

# Competition Policy and Regulatory Reform in Japan

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# A new growth strategy through improving productivity of industries

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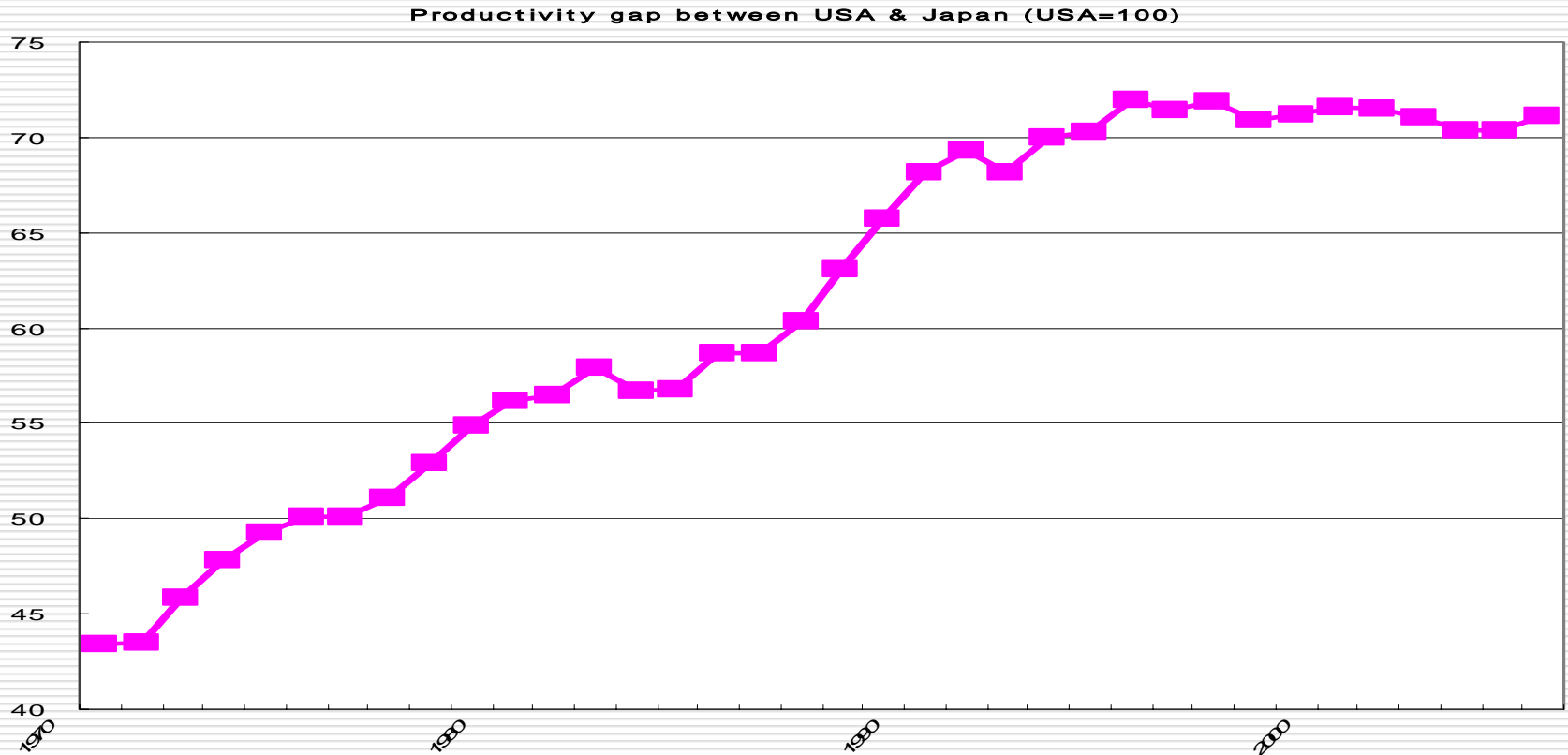
- ❑ Sources for Japan's economic stagnation
- ❑ Low productive service sectors due to a lack of competition or entry barriers
- ❑ Particularly, social service sector like education or health care services
- ❑ Competition policies for consumers
- ❑ Regulatory reform to stimulate competition among various producers

