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THE PROBLEM OF FARM DEBT ADJUSTMENT

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I

Although the living standard of farmers is still generally lower than that of urban people and their household finance is very small in amount, there persists a deficit in their living and they themselves are suffering from the excessive burden of redeeming their ever-increasing debts and of paying interest thereon. Should their lot be left unimproved, their aspiration for self-resuscitation will become paralyzed, and they will gradually despair of their future and their spirit of simplicity and thrift will be lost. Inasmuch as they are burdened with a debt which is unredeemable even by their life-long efforts, and are daily engrossed in the task of paying interest thereon, their spirit of aspiration and advance in agricultural management and in domestic life will wear. Furthermore, the power of agricultural productivity will stagnate and their farm life will be demoralized, and the economic and spiritual advance of agricultural villages in general will be greatly retarded. The evils of their excessive debts are all the more severely felt because of the fact that they are in debt more to professional money-lenders, who charge exorbitant rates of interest, than to public banking institutions. Moreover, their excessive debts are the most important of the causes which compel the peasant proprietors to dispose their own land and reduce them to the position of proletarian tenants or wage labourers, whereas otherwise they would remain as the sound middle class of the farming population. The downfall of peasant proprietors is truly a deplorable phenomenon full of social evils both for farm villages themselves and for national economy in general.

Thus, it is a matter of paramount importance to assist the farmers, who are burdened with unbearable debts and crushed by the task of paying interest thereon, by adjusting their debts, thereby enabling them to enjoy a better and more decent life in which their industriousness shall be fairly rewarded and their domestic economy—and, for that matter, rural economy in general—may be reconstructed. Let us see how other nations have been tackling this problem. All of them have been trying to adjust their respective farm debts through their legislatures, especially in view of the fact that the question has been intensified by the agricultural depression since 1929. The task of adjusting the farm debts has, in fact, become one of the most important agricultural policies of nations. Countries such as Germany, Denmark, Sweden, Norway, Poland, Hungary, Rumania, Bulgaria, the United States, Canada, India and various other countries have been attempting to solve this problem.¹⁾ Generally speaking, the majority of them have adopted the policy of reducing the rates of interest and converting short-term loans in long-term loans. But they do not all pursue the same policy in alleviating the conditions of farm debts. Some leave the task to mutual concessions and co-operation between the creditors and debtors; other States indicate the basis of alleviation; some States provide for a certain standard of curtailment for both principal and accrued interest while there are still others, like Germany, that connect the solution of farmers' indebtedness with the farm land problem. Thus, the methods employed vary with different countries.

In Japan it was in 1932 that a nation-wide movement

1) G. Kokotkiewicz, *Vergangenheit, Gegenwart und Zukunft des Agrarkredits*, Berlin 1934.
H. C. M. Case, *Farm Debt Adjustment* (*Journal of Farm Economics*, May, 1935).
P. J. Thomas, *The Problem of Rural Indebtedness* (*Indian Journal of Economics*, January, 1934.)
G. Costanzo, *Agricultural Indebtedness* (*International Review of Agriculture*, Year XXVII, No. 1. 2. 3. 4., 1937).

for the economic revival of agricultural villages was commenced as a sort of counter-measure against the agricultural depression which had become prevalent since 1929. It was intended to eradicate the fundamental causes of rural impoverishment and to give rise to prosperity for farmers. Consequent on this movement, a loud public out-cry began to be heard urging the adjustment of farm debts which were so greatly oppressing farmers, so that the revival of rural economy might be effected. The Government then came to recognize the necessity of adjusting the rural indebtedness, and presented to the extraordinary session of the Imperial Diet in July, 1932, a bill providing for the establishment of farm debt associations, but the bill failed to become law because the House of Peers and the House of Representatives disagreed regarding the organ for supplying funds and the method of their utilization, a joint committee of the two Houses having failed to reach an agreement. However, with the advance of the movement for the economic revival of agricultural villages, the need for effecting something in the way of adjusting farm debts became more and more pressing, and the Government saw it to be absolutely necessary to adjust farm debts for the economic revival of rural villages as well as for the development of national economy. Whereupon the Government somewhat revised the former bill as regards the supply of funds and presented it to the 64th session of the Imperial Diet in 1933. This time the bill passed the two Houses of the Diet and the Farm Debt Adjustment Associations Act took effect from August 1, the same year.

Now, I wish to explain in this article the nature of the enterprise for adjusting farm debts as it is carried out in this country as well as the progress it has so far attained, in order to see if the work has achieved its intended purpose. I shall further seek to examine the defects of the Act if it is found that the enterprise has not been so successfully carried out as was anticipated. Furthermore, I shall point out the facilities that will be found necessary in case the

execution of the enterprise is carried out on a larger scale. In doing this, I shall refer to the same undertaking as it is carried out in foreign countries.

