit and bank lending had been backed by government guarantees. After the war the Occupation insisted that the Japanese government default on its guarantees.

The banks played an active role in deciding how the firms would dig out from their debts. Their role in the reorganization planning helped to solidify their status as the dominant financial players in the economy. Furthermore, we show how this process transformed the wartime lending relationships into funding arrangements that worked in a growing, industrial economy. This transformation left Japan with a completely different financial system in 1955 than it had had in 1935.

As clean up from the war era ended, the economy was still in a weak condition. Domestic funds were insufficient to cover investment needs. The government had decided that foreign investment would be controlled, so capital was rationed. An important way that the government influenced the direction of credit was to force savings to flow through the banking system. The combination of a banking system that was successfully attracting money from the public and a starved and rebuilding corporate sector put the banks at the center of the financial system as growth took off.

As Chapter 4 shows, during the remainder of the 1950s, throughout the 1960s, and into the early 1970s a key part of the financial system was what became known as the main bank system. Just what is meant by a "main bank" evolved through time (and varies with users of the term), but at its most basic it means that a firm looked to a single bank to take the lead in organizing its financing and providing the majority of its other banking needs.[2]

A main bank usually limited its direct lending exposure to a client by acting as a leader within a group of institutions that provided funding. Nevertheless, it was widely understood that the main bank would provide an anchor. Thus, if firms ran into financial difficulty the main bank was expected to step up and organize a workout. Chapter 5 presents case studies of workouts.

The banks continued some of the patterns that had become common during the postwar corporate reorganizations. These included rotating senior bank officials through the managements of firms. As a rule, outsiders were uncommon on boards of directors; when there were outside directors, banks were the most likely supplier. Similarly, during the high-growth era and into the 1990s it was common for the banks to have equity links with their customers. For instance, in Chapter 4, we show that even as late as 1975, a bank was the largest shareholder of about one-sixth of the firms listed on the first section of the Tokyo Stock Exchange.

A hallmark of the high-growth era was the tight regulation of the financial system. Bond issuance was controlled, albeit through an "informal"

2. So stated, it is obvious that the term could be applied equally well in other financial cultures, especially for small and medium firms. So, too, can "relationship" banking in its most general sense. There are special aspects of the Japanese versions of these, but their "uniqueness" is not as extreme as sometimes painted, as the evidence in this book will show.

system, so that bond financing was not possible for many firms. New share issuance also was impeded by similar formal and informal regulations. Thus, up through the late 1970s, the banks were effectively the only game in town for firms in need of external capital and going offshore to raise money in foreign markets was prohibited. On the supply side, savers had few choices other than bank deposits, and the interest rates on deposits were kept low by regulations.

In Chapter 6, we argue that the proper way to view bank-centered financing is as a system with clear costs and benefits. We describe these costs and benefits and conclude that during the heyday of the system, the benefits outweighed the costs.

The oil shock marked the start of the fourth era for the Japanese financial system. The shock was significant because it threw the government budget sharply into deficit. The government, in the aftermath of World War II, had made it a policy not to rely on deficit financing and thus had not previously had to sell large quantities of debt. However, in the wake of the oil shock it became clear that the government was going to need to run significant deficits. At that point, the lack of a well-developed bond market became a problem.

In Chapter 7 we explain how this opening up of the government bond market started the move to deregulation that transformed the system. In a series of changes, the restrictions regarding corporate debt issuance also (slowly) were relaxed. So, too, were regulations regarding foreign exchange. Thus, the 1980 Reform of the Foreign Exchange Act freed international capital flows, allowing progressively more Japanese firms to seek funds abroad. More slowly, regulations regarding stock issuance were loosened.

Deregulation of the bond issue market had a significant impact on bank-centered financing. Large and internationally known firms substantially reduced their dependence on bank financing by issuing bonds. Banks started to lend to small and medium companies, which did not have established relations with the big banks. Thus the banks were replacing customers they understood with unfamiliar ones. In this sense, the system, based on long-term bank-firm relationships, started to crumble. For many of the firms, it appears that the benefits of the system no longer outweighed the costs.

