Social norms strike back: Why American financial practices failed in Japan

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ABSTRACT

Moody's and Standard & Poor's, the major American credit rating agencies, were expected to outcompete and overwhelm the local agencies in Japan during the 1990s. The local Japanese rating agencies were widely understood to be compromised by their links to government and banks. Why have the influence of the American agencies in Japan diminished, while the local Japanese agencies survived? We emphasize the concept of 'systemic support' as a solution to this puzzle. Our broadened definition of systemic support incorporates dominant elites' support and protection of subordinates in exchange for loyalty and obedience. We argue Japanese society's anti-liberal, anti-free market norms (epitomised by systemic support) are a form of counter-hegemony, and this has resisted American financial hegemony and prevented capitalist dominance from severing long-term social relations (including management-labour alliances). Credit rating in Japan is an ideational battlefield between the market liberalization and anti-free market camps within the Japanese elite. The American agencies' market-friendly, short-term profit seeking mental framework clashes with the continuing attachment to systemic support in Japan. Similar conflicts can be witnessed in other constrained market economies in Asia and Europe, where corporate bailouts often occur, and local agencies compete against the American majors.

KEYWORDS

American credit rating agencies; financial globalisation; financial system; social norms; systemic support; Japan

Japan has been a testing ground for the American credit rating agencies. The agencies have been subject to major criticism worldwide since the global financial crisis began in 2007. It looked for a while as if the agencies would suffer market sales declines and costly regulatory intervention in the US and elsewhere. As of this writing that has not happened, and despite investigations and a substantial settlement with the US Department of Justice it seems to be business as usual for the US credit rating agencies, Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch) (Kruck 2016: 754-755). Indeed, it seems reasonable to suggest that the agencies are in a stronger position now than they have ever been (but see Soudis 2015). Given all this, it is puzzling how marginal the major American credit rating agencies have become in Japan in recent years. In the 1990s a very different outcome seemed likely. In contrast to over 70 years of rating experience in the US, Japan had little expertise in American style credit rating when rating agencies were established in Tokyo in 1985. The number of Japanese borrowers rated by Moody's skyrocketed from 108 in 1991 to 420 in 1999 compared to that of Japan Credit Rating Agency (JCR), a local rating agency, which grew from 227 to 514. The Japanese agencies were regarded in the early 1990s with scepticism even by Japanese market actors and officials. It seemed likely the American agencies would overwhelm the Japanese agencies and the Japanese market would abandon the local institutions. But this is not what happened. The Japanese agencies have persisted. Two of them acquired and one has maintained SEC recognition. The US agencies are now less influential and have less market share in Japan than they did a generation ago. Moody's coverage number in Japan plummeted to 122 in 2014 in comparison to those of S&P, JCR, and Rating and Investment Information (R&I, another local rating agency) which were 140, 640 and 603, respectively. Fitch virtually withdrew from Japanese non-financial corporate ratings in 2009.

The problem with the Japanese agencies in the past was that they were viewed by market participants and others as fatally flawed. The issue was that two of the three agencies had been established as the result of government assistance or encouragement, stemming from US-Japan financial diplomacy in the mid-1980s. So, not only were these organisations not really independent of government, they were also typically closely owned and controlled by other financial organisations. They had neither the appearance of independence from officialdom nor independence from the market, making them at best rather odd, compromised, and old-fashioned institutions. Twenty years on from this picture Japan has experienced a generation of relative economic decline, and Tokyo did not become a major financial centre, as seemed likely in the mid-1980s. Despite this, there has been a lot of change in Japanese market institutions, and the two Japanese agencies, R&I and JCR, have experienced a rise in legitimacy and utilisation within the Japanese market.[1]

This is a puzzling outcome. The observer in the 1990s would not have anticipated this result. We argue the persistence of the Japanese agencies and the relative decline of the US agencies in Japan is not a reflection of the performance of the US agencies, or indeed, the performance of the Japanese agencies either. We suggest instead that the survival of the Japanese agencies reflects wider processes within Japanese finance and society. Specifically, we examine the notion of systemic support, and argue that Japanese society has persisted with anti-liberal, anti-free market norms, which are captured by the notion of systemic support, and that these survived the financial globalisation of the last twenty years and have bolstered resistance to the US credit rating orthodoxy. Credit rating in Japan can be understood as an ideational battlefield between market liberalisation and anti-free market forces.

Our research puzzle is related to the varieties of capitalism debate, comparing liberal market economies (LMEs) such as the US and the UK, which rely on the market mechanism, with coordinated market economies (CMEs) such as Germany, France and Japan, which rely on cooperation among economic actors connected by a dense network of institutions (Hall and Soskice 2001). Moreover, the puzzle is also linked to the convergence-divergence debate over whether CMEs would converge with LMEs (Yamamura and Streeck 2003, Clift 2014). Both pressure to change Japanese capitalism and resistance to change have been at work in Japanese political economy since the

1990s. In the 2000s, many scholars focused on changes in the Japanese political economy and its possible convergence towards the LMEs (Laurence 2001, Schoppa 2006, Jackson and Miyajima 2007, Rosenbluth and Thies 2010). Schoppa (2006: xi-13) points out a major unique feature of Japanese society is its tightly woven 'social safety net' or 'system of social protection' which is reflected in lifetime employment and corporate bailouts, but he claims this system is unravelling due to global and domestic socioeconomic changes. However, we contend that although the system has been weakened somewhat by financial globalisation and neoliberal reforms, Japanese society's anti-liberal, anti-free market norms have been more persistent than scholars expected, and Japanese society has resisted the convergence towards the LMEs.

We believe the findings of this article have implications for other less liberal economies in Asia and Europe, where conflicts between financial globalisation and social norms can be observed, whilst it also further elucidates the characteristics of the American credit rating agencies. There is growing resistance to the influence of the American agencies not only in Japan but also in the rest of Asia and Europe (Bruner and Abdelal 2005).

Below we first turn to the US and global context of rating, and subsequently illustrate the features of the Japanese credit market and persistent Japanese social norms. Then, we discuss the resistance systemic support generates toward the US credit rating orthodoxy in Japan, which reflects differences in social norms between the US and Japan.

RATING AND THE US AGENCIES

The global credit rating system is dominated by three companies: Moody's, S&P, and Fitch. The origins of these companies lie in the period between the American Civil War and the First World War.[2] The context for the emergence and growth of the agencies is the westward expansion of the United States, especially of railroads, and the lack of good statistical information for investors about these opportunities. In all these agencies, which came to dominate the issuance and the public use of ratings, their activities are funded by fees they charge to the issuers of debt instruments. This system began in the late 1960s with the bull market in mergers and acquisitions. The cost of the expansion of the agencies could not be met by the system of newsletter subscription fees. It was also the case that many people in the markets could obtain information about rating changes by simply reading the newspaper, so there was a free rider problem with the original subscription funding system for credit rating agencies.

