

The Japanese Agricultural Cooperative System: An Outline

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INTRODUCTION

Japan has a unique network of agricultural cooperatives called JA. The name comes from the combination of “Japan” and “Agriculture”¹. JA is engaged in various economic and political activities. JA is recognized as the biggest and most powerful agricultural group in Japan. All Japanese farmers belong to JA although they are not legally required to join it. JA also functions as a *de facto* sub-governmental body that helps the Ministry of Agriculture, Forestry and Fisheries (MAFF) frame agricultural policy and enforce it. Many MAFF programs could not have been executed without JA’s help. This paper aims to outline the JA system.

The beginning of the JA system

Japan has four types of cooperatives: consumer cooperatives, fisheries cooperatives, small and medium-sized enterprise cooperatives, and agricultural cooperatives. They are based on the Consumer Cooperatives Law, the Fisheries Cooperatives Law, the Small and Medium-Sized Enterprise Cooperatives Law, and the Agricultural Cooperatives Law, respectively. These four laws were introduced in the latter half of the 1940s under the initiative of the General Headquarters of the Allied Forces (GHQ), which ruled over Japan from August 1945 to April 1951. Similar to the other three types of cooperatives, agricultural cooperatives are categorized as nonprofit foundations.

The predecessors of agricultural cooperatives were agricultural associations established by the Agricultural Organization Law of 1943. Each municipality (i.e., village, town, or city) has its own agricultural association. The presidents of agricultural associations were appointed by the government. At that time, Japan had a wartime economy. The distribution of food and agricultural inputs was controlled by the government. One of the most important functions of the agricultural associations was to carry out the rationing system for food and agricultural inputs.

The GHQ dissolved agricultural associations and promulgated the Agricultural Cooperatives Law in 1947. At first, the GHQ tried to introduce American-style agricultural cooperatives that are strongly independent of the government. However, since Japan had suffered from serious shortages of food and agricultural inputs, the GHQ let agricultural cooperatives collaborate with the Japanese government in operating the rationing system for food and agricultural inputs.

Under the rationing system, the profit of agricultural cooperatives was guaranteed. The shortage of food and agricultural materials was resolved, and the rationing system was removed in 1951. As a result, many agricultural cooperatives got into financial difficulties. The government provided financial support to agricultural cooperatives and thoroughly revised the Agricultural Cooperative Law. The basic structure of today’s JA system was framed when the National Central Union of Agricultural Cooperatives (NCU) was established

in 1954.

Characteristics of the JA system

The JA system has a three-tier structure. Unit cooperatives in the villages, towns, and cities make up the first level². The Prefectural Central Unions of Agricultural Cooperatives (PCUs) in the prefectures make up the second level³. Each prefecture has its own PCU, to which all of the unit cooperatives in the prefecture belong. At the third and top level, the NCU supervises all of the unit cooperatives in Japan through PCUs.

Unit cooperatives are in direct contact with farmers. Each unit cooperative has its own jurisdiction, and MAFF has stipulated that jurisdictions should not overlap.

Farmers are regular members of local unit cooperatives. Non-farmers can join as associate members if they express allegiance to the principle of the JA movement. Both regular and associate members can use all the services of JA, but only regular members can vote at the general meetings of the unit cooperatives. The president of a unit cooperative is elected from among regular members only.

Figure 1 shows the structure of a unit cooperative. JA provides not only agricultural services but also almost every service related to daily life. In addition, JA is very active in banking and insurance businesses, which earn a major portion of JA's profit. Until the early 1990s, much of JA's businesses had been heavily regulated and protected by the government—not only MAFF but also the Ministry of Finance (MOF). When the JA system started, MAFF allowed it a monopoly position for rice collection and fertilizer sales. However, MAFF gradually liberalized the marketing of agricultural products and the sales of inputs. In particular, by abolishing the Food Control Law in 1994, the MAFF protection for JA was largely removed.