II

The leading and fundamental aim of the work of adjusting farm debts in Japan is explicitly stated in the following Article 1 of the Farm Debt Adjustment Association Act: "The object of this Act shall be to permit persons living in farm, mountain and fishing villages to form debt adjusting associations in consonance with the spirit of fellowship and mutual aid, in order to effect their economic revival, and thereby to enable them carry out plans for redeeming debts and for economic revival, which plans shall be made by the associations, so as to enable those concerned to adjust their debts." In other words, the purpose of the Act is to enable persons living in each district to form an association for adjusting their debts by making a more active use of the tradition of neighbourly fellowship and mutual aid which has been handed down from ancient times in all villages throughout the country, and to guide and help the members of such associations who strongly desire to adjust their debts, so that they may be enabled to bring about their own economic revival. Therefore, all persons living in a rural district, whether they have debts or not, or regardless of differences in the amounts of their debts, may organize a debt-adjusting association in the spirit of neighbourly fellowship and mutual aid and unite in a common spirit in order to effect the economic revival of the community. Thus, their ideal is to co-operative with one another for the purpose of assisting the adjustment of the debts of neighbours.

Those wishing to adjust their debts should express their desire to the debt adjusting association²⁾ in their district and

2) There are two kinds of legal liabilities, guaranteed and unlimited, for the debt adjusting associations. In the case of an association of guaranteed liability, if it is unable to pay its debts in full with its property, its members shall be called upon to contribute besides their shares (from 10 yen to 50 yen per share) a fixed amount of guaranteed money (with a maximum of five times the share money).

endeavour to redeem them and bring about their own economic rehabilitation with the support of the association and under its guidance.

1) Upon receipt of the application of a debtor, the association notifies the fact to the creditor and makes plans for the redemption of the debt and for the economic rehabilitation of the applicant. The association makes investigations in detail into the property, debts, occupation and domestic finance of the debtor, and devises means to enable the debtor to derive a greater income through the rationalization of household finance and the improvement of farm management, taking into consideration the local circumstances of the district. Resources for the redemption of debts should be supplied by the surplus income secured in the above manner and also by disposing of property which is not needed for the efficient following of the household occupation. On the other hand, it is obvious that, if the debts are redeemed only by such resources, it will take fifty or even a hundred years for the debtor to completely freed from his debts. But since it is desirable that the debts should be redeemed within one generation—say a period of twenty years—and that plans should be so made as to make such a redemption possible, the easing of the conditions of debts is required.

2) The debt adjusting association is supposed to mediate between the creditor and the debtor and make plans for redeeming the debts within twenty years by easing the conditions of debts through such methods as extending the period of redemption, establishing an annual instalment plan, reducing the rate of interest, or scaling down the amount of the principal or of the accrued interest. In such mediation the association urges mutual compromise and concession between the creditor and the debtor. In case no agreement is arrived at in spite of this mediation by the association, it is authorized that the municipal (i.e., city, town or village) debt adjusting committee be asked to mediate between the creditor and the debtor, in order to bring about an agreement between them. When there is no such a committee in a city, town or village, the debtor member of the association or the creditor may ask for mediation by virtue of the Debts Mediation Act. In short, since the modification of the conditions of debts is to be made in principle through mutual concession and co-operation, based upon the spirit of neighbourly fellowship and mutual aid, between the creditor and the debtor, such an act as demanding of the creditor a reduction or cancellation of debts by debtors through their organized power will be against the purpose of the Debt Adjusting Associations Act. In consequence, if the method of adjusting debts jeopardizes public order or good customs, such adjusting of debts will not be permitted.

3) There may be many cases in which no mutual concession or co-operation is shown by the creditor and the debtor in spite of the mediation by the debt adjusting association. For this reason, there is provision for the advancing of a fund to the debtor by the association so that the former may be enabled to pay a part of his debt in cash and thus media-

tion for the modification of the remainder of the debt may be facilitated. Generally speaking, this fund is secured by a city, town or village from the Deposit Department of the Finance Ministry and then advanced to debt adjusting associations. But if the member of the association wishing to adjust his debts were simply to turn over the fund he has received from the association to the creditor, his debt would be merely converted into the debt of the association; for this reason it is stressed that the fund is to be paid to the creditor as a sort of part payment, so as to make easy the modification of debt conditions through mutual concession and compromise. Consequently, the amount of the funds advanced to each member cannot exceed 1,000 yen, and is to be within one-third of the debt the conditions of which are to be modified. In order to make this special advancing of funds by cities, towns or villages smooth and easy, it is further provided, that in case of loss incurred by such communities, prefectural governments are authorized partially to compensate for the loss, the maximum amount being fixed at ten-third of the total amount of funds advanced. Moreover, the Government is authorized to bear one-half of the amount thus compensated by prefectural governments, the maximum amount for the Central Government being fixed at 30 million yen. The law also provides that in principle cities, towns or villages should bear one-half of the loss which is compensated by prefectural governments but which is not covered by the Central Government.

