"Excessive Competition" in a Japanese Context

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Simultaneously with Leftist concern over "monopoly capitalism" and its consequences, the economist finds in Japan today concurrent concern over kato-kyoso *or "excessive competition" in Japan's export and import-competing industries.*

To one brought up, like this writer, in Marshallian tradition, the immediate reaction is "Impossible!"

Hut before condemning the whole discussion as rationalization for monopoly or cartelization, let us disentangle the various things that various Japanese do in fact mean by this catch-all term, and consider the validity of the orthodox rebuttals.

'THERE are, of course, in Japanese business circles like any others, "free enterprisers" aplenty who view any competition (for themselves or their firms) as "excessive", particularly when price competition is involved. But in fairness to the "excessive competition" arguments as arguments, let us grant — realistically, in the writer's present opinion the relative unimportance of such extreme interpretations.

It will also clear the air to exclude from "excessive competition" two other forms often included within its scope by Japanese (and other) commentators. The first of these is "unfair competition", which includes a broad range of misbranding and adulteration along with such obvious devices as false advertising, libel, espionage. sabotage, intimidation, etc. The second excluded form is "cut-throat competition", as practiced by relatively small numbers of concerns aiming directly at monopoly by a single survivor, or at market-sharing by a plurality of survivors.

I

Decreasing-Cost Industries

Perhaps the most frequent use of "excessive competition" relates to decreasing-cost industries with important internal economies of scale. The Japanese automobile industry is a common example. Were there only one Japanese firm, it is argued, it could produce OQ units Per period (Figure 1) at a long-run average cost of OP. At OP, the argument continues, the Japanese product could compete with foreign imports without protection, or at worst with a slight degree of protection. In some circumstances, the Japanese product might become exportable to neighbouring Asian countries at this level of cost. With several producers each using separate plants however, the representative Japanese firm is restrained by lack of domestic demand from producing more than OQ' at an average cost of no less than OP'. At this level it is protected on the Japanese market by a network of tariffs and quotas; but except when dumped abroad. the Japanese product is excluded effectively from the world market.

If there were less competition among Japanese firms, the Japa~nese consumer could receive from international competition the benefits he now receives from domestic competition, but at a lower product price. At the same time, the volume of world trade might increase, and the Japanese trade balance might improve.

This argument seems valid as far as it goes. (We need not accept the occasional corollary, that anti-monopoly legislation was imposed on Japan by the American Occupation with deliberate intent to reduce Japan's international competitive power.) The argument, however, includes an implied promise to balance reduced competition among Japanese firms by increased competition at an international level. It is not the amount of competition so much as its nature which is to be changed. Use of the term "excessive competition" for the original situation is to some extent a misnomer — unless, of course, the trade-liberalization part of the "package" is a mirage.

II

Sick Industry

A second sense of "excessive competition" fits with approximately equal ease into the standard framework of competitive price theory, under the heading of the "sick industry".

