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# 6 The Japanese Distribution System and Access to the Japanese Market

Motoshige Itoh

## 6.1 Introduction

There has been an increasing amount of criticism from both inside and outside Japan about the efficiency of the Japanese distribution system and the difficulty in obtaining access to the Japanese import market. According to this criticism, the Japanese distribution system is quite complicated, Japanese business practices are outdated, the system is inefficient, and it leads to trade barriers.

The following points are often made: (1) The Japanese distribution system has many small-scale firms, both wholesale and retail, and a multilayer structure that consists of many layers of wholesalers. (2) There seems to be a strong linkage among the domestic producers, wholesalers, and retailers. It is not easy for new entrants, foreign or domestic, to penetrate the market.

This paper concentrates on the economic mechanisms that underlie the Japanese distribution system and its business practices. In section 6.2, I present a rough overview of the system; in section 6.3, I discuss the theory of repeated and long-term transactions; in section 6.4, I analyze structural change in the Japanese distribution system using apparel distribution as a case study; and, in section 6.5, I consider the issue of access to the Japanese market.

## 6.2 The Basic Characteristics of the Japanese Distribution System

Table 6.1 compares some characteristics of the Japanese distribution system with those of Western countries. This table shows that Japan has a large number of shops, given its population, and a smaller number of workers in each shop than Western countries do.

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Table 6.1 Comparison of Distribution Markets among Major Countries

	Countries				
	Japan (1985)	West Germany (1985:3)	United States (1982)	France (1986:1)	United Kingdom (1984)
Retailers:					
Shop density:					
No. of shops/ 1,000 km <sup>2</sup>	4,311	1,636	205	1,018	1,406
No. of shops/ population of 10,000	135	67	81	102	61
No. of workers per shop	3.9	5.8	7.5	3.9 <sup>a</sup>	6.8
Wholesalers:					
Shop density:					
No. of shops/ 1,000 km <sup>2</sup>	1,093	505	40	290	
No. of shops/ population of 10,000	34	21	16	29	
No. of workers/ 1,000 retailers	85	309	196	285	
No. of workers per shop	9.7	7.0	12.6	9.9 <sup>a</sup>	
W/R ratio	4.2	1.8 <sup>b</sup>	1.9	1.6 <sup>a</sup>	

Source: Ministry of International Trade and Industry (1988). Data: *Annuaire statistique de la France*, *Statistisches Jahrbuch*, *Retailing Business Monitor*, *Statistical Abstract of the United States*, *Census of Business*, and *Commercial Statistics of MITI*.

<sup>a</sup>1983.

<sup>b</sup>1984.

Table 6.2 shows the share of the market that retailers in various countries have. In Japan there are few large-scale retailers and many small-scale retailers, called "papa mama stores" (shops run solely by family members).

Another important characteristic of the Japanese distribution market is that goods go through many layers of wholesalers. To confirm the existence of a multilayer structure, one calculates the ratio of the amount of wholesale transactions to the amount of retail transactions ( $W/R$ ). The higher the ratio is, the more wholesalers are involved in transactions. The last column of table 6.1 shows the  $W/R$  ratio for various countries: it is distinctively high for Japan.

Although there are some difficulties with using  $W/R$  as an index of multilayer structure,<sup>1</sup> other methods confirm this characteristic of the Japanese distribution system (see Tamura 1988).

1. For example, the ratio covers transactions in both consumption goods and intermediate goods. Since Japan imports many materials and intermediate goods and exports final goods, the ratio has a tendency to be high for Japan.

Of course, this does not imply that the entire distribution system is multi-layered. For some goods, the distribution channel is very simple. For example, the distribution channel for bread is much more vertically integrated in Japan than in the United States. But there are more goods whose distribution markets have a multilayered structure in Japan than in other developed countries.

