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Economic Analysis of the "Loan-Concentration Mechanism"

Firms and Industrial Organization in Japan (4)

by

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Economic Analysis
of the "Loan-Concentration Mechanism"

Firms and Industrial Organization in Japan --(4)

Introduction to Part II: FINANCIAL MARKET
chapter 5 (with the same title),
of the book forthcoming in 1995

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[Any comment, advice, suggestion, and question is very welcome. But, please
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Part II. FINANCIAL MARKET:

Loan-concentration, Mainbank, and the Corporate-group-view

[Introduction to Part II]

Each of three chapters in Part II investigates Loan-concentration mechanism, Mainbank, and Corporate groups, which are the characteristics still dominating the conventional view of the postwar Japanese financial market, and therefore of the whole economy. I draw a conclusion that the importance alleged for each by the conventional view is wrong not only for the present Japanese economy but also for that before 1970 when the dual-structure-view was dominant, which implies that the conventional view is totally wrong. A reader should pass this part through to the next when he considers this conclusion as obvious or believes that the conventional view has never been valid. The same is true for phenomena expressed by such keywords listed in chapter 2 as Shiwayose (using as a cushion, or burden-shifting), Finance capital, Keiretsu loan, Capital keiretsu, Group-Ka, and Keiretsu-Ka.

The loan-concentration-view is, as mentioned in 3-4, a component and for some the basis of the dual-structure-view. As, following the arguments in Part I, it is directly related to small and medium-sized enterprises (SMEs) which have dominated the Japanese economy, chapter 5 is the most important in Part II. The conventional view asserts that there was a de facto established mechanism in the Japanese financial sector which targeted loans to large firms rather than SMEs, which implies the SMEs' disadvantageous position in the financial market. It argues that this disadvantage more clearly appeared in the tight-money policy period, and calls this phenomenon Shiwayose (burden-shifting). Our conclusion in chapters 2 and 3 that the dual-structure-view is not empirically supported suggests the invalidity of loan-concentration-view, since it is a component of the former. In chapter 5, after showing why I think the view is

inconsistent with the reality, I review critically the persuasiveness both of theoretical arguments and empirical evidences for the conventional view, and reach a conclusion that the loan-concentration-view is wrong.

Chapter 5 focuses on SMEs and asks whether burden was shifted to them, and the next two chapters investigate the other side of the mechanism, the relationship of large firms, the alleged beneficiaries of Shiwayose, to financial market. The loan-concentration-view argues that large banks dominate the Japanese financial market and each large bank has special relationship (preferring to call "adhesion relationship") with a group of large firms and targets its loans to them. The Mainbank-view argues that a Japanese large firm has a long-term special relationship, called Mainbank relationship, with one or a few large banks, which strongly characterizes the Japanese financial market, and therefore the industrial organization in Japan. Each large bank has such relationship with a group of large firms, and the corporate-group-view asserts the importance of this group. Note in reading chapter 6 and 7 that the firms we talk about in these chapters are large ones and occupy a small portion (recall that even when we include all the firms with more than 300 employees in the group of "large firms," they employ only 25 percent of the total in the manufacturing sector) of the Japanese economy, and therefore that they are the talks about a spectacular but minor portion of the Japanese economy.

Chapter 6 is almost the direct translation of my 1985 paper, and does not review theoretical and empirical studies accumulated since the mid-eighties on why and how such relationship has been established and maintained. I investigate empirically whether we observe such phenomena as were suggested by the Mainbank-view during the period of ten years and longer before mid-eighties, and reach a negative conclusion. Note that the "Mainbank-view" has the same character as the "dual-structure-view" in that it has been asserted and widely supported neither with a clear definition nor with firm evidence. At the end of the chapter, for readers' convenience I add a short appendix for comments on the recent literature.

A reader who accepts the arguments up to chapter 6 need not read chapter 7 on corporate groups. Though corporate groups, Keiretsu, and etc. are famous phrases to characterize Japanese industrial organization, seldom they are used on clearly understanding the meaning. Here I focus on the type of corporate groups, represented by so-called Six Major Corporate Groups such as "Mitsubishi Group," "Mitsui Group," and "Sumitomo Group," and so on. Recent English literature includes three types in corporate groups or Keiretsu,¹ of which we studied "Production keiretsu" or "Vertical keiretsu" in chapter 4. A brief note on "Distribution keiretsu" is given in Part IV, and here is the place for the remaining "Horizontal keiretsu." The above comment on the "Mainbank-view" more strongly applies to the "corporate-group-view." Because of such famous brand names as Mitsubishi, Mitsui, and Sumitomo coming from the zaibatsu in the prewar era, most people accept their existence, collective actions for the common interest, and their important role as obvious. As a result, there are so much talks about corporate groups, but no clear definition and few firm evidence.² Therefore, it is hard to investigate empirically the validity of the view. Since there is no agreement on what the corporate-group-view is, taking Miyazaki[1976] as a representative of the view, I illustrate what the view actually is and explain why I never take it seriously. Therefore, the title of the chapter is "An Anatomy of the 'Corporate-Group-View'," instead of "An Analysis..." Readers may comment, "But where there's smoke, there's fire," however, I should rejoinder with a Japanese proverb

¹ For example, see Lawrence[1991a, 1991b]. Although English word Keiretsu was originally exported from Japanese, this word is used in English literature to include a group of phenomena each of which has a different Japanese expression. As Japanese words like Keiretsu and related ones are so ill-defined, the recent reimport of this English word is a source of confusion both among Japanese and non-Japanese. Note that English Keiretsu corresponds to a wider range of phenomena than the Japanese, and it recently is applied more widely than before.

² Readers will easily realize that such corporate-group-view leads to the "Japan Inc. view," and the image of Japan Inc. is an expanded one of, for example, Mitsubishi group.

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originally from China, "One dog barks at a shadow, and hundred dogs at the voice"³ and ask to recall what the wrong dual-structure-view was and what the fire was.⁴

Note the following three facts as basic information for Part II. First, the number of financial institutions has not been so small. In 1963, for example, there were 13 city banks, 65 local banks, 7 trust banks, 3 long-term credit banks, 72 mutual loans & savings banks, 532 credit associations, 503 credit cooperatives, 46 labor credit associations, 10,218 agricultural cooperatives, 593 security companies, 17,042 post offices, and so on. Note that 13 city banks in total occupy 41.8 percent of the total assets of private financial institutions.⁵ Second, even a large firm in close long-term relationship with a large bank does not borrow so high ratio of the total from one bank. As will be shown in chapter 6, such big borrowers as general trading companies (Mitsui & Co., Mitsubishi Corporation, and etc.) and real estate companies (Mitsui Real Estate, Mitsubishi Estate, and etc.) borrow less than 20 percent of the total from their "Mainbank" in 1970s. Third, SMEs also borrow from large banks. As will be shown in chapter 5, SMEs in manufacturing borrow 35.6 percent of

³ We have no English equivalent. The meaning may be obvious, and we use "much ado about nothing" in the same context.