When the Act took effect, it was anticipated that within the three years from August 1, 1933, to July 31, 1936, about 6,000 cities, towns and villages out of the total of 9,000 would be permitted to organize four associations each, the total number being 24,000.³⁾ It was also anticipated that within five years from the time the Act took effect a special loan of about 200 million yen would be advanced in order to adjust loans estimated at between 600 and 1,000 million yen.⁴⁾

III

According to the investigation made by the Ministry of Agriculture and Forestry, in July, 1932, the total amount of

3) As the Government is expected to authorize the co-operative credit associations, which have been engaged in the work of debt adjustment, to adjust debts, the total number of associations will reach about 25,000.

4) Since the total of 200 million yen is to advanced as special loans for the purpose of adjusting farm debts, if this amount is used for 30% part payment for the modification of debt conditions, debts amounting to 600 million yen may be adjusted; if the same amount be used for 20% part payment for a similar purpose, debts amounting to 1,000 million yen may be adjusted.

farm debts in Japan was estimated at 4,720 million yen. Of this amount, a sum between 600 million yen and 1,000 million yen is to be adjusted under the Farm Debt Adjusting Association Act. Let us review to what extent the Act has been successful. The following table will indicate the progress of the work of adjusting farm debts :

Table I
The Present Condition of Farm Debt Adjusting Associations.⁵⁾

	March 31 1935	March 31 1936	June 30 1936
Number of Associations . . .	994	1,430	1,543
Total Number	2,650	3,855	4,238
Unlimited liability	1,657	2,630	2,963
Security liability	972	1,223	1,273
Co-operative credit asso- ciations	1	2	2
Total Membership	94,159	132,728	—
Members needing debt ad- justments	76,795	109,051	—
Amount of debts to be ad- justed	¥102,678,689	¥156,697,907	—
Debt adjustment funds			
Contracts providing for compensation in case of loss	¥18,045,627	¥30,518,306	¥33,051,655
Number of cities, towns and villages involved	623	984	1,056
Amount to be allotted . .	¥10,561,333	¥22,219,903	¥24,298,063
Number of cities, towns and villages involved	471	850	940
Number of associations involved	1,220	2,267	2,524
Amount to be supplied	¥ 2,121,986	¥13,053,894	¥15,444,194
Cities, towns and villages involved	80	539	646
Number of associations involved	211	1,438	1,708
Number of farm debt ad- justing committees	986	1,517	1,581

5) Report on the Present Activity of Debt Adjusting Associations by the Economic Revival Department of the Ministry of Agriculture and Forestry.

As the above table indicates, throughout the whole country 4,238 debt adjusting associations had been established in 1,543 cities, towns and villages by June 30, 1936. This number is only 17 per cent. of the 2,500 associations which were expected to be established by July 31, 1936, in 6,000 cities, towns and villages, when the enterprise was undertaken. The amount of contracts covering possible loss up to June 30, 1936, was 33 million yen, and the amount of the special loans which it had been decided to advance was 15,440,000 yen, which is only 7.7 per cent. of the total amount of special advances, namely, 200 million yen. However, there still remain two more years of the period during which special loans may be advanced, and the amount of such loans will doubtless increase in the future. The amount of debts, adjustment of which had been planned by debt adjusting associations by March 31, 1936, was 156,700,000 yen, and this represents 26 per cent. of the anticipated minimum amount of 600 million yen and 15 per cent. of the anticipated maximum amount of one thousand million yen. Thus, the work of adjusting farm debts under the operation of the Farm Debt Adjusting Act cannot be said to have made such satisfactory progress as was expected.

We have already dwelt on the paramount importance of easing debt conditions in carrying out the work of adjusting farm debts. Unfortunately, however, there are no available statistics showing to what extent the modification of debts conditions has been effected throughout the whole country, and we must therefore, be content here with instances of different associations as shown by "Instances of Debt Adjusting Associations" published by the Economic Revival Department of the Ministry of Agriculture and Forestry.

