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THE AGRICULTURAL CREDIT IN COREA

1. KOREA'S INDUSTRY AND CAPITAL

Economically Korea is yet in that stage of economy called agricultural. The mining industry exists in a very limited way, and fishery to some extent. In consequence, the capital required by Korea is mainly for agriculture. Korean capital is chiefly used for the following items: the cultivation of the soil and its amelioration in the broad sense; improvement of agricultural products and methods of cultivation; the manufacturing of agricultural products; the establishment of facilities for the sale of this produce; the management of agricultural enterprises; and the settlement of the old debts of farmers.

The capital thus needed is principally supplied by such financial organisations as the Chosen Industrial Bank, the Oriental Industrial Development Company, local financial associations and their federations. The capital is also supplied in a very limited way by ordinary banks, the old Korean financial organisations and private money-lenders. But the Korean farmers have been unable to get the required amount of capital because of the insufficient development of the economic conditions of Korea, and the lack of thrift and industry on the part of the people. The farmers have been depending on the financiers of Japan proper for capital, but they have not been receiving proper aid chiefly because of the lack of information among Japanese financiers regarding the true conditions in the peninsula. It is evident that with the extension of the true knowledge about Korea's conditions among the Japanese people, the supply of capital to Korean farmers will be more plentiful; such an improvement is required for the good of the economic world of the peninsula.

There is much difference between the economic developments of Japan proper and of Korea, and, in consequence, the rates of interest in the two countries are also different. When, therefore, the true conditions in Korea are known by Japanese financiers, an increased supply of capital by them to Korean farmers would follow. The nations of the world have been experiencing difficulty in financing agricultural enterprises because those enterprises usually need long term loans at comparatively low interest. In our own country, a similar difficulty is being experienced by the Japan Hypothec Bank and prefectural agricultural and industrial banks. The one advantage in the case of Korea is that farmers there can borrow capital at rates slightly higher than in Japan proper because of the vast possibility of improvement in its farming. Thus, since the interest rates in Korea are higher than those in Japan proper because of the general economic condition in the peninsula and because of the power of Korean agriculture to pay higher interest rates, there is no doubt that as soon as those things become known to Japanese financiers, the Korean farmers will be able to draw the capital which Japanese farmers cannot get. It is a matter of urgency that the soundness of Korean agriculture, the vast possibilities of its improvement, and the safety of investments in the field should be made known in Japan proper especially among the financiers there.

It is obvious that those financiers in Korea and Japan who are in direct charge of supplying capital to Korean farmers should undertake the task of disseminating true information about the real industrial conditions in Korea. The Government-General of Korea and other public organisations should also do their part in the work. The harmony of Korea and Japan proper is not a matter of sentiment only; it must rest be founded upon economic bases. When an economic harmony is impossible no one can hope to see a harmony of sentiment. The object of the administration of Korea must be to bring about a harmony between the interests of Koreans and Japanese and to increase their

welfare through their joint enterprises. The economic harmony of Korea and Japan proper is a necessity which transcends mere nationalism; it is absolutely necessary for the existence of the two races. The Korean-Japanese problems must be solved in the future economically rather than politically.

The development of the agriculture of the peninsula requires the extension of the knowledge of in what the imported capital is spent, to what line it is suited, and in what manner it is spent. Accordingly, those who are in the position to supply the required capital should know the organisations of various finance organs in Korea and their business conditions; it is also necessary from the standpoint of the development of the industry of the peninsula, if those organs are defective or not doing good business, the imported capital would not be efficiently used, and in consequence would not contribute toward Korea's industrial development. At any rate, the question of the agricultural finance organisations in Korea is very important. I shall presently explain the general financial organisations and criticise them.

2. THE SYSTEMATIC ORGANISATION OF RURAL CREDIT IN KOREA

While the financial methods of private money lenders in Korea is unsystematical, those of the banks and credit organisations are highly systematic. The chief organs of rural credit are the Industrial Bank of Chosen and the Oriental Industrial Development Company both of which have many branches throughout the peninsula for the purpose of carrying out a country-wide business there. Under these banks are found many local credit organisations which are divided into two main groups: the urban and rural credit associations, each of which has its proper function. Each prefecture has a federation of associations within it, and this federation has special connections with the Industrial Bank

of Chosen. Thus, the federations of the credit associations stand between the local individual credit associations and the central bank, the Industrial Bank of Chosen.

