



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# The Pervasive Japanese Ag Co-Op System

by James V. Parker and Merritt Chesley

**A**gricultural cooperatives are intimately involved in virtually every facet of a Japanese farmer's life and livelihood. Cooperatives provide most of the inputs a farmer uses, from chemicals to cartons, and market the bulk (about 60 percent) of farmers' production. Cooperatives implement government set-aside and price support programs, they are the primary source of all lending and insurance for farm households, they run rural gas stations, grocery stores, even beauty shops.

This degree of involvement with both government programs and the rural community, coupled with the huge number of jobs involved, obviously provides a strong incentive for the cooperative system to fight to maintain the status quo and prevent both import liberalization and domestic deregulation. And, the cooperative system's extraordinarily strong political power has enabled it to do so. But the system as a whole (the good intentions of many individual cooperative officials notwithstanding), by raising costs to farmers and restricting farmers' options, is one of the primary obstacles preventing Japanese agriculture from becoming more productive and efficient.

The system is under siege, however. Academics charge inefficiency and farmers complain of overregulation. Financial liberalization is putting pressure on cooperatives' financial operations, the profits of which offset the losses incurred by their marketing activities. Therefore, with the support of the Ministry of Agriculture, Forestry and Fisheries (MAFF), efforts are being made to streamline the cooperative structure (although not necessarily the number of jobs) in an attempt to lower costs, widen services and strengthen the system's power.

➤ Often overlooked when discussing Japan's corporate giants is the mammoth agricultural cooperative system. Included in this system are the world's largest supplier of agricultural chemicals, one of the world's biggest banks, and Japan's largest insurance company. With roughly one full-time cooperative official for every 20 farm households, the far-reaching Japanese agricultural cooperative system employs almost 400,000 people, more than IBM or Ford employ worldwide. In fact, only two Fortune 500 companies employ more people than does this vast system.

## The Cooperative System: One Leg of the Agricultural "Iron Triangle"

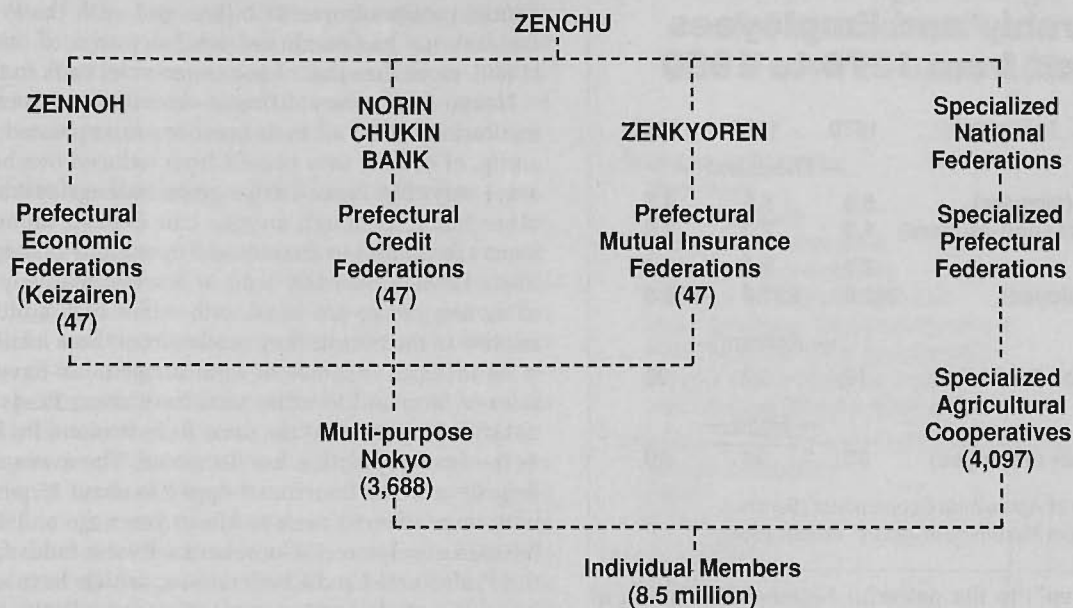
As with much of modern Japanese agriculture, the current cooperative system was designed in the post-war environment of chronic food shortages. Established under the Agricultural Cooperatives Law of 1947 to help the myriad small owner-farmers who received land through the newly implemented land reform, the cooperative system inherited from pre-war and war-time agricultural associations a quasi-state character and close ties to the conservative ruling political party.

Japan scholars often refer to an "iron triangle" composed of the ruling Liberal Democratic Party (LDP), the government bureaucracy, and big business, which collaborate in making policy and controlling the economy. In many ways, the cooperative system functions as a huge agribusiness conglomerate, serving as one leg

---

*James V. Parker is Agricultural Minister-Counselor, and Merritt Chesley is Agricultural Attache, American Embassy, Tokyo.*

# Japanese Agricultural Cooperative System



(along with the LDP and MAFF) of the "iron triangle" which makes agricultural policy.