JA's banking and insurance businesses had been the most heavily protected. From the 1940s to the 1980s, MOF's regulation over financial institutions, including JA's financial businesses, was so strong that Japanese financial institutions were often referred to as "armed convoys"⁴. MOF's permission was needed for such activities as the location of branches and the creation of new financial instruments. At the same time, interest rates were maintained at below-market levels, and the entry of new financial institutions was restricted. These measures protected the profits of the existing market participants. JA had been given particularly favorable treatment. For instance, JA was given more freedom than ordinary commercial banks to set up financial branches, and was allowed to build up profits by lending through the interbank money market to city banks that faced a huge demand from large businesses for finance. In addition, JA was allowed to set the term-deposit interest rate 0.1 percentage points higher than the commercial bank rate, which gave it a clear advantage in attracting business.

Insurance had also been heavily regulated and protected by MOF. Just as in the banking sector, JA had been allowed greater freedom to set premiums, giving it an advantage over private insurance companies.

As Figure 2 shows, JA became increasingly dependent on the profits from banking and insurance in the 1970s and the 1980s. During these two decades, JA expanded the scope of its activities under the slogan of "not only farming but also rural living overall"⁵. JA started up various new businesses such as supplying home-lots in the 1970s and the 1980s. As Figure 2 shows, these new businesses were not profitable. However, because JA provided a wider

variety of services and offered greater convenience, it became more attractive to farmers and non-farmers. This helped JA attract new deposits and sell new insurance policies. In other words, the real purpose of these new activities was the promotion of JA's financial services. Financial deregulation, originating in 1979 and gradually proceeding thereafter, has slowly but steadily undermined the privileges of JA's financial businesses. Critically important was the liberalization of interest rates on small deposit accounts, which began in 1989 and was completed in 1994. After that, it became difficult for JA to count on stable profits from their financial businesses.

As Figure 2 indicates, the profit from banking fell drastically in the mid-1990s. This coincided with the "*jusen* problem." In the late 1980s, JA had lent heavily to the housing finance companies, the *jusen*. However, many of these companies went bankrupt when the land-price boom ended around 1990 (with the so-called collapse of the bubble). Failing to collect debts from the *jusen* companies, JA's banking business plunged into serious financial difficulties in the middle of the 1990s.

However, the *jusen* problem was only the beginning of the chronic hardship of JA's financial businesses. Although the profitability of its financial businesses has declined, JA still relies on its financial businesses because the profitability of its other businesses is still low. This means JA's economic position has become fragile.

Number of unit cooperatives

Table 1 shows the number of unit cooperatives. In the late 1940s, many of the unit cooperatives were organized along municipal borders because they were in charge of food rationing. The number of municipalities decreased sharply in the 1950s after the government promoted consolidation among municipalities. MAFF and NCU supported mergers of unit cooperatives along similar lines because many were too small to be efficient. However, unit cooperatives did not merge as fast as the municipalities did from the 1950s to the 1980s—farmers preferred the status quo unless they were convinced of the benefits of merging.

The consolidation of unit cooperatives sped up since the middle of the 1990s. This can be viewed as a countermeasure to the harsher business environment as mentioned above.

In 1999, the government launched a new program for consolidating small municipalities into larger ones as part of its administrative reform. As a result, the number of municipalities nearly halved between 2000 and 2010. However, the number of unit cooperatives reduced faster in that period than did the number of municipalities.

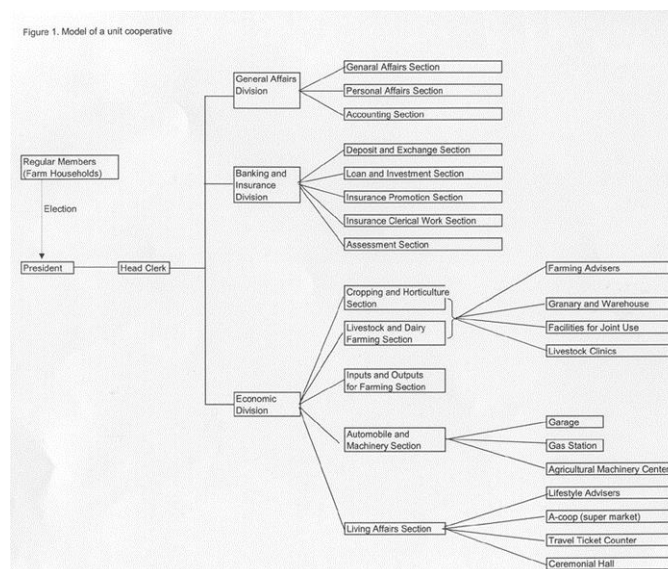
JA's function as a *de facto* sub-government body

