

Disparities in Service Sector Prices in Japan and Elsewhere

By Hamano Takayoshi

According to an OECD economic forecast released in June, Japanese commodity prices will again decline in 1996 over last year, as in 1995, finishing at minus 0.3%. The situation is quite stable, but domestic prices still differ greatly from those in other countries when price levels in Japan are compared to those overseas.

Using the most recent data from Economic Planning Agency (EPA) research (based on exchange rate comparisons as of May 27, 1996) to look at differences in domestic and overseas living expenses, the yen was strong and the dollar weak at below ¥80 in the first half of 1995, but because the yen subsequently fell to a level of nearly ¥110 to the dollar, the difference in domestic and foreign price levels shrank somewhat more than before. Even so, Tokyo living costs were 1.38 times those of New York, 1.39 higher than London, 1.27 more than Berlin, and 1.22 higher than Paris.

Of these costs, the disparities in service sector pricing were noteworthy.

Can Japanese die in peace?

The Special Subcommittee on Service Sector Issues tentatively set up in the Price Stabilization Policy Council offered its assessment of price policies in a report submitted to the prime minister at the end of May. This report, entitled "Toward Correcting and Reducing Internal and External Price Disparities in Consumer-Oriented Services," is divided into sections on consumer-oriented services, including free time, home life, lifestyle support, and ceremonial occasions, and

compares these areas to other countries' sectors. Travel, sports, dining out, home remodeling, wedding ceremonies, and other services all cost more than in Europe or the U.S. A few examples of particularly striking disparities follow below.

(1) Golf courses' greens fees (in 1995) differed in metropolitan and local areas, but were generally 5.5 times higher than in the U.S. Japan's expensive golf fees are well known, but since the collapse of the "bubble" economy more golf courses have begun to permit individuals to play without using a caddie. This ties in with reduced personnel costs for golf courses and greater flexibility for customers.

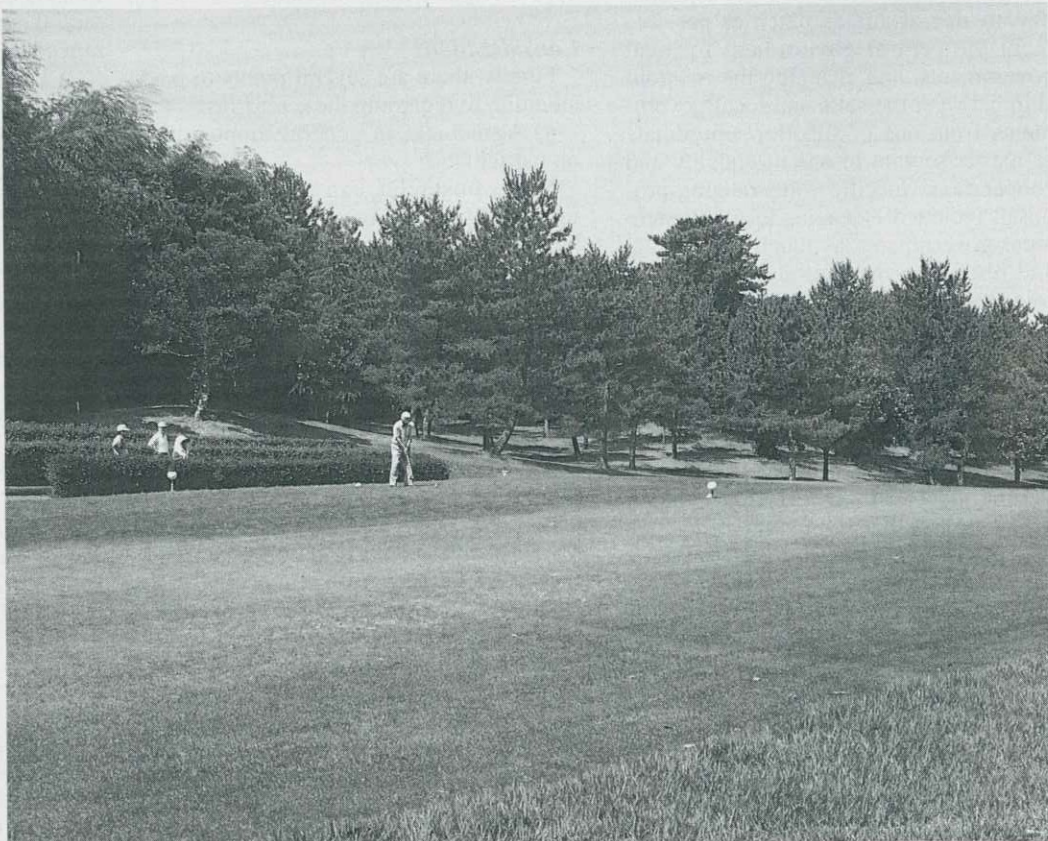
(2) For Japan as a whole and Tokyo,

classical music concerts were comparatively 4.3 to 9.3 times more expensive than in New York as of 1995.