The essence of rating is an effort to anticipate the future likelihood of repayment of debt. This is a combination of quantitative data about the existing debt burden and the ability of the enterprise to produce cash, and qualitative data about management and its plans. The combination of quantitative and qualitative data prevents the agencies from reducing the rating process to a simple algorithm. Compounding this is a recognition that all ratings reflect a level of confidence not just in the ability to pay but in the willingness to pay. This element is most subject to controversy.

The point of the system is to enable investors to make judgements underpinned by a comparison between say, a Californian utility and a Croatian shipping company. This ability to compare, which was characteristic of rating right from the beginning, gives it the potential for global scope. Despite this universality, rating is very much an American technique. The headquarters of Moody's and S&P are in New York, while Fitch divides its headquarters between that city and London. The analytical centre then is very much in the financial capitals of the world. Although rating agency officials might claim that what they do is analytically neutral, their approach reflects the dominant assumptions about how finance works in New York and London. This can be problematic when the agencies go global. In the case of Japan, research in the 1990s suggested American rating officials located in Japan were sceptical about aspects of orthodox Japanese financial practice such as hidden reserves (Sinclair 2005: 129-130).

The American rating industry at the beginning of the new millennium can be characterised increasingly as a short-term synchronic system, like the financial markets themselves. Gone from their analysis, or at least no longer dominant, is the diachronic view that suggests it is the role of credit rating agencies to stand apart from the markets and to discipline what they do. Instead the agencies became participants. This is most clearly seen in their work on structured finance. Structured finance (or securitisation), which creates saleable financial instruments based on streams of payments for mortgages, credit cards, and loans, is only possible with ratings. Ratings create a hierarchy of saleable tranches of these instruments by rating category. Rather than the agencies standing back, as was characteristic of their work in the past, structured finance required the active cooperation of the agencies in the creation of these financial instruments. This active involvement of the agencies is what is new about the agencies in the twenty-first century, and the strong signal what the agencies do is no longer comparable to what they did in the 1950s. Now the agencies help make financial instruments themselves, and it is this active role which is what was exposed by the global financial crisis that began in 2007 and the problems with the sub-prime mortgage market (Marandola and Sinclair 2017). Investors discovered the agencies were not playing the same role they played traditionally, that of independent judges, disinterested in specific ratings. Instead, the rating agencies were active makers of a vast market segment.

JAPAN'S CREDIT MARKET

Japan's post-war financial system originated from its controlled economy during WWII. As Noguchi (1995) argues, anti-liberal, anti-free market norms and institutions of the '1940 system' developed for total war have remained in Japanese society to today, and they can be observed in bureaucratic intervention, a bank-centred financial system, the Japanese-style corporate system, and prioritisation of producer over consumer interests. The reforms by the US occupation forces eliminated not only militarists but also major capitalists, such as landlords and the top management of Zaibatsu conglomerates and large firms, inadvertently strengthening the power of 'administrators' (anti-free market elites) including bureaucrats, corporate executives, bankers and Liberal Democratic Party (LDP) politicians (van Wolferen 1989: 109-111).[3] We argue that anti-free market social norms were created and promoted by administrators of the 1940 system, and consented to by subordinates such as labour, and small and medium-sized enterprises (SMEs), contributing to both a management-labour alliance against capitalists and formation of Keirestu (loose alliances of business groups).

Anti-free market norms were reflected in the characteristics of the Japanese credit market in the early post-war period. First, credit allocation was decided subjectively by banks with heavy state intervention, in contrast to the use of credit ratings provided by the US credit rating agencies. Second, large firms enjoyed good access to credit, while SMEs and households had limited credit access.[4] Last, most financially troubled large firms were bailed out by banks and the state. These characteristics of the Japanese credit market were very different from those of the US.

The economic bureaucracy was in a commanding position and formed alliances with the LDP and big businesses during the early post-war period. Japanese banks often behaved in accord with political directives rather than as profit-seeking organisations, and large firms performed public functions such as contributing to stable employment. We think unlike their American peers, most Japanese corporate executives and bankers share similar traits with bureaucrats rather than entrepreneurs.[5] One remaining stronghold of the 1940 system after the relative power decline of the bureaucracy, banks and the LDP during the 1990s is the Japanese-style corporate model which has two major characteristics. First, its closed nature – for instance, almost all the top managers are internally promoted. Second, a prevailing negative view of market-based economic systems (Noguchi 1995: 220-223). Bank loans and cross shareholdings within Keiretsu supported the management-labour alliance in big businesses. Despite the relative decline of banks, the Japanese credit market has remained bank-centred to date, and the corporate bond market in the early post-war period was under the control of the Bond Issue Arrangement Committee (Kisaikai) which was virtually dominated by major banks.

Major banks were more influential in the Kisaikai than securities firms due to the former's status as the largest investors in the corporate bond market and strong state backing for the banking industry. In the early 1930s, the Showa depression caused numerous corporate bond defaults in Japan, and banks as the largest underwriters promoted the 'purification movement of corporate bonds' to exclude financially weak companies from the bond market. The post-war Kisaikai inherited this stance on market participation, and created its own ratings for companies, which determined access to the bond market, allowing only a limited number of corporate borrowers to issue bonds, while trustee banks (mostly 'main banks') had to purchase all the bonds at par if bond issuers fell into financial difficulty. The main bank system, under which main banks (which usually have the largest exposure and the closest relationship with large firms) often take initiatives to rescue financially troubled firms, was also applied to the bond market. The Kisaikai's rating data - the most important of which was the size of equity capital - favoured big businesses, particularly those in the heavy, chemical and trading industries which were the major banks' key customers as well as strategically important sectors for the government. Yamazawa (2003: 18) points out that investor protection in Japan traditionally meant that ordinary investors should not incur any default risk, which is different from the US, where thorough disclosure of investment risk is the norm.

The Kisaikai regime and the main bank system could be regarded as elements of 'convoy capitalism', which socialises risk:

> The government continued to back up the banks that continued to back up firms who continued to back up their core male workforce, and women continued to back up the whole system by going along with policies that encouraged them to be full-time housewives (Schoppa 2006: 65-66).

However, the effectiveness of the bank-centred financial system was called into question by the slower economic growth and the higher international capital mobility of the 1970s.

Banks tended to cope with a rapidly changing world less effectively than capital markets (Ikeo 2003: 92-94, Allen & Gale 2001: 19-22). Many large, highly creditworthy Japanese firms shifted from domestic bank borrowing to funding in the Euromarkets during the 1970s and 1980s. Furthermore, the Ministry of Finance (MOF) wanted to establish a fully-fledged money market to facilitate the refinancing of enormous government bonds coming due from 1985 onwards. After the establishment of the US-Japan Dollar-Yen Committee in 1983, MOF introduced market-based interest rate products, liberalised Euro-yen bond issuance, and allowed the establishment of credit rating agencies in Japan. Most commentators believe MOF exploited foreign pressure to facilitate their own agenda for reform, allowing them to liberalise heavily regulated interest rates to deal with Japan's rapidly increasing volume of government bonds (Malcolm 2001: 73-81). Japanese banks refused to buy government bonds at artificially low, fixed interest rates set by MOF in 1981, so the ministry had to create a secondary market to enable banks to trade government bonds. However, MOF's interest rate liberalisation was incremental during the 1980s and 1990s, as the ministry was concerned that drastic liberalisation might jeopardise the survival of weak banks. We think MOF was constrained by the norms of convoy capitalism.