The Industrial Bank of Chosen has a special connection with the Finance Department of the Oriental Industrial Development Company. According to the original plan, the Oriental Industrial Development Company was to act as the mother bank for the Industrial Bank of Chosen. Thus the agricultural financial system of Korea is more systematic than that of Japan proper. In Japan proper, the Japan Hypothec Bank stands at the head of the agricultural and industrial banks, but some of them have been taken over by the Hypothec Bank while others keep their independence, and have connection with the Hypothec Bank only in reference to their business; thus there is some defect in the systematic organisation of agricultural finance in Japan proper. As to rural Credit Co-operative Societies, they have no legal connection with the agricultural and industrial banks, as each of them engages in business independently. Nor can the federations of cooperative credit societies be regarded as an intermediary between the individual co-operative credit societies and the Hypothec Bank. Although the question of the comparative merits of the systems of Korea and Japan proper is open to discussion, the fact remains that the former is more systematic than the latter.

In the actual practice of extending credit in Korea, there is no definite division of function among the different organs. Let us take, for example, long term loans with immovables as securities. Such loans are extended by the Industrial Bank of Chosen as well as by the Oriental Industrial Development Company and local credit associations. Thus, there is no division of business according to the length of the periods of loans. Nor is there any such division according to the amount of the loan. In actual practice while both the Industrial Bank of Chosen and the Oriental Industrial Development Company usually extend big loans, they also extend small ones.

The next point challenging our attention is the fact that the Industrial Bank of Chosen extends loans not only to farmers but also to those who are engaged in fishery, forestry, as well as in industrial enterprises. The Industrial Bank of Chosen also engages in the business of an ordinary bank and receives deposits. While the conditions in Korea may necessitate such a wide business on the part of this special bank, it must be admitted that such a diversity of business is hardly desirable. It cannot fulfil its real function completely. It has not developed sufficiently, being only adequate for the existing conditions in Korea. The Industrial Bank of Chosen has direct relations with ordinary banks as far as the business of ordinary banks are concerned; and this complicates the system of agricultural finance in Korea.

There is still another point to be noted, and that is the relationship between the Government-General of Chosen and prefectural governments on the one hand and the credit associations on the other. This relationship is somewhat different from the corresponding relationship in Japan proper. Those government organs in Korea not only supervise the associations, but direct their business activities; and, in consequence, have some voice in their management. The business too, of those associations is controlled to some extent by those government organs. This is very different from the relationship existing between the Finance Department and prefectural governments in Japan proper and our financial organs, the former authorities exercising the right of supervision only.

The special relationship above noted in Korea results in the appointment and dismissal of the directors of the special banks, of federations of credit associations and of village financial associations, by the Governor-General. (The same thing occurs only in the case of the Central Japan Hypothec Bank). Co-operative Credit Societies in Japan proper are voluntary organisations and their officials are selected by their members; but those in Korea are not regarded as self-

governing bodies and their directors are appointed by the government. In short, many things in Korea are still controlled by the government, the conditions there requiring such control. This proves that the economic condition in the peninsula is still in an undeveloped state.

3. THE ORGANISATION AND BUSINESS OF THE INDUSTRIAL BANK OF CHOSEN

Of the agricultural credit organisations of Korea, the highest as well as the most important is the Industrial Bank of Chosen. I shall make observations on the various phases of this bank.

The Industrial Bank of Chosen was established on October 1, 1918, with the amalgamation of the then existing Agricultural and Industrial banks which had located in various parts of the peninsula, as its foundation. Those Agricultural and Industrial banks were established at various important points of Korea for the purpose of meeting the financial stringency of different localities, at the time when the finances of the old Korean Government were being readjusted. Originally, there were eleven main banks and fifteen branches, but later the number of the main banks was reduced to six, while that of the branches was increased. These banks, however, proved inadequate to meet the financial demands of the time. In the first place, of the total amount of their published capital of Yen 2,600,000, only Yen 1,470,000 was paid up. They carried on business with this latter amount plus Yen 1,460,000 which was loaned by the Government-General. Secondly, the total amount of their debentures was only about three million yen; the debentures were guaranteed by the Oriental Industrial Development Company, and of the amount, two million yen was loaned by the Savings Section of the Department of Finance out of the post office deposits in Korea. Thirdly, the total amount of the deposits of those banks in July, 1917, was only Yen 9,084,000; the total amount of their loans in the same month was registered at

Yen 13,700,000. Of this amount, Yen 3,570,000 was irrecoverable fixed loans, and of this latter amount, Yen 2,037,000 was estimated to become a dead loss.

The Government-General or Chosen accordingly felt the necessity of establishing a powerful bank in order to meet the need of industrial development on the peninsula, on the one hand, and to relieve the financial situation of the banks, on the other; the result was the Industrial Bank of Chosen. The Government-General realised the need of amalgamating all the small banks, and of increasing the capital of the new bank which was fixed at Yen 10,000,000 (later increased to Yen 30,000,000, of which one-half was paid up). The business of the new bank was greatly expanded.