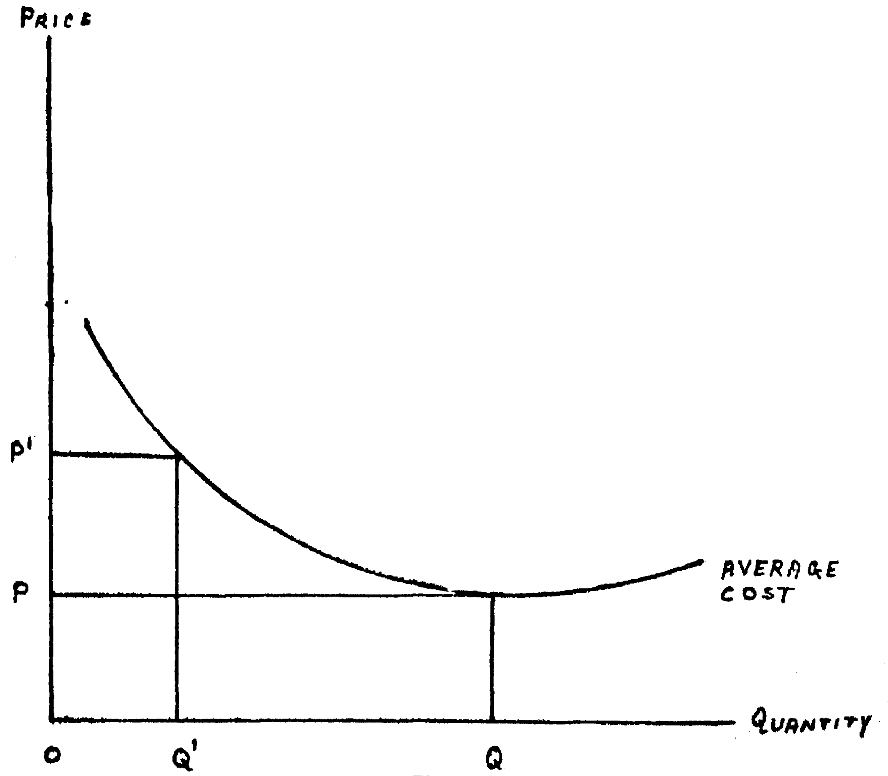

Figure 1

Let the reader recall from his dusty college textbook that short run competitive price, under equlli-brium conditions, tends to equal the marginal or incremental cost of all producers, but that it may be less than the average cost of any or all of them Provided only that price exceeds average variable cost (es-sentially, raw materials plus direct labour) each competitive firm loset less by producing up to the point *of* approximate equality between margi-nal cost and price than by with-drawing from business altogether. Only in the long run, where the number of firms and the scale of each firm's plant are variable (and where, in fact, no costs are fixed) does competitive price cover aver-age as well as marginal cost. (The two are equal, as it happens, when average cost is at its minimum.)

The key issue here, often pointed out by bright undergraduates, is: "How long is the long run?" Lord Keynes' answer, 'In the long run we are all dead", was not intended to be helpful. The fact is that, in industries with heavy investments of fixed capital, "the long run" may be very long indeed, longer than most firms can afford to wait. In a sick industry, many or most firms are running losses. Many of the exceptions have purchased their assets at a discount below their de-preciated cost of production; the profitability of these exceptional firms is built on the capital losses of their predecessors.

In a capital-poor country like Japan (or India), "destruction" of capital, as by downward recapita-lization, seems very like sacrilege. (In Japan, it seemed even more so, before the rapid growth of the 1950's.) The temptation to avoid capital losses when firms fail or sell out is accordingly a strong one. Why not avoid competitive adjust-ment by raising the price (in Figure 2) from OP" to say, OP' where most firms can operate pro-fitably? At the same time, output for our representative firm can be cut from OQ" to OQ' per period, OQ' being the quantity which some 'authority- estimates our firm can sell at her profitable price. On *the* Japawae scene -it is common to refer to a sick Industry as suffering from excessive competition "The put-cutting is ordinarily done by a trade association under the supervi-sion of a group of bureaucrats, often connected with the Ministry of International Trade and Industry (M I T I), and the process itself is one aspect of what is called the ''guided economy" (yudo-kelzai) of Japan.

In the terms of economic theory, this solution is called a "misallo-cation of resources". Too much capital, labour, and managerial ability are frozen into "sick indu-stries", and too little left for the rest *of* the economy. Price exceeds marginal cost for the representa-tive firm in those industries; the economy would be better off with fewer firms in the industry; with each firm producing a larger out-put. On the other hand, the "guided" adjustment is usually faster than the automatic competitive one, and is less traumatic to particular firms who might otherwise go bankrupt, not to mention their employees who might otherwise lace unemployment or wage reductions.

III

Too Little Competition

In considerable contrast to the eases just considered, which do in fact imply some degree of temporary or permanent "excessive competi-tion" in a context of rational com-petitive economic behaviour, are the two other cases we shall con-sider now. These, at least in my view, imply too little competition (on one side of the market) rather than too much (on the other), or too much planning and control (albeit of a blundering variety) than too little.

To the Japanese exporter, there is no devil like the buyer, who may be either a private individual or a public purchasing agency, who operates on an "all-or-none" basis. For example, if we may refer once again to Figure 2, such a buyer not only forces the helpless Japanese business man into a price below his average cost, but also forces him into producing a quantity more than is justified by the marginal cost considerations of this diagram. The Japanese supplier in what the Japa-nese call this shukketsu-yushutsu ("export of blood") situation must not only accept an unprofitable price like P" in the diagram, but must produce, as a condition of getting or keeping his contract, an amount substantially in excess of Q" *per* period. The foreign buyer charac-teristically gets him into this posi-tion *by* visiting Japanese exporters one at a time and inducing each in turn to undercut the last offer he (the buyer) has received.