The dominance of the small-scale firms in Japan implies that the distribution system is decentralized and not highly integrated vertically. Wholesalers play an important role in a decentralized distribution system. Therefore, the distribution system is multilayered. Conversely, multilayering and the role played by wholesalers make it easy for small retail firms to enter the market, since they can use the wholesalers' services.

Various factors explain the dominance of small-scale firms in the Japanese distribution system. Governmental regulation protects small-scale firms, for example. They receive preferential tax treatment and a "Large Store Act" regulates the establishment of new stores by big retailers. Okuno-Fujiwara (in this volume) discusses how the act retards the establishment of new large stores.

However, neither the size of firms in the distribution system nor the number of wholesalers involved in transactions implies inefficiency. Small or medium-scale firms do not dominate only the distribution market; they also dominate the manufacturing sector and are usually said to be the source of competitiveness for the Japanese economy. The subcontracting system in the motor vehicle industry is a typical example.

**Table 6.2** Size Distribution of Retailers in Major Countries

	Year	Japan (%)	France (%)	United Kingdom (%)	United States (%)
Share of large-scale retailers (share in terms of the amount of sales)	1976	24.9		56.7	
	1977		30.0	57.8	51.4
	1978			59.0	
	1979	27.9	31.1		
The share of the number of small-scale retailers (share in terms of the number of shops)		61.1 (1979)	63.7 (1980)		43.0 (1977)
The share of the number of very small-scale retailers (shops run by family member alone; share in terms of the number of shops)		56.4 (1979)	41.5 (1980)		

Source: Tamura (1988).

One of the essential characteristics of the Japanese system, both in manufacturing and distribution, is the network of large and small firms that cooperate. It is a decentralized system, characterized by what is called Japanese-style business relations. This is in contrast to an integrated system, where complicated exchanges are conducted within large firms and transactions between firms are at arm's length. This issue is discussed in greater detail in section 6.3.

Table 6.3 compares the distribution margin for consumption goods between Japan and the United States (this table is based on the results in Nishimura and Tsubouchi 1989). This table shows that the margin is not much different between the two countries. The distribution margin includes not only value added of the distribution sector but also intermediate inputs of the sector. If the Japanese distribution system were inefficient, we would expect the distribution margin to be much higher in Japan than in the United States.

### 6.3 Transactions in a Decentralized Distribution System

For a decentralized distribution system to function properly, there must be communication and cooperation among firms in the distribution market. There are a variety of externalities among firms in distribution markets. This is quite different from a pure market exchange. In a pure market exchange, the quality of the products is known to both the seller and the buyer, and simple market transactions are possible. The only relevant variable for transactions in this pure market exchange is the price of the commodity. Commodities exchange in this type of system are said to be "standardized."

However, commodities exchanged between retailers and customers are often "unstandardized." For example, with complicated home electrical appliances, the consumer's utility depends to a great extent on the level of service that the retailer provides. These services include quick and appropriate repair and maintenance and the provision of appropriate information. These services may be provided by firms that specialize in repair; if that is the case, then retailers deal only with the commodity, and it is quite standardized. But in Japan in the past, most repairs and other services are provided by retailers.

**Table 6.3** The Distribution Margins in Japan and the United States (%)

	Japan			United States, 1977
	1975	1980	1985	
The distribution margin of consumption goods	. . . (30.9)	36.8 (33.9)	38.6 (35.1)	35.7

Source: Nishimura and Tsubouchi (1989).

Note: The figures in parentheses are the ones before correction was made by the authors.

Consumers expected many things of retailers, and the relationship between seller and buyer was not simply a pure market transaction.

In the case of home electrical appliances, manufacturers adopted a marketing strategy of establishing a network of retailers to sell their products. The largest manufacturer in this industry, Matsushita (known as Panasonic in foreign countries), is reported to have about 27,000 retailers all around the country specializing in Matsushita products. Other manufacturers adopted a similar strategy.