In contrast to their American counterparts, cooperatives in Japan are not individual organizations wholly owned and operated by the member farmers, established solely to give farmers more marketing power. Rather, Japanese cooperatives are tied into a national bureaucracy which exerts considerable control over the farmer's entire operation. Most Japanese farmers have little effective choice as to which cooperative to join, what brands of inputs

farmer will most likely receive his supplies and market his milk through the local dairy cooperative but will use the local general-purpose nokyo for his banking and insurance needs.

## Commercial Operations: A Losing Proposition

The average local (general-purpose) nokyo has about 2,000 members and 100 employees. Membership includes both farmers, and non-voting associate members from the local community. Nationwide the number of nokyo members, as well as nokyo employees, is growing steadily (Table 2). The number of farmers is dwindling, however, and non-farmer associate members now comprise more than a third of total nokyo membership. Each nokyo employee, therefore, now serves less than 20 farm households.

Theoretically, the most important activities of nokyo are the supply of inputs and the marketing of crops. For these functions, the nokyo are connected through the 47 Prefectural Economic

***The far-reaching Japanese agricultural cooperative system employs almost 400,000 people, more than IBM or Ford worldwide.***

to buy, what prices to pay, or where to sell their crops.

The complex of agricultural cooperatives in Japan can best be visualized as a series of overlapping pyramids, with a large number of local cooperatives at the bottom, a lesser number of prefectural federations in the middle, and a small number of national organizations at the top (Figure). Coordinating the whole system at the very top of this complex is the powerful Central Union of Agricultural Cooperatives ("Zenchu").

Producers belong, at the bottom level, to the local cooperative in their area and typically depend on their cooperative for most of their input, marketing and financial needs. There are a total of almost 8,000 local cooperatives throughout the country (Table 1). Roughly half of these are general-purpose cooperatives ("nokyo") which, in addition to their marketing and distribution functions, also provide financial and insurance services to their members. For these different functions, however, a cooperative belongs to different prefectural and national organizations.

The remaining cooperatives at the local level are specialized by commodity, have their own specialized prefectural federations and national organizations, and limit their operations to supplying inputs and marketing the commodity. Many farmers, therefore, do business with more than one local cooperative. Thus, a dairy

Table 1.

## Number of Local Cooperatives Declines

	1960	1970	1980	1990
	— Thousand —			
Multi-purpose nokyo	12.0	6.0	4.5	3.7
Specialized cooperatives:				
Dairy	—	.7	.6	n/a
Horticulture	.7	.6	.6	n/a
Sericulture	6.3	2.6	1.2	n/a
Grassland	—	1.0	.8	n/a
Livestock	3.2	.6	.5	n/a
Others	24.0	5.0	1.5	n/a
Subtotal	34.2	10.5	5.2	4.1
Total no. of cooperatives	46.3	16.6	9.7	7.8

Source: Ministry of Agricultural, Forestry and Fisheries "Statistics on the Existing Number of Agricultural Cooperatives."



Table 2.

## Japanese Cooperatives' Membership and Employees Increased from 1970 to 1990

	1970	1980	1990
— Thousand —			
Regular members (farmers)	5.9	5.6	5.5
Associate members (non-farmers)	1.3	2.3	2.9
Total members	7.1	7.9	8.5
Multi-purpose employees	242.0	287.0	296.0
— Percent —			
(Assoc. members as % of total)	18	29	35
— Ratio —			
(No. of members per employee)	30	28	29

Source: Central Union of Agricultural Cooperatives (Senchu), "Agricultural Cooperative Movement in Japan," various years.

Federations ("keizairen") to the powerful National Federation of Agricultural Cooperative Associations ("Zennoh"). For example, Zennoh purchases the raw materials for fertilizers, feedstuffs or agrichemicals and supplies them to manufacturers, from whom it then repurchases the finished product for distribution to the keizairen and then on to local cooperatives. Prices are marked up, of course, at each step of this system, with the result that farmers end up paying an additional 15 percent, on average, for their purchases.

When joining a local nokyo, both farmer and non-farmer members invest an average of 115,000 yen (about \$880) and, in addition to having access to the various services offered by the nokyo, receive dividends (a maximum of seven percent by law) at the end of the year. Funds accumulated by individual nokyos, in turn, are passed on to the prefectural level. Thus, although nokyo can obtain supplies directly from private companies or market their crops themselves (and, in fact, sometimes do), there is a strong incentive for nokyo to buy supplies and market their products through the keizairen (and hence Zennoh), to better serve their "investment."

