

Title	A comparative study of the securities markets : with reference to the structural characteristics of financial capital
Sub Title	
Author	Kotake, Toyoji
Publisher	
Publication year	1971
Jtitle	Keio business review Vol.10, (1971.) ,p.25- 37
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260481-19710000-03919614

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A COMPARATIVE STUDY OF THE SECURITIES MARKETS

—with Reference to the Structural Characteristics of Financial Capital—

by

Toyoji Kotake

1.

The fictive capital movement (G-A-G') requires logically a personal bearer, that is, the so-called security dealing capitalist. But the primary loan capital in monetary form, which is naturally regulated by a reproductive process, logically forms a long or a short term loan capital market with the loan capitalists or the banking capitalists for its bearer. And the fiktive capital movement, forming a fiktive capital security market, gets differentiated into two movements: the newly issued securities and the already issued securities market, each developed by its own bearers.

The logical criterion by which to judge the attained structure of the money market and the securities market of a country consists in whether or not the bearers of the loan capital movement and those of the fiktive capital movement are differentiated, and if so, in the attained degree of their actual differentiation. Here we are to find by this criterion what types of the money market and the securities market exist in different countries and further to point out what general and specific characteristics they have, as well as to look into what position the securities dealing capital takes in each country's financial capital which are the union of various monopolistic capitals.

2. *The German Type*

The Darmstädter Bank established in 1853 is the prototype of the Kredit Bank of to-day. It was instituted by some high officials of the Credit Mobilier of France with the capital stock of the 10,000 shares, borrowing money from it in 1852. Being influenced by its French prototype, the Darmstädter Bank had the functions both of a commercial banking and an investment banking. The peculiarity of Credit Mobilier has been transmitted and developed in Germany. The Kredit Bank, therefore, is the promoter of company, the underwriter and the distributor

of securities and Der Börsenbesucher. (This is analogous to the member of the stock exchange of England, the United States of America and Japan.)

The Kredit Bank deals in a large amount of stock orders, and it acts like a small stock exchange by offsetting the orders of buying and selling. In the stock exchange, only the balance of the transaction orders that were offsetted over-the-counter of the Kredit Bank, is executed. A large increase of offsetting, therefore, means the decline of the stock exchange; the fact is peculiarity of German type, which never occurs in England, the United States of America and Japan. Thus the Kredit Bank serves not only as the pillar for the newly issued securities and the already issued securities market, but as the bearer of the loan capital movement both for the long and the short term finance. In other words, the Kredit Bank of Germany manages all the business concerning the loan capital movement and the fiktive capital movement that are not differentiated. It is, therefore, a loan capitalist and at the same time security dealing capitalist.

Thus the monopolistic Kredit Bank of Germany conducts and controls the fusion of various monopolistic capitals by the three means: (1) by means of the banking connections, the current accounts and other financial operations, in other words, through the short or the long term finance, (2) by floating of companies, issue of stock, state loans ,etc., in other words, by such business as the promotion of an enterprise, the underwriting and the distributing business of securities, and the resale business of the already issued securities "in accordance with the custom that every bank is a stock exchange," (3) through a personal link-up between the banks and the biggest industrial and commercial enterprises, in other words, by such personal connection as the mutual interchange of the officials between the Kredit Bank and some industrial or commercial enterprises.

3. The English Type

The bearer of the loan capital movement in England proceeded along the course of development as follows: the smith gold, the smith gold-banker, the private bank, and the joint stock bank. And starting at the beginning of the 19th century, the short-term finance and the long-term finance tended to differentiate from each other. The provincial banks, however, were different from those in London as they were practically engaged in the long-term financing by means of the constantly overdrawn account which helped the growth of industry and foreign trade in the 19th century.

The bearer of the fiktive capital movement were different in the genealogy of their business, as they tended in the early years of their existence to specialize in the Securities issuing movement or the selling and buying of the already issued Securities. Further, the bearers of the issuing movement began to differentiate among themselves into two one which mainly dealt in the issue of foreign securities

and national debt, and the other, in the issue and distribution of the internal industrial securities. This differentiation of finance business into a variety of affairs such as the short and the long term finance, the newly issued securities, and the already issued security business is peculiarly English in development, and they are carried as the side lines of other trades; the fact makes the English structure of security market simple as well as complex, and also makes the fusion of various capitals peculiarly English in form.