This strategy is basically what economists called "vertical restraints." Electric appliances were very expensive in the 1960s when the market was expanding rapidly. For example, the price of an ordinary color TV set in the 1960s was about 10 times as high as the starting monthly salary of a college graduate. Thus, consumers expected many services of retailers. As the literature on vertical restraint makes clear (see, e.g., Williamson 1983; Tirole 1988), manufacturers may or may not enhance consumer welfare, depending on the nature of the market and other elements. Thus, we cannot conclude that vertical restraint by Japanese manufacturers enhanced welfare. However, it did become a barrier to entry.

The distribution channel for home electrical appliances has changed to a great extent in recent years, though. Products have become much cheaper, and quality is more reliable. So discounters have emerged specializing in no particular brand. This new distribution channel is also more profitable for manufacturers.

The relationship between manufacturers and wholesalers, and between wholesalers and retailers, is even farther from a pure market. Many retailers depend heavily on wholesalers for collection of information about market trends and the availability of products. They also look to wholesalers for financial services, quick and individualized delivery, and assumption of the risk for unsold stock. In that sense, retailers do not buy a standardized product from wholesalers. A similar argument can be made for the relation between manufacturers and wholesalers.

One example illustrates how this type of coordinated transaction in the Japanese distribution system can provide good service for consumers. In the distribution market for books, retailers can order any amount of books from the wholesalers, and wholesalers can order any amount of books from the publishers. All unsold books are returned to the publishers (this business practice is called *henpinsei* in Japan).<sup>2</sup> Thus, publishers assume all of the risk for unsold books.

Publishers usually print thousands, or tens of thousands, of volumes at a time for technical reasons. Without *henpinsei*—that is, if retailers and wholesalers assumed the risk for unsold books—the publisher would have to store

2. There are some exceptional cases in which the retailers must commit themselves to purchasing books from the publishers.

most of the books in its warehouse and wait for order from wholesalers. With *henpinsei*, on the other hand, the bookstores' shelves store unsold books. Without *henpinsei*, consumers would not have direct access to as many books (they would have to order from catalogues).

Because of *henpinsei*, wholesalers can provide quick delivery service of any books ordered from retailers. It usually takes, at most, a week for any books ordered in a bookstore to be delivered. There are few wholesalers and many publishers. Therefore, the wholesalers are in a better position to respond to the orders from the retailers.

Transactions in intermediate goods are even more complicated. For automobile parts, for example, there is a subcontracting system between parts producers and assemblers. In order to provide assembling firms with the necessary products, the parts makers probably have to make specific investments that cannot easily be applied to other uses (see, e.g., Klein, Crawford, and Alchian 1978; Hart and Holmstrom 1987; Grossman and Hart 1986). In addition, effective coordination of production between the assembling firm and the parts makers is extremely important (one example is Toyota's just-in-time system). Therefore, both sides must share information and coordination is not simply a matter of adjusting production schedules; it also includes changing the parts themselves, creating new products, and improving old ones.

It would be very difficult to carry out this type of transaction in a market based on explicit contracts. As pointed out by Williamson (1975), and also Hart and Holmstrom (1987), it would be nearly impossible to draw up and agree on a contract that would cover any and all future contingencies. It would be even more difficult to implement such a contract successfully. Klein et al. (1978) present an interesting study of vertical integration illustrated by Fisher bodies and General Motors. For many reasons (as stated in Itoh and Matsui 1987), transactions in Japan are based on implicit agreements.

Even a product like paper, which seems to be a typical standardized good, has transaction relationships similar to those of automobile parts. Interviews with paper production technicians and with managers in newspaper publishing point to an important problem regarding the transaction relationships in the Japanese distribution system and the issue of access to the Japanese market.

For newspaper publishers, who are under great pressure to meet deadlines as they try to get their newspaper printed, the cost of having paper tear in the midst of printing is extremely high.<sup>3</sup> Therefore, it is important to obtain newsprint paper that is highly resistant to tearing and is appropriate to the presses used by the publishers.

