The 'Price Busters'

By Hamano Takayoshi

This past spring, immediately after returning from a month's visit to the U.S., I was surprised to see the ¥2,500 price posted for a breakfast buffet at a certain Tokyo hotel. The hotels where I stayed while in New York and Washington listed a similar meal for half the price.

Everyone is aware that Japanese commodity prices are too high, with the cost of living standing 30% higher than New York's. Demands for corrections to internal-external price disparities are now coming from all quarters. In the midst of the lengthening business slowdown, it appears that high prices have slowly begun to come down, with striking disruptions in prices.

Soft drinks, steel and even cars

"Price busters," or "pricing upheavals," does not simply refer to lowering prices of products that have stopped selling during the recession or cutting down on quality in order to sell more cheaply. Instead, it is a reference to moves to revise pricing levels themselves downward.

As such, it may well be that this signifies revolutionary reductions in price levels. These developments began to attract attention as the recession started to show signs of lengthening around the latter half of 1992 and early 1993.

Men's suits were the first to become a big topic. Reportedly, about 10 million are sold in Japan annually and during the "bubble" period the department store retail price averaged ¥60-70,000. However, with the view that men's suits are not fashion items but white collar wear, large suburban chain outlets began to sell them for an average ¥30-40,000, boosting their sales in the midst of the slump and acquiring around half of the men's suit market according to some accounts. Noting this development, department stores and boutiques lowered their core price range to ¥50-60,000. The end result was a shift in pricing levels for men's suits in Japan.

An interesting new development at the start of this year was the move, mainly by major supermarkets, to introduce private label brands while lowering prices. This has spread from 100% fruit juice, ice cream, colas, and other foodstuffs to underwear, socks, men's dress shirts, and other clothing, detergent, batteries, videotape and camera film, other daily sundries, and even color TVs. In response to these moves by leading supermarkets, department stores began to devise their own counter-strategies around private label products and as a result private labels now make up around 10% of the products handled by large retailers.

Regarding private label products, the leadership initiative from product planning through sales is characteristically held not by the manufacturer, but by wholesalers and retailers, or the distribution side, which are attempting to cut costs without diminishing quality and set lower prices. In the case of cola and other beverages, for example, domestically-produced aluminum cans were costly (giving rise to the nickname, "canned electric power"), so production was switched overseas and prices dropped. Further, clothing is increasingly manufactured overseas, in China and other Asian countries where labor costs are low. There have been additional reports that regional medium-sized supermarkets have lowered the costs of some private label brands by having outlets whose sales territories do not compete join together when ordering new stocks.

Inexpensively-priced private label products first began to appear in force in Japan in the 1970s, but lost popularity during the latter '80s "bubble" period. Now that consumer desire for lower prices is once again in the spotlight, manufacturers of national brands have responded with moves to cut prices and an electric appliance manufacturer which produces products under separate brand labels for sale at lower prices has appeared.

In the case of cars as well, spurred by broad price cuts for foreign manufacturers' vehicles, moves to add models priced under ¥1 million in the 1500 cc passenger vehicle range followed one after another in May and June. Price slashing for these types of products has had an influence on steel and other materials, offering a sense that a huge ground swell has now begun to sweep through the Japanese economy.

A freeze on public utility charges

Considerable interest in how far price busting will go in the distribution sector and what the eventual results will be is gaining, but when pondering the cost of living in Japan it is impossible to avoid the issue of public utility charges.

The natural response to moves at the beginning of the year to raise public utility charges across the board was the cry that, with industry bloodied from restructuring and cost-cutting efforts, it was impossible to understand how public utilities could so easily receive the go-ahead for price rises. This was all the more so as electric power, water, phone, and taxi costs, all in public utilities, have particularly hindered corporate cost-cutting.

On May 20 the Cabinet of then Prime Minister Hata Tsutomu decided to freeze public utilities charges for the rest of the year. However, "public utilities" covers a range of separate circumstances and a rate freeze that ignores that fact would appear to be difficult. For example, requests for basic rate and directory assistance price rises by NTT, the largest phone company, were based upon worsening profits in those sections. When NTT received large profits from long-distance calls it was still able to fill the gap, but since competition with DDI and other new long-distance

Expanded individual consumption may serve as the key to the economic recovery. (a Tokyo discount shop)

carriers started, long distance rates have steadily come down and NTT now finds it difficult to make up the difference.

Further, in the pool system used for highway tolls, nationwide construction costs are tallied to compute toll amounts, so a continued freeze on tolls without changes to the system would end up meaning that new expressways cannot be built. In July, the Murayama Cabinet approved a hike in seven public utility rates, including telephone and highway tolls, to begin immediately following the new year on the condition that these companies make further efforts toward rationalization. This means nothing more than a shift in the timing of the rises. One critic noted that there would appear to be some merit in continuing the freeze this year because, with the exception of rice and salt, there are 38 public utility categories (in the narrow sense of the phrase), accounting for a notable 15% of commodity prices, and a review is necessary if a solution to the differences between internal and external prices is to be found.

At this point it is hoped that the government will urge public utilities to learn from ordinary industrial sectors and that efforts will be made to cut costs to the bone and that the reasons for, as well as the processes of, further raising public utility charges (which are relatively higher than other countries') must be made transparent and easily understood.

Two different scenarios

What will happen with public utility charges is unclear, but there are two scenarios—one positive, the other negative—regarding price busters.

The negative scenario has prices being slashed, but sales stagnate and corporate profits decline. At that point, prices drop even further, wages collapse, and deflationary phenomena spread, resulting in a serious recession. There are also fears that, as under current conditions, pressure regarding corporate liabilities will gather further strength if financial institutions are left with bad debts. With regard to this point, a 1% cut in product prices will only result in an increase of 0.17% in corporate sales under recent economic conditions. Without far-reaching cuts in personnel and other costs, corporate profitability will not improve, according to a survey report released by the Industrial Bank of Japan in June. However, the report also indicates that since this would be quite difficult, corporate profitability will be negatively affected over the short term.

In the opposing, positive scenario price slashing will result in increases in the real value of cash on hand and boost purchasing power. As such, demand will increase, bolstering the economy. Generally, economists appear to worry about the deflation that occurs with drops in prices, but Japan's economy is now faced with major structural reforms. It might well be that price slashing could be one valuable method for breaking the impasse.

The issue is how to move in the direction of the positive scenario. It goes without saying that this will require a monetary relaxation and that steady progress be made in dealing with the huge amounts of bad debts.

Moreover, there is an urgent need to move forward with the relaxation of what is said to be an overabundance of regulations compared with other nations. According to a report by a subcommittee of the Ministry of International Trade and Industry's Industrial Structure Council, implementation of regulatory relaxation and other structural reforms along with appropriate infrastructure adjustments will lead to the appearance of many new or growth sectors. As far as market scale is concerned, the report says that 12 sectors—data processing and telecommunications, medical care and social welfare, environment-related industries, and others—will show an increase of 2.7 times over 1993, or ¥350 trillion, by 2010 and create new employment for 5.2 million people.

Even if these figures are nothing more than provisional estimates and regardless of the framework of existing regulations, bold steps forward will surely tie in with the discovery of an escape route. I believe that the outcome of price busting should be seen in that light. JJTI

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