In fact, the promoter or the jobbing brokers appeared about the end of 1680's, with the latter growing into the member of the Exchange as the bearer of the already issued securities movement. The segregation of function between the jobbers who transacted on their own account and the brokers who transacted on others' account was made clear after 1850's in the London Stock Exchange.

On the contrary, the issuing house which served as the bearer of the issuing movement, especially as the underwriter of foreign securities or national debts was a side lines of merchant banker. Baring Brothers & Co. established in 1762, Rothschild & Co. and Morgan Grenfel & Co. which came to the fore later, were representative examples of the sort. Further, they were acceptance houses and private banks. So, the merchant banks that were generally called the old established issuing house, were at the same time the bearer of security business and the short-term banking business. Besides, they were the sponsors for the investment trust; in the period from 1860's down to the beginning of the present century, the foreign securities underwritten by issuing house, were bought in mainly by it. Later, the investment trusts increased their investment in the share; it now amounts to an enormous amount.

In addition, the finance companies that appeared for the first time in 1850's, played an important role in financing the long-term capital for internal industries. At first, they were started as a joint stock company by some existing bankers, merchants, industrial capitalists and the directors of the Bank of England. They have engaged in the long-term finance, the underwriting for debentures or shares, and investment or receiving deposit. At present, they divide the security dealing profits with their shareholders. The business of these finance companies is a side-line, functioning meritoriously as the intermedia for the supply of long term capital to help the industrial development after the latter half of the preceding century. It is the newly established issuing houses started after 1920's that engaged in the underwriting of the new issues for internal enterprises, although they carried no banking business.

The big four banks in London have transmitted more than 50% of all the orders of transactions at the Exchange to the brokers, Stock Exchange members, although they are engaged in the typical short-term banking business. Since the members of the Exchange are restricted to set its branches in the country, they have but to depend on the big four commercial banks which have the numerous branches in all the country and get the majority of the orders of transaction. The big four banks receive the 25% rebate out of the transaction commission.

Such is the way by which the bearers of the loan capital movement and those of the fictive capital movement are differentiated from each other in England in contrast to those in Germany where all of those functions are performed by the Kredit Bank. In England, therefore, the monopolistic fusion of banking capital and industrial capital is the fusion of the above mentioned differentiated bearers and the industrial capitals.

In England, this fusion is being realized in a peculiarly English manner. The old established issuing houses that have been the merchant bankers, are now issuing domestic securities too, while subordinating, the investment trusts to them. Also, they are concerned with the bill-discount business of the discount houses and the commercial banking of the big four banks, through the banking business and the acceptance business which they carry as their side-line. Besides, they depend on the brokers of the Exchange and the finance companies for the distributing of the newly issued securities, while the finance companies are related to the brokers of the Exchange, on the selling of securities. And the big four banks seal the fate of those Exchange brokers through transmitting of the orders dealt at the Exchange. Further, it is a tradition that some partners of old established issuing houses are elected as directors of the Bank of England. More than that, some issuing houses, for example, the Rothschild & Co., the most powerful dealer of gold at the gold market of London, dominate the international market market of gold and exchange, while maintaining a close relationship with the big business as the Imperial Chemical Industries, the Vickers and the Royal-Dutch Petroleum. This is the most complex way by which the fusion of various capitals in England is effected. Especially, the old established issuing house makes the main constituent for the monopolistic fusion of capital, exerting influence both in the money and the security markets, as the security dealing capitalist in the newly issued securities market, and as the private banker or acceptance house in the short-term money market.

4. The American Style

The origin of the bearer of the new issues movement can be traced to the loan contractors in the closing years of 1780's. With the beginning of the internal construction of the United States of America, each state issued the state bond to raise funds. Most of them were introduced from England through the sale of the bonds by the so-called Anglo-American Merchant Banker such as Baring Brothers & Co.