Newspaper publishers buy newsprint from a limited number of paper companies on a long-term basis. At fixed intervals, for example, once a month,

3. A person who works for a newspaper told me of his using taxi cabs in the middle of the night to deliver newly printed newspapers after a delay in printing.

the publishers calculate the tear ratio and other figures for the paper purchased from each company. Even if the results do not immediately affect how much will be purchased in the next period, they do provide a basis for long-term plans. Thus, the evaluation of each paper company is based on long-term performance and not affected by short-term disturbances.

So called "face-to-face" competition may actually be more intense than anonymous market competition. According to a technician in a paper-producing company, a drop in the company's rating puts intense pressure on technicians and provides an important motivation for product improvement.

In spite of the fact that imported paper is much cheaper than domestic paper, and the fact that the cost of paper constitutes a considerable portion of the total cost of a newspaper, Japanese publishers are reluctant to use imported papers. Some publishers have now started using imported paper only for a limited purpose: for special editions, like the Sunday paper, which are not under the same time pressure. Still, imported paper represents less than 20 percent of the total amount of paper used.

#### **6.4 A Structural Change in the Japanese Distribution System— the Case of Apparel**

When the distribution market is dominated by small or medium-scale firms, the market will become decentralized. Three important factors explain the emergence of a decentralized distribution system:

1. *Downstream factors.* Each shop serviced a few customers because the population was spread all over the nation, and people did not drive far to shop. (See fig. 6.1 for the pace of motorization in Japan.) Thus, shops in small local communities tended to generalize rather than to specialize.

2. *Upstream factors.* The manufacturing sector was dominated by small or medium-scale forms, which had neither the ability nor the incentives to vertically integrate their distribution channels.

3. *Technological factors.* Telecommunication, computers, and transportation were not well developed.

These three factors have been changing gradually, and the Japanese distribution system is now changing structurally. Of the three factors, the first is probably the most important. In this section, I only consider the effect of changes in downstream factors. (Itoh and Matsushima 1989 deals with the other factors.)

Japan has experienced a rapid increase in the number of automobiles in the recent past (see fig. 6.1). There has also been a drastic shift in population to urban areas, especially to Tokyo, Osaka, and Nagoya.

In order to see how downstream factors affect the structure of the distribution system, let us consider the case of apparel. Table 6.4 illustrates the typical structure of an apparel distribution system in Japan. Traditionally, Japan had only type-I distribution: retailers could not specialize in a limited number of