# Long-run economic stagnation and deflation since the early 1990s



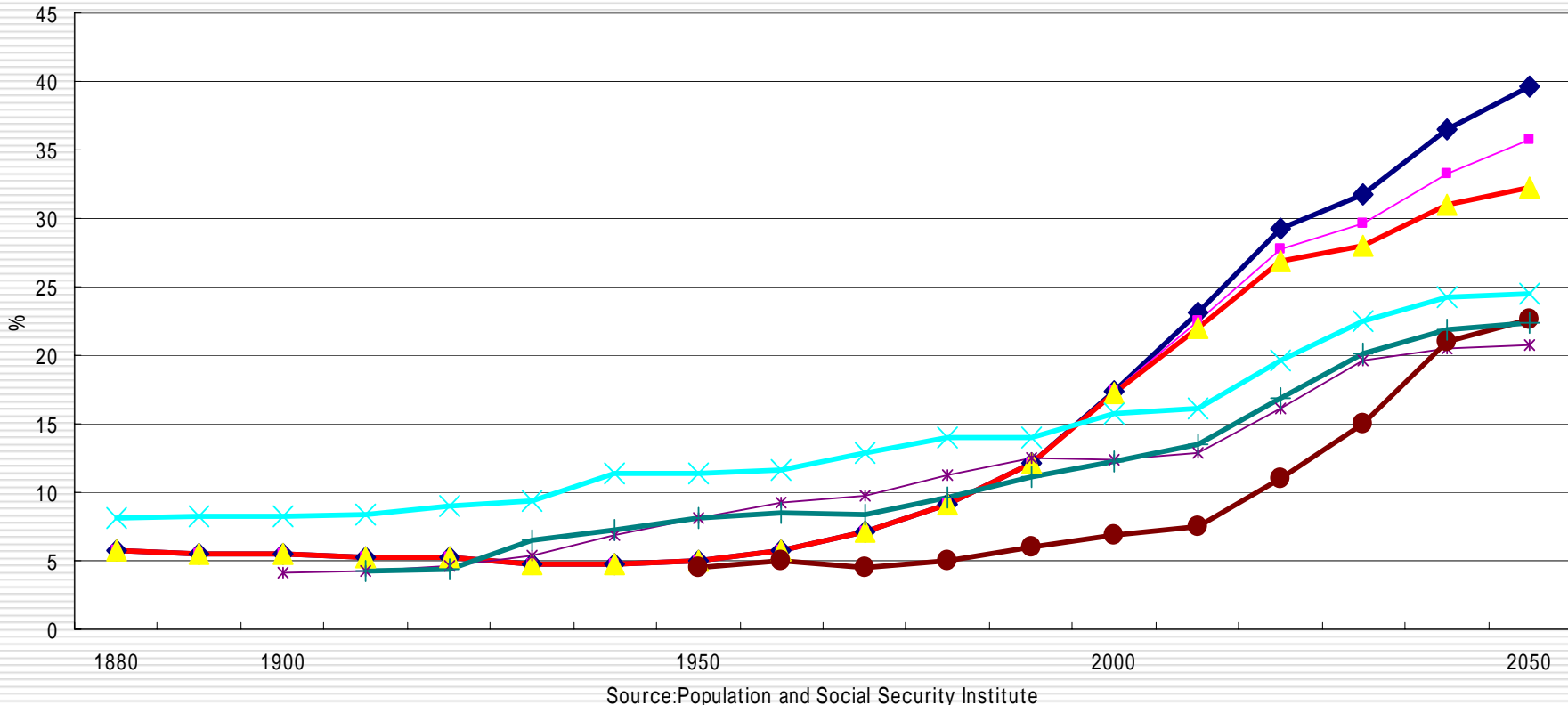
# Stagnating Japan's productivity growth vis-à-vis the United States since 1990s

