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The role of financial elites in banking supervision in Japan from 1927 to 1998

Eiji Hotori *
Yokohama National University

Abstract:

Following the collapse of the bubble economy in Japan, banking supervisors and bank examiners were severely criticized by the media as human capital had long been viewed the key element of Japanese banking supervision. The purpose of this paper is to analyze the bank supervisors' career paths over the long term, including 'amakudari' appointments from among the Directors of the Financial Inspection Department of the Ministry of Finance, and the Director-Generals of the Bank Examination Department of the Bank of Japan. The paper analyzes the performance of several regional banks that accepted the appointment of an ex-Director or an ex-Director-General as their president in order to examine whether such an amakudari relationship worsened such banks' management. The majority of ex-Directors and ex-Director-Generals entered a regional bank or a regional bank II, many of which were already experiencing problems. Regarding the regional banks, lower growth rates of loans were observed in all cases, and lower loan/deposit ratios or higher capital/asset ratios were observed in most. These findings suggest that the link between the amakudari relationship and the bubble economy in the late 1980s was not as straightforwardly negative as is generally considered.

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* Associate professor of Japanese Economic History, Department of Economics - E-mail: e-hotori@ynu.ac.jp; Tel: +81 45 339 3582.

1. Introduction

Until the creation of the Financial Services Agency (FSA) in 1998, human capital was one of the key elements in Japanese banking supervision. The supervisory system basically relied on the supervisor's discretion, rather than a rigid set of rules. Therefore, the supervisor's competence was considered to affect the performance of (on-site) bank examinations. However, despite its importance, previous studies in relation to Japanese financial elites have mainly covered the Minister of Finance and the Directors of important Bureaus at the Ministry of Finance (MOF), or the Governor of the Bank of Japan (BOJ).[1] The role of Japanese financial elites in banking supervision has not yet been explored.

Several European studies have analyzed financial elites.[2] Cassis (1991) examined the financial elites of three European centers – London, Paris and Berlin – from a comparative perspective, and traced the transition of economic power and social status (wealth and education) of financial elites in these three cities. Cassis and Tanner (1992) analyzed the financial elites in Switzerland, and identified trends in the social origins and education of Swiss banking elites. Similarly, Berghoff and Köhler (2007) studied the educational profile of German banking elites from 1906 to 2001. Although these studies did not include an analysis of the Japanese case, nor of the financial elites' role in banking supervision, the research method and framework that were used are applicable to this study.[3]

The author of this paper once traced the history of Japanese banking supervision, mainly focusing on its institutional aspect.[4] Hence, this paper focuses on the human capital aspect of banking supervision, targeting the Director of the Financial Inspection Department at the MOF as well as the Director-General of the Bank Examination Department at the BOJ. The long-term elements of the human capital aspect – education, tenure and career paths including '*amakudari*' (entering a private institution after leaving office) – are examined quantitatively, and thus two controversial issues in relation to the financial history of Japan are considered.

First, the consequences of the occupation reform encouraged by the United States (US) are examined. As is well known, the Japanese banking supervisory system was drastically reformed under US Occupation (1945–1952).[5] However, the contents of this reform, especially the effects following the end of occupation, have remained an unexplored research theme.

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[1] Hata (2001) and Yoshino (1976).

[2] For the US case, Temin (1997) found that the composition of the business elite appeared to be the same throughout the 20th century.

[3] Mukai (2000) detailed the number, career path, tenure, and political link of the elites in the MOF, although the Directors of the Financial Inspection Department were not included in the analysis. The analysis was limited to the period 1914–1945.

[4] Hotori (2011).

[5] Hotori (2005).

Second, the main cause of the ineffective banking supervision in the late 1980s, which led to the bubble economy in Japan, is examined. A conventional (journalistic) view suggested that there was typically an intimate connection (i.e., corruption) between an examiner and a bank.[6] In relation to this discussion, Horiuchi and Shimizu (2001) compared the performance of regional banks that accepted post-retirement officers and those that did not. Covering the regional bank category and the regional bank II category,[7] they examined more than 120 regional banks and approximately 200 *amakudari* officers during the period of 1977–1992. Their empirical results suggested that the *amakudari* relationship (implicit collusion) enabled banks to expand their risk-taking activities. Overall, Horiuchi and Shimizu (2001) provided academic support for the journalistic view. However, a different view was illustrated by Saito (1996), who pointed out that bank examiners actually had precise information regarding the examined bank in several cases, and that supervisory officers did not actively use that information given the optimistic economic/business prospects harbored by the government.[8] The latter view indicated that the problem was caused by ineffective supervision rather than by implicit collusion.

With the aforementioned research questions in mind, this paper mainly focuses on the *amakudari* relationship between an ex-Director/ex-Director-General and a regional bank. In particular, the performance of the regional banks that accepted an ex-Director/ex-Director-General was analyzed quantitatively and compared with average data for all regional banks. Three cases are analyzed in detail.[9]

The rest of this paper is organized as follows. Section 2 outlines the career path of all the Directors (49 in total) of the Financial Inspection Department at the MOF from 1927 to 1998. Section 3 outlines the career path of all the Director-Generals (26 in total) of the Bank Examination Department at the BOJ from 1928 to 1981. For the purpose of reconsidering the link between the *amakudari* relationship and regional bank management, Section 4 analyzes the performance of three regional banks (Jouyo Bank, Oita Bank and Nishi-Nippon Bank) based on the following financial indexes – the loan/deposit ratio, the capital/asset ratio, the return on assets and the growth rate of loans. Section 5 offers several concluding remarks.

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6 According to the newspaper The Nikkei (*Nihon Keizai Shinbun*), two bank examiners from the MOF were arrested for bribery and corruption on 26 January 1998.

7 The origin of a regional bank II was a mutual loan association. In June 1988, the Financial System Research Committee under the MOF submitted a report proposing the modernization of the mutual loan association system. Thus, most of the mutual loan associations were transformed into regional banks II in 1989. The banking activity and bank customers were initially quite different between the regional banks and the regional banks II.

8 Saito (1996) pp. 117–125.

9 This paper excluded the regional bank II category for more precise comparisons, since the regional banks II generally adopted riskier strategies than the regional banks during the bubble economy period.

2. Career path of the Director of the Financial Inspection Department in the Ministry of Finance

This section covers all of the Directors (49 in total) of the Financial Inspection Department at the MOF from 1927 to 1998.[10] The period was divided into four terms: (1) 1927–1942, (2) 1949–1965, (3) 1965–1981 and (4) 1981–1998.[11] The Directors' education, tenure and career paths (including *amakudari*) were identified quantitatively. The analysis is based on the Official Gazette of Japan, the records of the MOF and biographies (including autobiographies), as well as social registers of Japan published by a private company.