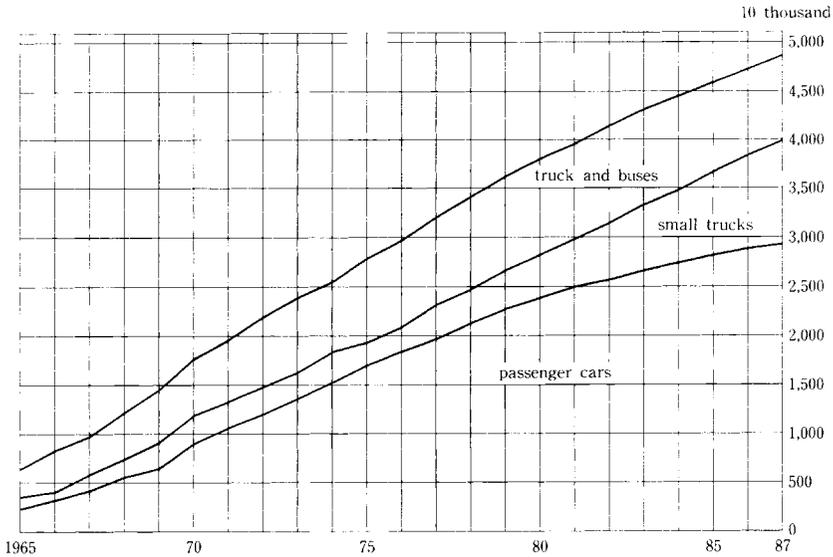


Fig. 6.1 The registration of motor vehicles in Japan

Table 6.4 Two Types of Distribution System of Apparel Products

	Type 1	Type 2
Retailers	Department stores, local small shops	Nationwide chain stores (specialized chain stores and general merchandisers)
The way goods are sold	A wide variety of goods	Specialized (or standardized)
Location	Traditional local shopping areas or near railway station	Suburban shopping centers, roadside, or railway station building
The role of wholesalers	Active	Minor
Transaction relation	Repeated and long-term relation (so-called Japanese-style business relation)	Simple market transaction

products, because the population was spread out and people did not drive far to shop. Type-2 distribution emerged only after the number of cars increased and the population moved into urban areas, allowing retailers to specialize in a limited number of products.

Type-1 retailers include department stores and small-scale retailers in local shopping areas. They depend heavily on wholesalers. The wholesalers (who

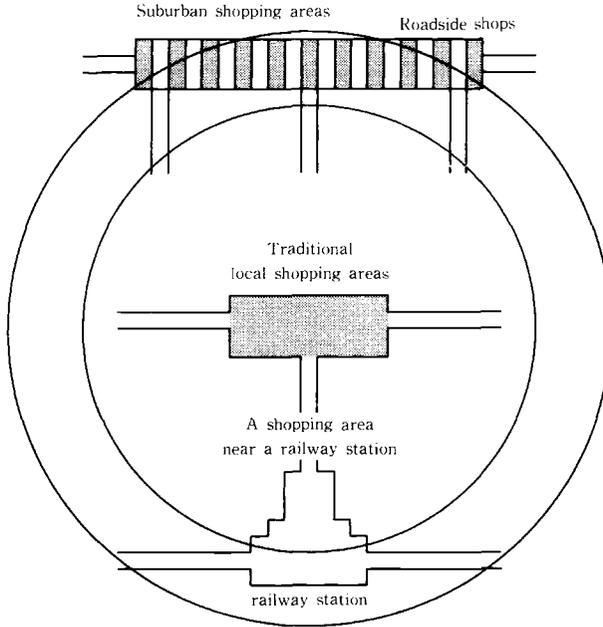
often manufacture as well) play an active role in sales of apparel, particularly in the department stores. They also do pricing and arrange commodities. In one sense, the department stores only provide a location and clerks (some of whom are provided by wholesalers and manufacturers) to the wholesalers; the wholesalers sell their products. This system uses *henpinsei* (the practice whereby unsold goods are returned to wholesalers) and the *rebate system* (basically a nonlinear price system under which incentives are given to the retailers with high sales). In this sense, transaction relationships between retailers and wholesalers (and manufacturers) are far from simple market transactions. They involve implicit contracts and tacit negotiations.

This system has its own rationale. A wholesaler, transacting with retailers in various regions, can enjoy scale economies for such activities as information collection and dead stock risk management. For small-scale local shops, it would be impossible to cover the risk of dead stock, and to collect information about market trends and the availability of products. Fashion trends in apparel change quite frequently and rapidly. Even for department stores that sell a large variety of goods at a limited location, it is far better to use the resources of wholesalers. For example, it was reported in *Nikkei Ryutu* (which means distribution) *Newspaper* that the return rate (unsold rate) of female apparel in the department stores was more than 35 percent in 1988. Wholesalers, often much more specialized in certain limited kinds of commodities than retailers, have a comparative advantage for such activities.