Since the Revolutionary War, the market for the already issued securities was started in Philadelphia and New York, establishing an organized stock exchange in New York in 1817. Besides the security dealing capitalists of stock Exchange, some private banks began transacting in bonds and stocks about the decade 1810-20. The railroad construction boom started about 1830 stimulated the speculation for land, and innumerable "wildcat banks," that were in fact the

land mortgage banks, sprang up. Thus it became a general custom about the time 1830-40 that the powerful commercial banks, including the state chartered banks, carried the investment banking as a regular business, buying the total sum of newly issued securities and later distributing to the public. It was Jay Cools who had helped greatly the North in the Civil War by disposing of their bonds to the public, and who contributed much at this time in modernizing underwriting and distributing system of newly issued securities, and who is now known as the pioneer of the modern investment banker. He is marked for his success in selling public bonds directly to the masses. But the Cook Company, which was also a private bank, went bankrupt, as it failed in underwriting and distributing the company bonds issued for the construction of Northern Pacific Railroad, and in collecting its advances.

J. P. Morgan & Co., taking the place of Cook & Co., also went into the field of commercial banking as was done by the private banks in the past. The Morgan, however, was different from the way of the Cook—the direct security marketing—developing many subsidiaries and associated companies under its control to have them indirectly work for it, for example, commercial banks, trust banks or insurance companies. In issuing new securities it formed some underwriting syndicates so as to divert possible risk.

The Morgan method depended on the money capitals of its indirect investment institutions as the fund reservoir to facilitate the marketing of the newly issued securities, and through the medium of these securities, the Company supplied long-term monetary loan to back the big enterprises under its control. Thus (1) Morgan & Co., the investment banker acting as the underwriter of newly issued securities and a private bank, (2) the banks and the insurance companies serving as the reservoir for the mobilization of capitals, and (3) the huge industrial capitals combined with the above mentioned security dealing capitalists and the loan capitalists: the unification of these three elements was typically promoted by Morgan & Co. As everybody knows, the transformation of capitalism during the decade from the end of the 19th century to 1910 was the positive evidence for the fusion of the monopolistic capitals centering around Morgan & Co.

The lasting prosperity period of 1920's brought about the condition with commercial banking combined with investment banking for, as a result of the increase of the security investment directly put in by the general public, the commercial bank came either to provide a bond department within itself or set up a security affiliate. The weakness of this combination of commercial and investment banking was exposed badly by a panic. The divorce of banking business and security business effected by the Banking Act of 1933, that were enacted in connection with the New Deal Legislation, was the materialization of the differentiation between the loan capital movement and the fiktive capital movement. Here the American security market came to have the most distinct feature as an organized system consisting of the bearers of the fiktive capital security movement.

However, during the period from the latter of 1930's to the present, the self-financing made a remarkable increase, and the investment trust, the annuity fund, the endowment foundation and other indirect investment institutions or institutional investors developed increasingly. In addition, such a private placement which the newly issued securities are dealt directly between the security issuing company and a life insurance company increased. Grasping a changing spect of capitalism as above, is Paul Marlor Sweezy correct when he says in his *Theory of Capitalist Development* that the finance capital is the transitional concept of capitalism from the competitive to the monopolistic one, indicating the lowered importance of investment banking on account of the increase in the self-fiance and the private placement, and the decrease of yearly amount on new issues?

In the first place, the increase of self-finance would not of necessity result in the lowered importance of bank capital, as practically all the capitals kept for self-finance are invested into fixed capital, and the working capital, including the its increase due to the increase of fixed capital, have but to look to the bank for their resources. Seen in this way, the importance of bank in contrast to enterprise cannot be concluded as definitely decreasing. Rather, the bank will control the big enterprises which have the large fixed capitals and embrace a huge amount of self-finance, or may strengthen the combination with them, through the supply of a small amount of working capitals.

In the second place, the increase of private placement is not necessarily exclusive of investment banker. Rather, they serves as intermediaries to bring together the security issuing company and the life insurance company, helping the issue and the placement of the securities. Thus the private placement necessitates the investment bankers.

