

AMBASSADOR'S DEREGULATION SPEECH  
TO KEIDANREN DEREGULATION COMMITTEE  
(DECEMBER 13, 1994)

I WANT TO THANK YOU ALL FOR INVITING ME HERE TODAY, IT IS NICE TO SEE SOME FAMILIAR FACES. I UNDERSTAND THAT YOU ARE INTERESTED IN HEARING ABOUT MY COUNTRY'S EXPERIENCE WITH DEREGULATION. WELL, I THINK I CAN SUM IT UP IN TWO WORDS: "DIFFICULT" AND "NECESSARY." OKAY, WE CAN ALL GO HOME NOW.

DEREGULATION IS DIFFICULT

MY COUNTRY WENT THROUGH A PERIOD OF INTENSE DEREGULATION IN THE LATE 1970'S AND 80'S AND NONE OF IT WAS EASY. IN ANY COUNTRY, DEREGULATION IS DIFFICULT. AFTER ALL, ONCE REGULATIONS ARE IN PLACE, NO MATTER HOW PRAISEWORTHY THEIR ORIGIN, SPECIAL INTERESTS BUILD UP AROUND THE REGULATIONS, AND SOME PEOPLE MAKE THEIR WHOLE LIVELIHOOD DEPENDENT UPON THEIR EXISTENCE. WHEN WE BEGAN TO DEREGULATE, WE HAD TO ABOLISH WHOLE GOVERNMENT AGENCIES.

THERE WAS JOB DISLOCATION TOO. BUT WHAT WE FOUND WAS THAT DEREGULATING INDUSTRIES OPENED UP NEW JOBS -- MORE JOBS AND MORE COMPETITIVE JOBS THAN WHAT THESE PEOPLE HAD BEFORE.

WE FOUND THAT DEREGULATION IMPROVED COMPETITION AND REVITALIZED OUR INDUSTRIES.

AND WE FOUND THAT DEREGULATION COULD BE CARRIED OUT WITHOUT UNDERMINING SAFETY. BY MAINTAINING REGULATIONS THAT DIRECTLY BENEFIT PUBLIC AND WORKER SAFETY, EVEN AS WE CUT AWAY UNNECESSARY REGULATIONS, SAFETY ACTUALLY IMPROVED IN MANY DEREGULATED SECTORS.

OUR EXPERIENCE WITH AIRLINE DEREGULATION IS A GOOD EXAMPLE. BEFORE 1978, ENTRY INTO THE INDUSTRY, ALLOCATION OF ROUTES, AND FARES CHARGED ON THOSE ROUTES WERE TIGHTLY CONTROLLED BY THE GOVERNMENT. LOOKING BACK NOW,

WE CAN SEE THAT THESE REGULATIONS HAD A NEGATIVE IMPACT. MANY PEOPLE FOUND PRICES SO HIGH THEY COULD NOT AFFORD TO FLY.

UPON DEREGULATION, COMPANIES FOR THE FIRST TIME WERE FREE TO SET FARES AND PRICES CAME DOWN. BY MOST ESTIMATES, THEY HAVE FALLEN ONE THIRD.

A WHOLE NEW GENERATION OF TRAVELERS EMERGED, REVITALIZING OUR AIRLINE INDUSTRY. THE GROWTH WAS PHENOMENAL. AIR TRAVEL IN THE U.S. ALMOST DOUBLED BETWEEN 1978 AND 1992.

THIS BOOM IN TRAVEL CREATED JOBS IN THE AIRLINE INDUSTRY -- ABOUT 200,000 SINCE 1978. THIS FIGURE DOES NOT EVEN TAKE INTO ACCOUNT THE SPILL-OVER EFFECT THAT THE INCREASE IN TRAVEL HAS MEANT FOR EMPLOYMENT IN INDUSTRIES LIKE THE RENT-A-CAR BUSINESS AND HOTELS.

BECAUSE WE MAINTAINED STRICT SAFETY REGULATIONS, SAFETY ACTUALLY IMPROVED. FATALITIES DROPPED BY A THIRD BETWEEN 1979 AND 1986.

TRUCKING IS ANOTHER EXAMPLE OF AN INDUSTRY WHICH HAD BEEN HEAVILY CONTROLLED. UP UNTIL 1980, RATES WERE FIXED AND NEW ENTRY WAS RESTRICTED. IN 1980, WE PASSED THE MOTOR CARRIER ACT, EASING THESE RESTRICTIONS. BY 1992, THE NUMBER OF CARRIERS INCREASED OVER 200 PERCENT. NEW JOBS WERE CREATED, AND PRICES DROPPED.