The business now being carried on by the Industrial Bank of Chosen falls under the following four heads: industrial credit, public credit, ordinary bank business, and deposits. Of these four, industrial credit is the most important. Its loans include those to be amortized by annuities within a period of less than 50 years, fixed loans redeemable at any fixed period within five years, and the subscription and guaranteeing of bonds and debentures. Securities for the first two classes of loans are: immovables, rights over immovables and fishery rights, etc.; loans are extended without security to a group of agriculturists or industrialists numbering ten or more. The total amount of the bank's industrial loans at the end of 1923 was estimated at Yen 67,000,000, of which Yen 45,000,000 were loans repayable by annual instalments and Yen 22,600,000 were fixed loans. Public loans include two groups: first, loans made to local communities and other public bodies redeemable either by annuities in less than fifty years or at fixed periods less than five years; secondly, loans redeemable in either of the above two ways and extended to credit associations, fishery unions, and other organisations of a non-profit-making nature. No securities are required from either body. The total amount of public loans at the end of 1923 was estimated at

Yen 52,000,000, of which Yen 25,500,000 was redeemable in annual payments and Yen 22,300,000, redeemable at fixed periods. The bank engages in ordinary banking business and receives savings deposits, because of certain historical reasons traceable to the time of the Agricultural and Industrial banks. The total amount of various deposits in 1923 was given at Yen 40,000,000, and that of loans, at Yen 51,000,000. The total amount of savings deposits in the same year was estimated at about Yen 5,000,000.

The following are the amounts of public and industrial loans and their recipients :

Recipient	Amount Yen
Farmers	41,800,000
Public organisations	27,800,000
Associations	18,400,000
Merchants	16,400,000
Industrialists	3,700,000
Fishing enterprisers	900,000
Total	115,000,000

Purposes of loans and their respective amounts are as follows :

Purpose	Amount Yen
Water works	11,500,000
Agriculture	18,600,000
Through the Federations of Credit Associations... ..	17,500,000
Land improvement... ..	14,400,000
Real estate and houses... ..	9,650,000

There are a score of other purposes including the following: administration, education, health, transportation and communications, forestry, sericulture, industry, commerce, cattle-raising, fishery, gas and electric works, brewery, road-building and repairing, relief of drought, etc. The total number of loans is estimated at 20,000, the average amount being about 6,000 yen.

The total amount of loans extended by the Industrial Bank of Chosen for three purposes, namely, agricultural, commercial and industrial, was estimated, in August, 1924, at Yen 141,000,000, which is subdivided as follows:

Purpose	Number of loans	Amount Yen
Agriculture	11,901	59,820,000
Industry... ..	717	4,740,000
Commerce	19,537	38,150,000
Miscellaneous	6,048	38,350,000

The last amount does not include the loans extended to banks and credit associations.

Like other real estate banks, the Industrial Bank of Chosen secures its capital for loans by issuing debentures as well as by receiving deposits. The maximum limit for the Industrial Bank of Chosen's debentures is an amount equal to fifteen times its paid up capital, and cannot exceed the total amount of the bank's loans redeemable either in annual instalments or at fixed times, plus the total amount of the debentures or bonds of other public organisations and of companies engaged in industrial enterprises in Chosen which are subscribed underwritten by the bank. The total amount of the bank's debentures (up to its thirtieth issue) is estimated to be Yen 113,600,000, of which Yen 20,000,000 was subscribed by the Savings Section of the Department of Finance; and the remaining amount was either publicly subscribed or accepted by other banks.

4. CRITICISM OF THE BUSINESS OF THE INDUSTRIAL BANK OF CHOSEN

I shall first consider the fact that the Industrial Bank sprang from the amalgamation of local Agricultural and Industrial banks. I have been in favour of decentralisation in rural credit institutions, because where such institutions are concentrated in a central organisation, loans

are likely to be given to those asking large amounts, and the places near, or conveniently situated, to the centre are likely to be specially favoured, and the demands of small loans are likely to be disregarded. When, therefore, there was a plan for annexing all Agricultural and Industrial banks in Japan proper to the Japan Hypothec Bank, I strongly opposed it. However, in the case of Korea, I must recognise the special circumstances which make the existence of local banks almost impossible. As the local economic power is weak, the capital of a local bank is bound to be small. In consequence, there is only a slight chance of expecting that bonds or debentures issued by such a bank will be sold to an appreciable extent, either in Japan proper or in Korea. The amalgamation of such local banks into a central bank was thus inevitable. The establishment of a central bank is a matter of congratulation from the standpoint of the general economic development of the peninsula. Since the Industrial Bank has fifty-seven branches all over Korea, its organisation cannot be said to be defective, provided the bank places much importance on the business of those branches.

