

# Market-centered Corporate Governance in Prewar Japan and Today \*1

Hirohiko Shimpo

shimpo@eco.osaka-sandai.ac.jp  
URL: <http://www.hshimpo.com/>

## Abstract

This paper examines the various features of major Japanese companies and Japan's corporate governance in the interwar period from about 1920 to 1940. It also investigates the establishment background of present corporate governance.

First, representative companies (except for banks) are discussed in Section 1 and representative banks in Section 2. Of those companies and banks, I select salient examples and analyze those businesses and their entire financial information in great detail in Section 3. I explore their securities investments concerning further restricted companies in Section 4. I examine the entire financial and securities market during that time in Section 5. Section 6 approaches the actual condition and role of the life insurance company as an institutional investor. The life insurance company's investments made a positive impact on companies and banks at the time through the financial and securities market.

Current Japanese corporate governance is often characterized as an insider type of corporate governance. The origin of such corporate governance, or today's business group, was often believed to result from past Japanese zaibatsu rule.

However, the analysis in this paper shows that the financial and securities market had a very large role in raising and managing capital for major companies and banks in the interwar period. In this meaning, Japanese corporate governance in the interwar period was **market-centered** and very similar to those of the U.S. and Britain today. Such a feature was remarkable in the emerging zaibatsu and the independent companies. The vertical and integrated control and controlled relations made the holding company reach the top were formed in major zaibatsu is certain. Even in this case, the market's role was not small, and the governance in major zaibatsu was never dominant.

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Moreover, regarding the macro capital flow, the role of securities, not bank deposits, was remarkably important.

The development of such market-centered corporate governance was one of the most important factors that supported active Japanese foreign investment in the prewar period and brought about economic development, as my another paper will examine.

**Keywords:** Market-centered Corporate Governance, Main Bank System, Financial and Securities Markets, Holding Company, Insurance Company

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## Introduction

Both at home and abroad, there seems to be a significant misunderstanding about corporate governance in prewar Japan. During the prewar period, Japanese corporate governance, like U.S. corporate governance, was market-centered. Such a market-centered system supported the rapid growth of the Japanese economy. I would like to explain this based on fundamental data such as an account of business.

At last, the Japanese economy is now escaping from the Lost Decade, and seems to be correcting itself toward a path of growth. Japanese corporate governance, called the Main Bank System, is changing into a market-centered system. This market-centered system is playing an important role for new economic recovery.

This process is being brought about by both the economic globalization through the IT revolution and an examination of past experiences.

## **I Representative Japanese Companies in the Interwar Period**

In **Section 1**, I would like to examine the features of representative Japanese companies in the interwar period, chiefly in 1930.

When we investigate zaibatsu and business groups, if we examine only related companies and their financial relationships, it is possible to overevaluate their influence.

In the following 3 tables, I would like to consider major companies in order of assets and the total of the top thirty companies, looking at assets, paid-up capital, number of issued shares, number of stockholders, shares per shareholder, three large stockholders, and top 5 stockholders totals using data from “*the Account of Business Collection (microfilm)*”<sup>\*2</sup> and some publications. For fiscal years 1920 and 1940, I show only data of the top ten companies and the total for the top thirty companies.<sup>\*3</sup>

The basic data of corporate activity, such as an account of business, which I often make use of in this book, were published early in the history of each company, by each company. This shows that information disclosure by company has developed remarkably. The fact that various investment books were published during this period suggests that the strata of investors during the period were wide. Such conditions also supported Japanese economic growth during the prewar period.

### **1.1 Representative Japanese Companies in 1920**

To begin this paper, I will examine the condition of Japan’s economy in 1920, which marked the immediate end of World War I in **Table 1**. After the Meiji Restoration, Japan had attained rapid economic growth, and its role in the world economy was becoming significant after it, emerged as a victorious country from World War I.

At that time in Japan, full-scale industrialization had just started, and the major exports were fibers, such as raw silk and cotton yarn, and textiles, such as silk and cotton. The balance of trade was also still experiencing a deficit. Japan was beginning to engage in capital exports; however, the amount of those exports was small.<sup>\*4</sup>

When we compare representative companies of the 1920s with those in the 1930s,

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\*2 Yushodo Shuppan (various years).

\*3 Regarding detailed data in each following table, refer to Shimpo (2006).

\*4 Shimpo (1998, 30-32, 54-55). Regarding Japanese FDI in the interwar period, we have no comprehensive, correct estimate at the moment.

Table 1: Representative Japanese Companies in 1920

	Assets		Paid-up Capital (million yen)	Number of Issued Shares (1,000 shares)	Number of Stock-holders (individuals)	Shares per Share-holder (share)	1			2			3		Top 5 Stock-holders Totals (1,000 shares) (%)				
	(million yen)	(million yen)					Minister of Finance	Department of the Imperial Household	Matsu Shokai	Kawasaki Dockyard	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank		Yasuda Bank	50	2,386	62.8%
1 South Manchuria Railway	676	309	3,800	11,315	336	80	2,200	Minister of Finance	Department of the Imperial Household	Matsu Shokai	Kawasaki Dockyard	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Yasuda Bank	50	2,386	62.8%
2 Nippon Yusen	208	58	2,000	24,886	80	80	362	Department of the Imperial Household	Matsu Shokai	Kawasaki Dockyard	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Amano Gomei		29	453	22.7%
3 Kawasaki Dockyard	208	33	1,800	10,357	174	174	298	Matsu Shokai	Kawasaki Dockyard	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Amano Gomei		60	562	31.2%	
4 Kokusai Steamship	179	88	2,000	66	30,303	66	1,018	Kawasaki Dockyard	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Amano Gomei		110	1,424	71.2%		
5 Toyo Takushoku	174	28	1,000	7,947	126	126	43	Minister of Finance	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Amano Gomei		17	107	10.7%			
6 Osaka Shosen	169	63	2,000	30,401	66	66	34	Kashima Shoten	Kanda Gomei	Mitsubishi Bank	Amano Gomei		19	111	5.6%				
7 Tokyo Electric Light	138	69	4,395	16,830	261	261	168	Amemiya Hozen	Kanda Gomei	Mitsubishi Bank	Amano Gomei		95	599	13.6%				
8 Nippon Cotton	133	20	1,000	4,591	218	218	111	Kita Gomei	Kanda Gomei	Mitsubishi Bank	Amano Gomei		47	308	30.8%				
9 Kuhara Mining	129	41	1,500	14,277	105	105	364	Kuhara Honten	Mitsubishi Bank	Amano Gomei		40	542	36.1%					
10 Mitsubishi Mining	116	63	2,000	7,648	262	262	1,217	Mitsubishi Goshi	Mitsubishi Bank	Amano Gomei		40	1,339	67.0%					
<b>30 Totals</b>			<b>37,874</b>	<b>273,133</b>	<b>139</b>	<b>139</b>	<b>7,404</b>						<b>1,536</b>		<b>937</b>	<b>11,051</b>	<b>29.2%</b>		

Source 1: Toyo Keizai Shinpo-sha (1991, 132-38).

2: Toyo Keizai Shinpo-sha (1922).

we can see the difference by industrial composition. Of the top 30 companies in 1920, 14 of those companies, almost half, were no longer in the top 30 by 1930. We can find this big change over ten years. Four of these companies, including Nippon Cotton, belonged to the spinning industry, and three companies, including Toyo Sugar Manufacturing, belonged to the sugar manufacturing industry. The representative Japanese companies were changing from labor-intensive or resource processing companies to capital-intensive or technology-intensive companies in the period of the 1920s.

Next, I will show each company's characteristics, which can be clearly seen from the viewpoint of the stockholding ratios of major stockholders. First, we notice South Manchuria Railway (established in 1906), which was a state-owned enterprise. Its assets were three times greater than those of Nippon Yusen, the second largest company. South Manchuria Railway was consistently the largest company in Japan until World War II. The fact that it was the largest company for such a long time shows that Manchurian development played a significant role in the Japanese economy.

The Department of the Imperial Household owned 18.1% of Nippon Yusen's equities. The Department of the Imperial Household was the largest shareholder of Nippon Yusen, the second largest shareholder of Toyo Takushoku, and the third largest shareholder of Taiwan Sugar Manufacturing. The Department of the Imperial Household owned a broad range of equities of leading companies.<sup>\*5</sup> In 1930, Nippon Yusen's position declined. The Department of the Imperial Household's shareholding ratio of Nippon Yusen also quickly declined.

There were three major Mitsui Zaibatsu companies: Hokkaido Colliery & Steamship, Oji Paper, and Nippon Steel Works. Mitsubishi Mining was only one company of Mitsubishi Zaibatsu. In terms of other zaibatsu companies, Kawasaki Shipyard and Kokusai Steamship organized a group, and there was one company each of Asano Zaibatsu and Suzuki Zaibatsu, etc. Kuhara Mining was one company of Kuhara Zaibatsu (The name was changed to Nippon Sangyo in 1928). Of these companies, Kokusai Steamship and Nippon Steel Works had very few stockholders.

Finally, we should notice that there were many individual leading investors in each case. Of the 150 stockholders, though there are duplicates, about one-third was individual leading investors. There were a number of companies in which individuals and their families took the lead, often as a general partnership and a limited partnership. In

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\*5 In the case of Toyo Takushoku, Taiwan Sugar Manufacturing, etc., the Department of the Imperial Household is indicated as the Uchikura-no-kami.

contrast, the number of banks was only nine, including small-scale ones.

## 1.2 Representative Japanese Companies in 1930

Until 1929, the world economy developed favorably, and the entire world enjoyed the results of such growth. The sudden fall of stock prices at the New York Stock Exchange marked the beginning of the Great Depression, and a lengthy period of world economic stagnation began in October of the same year. The year 1930 in **Table 2** shows the summit of the economy during the interwar period.

When the top thirty companies are classified by industry, the biggest industry is electric light and electric power, which comprises seven of the companies, such as Tokyo Electric Light. Five companies in this industry are in the top ten. In the railroad and railway industry, there are three companies listed, including South Manchuria Railway, the largest corporation. Two trading companies, Mitsui & Co. and Mitsubishi Trading, follow. We can argue that the electric power industry and the railway industry, which together formed the economic infrastructure, led the economy. At this point, the major companies in the textile and other industries in 1920, had been, drastically replaced.