⁴ Note that what I try in chapter 7 is almost the same as to examine the validity of the UFO (unidentified flying object) existence view. Also some readers may comment, following Wallich and Wallich[1976, p.253], "since a study of this kind depends on concepts and analytical tools derived from the body of general economic theory, it is tempting ... to show that economics works in Japan as it does elsewhere. ... A triumphant finding that the laws of economics do apply to Japan and that, economically speaking, Japan after all is not very different may be misleading." What else, then? They just search for something different in Japan, on the assumption that "it is obvious that the system differs greatly from Western systems in both its structure and its behavior," as have so many conventional view supporters done?

⁵ Bank of Japan, Economic Statistics Annual, 1963. For example, assets of security companies and post offices are not included in the denominator. "City bank" and "local bank" are common names, both of which are established under the Banking Law, and usually called "ordinary banks." All six banks associated with six corporate groups are city banks. Their average size is larger than that of local banks, however, the largest local bank is larger than the smallest city bank.

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the total from city banks and 26.0 percent from local banks in 1963-65.⁶

⁶ These figures are the three years average. Bank of Japan, Financial Statements of Small Business in Japan, annual. Corresponding ones for large firms are 66.4 percent and 10.3 percent (Bank of Japan, Financial Statement of Principal Enterprises in Japan, annual). However, here "city banks" include long-term credit banks and trust banks, and SMEs are firms with 50-299 employees.

5-1. Introduction

In chapter 5, I examine a series of phenomena called the "loan-concentration mechanism, "which are often expressed also with such other phrases as financial dual-structure, dual-structure in the flow of funds, and financial burden-shifting. They are closely related with keiretsu loans, Mainbank, and corporate groups. Since the second half of 1950s when firstly they were asserted to be serious and accepted with the dual-structure-view, they have been keywords in studying Japanese economy. Coupled with the dual-structure-view, the loan-concentration-view functioned as the basis of policies for small business (SME policy), especially in 1960s, and still dominates the controversy on SME policy.

My longstanding basic questions on the loan-concentration-view are: (1) what has been the reality? what have they been talking about? (2) was the view logically consistent and coherent over time? (3) has the existence of the alleged loan-concentration mechanism been proved with persuasive evidence? (4) who has created and maintained it and for what purpose? (5) has the view taken into consideration the market force which often constrains the choice set of the variables feasible for economic agents? for example, are the assumed conditions of the view plausible in the market? A critical review of the literature is of no interest here. I will answer these questions in the negative by examining representative literature such as Shinohara[1961] and Kawaguchi[1965, 1966] for the decade from the mid-fifties onward, and by presenting the reasons why I think it unpersuasive. As mentioned in Introduction to Part II, the loan-concentration is a component and the basis of the dual-structure-view, therefore, the argument in this chapter is directly related to that of Part I. As also mentioned there, the next two chapters focus on the other side of the financial dual-structure, that is, a part of the loan-concentration mechanism, therefore, it is related also to them.

¹ This chapter is a revised version of chapter 5 of Miwa[1990], whose original was published in 1989.

Section 5-2 is for the definition of the problem. I briefly introduce how important position this view has occupied and explain the reasons why I think it unpersuasive. Section 5-3 is for the examination of the alleged reality of the "loan-concentration mechanism," the long-run structure and the dynamic process of loan-concentration in trade cycles. Section 5-4 is for the reality of the "yuchaku kankei (adhesion relationship)" between a large bank and a large firm, which is the core of the loan-concentration-view. Section 5-5 is the examination of the empirical evidence of the conventional argument. Section 5-6 is for brief concluding remarks.

5-2. Definition of the Problem

Yamashita[1985, p.231]² declares at the outset of the section titled "The Nature of SME Financial Problem": "we recognize SME financial problem serious as it takes root in the 'dual-structure' which is one of the basic features of Japanese economy." Teranishi[1974, p.51] also begins his "Loan-Concentration, Credit Rationing, and Credit Limit": "we can sum up the main features of financial side of postwar Japanese economy with 'the loan-concentration to large firms under the predominance of indirect finance.'"³ Our present concern is in what sense, how, and how deeply it has taken root in the dual-structure. We find no literature which totally deny the view, however, few literature have accepted it as a clear argument with careful investigation and hard evidence. Like the dual-structure-view, a wide variety exists among the loan-concentration-views, and exuberant

² It is the chapter 11 of SME Studies in Japan compiled by the Committee on the Review of SME Studies, and reflects the traditionally dominant view.

³ The predominance of "indirect finance," where the major part of personal saving flows through financial institutions to the corporate business sector, over "direct finance" where the flow is through the securities market is often listed as one of the characteristics of the Japanese financial structure. See p.29 of Money and Banking in Japan, The Bank of Japan, 1964.

controversy over the view developed on different planes.⁴ Nobody denies that Professor Kawaguchi is the most influential promoter of the view who has strongly and consistently asserted it by Kawaguchi[1965, and others],⁵ and I take Kawaguchi[1965] as the representative for the examination.⁶

Like the dual-structure-view, support for the loan-concentration-view weakened rapidly by 1970. Just like the keywords for the Japanese economy in 1950s and 60s, however, the loan-concentration-view and related keywords are often used in the study of today's Japanese economy. Some, like Yamashita[1985, p.232], insist that there have been no change: "As the financial dual-structure takes root in the real economy, it cannot be solved in a short time. It applies also to the Low-Growth era. Rather, the problem was covered by the high speed of growth in the High-Growth era, but it becomes more serious in the Low-Growth era."⁷

The reason why I think the loan-concentration-view unpersuasive and invalid even in the second half of 1950s and the first half of 60s is sixfold. First, as shown in chapter 3, the profit rate for SMEs was much

⁴ Reading the literature reminds me of Shinohara[1968, p.17]'s comment on the "Keiretsu-ka dispute" between Keizo Fujita and Yoshio Kobayashi and its "multiplier effect": "these writings suggests to us that historical development is fluid and variable, while the concepts or terms to explain it are rigid or inflexible."

⁵ Yamashita[1985, p.232] declares, "Hiroshi Kawaguchi pointed out the financial dual-structure." Kawaguchi[1965, p.138] states, "The 'capital-concentration-view', or the 'loan-concentration-view' related to finance in a narrow sense, presented by Professor Miyoei Shinohara as one of the necessary conditions for the formation and long-run maintenance of the dual-structure, emphasizes the vital contribution of Japanese financial sector to the dual-structure." Shinohara[1968, p.55] asserts that it was Finance (1957) of Tsuneyuki Okinaka that first pointed out the cyclical instability of SME loans.

⁶ Yamashita[1985, p.233] notes, "Backed up with wide and detailed knowledge, Kawaguchi's argument is full of suggestions and persuasive,... and also highly evaluated as theoretically and empirically excellent." Sato[1974]'s reference is Kawaguchi[1974b] and the only reference of Takada[1980] is Kawaguchi[1979], both of which are quoted in the next note.