The Financial System Reform of 1993 allowed financial institutions to branch into new niches by using subsidiaries. For example, banks were able to establish subsidiaries to enter the securities business, while the securities houses were able to establish subsidiaries to enter trust banking. Thus, the segmentation that had characterized the system also began to disappear.

In Chapter 8 we look at the fallout from all of these changes. Many of the banks' new customers in the late 1980s were in real estate, in construction, or were non-bank financial institutions, which often in turn lent to real estate developers. With rapidly increasing land prices and stock prices, those industries looked very promising ex ante. As asset prices collapsed in the 1990s, many of the loans went bad. Bad debt in the banking sector became a major problem.

As the crisis unfolded, deregulation continued. We outline the package of reforms, which came to be called the "Japanese Big Bang." When completed in the spring of 2001, Japanese financial markets were fully liberalized, with open competition permitted among all types of financial service firms.

What will remain of the old system in the post Big-Bang Japanese economy? Chapter 9 speculates on the shape of the emerging fifth regime. The 21st-century system will not be bank-centered. Large and internationally known companies now can raise funds anywhere in the world without relying on banks. The benefits of the system may still be attractive to small and medium firms, but whether banks can develop new relationships with these firms is an open question. Further, the banks' bad debt problems during the 1990s impeded this kind of development. At some point the banks will have recovered from their loan losses, and then they will face a decision on the extent to which they want to pursue this business. Banks are sure to be tempted to enter non-banking financial businesses, such as bond underwriting and security dealing. Thus, one must consider whether the banks will even seek to revive the old system. We think not.

The diminished capacity of the banks to be the center reflects not so much the banks' failures (though they are an element) as the availability of alternative sources of funding and the changing nature of who needs funding. Unshackled, security markets have reasserted themselves. The stock market collapse of the early 1990s has delayed the emergence of a share-owning culture in Japan, but most of the pieces for its emergence are being put in place.

Reflecting on the lessons from studying the development of the five regimes, the overarching conclusion is that standard economic analysis can easily explain most of what has happened. One does not need a new toolkit to understand the Japanese experience. Rather once one accounts for the regulatory environment and macroeconomic developments, most of the transitions and arrangements of finance and governance, including those for the 21st century, are comprehensible and even predictable.

APPENDIX 1.1: Zaibatsu, Keiretsu, *and* Kigyō Shūdan

Business groups have played an important role in the Japanese economy since its modernization began. This appendix explains their nature and the terminology used in referring to them, both of which have changed over time. Although similar in many ways to contemporary western groupings, Japanese groups in both the prewar and postwar period also have many unique characteristics.

Zaibatsu

Prior to the end of World War II, the dominant groups were conglomerates called *zaibatsu* (commonly translated as financial clique). The word came into widespread use in the early 1930s and was used universally into the 1960s. In prewar Japan, it was applied almost exclusively to family-owned groups, which were thus a subset of *kontserun* (adapted from the German term "conzern" (combines).[1]

Combines generally were organized around holding companies (*mochikabu-kaisha*) but they also involved other relationships that gave the whole a unity of action. The family held all the equity of the *honsha* (literally "main company," but more appropriately translated as holding company). The honsha then held shares in a set of industrial, financial, and trading subsidiaries and exerted significant control over all of the operating businesses. Further, the employees of the zaibatsu typically felt a strong personal devotion to the House (family) and to some extent to the other employees within the combine.[2]

Mitsui puts the group's origins in the 17th century, and Sumitomo traces its roots to 1590 when the family copper-crafting shop was estab-

1. This usage was reflected in Occupation policy when the zaibatsu were dissolved. Hadley (1970, p. 20 note 3) reports being told one firm was not included because, its founder having died in 1944, it was no longer a family-dominated combine.

2. The holding companies usually were partnerships until the 1930s. Shares were sold to outsiders in the late 1930s. The Occupation counted just 31 families as comprising the four leading zaibatsu (US Dept of State 1945, p. 208).