Type-2 retailers include nationwide chain stores (which specialize in particular types of apparel), and large-scale nationwide supermarket chains (which carry general merchandise). The Idol chain, for example, specializes in children's apparel and has about 200 shops all around the country. Each shop is very small, only about 70 to 150 square meters. Thus, the chain can only specialize in limited types of commodities. For such specialized shops to be viable, there must be good transportation and a concentration of people within a metropolitan area. Because Idol sells the same types of products all over the country, the volume for each item is very large. Manufacturers supply Idol with customized products, according to its specifications. Wholesalers sometimes are involved in the distribution of Idol's products, but their role is much more limited than in the type-1 example. Unsold products are not returned to manufacturers or wholesalers.

Large-scale nationwide supermarket chains also use this distribution system. These supermarkets have more than a hundred branches all around the country and can enjoy economies of scale. They sell only limited varieties of commodities, and far fewer items than the department stores sell. Thus, it is easier for the supermarkets to cover the risk of dead stocks and to collect information about products. Supermarkets need not depend heavily on wholesalers, and the relationship between supermarkets and wholesalers (and manufacturers) basically is a simple market one. Exchange is conducted on the basis of explicit contracts.

Both systems are reasonable, and it is not clear which is the more efficient.



**Fig. 6.2** The geographical structure of shopping areas in a typical local city

That depends on many factors, including the types of goods being sold. The type-2 system might be more efficient for standardized goods, whose sales are quite stable and predictable. But this does not imply that the traditional type-1 distribution channel will disappear.

Figure 6.2 is a shopping map of a typical local city. There are three shopping zones: the traditional shopping zone (the oldest one); the shopping zone around railway stations, which started about 60–70 years ago (department stores are the core of this zone); and the suburban shopping zone (which has large shopping centers and roadside shops). Consumers expect to find different kinds of shops and services in each shopping zone, and they use the zones accordingly.

## 6.5 Access to the Japanese Market

Japanese transaction relationships and the related distribution system are barriers to new entrants, not only foreign but also domestic. The existence of long-term transaction relationships implies that any new entrants will have difficulty doing business with incumbent wholesalers or retailers, even if the new entrants' products are cheaper than the competition's. Vernon's (1966) product cycle theory—in which the trade and production pattern of commod-

ities differs considerably depending on which stage the commodities are in—provides an important insight to the Japanese problem.

Consider the case of dishwashers, for example. In their early stages, dishwashers were far from being standardized. The size of the market for the product was still small, the product itself left much room for improvement, and there was considerable uncertainty about the future state of the product.

The development process for dishwashers involved trial and error; there was a lot of interaction between the producers and the market (wholesalers, retailers, and consumers). Factories, far from being large-scale and modern, were more like laboratories. Also, the location of the factories was quite important because the producers had to be close to the consumers to find out what they wanted. Thus, it was natural that dishwashers first appeared in the United States, where there was a strong potential demand for them. The price of the product in that early stage was only one important factor for the producers.

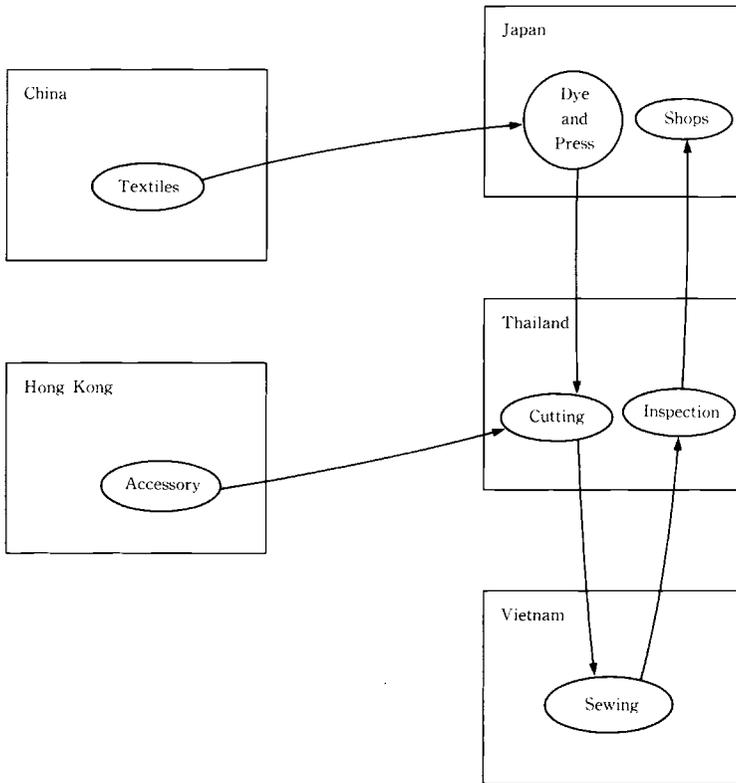
In their later stages, dishwashers became much more standardized. The market for the product grew, and there was little room for improvement in it. At that point, production cost was the most important element for the producers. They took advantage of scale economies, built large, modern factories, and located them without regard to distance to the market. In fact, if labor cost was very important, the factory would probably be located in a foreign country.

