



ナム, リー, キム共著

『1954—1964 年における貨幣供給の
決定因と貨幣政策の範囲』

Duck Woo Nam, Seung Yun Lee and Byong Kuk Kim, *Determinants of Money Supply and the Scope of Monetary Policy: 1954-1964*. Seoul, Research Institute for Economics and Business, Sogon College, 1968

In the past twenty years South Korea has gone through a devastating war, changes in government, sustained inflation, and in recent years increasingly rapid real economic growth. Indeed, South Korea is becoming one of the cases of successful economic development. The erratic but persistent rise in prices over the entire period has been an inevitable consequence of a government attempting to do too much by deficit spending and lending: postwar reconstruction, defense, economic development, social welfare. These inflationary pressures were heightened by mistakes in monetary policies, inadequate techniques of monetary control, an underdeveloped financial system, and certain political and administrative weaknesses.

This South Korean experience deserves much closer attention than it has thus far received in

Japan and elsewhere. A number of Korean scholars are producing research on various aspects of the country, including economic policy, institutions, and performance. Some of the results are beginning to appear in foreign languages. The book by Professors Nam, Lee, and Kim being reviewed here is representative of the research effort under way and of the desire to share it with scholars outside of Korea. For this we can all be appreciative and thankful.

The purpose of this study, as its title indicates, is to describe and analyze the factors determining the level and growth of the money supply in South Korea, to appraise the actual effectiveness of monetary policy and instruments of monetary control, and to derive policy conclusions and proposals. On the whole it achieves these objectives well; it is a competent and useful scholarly study. The book is well organized and clearly written. The brief summary of findings at the end of each chapter is an excellent feature.

The authors take the objective of monetary policy to be to stimulate rapid economic growth consonant with the maintenance of reasonable price stability. Their analysis begins by asking what was the actual growth of money supply (26% annual rate in narrow and 30% in broad definition) and, more daringly, what should have been the optimum growth of the money supply. Empirical estimation of the optimum growth rate of money is extremely difficult, as the authors well realize; yet even rough estimates at times are better than nothing. It is assumed that a 5 percent annual rate of price increase (measured by the GNP implicit deflator) would have yielded the optimum rate of real investment and growth, and the effect on velocity of the rate of inflation is estimated by regression analysis. The quantity theory is then applied, apparently without taking into explicit account the effects either of possible changes in the interest rate structure, or of what the growth rate of real output would have been. The conclusion is that the actual money supply increased between 1954-1964 about 80 percent more than its "safe" growth.

This divergence is so great that even more refined estimations of optimum money supply would not alter the conclusions.

How and why did South Korea's money supply grow so excessively? This is explained by analysis of the relative importance of the various factors determining the money supply. The expansion of the reserve base at the Bank of Korea (central bank) level has been quantitatively more important than secondary expansion by the commercial banking system. In Korea the money multiplier is only 1.3 (1.6 for money defined to include time and savings deposits) mainly because, typical of most underdeveloped countries (particularly in an inflationary context), the proportion of currency in total money is high.

Examination of the determinants of the change in the monetary reserve base (Bank of Korea credit) makes clear the basic cause of South Korea's inflation: monetary policy has been dominated by, and been no more than a servant to, highly expansionary fiscal policy. Of the gross increase in the reserve base, 58% was in lending to the government sector, 16% to the banking system (and almost half of that to government special banks), and 18% due to the accumulation of foreign exchange reserves. The offsetting deposits at the Bank of Korea of counterpart aid funds arising mainly from sale of United States agricultural aid was 22%, insufficient to prevent the excessive growth of the reserve base.

Legally the Bank of Korea cannot refuse an overdraft request of the government. More important, the environment within which monetary policy operates is one of virtually complete subservience of the central bank: it has no independence from, nor even much influence on, government policy. (The authors might have explored the nature and importance of this relationship more fully). They make the important point that inflation was not smooth; rather, it was generated by changes in government and in government policy. In particular the renewal of inflation in 1961-62 was very much a consequence of the heavy deficit spending and lending of the new military government. The book

includes a rather detailed and useful discussion of the expansive effects of various components of the government budget.

Under such circumstances what was the actual and potential scope for (independent) monetary policy? The Bank of Korea has had no real influence over its loans to the government, nor over foreign exchange (which it bought and sold in passive response to the requisites of importers and exporters), nor over counterpart aid funds. Its control was limited to its credit to the banking system, and bank secondary credit creation. This control covered only 40% of the expansion of the money supply (less than that really, since one-fifth involved the government banks).

The authors go through the exercise of determining whether independent control over this portion would have been sufficient. For this purpose they assume that Bank of Korea loans to government, foreign exchange, and counterpart deposits were autonomous and unaffected by commercial bank lending. Less Bank of Korea credit to commercial banks alone would have been insufficient; indeed the banking system would have had to extend credit to the Bank of Korea (i. e. a virtual decimation of its private lending activities). Marginal reserve requirements against deposits, even at a 100% rate, would alone have been insufficient. To offset adequately the excessive expansion of credit to the government would have required a tremendous, and disruptive, decline in the private sector's claim on real resources, in the view of the authors. In practise, of course, it was impossible for the Bank of Korea to take such an independent policy; even if it had tried the government would probably have compensated by increasing further its borrowing from the Bank of Korea and relending through its financial institutions to private borrowers.

The Bank of Korea's actual implementation of reserve requirements, ceilings on bank loans, and other instruments of monetary policy was neither particularly vigorous nor effective. Because banks shifted demand to time deposits the aggregate reserve ratio declined over time. The loan ceilings

were not comprehensive, so banks were substantially able to evade them. The authors point out that the inflationary trend could have been reduced partially, if not sufficiently, by better use of the monetary instruments available. It would be interesting to know whether this was a consequence of the lack of technical competence, or misjudgment, of the monetary authorities, or whether they knew what the correct policies should be but were prevented by the government from implementing them.

The final two chapters present sensible, reasonable, and desirable recommendations for improvements in monetary policy in the context of South Korean institutions and economic environment. The authors favor high marginal reserve requirements for short-run stabilization, an end to ceilings and to preferential rates on certain types of credit, a restriction on rediscounting by applying penalty rates above certain quotas, and a comprehensive fiscal-monetary stabilization program. They accept some degree of government deficit financing, but limited to only a portion of the non-inflationary increase in the monetary reserve base. In the past few years many of these proposals have implemented to some degree, and the rate of inflation has slowed down considerably, though not yet to the 5 percent rate deemed reasonable by the authors.

Since this book is a rather focussed, scholarly study, not a general introduction to South Korean finance, it tends to assume readers know something of Korea's financial structure. Some foreign readers would have found a brief description of the banking system helpful. Japanese will note that the Korean budget and monetary systems are, not surprisingly, quite similar to those in Japan; there are, however, only five commercial banks, with a considerable number of branches. (One such introduction is the policy-oriented draft monograph *The Financial Structure of Korea*, by Gurley, Patrick, and Shaw, reprinted in 1965 by the Bank of Korea).

Many Japanese readers will find this book most interesting because of the similarities of South

Korean monetary problems, policies, techniques, and institutions with those of early postwar Japan. This experience contains lessons which Japan learned two decades ago, but which remain contemporary and relevant, so should not be forgotten. While a useful book for those interested in the South Korean economy and economic policy, and those interested in comparison with Japan, it should also have a broader range of readers: those concerned with problems of monetary policy in less developed countries, and especially in an inflationary context.

[Hugh Patrick]