In taking up the modification of debt conditions, it is convenient to divide all debts into two groups, namely, those advanced by public financial organs such as the Japan Hypothec Bank, prefectural agricultural and industrial banks, and co-operative credit associations, and those advanced by

private money-lenders. For if the debts advanced by these public financial organs are cancelled or scaled down in amount in the same way as those advanced by private individuals, who charge exorbitant rates of interest, these banks and associations will go bankrupt, and the supply of rural credit will be cut off, a panic will take place in urban financial circles, and a nation-wide economic disaster will result. It is in recognition of such a possibility that the Ministry of Agriculture and Forestry gave warning to prefectural governments to the following effect: "In adjusting debts with banks and others which handle financial affairs under the supervision of the Government, methods of adjustment liable to injure their business organizations should be avoided".⁶⁾ Again, the head of the Economic Revial Department gave out the following advice regarding the modification of debt conditions: "In modifying debt conditions against co-operative credit associations, care should be taken that eagerness in adjusting the debts of individuals will not result in jeopardizing the special mission of co-operative credit associations, and that persons concerned should attempt to attain the object of debt adjustment by mutual concession and compromise in so far as the execution of the primary functions of co-operative credit associations in not impeded."⁷⁾

The following table shows the extent of the modification of debt conditions in several debt adjusting associations involving the Japan Hypothec Bank, agricultural banks and co-operative credit associations.

The Table II shows that the modification of debt conditions in the case of the Japan Hypothec Bank and agricultural banks has been carried out mostly by the reduction of rates of interest and the extension of the period of redemption, while in the case of co-operative credit associations, reduction of rates of interest, extension of the period

6) Current Report of Debt Adjusting Association by the Economic Revial Department, Vol. 1, April, 1936.

7) Instruction No. 3 of the Ministry of Agriculture and Forestry, Article 4, Clause 2.

Table II
The Modification of Debt Conditions involving the Japan
Hypothec Bank, Agricultural Banks and Co-operative Credit
Associations.⁸⁾

The name of debt adjusting associations	Modification of debts involving the Japan Hypothec Bank and Agricultural Banks	Modification of debts involving co-operative credit associations
Nakatsunii (Kanagawa)	Extension of the period of redemption and reduction of interest rates (Agricultural Bank).	Reduction of interest rate (from 8.5% to 7.5%). Partial scaling down of debts and conversion to ten-years instalments.
Tsumori (Ōita)	Extension of period by ten years and reduction of rate from 8.2% to 7.2% (Agricultural Bank).	Extension of period by one year and reduction of rate from 3 sen per diem to 2 sen.
Katsuhoku (Nagano)	A member of association adjusted his debt to the Japan Hypothec Bank by his own power without aid from association.	Twenty-three members adjusted debts to co-operative credit association by their own power without aid from debt adjusting association.
Nagaoka-mura (Nagano)	Conversion to a long-period redemption.	Conversion to long periods (from 5 to 17 years).
Nishinoshiba (Wakayama)	Reduction of rate.	Reduction of rate and extension of period by five years.

of redemption and conversion of short-term debts into annual instalment plans were the methods employed, and that only in cases of absolute necessity was scaling down of principal resorted to.

The following table indicates the modification of debt conditions against individual money lenders.

Of the 12 debt adjusting associations given in Table III, only two failed to reduce principal amounts, while the remaining ten effected reduction in various degrees. Of these ten associations, seven made reductions of from 10 to 30 per cent., while some of the others made reductions of from 40

⁸⁾ Agricultural Affairs Report, Agricultural Affairs Bureau, No. 68, p. 15, May, 1933.

Table III
The Modification of Debt Conditions involving Individual Money Lenders.⁹⁾

The name of debt adjusting associations	Scaling down of principal	Cancellation of interest in arrears	Reduction of rate of interest	Extension of redemption period and others
Nakatsunii (Kanagawa)	Principal in 218 cases of debt amounting to ¥59,449 was cut down by 25% or ¥7,387.	Interest in arrears in 49 cases of debt amounting to ¥5,427 was cut down by 91% or ¥4,937.	Averages rate after modification was 6.6%.	—
Tsumori (Ōita)	Principal in 389 cases of debt amounting to ¥85,160 was cut down by 8.7% or ¥7,387.	—	The average rate of 11% was reduced to 7.5%.	Maximum extension of 15 years was made.
Higashiura (Nagasaki)	Principal in 259 cases of debt amounting to ¥38,900 was cut down by 23% or ¥9,085.	Interest in arrears in 46 cases of debt was cut down from 50 to 100 per cent. by ¥3,348.	Rate in two cases of debts was reduced.	In 61 cases of debt, period of repayment was extended from 3 to 10 years.
Fura (Chiba)	Principal and interest in arrears amounting to ¥192,000 were reduced by 19% or ¥38,000.	—	Former rates of from 8 to 18 per cent. were reduced to the average of 6 per cent.	Extended from 5 to 20 years.
Oki (Aomori)	No curtailment.	Considerably modified.	Somewhat reduced.	Great majority of debts were converted into ten year instalment plans.
Katsuhoku (Nagano)	Individual debts were reduced 53% on the average; those by Tanomoshiko* 74% on the average.	—	—	—
Nagaoka (Nagano)	Debts by Tanomoshiko* were adjusted and cancelled.	—	—	—