Moody's and S&P opened their Tokyo offices in 1985, when three local credit rating agencies – Japan Bond Research Institute (JBRI), Nippon Investor Services (NIS) and JCR – were also established. Although major Japanese banks and companies enjoyed very high credit ratings by the US agencies in the 1980s, many of them were harshly downgraded by these agencies from the mid-1990s to the early 2000s. Ratings by both the credit rating agencies and the Kisaikai were utilised until abolition of the latter's ratings in 1990. The Japanese financial market was further deregulated as a result of Japan's financial Big Bang of 1996. The US agencies' influence was very strong in Japan during the second half of the 1990s, and the three local agencies had to consolidate into two in 1998. Nevertheless, financial disintermediation has lost steam in Japan since the early 2000s despite the deregulation of the 1980s and 1990s, and the demand for credit ratings from Japanese companies has been stagnant, resulting in fierce competition among the rating agencies. In this environment, the US agencies have done poorly.

PERSISTENT JAPANESE SOCIAL NORMS

Neo-Gramscian perspectives offer a useful analytical framework to explicate our argument in three dimensions. First, a key to the puzzle lies in Japanese social norms, while major actors' interests and preferences - including those of subordinate groups - are also critically important. Second, the formula of global hegemony (neoliberalism, including the US credit rating orthodoxy) versus counter-hegemony (combining the anti-liberal, anti-free market norms of Japanese society) fits our argument well. Last, the approach sheds light on the latent social class conflicts between capitalists, administrators, regular workers and non-regular workers in Japan.

Operationalising the generally macroscopic neo-Gramscian perspective requires three pairs of contrasting concepts as a supplementary toolkit. First, the notion of 'strong and weak ties' proposed by Granovetter (1973). Second, 'prevention and promotion orientations' advocated by Higgins (1997). Last, the 'Guardian and Commercial moral syndromes' identified by Jacobs (1992).

Granovetter (1973: 1361) defines the strength of a tie as 'a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie'. Strong ties are close relationships such as family members and good friends, while weak ties are more nebulous relationships. Granovetter concludes that 'weak ties are more likely to link members of different small groups than are strong ones, which tend to be concentrated in particular groups' (ibid: 1376). In finance, we argue that the Japanese main bank system and cross shareholdings exemplify strong ties, whilst numerous weak ties provide ample liquidity in the American financial markets.

A prevention-oriented person or society emphasises 'responsibility and safety' and is concerned with 'security and threats', whereas a promotion-focused one values 'aspiration and accomplishment' and is concerned with 'gain and non-gain' (Higgins 1997: 1282-1283). Put simply, whilst prevention-focused people are chiefly concerned about 'the presence versus the absence of negative outcome', promotion-focused ones primarily care about 'the presence versus the absence of positive outcome' (Kurman and Hui 2011: 3).

Guardians comprise bureaucrats, soldiers, police officers and people working for other public and virtually public institutions, who could also be described as administrators, whereas the commercial camp includes capitalists and entrepreneurs (Jacobs 1992: 28-29). Guardian and commercial morals are characteristic precepts of the public and private sectors respectively. Guardian morals include loyalty, obedience, tradition (status quo), hierarchy, largesse (including support for subordinates) and exclusiveness, and restrict trading with unspecified external groups to seek individual financial gains, whilst commercial morals appraise fairness, efficiency, competition, initiative and openness, and avoid force (ibid: 23-24). In the guardian moral universe trading is considered to lead potentially to divided loyalty, treachery or corruption (ibid: 59-61).

Table 1: *Three Pairs of Contrasting Concepts*

	Collectivism	**Individualism**
Strength of Ties	*Strong*	*Weak*
Self-Regulatory Orientations	*Prevention*	*Promotion*
Moral Precepts	*Guardian*	*Commercial*

Any society has all these six dynamics in operation, but collectivist societies (including Japan) have an orientation for strong ties, prevention and guardian morals, while individualist societies (such as the US) value effective use of weak ties, promotion orientation and commercial morals (Yamagishi & Brinton 2010). Triandis (1995: 2) defines collectivism as a social pattern consisting of closely connected individuals who regard themselves primarily as parts of collectives such as family, company and nation, and are mainly motivated by norms and duties imposed by collectives, in contrast to individualism that releases individuals motivated by personal goals from collectives. These definitions support our argument that the divergence between collectivism and individualism tallies with those of the three pairs of contrasting notions shown in Table 1.

The three concepts – strong ties, prevention orientation and guardian morals – are largely consistent with each other and useful in explaining domestic social relations in Japan. Yamagishi argues Japanese society's collectivist, parochial and risk-averse features were presumably shared by most societies during the pre-modern period. But some societies, especially the US and the UK, nurtured a liberal, individualist, and more risk-taking culture through the expansion of commerce.[6] In collectivist societies dependent on networks of strong ties, within which individuals are assured by mutual surveillance that others will comply with social norms (i.e., guardian morals), strong 'in-group favouritism' produces security within group boundaries, but destroys general trust of people outside them (Yamagishi 2011: 1-6). The weakness of general trust in Japanese society relative to America is demonstrated by Yamagishi's (1994) survey (1,136 Japanese and 501 American respondents)-based research and subsequent empirical research (Cook *et al.* 2005, Gheorghiu *et al.* 2009). Importantly, he finds 'risk taking is a critical element of trust building' between people in different social groups (ibid: 165). There is a bilateral correlation between risk taking and trust – general trust in society (i.e., social openness) facilitates risk taking.

Weak general trust in collectivist societies needs to be offset by 'systemic support', a term used in the credit markets. We contend that although its original, narrow definition is support from the government and banks for financially troubled financial institutions and companies, its wider definition as dominant elites' support and protection of subordinates in exchange for loyalty and obedience, is exemplified by broad-ranging domestic social relations in Japan such as the main bank system, lifetime employment, long-term subcontracting between large firms and SMEs, and subsidies to farmers. Such mutual commitment, rooted deeply as social norms through coercion and consent, is not based on general trust but reflects security of assurance by both dominant elites and subordinates, who mutually abandon their alternative options. Systemic support can be observed in any country, but in Japan it is typically much stronger and broader than in the US and Britain. Systemic support is closely linked to strong ties, a prevention orientation and guardian morals. Japanese social norms centred on systemic support and in-group favouritism affect the interests and preferences of both dominant elites (including bureaucrats, LDP politicians, corporate managers and bankers) and subordinates (such as labour, SMEs, and large firms dependent on support from banks). Dominant and subordinate groups in Japan, sharing a consensus on the pursuit of stability, have formed an historic bloc that dominates society, through the exchange of systemic support for obedience, which is required for elite exercise of power. Calder (1988: 21-26) focuses on 'circles of compensation' that conservative LDP politicians have expanded by aggressively providing benefits for major prospective supporters in order to strengthen their political base, but its concept is narrower than that of systemic support, which covers wider-ranging social relations, not only between public and private institutions (such as public financial institutions and firms) but also between private institutions (big businesses and subcontracting SMEs) and within them (management and regular workers).