Thirdly, the annual floatation of new securities is reported to be on a large decrease as compared with the earlier years of 1930's, but this is referring to the trend of annual amount. As the security is often called "the goods of no final consumption," it never reduces of itself. So, the annual amount of security issues makes no problem. Rather, the question is: "Why P. M. Sweezy not inquire into importance of the outstanding amount of the securities, esepcially as related to the concentration and the distribution of the possession of securities with voting right?" The general rule for the distribution of shares: the larger the amount of the issued shares, the wider is the extent of their distribution, and the wider the distribution, the smaller amount of possessed shares, enables one to exercise the control over a company. So, the latest development of the indirect investment instittuion or institutional investors shows the tendency for the proprietors of those institution to exercise the control over the large capitals more easily than before. Thus it seems possible to conclude that the monopolistic fusion of the three forms of capital: the investment banker or security dealing capitalist, the bank capital, and the industrial capital which made subservient commercial capital, is now being strengthened rather than weakened, even if viewed from the standpoint of the concentration and the distribution in the holdings of

the already issued shares with voting right only.

5. *The Japanese Type*

We shall now examine the characteristics of the Japanese securities market. Briefly put, both the security and the money markets in Japan show the "inversion" of their ordinary courses of development, as happened with any other field of economy in Japan. In other words, what would usually occur after a long process of history, appeared at their incipency. This is the consistent feature of the economic history of Japan ever since the beginning of the Meiji Era (1868–1912). With the object to promote industries and launch out on the capitalistic form of production, the new government of Japan had to take in the past fruits of the advanced countries and have them promptly established in the country. Thus they imported what the West had accomplished, without being bothered with the long process which the West had to go through.

For example, the Japanese bank did not follow the general course of development as the English bank: the smith gold, the smith gold-banker, the private bank, and the joint stock bank. The joint stock bank of England came into being in 1830's as the bank with no right issuing note, after having gone through its long prehistoric period of monetary institution. In America, the National Currency Act was enacted in 1863, and gave birth to the joint stock national bank with the function issuing note after having gone through the experience of the state chartered banks and the state banks which sprang up since the closing years of the 18th century.

The money changers, which corresponded to the goldsmiths of England, made no lineal development into the private bank by 1871 (4th year of the Meiji Era). There were some private monetary agencies that were something like a bank, but no private bank, organized on the basis of unlimited partnership with the function issuing note at that of England and America, existed in Japan about this time. Under these conditions, the National Bank Law (Kokuritsu-ginko Jorei) and the Revised National Bank Law (Kaisei Kokuritsu-ginko Jorei) were enacted respectively in 1872 and 1876 with the object to withdraw the inconvertible paper money of the government to prevent the decline of the price of public loan, and facilitate the financing in general.

The National Bank was the joint stock bank with right issuing the note. Since it was organized after the pattern of the American National Bank, it was not like the English joint stock bank which had no right issuing note. In other words, despite the fact that the general credit system and the business enterprise were not so advanced as to require the joint stock bank, the national bank in American type was created by skipping the historical process essential for the birth of the joint stock bank. Thus the fact that this national bank was the joint stock bank, and that it was endowed with the right to issue the bank notes to the amount of the 80% of its capital by depositing all the public loans

bearing at least 4% interest, as was provided by the Revised Bank Law, called for the establishment of a stock exchange.

As a primitive form of securities market, the money changers or some traders dealt in the securities in connection with the new and old public loans, the kinsatsu hikikae loans (gold conversion loans) floated in 1873 (6th year of the Meiji Era), and the chitsuroku loans (annuity funds) floated in 1874 (7th year of the Meiji Era), and there came into being some spontaneous markets about 1877 (10th year of the Meiji Era). These markets, however, were not such advanced as to call for the organized stock exchanges as were established in Europe and America.

But it was important to set up the stock exchange to facilitate the circulation of the various loans and bank stocks by setting their just prices and to ensure their realization. Without it, the prices of public loans would be made the object of speculation among the speculative dollar brokers in Yokohama and the stockjobbers—the remnant of the rice brokers in the feudal age—who took advantage of their violent fluctuations, causing the instability of the price of national bonds which served as the mortgage for bank notes, discrediting the value of bank notes and disturbing their circulation.

