2.1 Who Owns Whom

A 1992 study by Prowse indicates that in 1984, corporations in Japan held nearly twice the percentage of total outstanding equity as U.S. corporations (see Table 1).[2] One of the most startling differences was in the common stock holdings of financial institutions, particularly commercial banks. More than 20 per cent of the outstanding stock of all firms in Japan was held by commercial banks, while in the U.S., commercial banks have been prohibited from directly holding any corporate stock on their own account.

The Banking Act of 1933 (known as the Glass-Steagall Act) only allows U.S. banks to hold debt securities of other companies. Under the Bank Holding Company Act of 1956, however, bank holding companies in the U.S. (but not banks) are each allowed to hold up to 5% of the common stock of any company.[3] Their holdings, along with those of investment banks and brokerage firms are included with "other financial" in Table 1.

Another notable difference between equity ownership in Japan and the U.S. is the holdings of insurance companies. In Japan, insurance companies held 17.7 % of all outstanding shares, while in the U.S. insurance companies held only 4.6%.

There have been a number of important financial developments in Japan since 1984, however, including the end of the bubble economy and new international capital adequacy standards, that might have altered Prowse's findings, especially the percentage of outstanding equity held by commercial banks.

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[2] S. D. Prowse, "The Structure of Corporate Ownership in Japan", in *Journal of Finance*, Vol. 47, No. 3, New York, NY, July 1992, p. 1123.

[3] See E.L. Symons, Jr., "The United States Banking System", in *Brooklyn Journal of International Law*, Vol. XIX, No. 1, Brooklyn Law School, Brooklyn, NY, 1993, p. 25. Bank holding companies were originally used to circumvent branching and business restrictions faced by banks. In the early 1970s, small and medium sized banks began using the holding company structure, in which bank shareholders own stock in the holding company rather than directly in the bank. Holding companies have been used to consolidate bank management and operations, but not primarily as a means to acquire equity in non-bank businesses. The traditional separation between banking and non-banking business (based on concerns regarding the concentration of economic power) has been largely maintained in practice. See K. Spong, *Banking Regulation*, Third Edition, Federal Reserve Bank of Kansas City, Kansas City, MO, 1990, pp. 34-8. Note that in the U.S., 21.8% of outstanding equity is held by financial institutions other than banks or insurance companies (see Table 1). Of this share, only a "small" proportion is held by bank holding companies according to Prowse.