Japanese society in the early post-war period emphasised economic growth through a public system providing systemic support in pursuit of stability and security rather than a market promoting efficiency through competition. According to some bureaucrats and scholars, although Japanese people do not necessarily trust individual politicians and bureaucrats, they seek assurance from the broadly defined public system (including a large portion of the private sector) which covers such fields as banking, employment, healthcare and transportation (Takeuchi 2000: 378-392, Habuka 2014: 39-40).[7] Guardian morals stressing systemic support, the status quo and in-group favouritism have significant influence on Japanese corporate governance and finance. Takeda (2008) maintains that Japanese companies have historically placed top priority on their organisational survival and perpetuation (i.e., prevention orientation and guardian morals), unlike American peers that focus on financial success and shareholder returns (in other words, promotion orientation and commercial morals). Although many Japanese firms have demonstrated mock, cosmetic convergence to American style corporate governance since the 1990s, for instance, through their nominal introduction of outside board members and the executive officer system, the core of Japanese corporate governance - in-group favouritism - has remained almost intact. Furthermore, Jackson and Miyajima (2007) claim that since the burst of the bubble economy, market-oriented corporate governance has increased the number of non-regular workers sharply, but this is because many companies have tried to protect vested interests (the lifetime employment and relatively generous compensation) of existing regular employees by hiring cheap, easily dischargeable non-regular workers and reducing the recruitment of young regular ones.

We think emotionally intensive strong ties binding social groups and society tend to limit the leadership of dominant elites pursuing change and the mobility of capital, and systemic support has long hampered the transition of the Japanese financial system from bank-centred to market-based. Subordinate groups have continued to request systemic support even after the power of dominant elites was relatively enfeebled by the burst of the bubble economy, successive bank and MOF scandals, and Japan's financial crisis of the late 1990s. Since the 1940 system started deteriorating in the 1990s, ironically, a large proportion of Japanese people have turned to and tried to preserve that system to regain stability and security, leading Japanese society to excessive risk aversion and further difficulties in promoting commercial morals. General trust, which is a prerequisite for market liberalisation, has been too weak in Japan. Although financial globalisation and neoliberal reforms have somewhat eroded social protection or social cohesion, a strong anti-neoliberal backlash has developed since 2006.

SYSTEMIC SUPPORT

Why have American credit rating agencies failed to dominate and then been marginalised in the Japanese market, despite the problems of the local institutions and the 'global brand power' of the American agencies? Two of the three local credit rating agencies, NIS and JCR, received significant support from MOF and local financial institutions at their establishment. Although this assisted them it did challenge their ability to claim independence from government and markets. However, this support for the new Japanese agencies does not explain the diminished influence in Japan of the US agencies more recently. During the 1980s, the American agencies were welcomed by many Japanese banks and companies which enjoyed very high credit ratings. Subsequent drastic downgradings of these companies initially enhanced the influence of Moody's and S&P in Japan during the late 1990s. The transformation of Japanese financial authorities' relationships with financial institutions from controlling to comparatively arms-length, and the enfeebled power of the banking industry in the late 1990s, made it difficult for them to control local credit rating agencies. Japanese media reported in 1997 that Moody's downgrading had struck the death knell for Yamaichi Securities, one of Japan's four largest securities firms whose failure was the beginning of the Japanese financial crisis (Yamazawa 2003: 23-27, Shima 2006: 122-130). As the merger of JBRI and NIS to form R&I in 1998 indicated, local Japanese credit rating agencies had assumed a defensive position in the late 1990s. However, the massive downgradings by the US agencies over time made Japanese banks and companies antagonistic to the American rating agencies, once it became clear those downgraded borrowers were not going to go bankrupt due to systemic support, damaging the wider credibility of the US agencies in Japan. Just four Japanese borrowers caused defaults of publicly placed bonds larger than 10 billion yen from 1997 until 2004. Among them, only Mycal, a major retailer, was rated by the American agencies. Moody's assigned Ba and B ratings to 66 and 24 Japanese firms respectively, as of 2000. Given its global default rates of 8 percent for Ba and 25 percent for B in five years, 11 Japanese firms were expected to fall into default. These factors contributed to some borrowers' refusal to communicate with the agencies, as well as local investors' cancelling subscriptions with the US agencies.

Systemic support has been the largest obstacle to the convergence of the Japanese credit market towards the norms of American credit rating orthodoxy. In the US credit market, systemic support is extended mainly for major banks and public or quasi-public institutions, and few private-sector companies receive such support. General Motors, which arguably had similar systemic qualities to the largest banks, was an exception to this norm in 2009. Nevertheless, until the early 1990s, the American agencies accommodated systemic support in credit ratings for Japanese private-sector borrowers, many of which enjoyed strong credit ratings with the US agencies despite high financial leverage and/or low profitability. Nishimura (1999: 215-216), former head of MOF's banking bureau, maintains the very high creditworthiness of major Japanese banks depended on strong government backing, and with the financial liberalisation, MOF scandals and breakup of the ministry from 1998 until 2000, support weakened in the mid to late 1990s. He also admits that the failure of MOF to grasp the full amount of bad debt caused a systemic concern amongst market participants (ibid: 120-123). According to Yoshio Shima, the American agencies considered at first, that because of strong social cohesion in Japan, the government would rescue banks in trouble, and those banks would support large firms in distress, but they were shocked by MOF's weakened grip on the banking industry and the failures of such major financial institutions as Hokkaido

Takushoku Bank and the Long Term Credit Bank of Japan (LTCB), and then moved to drastically downgrade Japanese borrowers heavily dependent on systemic support. [8]

One reason why the US agencies could accommodate substantial systemic support in Japan until the mid-1990 but have not done so since the late-1990s was that the US agencies expected systemic support to decline. Moody's (1991: 63-65) claimed 'the most crucial precondition (for the establishment of a well-functioning rating system) is that investors who use ratings must be subject to default' and expected Japanese investors to increasingly perceive default risk - diminishing systemic support - with the introduction of open market mechanisms. The other reason is, observing the financial deregulation and temporarily weakened systemic support during the financial crisis in the late-1990s, the US agencies probably considered the Japanese market was converging with the US market, and applied 'American standards' to credit ratings for Japanese borrowers (Kurosawa 2001: 101-102).