(1) Education

Table 1 provides a summary of the academic backgrounds of the Directors of the Financial Inspection Department at the MOF. Except for term 2, almost all of the Directors were categorized as elite men from the faculty of law at The University of Tokyo. Directors from other faculties at other universities, or even at The University of Tokyo, were quite rare. Lack of diversity was a feature of the Directors' academic backgrounds.[12]

Table 1. *Academic backgrounds of the Directors of the Financial Inspection Department*

University	Tokyo			Tohoku	Kyoto	Hitotsubashi
Faculty (Degree)	Law	Economics	Science	Law	Economics	Commerce
Term1 (1927-42)	11	0	0	0	1	0
Term2 (1949-65)	4	3	0	1	0	1
Term3 (1965-81)	11	1	1	1	0	0
Term4 (1981-98)	11	2	0	0	1	0
Total	37	6	1	2	2	1

Sources: Ministry of Finance (1973). Jinji Koshin-jo (1979-93, 2001). Nichigai Associates (2001, 2004).

However, a different practice of personnel appointment was adopted in term 2. Under the US Occupation, conventional banking supervision in Japan was drastically reformed toward the American-style supervisory system. Greater importance was attached to specialized knowledge of economics, and thus an elite from the faculty of economics was appointed to the Director position. For example, a graduate from the faculty of economics of The University of Tokyo, Kikuichiro Yamamoto, was appointed Director for the period 1950–1953. During term 2, this new practice appeared to become established, given that even a faculty of commerce graduate

10 The Financial Inspection Department was originally created as a division under the Banking Bureau in May 1927. Following its suspension in 1942 due to the Second World War, the supervisory division was reorganized into the department in 1948. Banking supervision officially recommenced in 1949.
11 More precisely, term 1 covers May 1927– November 1942, term 2 covers June 1949– June 1965, term 3 covers July 1965– June 1981, and term 4 covers July 1981– July 1998.
12 Directors who majored in law were commonly seen as favorable, given that banking supervision primarily involved an inspection of whether a bank had complied with the Banking Act and the administrative guidelines of the MOF.

from Hitotsubashi University, Seiichi Makino, was appointed Director for the period 1963–1965. Thus a change of academic backgrounds was seen until 1965. However, the new practice was then quietly abolished. Throughout term 3, only three of the 14 Directors were not from the faculty of law at The University of Tokyo. Thus, the change introduced in term 2 had disappeared by the end of term 3, and was never reversed.

(2) Career paths

a) *Amakudari*

Table 2 provides a summary of the careers of ex-Directors of the Financial Inspection Department after leaving office. The MOF commonly arranged a good posting, such as board membership of a public financial institution, for senior officers upon leaving office. However, these people were expected to retire from these positions after 4–6 years and find a second (real) place to work. This made it difficult to determine what the main career was for an ex-Director. In this study, the main career was determined based on the second (or third) place of work, the rank of the position and the time spent in the position.

In term 1, five of the 12 ex-Directors entered special (governmental) banks – the BOJ, the Bank of Taiwan or the Bank of Joseon – after leaving office. The rest of the ex-Directors entered a national (war) policy company such as the South Manchuria Railway. After the war, several ex-Directors moved to public financial institutions/associations as presidents for the purpose of supporting small/medium-sized companies. The wartime economy appeared to affect the place of work after leaving office during this term.

In term 2, it is noteworthy that only one ex-Director went on to work for a private bank. Three of the nine ex-Directors worked for private financial institutions (not banks) – Yamaichi Securities Investment Trust Company, Fuji Fire and Marine Insurance Company or Nihon Housing Loan Company (‘*Jusen*’ – similar to the British Building Society) – as the president.

In term 3, a clear pattern was observed whereby seven of the 14 ex-Directors entered private banks. Five worked for regional banks or regional banks II – Senshu Bank, Nishinihon Bank, Saitama Bank,[13] Daisan Bank or Jouyo Bank – as the president or the vice-president, and the other two worked for city banks – Kyowa Bank[14] or Nippon Credit Bank – as president or vice-president. In addition, three ex-Directors entered the financial sector – Nihon Housing Finance (*Jusen*), Nippon Cash Service or Shinkin Central Bank (similar to the British Credit Union) – as president. In total, ten ex-Directors occupied top executive positions in financial institutions during the bubble economy period.

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13 Saitama Bank was converted into a city bank in 1969. However, it remained relatively similar to a regional bank such as Yokohama Bank.

14 Kunio Otani was vice-president of Kyowa Bank in 1982–1990. Otani entered a regional bank II, Tokuyo Bank, as the president in 1990 in order to reform the bank’s kinship-based management structure. However, the bank went bankrupt in 1997.

In term 4, a similar pattern was observed. Five of the 13 ex-Directors[15] entered private banks, and most of them worked for regional banks II – Higashinihon Bank, Sagakyoei Bank or Tomato Bank – as their president. However, it is noteworthy that ten Directors of the Financial Inspection Department during the period 1983–1993 did not enter a private bank, presumably in order to avoid criticism by the media.[16] Instead, five ex-Directors entered the financial sector – Osaka Exchange, Japan Earthquake Reinsurance, Yamatane Securities, Japan Securities Depository Center or Rokinren Bank (the central bank for workers' credit unions) – as president.

Table 2. *Main career of the ex-Directors of the Financial Inspection Department after leaving office*

	Financial sector					Non-financial sector		Non-business sector	
	City bank	Regional bank	Regional bank II	Special/ Foreign bank	Insurance/ securities/ finance company	Real-estate company	Manufactur -ing	Diet member	Other
Term1 (1927-42)	2	0	1	5	0	1	2	0	1
Term2 (1949-65)	1	0	0	1	3	1	2	0	1
Term3 (1965-81)	2	2	3	0	3	0	2	2	0
Term4 (1981-98)	1	0	3	1	5	2	0	0	1
Total	6	2	7	7	11	4	6	2	3

Sources: Ministry of Finance (1973). Jinji Koshin-jo (1979-93, 2001-09). Nichigai Associates (2001, 2004).

Notes: Generally, a retired high officer changes a place (company) for work twice or more times. Main career is based on the rank of the position and the term in the position. Hatakeyama is not included in the Table since he died just after leaving office.

It is evident that most of the ex-Directors of the Financial Inspection Department entered the financial sector as the top executive of the institution they joined during term 3 and term 4 (1965–1998). The media severely criticized the *amakudari* relationship between the financial industry and the MOF as a typical kind of moral hazard. However, it is noteworthy that most of the ex-Directors entered a regional bank II in order to modernize the conventional kinship-based management structure.[17] Prior to accepting an ex-Director from the MOF, several regional banks II had already suffered critical bad loan problems due to their kinship-based management structure. Moreover, as is well known, serious problems occurred among the long-term credit banks (a part of the city banks), the housing finance institutions (*Jusen*) and the agricultural cooperatives.[18] Eventually, one ex-Director joined a long-term credit bank and two joined housing finance institutions during the postwar period; therefore, the actual number of

[15] There were 14 ex-Directors during this period. However, Shigeru Hatakeyama died in 1995 just after retiring from the position of Administrative Vice-Minister of the Defense Agency.