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# Accelerating speed of Japan's aging with declining fertility and increasing longevity

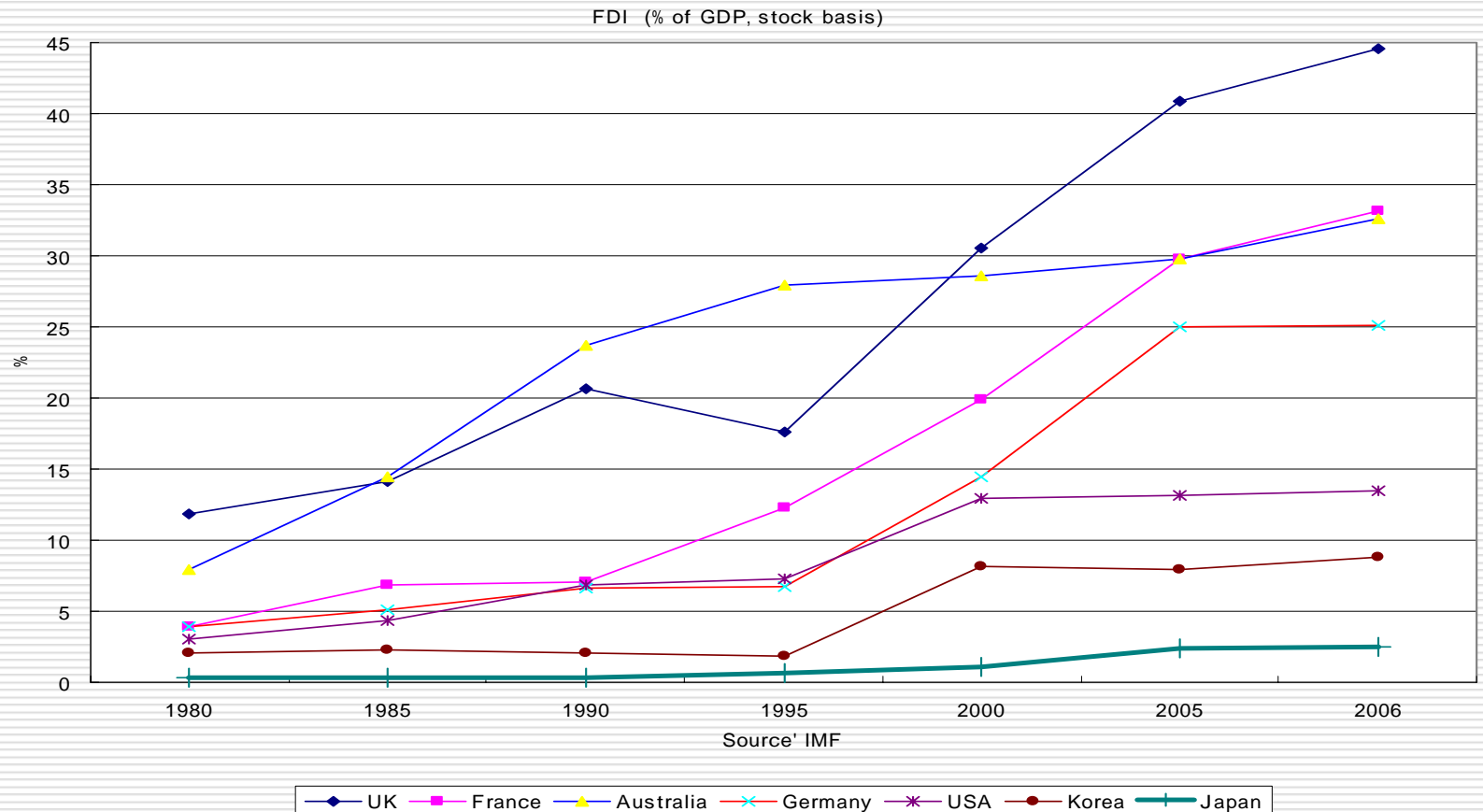
International Comparison of the Ratio of the Elderly