For certain types of goods, this product cycle story can illustrate structural change in the distribution channel. Home electrical appliances, discussed in section 6.3, are a good example. A large number of home electrical appliances are now standardized, and their distribution channel has changed greatly. As a result, it is now easy for foreign products to penetrate the Japanese market.

Apparel does not have a product cycle like home electrical appliances. But apparel products can be classified into two types; type 2 is much more standardized than type 1. Figure 6.3 illustrates the production route of a toddler's trousers sold in the Idol chain.

The reason why this one product goes through so many Asian countries is that each country has a different pattern of comparative advantage. The wage level is much lower in Vietnam than in Thailand and Hong Kong, but there are some stages in the production process of the good that cannot be handled in Vietnam or Thailand. It takes two to three months for this production process to be completed, and the Idol chain takes on all the risk of unsold products. Therefore, it is vital for the success of the system that the product be sold in large quantities. In this market, it is quite easy for foreign products to penetrate.

However, it is easier for foreign products to penetrate a type-1 market if they are from a well-established brand. In the type-1 distribution channel, there is a strong linkage between retailers and manufacturers (and wholesal-



**Fig. 6.3** The production route for toddlers' trousers

ers) that serves as a barrier to new entry. Efficiency of allocation and new entry are in conflict here.

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## Comment      David Flath

There are three different concepts of inefficiency implicit in references to the “inefficient” Japanese distribution system. One is regulatory distortion: the large-scale store law cartelizes department stores and protects small stores. A second is disguised unemployment: the distribution sector is economically backward, intractably governed by tradition rather than economic calculation. And a third is monopoly distortion: manufacturers and wholesalers restrict the price and nonprice competition of downstream distributors, which results in contrived scarcities.

The usual evidence that the Japanese distribution system is inefficient is not really evidence at all. The usual evidence is (a) the ubiquity of small stores; (b) the complexity of wholesale distribution channels; (c) the wide practice of exclusive dealing, resale price maintenance, liberal acceptance of returns, and customer restrictions, little impeded by Japan’s weakly enforced antimonopoly laws. One may accept each of these characterizations of the Japanese distribution system as true and still logically maintain the absence of inefficiency in any of the three senses listed before. This is the essence of arguments that might be labeled the “revisionist” view.

Ito and Maruyama present new evidence to the effect that value-added per worker, gross margin, and retailer and wholesaler operating expenses relative to sales and profits relative to sales are all lower in Japan than in the United States or Germany. Their reporting profit and expense ratios by kind of business is probably a bit of overkill, especially for the wholesale sector because they make no adjustment for double counting in wholesale sales. The “gross margin,” defined as percentage difference between final price and producer