[16] There was one exceptional case – Yuichi Ezawa joined UBS Trust & Banking as president of their Japanese office.

[17] Unlike the regional banks II, regional banks did not suffer critical bad loan problems.

[18] Ishii (2014) pp. 277–284.

ex-Directors joining these institutions is much smaller than was generally believed. In addition, Hiroshi Kubota joined the Nippon Credit Bank in 1993, albeit quite reluctantly.[19] Therefore, it seems that the moral hazard criticism is inappropriate as long as the *amakudari* relationship is limited to the ex-Directors of the Financial Inspection Department in the MOF.

b) Career before/after being appointed Director

The Japanese bureaucracy has adopted the internal promotion system. The career path is basically similar for all elites (‘*Kyaria Kanryo*’),[20] although this does not apply in all cases. The ultimate goal of an ambitious elite is to become Administrative Vice-Minister of a dominant Ministry such as the MOF. However, the promotion race is highly competitive, and hence most of the elites aim to become Director-General of an important Bureau. The age at which an elite official was appointed to the position of Director of the Financial Inspection Department at the MOF was commonly 47–50. Table 3 and Table 4 provide a summary of positions held before/after becoming the Director of the Financial Inspection Department. In addition, Table 5 provides a summary of the highest position attained by selected ex-Directors before leaving office.

In term 1, the career path appears to be quite straightforward. Four of the 12 ex-Directors were from the Ordinary Bank Division, and another four were from other divisions at the MOF. After leaving the position of Director of the Financial Inspection Department, five of the 12 were promoted to Director-General of the Banking Bureau or other Bureaus at the MOF. In contrast, just two ex-Directors left office immediately after leaving the position.

In term 2, the career path changed noticeably from that during the prewar period. As a result of the US Occupation and reform, the previous career path was abolished, and a variety of career tracks were prepared for elites during this period. Two of the nine ex-Directors were the heads of a regional Customs Department under the MOF, and another two were the Director-Generals of a local Finance Bureau under the MOF. The local Finance Bureaus were also in charge of the supervision of the small local banks, i.e., Shinkin Banks (Credit Unions). It is reasonable to assume that these career paths provided a training ground for promotion to Director of the Financial Inspection Department. No one was promoted to Director-General of the Banking Bureau after reaching the position of Director, and just one ex-Director was promoted to Director-General of the Customs and Tariff Bureau. Seven ex-Directors were transferred to various positions including the Cabinet Secretariat and the head of the economy in the Imperial Household Agency. Later, three ex-Directors were promoted to Director-General of other Bureaus in the MOF.

In term 3, we can observe a new pattern in the career path. Six of the 14 ex-Directors were

[19] Editorial Committee of *In Memory of Kubota Hiroshi* (2014) p. 148.

[20] In Japan, an elite is distinguished from an officer at the stage of the recruitment examination. A graduate from The University of Tokyo is implicitly likely to be accepted.

Director-Generals of a local Finance Bureau and another four were the heads of a regional Customs Department. Experience in a local Finance Bureau appeared to be necessary prior to being appointed Director of the Financial Inspection Department. After leaving the position, two ex-Directors were promoted to Director-General of the Printing Bureau in the MOF and four were promoted to Deputy Director-General in the MOF. Eventually, two ex-Directors were promoted to Commissioner in the National Tax Agency or Administrative Vice-Minister in the National Land Agency and four were promoted to Director-General of the Banking (or Financial) Bureau in the MOF. The career path appeared to be the reverse of that during the prewar period. In addition, two ex-Directors were elected to the Diet after leaving office and one was appointed Director-General of the Defense Agency.

Table 3. *Position immediately before being appointed Director of the Financial Inspection Department*

	Head of a Regional Customs	Head of a Regional Taxation Bureau	Director of the Ordinary Bank Division	Director-General of a Local Finance Bureau	Director of other divisions	Other	Total
Term1 (1927-42)	1	0	4	0	4	3	12
Term2 (1949-65)	2	1	0	2	2	2	9
Term3 (1965-81)	4	1	0	6	0	3	14
Term4 (1981-98)	4	1	0	4	1	4	14
Total	11	3	4	12	7	12	49

Sources: Government Printing Bureau (1927-98).

Table 4. *Position immediately after leaving the position of Director of the Financial Inspection Department*

	Director-General of a Bureau	Deputy Director-General of a Bureau	Head of the Tokyo Taxation Bureau	Head of a Regional Customs	Director-General of a Local Finance Bureau	Councilor of the Minister's Secretariat	Other	Leave office	Total
Term1 (1927-42)	5	0	0	1	1	0	3	2	12
Term2 (1949-65)	1	1	0	0	0	1	5	1	9
Term3 (1965-81)	2	3	1	0	1	4	3	0	14
Term4 (1981-98)	3	5	1	0	0	4	1	0	14
Total	11	9	2	1	2	9	12	3	49

Sources: See Table 3.

In term 4, a similar pattern to that in term 3 is clearly observed. Four of the 14 ex-Directors were the Director-Generals of a local Finance Bureau and another four were the head of a regional Customs Department. After leaving the position, three ex-Directors were promoted to Director-General of the Printing Bureau or the Mint in the MOF and three were promoted to

Deputy Director-General in the MOF.[21] Eventually, six ex-Directors became Administrative Vice-Minister in the National Land Agency, the Defense Agency or the Environment Agency. In addition, three ex-Directors were promoted to Director-General of the Financial (or Securities/International Finance) Bureau in the MOF. It was evident that the career paths of the ex-Directors in term 4 were more successful in terms of promotion compared with other terms.

However, it is noteworthy that no one was promoted to Administrative Vice-Minister of Finance throughout the entire period. Therefore, it is reasonable to consider that the position of Director of the Financial Inspection Department in the MOF was not sufficiently attractive for ambitious elites.[22] The motivation for an elite to be assigned to this position was probably not as great as that for other first-class positions. After leaving office, the modest motivation of an ex-Director might have oriented the bank's management toward a more conservative rather than a more aggressive approach.

Table 5. *Highest position held by selected ex-Directors before leaving office*

	Administrative Vice Minister of the Finance	Administrative Vice Minister of other than the Ministry of Finance	Director-General of the Banking Bureau	Director-General of the Financial Bureau	Director-General of other Bureaus in the Ministry of Finance	Director-General of a Bureau in other than the Ministry of Finance
Term1 (1927-42)	0	0	3	2	3	0
Term2 (1949-65)	0	0	1	0	6	1
Term3 (1965-81)	0	2	3	2	5	0
Term4 (1981-98)	0	6	0	1	5	1

Sources: Government Printing Bureau (1928-2002).
Notes: The selected positions are limited to the high ranks. The figure is smaller than the total number in each term since several ex-Directors left office before reaching a high rank position. The figure includes double counting since several successful officers were assigned to the multiple high rank positions in series.