The representative companies in the electric light and power industry in 1930 were **independent companies** that did not belong to the major zaibatsu. The largest stockholder of Tokyo Electric Light was Toden Securities, the latter was founded in 1927 as “the holding company developed early in the U.S. and was imitated in Japan” (Tokyo Electric Light, 1936, 193-94). Similar situations can be found in other electric power industry companies. Moreover, Toho Electric Power owned the equity in Tokyo Electric Light. Toho Electric Power became the largest stockholder of Godo Electricity, and the Toho Electric Power group was formed. In this way, mutual relationships in the same industry were strengthened. The alliance between the electric light and power companies and the railroad and railway companies, the latter a huge consumer of the former, was very close. Keihan Electric Railway was the largest stockholder of Daido Electric Power, and the second largest stockholder of Godo Electricity.

It is noteworthy that the average amount of shares per shareholder in these electric light and electric power companies was about a hundred shares during this period. The dispersion of stockholding had progressed markedly. The financial and securities markets in the interwar period showed rapid growth, and allowed these companies to develop further on the basis of this growth.

In comparison, there were three Mitsui Zaibatsu companies as in 1920, and three

Table 2: Representative Japanese Companies in 1930

	Assets (million yen)	Paid-up Capital (million yen)	Number of Issued Shares (1,000 shares)	Number of Stockholders (individuals)	Shares per Shareholder (share)	1			2			3			Top 5 Stock- holders Totals	
						Minister of Finance Toten Securities	Bank of Chosen Toho Securities Holding	Mitsui & Co. Toho Electric Power	Minister of Finance Imperial Household	Bank of Chosen Toho Securities Holding	Mitsui & Co. Toho Electric Power	Minister of Finance Imperial Household	Bank of Chosen Toho Securities Holding	Mitsui & Co. Toho Electric Power	(1,000 shares)	(%)
1 South Manchuria Railway	1,116	387	8,800	21,505	409	Minister of Finance Toten Securities	4,400	134	Bank of Chosen Toho Securities Holding	100	Mitsui & Co. Toho Electric Power	100	4,789	54.4%		
2 Tokyo Electric Light	869	407	8,591	61,114	141	Toden Securities	1,068	373	Toho Securities Holding	135	Toho Electric Power	135	1,762	20.5%		
3 Mitsui & Co.	370	100	1,000	31	32,258	Mitsui Gomei	996	1	Hachiroemon Mitsui	1	Motonosuke Mitsui	1	997	99.7%		
4 Daido Electric Power	332	131	3,520	32,636	108	Keihan Electric Railway	257	150	Toden Securities	110	Daido Tochi Kogyo	110	680	19.3%		
5 Toho Electric Power	288	130	2,600	25,873	101	Toho Gas Securities	60	34	Karasu Bank	30	Meiji Life Insurance	30	178	6.8%		
6 Nippon Electric Power	273	107	2,419	20,072	121	Nichiden Securities	442	150	Toho Gas Securities	100	Chiyoda Mutual Life Insurance	100	728	30.1%		
7 Kawasaki Dockyard	268	74	1,800	17,708	102	Matsu Shokai	119	93	Sika Misugi	66	Kawasaki Sohonten	66	361	20.1%		
8 Toyo Takushoku	255	35	1,000	8,159	123	Minister of Finance	60	25	Department of the Imperial Household	11	Taihei Life Insurance	11	111	11.1%		
9 Ujigawa Electric Power	231	84	1,850	16,931	109	Okuragumi	35	28	Dai-ichi Mutual Life Insurance	20	Kitamura Seizaisho	20	113	6.1%		
10 Keihan Electric Railway	221	59	1,877	14,428	130	Magozaburo Ohara	17	16	Norioka Tsumura	12	Masaharu Baba	12	65	3.5%		
11 Nippon Yusen	217	64	2,125	23,904	89	Department of the Imperial Household	161	131	Mitsubishi Goshi	125	Toyo Steamship	125	523	24.6%		
12 Fuji Paper	175	59	1,554	9,715	160	Oji Paper	210	97	Okawa Gomei	26	Konosuke Koike	26	374	24.1%		
13 Oji Paper	172	49	1,318	7,219	183	Mitsui Gomei	316	54	Fujiwara Goshi	26	Amane Inoue	26	436	33.1%		
14 Osaka Shosen	163	63	2,000	29,961	67	Kokai Trading Company	30	19	Hikotaro Abe	16	Omiya Firm	16	93	4.7%		
15 Kyushu Hydroelectric Electricity	162	68	1,720	9,129	188	Aso Shoten	74	45	Kaho Bank	37	Dai-ichi Mutual Life Insurance	37	190	11.1%		
16 Kanezafuchi Spinning	161	29	1,200	17,686	68	Mitsui Gomei	64	31	Tokabu Agency	16	Sanji Muto	16	1392	11.6%		
17 Godo Electricity	152	54	721	8,655	83	Toho Electric Power	618	114	Keihan Electric Railway	15	Chiyoda Mutual Life Insurance	15	773	107.2%		
18 Hanshin Electric Railway	148	48	2,000	6,489	308	Sumitomo Goshi	157	62	Hon-kesone Goshi	53	Osaka Savings Bank	53	363	18.2%		
19 Asano Cement	143	54	2,126	13,816	154	Asano Family	637	81	Okawa Gomei	76	Yasuda Bank	76	882	41.5%		
20 Karafuto Industry	136	54	1,400	6,364	220	Okawa Gomei	165	50	Tarokichi Hasegawa	40	Shuichi Tanaka	40	316	22.6%		
21 Mitsubishi Mining	135	63	2,000	6,615	302	Mitsubishi Goshi	1,158	60	Mitsubishi Bank	52	Mitsubishi Trading	52	1324	66.2%		
22 Tokyo Gas	132	100	2,000	7,800	256	Seishichi Iwasaki	47	47	Teikoku Life Insurance	21	Watanabe Bank	21	134	6.7%		
23 Nippon Oil	130	56	1,600	21,935	73	Seitaro Yamaguchi	83	57	Nishiwaki Goshi	35	Nakano Kogyo	35	207	12.9%		
24 Nippon Nitrogen Fertilizer	129	39	900	2,217	406	Shitagau Noguchi	165	37	Akehi Bank	37	Shigeaya Kondo	37	299	33.2%		
25 Dai-Nippon Sugar Manufacturing	128	35	1,028	15,673	66	Shuseisha	45	29	Tokyo Marine & Fire Insurance	18	Koichi Nomura	18	117	11.4%		
26 Taiwan Sugar Manufacturing	126	43	1,260	13,482	94	Mitsui & Co.	60	40	Department of the Imperial Household	18	Hirotaro Hayashi	18	152	12.1%		
27 Mitsubishi Trading	123	15	300	20	15,000	Mitsubishi Goshi	286	3	Koyata Iwasaki	1	Mitsubishi Shipbuilding	1	292	97.3%		
28 Toyobo	121	37	1,300	13,859	94	Denhichi Ito	26	12	Kihyo Seo	12	Hanshichi Toyoshima	12	73	5.6%		
29 Mitsubishi Shipbuilding	116	30	1,000	23	43,478	Mitsubishi Goshi	984	3	Koyata Iwasaki	1	Mitsubishi Steel	1	990	99.0%		
30 Hokkaido Colliery & Steamship	115	44	1,400	4,676	299	Mitsui Mining	290	276	Mitsui Gomei	80	Department of the Imperial Household	80	712	50.9%		
<b>Top 30 Company Totals in 1930</b>		<b>62,409</b>	<b>437,685</b>	<b>143</b>	<b>100%</b>		<b>13,030</b>	<b>2,228</b>		<b>1,289</b>		<b>1,289</b>	<b>18,173</b>	<b>29.1%</b>		

Source 1: Toyo Keizai Shinpo-sha (1991, 132-38).

2: Toyo Keizai Shinpo-sha (n.d.).

3: Osakaya Shoten (1931).

4: Yushodo Shuppan (various years).

Mitsubishi Zaibatsu companies increased by two. One of the Mitsui Zaibatsu companies, Mitsui & Co. appeared as the third largest corporation in the list, and its stockholders were only the Mitsui family excluding Mitsui Gomei, the largest stockholder. There were only thirty-one stockholders, so it was a remarkably closed corporation. The Mitsubishi Zaibatsu companies, Mitsubishi Trading and Mitsubishi Shipbuilding, entered the list, and the influence of Mitsubishi companies gradually increased. Mitsubishi Goshi owned most of the Mitsubishi Trading and Mitsubishi Shipbuilding stock. Other stockholders were either Mitsubishi related companies or Mitsubishi family investors, making these companies de facto closed companies. The three Mitsubishi companies had the same structure that we now observe as similar cross-shareholding amongst current leading Japanese companies. As zaibatsu companies, there were Asano Cement and Nippon Nitrogen Fertilizer, \*<sup>6</sup> the latter were classified into the same emerging zaibatsu as Nippon Sangyo.

As is well known, Prof. Hidemasa Morikawa defines **Zaibatsu** as “a diversified business based on blocked holding and control by millionaire’s family and relatives.” According to this definition, the emerging zaibatsu with dispersed stock ownership is very different from traditional zaibatsu.

The influence of major zaibatsu companies gradually increased, however it is important to understand that the electric light and electric power companies led the economy, with the contrasting characteristics of stockholding and means of financing. The competition between these companies characterized this period.

Next, the appearance of insurance companies as institutional investors was important. Since I discuss this in detail in Section 6, I would like to briefly mention this issue here.

In 1920, there was only one insurance company as a stockholder, Yokohama Life Insurance. By 1930, there were twelve such companies and, among them, Dai-ichi Mutual Life Insurance owned the equities of five companies. In contrast, there were forty-six leading individual investors (duplications are included). In that year, however, four Mitsui family investors in Mitsui & Co., different from the general individual investors, were included. If they are excluded, we can conclude that the ratio of leading individual investors was slightly reduced when compared with 1920.

From this period, **institutionalization** in which the role of institutional investors increased in the financial and securities markets, was also found in Japan.

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\*6 This company is named as *Nippon Chisso Hiryo* in the website of Chisso Corporation.  
[http://www.chisso.co.jp/english/company/time\\_line.html](http://www.chisso.co.jp/english/company/time_line.html).

### 1.3 Representative Japanese Companies in 1940

Over the long period of the 1930s, the world economy fell into a serious recession. To achieve a breakthrough, a blocking policy was promoted, primarily by the major powers.

