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The Privatisation of the JNR in Historical Perspective: An  
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National Railways in Japan

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## CHAPTER 5

### THE PRIVATISATION OF THE JNR

On 28 November 1986, a package of eight Bills to break-up and privatise the Japanese National Railway was voted into law in a plenary session of the Upper House (*Sangiin*) of the Japanese National Diet. The enactment of the eight JNR Privatisation Laws formally brought to an end the 114 year history of the state-run railway service, and paved the way for the commencement of operations in April 1987 by the newly-formed privatised enterprises known as the JR Group of companies. This Chapter describes the political process by which the privatisation of the JNR was achieved, and examines the role of the key participants in the development of the policies for the reform of the national railway.

Chapter 3 of this study, which had evaluated the operation of the national railway in its lossmaking phase, had concluded by analysing the JNR's financial results in its final years adjusted for the 'social' costs of its operation. In now examining the process of establishing the JNR reform policies it would, however, be

reasonable to acknowledge that this form of financial analysis of adjusting the JNR's costs for its social responsibilities would have seemed, for those faced with the reality of devising policies to restructure the national railway corporation, something of an academic exercise. The reality faced by the national exchequer in financing the JNR was not of 'adjusted' losses but of a colossal 'real' annual operating deficit, and of an accumulated level of indebtedness which ultimately represented a very substantial burden on the Japanese people. It was against the background of these real losses and debt that policies for the reform of the JNR had to be devised, a process which finally led to the division and privatisation of the national railway operation.

Examination of the actual losses of the JNR, and of its debt levels built up by 1980 (by the equivalent to the combined national debts of at least two South American countries) would have concluded that the time for a thorough overhaul of the financial structure of the national railway was due, if not long overdue. Such an overhaul was to comprise a key constituent of the national administrative reform programme of 1981 - 87 and, it could be argued, its **most** tangible achievement. A description of the process of JNR **reform**

now follows, in which the role played in the development and implementation of the policies breaking up and privatising the national railway by the various key participants, will be examined in detail.

#### **A Brief Historical Background to the Administrative Reform Movement**

In 1981 a government policy initiative was launched to deal with the funding of the Japanese public sector, triggered by an impending national financial crisis. Aimed at producing measures which would reduce the public sector deficit, the strategy set out to cut the spending budgets of government departments, and to make public service organisations more efficient. The movement, generally known as administrative reform (*Gyōsei Kaikaku*), also introduced for the first time the concept of the privatisation of major public sector organisations, among which the JNR was of course an important constituent<sup>1</sup>.

The administrative reform movement of the early 1980s appeared at the time to be innovative government policy. In reality, however, the administration which promoted it - under PM Suzuki Zenko - actually revived a principle first mooted over 30 years

before, during the post-War SCAP regime. Reform of the bureaucracy was an integral part of the Occupation's initial objective of democratising Japan<sup>2</sup>. However, partly because of the SCAP administration's re-definition of its policy objectives for Japan - an economically strong and politically stable ally for America in the Pacific - and partly because of successful opposition to change by the bureaucracy itself, the original SCAP policies were not fully implemented. As discussed at length in Chapter 1, the position of the bureaucracy in Japan - highly influential (but unaccountable) in shaping national policy - was even more entrenched at the end of the Occupation in 1952 than it had been when the SCAP authorities had embarked on its quest for a 'US-style democracy' seven years previously.

The spirit of administrative reform lived on in official Japanese government policy after the end of the Occupation, but governments formed after the departure of the Allies - particularly the first Liberal Democratic (LDP) administrations, retained only a nominal commitment to produce measures to increase the efficiency of the administrative structure. With other more immediate priorities, particularly rebuilding the

Japanese industrial structure and improving living standards to the fore, the administrative reform lamp burned very low. The first Provisional Commission on Administrative Reform (*Rinji Gyōsei Chōsakai* or *Rinchō*) was finally established by the Ikeda Hayato Administration<sup>3</sup> in 1961, but its powers were limited by its status as a mere advisory body. Its 'advice' of the First *Rinchō* was contained in its Report presented to the government in September 1964, in which it recommended the rationalisation of the number of administrative agencies, the limitation of the practice of *Amakudari* (Descent from Heaven) - in which civil servants on retirement obtain positions in public corporations or related private enterprises - and related measures to make the public sector more responsive to national needs<sup>4</sup>.

The recommendations of the first *Rinchō* fared little better than had the SCAP proposals to reform the bureaucratic structure in the late 1940s. A significant factor was the opposition from rank and file politicians both in the ruling government party, the LDP, and the opposition Socialist (*Shakaitō*) party<sup>5</sup>. Members of the LDP were reluctant to support measures which would result in reduced government spending, particularly as that expenditure - such as

the rural line construction by the JNR - conferred clear benefits on the politicians who were party to its implementation. Socialist members, with an interest in preserving employment levels in public sector organisations were similarly opposed to an initiative which would reduce the scale of the government sector<sup>6</sup>.

The first Rinchō thus had little tangible impact on the structure of the Japanese public sector or on its financing. The policies failed primarily because of a lack of governmental will to impose them in the face of what the writer Eunbong Choi describes pertinently as "bureaucratic protectionism"<sup>7</sup> and because their implementation would have upset the established system of vested interests in which the operation of public sector enterprises was used to benefit pressure groups whose support was required particularly by the LDP administration. The lack of will was also significantly affected by the replacement in late 1964 of PM Ikeda Hayato - who resigned because of ill health - by Sato Eisaku, - a former bureaucrat with little aspiration to challenge the status quo in the public sector.

The question of trying to make unelected bureaucrats more accountable to the people they were supposed to serve thus remained a political issue only in the abstract through the 1970s. Administrative reform as a pro-active policy in the government's manifesto did not resurface until the very end of that decade. That it was then revived was, moreover, much less concerned with public sector restructuring as a point of principle, and much more as a practical reaction to the serious deterioration in the state of the government's financial position. Deficit financing to stimulate the domestic economy had produced a massive public sector deficit and, by 1980, the scale of deficit-covering Government Bonds was such that they amounted to more than double the amount raised from national taxation revenues<sup>8</sup>.

#### Administrative Reform Revived

The nettle of resolving the public sector financing crisis was grasped by the government of PM Suzuki Zenko, established after the LDP's General Election victory in June 1980. Suzuki had won the position of Prime Minister ahead of other contenders including Nakasone Yasuhiro. Nakasone was perceived by Suzuki to be a clear threat to his authority and consequently was 'rewarded' with a

Cabinet post in the new administration in the relative backwater area of the Administrative Management Agency (*Gyôsei Kanri Kyoku*). The AMA as then constituted was responsible for overseeing the structure and efficient operation of government organisations but, prior to Nakasone taking up the position of Director General (*Gyôsei Kanrichô*), had little appreciable effect in the carrying out of these duties<sup>9</sup>.

Nakasone's appointment, however, coincided with PM Suzuki's wish to consolidate the support of the business sector for the LDP by tackling the reform of government bodies in a manner which would avoid the need to raise taxation. The official endorsement of the principle of 'administrative reform' of the Suzuki government thus gave Nakasone the opportunity, as the new Cabinet minister responsible for such reform, to establish a power base from which to launch a future campaign to secure the Prime Ministership. As James Elliott put it "Although able and one of the most senior LDP politicians, he (Nakasone) had failed to become Prime Minister. He thought the reform efforts would prove he was not just a 'political weathervane' and would give him the necessary 'thick pipeline' to the business leadership"<sup>10</sup>.

Under the mantle of the Suzuki administration's pledge to reform the structure of public sector organisations Nakasone therefore nailed his colours to the mast of making inroads into the level of government subsidies which were a major burden on the state's finance. Under his auspices, a Bill to establish the Second Ad Hoc Administrative Reform Commission (*Daini Rinji Gyōsei Chōsakai*) was approved by the Cabinet within four months of the establishment of the Suzuki Government, and passed by the Upper House of the Diet on 28 November 1980<sup>11</sup>.

This Second Commission (the Second Rinchō) on Administrative Reform began its deliberations in March 1981<sup>12</sup> charged with the duty of coming up with proposals to improve the national administrative and finance systems in order that the public sector finances be rehabilitated. In this context the JNR had, at the time, the dubious double honour of being a constituent of what were commonly referred to as the *San Kōsha* (the JNR, NTT, and the Tobacco and Salt Monopoly)<sup>13</sup> as well as of the Three K's<sup>14</sup>. The other two K's were the government's system for subsidising uneconomic domestic rice cultivation (Kome), and the national health service (*Kenkō Hoken*). As a group, the Three K's were seen

as the critical factors in the national financing deficit, and as the areas of public subsidy which Nakasone would seek to reduce.

Government spending on welfare had risen sharply in the 1970s, reflecting the increased needs of an aging population and also measures taken to improve benefits in medical care and state pensions. The commitment to supporting the country's symbolic, if uneconomic, rice farmers also put a rising burden on public sector finances. These two areas of government expenditure met with considerable criticism from the business sector which saw the rising public sector deficit as a major barrier to national economic growth<sup>15</sup>. As such, the opposition to the government's policy on public sector spending marked a revisionist attitude to the welfare society approach which had begun with the post War SCAP democratisation ideology.

The *Kome* and *Kenkō* K's, however, also had entrenched support groups which made the task of reversing established policies a less than easy task even for the 'reformist' Suzuki administration. The welfare system was faced with the practical problem of the upwardly changing age structure of the population, and there was

substantial criticism<sup>16</sup> from the Ministry of Health and Welfare supported by the political opposition in the National Diet - to proposals which were viewed as taking Japan back in time to more harsh social conditions. The opposition to changes in the subsidy system for rice growing was also vociferous and, more importantly, politically strong. The opposition was based on the significance of the tradition of rice cultivation, and its fundamental position in Japanese culture. It was, moreover, backed by an agricultural lobby represented by the *Nôrin Zoku* (agricultural specialists) in the Diet of crucial importance to the Liberal Democratic Party which formed the government. The LDP was then, as now, heavily dependent on rural support<sup>17</sup>, and its policies of substantial financial aid for agriculture were crucial to its electoral results. The government was therefore fully aware that any radical alteration to the mutually beneficial system of rice subsidisation could be very damaging to its political power.

The difficulty of making inroads into spending on health and on the agricultural sector would have been less significant had it been the case that increasing the level of business and personal taxation was a straightforward alternative form of government

funding. Resistance to higher corporate taxation was, however, strong, and was backed by the government's natural antipathy to what would have been a reversal of the LDP's intrinsic policy of supporting the business sector as the engine of economic growth. The general public were also, not unnaturally, against an increased burden of personal taxation, particularly in the form of the LDP government's proposal to levy an indirect consumption tax<sup>18</sup>. Attempts to force through the Diet an increase in the corporate tax rate in the 1981 budget, in fact, foundered in the face of Opposition party hostility, and the intended consumption tax was not introduced until 1989 - and even then at the rate of 3% rather than the 5% sales tax originally proposed<sup>19</sup>.

In the absence of political freedom to levy higher taxes to balance the public sector budget, the onus was on the government, and particularly on the AMA of Nakasone Yasuhiro to devise policies which would succeed in cutting government expenditure. As has been seen, however, even this approach faced practical difficulties, there being little support for it either in the bureaucracy, whose position of autonomy was in jeopardy, or

amongst politicians who feared that cuts in financial support for the public sector would threaten a loss of votes from a disaffected electorate.

The Suzuki administration was thus faced with bureaucratic and Diet resistance (from both its own party, the LDP, and the main opposition party, the Socialists) to proposals which had negative implication for the vested interests which supported the established political system in Japan. The establishment of the Second Rinchô in April 1981 was therefore in a climate of opposition to measures which would have achieved Nakasone Yasuhiro's aim of cutting government subsidies. For that reason the character of the *Daini Rinchô* was shaped in a way far removed from the original concept of reforming the government sector to remove the undemocratic excesses of unaccountable power and of bureaucratic influence<sup>20</sup>. Instead, with pragmatism becoming the watchword of the administrative reform policy, it developed with a mind to what was realistically achievable, in order that its proponents could still take from it some sense of achievement, one which would still mollify the Japanese electorate.

## The Organisation of the Second Rinchô

On behalf of Nakasone Yasuhiro, the Director General of the AMA, PM Suzuki appointed Dokô Toshio<sup>21</sup> to Chair the Second Commission on Administrative Reform (the *Daini Rinchô*). Dokô, by then in his 80s, was President of the *Keidanren* (Federation of Economic Organisations) and had been a successful businessman in his own right. He brought to the *Daini Rinchô* a telling conviction that a wide ranging administrative reform of central and local government organisations was possible without the need to raise taxation, and particularly that improved state financing could be achieved while avoiding an increased tax burden on the business sector.

Under Dokô's Chairmanship<sup>22</sup>, the Second Rinchô comprised 8 members chosen from the business sector, the bureaucracy, the labour movement, academia, and journalism. Reflective of the policies of the LDP administration which appointed it, the membership was leaned towards conservative interests, the three business and two civil service representatives, together with a journalist from a right wing newspaper (the *Nikkei Shinbun*), outweighing the two labour union delegates<sup>23</sup>.

The initial brief given by government to the Second Rinchô (often referred to as the *Dokô Rinchô* ) was to concentrate on the financial aspects of administrative reform, and to report in haste on proposals to effect substantial cutbacks in public sector spending<sup>24</sup>. This it did in a mere four months, its First Report being submitted to the government in July 1981; it called for emergency surgery in the form of cuts in central government welfare spending, in local authority services, and in subsidies to be made with immediate effect<sup>25</sup>. Its recommendations were accepted in outline by the Cabinet and passed into law by the Diet in November 1981 in time to be incorporated in the government's 1982 financial budget.

The short term concentration of the Second Rinchô was therefore on measures to resolve the Government's budgetary problems. This preoccupation with economic realities need not have involved the Rinchô in any conflict with the ideological core of the administrative reform movement. In practice, however, as the Rinchô deliberations progressed the focus of the activities of the Administrative Reform Commission moved away from the broad principles of breaking down the power of the bureaucracy and of

promoting a more open style of government towards the singular objective of 'repairing' the national finances through a restructuring of the public corporations.

That this was so reflected the real practical problems encountered by the *Dokō Rinchō* in dealing with the entrenched position of the bureaucracy in the Japanese political process, a battle which, as outlined above and in Chapter 1, had also been lost by the Allied Occupation SCAP administration. The change in emphasis was also, significantly, a recognition by Nakasone Yasuhiro that he was not able to 'deliver' - because of entrenched political opposition - the promise that as Director General of the AMA he would break down the system of public subsidies which, in particular, supported the social welfare payments, and those made to preserve the country's uneconomic rice production<sup>26</sup>. Nakasone instead required, to satisfy the electorate, another target for the administrative reform policies, and he realised that if the *Rinchō* could succeed in devising firm recommendations for a far-reaching reorganisation of the three main public corporations (the *San Kōsha*) it would still attain considerable political credit. A resolution of the operational inefficiencies inherent in the

operation of the *San Kôsha* , and therefore of their financing 'difficulties', was therefore identified as a potential accomplishment which would earn Nakasone plaudits as the policies' architect<sup>27</sup>.

It should be noted that two out of three public corporations involved - NTT and the Tobacco and Salt Corporation - actually remained in profit up to the time of their privatisation (in April 1985), and their financial reform might therefore still be seen as an insufficient explanation for the 'new' motivation of the Second Rinchô. A critical extra objective for the new 'administrative reform' policies was, however, provided by the identification of the labour unions in the public sector, whose conclusive decline in influence could be achieved by the privatisation of the *San Kôsha* . The eventual accomplishment of the *San Kôsha* privatisation policies would thus mark, in itself, a political 'success' from which its proponents (Nakasone Yasuhiro in particular) could take credit not only for a 'solution' to the outstanding financial problems but also for the breaking of the 'radical' public corporation labour unions<sup>28</sup>.

The redefinition of the priorities amongst the original objectives for the Second Rinchô was not an overt political process, but signs of the changed aims were apparent even from the constitution of the Administrative Reform Commission in its initial year of operation<sup>29</sup>. As already outlined, the *Rinchô* activities had begun with the urgent task of recommending short term policies to help repair the finances of central government, which it had accomplished in its First Report in July 1981. For its deliberations the *Dokô Rinchô* established a Committee structure, comprising a Technical Sub-Committee to focus on the broader issues of government administration, and two Special Sub-Committees (Chaired respectively by Kamei Masao - President of Sumitomo Electric Corporation - and by Professor Katô Hiroshi<sup>30</sup> of Keio University) to deal with the government's budgeting system, and with increasing the efficiency of the operation of the public sector.

The foundation of these Committees was still consistent with the areas of responsibility laid down on the setting up of the Second Rinchô. The framework began to change, however, with a restructuring of its Committee organisation by the Rinchô Members

in September 1981. This took place shortly after the delivery to government of its First Report, and resulted in the replacement of the previous Committees by four new Sub-Committees whose responsibilities were as follows:

The First Sub-Committee: The Ideology of Government Administration

The Second Sub-Committee: The Organisation and Structure of Government Administration

The Third Sub-Committee: The Division of Administrative Functions between Central and Local Governments

The Fourth Sub-Committee: The Three Public Corporations (the *San Kôsha* ) and other National Enterprises

In its reorganised state, the composition of the Rinchô Committee structure began to move away from the broader initial aims of the administrative reform movement<sup>31</sup>. From the establishment of the new Sub-Committee system the star of the public corporation reform issue (as evaluated by the Fourth Sub-Committee) waxed steadily brighter while that of the three other topics (involving the wider examination of government administration) waned almost to invisibility.

A significant factor in this covert change in the influence of the *Rinchô* deliberations on the issues with which it had been given

responsibility by government was the recognition of the continuing power of the bureaucratic establishment (notably in MITI and the Ministry of Finance). Nevertheless, that problem was not a significant impediment to the public corporation considerations of the Fourth Sub-Committee, which was dealing with weaker Ministries - those of Posts and Telecommunications and Transport. The later positive role of the Ministry of Transport (MoT) in the JNR privatisation process is further examined in this Chapter in the analysis of the 'main players' in the implementation of the reform policies. In any case, it can be stated here that the MoT's then position (in the 1981 - 82 period) of opposition to the JNR reform proposals was not, because of the Ministry's low status in the bureaucratic hierarchy, a major hindrance to the activities of the Fourth Sub-Committee which was addressing the issue of the restructuring the *San Kôsha* <sup>32</sup>.

#### JNR Restructuring - The First Phase

The Rinchô Fourth Sub-Committee was appointed to address the specific issue of the 'problem' of the three public corporations, and its membership was as selective as had been the Second Rinchô itself. In its Chair was Katô Hiroshi, the former Chairman of the

Second Special Sub-Committee which met between April and August 1981. Under Katô's jurisdiction sat Deputies Sumita Shôji (former Vice-Minister of the Ministry of Transport) and Iwamura Seiichi (representing the *Yomiuri Shinbun* Research Foundation) and a membership and advisory personnel whose collective leanings were positive to the public corporation privatisation proposals<sup>33</sup>. These pro-privatisation views were reinforced in Committee hearings in which expert witnesses attested to the failings in particular of the JNR. The most prominent of these 'independent' observers - and an individual who had an important bearing on the process by which the plan to privatise the JNR moved from the drawing board to reality - was Kakumoto Ryôhei, whose opinions on the short sightedness of the JNR senior management and on the need to rationalise its freight business have already been documented in this study<sup>34</sup>.

Kakumoto's contribution to the debate was directly reflected in the Report recommending a definite schedule for the restructuring of the JNR which the Fourth Sub-Committee submitted to the Second Rinchô in April 1982. In it was the proposal that the JNR should be divided into sectional companies in preparation for its

privatisation. Urgent measures for the stabilisation of the JNR's financial position, such as reviewing the corporation's capital investment and putting a stop on all new recruitment of staff, were to be implemented immediately. It further recommended that the privatisation proposals be produced in concrete form by the establishment of a JNR Reform Commission with a status as a *Shingikai*<sup>35</sup> (Deliberation Council) at least comparable to that of the *Rinchô* itself.

The Fourth Sub-Committee's recommendations were embodied in the overall Third or Basic Report of its Recommendations which was issued by the Second *Rinchô* on 30 July 1982<sup>36</sup>. While this Report did not specifically mention the break-up of the JNR, it gave official confirmation of the *Rinchô's* firm recommendation for the policy of privatising the national railway<sup>37</sup>. As had been proposed by its Fourth Sub-Committee the privatisation plans were to be produced in a form which could be enacted in legislation by a new JNR Reform Supervisory Commission (*Kokutetsu Saiken Kanri linkai*) .

The government responded quickly to the Rinchō Basic Report, the Cabinet forming a Preparatory Office for the Establishment of the JNR Reform Commission (*Kokutetsu Saiken Kanri linkai Junbi Shitsu*) on 27 August 1982. This Office consisted of thirteen members of the bureaucracy, a majority representing the Ministry of Transport. Its deliberations led directly to the announcement, on 24 September 1982, of the government's firm plans (*Gyōkaku Taikō*) to realise the reconstruction of the JNR within five years<sup>38</sup>.

On 1 November 1982, the LDP in general meeting (*Sōmukai*) approved the resulting draft Bill (*Saiken Hōan*) for the Special Law for the Promotion of JNR Business Rehabilitation (*Kokuyū Tetsudō Saiken Kanri linkai Sechi Hō*), which incorporated the measures for the establishment of the JNR Reform Commission. The Reform Bill was then given formal sanction by the Cabinet on 19 November 1982, and the government's proposals presented, for the first time, in Committee (*Unyu linkai*) to the Diet<sup>39</sup>.

Despite the mechanics for its establishment having thus been prepared by November 1982 the JNR Reform Commission was not

itself formally ratified until May 1983. In the interim, PM Suzuki had resigned unexpectedly (on 12 October 1982) and was replaced a month later by Nakasone Yasuhiro. Although Nakasone immediately, in his new position as Prime Minister, repeated his commitment to the administrative reform policies he had championed while the director General of the Administrative Management Agency, the formation of a new administration effectively delayed the introduction of new legislation. The legislative programme of the 98th Diet was further impeded by further consideration of the so-called 'Lockheed Scandal' involving former PM Tanaka Kakuei, and, consequently, it took until 13 May 1983<sup>40</sup> for the Special Law for the Promotion of JNR Business Rehabilitation (*Kokuyû Tetsudô Saiken Kanri linkai Sechi Hô*) to be voted through the Upper House of the Diet.

Nevertheless, the new Commission was then formulated with alacrity, beginning its deliberations on 10 June 1983. Thereafter, the new JNR Reform Commission became the key organisation in the national railway privatisation process. It took over the reform proposals of the Second Rinchô which had been disbanded on 15 March 1983, its task far from complete if measured against the

public's initial expectations and, indeed, against its Chairman Dokô Toshio's philosophy of reducing bureaucratic power and influence in the political system<sup>41</sup>. The *Rinchô's* narrower target of privatising the public corporations was now the real focus of the administrative reform movement, and the break-up of the JNR its core - to be carried through by means of firm proposals from the JNR Reform Commission.

### The Main Players in the JNR Reform Process

The process of the establishment of the Second Rinchô, its deliberations and findings, and its replacement by the JNR Reform Commission charged with the duty of producing concrete proposals for the privatisation of the JNR is shown in Figure I. This, in fact, shows the entire chronology of the administrative reform programme from its broad initial principles of 1980/81 to its more prosaic achievements of 1984 - 86. It thereby illustrates the transformation of what began as an ideologically driven policy initiative to effect a wide-ranging reform of those public sector organisations which continued to exercise political power without accountability, to a narrow - but achievable - strategy of targeting the *San Kôsha* for privatisation. Central to that metamorphosis in

government policy was the JNR, the *Kôsha* which offered up the tantalising prospect of reform 'against the odds'.

The chronology thus covers the development of the administrative reform policies from the general to the particular, and outlines the process by which the JNR reconstruction proposals took shape, and were finally enacted in November 1986 to effect the national railway's dissolution and privatisation. However, even if the timetable illustrates that the administrative reform programme obtained its justification though the achievement of less exalted targets than the initial aims of making government organisations more accountable to the people and more efficient in operation, the chronology on its own does not explain how the JNR privatisation policy itself was accomplished. In particular, it does not explain how an initiative to reform the national railway succeeded in the face of opposition from the JNR executive and labour unions, both anxious to preserve their respective 'empires', from the Ministry of Transport determined to maintain its sphere of influence on national transport matters, and from Members of Parliament of both left and right wing parties to whom national railway policy was an opportunity to secure political advantage.

Figure I

PROCESS OF JNR REFORM - THE ROLE OF THE KEY PARTICIPANTS

|                   | 1980   | 1981   |
|-------------------|--|--|
| <b>GOVERNMENT</b> | Cabinet Approval On Law Concerning Establishment Of Ad Hoc Commission [' Rincho Setchi Ho' ] (' 80. 10. 24)  | PM Appoints Doko As Chairman Of Rincho (' 81. 3. 16)   |
| <b>COMMITTEES</b> | 4 Requests From Doko To PM Suzuki Upon Taking the Chairman's Post (81. 3. 11) <ul style="list-style-type: none"> <li>- Recovery Of State Finance Without Tax Hikes</li> <li>- Elimination Of Debt In 3Ks (Kokutetsu, Kome [Rice] And Kenko Hoken [Health Insurance])</li> <li>- Administrative Reform In Central And Local Governments</li> <li>- Guarantee For Implementation Of Proposals Included In Reports</li> </ul> | Second Ad Hoc Commission On Administrative Reform [' Rincho' ] (' 81. 3. 16)<br>Submission Of First Report (Urgent Measures) (' 81. 7. 10) |
| <b>DIET</b>       | Law Concerning Establishment Of Ad Hoc Commission Passes (' 80. 11. 28. 93)  |  |
| <b>M o T</b>      | Draft of JNR Management Improvement Plan [Keiei Kaizen Keikaku] (' 81. 4. 1) <ul style="list-style-type: none"> <li>- Plan Based On JNR Reconstruction Law [' Tokubetsu Sochi Ho' ]</li> <li>- Features Specific Achievement Targets For Each Fiscal Year</li> <li>- Called ' The Last Resort' Plan</li> </ul>   |  |
| <b>JNR</b>        |  |  |
| <b>LDP</b>        | Political Affairs Research Committee Transport Section's Subcommittee On JNR Reform Holds First Meeting [' Mitsuzuka Sho Iinkai;' Mitsuzuka Committee] (' 82. 2. 5)  |  |
| <b>OPPOSITION</b> |  |  |
| <b>UNIONS</b>     |  |  |

1982

1983

Formation Of Nakasone Cabinet  
( ' 82. 11. 27 )

Doko-Suzuki  
Meeting  
( ' 81. 12. 10 )  
- No Tax  
Hikes

Submission Of  
Second Report  
( ' 82. 2. 10 )

Fourth Section Submits  
Report On 3 Public  
Corporations Etc. To  
the Commission  
( ' 82. 5. 17 )

Submission Of  
Third Report  
(Basic Proposals)  
( ' 82. 7. 30 )  
- Proposal For  
Privatisation  
And Division

Doko-Nakasone Meeting  
(83. 2. 9)  
- Ensure 'Recovery Of  
State Finance Without  
Tax Hikes'

Final Report  
Second Rincho  
( ' 83. 3. 14 )  
- PM Express  
'Full Respon  
To Its Pro

Ministry Of Transport's Proposal [ 'Kosaka Shian' ]  
( ' 82. 4. 23 )

- Transport Minister Kosaka's  
Proposal
- Reported In Asahi Shinbun

Mitsuzuka Committee

( ' 82. 6. 25 )

- Theory Of The Exit [ 'Deguchi Ron' ]

Tetsuro And Doro Agree To  
Revised Genba Kyogi Seido  
[Workplace Practices];  
Kokuro Does Not Accept  
The New System  
( ' 82. 12. 1 )

Formation Of Nakasone Cabinet  
( ' 82. 11. 27 )

|                                   |   |   |  |   |   |
|-----------------------------------|---|---|--|---|---|
| izuki<br>2.<br>2. 10)<br>IX<br>1. | Submission Of<br>Second Report<br>( ' 82. 2. 10 ) | Fourth Section Submits<br>Report On 3 Public<br>Corporations Etc. To<br>the Commission<br>( ' 82. 5. 17 ) | Submission Of<br>Third Report<br>(Basic Proposals)<br>( ' 82. 7. 30 )<br>- Proposal For<br>Privatisation<br>And Division | Doko-Nakasone Meeting<br>(83. 2. 9)<br>- Ensure 'Recovery Of<br>State Finance Without<br>Tax Hikes' | Final Report From<br>Second Rincho<br>( ' 83. 3. 14 )<br>- PM Expresses<br>'Full Respect'<br>To Its Proposals |
|-----------------------------------|---|---|--|---|---|

Ministry Of Transport's Proposal [ ' Kosaka Shian' ]  
( ' 82. 4. 23 )

- Transport Minister Kosaka's  
Proposal
- Reported In Asahi Shinbun

Mitsuzuka Committee  
( ' 82. 6. 25 )

- Theory Of The Exit [ ' Deguchi Ron' ]

Tetsuro And Doro Agree To  
Revised Genba Kyogi Seido  
[Workplace Practices];  
Kokuro Does Not Accept  
The New System  
( ' 82. 12. 1 )

1983

1984

## GOVERNMENT

PM Nakasone Discusses  
JNR Reform At Press  
Conference  
(\* 85. 1. 6)

## COMMITTEES

Establishment Of  
JNR Reform Commission  
['Kokutetsu Saiken  
Kanri Iinkai']  
(\* 83. 6. 10)

JNR Reform Commission  
Submits Emergency  
Proposal To Divide And  
Privatise JNR  
[Dai Ni Ji Kinkyu Teigen]  
(\* 84. 8. 10)

## DIET

Bill Concerning Ad Hoc Measures On  
Promoting Reconstruction Of JNR  
Passes

['Rinji Sochi Ho']  
(\* 83. 5. 13. 98)

- Bill To Establish JNR Reform Commission
- Not Determined Whether Privatisation And  
Division Are a Precondition

5 Laws On      3 Laws On  
JT Pass      NTT Pass  
(\* 84. 8. 3. 101) (\* 84. 12. 20. 102)

## M o T

Abandonment Of  
JNR Freight System  
(\* 84. 2. 1)

MoT Minister Hosoda  
Discusses Division Of  
JNR At Press Conference  
(\* 84. 10. 19)

JNR Announces Own Reform  
Plan [Keiei Kaikaku No  
Kihon Hosaku]  
(\* 85. 1. 10)

## JNR

NTT, JT Begin Operation  
(\* 85. 4. 1)

## LDP

Transport Section/Mitsuzuka Committee  
(\* 85. 1. 23)  
- Last Meeting Held

## OPPOSITION

Tetsuro Announces  
'Opinions And Proposals On  
JNR Reconstruction' [Kokutetsu  
Keiei Saiken Ni Kansuru Iken  
To Teigen] (\* 84. 6. 26)

SDP Announces Draft Of Their  
Reform Plan ['Kokutetsu Kaikaku An]  
(\* 84. 8. 9. Finalised On \* 86. 3. 6)

## UNIONS

Source: Adapted from data in Rinchō Gyōkakushin OB Kai (Formerly Members of the Second Ad Hoc Commission) Nihon O Kaeta Jyūnen: Rinchō To Gyōkakushin (The Decade That Changed Japan: The Second Ad Hoc Commission, 1991, p. 1007-1040. Kōtsu Tōkei Kenkyūjō (Institute of Transportation Statistics). Kōtsu To Kaikaku No Seika To Genkai (Political Process of Privatisation: Achievements and Limitation of the Process, 1991, p. 240, 249.

1985

1986

|                                   |   |   |   |
|-----------------------------------|---|---|---|
| press                             | Cabinet Approval On Basic Policy For JNR Reform ('85. 10. 11) ['Kihonteki Hoshin']<br>- Division And Privatisation Of JNR Into 6 Passenger Companies<br>- Scheduled For '87. 4. 1                     | Cabinet Approval On Measures Concerning Management Of JNR's Long-term Liabilities ('86. 1. 28) [Kokutetsu Choki Saimu To No Shori Hosaku Ni Tsuite] | Cabinet Approval On<br>- 5 Laws Relating To JNR Reform ('86. 2. 28)<br>- 3 Laws Relating To JNR Reform ('86. 3. 14)   |
|                                   | JNR Reform Commission Submits Final Report<br>- Opinions On JNR Reform (For the Future Of Railways) [Kokutesu Kaikaku Ni Kansuru Iken] ('85. 7. 26)   |   |   |
|                                   |   |   | Submission Of<br>- 5 Laws On JNR Reform ('86. 3. 3. 104)<br>- 3 Laws On JNR Reform ('86. 3. 18. 104) House Of Represent Special Commi<br>Diet Session Ends Kaikaku Tokub<br>Before Passing ('86. 9. 25. -<br>( '86. 5. 21) House Of Council<br>Bill Dropped Due To Special Commi<br>Dissolution Of Lower House ('86. 10. 30 -<br>( '86. 6. 2. 105)<br>Resubmission Of 8 Bills<br>( '86. 9. 11. 107) |
| es Own Reform<br>Kaikaku No<br>u] | 20 Reformists Within JNR Management Send 'What We Think About JNR Reform' [Kokutetsu Kaikaku No Tame Ni Wareware Wa Tsugi No Yoni Kangaeru]<br>- To Mitsuzuka ('85. 6. 14)<br>- To Kamei ('85. 6. 16) | JNR President Changes From Nisugi To Sugiura ('85. 6. 24)   | Mitsuzuka Becomes MoT Minister ('85. 12. 28 - '86. 7. 21)   |
| in Operation                      |   |   |   |
| Committee                         |   |   | Election Of Both Houses ('86. 7. 6)<br>- LDP's Historical Landslide Victory<br>- House Of Representatives: 304 Seats (0<br>House Of Councillors: 74 Seats<br>[Out Of 126 Seats Reelected; Total. 140]   |
| i An]                             |   | Declaration On Cooperative Labour Relations Between Management And Tetsuro, Doro And Zenshiro [Roshi Kyodo Sengen] ('86. 1. 13)                     | Kokuro Holds Special Decides To Oppose J ('86. 10. 9 - 10)  |

Hoc Commission on Administrative Reform and the Ad Hoc Council on Promotion of Administrative Reform), ed.  
cond Ad Hoc Commission on Administrative Reform and the Ad Hoc Council on Promotion of Administrative Reform).  
Kōtsu To Tōkei (Transportation Statistics). Number 19. 1993. p. 3-114. Iio Jyun. Mineika No Seiji Katei: Rinchō Gata  
(imitation of Rincho Style Reform). 1993. p. 149-185. Maki Tarō. Nakasone Towa Nandattanoka (What Was Nakasone?). 1988.