(3) In the area of housing, a 1996 survey of kitchens units found that installation was 5.6 times higher than in Europe or the U.S.

(4) Of all these sectors, Japanese funerals were found to be extraordinarily more expensive than in other nations.

Including the unique Japanese custom of bestowing gifts in appreciation of condolence money, a funeral costs ¥4.05 million in the Tokyo metropolitan area (according to a 1993 *Kurashi no Tomo* survey) and the expense has been trending higher yearly. It is somewhat cheaper outside major urban areas, but when the metropolitan region's costs



Exorbitant green fees—when will price differences become a thing of the past?

are compared with those in other countries at a ¥100 to the dollar rate, Japan's high costs are striking: 9.1 times those of the U.S., 10.8 times more than South Korea, 20.5 times higher than Germany, and an incredible 32.9 times more expensive compared to the U.K.

In Japan, the expense of traditional customs adds to the high cost of the funeral itself. When so much expense is incurred, some might tend to worry that Japanese might not be able to die in peace.

Why the striking price disparities between Japan and elsewhere?

Circumstances differ somewhat depending on the service sector, but in the case of product competition with other countries, it is undertaken through trade. Depending upon the service, some sectors are categorized as service trades and, differing on the whole from the manufacturing sector, there is not much competition with other nations. As such, efficiency is poor and it is difficult to boost productivity. This is one factor in high service sector prices. Moreover, it is difficult in many cases to shift services from one region to another as is done with goods. Because of this, services are affected by local conditions and supplies cannot be rapidly expanded simply because demand is great. Service sector prices tend to increase in large cities where demand is great and personnel costs are also high. Despite socioeconomic changes to date, policies and systems based on a premise of a socioeconomic emphasis on suppliers have remained unchanged in some instances.

Particularly in the case of social welfare services, it has been pointed out that systems have not kept pace with changes in family structure. Additionally, while Japanese consumers have questioned the quality of services, they have not had much enthusiasm for measures linked to reducing prices in this area.

Because service sector prices are comparatively higher than in other countries, it has been difficult for con-

sumers to experience a better quality of life as income levels have risen. This is also seen to be a factor in the Japanese economy's high cost structure and there are fears that failure to remedy this situation could lead to a "hollowing out" of domestic industry.

The service sector's share of the industrial structure, based on the number of employees, has also been increasing annually in Japan and was 60.3% in 1993. Based on EPA estimates, it is forecast that it will reach 63.7% by the year 2000. Further, expenditures in the area of household services have steadily increased in conjunction with rising income levels, and the service sector now occupies a 53.7% share of the consumer price index, surpassing the share held by goods. Up to now it has been quite difficult to make international comparisons of similar services and, while apparent problems have been noted, issues of substance have rarely been discussed.

How to lower service charges?

As was also cited in the Price Stabilization Policy Council's report, it is important, for one, for consumers not to passively accept services, but to take action by thoroughly investigating and judging for themselves how best to lower fees. Take the cost of overseas travel, for example. In 1995, 15 million Japanese traveled overseas, but Japanese package tours centered on rush demand periods and prices jumped. This phenomenon is not noted in European or American package tours; if vacations can be staggered they are fairly inexpensive.

Further, comparing domestic travel, transportation expenses are high in Japan, as are lodging and meal costs. Europeans and Americans use relatives' or acquaintances' cottages, but there is a high rate of hotel and inn use in Japan. In many cases, though they are included, there is no choice of meals. If the system of advance discounts were used for transportation expenses and appropriate lodging that met one's needs, this would change.

In Japan there is a tendency to contract for even the smallest home remodeling job. Might it not be possible to do it oneself, not leaving it to others any more than necessary, as is done in Europe and the U.S.

However, although only in one area, consumers are becoming sensitive to service costs.

In the case of wedding expenses the total cost, including engagement gifts and expenses related to the new lifestyle, peaked at ¥8.33 million in 1993 and has declined annually, reaching ¥7.68 million in 1995, a drop of around 8%. Declining costs for wedding ceremonies and receptions, along with the honeymoon, and diversified marriage ceremony and reception styles are said to be behind this.

This brings to mind a new word that we have been hearing recently, "jimikon," or "simpledding," describing a frugal ceremony. Young people consider it absurd to spend vast amounts on the wedding ceremony and reception, increasingly preferring to hold a ceremony that is truly meaningful and places substance over form.

Regarding funeral costs and the especially eye-opening disparities between Japan and elsewhere, very recently there have been reports of a trend toward making funeral arrangements in advance. It may be difficult to make preparations while still living, but as long as the current situation, in which people hastily seek a service when the time suddenly arrives, continues, people will, in reality, not likely be able to hold cheap and satisfactory funerals.

Needless to say, before consumers can take this sort of independent action, disclosure of information such as pricing details will be indispensable for a determination of how to obtain the good services they require cheaply. The report also calls upon the government to play a role in fostering an environment in which the provision of efficient services can be realized. ■

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