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Ethnic income distribution in colonial Korea and Taiwan: Did the Japanese capture a bigger pie in 1940 than in 1930?¹⁾

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I. Introduction

Recently, study on Korean and Taiwanese economies under Japanese rule (1910–45 in the former and 1895–1945 in the latter) has made substantial progress. Estimating national income is a milestone achievement in it.²⁾ Yet there is still much to be done. Among issues unexplored is income distribution between ethnic groups. An inquiry into the size and composition of Japanese income vis-à-vis that of indigenous income will be essential for the understanding of nature of Japanese rule and its effects on the indigenous economic life in the colony. It is, however, too ambitious a task to construct annual series of aggregate income classified according to ethnic groups in colonial Korea and Taiwan. Quality and

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- 1) This note is a revised version of my work, “Ethnic income distribution in Korea and Taiwan in the 1930s: an unfavorable change for Japanese colonizers?” Discussion Paper Series F-078, Faculty of Economics, Tezukayama University, 1994. The Japanese version was published in *Kokumin Keizai Zasshi*, vol. 175, no. 4, 1997. A chief objective of this note is, using updated references, to present more simplified discussion for foreign specialists in this field; no revision is made on estimates on ethnic incomes from the former work.
- 2) Mizoguchi, T. and Umemura, M. eds., *Economic statistics on the former Japanese colonies*, Toyo Keizai Shimposha, Tokyo, 1988; Kim, N. ed. *Economic growth in Korea 1910–1945*, tr. by Moon H. and Kim S., University of Tokyo Press, Tokyo, 2008 (originally published in Korean in 2006); Mizoguchi, T. ed., *Asian historical statistics: Taiwan*, Toyo Keizai Shimposha, Tokyo, 2018; Mizoguchi, T., Pyo H. and Moon, H. eds., *Asian historical statistics: Korea*, Toyo Keizai Shimposha, Tokyo, 2019.

quantity of basic statistics produced by the colonial governments and other official and non-official institutions are far from sufficient. This is all the more the case with the early colonial period. Here I focus my attention on two benchmark years in the late period, 1930 and 1940. There are two reasons for it, practical and theoretical.

First, 1930 and 1940 were national census years, being provided with unusually rich statistics. Second, Japanese income as a whole in the early colonial period was, at any rate, very small—in 1910, likely to be 5% or less of total income in Korea and Taiwan. Scrutinizing this point will not be worthwhile.

By 1930, however, Japanese income is most likely to have reached a substantial amount because of the increased commitment of Japanese in the colonial economy. How much share did Japanese gain in each sector of the colony in that year and how did it change thereafter?

Before proceeding to the main subject, I briefly describe the changing political economy of the Japanese Empire during the decade and review a prevalent hypothesis on the ethnic income distribution.

II. A prevalent hypothesis

The 1930s is sometimes called a decade of crisis in the capitalist economies. The crisis facing the Japanese Empire was indeed acute. The Great Crash in 1929 gave a hard blow to the already depressed Japanese economy. The reapplication of the gold standard in January 1930 was even more damaging. A way to revive the economy was export drive and domestic demand creation. For this purpose, the government, for one thing, abandoned the gold standard in December 1931, thereby letting yen depreciate. For another, it adopted reflationary policies, that is, larger public spending and interest rate cut. These policies, closely associated with the name, Finance Minister Takahashi Korekiyo, were successful and the Japanese economy showed upturn ahead of Western economies. An economic historian, Nakamura Takafusa writes:

The decisive element in this period's economics was abandonment of the gold standard and adoption of a control-based monetary sys-

tem, including exchange controls. The latter allowed fiscal expansion at home through easy money, isolated the domestic economy from the international in certain respects, protected the nation from the world depression, allowed domestic fiscal expenditure without fear of excess imports, and promoted exports through depreciation of the yen. This system of foreign exchange controls was not limited to Japan but was also adopted, albeit later, in the US, England, and Germany. In this sense Takahashi was a pioneer in international economic policy.³⁾

The flooding of Japanese products in foreign markets, however, caused a strong reaction of the West. This reaction, in turn, upheaved Japanese nationalist sentiments. Social unrest and political instability were exacerbated and Japanese militarism and territorial expansionism gained a momentum. Earlier, in 1931, the Manchurian Incident broke out and in 1932 a puppet state, Manchukuo was founded. Building a Japan-Manchuria bloc economy along with heavy industrialization was stressed. In 1937, the Japanese military thrust into full-fledged war against the army of the Chinese Nationalist Party. Ever larger supply of energy, raw materials, consumption and investment goods and armaments was required.