1986

1987

Cabinet Approval On Basic Policy  
or JNR Reform ('85.10.11)  
[Kihonteki Hoshin']  
- Division And Privatisation  
Of JNR Into 6 Passenger  
Companies  
- Scheduled For '87.4.1

Cabinet Approval On Measures  
Concerning Management Of  
JNR's Long-term Liabilities  
( '86.1.28)  
[Kokutetsu Choki Saimu To  
No Shori Hosaku Ni Tsuite]

Cabinet Approval On  
- 5 Laws Relating To JNR  
Reform ('86.2.28)  
- 3 Laws Relating To JNR  
Reform ('86.3.14)

Cabinet Approval On  
Removal Of Freeze On  
Construction Of  
Planned Shinkansens  
( '87.1.30)

arm Commission Submits Final

ions On JNR Reform  
(the Future Of Railways)  
utesu Kaikaku Ni Kansuru  
n]  
(7.26)

Submission Of

- 5 Laws On JNR Reform  
( '86.3.3. 104)

- 3 Laws On JNR Reform House Of Representatives  
( '86.3.18. 104)

Diet Session Ends

Before Passing

( '86.5.21)

Bill Dropped Due To

Dissolution Of Lower House

( '86.6.2. 105)

Resubmission Of 8 Bills

( '86.9.11. 107)

Special Committee On JNR [Kokutetsu  
Kaikaku Tokubetsu Iinkai]  
( '86.9.25. - 10.24)

House Of Councillors

Special Committee On JNR

( '86.10.30 - 11.28)

JNR Bills Pass

( '86.11.28)

armists Within

agement Send

e Think About

orm' [Kokutetsu

No Tame Ni Wareware

i No Yoni Kangaeru]

Mitsuzuka ('85.6.14)

Kamei ('85.6.16)

JNR President Changes

From Nisugi To Sugiura

( '85.6.24)

Mitsuzuka Becomes

MoT Minister

( '85.12.28

- '86.7.21)

JR Begins

Operation

( '87.4.1)

Election Of Both Houses ('86.7.6)

- LDP's Historical Landslide Victory

- House Of Representatives: 304 Seats [Out Of 512]

House Of Councillors: 74 Seats

[Out Of 126 Seats Reelected; Total, 140 Out Of 252]

Declaration On Cooperative

Labour Relations Between

Management And Tetsuro.

Doro And Zenshiro

[Roshi Kyodo Sengen]

( '86.1.13)

Kokuro Holds Special Meeting;

Decides To Oppose JNR Reform

( '86.10.9 - 10)

Administrative Reform and the Ad Hoc Council on Promotion of Administrative Reform), ed.  
on Administrative Reform and the Ad Hoc Council on Promotion of Administrative Reform).  
transportation Statistics). Number 19, 1993, p.3-114. Iio Jyun. Mineika No Seiji Katei: Rincho Gata  
yle Reform). 1993, p.149-185. Maki Tarō. Nakasone Towa Nandattanoka (What Was Nakasone?). 1988.

To accomplish this task, the chronology must be supplemented by an analysis of the role of the 'main players' in the JNR reform process, in order that an adequate appreciation be obtained of the significance of the ultimate accomplishment of the division and privatisation of the national railway as a policy which set its face against so many vested interest groups in Japan.

The description of the chronology of the privatisation process has, so far, paused at the juncture in which the Second Rinchô was replaced by the newly appointed JNR Reform Commission. The decision to select that particular event as a break-point in the discussion of the process of restructuring the national railway reflects the significance of the approval of the National Diet (in May 1983) for the establishment of a government appointed committee (the JNR Reform Commission) to carry forward the reform proposals<sup>42</sup>. Not only had the Diet vote, through the democratic parliamentary process, officially sanctioned the government's plans to privatise the *San Kôsha*, the Japanese Parliament had accepted that the mechanics of the division and privatisation of the national railway would, from then on, be devised by an unelected body responsible only to the Cabinet.

It is therefore pertinent to take the timing of the formation of the JNR Reform Commission as a specific point in the national railway reform process - the end of the first phase of the reconstruction of the JNR - to examine the position to that date of the various participants in the drama.

#### The JNR Mainstream Position

It might be said that the party with the greatest direct interest in the *Rinchô* discussions was the JNR itself. As it became clear that administrative reform in the wider sense had become a lost cause, that the real target was to privatise the *San Kôsha* and that, in particular, it was proposed that only the JNR of the three public corporations was to be broken up, the JNR executive had to come to terms with the increasing reality of its impending dissolution and privatisation. This realisation was, however, slow in dawning in the JNR Boardroom, the Directors of the national railway having shown a high degree of complacency and lack of concern about the threat which the establishment of the Second *Rinchô* might have for the JNR's continuing existence<sup>43</sup>.

The 'official' pre-Rinchô JNR approach to the required reorganisation of its activities was contained in its Management Improvement Plan (*Keiei Kaizen Keikaku*) prepared as a constituent of the JNR Reconstruction Act (*Kokutetsu Keiei Saiken Sokushin Tokubetsu Sochi Hô*) of December 1980. While acquiring from the LDP the nickname of the "*Ato no Nai Keikaku*" (The Plan With No Successor) this plan was voted into legislation by the Diet and was officially approved by the Ministry of Transport in May 1981<sup>44</sup>.

The Management Improvement Plan - which reflected the JNR Board's wish to secure the retention of the national railway as a single, nationwide corporation - was thus, at the time of the commencement of the deliberations of the Second Rinchô, official policy not only of the JNR but also of the MoT and the government. Given the legislative framework of the time, therefore, the JNR Board's relative complacency might be understood more clearly, particularly as even the *Rinchô's* First Report (the Emergency Proposals of July 1981) dealt with the national railway only at the conceptual level<sup>45</sup> and were still consistent with the JNR as a continuing national operation.

The sum of the position of the mainstream JNR executive was then, as the Second *Rinchô* began to examine the prospects of achieving 'administrative reform', that the state railway should be maintained as a national organisation and, moreover, that the Board could counter any restructuring proposals with the support of the LDP Diet membership to whom the continuance of the system of 'mutual benefits' from the operation of the JNR was so beneficial.

The complacency of this standpoint was first exposed, not by the *Rinchô* proposals - which took another year to crystallise into their 'divide and privatise' form - but by internal dissension within the JNR itself. The effect of development of a pro-reform movement in the national railway executive was, moreover, augmented subsequently by a change in the official LDP position towards the restructuring of the JNR, and by the impact on public opinion of the appearance of administrative reform - and particularly of 'JNR reform' - as a high profile topic for discussion in the mass media. In the period from mid 1981, the climate in which the *Rinchô* was conducting its investigations into the restructuring of government organisations thus changed

imperceptibly towards a pro-reform 'consensus', such that its Basic Proposals of July 1982 that the JNR should be not only privatised but broken up could be made secure against the continuing opposition of the JNR Board, its labour unions, the Ministry of Transport, and the Opposition parties in the Diet<sup>46</sup>.

### The San Nin Gumi

The growing pro-reform grouping was spearheaded by the establishment, albeit unofficially, of a group inside the JNR management which took a positive line on the embryonic plans to divide up the national railway and recreate it as a group of privatised enterprises. The starting point for the development of the pro JNR reform ideas was reconsideration by JNR managers of the corporation's 1980 Management Improvement Plan, which had proposed the rationalisation of unprofitable lines and the imposition of substantial cuts in the national railway's labour force in order to restore the JNR trunk line operation to profitability by fiscal 1985<sup>47</sup>. Taking the view that the Management Improvement Plan would not deal with what was considered to be a key issue in the national railway, that of the position of the labour unions, and mindful that it had in any case

been dubbed the JNR's Last Plan - or the Plan With No Successor - a group of managers inside the JNR began to examine alternative means of reforming the national railway<sup>48</sup>.

The core of the pro-reform faction inside the JNR was a group of three national railway executives who later collectively became known as the *San Nin Gumi* (Group of Three). Their formation as a pressure group to question the status-quo position of the JNR Board of Directors has no formal starting date but their activities are thought to have commenced in mid-1981<sup>49</sup>. The *San Nin Gumi* 'Membership' comprised Ide Masataka, Matsuda Masatake, and Kasai Takayuki<sup>50</sup>, who were all mid-ranking managers - below main Board level - of the JNR. Although lower in rank than those holding the status quo position in the JNR hierarchy, their 'courage' in stating non-establishment views might have alerted the Board of the national railway to the fact that there was a growing band of people who favoured a more radical solution than the 'mainstream' management to the problems of the JNR. The following is a quote from a former JNR management executive on the atmosphere within the JNR at the time of the setting-up of the *San Nin Gumi* , and the promotion of a pro-JNR reform cause.

Senior managers in the JNR head office met at that time and unofficially discussed how JNR should cope with the Second Ad Hoc Commission on Administrative Reform. During the meeting, people who were in charge of management plans and accounting at that time proposed to 'first, abolish the public corporation, Japanese National Railways, and form a new organisation. Dismiss all the staff, carry out a large cutback in the number of personnel, and reduce the number of staff needed. Employ only the people who are cooperative to the company.' At that time, there was no explanation about what to do with the national railway's finance.

Certain management members present at the meeting insisted that the proposal was abrupt and bore no relation to the internal discussions beforehand, that the plan was an effective bankruptcy of the JNR and that it would involve unfair labour practices. Nevertheless, the group which proposed that idea did not listen to these opinions, and left their seats after a short time. They had made a declaration rather than a proposal.

After this, there were no organised, calm discussions within the JNR concerning what the future national railway should be like. During the remainder of the debate on the reorganisation of the JNR, dialogue between the pro and anti reform factions in the national railway management was conspicuous by its absence. Instead, both sides enlisted the support of other forces - including politicians, members of the Second Rinchô, and Ministry of Transport officials - to further their positions<sup>51</sup>.

A balanced analysis of the principles of the JNR pro-reform group is complicated by the subjective nature of the views of the protagonists<sup>52</sup> in the debate about the reconstruction of the national railway. There was a genuine perception amongst the JNR reformers of the likely failure of the internal Management Plan to

ensure the JNR's rehabilitation<sup>53</sup>, and a belief that division and privatisation of the national railway was the only route to its salvation. There was also, nevertheless, a self-interested element in the pro-reform view, one which saw privatisation as the way to secure career advancement<sup>54</sup> for those who advocated and supported such a policy initiative. In this sense, self-interest was a factor influencing both the JNR pro-reformers and the status-quo group in the national railway management, the latter believing that the preservation of the national railway as a nationwide public sector organisation was a necessary pre-requisite for the protection of their career position and status in the railway management hierarchy<sup>55</sup>

#### The LDP Mitsuzuka Sub-Committee

There were two additional factors during 1981 - 82 which helped promote the reform proposals, and which further undermined the resistance to change in the method of running public sector bodies in Japan. The first, involving an important group which, in the past had resisted any moves to change the status quo, was the LDP party machinery. Nominally participants in the government which was proposing the administrative reforms, the LDP Diet

representatives, as individuals, instead benefitted greatly from the maintenance of the existing political system. Within this framework the operation of the JNR, with its benign relationships amongst the railway management, Diet politicians, and railway construction and supply companies<sup>56</sup> was the epitome of the Japanese public sector system of 'vested interests'. The prospect of any disturbance to such a modus operandi was viewed, not surprisingly, with hostility by those to whom the benefits accrued, and not least so by the LDP members<sup>57</sup>. It was therefore an unexpected development in the administrative reform debate that the LDP's JNR Restructuring Sub-Committee (*Kokutetsu Saiken ni Kan Suru Shô linkai*), formed in February 1982 to examine the issue from the Party's viewpoint, came to conclusions at variance with the prevailing mainstream LDP opposition to radical change in the method of operation of the national railway.

The LDP Sub-Committee was also known as the Mitsuzuka Sub-Committee, a reflection of the status of its Chairman, Mitsuzuka Hiroshi<sup>58</sup>. Mitsuzuka was the Transport Affairs Section Chief of the Policy Affairs Research Council (*Seichôkai*) within the LDP hierarchy, and was later (in December 1985) - in reward for his

efforts to promote the reform of the JNR - to be appointed Minister of Transport by PM Nakasone<sup>59</sup>. His 'Mitsuzuka sub-Committee' was initially set up by the LDP to represent the party's own position on the administrative reform debate, and as a countervailing force against the Second Rinchô. The Mitsuzuka Sub-Committee, however, surprised both its own political party and the opponents of the public sector restructuring who thought of it as a potential ally, by taking a line independent of the LDP, and one which served to reinforce the Rinchô opinions on JNR reform.

The report of its findings, containing proposed measures for the restructuring of the JNR, was issued in June 1982. In reality not particularly radical per se, the Sub-Committee's Exit Theory (*Deguchi Ron*) as it became known, recommended systematic changes in the JNR structure only if it were to be the case that the Management Improvement Plan was proved to have failed<sup>60</sup>. Even though it thus stopped short of open advocacy of the JNR's division and privatisation, however, the *Deguchi Ron*<sup>61</sup> stance was still sufficient, in that it represented what purported to be a 'new' and independent view from within the hitherto anti-reform LDP, to help further fragment opposition to the reconstruction plans.

A significant factor in the deliberations of the Mitsuzuka Sub-Committee was its unofficial links with the JNR *San Nin Gumi* who were able to provide it with direct evidence of what were deemed to be shortcomings in the public corporation management system.

The *San Nin Gumi* were, at that time, members of a faction within the management of the JNR which was led by Nawata Kunitake and Ota Tomoyuki, then respectively a JNR Board member (*Jōmu Riji*) and Staff Relations Department Manager (*Shokuin Kyokuchō*). The Nawata/Ota group shared the antipathy of the *San Nin Gumi* towards the JNR labour unions, and they saw the Mitsuzuka Sub-Committee as a vehicle for the dissemination of pro-reform and anti-labour union views. The *San Nin Gumi* and Mitsuzuka Hiroshi, the LDP Sub-Committee Chairman, had common links with the Sendai<sup>62</sup> region of Japan, the former all having worked there for the JNR Sendai Division, and Mitsuzuka being a *Giin* (Member of the Diet) representing that area.

The contact between the pro-reform group in the national railway executive and Mitsuzuka thus added a new dimension to the LDP Sub-Committee's investigations into the JNR. Through their position

within the JNR the *San Nin Gumi* had the means to give Mitsuzuka an 'inside story' as to how they saw the quality of the JNR's senior management, the state of labour relations in the national railway, and the prospect of the existing Board of Directors being able to reorganise the JNR through its Management Improvement Plan.

The Mitsuzuka/*San Nin Gumi* links were so strong in fact that, according to the aforementioned writer Iio Jun, the JNR *Keiei Keikaku Shitsu* (the Management Planning Office within the national railway) became an unofficial office for the LDP party deliberations on the JNR reform issue. Since it had to be kept secret, much of the LDP pro-reform JNR discussion took place at the *Teikoku Hosteru* (Imperial Hotel) in Tokyo, from which documents were drafted to be used by the Mitsuzuka Sub-Committee<sup>63</sup>.

Through the mechanism of direct contact with acting JNR executives with a pro-reform standpoint, the Mitsuzuka Sub-Committee was offered invaluable insights into the running of the national railway. There is no doubt that the input of the *San Nin Gumi* was a major influence on the thinking of this LDP Sub-

Committee, and The Group of Three played a significant part in Mitsuzuka reaching the final conclusion that there were very real doubts as to whether the JNR executive could carry out the rehabilitation of the national railway operation within the existing public corporation structure<sup>64</sup>.

### The JNR in the Media Spotlight

Despite the intervention of the pro-reform faction within the JNR in the findings of the LDP's Mitsuzuka Sub-Committee, the latter's non-LDP mainstream line would not necessarily have been a crucial opinion-forming factor on its own had it not been for the fact that its opinions were published at a time coincident with extensive coverage of the JNR reform debate in the Japanese mass media.

Through the Spring of 1982, coincident with the Second Rinchō and Mitsuzuka Sub-Committee deliberations there appeared a stream of newspaper and magazine articles and television programmes on the subject of the national railway. The JNR as a reform issue had become a matter for public debate, which served to bring into the open discussion of the problems of the national railway and of the potential means of their resolution.

That there was a growing public mood antagonistic to the existing JNR management system which might be galvanised by influential newspapers was highlighted by Ishikawa Tatsujiro in February 1982. At that time he wrote:

... at the background of such heated discussions concerning the proposed forms of management lies the fact that the public, impatient with the current impasse in which the JNR continually 'reconstructs its plans', has taken up the alternative method of changing the present system and is inclining towards privatisation and division. Both the labour union leaders and the management of the JNR should take serious note of this fact<sup>65</sup>.

The role of the mass media - "Creating A Mood for Reform" - in the JNR reform process is also discussed extensively in Eunbong Choi's PhD Dissertation, The Break-up and Privatization Policy of the Japan National Railways, 1980 - 87. This present study notes her comment that "In the JNR reform process, the mass media exerted influence over key decision makers and, more broadly, over society as a whole. Obviously, the reform headquarters relied on the mass media to publicize its cause and arouse the sympathies of the public for the JNR's structural reconstruction<sup>66</sup>. Choi concludes, in her section on the importance of the media in furthering the JNR reconstruction proposals, that "... the media played a significant role in creating a reform mood among the public. It shared with

the PCAR's (the Second Rinchô) reform idea and cooperated with the reform promoters. As long as the issue was under consideration, the mass media had not only benign and indirect influence but also strong and surprising power over society and politics"<sup>67</sup>.

In weighing up the influence of views expressed by 'left wing' and 'right wing' newspapers in Japan on the deliberations on JNR reform, Choi further confirms that while "... in general most Japanese newspapers are sympathetic to labour unions ... In the 1980s, however, the papers devoted much space to the collapse of JNR work discipline and its staggering deficit. In turn, these reports increased public concern, and a majority of the population then favored reforming the JNR."<sup>68</sup>

A review of the significance of the media in the administrative reform debate, particularly in the early period of 1982, thus confirms that the 'informing' of public opinion was a critical supplementary factor to reinforce the official Rinchô reports on administrative reform. On this matter, moreover, there is evidence from another author, Paul Noguchi who, writing on the

"One Railroad Family" (*Kokutetsu Ikka*) , also supports the contention that "... the press and other media tend to be highly critical of the JNR. In fact, according to some employees at "Shiranai Station", several newspapers have established a reputation for being biased against the JNR. One worker in particular remarked that a certain Tokyo daily with a very large circulation was unduly critical of Kokutetsu and that I should consult this paper if I 'wanted to find out everything that's bad about the railroad.'"<sup>69</sup>

Any such assessment of the role of the media in the JNR reform process must, of course, include an account of the number of articles which appeared in newspapers of differing political opinion during the debate on 'What to do with the National Railway'. In this context Choi's critique (cited above) incorporates an analysis of the volume of material published by the major Japanese newspapers on the JNR during the reform dispute. While it was found that so-called 'left wing' papers, such as the *Asahi Shinbun* <sup>70</sup>, were also prominent in the production of editorial articles on the JNR, the sheer volume of material in journals critical of the JNR was substantially greater<sup>71</sup>.

The leading lights of the JNR administrative reform movement, Dokô Toshio, and Katô Hiroshi, were in the vanguard of the use of the media to promote the reformist point of view. Thus, as Choi states:

... an active reformist, Kato Hiroshi, whose nickname was "masukomi kyoju" (Professor Mass Communication), tried to provide the public with an easy way to understand the JNR issue. He took the initiative to change public opinion to favor administrative reform as well as privatization of the 3 public corporations, including the JNR. He frequently appeared on television and wrote summarizing articles of the reform headquarter's reports to explain the rationale behind its recommendations. The total number of his interviews and articles in newspapers as well as magazines was 60, 42 of which were related to the JNR problem, during the period between 1981 and 1982.

Of course, Kato Hiroshi was not the only person who went public. Many persons concerned with the reform movement, both supporters and opponents, also often appeared in the media. For instance, Doko Toshio, who was often called "Mr. Gyokaku" (Mr. Administrative Reform), showed up in the media advocating the administrative reform in general about 50 times. <sup>72</sup>

Prominent in the JNR reform debate in 1981/2 were the *Yomiuri* and the *Sankei Shinbun*, both of which were in favour of the reform of the JNR. Katô Hiroshi is quoted in Choi as stating that "... as Sankei Shinbun stood in the vanguard of the public campaign for reform by reporting a series of articles criticizing the JNR, other newspapers competed against each other for the best report."<sup>73</sup>

This 'competition' took the form of finding the most interesting way to portray the JNR issue, a task which was more difficult if the 'no change' line was taken. The general public in Japan was by 1982, as already seen, considerably more aware of the issue of JNR reform, thanks not only to the express efforts of the *Rinchô* membership but also to the burgeoning volume of material already available in the mass media. Views expressed of the need to maintain the status-quo in the national railway could easily be countered with the reality of the JNR's financial position, and of its 'problematic' labour relations. Newspaper stories supporting the by then largely discredited JNR Board position (and that of the labour unions) were therefore of little journalistic value<sup>74</sup>. The pro-reform stance of the *Yomiuri*, which had close contacts with the JNR *San Nin Gumi* and was supportive of PM Nakasone, and of the *Sankei*<sup>75</sup> thus had considerably greater appeal to the Japanese newspaper readership with a normal appetite for 'interesting stories'.

A significant factor in the JNR reform debate was, therefore, that the *Sankei Shinbun* took up the theme of labour relations in the JNR in a series of special features from February to November

1982<sup>76</sup>. Omitting to recognise that labour disputes had, in fact, declined dramatically from the position in the late 1970s, the *Sankei* argued in these articles that the dissolution of the national railway was the only way to curb the power of the so-called militant labour unions.

The *Sankei* also helped promote the slogan "*Yami Kara Poka*" which became a widely used catch phrase to describe what was thought to be symbolic of the JNR's failings. The three elements of this phrase were the following:

- Yami* - getting overtime pay without working overtime
- Kara* - being paid for non-existent operation of services
- Poka* - taking holidays without due notice.

All of these practices undoubtedly took place in the operation of the JNR<sup>77</sup> but were by no means exclusive to the activities of the national railway. Other public bodies which practised these methods of benefitting their workforce beyond the limits of government restrictions - notably the Postal services in the case of "*Yamichōkin*" (known as *Yami*) - escaped the censure which was concentrated by the media on the JNR.

Coverage by the *Sankei Shinbun* of the supposedly critical state of labour relations in the national railway reflected the views of JNR's most right wing labour union, *Tetsurô*. The internal divisions amongst the JNR unions were highlighted in the *Sankei* as part of a *Tetsurô* move to turn public opinion strongly against the formerly radical *Kokurô* rather than as a reflection of a reasoned argument on the then state of labour relations in the national railway<sup>78</sup>.

On this emotive issue of management:labour relations in the JNR, the pro-reform lobby in Japan, in fact, astutely took a line from Thatcherite Britain where the government's anti-union policies had struck a chord with the general public. Never mind that in Japan the facts did not fit the rhetoric, that - as highlighted in previous sections on JNR management:labour relations - the incidence of labour disputes in the national railway had fallen dramatically since the mid1970s. Never mind that the era of militant labour unions in the JNR had long since passed; there was capital to be made by the promotion of policies which would have the effect of destroying the 'militant' labour unions.

The media coverage of the JNR reform issue undoubtedly gave impetus to this policy initiative, providing as it did a vehicle for the broadcast of the merits of the reconstruction proposals being developed by the Second Rinchô. Moreover, by concentrating on an aspect of the JNR's operation which had been criticised in the past, its management:labour relations, the media focus had a significant impact on the formation of a 'consensus' of the need to carry out a radical reform of the national railway. The extent to which it constituted a 'media campaign', orchestrated by the *Dokô Rinchô* and its allies, may be a matter for debate but its effect on consolidating the pro-reform position is surely in no doubt.

#### The Initial MoT Position

The consolidation of the pro-division policy view offered by the Mitsuzuka Sub-Committee and the 1982 media exposure of the JNR's problems also helped to isolate the Ministry of Transport, whose separately conceived plans (in April 1982) were met with hostility by both the LDP and the Rinchô Council<sup>79</sup>. The MoT had not proposed privatisation but, instead, a substantial reduction in the JNR workforce - though much less severe than the cuts which comprised part of the privatisation policy which was actually

implemented five years later - and a separation of the corporation's railway operations and the track infrastructure into two distinct entities. The MoT plan was that developed by the then Minister of Transport, Kosaka Tokusaburô, acting on the basis that the MoT should, like the Second Rinchô and the LDP, have its own independent policy on JNR reform.

Before it could be articulated properly this MoT standpoint was 'scooped' by the *Asahi Shinbun*, which published an article critical of Kosaka's contribution to the JNR reform debate on 23 April 1982. The Kosaka initiative was thereafter abandoned and with it any independent line from the MoT. Ironically, however, the criticism of his proposal (the *Kosaka Shian*) was apparently at least as much due to the fact that the Ministry was judged to have failed to go through the correct procedures - such as consulting the Second Rinchô<sup>80</sup> - as to the view that its plan was not sufficiently radical to deal with the JNR's problems.

## The National Diet Contribution to the Initial JNR Reform Debate

As indicated in the foregoing section on the 'media debate', by the time that Dokô Toshio delivered his Reform Commission's Basic Proposals on Administrative Reform to PM Suzuki in July 1982 there had already been a significant swing in sentiment towards the pro-JNR reform side. The combination of a Cabinet-appointed *Shingikai* (the Second Rinchô) with increasing public support having been garnered by the mass media's coverage of the JNR's 'problems', the apparent 'official' conversion of the LDP machinery to the cause of division and privatisation of the JNR, (through the activities of its Mitsuzuka Sub-Committee), the groundswell of rebellion within the ranks of the JNR management (led by the *San Nin Gumi*) and the discrediting of the MoT's supposed independent line (as adopted in the *Kosaka Shian* ), was such that the opposition from the JNR Board, from its labour unions, and from the opposition parties in the Diet had minimal impact on the reform debate.

In this process the position of the National Diet had effectively been marginalised, its role as the medium for public discussion of the issues having instead been taken up by the mass media. The Diet, as the people's elected representatives, had voted the Second Rinchô into existence on 28 November 1980 but its position in the administrative reform debate was thereafter reduced to the status of observation. The conclusions of the various Rinchô Reports between July 1981 and March 1983 (as set out in the Chronology in Figure 1) were merely reported to the Diet by PMs Suzuki and Nakasone and, from the commencement of the deliberations of the *Dokô Rinchô* in March 1981 until the enactment of the Special Law (*Kokutetsu Saiken Suishin Rinji Sochi Hô*) through which the JNR Reform Commission was set up in May 1983 the JNR reform debate took place effectively away from any full discussion in the national parliament.

The key period in this respect was that between the release of the Third (Basic) Report of the *Daini Rinchô* (30 July 1982) - which confirmed the aim of the JNR privatisation - and the passing of the law forming the JNR Reform Commission ten months later. In that crucial phase, the reform proposals developed from the broad

outline of the *Rinchô* recommendations to official statements of government policy with an established machinery for carrying them out.

During the foundation of the reform policy which became law in May 1983, the degree of influence of the Diet may be assessed by reference to the procedures by which the preceding 10 month period saw such a transformation of the JNR reconstruction issue from vague intentions to the Statute Book<sup>81</sup>. That process began with an almost immediate confirmation (on 5 August 1982) of support for the *Rinchô* Third Report by the AMA Head Nakasone Yasuhiro, and this official sanctioning of the *Rinchô* principles of JNR reform was then reinforced by PM Suzuki's declaration five days later, on 10 August 1982, that his administration would respect the *Rinchô* views and would endeavour to turn them into firm legislative measures<sup>82</sup>. The 10 August meeting of the LDP Administrative Reform Committee (*Gyôsei Kaikaku Suishin Honbu*) which received Suzuki's commitment to the privatisation proposals, further received instructions from the Cabinet that measures to deal with the financial problems of the JNR pension fund would have to be considered. The presentation of the pensions

problem was in direct response to the *Daini Rinchô* Third Report, which had recommended that the JNR Pension Fund - which was in severe financial difficulty - should be integrated with those of the other two main public corporations (NTT and the Salt and Tobacco Monopoly) and that, thereafter, the *San Kôsha* should operate a joint pension scheme<sup>83</sup>. The matter was subsequently referred to the Diet for discussion, being delegated in the Lower House to the Finance Standing Committee (*Okura linkai*) and in the Upper House to the Cabinet Standing Committee (*Naikaku linkai*) .

The Diet was therefore involved soon after the publication of the *Rinchô* Third Report on a real issue concerning JNR Reform. The legislation which followed these deliberations, however, took a year to materialise, almost six months after the unelected JNR Reform Commission had taken charge of the JNR reform process. In the face of opposition, moreover, from the *Denden Kôsha* (NTT) the Bill (*Gyôsei Nenkin Tôgô Hôan*) which was enacted in November 1983 did not merge the pension funds of the *San Kôsha* but instead instituted a system of borrowing and lending amongst the pension funds in the public sector<sup>84</sup>.

In the meantime, a preparatory Cabinet office section (*Kokutetsu Saiken linkai Shitsu*) had been quickly set up (on 27 August 1982) to prepare the bill for the establishment of the JNR Reform Commission. The Reform Office consisted of representatives from the MoT, MoF, MoL, the Ministry of Welfare, and the Administrative Management Agency (AMA) and it was through this procedure - acting on behalf of the Cabinet of government and not of the Diet - that the draft of what became the JNR Reform Law of May 1983 was prepared and submitted to parliament for enactment<sup>85</sup>.

The delay which took place between the Cabinet's formal approval of the draft bill - on 19 November 1982 - and its passing by the Diet in May of the next year was not, furthermore, a result of lengthy debate of the matter in parliament. The length of time taken for the bill to become law was instead, as outlined in the early chronology of events, the result of the change of LDP government in November 1982 - which brought Nakasone to power - and the subsequent Diet proceedings concerning the 'Lockheed scandal'. The procedure adopted by the Cabinet to turn the *Rinchó* recommendations into legislation which would take the privatisation proposals forward was, moreover, conscious policy<sup>86</sup>

to avoid the sidetracking of the 'administrative reform' policies by opposing factions. In serving this aim, it undoubtedly succeeded in minimising the involvement of parliament in the formulation of the reform proposals and, in so doing, cut out any meaningful role by the political parties, both government and opposition.

A further significant factor in muting the influence of the Diet on the course of the JNR reform process was the built-in parliamentary majority of the Liberal Democratic Party.

Therefore, while PM Suzuki's resignation had taken place as a reflection of declining popular support for his leadership, Nakasone Yasuhiro still inherited a national Diet dominated by the LDP. If any opposition to the administrative reform policies from his own political party, the LDP, could be neutralised - as this Chapter will further attest that it was from the time of the aforementioned LDP Mitsuzuka Sub-Committee which, combined with the growing influence of the *San Nin Gumi* group within the JNR, broke down the natural resistance to change of individual LDP Diet members - then the minority opposition parties were in no position to achieve anything more than token resistance to the JNR privatisation process.

The left wing of the political spectrum was, of course, fundamentally opposed to the JNR's dissolution, partly from an ideological standpoint, but partly also because of a fear of reduced revenues in the future. The philosophical arguments against the privatisation of the JNR were based on the belief that public services should remain in public ownership and on the expectation - an expectation that was to be met in full - that the implementation of the policy would mean a substantial reduction in employment. The latter point was also related to the revenues of the labour unions which, like their power base, would be greatly diminished in the event of the dissolution and privatisation of the national railway<sup>87</sup>. At the early stage of the Second Rinchô's deliberations on administrative reform and on the reorganisation of the JNR, the Japan Socialist Party, the Japan Communist Party, *Sôhyô* (the national federation of public sector labour unions), and the JNR left wing unions *Kokurô* and *Dôrô* were therefore united in their opposition to the idea of the national railway being broken up and transformed into a private enterprise.

The scope for effective opposition to the JNR restructuring proposals was, however - and as hitherto stated - severely

constrained by the effective political control of the reform process by the Suzuki and , particularly , the Nakasone administrations. Thus, although, as outlined above, there were two labour union federation representatives (one from *Dômei* , and one from *Sôhyô* ) on the Second Rinchô it was difficult for the main Socialist (*Shakaitô*) opposition - particularly as public opinion began to gather in favour of reform - to argue convincingly that their views were either unrepresented or that they were seriously opposed to the general principles of administrative reform. Thus the absence of any means of debate in the Diet on the issue further robbed the opposition parties of a forum in which their views could be made heard. Thus their loss in the 'media battle' meant that the alliance of the Socialist party and the JNR labour union *Kokurô* was bereft of any significant voice in the other medium of public debate, the country's major newspapers.

It could therefore be said that by the time that the JNR Reform Commission began to discuss the means by which the national railway would be reorganised - its deliberations being based on the firm premises of the JNR's division and privatisation - the reform 'war' had already been won. Since there was no effective political

opposition from the other parties in the Diet, moreover, the really significant victory for PM Nakasone was really that over the prior entrenched opposition from within the party of government, the LDP.

At the time of the initial proposals from the Second Rinchô to restructure the national railway the LDP rank and file were, as previously here confirmed, united in opposing a policy initiative which they realised would endanger the system of mutual interests for whose benefit the JNR had long been run<sup>88</sup>. The issue of the manipulation of the JNR to serve political interests has previously been discussed at various points in this thesis, the point having been made that it was a feature of the operation of the national railway well before the establishment of the public corporation in 1949.

The circle of common interests, which a policy of breaking-up and privatising the JNR might well upset, was widely known to involve the placing of national railway contracts with favoured industrial companies. Political pressure on the JNR, through the *Unyu Zoku* in the Diet, to make decisions on expenditure on new local line

construction and on investment on capital equipment ensured that national railway business went to suppliers and contractors who would, in their turn, reward their benefactors with financial contributions to party funds<sup>89</sup>.

Business donations were a particularly important source of finance for the ruling LDP party, and the award of lucrative JNR contracts an accustomed source of revenue to a wide range of companies in the civil and electrical engineering, construction, and car manufacturing industries. It is therefore not surprising that the prospect of an end to this convenient system by which, in reality, the Japanese taxpayer was subsidising the industrial sector and its political parties, was met with antagonism by those who had for so long benefitted from it.

It was, in fact, in this climate of continuing self-interested opposition to the restructuring of the JNR - but with a growing body of opinion in its favour - that Nakasone had stepped out of former PM Suzuki Zenko's shadow and into the administrative reform spotlight. There was the prospect of a major political coup in achieving what many regarded as unachievable, and of widening

the LDP's appeal by convincing the public that here was a political leader capable of tilting at the established party windmills and winning. There was also that other glittering political prize on offer, of being seen as the Prime Minister who succeeded in defeating the left wing trade unions and destroying their influence on Japanese political and economic life.

Nakasone had, of course, been influenced, in the formation of his beliefs on the merits of the reconstruction policies, by the examples of their implementation in the USA and, particularly, in the UK. The wide-ranging privatisations in Britain pioneered by PM Thatcher, and President Reagan's policies of dismantling the public sector in the US, had convinced Nakasone both of what was achievable in Japan, and of what the potential political rewards could be<sup>90</sup>. In winning domestic support for his growing enthusiasm for the implementation of the privatisation plans, he was also able to use to good effect the argument that if Japan ignored these major changes in policy in other major countries, she would be increasingly isolated from a position of power and influence on the international stage.

At a more parochial level, it must be said that the attitude of Nakasone Yasuhiro towards the break-up and privatisation of the JNR in particular was shaped also by his time as Minister of Transport. although this had been for a relatively short period on one year (1967 - 8) it gave Nakasone practical experience in dealing with the administration of the national railway. His recollections of the implementation of transport policy in the public corporation domain were to be held in good stead in the shaping of the policies to reorganise the national railway some fifteen years later.

The verdict of the LDP's own *Kokutetsu Saiken ni Kan Suru Shô linkai* (the Mitsuzuka Sub-Committee) that there was a limit on the time which the JNR management should be allowed to effect an internal solution to the public corporation's financing problems was of inestimable value to Nakasone's cause<sup>91</sup>. It effectively broke down the traditional resolve of the mainstream LDP position to preserve the JNR as a 'vehicle' for political gain, and from that point what had been solid opposition from the *Unyu Zoku* to moves to demolish the status quo position of the national railway run as a source of funds for the LDP diminished to the level where all the

Nakasone administration had to do was to ensure the 'facesaving' of individual *Giin* (Diet members) who had been the prior beneficiaries of the system of mutual benefits from the operation of the 'JNR Family'. This the government was ultimately able to do by convincing the LDP rank and file that the achievement of a divided and privatised JNR could result in the Party appealing to a broader electoral base, and also that the success would reflect well on the *Unyu Zoku* prepared to support the policy<sup>92</sup>.

