

# Deregulation and Consumers

By Oikawa Shogo

While deregulation has been underway since the early 1980s, Japanese consumers are only beginning to enjoy its merits due to the dismantling of prices resulting in large cost cuts for some consumer goods. Compared with the U.S. and some European nations, deregulation has been slow in coming to Japan because, until now, the priority has been on maintaining the level of safety. Today, however, consumer groups which had formerly approached deregulatory measures with caution, are reconsidering with the view that the consumer should be receiving a larger share of the gains.

Deregulation has been promoted from the perspectives of administrative reform, international harmonization, and expansion of domestic demand through the expansion of business opportunities. At times, the fear that deregulation would lead to a lower level of safety influenced assertions that increased competition would possibly

cause safety standards to be neglected.

For these reasons, consumers did not actively promote deregulation. In the U.S. and the U.K. it was only as a result of widespread consumer support that deregulation was said to take hold; in Japan, as well, the same conditions are currently being readied.

Deregulation will encourage corporations to shift from a position of relying on administrative guidance to taking responsibility themselves. At the same time, as the breadth of choices increase, consumers will also move to rid themselves of their dependence on the administration. In the future, the role of the administration will be to provide a wide range of information related to all aspects of consumer lives.

## Evolution of deregulation

There is the stereotype that Japan is a country with a network of public regula-

tions which spreads to every corner of the economy and society. For those who hold this conception, it may be surprising to learn that among the industrialized economies Japan is one of the countries which has consistently undertaken deregulation. Because implementation has not occurred drastically in Japan as it did in the U.S. and the U.K., there are few examples of remarkable results achieved within a short period of time. However, Japan has steadily been undertaking this task while at the same time avoiding negative influences on employment, for example. As a result of adopting a gradualistic approach, market competition is now thriving in numerous fields.

Since the 1960s, many of Japan's economists have maintained that deregulation and increased utilization of the market mechanism are indispensable to expanding the benefits accrued to consumers, efficiently utilizing resources and promoting sustained economic growth. It is rightly said that theories of deregulation in Japan gained political momentum, as in other industrialized countries, amid the economic stagnation which followed the first oil crisis, and more so as the country's fiscal situation worsened in the latter half of the 1970s.

Initially, deregulation was promoted through the streamlining of administrative organizations and encouraged fiscal stability by fiscal tightening measures. The most important changes were the privatization of government-owned corporations such as the Japanese National Railways, Nippon Telephone and Telegraph Public Corporation and the Japan Tobacco and Salt Public Corporation, and the accompanying liberalization of telecommunications and tobacco sales. These reforms not only contributed to sound fiscal policy, but also brought consumers



Since the collapse of the bubble economy consumers have become more discriminating about pricing. Red sales banners are even out at retail outlets.



Sale of foreign brands, supported by JETRO and MIPRO, at a Tokyo department store. Booths to provide information about importing have also been established.



the benefits of capping fees and prices, and even reducing prices in some cases, as well as leading to improved and more diversified services.

Meanwhile, deregulation was promoted from the perspective of market opening and the international harmonization of regulations, reflecting the shift in the focus of trade friction between Japan and the West from exports to imports. At the earliest phase, the country eliminated the discrimination in the standards and certification system between imported domestic goods (in some cases, this extending preferential treatment to imports) and simplified its customs clearance. Although these changes, which gave foreign products increased access to the Japanese market, were supposed to result in low prices and a diversification of imported products, this was not achieved for consumer products until recently. As a result, consumers were skeptical about the effects deregulation would have, especially with regard to fields related to consumer safety. In particular, they

objected to a realignment of safety standards to meet lower international levels.

Meanwhile, financial markets were liberalized through the liberalization of interest rates control and the introduction of new financial services. Accumulated government debt was one important domestic reason, however, Japan opened its financial markets and provided opportunities to foreign financial institutions, supporting the request of various nations. Consumer interest receipts rose as their interest burden lightened, then an increase in

convenience to consumers was anticipated.

Because these reforms were introduced first to the large amount of financial assets, it wasn't until recently that the average consumer could enjoy the merit of these reforms. However, consumers are already showing great interest in return on assets and cost of borrowings.

The most recent advances made in deregulation have been seen in the field of distribution, with the impact far exceeding expectations. The influence of the recession and the high yen has also contributed to the decline in the price of imported goods, bolstering price competition among large-scale retailer chains. A large slash in the prices of beer, meat, processed foodstuff, detergent, clothing items and other consumer goods, known as the "dismantling of prices," can be seen.