These developments of the crisis multiplied the value of Korea and Taiwan for the Empire—each as a colony with untapped natural resources and, in addition, Korea as a military and logistic base for Japanese advancement to the (Chinese) Continent (Tairiku Zenshin Heitan Kichi) or as a route to the Continent (Tairiku Ruto) and Taiwan as a base for advancement to Southeast Asia (Nanshin Kichi). This led to a major change in the colonial development policy. Previously, a primary objective of the policy was promoting agricultural development to create a complementary industrial structure between the mainland and the colony: manufacturing in the former and agriculture in the latter. From the mid-1930s, however, manufacturing became a target sector in the

3) Nakamura, T., *Economic growth in prewar Japan*, tr. by Feldman, R. E., Yale University Press, New Haven, 1983, p. 202.

colonial development. At the same time, more emphasis was placed on the increase in electric power supply and the extension of railways and communication networks in the colony. Japanese direct and indirect investments played a key role in achieving the converted policy goal.

Prior to the 1930s, big *zaibatsu* groups such as Mitsui, Mitsubishi, Yasuda and Sumitomo expressed little interest in colonial investment because it seemed too risky. Yet, given official support and good prospects for high returns, their involvement in colonial businesses was increased. The outstanding growth of the Japanese investment is shown in the following swollen amounts of paid-in corporate capital between 1930 and 1940: from 295.8 million yen to 1,473.9 yen in Korea and from 226.3 million yen to 488.3 million yen in Taiwan (my estimates).

Understandably, scholars have interpreted the increased Japanese investment as a vital force expanding the Japanese economic power in the colony. Alternatively, they have suggested a shrinking indigenous economy. For example, one states on the industrialization in Korea in the 1930s as follows:

... this development [of manufacturing in Korea during the 1930s] was nothing but part of development of Japanese capitalism. It created neither an industrializing national [indigenous] economy nor a self-supporting national economy, because of lack of association with the domestic market. The increases in factories and manufactured products resulted in a more dependent colonial economic structure. They in fact were accompanied with expansion of foreign trade to carry natural resources out of the colony . . . thus destroying national economy [in the colony].⁴⁾

This would imply an unfavorable change in ethnic income distribution for indigenous people—more specifically, a decreased income share for Koreans or Taiwanese compared with Japanese. Did it actually happen?

4) Cho, K., *Study on the Korean economy*, tr. by Suh Y., Toyo Keizai Shimposha, 1974, p. 5.

III. Estimation results

One's income is determined primarily by his holdings of factors of production and rates of return from their use in the actual production process. Combining statistical data on these two kinds of variables together and, further, drawing on varieties of assumptions, I have obtained estimates of domestic income earned by each ethnic group and the government as summarized in Table 1. Among the four groups shown, the share of the foreigners was almost negligible and so was that of the government. In both colonies, Japanese earned much of their income in the tertiary sector, whereas a large part of indigenous income was derived from the primary sector (in which agriculture was overwhelming). The past literature has commonly emphasized the importance of agricultural rent as a source of Japanese income in the colony, but this is not supported by the estimates here. In fact, employee and self-employed incomes were more important for Japanese. On the whole, in Korea, Japanese gained 23.5% of total domestic income in 1930 and 20.7% in 1940. In Taiwan, the corresponding figures were 26.3% and 24.6%. Thus, over time, the Japanese share slightly declined in both Korea and Taiwan—a result in conflict with the prevalent hypothesis.

Table 1 Domestic income earned by each ethnic group and the government
(million yen)

Korea 1930

A.

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Government enterprise income
Koreans	720	3	33	236	-
Japanese	167	17	73	56	-
Foreigners	20	1	1	1	-
Government	-	-	-	5	-8
Total	907	20	109	297	-8

B.

	Primary income	Secondary income	Tertiary income	Total
Koreans	482	94	417	993 (74.8%)
Japanese	90	24	197	312 (23.5%)
Foreigners	3	5	17	25 (1.9%)
Government	5	-	-8	-3 (-0.3%)
Total	580	124	623	1,327 (100.0%)

Ethnic income distribution in colonial Korea and Taiwan

Table 1 (continued)

Korea 1940

A.