The directors of the bank should be very careful, however, in the actual administration of the bank. They should, for instance, pay proper attention to the cry raised by some who believe that the bank all together attaches too much importance to public loans to the disregard of those of individual farmers. True, public loans are natural in view of the fact that much of the cultivation and improvement of land in Korea are still undertaken by public organisations, because the condition of the Korean agriculture is still in an undeveloped stage. Moreover, the local public bodies are also in need of capital. Again, the Government-General of Chosen is in a position where it can bear pressure upon the Industrial Bank of Chosen. In spite of those things, it is highly desirable that the bank should refrain from favouring big capitalistic enterprises to the exclusion of middle grade and small farmers; and this inevitably will become an important question regarding the relations between

the bank and the credit associations, to which I shall return later.

Then, it must be noted that the Industrial Bank of Chosen should contribute towards the industrial development of Korea by extending loans at as low a rate as possible to public organisations and to farmers in general, if it is to fulfil its mission as a special bank. The bank should also get its capital at as low rate as possible and in as great amount as possible. The success of its business depends upon how plentifully it can get capital; but the task of getting capital in a sufficiently great amount is much more difficult in Korea than in Japan proper.

In inquiring into bank rates, it will be seen that in the case of Japan proper where the rates are usually high, the rate of the debentures of the Japan Hypothec Bank without premium is usually seven per cent, while that of agricultural and industrial banks is eight per cent. The debentures of the Industrial Bank of Chosen were sold to the public in the great majority of cases at eight per cent; it was only recently that the rate was reduced to seven and half per cent, the occasions being the bank's 22nd and 25th issues of its bonds. The debentures accepted by the Savings Section of the Department of Finance alone bear a rate of five and half per cent; but this is certainly an exceptional case; the Savings Section is using the Government's low rate money. Those underwritten by the Japan Hypothec Bank in some cases were found to be even of higher rates than those sold to the general public, the rates being 8.1 per cent (the 23rd issue) and 8.3 per cent (the 26th issue). Of course, the terms of those debentures are longer than those of others; but surely the Industrial Bank of Chosen is borrowing at very high rates.

Despite those high interest rates, the Industrial Bank of Chosen has not been able to get a sufficient amount of subscriptions to its debentures.

Since the rate paid by the Industrial Bank of Chosen is very high, the rate for its loans has been inevitably high.

The rate of the bank's loans to private enterprisers in December 1923 was anywhere between three *sen* and two *rin* and three *sen* and six *rin* per diem, the usual rate being three *sen* and five *rin* per diem. The last mentioned rate, namely, three *sen* and five *rin* per diem is equal to a rate of 12.75 per cent per annum. Although this rate is slightly higher than that of the Bank of Chosen (the rate of which is two or three *rin* lower per diem), it is lower than the rate of ordinary banks (the rate of which is usually four *sen* per diem and usually three *sen* and seven *rin* or eight *rin* per diem). Moreover, the rate of the Industrial Bank of Chosen is much lower than those which prevail among private money lenders. The usual rate of loans among private money lenders is two or three per cent per month or between twenty four per cent and thirty six per cent per annum. The rate is sometimes as high as four per cent per month or nearly fifty per cent per annum. Although the rate of the Industrial Bank's loans to others is lower than those that prevail among private financiers, it cannot be said to be adequately low enough to satisfy the need of farmers. True, the phenomenon is not limited to Korea alone but is also found in the case of the Japan Hypothec Bank and the Agricultural and Industrial banks in Japan proper; and thus it becomes a universal question for our country. At any rate, it should be greatly regretted that agriculture which does not secure much profit should pay such a high interest rate to get capital. The lowering of the interest rate in Korea is especially needed in view of the fact that agriculture in the peninsula is in a financially difficult position, despite the good prospects of its future development. If cooperation between the Industrial Bank of Chosen and the federations of the credit associations should result in the extension of loans at a lower rate to farmers, the latter will be greatly benefited.

At the same time, it is also desirable that agricultural credit should be given out in Korea more plentifully. But it is necessary, as I have already stated, that the true

economic condition of Korea should be better known by the people of Japan proper. It is also desirable that the bonds issued by the Industrial Bank of Chosen should be treated the same as those issued by the Japan Hypothec Bank and by our agricultural and industrial banks. The bonds issued by the Industrial Bank should be also treated as sufficient collaterals. The Bank of Japan used to exclude those bonds from the list of collaterals but recently included them in the list. I hope that those bonds will be more and more widely accepted by the people of Japan proper. Such firms as the Fujimoto Bill Brokers Bank and the Yamaichi Goshi Kaisha which did much service in selling the debentures of the Industrial Bank of Chosen to the public of Japan proper should be appreciated. Other banks should follow their example and should do their part for the benefit not only of Korean economy but also of our national economy as a whole.

