The evolving U.S. system of corporate governance and finance exhibits many characteristics of the postwar Japanese system. LBO partnerships act much like the main banks (the real power center) in Japan's *keiretsu* business groupings. The keiretsu make extensive use of leverage and intercorporate holdings of debt and equity. Banks commonly hold substantial equity in their client companies and have their own executives help them out of difficulty. (For years, Nissan has been run by an alumnus of the Industrial Bank of Japan, who became CEO as part of the bank's effort to keep the company out of bankruptcy.) Other personnel, including CFOs, move frequently between banks and companies as part of an ongoing relationship that involves training, consulting, and monitoring. Japanese banks allow companies to enter formal bankruptcy only when liquidation makes economic sense-that is, when a company is worth more dead than alive. Japanese corporate boards are composed almost exclusively of insiders.

Ironically, even as more U.S. companies come to resemble Japanese companies, Japan's public companies are becoming more like U.S. companies of 15years ago. Japanese shareholders have seldom had any power. The banks' chief disciplinary tool, their power to withhold capital from high-growth, cash-starved companies, has been vastly reduced as a result of several factors. Japan's victories in world product markets have left its companies awash in profits. The development of domestic and international capital markets has created ready alternatives to bank loans, while deregulation has liberalized corporate access to these funds. Finally new legal constraints prevent banks from holding more than 5% of the equity of any company which reduces their incentive to engage in active monitoring.

Many of Japan's public companies are flooded with free cash flow far in excess of their opportunities to invest in profitable internal growth. In 1987, more than 40% of Japan's large public companies had no net bank borrowings-that is, cash balances larger than their short- and long-term borrowings. Toyota, with a cash hoard of $10.4 billion, more than 25% of its total assets, is commonly referred to as the Toyota Bank.