In addition, the penetration of low-priced imports and the dramatically changed structure of retail channels which prevail in the U.S. and the U.K.

are emerging here in Japan. In some areas where there is a high concentration of large-scale retail stores, the cost of living is said to have been lowered by about 10% to 15%. In this way, these changes are bringing great benefits to consumers.

The sluggish economy brought about by the sharp yen rise after the 1985 Plaza Accord was a nursery of ideas for various deregulatory measures. Most of their aims were expansion of investment demand through increases in business opportunities and buoying the economy. A portion of these have been introduced, even though almost none of benefits have been passed on to consumers.

What is currently providing the most momentum for deregulation are cries from consumers for a reduction in the difference between domestic prices and those in overseas markets, which has increased further because of the yen's rise against foreign currencies. Japan's cost of living is conspicuously high compared with levels in other countries, but especially with regard to prices of basic consumer goods and services such as food, clothing and housing. As a result, when compared with the level of achievement on the production side, it would be an exaggeration to say that Japan has realized a high standard of living. There is a general assertion that this is mainly due to the numerous regulations which in flexibility limits competition between companies and increases costs of production and distribution.

The Hiraiwa Report, compiled as a guideline for deregulation, suggests that the main objectives should be reducing differences in price between domestic and overseas markets and improving market access. Upon receipt of this report, near-term deregulatory policies were drawn up in June 1994. The fundamental problems, however, still remain. A five-year deregulation plan, will be compiled this fall. Regulations on public utilities, transportation services, housing construction, and agricultural products, as viewed from the perspective of the consumer, will be the focus.

## Changing attitudes toward deregulation

Until now, Japanese consumers have not actively campaigned for deregulation because the quality of consumer goods and services is high; consumers enjoy a large supply of safe products; comprehensive, dependable services are supplied; and as a fruit of economic growth, the standard of living has been raised. In this sense, the Japanese have enjoyed rich lives as consumers, achieving some degree of satisfaction.

Public regulations have basically contributed to the protection of consumer interests, and a look at each regulation shows that many were introduced and strengthened through the consumer movement. There are also numerous examples of harm caused to consumers as a result of there once being a lack of regulations. This is one reason for the belief that increased competition would threaten safety standards. Deregulation, which is supposed to promote increased benefits to consumers as the utmost priority, was promoted in the context of other policies, emphasizing instead national fiscal soundness and business preferences.

Under these circumstances, it was the high cost of living in Japan which caused a change in attitude toward deregulation. The cost of living in Japan is strikingly higher than that in other countries. A main reason for this clearly lies in Japan's public regulations. Although Japan has a rich variety of products, there are many luxury items and items with full functions, but only few mass-retail inexpensive items. Services tend to show a high level of uniformity with regard to content and price. Thus, in actuality, the breadth of choice is not that great. Consumers, as they learn of low prices in overseas markets, have become cost conscious of public regulations.

At the same time, as mentioned above, consumers are finally realizing for themselves the merits of deregulation. Several consumer groups have begun to reconsider whether these public regulations actually protect consumer interests. Ordinary consumers have also, through everyday purchasing behavior, started to show support for deregulation. Nowadays, limiting competition in the name of maintaining safety and protecting the weak can be said to be losing political support.

However, with regard to the international harmonization of regulations that protect consumer safety, a cautious attitude continues to prevail. Many, faced with the formation of a global market, recognize the need for international harmonization, and acknowledge many benefits will be passed on to the consumer. But, at the same time, they fear that the level of harmonized standards might be lower than the need of Japanese consumers.

Deregulation means increased responsibility on the part of the consumer as well as on the part of the supplier. Consumers will be required to make decisions for themselves. The number of available choices will increase, as will the amount of information and knowledge that consumers will need to acquire. There are numerous merits and demerits and risks which must be considered.

With regard to this point, consumer awareness is rising, thanks to the enactment of the Product Liability Law in June. With increased demands for adequate labeling and handling and care instructions, consumers are generally showing a growing desire for more knowledge and information. However, the Japanese education system, with its strong slant toward academic fields, tends to view lightly practical knowledge. Japanese consumers have limited means for acquiring information relating to their daily lives, unlike U.S. consumers who can take courses in community colleges and other local forums for extending this kind of information.

It is desired that consumer education be expanded for students who are still in school and those who have already graduated. The Japan Consumer Information Center would provide an opportunity to extend information on all aspects of daily life, and is hoping to play the role of a national center in this area.

*Oikawa Shogo had held various positions at the Economic Planning Agency until 1987, including director general of the Planning Bureau. He currently serves as president of the Japan Consumer Information Center.*

