Japan Academy Prize to:

Juro TERANISHI
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for *Financial System of Prewar Japan*

Outline of the work:

Having published a series of studies on the financial history of modern Japan, such as “Economic Development of Japan and Finance” in 1982, and “Industrialization and Financial System” in 1991, Dr. Juro Teranishi is now a leading scholar of Japanese financial history. *Financial System of Prewar Japan* published in 2011, consists of two major parts－one surveys the history of Japanese banking and securities market and the other details Dr.Teranishi’s own research. In the latter part, he tried, from a broad historical viewpoint, to solve the debate about whether the financial system of prewar Japan was of the intermediate type, which mainly consisted of banks, that catered to intermediate depositors and borrowers similar to the postwar financial system, or was of the market type, which mainly consisted of a securities market of stocks and corporate bonds. Needless to say, the survey part of Dr. Teranishi’s book also included his own original research.

In the first part of the book, Dr. Teranishi explained that the book aimed to examine whether the financial system of prewar Japan changed into the market type or the intermediate type in postwar Japan. He also pointed out that we should not only compare the relative importance of these two types but also analyze the relationship between them. By measuring the amount of money raised for companies in the various sectors, he made it clear that big, modern enterprises depended on the securities market from the beginning, and medium and small enterprises borrowed money mainly from banks. He also made it clear that after the middle of the 1920s, the importance of money borrowed from banks declined compared to that of the money supplied from the securities market because the value of the medium and small enterprises declined.

In the second part, he surveyed the research on the history of the banking system and the activities of banks. Pointing out that the banks and industrial enterprises did not have such a close relationship as most researchers insisted, he argued that the big, modern enterprises depended mainly on the securities market.

In the third part, he analyzed the activities of the stock exchange during prewar Japan and examined why transactions were mainly those of long-term clearing contracts and the ratio of spot transactions was very small. According to Dr. Teranishi the most important reason for these tendencies is the deterioration of the quality of stockbrokers. He estimated that among the general investors which numbered from 500,000 to 600,000 in 1925, were about one hundred and fifty thousand core investors who were keenly interested in the tax system for securities or the governance of companies. He stressed the importance of the fact that those investors often borrowed money from banks, offering stocks as security in order to raise money for investment. He also estimated that the ratio of the amount of the stocks offered as security to the banks to the amount of the loans supplied by the banks was about 40%. This fact suggests that the market and intermediate types were very interdependent.

The fourth part, in which Dr. Teranishi investigated the transition of the prewar financial system to the postwar financial system, is the most important. He argued that shifting to the postwar financial system began not from the postwar reforms but from the Showa economic crisis (1929−1932). He pointed out that many of the old middle class, which consisted of middle level landowners, merchants, and industrialists, were ruined in the Showa economic crisis, transferring their securities to the big enterprises or financial institutions. He also pointed out that the general investors that newly emerged in the Showa economic crisis were the new middle class, who were mainly composed of the workers of big businesess, whose investment portfolio did not center on stocks. Thus, he presented a novel hypothesis that owing to the decline of the middle class investors in the Showa economic crisis and the decline of the wealthy class in the postwar reforms, the postwar financial system had to be constructed centering around the banking system.

As mentioned above, through this book, Dr. Teranishi succeeded for the first time in integrating the history of banking and that of securities and in integrating the history of the prewar financial system and that of the postwar one. Of course the book has some weak points. For example, it ignores the latest studies on the continuous process of the financial system from the pre-modern period to the modern period, and its comparison of the Japanese case with foreign cases was insufficient. It underestimated the influence of the hyper-inflation after the country's defeat in the second world war to the financial system, and it did not provide sufficient the evidences for Dr. Teranishi's assertion. Nevertheless, the hypothesis argued in this book, from the viewpoint of integrating the intermediate and market types, that shifting to the postwar intermediate type of financial system began in the Showa economic crisis, is an original hypothesis that could break through the *aporia* found among existing studies. It is undeniable that this is an epoch-making book in the study of Japanese financial history or Japanese economic history. Hence, this study is worthy of the Japan Academy Prize.