Nakasone's persuasion of the LDP *Unyu Zoku* to drop their hitherto overt opposition to the JNR reform plans was, in addition, given further weight by his argument that credit would be attained by politicians who were seen to have carried through policies which resulted in the conclusive defeat of the so-called militant labour unions in the national railway. The Nakasone line succeeded in convincing the LDP membership, and the overt hostility from within his own party to the measures to break-up the JNR thereby ceased<sup>93</sup>. As a consequence the role of the LDP party members in the Diet was, from the time of the establishment of the JNR Reform Commission, as marginal in the development and formulation of the specific break-up and privatisation policies as

those of the opposition political parties. Their function was effectively reduced to that of a voting machine, the LDP's majority in the Diet allowing for the simple enactment of the JNR Reform Laws three years later in November 1986. The *Mainichi Shinbun Ichibu* (Political Section of the Mainichi Newspaper) described the phenomenon of a compliant LDP in the JNR Reform debate thus:

In such an important matter (JNR reform) it would have been natural to have active debate within the LDP as well, but most members did not say a word. In 1985, the only occasion when the LDP called on the JNR authorities and discussed this issue officially, was on January 23, when a joint meeting of the Transport Committee (Kôtsu Bukai), the JNR Basic Issues Research Committee (Kokutetsu Kihon Mondai Chôsakai), and the JNR Restructuring Sub-Committee (Kokutetsu Saiken ni Kansuru Sho linkai) was held at the LDP headquarters. It was held to hear about the specific points of the JNR's own proposals, from the JNR executive itself. The JNR plan was entitled Basic Policies for Management Reform (Keiei Kaikaku no Tame no Kihon Hôshaku), and was submitted on January 10. After the January 23 meeting, there were no fruitful discussions, and also there were no further requests from the LDP to hold such meetings.<sup>94</sup>

### JNR Restructuring - The Second Phase

Any prospect of the JNR being able to see off the *Rinchô's* radical restructuring proposals effectively died with the accomplishment of the privatisation policies of the two other of the *San Kôsha* in 1984. The essential difference in the implementation of the privatisations of the Tobacco and Salt Monopoly, and of the *Nihon*

*Denden Kôsha* (which, in its privatised form, became known as NTT) was that only the JNR of the *San Kôsha* was singled out for both division and conversion to a private company structure.

In the administrative reform debate, the Tobacco and Salt monopoly, and how it was to be restructured, was not a politically contentious subject, and there was a lack of animated reaction to the *Rinchô* proposals for its eventual privatisation. NTT, as it was to become on privatisation was, by contrast, seen to be an integral part of the radical *Rinchô* plans to reorganise the 'inefficient' public corporations. Initially at least made comparable by the Second *Rinchô* with the JNR, the treatment of the telecommunications public corporation in the administrative reform policies - and its place in the public debate - however soon varied from that of the national railway. In terms of public feeling NTT aroused much less emotion - either favourable or unfavourable - than did the JNR. It was not a source of substantial losses or of massive debts, its position in an expanding market place having been protected by its monopoly status<sup>95</sup>. The successful conclusion of its reorganisation, therefore, offered a less spectacular political gain than that of the JNR, with its financial

problems and its 'militant' labour unions. NTT also proved to be much more astute than the JNR in dealing with the reality of an inexorable political will to carry out the privatisation policies. This relative success can be judged in the reflection that, despite the *Rinchô* proposal that it too should be broken up, NTT was privatised as one entity with its monopoly power largely unchallenged<sup>96</sup>. Support from the Ministry of Finance helped in this process, the judgement that the Government would raise more revenue from flotation of the telecommunications corporation as a single national enterprise transcending the ideological desire to deregulate its market and to allow competitive forces to improve its efficiency.

The JNR was, therefore, partly as a result of its own misjudgment of the powerful forces which were driving the privatisation movement, left exposed as the focus of the government's administrative reform policy. This was a policy which, moreover, was by then bereft of a clear philosophical base and instead was articulated more simply by the desire to cut back government spending in order to lessen the burden of national debt. Given Nakasone's increasing realisation that greater domestic political

power and a higher international standing was there for the taking if the privatisation policy could be implemented, it rapidly became the case that the plan to break-up and privatise the JNR was taken to be synonymous with what had originally been the much wider concept of administrative reform<sup>97</sup>. The reality was that by 1983, if indeed not before, the Three K's which had been at the forefront of the administrative reform movement at its formative stage, had been reduced to one, the *Kokutetsu* (the JNR).

#### The JNR Reform Commission Period

Restructuring to the chronology of the national railway reform process, the JNR Restructuring Supervisory Commission or JNR Reform Commission (*Kokutetsu Saiken Kanri linkai*) began its task of formulating the definite JNR reconstruction plan on 10 June 1983. Its brief was to articulate practical means by which the Second Rinchō's broad framework of division and privatisation of the national railway corporation could be implemented, and therefore to draw up proposals which could be converted into legislation.

The composition of the Commission emphasised the continuity of the administrative reform policies, three of its five members having served on the preceding Second Rinchô. Its Chairman was Kamei Masao (President of Sumitomo Electric Industries), one of the former Ad Hoc Committee members, as were two of his appointees, Katô Hiroshi and Sumita Shôji<sup>98</sup>. Katô's role in publicising the campaign to privatise the JNR has already been detailed in this Chapter; to the position of Deputy Chairman of the Reform Commission he brought a strong commitment to the break-up and privatisation of the national railway. Sumita Shôji was at this time Director of the Japan Transport Economics Research Center (*Nihon Unyu Keizai Kenkyû Sentâ*), having formerly been a Vice Minister of Transport. The two 'new' members of the JNR Reform Commission were Sumiya Mikio (President of Tokyo Women's Christian University), a labour relations specialist, and Yoshise Shigeya (Governor of the Japan Development Bank) with experience of the bureaucracy - through the Ministry of Finance.

The deliberations of the JNR Reform Commission lasted from its formation in June 1983 until the publication of its final report in July 1985. The issue of the Commission's ultimate findings, its

Opinions on the Restructuring of the JNR of July 1985 (*Kokutetsu Kaikaku ni Kan Suru Iken*) , outlined the proposals by which the division and privatisation of the JNR was to be effected, and the methods to be adopted for the disposition and repayment of the national railway's long term liabilities. In the intervening period, the Commission had delivered interim reports to PM Nakasone, the second of which (*Dai Ni Ji Kinkyû Teigen*) was compiled on 10 August 1984. The latter document contained the first categoric reference to the division as well as to the privatisation proposals for the JNR. It also, however, acknowledged, for the first time, that the JNR's privatisation would not encompass a complete solution to the problem of the national railway's indebtedness. In the Second Emergency Report, it was admitted that it would not be a practical proposition for the privatised companies which were to be created out of the JNR to be obliged to take over all of the national railway's long term debt. Instead, the Commission pledged itself to produce the means by which it would "handle a certain amount of [the] JNR's liabilities by depending on taxation of the people."<sup>99</sup>

The role of the main players in the second phase of the JNR reconstruction process can be judged by their reaction to the deliberations of the JNR Reform Commission. To begin, as before, with the JNR itself the JNR Board continued to resist. In the face of its, by then, inevitability, the proposal to break-up the national railway. The JNR's privatisation was no longer even a topic for debate; after the successful implementation of the privatisation of the Tobacco and Salt Corporation and NTT (enacted on 3 August and 20 December 1984 respectively) it was a certainty. Yet the Directors of the national railway apparently still believed that they could forestall the JNR Reform Commission's definitive plan that the JNR should be divided into a number of separate operating companies run as private corporations<sup>100</sup>.

By the time of the publication of the JNR Reform Commission's Reports confirming the break-up and privatisation policy the two senior JNR executives, Ota Tomoyuki and Nawata Kunitake, who had supported the *San Nin Gumi* in their submissions to the LDP's Mitsuzuka Sub-Committee had reached positions of very high rank in the national railway hierarchy. Ota was a member of the Board of Directors (*Jōmu Riji*), and Nawata the JNR's Vice President

(*Fuku Sōsai*) . The attainment of these positions of power had not, however, reinforced the reformist zeal they had shown two years earlier. Rather the opposite was the case, for Nawata and Ota - having an 'empire' to preserve - were now firmly in the status-quo camp which wished to see the JNR maintained as a single, nationwide operation in the public sector<sup>101</sup>.

In contrast the *San Nin Gumi* , the earlier allies of Nawata and Ota, remained committed to the cause of radical reform of the JNR. After the publication of the Mitsuzuka Sub-Committee's Report in 1982 which supported their pro-reform position, however, their jobs in the management of the national railway had been in posts which, for a period, reduced the impact of their involvement in the JNR reorganisation process<sup>102</sup>. It was during that time that the JNR Board, still hopeful of turning back the tide of reform - with the support it believed of former PM Tanaka Kakuei who still had a strong power base in the LDP - formulated its own plans for the national railway's salvation.

The JNR's Reform Plan (*Keiei Kaikaku no Kihon Hōsaku*)<sup>103</sup> was announced early in 1985, its Board accepting the privatisation of the national railway but collectively setting its face against division of the JNR operation. The Plan had been in the making from the summer of 1984, so its drafting took place in the knowledge of the confirmation of the pro-reform position of the national railway's least radical labour union, *Tetsurō* (published in June 1984) and the conversion to a pro-division and privatisation stance of the MoT (announced in October 1984). The JNR Board must also have been aware that the Socialist Party was also moving away from its dogmatic opposition to the privatisation proposals, a draft of its own reform plan being released in August 1984. Of these other participants more later, but even a brief reference to the growing volume of pro-reform opinion must make it clear that the JNR Board's status quo position was increasingly losing touch with the reality of the situation.

The 'JNR Reform Plan', when released in January 1985, confirmed the Board's view that the national railway should remain one corporation, but that its executive would improve its finances by dramatic cuts in the workforce (the target was to reduce the

labour force from an average level of some 300,000 in 1984/5 to 180,000 by fiscal 1990). The Board further requested that a substantial proportion (16 trillion Yen) of its long term debt be taken over by the Government<sup>104</sup>.

The Plan was produced against the advice of the JNR Reform Commission to whose Chairman, Kamei Masao the then JNR President Nisugi Iwao had presented it in December 1984. Failing to get approval from Kamei, Nisugi related the JNR Board's views to Tanaka Kakuei and other senior figures in the LDP hierarchy and, believing that the traditional support of the LDP machine for the JNR would continue, published the *Keiei Kaikau no Kihon Hōsaku* on 10 January 1985<sup>105</sup>.

It received a bad press, even from the politically unaligned *Kōtsu Shinbun*, the *Yomiuri* and *Sankei*<sup>106</sup> discussing the JNR Plan as "too little, and too late" to save the national railway from dissolution and break-up. Opposition to the JNR Board position was also forthcoming from the JNR Reform Commission - predictable after the earlier reaction of its Chairman Kamei Masao - the Ministry of Transport, and the main JNR labour unions. The

'radical' unions *Kokurô* and *Dôrô* opposed the Plan because it admitted privatisation was necessary; while the 'moderate' unions *Tetsurô* and *Zenshirô* criticised it because the Plan held out against the JNR's division<sup>107</sup>.

The isolation of the JNR Board view after the negative reaction to its Reform Plan was augmented by the subsequent illness of Tanaka Kakuei (he suffered a stroke in late February 1985) and the waning of his influence in the LDP machinery. The JNR Reform Commission had further advised PM Nakasone that, if there was continued opposition from the JNR "... its final report, which was expected to be written by July (1985), would be meaningless and impractical."<sup>108</sup> Matters finally came to a head in late May 1985 when Nakasone got wind of an attempt by Ota Tomoyuki, the now anti-reform JNR Director, to persuade the *Asahi Shinbun* to publish material supportive of the national railway Board position<sup>109</sup>. To Nakasone, Ota's action was 'the last straw', and he decided to dismiss the JNR President and Vice President. This was done in late June 1985, Nisugi Iwao and Nawata Kunitake (and a member of other status-quo JNR executives) losing their positions, and the pro-reform Sugiura Takaya (formerly Vice Minister of the

MoF) taking over as the Nakasone appointee on 24 June 1985 in the post of JNR President. The Board's opposition to the division of the JNR empire was finally over, and national railway policy was thereafter shaped by the MoT acting on behalf of the Nakasone administration and orchestrating its dictates through a JNR Directorate now dominated by pro-reform opinion.

The position within the JNR had already further moved away from the status quo position with the production of a report in favour of the break-up of the national railway by a group of JNR executives headed by the *San Nin Gumi* <sup>110</sup>. In total, 20 JNR managers put their name to a statement entitled *Kokutetsu Kaikaku no Tame ni Ware Ware wa Tsugi no Yô ni Kangaeru* (We Feel This Way Towards JNR Reform). It criticised the JNR Board's Reform Plan published some five months earlier, supported not only the privatisation of the national railway but also its division, and insisted on changing the top JNR management. It is said<sup>111</sup> that the report was sent to Mitsuzuka Hiroshi, the former Chairman of the LDP's Reform Subcommittee (and soon to be appointed by Nakasone as Minister of Transport) on 14 June, and to Kamei Masao (the JNR Reform Commission Chairman) on 16 June 1985.

Grateful for their invaluable support, the new JNR regime repaid the *San Nin Gumi* by promoting them to higher positions<sup>112</sup> in the national railway hierarchy, Ide and Kasai taking up new senior posts as soon as 4 July 1985, only two weeks after Sugiura had replaced Nisugi as JNR President.

#### The Opposition Parties and the JNR Labour Unions

The foregoing references to the position of the Ministry of Transport, to that of the Socialist Party, and to the views of *Tetsurō* (the union connected with the Democratic Socialist Party, the *Minshatō*) on the JNR reform issue may now be amplified, to provide confirmation that even a full year before the privatisation was implemented the only remaining fundamental opposition to the break-up of the national railway from amongst the main 'players' in the branch was that from *Kokurō*, historically the most 'left wing' of the JNR's labour unions<sup>113</sup>.

As hitherto expounded, the *Shakaitō* (the Japanese Socialist Party) remained ideologically opposed to the break-up of the national railway. The scope, for political manoeuvring by the Socialists had, however, been severely constrained by PM Nakasone's tight

control over the method of discussion of the JNR reform issue. The strategic use of the *Shingikai* as forum for the debate, through both the Second Rinchô, and its successor, the JNR Reform Commission allowed for little input from those groups opposed to reform. Moreover, as previously stated, the Socialist Party had been in support of the main original principle of the administrative reform policy, that of reducing the level of 'unaccountable' power in the public sector. Since the JNR reform plan was being carried out in the name of that policy, it was not easy for the Socialists to put up a cogent opposition.

A related difficulty for the Socialist Party was that the labour union in its camp from the telecommunications public corporation (*Zen Dentsu*) had already moved away from its initial opposition, to a position supporting the NTT privatisation<sup>114</sup>. On the JNR privatisation issue the Socialist position was thus complicated by the fact that the Party had, implicitly at least, favoured the privatisation of another of the *San Kôsha*.

The Socialist Party did, nevertheless, try to come to terms with the growing weight of opinion in favour of drastic reform of the JNR by formulating its own recommendations of measures designed to rehabilitate the national railway. A plan was drawn up in 1984 - a draft of which was publicised on 9 August of that year - and eventually announced as official Party policy in March 1986<sup>115</sup>.

The Socialist proposals for the rehabilitation of the national railway were the Party's attempts to articulate their opposition to the break-up of the national railway within an overall policy stance of support for the broader principle of administrative reform, namely the reduction of bureaucratic power and influence. The Plan which was announced in March 1986, the *Kokutetsu Kaikaku An* (National Railway Reconstruction Plan), was an extended version of the 1984 draft but retained its central tenet that there should be no lay-offs in any JNR reform. It had six main points<sup>116</sup>, as follows:

- (i) The JNR would not be broken up but would become a private company - so it would be privatised

- (ii) 30% of its capital would be from the private sector
- (iii) It would be divided into 7 branches - so its management would be decentralised
- (iv) Its accumulated debt would be taken over by the State
- (v) Its unprofitable areas of operation would be subsidised by the government
- (vi) All of its employees would be re-employed after the reconstruction and only thereafter would there be consideration of a decrease in their number.

The key reason for the two year gap between the draft of the Socialist Plan and its release in complete form was that the Party was prevented from producing a coherent counter to the *Rinchô* proposals by the prevarication of *Kokurô*, its ally in the JNR labour unions<sup>117</sup>. The favoured Socialist strategy had been to secure the support of *Kokurô* for a proposed deal with the LDP in which the left wing opposition party would not hinder the *Rinchô*

recommended plan for the JNR's reconstruction if the government would guarantee that no national railway workers would be made redundant. In the face of *Kokurô's* maintenance of a hard-line opposition to the privatisation and break-up policies, however, such a 'deal' was not possible and eventually the Socialist plan was announced without labour union support<sup>118</sup>.

*Kokurô* was, by the time of the release of the Socialist Party's counter-proposals (March 1986) completely isolated on the labour union side as to its policy on JNR reform. *Tetsurô*, historically the most 'moderate' of the national railway labour unions had been, from an early stage of the JNR reform debate, consistent in its criticism of the intransigent position of *Kokurô*. As discussed earlier in the context of the role of the mass media in the JNR reform process, *Tetsurô* had also used its connections with the *Sankei Shinbun* to spread anti-*Kokurô* views. The *Tetsurô* pro-reform stance was further confirmed in its own ideas for the restructuring of the national railway (*Kokutetsu Kaiei Saiken ni Kan Suru Iken to Teigen*) which were released in June 1984. The *Tetsurô* proposals supported the *Rinchô* JNR reform plan for the division and privatisation of the national railway with only minor

variations from the official government line. *Tetsurô* proposed that, although the JNR should be broken up, the companies thereby created should still be connected and that the new operations should be funded by both the State and the private sector<sup>119</sup>.

These small differences notwithstanding, *Tetsurô's* colours had thus, by mid-84 been fixed clearly to the JNR reform mast.

*Tetsurô's* affiliation with the *Minshatô*, the Democratic Socialist Party (DSP) ensured that its views were represented in the Diet although, in reality, the weak electoral position of the DSP meant that, like the rest of the political opposition, it had little direct influence on the JNR reform process. Nevertheless, *Tetsurô's* unequivocal support for the division and privatisation policies represented a distinct 'success' for the union in that its members were fully protected from the substantial job cuts in the new JR companies, and the union's own existence thereby preserved into the post-privatisation era<sup>120</sup>.

Although it was later than *Tetsurô* in showing its hand, the other previously militant JNR labour union, *Dôrô*, took a similarly pragmatic line on the reform plans, putting protection of the

union's position, and the job security of its members before ideological considerations. In the early stages of the reform debate, *Dôrô's* public stance had been one of being absolutely against the *Rinchô* recommendations of division and privatisation. However, sources close to the heart of the JNR management:labour relations issue have indicated<sup>121</sup> that from as early as 1981 the national railway executive were aware of a subtle shift in the real *Dôrô* strategy. The key figure in this process was the charismatic *Dôrô* leader, Matsuzaki Akira, and the catalyst in his move away from hostile opposition of the JNR privatisation the indication from the LDP leadership (notably from Kanemaru Shin<sup>122</sup>) that maintenance of the union's hard-line position would result in the destruction of the union and substantial job losses for its members.

Thus, although the official *Dôrô* position was to oppose the proposed reform, Matsuzaki had by 1981 indicated to the JNR management that his union would co-operate with the reform proposals so long as the rights of the *Dôrô* members were not taken away. The JNR Staff Relations executive were given notice of this new *Dôrô* stance when the union agreed to the scrapping of

previously jealously-guarded agreements on the contentious system of *Genba Kyôgi Sei* (JNR workplace practices), followed then by the evaporation of *Dôrô*-inspired labour disputes in the operation of the national railway<sup>123</sup>.

The culmination of the revised *Dôrô* line on JNR reform came with its public declaration of support for the division and privatisation policies through the signing of a labour:management Joint Declaration (*Rôshi Kyodo Sengen*) on 13 January 1986. In this agreement *Dôrô* allied with *Tetsurô* and *Zenshirô* (a smaller JNR labour union affiliated with the *Komeitô* political party) in officially co-operating with the JNR management to effect the voluntary retirements and job transfers necessary before the national railway was changed into a group of private companies, and the unions formally abandoned any further strike action. The quid pro quo was, of course, the agreement by the JNR that the members of the 'co-operative' unions would not suffer job losses in the privatisation process, a promise which, as will be seen in later discussion, was kept fully<sup>124</sup>. This new relationship between the unions and the JNR executive was then further cemented by the undertaking (in August 1986) that the former would drop all legal

claims against the national railway for supposed 'unfair labour practices'; the JNR management responded by agreeing to abandon its claim against *Dôrô* for 20.2 billion Yen as estimated damages for the effects of the illegal *Sutokensuto*<sup>125</sup> dispute in 1975.

The signing of joint labour:management by the other JNR unions left *Kokurô* in complete isolation on the reform issue, a point which by early 1986 was abundantly clear to the *Kokurô* leadership. The publication of the Socialist Party's JNR Reform Plan in March 1986, and the sweeping victory of the LDP in the July General Election further weakened the left wing opposition position in the JNR reform debate, and convinced the *Kokurô* leader, Yamazaki Shunichi, of the need - for the union's own self-protection - to review its strategy. The *Kokurô* Union executive attempted to carry this out by persuading the union members (at a meeting of the *Kokurô Chuô Tôsô linkai* on 24 September 1986) to co-operate with the reform process. The issue was put to the full membership at a meeting of the *Kokurô Rinji Zenkoku Taikai* (Nationwide *Kokurô* Meeting) on 9/10 October 1986, and there was an overwhelming vote against it<sup>126</sup>.

Yamazaki's moderate *Mindô* leadership faction was then forced to resign and *Kokurô's* new hard-line executive prepared to lead the union into oblivion as the JNR reform process moved inexorably to a successful conclusion.

### The Turning of the Ministry of Transport

The final key to the transformation of the *Rinchô's* initial broad, indistinctly defined proposals to their final form as a series of Acts which broke-up and reorganised the national railway into privatised enterprises may be found in the dramatic change in the position of the Ministry of Transport towards JNR reform.

The real turning point in the MoT stance may, in retrospect, have been the ridicule which met the attempt by Transport Minister Kosaka to articulate a distinct Ministry of Transport 'line' in April 1982. The MoT's public conversion took a further two years to come to fruition, its culmination being the declaration by the then Minister of Transport, Hosoda Kichizo, at a Press Conference on 19 October 1984, of his Ministry's support not only for the JNR's privatisation but also for its division. Hosoda's statement in favour of the government's plan to break-up the state railway was

widely reported in the national press<sup>127</sup>. It signalled a volte face by the MoT in its stance towards JNR reform, the new position representing a final recognition that the policies of division and privatisation were going to be carried to fruition by the Nakasone government whether or not the Ministry of Transport was opposed to it. The MoT's new-found enthusiasm for the reform proposals was also a reflection of the realisation that the Ministry's regulatory function would not necessarily cease after the JNR's privatisation; in this regard, the MoT's position was safeguarded by the incorporation in the legislation of a continuing regulatory system in which the Transport Ministry was paramount (see discussion in Chapter 7).

The final factor in the MoT's shift of position was a desire within the Ministry to 'get its own back'<sup>128</sup> on the JNR management which had - as set out in Chapters 2 and 3 - defied the Transport Ministry's attempts to subjugate it for long periods of the JNR's operation as a public corporation. A pivotal figure in the MoT's conversion was Sumita Shôji who, although by the time of Minister Hosoda's declaration of support for the JNR's break-up, was no longer in the Transport Ministry, remained a key participant in the

JNR reform process. Sumita had been Transport Vice Minister (*Jimu Jikan*) in 1978 - 79, the top bureaucrat in the MoT who, responsible only to the political incumbent (the Minister of Transport) was the civil servant in charge of the running of the MoT. Acting thereafter as Chairman of the *Nihon Unyu Keizai Sentā* (the Transport Economics Research Centre) Sumita held the Deputy Chair of the influential Fourth Sub-Committee of the *Daini Rinchō*, which recommended the privatisation of the *San Kōsha* (including the national railway), and was subsequently a member of the five-man JNR Reform Commission which took the general *Rinchō* outline and turned it into specific proposals to divide and privatise the JNR. His contribution, within the Reform Commission's deliberations, to the promotion of the JNR reconstruction proposals has already been documented in this Chapter; he had openly criticised the 1980 JNR Management Plan as ineffectual, had called for the resignation of the intransigent JNR Board, and had helped convince the Ministry of Transport that their interests would be best served by ending what was futile opposition to the reform proposals<sup>129</sup>.

As a result, both the MoT and Sumita came out well from the JNR privatisation. The Ministry's role as regulator of the national railway, in respect of safety, tariffs, company investment policy, and Board appointments was - as outlined above - enshrined in the new Laws and Sumita personally gained the top post in the new JR group, the Presidency of the largest company, JR East<sup>130</sup>.

#### The Diet Revisited - the Legislative Process of the JNR Privatisation

Following the delivery of the JNR Reform Commission's *Kokutetsu Kaikaka ni Kan Suru Iken* (Opinions on the Restructuring of the JNR) in July 1985, the Nakasone government formalised a set of procedures to turn the proposals into legislation. First, the Cabinet gave its approval to the Basic Policy for JNR Reform (*Kihonteki Hôshin*) on 11 October 1985, and mapped out a timetable for the division and privatisation of the JNR by 1 April 1987. Secondly, the Cabinet approved Measures Concerning the Management of the JNR's Long Term Liabilities (*Kokutetsu Chôki Saimu to no Shôri Hôsaku ni Tsuite*) on 28 January 1986. Thirdly, the Cabinet gave its approval to eight Bills drawn up to effect the dissolution of the JNR, done in two stages<sup>131</sup>, the first five on 28 February 1986, and the remaining three on 14 March 1986.

The JNR Reform Bills were submitted to the Diet in March 1986 (see the Chronology in Figure I) but that Diet Session (the 104th) came to an end before consideration could be given to the JNR reform issue. The JNR Bills then became 'null and void' with the dissolution of the Diet prior to the July 1986 General Election, to be re-introduced on 11 September 1986 to the next full (107th) parliamentary sitting<sup>132</sup>.

The JNR Reform Bills having once again been submitted to the Diet, their consideration was devolved to newly appointed Special Committees on JNR Reform (*Kokutetsu Kaikaku ni Kan Suru Tokubetsu linkai*) set up on 25 September 1986. Loaded with a built-in LDP majority<sup>133</sup>, the Special Committees took over the task of overseeing the reform process, at the request of the Cabinet, from what would have been the normal procedure of Diet Transport Standing Committees (*Kokkai Unyu linkai*) in both the Lower and Upper House. The role of the Diet in providing a forum for public debate of the JNR reform issue was therefore further constrained by the Nakasone administration which was concerned more with the successful implementation of the privatisation policy than with any niceties of parliamentary procedures.

The eight JNR Reform Bills were finally passed, after their approval by the Special Committees in the Lower and Upper Houses<sup>134</sup> on 28 November 1986. The enactment of the eight JNR Reform Laws marked the formal ending of the national railway run as a single, nationwide operation and its restructuring, which took effect on 1 April 1987, into separate 'private' operating companies.

#### A Summation of the Development of the Administrative Reform Policy; JNR Division and Privatisation as the Eventual Symbol

When the administrative reform movement was revived by the then PM Suzuki Zenko, and relaunched as a coherent policy initiative in 1981, the JNR was not specifically singled out from the list of strategic targets. There were, at that time, Three K's to be dealt with, of which the JNR was but one. Indeed it was, as already seen, one of the four conditions laid down by Dokô Toshio for his taking the Chair of the Second Administrative Reform Council (the *Daini Rinchô*) that the reform policies should incorporate a solution to the problems of the Three K (*Kokutetsu, Kome, Kenkô*) deficits.

The intended reforms, at the stage of formulating policy aims, were also originally painted with a much wider brush than merely that which covered the privatisation of public corporations. Another of Dôkô's pre-conditions was that a thoroughgoing reform of the administration of local and central government institutions should be implemented. In practical terms, however, greater attention was paid in the *Rinchô* findings to the much narrower concept of reforming the existing public corporations. Particularly as developed thereafter under the Nakasone administration, the focus of the administrative reform policies changed away from broad thoughts of breaking down the power of bureaucracy and promoting an open style of government, to the pursuance of policies which, if achieved, would enhance the status of the politicians who promoted them.

Loss of an ideological core<sup>135</sup> did not weaken the reform campaign, rather the concentration on the art of the achievable gave it particular strength, and gained it the essential unwavering support of PM Nakasone. In its revised mode, the policy initiative to restructure the public enterprises found relatively straightforward targets in the Tobacco and Salt monopoly, and in

the Telecommunications Corporation. It is not the brief of this thesis to discuss in detail the process of privatising NTT but the comment can be made that the success of transferring its ownership to the private sector (as yet incomplete)<sup>136</sup> was certainly not matched by any really comprehensive accompanying deregulation of its market. The distinct lack of moves to open up the mainstream telecommunications sector to real competition - ostensibly to maintain stable market conditions - contrasted vividly with both Dokô Toshio's pre-conditions for his appointment to the Second Rinchô and to PM Suzuki's instructions to that body which looked to a reduction in the government's control and powers of intervention in the national economy by deregulation of key markets previously the subject of public sector monopolies.

In the years since its privatisation in 1985, certain niche markets in the telecommunications field - notably cellular phones, pagers and satellite communications - have been liberalised, NTT now facing competition from new entrants. However, in an apposite observation, Ian Gow has noted that "... (NTT's) monopoly of talented technical manpower, together with its formidable and vast R&D power, enable it to retain a significant influence if not

de facto technological regulatory status over the telecommunications sector."<sup>137</sup> The privatisation of NTT as a single entity essentially substituted a private near-monopoly for its public sector predecessor. As such, its privatisation therefore does not seem worthy of being regarded as an achievement which can be attributed directly to the original aims of the process of administrative reform.

The JNR offered a more tantalising proposition for the reformers. In strict financial terms it had been insolvent for years, and the proposals for its division and privatisation made by the Second Rinchô could thus have been put forward as official policy initiatives much earlier. The *Rinchô* recommendations for the JNR's reconstruction, in fact, were not completely new, reiterating as they did elements of reform plans previously put forward by expert observers such as Kakumoto Ryôhei and Ishikawa Tatsujiro. What was different this time round was that the proposals had the backing of a powerful force identifying the reconstruction of the national railway as an achievement, the reward for which would be the enhancement of political power. Nakasone's public declaration of the privatisation of the JNR as being central to his

administration's policy intentions added greatly to the standing of those, like Dokô Toshio, Katô Hiroshi and the other administrative reform committee members, who were also prepared to come out strongly in favour of the break-up of the national railway.

The JNR privatisation thus became the symbol of the administrative reform movement, its original aim of lessening overall bureaucratic power in Japan - as had SCAP's thirty years before it - soon superceded. The media coverage which served to galvanise public opinion in favour of the break-up of the JNR and of the associated target of destroying left wing labour union power in the public sector, was a decisive factor in the process by which this 'symbol' became an accomplishment.

The status-quo faction within administration of the national railway was, in this process, completely out-manoeuvred by the reform movement, as was the 'radical' trade union, *Kokurô*. Counter proposals from the JNR executive and, early in the debate, from the Ministry of Transport were not given any credence, being judged as vain attempts to prop up outmoded, inefficient and self-interested practices. What opposition that lingered from inside

the ruling LDP was also neutralised by the convincing argument that the break-up of the JNR need not mean the end of its operation as a vehicle for political favour, and that ultimately its flotation would be a major source of revenue for the Government.

Particularly after the conversion, in late 1984, of the MoT to a pro-division and privatisation stance, the reconstruction of the national railway operation became the centrepiece of the process of administrative reform and, in the end, its most obvious achievement. On the debatable issue of whether the privatisation of the JNR was in fact, the only success of the administrative reform movement one observer, Karel van Wolferen, has no doubts. In The Enigma of Japanese Power he wrote of Nakasone Yasuhiro "In the end ... he failed to bring about the policy adjustments he championed - except for the break-up of the company running the largest losses in the world, the Japan National Railways."<sup>138</sup>

Van Wolferen's opinion does not, of course, negate the JNR reconstruction as a real accomplishment to be savoured by its proponents. Indeed, the very act of implementing the break-up and privatisation policies which no one before had dared to carry

through was, in itself, a major achievement. Eunbong Choi sums up the scale of the success thus: "Certainly, a rehabilitated and denationalized railroad system was the centerpiece of the Nakasone Cabinet's administrative reforms. It would also be a crowning accomplishment for his political career."<sup>139</sup>

The JNR reform was thus a great accomplishment for the Nakasone government which implemented it. Whether the process produced a 'better' structure for the operation of the national railway is, however, another matter, the political and financial implications of which are addressed in the next two Chapters.

1. As the biggest single employer in the public sector the JNR was considered a high priority in the new policy of 'reforming' public sector organisations. The three main public corporations (including the JNR) were, in fact, named as requiring such reform in the First Report of the *Daini Rinchô*. See Rinchô Gyôkakushin OB Kai (Former Staff of the Second Ad Hoc Committee on Administrative reform and of the Council on Administrative Reform) (1991), *Nihon o Kaeta Jû Nen - Rinchô to Gyôkakushin* (The Decade Which Changed Japan - The Second Ad Hoc Committee on Administrative Reform and the Council on Administrative Reform), pp.198-199.
2. See Chapter 1 of this thesis, p. 76.
3. An account of the activities of the First Rinchô is contained in Gow, Ian (1989), "Government - Industry Relations: Japanese-Style Public Corporations and Privatisation", *Japan Forum*, Vol. 1, No. 2, October, pp.181 - 182.
4. Ibid, p. 182.
5. Choi, Eunbong (1991), The Break-Up and Privatisation Policy of the Japan National Railway. 1980-1987, PhD Dissertation, Ann Arbor, Michigan, pp. 107-108.
6. Ibid.
7. Ibid, p.107.
8. Ibid, pp. 65 - 66.
9. Gow (1989), p. 183.
10. Elliott, James (1983), "The 1981 Administrative Reform in Japan", *Asian Survey*, June, p.766.
11. See Figure 1, adjoining p. 360, for the chronology of the Administrative Reform Programme.

12. The need to rehabilitate the government's finances was the real catalyst for the establishment of the Second Rinchô. Although the broader aim of a general rationalisation of administrative functions was part of the manifesto of the Suzuki administration after its General Election victory in June 1980, the urgent requirement was to 'balance the books'. As James Elliott further described the motivation for the 'new' administrative reform policies: "... in the 1980 financial year the government was scheduled to issue bonds equivalent to US\$63 billion, which are exceeded the total of \$47 billion for Britain, France, Italy, the United States, and West Germany together. In the 1980 budget, one third of the general account expenditure was covered by bond issues and 12% of the budget was for debt service." Elliott (1983), p.765.

13. For further discussion of the *San Kôsha*, the three public corporations designated to be the target of privatisation proposals, see Gow (1989), pp.176 - 185.

14. Within the overall public sector deficit, the Three K's were regarded as the central core of the government's financial problems. Writing in 1983, James Elliott expressed the feelings prevalent in the administrative reform movement at the time thus: "Now the era of high (economic) growth is past, yet demands for subsidies, social welfare, and defense expenditures are still strong. For example, the "three K's - the rice subsidy scheme (*kome*), Japan National Railways (JNR) (*kokutetsu*), and the national health service (*kokumin kenkohoken*) - are seen as areas in particular need of reform". Elliott (1983), p.765.

15. A discussion of the influence of 'big business' on politics in Japan is contained in Choi (1991), pp.216 - 221. Specifically on the method by which the government's financing deficit problem would be solved, Choi states that "Undoubtedly, the reform catchphrase 'financial reconstruction not by tax increases but by expenditure cuts' reflected the business sector's reasoning." Choi (1991), pp. 219 - 220.

