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CHARACTERISTICS OF JAPANESE FINANCE: A REVIEW AND INTRODUCTION

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INTRODUCTION

In spite of the early 1990s deep recession in Japan, there seems to be continuing interest in Japan, in its business methods, and in the nature of its finance and commerce. In recent decades, Japan has grown to be one of the two largest economies of the world, and Japanese finance, commerce, and government policies are being emulated in many Asian nations and in many of the formerly communist European countries. For these countries, the Japanese version of capitalism continues to be an attractive alternative.

Two of the more important factors contributing to the extraordinary post-war growth of the Japanese economy have been the high Japanese savings rate and its heavily government-influenced deployment through the financial system in the form of high capital spending by Japanese companies. However, one consequence of this heavy government influence on Japanese finance is the relative underdevelopment of the domestic bond market and the important financing and monitoring role of Japanese banks. In addition to having financial markets that are very different, Japanese corporate finance also seems very different from finance in the United States. For example, Japanese companies generally seem to have much higher proportions of bank financing than do U.S. companies, stockholder wealth maximization has not been as high on the list of corporate goals in Japan as it is in the U.S., and Japanese companies do not seem to go bankrupt as easily or as frequently as do U.S. companies.

The nature of Japanese finance seems to reflect the structure of the Japanese economy and its unique historical evolution, including its group orientation and high savings, investment, and growth rates. While a studyof finance in Japan contributes to our understanding of Japan, it can also help us understand finance theory and how such theory applies in our own financial system. This paper out-

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