But, the astute reader may in-quire, what about competition be-tween the foreign buyers? This is precisely our point: there is none, or very little. This, rather than the

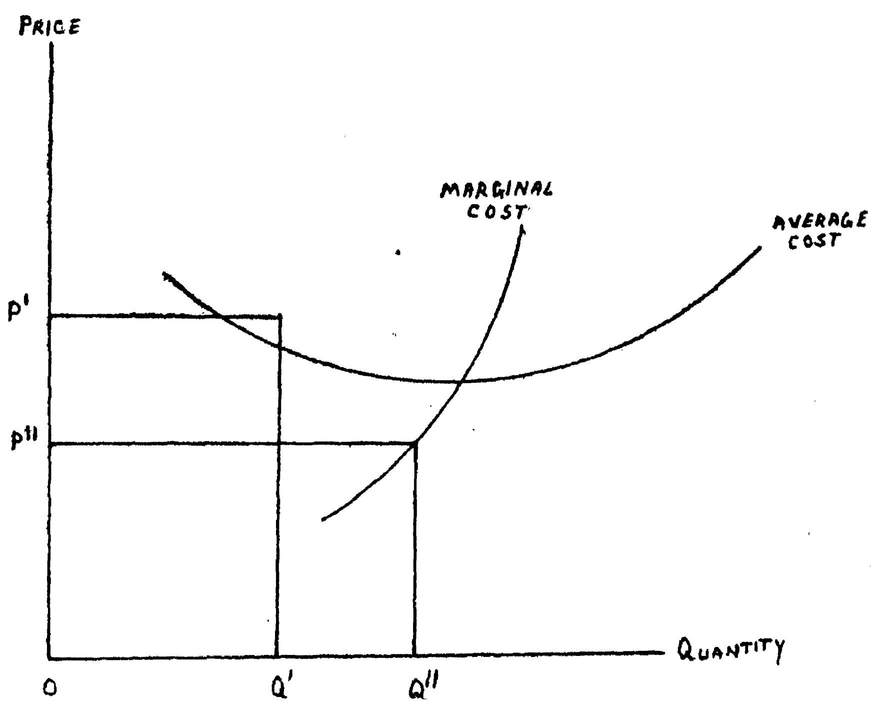

Figure 2

alleged 'excessive competition" among the Japanese suppliers, is the real key to the shukketnu-yushutsu situation.

This case, incidentally, is of particular interest in India, since the transgressors allegedly include a more than proportionate number of Indians, some operating on their own account, some for private Indian companies, but most of them agents of one or another branch of the Indian Government or of an Indian public corporation.

In my view, the remedy for all-or-none purchasing does not lie in the "organization" of the Japanese exporters, or in disciplinary" reduction *of* competition between them, although this is the typical approach of M I T I. It lies rather in prosecution under Japanese anti-trust legislation, or alternatively in expulsion from Japan, of the particular purchasers who engage in all-or-none buying tactics.

But surely, the astute reader will again insist, there can be no profit to Japan in breaking off relations with the Indian Government, or in expelling any particular Indian purchasing commission from the court try, because of the offenses of some few Indian representatives. This is of course correct. The remedy. in the case of a public or semi-public agency, is not to stir up an international incident, but simply to declare particular individuals personae non gratae (as is done with diplomats who abuse their privileges). A few .such expulsions, either permanently or for a term of years, should suffice in bringing the Indian cases under control, since the individual Indian usually lives on so much higher a standard In Japan, as in most other foreign countries, than at home in India, that expulsion is a severe penalty to face.

IV
Excessive Expansion

Convenient though it be to blame the foreigner, at least one major aspect of Japanese "excessive competition" may be laid at the door of present and prospective controls by Japanese Government agencies themselves, with M I T I, as usual, the chief villain. This aspect of "excessive competition" is the propensity of Japanese firms to extend (unsold) output and (excess) capacity far beyond the limits of present and near-future demand at reasonably profitable prices, even allowing for the high Japanese growth rate, and once again without reference to marginal cost considerations.

While this unsalable output and unusable capacity exaggerate Japan's apparent growth rate, the calculations of the individual companies responsible are not dominated by considerations of patriotism or international prestige. The argument, rather, can be paraphrased and simplified somewhat as follows: "Of course there is too much output and capacity in this industry, and that is why we call it excessively competitive. So why do we increase our own output and capacity? Because we expect the Government to do something about the situation before many of us go bankrupt. M I T I, or somebody, will step in. set minimum prices, allocate output, distribute imported raw materials or foreign exchange in such a way that everything becomes profitable again for all of us. In such a control scheme, the larger our share of the industry's capa city or output, the better off We are likely to be, and this is why it is good business to expand the way we do."

This is not the place to moralize a la Schumpter on "capitalism in the oxygen tent", or to raise embarrassing questions about the excuse for profits in a regime where salaried bureaucrats make most of the decisions that guarantee such profits, or to inquire whether such a system as we have described should be called "mixed economy", "controll ed economy", 'guided economy', "State capitalism/' or "conspiracy against the public". Our limited point here is only to show that "excessive competition" is in these cases not the consequence of the working of the competitive market mechanism, but rather of its op posite. the working and expected working of the public control mechanism. Rather than excessive com petition, there is too little, and rather than insufficient public control, there is too much "planning" of one of the numerous wrong kinds.