AND HERE TOO, SAFETY IMPROVED AFTER DEREGULATION. FATAL ACCIDENTS PER MILE DROPPED BY 20%.

TELECOMMUNICATIONS IS ANOTHER GOOD EXAMPLE. HERE, THE IMPETUS FOR DEREGULATION CAME THROUGH ANTI-TRUST ACTION. AT&T, MUCH LIKE YOUR NTT, WAS ONCE CONSIDERED A "NATURAL MONOPOLY;" DESIRABLE BECAUSE ITS LARGE SIZE WOULD EFFICIENTLY PROVIDE QUALITY SERVICE AND ACCESS TO ALL. BUT ECONOMISTS ARGUED THAT RATHER THAN EFFICIENCY, THE IMPACT OF MONOPOLY AND REGULATION WAS INEFFICIENCY.

WHAT IS THE VERDICT ON DEREGULATING OUR TELECOMMUNICATIONS MARKET SO FAR?

IN THE DECADE SINCE DEREGULATION THE AVERAGE COST OF LONG DISTANCE SERVICE HAS FALLEN BY 50%. THE EQUIPMENT SIDE OF THE BUSINESS ALSO OPENED UP. THIS ALLOWED NEW FIRMS, BOTH U.S. AND JAPANESE, TO COMPETE FOR THE FIRST TIME. IT PUSHED PRICES DOWN AND CREATED ALL KINDS OF NEW PRODUCTS.

TOTAL ECONOMIC GAINS FROM THE DEREGULATION OF THE TELECOM SECTOR ARE ESTIMATED TO BE AROUND \$6 BILLION A YEAR.

AS THESE EXAMPLES SHOW, IT SUCCEEDED IN REVITALIZING OUR INDUSTRIES AND IN CREATING NEW JOBS. PRICES HAVE COME DOWN, LEADING TO BENEFITS IN THE BILLIONS OF DOLLARS FOR CONSUMERS. AS FOR SAFETY, THERE IS ABSOLUTELY NO CORRELATION BETWEEN DEREGULATION AND LOWER SAFETY. WHEN WE TALK ABOUT DEREGULATION, NO ONE IS TALKING ABOUT UNDOING REGULATIONS THAT PROTECT CONSUMER AND WORKER SAFETY. IN FACT, MY COUNTRY HAS SOME OF THE MOST ADVANCED PRODUCT SAFETY LAWS IN THE WORLD.

#### DEREGULATION IS NECESSARY

OUR EXPERIENCE HAS BEEN THAT IN EVERY INSTANCE IN WHICH WE PUT OFF DEREGULATION, IT HARMED OUR ECONOMY. PROTECTING OUR INDUSTRIES FROM COMPETITION -- BE IT COMPETITION AT HOME OR FROM ABROAD -- NEVER WORKS. THIS IS WHY WE WENT AHEAD WITH THE DIFFICULT TASK OF DEREGULATION, AND IT IS ALSO WHY WE KEEP OUR MARKETS OPEN AND OUR BUSINESSES EXPOSED TO WORLD COMPETITION AND WHY WE WILL CONTINUE TO DO SO.

WHEREVER JAPANESE COMPANIES COMPETE WITH THE WORLD THEY OFTEN ARE TOP-RANK -- THIS IS THE CASE WITH CARS AND CONSUMER ELECTRONICS. BUT AS THE ECONOMIC PLANNING AGENCY POINTED OUT, IN INEFFICIENT INDUSTRIES SUCH AS HOUSING OR TELECOMMUNICATIONS, PRICES ARE STILL WAY ABOVE INTERNATIONAL LEVELS. NOT SURPRISINGLY, MANY OF THESE SECTORS ARE ALSO THE MOST HEAVILY REGULATED.

MITI RECENTLY CAME OUT WITH A REPORT THAT COMPARED THE COST OF GOODS AND SERVICES IN JAPAN WITH OTHER COUNTRIES. THE REPORT FOUND PRICES FOR

GOODS ARE 30% HIGHER AND SERVICES 50% HIGHER THAN IN THE U.S. IT IS NO SURPRISE THE JAPANESE PEOPLE SAY THEY WANT CHANGE.