The Mitsui had employed outsiders as senior managers since the Meiji period, and as the Meiji-era generation of the other three majors passed from the scene, they generally were replaced by non-family managers. These mangers earned tremendous salaries and bonuses, so zaibatsu wealth was not restricted just to family members.

lished. Mitsubishi, was founded by Iwasaki in 1871 as a shipping company. All three became quite diverse and large. Indeed, unlike prewar combines in the West, which typically sought to dominate a specific industry, these three zaibatsu were conglomerates that sought "oligopolistic positions running the gamut of the modern sectors of the economy" (Hadley 1970, p. 23). The last major group, the finance-based Yasuda, grew out of a late Tokugawa-era money lending firm. Somewhat smaller groups, such as Ōkura, Furukawa, Asano, Fujita, and Kawasaki, also formed by the end of the 1870s and were called zaibatsu.

There are two other sets of groups. One formed a bit later and grew very rapidly around World War I. These were collectively called *Taishō zaibatsu* (after the emperor's reign name) and included Suzuki, Kuhara, Matsukata, Shibusawa, Iwai, Nomura, and Murai. Some of them (most notably Suzuki) failed during the financial crisis in 1927. The last set, the *Shinkō* (New) *Zaibatsu*, focused on chemicals and other heavy industries, and expanded during the 1930s. Nissan, Nicchitsu, Mori, Nissō, and Riken are included in this group.

Not all of the groups that the Japanese called zaibatsu were identified as zaibatsu by the Occupation forces. In fact, only 10 (the big four plus Nissan, Asano, Furukawa, Ōkura, Nakajima, and Nomura) were designated as zaibatsu companies and dissolved. The others avoided the dissolution, although many large companies in those groups were broken up under holding company dissolution.[3]

It is difficult to judge just how large and influential zaibatsu, even the big three, were. Indeed, despite significant effort, the Occupation's zaibatsu-busters could not reach consistent conclusions on the matter. It is generally recognized they exercised power over other companies through financing and trading, so it is not particularly useful simply to add up capital or revenue; doing so would also be problematic because the multiple-counting arising from inter-firm transactions would not be netted out, as would be the case if the group had a single consolidated set of accounts. Mitsui was by far the largest, representing upwards of one-tenth of the "incorporated and partnership business of the nation" (Hadley 1970, p. 32). Measured in terms of "capital controlled,"

3. Mitsui commonly was described as the oldest zaibatsu as recently as 1973 when Roberts published an English-language history of Mitsui. Surprisingly this—along with a translation of Mishima's 1989 Mitsubishi zaibatsu-shi—were the only book-length English histories of the major zaibatsu that we could locate. There are some pamphlets produced by the groups: Sumitomo Corp (1979) and Mitsui (1968).

Mitsubishi was considered about one-third as large as Mitsui, and Sumitomo one-ninth (Allen 1940, pp. 628–29).

Moreover, as explained by Morikawa (1992), in his review of all the leading groups, the zaibatsu during the 1920s and early 1930s were by no means too big to fail. For example, by the mid-1920s Suzuki had built, in less time, a larger trading company than Mitsui and was active in steel and textiles. In the 1927 panic, the firm collapsed. While this is the best known case, many of these family combines fell by the way-side long before the Allies arrived in Japan.[4]

Breaking up the zaibatsu and other major holding companies was a goal of the Occupation (discussed in Chapter 4). This reflected the fact that they had contributed significantly to Japan's war effort and colonial activities, especially in Manchuria. In 1948 a law was passed prohibiting the use of the names, trademarks, and logos of zaibatsu. Occupation authorities also sought to have the senior managers of the zaibatsu dismissed. The Japanese government resisted this effort, but ultimately about 1500 executives were removed from their jobs. Holding companies were banned. Finally, the shares of the main firms were sold off. This transfer was remarkable in that it involved over one-third of the paid-in capital of all corporations in Japan in 1945. Together these measures destroyed the zaibatsu. The families were not left destitute, but in the postwar period only the head of Sumitomo was among the country's top taxpayers.[5]