Japan adopted the same policy, left the League of Nations in 1933, and began its advance into World War II. The year 1940 was the eve of Japan's entrance into war with the U.S., which led a worldwide coalition.

Through this process, heavy and chemical industrialization was cooperatively promoted in Japan. Initially, exports were mainly composed of fiber and textiles. Exports of metal, metal-based products, and machines increased, and capital was also exported chiefly in specified controlled areas (Shimpo, 1998, 55).

Consequently, 16 of the top 30 companies in the list of 1930 (including two companies whose names had changed) were excluded from the list of top companies in 1940. Representative companies also completely changed in 1940. We can conclude that there was a dramatic shift in companies over these 20 years.

First, we should focus on the appearance of state-owned enterprises, which include many National Policy Corporations in **Table 3**. South Manchuria Railway<sup>\*7</sup> was still the largest company, and Nippon Steel's (established in 1934) and North China Development's (established in 1938) rank suddenly improved. South Manchuria Railway invested not only in North China Development, but also in Showa Steel Works (established in 1929), which belonged to the Manchuria Heavy Industry group and Manchurian company Manchuria Electricity (established in 1934). South Manchuria Railway was the core company that was responsible for Manchurian development.<sup>\*8</sup> None of these companies were on the 1930 list.

Next, in 1937, Manchuria Heavy Industry Development reorganized Nippon Sangyo which Mr. Yoshisuke Aikawa was in command. It was established as a business corporation in which the Manchukuo government invested 50%, with the head office

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\*7 The list of affiliated companies of South Manchuria Railway (the end of March 1941), Manchuria Heavy Industry Development (September 1, 1941), North China Development (the end of March 1941), Toyo Takushoku (the end of March 1941) and Nippon Nitrogen Fertilizer (April 1, 1941) is reported in (1955).

\*8 Regarding the history of each company, refer its web sites and Toyo Keizai Shimpo-sha (1955), Toyo Keizai Shimpo-sha (1995).

In particular, when detailed affirmation of facts and detailed examination are required, I refer to the company history of each company, which is basic data. Regarding Manchuria companies, refer to Sunaga (2002).

Table 3: Representative Japanese Companies in 1940

	Assets		Paid-up Capital (million yen)	Number of Issued Shares (1,000 shares)	Number of Stock-holders (individuals)	Shares per Shareholder (share)	1			2			3		Top 5 Stock-holders Totals		
	(million yen)	(million yen)					Minister of Finance	Manchukuo Government	Tokyo Electric Light	14,000	Minister of Economy	Manchukuo, Department of Savings	600	1,000	Manchukuo, Minister of Finance	Manchukuo, Department of Savings	600
1 South Manchuria Railway	3,628	856	28,000	74,948	374	n.a.	Minister of Finance	14,000	Manchukuo, Minister of Economy	1,000	Manchukuo, Department of Savings	600	16,171	57.8%			
2 Mitsui & Co.	1,678	247	1,500	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3 Manchuria Heavy Industry Development	1,504	450	9,000	69,129	130	n.a.	Manchukuo Government	4,500	Kyoritsu Company	118	Dai-ichi Conscription Insurance	52	4,759	52.9%			
4 Nippon Electricity Generation and Transmission	1,351	664	14,786	44,851	330	n.a.	Tokyo Electric Light	2,836	Nippon Electric Power	2,238	Ujigawa Electric Power	919	7,220	48.8%			
5 Nippon Steel	1,321	500	10,000	16,083	622	n.a.	Minister of Finance	5,684	Kamaishi Mine	300	Postal Life Insurance	157	6,415	64.2%			
6 Mitsubishi Heavy Industries	999	210	4,800	15,567	308	n.a.	Mitsubishi-sha	2,065	Nippon Yusen	301	Meiji Life Insurance	201	2,832	59.0%			
7 Tokyo Electric Light	995	430	8,591	55,337	155	n.a.	Toden Securities	968	Toho Electric Power	254	Teikoku Life Insurance	215	1,726	20.1%			
8 Hitachi	778	243	7,160	65,743	109	n.a.	Manchuria Heavy Industry Development	1,344	Tobata Casting	186	Fukoku Conscription Insurance	171	1,927	26.9%			
9 Mitsubishi Trading	758	50	2,000	4,401	454	n.a.	Mitsubishi-sha	807	Mitsubishi Mining	30	Tokyo Marine & Fire Insurance	27	918	45.9%			
10 North China Development	712	218	7,000	25,179	278	n.a.	Minister of Finance	3,500	South Manchuria Railway	201	Mitsui & Co.	136	4,023	57.5%			
<b>30 Totals (except 2 companies)</b>			<b>166,774</b>	<b>740,687</b>	<b>225</b>			<b>50,164</b>		<b>9,225</b>		<b>4,675</b>	<b>69,941</b>	<b>41.9%</b>			
								<b>30.1%</b>									

Source 1: Toyo Keizai Shinpo-sha (1991, 132-38).

2: Toyo Keizai Shinpo-sha (1941).

3: Osakaya Shoten (1941).

in Manchuria. The huge new zaibatsu, which made Manchuria Heavy Industry Development a core, set Hitachi (established in 1920), Nippon Mining (established in 1929), and Showa Steel Works under its influence. Not all of these companies were on the 1930 list. In this way, South Manchuria Railway and Manchuria Heavy Industry Development, etc. became symbols of Japanese companies at that time and promoted Manchurian development.

A big change occurred among the major zaibatsu companies. This change was the reversal of two zaibatsu due to the increase in the Mitsubishi companies and the decline of the Mitsui companies. The positions of Mitsubishi Heavy Industries (the name was changed from the former Mitsubishi Shipbuilding in 1934) and Mitsubishi Trading abruptly rose, and the holding company Mitsubishi-sha newly joined. With the exception of Mitsubishi-sha, the three companies were typical zaibatsu companies in which Mitsubishi-sha's shareholding ratio exceeded 40%. Alternatively, Mitsui companies were Mitsui & Co. and Mitsui Mining, which supported the Mitsui Zaibatsu. The original data for this table did not offer stockholder information for these two Mitsui companies nor was that data clearly presented in "*the Account of Business Collection*." Table 2 mentions Mitsui & Co.'s 1930 data, and Mitsui Mining went public in 1939. However, disclosure in both cases is very limited. \*<sup>9</sup>

Both the Mitsubishi and Mitsui companies have the blocked stockholding structure, and their relationships with the market were limited. Mitsui companies greatly lagged behind Mitsubishi companies. Sumitomo Metal Industries, one of the Sumitomo Zaibatsu, and NKK, one of the Asano Zaibatsu, were other zaibatsu companies.

An enterprise that was completely different from those mentioned above was a noteworthy company that developed through an alliance with foreign capital. This company was Tokyo Shibaura Electric (Tokyo Electric and Shibaura Engineering merged in 1939), whose largest stockholder was I.G. Electric Company. \*<sup>10</sup> A large amount of foreign investment (foreign direct investment) could be seen in the case of Nippon Steel Works in 1920. However, it did not become dominant during this period. We could point out similar situations concerning not only foreign investment in Japanese companies, but also foreign currency bonds issued by Japanese companies.

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\*<sup>9</sup> Regarding the public offering of stocks in Mitsui Mining, refer to Mitsui Archives (1994, 620-1, 723-4).

\*<sup>10</sup> Regarding IGE, "*An 85 Years' History of Tokyo Shibaura Electric*" (1963, 183) explains, "It has been established as a successive business corporation of foreign trade, other activities and a patent right of GE."

Though Japan had to introduce excellent technology and capital from foreign countries in an encouraging manner, Japan chose the way of a closed bloc economy that depended on colonies. This decision was one of the important factors that led to Japan's defeat and economic dissolution.

#### **1.4 Dispersion of Stockholding and the Appearance of Institutional Investors**

First, in the previous 3 tables, I would like to examine the changes in the holding shares per shareholder over three fiscal years. In 1920, it was 139; in 1930, 143; and, in 1940, it rose sharply to 225. Moreover, the holdings percentage of the big five stockholders was 29.2% in 1920, 29.1% in 1930, and this percentage rose sharply to 41.9% in 1940. The largest stockholder's holdings percentage increased from 19.5% to 20.9%, and then significantly to 30.1% in 1940.

The change in these figures was due to many large companies, such as state-owned enterprises and major zaibatsu companies newly appearing in 1940.

The influence of Manchuria Heavy Industry Development group was two-fold, but in opposing directions. On the one hand, it promoted this concentration process. On the other, their stocks were greatly dispersed at the same time. Manchuria Heavy Industry Development, as a core company, doubled its capital in March, 1938, and the Manchukuo government acquired half of it (Osakaya Shoten, 1941, 208-09). In the antecedent Nippon Sangyo in the second half of 1937, Kyoritsu Company, which was the second largest stockholder in 1940, was the largest stockholder, holding 140,000 shares (Osakaya Shoten, 1938, 428-30).

Moreover, in 1940, Manchuria Heavy Industry Development's amount of shares per shareholder was 130, and it was about half of the average of thirty companies, which was 225. The amount of shares per shareholder of Hitachi was 109, and the amount of shares per shareholder of Nippon Mining was 102, remarkably low, and similar to Hitachi. Showa Steel Works had only two stockholders.

In 1940, the above number rose, and the influence of big investors was strengthened. There were fourteen companies; almost half of the top thirty companies, whose numbers of shares per shareholder were less than 200. Such information shows the wide dispersion of stocks among shareholders.

Next, the role of insurance companies as institutional investors became increasingly important in 1940. In contrast, the number of individual leading investors decreased sharply to thirteen, and most of the popular general partnerships and limited partnerships in 1920 disappeared. We can conclude from these figures that

institutionalization had rapidly progressed.

Moreover, the cross shareholding between major affiliated companies founded in the postwar period was then uncommon. Mitsubishi Trading, one of the Mitsubishi Zaibatsu companies, and Sumitomo Metal Industries, one of the Sumitomo Zaibatsu companies, engaged in cross shareholding, but they were exceptions. After the war, state-owned enterprises and the Manchuria Heavy Industry Development group were dissolved, and major zaibatsu companies were revived as the core of Japanese economy, this cross shareholding developed. Here, we can find the seeds of the postwar Japanese economic and business system.

## **2 Representative Japanese Banks in the Interwar Period**

Next, in **Section 2**, I would like to clarify the position of banks in the interwar period and the kind of role they played, and to compare them with the postwar Main Bank System.

