5TH ANNUAL MEETING OF THE NIPPON FINANCE ASSOCIATION, TOKYO, JAPAN, 1997

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May 1997 was a month for conference masochists in Japan because over successive weekends, the Western Meeting of the Japanese Association of Economics and Econometrics (hereafter WM, see McKenzie (1997)), the Annual Meeting of the Nippon Finance Association (formerly the Japan Financial Economics Association, and hereafter NFA), and the Annual Meeting of the Japan Society of Monetary Economics were convened. The character of the NFA is a little different from the other associations as it includes a significant minority membership of financial market practitioners. Inevitably this leads to useful debates where practitioners highlight the importance of institutional details and rules ('institutionalists'); and academics tend to ignore them and suggest most things are explicable using some version of neo-classical economics ('universalists').

For many universities in the central business area of Tokyo, the financial attraction of being able to make a hugh capital gain on selling their city campus, build a new campus in the outer urban area and still have money left over, has proved very strong. In following this trend, Hosei U. has managed to have its cake and eat it as it still maintains a city campus. NFA insisted that this year's meeting be held at Hosei's city rather than its more spacious and beautiful suburban campus for reasons of easier access. Although the building where the meeting was held appeared to be well worn for its age, the facilities were modern: there were portable microphones in each lecture theatre that meant everybody could hear all the presentations and all questions from the floor; and the OHP facilities had very large screens which meant that even relatively small type was readable (even if the organisers have not been reading earlier conference reviews relating to this issue: see McAleer and McKenzie (1996)). The unspoken dress code was suit and tie so that the few people dressed more casually stuck out like sore thumbs (compare this with the ASAA: Sayer (1995)).

The organization of this meeting followed very much along the lines of WM discussed in McKenzie (1997) — a no frills affair with no registration fee, no lunch or dinner included, no key holders, etc (compare this with MODSIM and ESAM: see Oxley (1994, 1996, 1997)). Readers of McKenzie (1997) might have wondered who pays for these meetings with no registration fee. The simple and obvious answer is the members through their annual subscription fees who

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provide a large net subsidy (2.0 million yen [about $US17,000] last year) and corporate sponsorship. Given the large number of members not attending, there is also a significant cross subsidy to members participating (a little over 200 on the first day, a Saturday, while Sunday's attendances, particularly Sunday morning, were noticeably smaller). The only freebie was an excellent 28 page book containing the final conference program, full abstracts of all the papers, and names of 20 corporate sponsors.

This meeting extended over two days with 27 contributed papers spread over five sessions each with three parallel strands so the pace was very relaxed with 60 minutes for each paper: 40 minutes for presentation; 10 minutes for the designated discussant; and 10 minutes for the presenter's reply and general discussion. The 71 'active' participants (28 paper presenters, 27 discussants and 16 session chairs, with some overlap) were drawn from 40 institutions, a little under half of which were not universities; four came from overseas (of whom two were Japanese) and four were not Japanese (including one holding an academic position in Japan). Two universities, Keio (6) and Osaka (6), tied for top honours in terms of the number of active participants. Kyoto U. that did so well at WM (see McKenzie (1997)) did not even have one active participant! For nearly all presentations, there were copies of the resume or paper left over which meant people who attended another session could often get a copy of the paper. After eight presentations, I came away with eleven full papers (five in English) and 10 resumes (there was some overlap).

One of the problems about holding conferences in Tokyo is the difficulty of getting people living in Tokyo to stay around for most of the conference. Tokyoites always claim that travel in and around Tokyo adds to their already high stress levels or they have too many other (money making?) commitments. In several cases, paper presenters and discussants from the Tokyo area turned up for their paper and left immediately afterwards! It would be a mistake to conclude from this that the conference provided little value added.

It is typical in these reviews to comment on: a lack of value for money (impossible when you pay nothing), a lack of service, a lack of organization or the excellence of the organization (see McAleer (1996) and Oxley (1994, 1996, 1997)). Here, I would like to point to some examples of excess service: rather than have participants mix their own (free) coffee there were several assistants performing this service (better to substitute biscuits for assistants? see Oxley (1994, 1997)); in each lecture theatre there were at least two assistants to hand out papers and look after the portable microphone; and instead of putting up signs to direct participants from the university's entrance to the appropriate building (50 metres) there were four or five assistants pointing people in the right (and rather obvious) direction and this was more of a problem on the second day!

What about the academic content? 'Corporate Governance', the flavour of the month in finance, was the title for two of the sessions I attended. Shinichi Hirota's (Setsunan U.) empirical paper focused on the capital structure (equity versus loans) of Japanese firms and provided support for both the universalists (as he found that the real factors affecting the capital structure were the same as those in the US) and the institutionalists (as he found the Japan's main bank system and keiretsu were also important). Until recently, Japanese securities companies had imposed a restrictive dividend requirement on companies wanting to raise additional funds through public equity (private regulation!). This rule was found to significantly affect capital structure. Makoto Shimizu's (Jochi U.) theoretical paper on the rationality of convertible bond issues in a game theory model that had shares, bonds and convertible bonds was an interesting complement to Hirota's paper. Taken together these two papers suggest that as finance markets are liberalised, debates on the firm's optimal capital structure need to move away from the traditional question of equity versus bank loans, and include some of the newer means that some firms use for financing.

