

THE CAPITAL FORMATION IN THE OVER POPULATION AREAS

—The Problems of Korean Capital Formation—

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The density of population in Korea is 218 persons per square kilometer which makes it rank fourth in the world in population density. The density in farm population is as high as 948 persons per square kilometer which is second in the world. This reflects the intensive concentration of population when considered with the fact that only 23% of the total area is under cultivation. In addition, the natural increase in population reaches 1.6% annually. Korea is definitely one of the overpopulated areas of the world. The problem of overpopulation in Korea is critical not only due to a shortage of consumption goods, but it is connected with the problem of poverty, particularly with unemployment. However, overpopulation in Korea can be judged only in comparison with the degree of capital accumulation. Opinions that the productivity of capital is low are largely due to the fact that one is apt to think only of the growth of the population while regarding arable land and industrial facilities as being fixed. Yet it can be said that unit productivity is lowered when the equilibrium between capital and labor is destroyed. In the light of the experience of advanced industrial countries, all questions concerning population expansion have faded and they are now concerned with their need for a even larger population. Mr. Colin Clark has pointed out that the progress of a national economy is directly concerned with the disposition and increasing ratio of the labor force. The farming population of Korea accounts for 70% of the total employed and, to make matters worse, the productivity of the farmer is very low (\$50 per person in 1957). These conditions could be explained as the result of natural conditions as, farming skill, agricultural implements, methods of management, and fertilizers. But the primary fatal cause of this situation is the lack of cultivatable land. Comparing land under cultivation by hectare per person, we find the following ratios: Korea, 1/4; U.S., 1/60 and New Zealand, 1/47. In short, Korea is absolutely overpopulated and capital formation has always been relatively low.

J.B. Bentham emphasized that labor is the real source of wealth. However, in today's economic society only capital can make men work. In other words, capital is needed for men to get jobs. Investment makes jobs available for the unemployed. For the complete mobilization of disguised unemployment and to raise the productivity of labor only an increase of capital will do; labor itself

cannot accomplish this. If we start economic activity with only our hands the results will be very insignificant. In both advanced and backward countries the most annoying problem is overcoming the inequalities of income and unemployment. Particularly terrible is the circumstance where men who are anxious to work find no jobs available.

Unemployment is overcome through adjusting the relation of labor and capital. This problem appears by nature in the guise of labor, but if we survey the entire national economic society, we shall find the short-coming is capital rather than labor.

It is said that due to the paucity of capital in Korea, her economy is poor and the people must live a life subjected to this shortcoming.

Even though we are asked how much capital there is in Korea, we are not able, it is true, to offer very reliable or correct data. All we can do is estimate the amount of capital available and that which can be mobilized, and conjecture as to the pitiable situation in the past.

First I will survey the miserable situation of national capital in the past. Under the rule of the Japanese government, 97% of the capital of major industrial corporations established in Korea belonged to the Japanese, and Korean domestic capital was less than 3%. The above division of capital ownership by nationality has been done on the basis of the manager's name, however, in some cases Korean capital was registered under the Japanese manager's name for convenience's sake. On the other hand, it excludes investment in Korea by Japanese corporations which had their head offices in Japan. Considering Korean national capital on the basis of paid-up assessments to industrial corporations, we can recognize its insignificance. Most Korean capital was concentrated on the land; as of

* 1 Chungbo = 2.451 acres

the end of 1942, 394 million Koreans possessed 40.4 million chungbo of land while 120 thousand Japanese occupied 420 thousand chungbo of land in Korea. Secondly, capital available in Korea was above 70 dollars per capita from April 1949 to March 1950. The amount includes 63 dollars of national product per capita and the rest of it is made up of foreign aid and investment. The investment ratio is estimated as 9.1% which means the amount invested for a year will be 6 dollars after we subtract 64 dollars of consumption, including defense expenditures, from the available 70 dollars per capita. Supposing that the population at that time was 20.3 million, we can estimate the total investment for the year as 0.13 billion dollars. For the calendar year 1957, the gross national expenditure is estimated as 1,697.1 billion hwan, of which, total investment amounted to 275.5 billion hwan (157.1 billion hwan of private investment and

115.4 billion hwan of Government investment) and the investment ratio is 16.3%. Dividing the amount of investment by the population, it comes to 12,658 hwan, and converting it at the official exchange rate, it comes to 25.3 dollars. If we suppose the free market price of foreign exchange to be HW1,000 to \$1 the amount of investment per capita will be 12.6 dollars.