Embracing about 160 companies or affiliates, Zennoh is a huge corporate venture with an annual business turnover of close to \$50 billion, which would place it among the top fifteen Fortune 500 corporations. This revenue is roughly equivalent to the annual sales revenue of Hitachi, Japan's second largest corporation (after Toyota Motor, at \$65 billion). Zennoh's sales of feedstuffs alone are greater than worldwide sales of Coca-Cola or Asahi Breweries.

Virtually all nokyo (more than 98 percent) consistently turn a profit each year. In Japan Fiscal Year 1989 (April 1989 through March 1990), the average profit per individual nokyo was about \$550 million. This profit, however, is earned universally through the credit and insurance functions of the nokyo. Nokyo generally lose money on their purchasing and marketing functions, despite a large market share of total agricultural marketing, commissions ranging from 3-10 percent, and a considerable tax advantage (Table 3). (Whereas commercial companies must pay 37.5 percent corporate income tax, cooperatives—as well as the national organizations such as Zennoh—are subject to only 27 percent tax.)

### Financial Operations: The Key to Nokyo Strength

For their banking activities, the nokyo go through the Prefec-

tural Credit Federations to the Central Cooperative Bank for Agriculture, Forestry and Fisheries ("Norin Chukin Bank"), which is Japan's fifth largest bank in terms of deposits. Norin Chukin has annual profits of over \$1 billion and with the Prefectural Credit Federations has combined total deposits of over \$450 billion (1989), more than that of any commercial bank in the world.

Nokyo face a very different environment from other banking institutions. With all their functions incorporated under the same entity, of course, they benefit from reduced overhead costs in the same way that Japan's huge postal savings system does. On the other hand, although anyone can deposit money with nokyo, loans are limited to farmers and operations related to agriculture. Since farmers naturally tend to borrow relatively small amounts of money, nokyo are faced with rather high administrative costs relative to the returns they receive from these loans.

As off-farm incomes of farm households have increased and sales of farmland to urban uses have risen, funds deposited with nokyo have grown. At the same time, demand for loans has fallen, as the farm population has decreased. The average nokyo loan-to-deposit ratio has therefore dropped to about 25 percent, compared with more than 50 percent fifteen years ago and 80-90 percent in the case of commercial local banks. Excess funds from nokyo go to the Prefectural Credit Federations, which have an even smaller loan ratio of about 15 percent. Excess prefectural funds are then funnelled up to Norin Chukin.

To offset various factors (e.g., the inability to open branches) restricting the amount of cash that it can generate, the cooperative banking system is allowed certain options not open to most banking institutions. For example, interest rates on deposits are set at 0.1 percent above the ceiling allowed for commercial banks. This has encouraged non-farmers to deposit their money with the nokyo rather than with local banks.

In addition, Norin Chukin is one of the few banks allowed to issue debentures (at a ceiling of 30 times the bank's net worth) in order to raise supplementary funds, and it also enjoys a much looser reserves requirement than other banks. Because of the large amounts of cash available to it, therefore, Norin Chukin is one of the largest lenders in the high-return short-term money markets. As the proportion of non-farmer associate members has grown, so has the amount of money available for investment other than lending, and Norin Chukin has become the largest single institutional investor in the private sector.

Although these financial services provide roughly two-thirds of gross nokyo profits, this financial involvement also draws the most criticism from farmers and outside observers. Even farmers who support and choose to fully rely on nokyo often feel that cooperatives, in focusing on financial activities, have moved away from their original mandate of helping farmers be more efficient and profitable.

Financial deregulation, however, threatens to reduce the financial power of the agricultural cooperatives. Beginning in 1985, and continuing today, all restrictions on interest rates are being removed, with complete deregulation to be achieved by mid-1994. Nokyo is therefore beginning to face a much more competitive environment.

Impending financial deregulation has many local nokyo and prefectural keizairen worried, and some have overextended their financial operations. This mismanagement, in addition to the fact that many farmers have defaulted on their mortgages with the recent drop in rural land prices, is putting increased pressure on cooperatives' financial operations. As a result, the number of nokyo running a deficit increased from 55 in 1988 to 61 in 1989.

The insurance operations of nokyo, however, continue to be highly profitable. Money from insurance sales goes through the Prefectural Mutual Insurance Federations to the National Mutual



Insurance Federation of Agricultural Cooperatives ("Zenkyoren"). Zenkyoren, with a balance of almost \$2 trillion in long-term insurance policies and annual profits of about \$60 million, constitutes Japan's largest insurance company. Unlike private-sector insurance companies, Zenkyoren is allowed to deal in both life and non-life insurance. The increased volume this provides, as well as the preferential tax rate, allows Zenkyoren to offer lower premium rates than commercial insurance companies.

### Nokyo and Zenchu: Pushing a Political Agenda

Since its origins in the post-war period, the agricultural cooperative system has played a key role in the implementation of many Japanese agricultural policies, with nokyo often acting as a local agent of MAFF. In fact, practically all commodity subsidies are distributed through the nokyo. The quasi-state role of the cooperative system is particularly evident in the rice sector, which accounts for fully one-third of Japan's gross agricultural product.

