

Consumer Lobby Lacking

By Keiji Takahashi

Japan's Economic Planning Agency released a report last September showing that things cost about 40% more in Japan than they do in North America and Europe—a report that added fuel to the already-raging debate over the higher cost of living in Japan.

Yet consumers—the very people one would expect to be most up in arms about these high prices—are showing no sign of anger but on the contrary seem completely apathetic. Indeed, this consumer apathy is one of the reasons the problem remains unresolved. If consumers cannot be bothered to complain, what incentive do manufacturers and distributors have to lower their prices? As a result, the disparity between Japanese and foreign price levels offers an interesting insight into what Japanese consumers think about prices and how prices influence consumer behavior.

Factors to blame

Before looking at those price levels, however, it may be well to briefly review the EPA report. Setting Tokyo prices as of November 1988 as the base line of 100, the EPA's Price Bureau found that the price index for New York was 72 and that for Hamburg, West Germany, 68. Tokyo's cost of living is about 40% more than in those two cities. In the comparison with New York, Tokyo utilities cost 130% more, rent 90% more, clothing and footwear 50% more, food 40% more, and so on.

The report blamed these higher prices on four factors: (i) restrictions on food imports, (ii) different utility systems, (iii) higher land prices, and (iv) regulations in the distribution sector.

This price differential between Japan and the United States was also highlighted by a comparative study conducted by Japan's Ministry of International Trade and Industry and the U.S. Department of Commerce for the second round of the Structural Impediments Initiative talks in November 1989. Looking at the prices

of imports from Europe, the study found that prices were higher in Japan than in the United States for eight of the 10 items surveyed.

Even when it is the same import from the same source, the complexities of the distribution system mean that the product ends up being more expensive by the time it reaches the Japanese consumer. This is bound to have a major impact on the cost of living.

In an effort to identify differences in consumer behavior, the *Nihon Keizai Shimbun* did a month-long study in November 1989 of two families—one in Japan and the other in the United States. In Japan, the study focused on Shoichi Yamakawa and his family. Yamakawa, who is aged 50, lives in suburban Tokyo and commutes to work at a government office in the capital's Kasumigaseki district. His American counterpart was 57-year-old Bill Parker, who lives in Virginia and works for a government agency in Washington. (Both names are fictitious.)

These families were asked to keep a record of their expenditures for the month, and then the household accounts were compared (see table). The Yamakawa family includes Yamakawa, his wife, their daughter (a senior in high school) and Yamakawa's mother. By contrast, the Parker family consists of Parker and his wife and their son, a high school senior.

The biggest difference is in food costs. For animal protein alone, the Yamakawas spent ¥7,000 and the Parkers the equivalent of only ¥3,000. In addition, there is an eight-fold difference in spending on entertainment and cultural pursuits—about half of which is costs associated with Yamakawa playing golf. By contrast, the only recreational costs the Parkers had were about ¥560 for a visit to the community pool.

Everything is more expensive in Japan—goods and services alike. Some of the service cost difference is to be expected in light of the higher land prices and higher wages in Japan, but there is still

considerable room for improvement. Among the examples that come to mind are the complexities of the distribution system and the rebates and other price-pushing commercial practices.

Although business itself will have to take the lead in curbing these abuses, action is much more likely when it is spurred on by consumer protests and strong public opinion in favor of reform. No such protests have yet been heard. Shigeo Oshima, secretary general of the National Liaison Committee of Consumers' Organizations, explains, "We were well aware of the price differential even before the EPA report came out, but we have had trouble mobilizing consumer opinion on this."

Although last November's National Consumers' Conference adopted a resolution calling for the enactment of freedom-of-information legislation that would enable them to identify the causes of the price differential, the stark fact is that such legislation is unlikely to be enacted anytime soon. Yet without this enhanced information access, the distribution system is so complex and intertwined that consumers cannot tell what is happening where.

Woefully ill-informed

Consumers are woefully ill-informed about the distribution process. Late last year, the Nippon Research Institute (NRI) conducted a study on the price differential problem as seen in consumer perceptions. They found that only 39% of Japanese consumers realized that there are legal regulations limiting the number and location of stores selling rice, alcoholic beverages and pharmaceuticals.