Another fact that attracts our attention is the fact that, whereas the very nature of agriculture requires land credits to be for long terms, the debentures issued by the Industrial Bank of Chosen are usually for short terms. Nearly all debentures sold in the open market are those which were redeemable at any time between one year and a half and five years, and only those accepted by the Savings Section of the Department of Finance were for long terms, between fifteen years and eighteen years. But, the loans the Industrial Bank of Chosen extend to others are usually for long terms, the law making such loans redeemable within fifty years. Although this maximum limit is rarely seen in actual practice, the loans made to such organisations as water works are for very long terms. Thus, the bank is placed in the difficult position of securing short term loans and loaning them out for long terms.

Because of this difficulty, the Industrial Bank of Chosen is busy issuing bonds but the capital thus secured cannot be used in supplying capital to enterprisers as it must be used in renewing the loans whose periods of redemption have expired. This involves much trouble and expense. Although

the amount of the bonds issued by the bank is enormous, the amount of loans extended to others is comparatively small, and the great portion of the directors' energy is expended in making the proper arrangements in this connection. It must be said that it is strange that a hypothec bank should issue loans for such short terms as one or two years.

Of course, there are several reasons for this phenomenon. In the first place, short term loans are preferred because of the high rates of interest and the instability in the economic world of this country. Secondly, the general public does not place full confidence in the bonds of the Industrial Bank of Chosen. Thirdly, the lack of knowledge on the part of the public regarding the real economic condition in Korea. Thus, the Industrial Bank of Chosen is almost in the same position as a commercial bank which must depend upon call money to meet emergencies. Surely, those causes must be removed through the cooperation of the government and the financial public.

I have so far discussed the Industrial Bank of Chosen. I shall now deal with the Oriental Industrial Development Company which cannot be disregarded by any one studying the agricultural finance of Korea. This company was created by Act 63 which was promulgated in 1908 for the purpose of supplying capital for industrial purposes in Korea. It has its headquarters in Korea and has been performing services in the cultivation of land, the undertaking of colonial enterprises, and has had some notable successes. Its loans amount to something like Yen 40,000,000 which was expended for the improvement of land, water works, farming and colonisation, and the works of various public organisations.

When the Industrial Bank of Chosen was established, it was understood that the main function of this bank was to extend loans to middle class and lower industrial enterprises, while the Oriental Industrial Development Company was to direct its efforts at pushing business into Manchuria and Mongolia and its finance department in Korea was

supposed to extend large loans to water works and other larger agricultural enterprises. Thus, the two organisations were supposed to engage in business in their respective fields without any competition. It was also intended that the Development Company should act as a mother bank for the Industrial Bank and to underwrite the bonds of the latter in securing capital from the foreign market. Both the Chosen Bank and the Development Company failed pitifully in their enterprises in Manchuria and Mongolia. Thus, the Development Company has not been in a position to assist the Industrial Bank of Chosen. It only accepted the debentures of former Agricultural and Industrial banks of Korea to the amount of three million yen. The total amount of its loans is estimated at something like Yen 40,000,000.

5. LOCAL CREDIT ASSOCIATIONS AND THEIR FEDERATIONS

As has been already pointed out, local credit associations and their federations are also performing an important function along with the two institutions just mentioned. They in a sense are the subordinate organs of the two organisations, but they also enjoy a sort of independent existence.

Local credit associations have been established in accordance with the laws promulgated in 1907. They have been created upon the German pattern with consideration of the traditional Korean financial institutions. A credit association is composed of members within a prefecture or county. Those members are chosen as far as possible from the middle and lower strata of society. The main function of the associations is to make it easy for its members to obtain capital on easy terms and to assist the general economic development.

The Government gave financial aid towards the establishment of credit associations, the result being the wide extension of the organisation in various parts of the peninsula. There were some 475 such associations in March, 1924,

the total membership being estimated at 336,000, the total amount of paid capital, more than Yen 4,800,000; of government aid more than Yen 3,200,000; the reserve fund, Yen 3,200,000; of deposits, in excess of Yen 30,600,000; of debts, Yen 29,400,000; of loans, Yen 53,100,000; of property, Yen 2,300,000; and of its own deposit and cash, Yen 18,200,000.

The law governing local credit associations was first revised drastically in 1914 and was again changed in 1918, the latter change resulting in the establishment of city credit associations in addition to agricultural credit associations and also in the establishment of federations of associations. One such federation has been established in each prefecture. In March, 1924, there were 419 village associations, 56 city associations, and 13 federations in Korea.

There is some difference in the functions of village credit associations and those of city credit associations; but the following are the usual functions of such associations:

1. To extend to members loans which are necessary for their economic development. (In the case of city associations, they can discount notes).
2. To receive deposits from members.
3. To supply necessary materials, make joint purchases, and sell the produces of their members as representative of their members.
4. To store their products and issue storage certificates.
5. To receive the deposits of non-members with the permission of the Governor-General of Chosen.
6. To act as agent for other banks with the permission of the Governor-General.
7. To readjust local finances under the order of the Governor-General.