Of course this amount includes government investment, therefore, if we deduct the private investment only, it will be 7,298 hwan per capita and equivalent to less than 14.6 dollars at the official rate of exchange. The misery of Korean domestic capital is also represented in the number of entrepreneurs. According to the census of May 1, 1944, the Korean population is 25.12 million. Of which the so-called "entrepreneurs" are less than 7,516 persons of both sexes and this is equivalent to 0.02% of the total population. However, the Japanese population in Korea was equivalent only to 2.8% of the Korean population, but there were 3,665 Japanese entrepreneurs. The meaning of the foregoing is that the economic structure has declined in primary industry; that is, about 70% of all the employed are in the agricultural sector. And also the management pattern and employment relations are subordinate and primitive.

Looking at the structure of agriculture from the viewpoint of land ownership, about 70% of all farming units possess less than 1 chungbo of the land under cultivation per unit. These facts represent a subordinative social relationship which has deep roots in the Korean economy.

The lack of national capital forced the industrial structure to be subordinate to the agricultural sector and produced large amounts of petty farmers. As a result the most productive income originating from Korean industries could be found only in the autumn harvest. After autumn is over, all industries have to be contracted, and the petty farmers are forced to go hungry into early spring; this is known as the period of spring poverty. Although the Korean economy is linked to the international economic world with its developed capitalistic productive methods, we take no positive measures, even against seasonal starvation, and leave our primitive economic cycle to run its own course. Under such circumstances, high rent, high interest and low wages are produced and the labor force is subordinated to our feudalistic structure. The lack of national capital has made the Korean economy has a colonial character with primary industry supplying raw materials and, at the same time, modernized heavy-industrial facilities set up without any reference to the poor foundations of economic reality.

In other words, the Korean economy had been exploited by the Japanese militaristic economy with the intention of duplication. That

is, on the one hand, the Korean economy has grown as a colony supplying raw materials and, on the other hand, heavy industrial facilities were set up without any relation to the colonial economy by the Japanese monopolistic capitalists in order to finance cheap raw materials and a cheap labor force like a slave state.

Monopoly capital did not grow spontaneously in the structure of the Korean economy but infiltrated heteronomously from the outside and developed only few spheres of industry, such as electricity, fertilizer, metals, machines, etc., without keeping any balance in the domestic supply and demand.

In order to promote capital accumulation within the Korean economy, we should consider both the supply and demand of capital. On the supply side, capital accumulation means to increase the capitalistic producing capacity of Korea. Capital accumulation on the demand side means to off. Set the instability in the structure and the circulation of the capitalistic production in Korea.

First, the former could be attained by the formation of savings since the supply of capital is mainly financed, not only by the increase of domestic savings, but also by capital imports from abroad as well. Secondly, on the demand side, capital accumulation could be formed by expansion of the inducement to invest. The lack of the inducement to invest clearly means that a country's economic structure and framework lack equilibrium or stability. Expansion of the inducement to invest increases the demand for capital and, furthermore, it brings about an increase of production and the accumulation of capital. Only by such a process can the national economic development proceed along a proper course. However, the lack of the inducement to invest is caused by the shortage of effective demand and the lack of development of inter-industrial relationship. I feel it will be useful to divide the methods of voluntary capital accumulation into three parts as follows: First, increase the income level through the expansion of productive power which, in turn, increases voluntary savings and finances capital accumulation. Second, finance the supply of capital by raising the propensity to save, under the supposition that the income level is constant. Third, increase the supply of capital through varieties in the ways of saving, in order to make it easy to supply savings, for capital.

Under the first method, there could be, in fact, many difficulties. These difficulties touch the core of the problem of capital formation in underdeveloped countries. Up to the present, the focal point of discussions among scholars has been on ways to raise the level of income in underdeveloped countries in order to increase voluntary savings. In short, under these given economic conditions, such as the Korean economy, the increase of production, which underlies

the rise of the level of income, would be the argument: that is, expanding the effective demand first or the formation of savings. In underdeveloped countries, as far as concerns the commodity producing economy, it is self-evident that the expansion of effective demand depends upon the limit to which consumption expenditure can be expanded within the constant limits of the level of income; that is, it is a question of the size of the propensity to consume. In other words, it is the matter of the relative increase of consumption expenditure. Aside from effective demand, it is difficult to increase the size of the market without an absolute rise in the level of income.