(3) Tenure

Table 6 provides a summary of the period of tenure as Director of the Financial Inspection Department in the MOF.

It is noteworthy that the period of tenure in term 2 was relatively longer than in other terms. The US Occupation and reform extended the term of tenure (to almost two years – still shorter than other countries), which was an attempt to transform the position to more of an expert position rather than a generalist position.

In term 3, the period of tenure declined to approximately one year, and the standard deviation was the lowest of all the terms. The same pattern can be seen in term 4. The shorter period of tenure in the position suggests that the Director position was more of a generalist position from

[21] In addition, one ex-head was promoted to the equivalent position in the Ministry of Defense.
[22] Although not the best option, the position was supposed to be quite attractive for most elites because it was possible for an ex-Director to be promoted to Administrative Vice-Minister of departments other than the MOF.

1965 until the creation of the FSA.

Table 6. *Period of tenure as Director of the Financial Inspection Department*

(month)

	Mean	Max.	Min.	Median	S.D.
Term1 (1927-42)	15.7	24	6	19	6.37
Term2 (1949-65)	22.6	40	9	23	9.72
Term3 (1965-81)	13.4	20	9	13	3.22
Term4 (1981-98)	14.4	24	10	12	5.05
Throughout terms	15.8	40	6	13	6.81

Sources: See Table 3.

3. Career path of the Director-General of the Bank Examination Department in the Bank of Japan

This section covers all of the Director-Generals (26 in total) of the Bank Examination Department[23] in the BOJ from 1928 to 1981.[24] Similar to the analysis of the MOF in the previous section, the period was divided into three terms: (1) 1928–44, (2) 1944–62 and (3) 1962–81.[25] The education, tenure and career paths (including *amakudari*) of the Director-Generals were examined quantitatively. The analysis was based on the records of the BOJ and biographies (including autobiographies), as well as social registers of Japan published by a private company.

(1) Education

Table 7 provides a summary of the academic backgrounds of the Director-Generals of the Bank Examination Department in the BOJ.

Table 7. *Academic backgrounds of the Director-Generals of the Bank Examination Department*

University Faculty (Degree)	Tokyo Law	Tokyo Economics	Kyoto Economics	Hitotsubashi Commerce	Nagasaki Commerce
Term1 (1928-44)	4	1	0	0	2
Term2 (1944-62)	2	4	1	4	0
Term3 (1962-81)	3	5	0	0	0
Total	9	10	1	4	2

Sources: Bank of Japan (1982). Jinji Koshin-jo (1951-93, 2001). Nichigai Associates (2001, 2004).

As with the Directors of the Financial Inspection Department in the MOF, most of the

[23] The Bank Examination Department was originally created as a division in the BOJ in May 1928. With the enactment of the BOJ Act of 1942, the division was reorganized into the department.
[24] Precisely, there were 35 Director-Generals over the period. In nine cases, the Executive Directors temporarily held the position concurrently to avoid a vacancy occurring. Those nine cases were excluded from the analysis.
[25] More precisely, term 1 covers May 1928– July 1944, term 2 covers August 1944– April 1962, and term 3 covers May 1962– June 1981.

Director-Generals were from The University of Tokyo. In term 2, specialized knowledge of economics and commerce was considered necessary for the position as a result of the US Occupation, and economics graduates had been in the majority since term 2, unlike with the MOF. Specializing in economics provided an advantage in undertaking bank examinations. The focus of on-site examinations conducted by the BOJ was mainly on financial ratios, rather than on compliance with the law or its guidelines.

In 1987, the supervisory practices of the BOJ shifted to checking the risk management systems of commercial banks to identify excessive risk-taking during the bubble economy period.[26] However, the MOF continued to perform its conventional supervisory role, and thus was slow to recognize excessive risk-taking.[27]

(2) Career paths

a) *Amakudari*

Table 8 provides a summary of the careers of the ex-Director-Generals of the Bank Examination Department of the BOJ upon leaving office. As was the case with the MOF, the BOJ commonly arranged a good posting such as board membership in public institutions for senior bankers after leaving office. However, the relatively strong connections between central banks and private companies (or banks) made it easier for a departing senior banker to join a private company or bank without the need for arrangements to be made by the BOJ.

Table 8. *Main career of the ex-Director-Generals of the Bank Examination Department after leaving office*

	Financial sector					Non-financial sector		Non-business sector	
	City bank	Regional bank	Regional bank II	Special bank	Insurance/ securities company	Services company	Manufactur -ing	Diet member	Other
Term1 (1928-44)	0	2	0	1	0	1	1	1	1
Term2 (1944-62)	3	1	0	2	1	2	1	0	1
Term3 (1962-81)	0	1	1	1	1	3	1	0	0
Total	3	4	1	4	2	6	3	1	2

Sources: See Table 7.

In term 1, two of the seven ex-Director-Generals joined regional banks – Yokohama Bank and Ashikaga Bank – as president, while another two joined a national (war) policy company – the South Manchuria Railway and the War Finance Company. The rest of the ex-Director-Generals were promoted to a higher position within the BOJ, that is, Governor or Executive Director. In particular, Hisato Ichimada became the Minister of Finance following eight years as Governor

[26] Kumakura (2008) pp. 110–119.

[27] Okazaki and Hoshi (2002) pp. 351–354. The supervisory power was transferred from the MOF to the FSA in 1998. It was not until 1999 that the FSA formally adopted the supervisory concept of checking the risk management systems of commercial banks.

of the Bank. As with the MOF, the wartime economy appeared to affect the place of work after leaving office during this term.

In term 2, seven of the 11 ex-Director-Generals entered the financial sector. Of these, three joined city banks – Tokyo Bank (two) and Kyowa Bank – as president or executive director.

In term 3, half of the ex-Director-Generals entered the nonfinancial sector as presidents of private companies – Nagoya Railroad, Japan Information Processing Service, Kenwood Corporation and Keiyo Resorts Development. None of the ex-Director-Generals joined a city bank. Instead, the rest of the ex-Director-Generals joined a regional bank, a regional bank II or a securities company as president.[28] An *amakudari* preference for the nonfinancial sector was identified over this period.

Throughout the entire period, four ex-Director-Generals (out of 26) joined a regional bank and just one joined a regional bank II, while three joined a city bank. It is noteworthy that the actual number of *amakudari* bankers was much less than is generally thought. More importantly, during the bubble economy period, just two ex-Director-Generals were in charge of banks – Oita Bank and Hyogo Bank.[29] Similar to the case of the MOF in the previous section, the moral hazard criticism is not appropriate here as long as the *amakudari* relationship is limited to the ex-Director-Generals of the Bank Examination Department in the BOJ.

b) After being appointed Director-General

Table 9 provides a summary of the highest position held by the ex-Director-Generals of the Bank Examination Department in the BOJ before leaving office. Two ex-Director-Generals were promoted to Governor of the BOJ. In addition, one ex-Director-General was promoted to Deputy Governor and five were promoted to Executive Director.