Thus, a credit association in Korea is not like a credit association in Japan proper which deals with financial business only. The former also possesses such functions as those of cooperative societies, for instance, the joint purchase of industrial material, etc. Its field of activities is very exten-

sive, and its functions as an association, are varied. This obviously is required by the undeveloped industrial condition in Korea, especially that of agriculture. This, also, is at least partly responsible for the comparatively rapid progress which has been made in agricultural enterprises in Korea; and farmers have been greatly benefited by it. There is no doubt that the association will be crystallised into various bodies, each of which will carry out its own particular function.

At present, credit associations in Korea are largely directed by government authorities and their directors are selected by government, and therein differ greatly from similar organisations in Europe or even in Japan proper which are self-governing and democratic. But this difference, too, at present seems to be only too natural in view of the undeveloped condition of the peninsula. These associations, however, must be released from government management in the future.

It is only the village credit associations which are entitled to receive government subsidies ranging from Yen 6,000 to Yen 10,000 for each association, because a village association cannot carry on its business with only the funds subscribed by its members. For several years after the establishment of an association, government aid is given as part of its running expenses. All city credit associations which were established after 1918 are to receive low rate loans from the Government, ranging from Yen 30,000 to Yen 50,000 each, but none of them can get subsidies from the national treasury. The Government also gives a loan of Yen 200,000 to each federation of credit associations without interest.

In the case of city credit associations, more than thirty per cent of the total amount of deposits is that of their members, while that of the members of village organisations constitutes only about nineteen per cent of the total deposit. Taken as a whole, the total deposits of the members of all associations, both village and urban, constitute twenty-two per cent; those of all public bodies, constitute a trifle more

than forty per cent, and the remaining thirty per cent, is made up of those of the general public. All funds borrowed by the credit associations, with the exception of Yen 110,000 which was secured by rediscounting notes by the Industrial Bank, were loaned by the federations. The total amount of loans extended by the Industrial Bank to the federations at the end of the year 1923 was estimated at Yen 17,509,000.

As for the loans extended by credit associations—village associations loaned to their members approximately Yen 42,500,000, and the majority of those members are middle and lower class farmers, and the funds they secured have been used for agricultural purposes. The above amount constitutes seventy-five per cent of the total amount of loans. The amount of loans used for the redemption of all debts constitutes twelve per cent of the total amount. In the case of urban credit associations, the loans for the purposes of commercial and industrial enterprises constitutes seventy-five per cent of the total amount. The amount of loans used for the purchase of farm lands, the cultivation and improvement of land, in the case of rural associations, and the aggregate of loans used for the building of shops and the establishment of other facilities in the case of urban associations, are estimated at Yen 18,500,000. The total amount of loans made by the Industrial Bank of Chosen through credit associations in August 1923 year was Yen 9,700,000.

Thus the credit associations in Korea are doing much bigger business than their capital would warrant, and they are very different from similar organisations in Japan proper which extend loans within their own means, without borrowing from others. In the case of the associations in Korea the average amount of the loans of an association is about twice the amount of its deposits. The average amount of loans of one association is Yen 111,800, while that of an association in Japan proper, Yen 17,000. This great difference in the amount of their loans is to be found in the fact that the Korean associations are of the nature of industrial associa-

tions, and banks are scarce in the scattered towns, etc., of Korea. At any rate, the credit associations in Korea are rendering great services as banking institutions for the people.

I shall now touch upon the details of the associations. The maximum amount which an association can get from other institutions in the case of long term loans is Yen 50,000, and for short term loans, Yen 20,000. If more than these maxima is needed, special permission from the Government-General is required. The additional amount that can be obtained depends upon the amount of paid-up capital and the accumulated fund. Urban associations also can secure loans at a low rate; an urban association located in the capital of a prefecture can secure Yen 50,000; while those in other cities get Yen 30,000 each. The rate is 6.2 per cent. Each village association can also secure from the treasury Yen 4,000 without interest and Yen 3,000 additional at the rate of six per cent.

The maximum amounts of loans to be granted each member of an association are fixed as follows: Yen 200 for a rural association, and Yen 1,000 for an urban association. In neither instance is security required. In the case of a rural association, a member can secure as much as Yen 500 if he needs the money for such fundamental purposes as the purchase of land, the improvement of land, the construction or repairing of barns and the redemption of loans on mortgaged land. A member of an urban association may obtain as much as Yen 3,000 if the reason for obtaining the money is one of the following: the establishment of a shop, the construction or repairing of a building, the construction of a factory. For those special loans, immovable security is required, and is redeemable in annual instalments within 15 years, or in the fixed period payment within five years. At present, the amount of unsecured loans equals that of secured loans.