In this connection, we should limit our consideration to the problem of raising the propensity to consume under the supposition that the income level is constant. Namely, it is nothing but an argument to increase effective demand prior to expanding the size of the market. In this sense, it is inevitable for the expansion of effective demand to bring on a reduction of savings and a decrease in the propensity to save. This point, on the surface, appears to be one of the many difficulties of capital accumulation in underdeveloped countries. Primary consideration should be given to capital in order to increase the production in underdeveloped countries. For effective demand to be abundant in the Korean economy, we have to install capital equipment in order to increase the output and, at the same time, to meet the effective demand. In order to install capital equipment, savings should be argued. Arriving at this point, we shall face the question "Which is the real basis for the increase of production in Korea: the increase of effective demand or the increase of the propensity to save?"

I think the best way to get out of this dilemma is to find a means to increase effective demand for capital goods, and not for consumption goods. In other words, to harvest the fruits of the consumption effect by promoting indirect consumption. By doing so the expansion of capital equipment as well as effective demand are predictable and they will bring the results of increases in production into the Korea economy. Then the income level will be increased and voluntary savings will be produced. If the enhancement of voluntary savings were to be embodied in the increase of capital accumulation making the supply of capital greater, then we can say that one of our objects is achieved. Secondly, to increase capital accumulation by means of enhancing the propensity to save under the given income level, the order of circulation should be stabilized at first and, by eliminating the habit of waste (that is, we must make the environment conducive for saving by the assurance of economic rewards from saving), the propensity to save will rise and we can expect an increase in the supply of capital. Third, if the savings formed by the above method

were fixed and hoarded in the forms of land, real estate, precious metals or foreign currency, the amount of resources which might be supplied into capital formation would be reduced correspondingly. Therefore we have to improve the liquidity preference of savings to concentrate on bank deposits. To accomplish this, we should check inflation in the economic field and in the political field by enhancing the reliance upon the government, and by this means we can prevent savings from being channeled into precious metals, foreign currency, or real estate and property, and savings will have a higher liquidity. Forced saving is formed in two peculiar ways; one is by collecting taxes, the other is by inflation. These seem to be a kind of social exploitation. However, they are realized to be a social investment and they would have the effect of forced savings. The introduction of foreign capital has the same significance as the expansion of saving without the reduction of the domestic propensity to consume and, therefore, without reduction of the effective demand. This is also latent capital accumulation formed through the supply of capital. Generally, to expend capital, savings should be considered in ahead and this comes from the abridgment of consumption. The abridgment of consumption reduces the domestic effective demand. But the introduction of foreign capital is a desirable supply of capital and represents capital accumulation without any defect, such as the reduction of the effective demand. It seems to me that the demand side of capital accumulation is neglected too much in the Korean economy. As I mentioned before, when capital accumulation is realized through its supply side, it means that the capitalistic productivity of Korea is strengthened essentially. Capital accumulation, through its demand side, could eliminate the instability of the structure and framework of the Korean economy in relation to the course of its capitalistic production and, therefore, could recover capitalistic rationality and, moreover, promote positive protective policies for the modernization of the industrial structure. At first, capital expansion through the increase of capital demand implies that whenever the inducement to invest rises, capital demand will be increased, and so, the increase of production and a rise in the level of income will be realized and paralleled with these features capital accumulation will be augmented. However, we can often find situations in Korea where the demand for capital has decreased because capital could not seek investment outlets. In other words, however ambitious you are to invest, you can find hardly a suitable investment. On the whole, under Korea's malignant inflation, existing savings are seeking profits in the forms of speculative or floating capital rather than being invested as fixed industrial capital. That is, speculative or floating capital is concentrated too much in commercial

fields and fails to be invested as fixed industrial capital. Floating capital has also a disposition to flow into a few spheres of profitable manufacturing and processing industries. I think this process is inevitable since Korean domestic capital has been accumulated in the form of a commercial usury fund and then began to be concentrated in short-term investments rather than long-term processing. Among these few processing enterprises the competition to invest is serious. As a result, over-investment appears only in these fields and consequently, over-production has followed.

In short, this indicates that we can hardly find the inducement to invest except in speculation, commercial trade and manufacturing enterprises. While the spirit of sound enterprise is lacking due to inflation, we can see that it is based upon reality and that even though there will be a formation of capital, partly in the course of the circulation of the national economy, which is available for investment, the public effective demand has not contracted enough. Savings seeking investment opportunities are severely competing within a limited inducement to invest and, worse yet is this lack of inducement. If this indicates the shortage of public purchasing power, it seems to indicate only that the imbalance in distribution in Korean economy is severe. That is the class of people who seek investment opportunities receive a high level of income, enough to form savings, but the mass public, with its low level of income, causes demand to decline.