In addition, with no guarantee for the realization of national bank stocks, it was impossible for the persons, who became the shareholder of the national bank, by investing their national loans or money capitals, to become money capitalists again by selling the bank stocks and recovering the capitals invested. Deprived of this function, the national bank could never be expected to become the forerunner of the joint stock enterprise. The monetary circulation would be deadlocked without the steady growth of the national bank, and joint stock enterprise would be not developed regularly. To accomplish the objective of the Meiji government, the promotion of the industry, it was essential that the logical sequence of economic development; the national bank—the joint stock enterprise—the stock exchange, get properly set up.

Despite the fact that the organized credit system was not still advanced, the Stock-Exchange was established in 1878 (11th year of the Meiji Era) for the purpose of promoting the rapid economic progress.

The stock-exchange is a credit mechanism which make the fictive capital value by the intensive dealing in securities and by capitalizing the annual yields of interest of public loans or annual dividend of the stock by means of a general rate of interest.

The fictive capital value, however, cannot be formed, if the dealing in public loans are too small in amount. It is possible, however, to set up a stock-exchange even when the general credit system is immature, if some skilful speculators should come forward, taking interest in the ups and down of fictive capital price rather than making price properly, and they are clever enough to gain in the speculative difference thereof, taking advantage of their fluctuations. All what they concern is that the object of speculation gives profit for their activities.

Thus a stock-exchange was set up. Its weakness coming from the "historical inversion" or the immaturity of the general economic system was made up by resorting to the old-fashioned three monthly time bargain which admits the freedom to resell or repurchase within the 3 months after a transaction, or by letting the stock-exchange lapse into a mere assemblage of professional speculators, resulting in keeping the rich bankers and the commercial capitalists away from the Stock Exchange. Further, the securities, the object of dealing, might come to be regarded a commodity the same as rice as the Rice Exchange; in other words, the Stock Exchange might come to be stigmatized as the place where people merely hunt for speculative profits.

This unmodernized condition of the Japanese Stock Exchange is well portrayed in such an expression as the "The Stock Exchange is the market of necessary evil," "The Stock-Exchange, as an object of study, should belong to the science of commerce."

These thoughts all came from the underdeveloped condition of the Japanese securities market with the Stock-Exchange as its pivotal organ. Such thoughts of the securities market lasted for many years to come.

It is essential, therefore, to effect improvement of the Japanese securities market by having the people informed that the security is a derivative form of the interest yielding capital, that the securities price is the fictive capital value capitalized on the basis of an expected reuvenue, and that the Stock-Exchange, which is constituted by fictive capital movement (that is, the security dealings), is an integral part of the money market composed of the movement of the loan capital and the interest yielding capital, especially stressing the point that the Stock-Exchange is a high credit system set on the foundation of the interest yielding capital. In other words, it is important for the Japanese to realize that the development of the Stock-Exchange be made by making not only an organ dealing in the already issued securities, but the market for business finance through the newly issued securities. The stock exchange of Japan should be mordenized either after the pattern of the English Exchange which is regarded as belongs to the capital marekt within the money market consisting of the money market and the capital market, or following the American pattern which, classifying the banking business into two: the commercial banking and the investment banking, regards the security business as belongs to the latter. In other words, the Japanese Stock Exchange should modernize itself as the market which not only deals in the already issued securities, but performs the function of newly issued securities market.

One of the reasons which prevented the development of the newly issued securities market in Japan was the peculiarity of the Japanese banks. As was mentioned before, since no historical precedence of the unlimited liability private bank issuing the note as of England has existed in Japan, the national bank with the right issuing bank note was founded first of all.

In England, the Bank of England was established as a joint stock chartered

bank in 1694; the direct motive for this step was the national financial necessity and the bank was given the note issuing right as compensation for it. Owing to this privilege, the Bank of England succeeded in the unification of currencies as the monopolistic note issuing bank, first in concurrence with the goldsmiths' notes, and later by gradually depriving the private banks of their note issuing right. In other words, it opened in and after the latter half of the 19th century its way to secure the note issuing right, so as to act as central bank or the bank of the joint-stock banks that were without it.