price, is not subject to this bias. They find that this gross margin is in aggregate less in Japan than in the United States or Germany, and they cite other estimates in the literature that reach a similar conclusion. On this evidence Ito and Maruyama argue that inefficiency of the Japanese distribution system is not the cause of seeming differences in consumer prices between Japan and elsewhere. I think they are correct. But this is a much weaker claim than one that states inefficiencies either do not exist or that they lack economic significance. For instance, the disguised-unemployment sort of inefficiency would manifest itself as overemployment of resources in the distribution sector so that services such as next-door delivery are provided to consumers at prices less than the true economic cost. This is annoyingly consistent with the evidence that Ito and Maruyama present. And Ito and Maruyama themselves assert as "plausible" that the large-scale store law and the vertical restraints do result in inefficiencies. They interpret their own evidence as showing that any economic rents resulting from regulatory distortions and contrived scarcities are merely not shared by the distribution sector.

I am left still curious about the actual significance of the large-scale store law and the alleged peculiarities of Japanese manufacturers' management of distribution channels. In the second paper, Motoshige Itoh goes some ways toward evaluating the latter. By relating his discussion of the allegedly peculiar marketing practices of Japanese manufacturers to the broader literature on the economics of vertical restraints, Itoh makes an important point: practices like resale price maintenance, customer assignment, exclusive dealing stipulations, and tie-in sales are not unique to Japan. It is probably true that the antimonopoly laws of Japan (as actually enforced!) permit wider application of vertical restraints than is the case in the United States. Penalties for violating the laws are rather small, and the powers of Japan's Fair Trade Commission to gather evidence and initiate action are weak. But it is far from clear that allowing vertical restraints is more harmful to consumers than attempting to ban them. There is a substantial body of scholarship associated with the University of Chicago and with the University of California, Los Angeles, arguing that America's antitrust laws have added to the costs of marketing products and have not corrected monopoly distortions. In this view, the relatively permissive antitrust policy of Japan, and the correspondingly wide application of vertical restraints there, can be a hidden advantage that contributes to the low distribution margins documented by Ito and Maruyama.

Itoh makes the added point that even vertical arrangements that efficiently resolve problems in the marketing of products can nevertheless impede entry. But the reason entry is made less profitable and is impeded is that the arrangements lead incumbents to expand output, which lowers prices. Efficient vertical contracts, although they may indeed deter imports, cannot logically explain why identical products have higher prices in Japan than elsewhere.

My final comments concern the large-scale store law, the law which requires approval of the national government for opening a store in Japan with

floor space in excess of a set amount. This law has been mentioned in several of the papers presented in this volume. In prefectures of Japan with fewer department stores (on which the law has had the most impact) there are rather more of other kinds of stores.<sup>1</sup> The elasticity of number of other stores with respect to variation in the number of department stores ranges from essentially zero in the case of drug stores to  $-10\%$  to  $-20\%$  in the case of food, liquor, and apparel. There are about five times more department stores per person in the United States than in Japan, which is certainly a reflection of the law's effects on numbers of department stores. But according to the estimates just mentioned, this cannot fully account for Japan's superabundance of other stores, including food stores. That is, although the law clearly does protect small shop owners, there must be indigenous factors that favor a ubiquity of small stores. Having a proliferation of stores makes household shopping rather more convenient and enables economies on household storage space and travel time but also adds to the costs of the retail sector. High household storage costs and the lack of motorization mentioned by Ito favor the rationality of a distribution system with many small stores. But then shop owners, because of their numbers, become a powerful political force, and legislation is passed that exaggerates the natural tendency toward fragmentation and decentralization of the distribution sector. Similar forces are operative in the United States, but in an opposite direction. Indigenous factors in the United States, including motorization, have long favored larger stores. And, not coincidentally, here in the United States, laws including local zoning, which separates commercial and residential activity, have furthered the domination of large stores over smaller ones. The large-scale store law of Japan distorts the distribution system of Japan and is a source of economic inefficiencies. But the law itself is a reflection of the distribution system.

1. David Flath, "Why Are There so Many Retail Stores in Japan?" *Japan and the World Economy* 2 (1990): 365–86.

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