

AMBASSADOR'S REMARKS BEFORE DIET COMMITTEE ON ADMINISTRATIVE REFORM
(DEC. 7, 1994)

I WANT TO THANK YOU ALL FOR INVITING ME HERE TODAY. I HAVE HEARD GOOD THINGS FROM MY FRIENDS IN THE AMERICAN BUSINESS COMMUNITY HERE ABOUT HOW HELPFUL YOU HAVE BEEN TO THEM IN LISTENING TO THEIR VIEWS ON DEREGULATION AND I WANT TO THANK YOU FOR THIS COOPERATION AS WELL.

I UNDERSTAND THAT WE DO NOT HAVE A LOT OF TIME THIS MORNING AND AFTER MY REMARKS I ALSO VERY MUCH WANT TO HEAR FROM YOU ABOUT DEREGULATION. SO I WILL TRY TO KEEP IT SHORT AND IF I GET CARRIED AWAY TALKING, JUST CUT ME OFF AND JUMP RIGHT IN. I WON'T BE INSULTED. SOME OF MY STAFF IS ALSO HERE TODAY AND THEY WILL STAY ON AFTER WE FINISH TO GO OVER IN GREATER DETAIL ANY ADDITIONAL QUESTIONS YOU MAY HAVE.

LET ME BEGIN BY DESCRIBING BRIEFLY WHY MY GOVERNMENT IS SO VERY INTERESTED IN THE DEREGULATION QUESTION. DEREGULATION HERE WILL OPEN YOUR MARKET -- THE SECOND LARGEST MARKET IN THE WORLD -- TO AMERICAN BUSINESSES AND BETTER ALLOW US TO SELL OUR COMPETITIVE PRODUCTS TO JAPANESE CONSUMERS.

DEREGULATION IS ALSO GOOD FOR JAPAN. IT WILL STRENGTHEN YOUR ECONOMY BY HELPING INDUSTRIES TO EXPAND, OFFER CONSUMERS GREATER CHOICE AND NARROW THE PRICE GAP BETWEEN HERE AND OVERSEAS. AND THIS MAKES IT GOOD FOR THE WORLD -- BECAUSE A HEALTHY, VIGOROUS JAPANESE ECONOMY IS NECESSARY FOR GLOBAL PROSPERITY.

LAST MONTH, AT THE REQUEST OF YOUR GOVERNMENT, WE -- LIKE HUNDREDS OF OTHERS FROM WITHIN AND OUTSIDE JAPAN -- SUBMITTED OUR VIEWS ON HOW WE HOPE JAPAN WILL PROCEED IN DEREGULATING HER MARKET. OUR SUBMISSION IS VERY CLOSE TO THAT OF KEIDANREN AND TO WHAT A NUMBER OF DISTINGUISHED STUDY GROUPS, INCLUDING THE HIRAIWA COMMISSION, HAVE CALLED FOR.

WE ARE PROPOSING A NUMBER OF PRINCIPLES:

- o PERHAPS THE MOST IMPORTANT BEING THAT FREEDOM FROM REGULATION SHOULD BE A GUIDING PRINCIPLE, WITH REGULATION THE EXCEPTION;
- o WE BELIEVE THAT JAPAN'S REGULATORY REGIME NEEDS TO BE TRANSPARENT AND NON-DISCRIMINATORY; AND THAT THERE BE STRONG ANTIMONOPOLY ACT ENFORCEMENT.
- o WE ALSO ASK FOR PUBLIC PARTICIPATION, INCLUDING U.S. PRIVATE SECTOR PARTICIPATION, IN THIS PROCESS.
- o FINALLY, WE URGE THAT SUCCESS BE MEASURED NOT BY COUNTING REGULATIONS BUT BY LOOKING AT THE IMPACT ON THE MARKETPLACE, SUCH AS ON THE LARGE GAP BETWEEN JAPANESE AND OVERSEAS PRICES.

WE ALSO REQUESTED THAT JAPAN ACT TO DEREGULATE A BROAD RANGE OF SECTORS, FROM AGRICULTURE TO TELECOMMUNICATIONS, BUT PARTICULARLY IN FINANCIAL SERVICES, BUILDING CODES, AND THE AUTOMOTIVE SECTOR.

AMERICA'S EXPERIENCE WITH DEREGULATION CAN PROVIDE VALUABLE LESSONS. AFTER DEREGULATING A NUMBER OF SECTORS, WE FOUND THAT PRICES DID INDEED COME DOWN, WHILE PRODUCT CHOICE AND QUALITY WENT UP. OUR INDUSTRIES EXPANDED AND BECAME STRONGER; THERE WAS A NET INCREASE IN JOBS CREATED; AND OUR SAFETY RECORD ACTUALLY IMPROVED.

LET ME JUST TAKE ONE EXAMPLE: AIRLINE DEREGULATION. PRIOR TO 1978, OUR AIRLINE INDUSTRY WAS REGULATED TO MAINTAIN SERVICE TO RURAL AREAS. LOOKING BACK NOW, WE CAN SEE THAT THESE REGULATIONS HAD A NEGATIVE IMPACT -- THE HIGH RATES DISCOURAGED THE USE OF AIR TRAVEL. IN FACT, MANY PEOPLE IN RURAL AREAS FOUND THAT PRICES HAD BEEN SET TOO HIGH FOR THEM TO BE ABLE TO FLY.