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Government enterprise income
Koreans	1,700	14	87	646	-
Japanese	228	125	151	154	-
Foreigners	26	1	1	1	-
Government	-	-	-	8	36
Total	1,955	140	239	810	36

B.

	Primary income	Secondary income	Tertiary income	Total
Koreans	1,415	352	681	2,448 (77.0%)
Japanese	179	171	308	659 (20.7%)
Foreigners	2	4	23	29 (0.9%)
Government	8	-	36	44 (1.4%)
Total	1,605	527	1,048	3,180 (100.0%)

Table 1 (continued)

Taiwan 1930

A.

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Government enterprise income
Taiwanese	263	4	12	78	-
Japanese	72	10	33	17	-
Foreigners	10	0.2	0.0	0.3	-
Government	-	-	-	1	3
Total	346	14	45	96	3

B.

	Primary income	Secondary income	Tertiary income	Total
Taiwanese	173	47	138	357 (70.8%)
Japanese	24	19	89	133 (26.3%)
Foreigners	0.1	5	6	11 (2.1%)
Government	1	-	3	4 (0.8%)
Total	198	70	236	504 (100.0%)

Ethnic income distribution in colonial Korea and Taiwan

Table 1 (continued)

Taiwan 1940

A.

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Government enterprise income
Taiwanese	492	15	17	239	-
Japanese	103	62	33	64	-
Foreigners	10	1	5	1	-
Government	-	-	-	4	16
Total	605	78	56	307	16

B.

	Primary income	Secondary income	Tertiary income	Total
Taiwanese	385	118	261	763 (71.9%)
Japanese	62	75	125	262 (24.6%)
Foreigners	0.2	5	12	17 (1.6%)
Government	4	-	16	20 (1.9%)
Total	451	198	413	1,062 (100.0%)

Notes: The summed value along each column or row does not necessarily agree with the total value on the same column or row because of rounding. Employee and self-employed incomes include income from part-time work. Rent includes agricultural, forestry and house rent. My former work in Japanese (“Estimates on incomes distributed among ethnic groups in Korea and Taiwan in 1930,” Discussion Paper no. 13, Research Institute of Industrial Science, Nagoya Gakuin University, 1989) presents details of the procedure and assumptions adopted along with data sources for the estimation of incomes in 1930. The estimation of incomes in 1940 has been conducted basically in the same manner, though,

because of fewer data available, it relies on more assumptions. The assumptions adopted for it include the following: wages for the part-time worker were a quarter of the full-time worker, average incomes for Japanese merchants paying business taxes in Korea were 30% higher than those for the counter parts in Japan and average incomes for self-employed female workers were half of those for male workers in the same category.

Rent includes imputed one, that is, own-land and own-house rent imputed by market prices, so self-employed income in agriculture is net of own-land rent. Forestry rent is, unlike agricultural and house rent, obtained by subtracting employee and self-employed incomes in forestry industry from the net forestry product estimated by Mizoguchi. Because *National census of Korea 1930* provides no ethnic breakdown of part-time workers, all part-time income estimated for 1930 is assigned to Koreans. Korean part-time income in 1940 is computed according, industry by industry, to the proportion of their part-time income to total income in 1930. The same method is applied for obtaining Taiwanese part-time income in 1940; Japanese and foreign part-time incomes in Taiwan in 1930 were so small that they are assumed to be nil for 1940.

The government enterprise includes national railways and postal services. Net profits raised by the Monopoly Bureau are regarded as indirect taxes and therefore not included in the incomes here.