It appears that the position of ex-Director-General of the Bank Examination Department in the BOJ was relatively more successful than the equivalent position in the MOF. The possibility of being promoted to Governor of the BOJ must have provided considerable motivation for ambitious senior bankers at the BOJ. The personnel practices and the promotion system at the BOJ appear to have been quite different from those of the Financial Inspection Department in the MOF.

Table 9. *Highest position held by ex-Director-Generals before leaving office*

	Governor	Deputy Governor	Executive Director	Auditor	Director-General
Term1 (1928-44)	2	0	1	0	4
Term2 (1944-62)	0	1	3	1	6
Term3 (1962-81)	0	0	1	2	5

[28] An exception was Kageaki Akashi, who joined the Shoko Chukin Bank (the government-affiliated financial institution mainly concerned with small business financing) as the Executive Director in 1967.
[29] Due to reckless lending overseen by an internally promoted president prior to the arrival of a series of *amakudari* presidents, the Hyogo Bank failed in 1995.

Total	2	1	5	3	15

Sources: See Table 7.

(3) Tenure

Table 10 provides a summary of the periods of tenure as Director-General of the Bank Examination Department in the BOJ. On average, the period of tenure as Director-General was approximately two years, which was eight months longer than the average period of tenure in the equivalent position in the MOF. Hisato Ichimada, who later became the 18th Governor of the BOJ, as well as the Minister of Finance, held the position of Director-General of the Bank Examination Department for more than five years (1939–1944).

The period of tenure was relatively shorter in term 2 than in other terms, which was the opposite trend to that in the MOF as a result of the US Occupation policy. However, the personnel practice changed to a specialty-oriented system in term 3. Kageaki Akashi, whose father Teruo Akashi was the president of the *Dai-ichi* (First) Bank, held the position for five years (1962–1967). Compared with the situation at the MOF, the Director-General had enough time to gain sufficient experience as a specialist to direct bank examinations expertly, thanks to the relatively longer period of tenure.

Table 10. *Period of tenure as Director-General of the Bank Examination Department*

(month)

	Mean	Max.	Min.	Median	S.D.
Term1 (1928-44)	27.9	63	6	22	20.32
Term2 (1944-62)	17.8	33	8	17	6.31
Term3 (1962-81)	28.4	60	13	23	15.15
Throughout terms	23.8	63	6	18	14.81

Sources: Bank of Japan (1982).

4. Performance of regional banks with *amakudari* presidents during the bubble economy period

From the aforementioned analysis, it is evident that the general image of the *amakudari* relationship (implicit collusion) should be reconsidered carefully. We should study several cases to examine whether or not the *amakudari* relationship worsened the management of a regional bank. This section quantitatively analyzes the performance of regional banks with *amakudari* presidents from the MOF as well as the BOJ during the bubble economy period and beyond (1985–1999). We examine the following three cases – Jouyo Bank, Oita Bank and Nishi-Nippon Bank. These three cases are suitable for analysis because *amakudari* bankers were in the top management positions of these banks during the period in question. The same financial indexes as those used by Horiuchi and Shimizu (2001) are selected.[30] The analysis is based on the annual financial reports of each bank as well as interviews with the ex-president of each regional bank.

Table 11 provides the mean values of the financial indexes in 1985–1999 for the three selected regional banks, all regional banks and all regional banks II. Based on the financial data, it is evident that the three selected regional banks adopted relatively conservative management. Basically, lower loan/deposit ratios and growth rates of loans, as well as higher capital/asset ratios compared with all regional banks, were identified. Nevertheless, the return on assets was higher than average for Oita Bank and only slightly lower for Jouyo Bank and Nishi-Nippon Bank.

Table 11. *Mean values of the financial indexes of the regional banks, 1985–1999*

	Loan/Deposit	Capital/Asset	Growth rate of Loan	Return on Assets
All regional banks	0.7748	0.0369	0.0586	0.0016
Jouyo Bank	0.7488	0.0398	0.0539	0.0013
Oita Bank	0.7294	0.0323	0.0530	0.0018
Nishi-Nippon Bank	0.8450	0.0376	0.0537	0.0015
All regional banks 2	0.8339	0.0310	0.0431	-0.0002

Sources: Bank of Japan (1985-99). Jouyo Bank (1985-99). Oita Bank (1985-99). Nishi-Nippon Bank (1985-99).

The first case, Jouyo Bank, is headquartered in Mito, which is located near Tokyo. Hence, the bank had been under the influence of the land price boom in the Tokyo area during the bubble economy period. Itaru Ishikawa, who was the Director of the Financial Inspection Department in the MOF in 1979–1980, joined Jouyo Bank in 1985 after leaving office. Ishikawa was the vice-president of the bank in 1986–1988, and president in 1988–1993. Then, Toranosuke

[30] The loan/deposit ratio was included in our analysis because this financial index is one of the most commonly used measures in the analysis of bank management.

Nishino was promoted to president in 1993, and Ishikawa was the chairman of the board from 1993 to 1999.

During this period, Jouyo Bank continued to practice conservative management, as reflected by their relatively lower loan/deposit ratios and higher capital/asset ratios (Figures 1 and 2). Although Jouyo Bank had increased its lending in response to the expansion of the economy from 1987, it recognized the imminent collapse of the bubble early in 1990. Under Ishikawa's management, the executive director, Nishino, directed the general manager and the branch managers not to increase lending. Eventually, Jouyo Bank was able to rapidly reduce its lending from 1991 onwards.[31]

The second case, Oita Bank, is headquartered in Oita in the Kyushu area. During the bubble economy period, the Law for Development of Comprehensive Resort Areas (Resort Law) of 1987 encouraged local governments to construct recreation facilities. Every regional bank was required to accommodate a developer and/or a recreation company with a large loan. In the Kyushu area in particular, local governments had strong incentives to develop resort areas. The result was that most of the newly constructed recreation facilities proved to be unsuccessful in the 1990s.[32]

Nevertheless, Oita Bank remained prudent during the bubble economy period. Tomochika Obi, who was the Director-General of the Bank Examination Department in the BOJ in 1970–1971, joined Oita Bank in 1971 after leaving office. Obi was the executive director of the bank in 1971–1973 and president in 1973–1984. Then, Shozo Ando, who also joined Oita Bank from the BOJ, was promoted to president in 1984 and Obi was the chairman of the board in 1984–1988. Ando was president until 1998 and then the chairman of the board until 2005. Under both of these *amakudari* presidents from the BOJ, Oita Bank declined to lend to any projects relating to the Resort Law, even when the development was promoted by the local government, with one exception: The bank agreed to lend to Harmonyland, a Sanrio character park featuring popular characters such as Hello Kitty, which has proved to be profitable.[33] The bank's relatively lower loan/deposit ratios and growth rates of loans reflected this conservative approach (Figures 1 and 3). It is also noteworthy that the bank's return on assets has been relatively high since 1995 (Figure 4), and the bank maintained relatively high profitability throughout the 1990s. The bank examination undertaken by the BOJ checks the financial indexes of a bank, primarily focusing on profitability. Hence, the conservative and profitable management of Oita Bank under the two *amakudari* presidents from the BOJ appeared to be in line with BOJ supervisory principles.