#### THE U.S. STAKE IN JAPAN'S DEREGULATION

I'VE LAID OUT HOW DEREGULATION HAS INCREASED EMPLOYMENT AND CONSUMER BENEFIT IN THE UNITED STATES. I'D LIKE TO TELL YOU WHY DEREGULATION IN JAPAN IS IMPORTANT TO MY GOVERNMENT AND TO AMERICAN BUSINESS. OUR EXPERIENCE HAS BEEN THAT DEREGULATION LEADS TO INCREASED COMPETITION IN THE MARKETPLACE. IN JAPAN, THIS WILL MEAN NEW OPPORTUNITIES FOR COMPETITIVE AMERICAN FIRMS TO SUCCEED. OUR EXPORTS AND INVESTMENT WILL EXPAND, TRADE FRICTIONS WILL EASE, AND AT THE SAME TIME, JAPANESE CONSUMERS WILL BE BETTER OFF.

WHEN WE LOOK AT THE AREAS WHERE WE HAVE PRESSED FOR DEREGULATION IN THE PAST AND WHERE REGULATIONS HAVE BEEN EASED, WE SEE TREMENDOUS GAINS FOR BOTH OF US. IT HAS BEEN A WIN-WIN SITUATION.

LOOK AT THE MOTOROLA AGREEMENT AND YOUR CELLULAR PHONE MARKET. UP UNTIL APRIL OF THIS YEAR PHONE OWNERSHIP WAS PROHIBITED AND THE RENTAL FEE ON A MOBILE PHONE WAS UNREASONABLY HIGH. AFTER THE DEREGULATION WHICH STARTED IN APRIL, PRICES CAME DOWN AND NOW YOU CAN BUY A PHONE FOR ONLY 50,000 YEN -- AND SOME DISCOUNTERS I HEAR ARE CHARGING AS LITTLE AS 18,000 YEN. SIGN-UP FEES AND MONTHLY CHARGES HAVE ALSO FALLEN BY HALF.

THE CONSUMER RESPONSE TO THESE PRICE CUTS HAS BEEN TREMENDOUS. SUBSCRIBERS IN THE TOKYO-NAGOYA CORRIDOR ARE FIVE TIMES WHAT THEY WERE JUST A YEAR AGO.

THERE ARE MANY EXAMPLES. TAKE THE BEER MARKET. INCREASES IN IMPORTED BEER SALES HAVE VERY LITTLE TO DO WITH THE SUMMER HEAT OR THE HIGH YEN, AND MUCH MORE TO DO WITH REGULATORY CHANGES IN THE LARGE SCALE RETAIL LAW, BROUGHT ABOUT DURING OUR STRUCTURAL IMPEDIMENTS INITIATIVE (SII) TALKS.

BEFORE THIS DEREGULATION, A CAN OF BEER COST 220 YEN. BUT BY LATE 1992 THINGS STARTED TO CHANGE. LEADERS LIKE MR. NAKAUCHI HERE BEGAN DISCOUNTING. NOW YOU CAN GET A CAN OF BEER FOR 138 YEN AND IMPORTED BEER SALES ARE DOUBLE LAST YEAR'S LEVEL.

TOYS R US IS A SIMILAR SUCCESS STORY. IF IT WAS NOT FOR THE SII NEGOTIATIONS AND THE REFORM OF THE LARGE SCALE RETAIL LAW, IT WOULD HAVE BEEN YEARS BEFORE THEY COULD ENTER THE MARKET. AND WHAT HAVE WE SEEN? TOYS R US HAS JUST OPENED UP THEIR 20TH STORE RECENTLY. BUT MORE IMPORTANTLY, A WHOLE INDUSTRY OF LOW COST TOY STORES HAS SPRUNG UP AND TOY PRICES ARE DOWN BETWEEN 10-40%. THIS HAS BEEN GOOD FOR THE JAPANESE CONSUMER; GOOD FOR AMERICAN BUSINESS; GOOD FOR OUR TRADE RELATIONSHIP; AND GOOD FOR JAPANESE JOB GROWTH.

#### WHAT WE ARE ASKING FOR

KEIDANREN HAS COME OUT IN SUPPORT OF DEREGULATION AND WE WELCOME THIS. IN FACT, THERE SEEMS TO BE NO LACK OF SUPPORT FOR DEREGULATION IN JAPAN -- A RECENT NHK POLL SHOWED THAT CLOSE TO 80% OF THE PUBLIC HERE FAVORS REGULATORY REFORM. MITI AND THE EPA ALSO HAVE RELEASED FAVORABLE REPORTS.

