

Deregulation and Lifestyle

By Hamano Takayoshi

Promotion of structural reform in Japan's economy necessitates deregulation, but the answers of how far deregulation will go and how it will improve the Japanese lifestyle are as yet unknown.

Formulation of deregulatory policy is a major issue facing Prime Minister Murayama. Decisions were reached at a Cabinet meeting held at the end of March on 1,091 topics which were then included in a five-year deregulatory program. In addition, the government developed an emergency stimulus package to stem the strengthening of the yen in mid-April, in which plans for deregulation are to be carried out within a shortened three-year period.

The trend toward a strong yen and a weak dollar continued unabated from the beginning of March, when the yen broke through the ¥90-level to the dollar, through the middle of April, at which point it dipped below ¥80/\$1. By mid-May the yen had been granted a breathing space, hovering in the high ¥80/\$1 range.

One reason for the strong yen is thought to be Japan's burgeoning trade surplus which, though gradually shrinking, has not made rapid enough progress. Hence the bold move toward deregulation is necessarily thrust upon Japan as a means of changing the structure of its economy which has generated a trade surplus. To remain idle any longer could result in the continuation of a strong yen. Many are concerned that this will lead to further increases in Japanese corporations moving production overseas, hence a hollowing out of the Japanese economy leading to insecurity of employment.

Many are of the opinion that on the whole, the prime minister's deregulation plan does not go far enough. The U.S. ambassador to Japan, Walter Mondale, commented he was "somewhat disappointed" with the plan. Meanwhile, Japan's economic leaders have stated that the plan "has not com-

pletely fulfilled the hopes of the business community."

After consolidating of 3,500 items targeted for deregulation, the government's new policy now totals 1,800, including some which were proposed on a misunderstanding. According to officials in charge, over half of the topics proposed by Japan's business community were included in the deregulatory plan.

The problem, however, is not the number, but rather the substance. If deregulation is pursued conscientiously, it should lead to increased competitiveness for Japanese business in the form of a narrowing of domestic and overseas price differentials (which now results in higher prices for goods in Japan than in other countries), and to a wider range of choices in products and services for the consumer.

The substance of deregulatory policy

One example of deregulation is the handling of the growing number of large-scale retail outlets. This involves a reconsideration by fiscal 1997 of the Large-Scale Retail Stores Law, which determines how to deal with subsequent concerns of small and midsize retail outfits when major chain stores open in their vicinity. Former plans had targeted 1999 for a completion of this process, which has now been sped up by two years. However, the government plan does not call for the ultimate—a repeal of the law.

Meanwhile, reconsideration of Japan Railway train fares (both regular fares and express fares) is to take place as early as possible after fis-

cal 1995, including the use of price ceilings which prevent price hikes beyond the average rise of prices in general, while allowing them within those limits. The same system is in use in the United Kingdom and other nations. Up to now, the method used in ascertaining public utilities charges was such that each time price hikes were carried out, further hikes would again be required some years later, leading to recurring problems each time a new rise in prices occurred. Hence, the system came to be considered.

Among the other changes which will affect the lifestyle of Japanese people is the simplification of import procedures for parallel imports of cosmetic products. Starting with the current fiscal year, which began in April, it will be possible to import cosmetic products without the necessity of a declaration of ingredients if it can be ascertained that the same product has been previously imported.

Another involves automobile inspection. Currently private vehicles in Japan more than 11 years old must be inspected yearly. Frequency of inspections will now be changed to once every two years. And starting in October, private-sector financial institutions will be allowed to sell 10-year time deposits, a



Amid calls for further deregulation, a decision to gradually abolish regulations governing service station construction was reached. The introduction of self-service stands is also under consideration.

change from the current five-year deposits which financial institutions are restricted to handling. Meanwhile, an insurance broker system, previously absent in Japan, will be introduced and put in place by next fiscal year.