⁷ Sato[1974, p.9] insists, "No basic change has occurred to the 'financial dual-structure' which was the basic mechanism of the 'dual-structure.'" Further, Takada[1980, pp.189-90] asserts, "Some argue that burden-shifting to SMEs under the dual-structure has disappeared, but it is wrong.... It is unrealistic to expect that burden-shifting of large banks, like city banks, whose principal borrowers are large firms will disappear, and the basic reality of SMEs will not change."

higher than that for large firms and consistent increases have also been observed in the number of SMEs throughout the period. Such facts are not consistent with the loan-concentration-view, since the alleged disadvantageous environment for SMEs implies the low profit rate and the decreasing number of SMEs. Second, though "specialization" is pointed out to have been the guiding principle of the government policy toward financial institutions, "specialization of city and local banks resulting in the former concentrating on big business and the latter on other business is far from complete" (Wallich and Wallich[1976, p.281]). As mentioned in Introduction to Part II, city banks and local banks are common names, both of which are established under the Banking Law and have the same legal status. Actually no different restrictions are imposed on either groups, and as shown in table 5-1, city banks occupy the larger share of loans to SMEs than local banks in 1960s. Such a fact is not consistent with the view, since a large bank in "adhesion relationship" with a group of large firms could and did behave without outside restrictions and the alleged phenomena could have occurred only when "adhesion relationship" was so special as to make the bank consistently abandon profitable business chance.

---Table 5-1 ----

Third, as also mentioned in Introduction to Part II, the number of financial institutions has not been small, and even a large firm in close long-term relationship with a large bank does not borrow so high ratio of the total from one bank. These facts are not consistent with the view, since such number of competing financial institutions suggests non-existence of tight cartel among them without which the bank suffers a loss from "adhesion relationship." Fourth, asset shares of city banks among all private financial institutions decreased continuously from 50.5 percent in

1953 to 41.8 percent in 1963 and 36.1 percent in 1973,⁸ which mainly reflected the government policy to allocate the larger share of license for new branches to non-city-banks. Partly as a result of this policy, "the city banks have been confronted during much of the postwar period with a demand for funds that they have not been able to satisfy from their deposits" (Wallich and Wallich[1976, p.284]). Such behavior, however, of city banks to fill the demand through the call money market, in which other financial institutions place their surplus funds, was criticized under an expression "overloan" and strongly discouraged. Such a fact is not consistent with the view, since as a result the larger amount of funds remained in non-city-banks than the market clearing one.

Fifth, large firms in "adhesion relationship" with a large bank could make profit to re-lend to SMEs. As shown in Table 5-1, however, SMEs borrowed most funds from financial institutions, and as also mentioned in 4-4, even suppliers in close relationship with an automobile assembler received rarely a support in the form of advance payment or bank loan. Such facts are not consistent with the view. Sixth, as illustrated by Figure 5-1, throughout the period, the equity/total capitalization ratio of large firms was consistently higher than that of SMEs, and it gradually lowered to the level of that of SMEs as support for the dual-structure-view weakened⁹. Such a fact is not consistent with the view, since it was large firms that could make advantageous use of the financial market and this advantage gradually disappeared by 1970.¹⁰

---Figure 5-1 -----

⁸ For the definition of these figures, see note 4 of Introduction to Part II.

⁹ Note that the low equity/total capitalization ratio was one of the characteristics of Japanese corporations, especially large ones. See Wallich and Wallich[1976, pp.284-85].

¹⁰ The three year average of SMEs in 1963-65 is 21.4 percent, and that for large firms is 27.6 percent. Corresponding one for SMEs with 50-99 employees is 20.8 percent, that for 100-199 is 21.2 percent, and 200-299 is 22.9 percent. Bank of Japan, Financial Statements of Small Business in Japan, annual.

5-3. The Reality of "Loan-Concentration"-View

The Structural Concentration

"The loan-concentration mechanism is the financial mechanism which targets loans to large firm sector, and as a result restricts the supply of loans to SME sector (and agricultural sector). Empirical studies were carried out in two directions. First, study of the degree of loan-concentration, which shows statically the high ratio of loans to large firms in the total of all financial institutions, especially of city banks. Second, study of the dynamic process of loan-concentration in trade cycles, ...which shows the cyclical pattern of imposing strict restriction on SME loans for large firms' demand in a tight-money period and loosening it only in slack-money period" (Kawaguchi[1965, p.138]. Let me begin with the "empirical" study of the degree of loan-concentration. As the primary concern of Kawaguchi[1965] is the second, I refer to Shinohara[1961] and Kawaguchi[1966]. I find here, however, neither any hypothesis that the loan-concentration mechanism results in the deviations between the actual state of affairs and the hypothetical state without the alleged mechanism nor the evidence for the mechanism. Thus, I do not refer them not as representative empirical studies but just for an illustration of the view.

Section 4 "the Reality of Loan-Concentration" of Chapter 5 "Loan-Concentration, Dual-Structure, and High Growth" is the directly related part in Shinohara[1961, pp.109-18], but he only describes a series of facts. He starts with loan-concentration for equipment funds. Using the 1956 data in Conspectus of Listed Firms, he lists firms with total borrowing for equipment funds from all financial institutions more than ¥200 million, and points out three facts: (1) listed 57 firms takes about 80 percent of the total borrowings for equipment funds of all listed firms, and 48.7 percent of the national total; (2) electric power, shipping, and

steel firms dominate the list,¹¹ and Japan Development Bank, Industrial Bank of Japan, and Long-Term Credit Bank of Japan are the main lenders; (3) a large firm with enough source for self financing tends to depend on equity capital and not to borrow." This is all in the "Loan-Concentration for Equipment Funds."

He proceeds, next, to the "Loan-Concentration including Working Funds," where he studies the "Loan Keiretsu of Banks" and points out five facts: (1) the total borrowings of 344 large firms with more than ¥100 million in paid-in capital occupies 51.1 percent of the total of all corporate firms with more than ¥2 million; (2) the loan-concentration ratio of each city bank to the largest ten borrowers is the highest for Mitsui Bank with 11.9 percent, and between 8 and 9 percent for others; (3) this ratio is high for Japan Development Bank, Industrial Bank of Japan, and Long-Term Credit Bank of Japan; (4) loans to large general trading companies (sogo shosha) have the top priority for a large bank, and take large shares; and so on. This is what he talks in the "Loan-Concentration including Working Funds", and then he asks, "What type and degree of distortion has resulted from such loan-concentration in the equipment and inventory investment behavior of large firms," which is on Kawaguchi[1965]'s second direction of empirical studies.