WHEN CONGRESS PASSED THE AIRLINE DEREGULATION ACT IN 1978, COMPANIES FOR THE FIRST TIME WERE FREE TO SET FARES AND PRICES STARTED TO DROP. A WHOLE NEW GENERATION OF TRAVELERS EMERGED, REVITALIZING OUR AIRLINE INDUSTRY. THE GROWTH WAS PHENOMENAL AND AIRLINES SERVING PEOPLE IN RURAL AREAS ACTUALLY SAW A 6 TIMES INCREASE IN THE NUMBER OF PASSENGER MILES. THE

INCREASE IN TRAVEL FOLLOWING DEREGULATION LED TO A NET INCREASE IN EMPLOYMENT IN THIS SECTOR. IN FACT, ABOUT 200,000 NEW AIRLINE INDUSTRY JOBS HAVE BEEN CREATED SINCE 1978.

AS FOR AIRLINE SAFETY, IT ACTUALLY IMPROVED. FATALITIES DROPPED BY A THIRD. THIS MAKES SENSE WHEN YOU THINK ABOUT IT, BECAUSE ONCE YOU DEREGULATE AN INDUSTRY, BUSINESS HAS TO BE MORE RESPONSIVE TO CONSUMER CONCERNS OR IT WILL SINK UNDER THE WEIGHT OF COMPETITION. AND OF COURSE, WHILE DOING AWAY WITH ANTI-COMPETITIVE REGULATIONS, WE, LIKE YOU, REMAIN COMMITTED TO MAINTAINING REGULATIONS THAT PROTECT PUBLIC SAFETY.

I WANT TO TURN TO DEREGULATION IN JAPAN NOW, BECAUSE I WANT TO HIGHLIGHT HOW IN AREAS THAT JAPAN HAS DEREGULATED UP TO NOW, IT HAS BENEFITED US BOTH.

I THINK BEER IS AS GOOD AN EXAMPLE AS ANY. BACK IN THE LATE 1980S, UNDER THE SII TALKS, OUR TWO COUNTRIES WORKED VERY CLOSELY TOGETHER TO INCREASE THE AVAILABILITY OF IMPORTED GOODS AND SERVICES INTO JAPAN. AS A RESULT OF SII, JAPAN MADE SOME CHANGES TO THE LARGE SCALE RETAIL LAW. ONE SUCH CHANGE WAS THAT BIG RETAILERS WERE ALLOWED TO SELL ALCOHOL IN THEIR STORES. THE CHANGES DIDN'T COME INTO EFFECT IMMEDIATELY -- THERE WAS A THREE YEAR WAITING PERIOD -- BUT BY LATE 1992, SOME BIG RETAILERS RECEIVED PERMISSION AND AS PRICE COMPETITION BEGAN IN EARNEST, BEER IMPORTS TOOK OFF. FOREIGN BEER SALES HAVE GONE FROM ONE TO SIX PERCENT OF THE MARKET.

UP UNTIL THAT TIME JUST ABOUT ANYWHERE YOU WENT IN JAPAN A CAN OF BEER COST 220 YEN. BUT BY LATE 1992 THINGS STARTED TO CHANGE AND NOW YOU CAN GET A BEER FOR 138 YEN.

I WANT TO LEAVE YOU WITH ONE MORE EXAMPLE AND THAT IS THE CELLULAR PHONE MARKET. UP UNTIL APRIL OF THIS YEAR PHONE OWNERSHIP WAS PROHIBITED AND THE COST OF RENTING A PHONE WAS UNREASONABLY HIGH. AFTER THE APRIL DEREGULATION, PRICES CAME DOWN TO WHERE YOU CAN NOW BUY A CELLULAR PHONE FOR ONLY 50,000 YEN -- AND SOME DISCOUNTERS I HEAR ARE PRICING THESE FOR AS LOW AS 18,000 YEN. SIGN-UP FEES AND MONTHLY CHARGES HAVE ALSO FALLEN BY HALF AND THE CONSUMER RESPONSE TO THESE PRICE CUTS HAS BEEN TREMENDOUS.

THESE EXAMPLES ARE REAL SIGNS OF HOPE AND I AM OPTIMISTIC ABOUT WHERE OUR COUNTRIES ARE HEADED ON DEREGULATION. THAT SAID, I ALSO BELIEVE THAT JAPAN CANNOT AFFORD TO PUT OFF DEREGULATION MUCH LONGER. WHEREVER JAPANESE COMPANIES COMPETE WITH THE WORLD THEY ARE OFTEN THE VERY BEST -- THIS IS THE CASE WITH CARS AND CONSUMER ELECTRONICS. BUT AS THE ECONOMIC PLANNING AGENCY HERE RECENTLY POINTED OUT, IN INEFFICIENT INDUSTRIES SUCH AS HOUSING AND FINANCE, PRICES ARE WAY ABOVE INTERNATIONAL STANDARDS. MANY OF THESE ARE THE VERY INDUSTRIES THAT ARE THE MOST HEAVILY REGULATED.

MY COUNTRY'S EXPERIENCE HAS BEEN THAT IN EVERY INSTANCE IN WHICH WE DELAYED, OUR PEOPLE AND OUR INDUSTRY SUFFERED TREMENDOUSLY. FOR JAPAN, THERE IS THE ADDED CONCERN THAT FAILURE TO DEREGULATE WILL NOT ONLY HURT HER DOMESTIC ECONOMY, BUT IT ALSO WILL FEED TRADE FRICTIONS WITH HER INTERNATIONAL PARTNERS. YOUR ECONOMY IS THE SECOND LARGEST IN THE WORLD. THE BEST WAY FOR JAPAN TO CONTRIBUTE TO GLOBAL ECONOMIC GROWTH AND PROSPERITY INTO THE NEXT CENTURY IS BY BRAVELY GOING FORWARD WITH MEASURES TO REVITALIZE YOUR ECONOMY -- INCLUDING BOLD ACTION ON THE DEREGULATION FRONT.



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