The call for deregulation has grown louder as a result of Japan's recent recession, especially after the summer of 1993 when the political party system established in 1955 collapsed. Once government reform had been fully implemented a chorus of voices calling for deregulation arose in response. By February 1994 the government had received the reports and proposals of councils and the prime minister's private advisory panel, and the Cabinet announced its decision on a policy for the promotion of future administrative reforms. The essentials of this policy as pursued by the government up to this point call for a division of deregulatory reforms into those affecting the economic sphere and those affecting the social. The basic principle of economic deregulation is "free-market principles." The policy calls for the establishment of a strong headquarters led by the prime minister to oversee the promotion of deregulation, the development of a five-year deregulatory plan, an Administrative Reform Council to be created to oversee its deliberation and implementation, along with division of authority between prefectural bodies.

No decline in regulations

According to a report by the Management and Coordination Agency on progress made as of December 1994, 447 of the 682 items for deregulation announced by the government after 1993 (with the exception of those dealing with notification and reporting), or 70% of the total, have either been implemented or are set to be. These included diversification of taxi fares, abolition of the requirement to inspect vehicles once every six months, and a decrease in the number of restricted zones where gasoline stations can be located. However, deregulation cannot yet be called successful with these changes alone. According to estimates gathered by the Fair Trade Commission in 1989, 41% of

all of Japan's industries fall under economic regulations of some sort (statistics based on value-added figures).

Japan is behind in liberalization of interest on bank deposits. It is estimated that Japanese holders of deposits lost a total of ¥32 to ¥50 trillion in potential interest income in the 10 years between 1981 and 1990. This amount is equivalent to 1% of Japan's GDP when this figure is expressed in annual average terms, a clear statement on the extent the average individual has sacrificed in the area of interest income. A figure often quoted to describe the extent to which Japan's economy is regulated is the number of government approvals granted for various purposes. These total 11,000 and show no signs of decline. Even when the process of approval has been switched to a simpler notification system the number of regulations has still not declined. Attention therefore needs to be paid to the character of regulations whose changes are not always easy to discern.

There are highly complex problems that must be taken into account when considering the character of deregulation. The government has designated economic and social categories in regard to deregulation, but in reality, it is not easy to differentiate between these two. There are cases where new economic regulations have actually been created in response to the perceived necessity of a social regulation. There is a need to clarify the basis of social regulations and their authority.

The future of deregulation

The economy stands at a crossroad. Incomes are not decreasing, but as more corporations move production overseas, workers may begin to lose their jobs. Meanwhile, as the society ages the burden of taxes and annuity insurance fees are likely to grow heavier. The foundation of Japan's economic development, praised the world over as a "miracle," is now being severely shaken. The corporate-centered social organization which has been so successful in the past at producing efficiency and harnessing the Japanese worker's desire to labor has run up against a wall. The needs of the

times are forcing a change in the Japanese-style approach of the past, and deregulation is required as a means of effecting this change.

However, a certain amount of pain is likely to accompany deregulation. It is often the case that individuals or organizations may be in agreement with the general principles of deregulation, but then voice opposing opinions when it appears to endanger their own interests. The key to coaxing interest groups away from disagreement on specific issues toward agreement on general principles, and hence toward implementation is the promotion of deregulation from the viewpoint of the positive effects it will have on the average individual's lifestyle. For the first time ever, open discussion of deregulation took place at the National Consumers Convention held in November 1994. Until then, most discussion had taken place between experts, corporations and foreign governments and business. There have only been two or three consumer organizations which have expressed their desires and opinions to the government in regard to deregulation.

Deregulation will bring more choices to the consumer and provide the basis for a consumer-oriented economy, however, if the most essential factor in this relationship—the consumer—remains absent from the debate, deregulation could become a process which benefits business alone, and then the coming changes might not benefit the lifestyle of the average person as much as they would otherwise.

The government plans to listen to opinions and requests in the future both from within Japan and abroad, and to review its plans in light of these opinions by the end of each year. A revised plan will then be issued at the end of each fiscal year. The future of Japan's deregulation is likely to be influenced by the extent to which consumers express their interests and concerns along with those of the business community and foreign governments. ■

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