First, I would like to examine the basic data of the top five banks in 1930 and the total of the top ten banks in three periods in **Table 4**. The most important characteristic of 1930 is that major zaibatsu banks appeared simultaneously. In 1920, the only zaibatsu banks in the top ten banks were Mitsui Bank and Sumitomo Bank; however, in 1930, there were four banks, Mitsui Bank, Yasuda Bank, Sumitomo Bank, and Mitsubishi Bank, ranking from third to sixth. All of these banks were under the control of holding companies. Top five stockholders totals ratio was over 50% in the zaibatsu banks, excluding Yasuda Bank, which had 45.8% of the minimum. Consequently, the ratio of five big stockholders in the top ten banks was 23.2% in 1920, and this rose to 30.0% by 1930. Since the ratio of the five big stockholders was almost equivalent to 29.4 % in 1940, we can observe the biggest change in 1930. For banks in 1930, when compared with the previously examined non-bank companies, the position of zaibatsu banks that ranked higher was significant.

For bank stockholders, the shares per shareholder in the top ten banks was 147, 125 and 136, respectively, and there was no significant change during the three fiscal years. This is the same level for companies in 1920 and 1930. There were no abrupt rises in 1940. The change does not correspond to the change in the five big shareholders' ratio.

As we can see, stockholding in banks, very much like the case of companies, became

Table 4: Representative Japanese Banks in 1930

	Assets		Paid-up Capital (million yen)	Number of Issued Shares (1,000 shares)	Number of Stock-holders (individuals)	Shares per Shareholder (share)	1			2			3		Top 5 Stock-holders Totals	
	(million yen)	(million yen)					Nabeshima Naomitsu	Department of the Imperial Household	Mitsui Gomei	Yasuda Hozen-sha	Sumitomo Goshi	Fukuoka Prefecture	Mitsubishi Bank	Einosuke Kaizuka	Tokyo Savings Bank	Tomitaro Hara
1 Nippon Kangyo Bank	1,312	85	2,175	37,916	57	17	17	17	17	17	17	17	15	15	73	3.4%
2 Yokohama Specie Bank	1,254	100	1,000	5,078	197	226	226	226	226	226	226	30	30	30	297	29.7%
3 Mitsui Bank	867	60	1,000	2,353	425	678	678	678	678	678	678	10	10	10	708	70.8%
4 Yasuda Bank	863	93	3,000	13,026	230	765	765	765	765	765	765	279	279	279	1,373	45.8%
5 Sumitomo Bank	823	50	700	3,059	229	350	350	350	350	350	350	32	32	32	404	57.7%
<b>Top 10 Bank Totals in 1930</b>			<b>12,469</b>	<b>99,977</b>	<b>125</b>	<b>2,592</b>	<b>2,592</b>	<b>2,592</b>	<b>2,592</b>	<b>2,592</b>	<b>2,592</b>	<b>487</b>	<b>487</b>	<b>487</b>	<b>3,743</b>	<b>30.0%</b>
<b>Top 10 Bank Totals in 1920</b>			<b>9,133</b>	<b>62,193</b>	<b>147</b>	<b>1,531</b>	<b>1,531</b>	<b>1,531</b>	<b>1,531</b>	<b>1,531</b>	<b>1,531</b>	<b>221</b>	<b>221</b>	<b>221</b>	<b>2,116</b>	<b>23.2%</b>
<b>Top 10 Bank Totals in 1940</b>			<b>16,832</b>	<b>123,463</b>	<b>136</b>	<b>2,711</b>	<b>2,711</b>	<b>2,711</b>	<b>2,711</b>	<b>2,711</b>	<b>2,711</b>	<b>862</b>	<b>862</b>	<b>862</b>	<b>4,941</b>	<b>29.4%</b>

Source 1: Toyo Keizai Shimpo-sha (1991, 138-41).

2: Osakaya Shoten (1931).

noticeably dispersed.

In 1940, there were seven instances in which insurance companies were among the top five stockholders of the top ten banks. For instance, there were two insurance companies among the top five stockholders of Yokohama Specie Bank. Although the role of insurance companies was increasing, it was still small when compared with non-bank companies. It is important to note that there were four trust companies as stockholders in banks in 1940.

Nine individual leading investors appeared, and this number exceeded the number of insurance companies. There were twenty-two individuals in 1920. Although the number of individuals was sharply decreasing, this was still a significant number. One reason for this would be that the paid-up capital of banks, i.e., the scale of banks, was still small when compared with non-financial companies.

The stockholding of banks by non-bank companies can hardly be seen except for some financial institutions, and this was a remarkable characteristic. As mentioned above, it was exceptional for banks to own the equities of non-bank companies. If there were few opposite situations, we can conclude that cross shareholding was not significant at that time.

It has become clear that banks during the interwar era did not necessarily occupy a core position with respect to stockholding in the whole zaibatsu. The stockholding of zaibatsu companies by holding companies in those days was not mutual, but vertical and integrated. In Section 4, I would like to examine a holding company and its stockholdings in detail.

### **3 Financial Information on Leading Companies and Banks**

In **Section 3**, I would like to further examine financial information for some significant companies and banks previously discussed. The asset composition and the internal finance of major companies and banks will be considered.

#### **3.1 Companies with High Capital Ratios**

**Table 5** shows the basic financial information of ten representative companies and the total of the top thirty companies, as well as three representative banks and the total of the top five banks in 1930.

The high capital ratio for non-bank companies is remarkable. The capital ratio in

**Table 5: Financial Information of Representative Japanese Companies, BS, end of 1930**

(million yen, %)

	Debt and Capital			Assets			
	Capital Account	Corporate Bonds	Debt Loans	Capital Stock Unpaid	Securities	Others	Total Assets
1 South Manchuria Railway	440	297	n.a.	53	93	742	1,116
2 Tokyo Electric Light	407	355	35	0	10	257	869
3 Mitsui & Co.	100	n.a.	n.a.	0	n.a.	115	370
4 Daido Electric Power	176	102	29	45	38	112	332
5 Toho Electric Power	130	120	5	0	43	54	288
6 Nippon Electric Power	121	105	32	14	5	80	273
7 Kawasaki Dockyard	90	59	26	16	38	42	268
8 Toyo Takushoku	50	180	8	15	17	132	255
9 Ujigawa Electric Power	93	73	50	9	14	69	231
10 Keihan Electric Railway	94	30	86	35	36	39	221
<b>Top 30 Company Totals</b>	<b>3,171</b>	<b>1,781</b>	<b>372</b>	<b>657</b>	<b>523</b>		<b>7,107</b>
	<b>44.6%</b>	<b>25.1%</b>	<b>5.2%</b>	<b>9.2%</b>	<b>7.4%</b>		<b>100%</b>
	Capital Account	Others		Capital Stock Unpaid	Securities	Others	Total Assets
1 Nippon Kangyo Bank	109	Debentures Issued	935	24	57	987	1,312
2 Yokohama Specie Bank	100	Deposits	564	0	354	271	1,254
3 Mitsui Bank	100	Deposits	666	40	218	384	867
<b>Top 5 Bank Totals</b>	<b>529</b>		<b>3,436</b>	<b>141</b>	<b>1,084</b>		<b>5,119</b>
	<b>10.3%</b>						<b>100%</b>

Source 1: Toyo Keizai Shimpo-sha (n.d.).

2: Osakaya Shoten (1931).

the top thirty companies was 44.6%, excluding companies for which we are not able to obtain information. If unpaid capital is excluded, the capital ratio falls to 35.4%, but it is still high.

The capital ratio was very high in each company except for trading companies. The highest was 46.8% for Tokyo Electric Light. This trend did not change in 1940. The highest was 54.7% for Nippon Electricity Generation and Transmission, which was established by the Nippon Electric Transmission Corporation Law in 1939.

In addition, the trend that shows a very high ratio of corporate bonds to total assets has been added. The ratio of the total of the top thirty companies amounts to 25.1%.

The amount of corporate bonds issued was remarkably large in South Manchuria Railway and Tokyo Electric Light. In the latter company, the ratio of corporate bonds to total assets exceeded 40%, both in 1930 and 1940.

For corporate bonds, there is a very big difference between major zaibatsu

companies and other companies. The data of the major zaibatsu companies, Mitsui & Co., Mitsubishi Trading and Mitsubishi Shipbuilding, were not indicated, and their amount would have been very small in 1930. The five major zaibatsu companies in 1940 also had a small amount, and the data on them are also not indicated.

According to the above ratio, the dependence on loans in representative non-bank companies between the wars was very low. Many leading companies in the interwar period financed capital widely, not only by going public to the financial and securities markets, but also by issuing corporate bonds. Almost all capital was raised by **direct finance**. Raising funds through a market is one of the most telling characteristics that shows the relationship between the leading companies and the overall financial and securities markets.

This trend was remarkable in the case of companies that did not belong to the major zaibatsu companies. For example, there were a number of examples, in 1930, South Manchuria Railway, a state-owned enterprise, and independent companies, Tokyo Electric Light, Toho Electric Power and Kawasaki Dockyard (the corporate name was changed to Kawasaki Heavy Industries in 1939), and, in 1940, South Manchuria Railway, Nippon Steel, Nippon Electricity Generation and Transmission, Tokyo Electric Light, and others. In spite of strong government support, state-owned enterprises tended to have characteristics similar to those of independent companies.

The growth of the financial and securities markets in the interval between the wars brought about rapid growth of independent companies and emerging zaibatsu, in spite of the need for immense investment and a considerable risk in key industries.

Next, I would like to discuss the internal finance for major companies, the ten individual representative companies, and the total of the top thirty companies in 1930 as shown in **Table 6**. The **internal finance** is defined and calculated in the following way: profit plus depreciation expense less dividend.

First, the ratio of profit and depreciation expense to total revenue in the total of the top thirty companies is 15.5%. Compared with this ratio to the total revenue of about 20% for American companies in the period between the wars, the ratio for Japanese companies was considerably high. The ratio in three of the top ten companies was more than 30%.

