

DEREGULATION SEMINAR

MARCH 5, 1996

THANK YOU FOR THAT KIND INTRODUCTION. IT IS A PLEASURE TO BE HERE WITH DR. TOYODA, WHOM I CONGRATULATE FOR PRESSING FORWARD WITH JAPAN'S DEREGULATION EFFORT. I AM ALSO PLEASED SEE AMBASSADOR KECK, A CHAMPION OF DEREGULATION AND UNDOUBTEDLY ONE OF THE ABLEST AMBASSADORS POSTED IN JAPAN TODAY. I WOULD ALSO LIKE TO RECOGNIZE MY OLD FRIEND FRANK GIBNEY, AND MY OLD COLLEAGUE, SENATOR ROTH.

LET ME ALSO MENTION AMBASSADOR MIKE MANSFIELD, WHOSE GOOD NAME IS ASSOCIATED WITH THIS MEETING. AMBASSADOR MANSFIELD IS FOND OF NOTING THAT THE U.S.-JAPAN RELATIONSHIP IS THE MOST IMPORTANT IN THE WORLD. THIS IS BECAUSE OF OUR ABILITY TO WORK TOGETHER ON ISSUES OF MUTUAL BENEFIT. WE ARE NOT IN A RELATIONSHIP WHEREIN ONE NATION MUST TAKE A LOSS WHENEVER THE OTHER MAKES A GAIN. OUR MOST VITAL ISSUES ARE WIN/WIN SITUATIONS. DEREGULATION AND INCREASED MARKET ACCESS ARE TWO OF THOSE MUTUALLY BENEFICIAL ISSUES.

FROM MY COUNTRY'S PERSPECTIVE, TRADE IS PLAYING AN INCREASINGLY CRUCIAL ROLE IN THE HEALTH OF THE U.S. ECONOMY. EXCHANGES WITH ASIA MAKE UP THE LION'S SHARE OF U.S. TRADE, AND EXPORTS TO JAPAN ARE ON THE RISE. SINCE 1992 WE'VE SEEN INCREASED EXPORT GROWTH IN THE 20 SECTORS WHERE WE HAVE REACHED TRADE AGREEMENTS. DEREGULATION IS A MAJOR FACTOR IN THE SUCCESS OF THESE AGREEMENTS.

DEREGULATION IS ALSO VERY GOOD FOR JAPAN. THE MOST TREMENDOUS GROWTH IN JAPAN IS TAKING PLACE IN SECTORS WHERE ARTIFICIAL BARRIERS ARE COMING DOWN AND THE PRECEPTS OF FREE AND OPEN COMPETITION ARE DRIVING MARKET EXPANSION. JAPANESE DEREGULATION IS GOOD FOR THE REST OF THE WORLD AS WELL -- BECAUSE A HEALTHY, VIGOROUS JAPANESE ECONOMY IS NECESSARY FOR GLOBAL PROSPERITY.

THAT IS WHY WE ALL SHARE AN INTEREST IN JAPAN'S DEREGULATION, AND THAT'S WHY I AM GLAD YOU ARE TALKING ABOUT IT TODAY.

AT THE RISK OF OVER GENERALIZING, PERMIT ME TO REPEAT WHAT I BELIEVE IS BECOMING A CONSENSUS AMONG BOTH JAPANESE AND FOREIGN EXPERTS REGARDING THE REGULATORY STRUCTURE IN JAPAN TODAY. (1) JAPAN IS BADLY OVER-REGULATED, ALBEIT WITH SOME SECTORS LARGELY OPEN AND PROGRESS BEING MADE TOWARD THE OPENING OF OTHER AREAS. (2) THIS OVER-REGULATION IS VERY COSTLY TO JAPANESE CONSUMERS AND BUSINESSES. (3) SUCH OVER REGULATION OFTEN SERVES THE PURPOSE OF PROTECTING AN INDUSTRY FROM COMPETITION BOTH WITHIN AND FROM OUTSIDE OF JAPAN. (4) SUCH OVER-REGULATION OFTEN IMPEDES THE CRITICAL CHANGES NEEDED TO ADAPT JAPANESE BUSINESS TO THE DEMANDS OF INTERNATIONAL COMPETITION. AND, (5) SUCH OVER-REGULATION HELPS EXPLAIN THE FAILURE OF THE JAPANESE ECONOMY TO GROW AT A HEALTHY RATE OVER THE LAST SEVERAL YEARS DESPITE FISCAL STIMULATION.

IT IS ALSO CLEAR THAT, DESPITE MANY ATTEMPTS AT DEREGULATION, OFTEN LED BY TOP LEADERS IN GOVERNMENT AND BUSINESS, THE RESISTANCE TO CHANGE IN JAPAN CONTINUES TO BE STRONG. I BELIEVE THAT IN PART THIS RESISTANCE FLOWS FROM JAPAN'S UNIQUE DECISION-MAKING PROCESS -- WHICH HAS REPEATEDLY FRUSTRATED DEREGULATORY EFFORTS.