The interest rate of the loans extended by the credit associations to their members is, in the case of short terms,

four *sen* five *rin* per diem; and in the case of long terms, 15 per cent per annum; in the case of notes with securities, the rate is four *sen* per diem. When loans are to be granted without security, two sureties are required. Cries have been raised against the high rate, but as all central and ordinary banks are also charging a high rate, the credit associations alone cannot lower their rate. If loans are given to members at low rates, they may re-loan them to third parties.

6. NECESSITY OF ESTABLISHING A CENTRAL ORGANISATION.

Praise is due for the success so far made by the local credit associations and their federations in Korea, although they are still on a small scale. For the success achieved thanks are due, in great measure, to the services of the directors of the associations and of the officials of the Government-General as well of local governments.

Although they are on a small scale, the associations have assumed great importance in the financial mechanism of Korea. Whereas the total number of the main and branch offices of the Industrial Bank of Chosen and of the Oriental Industrial Development Company number 166, of the number of credit associations and their federations is about three times this number. The total number of households in Korea is estimated at 3,308,000 and there are ten members of associations for every 100 households. This is quite a small percentage compared with 18 members of credit associations in Japan for every 100 households; but the number of Korean members is steadily increasing. The total amount of the deposits of the associations is little less than 40 per cent of that of an ordinary bank (Yen 76,700,000) and 150 per cent of the post office savings deposits (Yen 29,000,000). The total amount of the deposits of the credit associations in Japan proper was only 26 per cent of the post office savings deposits of the corresponding time. The total amount of the loans granted by the credit associations is a little less

than 40 per cent of that of the Industrial Bank and of the Development Company (Yen 140,000,000); while that of the credit associations in Japan proper was Yen 189,000,000 or only a little more than 30 per cent of the total amount of the loans granted by the Japan Hypothec Bank and the Agricultural and Industrial banks in Japan proper.

Moreover, the associations have evidently secured the good confidence of the natives of Korea. The fact that no credit association received any injury at the hand of any Korean mob in the riot of 1919 should be regarded as indicating the good will of those people towards credit associations in general.

Thus, the credit associations have achieved a notable success. The people of the middle class in the agricultural community have been greatly benefited by the institutions.

There is a great necessity for an institution to bring about a greater efficiency in the functioning of the financial system just observed, and that is a central organisation for all credit associations and federations in Korea. The plan for creating such an organ is being advocated by the directors of the associations and federations and the officials of the Government-General of Chosen are making an enquiry into the matter.

As has been already pointed out, both the supervision and business direction of local credit associations are performed by the central and local governments. It is clear, however, that government authorities should only exercise the power of supervision and should not direct the business of private associations. Whenever possible, the two functions should be exercised separately. If this is done, the supervision will be performed adequately and the actual business management of the associations will be carried out independently of the will of the government offices. If a central credit organ is to direct the business of all associations and federations and their supervision is performed by the Government-General and prefectural governments, the existing agricultural credit system of the peninsula will be

perfected and the business of the associations will be greatly improved.

Local credit associations in Korea are supervised and directed by federations, which in turn have special connections with the Industrial Bank of Chosen, so that the Industrial Bank of Chosen may be regarded as a sort of mother bank for the federations and central organ for the associations. However, banks and credit associations are based on entirely different principles and belong to different systems. Credit associations may have business connections with the Industrial Bank of Chosen, but the latter cannot become a central organ for the former. Just as the Industrial Bank of Chosen enjoys its own free existence and will, so do the credit associations. The credit associations, therefore, may hope to have their own central organ apart from the fact of their business connections with the Industrial Bank of Chosen; the actual convenience in the business management of the credit association is not the only reason for the advocacy of a central organ. Such an organ must do, among other things, such things as these: extend the idea of credit associations, organise new associations, and direct the business of the existing associations. Those functions obviously cannot be performed by the Industrial Bank of Chosen.

I shall consider the matter from the business standpoint, The Industrial Bank of Chosen is performing the function of extending loans to the federations of credit associations, the total amount of such loans at the end of 1923 being estimated at Yen 17,500,000, which amount is not sufficient to satisfy the need of the federations. The federations need much more money, but the Industrial Bank of Chosen is not in a position to accommodate them with any greater sum. In Japan proper, agricultural banks are allowed to extend credit to associations on behalf of the Japan Hypothec Bank. In Korea, the Industrial Bank grants loans through the medium of credit associations, the total amount of such loans in August, 1924, being in excess of Yen 8,960,000. The

credit association through which such loans are made gets fifteen per cent of the interest as commission, and charges its clients, the borrowers, an interest rate one per cent more than it pays for the money. Thus, borrowers are forced to pay a higher rate of interest. Moreover, the Industrial Bank of Chosen does not seem to like the transaction and the credit associations are not able to secure as much as they desired. The credit associations say that the Industrial Bank of Chosen extends too much credit to public organisations, and it has not sufficient funds to accommodate individuals. At first, the Industrial Bank of Chosen regarded the associations as its own organs through which loans might be made to the public, but gradually it became unwilling to use the credit associations for such a purpose, first, because it bound much difficulty in securing funds for itself, and secondly because the need of the credit associations ceased to exist with the establishment of the branch offices of the Industrial Bank itself.

