Comments

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Comments on Scollay

The deregulation experience of New Zealand holds many lessons for Japan. Scollay introduced the essence of New Zealand's experience clearly and made many of the pertinent issues understandable.

Having been engaged in the implementation of deregulation policy in the Japanese government within both the EPA (Economic Planning Agency) and the MCA (Management and Coordination Agency), feel I have some useful insights into this area.

I would like to comment on what Japan can learn from the experience of New Zealand.

Deregulation in New Zealand

The economic reform in New Zealand, which started in 1984, has been thoroughly implemented in a great many field. This approach is sometimes called the "Big Bang" and is worthy of the name. It includes deregulation in such vital industries as transportation, communications and finance, the abolition of barriers against entry in trade, finance, services, etc., and the privatization of public enterprises.

Through such reform New Zealand transformed itself from the most regulated of the OECD countries to the most-deregulated. However, if Japan tried to promote the reform in the same way as in New Zealand, the attempt would certainly fail because such reform needs not only a strong and stable government but also wide public support.

Deregulation in Japan

In the 1980s the tide of deregulation became stronger in Japan, as it did in New Zealand, reflecting the world-wide movement towards deregulation. In Japan there are two main types of deregulation.

The first is deregulation as administrative reform. In Japan it has been

considered very important that the size of the government should be smaller and that it should work more efficiently. Of the effective measures of achieving this has been deregulation.

In 1981 the Temporary Administrative Investigatory Committee or "Rincho" was established by the government, and under the proposals of the committee the three public service corporations or "Kousha"s, namely railways, telecommunications and cigarettes, were privatized.

After the abolition of the Rincho, the three Temporary Advisory Committees for Promotion of Administrative Reform or "Gyoukakushin"s were established in close succession. Following this, the Administrative Reform Committee or "Gyousei Kaikaku Iinkai" was established in 1994. This is a semipermanent organization seemingly intended to offer the general public a positive perspective regarding efforts towards deregulation.

In March this year the government published the list of regulations which will be abolished or mitigated within three years. The government is now preparing deregulation measures based on this list.

Although many deregulation lists have been compiled and published, my impression is that it seems difficult to identify essential areas, with the exception of the three previously mentioned public corporations.

The second type of deregulation is that used as an economic recovery measure. This usually displays three characteristics: the promotion of market opening for the mitigation of trade friction with other countries, the diminution of the difference between the price level in Japan and that in other countries, and a business measure for the recovery of domestic demand. The list of such measures have been published several times so far this year.

Considering deregulation from the viewpoint of economics, its main purpose lies in the improvement of the supply-side economy by such methods as the broadening of business opportunities or the decreases in price levels through the promotion of competition in all markets. The mitigation of regulations also increases the consumer's benefits, either through price reductions or an increase in the variety of goods. Moreover, in the case of Japan, deregulation serves to reduce of gap in price levels between Japan and other countries, and to mitigate the trade friction.

Regarding the lowering of prices, this may cause a reduction in profits for many firms. As Scollay points out, there are therefore possibilities that the performance of the macroeconomy is worsened by the implementation of deregulation. But this effect is a relatively short term one, and in the longer run deregulation tends to offer benefits for the macroeconomy through a rise in productivity.

Therefore we cannot say that deregulation is unnecessary because of the short term macroeconomic disadvantages. As Scollay observes, if the timing of deregulation is delayed, it may become impossible to implement fully because

the number of opponents to it increases in the recession which it initiates.

As for price levels in Japan, it is said that the gap in prices between Japan and other countries has grown in recent years and that this has had a serious impact on the society as a whole. Thus, a reduction in the price gap has been considered one of the most important aspects of Japan's macroeconomic policy.

According to the investigation of the EPA, the price level in Tokyo was 50% higher than that in New York in November 1994, mainly as a result of the rapid appreciation of the yen.

It is of great concern that domestic prices have not decreased even in the longer term to the same extent that the yen rate has increased. Although various other factors, such as the high wage rate and land prices are related to the rigidities of the domestic price level, public regulation is also a significant contributory factor. Regarding commodities, the following goods are expensive when compared with other developed countries; food, textiles, charges of public enterprises such as energy, water supply and transportation, and services such as a house rents. These goods, especially food and public enterprise charges, are thought to be expensive because these industries are strongly regulated.

According to the tentative calculation of the government, more than 40% of the production of all industries are subject to the governmental regulations and more than 25% are under much stronger regulations.

It can be seen then, that the implementation of deregulation is also very important from the standpoint of the reduction in the difference in the price level between Japan and other countries.

What Japan can learn from New Zealand's experience

If we compare the processes of deregulation in the two countries, we can understand that there are many things Japan can learn from New Zealand's experience of deregulation which has been implemented widely, rapidly and thoroughly.

In the case of Japan, deregulation has progressed at a much slower pace and only in isolated cases been similar to that of New Zealand. Although many measures for deregulation have been drawn up by the government, they do not offer us the impression that the deregulation has progressed significantly. This seems to be related to the fact that almost all deregulation measures have been relatively small, and that important regulations have not been fully achieved.

In Japan it may be very difficult to implement deregulation thoroughly, mainly owing to strong objections from the related industrial groups ("Gyoukai"s). The aggressive plans usually disappear during the process of coordination with the relevant industrial groups and related ministries, etc.

In making progress with regard to deregulation policies, strong support by the Cabinet is needed if significant changes are to be made. This is because the industrial groups tend to oppose deregulation with the help of politicians or the

related ministries and agencies. If and only if the political power of cabinet is strong enough to reject the objections from the pressure groups, thorough and drastic deregulation will succeed. The political instability in Japan in recent years has not therefore have a positive impact on the progress of deregulation.

Wide support for deregulation from the general public is also necessary for its success. Such support strengthens, making it stable enough to fully implement the necessary policies.

It is interesting, particularly from the social background perspective, to examine the reasons for New Zealand's ability to implement deregulation so thoroughly.

In Scollay's work, it is reported that during the 1980s only the wealthy class was able to increase their real income, while the income of other classes in the society decreased. Since drastic economic reform is often unpopular, how could such measures be implemented smoothly in New Zealand? If the people whose incomes have been reduced in the movement towards deregulation represent a significant portion of society, then they probably oppose the implementation of deregulation.

It is also interesting to consider whether or not the size of nation plays a significant role in the ease of deregulation. Since Japan is a country with a relatively large population, the impact of various pressure groups is greater and much effort is needed to coordinate their opinions.

In addition to the reforms discussed by Scollay, New Zealand has introduced several others, for example tax reform such as the simplification of tax classes and a decrease in the tax rate, a reduction in the number of the public officials, and the abolition of industrial subsidies. Scollay does not elaborate on them, probably because these policies do not have a direct relationship with the deregulation policies. But since many of these policies provide interesting insights for other countries, including Japan, it is desirable that they be examined closely.

Despite such minor shortcomings, the thesis is very helpful in providing a broader perspective for Japan's deregulation policies, because it explains the essence of the experience of New Zealand so clearly.