The Japanese agencies are different from the US institutions. Morita (2010: 114-142) notes the following about the Japanese credit rating industry. First, there are significant rating splits among credit rating agencies. Second, there is virtually no high-yield bond market (with credit ratings lower than BBB) in Japan. Third, investors do not require bond issuers to obtain multiple credit ratings. Last, profitability is much lower than in the US and European markets owing to the low demand for credit ratings and fierce competition among the five agencies (R&I, JCR, Moody's, S&P and Fitch). Credit ratings by the local agencies were on average two notches higher than those for the same borrowers issued by the American agencies in 2009. Morita (ibid: 128) claims such rating splits are due mainly to differences in the extent to which credit rating agencies take systemic support into consideration when assessing creditworthiness.

Much of the difference in approach between the US and Japanese agencies relates to Japanese society's prevention orientation and guardian morals, particularly its risk aversion and status quo orientation – bond investors repeatedly purchased bonds issued by well-known companies without seriously examining their credit risk under the Kisaikai regime. An underdeveloped risk taking culture has hampered the creation of a high-yield bond market in Japan, apart from 'fallen angels' downgraded from high-grade to high-yield, even though these rarely go bankrupt (Kurosawa 2001: 101-108, Shima 2005: 281-288).[9] Without the perception of substantial risk in Japan, bond investors have had limited incentives to require bond issuers to acquire multiple ratings from different credit rating agencies and ask rating agencies for rigorous credit assessment. This culture has been to the disadvantage of the US credit rating agencies. Without the development of a preference for the US rating agencies amongst investors, Japanese companies often make use of local rating agencies, which accommodate systemic support and local practices to a greater degree than the US agencies. The corporate bond market's risk aversion and status quo orientation discourage new entry of potential issuers, to which banks show a more generous lending stance. Less creditworthy Japanese companies prefer borrowing from banks, visible and negotiable creditors, over bonds held by faceless investors.

Another obstacle to the development of the bond market and credit rating is that Japanese consumers tend to believe in strong state support for the banking industry. Bank deposits still account for over 50 percent of the household sector's aggregate financial assets. The weak demand for credit ratings and fierce competition for the available business have led to significant discounts in rating fees, making corporate rating in Japan less profitable as a business. Earnings from profitable securitisation (structured finance) ratings compensated the US credit rating agencies' Japan operations for losses associated with corporate ratings, but the global financial crisis tarnished the credibility of both securitisation ratings and the judgement of the US agencies.

We think the Kisaikai regime reflected endogenous Japanese social relations and norms centred on systemic support and in-group favouritism. The ethos of the regime (the elimination of default risk by systemic support) has remained within the 'mental framework' of both debt issuers and investors to some extent even after the Kisaikai was abolished in 1996. However, the enormous bad debt problem and serial MOF scandals in the 1990s could be regarded as by-products of excessive systemic support which breeds irresponsibility. Shima maintains the US rating agencies were influential in Japan from the mid-1990s until the early 2000s when MOF and the banking industry, the linchpin of the early post-war financial system, lost power, but the agencies' influence has waned since banks regained power in the mid-2000s after public capital injections and bad debt disposal.[10] Since 2003, numerous major Japanese firms including Daiei (a retailer), Sojitz (a general trading house), Mitsubishi Motors, Sanyo Electric (an electrical goods manufacturer), Tokyo Electric Power Company and Olympus (a manufacturer of optics and reprography products) have been bailed out. Furthermore, the recovery of the banking industry means a resurgence of systemic support central to Japanese society's anti-free market norms. Even today, what many Japanese debt issuers and investors want credit ratings for is the security of reassurance rather than as a feature of their objective risk assessment. Debt issuers would like to secure stable access to the credit market, while investors hope for security from bond default risk. Matsuda (2011) contends that Japan traditionally does not have a culture that encourages the disclosure of negative information such as low credit ratings and the risk of downgrading, which would be a threat to stability and security from a Japanese viewpoint.

Given this, why do financially troubled large firms need to be rescued in Japan? Most large Japanese companies have been dominated by a management-labour alliance against capitalists, opposed to short-term profit making. Both systemic support and in-group favouritism are cornerstones of this alliance and deeply embedded in the corporate system at the centre of Japanese society. Frequent corporate bankruptcies would destroy this management-labour alliance, and the collapse would strengthen capitalist power through enhanced capital mobility such as restructuring, overseas investment and M&A. Should capitalists become dominant in Japanese corporate society, they would sever ties binding anti-free market elites and subordinates together, and consequently, management (administrators) would no longer be able to maintain their power within their firms, whilst regular workers would lose stable employment.

A major side-effect of systemic support or risk socialisation is the lack of individual actors' accountability, which ultimately generates systemic risk, as observed in Japan's bubble economy and its subsequent bursting. The Japanese financial system experienced serious systemic risk in the 1990s, and the government tried to transform it to a capital market-based system. However, the highly public characteristics of Japanese banks have clashed with market liberalisation, whilst the backlash against financial globalisation and capitalist restructuring since 2006 hindered the transformation. Furthermore, the securities industry could not become a counterweight against the banking industry because the former failed to obtain support from the financial authorities and trust from the public. Although Japanese social norms have resisted convergence to American style financial capitalism, some Japanese people, particularly younger ones, are disconnected from traditional norms. Nevertheless, according to Yamagishi, even if these people reject local social norms, they are not certain whether other people also reject these norms so they cannot unilaterally change their behaviour: a 'pluralistic ignorance' in social psychology.[11] Furthermore, some practitioners argue the key currency status of the British Pound and US Dollar, and the international use of English facilitated the development of the British and US capital markets, mitigating systemic risk within their banking sectors through risk transfer to countless third parties. Japan lacks these advantages.[12]

We argue the nature of finance is not the same everywhere. There are two broad forms of finance. First, the 'synchronic' form, which is decoupled from the real economy and is characteristically concerned with short-term profit making in financial markets. Second, the 'diachronic' form, which connects financial activity with long-term investment in productive assets for the growth of social wealth (Sinclair 2005: 58-59; Marandola and Sinclair 2017: 491). The mental framework of the US credit rating orthodoxy is synchronic, and the American credit rating agencies should be viewed as a nerve centre of financial globalisation under neoliberal hegemony (Sinclair 2005: 69). Synchronic financing has a high affinity with networks of weak ties, promotion orientation and commercial morals. Synchronic characteristics of the American rating agencies have been strengthened by such financial activities as leveraged buyouts, securitisation and the financing of less industrialised countries, which have significantly expanded since the 1980s. In contrast, Japanese people generally have a strong preference for diachronic financing, which is closely associated with networks of strong ties (in-group favouritism), prevention orientation and guardian morals (including systemic support). They tend to believe financing should not be an end in itself as mere money making, but should contribute to the real economy. Neoliberal policy under the Hashimoto and Koizumi administrations was a threat to traditional social relations and norms. From the late 1990s to the mid-2000s, both securitisation and non-prime consumer finance, which are synchronic, boomed in Japan due to financial deregulation and the relative decline of diachronic financing (brought about by the financial crisis). However, the anti-neoliberal backlash and the global financial crisis have caused a strong repulsion in Japan against synchronic financing aligned with American financial capitalism.