16. Choi further reports on this issue, that "The PCAR's initial report, issued in July, 1981, reflected an entirely negative attitude toward social security. Its tone was amplified by such

terms as "the respect for the habit of individual responsibility" and "the encouragement of self-reliance and self-help." Welfare provision was to be restricted to those genuinely in need of relief. ... the welfare lobby and the political Left condemned the report as a return to nineteenth century views of social security. The Ministry of Health and Welfare was really panicked since it had apparently not anticipated quite such a vehement denunciation of the reform." Ibid, pp.78 - 79.

17. "The heavy electoral dependence on farm sector has been one of fundamental assets of the LDP dominance, and the party is under constant pressure from farm groups. By giving liberal grants and subsidies, the LDP could maintain a solid foundation in rural areas. Indeed, the LDP is supported by 55% to 60% of rural voters, as compared with 20% to 30% of all urban voters." Ibid, p.72.

The 'liberal grants and subsidies' have led to a situation in which "Japanese agriculture is so heavily protected that rice is at least five times as expensive as in other rice-producing areas of the world. Indeed, the Japanese consumer pays exorbitant prices for most agricultural produce." van Wolferen, Karel (1990), The Enigma of Japanese Power, London, p.60.

18. The concept of a general consumption tax was raised initially during the LDP administration of PM Ohira Masayoshi (1978 - 1980). The first proposal to introduce a Sales Tax, in 1980, failed primarily because of strong LDP grassroots opposition.

19. Horsley, William and Buckley, Roger (1990), Nippon. New Superpower - Japan Since 1945, London, p.198 for the original proposal to introduce a 5% Sales Tax; and p.249 for the actual introduction of a 3% Consumption tax.

20. The original objectives of the *Daini Rinchô* - the removal of undemocratic excesses of unaccountable power, and of bureaucratic influence - are contained in *Rinchô Gyokakushin O B Kai* (1991), p.14. The conclusion that the character of the *Daini Rinchô* changed from the original principles was drawn from the analysis of the establishment of the *Daini Rinchô* in this Chapter on pp. 341 - 347, and of its organisation on pp. 348 -354.

21. The selection of Dokô Toshio to be the Chairman of the Second Rinchô provides a further insight on the primary motivation for the revival of the administrative reform programme. According to Iio Jun, Nakasone's first choice for the Rinchô Chair, Nagano Shigio (then Chairman of the Japanese Chamber of Commerce - *Nihon Shoko Kaigi Sho*) was not supported by the staff of the Administrative Management Agency. The AMA staff instead recommended that, because the real objective of the Second Rinchô was to 'save money', Dokô's personality would be better suited to the task. Nakasone took up this suggestion and secured PM Suzuki's agreement at a meeting on 1 January 1981. Iio Jun (1993), *Mineika no Seiji Katei - Rinchô Gata Kaikaku no Seika to Genkai* (The Political Process of Privatization - Institutional Reform in Japan in the 1980s), Tokyo, p.33.

22. Dokô Toshio made four conditions as the 'price' for his support for the establishment of the Second Rinchô, and these were set out to PM Suzuki Zenko on 11 March 1981. They were as follows:

- a) The Prime Minister should make it clear that, under his government political leadership, administrative reform was the most important policy initiative
- b) The reconstruction of the nation's finances should be accomplished without increases in taxation
- c) Both central and local government should be subject to the administrative reform process
- d) Specific targets for the administrative reform policies should be the solving of the 3Ks' problems, and should include the privatisation and deregulation of the major public corporations.

On his part PM Suzuki also, shortly after the Diet had passed the Bill to establish the ad hoc Administrative Reform Commission (which Dokô was to Chair) stated publicly that his administration was committed to the aims of reform as embodied in the brief to be given to the Second Rinchô viz "... to access the best methods of achieving appropriate and rational administration of government ... as well as to examine the basic administrative system and its management, including the split between public and private

enterprises ... The government is resolved to respect the conclusions of the Commission and to fully implement them." PM Suzuki Zenko (1981), Administrative Policy Statement, The National Diet, Tokyo, 26 January. As reported in the Nikkei Shinbun, 26 January 1981. See also Elliott (1983), pp. 766 - 767.

23. Under Dokō Toshio, the membership of the Second Rinchō was as follows:

Sejima Ryūzo (Vice President of the East Japan Business Chamber); Miyazaki Taro (President of Asahi Chemical); Tashimura Hiroshi (Vice President of the Tokyo Stock Trading Company); Hayashi Keijō (President of the Japanese Red Cross); Tsuji Kiyooki (Emeritus Professor of Tokyo University); Kanesuki Hidenobu (Vice Chairman of *Dōmei*); Maruyama Yasuo (Vice President of *Sōhyō*).

Despite this wide- ranging membership, the public image of the Second Richō was most clearly identified in the person of its Chairman, Dokō Toshio. An NHK television programme, broadcast on 23 July 1982, epitomised the view of Dokō as a man of strong principles who disdained any form of ostentation. Entitled Hachijūgo Sai no Shūnen: Gyokaku no Kao - Dokō Toshio (The 85 Year Old Dokō Toshio as the 'Symbol' of Administrative Reform) it portrayed Dokō's taste for the simple life, which was contrasted in the public mind with the less dignified behaviour normally associated with politicians in Japan.

24. Elliott (1983), p.765.

25. Ibid, pp.768 - 769. See also Gow (1989), pp. 183 - 184.

26. Gow (1989), p.184. This view was also expressed, in Interview, by Imashiro Mitsuhide, Tokyo, September 1994.

27. Gow (1989), p. 184.

28. Ibid. Imashiro Mitsuhide, in Interview, also confirmed this view that an important contributory factor in the motivation behind the proposed reconstruction of the JNR was the desire of the LDP Administration to 'break' the power of the labour unions within the national railway, Tokyo, September 1994. The

'unawareness' of the labour unions of the implications - for their own future - of the JNR privatisation proposals is also commented on in Mitsuzuka Hiroshi (1984), *Kokutetsu o Saiken Suru Hôhō wa Kore Shika Nai* (This is the Only Way to Reconstruct the National Railway), Tokyo, pp.51-52.

29. This conclusion was drawn from the material on pp. 352 - 354.

30. As is later discussed in this Chapter in the section on the role of the mass media in the administrative reform debate, Katô Hiroshi's nickname was "*Masukomi Kyôju*" (Professor Mass Communication).

31. Choi (1991), pp.401 - 408 and pp.412 - 431. See also the discussion in this Chapter, pp. 341 - 354.

32. Choi (1991), pp. 315 - 320.

33. Choi further commented, in her analysis of the Committee structure of the Second Rinchô, that "In selecting the Fourth Subcommittee members, the PCAR (*Rinchô*) retained the former Second Special Subcommittee members to smoothly lead the debate of the three public corporations' privatization." Choi (1991), p. 413.

34. Dr Kakumoto's views on the imperfect implementation of a public corporation structure for the national railway in 1949 were outlined in Chapter 1; his opinions on the need to restructure the JNR in Chapters 2 and 3; and his proposals to rationalise the JNR Freight Division in Chapter 4.

In the administrative reform debate, the persuasive views of Dr Kakumoto on the need to restructure the JNR may well have been crucial to the *Rinchô's* final adoption of the proposals to break-up and privatise the national railway in its Third Report in July 1982. This is certainly the view taken by Kusano Atsushi (1989), *Kokutetsu Kaikaku - Seisaku Kettei Gemu no Shuyakutachi* (The Reorganisation of the National Railway - The Main Players in the Game of Policy Decisions), Tokyo, p.85.

35. Choi also provides an account of the 'discussion' which took

place amongst the *Rinchô* Fourth Sub Committee, the transport bureaucracy, the *Unyu Zoku* in the Diet, and the JNR executive as to the most appropriate legal status of the new JNR Reform Commission. Choi (1991), pp.430 - 436.

The debate was essentially that of whether the Commission (*Shingikai*) to devise the exact proposals for the JNR's division and privatisation should be set up under Article 3 or Article 8 of the National Government Organisation Law of 1948. An Article 3 advisory body would be under the broad authority of the Cabinet, while one established as an Article 8 organisation would be responsible to a specific Ministry.

Both the JNR executive and the majority opinion of the *Rinchô* Fourth Sub-Committee favoured an Article 3 body, arguing - for diametrically opposed reasons - that the Article 8 route would give the Ministry of Transport an undesirable degree of influence over the shaping of the JNR reform plans. As Choi finally states "In the end, it was settled following the MOT's contention, an Article 8 status council". Ibid, p. 436. The decision, approved by the Cabinet on the basis that an Article 8 *Shingikai* would be more able to promote the JNR restructuring proposals without interference from 'disinterested' Ministries later allowed for the greater participation of the Ministry of Transport in the formation of the plans to break-up and privatise the JNR.

36. See Figure I, adjoining p.360.

37. See again Figure I, adjoining p.360. Professor Imashiro Mitsuhide commented to the author that, while the real meaning of the *Rinchô* recommendations was clearly understood by Nakasone and the Cabinet, the wording on the proposed division and privatisation of the JNR was made deliberately vague in order that opposition to the proposals was not alerted by categorical references to the planned break-up of the national railway operation. Material obtained in Interview, Tokyo, September 1994.

38. See Figure I, adjoining p.360.

39. Ibid.

40. The JNR Reform Bill (*Saiken Hōan*) was re-presented to the Lower House Transport Committee (*Shūgiin Unyu linkai*) on 22 March 1983. This Committee held 6 meetings between 22 March and 13 April and, once approved by the Lower House (on 15 April 1983), the Bill was referred to the Upper House Transport Committee (*Sangiin Unyu linkai*). Having been discussed in a further 6 meetings (between 21 April and 12 May) of the Upper House Transport Committee, it was passed into law in full session of the Upper House on 13 May.

The timetable for the preparation of the JNR Reform Bill, and its enactment, is discussed in Iio (1993), pp. 142 - 144. Iio further comments (p.143) that great care was taken in the drafting of the JNR Reform Bill to avoid any conflict with the provisions of the 1980 Law which had sanctioned the JNR Management Improvement Plan (*Keiei Kaizen Keikaku*). The Improvement Plan which, if it had been successful, would have kept the JNR as a public corporation, was still in existence in the period in which the Reform Bill was being prepared for submission to the Diet. The Bill was therefore drafted without any explicit references to division or privatisation although its proponents in the government knew that the real purpose of the proposed JNR Reform Commission was to draw up definitive measures to effect the dissolution of the national railway public corporation and its restructuring as a group of privatised enterprises.

41. See p. 348 and Endnotes 21 and 22.

42. See pp. 357-359 for discussion on the establishment of the JNR Reform Commission. The conclusion that the setting up of this new body to carry out the proposed reform of the national railway marked a pivotal point in the administrative reform process was drawn from the foregoing analysis on pp. 357-361, and from the material in Figure 1, adjoining p. 360.

43. A number of the author's key interviewees, notably Ishii Naoki, Maeda Kiyoji, and Imashiro Mitsuhide, stressed that the JNR Management retained a most unworldly attitude towards the proposed reorganisation, believing - apparently - that their connections with LDP Politicians would protect them from the privatisation proposals. Interviews, Tokyo, July 1991 to May 1992.

44. See Figure I, adjoining p. 360.
45. The First Report (July 1981) of the *Daini Rinchō* had, in fact, referred to the public corporations - the *San Kōsha* - only in general terms, decisions on the reform of the operations of the JNR, NTT and the Tobacco and Salt Monopoly being 'postponed for further consideration'. *Rinchō Gyokakushin OB Kai* (1991), pp.181-205. For the Section confirming that consideration of the final fate of the *San Kōsha* should be postponed, see p.205.
46. The *Rinchō Basic Report* of July 1982 is contained in *Rinchō Gyokakushin OB Kai (The Administrative Reform Committees)* (1991), *Nihon o Kaetta Jū Nen - Rinchō to Gyōkakushin (A Ten Year Record of the Administrative Reform Committees)*, p.217-301. See also Figure I in this Chapter, adjoining p.360.
47. See again Figure I, adjoining p. 360. This point is also covered in Mitsuzuka (1984), pp. 236 - 237.
48. An interviewee who had been in a senior national railway management position during the JNR reform debate expressed the following view, in confidence, to the author on the initial motivation of the pro-reform group in the JNR executive. "At that time, when the future policies of JNR were still not clarified, the reformists agreed with the opinion that all the problems of JNR centred around labour issues. Therefore, they took action as a group before the issue of privatisation and division officially emerged, to take measures against the labour unions. The group which later became called the reformists, informally insisted on one thing even as early as 1981: "JNR will be abolished and another organisation will be created. Since JNR will be dissolved, all the employees will be dismissed, and the new organisation will hire only the people they need." Material obtained in Interview, Tokyo, September 1994.
49. Iio Jun puts the date of the foundation of the *San Nin Gumi* at "... around July 1981." Iio (1993), p.49.
50. The background of the Group of Three (*San Nin Gumi*) of Ide Masataka, Matsuda Masutake, and Kasai Takayuki was as follows:

Ide's father was a bureaucrat in the Ministry of Education, and later an LDP member of the national Diet. A JNR management colleague of Ide Masataka told the author in confidence that the older Ide was prominent for his right wing views "He had declared at an early stage in the post War period that 'we must amend the MacArthur Constitution which we were forced to accept from the Occupational Forces' and that the Ide father and son had extremely similar views."

Matsuda had been, as a student, a leader of the *Zengakuren* (the All-Campus Joint Struggle Committee) of Hokkaido University. However, in the view of the JNR confidant quoted above on Ide, Matsuda "changed from extreme left wing to extreme right wing after joining the national railway."

The third member of the *San Nin Gumi*, Kasai Takayuki, had been an enthusiastic supporter of the 'increasing productivity campaign' (*Marusei Undō*) of the early 1970s. The *Marusei* policies were discussed in Chapter 3 of this study. Conspicuously unsuccessful, they caused relations between the JNR management and the labour unions to deteriorate, and Kasai's anti-union position was established from that time.

Kasai's role in the *San Nin Gumi*, particularly that he was the first to put on paper his views on the JNR reform issues, is further discussed by Kusano Atsushi. Kusano states that Kasai wrote a memorandum in November 1981 outlining his own vision of the JNR reconstruction, in which he concluded that the national railway should be broken up. The memo, was sent to an unnamed "... prominent figure in the business world...", a person who was "... close to Nakasone Yasuhiro." Kusano (1989), pp.78 - 79.

51. Ishii Naoki(1991). The Drift of the Unions of JNR - JR Before and After JNR Reform. Tokyo, p.4; supplemented by Ishii's comments in Interview, Tokyo, September 1994.

52. The 'battle for power' within the JNR management is also reported in Kusano. He quotes a member of the *Rinchō* research staff, Tanaka Kazuaki, as saying that the presence of such a struggle was very positive for the Second *Rinchō*, as a divided JNR

improved the prospect of the reform proposals being carried out. The exact 'players' in the battle for power was not so important as the fact that there was a struggle going on which would show outside observers that the JNR was not united in its opposition to the plans to privatise and break it up. Kusano (1989), p.95.

53. Choi states that "The reformers began to ensure that the JNR would be never be rehabilitated if it only relied on the current Management Improvement Plan, because however well the plan worked, long-term debts could not be cleared up. They believed that a sectionalizing privatization plan was the only way for the JNR to recover. In particular, Ide, who was one of figures responsible for setting up the Plan, no longer expected its success." Choi (1991), p.300.

54. If career advancement was an implicit aim of the pro-reform group within the JNR management, it was an objective which was successfully accomplished. The *San Nin Gumi* (Group of Three) JNR reformers obtained the following positions in the three major Honshu JR companies after the privatisation of the national railway:

Ide Masataka was appointed Vice President of JR West; Matsuda Masatake became Vice President of JR East; and Kasai Takayuki acceded to the post of Vice President of JR Central. In addition, Sumita Shōji, who was a member of the JNR Reform Commission, was appointed the first President of the largest JR Company, JR East. Choi (1991), Note 30, p.308.

55. The ultimate defeat of the status quo faction in the JNR was reflected in their post-privatisation appointments. Many of the anti-reform school left the national railway for other employment; those who remained secured much less prestigious positions than their pro-reform counterparts. Choi further confirms this point, noting specifically that two of the prominent status quo JNR executives (Nawata Kunitake, the former JNR Vice President, and Ota Tomoyuki, a JNR Advisory Director who had openly criticised the JNR Reconstruction Commission) were, after the break-up of the JNR, appointed respectively to the posts of Chairman of the Japanese Railways Welfare Business Association, and Vice President of Chiba Station Building Company. Choi (1991), p.308.

56. For a thorough analysis of the meaning of 'The JR Family', see Choi (1991), pp. 267 - 271.

57. Ishii Naoki, then a manager in the JNR's staff relations department, told the author in interview "In that period, the majority of the members of the LDP viewed that 'The labour unions are causing all the problems. Attack *Kokurô* and *Dôrô*. If you do just that, the LDP will take care of the JNR's problems" Material obtained in Interview, Tokyo, September 1994.

58. The 'Mitsuzuka Sub-Committee' was formally called the *Seimu Chôsakai Kôtsu Bukai Kokutetsu Kihon Mondai Chôsakai Kokutetsu Saiken ni Kan Suru Shô linkai* (which might be paraphrased in English as the LDP Sub-Committee on the JNR Reconstruction). Mitsuzuka was appointed its Chairman as a prominent *Unyu Zoku* member of the *Fukuda Habatsu* (Fukuda Faction) which was the main LDP body of influence on transport matters. Choi (1991), p. 332.

59. Choi (1991), pp. 328 - 329.

60. In June 1982 the LDP's Mitsuzuka Sub-Committee made its proposals on JNR reform (the *Mitsuzuka Shian*) in which it recommended that the government should wait until the objectives of the JNR Management Improvement Plan were realised before deciding on specific JNR reform measures. Specifically it proposed that:

(i) additional targets should be incorporated in the JNR's internal management plans, namely resolving the funding of the JNR pension scheme; promoting a plan to solve the long term debt problem; and to provide convincing evidence to back the JNR proposal to have the JNR *Kansen* (trunk lines) in the black by fiscal 1985.

The Mitsuzuka Sub-Committee concluded that, if by 1985, the JNR's financial results proved that the public corporation system was maintainable, then its continued existence could be supported by government. However, should the JNR's own efforts have not produced a solution to the financial difficulties by 1985, the Committee concluded that it was reasonable that the LDP could

then put forward a policy of division and privatisation. Moreover, should division and privatisation be mooted, such policies should be accomplished by fiscal 1987. Nihon Kokuyū Tetsudō (1981), Nihon Kokuyū Tetsudō Kansa Hōkokushō , (Annual JNR Audit Report), Tokyo, p.26.

61. Ibid.

62. Ide and Kasai had both, at separate times, held the second most senior position (*Sendai Sōmu Buchō*) in the JNR Sendai Division; Ota had also formerly been the Head of the Sendai Division (*Sendai Kanri Kyokuchō*). Their shared Sendai experience thus formed a common bond amongst the *San Nin Gumi* , and gave 'The Group of Three' a direct link with the LDP Member for Sendai (and *Unyu Zoku*) Mitsuzuka Hiroshi. Ishii Naoki in Interview, Tokyo, September 1994.

63. Iio (1993), pp.80 - 81.

64. Ibid.

65. Ishikawa Tatsujirō (1982), " *Keiei Keitai Ron no Teihen* " (The Basis of the Discussions on the Form of (JNR) Management), Kōtsū Shinbun , 28 February.

66. Choi (1991), pp. 348 - 349.

67. Ibid, pp.359 - 360.

68. Ibid, p.349.

69. Noguchi, Paul (1990), Delayed Departures. Overdue Arrivals - Industrial Familialism and the Japanese National Railways, Honolulu, p.55.

70. The Asahi covered the JNR reform issue from an early stage in the discussions on the national railway's future. Kakumoto Ryōhei (1992), Kokutetsu Kaikaku o Meguru - Masu Media no Doko (A round-up on the Reconstruction of the National Railway - Trends in the Mass media), Tokyo, pp. 114 - 119, provides an analysis of the content of the articles emanating from the leading Japanese papers

(the *Asahi* included) on the JNR reform debate.

His evaluation of the slant of the major articles which appeared in the *Asahi* concludes that this relatively 'left wing' paper was not unduly supportive of the JNR status quo position. Analysing editorial articles published in the *Asahi* between May 1981 and May 1982, Kakumoto observes that the newspaper was, in fact, highly critical of the JNR and of its financial results, and that its 'opposition' to the Second Rinchō's reform proposals took the form of no more than comments that it would be a difficult task to implement the division and privatisation of the national railway operation.

The *Asahi*, in common with the other major newspapers, also gave extensive coverage to the so-called 'Blue Train Incident' of March 1982, in which a drunk JNR driver crashed the train he was driving into a stationary passenger service, seriously injuring some 15 people. The *Asahi* was as critical as the supposedly 'right wing' papers of this incident, which it covered in a series of articles from 15 March to 3 April 1982, using the negligence of the JNR train driver to reinforce an earlier feature on 3 March 1982 on the system of JNR staff being paid without working on the overnight Blue Train service.

71. See Choi (1991), Table 4.4, p.358). Choi's statistics - taken from Unyu Keizai Sentā (1987), *Tetsudō Kenkyū no Hensen ni Kan Suru Chōsa: Shasetsu no Bu*, Tokyo - show that, in the 1981 - 1984 period, the *Sankei Shinbun* published 80 editorial articles on the JNR reform issue. This was 38% of the total number of such articles from all of the major Japanese newspapers, and more than twice as many as carried by the *Asahi Shinbun*.

72. Choi (1991), pp.355 - 357.

73. Ibid, Footnote 101, p. 357. One such 'competing newspaper feature' was a public opinion poll published on 26 April 1982 by the *Yomiuri Shinbun*. Of those polled, a majority thought that the JNR workforce was not enthusiastic about work in the national railway and believed that the overmanning was the key reason for the JNR's deficits. Moreover, 42% favoured the break-up of the JNR and its transfer to private management. Purporting to show

growing public dissatisfaction about the JNR, and a groundswell of opinion in favour of privatisation, this opinion poll was taken up as evidence of public support for its JNR reform plans by the Second Rinchô.

74. Choi further confirms that the anti-reform position was covered in newspapers and magazines. "Opposing voices were also heard; Takagi Fumio (the JNR President) appeared 19 times, Mawatari Kazumara (JNR Vice-President) 15 times, Tamura Ken (a former Minister of MoT) 5 times, and Muto Hisashi (Secretary General of Kokuro) 3 times." Ibid, Footnote 99, p.356. The status quo story was, however, more difficult to 'sell' to the general public, involving as it did the preservation of the 'mutual benefits' system of the JNR which was by then increasingly unpopular.

75. Professor Imashiro Mitsuhide, who has researched the JNR reform extensively, told the author in interview that in his opinion "The Sankei Shinbun was the only major newspaper in Japan which consistently took a radical pro-reform stance from the beginning to the end of the process of dividing and privatising the JNR." Interview, Tokyo, September 1994.

Kitsutaka Hiromasa, President of Meguro Station Building Company, and formerly an Executive in the JNR Staff Relations Department, also expressed the view to the author that 'information' on the national railway was leaked to the *Sankei Shinbun* - as the most influential anti JNR newspaper - both by the pro-reform faction in the JNR management and by the 'moderate' labour union, *Tetsurô*. The motivation of *Tetsurô*, which had a channel of contacts with the *Sankei*, was to damage the credibility of *Kokurô* - a point also cited by Mutô Hisashi, then the *Kokurô* Secretary General. Mutô admitted that *Kokurô* had lost the 'media battle' and that during the JNR reform debate "...Tetsurô and the Minshatô (the Democratic Socialist Party) got together - successfully - to 'get at' Kokurô through the newspapers." Material quoted in Interview, Tokyo, September 1991.

76. Listed in Kakumoto (1992), p.284.

77. Catalogued exhaustively by Kakumoto Ryôhei (1982), "The JNR's Failings as a Public Organisation", Japan Echo, Vol. 9, No. 3,

Autumn, pp.83 -85.

78. This conclusion was drawn from the discussion of the role of the media in the JNR reform process on pp. 373 - 380.

79. Iio (1993), pp. 87 - 88 and Kusano (1989) pp. 122 - 126.

80. As cited in Iio (1993), p.87.

81. The timetable covering the ten month period cited in the text is shown in Figure I, adjoining p. 360.

82. Elliott (1983), p. 773 and p. 777.

83. The passing, in November 1983, of a Bill (*Gyōsai Nenkin Tōgō Hōan*) - still contrary to the wishes of the Denden Kōsha (NTT) - facilitated the operation of a system of mutual financial support across the public sector Pension Funds. The Funds of the *San Kōsha* were not (as the *Rinchō* had wanted) consolidated, but the financially embarrassed JNR Scheme was thereby able to make up its shortfalls by borrowing from those public sector Funds (such as that of NTT) which were in financial surplus. The author is grateful to Ishii Naoki, Managing Director of *Kōtsu Tōkei Kenkyūjo* (Institute of Transport Statistics), Tokyo for his explanation of the resolution of the JNR Pensions Issue. Interview, Tokyo, September 1994. For the original JNR application to the MoT to obtain permission to set up a fully funded pension fund see also Ishikawa (1967), p.331.

84. As set out in Endnote 83.

85. As shown in Figure I, adjoining p. 360. Also discussed in Choi (1991), p. 440.

86. On the subject of the use of unelected committees to neutralise political opposition to government proposals, van Wolferen makes the following observation: "One interesting innovation in the exercise of power by a Japanese prime minister was introduced when Nakasone found a new use for the deliberation council, or *shingikai*. As we have seen, the *shingikai* is commonly used by bureaucrats to help defuse or avoid opposition to their

plans. Special *shingikai* are also established by or for prime ministers in order to present high-minded schemes, long on abstract ideals and short on concrete proposals, which they can pass off as policy. But where his predecessors commanded their *shingikai* to contemplate edifying but vague subjects such as 'the life cycle' (Miki), 'the development of society' (Sato), 'discussion for the future' (Fukuda) or 'garden cities' (Ohira), Nakasone used his in an attempt to break through taboos and bureaucratic obstacles and to prepare legislation. He established *shingikai* that reported directly to him, and he hand-picked their chairmen and key members; nor did he leave it to their imagination how he expected to be 'advised'.

Before becoming prime minister Nakasone had been closely associated with the Ad Hoc Committee on Administrative Reforms, a type of *shingikai* in which top businessmen, academics and retired bureaucrats studied ways of reducing the size and burdens of government. Three of its assignments so far completed are: the break-up of the Japan National Railways, the creation of the Management and Co-ordination Agency (by combining the Administrative Management Agency with some elements from the Prime Minister's Office) and the ostensible privatisation of Nippon Telephone and Telegraph." van Wolferen (1990), p.153.

87. This point was derived from this Chapter's analysis of the reaction of the JNR Labour Unions to the reform proposals. See pp. 408 - 417 of this thesis.

88. The matter of PM Nakasone persuading the *Unyu Zoku* to give up their opposition to the JNR privatisation proposals is covered in Iio (1993), p. 262.

89. On the 'JNR Family' Choi quotes from *Kokutetsu Kaikaku : Kôsha Kara Minei e* (Asahi Shinbun Kokutetsu Mondai Chôsahan) a list of the major recipients of JNR capital equipment investment contracts. She further states "A notable point is that among the listed companies, Shinnittetsu (New Nippon Steel), Tokyo Shibaura Denki, and Hitachi Seisakujo were the three top business firms in terms of financial contribution to political parties according to a 1982 government report. It may not be an accident that Shinnittetsu, which monopolized about over 75% of the JNR rail

supply, was recorded in first place on the contribution list." Choi (1991), pp.268 - 269.

90. This conclusion was drawn from the analysis of PM Nakasone's role in the reform process on pp.390-393, supported by material obtained in Interview with Imashiro Mitsuhide, Tokyo, September 1994.

91. Iio (1993), p. 262.

92. Ibid.

93. There is a school of thought that Nakasone was also able to offer the LDP rank and file a further incentive to support - or at least not oppose - his JNR reform plans. The major concern of Diet politicians (LDP and Socialist members alike) was that, if the JNR was privatised and broken-up, their 'influence' on the policy of the national railway would be removed. Nakasone was instead able to convince the *Unyu Zoku* that, because the JR group would still be 100% owned by the government, the old system of 'mutual benefits' from the operation of the national railway would not necessarily cease.

In the latter stages of the JNR, there remained two particular areas of potential interest for the LDP *Unyu Zoku* members. These were the future use for the real estate formerly used by the JNR Freight Division (which had in 1984 been severely rationalised), and the resumption of construction of 'new' *Shinkansen* lines, postponed by the Cabinet in 1982. On these two issues, as part of the JNR privatisation 'package' the government designated the JNR Freight land as the major constituent of the real estate sale policy of the public corporation (the JNR Settlement Corporation) set up specifically for the disposal of the JNR's long term liabilities, and it further acted quickly (in 1988) to restart the programme of building *Shinkansen* with the proposed construction of five new lines. Political 'influence' on the *Shinkansen* construction policy was thereby reinstated soon after the implementation of the JNR's privatisation, and the involvement of politicians also - as 'brokers' or 'agents' in land deals between local authorities and construction companies - in the disposal of the former JNR Freight real estate effectively facilitated by government policy.

This explanation for the complicity of the LDP *Unyu Zoku* in the plan to divide up and privatise the JNR was provided to the author by Ishii Naoki who, as previously cited, is Managing Director of *Kôtsu Tôkei Kenkyûjo* (Institute of Transport Statistics), Tokyo. Ishii further stated that, in his former position as a JNR executive, he could recall a meeting between Tanaka Kakuei and the JNR management which took place in 1979 (shortly before Tanaka became Prime Minister). In that meeting Tanaka urged the JNR to sell off the freight land which had become surplus to requirements and use the proceeds to reduce its indebtedness because "... otherwise politicians will try to get their hands on it." Material obtained in interview, Tokyo, February 1992.

94. Mainichi Shinbun Ichibu (1986) (Political Section of the Mainichi Newspaper), *Jimintô - Tenkanki no Kenryoku* (The LDP - Political Influence in the Period of Transition), Tokyo, pp. 233 - 234.

95. Iio (1993), pp. 271 - 272. This issue is also discussed in Gow (1989), p. 184.

96. For further discussion of the issue of the NTT privatisation, see Gow (1989), pp.174 - 176 and pp.178 - 185.

97. This conclusion was drawn from the foregoing analysis of the administrative reform process, on pp. 362 - 399.

98. Iio (1993), pp. 144 - 145.

99. Choi (1991), p. 447.

100. Kusano (1989), p. 208.

101. Ishii Naoki, in Interview, indicated to the author that - despite their promotions within the JNR and the 'empires' which they wished to preserve - both Ota and Nawata remained consistent in the view that strong action was required against *Kokurô* and *Dôrô*. Tokyo, September 1994.

102. Ide had been posted away from Head Office to the JNR's West

Tokyo Division, being appointed as its Divisional Manager (*Nishi Tokyo Tetsudô Kanri Kyokuchô*). Matsuda was also moved out of Head Office and was sent to his home area, Hokkaido, where he became its Divisional Chief (*Hokkaido Sokyoku Sôgô Kikaku Buchô*). Kasai remained at JNR Head Office as Sectional Manager of the Staff Relations Department (*Shokuinkyoku Shokuinka Kachô*), as did his JNR contemporaries, the fellow Showa 38 JNR entrants, but was excluded from the formulation of the Board's proposals to counter the *Rinchô* recommendations to divide up and privatise the JNR. Ishii Naoki in Interview, Tokyo, September 1994.

103. The JNR Board's plan to restore the national railway to financial health is discussed at length in Iio (1993), pp.152 - 155.

104. Nihon Kokuyû Tetsudô (1985), *Kokuyû Tetsudô* (National Railway Monthly), Vol.43, No. 2, December, pp.5-11.

105. Ibid. See also Kusano (1989), p. 196.

106. The *Yomiuri* and *Sankei* published reports on the JNR Board's Plan on 11 January 1985, immediately after its release. The *Kôtsû Shinbun* gave the matter more lengthy coverage in a series of articles from 11 to 29 January 1985.

107. As discussed in Iio (1993), pp. 152 - 155.

108. Choi (1991), p.448. Supporting evidence of the increasing gulf which existed between the positions of the pro-reformers and the JNR Board is also provided in Kusano (1989), pp.199 - 200 and in Iio (1993), p.155, in accounts of a meeting, on 17 January 1985, of the JNR Reform Commission and the JNR Board of Directors. In the course of discussion Sumita Shôji (Member of the JNR Reform Commission and a former Vice Minister of Transport) enquired whether the JNR Board would abide by the Reform Commission's proposals. Nawata Kunitake, the JNR Vice President, gave a vague response indicating that the JNR would implement the proposals "...if the State insists". Sumita asked again if the JNR Board would co-operate with the Reform Commission before it produced its Final Report (the *Saishu Tôshin* which was published on 26 July 1985). Nawata said "Yes" but added that the JNR Board would also publish its own contrary views.

Sumita's final response was that the JNR Board's own plan included a provision that the government must take over 16 trillion Yen of the national railway's debt; that an organisation in such a financial state was really bankrupt; and that, if it had been a private company, its Board of Directors would have to resign. Sumita's comments were interpreted as a veiled threat that the JNR Reform Commission would call for the dismissal of the JNR Board should their opposition to the break-up and privatisation plans continue. As discussed in the text of this Chapter and as referred to again in Endnote 109, the JNR President and Vice President were, in fact, dismissed only a few months after the meeting in which Sumita made these remarks.

109. Both Kusano and Iio refer to this incident as a key factor in PM Nakasone's decision to sack the JNR President and Vice President. Kusano (1989), pp.207 - 208; Iio (1993), p.159.

110. Mitsuzuka (1986), pp. 17 - 25. The actual Report is set out on pp. 19 - 24.

111. The story that the group of reformers within the JNR made sure that Mitsuzuka and Kamei were aware of their proposals is related in Iio (1993) p.158. The reformers' statement on the JNR reconstruction issue (*Kokutetsu Kaikaku no Tame ni Ware Ware wa Tsugi no Yô ni Kangaeru*) is also discussed in Mitsuzuka (1986), *Saraba Kokuyû Tetsudô Yûganda Rêru wa Naosaneba Naranu* (Farewell National Railway - Twisted Lines Must be Repaired), Tokyo, pp.14 - 23.

112. Ide was put in charge (*Jimu Kyokuchô*) of the office set up to promote the implementation of the JNR reconstruction (*Saiken Jishi Suishin Honbu*). Kasai was appointed the Deputy chief (*Jimu Kyoku Jichô*) of the newly established office (*Yojô Jinin Taisaku Suishin Honbu*) to devise measures to deal with the JNR's excess labour force. Iio (1993), p.159.

Matsuda's return to favour was marked by his appointment to succeed Ide in the above-mentioned post when the latter was further promoted to Chief of the President's Office (*Sôsai Shitsuchô*), a position reinstated by the incoming JNR President

Sugiura.

113. This conclusion was drawn from this Chapter's analysis of the role of the 'Main Players' in the JNR reform process, pp. 359 - 408.

114. As discussed in Yamagishi Akira (1985), *Ware Kaku Tatakaeri* (This Is How I Fought), Tokyo, pp. 163 - 186.

115. Iio (1993), p.166.

116. Ibid.

117. As discussed in Choi (1991), pp. 365 - 371.

118. Ibid.

119. The Tetsurô Plan is listed in Figure I (adjoining p. 360), showing the chronology of events in the process of Administrative Reform. The details of the Tetsurô proposals were obtained from Ishii Naoki in Interview, Tokyo, September 1994.