The main bank is perceived as an important and peculiarly Japanese institution by many Japanese economists, although what exactly it does is the subject of a lot of debate. Makoto Suzuki (Daiwa Research Institute) added to the debate on that issue and the firm financing issue by examining agency costs and the main bank. He found that there were some important differences in debt/net worth ratios of firms depending on the what type of bank (city, local, long-term credit) their main bank was. The role of corporate groups in Japan, Germany, Korea, India and Mexico has recently attracted some attention as a means to provide an internal rather than an external capital market, and provide a means of minimising liquidity constraints due to asymmetric information. Young Park's (Dongguk U., Korea) valuable paper looked at the investment behaviour of Korean chaebol (=group) and non-chaebol firms, and found that investment–cash flow sensitivity was high and significant for non-chaebol firms but low and insignificant for chaebol firms. A similar finding has been observed for group and non-group firms in Japan but a key difference is that Japanese groups contain a main bank whereas Korean groups do not. Peng Xu (Hosei U.) examined the relationship between executive bonuses and dividend policy in Japan, and perhaps not unsurprisingly (although Xu seemed surprised) found these two to be positively correlated. The securities company's dividend rule for new equity issues was also suggested as being an important determinant for executive bonus payments.

Katsumi Matsuura (Yokohama City U.) examined the extent to which Japanese securities companies produce their securities services efficiently. With the daily headlines at the time of the conference focusing on large payoffs by Nomura Securities, the largest securities company, to mafia-related individuals, it was not surprising that Japanese securities companies were found to be inefficient. With the Japanese 'big bang' likely to hit the securities industry very hard, Matsuura's results suggest that there could be some significant restructuring in the near future. Hideyuki Oki (Bank of Japan) focused on the question of the implementation of monetary policy, and suggested that central banks attempt to influence long-term interest rates directly rather than influencing them through short-term interest rates if they were interested in controlling aggregate economic activity. He strongly questioned the conventional wisdom about the outcome of Operation Twist (not a drinking race!) implemented during the Kennedy administration.

My overall impression was that the empirical papers raised many interesting and important issues that would be of interest to foreigners. Unfortunately, some of these good papers are in Japanese and so may never be read by English speakers. This was also the first conference I have attended in a long time where I never heard the words unit root, cointegration or Johnansen test but I am told this probably reflects the sessions I attended rather than a lack of interest in time series techniques. One paper presenter suggested a controversial solution to all the problems facing applied research: 'recent software will look after it'. Either he needs to read some of the software reviews in this journal to test that proposition (see Smith and Smith (1995) and Fry (1997)) or he knows about some secret Japanese software that has not been publicly released!

There was a wide variation in the quality of discussant's comments but I was particularly impressed by the quality of the comments made by non-academic discussants. One discussant (Kazumasa Nimi, Nippon Research Institute) went as far as circulating his comments in written form for everyone — the first (and hopefully not the last) time I have seen this. Another discussant obviously thought up his comments as he listened to the speaker's presentation, and it showed. Yet another discussant (Masato Hirota, Tokyo Stock Exchange) provided such an excellent survey of the paper presenter's previous work and where the current work fitted in to the literature, that it would have been worth reversing the order of the discussant and the paper presenter!.

The selection of Franklin Allen (Pennsylvania U.) to give the only invited address certainly fulfilled McAleer's (1997) Commandment 8. This was the most provocative paper at the meeting, and Allen must have felt like Daniel going into the lion's den given that his topic was 'The Financial Crisis in Japan' but really should have been labelled 'The Japanese Bubble: Why Did It Occur and What Are The Lessons?'. Allen was introduced as having won the teaching prize at Penn two years in a row and listening to his presentation it was easy to see why. He has a knack for presenting difficult ideas very easily (in some cases too easily). I can imagine some Japanese being angry at Allen's arrogance. He readily acknowledged a lack of knowledge about Japan and Japanese institutions, and then proceeded to tell Japan how it should change! His suggested reforms included: limiting the amount of investment that can be done with borrowed money, particularly for real estate (the Ministry of Finance did introduce such measures during the bubble period); reducing tax advantages in the postal savings system (basically they no longer exist); not allowing a market for corporate control to develop; and providing tax incentives to venture capital financed investment. The invited address lasted 90 minutes and there was no time for questions — a real pity because it meant Allen got no public feedback on his paper and it was difficult to judge how others viewed his presentation. We were told that Allen would be available for questions at the conference reception but that was a very poor substitute. The conference reception, held at a nearby hotel, was optional at a cost of 4000 yen. Given my previous experiences with these sort of functions in Japan even when they were 'free' (see McAleer and McKenzie (1996)) led me to believe that the outside market was a better choice. The organizers seem to have followed McAleer's (1997) Commandment 6 in organizing a Japanese lunch (bento) box as an optional extra for 1000 yen which about 80 people chose.

The annual general meeting of the Association followed Allen's talk. One amazing fact announced was that Charles Ellis, who gave last year's invited address, had donated his honorarium of 500,000 yen (about $US4,200) back to the Association! The president, Takao Kobayashi (Tokyo U.), announced in his report that as part of an explicit policy to raise the Association's international profile, next year's annual meeting is to be subsumed into an International Conference to be held in Tokyo between 20–22 July 1998, conducted in English and jointly sponsored by the Asia Pacific Finance Association. Another strand of this internationalization policy is the renaming of the association's English language journal to the *International Finance Review* and having it published by Blackwells.

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