JA has often functioned as a *de facto* sub-governmental body. A typical example is the acreage control program, which was employed as an essential part of rice policy from 1971 to 2004. The acreage control program can be viewed as a rice production cartel organized by the government and JA. MAFF first sets a national target for the acreage that should be diverted from rice planting, and then allocates this target among cities, towns, and villages. In both setting and allocating the target, MAFF considers JA's opinions. JA accomplishes the target acreage by drawing up farmland use plans for these areas and observing whether rice farmers follow the plans. The acreage control program is just one example of JA's involvement in

agricultural policy. Many MAFF policies could not have been executed without JA's help. As described previously, JA's economic position became less secure after the middle of the 1990s. Accordingly, JA can no longer afford to work as a de facto sub-governmental body. JA's economic and political position now seems at a turning point.

REFERENCES

- 1) The name JA has been used since 1993. Before that, Japanese agricultural cooperatives called themselves *keito* (its literal meaning is system). For simplicity, this paper uses JA for the entire postwar period.
- 2) There are two types of unit cooperatives: specialized cooperatives and general cooperatives. The former are similar to American agricultural cooperatives, which specialize in distributing agricultural products and purchasing inputs for farming. General cooperatives provide a greater variety of services. The number of regular members of specialized cooperatives (186,476 in the 2011 business year) is much lower than that of general cooperatives (4,668,961 in the 2011 business year). Thus, this paper discusses only general cooperatives. Indeed, the term JA is commonly viewed as referring to general cooperatives.
- 3) There are 47 prefectures and 47 PCUs in Japan.
- 4) See Juro Teranishi, *Evolution of the Economic System in Japan*, Edward Elgar, 2005, for a comprehensive explanation of MOF's regulation of the financial industry.
- 5) This slogan appeared in a resolution adopted at the 12th General Meeting of Agricultural Cooperatives in 1970.



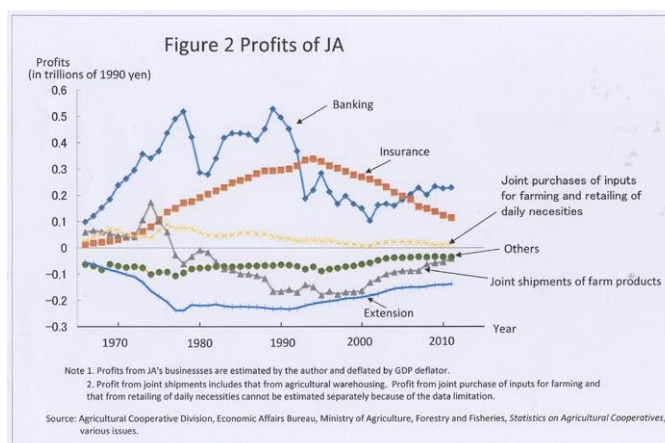


Table 1 Number of unit cooperatives compared with cities, towns, and villages

	Cities, towns, and villages	Unit cooperatives	Annual compound percentage decrease	
			--- % ---	
1950	10,414	13,314	}	
1955	4,813	12,985		-0.5
1960	3,511	12,221		-1.2
1965	3,376	9,135		-5.7
1970	3,276	6,185		-7.5
1975	3,257	4,942		-4.4
1980	3,256	4,546		-1.7
1985	3,254	4,303		-1.1
1990	3,246	3,688		-3.0
1995	3,233	2,635		-6.5
2000	3,230	1,618	-9.3	
2005	2,395	886	-11.3	
2010	1,727	725	-3.9	

Source: Ministry of Agriculture, Forestry and Fisheries, Ministry of International Affairs and Communications.

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