The third case, Nishi-Nippon Bank, is headquartered in Fukuoka in the Kyushu area. Nishi-Nippon Bank was originally a mutual loan association, and thus the main customer of the bank was related to the distribution industry. Tatsuta Goto, who was the Director of the

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[31] Study Group of Regional Banking History (2006) pp. 31–35.

[32] Two huge bankruptcies occurred in the Kyushu area following the collapse of the bubble economy – the failure of Miyazaki Seagaia Resort in Miyazaki City in 2001 and the failure of the Huis Ten Bosch theme park in Sasebo City (Nagasaki Prefecture) in 2003.

[33] Study Group of Regional Banking History (2012) pp. 19–20.

Financial Inspection Department in the MOF in 1971–1972, joined Nishi-Nippon Bank in 1984 after leaving office and was president from 1984 until 1995. Then, Seiji Koga was promoted to president in 1995 and Goto was the chairman of the board in 1995–2000. During the same period, another *amakudari* executive from the MOF, Tsuneo Shindo, was the vice-president.

During this period, Nishi-Nippon Bank remained committed to its original business; that is, to maintain a high capital adequacy ratio and to serve long-term local customers. Thus, the bank was not involved in the development projects relating to the Resort Law.[34] Indeed, the failure of the long-established local company that operated more than 130 supermarkets, Kotobukiya, caused large losses for Nishi-Nippon Bank in 2001. However, these losses were still covered by the bank's internal reserves.[35] The relatively higher capital/asset ratios and lower growth rates of loans reflected the origin-based management of the bank (Figures 2 and 3).

In summary, we did not identify any evidence of bad management in the regional banks caused by the *amakudari* relationship (implicit collusion). Rather, the *amakudari* presidents who had been the Director of the Financial Inspection Department at the MOF or the Director-General of the Bank Examination Department at the BOJ appeared to undertake relatively conservative management.

Bad performance was indeed observed in several cases where a regional bank II accepted an *amakudari* president during the bubble economy period and beyond (1985–1999), and overall, the performance of the regional banks II was much worse on average than that of the regional banks (Table 11). No link was evident between bad performance of a bank and an *amakudari* president who had been the Director of the Financial Inspection Department in the MOF or the Director-General of the Bank Examination Department in the BOJ. For example, Tokuyo City Bank, headquartered in Sendai (Miyagi Prefecture), accepted an *amakudari* president, Kunio Otani, in 1990. Otani, who was appointed Director of the Financial Inspection Department with the MOF in 1970–1971, joined Kyowa Bank in 1977 and advanced to vice-president. The MOF unofficially asked Otani to join Tokuyo City Bank, which had already experienced serious management problems during the bubble economy period.

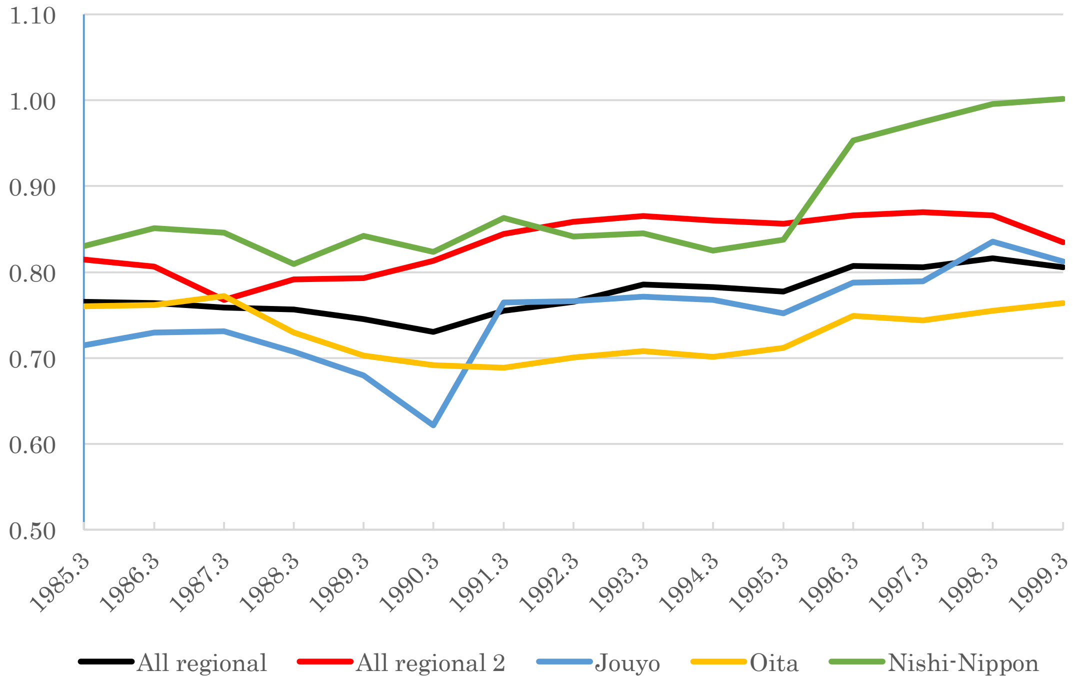
Another example illustrates the complicated story of the bad management of the regional banks II. Hyogo Bank, headquartered in Kobe (Hyogo Prefecture), accepted an *amakudari* president, Toyoteru Ito, in 1977. Ito, who was appointed Director-General of the Bank Examination Department in the BOJ in 1976–1977, advanced to president in 1981. However, the ex-president, Hiroo Hasegawa, retained overall power as the chairman of the board, having been internally promoted from president in the time-honored manner.[36] Hasegawa maintained an aggressive management approach, lending to the real estate sector during the bubble

[34] The largest regional bank in the Kyushu area, Fukuoka Bank, is also headquartered in Fukuoka. The local government tended to approach Fukuoka Bank first when seeking funding for development projects.
[35] Study Group of Regional Banking History (2013) pp. 44–49.
[36] Hasegawa advanced to vice-president of Hyogo Bank in 1966, and was appointed president in 1970. When Hasegawa resigned as president in 1981, he was already over 70. As a twenty-year younger president, Ito might have experienced difficulty in persuading Hasegawa to initiate management reform.

economy period.[37] Although Ito might have shared some responsibility for the bad management, the main cause of the bank's failure was the ex-president's incorrect approach.