One more striking fact from this table is that there were so many dividends that most profits were made into dividends. The ratio of dividends to total revenue in the total of the top thirty companies amounted to 10.5%. It was significantly high. This fact indicates that Japanese companies at the time were financing a large amount of capital

**Table 6: Financial Information of Representative Japanese Companies, PL, end of 1930**

		(thousand yen, %)			
		Revenue	Profit and Depreciation	Dividends	Internal Finance
1	South Manchuria Railway	188,104	30,576	22,938	7,638
2	Tokyo Electric Light	57,449	12,869	8,143	4,726
3	Mitsui & Co.	16,042	5,649	4,000	1,649
4	Daido Electric Power	18,842	7,012	5,239	1,773
5	Toho Electric Power	29,582	6,893	5,089	1,804
6	Nippon Electric Power	13,682	5,590	3,731	1,859
7	Kawasaki Dockyard	3,071	-5,593	0	-5,593
8	Toyo Takushoku	8,498	947	480	467
9	Ujigawa Electric Power	18,562	4,658	3,059	1,599
10	Keihan Electric Railway	8,383	1,814	1,474	340
<b>Top 30 Company Totals</b>		<b>844,267</b>	<b>130,826</b>	<b>89,007</b>	<b>41,819</b>
		<b>100%</b>	<b>15.5%</b>	<b>10.5%</b>	<b>5.0%</b>

Source 1: Toyo Keizai Shimpo-sha (n.d.).

2: Osakaya Shoten (1931).

from the stock market, and placed great importance on the shareholder return.

The result shows that the ratio of internal finance to total revenue in the total of the top thirty companies is not necessarily high; however, the above-mentioned characteristics in Japanese companies are very interesting.

### 3.2 Banks with Low Loan Ratios

The capital ratio amounts to 10.3% in the total of the top five banks in Table 5. When compared with non-bank companies, the ratio of banks was not high. However, when compared to the present level, the ratio was considerably high. The capital account in the table includes unpaid capital. The ratio of banks with high ratio in 1930 dropped to single figures. In 1940, there was a rapid fall. We can speculate about the reason: Many major banks in 1940 were also major zaibatsu banks, and therefore behind in external financing. These conditions led to the low level of their ratios.

Incidentally, I have mentioned that in leading non-bank companies, the dependence on loans was low; it was, simultaneously, the low dependence on loans in major banks. The loan ratio was about 40% in 1930 in four major zaibatsu banks, and in banks except Yokohama Specie Bank, it rose to about 50% in 1940. In the postwar period, the loan ratio rose to 60%.

In contrast, investment in securities grew significantly. As explored in detail below, such investments were largely national bonds and corporate bonds, not stockholding

to govern companies in the same zaibatsu, etc. Judging from this fact, banks did not represent a financial core within zaibatsu through stockholding and loans.

## **4 Securities Investment by Banks and Holding Companies**

In **Section 4**, I would like to discuss in more detail the securities investments by companies holding a large number of securities. These companies, various holding companies and banks, are the object of examination in **Table 7**. First, I would like to point out several major holding companies: Mitsui Gomei, Mitsubishi Goshi,<sup>\*11</sup> and Mitsui & Co., investing sizeable securities among Mitsui Zaibatsu companies in 1940. Next, I would like to look at Manchuria Heavy Industry Development (Nippon Sangyo in 1937 as a supplement) as an example of a company of emerging zaibatsu. For banks in 1930, Yokohama Specie Bank and the total of the four major banks, to which Mitsui Bank was added in 1940.

### **4.1 Securities Investment by Banks**

First, as mentioned previously for banks, both Mitsubishi Bank and Yokohama Specie Bank whose business is impossible to compare with other banks, had many more securities than loans in 1930. For securities, Mitsubishi Bank and Mitsui Bank had many corporate bonds while Yasuda Bank and Sumitomo Bank had many national bonds.

In 1940, loans increased rapidly in all banks except Yokohama Specie Bank, and loans drastically exceeded securities. This trend was remarkable in major banks.

Non-bank companies that had increased loans also gradually continued to proliferate. This development meant that the growth of the financial and securities markets began to gradually decline. At the same time, the relationship between leading companies in major zaibatsu was becoming closer.

As the war became an international state of affairs, national bond holdings by each bank exceeded corporate bonds. Although the relationship between leading companies was close, there was still little holding of company equities by banks in two fiscal years.

Sanwa Bank, which made rapid progress and reached second place in 1940, had the

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\* 11 In 1937, Mitsubishi Goshi became Mitsubishi-sha. In 1940, it changed from a privately held company to a publicly held one. Refer to Mitsubishi Corporation (1986, 436-43). In addition, refer to the History of Mitsubishi Companies Publishing Society (1981, 1324-25).

Table 7: Investment by Major Companies

	Total Assets	Securities	Loans					(million yen)
			National Bonds	Municipal Bonds	Foreign Securities	Corporate Bonds	Stocks	
1930 Mitsui Gomei	381	310	28 (National and Public Bonds)			0	282	0
Holding Stocks			Mitsui & Co.	Mitsui Mining	Mitsui Bank			
Mitsui & Co.	370	58	100 (Public Bonds)	62	44	3	41	0
Mitsubishi Goshi	200	138	Mitsubishi Mining	Mitsubishi Bank	Mitsubishi Shipbuilding	1	137	1
Holding Stocks			38	34	29			
Yokohama Specie Bank	1,254	354	347			7		109
4 Major Bank Totals	3,352	1,011	396	98	32	416	70	1,490
1940 Manchuria Heavy Industry Development	1,504	1,228	4				1,224	217
Holding Stocks			(Bonds)					(Investment Company Account)
(Nippon Sangyo: 1937)	383	270	Manchuria Coal Mining	Showa Steelworks	Manchuria Mining	100		43
Holding Stocks			301	183			264	(Investment Company Account)
			6					
Yokohama Specie Bank	3,405	665	(Others)					
5 Major Bank Totals	11,950	3,576	Nippon Mining	Nissan Chemical Industries	Nippon Suisan	45		
			82	62				
			648	144		17		215
			2,457			713	146	5,845

Source 1: Osakaya Shoten (1931).

2: Toyo Keizai Shimpo-sha (1941).

3: Yushodo Shuppan (various years).

4: History of Mitsubishi Companies Publishing Society (1982, 441-47, 454-55) and History of Mitsubishi Companies Publishing Society (1981b, 1703-09).

5: Mitsui Archives (1994, 8-9, 12-13, 536, 704-05, 707).

largest amount of securities, which amounted to 1,040 million yen, a similar amount to loans. The breakdown of total securities was 670 million yen of national bonds, and as many as 290 million yen in corporate bonds; these securities holdings supported the high growth of Sanwa Bank.

## 4.2 The Bank Profit Profile

In **Table 8**, I examine the kind of impact the balance sheet for the above banks had on their profit.

Table 8 shows the top three banks in order of their total assets, the total of the top seven banks in 1930, and the total of the top eight banks in 1940. From this table, we can see that the ratio of interest on loans to total income was then very low. Even in 1940, the ratio was 50.5%. In 1960, the ratio of interest on loans to total income was less than 77.9%, and in 1980, the ratio was 66.1% of the total for all banks in the postwar period.

Next, the interest on securities and dividends contributed significantly to banks total income. The ratio total amounted to 26.3%, 24.7% respectively in two fiscal years. This level was twice as high as the amount in the postwar period. Mitsubishi Bank in 1930 and Sanwa Bank in 1940 all exceeded 30%; this level was exceedingly high when compared with other banks. The securities holdings in Mitsubishi Bank exceeded the amount of loans in 1930, and Sanwa Bank increased its securities the most in 1940.

In addition, the commissions that attract attention as a new source of bank earnings

**Table 8: Financial Information of Representative Japanese Banks, second half of 1930 and 1940**

		(1,000 yen, total assets: million yen)								
	Total Assets	Total Income	Loan Interest	Discount	Commission	Interest on Securities and Dividends	Ratio to Total Income	Total Expenditures	Current Net Income	
1930	Yokohama Specie Bank	1,254	57,163	20,670	3,401	412	n.a.	n.a.	44,227	6,582
	Sumitomo Bank	823	31,490	12,215	2,326	232	6,288	20.0%	28,645	2,845
	Mitsui Bank	867	29,365	13,315	1,242	200	5,986	20.4%	26,721	2,643
	<b>7 Bank Totals</b>	<b>4,127</b>	<b>134,483</b>	<b>57,545</b>	<b>7,731</b>	<b>1,175</b>	<b>35,399</b>		<b>117,104</b>	<b>17,375</b>
			<b>100.0%</b>	<b>42.8%</b>		<b>0.9%</b>	<b>26.3%</b>			<b>12.9%</b>
1940	Yokohama Specie Bank	3,405	82,446	45,509	8,207	1,415	n.a.	n.a.	63,412	19,033
	Sumitomo Bank	2,647	72,915	38,868	2,973	722	14,827	20.3%	67,060	5,854
	Yasuda Bank	2,663	69,981	35,129	3,943	870	15,282	21.8%	62,864	7,116
	<b>8 Bank Totals</b>	<b>14,371</b>	<b>345,706</b>	<b>174,711</b>	<b>17,363</b>	<b>4,914</b>	<b>85,375</b>		<b>309,462</b>	<b>36,239</b>
			<b>100.0%</b>	<b>50.5%</b>		<b>1.4%</b>	<b>24.7%</b>			<b>10.5%</b>

Source 1: Osakaya Shoten (1931).

2: Osakaya Shoten (1941).

3: Yushodo Shuppan (various years).

today then increased in Yokohama Specie Bank and Mitsui Bank, etc., and also increased in all banks. This increase was brought about by an increase in corporate bonds. Of course, the amount of commissions did not take the lead in earnings during the interwar period.

The net income ratio of the total of top banks exceeded 10% in two fiscal years. This ratio was very high. It was significant in almost all banks in 1940 as compared with those in 1930. However, on the whole, the ratio declined. Only the ratio of Yokohama Specie Bank in 1940 was particularly high at 23.1%.

### **4.3 The Position and Role of Banks during the Interwar Period**

Based on the above examination, I would like to summarize the position of banks during the interwar period, especially through a comparison with today.

The first point is that banks operated in the fields of both loans and securities holdings at the same ratio. As the war plunged into a worldwide situation, the financial and securities markets conversely shrank, and the center of bank business shifted to loan-making. This was the main characteristic of postwar banks.

We know that the major companies were receiving fewer loans from banks. Therefore, we can speculate that bank loans instead were being made to smaller companies and individuals.