We think the Japanese local rating agencies have more public regarding characteristics than the American agencies, which emphasise their own profitability and responsibility to investors. The following arguments made by Makoto Utsumi, CEO of JCR and former Vice Minister of Finance for International Affairs, at the European Parliament in January 2012 highlight the contrasting perspectives of the American and Japanese credit rating agencies. He suggested while American rating agencies seem not to be concerned with the survival of the companies and countries they rate, JCR remains very cautious in downgrading issuers whose survival might be jeopardised and carefully avoids simply following or accelerating the market trend. He noted that although rating agencies are privately owned, they should be understood as endowed with the character of public goods, and consequently public responsibility, because ratings exert a significant influence on the market, on the fate of a nation and on the fate of so many people (Utsumi 2012: 21-22). His first argument conflicts with rating agencies' fiduciary responsibility to investors, although his perspective might be partially justified if strong systemic support is extended for wide-ranging debt issuers. Japanese corporate management and related parties' - including accounting offices and credit rating agencies - underdeveloped sense of fiduciary responsibility to investors, in favour of systemic support and in-group favouritism, has impeded the development of general trust in the financial market and inhibited financial disintermediation. However, Utsumi's second argument is an important caution to the American rating agencies, although he failed to point out the possibility the systemic risk associated with excessive systemic support could also cause serious damage to a political economy.

The local credit rating agencies' legitimacy and utilisation within the Japanese credit market have increased over time. These agencies take systemic support into consideration in credit assessment more than their US rivals. The local rating agencies' ratings are closer to Japanese social norms and to how Japanese finance actually behaves. We think the essence of the local rating agencies is a hybrid of the Kisaikai regime and the American rating agency model. More importantly, the US credit rating orthodoxy aligned with American financial capitalism has been at odds with the Japanese credit market still spellbound by the remnants of the Kisaikai regime. Consequently, growth of the credit rating business in Japan has been constrained by remnants including risk aversion and status quo orientation, although securitisation ratings temporarily boomed from the late 1990s until 2006. The American credit rating agencies have scaled back their Japan operations because of the low profitability of the Japanese credit rating industry, while their local peers have continued to compete for the business with the support from shareholders. Although the US rating agencies' influence in Japan has dwindled, the local rating agencies are far from real winners. The US agencies have underrated the persistence of systemic support for large firms, while the Japanese may underestimate the long-term systemic risk building up in the Japanese financial system.

IDEATIONAL CONFLICT AND ANTI-NEOLIBERAL BACKLASH

We argue the rise and fall of the US credit rating agency influence in Japan is associated with wider ideational trends: the rise of neoliberal reform and the subsequent anti-neoliberal backlash. The Japanese credit rating industry is an ideational battlefield between the market liberalisation and anti-free market camps within the elite. Watanabe (2007: 296-318) maintains neoliberal policy in Japan began in the Hosokawa administration (1993-1994), which launched fiscal restructuring and electoral reform to combat political corruption and pork-barrel politics after the burst of the bubble economy and the LDP's defeat in 1993. Extensive neoliberal reforms, such as deregulation in the financial, telecommunication and retail sectors, reductions in public works, privatisation of the postal savings system and the highway building authority, were implemented under the Hashimoto (1996-1998) and Koizumi (2001-2006) premierships. Furthermore, extensive capitalist restructuring was conducted in Japan during these periods. An ideational conflict amongst the dominant elites between the market liberalisation and anti-free market camps took place from the early 1990s until the mid-2000s. The former camp consisted of reformist bureaucrats and politicians, Keizai Doyukai (a neoliberal-oriented business lobby), neoclassical economists, non-Japanese firms and the US credit rating agencies.[13] The latter included interventionist bureaucrats, anti-free market politicians, Keidanren (the largest, conservative business lobby), banks, legal elites and the local credit rating agencies.

While many Japanese large firms are members of both the Keidanren and Doyukai, Doyukai's opinions and ideologies have changed drastically since its foundation in 1946 partly because of its personal (not corporate) membership of business leaders, unlike Keidanren's corporate membership. Doyukai has been largely pro-American throughout the last seven decades, and it has been significantly affected by US ideologies, starting with the New Dealers immediately after WWII, and neoliberalism since the 1980s. Keidanren's predecessor was the umbrella organisation of 'control associations' which had mobilised key industries during WWII so that it inherited a conservative anti-liberal ideology. Manufacturing industries with many employees, which cannot change their stance easily, have been at the centre of the largest business lobby. However, the long economic stagnation after the burst of the bubble economy and the successive political scandals involving politicians and MOF officials convinced some groups of dominant elites the Japanese post-war economic system needed to be changed.

Deregulation of such industries as finance, retail, transportation and telecommunications, and American business practices including corporate restructuring, active use of M&A, mark-to-market accounting, and pay-for-performance, executive officer and outside director systems, occurred during the 1990s and the first half of the 2000s. These movements created a schism between the market liberalisation and anti-free market camps. Keidanren supported stakeholder capitalism and traditional Japanese style corporate governance (such as lifetime employment and in-group favouritism), whereas core members of Doyukai advocated shareholder capitalism and a flexible labour market. We can delineate the contrast between Keidanren and Doyukai as 1) administrators versus entrepreneurs/capitalists, 2) supporters of guardian morals versus commercial morals and 3) proponents versus opponents of systemic support.

The market liberalisation camp was influential under the Hashimoto and Koizumi administrations. Japanese people's awe of the United States, which reflected their lost self-confidence in the economic and business sphere, promoted a social atmosphere eager to follow 'American standards', and this atmosphere boosted the influence of the market liberalisation camp (Ito 2007: 155-156). Public servants, bankers, farmers and small and medium-sized retail store owners among others were thought to be vested interest groups. At first, many regular workers in the private sector probably considered themselves to have nothing to do with vested interests and supported the neoliberal reforms, but realised their jobs were also protected by the old employment practices and regulations and that further market liberalisation could jeopardise them. The average income of workers sharply declined from the late 1990s onwards.

Contrary to its neoliberal image, the Koizumi administration tried to avoid frequent bankruptcies of banks and large firms, for example, by injecting massive public money into Resona Bank and by establishing the Industrial Revitalisation Corporation of Japan, a government-backed corporate restructuring fund, in 2003. These events demonstrated the persistence of systemic support and the limits of neoliberal reform in Japan. Since 2006, when the Koizumi administration ended, an anti-neoliberal backlash has been driven both by the anti-free market group of dominant elites and by such subordinate groups as regular workers under lifetime employment and SME owners. These groups criticised shareholder and financial capitalism as money worshipping. The conservative corporate establishment despised upstarts with a market liberal orientation, particularly those in the IT and non-bank sectors. Keidanren long refused membership to major consumer credit companies until November 2002, when their business became much larger than a decade previously thanks to the financial deregulation (*Mainichi Shimbun* newspaper, November 12, 2002). Rakuten, an electronic commerce and internet company, withdrew from Keidanren in June 2011. In the interview with Nikkei Business (February 20, 2012 issue), Hiroshi Mikitani, Chairman and CEO of Rakuten, commented that Keidanren is an organisation established to advocate a convoy system, providing protection for member firms, making Japanese society believe its perspective is common sense, and that, in this respect, Keidanren is different from Doyukai.