PROGRESS IS BEING MADE IN SOME AREAS: CELLULAR PHONES, AUTOS AND AUTO PARTS, FINANCIAL SERVICES, RETAIL STORES, AND WE ARE HEARTENED BY NEW SUGGESTIONS TO OPEN UP THE HOUSING CONSTRUCTION AND MATERIALS MARKET. WHERE DEREGULATION HAS OCCURRED, ALMOST ALWAYS CONSUMER PRICES HAVE DROPPED, NEW JOBS AND BUSINESSES HAVE BEEN ADDED IN JAPAN, WORLD COMPETITION HAS IMPROVED, TRADE DISPUTES HAVE WANED, AND JAPANESE BUSINESSES HAVE QUICKLY BECOME MORE COMPETITIVE -- IN SHORT EVERYONE HAS WON. FOR EXAMPLE, CELLULAR PHONES NOW COST LESS THAN HALF WHAT THEY COST TWO YEARS AGO, MONTHLY CHARGES ARE BEEN SLASHED, MODERN CELLULAR PHONE SERVICES HAVE CAUSED AN EXPLODING NEW MARKET IN THE TOKYO NAGOYA CORRIDOR AND EVERYONE IS BETTER OFF.

THE COSTS TO JAPAN FROM OVER REGULATION ARE ENORMOUS AND IN SOME AREAS VERGE ON THE CATASTROPHIC. IN JANUARY, JAPAN'S ECONOMIC PLANNING AGENCY ESTIMATED THAT FAILURE TO DEREGULATE COSTS THIS NATION ABOUT ONE AND A QUARTER PERCENTAGE POINTS IN ANNUAL REAL ECONOMIC GROWTH. MOREOVER, THE HIGHER PRICES STEMMING FROM OVER REGULATION CONTRIBUTE TO THE PHENOMENAL

HIGH COST OF LIVING HERE. AT NOMINAL EXCHANGE RATES, THE JAPANESE HAVE THE SECOND HIGHEST PER CAPITA GDP IN THE WORLD, AND ARE WELL AHEAD OF THE U.S. BUT ADJUSTED FOR PURCHASING POWER, JAPAN DROPS TO SIXTH PLACE -- AND IS CONSIDERABLY BELOW THE U.S.

I AM AN OUTSIDER HERE. IT IS NOT FOR ME TO PRESCRIBE REMEDIES FOR JAPAN, EXCEPT WHERE THESE PRACTICES UNFAIRLY IMPINGE UPON THE WORLD TRADING AND FINANCIAL SYSTEM -- WHICH THEY OFTEN DO. BUT JAPAN HAS INVITED THE U.S. AND EUROPE AND OTHERS TO MAKE RECOMMENDATIONS FOR DEREGULATION. BY AND LARGE THE RESPONSE HERE IN TOKYO HAS BEEN DISAPPOINTING.

THERE IS AN OLD CHINESE ADAGE: "MUCH THUNDER, NO RAIN." I AM AFRAID THAT TOO OFTEN DESCRIBES THE DEREGULATORY EFFORTS THAT HAVE BEEN ATTEMPTED HERE OVER THE LAST SEVERAL YEARS. THE TOMBSTONES BEARING THE NAMES OF FAILED DEREGULATORY EFFORTS -- OKITA, MAEKAWA, HIRAIWA, HAYAMI, AND OTHERS WOULD FILL A LARGE CEMETERY. AT THE HEART OF THE PROBLEM IS THE FAMOUS JAPANESE CONSENSUS SYSTEM THAT INVOLVES THE NEED TO GAIN ACCEPTANCE FROM THOSE WHO ARE NOW ENJOYING PROTECTION AND WHO WILL BE EXPOSED TO COMPETITION SHOULD DEREGULATION OCCUR. ALMOST ALWAYS THEY OPPOSE DEREGULATION AND ALMOST ALWAYS THEY HAVE THEIR WAY.

I SYMPATHIZE WITH THOSE, LIKE DR. TOYODA AND HIS PREDECESSORS AT KEIDANREN, WHO DO RECOGNIZE THE URGENCY OF DRASTIC DEREGULATION, AND WHO HAVE WORKED HARD TO REALIZE CHANGE FOR THE BENEFIT OF THEIR COUNTRY. I COMMEND YOU FOR PURSUING A DIFFICULT TASK, AND HOPE THAT YOU WILL CONTINUE TO PRESS HARD.

BUT, IF DEREGULATION CAN ONLY OCCUR WHEN EVERYONE IN A PROTECTED INDUSTRY AGREES TO OPEN UP, AS SEEMS TO BE THE CASE TODAY, I FEAR THAT JAPAN IS IN FOR MANY MORE YEARS OF FAILED EFFORTS IN THIS FIELD, WITH ALL OF THE ASSOCIATED COSTS TO THE JAPANESE CONSUMER AND BUSINESSES, TO THE COMPETITIVE STATUS OF JAPANESE BUSINESS IN WORLD COMMERCE, AND TO THE WORLD TRADING AND FINANCIAL SYSTEM WHICH IS SO HEAVILY AND ADVERSELY AFFECTED BY THE OVER-REGULATION OF THIS TREMENDOUSLY SIGNIFICANT ECONOMY.

THIS IS WHY WE MUST CHANGE THE MENTALITY ASSOCIATED WITH OVER-REGULATION. THIS IS THE ONLY PATH THAT WILL ALLOW JAPAN TO FULLY ENGAGE WITH THE INTERNATIONAL COMMUNITY. SO YOUR TOPIC TODAY IS RIGHT ON TARGET AND I WISH YOU WELL.

THANK YOU.



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