

One Year After the Real Name Financial Transaction System

Background

One Year has passed since the real name financial transaction system (thereafter called real name system) was introduced in the form of Emergency Presidential Order.

The main feature of the real name system was to prohibit the use of pseudonyms in all financial transactions. Discussion on the real name system dates back to 1983, but it was finally and suddenly implemented on August 12, 1993.

In my personal view, the two main aims were to reduce "social friction costs" which can be defined as the unnecessary costs in social and economic life. This is equivalent to saying to increase in "economic efficiency". Another aim was to realize so called "economic justice".

Impacts

The real name system was expected to have a great impact on the whole economy. The overall impacts was large enough but not as enormous as expected. Severe capital flight to the real estate market or abroad and financial chaos in the stock market and speculative boom in real estate did not occur even though some kinds of 'credit crunch' bothered small and medium sized firms.

Let us examine the impact of the real name system on each economic sector in turn. In regard to the stock market, stock price fell in first two days but rebounded thereafter. The stock price increased 39.5% during the last year. In the financial market, the long-term interest rate, measured by corporate bond rate, rose temporarily in August but fell from September 1.1% point after implementation of the real name system. Call rate, a representative of short-term interest rate, showed a steady decrease.

Enforcement of the real name system had the greatest shock on the private loan (curb) market. This in turn caused small and medium sized firms to suffer from 'credit crunch' which can be defined as a squeeze in financial transactions.

In regard to macroeconomic variables such as real economic growth and the inflation rate, the impact seems to be slim on the real growth rate while

that on the inflation rate appears to be troublesome. The real economic growth rate records 8.5% (5.6% in 1993) in the first half of 1994 and consumer prices increased 6.0% during 1994, which is so bad.

Evaluation

It is too early to evaluate merits and demerits of the real name system but let me discuss the positive and negative effects of the new system so far. The positive effects are as follows: first, it contributed to establishing "clean politics" by making money flow transparent. It rooted out the black money which had traded under the table between some dirty politicians and businessmen. Second, it cultivated environments so that firms need only concentrate on strengthening their competitiveness rather than lobbying politicians. Finally it dispelled the socially old and bad habits in financial transactions that people use pseudonyms and borrowed names. In sum, it contributed to the development of the political, social and economic infra-structure.

The negative effect is not so serious as expected but the most obvious effect appeared on the financial status in small and medium sized firms. They greatly suffered from the freeze or squeeze in the private loan market and thus the bankruptcy rate of them continues to rise. Another negative effect is the over-consumption phenomenon of households. Some people who are afraid of their transactions being disclosed showed cash hoarding and it boosted consumption expenditure.

Future Issues

The real name system has not settled down completely and there are many things to be done for the system to succeed. First of all, a tax system on capital gains (interest and dividend income) which is now scheduled to be enforced from 1996 should be introduced as soon as possible so that it will root out borrowed name accounts. Most pseudonym accounts converted to real name but a huge number of borrowed name accounts still exist. Second, money in the curb market should be absorbed into financial institutions so that it can ease the credit crunch in small and medium sized firms. Third, government should trace out the existing non-receipt transactions in the traditional market. The final but not the least issue to be solved is that every

possibel efforts should be made to settle down the credit society which payment and settlement of account should be carried out through personal checks and credit cards.

Now we have adopted a new 'rule of game' and we have to try our best for the success of the real name system. The new system will play a very important role in the the Korean economic advancement. (1994.9.10 Gi Choon Kang)