Thus, although the connection between the Industrial Bank of Chosen and the credit associations is very close, their business relationship is not what it should be; and the credit associations have come to desire the establishment of their own central organ, partly because of the necessity of getting a greater amount of money and partly because of the inconvenience resulting from the relationship of two sets of institutions which are different from each other.

In consequence, the central agricultural credit organ desired in Korea is not the same organ which exists in Japan proper and whose functions are: to advertise the work of the credit associations, to help in the organisation of new associations, and to direct the movement of the associations. The central organ Korea needs is the one which can play the part of a real bank, in addition to those functions performed by a similar organ in Japan proper. In Japan proper, there exist two organs, the Central Treasury of the co-operative societies, whose function is to receive and supply funds, and the Central Association of the co-operative societies

which do the propaganda-work and the organizing co-operative societies. But in Korea, the two institutions may well be united in one body, a Central Credit Association. The work of such a new organisation may be divided into two parts in the future, but at present at least one institution alone seems to answer all required purposes.

There is one difficulty which will face such a new organization, and that is the question of whence such an organization may get funds in sufficient quantity to satisfy the demands of the credit associations. The Central Treasury in Japan proper is also facing the same difficulty, but the difficulty will be greater in Korea.

Those, who are wishing to see a central organisation established in Korea, believe that some amount of money can be secured from insurance companies and ordinary banks, as the public opinion in Korea is opposed to those companies and banks which send funds to Japan proper. They believe that funds can be secured from ordinary banks at the rate of eight per cent a trifle above it. The rate in of the fixed deposits in first class banks is seven per cent, second class banks it is seven and one-half per cent. Those people also expect that the deposits of public organisations can be secured and also part of the peninsular post office savings deposits which amount to something like Yen 30,000,000 will be turned to a use which is for the benefit of the people of the middle and lower classes. At any rate there is only room for securing Yen 3,000,000 or Yen 5,000,000 more for agricultural credit. The money needed over and above the amount obtained in this way, must be got through loans.

At present, even the Industrial Bank of Chosen cannot issue its debentures to the amount the bank desires. It is very doubtful, therefore, whether the central credit organisation will be able to float its debentures to the amount likely to assure success. It will have to sell its debentures to the Savings Section of the Department of Finance or to the Industrial Bank of Chosen.

At any rate, the greatest difficulty of the proposed central body will be that involved in getting funds. The same difficulty has been experienced by the Prussian Central Treasury of the Co-operative Societies, the result being that such a central body is managing to carry on its business with the low rate loans granted by the Government. The central organisation when established in Korea will face even greater difficulty in this respect.

Judging from past experience in the business management of the credit associations, there is a tendency toward making immovables the security for loans granted by the associations; and for this reason, they should secure funds on as long terms as possible. But even the Industrial Bank of Chosen is experiencing much difficulty in getting funds on long terms, and therefore the proposed Central Credit Association will have a greater difficulty in this respect. It is necessary that membership in the credit associations in future should include those wishing to make deposits more than in the existing credit associations the case is.

There are several points which should be considered in this connection. Whether or not a strict division of the functions,—for instance, the Industrial Bank of Chosen extending big loans to public organisations and the credit associations extending smaller loans to private entrepreneurs—whether this division be actualised or not, it is evident that closer cooperation between the two credit institutions is absolutely necessary for the future development of agricultural credit in Korea. The problem whether it is desirable to make the credit associations purely co-operative organizations, enjoying self-government and self-initiative must be carefully studied, as well as the other important problem whether the future development of the associations shall take the form of the Raiffeisen type or the Schultze type or be made people's banks. But as a matter of practical necessity, the associations must remain for some time to come a sort of semi-governmental Institutions, depending on government authority for supervision and direction, though

some improvement might be made by way of rendering them more and more institutions for the people.

I have outlined the organization and functioning of the credit associations and their relations to the Industrial Bank of Chosen, and have criticised them in some of their essential points. I have noted that the working of those organizations has so far been admirable in view of the great difficulty under which it is taking place. What should be done is to perfect their systems, so that better cooperation might be created between the bank and the associations. A more impartial distribution of loans is also desirable. I also wish that efforts on the part of leaders would be made by way of reducing the interest rates in Korea so that it will be not much different from those in Japan proper; and for this, an ample supply of money is necessary. Thrift and saving on the part of the farming class of Korea should also be encouraged so that more funds may be available for agricultural purposes.

SHIRO KAWADA.