Section 1 "the Reality of Loan-Concentration" of Kawaguchi[1966]'s chapter 6 "Loan-Concentration Mechanism" begins with the statement: "Japanese financial system has had a strong inclination to target funds to large firm sector. In addition, the so-called 'loan-concentration' function was strengthened in the postwar period by low interest rate policy strongly requested by the revived 'Monopoly Capital,' especially 'Industrial Capital'"(p.77). He only points out six facts, and again like Shinohara[1961] proceeds to Kawaguchi[1965]'s second direction of empirical studies. The first three facts focus on borrowers' side: (1) large firms

¹¹ 10 electric power and gas firms occupies 59.4 percent of the total of 57, and 17 shipping firms 18.9 percent. Thus, more than three quarters are for these two groups of firms.

take the high ratio of total loans; (2) the ratio of increase in total capitalization to total sales is higher in large firms than in SMEs; (3) the ratio of total increase in equity and long-term debt to increase in long-term asset is higher in large firms than in SMEs. Stating, "The indirect finance dominated by city banks was the core for such capital-concentration or loan-concentration," he asks, "Why then do city banks realize such loan-concentration?" The second three facts focus on banks' side: (4) though the share of large firms' total borrowings does not change, higher share of total loans of city banks and local banks goes to large firms than before¹²; (5) giving a definition of 'Loan-Keiretsu,' he calculates the ratio of loans from keiretsu bank to each keiretsu borrower; (6) even a bank in a major financial-keiretsu makes loans to large firms out of own keiretsu, including firms in competing keiretsu groups.¹³ Then, he proceeds to section 2 "Causes for the Formation of Loan-Concentration," stating that the strongest hypothesis for the formation of loan-concentration, therefore financial keiretsu, is "One-Set-Ism View" of Professor Miyazaki.¹⁴

The Dynamic Process of Loan-Concentration in Trade Cycles

Kawaguchi[1965] was written to investigate how was the "burden-shifting" to SMEs in the recent tight-money period, that is, during the summer in 1961 and the end of 1962.¹⁵ Description of observations is the main, however, the "hypothesis" that follows is more interesting. The leading observation

¹² Here the definition of a large firm is one with more than ¥10 million in paid-in capital, therefore, much smaller ones are included than usual.

¹³ For the details of these facts, see Miwa[1990, pp.109-11].

¹⁴ For this view, see chapter 7 below.

¹⁵ Chapter 9 of Shinohara[1961] is another representative literature, which Kawaguchi[1965] praises as "the sharpest"(p.139). For the details of his view, see Miwa[1990, pp.112-13]. Note that he first introduced his findings on the "dual-structure of loan-inventory cycle" in the section titled "a function of the dual-structure."

in the "Study of Statistics on Firms" is that the burden-shifting to SMEs was obviously as strong as before. In the "Study of Financial Statistics" he focuses on the behavior of city banks, and points out that city banks' increase in loans to SMEs were always smaller than that to large firms except for an unusual easy-money period, and thus SMEs were forced to play a role of a cushion for large firms (p.156).

He proposes his "simple hypothesis" on the behavior of city banks, after declaring that they are the core of supply side in the loan-concentration mechanism. However, again I find here neither any hypothesis nor the evidence for the mechanism. His "hypothesis" is composed of seven parts (Kawaguchi[1965, pp.156-58]): (1) a city bank is in close relationship, called adhesion relationship (yuchaku kankei), with a group of large firms, and supplies them constantly larger amount of loans at lower interest rate than a rational profit maximizing choice; (2) the low interest rate policy of the government stimulates large firms' demand for loans; (3) stripped constantly of lots of loans by large firms, a city bank has to severely restrict SME loans; (4) the low interest rate policy extremely lowers the loan rate for large firms; (5) in order to survive and play the role, a city bank has to appropriate a part of loans for SMEs with extremely high real loan rate; (6) in tight-money period, a city bank sacrifices profit for loan demand of large firms by restricting SME loans and taking high interest rate money from outside source; (7) thus, a city bank tries hard to recover the loss resulted during the tight-money period in the next period, when large firms' demand is weak, by expanding SME loans at the high loan rate prevalent in the previous period.¹⁶

This is what is in the representative literature on the loan-concentration mechanism. I find neither any hypothesis that it results in the deviations between the actual state of affairs and the hypothetical state without the alleged mechanism nor the evidence. No definition of burden-shifting (Shiwayose), and no definition of the "mechanism," either.

¹⁶ For the details of Kawaguchi[1965]'s hypothesis and a critical review, see Miwa[1990, p.113-17].

I find only a repetition of the "adhesion relationship" between a large bank, especially a city bank, and a group of large firms and its tremendous importance.

5-4. The Reality of the "Adhesion Relationship"

Let us proceed one step further to study the reality of the close relationship, called "adhesion relationship," between a city bank and a group of large firms. The study is composed of three steps, each step for each of three questions: (1) what is the "adhesion relationship," or what is it said to be? whose behavior is "adhesion"? (2) who wants "adhesion relationship" and what for? whose rational choice results in it? (3) suppose each city bank has "adhesion relationship" with a group of large firms. is it possible to realize and maintain the alleged burden-shifting to SMEs? In this section, I take Kawaguchi[1965, and others] as the object of the study.¹⁷

What Is the "Adhesion Relationship"?

In Kawaguchi[1965]'s "hypothesis" mentioned in the previous section, "adhesion relationship" is such a close relationship between a city bank and a group of large firms¹⁸ that makes the former supply the latter constantly larger amount of loans at lower interest rate than an rational profit maximizing choice.¹⁹ I find no further related explanation in Kawaguchi[1965], however, the following statement of Kawaguchi[1966, pp.83-84] suggests that "adhesion relationship" is a relationship between a bank and keiretsu firms in a keiretsu corporate group, which is formed

¹⁷ Note that the discussion of this section is also a preliminary to the next two chapters.

¹⁸ In Kawaguchi[1966, p.83], "keiretsu relationship" is used for the same meaning. See fn.33 of Miwa[1990, p.118].

¹⁹ He repeats the same statement in Kawaguchi[1974a, pp.121-22]. See fn.36 of Miwa[1990, p.118].

through bank loans and stock cross-holdings: "The formation of corporate group called financial keiretsu through bank loans and stock cross holdings is a result of the loan-concentration, or more widely the capital-concentration.... Once established such a concentration, it urges further concentration, and especially in tight-money period it demands preferential allocation of loans to keiretsu firms by restricting the ones to out-of keiretsu firms. The future of the bank is so closely related with that of keiretsu corporate group which absorbs a large portion of its loans." Kawaguchi[1966, p.87] proceeds then to "Causes for the Formation of Loan-Concentration," stating as mentioned above that the strongest hypothesis for it is "One-Set-Ism View" of Professor Miyazaki.²⁰

Thus, "adhesion relationship" is at the core of the loan-concentration-view, has almost the same meaning as keiretsu relationship, and a component of a corporate group. The next question is the definition of such phrases as keiretsu relationship and corporate group, however, readers will find in the next two chapters that we reach no clear definition of them. Therefore, neither clear definition nor common understanding of "adhesion relationship" exist, but vague images.²¹

Who Wants "Adhesion Relationship" and What for?

The fifth part of above mentioned Kawaguchi[1965]'s "simple hypothesis," that in order to survive and play the role, a city bank has to appropriate a part of loans for SMEs with extremely high real loan rate, awakes five questions: (1) what is the objective function of a city bank? (2) does a city bank make decisions independently, or make decisions dependent on keiretsu firms' interests? rather, does it maximize the common objective

²⁰ See fn.37 of Miwa[1990, p.119].

²¹ Sugioka[1965, p.53] states in commenting Miyazaki[1962], "Keiretsu is a slangy word used since 1952 in economic journalism, and is not a well-defined economic term.... Therefore, it is indispensable to redefine clearly this word in order to adopt it as a basic term for economic analysis. Mr. Miyazaki has not followed this process."

with keiretsu firms? (3) what are the constraints for a city bank's decision? (4) what is the "role" of a city bank? who has decided it? (5) which is profitable for a city bank, loans for large firms or those for SMEs?

