

1). Title of the paper:

Bank Centered Versus Market-Based Financial System: A critical survey of issues

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4). Abstract (single spaced)

The most important strand of hypotheses on the current fragility of global financial systems is the question of "Comparative efficiency" viz. which system is more efficient, bank focused or capital market based, functionally or otherwise. This paper provides an overview of the emerging issues in the realm of comparative financial system, from the vantage point of the bank based financial regime of Japan. The aim of this study is to present a critical survey of literature dealing with the issues of comparative efficiency and the growth-inducing role of the two diametrically opposite systems. The comparison of two diametrically opposite financial system is complex and there are no simple answers. Difficult conceptual issues arise in discussing efficiency in a comparative institutional context. The efficiency and effectiveness of a financial system subtly depends on the nature of national institutions, values and historical experience, *inter alia*. But just an explanation for the origin of different national financial system does not resolve the issue of relative efficiency unequivocally.

The paper argues the fact that national financial systems have maintained such different institutional form for so long, without one set of countries having gained clear advantage over the others, suggests that any efficiency advantage must be subtle, capable of being offset by relative efficiency differentials in other areas of the economy, including labour market institutions and education. While it has become increasingly clear that a well functioning financial system can be an important factor in supporting and promoting industrial development, such a system is not likely to be achieved simply through the removal of direct governmental controls, or a policy of *laissez faire*. Popular opinion has tended to shift in favour of Japan-style banking in periods when Japanese economic growth has outpaced that in Britain and the United States. In periods in which Japan's growth has lagged, including the last decade, opinion tends to become more favourable to Anglo-American institutions once again.