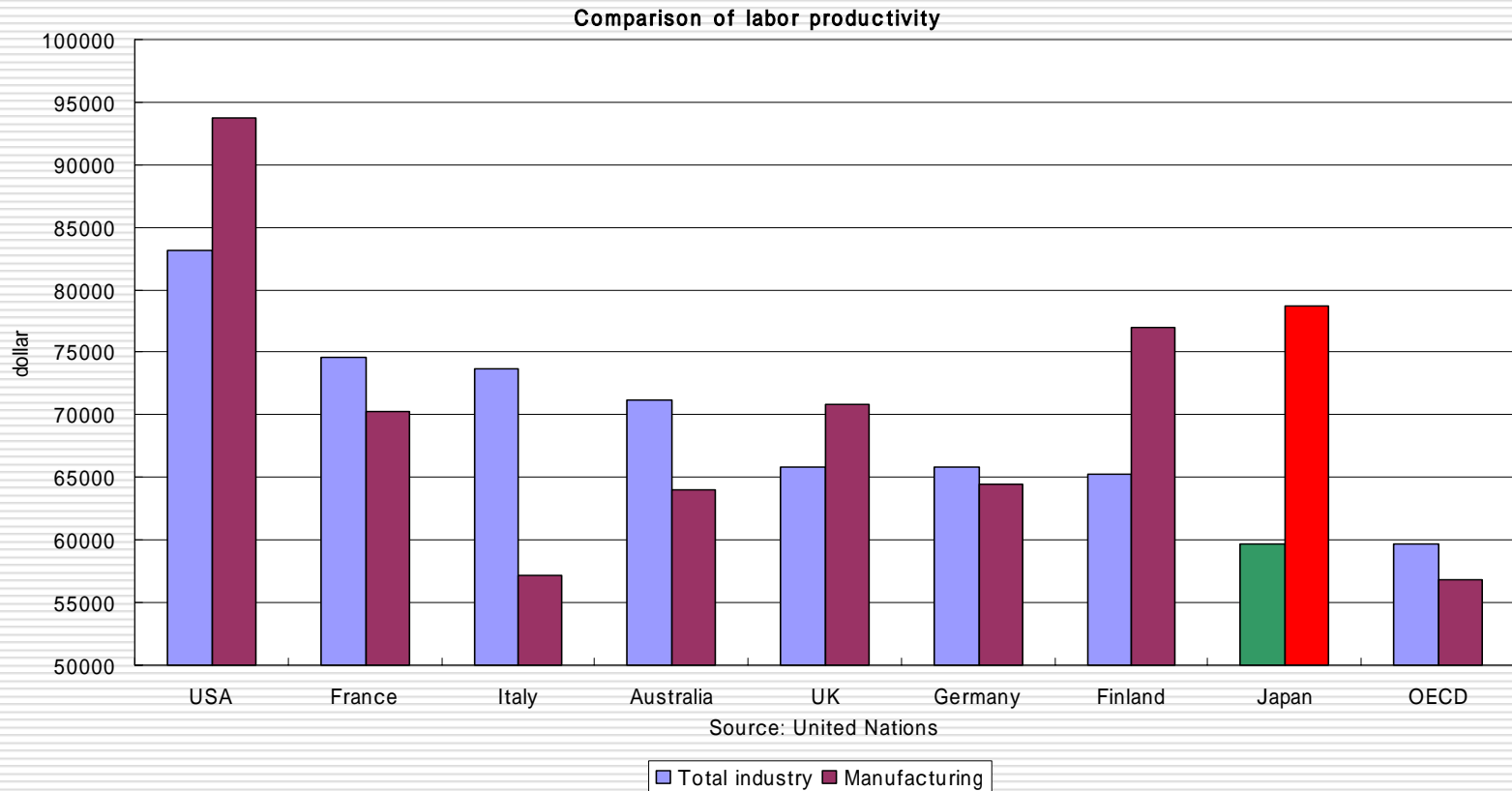
Source: Population and Social Security Institute