The answer to the fifth question is obviously SME loans. Then, why doesn't a bank increase profit by appropriate large firm loans for SMEs? Why does a bank regard the opposite choice as the role? Who has decided it? Any persuasive answer is neither in Kawaguchi[1965]'s "hypothesis" nor in other literature that emphasizes the importance of the loan-concentration mechanism.

"Adhesion Relationship" and "Burden-Shifting"

Suppose each city bank has "adhesion relationship" with a group of large firms and behaves as Kawaguchi[1965]'s "hypothesis" asserts. Will such a phenomenon called "burden-shifting" to SMEs appear and continue? Note that, even when there exists a tight cartel among city banks to maintain a system of "adhesion relationship," it will not appear and easily collapse, because of other market participants' behavior to exploit the profit opportunity that city banks abandon for "adhesion relationship," that is, the possibility of arbitrage.²²

The burden-shifting view with "adhesion relationship" includes as a component to discriminate a loan rate to SMEs from that to large firms, which we can study as a case of price discrimination. Lots of financial transactions exist among firms, including between a large firm and a SME typically through sales on credit, which is one source of arbitragers. Other financial institutions than city banks are another source. Competing city banks are also the source, since the same kind of cheating incentive exists as in a typical cartel. Moreover, the number of city banks is not small enough to maintain a tight cartel, and the ratio of loans through

²² See, for example, Tirole[1988, pp.134-35].

"adhesion relationship" to each borrower is not so high, as mentioned in 5-2. Therefore, burden-shifting will not appear, will not continue, and will not be presumed to exist even on the supposition that each city bank has an "adhesion relationship" with a group of large firms.

Thus, our study of the "adhesion relationship" which is the core of the loan-concentration-view reaches a totally negative conclusion with answers to three questions above: (1) no clear definition of "adhesion relationship" exists, and naturally no wide agreement on what it is; (2) no clear answer exists to who chooses to establish and maintain it; (3) burden-shifting is not presumed to exist even on the supposition of "adhesion relationship."

5-5. SMEs' Funds Shortage

Many readers may criticize the argument in previous sections as unrealistic, and asserts often with showing figures for evidence, "However, there exists the reality of severe funds shortage of SMEs." In this section I examine the persuasiveness of the representative figures, and at the end I cite two tables as counterevidence. All these figures are defined, made, published, and referred under the predominant dual-structure-view, and we have to pay special attention to the definitions, especially that of "SMEs' funds shortage," and how the figures are made.

No one opposes to use the following view as the bench mark for the examination: "Though SMEs' funds shortage is so popular as to be firstly remembered with SMEs, it is not clear at all what it is. When funds shortage simply means that a firm cannot borrow the just amount it wants, it is not peculiar for SMEs. Both in Japan and US, even a large firm suffers from it. Moreover, banks often refuse a demand of any firm to increase loans to it even at the loan rate higher than the current. Total demand and supply of the financial market balances mainly in terms of changes in interest rates, however, other factors than loan rate are taken into account in each loan transaction. Credit ranking of the borrower,

marginal ratio of compensating balance, use of funds, collateral, bank's current position on balance, and so on are the examples" (Yamashita[1969, pp.195-96]).²³ No trial with figures has succeeded in proving the existence of a deviation from this bench mark view.

Success Ratio of SMEs' Borrowing Proposal

The first type of figures for SMEs' funds shortage is the "success ratio of SMEs' borrowing proposal" from the Survey of the Financial Reality of SMEs (Chusho Kigyo Shin'yo Jittai Chosa) carried out by SME Agency. Let me examine the way of reference in the 1970 SME White Paper, from which adopted Table 5-2.²⁴ It points out that SMEs in 1950 were in low productivity as they were ill-equipped, and that it resulted mainly from their weak position in the financial market. Showing the table, it asserts that the low success ratio illustrates their weak position.²⁵

---Table. 5-2 ----

Five points should be noted in using these figures to prove the SMEs' funds shortage, and no assertion based on them can be persuasive. First, even when it indicates the difficulty SMEs faced in financing, it has no information on large firms' difficulty, therefore no information on the discrimination. Second, these figures inevitably have remarkable downward bias. SME owners, especially those who have ever suffered from

²³ Yamashita[1985, pp.235-36] refers to this article as a compact review of the literature on SMEs' funds shortage, after stating, "It results basically from discrimination in the financial market.... However, few have studied how and in what form the shortage actually realizes."

²⁴ Table 5-2 is from the first section entitled "SMEs and the Dual-Structure Problems" (p.87) of Part II in 1970 SME White Paper, which has, as mentioned in chapter 3, a subtitle "The Transfiguration of the Dual-Structure and the Increasing Variety of SME Problems."

²⁵ Kurasono[1960] and Morita[1960] are the examples which use these figures as evidence. However, the figures cited in Table 5-2 are the ones for 1949, and the success ratio is higher for 1950.

unsatisfactory amount of bank loans (that is, most of owners and directors, even of large firms), tend to emphasize their difficulty by answering a lower success ratio, when asked its seriousness by the government agency in charge of SMEs. The proposed amount of borrowing tends to be larger, as they expect that only a part of it will be realized.²⁶ Thus, the nominator tends to be smaller, the denominator larger, therefore, the success ratio has downward bias. Also note that this questionnaire asks just the amount, and pays no attention to such other factors as loan rate, collateral, guarantee, terms. Third, the insufficient explanation for the figures makes downward bias. As the first step, they ask to answer in yes or no, "Had you a need for borrowing (including discounts of customers' bill) in these six months?" Then, they ask the next one only to those which answered yes in the first. As shown in Table 5-2, in manufacturing 53.5 percent answered no in the first question, therefore, $\{9.9 / (100.0 - 53.5)\} \times 100 = 21.3$ percent of firms which had the need could borrow the full amount, and 48.8 percent could borrow more than the half.²⁷

Fourth, most of SMEs here are those with less than 30 employees. For instance, in 1950 Survey, 36.6 percent of the population are SMEs with 0-4 employees, 47.4 percent with 5-29, 14.0 percent with 30-99, and 2.2 percent with 100-199. 82.4 percent of the first group answers no in the first question above, 46.5 percent on the second, 21.4 percent in the third, and 11.9 percent in the fourth. The ratio of SMEs which could borrow more than

²⁶ 1952 Survey asks, "Why couldn't you borrow?" The answers in order of the number are, "The proposed amount was too large," "Because of the lender's funds shortage," "The proposed term was too long," "Lack of collateral," "Because of the unstable future of our business," and etc. See fn.52 of Miwa[1990, p.126].

²⁷ Note that the total of the first four figures is 42.9, which is larger than 46.5 (100.0 - 53.5.) When we use 42.9 percent as the denominator, the corresponding figures are 23.1 and 52.9. Also note that some SMEs chose not to borrow from financial institutions. 1952 Survey asks to those which answers yes in the first question, "Where did you propose to borrow?: 1. financial institutions; 2. others." Then they ask to those which answers "2. others" (17.0 percent, and 78.4 percent for 1.) "Why you didn't go to financial institutions: 1. I could borrow from others; 2. I thought they would not lend us; 3. There was annoying red tape; 4. It took long time; 5. Others?" Only 22.2 percent chose 2. See fn.54 of Miwa[1990, p.127].

the half of the proposal is 42.4 percent for the first group, 55.5 percent for the second, however, 71.6 percent for the third, and 84.4 percent for the fourth (p.18 of the Report of the Survey.) Fifth, the figures in Table 5-2 does not reflect the long-run condition of SMEs. For example, the figures for 1952 and 1953 are much higher,²⁸ and "Between the depression in 1954 and the boom in 1956.... the success ratio has risen gradually" (Morita[1960, p.414]).