The second point is that the most important securities were national bonds, and the ratio of national bond gradually increased each year. After national bonds, the second largest amount of securities was corporate bonds. There were few equities. The amount is less than in the case of insurance companies, which will be examined in Section 6. Considered from the perspective of non-bank companies, it was rare for banks to become major stockholders. Cross shareholding in the postwar period was not very significant.

In comparison, the **Main Bank System**, which became dominant after the war, had the following characteristics. The main bank would occupy a core position at the heart of mutually involved companies, and would be involved in making loans, cross shareholding and the dispatching of officers etc., based on the conditions that the financial and securities markets lagged behind. The Main Bank System continuously monitored the whole business group instead of the market. Once a bank or company floundered, the main bank played the role of “**Lender of last resort**,” aiming at the whole business group’s growth.

As discussed in the above examination, we can conclude that the whole financial system and banks during the interwar period did not show the characteristics applied

to the Main Bank System. The growth of the financial and securities markets was more remarkable in the interwar period, and the activities of many companies, especially emerging zaibatsu and independent companies were based on it. In contrast, zaibatsu companies were generally behind in the approach to the market, and holding companies in zaibatsu played the important core role.

#### **4.4 Securities Investment by Holding Companies**

Table 7 shows the assets of holding companies such as Mitsui Gomei which, in 1930, was the largest holding company, with 381 million yen, twice as large as the assets of Mitsubishi Goshi. A large part of the assets of Mitsui Gomei was the equities of Mitsui companies, including Mitsui & Co., and its stockholding of the top five companies to total securities reached 73.9%. The same ratio of the top five companies owned by Mitsubishi Goshi was 92.8%, and the concentration of top companies was remarkable.

In 1940, the positions of Mitsubishi Zaibatsu and Mitsui Zaibatsu were reversing, and for the assets of the holding companies, the assets of Mitsubishi-sha were 446 million yen, amounting to almost about the same as Mitsui Gomei (the first half of 1940). The investment by Mitsubishi-sha was widely dispersed throughout Mitsubishi companies. However, the investment by Mitsui Gomei was concentrated on two big Mitsui companies, Mitsui Mining and Mitsui & Co. \*<sup>12</sup> Mitsui & Co. did not own many stocks in 1930. In August, 1940, Mitsui Gomei merged with Mitsui & Co., and this result was reflected in its equities investments. \*<sup>13</sup>

Major zaibatsu holding companies, such as Mitsui and Mitsubishi, had the closed characteristics of being in the same family.

Furthermore, going public in holding companies and leading companies under control of these holding companies was slow and often limited process. Both Mitsubishi and Mitsui companies had the typical closed stockholding structure. Their connection with the market was small, and, as discussed in Section 1, Mitsui companies were especially behind as compared with Mitsubishi companies. In the relationship between holding companies and other companies in zaibatsu, the relationship was vertical and integrated. Such a relationship became an important factor in delaying the progress of these

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\* 12 For Mitsui Gomei stock investments, refer Kasuga (1987, 18) and Matsumoto (1979). The data of Mitsui Gomei are concerning the first half of 1940.

\* 13 The Mitsui & Co. 1940 data are in the business accounts, and the breakdown is equal to the data in Mitsui Archives (1994, 536). The results of the merger with Mitsui & Co. are not reflected in the breakdown data of Mitsui & Co. equities.

zaibatsu in the heavy and chemical industries.

In contrast, Manchuria Heavy Industry Development, the holding company that controlled many companies through stockholding, had strong influence in the overall economy. Nippon Sangyo, its predecessor, was an emerging holding company that owned the equities of Nippon Mining, Nissan Chemical Industries, Nippon Suisan, and Hitachi.\*<sup>14</sup> Manchuria Heavy Industry Development, which succeeded Nippon Sangyo, governed Hitachi, Nippon Mining and Showa Steel Works, as the top thirty companies, and simultaneously placed many Manchuria companies under its control. Manchuria Heavy Industry Development became the largest holding company in Japan, owning equities of 1,228 million yen in 1940.

The stockholder composition of Manchuria Heavy Industry Development greatly differed from major zaibatsu holding companies. The holding companies of Mitsubishi and Mitsui were closed and family-based, while Manchuria Heavy Industry Development was based on the financial and securities markets. This characteristic of Manchuria Heavy Industry Development made it possible to rapidly advance industrialization in the heavy and chemical industries. We must emphasize an important difference between this company and the major zaibatsu companies.

Of course, in the interwar period economy, as mentioned above, independent companies, chiefly in the electric power industry, etc. played an important role with these companies. They had corporate governance based on the financial and securities markets, which was different from leading zaibatsu companies.

Corporate governance during the interwar period, as a whole, had a plural structure: On one hand, there was governance through the financial and securities markets in emerging zaibatsu and independent companies. On the other, there was **vertical and integrated governance** by the holding companies in the major zaibatsu. Both competed with each other. There were also holding companies in the former case. However, even these companies were founded on the market; the former also widely affected the latter.

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\* 14 Refer Udagawa (1982, 19-22) and Udagawa (1984, 11-12). Prof. Udagawa summarizes “the characteristics of the emerging *zaibatsu* that journalists at the time compared with established *zaibatsu*.”

## 5 Survey on the Financial and Securities Markets in Prewar Japan

### 5.1 Survey on the Tokyo Stock Exchange

I will advance the examination into the features of the financial and securities markets in prewar Japan in Section 5.

Economic development is due to the growth of a market based on active competition. In particular, the development of the financial market smoothes the growth of the whole market. The financial market plays the role of lubricant. If the financial system becomes unstable, restrictions to economic development surface.

The stock exchange in Japan was founded in Tokyo and Osaka with the enactment and promulgation of the Stock Exchange Act, which was in proclamation No. 8 on May 4, 1878 (Meiji 11). The chairman of the board of directors of the Tokyo Stock Exchange said that in 1928, fifty years after establishment, capital funds increased 235 times at the time of establishment and the stock trading value increased to approximately 10,380 times in 1926, according to “*A 50 Years’ History of the Tokyo Stock Exchange*” (Tokyo Stock Exchange, 1928, 1-3 and the foreword). In the early stages, the rapid economic growth in Japan after the Meiji Restoration was based on the improvements in the financial market.

Table 9 presents the basic data on the securities listed on the Tokyo Stock Exchange. The total securities continued to increase from 7,600 million yen in 1920 to 30,800 million yen in 1937. Although there was a temporary drop, the amount increased four times in seventeen years.

**Table 9: Fundamental Information for the Tokyo Stock Exchange**

(million yen)

	Total Securities	Stocks		Bonds					
		Capital	Number of Listed Companies	Total	National Bonds	Foreign Bonds	Foreign Government Bonds	Municipal Bonds	Corporate Bonds
		(number)							
1920	7,643	4,851	569	2,793	1,857		222	216	498
	100%	63.5%		36.5%					
1925	14,902	7,514	918	7,388	4,729		245	475	1,938
1930	19,290	10,163	1,079	9,126	5,724		230	643	2,530
1935	26,413	13,175	1,267	13,238	7,854	1,423	251	642	3,068
1937	30,787	15,396	1,247	15,391	9,424	1,333	356	838	3,440
	100%	50.0%		50.0%					

Source: Tokyo Stock Exchange (1938, 2-7).

Stocks (Capital) occupied 63.5% in 1920 and dropped gradually to 50.0% in 1937, although the ratio was always high. In 1937, the number of listed companies was 1,247, about half of the current number. Since this data is made on the capital stock base, if it is changed to current prices as shown in Table 10, except for one period, the ratio becomes still higher in many cases.

In contrast, national bonds were the biggest bond issues. The last fiscal year of this table is 1937, and if the data is extended until 1940, the eve of World War II, this volume increases further. Corporate bonds, which consistently maintained the ratio of 10%, played an important role in financing. Foreign bonds were introduced after 1933.

## 5.2 Aggregate Market Value in Stock Market and its Ratio to GNP

Table 10 shows the same items as Table 9 at the current price first, and compares the scale of the market with the economic scale of the country evaluated by GNP. The current price of securities could be obtained for a short period from July, 1928. This current price was calculated by sampling, which is different from the present method.

According to this table, securities at the current price were 46,200 million yen in 1937 and about 1.5 times the volume of Table 9. When securities at the current price for three subsequent years were added according to “*the Tokyo Stock Exchange, Statistical Annual Report*”, \*<sup>15</sup> since national bonds increased approximately 2.6-fold in three years and stocks 1.4-fold, the total amount of securities increased to 76,500 million yen in 1940.

Table 10: Aggregate Market Value of All Japanese Securities

(million yen, %)

	GNP	Ratio to GNP for Aggregate Market Value of Stock	Total Amount of Securities	Stocks	Index (July, 1928 = 100)	Bonds	Index (July, 1928 = 100)	Bonds			
								National Bonds	Municipal Bonds	Corporate Bonds	Foreign Bonds
1928.7	15,364	126.8%	31,760	19,476	100	12,284	100	4,505	1,224	4,455	2,100
1930.12	13,062	84.8%	23,279	11,071	57	12,209	99	4,200	1,275	4,638	2,097
	13,850	79.9%	23,279	11,071	57	12,209	99				
1935.12	16,734	123.5%	39,489	20,668	106	18,821	153	8,339	2,119	4,970	3,393
1937.12	23,426	108.5%	46,166	25,421	131	20,744	169	10,038	2,321	5,332	3,053
1940.12	39,396	91.9%	76,503	36,215	186	40,288	328	25,632	2,558	9,580	2,518

Source 1: Tokyo Stock Exchange (1938, 462-67).

2: Tokyo Stock Exchange (various years).

3: Economic Planning Agency (1965, 136-37).

4: Ohkawa et al. (1974, 200).

\* 15 Refer to Tokyo Stock Exchange (various years).

The current stock prices fluctuated wildly in the market. The market value of stock was 19,500 million yen in July, 1928. However, the Great Depression in 1930 and 1931 shrank the market by half, to approximately 9,800 million yen in December 1931. The economy as a whole, began to recover in 1932, and reached its former level in December 1934, the aggregate market value continuing to increase every year.

The ratio of this **stock aggregate market value to GNP** is particularly significant. Table 10 shows that the ratio was consistently around 100%. The lowest was 78.1% in December 1931, in the midst of the Great Depression. The highest was 127.2% in December 1936.

