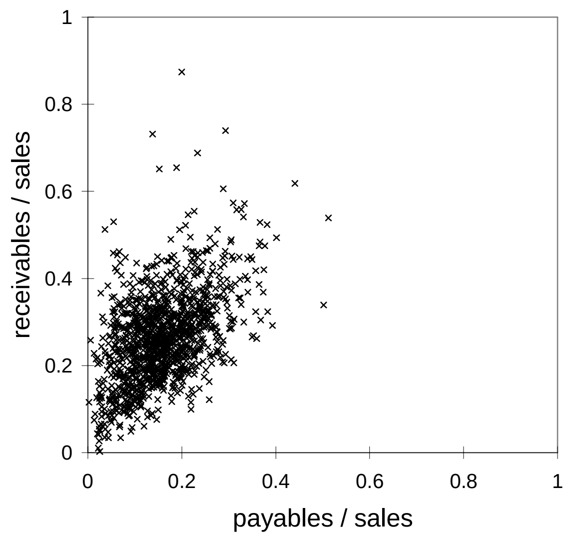

Figure 2: Scatter chart of receivables/sales and payables/sales

hypothesis of a proportional relationship between accounts receivable and sales may be a good place to start. If the economy as a whole had a fixed, conventional invoicing period that all firms adhered to, then total sales would explain accounts receivable. Can we say any more?

The bilateral contracting perspective on trade credit has emphasized borrowing constraints on firms, and why they must borrow from their suppliers rather than from outside investors. Credit constrained firms would find it difficult to lend to other firms, implying that firms that *borrow more* are those that *lend less*. However, the evidence paints a very different picture.

Figure 2 is a scatter plot of receivables/sales against payables/sales for our sample of Japanese manufacturing firms. There are two striking features of figure 2. First, most firms lie above the diagonal, implying that most firms in our sample are *net lenders*. Of course, when the universe of all balance sheets are taken together, receivables and payables must cancel out