The Discrimination against SME Loans

Following the part quoted above, Yamashita[1969, p.196] summarizes the financial difficulty peculiar to SMEs in three points: (1) extreme insufficiency of long-term funds supply for SMEs, especially compared with that for large firms; (2) instability of SME loans by financial institutions; (3) existence of the discrimination against SME loans.

Let me examine from the "discrimination." He begins with the statement to which no one will oppose: "the discrimination...in SME finance is a case where the terms of loan for SMEs are unreasonably severe than those for large firms even when borrowers are the same in use of funds, loan term, credit risk, and so on. Therefore, only the difference of loan rate does not imply discrimination" (p.200). After a short discussion, he concludes, "It may sound too hasty to assert the existence of the discrimination against SME in the financial market, but it is obvious from the reality of Japanese economy" (p.201). However, in between he only points out that in 1958-62 the gap in nominal rate between loans for SMEs and those for large firms is larger than that of real rate. Thus, the existence of the discrimination is not "obvious" at all, and is not proved with evidence.

²⁸ See fn.55 of Miwa[1990, 127]. The ratio of SMEs which could borrow the full amount in 1953 is 61.3 percent. Recall that only four years had passed in 1949 since the end of the war, the end of the Occupation was in April 1952, and as mentioned in 4-3 it was in 1955 when Toyota unveiled their first true car, the "Crown."

The SME Difficulty in Long-Term Loans

Yamashita[1969] refers three types of figures as the evidence for the SME difficulty in long-term loans,²⁹ and I follow the order of his presentation.

(1) (Long-Term Debt)/ Sales Ratio and (Short-Term Debt)/ Sales Ratio

Showing a table for (long-term debt)/sales ratios and (short-term debt)/sales ratios, Yamashita[1969, pp.196-97] declares that it clearly illustrates the SMEs' difficulty in long-term finance and states: "Though the (short-term debt)/sales ratio is higher for large firms than for SMEs, the gap is not so wide. However, the (long-term debt)/sales ratio for large firms is almost twice as high as that for SMEs. Thus, the difference of debt/sales ratio between large firms and SMEs results from that of (long-term debt)/sales ratio." Without taking conditions on the demand side, who is able to draw useful information on the SME difficulty for long-term loans?³⁰

(2) Comparison of Achievement and Desire for Equipment Funds Finance from Outside

Table 5-3 is Yamashita[1969]'s second evidence. It was presented at the Financial System Research Council (Kin'yu Seido Chosa-kai) meeting on 11 September 1968, and made from the "Questionnaire on Corporate Finance" carried out by Ministry of Finance. He concludes from the table: "It shows that the gap between the desire and the achievement becomes narrower with the firm size.... Thus, ... we can conclude that the (long-term debt)/sales

²⁹ The literature on the loan-concentration mentioned in 5-3 pays special attention to long-term funds.

³⁰ The figures in his table is from 1967 Financial Statements of Small Business in Japan (Bank of Japan). It shows the (long-term debt)/sales ratio for SMEs is 9.9 percent, and that for large firms is 18.9 percent. Note that the corresponding figures for SMEs in individual industries differs widely, from the maximum of 16.3 percent in glass & ceramics to the minimum of 5.0 percent in textiles.

ratios for each firm size group indicate the SMEs' difficulty in finance" (p.198).

----- Table 5-3 -----

Before showing my conclusion, the table needs additional explanation. The figures for "Achievement" are the ratios of answers to the question: "Which was the biggest route of outside finance for equipment funds in the past two years?" The figures for "Desire" are those to the question, "Which route do you prefer the most for your equipment funds from outside?" Who can draw useful information on the SMEs' difficulty in long-term finance from the gap between the corresponding figures? For instance, suppose a firm desired in the past two years and also prefers to finance 70 percent of equipment funds by long-term debt, and actually financed 35 percent by long term debt, and 32.5 percent by each of short-term debt and bonds. The answers to the questions in this case are both "long-term debt." Yamashita[1969] interprets the coincidence as to indicate that this firm achieves as it desires.³¹ Who else can draw such useful information from these figures on the SME difficulty for long-term loans?

(3) "Long-Term Conformity Ratio" [= (Fixed Assets)/(Stockholders' Equity + Long-Term Liabilities) Ratio]

Though Yamashita[1969] refers to fixed investment to long-term liability ratio as the third type, I take instead the "long-term conformity ratio" defined as (stockholders' equity + long term liabilities) to fixed assets ratio and the reciprocal which are more often used. For instance, Miyazawa and Kato[1965, p.49] points out that in 1956-62 the ratio of increase in (stockholders' equity + long-term liabilities) to that in fixed

³¹ Teranishi[1975, p.78] quotes this table and states: "This table shows that the achieved ratio of long-term debt to equipment funds is lower than the desired level for every firm size group. The smaller the firm size, the wider the gap. Note that even large firms with more than ¥100 million in paid-in capital suffer from huge unfilled demands." Teranishi[1982, p.510] includes the same table and statement.

assets, the reciprocal of "long-term conformity ratio,"³² was 91 percent for SMEs and 102 percent for large firms," and concludes: "102 percent for large firms means that they could finance sufficient long-term funds, but SMEs could only 91 percent."³³

Will this ratio be 100 percent when there is no difficulty in long-term loans? Does the deviation from 100 percent level indicate the seriousness of the difficulty? Financial System Research Council[1970, p.106] includes a table for the "long-term conformity ratio (manufacturing)" in Japan and other countries on the same page with Table 5-3. It shows that during 1956-67 the ratio is stable at the level of 60 percent in US, 65 percent in UK, 75 percent in West Germany, and 90 percent in Japan. Also, if the ratio and its deviation from 100 percent indicates the seriousness of SMEs' difficulty in long-term loans, the ratio has to be uniformly far above the 100 percent level in every industry. However, the figures for individual industries distribute widely on both sides. For instance, 1963 Financial Statement of Small Business in Japan (Bank of Japan) shows the distribution of the reciprocals between the maximum of 116.8 percent in pulp & paper and the minimum of 78.1 percent in rubber.³⁴

Does the ratio has such meaning as asserted? Lev[1974, p.4], for example, explains: "Why do academicians shy away from traditional financial statement analysis? The major reason seems to be the failure of financial

³² Strictly speaking, this is a marginal ratio. However, I neglect the distinction of the marginal and the average, since the ratio was so stable as mentioned below.