Japan(2006) Japan (2002) Japan (1997) France USA China Australia

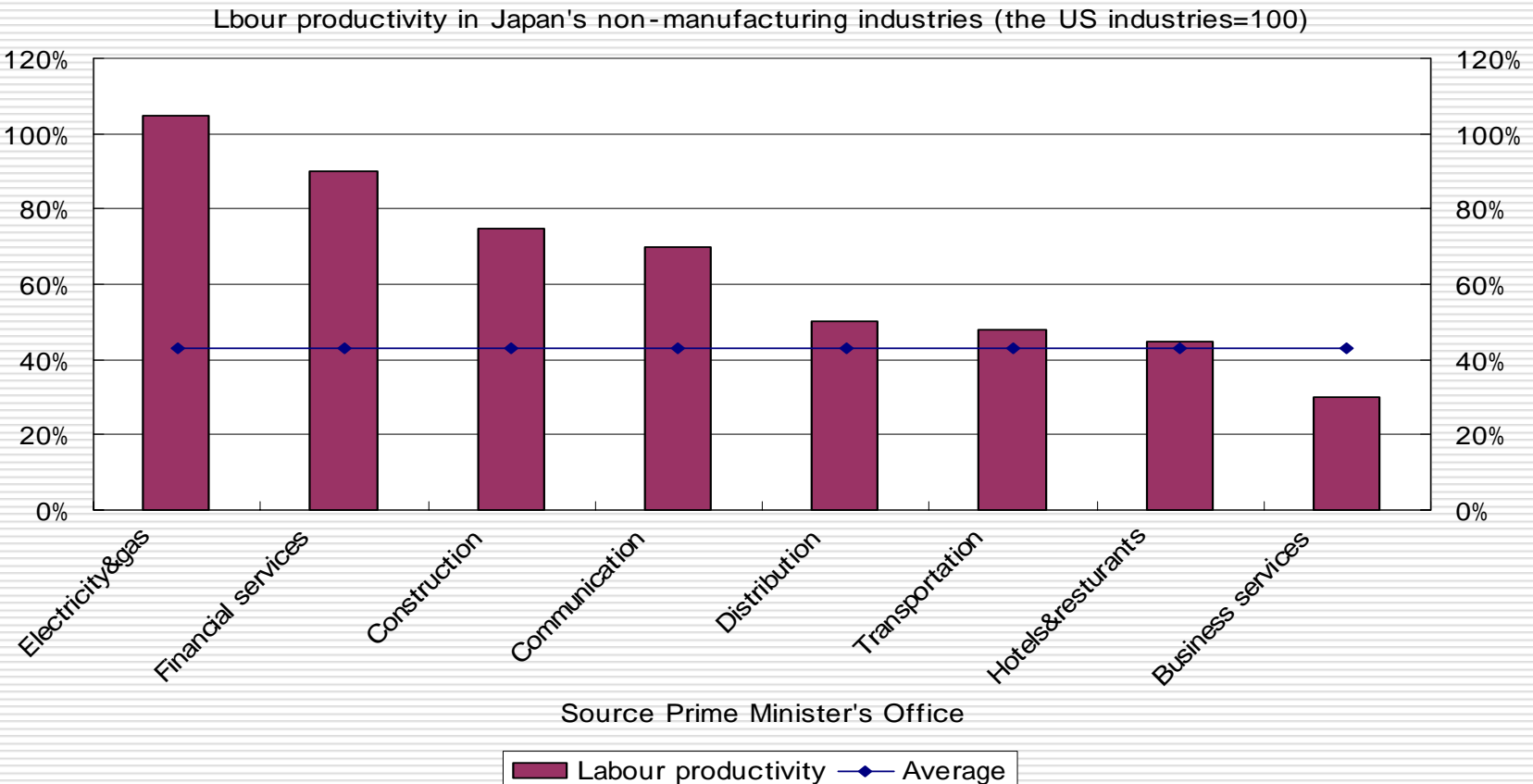
# Low by international standards level of inflows in foreign direct investments