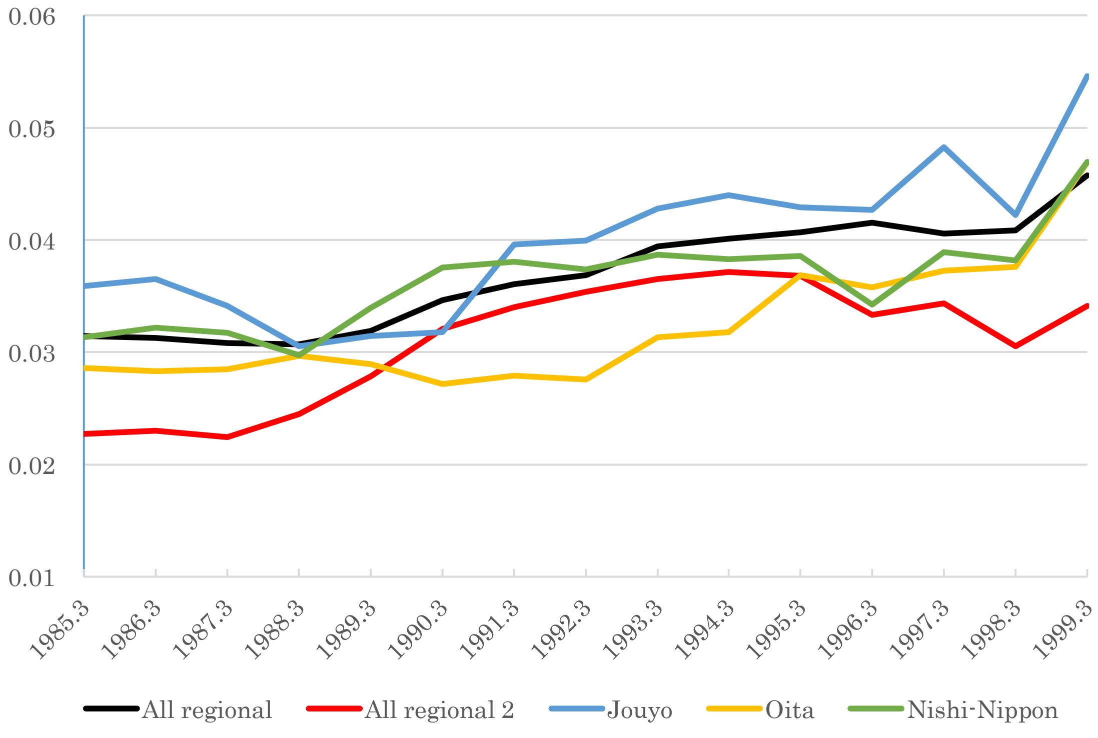
[37] According to the annual reports of Hyogo Bank, the average yearly growth rate of loans in 1985–1990 was 0.16. This was twice that of all regional banks II (0.08 on average in 1985–1990).

Figure 1. *Loan/deposit ratios of regional banks in 1985–1999*



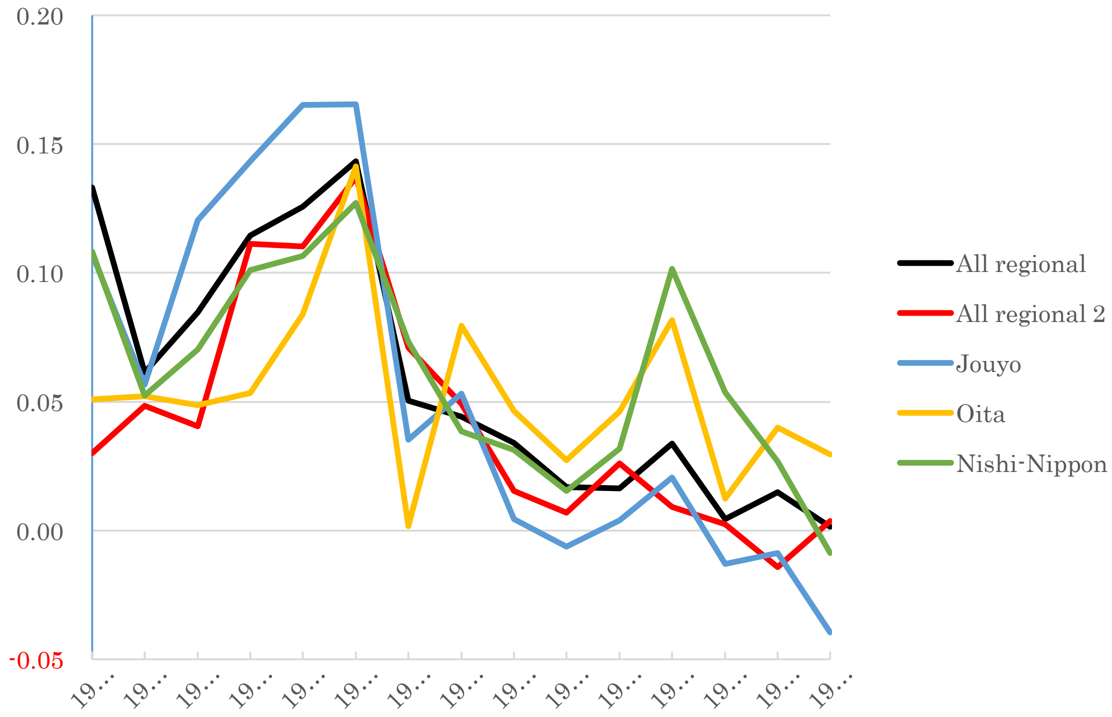
Sources: See Table 11.

Figure 2. *Capital/asset ratios of regional banks in 1985–1999*



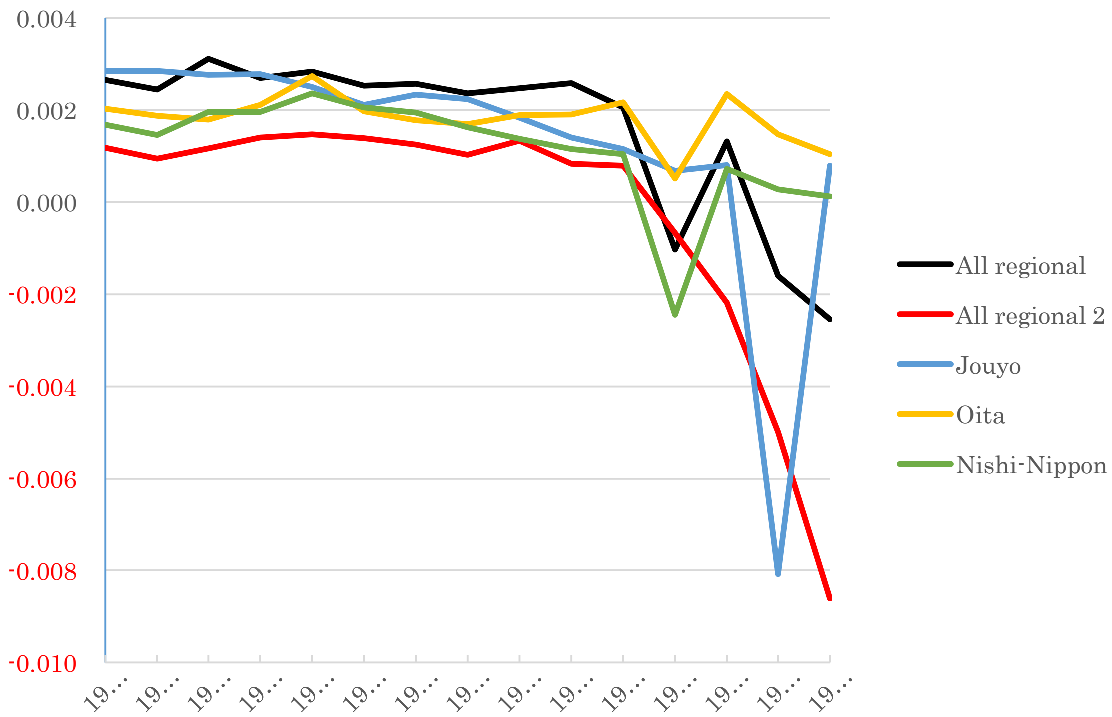
Sources: See Table 11.