³³ These figures are cited from 1963 SME White Paper, and made from Financial Statement of Incorporated Business (Ministry of Finance). Large firms here are ones with ¥50 million in paid-in capital. The same view is expressed also in 1964 SME White Paper, Kawaguchi[1966, p.11], and Teranishi[1982, p.509]. However, the corresponding figure in 1960-61 from Financial Statement of Small Business in Japan (Bank of Japan) for principal enterprises (340 large firms) is 86.6 percent, which is below 100 percent and smaller than SMEs' 88.7 percent. The figure for each SME group is 91.6 percent for SMEs with 50-99 employees, 85.6 for 100-199, and 90.1 for 200-299.

³⁴ The corresponding figure for principal enterprises (335 large firms) is 85.4 percent, and that for SMEs in total is 93.0 percent.

analysis to keep pace with the developments in economics and finance.... A large amount of data and numerous financial ratios are available, yet the usefulness of the traditional tools and techniques has not been established."³⁵ Moreover, in Section 3 "Long-Term Solvency Ratios" of Chapter 2 he discusses only "debt to equity ratio" and "times interest earned," and concludes this chapter: "Financial ratios are indicators of economic phenomena underlying the firm's operations. They rarely provide the analyst with final answers; more often they points to areas where further investigation may be rewarding. Ratio analysis should therefore be regarded as a preliminary stage in the process on investment decision making" (p.30).³⁶

The Instability of SME Loans

Yamashita[1969]'s "instability of SME loans by financial instability" is equivalent to what Kawaguchi[1965] calls "burden-shifting," which I examined and rejected as unpersuasive in the previous two sections. Conversely, I quote here two tables that suggest the opposite direction from the Financial System Research Council[1969], which is a part of the result of the questionnaire for Table 5-2.

Table 5-4 illustrates the answers to the question: "Has the loan attitude of your core bank changed since last September when the monetary policy turned tight?" As the questionnaire was carried out in June, 9

³⁵ Lev[1974] attaches here a footnote from Horrigan[1968, p.294]: "From a negative viewpoint, the most striking aspect of ratio analysis is the absence of an explicit theoretical structure. Under the dominant approach of 'pragmatic empiricism,' the user of ratios is required to rely upon the authority of an author's experience. As a result, the subject of ratio analysis is replete with untested assertion about which ratios should be used and what their proper levels should be."

³⁶ Let me cite here the figures for long-term loans, which correspond to those in Table 5-1. In 1963-65, SMEs borrow 19.9 percent of long-term loans from city banks, 10.1 percent from local banks, 19.5 percent from other private financial institutions specialized in SME finance, 23.9 percent from public financial institutions, and 26.6 percent from others including life insurance companies. The corresponding figures for large firms are, 57.6, 1.5, 0.6, 12.2, and 28.1. Also note that arbitrage between short-term and long-term loans occurs on both sides of the market.

months had passed since the policy change. Note that the smaller is the firm size, the higher the ratio of answers in "(4) Unchanged." Also note that the larger the firm size, the higher the ratio of answers in (1), (2), and (3) which all suggest the change toward severer loan policy.

----- Table 5-4 -----

Table 5-5 summarizes the answers to the question: "Which of the following alternatives was the main reason, if your company had ever postponed or reduced the equipment order in the tight-money period? (Even when no experience, please answer on supposing that you had ever done.)" Note first that more than the half of the effective answers choose "(1) Outlook for business and industry," and that the smaller is the firm size, the higher the ratio of answers in it. Note also that the larger the firm size, the higher the ratio of answers in "(4) Tightening of the amount of loans," and that more than 40 percent of large firms with more than ¥1 billion in paid-in capital choose it.

----- Table 5-5 -----

5-6. Concluding Remarks

The answers to my five questions listed in the Introduction of this chapter are too obvious to summarize here. The main conclusion is simply that the "loan-concentration-view" is totally wrong. This conclusion is consistent with and also a part of that of chapters 2 and 3 that the dual-structure-view is wrong. The view that a close long-term relationship called "adhesion relationship" between a large bank and a group of large firms functions as the core of the loan-concentration mechanism is also wrong. This conclusion suggests that the conventional argument for Mainbank and corporate groups, which I examine in the next two chapters, is wrong, too.

[Mac94ch5.miwa]

Note that the conclusion is for the period before 1970 for which the dual-structure-view is still dominant, and that nobody is opposed to the view that the loan-concentration mechanism was severer in this period than now. Therefore, it implies that neither the loan-concentration mechanism nor "adhesion relationship" has ever existed.

For the implications of this conclusion, I should say simply to read again the concluding remarks of chapters 2 and 3.

Fig. 5-1, The Equity/Total Capitalization Ratio
(1960-1974; in percent)