Heavy media criticism of the Livedoor and 'Murakami Fund' incidents in 2006 eloquently illustrated the strong anti-neoliberal sentiment in Japanese society. Japanese prosecutors arrested Takafumi Horie, a young outspoken proponent of shareholder capitalism and CEO of Livedoor, a rapidly growing IT and financial group, on suspicion of securities law violations in January 2006.[14] Five month later, the Tokyo Stock Exchange delisted Livedoor for false statements in its annual securities reports. Meanwhile, public prosecutors also arrested Yoshiaki Murakami, a former reformist METI official and the founder of the so-called Murakami Fund which is a shareholder activist fund, for insider trading of Livedoor shares in June 2006. The delisting of Livedoor might seem harsh in comparison to the continued listing of such establishments as Olympus and Toshiba that conducted larger accounting frauds. Both the media and the public severely criticised Horie and Murakami as immoral money worshipers and greedy neoliberals. Although their conduct was illegal, the relentless media bashing revealed Japanese society's hatred and fear of shareholder and financial capitalism, which oppose systemic support and in-group favouritism.[15] These incidents enfeebled the power of the market liberalisation camp, Doyukai in particular. Horie had a relationship with some members of the Koizumi administration, whereas Murakami had close ties with core members of Doyukai, including Yoshihiko Miyauchi (Chairman of Orix Corporation) and Jiro Ushio (Chairman of Ushio Inc.).[16] The 2005 survey (with 1,320 respondents) on Japanese corporate governance by the University of Tokyo indicates that 69.1 percent of respondents thought employee benefits should be prioritised over those of shareholders, while only 18.8 percent thought the other way round (Takahashi 2007). The global financial crisis further accelerated the anti-neoliberal trend and bolstered strong demand for systemic support in Japan. Growing income inequality led to strong criticism of the LDP, which ultimately contributed to the LDP's defeat in the 2009 election. Despite Japan not being significantly damaged by the subprime mortgage problem compared to the US and Western Europe, the securitisation business in Japan dramatically shrank.

Prior to the mid-1990s, systemic support in Japan maintained social cohesiveness and stability and justified the legitimacy of administrators' dominance, whilst such support directly and indirectly protected the great majority of the public. During that period, anti-free market elites provided systemic support as quasi-public goods. For example, the government supported banks that backed large firms which, in turn, supported their employees and SMEs through lifetime employment and long-term business relationships, respectively. It was not difficult for the American agencies to accommodate systemic support in credit assessment for Japanese banks and large firms. However, SMEs in Japan were rarely bailed out by the government and banks, and most of them were much more capitalistic than conservative large firms (Matsumoto 1998: 111-112).

We contend that the relative decline of administrators, particularly MOF, banks and the LDP, has transformed the character of systemic support from quasi-public goods to ad hoc subsidies to specific interest groups, as witnessed in the revised money lending law, the SME Financing Facilitation Act and the establishment of numerous public-private funds. The revised money lending law of 2006 has radically restricted the consumer finance business to protect consumers from excessive borrowing.[17] Our interpretation of this revision is that systemic support for financially troubled consumers forced countless money lenders, who are regarded as social outcasts in Japan, to go bankrupt. The SME Financing Facilitation Act enabled financially distressed SMEs to receive bank support from December 2009 until March 2013. This was a marked change from the rapid economic growth period when numerous SMEs went bankrupt. The establishment of public-private funds to support specific industries was due to the combination of the need for systemic support and the pursuit of ministerial interests. The collapse of the financial convoy in the late 1990s and the financial authorities' relatively arm's-length administrative relationship with banks made risk socialisation less certain. The government has endeavoured to bolster weakened risk taking by the private sector through these funds, but most have underperformed. Furthermore, while the realm of ad hoc systemic support has expanded, the number of people who could receive limited systemic support (such as employment security and welfare benefits) from the government and their employers - mainly poor non-regular workers - has increased sharply.

Due partly to the growth of anti-neoliberal sentiment, Doyukai has moderated its neoliberal inclination, and some notable neoliberal proponents including Ichiro Ozawa (a political power broker) and Iwao Nakatani (an economist) have defected.[18] Moreover, the anti-neoliberal backlash virtually reversed the previous financial liberalisation and prevented the development of the Japanese bond business. Most American and European financial institutions have scaled back their Japanese operations due to problems in their home markets and the low profitability of the Japanese debt business since the global financial crisis. Against this background, the US credit rating agencies have also shrunk their Japanese businesses. The political superiority of Keidanren over Doyukai has remained unchanged, but interestingly, the ideational difference between the two business lobbies has narrowed since the late 2000s. Even conservative members of Keidanren have had to accept American style corporate governance at least in the *de jure* sense because of mounting pressure from international equity investors.

We think equity markets in advanced industrialised countries tend to have synchronic characteristics (short-term profit focus, open and standardised) in comparison to credit markets' more parochial elements such as domestic regulations, local practices and a high proportion of local participants, although synchronic features have been enhanced in American credit markets. One possible reason for this difference is that state regulation and home bias are typically much stronger in credit markets than in equity markets because of the former's much greater size, including public debt, a greater number of participants (including consumers and SMEs) and lower risks and returns (albeit with some exceptions). The Japanese political economy contains both equity market pressure for convergence to LMEs and systemic support associated mainly with the credit market, but the latter is still strong enough to act as a base for resistance to convergence.

CONCLUSIONS

Looked at from a synchronic perspective, two decades ago it seemed almost inevitable that Japan's local credit rating agencies would be replaced by the major American agencies. On any reasonable assessment, the US agencies have a better track record, greater resources and provide investors with a global comparability that cannot be matched by the local agencies. But this is not what subsequently took place in Japan. The Japanese agencies are still there, and they have achieved a measure of recognition through SEC NRSRO registration that seemed unlikely when they emerged.[19] We have shown in this article that the ambitions of the American agencies were undone by Japanese society's emphasis on strong ties, prevention orientation and guardian morals. These traits, which are linked to systemic support, were furthered by the collapse of the bubble economy and subsequent economic malaise. Systemic support and in-group favouritism are central to Japan's bank-dominated financial system, corporate governance and anti-liberal, anti-free-market social norms, which are opposed to opportunistic trading and synchronic financing. Just like many scholars of the Japanese political economy, the American agencies failed to anticipate the resilience and persistence of systemic support in Japan.