Suzumugi Tenya	The total of 150 cases of debt amounting to ¥20,270 was cut down by 23% or ¥4,670. The principal was reduced by from 5 to 7%.	Almost the entire amount of interest in arrears was cancelled.	The rate was reduced from 12% to below 7%.	Converted into instalment plans of from two to ten years.
Kamiidai, Shimoidai (Ehime)	Principal in 1,234 cases of debt amounting to ¥190,000 was reduced by 11% or ¥21,388. Debts by Tanomoshiko* were adjusted and cancelled.	Interest in 291 cases of debt was cut down by ¥4,611.	Interest rates in 100 cases of debt were reduced from 10 to 5 per cent.	Periods for 101 cases of debt were extended from two to fifteen years each.
Nishinoshiba (Wakayama)	The total of six cases of debt was reduced in each instance from 12% and 25%.	Interest in 19 cases of debt was cut down from 28% to 100% each.	Rates were reduced by from 1.3% to 3%.	Periods were extended from one to three years each, while in some cases instalment plans of three to five years were made.
Namiki (Miyazaki)	Principal aggregating ¥17,202 was cut down by 41% or ¥7,144.	The total of ¥3,265 in arrears was cancelled.	—	Entire amount was paid at once.
Kitasogochi (Mie)	Principal was reduced by 35%.	—	Somewhat reduced.	Period were extended.

* Tanomoshiko is an unincorporate society for mutual financing which is wide-spread throughout Japan from the ancient time.

to 50 per cent. immediately. As to interest in arrears, the majority of the associations cancelled it more or less, while several of them cancelled nearly the entire amount. The majority of the associations somewhat reduced the rates of interest; extended the periods of redemption; or converted the debts into annual instalment plans. In short, the above

9) Transactions of Debt Adjusting Association, Economic Revival Department, Ministry of Agriculture and Forestry, No. 1, April, 1936.

investigation conducted by the Department of Agriculture and Forestry shows the modification of debt conditions to consist principally in the following methods: reducing principal amounts by about 20 per cent; the cancellation of a considerable part of interest in arrears; the reduction of interest rates; the extension of the periods of redemption; and the conversion into annual instalment plans. The instances given are those of a few comparatively superior associations, and it is doubtful whether such modification of debt conditions is being smoothly effected in the great number of other associations throughout the whole country.

IV

It is clear from the above explanation that the work of adjusting farm debts by means of the Farm Debt Adjusting Associations Act has not been as successful as had been expected. What then are the causes of this failure? I shall present the principal causes in the following pages.

1. In the first place, the work of adjusting farm debts is supposed to be based upon the spirit of neighbourly fellowship and mutual aid, and its purpose is to adjust the debts of individual farmers for the reconstruction of rural districts. It is therefore demanded that all villagers abandon a selfish attitude and show a spirit of co-operation by joining the debt adjusting associations and thereby sharing the common responsibility. But some of the creditors of money-lenders are influential citizens of the community and are unwilling to show a spirit of neighbourly fellowship and mutual aid by joining the associations. They tend to oppose the establishment of such associations from a selfish motive.

2. Even after the establishment of a debt adjusting association, the modification of debt conditions must depend upon the spirit of neighbourliness and mutual aid, and debtors must be content with the degree of modification which is necessary for their economic reconstruction. On the other hand, the creditors are supposed to modify debt

conditions through mutual concession and compromise, believing that the economic reconstruction of debtors will benefit themselves in the end. However, it is feared that even in such cases of individual indebtedness, the mere emphasis on mutual concession and compromise among the parties concerned will not result in the realization of the modification of debt conditions.

3. Not a small number of farmers show a deficit in their household finance at present. The investigation made by the Department of Agriculture and Forestry into the household finance of farmers shows that in 1932 red figures were shown by 98 households, or 35 per cent. of the 282 households investigated, and that in 1933 77 households, or 27 per cent. of 284 households, similarly showed a deficit.¹⁰⁾ The farmers will have to use any surplus income resulting from their economic reconstruction, as well as the proceeds from the disposal of their surplus property, even though they are given a certain sum in the form of special loans through the debt adjusting associations. However, it will be extremely difficult for them to derive any surplus income because they cannot make both ends meet in their domestic finance. Consequently, there is a tendency among farmers to defer the establishment of debt adjusting associations until prosperity has returned, the prices of rice and cocoons have risen and been stabilized and a surplus is shown in their household finance. A similar unwillingness to establish debt adjusting associations is also evidenced by local bodies such as cities, towns and villages, all of which have the responsibility of compensating for loss incurred by special loans advanced to such associations, because they wish to wait until a comparatively good time is ushered in and there is the certainty of effecting debt adjustment by means of the plans for economic revival and for the redemption of debts. All this is another reason for the failure of the work of es-

10) Investigation of Farm Management and Households (1932 and 1933), Economic Revival Department of the Ministry of Agriculture and Forestry.

establishing debt adjusting associations to show the anticipated progress.