After World War II, almost the only time that this ratio exceeded 100% was circa 1989, during the so-called bubble period (Shimpo, 2001, 46). The high ratio of the stock aggregate market value to GNP is an indispensable indicator that demonstrates the important role of the financial and securities market during the interwar period.

The present balance of bonds is shown. Since the price movement of bonds is small, its change is similar to the data in Table 9. By December 1930, the amount of corporate bonds had exceeded national bonds. This trend was a significant as a positive financing by companies. Along with the rapid increase of national bonds, they came to exceed corporate bonds.

### **5.3 Corporate Bond Market in Prewar Japan**

#### **5.3.1 Bond Issues Concentrating on two Industries**

I have already examined stock market trends in the financial and securities market. In this section, I will investigate the corporate bond market. The difference in scale between the two markets is discussed in Section 5.1.

A **corporate bond** is a bond issued by a corporation. Compared to a bank loan, a bond issue has the following advantages: 1. A corporation can finance long-term and fixed capital, and 2. A corporation with a high credit rating can take out a low cost loan.

Ownership of stocks bestows certain rights to stockholders. These rights include the ability to participate in the decision making process of a corporation's business strategy. Owning a corporate bond gives no such rights. Unlike a stock, a corporate bond does not experience intense fluctuations in price. Corporate bond risk is small, and profit is certainly expected.

Along with stocks, corporate bonds were an important source of financing for leading companies in the interwar period. I have examined in detail the fact that the proportion of corporate bonds was high.

I will examine the amount of corporate (domestic) bonds issued from 1926 to 1940. The total amount continually increased. It was 1,520 million yen in 1926 and by 1940, had reached 5,800 million yen. In terms of industry composition, railway and power utilities were the two major industries and together accounted for 70% of the corporate bond market. Enterprises in these two industries monopolized the corporate bond market. While accounting for the greatest part of the stock market, the manufacturing sector was not a significant participant in the corporate bond market, with the exception of the textile industry. It issued a large amount of bonds in 1938, which was not shown in other years. In addition, Toyo Takushoku, which issued many bonds, was classified in the “others (land and building)” (Osakaya Shoten, n.d., 204-5) industry.

As mentioned above, the non-zaibatsu and independent companies in the utilities industry were leading, and the proportion of zaibatsu companies was lower in the corporate bond market than in the stock market. These facts also show the characteristics of corporate governance in the interwar period.

Based on another data, the amount of foreign currency corporate bonds exceeded two billion yen from 1926 to 1933. It gradually decreased after that time, amounted to 1,680 million yen in 1940. Most of the bonds were foreign national bonds. The amount of foreign currency corporate bonds exceeded 400 million yen from 1928 to 1933. In particular, companies in the electric power industry were active in issuing bonds, and they were called “the period of foreign currency corporate bonds in the electric power industry” (Arisawa, 1995, 127-32).

### **5.3.2 Major Issuing Companies and Underwriting Companies**

Since bond-issuing companies were specified in the above section, I will examine the amount of major corporate bonds issued by four companies representing those industries and the underwriting companies in two years, 1930 and 1938.

The largest issuing company in 1930 was Tokyo Electric Light, which issued 390 million yen in bonds. It was followed by the second biggest issuer South Manchuria Railway, which issued 300 million yen in bonds. Both companies differed greatly regarding the details of their issuance.

The greatest issuance by Tokyo Electric Light was 70 million dollars in 1928 (the amount outstanding was 130 million yen), and this single issue accounted for one-third of its total amount of corporate bonds. The underwriting company was Guaranty Co. of New York. \*<sup>16</sup> On July 9, 1929, the Wall Street Journal reported that this issuance was “the greatest foreign securities placed on the New York Stock Exchange” (“An

*80 Years' History of Mitsui Bank*”, 1957, 240). Two other bonds were issued on June 15, 1928, one of which was issued in foreign currency as well. Toho Electric Power, which belonged to the same industry, shared the common characteristic of issuing mainly foreign currency bonds.

Issuance of foreign bonds was restricted to issuance by the major independent companies. However, issuance by independent companies shows that the future growth of these companies was recognized internationally. At the same time, the issuance of foreign bonds made these companies play as active a role as possible in the international market. If the issue of foreign bonds, (that is, the movement toward the introduction of foreign capital through an alliance with foreign companies) had spread to all Japanese companies, this movement would have brought another engine of growth to the development of Japan's economy and politics at that time.

In contrast, in the case of South Manchuria Railway, the old foreign bonds were issued in pounds. However, Industrial Bank of Japan issued most of their major bonds. In Toyo Takushoku, two foreign bonds were the biggest as in the case of the electric power company.

In 1938, due to the demand of the Manchuria development, bond issues by South Manchuria Railway increased rapidly and amounted to 800 million yen. The underwriting company was mainly Industrial Bank of Japan. It is natural that both companies were under the state's influence and therefore cooperated. Industrial Bank of Japan, etc. also increased the amount issued for Toyo Takushoku, and the form in which Toyo Takushoku issued bonds significantly changed. \*<sup>17</sup>

Alternatively, the increase in the amount of corporate bonds issued by the two electric power companies stopped. Moreover, what is important is the following; the foreign bonds by both companies in this list were not newly issued. Against Industrial Bank of Japan in the case of South Manchuria Railway, etc., private Mitsui Bank \*<sup>18</sup> and the trust company Mitsui Trust, \*<sup>19</sup> etc. came to issue newly. The same was said of the

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\* 16 “*A 50 Years' History of Tokyo Electric Light Co., Ltd., from Establishment*” (1936, 163). As there is also no English company name in its account of business (the second half of 1928), I used “*An 80 Years' History of Mitsui Bank*.”

\* 17 Industrial Bank of Japan was established in 1902, based on the law of Industrial Bank of Japan. Regarding the purpose and the circumstances of establishment, refer “*A 50 Years' History of Industrial Bank of Japan*” (1957, 21-8).

Regarding how many Japanese, Manchurian and Chinese corporate bonds were issued out of Industrial Bank of Japan's undertaking, refer to the same book, Table 110 and 215.

case of Toho Electric Power.

In this way, in 1940, the commission of Industrial Bank of Japan or Mitsui Bank increased, and that of all banks also increased remarkably.

### 5.3.3 Holding of Corporate Bonds

Who held corporate bonds? I will now examine each financial institution's holding.\*<sup>20</sup>

The amount outstanding in corporate bonds increased from 1,760 million yen in 1921 to 4,980 million yen in 1930 and then 9,330 million yen in 1940. The financial institutions with the largest holdings were private and city banks, and their holding ratio also rose to 24.3% in 1940. The second largest institution was the Deposit Bureau, and in 1940, its holding ratio was 15.2%, which did not rise. The position of life insurance companies, along with those of private and city banks, was rising and eventually reached third place.

In this way, the percentage of the entire financial institution's ownership share rose steadily from 47.8% in 1921 to 60.7% in 1930 and to 72.4% in 1940. The phenomenon of ownership rise by institutional investors is called **institutionalization**. Alternatively, the other ratio and the proportion of individual investors were probably large. However, they were declining every year.

We can confirm that the same trend, not as numerical values as a whole, but from the fact that the individual investors decrease in Table 1, etc. The institutionalization occurred without exception in the entire financial and securities market.

## 6 Insurance Companies as Institutional Investors

As the economic development of Japan progressed, people became more affluent, and

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\* 18 Underwriting business by Mitsui Bank experienced remarkable growth (*"An 80 Years' History of Mitsui Bank"*, 446-54). In addition, Mitsui Bank played an important role as a trustee bank in the case of issue of foreign bonds, such as Tokyo Electric Light.

\* 19 Mitsui Trust, Inc. was founded with 30 million yen of capital funds in March 1924 as the first trust company in Japan based on Trust Business Law. The trust fee was 1,960 thousand yen, and the bond and securities in its trust account were 268.9 million yen in the second half of 1940.

\* 20 Shimura, Kaichi supervised and Bond Underwriters Association of Japan (1980). I made use of Bond Basic Statistics, pp.28-9 at the end of this book.

individual financial assets increased. People started taking out life insurance for secure futures. The life insurance business in Japan began with the establishment of Meiji Life Insurance in 1881. Teikoku Life Insurance (present Asahi Mutual Life Insurance) was established in 1888, and Nippon Life Insurance was established in 1889.

In the interwar period, life insurance contracts amounted to 2,500 million yen in 1920 and 30,380 million yen in 1940, 12.2 times greater than in 1920. Managed assets increased from 400 million yen in 1920 to 4,860 million yen, 12.1 times. Many insurance companies managed assets that flowed into the financial and securities markets.

First, the most noteworthy characteristic of insurance company managed funds during the interwar period was that funds were invested primarily in securities. This characteristic differs significantly from investment mainly in bank loans during the postwar period.

The breakdown of securities is intriguing. There were few national bonds in all periods, and their assets chiefly consisted of equities and corporate bonds. There were quite a number of corporate bonds in 1925 and 1930. In the latter half of the 1930s, the composition ratio of equities rose to 29.6% of all managed assets. This greatly surpassed corporate bonds and made the whole ratio of securities high. The following facts are very surprising: Life insurance companies that had to invest in low-risk assets invested about 15%, even in the first period, and 30% of all managed funds in the stock market, despite there being no need for the present cross shareholding.

Here, in **Table 11**, I would like to examine the characteristics of each life insurance company.

Among the five major insurance companies in 1940, Nippon Life Insurance, Meiji Life Insurance and Teikoku Life Insurance were stock companies, and Dai-ichi Mutual Life Insurance and Chiyoda Mutual Life Insurance were mutual companies. A **mutual company** is a form unique to insurance companies in which the insured become staff members who simultaneously hold the rights of a company. In 1902, Dai-ichi Mutual Life Insurance was established as the first mutual company in Japan.

For stock companies, judging from their stockholder data, it is clear that Meiji Life Insurance was an insurance company of Mitsubishi Zaibatsu and Teikoku Life Insurance was the company of Furukawa Zaibatsu. All three top companies in 1930 were stock companies. However, Dai-ichi Mutual Life Insurance, a mutual company, made a great leap into second place in 1940.