120. The point is discussed in Chapter 7 of this thesis, pp. 562 - 570.

121. This view of the 'Dôrô conversion' is derived from material provided by Kitsutaka Hiromasa (whose insights into JNR management:labour relations have already been cited in this study) and Ishii Naoki, the latter having been a JNR executive in the Staff Relations Department during the relevant period. Material obtained in Interview, Tokyo, September 1991.

122. Described by van Wolferen as "... veteran sub-boss of Tanaka's machine, as the power behind the LDP's throne." van Wolferen (1990), p.142.

123. The JNR management position was explained to the author in Interview by Ishii Naoki, Tokyo, September 1994.

124. As discussed in Chapter 6 of this thesis, pp. 479 - 480.

125. The *Sutokensuto* was an 'illegal' strike undertaken in 1975 by the JNR labour unions for the right to strike legally. See the discussion in Chapter 3 of this thesis, pp. 251 - 252.

126. Iio (1993), pp.169-170. Also in Mochizuke, Mike (1993), "Public Sector Labor and the Privatisation Challenge: The Railway and Telecommunications Unions", in Allinson Gary D. and Sone Yasunori (ed.), Political Dynamics in Contemporary Japan, Ithaca and London, p.188.

127. Prominent articles on Transport Minister Hosoda's 'new' views on the JNR reform issues appeared in the *Sankei Shinbun* and the '*Nikkei*' on 19 October 1984, highlighting the MoT's conversion to a pro-division and privatisation standpoint.

128. Choi puts the matter thus:

"... privatizing the JNR would mean that the mainstream MOT officers had a timely chance to snub the JNR's proud engineers, who had long belittled them. The MOT took it as the best opportunity to make real inroads against the JNR." Choi (1991), p.325.

Professor Imashiro Mitsuhide further confirmed to the author that the MoT had an 'inferiority complex' in relation to the national railway which dated back to the establishment of the JNR as a public corporation, and to the 'second place' status of the Transport Ministry which resulted from the high calibre staff of the former Railways Bureau, instead of remaining with the MoT, joining the new JNR. Material obtained in Interview, Tokyo, September 1994.

129. Kusano (1989), pp. 199 - 200.

130. The earlier Endnote 54 in this Chapter detailed the positions obtained in the post-privatisation era by those in the JNR who had supported the pro-reform cause. Mitsuzuka Hiroshi, the architect (through the activities of his Party Sub-Committee looking at the JNR reform issue) of the conversion of the LDP to a position in favour of the *Rinchô* proposals to divide and privatise the national

railway, was rewarded by PM Nakasone (from 28 December 1985) with the post of Minister of Transport.

131. The eight Bills introduced to effect the JNR Reform process were as follows:

- (i) *Nihon Kokuyū Tetsudō Kaikaku Hōan* (JNR Reconstruction Bill).
- (ii) *Ryokaku Tetsudō Kabushiki Gaisha Oyobi Nihon Kamotsu Tetsudō Kabushiki Gaisha ni Kan Suru Hōritsuan* (JNR Passenger Company and JNR Freight Company Bill).
- (iii) *Shinkansen Tetsudō Hoyū Kikō Hōan* (Shinkansen Holding Company Bill).
- (iv) *Nihon Kokuyū Tetsudō Seisan Jigyō Dan Hōan* (JNR Settlement Corporation Bill).
- (v) *Nihon Kokuyū Tetsudō Taishoku Kibō Shokuin Oyobi Nihon Kokuyū Tetsudō Seisan Jigyō Dan Shokuin no Saishu - Shoku no Sokushin ni Kan Suru Tokubetsu Socchi Hōan* (Re-employment of JNR Personnel and JNR Settlement Corporation Surplus Personnel Bill).
- (vi) *Tetsudō Jigyō Hōan* (Railway Business Bill).
- (vii) *Nihon Kokuyū Tetsudō Kaikaku Hō to Shiko Hōan* (JNR Reconstruction and Related Enforcement Bill)
- (viii) *Chihō Zeihō Oyobi Kokuyū Shisan to Shozai Chichōsan Kōfukin Oyobi Nōfukin ni Kan Suru Hōritsu no Ichibu o Kaisei Suru Hōritsu An* (Amending Bill Relating to Local Taxation and Subsidies and the Treatment of JNR Assets). Iio (1993), p.166.

132. The 104th Session of the National Diet having ended on 22 May 1986, the 105th Diet was formed for only one day (2 June 1986) for the announcement of the forthcoming General Election; the 106th Diet Session lasted from 22 - 25 July 1986 with the express purpose of establishing the new Cabinet of the Nakasone administration, and it was not until the commencement of the

107th Session of the Diet (from 11 September 1986) that the government's legislative programme was resumed. *Kanpô* (Daily Proceedings of the National Diet), Kokkai Toshokan, Tokyo, 22 May to 11 September 1986. See also *Asahi Nenkan* (1991) (Asahi Annual), Tokyo, p.736.

133. The Constitution of the Special Committees approved by the Cabinet facilitated the appointment of a different Chairman from the procedure laid down for 'normal' Diet Standing Committees. Thus, the Nakasone Cabinet appointed Hosoda Kichizô, the former Minister of Transport who had proclaimed his support for the division and privatisation policies, to Chair the House of Representatives Special Committee on JNR Reform instead of the then incumbent (Hashimoto Ryûtarô) in the post of Transport Minister who would automatically have become the Committee Chairman had it been formed as a Transport Standing Committee.

Under Chairman Hosoda was a Directorate of 9 *Riji* (Directors), the full Board comprising 6 LDP, 2 Socialist, 1 *Komeitô*, and 1 *Minshatô* representatives. The Committee's membership of 40 was similarly arranged as to the strength of each Party in the Diet, being made up of 24 LDP, 6 Socialist, 5 *Komeitô*, 3 *Kyôsantô* (Communist), and 2 *Minshatô* Diet politicians.

Analysis of the recorded 1986 Proceedings of the Lower House Special Committee on JNR Reform (*Nihon Kokuyu Tetsudô Kaikaku ni Kan Suru Tokubetsu linkai Yôroku Giroku, and Kôchôkai Giroku*) confirms the assertion in Endnote 134 below that the parliamentary procedures allowed for only limited debate on the intricate details of the proposed reconstruction of the national railway. *Kanpô* (25 September - 28 November 1986).

134. An article in the *Asahi Shinbun* on 25 October 1986 commented that the House of Representatives (Lower House) Special Committee on JNR Reform had devoted "... only 58 hours of discussion to the proposed JNR reform." It was remarked in the article that "... the task to unveil the fundamental details of the JNR reconstruction has been left to the House of Councillors (Upper House). As is well known, the members of the House of Councillors are powerless compared to those in the House of Representatives; hence the discussions in the Upper House will amount to no more

than the 'ceremony' seen in the Lower House debate."

135. The issue of whether or not the administrative reform movement in Japan retained an ideological framework is debated in Itô Daiichi (1988), "Policy Implications of Administrative Reform", in Stockwin, J.A.A. (ed), Dynamic and Immobilist Politics in Japan, London, p.105.

136. At the time of writing only one-third of the equity of NTT has been floated on the Stock Exchange. Mochizuki (1993), p.194. The issue is further discussed in Chapter 7 of this thesis, p. 531, in relation to the stock flotation plans for the JR companies.

137. Gow (1989), pp.175 - 176.

138. van Wolferen (1990), p.32.

139. Choi (1991), p. 479.

## CHAPTER 6

### THE IMPLEMENTATION OF THE JNR DIVISION AND PRIVATISATION POLICIES AND THEIR IMMEDIATE CONSEQUENCES<sup>1</sup>

#### The Opinions of the JNR Reform Commission

The major principles behind the recommendations of the JNR Reform Commission were set out in full in the Final Report of its Opinions in July 1985. Its strategy for the rehabilitation of the Japanese National Railway under privatisation, as it was implemented in April 1987 in the form shown in Table 28 (adjoining p. 457), was based on these following premises<sup>2</sup>:

- The passenger operations of the JNR should be divided into six regional companies. The former JNR Freight Division should, however, be established as a nationwide company, JR Freight

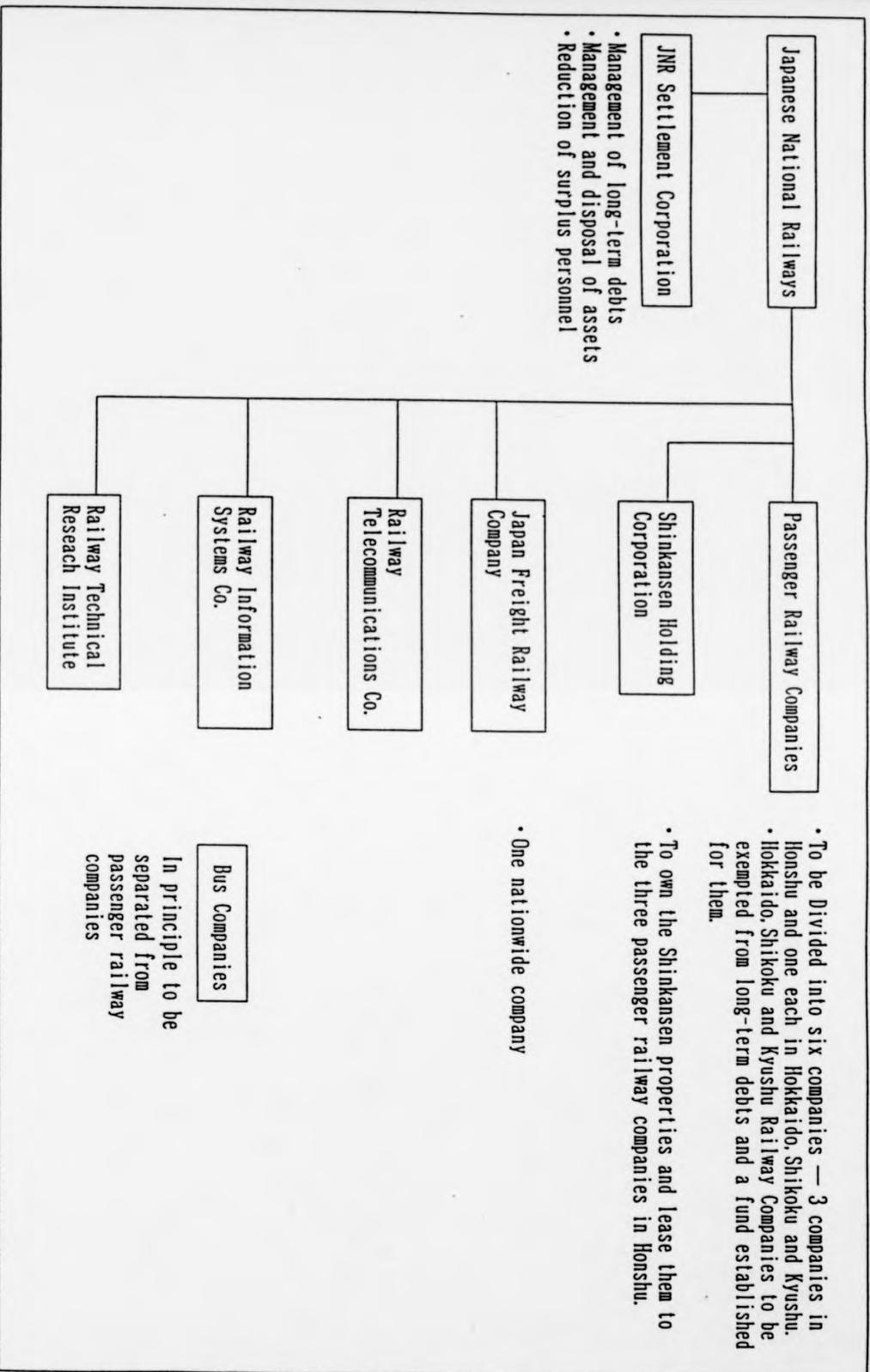
- The JR operating entities to be created should be incorporated as joint stock companies and their stock sold to private investors as soon as possible after the establishment of a sound financial basis for their management. The business scope of the new companies should be as large as

possible and, in order that they operate in the manner of privately owned companies from the outset, the level of government supervision and control over their management should be reduced to the minimum 'that the situation permits'

- A stable foundation for management should be ensured by putting into place special measures for profit adjustment between the new regional parts of the JR group. Involving the correcting of the imbalances in the profitability of the four existing *Shinkansen*, the subsidisation of the JR companies in underpopulated areas, and the alleviation of the debt burden on the JR operating businesses by its disposal to newly established public corporations with responsibility for its future repayment, the profit adjustment provisions were aimed at the achievement of declared profits - and the avoidance of losses - by the seven JR passenger and freight companies

- The number of personnel to be employed by the JR companies should be not more than that appropriate to the efficient conduct of their business
  
- The placement of former JNR personnel excess to the requirements of the JR operating companies, and the dispersal of the JNR indebtedness not transferred to the JR businesses should be undertaken by the establishment of the JNR Settlement Corporation (*Nihon Kokuyū Tetsudō Seisan Jigyō Dan*)
  
- The disposal of the JNR debt should be accomplished by the marketing of the former national railway corporation's non-operational land assets and by the sale, on the stock market, of the stock of the JR operating companies.

Table 28 THE RECOMMENDATIONS OF THE JNR  
RECONSTRUCTION COMMISSION



Source: JNR Reconstruction Commission. Opinions on the Restructuring of the JNR. July, 1985.

The division of the former national passenger railway network into separate regional operations was decided on the judgement that the level of cross-border traffic amongst the six proposed geographical areas was minimal. The basis of the split of the JNR's passenger division on the main island of Honshu into three operating companies was that 98% of rail journeys undertaken were completed in each of the three proposed areas without passengers entering any of the other new companies' operating boundaries<sup>3</sup>.

The recommendation of a separate operating company for the passenger services of each of the three islands of Hokkaido, Shikoku and Kyushu was similarly considered appropriate as their 'self completion' rates were contained in the 95 - 99% range. The bus services of the former JNR were also to be divided on this geographical basis and, while it was intended that they should eventually be separated from and made independent of the railway businesses, their operation was initially to be taken over by each of the six regional JR companies<sup>4</sup>.

The recommendation of the Reform Commission for the reform of the JNR's freight operations differed from the proposed split of the passenger services into regional operating companies. While it was considered necessary to separate the freight business from the passenger operations, the long distance nature of the freight services premised the maintenance of a single nationwide freight company. The Japan Freight Railway Company was therefore to be established to take over the former JNR's freight operations, albeit with a minimal amount of rail track directly owned. Instead, the JR freight operation was to rent the track from the new owners of the national rail network, the passenger operating companies. As with the passenger operations, JR Freight was to be established as a joint stock company, and its shares floated on the Stock Market as and when its profitability permitted<sup>5</sup>.

The proposal for the JNR's research and development activities was that the two existing bodies, the Railway Technical Research Institute and the Railway Labour Science Research Institute, be integrated into a single, independent organisation. A new institution, the Railway Technical Research Institute Foundation was to be established with funds provided by the JNR. Thereafter

the Institute was to be financed by annual contributions from the JR operating companies, both passenger and freight, to whose activities its R & D was to be directed. The rate of contributions decided upon was 0.35% of the annual income of the JR passenger companies, and 0.035% of that of JR Freight, and it was expected that the required R & D related to railway development be financed from this revenue<sup>6</sup>.

The remaining operations of the JNR, outside the mainstream of the railway services, were to be integrated with two separate businesses, whose capital would be inherited by the JR passenger and freight companies. In the telecommunications sector, the JNR activities were taken over by the Railway Telecommunications Company, its services in communications networks and telephone exchanges for the railway networks to be utilised by the JR operating companies. In 1989 the Railway Telecommunications Company was merged with the former JNR affiliate, Nippon Telecom, integrating the former's railway related telephone business with the latter's long distance telecommunications services. In data communications, the JNR operations were to be transferred to a new business, the Railway Information Systems

Inc., which inherited the information processing systems such as the seat reservation service accessed by the JR operating companies<sup>7</sup>.

### The New Operating Structure

The proposals in the "Opinions" for the post JNR era, concerned with the continuation of the activities of the national railway, produced the operational structure summarised in Table 29. The companies in the lower part of this Table, while comprising part of the new JR group, were not established to operate railway services but to provide the means of dealing with the major problems entailed in the restructuring of the Japanese National Railway. It might also be said that the policy of separating the former JNR freight division into a new national business which would rent the track facilities from the JR passenger companies was also devised in order to produce a structure to balance one of the inherited problems of the national railway, its inherent unprofitability.

Table 29 JAPAN RAILWAYS GROUP AT 1 APRIL 1987

| Company                              | Number of Lines Operated | Route Length (Kilometres) | Number of Employees | Capital (¥billion) | Business Operations   |
|--------------------------------------|--------------------------|---------------------------|---------------------|--------------------|---|
| JR Hokkaido                          | 21                       | 3,177                     | 12,719              | 9.0                | Railway passenger transport and related activities in the Hokkaido region   |
| JR East                              | 74                       | 7,657                     | 92,969              | 200.0              | Railway passenger transport and related activities in the Tohoku region and the Tokyo metropolitan area, including the Tohoku and Joetsu Shinkansen       |
| JR Central                           | 15                       | 2,003                     | 21,410              | 112.0              | Railway passenger transport and related activities in Nagoya and surrounding areas, including the Tokaido Shinkansen                                      |
| JR West                              | 54                       | 5,323                     | 51,538              | 100.0              | Railway passenger transport and related activities in the Hokuriku region and Western Honshu, including the San'yo Shinkansen                             |
| JR Shikoku                           | 9                        | 881                       | 4,455               | 3.5                | Railway passenger transport and related activities in the Shikoku region  |
| JR Kyushu                            | 29                       | 2,406                     | 15,000              | 16.0               | Railway passenger transport and related activities in the Kyushu region   |
| JR Freight                           | (99)                     | (10,011)                  | 12,005              | 19.0               | Nationwide railway freight transport, using tracks owned by passenger railway companies, and related activities   |
| Shinkansen Holding Corporation       | (4)                      | (1,832)                   | 64                  | —                  | Leasing of the Shinkansen railway facilities to the Honshu JR passenger railway companies   |
| Railway Telecommunications Co.       | —                        | —                         | 570                 | 12.2               | Maintenance of railway telecommunications equipment, and provision of general telecommunications services   |
| Railway Information Systems Co.      | —                        | —                         | 279                 | 1.0                | Information processing for railway companies, and related computerised information services   |
| Railway Technical Research Institute | —                        | —                         | 570                 | —                  | Research and Development activities to meet the requirements of railway companies   |
| JNR Settlement Corporation           | —                        | —                         | 2,510               | —                  | Disposal of the assets and long-term liabilities of the JNR not transferred to the new companies, and promotion of the re-employment of surplus employees |

Note : ( ) Figures in brackets represent the share of the rail network accounted for by JR Freight and the Shinkansen Holding Corporation. The number of lines operated and the route length of these two companies are included in the individual figures for the six JR Passenger Companies.

Source : Adapted from data in *Koitsu Kyoryoku Kai* (Traffic Cooperation Association). *Shōwa 63 Nenban Koitsu Nenkan* (Traffic Yearbook for 1988). 1988, p. 312-320. Abe Seiji. *Kokuteisu No Mineika To Sono Keika* (Privatization of Japanese National Railways and its Consequences). Keiei Kenkyū (Business Review), Vol. 41, No. 5/6, 1991, p. 118.

Table 30 JNR RESTRUCTURING:  
LAWS ENACTED BY CATEGORY

|  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• JNR Restructuring Law</li> </ul>  | <ul style="list-style-type: none"> <li>1) Basic policies concerning JNR Restructuring</li> <li>2) Disposition of debts of the Japan Railway Construction Public Corporation</li> <li>3) Takeover of JNR operations</li> <li>4) Succession of the Japanese National Railways Law</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Laws Concerning Passenger Railway Companies and the Japan Freight Railway Company</li> </ul>                                  |   |
| <ul style="list-style-type: none"> <li>• Shinkansen Holding Corporation Law</li> </ul>   |   |
| <ul style="list-style-type: none"> <li>• JNR Settlement Corporation Law</li> </ul>   |   |
| <ul style="list-style-type: none"> <li>• Law Concerning the Reemployment of the Retiring Personnel and the Personnel joining the JNR Settlement Corporation</li> </ul> |   |
| <ul style="list-style-type: none"> <li>• Railway Business Law</li> </ul>   |   |
|  | <p>Enactment of the JNR Restructuring act affected 150 other laws, resulting in the following :</p>   |
|  | <ul style="list-style-type: none"> <li>• Enforcement Law for the JNR Restructuring Law and Related Laws</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>• (1) Succession and partial amendment of related laws consequent to the enforcement of the JNR Restructuring Law</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>• Amendment of the Local Tax Law and the Law Concerning Grants to and Payments by Municipalities where National Assets Exist</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>• (2) Measures concerning enforcement of the JNR Restructuring Law</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>1) Provisional measures concerning the succession of JNR rights and duties</li> <li>2) Provisional measures concerning the repeal of the Japan National Railways Law and other laws</li> <li>3) Provisional measures concerning the opening of business by the new companies               <ul style="list-style-type: none"> <li>(a) Railway Business Operations</li> <li>(b) Ferry Service Operations</li> <li>(c) Bus Service Operations</li> <li>(d) Other Subjects</li> </ul> </li> </ul> |

Source : Adapted from East Japan Railway Company. Restructuring of the Japanese National Railways. 1988. Table III.

As part of the measures for 'profit adjustments' in the new JR group of companies, therefore, the elimination of the burden of owning its own track network, also obviating the need for maintenance personnel, resulted in intrinsically lower operating costs for the JR Freight operation. Moreover, the adoption of an Avoidable Costs System, under which JR Freight would bear only the additional and variable costs incurred as a result of the use of the track facilities for freight transportation (ie the costs which would be 'avoided' if freight trains did not use the lines), was designed to balance the differing levels of profitability of the freight and passenger operations<sup>8</sup>.

The legal process of dividing the JNR Group into separate operating companies (shown in Table 30) thus acknowledged the fact that a substantial part of the services provided by the national railway was not financially viable. This requirement to adjust profits and losses in the new JR Group was the prime factor behind the establishment of the Shinkansen Holding Corporation, and the JNR Settlement Corporation, the further public corporation entities created (as shown in Table 29) as part of the division of the JNR. The understanding that the continued provision of a national rail

service would not be self financing was also the reason for the provision of a method of subsidisation - the Management Stabilisation Fund (*Keiei Antei Kikin*) - for the JR passenger companies in Kyushu, Shikoku and Hokkaido<sup>9</sup>.

The setting up of the Shinkansen Holding Corporation was based on the principle of establishing a viable financial base for the operating companies. Thus, the Shinkansen Holding Corporation Law provided for a government agency to acquire the existing Shinkansen facilities, and to lease them to the three Honshu JRs which would be the operators of the services. The Shinkansen Holding Corporation inherited the facilities of the *Tôkaidô*, *Sanyô*, *Tôhoku* and *Jôetsu Shinkansen* in exchange for liabilities equivalent to the book value of the *Shinkansen* assets required. This debt of 5.7 trillion Yen was to be repaid through revenues generated by lease payments from the Honshu JR Companies, the individual charges to be determined according to the passenger traffic volume and the value of the facilities related to each Shinkansen<sup>10</sup>.

The Shinkansen Holding Corporation further inherited a debt of 2.9 trillion Yen payable to the JNR Settlement Corporation, representing the difference between the book value of the *Shinkansen* assets and their replacement costs. The annual lease payments by JR East, JR Central and JR West were thus calculated as to provide sufficient funds to the Holding Corporation to repay, over a period of 30 years, the total replacement costs of the Shinkansen facilities. The division of this aggregate sum of 8.6 trillion Yen amongst the three Honshu JRs is later shown in Table 44.

JR Central was asked to bear by far the largest single responsibility for the repayments of the *Shinkansen* indebtedness, in recognition of its acquisition of the highly profitable Tôkaidô Shinkansen<sup>11</sup>. The system was designed not only to facilitate the financing of the eventual replacement of the *Shinkansen* facilities, but to balance the profitability of the long established Tôkaidô and Sanyô *Shinkansen* against the losses inherent in the operation of the Tôhoku and Jôetsu lines. Thus, the disparity between the *Shinkansen* route length inherited by the Honshu JRs and the share which each of the Companies would bear of the

annual leasing charge reflected a belated recognition that the decision to build the later Shinkansen had been taken on 'national' grounds, and not on the basis that they would be financially viable<sup>12</sup>.

The realisation that a basis for ensuring the continuation of nationwide rail services would have to allow for the wide variations in profitability throughout the former JNR network was also the background to the establishment of the Management Stabilisation Fund. The Three Island JRs on Kyushu, Shikoku and Hokkaido, in addition to being exempted from the inheritance of any of the JNR's long term indebtedness, were provided with this Fund so as to produce profits that would cover their expected operating deficits. The Management Stabilisation Fund (*Keiei Antei Kikin*) was to total 1.3 trillion Yen and was to be provided by the JNR Settlement Corporation according to the relative requirements of each of the three Island companies to balance their intrinsic losses from continuing to provide rail services<sup>13</sup>. The Fund (see Table 31, adjoining p. 465) was to be invested such as to create an annual stream of income broadly equivalent to the deficits incurred by the railway operations of the Three Island JRs.

Table 31 THE THREE ISLANDS MANAGEMENT  
STABILISATION FUND (KEIEI ANTEI KIKIN)

| J R Company  | Amount    | % of Fund |
|--------------|-----------|-----------|
| J R Kyushu   | ¥ 388 b.  | 30        |
| J R Shikoku  | ¥ 208 b.  | 16        |
| J R Hokkaido | ¥ 682 b.  | 54        |
| Total Fund   | ¥ 1278 b. | 100       |

Source : Adapted from data in Unyusho (Ministry of Transport). Shōwa 63 Nenban Tetsudō Roppō (Compendium of Railway Law for 1988). 1988. p.2432.

## The Key Targets of the JNR Privatisation

The setting up of the Management Stabilisation Fund was an integral part of the process by which the imbalances in profits and losses likely to be generated from various parts of the former JNR operations would be offset in order to provide a balanced return from the new JR Group taken as a complete entity. It thus dealt with the first key issue of the JNR Restructuring, namely the correcting of major profit differentials amongst the new JR companies, and thus the establishment of financial viability for the continuing railway operations. A further critical consideration in this process was the creation of a structure which would allow for the eventual selling off to private investors of the government's shares (initially 100% of the companies' capital) in the three Honshu operating companies. This latter target was to be facilitated by the method of disposition of the JNR's debts in such a way as to leave the Honshu JRs with a level of indebtedness which they could service and yet remain profitable<sup>14</sup>.

The division of the national railway's long term liabilities was therefore the second key consideration in the JNR Restructuring.

It was also connected to the third major factor, that of reducing the labour force to be taken over by the new JR operating companies, these two issues coming together in the establishment of the JNR Settlement Corporation. Formed under the JNR Settlement Corporation Law this new public corporation was set up with the following functions in mind:

- the servicing of the JNR's long term indebtedness
- the redemption of these debts through the disposal of assets which had belonged to the JNR
- the provision of measures to deal with the re-employment of former JNR personnel deemed not to be required by the new JR companies<sup>15</sup>.

The system devised for the disposition of the JNR's debts, in which the JNR Settlement Corporation was to play a pivotal role, is described in detail in Table 32. The total level of indebtedness at the time of the dissolution of the JNR of 37.2 trillion Yen was made up of the JNR's long term liabilities to government and banks of some 25 trillion Yen, and various 'exceptional' debts of 12.2 trillion Yen. The separation of the debt into mainstream JNR

liabilities and into the five remaining groupings (as in Table 32) was a further retrospective acknowledgement of the financial burdens which had been imposed on the national railway beyond its management responsibility and beyond its financial capabilities. Hence, the specific amounts of debt to be apportioned relating to the outgoing pensions obligations, the placement of 'surplus' personnel, the need to subsidise the operations of the Three Island JRs, and the liabilities incurred through previous JNR capital expenditure on projects of national interest<sup>16</sup>.

Table 32 shows these categories of indebtedness and, in addition, the means of their distribution to the new companies created in the JNR Reconstruction. The share of the liabilities relating to the four existing *Shinkansen* were, as already stated, allocated to the Shinkansen Holding Corporation on the basis of their full replacement cost. In total this accounted for 8.6 trillion Yen of which 2.9 trillion Yen was repayable to the JNR Settlement Corporation. A further 5.9 trillion Yen, of which 1.1 trillion Yen were deferred rentals due to the Japan Railway Construction Public Corporation, was taken over by the three Honshu based operating companies and by JR Freight. Even inclusive of the

future rentals to the JRCPC, therefore, the Honshu JRs acquired only 16% of the grand total of the JNR's long term indebtedness, although, initially, they were also committed to the 30 year lease agreements covering the Shinkansen facilities owned by the Shinkansen Holding Corporation.

The balance of the long term debt was taken over by the JNR Settlement Corporation (*Nihon Kokuyû Tetsudô Seisan Jigyô Dan* or JNRSC) which, incorporating the 2.9 trillion Yen due from the Shinkansen Holding Corporation, amounted to 25.5 trillion Yen. The JNRSC liabilities included 5 trillion Yen of obligations to supplement the former JNR Pension Fund in order to meet future unfunded pension payments<sup>17</sup>.

Table 32 DISPOSITION OF THE JNR'S LIABILITIES  
AT 1 APRIL 1987

| Long Term Liabilities<br>at 1.4.87                                | ¥billion (figures rounded)<br>Disposition of Liabilities | Proposed Eventual<br>Repayment of Liabilities       |
|---|--|---|
| JNR Indebtedness  |  | JR Direct Repayment                                 |
| Pensions Obligations  |  | JR Direct Repayment                                 |
| Japan Railway Construction<br>Public Corporation<br>Liabilities   |  | Shinkansen Holding Corporation<br>Direct Repayment  |
| Management Stabilisation<br>Fund for the 3 Island JR<br>Companies |  | Repayment through<br>Shinkansen Holding Corporation |
| Honshu-Shikoku Bridge<br>Authority Liabilities                    |  | Repayment through<br>Real Estate Sales              |
| Surplus Personnel<br>Obligations                                  | Repayment through Flotation<br>of JR Stocks              |   |
| Total   | Long Term Public Sector<br>Obligation                    |   |
|   | Total  | Total   |

Note : The estimated repayment of indebtedness from the flotation of JR stocks of ¥1,200b. includes forecast revenue from the JNMSC's stock in the Tokyo Metropolitan Rapid Transit Authority(Teito). This holding in Teito was transferred to the Govt. in fiscal 1990.

Source : Adapted from data in Yokohori Takashi. Unyu To Keizai(Transport & Economy). Volume 48. Number 10. 1988. Table 1. p.62.

It was proposed that the JNR Settlement Corporation would repay its liabilities (net of the 2.9 trillion Yen owed to it by the Shinkansen Holding Corporation) through revenues from the sale of real estate acquired from the JNR, and from the eventual flotation of the shares of the three Honshu JR operating companies<sup>18</sup>. As shown in Table 32, these two categories of cash generation were estimated to account for only 8.9 trillion Yen, leaving around 14 trillion Yen of the JNR's original indebtedness as a long term obligation on the public sector. As will be discussed later in this and in the next Chapter on the flotation plans for the shares of JR East, JR Central and JR West, the amounts to be recouped from 'asset sales' are likely in practice to vary from those shown in the official estimates. Thus, the return from the share flotations may well be much higher than the 1.2 trillion Yen assessed for the JNRSC's holdings in the three Honshu JRs and in the Teito Rapid Transit Authority.

By contrast, however, the problems incurred by the JNR Settlement Corporation in disposing of surplus land, also later discussed in detail, could equally well indicate that the 1987 evaluation of the proceeds from real estate sales will prove to be higher than can be

achieved in reality. As will be quantified in Chapter 7, the experience of the five year period since the JNR Restructuring would certainly suggest that the timescale for the achievement of the asset and share sale targets will be considerably longer than originally envisaged<sup>19</sup>.

In any case, the original projections given in Table 32 did not disguise the fact that no feasible plan could be devised for the repayment of a substantial proportion of the long term indebtedness inherited from the JNR. The figure of 13.8 trillion Yen<sup>20</sup> was the expected long term level of government debt which would remain after all conceivable forms of repayments. It was thus the estimate of the real cost to the Japanese public of the abuses of the public corporation system of operation knowingly condoned by successive governments.

#### **Implementation of the Reductions in the JR Labour Force**

In addition to its role in redeeming at least a portion of the national railway's debts, the JNR Settlement Corporation was charged with being responsible for those former JNR employees not employed by the new JR companies. This function, involving the

promotion of re-employment of the excess workers (originally estimated at 41,000), was a critical part of the overall strategy, as the creation of a large body of unemployed ex JNR staff would have been an adverse factor in the public's reaction to the JNR privatisation process. Under the JNR Restructuring plan, those former JNR employees not selected for re-employment became a burden on the JNR Settlement Corporation which was obliged to seek other jobs for the body of workers deemed undesirable in the new JR Group<sup>21</sup>.

In practice, the impact of this policy on the JNRSC, which by law had to guarantee employment for the surplus labour force for three years after the JNR dissolution, was substantially mitigated by the significant reduction in the national railway's workforce in the last two years of its existence. The significant achievement later claimed of finding re-employment for all but a small number of the displaced JNR personnel was largely a reflection of the pre-privatisation policy of encouraging early retirement. This policy had been introduced after the 1985 findings of the JNR Reform Commission which estimated the real staffing requirements of the

new JR Group to be 183,000 employees, 93,000 less than the number forecast to be employed by the JNR at the end of fiscal 1986<sup>22</sup>.

The planned number of employees was determined by the Commission on the basis of setting productivity per employee at around the same level as pertained in the private railway companies. Allowance was also made for the particular aspects of the JNR's operations such as the need for additional staff for counter sales of long distance tickets and for fare adjustment, and a further margin built in for the expectation of an initial number of surplus employees.

It must have occurred to the Reform Commission that if 183,000 employees (168,000 for the passenger companies and 15,000 for JR Freight) was the optimum number for the proposed JR Group of companies, it would also have been for the JNR public corporation. Had measures been put into practice several years earlier to bring the JNR's labour force down to this appropriate level, the problems entailed of a sudden reduction in the number of employees would not have been incurred. The Commission's recommendation for

dealing with this problem, which remained as a result of the lack of any such action in the past, was for the JNR to establish a special voluntary retirement scheme. It was anticipated that the provision of special allowances for those choosing to accelerate their retirement from the JNR would reduce the number of employees by some 20,000. In the Reform Commission's view this would be only a partial solution to the problem, as the balance of the forecast 'surplus' of 93,000 people would have to be dealt with by the passenger railway companies taking on excess employees (32,000) and the JNR Settlement Corporation inheriting the 41,000 remaining unemployed ex-JNR workers.

The special early retirement scheme was funded by Ministry of Finance Guaranteed Bonds<sup>23</sup> issued to the JNR despite the knowledge that the corporation had no means to repay them. This hidden subsidy was, of course, designed to minimise the problem of over-employment for the post-privatisation JR Companies, but its cost contributed to the additional burden of pensions expenses later assumed by the JNR Settlement Corporation.

As previously seen in Chart 12 in Chapter 3, the number of employees retiring from the JNR had already accelerated in fiscal 1985. A revision of the Pension Fund system in that year had made retirement in fiscal 1985 financially advantageous, and 48,000 JNR employees took advantage of the improved pensions conditions offered. The number retiring in fiscal 1986 rose to an unprecedented 53,000 as a result of a special allowance which provided, in addition to the normal pensions rights, an additional payment of ten months of basic salary<sup>24</sup>.