In Japan, however, the unlimited liability private banks flourished after the establishment of the national bank in 1879 (12th year of the Meiji Era). Especially, the companies similar to bank or the credit co-operatives, not worthy of the title of bank, came forward in large number.

The confusion like this due to the "inversive" historical processs was adjusted with the founding of the Bank of Japan in 1882 (15th year of the Meiji Era). And being chartered with the monopolistic right to issue bank notes in the following year, The Bank of Japan ushered in the reconstruction of the Japanese banking system. The result was the abolition of the national banks, and the monetary disorder on account of the increase of the inconvertible paper money issued after the Satsuma Rebellion in 1877 and the chaotic states of the national banks were adjusted to bring about a nationally unified banking condition.

Some organizers to The Bank of Japan had the intention to make it the bank of the commercial banks. In response to this idea, the Bank Law of 1890 (23rd year of the Meiji Era) provided for the organization of the ordinary bank with no note issuing right into the joint-stock bank, by which the banking system of Japan came to assume the modern style.

The majority of these ordinary banks, however, were merely "banking departments" of the commercial or the industrial capitalists. They were called the "subordinated banks." Being engaged in the short and the long term loan, they gradually enlarged their business. Some of them, that were related to the plutocratic groups, became so powerful that they underwrote the provincial bond in 1897 (30th year of the Meiji Era), and the national debt in 1898 (31st year of the Meiji Era). In 1903 (36th year of the Meiji Era), the 7 powerful banks formed a syndicate to underwrite the corporate bonds.

On the contrary, the advance of the security brokers and dealers into the newly issued securities market was slow. It was only as late as 1910 (43rd year of the Meiji Era) that some security dealers, who had been obsorbed in the speculative profits at the Exchange, applied for the First 4 per cent bonds underwrote by the bank syndicate, as subcontractors. And in the same year, some security dealers at last came to be the original underwriter of the corporate bonds. It is true that the banks were not willing to underwrite the stock up to the time of World War II, but they underwrote the corporate bond to an overwhelmingly large extent, letting the general security dealers remain as their sub-underwriters. Going through such a historical process of money and securities market, the

Japanese banks have come to take on the character of the Kredit Bank of Germany, excepting that they are not the members of the Stock Exchange.

The rapid economic development before and after the Russo-Japanese War combined with the tradition of military expansion required a great amount of capital. The banks of the powerful plutocratic groups furnished all the long and the short term money capitals to their related enterprises and their shareholders by the credit loan, the loan on real property and the loan on security.

The great part of the newly issued securities were held by the banking agencies concerned, through the par-value issue of the stocks offered, and the private offering in case of bond.

Further, during a panic and the period of a war-time control economy after the Chino-Japanese Incident, the Bank of Japan always conducted the relief-finance or sustained the over-loans of the city banks by lending from The Bank of Japan. The postal savings, deposited by masses, were applied to the payment of national debt to be purchased by the Deposit Bureau, and they were also used for the purpose of protecting and subsidizing industries, directly and indirectly helping the development of the enterprises under plutocratic groups.

In short, the Japanese banks have developed, conducting such lines of business as the commercial bank, the long term finance bank, the security underwriter or the large securities holder. The movement and the banking structure of the loan capital like this, which was due to the tardy growth of capitalism, have resulted in the underdevelopment of the security issue based on vast dimension of the public. The majority of the Stock Exchange visitors now come there because they are interested in the premium they reap speculatively by the par-value issue in the case of the increase of capital stock. Their sole end is in making some speculative profits.

The above described conditions of banking and security business prior to World War II have made a fairly long improvement toward their modernization after the War. For example, the security holdings of a few plutocratic groups were made public as a result of disbanding the plutocratic groups, having the possession of securities widely dispersed among the masses; adopting the margin trading (regular way) as a result of the abolition of transaction of the three monthly account or short period clearance of accounts, which is likely to cause an excessive speculation at the Exchange; effecting the enlargement of the public base for the possession of securities; elevating the general knowledge of securities; promoting the technical improvement including the communication facilities; largely mobilizing masses for the market and increasing the dealings by a surprisingly large number of security salesmen; and the most important of all is the divorce of the security business and the banking affairs, as provided by Article 65 of the Securities and Exchange Law.