Figure 3. *Yearly growth rates of loans by regional banks in 1985–1999*



Sources: See Table 11.

Figure 4. *Return on assets of regional banks in 1985–1999*



Sources: See Table 11.

5. Concluding remarks

This paper analyzed the long-term banking supervision career paths of Japanese financial elites from the MOF and the BOJ. In addition, the performance of regional banks that accepted *amakudari* presidents was examined quantitatively. The findings are summarized as follows.

First, as a result of the US Occupation reform in 1949, the supervisory approach, as well as the personnel practices in relation to the Director of the Financial Inspection Department in the MOF changed drastically. Expertise rather than a generalist approach came to be required, and thus graduates in economics began to be appointed to the position. The term of the appointment was also extended to three years. However, the new practices were quickly reversed. Since 1965, almost all of the high officers appointed to the position have been graduates from the faculty of law at The University of Tokyo. As for the Bank Examination Department at the BOJ, most of the Director-Generals were also from The University of Tokyo. As a result of the US Occupation, specialized knowledge of economics and commerce came to be a necessary prerequisite for the position. Unlike the MOF, its majority of Director-Generals throughout the postwar period have been economics graduates.

Second, it was found that none of the ex-Directors of the Financial Inspection Department at the MOF was promoted to Administrative Vice-Minister of Finance. The position of Director is considered not sufficiently appealing for an ambitious high officer compared with other first-class positions such as Director of the National Tax Division.[38] By contrast, eight ex-Director-Generals of the Bank Examination Department at the BOJ were promoted to Governor, Deputy Governor or Executive Director of the BOJ. Hence, it is reasonable to assume that the position of Director-General was attractive for an ambitious senior banker at the BOJ.

Third, almost half (22/48) of the ex-Directors of the Financial Inspection Department with the MOF entered the banking sector as the president or an executive director of a bank after leaving office. Similarly, almost half (12/26) of the ex-Director-Generals of the Bank Examination Department at the BOJ entered the banking sector as the president or an executive director of a bank after leaving office. It is noteworthy that the majority of the ex-Directors from the MOF and BOJ entered a regional bank or a regional bank II. As is well known, serious problems occurred among city banks, housing finance institutions (*Jusen*) and agricultural cooperatives following the bubble economy period. The ex-Directors or the ex-Director-Generals probably avoided joining a city bank because they were able to access confidential information from these banks, including detailed financial statements. For example, Hiroshi Kubota, who was appointed Director of the Financial Inspection Department in 1980–1981, entered a problematic city bank (the Nippon Credit Bank)[39] quite reluctantly in 1993. In addition, Keiichiro Niwayama, who was appointed Director of the Financial Inspection Department in 1965–1966,

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[38] The modest nature of the position might affect the conservativeness of bank management by an *amakudari* president after leaving office.

[39] The Nippon Credit Bank was already in turmoil due to excessive risk-taking during the bubble economy period. Eventually, the bank was brought under government control.

was asked to accept the position of president of a *Jusen* company (Nihon Housing Finance) for its start-up in 1971 by Sanwa Bank for the purpose of obtaining a license from the MOF smoothly.[40] This appointment was not based on an *amakudari* relationship because the MOF had no involvement in personnel decisions.

Fourth, as illustrated in Table 11, regional banks that accepted an ex-Director of the Financial Inspection Department from the MOF or an ex-Director-General of the Bank Examination Department from the BOJ operated in a more conservative manner, even during the bubble economy period. A lower growth rate of loans was observed in all cases, and a lower loan/deposit ratio or a higher capital/asset ratio was observed in most cases. These results indicate that ex-Directors of the Financial Inspection Department from the MOF or ex-Director-Generals of the Bank Examination Department from the BOJ were consistently prudent in their management approach after leaving office. Even though relatively worse performance was observed in the regional banks II, no significant link was identified between bank performance and *amakudari* appointments.

Therefore, the findings of this study suggest that the link between *amakudari* appointments and the bubble economy in the late 1980s was not as straightforward as is generally considered. Following the collapse of the bubble economy, the MOF, the BOJ and the bank examiners were severely criticized by the media, who insisted that there was an intimate connection (corruption) between an examiner and a bank. Indeed, two bank examiners were arrested for bribery and corruption in 1998. However, as illustrated in this study, the regional banks that accepted an *amakudari* president appeared to maintain a relatively conservative management approach during the bubble economy period.[41] Nonetheless, the media, the public and even the judges appeared to lose patience in the late 1990s.[42] Eventually, the Financial Inspection Department was separated from the MOF in 1998 and the newly created FSA was placed directly under the Cabinet Office. The prosecutor's power was enhanced, with the Superintending Prosecutor of the Nagoya High Public Prosecutors Office being appointed as first Commissioner of the FSA.[43] This transition of supervisory power indicated that there existed a political power game between bureaucrats and politicians. The main cause of the extraordinary bad loan problem in the 1990s appears to be an incorrect management approach by internally promoted presidents, as well as the government's economic expansionism (such as implementation of the Resort Law), rather than the *amakudari* relationship. Hence, presidents' career paths in the problem banks should be analyzed quantitatively for further research.

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[40] Niwayama (2008) pp. 394–399.

[41] The media considered several cases of bank failure to be the result of collusion. In fact, as illustrated in this study, an ex-Director or an ex-Director-General reluctantly joined these banks, which were already in financial difficulty due to excessive risk-taking during the bubble economy period.

[42] Kobayashi (2014) pp. 14–18. For example, an ex-Director of the Financial Inspection Department, Kubota, who worked for the Nippon Credit Bank as president, was arrested for accounting fraud (hiding bad loans) in 1997. Although Kubota was judged guilty at the first trial in 2004 and at the second trial in 2007, he was found innocent at the last trial in 2011.

[43] Togo (2014) pp. 28–29.

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