Nokyo are in charge of local allocation and enforcement of the riceland diversion program, through which a third of paddy land has been diverted to other crops. In addition, cooperatives are key players throughout the entire rice distribution network. Nokyo handle 95 percent of all rice sold at the farm gate (outside of the black market), with the result that almost a third of all nokyo marketing sales comes from rice. At the wholesale level, Zennoh handles more than 30 percent of the rice distributed; in fact, Zennoh's income from rice is almost equivalent to total Japanese farm household income from rice.

Cooperatives, therefore, have a keen interest in maintaining the highly controlled distribution system in Japan and it is not surprising that substantial resources are spent protecting the status quo, despite the many disadvantages of the system for farmers.

Zenchu, with a small staff of 122, formulates policy for the entire cooperative system and acts as political lobbyist. Zenchu's formidable power over Japanese politicians is wielded in several ways. First, although details are difficult to ascertain, the cooperative system's enormous financial resources undoubtedly translate into substantial contributions to politicians. Second, the cooperatives' pervasive dominance over every aspect of most farmers' lives and livelihoods gives Zenchu considerable power over farmers' labor as well as votes. Through the cooperative network, politicians have access to rural facilities and to farmers' time as campaign workers, and farmers' votes (worth two to three times more than urban votes, because electoral reapportionment has not kept pace with demographic shifts) can be delivered to politicians who support Zenchu's politics.

In the face of increasing liberalization, Zenchu—aware of the need to lower producer costs and concerned about financial deregulation on nokyo financial activities—has embarked upon reforms to streamline cooperative services.

The reform program, with details scheduled to be fully mapped out by March 1993, has four nominal objectives:

- To strengthen production extension services to farmers;
- To strengthen and diversify financial operations;
- To expand life and casualty insurance operations; and
- To strengthen non-production services (e.g., stores, gas stations, etc.) to meet the lifestyle needs of farmers and their families.

Reform of the cooperative system centers on merging individual cooperatives with the professed aim of improving services offered to farmers at lower cost. Merging of local cooperatives actually began in 1961, with the most dramatic changes occurring in the early years, particularly in the number of specialized cooperatives. General-purpose nokyo and specialized cooperatives, once in a 1:3 ratio, are now roughly equal in number.

Table 3.

## Zennoh Has Large Share of Japanese Farm Inputs and Farm Product Marketings

*Percent of Total Market – 1988*

<b>Supplies to Farmers</b>	
Fertilizers	72
Agrichemicals	51
Compound feedstuffs	37
Agricultural machinery	23
Cartons for agricultural use	58
Vinyl sheeting for agricultural use	18
Petroleum for rural consumption	49
LP gas for rural consumption	35
Vehicles for rural consumption	14
<b>Marketing and Distribution of Production<sup>1</sup></b>	
Wheat and barley	99
Rice <sup>2</sup>	95
Fruits	21
Vegetables	25
Eggs	30
Chicken	23
Pork and beef	17

*Source: National Federation of Agricultural Cooperative Associations, "Zennoh," various years.*

<sup>1</sup> The marketing of most high-value products, such as fruits and vegetables, is handled by specialized cooperatives, rather than by Zennoh.

<sup>2</sup> Both government and independent distribution.

So far, however, much of this merging has been done along the lines of established administrative entities (e.g., county or township). As mergers include larger areas, opinions vary on their benefit to farmers. There is general agreement that nokyo costs would come down, which should reduce producer costs, but many farmers are concerned that local services, such as extension operations, will be reduced. The number of general purpose cooperatives is planned to be cut to 1,000 (or less) by the year 2000, less than one-third the current number.

Also planned, to further streamline the system, is the gradual phase-out of the prefectural cooperative federations. Eliminating this "middleman" stage is meant to help reduce costs. There are no plans, however, to reduce the number of cooperative employees other than by attrition. Prefectural employees will either be transferred, along with their functions, to the local nokyo or will be retained in branch offices of the national organization.

These reforms, therefore, are not really intended to restructure the basic system or address criticisms, but rather are designed to help the cooperative system maintain its monopoly power over many facets of the agricultural economy. Specifically, the mergers are seen as a way to help nokyo compete with commercial banks in a deregulated environment.

The vast and powerful cooperative system faces an increasingly competitive environment. In addition to the pressures brought by financial deregulation, the trend toward larger and more independent farmers is discouraging reliance on cooperative management and increasing deregulation of the domestic rice market (which will likely intensify with import liberalization) signals further loss of control by cooperatives. Nevertheless, although its heyday may be over, the cooperative system—with its enormous organizational size, immense financial power, and still-undiminished political strength—will continue to be a potent force in Japanese agriculture. C