IV. Decomposing the changes in the income share

To scrutinize the decreased Japanese income share, Table 2 shows the changes in the proportion of each component of income to total income. The share of Japanese secondary income in total income rose by 3.56% in Korea and 3.36% in Taiwan between 1930 and 1940. Thus the statistics endorse the positive effect of the industrialization on Japanese corporate and other incomes in the secondary sector. On the other hand, growth of Japanese employee and self-employed incomes in the tertiary sector lagged far behind: their share fell by 6.72% in Korea and 5.32% in Taiwan. Further, Japanese interest income grew at a slower pace, dropping its share in total income. Similar changes took place in the indigenous income structure, but there was a profound difference there. In Korea, the share of indigenous primary income rose markedly, whereas that of Japanese primary income fell. The gain in the primary income share, together with the gain in the secondary income share, offset the loss in the tertiary income share for Koreans. In Taiwan, Taiwanese

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Table 2 Changes in percentages of the components of income to total income between 1930 and 1940

Korea

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Total
Primary industry					
Koreans	+6.91	+0.01	-0.21	+1.44	+8.14
Japanese	+0.04	+0.14	-1.33	-0.03	-1.18
Secondary industry					
Koreans	+3.59	+0.16	+0.24	-	+3.99
Japanese	+1.28	+1.21	+1.07	-	+3.56
Tertiary industry					
Koreans	-11.30	+0.07	+0.19	+1.06	-9.99
Japanese	-6.72	+1.33	-0.48	+0.68	-5.19
Total					
Koreans	-0.80	+0.23	+0.22	+2.50	+2.14
Japanese	-5.41	+2.67	-0.74	+0.66	-2.82

Table 2 (continued)

Taiwan

	Employee & Self-employed incomes	Corporate income	Interest	Rent	Total
Primary industry					
Taiwanese	-2.77	-0.01	-0.65	+5.44	+2.02
Japanese	+0.08	+0.00	-1.22	+2.11	+0.97
Secondary industry					
Taiwanese	+1.40	+0.29	+0.14	-	+1.83
Japanese	+0.63	+2.69	+0.04	-	+3.36
Tertiary industry					
Taiwanese	-4.50	+0.28	-0.11	+1.52	-2.80
Japanese	-5.32	+1.14	-2.31	+0.49	-5.99
Total					
Taiwanese	-5.87	+0.56	-0.62	+6.96	+1.04
Japanese	-4.61	+3.84	-3.48	+2.60	-1.65

Note: Each cell indicates the following value in terms of percentage: (income/total income) 1940 minus (income/total income) 1930; total income here means the sum of incomes in the economy as a whole.

Because changes in the percentages of the foreigners' income and the government's income are very small, they are not shown above.

obtained a higher share in agricultural rent. This largely contributed to the increased Taiwanese income share as a whole.

The differed percentage changes in the share of each income component were a product of many complicated changes in asset holdings, employment, prices, wages, rates of return on investment and other economic variables. In this view the prevalent hypothesis is too narrow because it ignores factors other than the increased profits from the Japanese investment. Major economic changes left out are (i) agricultural growth, (ii) expansion of factory employment, (iii) slow growth of the government employees' income and (iv) lower interest rates, which will be discussed in more detail below.

(i) Agriculture grew fast in both Korea and Taiwan during the 1930s. Earlier, from 1925 until 1931 agricultural products in terms of nominal value added decreased, on annual average, at 7.7% in Korea and 1.9% in Taiwan.⁵⁾ Yet, from 1932 until 1940, they grew at 15.2% and 11.3%, respectively.⁶⁾ This high growth generated larger agricultural income. The indigenous share in holdings of major factors of agricultural production, land and labor, was very high. Japanese agricultural employment accounted for less than 1% of the whole agricultural employment in Korea and Taiwan in 1930.⁷⁾ Although it is often claimed that Japanese occupied a high percentage of agricultural land in the colony, this was not the case. In 1930, in both Korea and Taiwan, the Japanese share in agricultural landholdings was below 10%.⁸⁾ Thus, most agricultural income was acquired by Koreans or Taiwanese in 1930. After 1930, no radical change happened in the proportion of labor and landholdings between the ethnic groups. In 1940, the Japanese share in agricultural employment was still less than 1% in Korea or Taiwan and that in agri-

5) Mizoguchi, Pyo and Moon eds., p. 360; Mizoguchi, ed., p. 279.

6) *Ibid.*

7) Government-General of Korea, *National census 1930*, Government-General of Korea, Keijo, 1934; Government-General of Taiwan, *National census 1930*, Government-General of Taiwan, Taihoku, 1934.

8) Kimura, M., 1989 above.

cultural landholdings was 10% in Korea and 15% in Taiwan.⁹⁾ Hence, the indigenous people gained a large part of the increased agricultural income between 1930 and 1940—in Korea, 93%; in Taiwan, 86%, somewhat less primarily because of a slower growth rate of agricultural self-employed income.