As a result the JNR labour force, by the end of fiscal 1986, had fallen to 223,947. This left, instead of the envisaged 93,000, a surplus of unwanted employees of only some 40,000. In addition to the impact of the incentives offered to encourage early resignations from the JNR, the greater than expected reduction in the national railway's workforce was attributable to a specific government campaign to promote its re-employment. This policy, undertaken through the Re-employment Promotion Law, involved requests to public sector agencies and to business organisations to give preferential treatment to applicants who had been voluntary JNR retirees. The strength of the economy in 1986/7 contributed

towards the success of this administrative guidance, not least because it provided the justification for the employment of a substantial number of the ex-JNR workers by companies in transport related industries such as construction, trucks, hotels and travel agencies, and by the private railway companies.

The JNR Settlement Corporation thus inherited, as a consequence of the strategy of creating other employment opportunities for JNR staff prior to the beginning of operations of the JR companies, 23,660 new 'employees'. Of this number, already almost half of the 41,000 forecast by the JNR Restructuring Commission, 2,510 were to be permanent employees of the JNRSC. Taking further account of the surplus workers who had been provisionally granted new employment by other organisations, and those additionally desiring retirement, the net figure of those people transferred to the JNRSC who had not yet secured alternative employment was only 7,628<sup>25</sup>.

The new JR companies also gained significantly from the reduction in excess staffing levels. Inclusive of the forecast surplus of replaced JNR personnel, it was estimated that the total number of

employees which the JR group of companies would have to take on might be in the region of 215,000. As of 1 April 1987, however, the number of JR operating company employees was 199,596, over 77,000 (28%) less than the staffing level of the JNR at the beginning of its final year of operation.

In addition to the substantial savings in their operating costs which this smaller labour force entailed, the new companies also benefitted from the system of re-employment chosen to implement the transfer from JNR to JR. The method of dismissal of all remaining JNR employees and their application to the new JR operating companies was not one which had been adopted in the privatisation of either NTT or the Japan Tobacco and Salt Corporation in which all public corporation personnel were transferred directly to the respective new organisations. The policy requiring re-application by all JNR employees in the railway privatisation, by contrast, enabled the JR companies to be extremely selective in their choice of staff<sup>26</sup>.

The ability of the JR Group to choose only those who were considered to be appropriate new employees was facilitated by the

method of allowing each of the new companies to establish its own working conditions and criteria for selecting employees based on its own new management philosophy. As previously outlined<sup>27</sup> in Chapter 5 this policy was implemented in the JR Group from the top down, principal positions in the JR operating companies being awarded to individuals who had actively promoted the privatisation measures. A prime example was that of Sumita Shōji who, having formerly been a Vice Minister of the Ministry of Transport, and a serving member of the Supervisory Commission for JNR Reconstruction, was appointed the first President of the largest JR operating company, JR East.

On employment policy, Sumita's Company JR East included the following clause in its Criteria for Employment. This contained a 'requirement' which could be judiciously applied to exclude all of those former JNR management or staff members thought not to be wholly in favour of the new privatised structure.

Those whose service record during the days of JNR is satisfactory to meet the requirements of this Company. The evaluation of the record during the days of JNR shall be made in a comprehensive and fair way based on available data from JNR in terms of special knowledge and skills on the services, aptitude, and routine performance.<sup>28</sup>

The selective use of the JR Companies' Criteria for Employment was, in practice, not restricted to lower status staff. Dismissal of JNR management personnel was also undertaken, in order to remove those groups which had not shown a positive attitude to the division and privatisation of the national railway operation. At the general manager level, within the 65 people who had joined the JNR in the five years between 1959 and 1963 and were still national railway employees in its last year, only 17 were re-employed by the JR passenger and freight companies<sup>29</sup>.

A substantial element of the former JNR employees forced to seek employment elsewhere therefore comprised those who opposed the privatisation of the national railway. Of the 7,628 people rejected by the new JR companies and transferred to the JNR Settlement Corporation as those workers who were unable to find alternative employment, indeed, the great majority were members of the National Railway Workers Union (*Kokurô*), the elimination of whose influence on the operation of the national railway had been integral to the motivation behind the privatisation policy. None of the members of the National Railways Motive Power Workers Union

(*Dôrô*) or the Railway Workers Union (*Tetsurô*), both of which come out in favour of the JNR division and privatisation, were dismissed<sup>30</sup>.

The JNR Settlement Corporation was left with the less significant than expected problem of finding new employment for the 7,630 workers transferred from the JNR in April 1987. By the end of the three year period of the JNRSC's statutory employment period, all but some 1,050 of this number had found alternative jobs. On 1 April 1990, the remaining 1,047 workers were finally dismissed from the JNR Settlement Corporation. Out of the total, 950 had been members of *Kokurô*, the National Railway Workers Union.

The impact of the policy of dismissal and re-employment, together with that of the requirement to employ a substantially smaller number of staff than in the case of the JNR, was to produce a lower operating cost base for the JR Companies. It also resulted in a workforce which was more likely to co-operate with the new management objectives, so that the JR companies were later able to point to 'improved working attitudes'<sup>31</sup> as a consequence of the privatisation process.

## Management:Labour Relations in the Immediate Post-Privatisation Period

The attainment of 'better' labour relations in the national railway was a stated aim of the privatisation process<sup>32</sup>. The selective employment policy practised by the newly formed JR companies was aimed at the achievement of such an improvement in the relations between management and labour by the straightforward device of strengthening the former and weakening the latter. A key feature of this process was the accomplishment of a major shift in the balance of power amongst the JR railway labour unions as compared with that which had existed in the JNR era.

As discussed in consideration of the administrative reform process in Chapter 5, *Kokurô's* continuing opposition to the proposals to divide and privatise the national railway, in the face of the inevitability of the policy being implemented, had contributed substantially to its own downfall. Even before bearing the brunt of the dismissals from the JNR on its dissolution, the National Railway Workers Union (*Kokurô*) had lost members rapidly to those unions (notably *Tetsurô*) in favour of the JNR reform plan<sup>33</sup>.

To this element of self-destruction, however, must be added the JNR management policy towards relations with the labour unions in the period of preparation for the privatisation of the national railway. As outlined in Chapter 5, there had, in fact, been signs of an attempt on the part of the *Kokurô* leadership to take a more conciliatory line towards the JNR privatisation policy when, in the Autumn of 1986, the then union president Yamazaki Shunichi proposed that it adopt - as the *Tetsurô* and *Dôrô* factions were to do that year - a joint labour:management declaration in favour of the reform proposals in exchange for an agreement on the protection of the employment rights of its members. This proposal was rejected in October 1986 by the *Kokurô* union executive - and its rank and file - on the basis that its terms - including the requirement that the union retract its pending claims against unfair labour practices before the Labour Relations Committees - were tantamount to a capitulation to the pro-privatisation lobby<sup>34</sup>.

The response of the pro-reform management of the JNR handling the transitional phase between the end of public corporation operations of the national railway, and its division and privatisation was that a policy of active discrimination against

*Kokurō* members in the employment policies of the new JR companies could thereafter be justified in the face of the uncooperative stance of that particular union. *Kokurō's* isolation was compounded by the combination of the former *Dōrō* and *Tetsurō* unions into a new body<sup>35</sup>, the Japan Confederation of Railway Workers' Union (*Tetsudōrōren* or *JR Sōren*) with some 133,000 members. This and the secession of the Yamazaki faction of *Kokurō* in February 1987 to form a new union, *Tetsusanrō* (the Japan Railway Industry Workers Union), left the pro-management side of the labour movement firmly in control as the JNR was re-organised into the JR Group of Companies.

The composition of the union membership in the national railway in April 1987 therefore differed substantially even from that in the latter JNR years. *Kokurō*, its 34,000 membership comparing with a figure of around 250,000 in the mid-1950s, was in no position to influence the decision led by *Tetsudōrōren* to conclude a joint management:labour agreement at the outset of the JR operations. In this joint declaration<sup>36</sup> the newly formed labour unions - and JR management - agreed not to bring about disputes until a stable basis had been established for the new operating companies.

It was this declaration of intent which produced the apparent new stability in labour:management relations in the JR Group's first year, and enabled the companies to attribute the absence of strikes to the implementation of the privatisation policy. That it was so, certainly reflected the initial elimination of the influence of *Kokurō*. If this was then one of the aims of the policy of dividing the JNR into separate operating units, the 'better' labour relations claimed could indeed be deemed one of the early successes of the privatised JR Group. In view of the significant cuts in the inaugural workforce of the new JR Companies, however, these improved labour:management relations may also have reflected an enforced element of docility amongst the JR company employees.

As Sumita Shōji, President of JR East later put it:

Dividing the Japanese National Railways and making a private management system was a huge trial for us. There is an opinion that because of a good business market in Japan, we could do it well, but I think this success owed much to the employees' attitudes. Certainly, the Heisei prosperity contributed to our satisfactory management, but the employees' attitudes made them accept the facts. The sinking of the Japanese National Railway, which was a symbol of a 'ship which could never be sunk' and the employment anxiety that between 70,000 and 80,000 employees out of 280,000 had to be fired, helped their attitudes further.<sup>37</sup>

Table 33 FINANCIAL ESTIMATES FOR JR COMPANY  
OPERATIONS IN FISCAL 1987:  
COMPARISON WITH ACTUAL RESULTS

¥ Billion

|  | JR<br>East | JR<br>Central | JR<br>West | JR<br>Kyushu | JR<br>Shikoku | JR<br>Hokkaido | JR<br>Freight |
|--|------------|---------------|------------|--------------|---------------|----------------|---------------|
| Operating Revenues:  |            |               |            |              |               |                |               |
| Forecast   | 1472.7     | 825.7         | 773.8      | 120.0        | 31.3          | 88.0           | 172.0         |
| Actual   | 1535.1     | 868.3         | 747.0      | 126.6        | 30.6          | 72.6           | 172.7         |
| Pre-Tax Profits:   |            |               |            |              |               |                |               |
| Forecast   | 16.6       | 9.8           | 7.8        | 1.2          | 0.5           | 1.0            | 1.9           |
| Actual   | 72.2       | 60.8          | 9.2        | 3.6          | 1.1           | 3.2            | 5.9           |
| Operating Margin:<br>(Pre-Tax Profits<br>to Operating<br>Revenues) |            |               |            |              |               |                |               |
| Forecast   | 1.1%       | 1.2%          | 1.0%       | 1.0%         | 1.6%          | 1.1%           | 1.1%          |
| Actual   | 4.7%       | 7.0%          | 1.2%       | 2.8%         | 3.5%          | 4.4%           | 3.4%          |
| Return on Net<br>Assets: Forecast                                  | 4.3%       | 5.7%          | 4.4%       | 0.2%         | 0.1%          | 0.1%           | 5.5%          |
| Actual   | 18.7%      | 35.3%         | 5.2%       | 0.5%         | 0.3%          | 0.3%           | 17.0%         |

Note: The Pre-Tax Profits Shown for the Three Island JRs include the contributions from the Management Stabilisation Fund.

Source: Adapted from data in Kōtsū Kyōryoku Kai (Traffic Cooperation Association). Kōtsū Nenkan (Transport Yearbook). 1988-1989 Editions. Unyushō (Ministry of Transport). Shōwa 63 Nenban Unyu Hakusho (Annual Ministry of Transport White Papers for 1988). 1989. p. 211.

## The Profit Forecasts and the First Year Results of the JR Group

The process of dividing and privatising the Japan National Railway produced a new operating structure as was summarised in Table 29. The privatisation proposals contained profits forecast for the JR operating companies on the basis of their separation from the organisations, the Shinkansen Holding Corporation and the JNR Settlement Corporation, which would incur the bulk of the former national railway's indebtedness. The forecasts were modest, in the expectation - which was fully realised - that their surpassment would create a favourable public reaction<sup>38</sup> to the implementation of the privatisation policy.

The Government's profit forecasts for the first year of the JR Group of operating companies are shown in Table 33 together with the actual figures achieved in fiscal 1987. The overall assumption in the official estimates was that the JR Companies should generate a 1% profit on revenues, an undemanding target given the pre-conditions which had been established for their operation.

The estimates of operating revenues for the JR's of 3,483 billion Yen for fiscal 1987 on which the profit targets were based was even a figure 3% less than that achieved by the JNR in the previous year. Not only was such a target unrealistically low on any comparative basis with the JNR, but it was also completely out of line with the official macroeconomic forecasts for that year, which predicted substantial growth in the national GNP.

The projected return on net assets was similarly less than rigorous, averaging only 5% for the non-subsidised Honshu JR's and JR Freight. Inclusive of the Three Islands JR Companies, the overall return on group net assets was projected at no more than 2.9%<sup>39</sup>.

That the actual results achieved by the operating companies were greater than 'expected' was unremarkable, except in that they confirmed the disparate levels of profitability amongst the former JNR's operations. In particular, the results for fiscal 1987 demonstrated the inherent profitability of the earliest *Shinkansen* the *Tōkaidō*, operated by JR Central, and of the Tokyo urban lines run by JR East. They further appeared to vindicate the decision to

place the heaviest burden of the *Shinkansen* leasing charges on JR Central which, despite paying 59% of the total lease costs, produced profits six times higher than forecast on revenues only some 5% ahead of the estimated figure.

The explanation for the apparent out-performance of the new JR Group in its initial year lies in the meticulously planned conditions set out in the privatisation process. Thus, the measures implemented to deal with the reduction in the workforce, with the disposition of the JNR's long term liabilities, and with the financial support required by the Three Island JRs, represented a form of stage-management to ensure that the results of the new JR companies would appear favourable by comparison with those of the JNR. The key factors in producing the turnaround from the losses of the JNR to the profits of the JR Group in fiscal 1987 can be summarised as follows:

- The measures taken to avoid placing excess JNR personnel in the new companies resulted in a JR workforce almost 30% lower than in the JNR in fiscal

1986. Personnel costs for the JR Operating Companies in fiscal 1987 were 43% less than in the JNR's final year of operation.

- The measures taken to separate the JNR's indebtedness resulted in the new JR Companies inheriting directly only 16% of the total amount of 37.2 trillion Yen. Interest costs for the JR Operating Companies in fiscal 1987 were 78% less than those in the JNR's final year of operation.

- The introduction of the Management Stabilisation Fund for the Three Island Companies resulted in the generation of sufficient investment income to offset the operating losses from the JRs in Kyushu, Shikoku, and Hokkaido. Without this form of subsidy, the Three Island JRs would have recorded losses of 98 billion Yen in fiscal 1987.

- The adoption of the avoidable costs system for the freight operation resulted in JR Freight recording a small profit.

Without this form of subsidy, the JR Freight Company would undoubtedly also have been lossmaking in fiscal 1987.

- The formation of the Shinkansen Holding Company, and the long lease system adopted of transferring the *Shinkansen* facilities according to the ability to pay, resulted in the averaging out of profits from the three Honshu JRs. As part of the lease revenues were channelled, via the JNR Settlement Corporation, to the Three Islands Management Stabilisation Fund, this measure also resulted in the profits from the Honshu *Shinkansen* being used to subsidise the lossmaking operations in Kyushu, Shikoku and Hokkaido.

- The favourable legacy to the JR operating companies of a lengthy period of preparation for privatisation. In addition to the significant cost savings from the reductions in employment levels which had taken effect in the latter JNR years, the new JRs gained on the revenue side from the JNR's policy of increasing fares regularly up to 1986. The measures taken to maintain

the JNR's high level of capital expenditure during its concluding years further resulted in a substantial cost reduction to the JR Group, as the new JRs were given immediate dispensation to cut back on investment outlays. Capital spending in fiscal 1987 was 325 billion Yen lower than the figure in the JNR's final year, an amount more than double the combined profits of the seven JR passenger and freight companies. The continuation of the capital spending policies imposed on the JNR might well have resulted in losses from the new JR Group in fiscal 1987.

Table 34 JR COMPANY RESULTS IN FISCAL 1987:  
COMPARISON WITH JNR IN FISCAL 1986

|   | (Interest Payments) | Pre-Tax Profits/(Losses) |
|---|---------------------|--------------------------|
| 7 JR Operating Passenger<br>& Freight Companies | (339.3)             | 156.0                    |
| Railway Telecom and<br>Railway Information      | (2.4)               | 0.8                      |
| Shinkansen Holding<br>Corporation               | (604.8)             | 1.8                      |
| JNR Settlement<br>Corporation                   | (912.6)             | (2315.2)                 |
| Total JR Group Results<br>in Fiscal 1987        | (1859.1)            | (2156.5)                 |
| JNR Group Results in<br>Fiscal 1986             | (1514.2)            | (1381.3)                 |

Note: 1) JNR Interest Payments in Fiscal 1986 include Lease Charges.

2) 7 JR Operating Companies Pre-Tax Profits in Fiscal 1987 include income of ¥93.3 Billion from the Management Stabilisation Fund.

Source : Adapted from data in JR Kakusha (Japan Railway Companies). JR Kessan Hōkokusho (JR Companies Financial Results). 1986-1987 Editions.

## The Consolidated Financial Results of the JR Group for Fiscal 1987

A more valid comparison of the first year of the new JR Companies with their public corporation predecessor would be that which incorporated analysis of the fiscal 1987 results of the government agencies which formed part of the new JR Group. The results of such an evaluation are shown in Table 34 in which the results of the Shinkansen Holding Corporation and the JNR Settlement Corporation are consolidated with those of the JR Operating Companies. This form of analysis of the real results of the entire JR Group for its first year of operation is contained in Abe Seiji's Privatisation of JNR and its Consequences<sup>40</sup>, and the financial critique in this Chapter is based on the principles established in Abe's work.

The findings, summarised in Table 34, clearly indicate the overall impact of the division of the JNR operations and of the division of the national railway's indebtedness. Inclusive of the two public corporations established to deal with the JNR's liabilities, the first year results of the new JR Group appear in a very different light to those of only the seven main operating companies. Thus,

the profits generated by the 7 operating JRs of 156 billion Yen were wiped out by the massive deficit of the JNR Settlement Corporation. The JNRSC's loss was the direct result of the burden of servicing the bulk of the national railway's debts which were transferred on the JNR's dissolution. Even consolidating the small profit made by the Shinkansen Holding Corporation, the JR Group in total recorded a loss in fiscal 1987 substantially higher than did the JNR in the previous financial year. The resultant 'real' deficit of 2157 billion Yen (2.1 trillion Yen) was actually considerably higher than that recorded in any single year by the national railway and over 300 billion Yen (17%) greater than the record JNR loss of fiscal 1985<sup>41</sup>.

The key factor in this process was the interest burden which, having been taken away from the JR operating companies, was transferred to the JNR Settlement Corporation and the Shinkansen Holding Corporation. The interest charges borne by these two public organisations in fiscal 1987, at 1517 billion Yen, was higher than that incurred by the entire JNR Group in the previous year. Inclusive of the interest and lease charges paid by the JR operating

companies, the JR Group's outgoings of 1859 billion Yen in 1987 surpassed the record high figure of 1514 billion Yen in the JNR's fiscal 1986 by no less than 345 billion Yen or 23%.

#### The JR Group One Year After Privatisation

The availability of the figures required to make a more objective analysis of the effect of the reorganisation of the national railway into the group of JR Companies did not prevent the JRs' first year results being generally greeted favourably<sup>42</sup>. The positive reaction was reinforced by the recording of a significant increase in rail passenger transport volume in 1987/88 which, whether or not achieved through the direct efforts of the JR management, offered a favourable comparison with the stagnancy of traffic in the latter JNR years. Reference to the earlier Chart 3 (in Chapter 2) indicated the growth in railway passenger volume achieved in the late 1980s, coinciding with the inauguration of the divided and privatised JR Group. In fiscal 1987 specifically, passenger-kilometre volume rose by 3.2%, thus supporting the conclusion in the 1988 Annual Report on the Transport Economy that "the JR business went generally smoothly for an initial year".<sup>43</sup>

While writing that "A closer look at the details of this (first year) settlement of accounts ... will reveal that a situation exists that leaves no room for undue celebration"<sup>44</sup> Ishikawa Tatsujirô also made the following comments after the JR company results for fiscal 1987 were announced.

Privatisation has brought about a change in awareness reflected in media comments and in the attitude of the general public. Coupled with the strong impression made by the many actual improvements in service and the active expansion of business, there is a generally positive view that JR has lived up to public expectations. Strong efforts made by the JR Group since its inception have received full public recognition.<sup>45</sup>

The "public recognition" to which Ishikawa had referred undoubtedly reflected the efforts made by the JR Companies, at the outset of their operation as privatised enterprises, to emphasise an approach of 'improved service' to customers. In this context, such initial measures taken by the new JR companies to foster an image of being consumer-driven are summarised in Table 35.

Table 35 POST PRIVATISATION SERVICE ENHANCEMENT BY JR COMPANIES

|  |                                     |   |
|--|-------------------------------------|---|
| Establishment of Management Foundation | Increasing transport demand         | <p>Passenger railway Companies:</p> <ul style="list-style-type: none"> <li>• Establishment of "Green Boxes" for listening to the opinions of Passengers(Hokkaido)</li> <li>• Appointment of consumer advisory groups(East Japan)</li> <li>• Running of special "Torokko trains"(Central Japan and Shikoku)</li> <li>• Sale of special tickets in tie-up with aquariums, golf courses, etc. (all companies)</li> </ul> <p>Freight railway company:</p> <ul style="list-style-type: none"> <li>• Expansion of intermodal transport service, such as piggyback service</li> <li>• Transport service of motorcycles for touring</li> <li>• Passenger car freight</li> </ul> |
|  | Sales activities                    | <p>Passenger railway companies:</p> <ul style="list-style-type: none"> <li>• Introduction of open counters to "Green Window" ticket reservation counters(East Japan)</li> <li>• Extension of hours for selling reserved tickets(East Japan)</li> <li>• Introduction of "Orange Cards" cards for buying tickets, with a variety of illustrations(all companies)</li> </ul> <p>Freight railway company:</p> <ul style="list-style-type: none"> <li>• Reinforcement of sales activities by visits to customers</li> <li>• Joint sales activities with transport companies</li> </ul>   |
|  | Cost saving                         | <ul style="list-style-type: none"> <li>• Reduction in the number of cars per train(all companies)</li> <li>• Saving of outside order costs by reviewing outside orders(all companies)</li> </ul>  |
|  | Related projects                    | <ul style="list-style-type: none"> <li>• Full-fledged operation of tourist business(all companies)</li> <li>• Operation of new business, such as insurance agents and warehousing(all companies)</li> <li>• Expansion of railway-related business, such as direct-run concessions(all companies)</li> </ul>   |
| Enhancement of Passenger Convenience   | Better service                      | <p>Passenger railway companies:</p> <ul style="list-style-type: none"> <li>• Increase in trains(all companies)</li> <li>• Increase of "E trains" at night on Fridays(East Japan)</li> <li>• Increase of special Shinkansen trains at night on Fridays(Central Japan)</li> <li>• Running of special trains for the audience of night baseball games at the Nagoya Stadium(Central Japan)</li> </ul> <p>Freight railway company:</p> <ul style="list-style-type: none"> <li>• Organization of freight train schedules corresponding to seasonal transport needs</li> </ul>  |
|  | Improvement in transport facilities | <p>Passenger railway companies:</p> <ul style="list-style-type: none"> <li>• Improvement and cleaning-up of station facilities, including repair of toilets(all companies)</li> <li>• Increase in trains equipped with cooling facilities(all companies)</li> <li>• Improvement of seats of trains(all companies)</li> </ul> <p>Freight railway company:</p> <ul style="list-style-type: none"> <li>• Trial manufacture of new container cars</li> </ul>  |

Source: Adapted from data in Fukushima Toru, Privatisation of Japanese National Railways and Its Operation Afterwards, Japan International Cooperation Agency, 1989.

This list was assembled by Fukushima Toru who, while writing as a representative of the Japan International Cooperation Agency, is also an Executive of JR Central<sup>46</sup>. The lengthy compilation of 'service enhancements' shown in Table 35 may therefore be regarded as being from the internal perspective of the JR companies themselves, concerned with justifying their new 'favourable' image in the minds of the travelling public.

A non-JR view might instead contrast the impact made by this large number of minor improvements on the overall national railway service with that of alternative strategies, such as the completion of major capital investment projects which would have, for example, effected the speed-up of commuter services and alleviated their congestion levels. The contrast between the cosmetic nature of the self-proclaimed service enhancements by the JR companies, and their 61% reduction in capital spending on railway investment projects in fiscal 1987 (compared with the final year of the JNR) put the JR management policies more clearly in the category of being publicity-driven rather than the consumer orientation that it suited their image to emphasise.

Despite these reservations, there is no doubt that the identification of the effects of the division and privatisation of the JNR with 'tangible evidence' such as the 'new' services introduced by the JRs (as listed in Table 35) helped to deflect attention from the less positive consequences which the end of the first year of the JR Group's operation had brought about.

Thus, the provision of the various individual enhancements in sales and service facilities was held up to be a greater contribution to national transport than would have been the capital investment required for instance to deal with the important problem of overcrowding in urban transport.

In summary of the position of the privatised JR Group a year after its establishment, the positive image of service betterment and of more stable labour relations prevailed over the reality of the financial results of the privatisation process. Thus, the overall outcome - real, and substantial losses - of not just the JR operating companies but of the consolidated JR Group was generally overlooked.

The normal basis for financial comparisons being that of the profits of the seven JR operating companies for fiscal 1987 with that of the huge losses of the JNR in the previous year, the results of the two public bodies which had inherited the problem of resolving the debt position - as the exponents of the privatisation process wished - received little attention. With the consolidation of the new public corporations, however, not only were the JR group's overall losses considerably higher than in the JNR era but, although the JR operating companies had achieved a small reduction in their debt levels in their first year, the total amount of JR indebtedness at the end of fiscal 1987 was higher than at the time of the JNR's dissolution.

The overall conclusion is that, to take the initial year of operation of the new JR Group as a benchmark of the positive nature of the JNR reconstruction policy, would be a premature basis for judgement. A much longer period of operation by the JR companies was surely required as the basis for a reasoned evaluation of the JNR privatisation process, a point addressed in the next Chapter which reviews the national railway as administered by the JR Group five years into its privatised state.

1. Examination of the financial structure of the national railway after its division and privatisation and of the first year's results of the JR operating companies is undertaken in this Chapter with basic statistics obtained, in the main, from the library of *Kôtsu Tôkei Kenkyûjo* (Institute of Transport Statistics), Tokyo. Specific acknowledgement is given in each statistical Table for the principal sources of information, as is it to Abe Seiji of Osaka City University for the author's adaptation of his technique of assessing the financial results of the JR group consolidating the two public corporations set up in the privatisation process to deal with the disposal of the *Shinkansen* assets and the JNR liabilities. With these exceptions, however, the detailed financial analysis undertaken in Chapter 6 is the work of the author and therefore no additional credit to other writers is considered to be due. The substantial reference in the analysis to specific Tables, moreover, acts as a supplement to the Endnotes in this Chapter.

2. JNR Restructuring Commission (1985). *Kokutetsu Kaikaku ni Kan Suru Iken* (Opinions on the Restructuring of the JNR), Tokyo, July.

3. Nihon Kokuyû Tetsudô Saiken Kanri linkai (1985) (JNR Reform Commission), *Kokutetsu Kaikaku ni Kan Suru Iken* (Opinions on the Restructuring of the JNR), p.51.

4. Ibid, p. 51.

5. Ibid, pp.82-88 covers the proposals for the Freight operation. The specific issues of setting up a single nationwide company for freight, and eventually 'floating' its shares on the stock market, are dealt with on p.83 and p.87.

6. Ibid, pp. 89 - 90.

7. As shown in Table 29, adjoining p. 461.

8. Ishii Naoki, in Interview, indicated to the author that the Avoidable Costs System had first been considered by the JNR in the late 1960's. At that time the JNR Freight Division was beginning to

lose business to Road freight transport and it was argued - by the JNR Freight management - that since, even if there was no railfreight operation, the JNR would still have to run the same amount of track and it would therefore have been "fairer" to reduce the cost, to the Freight Division, of accessing the track infrastructure. The introduction of such an Avoidable Costs System would thus have enabled JNR Freight to cut its charges to freight users and to compete better against the truck sector. The JNR Board decided against any such policy change - because it would have meant the passenger operations bearing a higher proportion of the total costs - and the adoption of Avoidable Costs was delayed by some 20 years. Interview, Tokyo, September 1994. Discussion of the initial proposal to introduce an Avoidable Costs system for the JNR Freight operation is also contained in Ishikawa (1975), p. 311.

9. Nihon Kokuyû Tetsudô Saiken Kanri linkai (1985), p. 71 and p. 117.

10. Ibid, p. 71, p. 125 and p. 132.

11. The differing profitability of the *Shinkansen* lines inherited by the JR companies was the subject of analysis in Chapter 4. Charts 13 and 14 (adjoining p. 252 and p. 291 respectively) show the financial results of the *Tôkaido*, *Sanyô*, *Tôhoku* and *Jôetsu Shinkansen*.

12. As postulated in Chapter 4, pp. 295 - 299.

13. See Table 31, adjoining p. 465.

14. As set out on p.456 and as reflected in the provisions of the *Kokutetsu Kaikaku ni Kan Suru Iken* which is discussed on pp.455-461.

15. Nihon Kokuyû Tetsudô Seisan Jigyô Dan Hô (1986) (JNR Settlement Corporation Law), in *Chûkai Tetsudô Roppô* (1993), (Compendium of Railway Laws), pp. 2433-2461. As also confirmed in Suga (1992), *Privatisation in Japan*, London, p.44.

16. This was the conclusion of the analysis of the proposals for

the disposition of the JNR debt, on pp. 461 - 468, and in Table 32, adjoining p. 469.

17. The JNR Settlement Corporation inherited, as part of its responsibility to repay the national railway's accumulated debt, a commitment to pay pension entitlement to the remaining former JNR employees. The new JR operating companies were excluded from any pension liabilities incurred during the JNR era. Ishii Naoki in Interview, Tokyo, September 1994.

18. See Table 32, adjoining p. 469.

19. This matter is discussed in Chapter 7, pp. 528 - 535.

20. Principally as a result of the rounding of smaller amounts, the estimated amount of residual debt quoted in the *Kokutetsu Kaikaku ni Kan Suru Iken* (1985) of 14.2 trillion Yen (p. 131) is at variance with this figure. The calculation of a forecast 13.8 trillion Yen of remaining Long Term Public Sector Obligation is, however, the conclusion of the financial analysis in Table 32 (adjoining p. 469) of the disposal of the JNR's liabilities, and is therefore taken to be substantially accurate in this study.

21. Suga (1992), p.44. The Law under which the JNR Settlement Corporation assumed the responsibility for the re-employment of 'surplus' railway workers is the *Nihon Kokuyû Tetsudô Seisan Jigyô Dan Hô*, in *Chûkai Tetsudô Roppô* (1993), pp.2433-2461, with this specific provision (Article 26, 3rd. Part), on p.2435.

22. Nihon Kokuyû Tetsudô Saiken Kanri linkai (1985), p.97.

23. The issue to the JNR of Bonds guaranteed by the Ministry of Finance in order to meet the cost of reducing the national railway workforce as a prelude to its privatisation had the result of increasing public sector borrowing. This policy was sanctioned consecutively with the administrative reform strategy of reducing government indebtedness. Nihon Kokuyû Tetsudô (1986), *Kokuyû Tetsudô* (National Railway Monthly), Tokyo, Vol. 44, No. 3, March, pp. 6 - 7.

24. As shown in Chart 12, adjoining p. 237.

25. Abe Seiji(1991), "Privatisation of Japanese national Railways and its Consequences", The Society of Business Research of Osaka University (ed.), Keiei Kenkyū (Business Review), Vol.41, No.5/6, p.125.

26. This point is explained in the succeeding text, on pp. 477- 480.

27. See Endnote 54 of Chapter 5 for further examples of favourable treatment of former JNR executives who had supported the privatisation process.

28. JR East (1987), Criteria for Employment, Tokyo, No. 3.

29. This information is contained in Ishii Naoki (1991), The Drift of the Unions of JNR - JR Before and After JNR Reform, Manuscript, Tokyo, p.9.

30. Ibid, pp. 9 - 10.

31. Better employee attitudes were cited by JR East President Sumita Shōji as a prime reason for the company's 'success'. "Part 1 of Interview with Sumita Shōji, President of JR East" (1992), *Mainichi Shinbun*, 23 March. For a further, similar, description of changed 'worker attitudes' see also Endnote 38.

32. The existence of 'abnormal' labour relations in the national railway was advanced in the Kokutetsu Kaikaku ni Kan Suru Iken. (1985), pp.28 -29, as a contributory factor to the problems of the JNR.

33. See Table 47, adjoining p. 566.

34. Iio Jun (1993), Mineika no Seiji Katei - Rinchō Gata Kaikaku no Seika to Genkai (The Political Process of Privatisation - Institutional Reform in Japan in the 1980s), Tokyo, pp. 169 - 170.

35. Prior to the conclusion of the JNR privatisation process *Dōrō* had made - in conjunction with *Tetsurō* and the smaller labour union *Zenshirō* - two labour:management joint declarations in favour of the reform of the organisation of the national railway. In

the agreements, concluded before the end of 1986, *Dôrô* had undertaken to avoid strike action, and to ensure 'workplace discipline' in the post-privatisation JR enterprises. These agreements paved the way for the establishment of *Tessanrô* as a moderate labour union combining the former *Tetsurô* and *Dôrô* membership. Mochizuki, Mike (1993), "Public Sector Labor and the Privatisation Challenge: The Railways and Telecommunications Unions" in Allinson, Gary D. and Sone Yasunori (eds.) Political Dynamics in Contemporary Japan. Ithaca and London, pp. 187 - 188; and Mutô Hisashi in Interview, Tokyo, March 1992.

36. The *Dôrô* agreement (hitherto outlined in Chapter 5) not to indulge in strikes or other disputes - in exchange for job protection for union members - together with the exclusion of *Kokurô* activists from employment in the new JR companies was a crucial factor in contributing to the outward appearance of improved labour relations in the post privatisation era. Ishii Naoki, Managing Director of *Kôtsu Tôkei Kenkyûjo* indicated to the author in interview that the new attitude of JR management towards the newly conciliatory labour unions was epitomised by comments made, in the first stages of operation after the implementation of the privatisation process, by senior management of JR West, that their employees who had been *Dôrô* members in the JNR era, were now "fellows in the JNR reform". Material obtained in Interview, Tokyo, September 1994.

37. Mainichi Shinbun (1992), 23 March.

38. Even prior to the publication of the results for the first year of the JR companies, an article in the form of a discussion between the journalist Yayama Tarô and the Managing Director of JR East, Matsuda Masatake was published in Shokun (1988), "*Minei Kokutetsu wa Hontô ni Mokatte Iru*" (Privatization Pays Off for the Railways), Tokyo, January. An English version also appeared in Japan Echo (1988), Tokyo, Vol. 15, No. 1, pp. 65 - 69. In the latter version, when asked by Yayama Tarô to explain the secret of the turnaround (from losses to profits) Matsuda Masatake offered the following opinions. "The biggest change is in our employees' attitudes. Their mood has brightened considerably. We've rid ourselves of the gloomy atmosphere that plagued us in the days when you were going around telling the public that the national

railways were a band of 'national traitors'." p. 65.