4. The mere establishment of debt adjusting associations does not really mean anything. In order to assure their success, it is necessary to plan out the economic revival of their members and their debt adjustment and carry out these plans successfully. And, in order to do this, the associations should guide their members regarding not only their agricultural management but also their household finance both of which should be properly rationalized. Thus, there arises the need of individuals with a spirit of self-sacrifice who can execute the work of guidance. A survey of the debt adjusting associations which are successful reveals that they are managed by self-sacrificing leaders who are fit for the task of leadership. This is shown by "Transactions of Debt Adjusting Associations" published by the Department of Agriculture and Forestry. But since we are unable to find such leaders in all villages, the work of establishing debt adjusting associations is handicapped by their absence.

5. Another cause for the slow development of the work of adjusting farm debts is a technical one, namely, the bothersome and slow methods of procedure required in establishing debt adjusting associations and getting funds as special loans.

V

We have observed the principal causes of the unsatisfactory progress in the operation of the Farm Debt Adjusting Act. What measures should be adopted in order to meet the situation? I shall take up the principal measures that may be adopted.

1. In the first place, it is necessary to adjust farm debts bearing high rates of interest advanced by money lenders of villages who are influential citizens and convert these debts into low-rate debts, by way of facilitating the establishment of debt adjusting associations and assisting their work, so that the work of debt adjustment may be

hastened. The total amount of farm debts in Japan at present is placed at about 4,500 million yen. Classified according to different rates, those at rates of less than seven per cent. constitute 9.8 per cent. of the total amount, those at less than 10 per cent. 33.2 per cent., those below 12 per cent. 28.6 per cent., those below 15 per cent., 22.2 per cent. and those above 15 per cent. 6.2 per cent. Thus, if we adjust debts whose rates are above 12 per cent., we shall have to adjust debts amounting to some 1,300 million yen. Therefore, the work of adjusting farm debts should begin from the high-rate debts. Now, the profit rate of our farm management is extremely low, because it is carried on on such a small scale, and even if the family labour wage is counted as zero, the profit rate would be only about seven per cent. So far as the debts are to be redeemed by the surplus income of farmers, the rates of interest on their debts should be correspondingly low. Thus, it is essential for the adjustment of farm debts to convert high-rate debts into low-rate debts so that surplus income from farm management could be used for the gradual redemption of debts.

If, therefore, the Government wishes positively to assist the adjustment of farm debts, it should (1) increase the present maximum amount of 200 million yen for special government loans to debt adjusting associations, and after having properly modified debt conditions, supply the greatest portion of funds for conversion into low-rate debts; (2) the Government also should assist debt adjusting associations to raise by their own power funds at low-rates to be used for conversion of high-rate debts into low-rate debts. At present debt adjusting associations are local and isolated and are lacking in funds. I urge, therefore, that all debt adjusting associations should, as one body, establish a debt adjusting association central depository with the support of the Government. This depository should be empowered to issue certificates with premia like those now issued by the Japan Hypothec Bank, so that the depository would be enabled to secure low-rate funds at a long period of redemption with

which it could convert high-rate farm debts into low-rate debts.¹¹⁾

2. The modification of debt conditions is to be made in principle from the spirit of fellowship and mutual aid through the good offices of debt-adjusting associations between the creditors and debtors. In case no agreement should result from this mutual co-operation, the mediation of a debt adjusting committee may be demanded. If case this mediation should fail, mediation under the Debt Mediation Act may be asked. However, (1) these organs are not empowered to make the agreement concerning the modification of debt conditions binding upon the parties concerned; (2) nor are there any supplementary rules formulated as to what shall be the standard by which these organs may attempt the modification of debt conditions. It is highly desirable that suitable regulations should be formulated regarding these two points, because it is clear that if the ideal solution of the problem is to be made through the spirit of fellowship and mutual aid, there may be occasions on which the smooth modification of debt conditions will be difficult of realization.

As to the first point, it is of course desirable that the modification of debt conditions be made through mutual concession and compromise between the creditors and debtors through the good offices of such public bodies as the debt adjusting association or the debt adjusting committee. For instance, in the United States of America there are farm debt adjusting committees in 2,600 out of the total 3,000 counties, and the members of these committees are described

11) One of the reported new economic policies of the Ministry of Agriculture and Forestry is a plan for establishing a debt adjustment depository for the purpose of adjusting debts to the amount of 1,320 million yen. This depository is to advance loans to debt adjusting associations, the maximum being fixed at 900 million yen, and to guarantee their debts. In case the depository is short of funds, the Government may advance loans to it within one-third of its loans or amount guaranteed, the maximum being fixed at 300 million yen. Also the depository may issue notes with the maximum amount of 450 million yen in order to secure the required funds.