For the bank which was sticking to the old, conservative way of doing, the differentiation between the security business and the banking business may have meant a blow. But so long as the loan capital movement and the fictive capital

movement are carried independently, the very attempt to conduct the security business while being engaged in banking affairs, as in the case of the German Kredit Bank, should be called irrational. So long as it is admitted that the English or the American way of differentiation is an evidence of progressiveness, it seems quite natural to have effected the differentiation.

Thus the divorce of these two forms of business was the primary step for the normalization of Japanese money market. Besides, the bank itself, for example, the Industrial Bank of Japan or the Long-term Credit Bank of Japan came forward to be a special organ for the long-term financing, making use of the immature condition of the security market so as to better the capital market.

But the discounted banking bonds issued by them turned to be the means for the acquisition of an excessive speculative fund and led at last to the outbreak of the "Panic of the Yamaichi Security Company" in May of 1965 (40th year of the Showa Era), and the interest-bearing banking bond, concurring with the national bonds issued in and after 1966 (41st year of the Showa Era), turned too heavy to the fund reserve of the city banks that were expected to buy the government bond. After all, the banking bonds resulted in the disturbance of the normalization of the capital market. Anyhow, the combination of the long-term and the short-term banking business, which was the greatest characteristic of the ordinary bank ever since the pre-war time, is being kept on even at the present moment. Herein lies the peculiarity of the Japanese money market that has been tenaciously maintained since the olden days.

So long as this condition continues, the excessive investment is likely to happen as the competition among enterprises and banks respectively is intense. In other words, one of the causes for excessive investment is the fact that the banks furnish not only the long-term fund but even the short-term fund for financing fixed assets. Not being able to regulate this trend of banking through "over-the-counter instruction, the Bank of Japan put in effect repeatedly tight money policy such as the raising of the official rate of interest and often gave rise to the recession of business.

Why was it that such violent reactionary movement happened? If the open market operation policy, the official rate of interest policy, and the payment reserve policy by The Bank of Japan were applied as effectively as possible instead of keeping them in a functional rigidity, they might not have proved a "built-in-destablizer." Suppose a well-developed securities market for the already issued bond were in existence, the open market operation policy would have manifested their quantitative capacity to their fullest extent. But the situation would be different, if the purchase operation with a prescribed condition for resale, or the sale operation with a prescribed condition for repurchase which amounts to the same as a private market operation policy requesting a direct transaction with a specific bank, is executed. Also, the fully executed open market operation policy would have the official rate of interest work smoothly as in America through the manipulation of the prices of the government loans or the first-class corporate

bonds. It is, however, important that the function of the already issued securities market is fully developed as the prerequisite for the working of the above-described open market operation policy, the vital element of which is the balanced system of interest rates.

Here we have to look into the question, if these requirements can really be materialized in the practical execution of a monetary policy. The serious weakness of the money and securities market in present Japan is symbolically and densely exhibited in the under-development of the already and newly issued bond markets. It is important to be aware that this point is logically related to the open market operation policy.

At any rate, there is no question that the underdevelopment of the bond market for the newly issued bonds and the already issued bonds is a structural weakness of the money and securities market of Japan. At the same time, this fact reveals the structural peculiarity of the Japanese financial capital: while the "bank capital" is merged with the "industrial capital" and overwhelmingly controlling the latter mainly through the supplying of the long and the short-term loan capital and also through some personal relationship, the role of the "Securities Dealer Capital," which promote and bind the amalgamation among the various monopolistic capital by means of the "fictive capital securities" is not being played to the extent that the "Bank Capital" is playing its role.

(Note: The author of this article is professor of the Department of commerce at Keio University. This is a revised edition of the work published in the *Kinyugakkai-hokoku (Academic Report on Finance)*, Vol. XIV.)