Fewer—only 29%—know of the high list prices, rebates and other practices binding manufacturers, wholesalers and retailers. As Oshima laments, "I wish the government and big business would tell consumers more about the way distribution is structured and why prices

Bilingual Comparison of Household Accounts

Y	Yamakawas	Item	Parkers	\$
	29,623	Utilities	51,382	
	95,039	Food	65,696	
	6,833	Furniture & furnishings	18,772	
	0	Clothing & footwear	46,562	
	2,295	Insurance & medical care	10,955	
	78,344	Entertainment & culture	9,819	
	35,000	Education	67,032	
	44,740	Transport	68,692	
	0	Housing	65,240	
	70,191	Other items	23,739	
	362,065	Total	427,889	

Notes: 1. Survey conducted in November 1989.

2. Figures for the Parkers converted from dollars at ¥140=\$1.

3. The Yamakawas' education expenses include only their daughter's classes to prepare for her university entrance examinations. In addition, they also pay private school tuition that comes out to a little over ¥46,000 a month.

4. In addition to housing expenses shown, the Parkers also have mortgage payments of about ¥100,000 a month.

Source: *Nihon Keizai Shimbun*

are so resistant to downward pressures."

Instead, the issue of price disparities has largely been eclipsed by the furor over the new consumption tax. The Housewives' Association president, Yuri Takada, says, "Of course, we know that the price differential is very important to Japanese consumers, but we have to devote the bulk of our attention right now to the consumption tax. If we don't kill that tax now, we never will be able to get rid of it."

But the consumption tax is only 3%. Rectifying the price differential could, in theory, lower Japanese prices by as much as 40%. Little wonder that many people feel the priority should be on the price differential. Another reason that consumers have been so slow to react to the price differential is that consumption patterns are generally not price-sensitive. Today, it is the high-priced items that seem to be selling best, and people do not appear very worried about how much things cost.

Professor Tetsuo Ihara of Keio University's Faculty of Business and Commerce said, "Even though there is considerable resistance to adding the consumption tax to long-established product prices, people do not feel that put out by the price differential because it is hard to see who is profiteering here."

And of course, there are also problems arising from the consumer movement's history in Japan. "The postwar consumer movement," reminisces the Consumers Union of Japan president, Naokazu Takeuchi, "concentrated mainly on holding down price hikes, and this inevitably resulted in paying more attention to prices that were going up than to prices that should have been coming down but didn't. However, I would expect the movement to push more for price cuts now that they are so obviously feasible."

Prefacing their remarks with the comment that, "the yen's appreciation should logically push import prices down," the people at the EPA's Price Bureau who put the price differential report together have also cited the Japanese propensity to favor famous brand name goods as another factor hobbling the consumer movement. Despite the expense, some Japanese consumers are snapping up Louis Vuitton

bags, Hermès scarfs, necklaces by Tiffany's and the like without even a second look at the price tag.

Although there are some businesses that purposely keep prices up as a way of maintaining a product's elitist appeal, it is also true they have no incentive to lower their prices. Higher prices are certainly not hurting their sales. As a result, department stores only stock the top-of-the-line items, and consumers have no choice but to pay top prices. With less and less room on department store and superstore shelves for cheaper, practical products, the price floor continues to creep upward.

Lack of space

Of course, many imports have become cheaper recently. Automobiles and foods are just two examples. But these lower prices have not necessarily meant stronger sales. Despite the lower prices, there is still considerable consumer resistance to imports.

This shows up clearly in a report drawn up by the Consumer Advisory of the Manufactured Imports Promotion Organization. Surveying 500 consumers, the group found that 52% of them needed some after-sales service. Of this 52%, 59.9% actually went so far as to contact the dealers for service. Only 24.2% were satisfied with the service they got, while 62.3% were not. One-third of the people who did not request a service call said that they "didn't know who to call."

As a result, the group has since started pressing outlets that sell imports to be sure every product has a contact ad-

dress, a warranty card and an explanation in Japanese. They have also called for a faster turnaround on servicing these products.

These demands are very much in line with the Japanese insistence on quality. Japanese will complain at the slightest defect, and will refuse to accept delivery if the product is scratched or otherwise marred. And all of this meticulous attention to quality costs money.

With foods, safety is an important part of product quality. Recently, many people have become more concerned with quality than with price—witness the boom in organic foods. Hisaomi Kaneko, manager of the Member Activities Coordination Department at the Japanese Consumers' Cooperative Union, points out, "Of course consumers are concerned that their food be safe to eat. And we are right to be concerned about importing more just because it's cheaper."

It is clear that Japanese consumers are interested in much more than price. They are also looking at safety, utility and a host of other factors. But there is no reason why this should work to the disadvantage of imports. A food product is not necessarily safer just because it is produced in Japan. And many consumers are attracted by the lower price tags on imports.

Given this, is it too much to ask that the Japanese consumer lobby raise more of an outcry if it finds that consumer interests are not being served?

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