# Tales of two economies in Japan; Highly productive manufacturing and low productive agriculture and service sectors



# Particularly, the distribution, transportation and health care service sectors





# Protection of small firms in the distribution sector

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- ❑ Restriction of large-scale retailers
- ❑ Protection of city-center small shops
- ❑ Low property taxes on land helps inefficient firms to survive
- ❑ Subsidies or tax expenditures for the protection of small firms
- ❑ More emphasis on productivity improvement through encouraging venture capital and franchised chain of small shops

# Regulation on “unfair competition”

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- ❑ In theory, protection of consumers by preventing the monopoly of the market through predatory pricing;
- ❑ De facto protection of small liquor shops, gas stations, home electronic appliance retailers etc;
- ❑ Consumers are benefited by the price competition unless new entrants to the market are prevented

# Government procurement arrangements for protecting small firms

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- ❑ Maintaining public procurement for small firms particularly in construction;
- ❑ Dividing public works into small lots by sacrificing the productivity
- ❑ Local governments limit the tendering opportunities to local firms, i.e. de facto cartel initiated by the local authorities

# Effective penalty for cartels

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- ❑ Current scheme; surcharges should not exceed unlawful gains through cartels;
- ❑ In that case, the actual gains exceed the expected surcharges;
- ❑ In order to suppress the incentives for cartels, the expected penalties have to be at least equal to the expected gains divided by the probability to be caught by the authorities

# Competition policies and regulatory reform for the interest of consumers

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- ❑ Market competition, rather than government regulations, is more important for the consumers` interests
- ❑ Competition is important not only between firms, but any types of producers
- ❑ Various barriers to the entry of foreign firms in the domestic markets, or corporate firms in the so-called “non-profit sectors (hospitals, colleges, farms )

# Limiting the entry of corporate firms in the hospital management

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- ❑ Corporate firms are not allowed to manage hospitals (as they are not non-profit);
- ❑ Definition of “non-profit” in the medical law is “not issuing dividends”;
- ❑ Payments of interest and dividends are both capital costs for the firm;
- ❑ Logic of Islamic bank prohibiting interests
- ❑ “Non-profit” has to be interpreted as the obligation for fair supply of services

# Merits of stimulating competition in the health service markets

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- ❑ Improving the quality of hospital management by the division of labor between doctors and managers;
- ❑ Scale merits of hospital management through merger and acquisitions of small hospitals and clinics;
- ❑ Corporate brand of hospital groups is useful for consumers under the asymmetry of information between patients and doctors

# Corporate firms are not allowed to buy farming land

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- ❑ Principle of “Farming lands are only for farmers” in the agricultural law;
- ❑ Entry barriers to efficient producers for large-scale farming;
- ❑ Japan Agricultural Cooperatives (JA) which organizes not only farming, but distribution, banking and insurance, is waved for Anti-Monopoly Law.



# Lack of equal playing fields in the education and welfare services

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- ❑ Subsidies or tax wave to private schools are only granted to non-profit organization admitted by the government;
- ❑ Subsidies or tax wave to nursing care homes or nursery schools are only granted to non-profit organization admitted by the government;
- ❑ From subsidies to non-profit organization to vouchers to consumers for stimulating the competition

# Market testing on public business

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- ❑ Introduction of competitive bidding in the public sector;
- ❑ Government business in printing, transportation, housing, insurances and job-matching services;
- ❑ While maintaining the government' responsibility, testing the comparative advantages vis-à-vis the private sector.

# In summing up...

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- Competition policies now include those not only between firms, but between
  - a) domestic vs foreign firms,
  - b) non-profit institutions vs corporate firms,
  - c) public vs private firms
- Regulatory reform needed for free competition on the level playing fields