Keiretsu and Former Zaibatsu Companies in the Postwar Era

Once the Occupation ended, the companies of the four major zaibatsu began to coalesce into groups that in English are now commonly identified by the Japanese word *keiretsu*. (Into the 1970s the regrouped firms of

4. For further information in English, Morikawa (1992) is the most comprehensive source. Hadley (1970) focuses on their dissolution, but in Chapters 2 and 3 she quantitatively documents their sheer size and diversity during the war years. Ownership (Chapter 4) and personnel ties (Chapter 5) are also treated extensively. A contemporary account of their emergence is Allen (1940), who takes a somewhat more benign view of them than does Hadley. Also see Allen (1962, pp. 132–35) who provides a succinct summary of their pre-1932 development and Lockwood (1954, especially pp. 214–35). However, aside from Morikawa all of these limit themselves to the firms that had become successful by the 1930s, or that became successful during the 1930s. Takeda (1995) and Yasuoka (1998) are among Japanese scholars taking a broader look at the emergence of zaibatsu.

5. The Japanese publish a list each year, and it has been considered something of an honor to be on it. Sumitomo's "luck" is attributable in part to the fact forest land was not included in postwar land reform.

the three prewar majors often were called zaibatsu both in English and Japanese, and sometimes still are for a pejorative implication.)

The term *keiretsu* actually covers two quite different types of groups. One is vertical (a supply-chain with one dominant company), another is horizontal (a group of peers). Horizontal groupings are more precisely termed *kigyō shūdan* (enterprise groups). This has not been widely adopted outside of Japan, but we think the distinction is important and thus use "enterprise group" (or simply "group").[6]

There are fundamental differences between zaibatsu and enterprise groups. In particular, the firms in a group have significantly more independence than under the *honsha*. The reason for this is ownership and control: there is no single family controlling each group and no holding company with the power to direct the other firms. Rather, each firm is individually traded on public stock exchanges.

The prohibition of inter-corporate stock ownership was withdrawn in 1949, and firms bought each others' stock as part of the recapitalization process. They subsequently added to their holdings to preclude hostile takeovers and increase equity. The result has been significant cross-shareholding, but this is very different than a parent company holding shares in a subsidiary.

The law prohibiting the use of the names, logos, and trademarks of the zaibatsu was repealed in 1952, and many companies quickly restored their old names. In some cases new firms even adopted the zaibatsu name. For instance, Japan Construction became Sumitomo Construction even though it had been established after the war. Attempts were made to repeal the ban on holding companies, but these failed. Holding companies continued to be banned until 1998.

In the early 1950s, Sumitomo's Hakusui-kai (White Water Club, 1951) and Mitsubishi's Kin'yo-kai (Friday Club, 1954) formed and began meeting once a month. These gatherings (*shachō-kai* or Presidents' Councils) brought together the heads of key former zaibatsu firms, along with other large associated firms, for informal discussions about matters of mutual interest. Mitsui's Ni-moku-kai (Second Thursday Club) started in 1961, Fuji Bank's Fuyō-kai in 1966.

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6. A useful summary of contrasts among various types of groupings is Gerlach (1992) and Clark (1979, pp. 73–95). Matsushita, Hitachi, Nissan, and Toyota are examples of large vertical groups. For more details on vertical groupings, see Aoki (1988, particularly pp. 208–23), Asanuma (1989), and Asanuma and Kikutani (1992).

Before being adopted to describe business groups, keiretsu meant order or succession (in a lineage).

When the groups were forming in the early 1950s, the trading companies of Mitsui and Mitsubishi were being reassembled. (Sumitomo and Yasuda did not have major trading companies in the prewar period.) The traders were considered by many to be the heirs to the status of the *honsha* because of their intimate interaction with all the other group members. However it is not clear how much power they actually exerted on group members. (See Box 4.9 for further discussion of the trading companies.)