as "men who are willing to give unselfishly of their time for the good of their fellowmen and their own community".¹²⁾ These committees see to it that the adjustment of debts is made (by such methods as the reduction of interest rates, the suitable reduction or cancellation of principal, extension of time for payment, etc.) through the mutual agreement of creditors and debtors, so that the debtors will be enabled to settle their debts through their industriousness and diligence. Another task of the committees is to educate both the creditors and debtors so that the latter's sense of responsibility regarding the settlement of debts may be increased and the former may come to show a greater degree of generosity towards the debtors. Although such co-operation is highly desirable, it may not be always or easily realized, and for this reason it becomes necessary to give some powers to debt adjusting instruments. For instance, under the Farm Debt Adjustment Act of Canada promulgated on July 3, 1934,¹³⁾ an official receiver is appointed and a board of review is established in each local court district. A farmer who, though not actually bankrupt, is burdened by debts which it is impossible for him to pay in full, can go to the Official Receiver in his district, who will assist him in making out a statement showing all his liabilities and valuing all his assets. The farmer can then make a proposal, suggesting either a scaling down of his debts or an extension of time for paying them. The Official Receiver will then submit this proposal to the creditors. If they accept it, the adjustment becomes binding and is registered in the County Court. If no adjustment can be arrived at between the farmer and his creditors, the case may be brought before the Board of Review, which consist of a judge as chairman and two other commissioners. The Board has full power to make an adjustment both of secured and unsecured debts, and such adjustment is final and binding.¹⁴⁾

12) H. C. M. Case, op. cit., p. 291.

13) The title of this Act is "Act to Facilitate Compromises and Arrangements between Farmers and their Creditors."

14) International Institute of Agriculture, *The World Agricultural Situation in 1933-34*, p. 150.

In the work of adjusting farm debts in Japan, it would be somewhat dangerous to give coercive powers to either debt adjusting associations or debt adjusting committees. It would be more desirable to let these organs appeal to the spirit of fellowship and mutual aid on the part of the parties concerned. However, the cases of debts which cannot be settled by their good offices should be referred to a debt mediation committee such as is established in every County Court district in Canada, for their speedy solution.

Secondly, it may be observed that assuming the modification of debt conditions in the above explained manner, no speedy action can be taken unless there be some standard for decision. However, no uniform action can be taken for all cases, because debts to banks and co-operative credit associations cannot be placed in the same category as those to private money lenders who charge exorbitant rates of interest. Thus, much deliberation will be required before any legal provision is made fixing such a standard for the modification of debt conditions. Such a uniform legal provision is exemplified by Roumania's law for the conversion of agricultural debts.

The Roumanian Law for the Conversion of Agricultural Debts was first promulgated on April 19, 1932. The law has different provisions for farm lots below ten hectares and those above. (1) In the case of the debts of farmers having ten hectares of land or less, the debts are to be scaled down by 50 per cent. and the remainder is to be converted into debts at four per cent. and redeemable within thirty years from the date of the promulgation of the law. (2) In the case of the debts of farmers having more than ten hectares of land, the debts are to be curtailed as follows, provided 60 per cent. have been incurred for one of the following purposes:—for the purchase of farm land, the purchase or increase of animate or inanimate means of farm management, farm buildings, planting of seeds, improvement of lands, irrigation, prevention of inundation, minimum security of livelihood, etc. (a) reduction by 50 per cent. (principal, interest and instalments) for debts incurred in 1927 or before; 40 per cent. for those incurred in 1928; 30 per cent. for those incurred in 1929; 20 per cent. for those of 1930; and 10 per cent. for those of 1931. The remainders of these debts are to be paid in full within the two years following. (3) The adjustment of the debts of farmers having middle or large size lands is made through the Courts. In these cases, the debts are reduced to 60 per cent. of the total, redeemable

by annual instalments in 30 years, and the maximum amount of annual instalments cannot exceed 50 per cent. of the net farm income of the debtors.

The Liberal Government which succeeded the National-Farmer Government (November 1933) finally promulgated a new farm debt adjusting law on April 7, 1934. This Law provides for a reduction of the creditors' claims by 50 per cent., the remainder is payable by half-yearly instalments over a period of 17 years, with interest at 3 per cent. To make things easier at the beginning for the debtor, the first two instalments will be 2½ per cent. and the two following 3 per cent. of the reduced claim. The other 30 instalments will be equal parts of the balance remaining to be repaid.¹⁵⁾

The Government endeavoured not only to reduce the farmers' debts, but also to reorganise their farm management, so as to leave them at least a small margin of profit. But I fear that such a formal reduction of debts by 50 per cent. will only give rise to great confusion in agricultural credit as well as in the general financial circles of that country.

