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The Choice Between Public and Private Debt: An Analysis of Post-Deregulation Corporate Financing in Japan

Takeo Hoshi, Anil Kashyap & David Scharfstein

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As a result of deregulation, there was a dramatic shift during the 1980s in Japan away from bank debt financing towards public debt financing: in 1975, more than 90% of the corporate debt of public companies was bank debt; in 1992 it was less than 50%. This paper presents a theory of the choice between bank debt and public debt and then examines the theory using firm level data on borrowing sources in Japan. We find that

high net worth companies are more prone to use public debt. We also find that the more successful members of industrial groups (or keiretsu) and less successful owner-managed firms tended to access the public debt markets. We offer a number of interpretations of these results in light of the theory.

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[Contact Us](#)

1050 Massachusetts Avenue

Cambridge, MA 02138

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