(ii) Indigenous factory workers increased substantially in number between 1930 and 1940: in Korea, approximately, from 90,000 to 260,000, and in Taiwan from 55,000 to 100,000.¹⁰⁾ Since their wages showed a slight increase in the meantime, the secondary employee income earned by Koreans and Taiwanese grew fast, thereby pushing up the indigenous income share.¹¹⁾

(iii) During the decade the government employees' income as a whole grew very slowly in Korea, by only about 10% while it shrank in Taiwan.¹²⁾ The government employees, including ordinary civil servants, railway workers, school teachers and others, were large in number in each colony and so was their income in total. Japanese earned much more than Koreans or Taiwanese from the government so the slow or negative growth of the government employees' income decreased the Japanese income share.

9) Government-General of Korea, *National census 1940*, Government-General of Korea, Keijo, 1944; Government of Taiwan Province, *The seventh population survey results*, Government of Taiwan Province, Taipei, 1953; Government-General of Korea, *Statistical book on tax administration in Korea 1940*, Government-General of Korea, Keijo, 1942; Government-General of Taiwan, *Basic agricultural survey no. 41: survey of landholdings and management*, Government-General of Taiwan, Taihoku, 1941; Government-General of Taiwan, *Statistics on sugar industry*, no. 29, Government-General of Taiwan, Taihoku, 1943.

10) Government-General of Korea, *Statistical yearbook 1930, 1940*, Government-General of Korea, Keijo, 1932, 1942; Government-General of Taiwan, *Statistical yearbook 1930, 1940*, Government-General of Taiwan, Taihoku, 1932, 1942.

11) Mizoguchi and Umemura eds, 1988, Appendix Tables 25, 27; Government-General of Korea, *Statistical yearbook 1940*; Government-General of Taiwan, *Statistical yearbook 1940*.

12) *Ibid.*

(iv) The 1930s saw a great increase in bank loans based on the increased deposits and bond issue. In the meantime, interest rates fell: average bank rates from 9.5% to 6.6% in Korea and from 8.4% to 5.0% in Taiwan.¹³⁾ Since Japanese held a larger proportion of interest-yielding assets than Koreans or Taiwanese, the decline of interest rates gave more adverse effects to Japanese income.

V. Concluding remarks

The Japanese income share in colonial Korea and Taiwan rose over time but not monotonically. The ethnic distribution of factors of production and rates of return accruing from them changed in a complex manner. Probably the Japanese income share rose significantly in the 1920s. This period was characterized by a sharp decline of agricultural income, a steady increase in the government employees' income and relatively stable interest rates. These brought the income distribution favorable to the Japanese in the colony. The decline of the Japanese income share took place thereafter.

The stagnation of the government employees' income during the 1930s resulted from a changing spending policy of the colonial government. The semi-war time politics enhanced demand for public expenditures on infrastructure construction, industry promotion, educational facilities and other physical resources in the colony. The colonial governments in Korea and Taiwan were in charge of all public expenditures but military. The taxable base there was not large (compared between the two, Taiwan was larger) so the governments had to rationalize civil workforce and curb personnel expenditures.

The effects of the increased capital exports from Japan on the colonial ethnic income distribution were inseparable from the effects of the deflationary policy led by Takahashi. Historians debated much on what the Takahashi policy brought to the Japanese politics and economy. Most of them agree that it had both positive and negative effects—it revitalized

13) Zenkoku Keizai Chosa Rengokai, *Korea economic yearbook*, Kaizosha, Tokyo, 1940; Taiwan Keizai Nempo Kankokai, *Taiwan economic yearbook*, Kokusai Nihon Kyokai, Tokyo, 1941.

the Japanese economy but led to expansion of military expenditures whereby the Japanese military drove the nation into a devastating war. On the colonial side, it has usually been assessed only negatively. From a standpoint of the indigenous people's welfare, the war regime was certainly harmful. However, the Takahashi policy contained not a few elements changing the ethnic income distribution in favor of the indigenous people.

In sum, it was not a paradox that larger Japanese investments were accompanied with a declining Japanese income share in the colony. The economic pie grew—the game was non-zero-sum, not zero-sum as sometimes assumed. This simple fact should be a focal point in discussion of effects of Japanese colonialism on the Korean and Taiwanese economic life during the 1930s.