I would like to consider the composition of assets in each company. The ratio of securities in the top three companies in 1930 was 62.5%. The ratio was high when

Table 11: Major Life Insurance Companies in 1930 and 1940

		(million yen, amount of stock, %)									
	Total Assets	Securities	National Bonds	Municipal Bonds	Corporate Bonds	Stocks	Loans	Paid-up Capital	Number of Issued Shares	Amount of Stock by Top 3 Holders	Percent-age
1930	<b>Top 3 Company Totals</b>	<b>499</b> 100%	<b>312</b> 62.5%	<b>54</b>	<b>56</b>	<b>162</b>	<b>39</b> 7.8%	<b>129</b> 25.9%			
1940	1 Nippon Life Insurance	750	463	146	33	148	112	225	120,000	25,390	21.2%
	2 Dai-ichi Mutual Life Insurance	575	440	118	9	129	178	84			
	3 Meiji Life Insurance	527	417	113	15	114	154	61	20,000	6,800	34.0%
	4 Teikoku Life Insurance	475	383	87	3	137	142	58	25,000	14,464	57.9%
	5 Chiyoda Mutual Life Insurance	451	246	66		70	108	154			
	<b>Top 5 Company Totals</b>	<b>2,778</b> 100%	<b>1,949</b> 70.2%	<b>530</b>	<b>60</b>	<b>598</b>	<b>694</b> 25.0%	<b>582</b> 21.0%			

Source 1: Osakaya Shoten (1931)

2: Ministry of Commerce and Industry, Department of Insurance (1932).

3: Osakaya Shoten (1941).

4: Yushodo Shuppan (various years).

Table 12: Holding Stock in Major Life Insurance Companies in 1940

		(1,000 yen)																
		Dai-ichi Mutual Life Insurance	Meiji Life Insurance	Teikoku Life Insurance	Chiyoda Mutual Life Insurance	Nippon Life Insurance	Mitsubishi Heavy Industries	Kanegafuchi Spinning	Mitsubishi Heavy Industries	Tokyo Electric Light	Toho Electric Power	Mitsubishi Mining	Tokyo Shibaura Electric	Mitsubishi Mining	Toho Electric Power	Tokyo Electric Light	Oji Paper	Mitsubishi Mining
1	Mitsubishi Heavy Industries	8,400	17,642	11,317	11,202						9,263							
2	Mitsubishi Mining	3,778	10,741	10,965	9,238													
3	Oji Paper	3,755	6,582	9,175	8,035													
	<b>Top 10 Totals</b>	<b>37,578</b>	<b>69,784</b>	<b>73,175</b>	<b>62,925</b>													
	<b>Total Stocks</b>	<b>111,896</b>	<b>178,364</b>	<b>153,720</b>	<b>141,834</b>													
	<b>Percentage</b>	<b>33.6%</b>	<b>39.1%</b>	<b>47.6%</b>	<b>44.4%</b>													

Source: Yushodo Shuppan (various years).

compared with all the companies. About half of the ratio was corporate bonds. The ratio was significantly high.

The biggest change that lasted from 1930 to 1940 was the increase in securities holdings in the major insurance companies. In particular, stockholding increased rapidly, and in four companies excluding Nippon Life Insurance, it exceeded the amount of corporate bonds. Another characteristic was the increase of national bonds, approaching the amount of corporate bonds.

In asset management, there is a difference in company strategies. In Nippon Life Insurance and Chiyoda Mutual Life Insurance, the amount of loans was the biggest, and the dependence on stock investment was small. The stock investment in Nippon Life Insurance was smaller than in national bonds. In contrast, in Dai-ichi Mutual Life Insurance, Meiji Life Insurance and Teikoku Life Insurance, the ratio of securities investment was high, and there were many stock investments among them. The stock investment in the three companies exceeded the stock investment in Nippon Life Insurance with the biggest assets.

The above difference did not necessarily correspond to the form of company. Each insurance company sought various business strategies in the process of the sudden asset expansion.

**Table 12** shows the companies in which the five major insurance companies invested in 1940. According to the table, insurance companies that concentrated their investments in specified companies, those with a high concentration ratio of holding stock to the top ten companies, were Chiyoda Mutual Life Insurance (50.2%), Meiji Life Insurance and Teikoku Life Insurance. In particular, since Meiji Life Insurance was an insurance company in Mitsubishi Zaibatsu, its investment focused on the Mitsubishi companies. For example, the top three companies invested in were Mitsubishi Heavy Industries, Mitsubishi Mining and Mitsubishi-sha. The above-mentioned fact signals the characteristics of postwar insurance companies.

Teikoku Life Insurance made wide investments, focusing on two electric power companies. As mentioned, there were thirty-three insurance companies among the five big shareholders in the top thirty companies in 1940. The company that appeared most frequently, i.e., in nine companies, is Teikoku Life Insurance. Dai-ichi Mutual Life Insurance did not concentrate investment in the top ten companies. However, it did concentrate investment in Kanegafuchi Spinning, becoming the biggest stockholder.

Insurance companies were forced to manage a large amount of funds along with the

increase in contracts. They managed funds well in securities that were mainly composed of equities and corporate bonds. Insurance companies came to be positioned as the greatest institutional investors in the financial and securities markets in the interwar period through which institutionalization rapidly progressed.

The role of insurance companies in the financial and securities markets was significant. We have to ask whether they wisely and assertively carried out **monitoring** in the management of each company. Although we need to comprehensively investigate, based on comparatively sufficient information on the financial and securities markets and the surrounding economic environment, I believe the monitoring was not sufficiently performed.

Except for insurance companies, we could not find other institutions or organizations that could wisely and assertively monitor the management of each company, where they were independent from companies and their groups. Different from the present day, overseas investors did not play an important role. Many individual investors who had made aggressive investments in the market, performed actively in investments in the Manchuria Heavy Industry Development group, etc., which had both considerable potential for growth and high risk at the same time. Individual investors supported the growth of these companies. However, since individual investors were less able to collect data or make decisions, their major investment purpose was also restricted to obtaining high returns.

It is clear from the above examination that the growth of the financial and securities markets was remarkable during the interwar period. Direct financing by companies progressed, institutionalization of the market developed, and market-centered corporate governance such as the present day U.S. and British type was produced. We can conclude that there were very few institutions or organizations independent of companies that played a role in monitoring from the position of the financial and securities markets in some way, to protect the investor position during the interwar period. Such monitoring had to wait until the right conditions were generated during the postwar period.

## **7 Summary of Japanese Corporate Governance in the Prewar Period**

The corporate governance of present day Japan is often characterized as the **continental European and Japanese type of corporate governance: the insider type**

**corporate governance.** Its most important characteristic is that a company gives priority to the interests of stakeholders inside the company itself and its business group. Such priority is over the interests of general investors who invest through the financial and securities markets.

Until now, many scholars thought the origin of such corporate governance or current business groups was past zaibatsu.

The following can be concluded, however, through the research accomplished for this paper. For leading companies and banks, on the whole, the role of the financial and securities markets was significant in financing and managing money in the interwar period. Corporate governance during the interwar period was **market-centered** and very similar to the current **U.S. and British type corporate governance.** In major zaibatsu, a vertical and integrated relationship was formed between the governors and the governed, placing holding companies in the top position. Even in this case, the role of the market was significant, and the type of governance in major zaibatsu was not dominant.

Incidentally, Hoshi and Kashyap (2001) have given a very accurate account of historical change in the Japanese financial system. They classify the Japanese financial system from the interwar period to the present into three periods: before 1937, from 1937 to the early 1990s, and the 21st century. They discuss that the financial system in the 21st century has to be developed, not through the Main Bank System, but through Japan already developed before 1937.

We need to examine from a number of perspectives why governance shifted to the Main Bank System in the postwar period.

First, we can show the full-scale intervention by the government in the financial and securities markets, as the war became serious, and the original role of the market gradually diminished. Second, as a result of defeat, the financial and securities markets shrank since zaibatsu and their holding companies were dissolved, and the role of banks inevitably increased to resume the activities of the leading companies. The Japanese Main Bank System was gradually built on a firm base under the special conditions after the war, not inheriting the corporate governance in the interwar period.

This conclusion has still larger significance. The experience of prewar days in Japan provides an important lesson for many emerging countries that require new economic development. Making efficient use of the Japanese experience has not necessarily led to the current Main Bank System having to be transferred to developing countries. Instead, along with the global financial and securities markets being currently developed, there is the same possibility for significant growth of corporate activity through the market as

happened during the interwar period.

## Conclusion

Contemporary Japanese corporate governance is undergoing a significant transformation. The Main Bank System, which was a strong influence in the postwar economy and its companies, is now losing its influence.

First, as the harmful effects of the Main Bank System have become widely understood, cross shareholding has been dissolving and stockholding have been dispersing. Second, Japanese banks have ceased dealing with bad loans and are no longer functioning like a main bank. They have improved their performances in the new financial world that has resulted from financial deregulation, also known as the Japanese Big Bang.

Since the beginning of 21<sup>st</sup> century, the market-centered corporate governance, which was once so dominant in prewar Japan, is reviving rapidly among various sectors.

We will define the **corporate governance**: the problems who governs a company, for what kind of purpose, and by what kind of method.

Based on this definition, the **market-centered corporate governance** is defined:

1. Company's stocks are dispersed and owned widely. A company raises funds chiefly from a market.
2. A company is aiming to increase shareholder value, and returns the result to a stockholder, and the stakeholder inside and outside a company cooperates to realize this purpose.
3. The fundamental information of a company is widely disclosed to society and a market, and the company's decision-making is always surveyed and monitored.

I would like to summarize the significant factors that promote this process. First, IT related companies are positively financing from the financial and securities market. Major Japanese companies are dissolving cross shareholding, disclosing their information and increasing financing from the market. Moreover, the big wave of mergers and acquisitions is being brought about, for example, by the Rakuten and the Murakami fund, and company reorganization through the market are continuing to progress. Second, individual savings are shifting from bank deposits to investments funds and/or stocks. Third, and as a result of these trends, the market's role continues to increase and a significant recovery of the stock market is underway.

These above-cited three factors were also at work in the prewar Japan economy. Further, the two following factors are relevant today, not only in Japan, but in other countries.

Fourth, the government revised the Commercial Code and related laws and urged companies adopt the Company with Committees. Representative companies in Japan, such as SONY and the Nomura Group, for example, have adopted it and reformed the traditional company auditors system. Finally, pension funds, such as the Pension Fund Association and many investment management companies, are promoting shareholder activism, while wisely and assertively exercising their own voting rights.

After the lost decade of the 1990s, both inherited experiences on market-centered corporate governance in the prewar period and the latest conditions are bringing a new economic growth to Japan.

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