39. As shown in Table 33, adjoining p. 484.

40. Abe (1991), pp.111-130.

41. Taken from the JR and JNR Kessan Hôkoku Sho (Annual Financial Results).

42. In Matsuda Masatake and Yayama Tarô (1988), p.68 (see Endnote 38) the former stated that "We tell everyone who asks that denationalization can invigorate a railroad and make it a going concern. We hope to set an example of what privatization can accomplish". There is little doubt that the first year's results of the JR group of operating companies were viewed in this light. Independent observers, Ishii Naoki and Maeda Kiyoji both indicated in interview that the consensus public reaction to the JR profits for fiscal 1987 was favourable, on the basis of a simple comparison being made with the losses of the JNR for the previous year. See also the comments on the fiscal 1987 JR financial results by Ishikawa Tatsujirô cited in Endnotes 44 and 45.

43. Ministry of Transport (Fiscal 1988) (*Unyushô*), Annual Report on the Transport Economy, Tokyo, p.11.

44. Ishikawa Tatsujirô (1988), "*Henka e no Taiô*" (Coping with the Changes) Unyu to Keizai (Transportation and Economy), Tokyo, Vol. 48, No.10, October, p.2.

45. Ibid, p. 2.

46. Fukushima Toru is Manager, International Section, Corporate Planning Division, JR Central.

## CHAPTER 7

### THE JAPANESE NATIONAL RAILWAY FIVE YEARS AFTER ITS DIVISION AND PRIVATISATION

#### Assessment of the Privatisation Process

It being reasonable to conclude, as was done in the previous Chapter, that no balanced judgement could be made of the JNR privatisation only one year after the inauguration of the new JR structure, it is the intention of this study to take the end of five years of operation of the national railway in the form of a group of privatised enterprises as a representative time at which to undertake an assessment of the 'success' of the privatisation process.

It has already been the contention of this thesis, as expressed in Chapter 5 on the administrative reform programme, that the privatisation of the JNR was its most tangible achievement. This view implies that the implementation of the JNR dissolution and its reorganisation into privatised corporations was, per se, a measure of its 'success'. The very fact of achieving the unachievable, the transformation from the original feeling of inertia towards the proposals in the public domain - and from open

opposition even in the ranks of the party of Government, the LDP - to the realisation of the privatisation policies was therefore, in itself, an admirable political success.

It is now argued, however, as it was expounded in the Introduction to this study, that it is not acceptable to regard the political achievement of the actual implementation - against all odds - of the JNR privatisation as a sufficient means of judging its 'success'. The contention that the sole measure required to prove that the privatisation of the JNR has been successful on a political basis would be of questionable validity if, the new policy having been put into effect, the financial results of the privatised national railway turned out to be worse than its predecessor, the JNR public corporation. This is a fundamental point because the stated motivation of the policy to break-up and privatise the national railway was to reform its finances. Any acknowledgement that the privatisation was effective as a political exercise - the 'glittering prize' of the administrative reform programme - must therefore be balanced by an assiduous analysis of the financial results of the JNR privatisation process<sup>1</sup>.

Table 36 FINANCIAL RESULTS FOR THE JR GROUP  
OF OPERATING COMPANIES: FISCAL YEARS 1987-1991

| Fiscal<br>Year | Revenues | Yr. on Yr. | Pre-Tax        | Yr. on Yr. | Profit   |
|----------------|----------|------------|----------------|------------|----------|
|                | b. Yen   | % Change   | Profits b. Yen | % Change   | Margin % |
| 1987           | 3353     | -          | 156            | -          | 4.6%     |
| 1988           | 3814     | +14%       | 221            | +42%       | 5.8%     |
| 1989           | 3939     | +3%        | 290            | +31%       | 7.3%     |
| 1990           | 4226     | +7%        | 304            | +5%        | 7.2%     |
| 1991           | 4388     | +4%        | 307            | +1%        | 7.0%     |

Source: JR Companies Financial Results (JR Kessan Hôkoku Sho).

Chart 20 JR COMPANIES FINANCIAL RESULTS:  
FISCAL YEARS 1987-1991

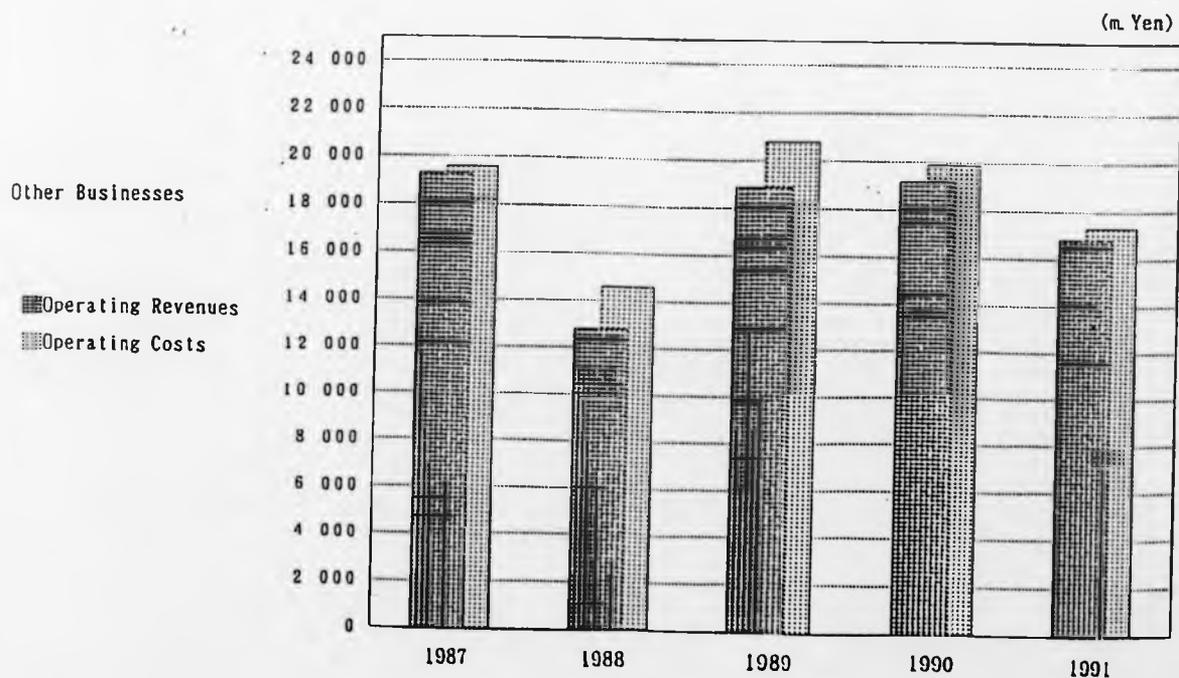
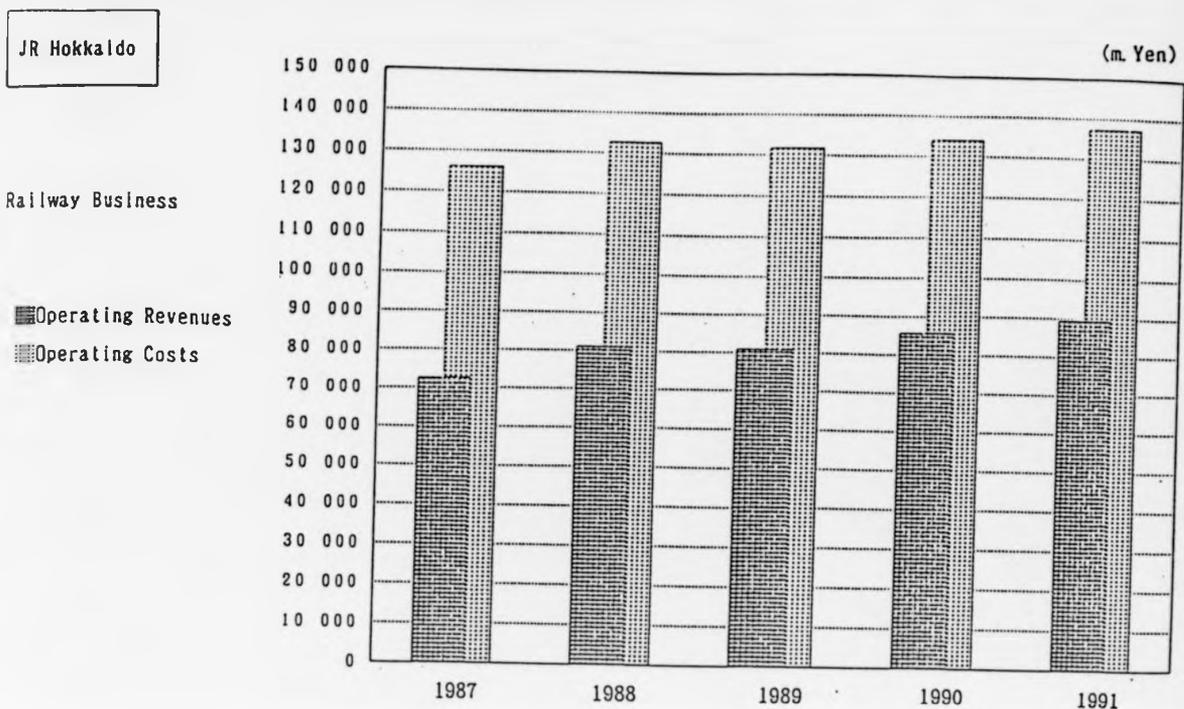


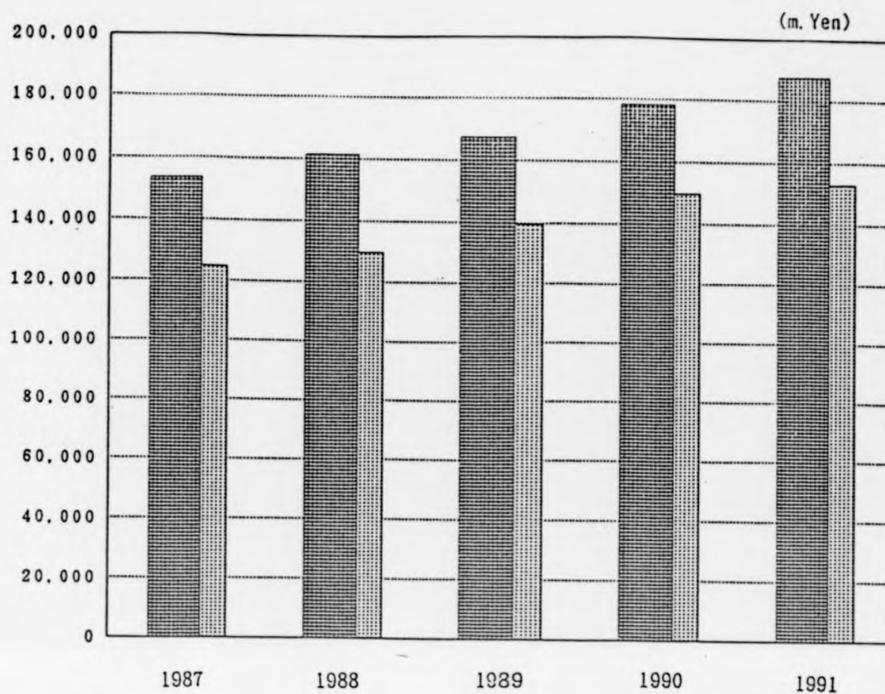
Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

JR East

Railway Business

Operating Revenues  
Operating Costs



Other Businesses

Operating Revenues  
Operating Costs

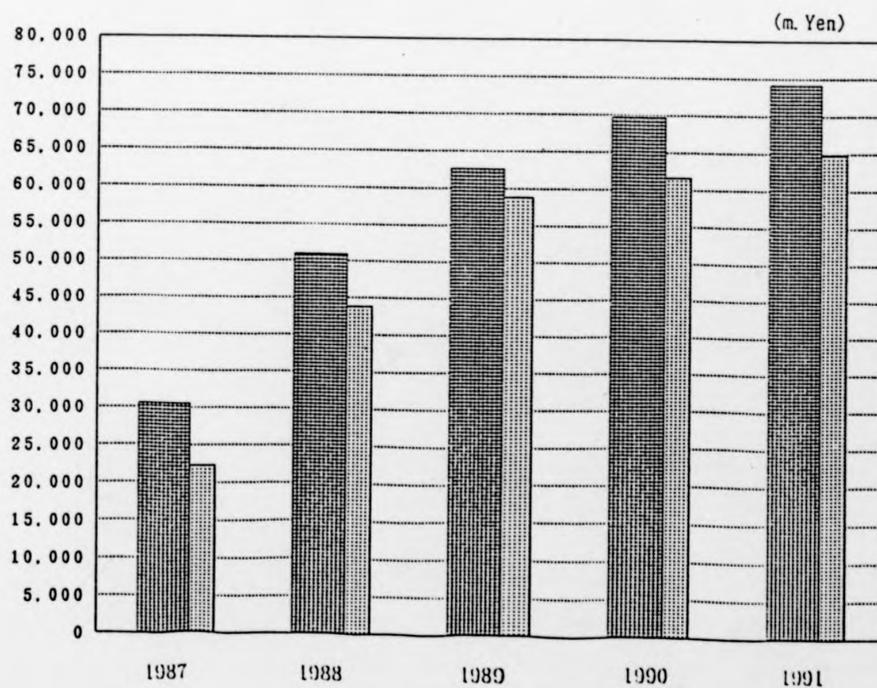


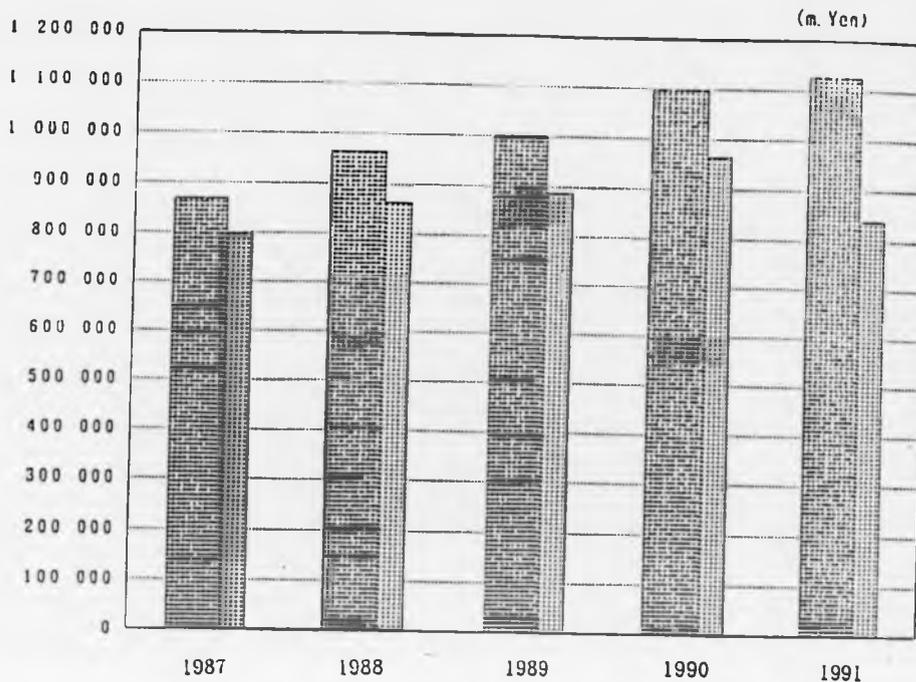
Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

JR Central

Railway Business

Operating Revenues  
Operating Costs



Other Businesses

Operating Revenues  
Operating Costs

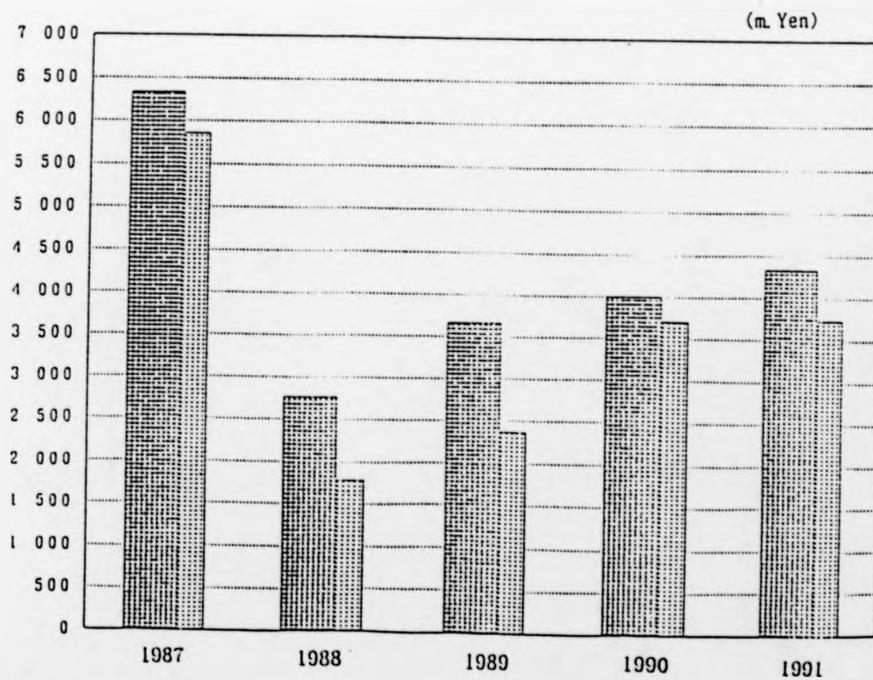


Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

JR West

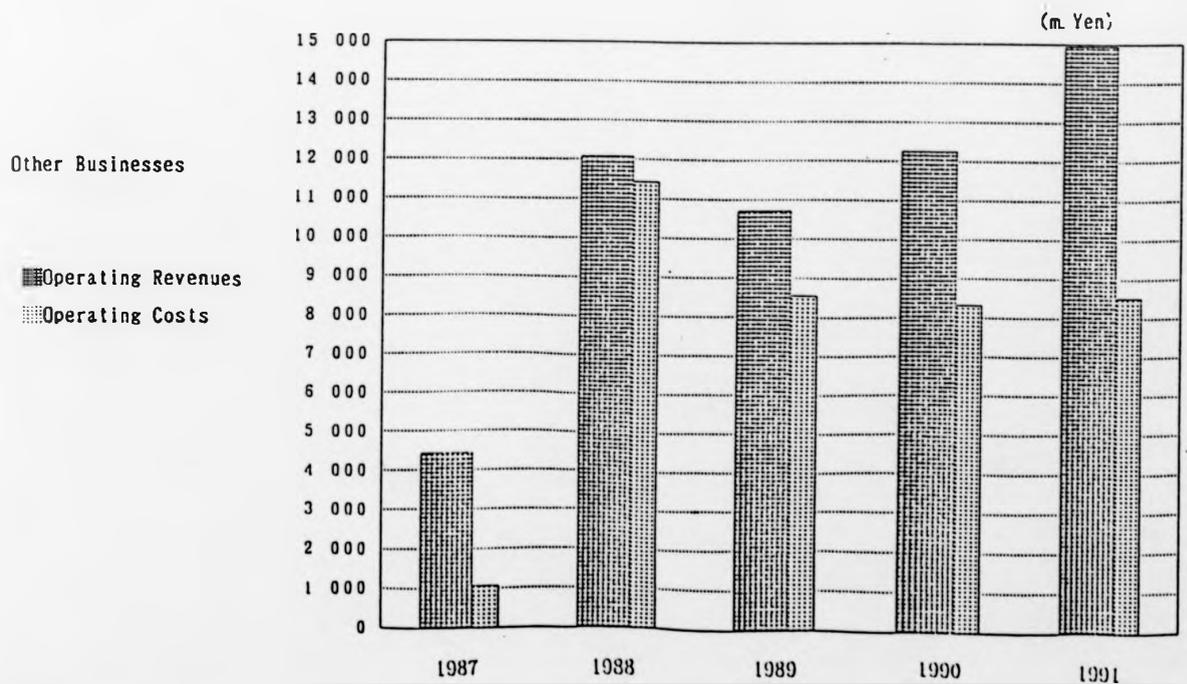
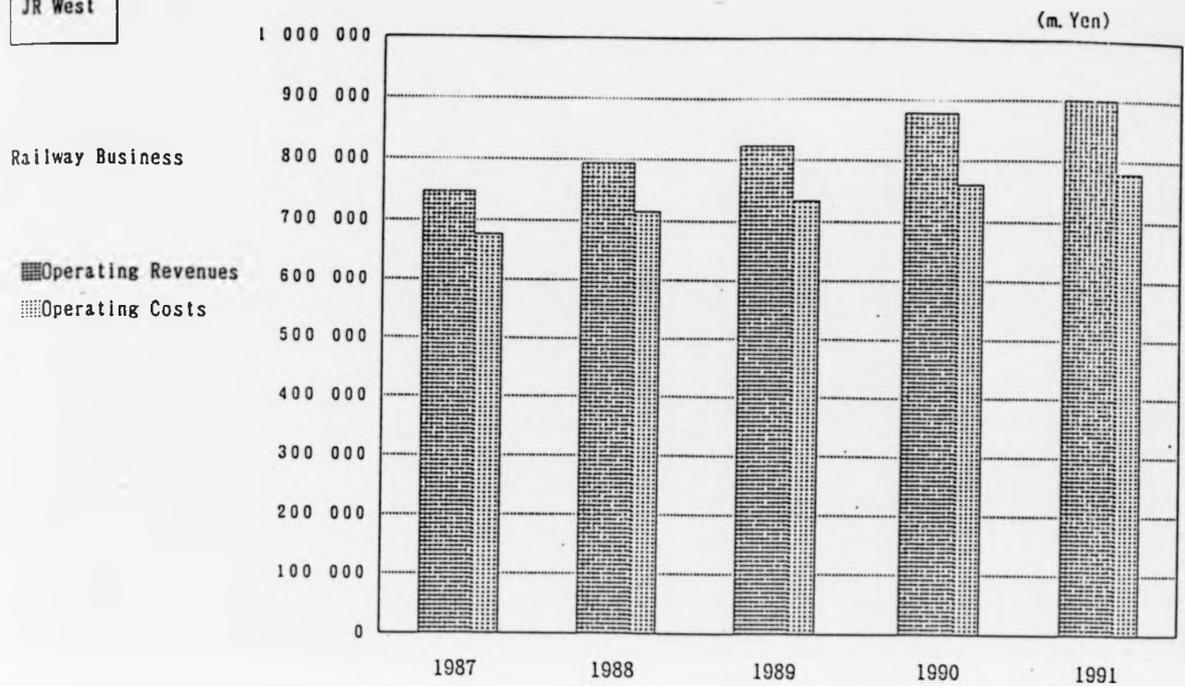


Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

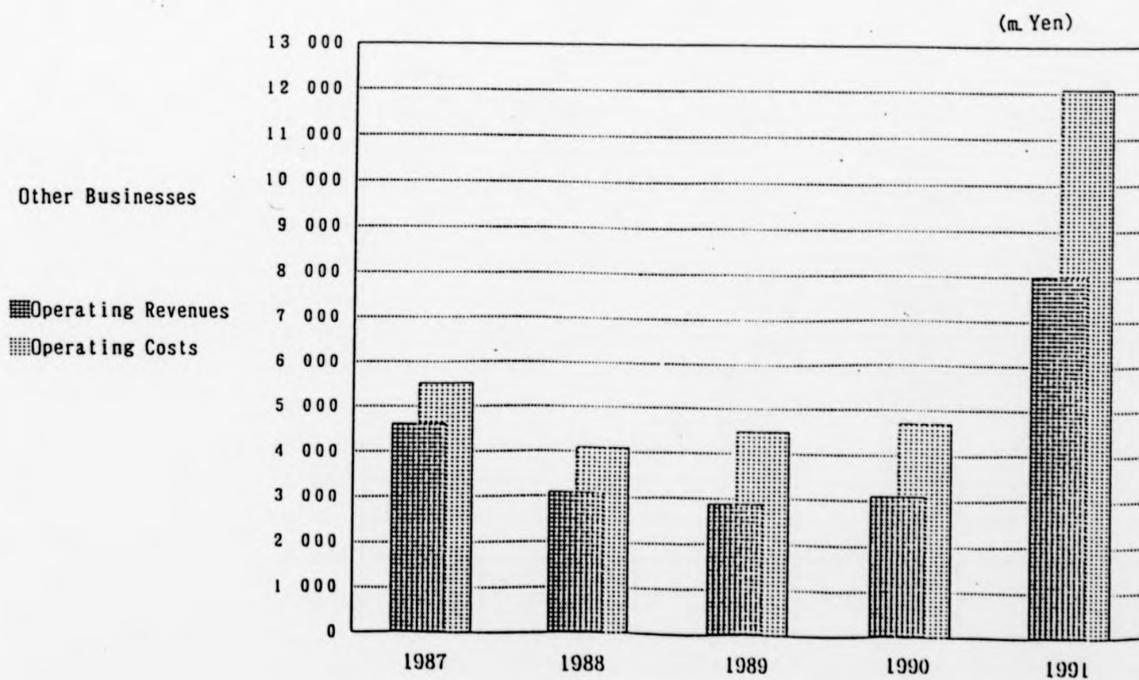
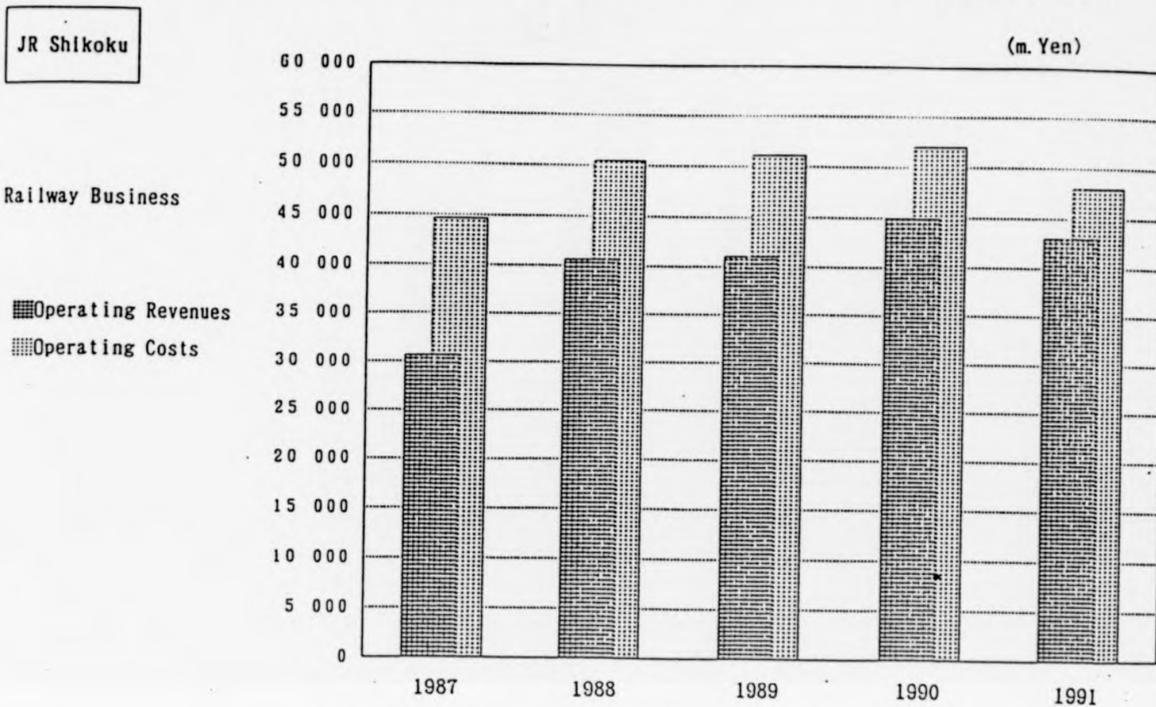


Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

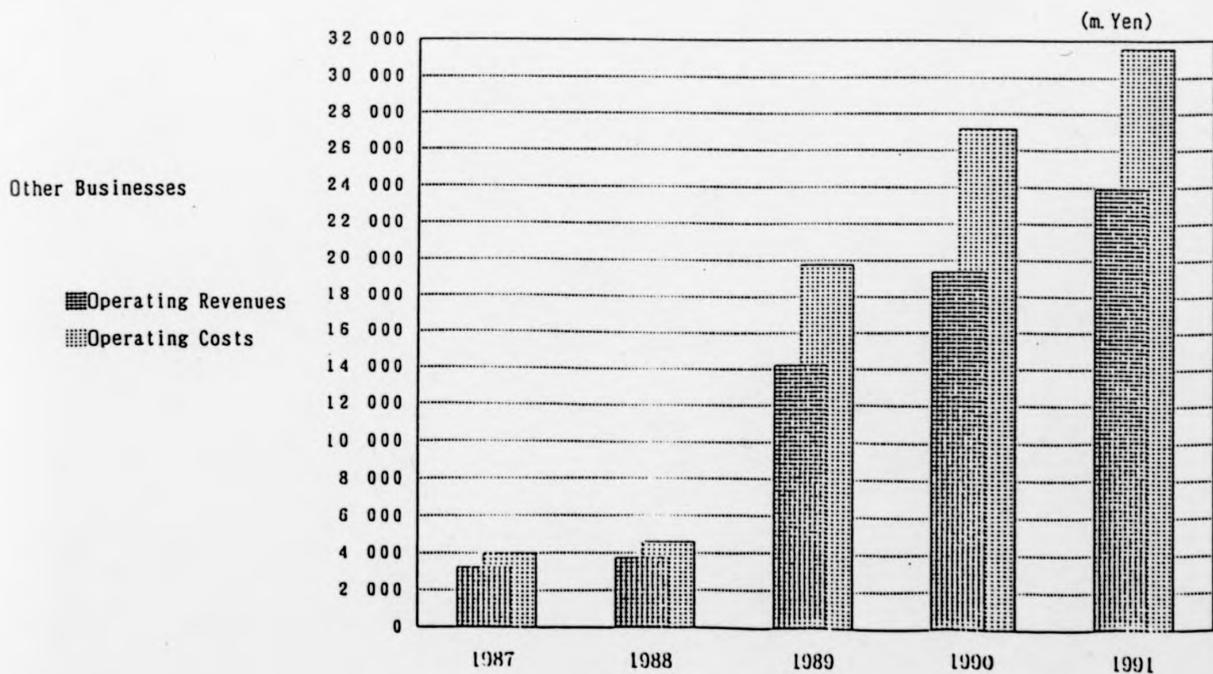
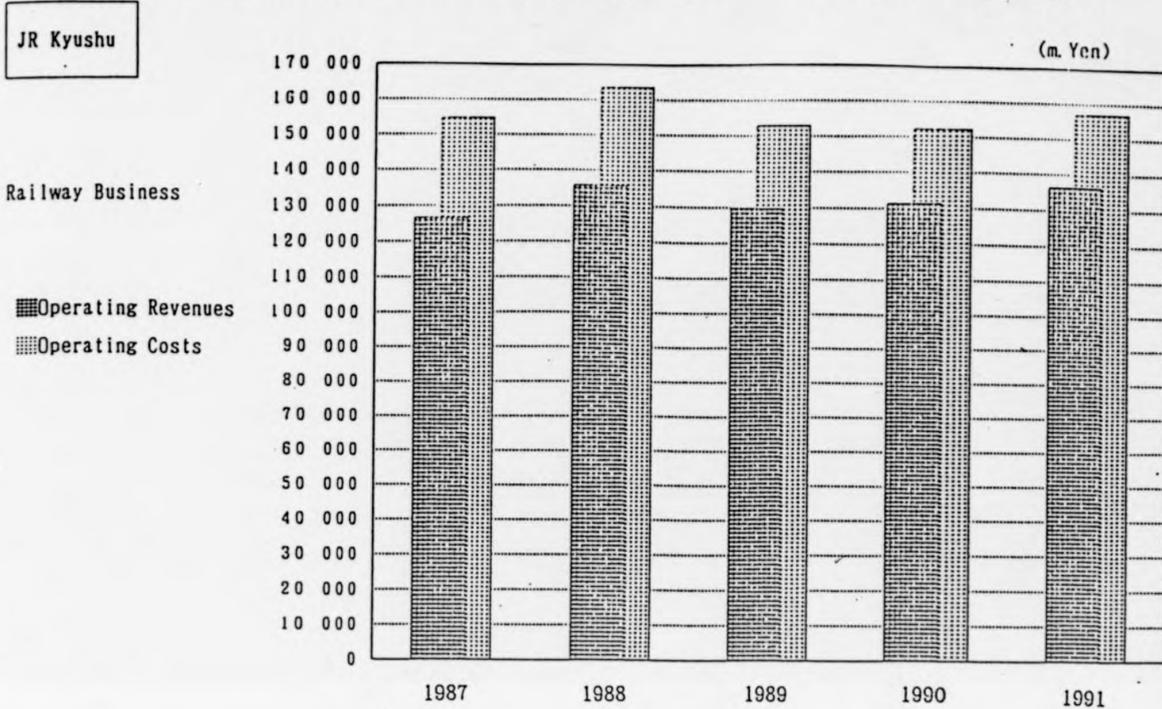


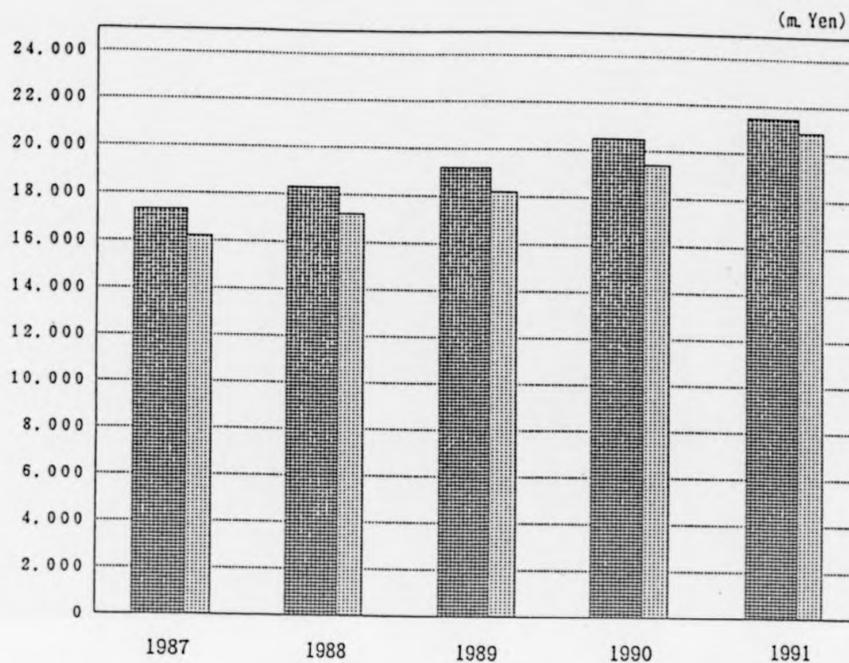
Chart 20 continued

JR COMPANIES FINANCIAL RESULTS: FISCAL YEARS 1987-1991

JR Freight

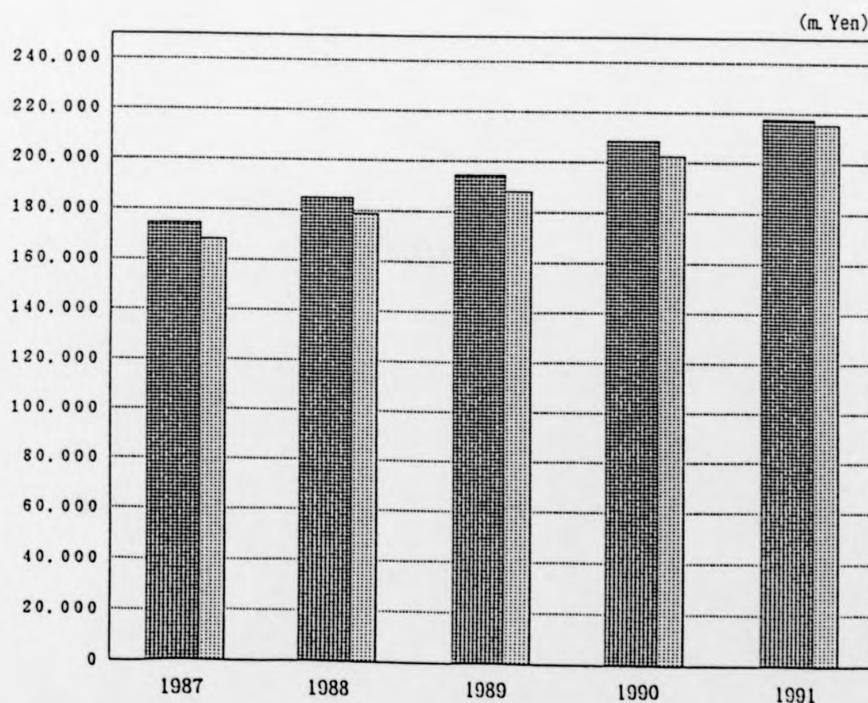
Railway Business

Operating Revenues  
Operating Costs



Other Businesses

Operating Revenues  
Operating Costs



Source: Adapted from data in JR Kakusha (Japan Railway Companies). JR Kessan Hōkokusho (JR Companies Financial Results), 1987-1991 Editions.