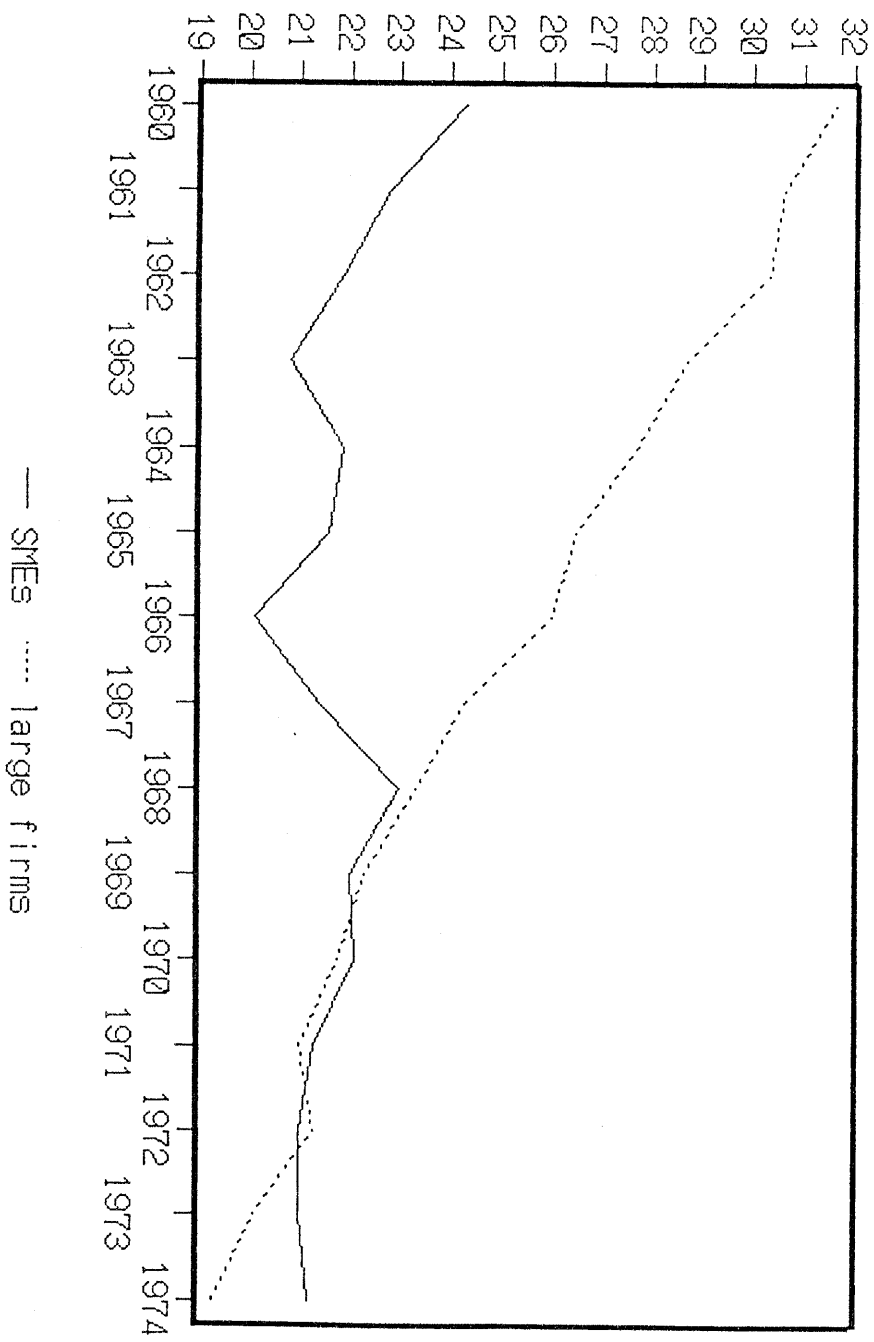


Table 5-1 Loan Shares of Financial Institutions
(Three years running average except for 1966-67; in percent)

| | SMEs | | | | Large firms | |
|-----------------------------------|---------|-------|-------|-------|-------------|-------|
| | 1957-59 | 60-62 | 63-65 | 66-67 | 1963-65 | 66-67 |
| City Banks (1) | | | 35.6 | 36.5 | 66.4 | 67.9 |
| Local Banks | 78.7 | 69.3 | 26.0 | 24.2 | 10.3 | 10.7 |
| Mutual Loans & Savings Banks (2) | 6.4 | 13.1 | 19.8 | 18.8 | 1.1 | 0.8 |
| Public Financial Institutions (3) | 6.1 | 6.9 | 7.3 | 10.1 | 6.0 | 7.4 |
| Others (4) | 8.8 | 10.7 | 11.4 | 10.5 | 16.3 | 13.6 |

Notes:

- (1) Also included Long Term Credit Banks and Trust Banks.
- (2) Also included Credit Associations, Credit Cooperatives, Central Cooperative Bank for Commerce and Industry, etc.
- (3) Included Small Business Finance Cooperation, People's Finance Corporation, Japan Development Bank, Export-Import Bank of Japan, etc.
- (4) Included Individuals, Corporations, Credit Companies, Life Insurance Companies, etc.

Source: Bank of Japan, Financial Statement of Small Business in Japan for SMEs and Financial Statement of Principal Enterprises for large firms.

Table 5-2 SMEs' Success Ratio of Borrowing Proposal (in percent)

| | Manufacturing (*) | Commerce (*) |
|--------------------|-------------------|--------------|
| Full | 9.9 | 8.7 |
| More than the half | 12.8 | 7.3 |
| Less than the half | 11.9 | 6.1 |
| Null | 8.3 | 5.9 |
| Never proposed | 53.5 | 71.2 |
| Total | 100.0 | 100.0 |

(*) SME is a firm with less than 200 employees in Manufacturing and that with less than 20 employees in Commerce.

Source: Adopted from 1970 SME White Paper, p. 87. Originally made from SME Agency, Survey of the Financial Reality of SMEs (Chusho Kiyo Shinyo Jittai Chosa), 1950.

Table 5-3 Comparison of Achievement and Desire in Finance Method
(Size in Paid-in Capital; in percent)

| Method | Size (*) | A | | B | | C | | D | | E | | Total | |
|------------------------|----------|-----------|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| | | Achi (**) | Des (**) | Achi | Des | Achi | Des | Achi | Des | Achi | Des | Achi | Des |
| Short term loans | 7.3 | 7.8 | 23.1 | 16.9 | 25.1 | 16.5 | 27.7 | 14.8 | 33.7 | 20.2 | 21.4 | 14.4 | |
| Long term loans | 73.7 | 73.0 | 61.0 | 67.8 | 55.0 | 64.1 | 47.7 | 64.8 | 35.4 | 53.9 | 57.7 | 66.4 | |
| Bonds | 3.8 | 5.3 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.3 | 0.0 | 0.0 | 1.0 | 1.6 | |
| Equities | 7.3 | 9.3 | 3.1 | 8.3 | 2.2 | 9.1 | 4.2 | 10.6 | 2.2 | 10.7 | 4.2 | 9.4 | |
| Mutual trading credits | 2.8 | 1.8 | 3.6 | 1.8 | 3.9 | 3.5 | 8.4 | 3.6 | 12.9 | 3.9 | 5.5 | 2.7 | |
| No answer | 5.3 | 3.0 | 9.1 | 5.2 | 13.9 | 6.1 | 11.9 | 5.8 | 15.7 | 11.2 | 10.2 | 5.6 | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

(*)A: Enterprises with more than ¥1 billion in capital, B: ¥1 billion-¥100 million, C: ¥100-50 million, D: ¥50-10 million, E: less than ¥10 million.

(**) "Achi" stands for Achievement, and "Des" for Desire.

Source: Financial System Research Council (Kinryu Seido Chosa Kai) [1970, p. 106]

Table 5-4 Change in Loan Attitude of Core Banks
(Size in Paid-in Capital: in percent)

| Loan Attitude | Size (*) | | | | | Total |
|------------------------------|----------|-------|-------|-------|-------|-------|
| | A | B | C | D | E | |
| (1) Loan rate increase | 44.7 | 49.9 | 46.3 | 40.3 | 25.8 | 43.4 |
| (2) Tightening of the amount | 8.8 | 5.5 | 5.6 | 6.8 | 12.4 | 7.4 |
| (3) (1) + (2) | 27.7 | 20.3 | 16.9 | 11.9 | 11.8 | 19.0 |
| (4) Unchanged | 16.0 | 21.8 | 27.3 | 39.7 | 44.4 | 27.5 |
| (5) No answer | 2.8 | 2.6 | 3.9 | 1.3 | 5.6 | 2.9 |
| Total | 100. | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

(*) See the note for Table 5-3.

Source: Financial System Research Council 1 [1969, p. 26]

Table 5-5 Reason for Postponing Equipment Order
(Size in Paid-in Capital; in percent)

| Reason | A | B | C | D | E | Total |
|---|-------|-------|-------|-------|-------|-------|
| (1) Outlook for business and industry | 37.0 | 43.4 | 49.4 | 52.9 | 54.5 | 45.9 |
| (2) Policy against trade cycle | 11.0 | 10.6 | 5.6 | 10.6 | 4.5 | 9.2 |
| (3) Borrowing rate increase | 1.0 | 1.0 | 4.3 | 2.6 | 2.8 | 2.1 |
| (4) Tightening of the amount | 40.0 | 30.1 | 25.1 | 14.8 | 15.7 | 27.1 |
| (5) Difficulty in equity and bond issue | 1.0 | 0.8 | 0.0 | 0.3 | 0.0 | 0.5 |
| (6) Others | 2.5 | 1.6 | 1.3 | 3.9 | 3.9 | 2.5 |
| (7) No answer | 7.5 | 12.5 | 14.3 | 14.8 | 18.5 | 12.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

(*) See the note for Table 5-3

Source: Financial System Research Council [1969, p. 31]