This analysis suggests we ignore diachronic understanding at our peril. In this case, key features of the dominant mental framework of Japanese society proved highly adaptive to the changing circumstances of Japanese business and finance, favouring institutions which had a better understanding of the facts on the ground. In rating terms, the Japanese agencies better understood the issue of willingness to pay in Japan than did the American agencies. General trust in Japanese society was too weak to procced with fully-fledged market liberalisation, and as things deteriorated in Japan, its society became more protective, and systemic support persisted despite the relatively declining power of dominant elites. The failure on the part of the American agencies to understand the resilience of systemic support raises many questions about their understanding of debt issuers around the world and suggests their work is hampered by a narrow mental framework which is not suitable for global comparison, despite their claims to the contrary. Meanwhile, the long-term systemic risk of the Japanese financial system, a side-effect of excessive systemic support, may be underestimated by the local agencies. The formula of systemic support versus financial globalisation is not unique to Japan, and it can also be witnessed in other Asian countries and in Europe. Bank and sovereign bailouts in the EU after the global financial crisis could be examples of this process.

The American credit rating agencies have flourished mainly in countries such as the United Kingdom, Australia, New Zealand, Canada, Mexico and Singapore, which have held (or tolerated) these agencies' synchronic characteristics aligned with capitalist power. In this respect, the agencies' global influence has not grown uniformly. In addition to Japan, countries with a preference for a diachronic form of financing, including China, Russia, France, South Korea and Malaysia, have experienced friction with the American agencies and resistance to their influence. In these countries, financially strained large companies and banks are often rescued by governments or state-owned banks, while local rating agencies have been established to compete against the American agencies. Dagong Global Credit Rating, a Chinese credit rating agency, even intends to challenge the oligopoly of the big three American agencies. We think administrators such as bureaucrats, executives of public and quasi-public institutions and authoritarian politicians tend to be powerful in countries which seem to have an orientation for strong ties, prevention focus and guardian morals, whilst frequent corporate bailouts and the power of administrators may reflect the significant influence of systemic support in their societies. The narrow mental framework of the American agencies has impeded their business expansion in less liberal economies, and it is difficult for these agencies to accommodate diachronic perspectives as the American credit rating orthodoxy assumes a synchronic outlook typical of American finance. This suggests the American agencies' power, whilst dominant, may not be as global or as hegemonic as typically suggested.

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NOTES

1 In 1998, R&I was established by the merger of the two local rating agencies, Japan Bond Research Institute (JBRI), a subsidiary of Nikkei (media company), and Nippon Investor Services (NIS) supported by Japanese financial institutions and the Ministry of Finance (MOF). JCR was also backed by domestic financial institutions and MOF.

2 This section draws upon Sinclair (2005), chapter 2.

3 The term 'administrators' was originally used by van Wolferen (1989).

4 Sony and Honda are examples of rare Japanese big businesses founded by entrepreneurs after WWII. It is extremely difficult for Japanese entrepreneurs to grow their SMEs into big businesses.

5 James Burnham (1941) argues that regardless of corporate or government ownership, with the separation of control and ownership, the critical boundary between dominant elites under the name 'managers' (such as business executives and bureaucrats), who will eliminate the old capitalist class, and the mass of society, was control of the means of production rather than ownership. The preconditions for managers' or administrators' social dominance in Japan were inadvertently created by the US occupation forces' elimination of major capitalists and the subsequent shift from pro-labour to pro-management policy.

6 Interview with Toshio Yamagishi, emeritus professor of social psychology at Hokkaido University, in November 2015

7 Takeuchi (2000: 391) maintains that Japanese companies offer quasi-public space for their employees. Habuka (2014: 39-40) contends that public and private fields are inseparable in Japan in that employers and employees represent 'public (dominant)' and 'private (subordinate)' statuses, like the relationship between bureaucracies (public) and companies (private), and that people in dominant positions are supposed to protect subordinates.

8 Interview with Yoshio Shima, professor of management at Tamagawa University, in November 2015. He used to be a banking sector credit analyst at S&P and head of Japan credit research at Deutsche Bank.

9 Kurosawa (2001: 105-108) claims that Japan has sought to form a 'riskless society' for both corporate bond issuers and investors, in which individual corporate risk is transferred to the government and corporate groups. Shima (2005: 283-284) is critical that Japanese institutional investors tend to invest in bonds based on credit ratings rather than their own credit judgements so that borrowers with non-investment grade ratings can find few local purchasers.

10 Interview with Professor Yoshio Shima in November 2015

11 Interview with Professor Toshio Yamagishi in November 2015

12 Interviews with Professor Yoshitake Masuhara at Hiroshima University of Economics (previously a Member of the House of the Representatives and a highly-ranked MOF official) and Yasuyuki Kuratsu, CEO of Research and Pricing Technologies (former managing director at Chase Manhattan Bank), in November 2015

13 Neoclassical economists such as Heizo Takaenaka (Minister of State for Economic and Fiscal Policy) had close relations with Doyukai leaders and formulated neoliberal policy under the Koizumi administration.

14 Horie was accused of window-dressing Livedoor's consolidated sales by 5.3 billion yen in profits from the sale of its own shares held by the investment partnerships in which Livedoor invested.

15 Shinichiro Suda (2006: 37), a journalist, maintains the following statement by Motonari Otsuru, head of the special investigation squad who would later be in charge of the Livedoor case, at his inaugural press conference in April 2005 reflected public repulsion: 'by all means, we would like to prosecute wrongdoing resented by hardworking people, unemployed people due to job cuts, and business people who comply with laws although they recognise that they could make large profits if they breach laws'. In addition, the judge's following comment on the Murakami Fund case at the Tokyo District Court stunned even Yasuhito Omori (2007: 182), head of the Financial Markets Division at the Financial Services Agency: 'Murakami's extreme pursuit of profit above all else by buying low and selling high is appalling'. The two court cases reflected anti-free market norms held by both Japanese society and legal elites.

16 Both Miyauchi and Ushio were the most influential leaders of Doyukai during the Koizumi period. Miyauchi, *de facto* founder of Orix (the largest Japanese non-bank), maintained the chairmanship of the Deregulation Committee under the Cabinet Office from 1996 until 2006. Ushio was a private sector member of the Council on Economic and Fiscal Policy from 2001 until 2006.

17 The Supreme Court judge, who triggered the revision of the money lending law, and both LDP politicians and Financial Services Agency officials who were involved in the revision appeared to share an anti-free market perspective and feel repulsion against aggressive capitalists including founders and management of non-banks.

18 Ichiro Ozawa was Secretary General of the LDP (1989-91), but defected from the LDP to become a mastermind of the Hosokawa administration. At that time, Ozawa was known as a neoliberal ideologue, but he started supporting social democratic ideas when he became president of the Democratic Party of Japan in April 2006.

19 Both JCR and R&I were registered as NRSROs (Nationally Recognised Statistical Rating Organisations) with the US SEC in 2007, but the latter withdrew from NRSRO on its own business judgement in 2011.

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