What was clear is how dependent for funds the groups were on their banks. The banks had been largely untouched by reforms during the Occupation and had helped reorganize many of the firms in the aftermath of the war (see Chapter 3). Moreover, presidents' councils had formed among firms that had no prewar affiliation but were clearly associated with a major city bank. These included Sanwa's San-sui-kai (Third Wednesday Club), which started in 1967. Similarly, Dai-Ichi Kangyo Bank's Presidents' Council, Sankin-kai, was established in 1978 by merging the Presidents' Councils for the former Furukawa *zaibatsu,* Kawasaki *zaibatsu,* (these two formed the core of the Dai-Ichi Bank group) and the Presidents' Council for the Kangyo Bank group.

Thus it has become common to speak of the bank as the leader within each group. But, even though the banks often are the largest shareholder, they are a long way from exercising much direct control over the firms' operations. In any case, by the mid-1960s there were six sets of manufacturing firms affiliated with each other and a set of financial institutions in what are called enterprise groups (*kigyō shūdan*) or horizontal keiretsu. The three largest are related to the largest prewar zaibatsu. Banks are specifically identified as the core of the other three. The largest of these, around Fuji Bank, is the successor to the Yasuda zaibatsu. The other two are postwar creations, although the banks themselves are prewar. These six groupings and their relations with financial institutions are the focus of much of our analysis of the postwar financial system.

Are Keiretsu Anti-Competitive?

The issue of whether keiretsu ties distort the competitive landscape is worth examining briefly as part of establishing a general understanding of the groups. There are studies for a number of different industries that examine this question. Assuming the alliances generate extra profits, one can argue that these profits can be used to allow the members to undertake other activities, even those that are potentially unprofitable. For example, using a cushion of profits from home markets, member firms could take losses in foreign markets in order to gain market share. Other studies look at whether the presence of keiretsu firms leads to collusion that excludes foreign imports and raises prices (Lawrence (1991) is the best-known example.) Another variation on the argument holds that cross-shareholdings insulate the keiretsu from hostile takeovers, thereby impeding foreign direct investment (FDI).

For several important reasons we find almost all of this evidence either unconvincing or ambiguous. A major problem is the premise of rents: in fact, keiretsu firms are not particularly profitable. Weinstein and Yafeh (1995) show that industries with a high keiretsu presence tend to have lower price-costs margins and to be more competitive. This can explain why FDI might be low, and undercuts the arguments over prices. (Weinstein (1997) points out a number of measurement issues that cloud the debate regarding FDI.)

Using firm-level data and controlling for many firm characteristics, Ueda and Sasaki (1998) show that the import behavior of keiretsu firms does not look different than that of other firms.

A more general concern is that the mechanism by which the keiretsu coordination is supposed to operate is often unclear. As Drysdale (1995) explains, it is very hard to see exactly how firms across the different groups would cooperate to exclude firms or to keep prices up.

Who Belongs

A thorny issue is how to determine which firms are members of an enterprise group. The boundaries are ambiguous, and there are degrees of affiliation, so there is no "correct way" to draw the lines. In most of our analysis, we follow the most common method of defining membership, which is whether or not a firm attends the presidents' council meeting of one of the six main groups. This has the advantage of being easy to verify, but it means that we focus on a relatively elite set of firms. Of the 1,313 manufacturing firms listed on the first section of the Tokyo Stock Exchange in March 1997, only 109 belonged to one of the councils. These firms had average sales of about eight times other listed manufacturing firms.

Unfortunately, even this narrow definition has some problems because it is generally agreed that at least some current council members no longer have special ties to the group. Also, a few (for example, Hitachi, Nippon Express, Kobe Steel, and Nissho Iwai) have belonged to more than one council. Thus, not all council members have the kind of financial connections that characterize postwar bank financing in Japan. Fortunately, the presidents' council definition is sufficient to show the main characteristics we seek to highlight. Moreover, the basic characteristics on which we focus are also apparent when other common definitions, such as the largest lender being one of the six major group banks, are used.