Moreover, reduction of interest, scaling down of the principal amount of debts and conversion into non-cancellation instalment plans are embodied in the agricultural debt adjustment law (*Gesetz zur Regelung der landwirtschaftlichen Schuldverhältnisse*) promulgated on June 1, 1933, and the tenant debt adjustment ordinance (*Pächterentschuldungsverordnung*) promulgated on March 13, 1935, in Germany.

The former law was intended to decide farmers' ability to redeem their debts as well to clarify the principle that their debts and interest should be lowered to the limits of their ability so decided. Thus, the value (*Betriebeswert*) of the entire farm enterprise of farmers in debt is first decided; two-third of this value is regarded as the limit of safe security (*Mundelsicherheitsgrenze*), and those who have debts beyond this limit are regarded as burdened by excessive debts and their debts are reduced to this limit and converted into non-cancellation instalment debts with interest at 4 per cent. The farmers' debts, within the safe limits named, (*Mundelsicherheitsgrenze*) should be converted into non-cancellation debts with interest at 4 per cent. but the principal cannot be reduced. This is the principle of debt adjustment adopted by this German Law. In other words, the fundamental policy of the law is to fix a debtor's ability to pay both the principal and interest and, after deducting from his business income his living expenses, to lower both the principal and interest within this limit. The tenant debt adjustment ordinance is the same as the above law, though in the detail provisions are different.¹⁶⁾

15) G. Costanzo, *Agricultural Indebtedness* (*International Review of Agriculture*, Vol. XXVII, No. 3, 1937) p. 85.

16) Vgl. Harmening-Pätzold, *Die landwirtschaftliche Schuldenregelung*, 2. Aufl. 1936.

The foundation of the foregoing idea may be summarized in the following words. Enforcement by law would, after all, be unable to make a person burdened by an excessive debt pay it beyond his ability to pay. Coercion will only lead to his bankruptcy and financial deadlock. His bankruptcy will not enable him to pay his debts inasmuch as they are greater than the value of his property that may be held as security. Thus, the creditors will receive no benefit, nor will the State be any better off from the downfall of such a debtor. If the debtor is enabled to keep up his occupation and to pay his debts within his means in a longer period of time, his creditors will be benefitted, and such a solution of the farm debt problem would be indispensable to the State's policy of maintaining agriculture.

We have seen that the German Agricultural Debt Adjustment Law provides for reduction of interest, reduction of debts, conversion to non-cancellation instalment plans, limitation of the percentage of annual instalments, etc., for the purpose of easing debt conditions. Of these German legal provisions, what we may adopt for this country are the following four: (1) a degree of reduction of interest rate (2) conversion into non-cancellation annual instalment debts (3) fixing the maximum percentage of redemption by annual instalments and (4) a degree of scaling down of the principal of excessive debts. As to the curtailment of principal, variation should be made in respect to following: (1) between the debts from individual money lenders who charge high interest rates and those from special banks and co-operative credit associations (2) according to price level at the time debts were contracted and (3) according to the percentage of the farm debts to be adjusted to the income of the debtors. These points should also be considered by any legal provision for the cancellation of principal.

3. The purpose of the adjustment of farm debts in Japan is to adjust excessive debts and at the same time to rationalize farm management and household finance by means of an economic revival, so that debts may be paid in full by

securing a surplus income for the farmers. Thus, the farmers whose debts are to be adjusted "are only those who make out plans for economic revival and the payment of debts and who are considered to be eager for revival, and the object of the law is to allow only those who would faithfully carry out these plans to adjust their debts". According to the German Farm Debt Adjusting Law also, procedure for the adjustment of debts is not to be commenced "when the personality of the farmer and the method of his management do not assure efficacy for carrying out the procedure (of debt adjustment)." It will be seen that the adjustment of debts should be made only for those who are burning with enthusiasm for revival and who are likely to succeed, and the work of debt adjustment should not needlessly give rise to the people's spirit of dependence or tendency to neglect obligations. Moreover, this work should not be allowed to deteriorate into a work for relieving creditors. Inasmuch as the work of adjusting farm debts is intended to adjust the debts of capable farmers who, though burdened by an unbearable debt, aspire for revival and are promising of success, the State should give them proper assistance, while special banks such as the Hypothec Bank and agricultural and industrial banks and also co-operative credit associations should make interest rates as low as possible by way of assisting the progress of debt adjustment. The special banks should show proper leniency in exercising their legal rights as creditors.

While thus adjusting the excessive debts of farmers, on the one hand, the State should, on the other, in order to prevent the repetition of such heavy indebtedness, attempt to increase the income of farmers by such economic and social policies and measures as the expansion of agricultural production, the regulation of prices of farm products, a fair distribution of national income and perfecting rural credit organs, etc. The farmers, too, should endeavour to make both ends meet in their household finance by improving their farm management and rationalizing their household finance.