THE GOVERNMENT OF JAPAN FULLY UNDERSTANDS THE BROADER INTERNATIONAL IMPLICATIONS OF THE NEED FOR DEREGULATION. IN MAPPING OUT ITS FIVE YEAR DEREGULATION PLAN, YOUR GOVERNMENT HAS ASKED FOR RECOMMENDATIONS FROM ALL OVER, INCLUDING THE U.S. AND EUROPE.

LAST MONTH, WE RESPONDED TO THIS REQUEST BY SUBMITTING 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.

BASED ON OUR OWN EXPERIENCE WITH DEREGULATION, WE PROPOSE THAT FREEDOM FROM REGULATION BE A GUIDING PRINCIPLE, WITH REGULATION THE EXCEPTION.

WE ASK FOR A REGULATORY REGIME THAT IS TRANSPARENT AND NON-DISCRIMINATORY; AND FOR VIGOROUS ENFORCEMENT OF ANTIMONOPOLY LAWS AS DEREGULATION PROCEEDS.

WE ALSO ASK THAT YOUR GOVERNMENT TAKE A FLEXIBLE APPROACH TO DRAFTING AND IMPLEMENTING ITS DEREGULATION ACTION PLAN, BECAUSE IN AN EVER-CHANGING MARKETPLACE, IT IS DIFFICULT TO PREDICT PRECISELY TODAY THE REGULATORY ISSUES THAT MAY ARISE ONE YEAR OR EVEN SIX MONTHS FROM NOW. WE ASK FOR PUBLIC PARTICIPATION, INCLUDING U.S. PRIVATE SECTOR PARTICIPATION, IN THIS PROCESS.

WE BELIEVE THAT THE SUCCESS OF DEREGULATION SHOULD BE MEASURED NOT BY A MERE COUNTING OF REGULATIONS RELAXED, BUT BY LOOKING AT ITS IMPACT ON THE MARKETPLACE, SUCH AS ON THE LARGE GAP BETWEEN JAPANESE AND OVERSEAS PRICES.

MORE SPECIFICALLY, WE ALSO REQUEST THAT JAPAN ACT TO DEREGULATE A BROAD RANGE OF SECTORS THAT ARE OF SPECIAL INTEREST TO AMERICAN INDUSTRIES, FROM AUTOS TO BUILDING CODES; CUSTOM CLEARANCES TO FINANCIAL SERVICES; TELECOMMUNICATIONS TO WOOD PRODUCTS, TO MEDICAL TECHNOLOGY AND SUPPLIES.

IN CLOSING, I WANT TO POINT OUT THAT DEREGULATION IS NOT A NEW MATTER. REGULATORY ISSUES HAVE BEEN AT THE HEART OF OUR BILATERAL TRADE TALKS FOR OVER A DECADE.

FRANKLY, I DON'T THINK THAT JAPAN CAN AFFORD TO PUT OFF DEREGULATION MUCH LONGER. BY NOT REMOVING THE REGULATORY AND OTHER BARRIERS THAT PROTECT YOUR WEAKEST FIRMS FROM FOREIGN COMPETITION, YOU ARE IN FACT HURTING YOUR MOST COMPETITIVE FIRMS. THE TRADE SURPLUS THAT RESULTS FROM THESE BARRIERS KEEPS UPWARD PRESSURE ON THE YEN. THIS, IN TURN, UNDERMINES THE INTERNATIONAL COMPETITIVENESS OF YOUR EXPORT FIRMS -- THE VERY COMPANIES WITH THE HIGHEST PRODUCTIVITY AND THE BEST-PAYING JOBS.

MOVING AHEAD BOLDLY ON DEREGULATION NOW IS A GOLDEN OPPORTUNITY FOR JAPAN -- TO INVIGORATE YOUR ECONOMY; TO CREATE JOBS WITH A FUTURE FOR YOUNG COLLEGE GRADUATES INSTEAD OF PROTECTING THE JOBS OF THE PAST; TO MAKE MORE

EFFICIENT USE OF WHAT WILL BE INCREASINGLY SCARCE LABOR IN JAPAN; TO EXPAND JOB OPPORTUNITIES FOR WOMEN; TO INCREASE FOREIGN DIRECT INVESTMENT IN JAPAN; AND TO OPEN YOUR MARKETS TO TOP QUALITY FOREIGN GOODS AT AFFORDABLE PRICES.

THANK YOU.



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