### **The Favourable Aspects of the JNR Privatisation**

A non-contentious starting point for a financial analysis of the JR group five years into its post-privatisation state is to examine the published results for the JR companies for the period 1987 - 1992 (Fiscal Years 1987 - 1991). The results for the JR Group of operating companies for these five financial years are shown in Table 36 and the individual figures for revenues and costs highlighted in Chart 20. Having comprehensively exceeded the conservative forecast for the first year, revenues and profits from the group of seven JR passenger and freight companies continued to rise in each of the succeeding four years. As can be seen in Table 36, the momentum of revenue and particularly of profit growth slowed considerably towards the end of this five year period under review, but profits for the JR operating companies in fiscal 1991 were still 1% higher than in the preceding year.

At face value, the financial results support the view that the privatisation has effected a transformation in the national railway from a lossmaking public corporation to an increasingly profitable group of quasi-private enterprises. The favourable conclusion to be drawn from a reading of the JR Company results is, moreover,

compounded by two further factors, the positive posture of the new operating companies themselves as to the effects of their privatisation, and the gains in market share achieved by the JR group in the five year period since the implementation of the privatisation policy.

### 1. The Benefits of Privatisation From the Perspective of the JR Companies

The companies' own positive reaction to the conclusion of five years of privatised operation were contained in a review of the "Five Years' Progress of JR and Its Future Tasks" in the December 1992 issue of Unyu to Keizai (Transportation and Economy)<sup>2</sup>. The main achievements, as identified by the JR operating Companies themselves, were the following:

#### JR East

The beneficial effects of privatisation (*Mineika*) are described as:

- the removal of the spirit of *Oyakata Hi no Maru* (translated as "the Government is the boss, so it will pick up the tab for any excesses or mistakes").
- the favourable change from the JNR which was essentially the same as central government, and its replacement by

- an organisation which is customer oriented, and therefore responsive to the needs of its users in each particular local area, and to its shareholders<sup>3</sup>

The beneficial effects of the division of the JNR into smaller units (*Bunkatsu*) are described as:

- the introduction of a spirit of competition
- the removal of the "closed society" feeling of the JNR as a monolithic organisation and its replacement by
- a smaller organisation in which the company's employees can "see the face" of its senior management.<sup>4</sup>

#### JR Central

- The main benefit of the new structure is described as being the ability to make decisions independently and to implement them quickly
- This is compared favourably with the prevention of such an autonomous system of management being practiced in the JNR era.<sup>5</sup>

#### JR West

- The new structure after privatisation and division of the JNR is seen as offering a clear identity of the company's top management to all employees
- The clarification of the company's management organisation has been further facilitated by the establishment of local management units
- Although additional capital investment is required in the company's area of operation (Kansai) the local governments are now prepared to fund a proportion of the cost. The identification of the benefits of capital spending on local economies was not apparent in the JNR era

- The measure of the success of the new structure is the achievement of increases in transport volume. Over the five years since privatisation, JR West's passenger volume has risen by 20%, which compares favourably with the 7% gain by the five major private railway companies operating in the Kansai area.<sup>6</sup>

#### JR Hokkaido

- The division of the JNR into separate units has increased the awareness of each regional company. This has raised the prospect of increased tourism business to Hokkaido from areas such as Tokyo

- The decentralised operating structure has permitted faster decision making, such as provided for the construction (designed by a Danish State Railway architect) of the new Sapporo Airport station.<sup>7</sup>

#### JR Shikoku

- The opening of the *Seto Ohashi* (The bridge system linking Shikoku with the main island of Honshu) has been very beneficial to JR Shikoku in increasing traffic volumes<sup>8</sup>

- The decentralised structure has facilitated higher capital investment in the company's operating areas. Management has concentrated its capital spending on the speed-up of its rail operations, and on diversification to broaden the earnings base of the company.<sup>9</sup>

#### JR Kyushu

- The division of the JNR into separate companies has facilitated the introduction of a decentralised management structure. JR Kyushu has established local management units to be more responsive to local customer needs

- The autonomous management organisation has also provided for the establishment of separate accounting control systems for the company's rail and diversified operations

- Both local and central governments are now contributing towards the cost of essential capital investment, such as the speed-up of the company's trunk rail services.<sup>10</sup>

#### **JR Freight**

- The Company inherited the smallest amount of debt (amongst the JR Group) from the JNR

- It also has the smallest asset base since it does not own the rail track on which it operates. However, this is reflected in the system in which JR Freight pays only the avoidable costs for accessing the infrastructure

- Capital investment has increased from the low levels which pertained in the last years of the JNR era

- The company is benefitting from government encouragement to use railfreight for environmental reasons.<sup>11</sup>

#### **2.The Market Share Performance of the JR Companies**

It is an undeniable fact that in the five years 1987 - 1992, coinciding with the period since privatisation, the JR Group has managed to arrest the decline in the share of the transport market held by the national railway. The JNR suffered a long period of loss of market share (as discussed in Chapter 3) and, not only has this been reversed but the growth in transport volume achieved by the JRs since 1987, in direct contrast to the pattern in the 1970s and early 1980s, has outpaced that of the private sector which has recently suffered a two point drop in its market share<sup>12</sup>.

Table 37 DOMESTIC PASSENGER TRANSPORT BY MODE OF TRANSPORTATION: FISCAL YEARS 1987-1991

(00m. Passenger-Kilometres)

| Fiscal Year    | 1987             |              |                      | 1988         |              |                      | 1989         |              |                      | 1990         |              |                      | 1991         |       |       |     |
|----------------|------------------|--------------|----------------------|--------------|--------------|----------------------|--------------|--------------|----------------------|--------------|--------------|----------------------|--------------|-------|-------|-----|
|                | Transport Mode   | Volume (00m) | % Change on prev. Yr | Market Share | Volume (00m) | % Change on prev. Yr | Market Share | Volume (00m) | % Change on prev. Yr | Market Share | Volume (00m) | % Change on prev. Yr | Market Share |       |       |     |
| Railways:      | JR               | 2047         | +3.2%                | 18%          | 2176         | +6.3%                | 18%          | 2227         | +2.3%                | 17%          | 2377         | +6.7%                | 18%          | 2470  | +3.9% | 19% |
|                | Private Railways | 1400         | +2.6%                | 13%          | 1442         | +3.0%                | 12%          | 1461         | +1.3%                | 11%          | 1498         | +2.5%                | 11%          | 1531  | +2.2% | 11% |
| Motor Vehicles | 7185             | +43.7%       | 65%                  | 7820         | +8.8%        | 66%                  | 8451         | +8.1%        | 67%                  | 8530         | +0.9%        | 66%                  | 8693         | +1.9% | 65%   |     |
| Aircraft       | 385              | +9.1%        | 3%                   | 411          | +6.7%        | 3%                   | 471          | +14.7%       | 4%                   | 516          | +9.5%        | 4%                   | 554          | +7.2% | 4%    |     |
| Ships          | 59               | +2.9%        | 1%                   | 57           | -2.4%        | 1%                   | 60           | +4.4%        | 1%                   | 63           | +5.2%        | 1%                   | 62           | -1.3% | 1%    |     |
| Total          | 11076            | +26.5%       | 100%                 | 11906        | +7.5%        | 100%                 | 12670        | +6.4%        | 100%                 | 12984        | +2.5%        | 100%                 | 13310        | +2.5% | 100%  |     |

Source: Adapted from data in Unyushō (Ministry of Transport). Heisei 4 Nenban Unyu Hakushō (Annual Ministry of Transport White Papers for 1992). 1992, p. 308.

Table 38 DOMESTIC FREIGHT TRANSPORT BY MODE OF  
TRANSPORTATION: FISCAL YEARS 1987-1991

(00m. Ton-Kilometres Rounded)

| Fiscal Year      | 1987            |                         | 1988            |                         | 1989            |                         | 1990            |                         | 1991            |                         |
|------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|
|                  | Volume<br>(00m) | % Change<br>on Prev. Yr |
| Transport Mode   |                 | Market Share            |
| Railways:        |                 |                         |                 |                         |                 |                         |                 |                         |                 |                         |
| JR               | 200             | +0.3%                   | 230             | +15.0%                  | 247             | +7.1%                   | 267             | +8.3%                   | 267             | -0.1%                   |
| Private Railways | 4               | -4.8%                   | 4               | -0.3%                   | 5               | +3.2%                   | 5               | +1.5%                   | 5               | -1.9%                   |
| Motor Vehicles   | 2264            | +4.8%                   | 2461            | +8.7%                   | 2628            | +6.8%                   | 2742            | +4.3%                   | 2838            | +3.5%                   |
| Aircraft         | 6               | +16.3%                  | 7               | +8.9%                   | 7               | +0.1%                   | 8               | +6.1%                   | 8               | +1.6%                   |
| Ships            | 2014            | +1.7%                   | 2127            | +5.6%                   | 2247            | +5.7%                   | 2446            | +8.8%                   | 2482            | +1.5%                   |
| Total            | 4489            | +3.2%                   | 4829            | +7.6%                   | 5134            | +6.3%                   | 5468            | +6.5%                   | 5600            | +2.4%                   |

Source: Adapted from data in Unyusho (Ministry of Transport). Heisei 4 Nenban Unyu Hakusho (Annual Ministry of Transport White Papers for 1992). 1992. p. 309.

The split of Japanese domestic transport by individual mode is shown in Tables 37 and 38. If it is reasonable to equate the passenger volume increases of the private railways with the contribution made by economic growth<sup>13</sup>, then the JR Companies' performance had undoubtedly been positively influenced by proactive management policies to attract new business.

In the freight market (as outlined in Chapter 4) it was the growth in freight transport by road which, combined with misguided management strategies within the national railway, led to the near demise of the JNR's freight operation. Since 1988, however, compared with road truck freight the growth in volume of the JR Freight business has been favourable, as shown in Table 38.

The share of railfreight in the goods transport market remains small in comparison with the country's traditional mode of transportation, coastal shipping, and with the competitor which emerged in the 1950's, transport by road. The strength of the domestic economy and the shortages in capacity in the truck sector have also been supporting factors in the performance of JR Freight

since its establishment in 1987. Nevertheless, management efforts to improve services have made a significant contribution to the volume increases achieved.

It would be possible then to describe the privatisation of the JNR as a political success. It would also be simple to conclude that it was also a financial success; the old JNR debt had disappeared from view; the JRs were now eminently profitable, having been heavily lossmaking in the JNR era; and the JRs had reversed the fall in market share apparently endemic under the JNR management. To this aura of success could, moreover, be added the fact that, in the five years since privatisation, there have been no tariff increases<sup>14</sup>, again a vivid contrast with the experience in the final ten years of the JNR; and that, to outward appearances at least, management:labour relations in the JR group have improved compared with their condition in the time of the JNR.

The last mentioned 'benefit' of privatisation, the supposed attainment of a better climate for labour relations, is not strictly speaking a financial matter, although a lower incidence of labour disputes would have a favourable impact on the profitability of the

JR companies. The state of labour relations in the JR Group is therefore treated as a separate issue in this study, to be examined after the adoption of a wider basis for the assessment of the financial condition of the national railway five years after its privatisation.

#### Financial Analysis of the Consolidated JR Group

The consolidation of the JR operating companies for the purposes of this analysis is with the two government agencies set up to deal with the JNR indebtedness, the JNR Settlement Corporation and the Shinkansen Holding Corporation. The latter organisation was dissolved in September 1991, and, as will be discussed later, reconstituted as the Railway Development Fund (*Tetsudô Seibi Kikin*)<sup>15</sup>. The financial results for the Shinkansen Holding Corporation can therefore be included for only half of the final year of the five year period, fiscal 1991, in the consolidated results for the full JR Group. This point of detail notwithstanding, the method of evaluation continues that shown earlier in Table 34 of the JR Group's overall performance in the initial year, but now brings the figures up to and including fiscal 1991.

The comparison which is effected in this manner of evaluating the financial performance of the JR Group is with the JNR as constituted up to fiscal 1986. It is, of course, feasible to postulate that the ultimate comparison should be with the JNR public corporation as brought forward from its dissolution in 1987 to an imaginary state of continuance in 1992. Such a standpoint, nevertheless, presents conceptual as well as practical difficulties. It would, in theory, be possible for the analyst to estimate the financial results - and the level of debt outstanding - of the JNR had it remained in existence in its then organisational state by extrapolating the trends in income and costs the final years of the actual operation of the public corporation.

The JNR in its final phase was, however, no longer an organisation with a future; it had already been reshaped to prepare the way for its dissolution and privatisation. Even the World Bank study on the JNR privatisation - previously cited as coming to a favourable conclusion on the effects of the privatisation exercise - draws attention to the following factors contributing to the improvement in profitability of the new JR's, their internal management efforts being but one of four important considerations<sup>16</sup>:

a) Macroeconomic Environment: Economic expansion resulted in increased transport volumes, which stimulated profit growth.

b) The benefits of the privatization process: Managerial efforts by the JRs, stimulated by corporatization, contributed to the increase in transport volume and profits ...

c) The change of institutional framework: By passing part of JNR's liabilities and excess personnel onto the JNR Settlement Corporation, JRs' operating costs were reduced and profits were maximized.

d) The effects of rationalization achieved in the prior restructuring process: Through massive personnel rationalisation, including reduction of about 177,000 employees in the last years of JNR personnel costs were reduced even before restructuring ...<sup>17</sup>

Table 39 JR GROUP INTEREST PAYMENTS AND PRE-TAX PROFITS: COMPARISON WITH JNR RESULTS

¥Billion

|                                    | 1987                | 1988                | 1989                | 1990                | 1991                |         |          |         |          |         |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------|----------|---------|----------|---------|
|                                    | (Interest Payments) |         |          |         |          |         |
|                                    | /Profits            | /Profits            | /Profits            | /Profits            | /Profits            |         |          |         |          |         |
|                                    | /(Losses)           | /(Losses)           | /(Losses)           | /(Losses)           | /(Losses)           |         |          |         |          |         |
| 7 JR Passenger & Freight Companies | (330.3)             | (362.2)             | 220.9               | (288.0)             | 289.9               | (240.3) | 303.7    | (547.8) | 307.1    |         |
| Shinkansen Holding Corporation     | (604.8)             | 1.8                 | (589.5)             | 9.5                 | (564.1)             | 15.6    | (552.5)  | 14.9    | (275.3)  | (150.1) |
| JNR Settlement Corporation         | (912.6)             | (2315.2)            | (1050.6)            | (1780.7)            | (1074.9)            | (740.1) | (1055.2) | 322.9   | (1064.4) | (561.8) |
| Total JR Group                     | (1856.7)            | (2157.3)            | (2011.3)            | (1550.3)            | (1927.0)            | (434.5) | (1848.0) | 641.5   | (1887.5) | (404.8) |

| 5 Year Annual Average 1982-1986                          | 5 Year Annual Average 1987-1991                         |
|--|---|
| JNR Group  | JR Group  |
| (Interest Payments)/(Profits/(Losses)) (1218.4) (1583.5) | (Interest Payments)/(Profits/(Losses)) (1906.1) (781.1) |

- Note: 1) JR Group figures exclude the results from the Railway Telecom and Railway Information Companies on the basis that they are immaterial to this analysis.  
 2) JR Group figures for fiscal 1991 include those for the Shinkansen Holding Corporation for six months to its dissolution as at 30 September 1991.  
 3) Figures for the Shinkansen Holding Corporation for fiscal 1991 exclude the extraordinary profit of ¥1191.5b on the sale of the Shinkansen facilities to the 3 Honshu JR Passenger Companies.

Source: Adapted from data in JR Kakusha (Japan Railway Companies). JR Kessan Hokokusho (JR Companies Financial Results). 1987-1991 Editions.

Any projections of the JNR five years forward from 1987 would have to take account of these positive factors as if they had also applied to the national railway in its public corporation guise. There was, however, no question of what the World Bank study above refers to as the "change of institutional framework" - the hiving off of the JNR debt and excess personnel to the JNR Settlement Corporation "- or "the effects of rationalization achieved in the prior restructuring process" - the massive reduction of the JNR labour force in its later years - being applied to the JNR as an on-going organisation<sup>18</sup>. These measures were only put into effect because they were pre-conditions to the process of breaking up and privatising the JNR; there was never any possibility of them being implemented as part of a policy of maintaining the JNR as a single, nationwide operator of the national rail network.

In this study, extrapolation of previous patterns of revenues and expenses has therefore been deemed an inappropriate exercise in the absence of compensatory factors for the hypothetical 'on-going JNR' such as the effects of a strong economy (Japan's GNP rose by more than 5% per annum in the first three years after the JNR

privatisation), the benefit of the personnel cuts, and the financial gain from the sideways movement of its debts. Instead, the comparison considered most appropriate is that of the JR Group (consolidating the new public corporations considered necessary to shelter the less acceptable side effects of the privatisation process) with the JNR Public Corporation. It was, after all, the JNR which had retained the obligation of maintaining a nationwide passenger and freight service without the benefit of the more enlightened policies on public investment in the rail network or of a real economic assessment of the scale of the labour force required for the implementation of such a function. The benefits from the government's reassessment on both counts - on future public investment in the rail infrastructure and on the required labour force in the 'new' national railway - were only applied to the privatised JR operating companies after the decision was made to dissolve and privatise the JNR Public Corporation.

The 'JNR to JR' comparison is included in Table 39, in which the JR Group results for 1987-92 are compared with the last five years of the JNR. The results of the two JR related public corporations are thus consolidated with those of the operating companies, and

the group figures show the effect on interest costs and on profitability of the still existent ex-JNR indebtedness. It can be seen that in only one of the five years since 1987 did the full 'JR Group' made an overall profit, and the average annual deficit on a consolidated basis for the five year period would have been 780 billion Yen. While this is lower than the average loss made by the JNR in the last five years of its existence, the calculation of the adjusted 'real' losses made by the JR group provides a more balanced view as to the financial success or otherwise of the privatisation of the national railway<sup>19</sup>.

The true financial position of the JR group is also illustrated in the figures for interest charges since 1987. Inclusive of the debt burden of the JNR Settlement Corporation and the Shinkansen Holding Corporation, interest charges for the five year period 1987-91 were substantially higher than in the preceding last five years of the JNR. In each of the five JR years, moreover, the amount of interest paid exceeded the figure for fiscal 1986, the JNR's final year of operation, by a considerable margin. The lowest JR Group interest cost figure since 1987 was in fiscal 1990 but, at 1,848 billion Yen, was 334 billion Yen more than for the JNR in 1986.

Table 40 CAPITAL INVESTMENT: COMPARISON OF JNR AND JR GROUP

¥ B i l l i o n

|   | J N R |       |       |       |       | 5 Year JNR<br>Annual Average | J R   |       |       |       |       | 5 Year JR<br>Annual Average |
|---|-------|-------|-------|-------|-------|------------------------------|-------|-------|-------|-------|-------|-----------------------------|
|   | 1982  | 1983  | 1984  | 1985  | 1986  |                              | 1987  | 1988  | 1989  | 1990  | 1991  |                             |
| Investment for the<br>Maintenance and<br>Renewal of Trans-<br>port Facilities | 252.1 | 208.7 | 169.9 | 137.4 | 211.5 | 195.9                        | 73.5  | 86.2  | 102.6 | 107.3 | 149.6 | 103.8                       |
| Line Construction<br>Investment   | 301.3 | 271.1 | 287.7 | 77.6  | 71.9  | 201.9                        | 33.6  | 48.4  | 49.1  | 62.6  | 102.8 | 59.3                        |
| Rolling Stock<br>Investment etc.  | 213.2 | 175.5 | 148.8 | 175.8 | 160.6 | 174.8                        | 79.6  | 176.8 | 213.6 | 225.6 | 192.9 | 177.7                       |
| Technological<br>Investment and R&D   | 122.0 | 96.0  | 42.9  | 36.0  | 89.3  | 77.2                         | 21.7  | 41.1  | 93.4  | 132.9 | 152.9 | 88.4                        |
| Total   | 888.6 | 751.3 | 649.3 | 426.8 | 533.3 | 649.9                        | 208.4 | 352.5 | 458.7 | 528.4 | 598.2 | 429.2                       |

Note: Line Construction Investment includes expenditure on new Shinkansen facilities.

Source: Japanese National Railways, and JR Data Adapted from Ishizuki Shoji, Kokuteisu Seisan Jigyô Dan no Genjô to Kadai. (The Present Situation and Issues Faced by the JNR Settlement Corporation). Han Kôtsu. November 1992. p9.

The increase in interest charges in the JR era primarily reflects the failure of policies designed to repay a considerable portion of the indebtedness inherited from the JNR. As will be discussed later in this Chapter, the liabilities of the combined JR Group are actually no lower now than the amount taken over from the JNR public corporation in 1987, and the lack of success in reducing debt has had a dramatic effect on the interest costs borne particularly by the JNR Settlement Corporation<sup>20</sup>.

#### Additional Considerations in the Financial Analysis of the JNR Privatisation

There are, in addition, two further factors which must be taken into account in reviewing the results of the JR group of companies over the past five years. Reference to the first of these was made in Chapter 6 - the immediate cutback in capital expenditure by the JR companies in the first year of the new regime - but, in fact, the low level of investment compared with the JNR era continued until 1990. As shown in Table 40, capital investment by the JRs did not surpass that of fiscal 1986 until the fifth year, fiscal

1991, and the five year average of 429 billion Yen per annum since 1987 was substantially below that of the 650 billion Yen per annum spent by the JNR in the five years to 1986.

The claims made by the JR operating companies of enhancements in services since 1987<sup>21</sup> should therefore be viewed in the context of the substantial investment in increasing transport capacity, in new rolling stock, and in the renewal of capital equipment which took place under the JNR's operation. The maintenance of the JNR level of capital investment would have had a major negative influence on the interest costs of the JR Group, and on its profitability since 1987.

The impact of the reduction in capital spending on short term profitability has also been augmented by a second contributory factor - the completion of the programme of closure of rural lines - a policy sanctioned in 1981<sup>22</sup>. The transfers and closures, while a product of decisions made originally on behalf of the JNR public corporation, continued to be implemented in the post-privatisation era, in fact right up to 1990. This has prompted comments that the privatisation of the JNR has led to the closures

and removal of passenger services.<sup>23</sup> Given that the policy began in the JNR era, and that the JR Companies were merely carrying through the final parts of a programme which had been agreed before their incorporation, such views are without foundation. It is, however, pertinent that the JR Companies have benefitted from what was a JNR initiative, in the form of elimination of losses from local lines which in the past the JNR had been obliged to run.

There is no doubt that the JR group has gained both from prior year capital spending by the JNR - and from its immediate reduction by JR management - and from the programme of local line closures. The origins of such factors deemed to be JR inspired improvements in the operation of the national railway thus lie in the JNR era, but they have helped the JR operating companies to produce the profit increases which are taken as a mark of the gains from the privatisation policy.

Notwithstanding the cutback in capital outlays by the JR companies, the overall debt burden of the consolidated JR Group has not fallen since 1987. Table 32 has already shown how the JNR's long term liabilities were split in such a way as to minimise

the negative impact on the new operating companies. This element of the policy of dividing up the future responsibility for the repayment of JNR debt has been reasonably successful in that the JR operating companies have been able to reduce their debt burden since the commencement of operations in April 1987.

#### Long Term Indebtedness - JNR to J R

As highlighted in Table 41, the long term indebtedness of the seven JR's has fallen from the 5.9 trillion Yen inherited as a reflection of the assets acquired from the JNR, to 4.5 trillion Yen at the end of fiscal 1991. This figure does not include the sum of 9.1 trillion Yen of new debt acquired in October 1991 as a long term payment for the purchase of the four existing *Shinkansen* from the former Shinkansen Holding Corporation. The implications of this additional debt will be covered in later discussion of the Holding Corporation's successor, the Railway Development Fund. At this point it should be noted that the transfer of ownership of the *Shinkansen* has enabled the JR's to begin depreciation of the assets acquired, and the extra debt of 1.1 trillion Yen so incurred (the excess of the market value over the book value of the *Shinkansen* assets acquired) will be repaid over a sixty year period<sup>24</sup>.

The bulk of the JNR's liabilities, taken over by the JNR Settlement Corporation, however, remain in place and, indeed, are now greater than the 1987 level. As at 31 March 1992, the JNR Settlement Corporation's debts were almost 1 trillion Yen higher than at the starting point five years earlier. Despite the fall in the debt burden of the operating companies, the overall level of long term liabilities in the combined JR Group at the end of fiscal 1991 was therefore almost exactly the same as the 37.2 trillion Yen inherited in 1987 from the JNR<sup>25</sup>.

As the Settlement Corporation's main function was to be the redemption of the long term liabilities of the national railway through the sale of its assets, it must therefore be said that it has not yet been remotely successful. The JNR debt may have been separated and divided up to allow the JR companies to be able to generate profits on the operations acquired. The liabilities, however, still exist, and remain as a major part of the overall Japanese Government sector indebtedness.

Table 41 DISPOSITION OF THE JNR'S LONG TERM  
LIABILITIES SINCE 1987

¥ trillion (figures rounded)

| Long Term<br>Liabilities at 1.4.1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|--------------------------------------|------|------|------|------|------|
| JR Operating<br>Companies            | 5.9  | 5.5  | 5.0  | 4.8  | 4.5  |
| Shinkansen Hold-<br>ing Corporation  | 5.7  | 5.6  | 5.5  | 6.2  | 6.1  |
| JNR Settlement<br>Corporation        | 25.5 | 26.1 | 26.9 | 27.1 | 26.4 |
| Total                                | 37.2 | 37.3 | 37.5 | 38.0 | 37.1 |

Note: 1) As of 1 October 1991 the 3 Honshu JR Passenger Operating Companies acquired a further liability of ¥9.1 trillion, representing the purchase cost of the four existing Shinkansen from the former Shinkansen Holding Corporation.

2) At 1 April 1987, the former Shinkansen Holding Corporation also assumed a long term debt to the JNR Settlement Corporation of ¥2.9 trillion. This figure is here shown as part of the gross liabilities of the JNR Settlement Corporation.

Source: Adapted from data in Unyushō (Ministry of Transport). Toranspōto (Transport), 1992, p. 32.

## The Debt Disposal Issue

The position of the JNR debt as a continuing burden on the Japanese public has received less attention than the results of the JR operating companies, although realisation is growing that there is still a problem of major proportions in dealing with the repayment of past JNR debts. An illustration of this issue appeared in the financial newspaper, the *Nihon Keizai Shinbun (Nikkei)* which, on 7 February 1993 carried a feature entitled *Kakure Fusai 1 Chō 1300 Oku En Zō* (An Increase of 1.1 trillion Yen in the Hidden Debts). In this article it was stated that, while the official Government estimate was that the former JNR indebtedness would be reduced from 26.4 trillion Yen to 26 trillion Yen in fiscal year 1992, the remaining national railway debt would still comprise some 70% of the total national public sector deficit. The *Nikkei* thus highlighted the fact that the JNR's debt was still, five years after its privatisation, the major constituent of overall central government borrowings. The reminder of the continuing existence of the JNR indebtedness confirms that the privatisation of the JNR did not deal successfully with the comprehensive repayment of the prior liabilities built up by the national railway in the providing of a level of nationwide service far beyond its financing capabilities.

It was never expected, of course, that the disposal of former JNR assets would produce sufficient revenues to repay all of the long term liabilities transferred to the JNR Settlement Corporation in 1987. As Table 32 had indicated, some 13.8 trillion Yen of the JNR's debts were forecast to remain as a burden on the public after the sale of all realisable real estate, and after the flotation of the shares of the marketable JR operating companies<sup>26</sup>. It was not in the original plan, however, that five years after the implementation of the privatisation policies, the level of debt would still be at 1987 levels. That it is so reflects the recessionary conditions in the Japanese economy, the effects of which have rendered the JNR Settlement Corporation's task of making substantial inroads into the inherited debt position impossible.

The Settlement Corporation was charged, in addition to its obligation to find employment for the excess JNR personnel, with the duties of paying interest on the liabilities transferred from the JNR and of reducing their amount through the selling off of surplus assets. These assets comprised the non-operational land of the former JNR (8,180 hectares or 13% of the total real estate

owned by the JNR), its holding in the Teito Rapid Transit Authority, the stock of railway equipment not required by the new JR Group, and the share capital of the JR operating companies.

The initial policy laid down was for the JNRSC to maximise the sale of the real estate assets through the then current practice of open competitive bidding. It is somewhat ironic in the present climate of substantial falls in real estate values that the Government sought to change this principle in October 1987 in accordance with the Emergency Countermeasures against Rising Land Prices<sup>27</sup>. This Government decision prevented the JNRSC from taking full advantage of the buoyant real estate prices which existed at that time, and it was thereafter forced to adopt less aggressive tactics to dispose of surplus land.

The JNRSC then had to devise methods in which open bidding - and therefore the declaration of the sale price of the land - did not take place. These involved the sale of real estate already developed by the JNRSC, and disposals through Land Trusts<sup>28</sup> set up in conjunction with Trust Banks. The lack of success of these conservative policies led to the resumption in late 1991 of the

method of land sales by free market contract. The last mentioned strategy was targeted mainly at other public sector bodies, such as government, public utility, local authorities etc, and its adoption formed part of the Emergency Proposals for the Disposal of Land by the JNR Settlement Corporation set out in September 1991<sup>29</sup>.

In spite of these emergency measures, the sale of land by the JNRSC has continued to lag behind the original expectations. Up to the end of fiscal 1991 revenues from fixed asset disposals (including the sale of its share of the Teito Rapid Transit Authority) amounted to 2.2 trillion Yen, only 28% of the 7.7 trillion Yen target set out by the JNR Reform Commission.

In the intervening period, the JNRSC has had to bear the costs of the Seikan Tunnel joining the islands of Honshu with Hokkaido, and of the new bridges constructed to link Honshu with Shikoku. Inclusive of its future (JNR) pensions liabilities, and of the Three Islands Management Stabilisation Fund, the JNRSC's long term liabilities as at 31 March 1992 amounted to 26.4 trillion Yen compared with the 25.5 trillion Yen it took over in April 1987<sup>30</sup>.

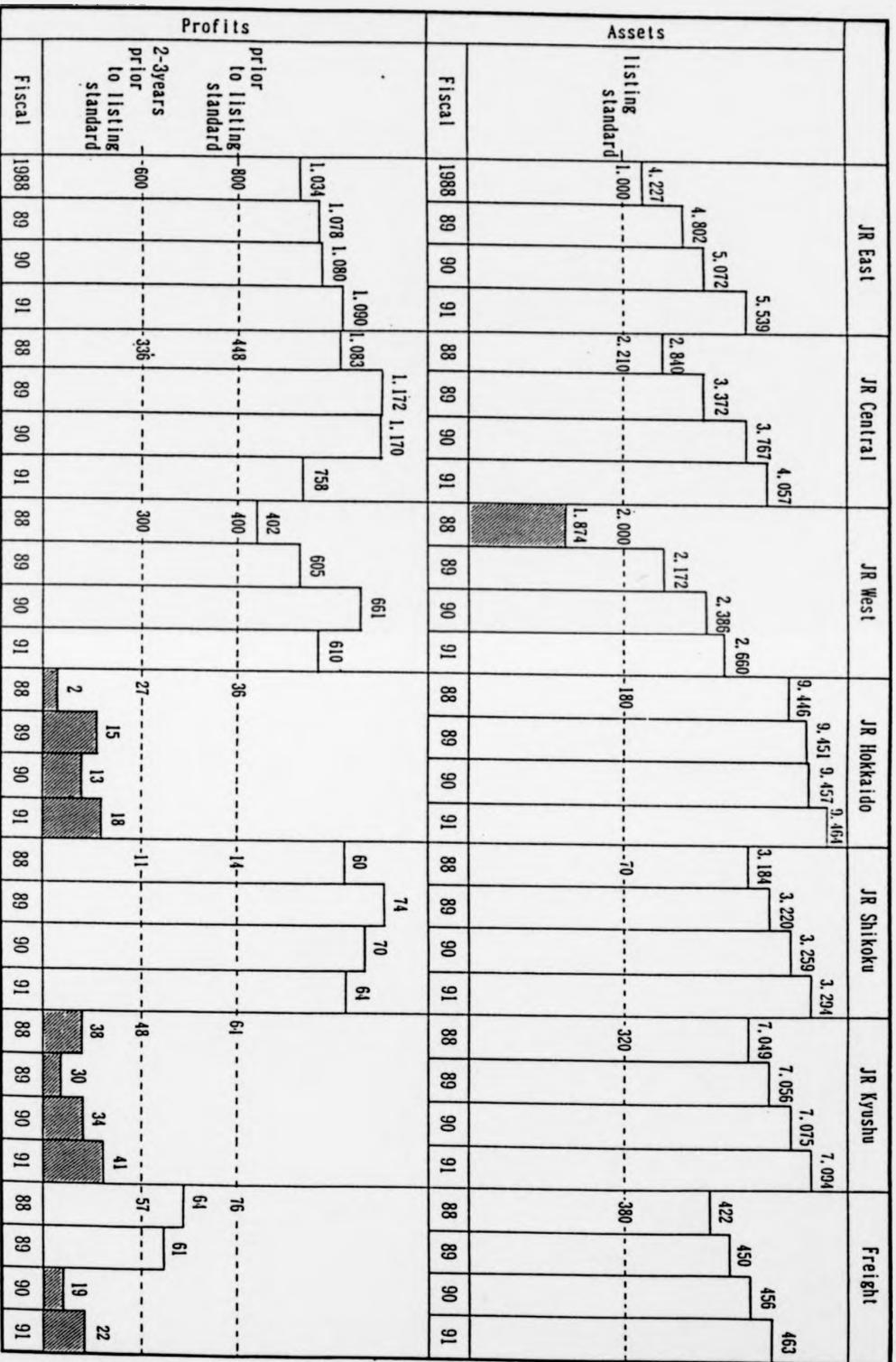
## The JR Share Flotations

The economic conditions which have led to the slump in the real estate market have also resulted in the postponement of the proposed flotation of the shares of JR Freight and of the three Honshu JR's. The JNR Restructuring Commission's proposals for the eventual sale of the equity of the newly created JR Operating Companies to private investors had been reinforced by a cabinet decision on 19 December 1989 that "JR stocks shall be disposed of as early as possible in the most effective way available under the principles of the JNR reform".<sup>31</sup>

In this statement of intent it was envisaged that the sale of the equity of the JR companies would begin by fiscal 1991 (at the latest) and, to that end, a Study Group was formed under the auspices of the JNRSC to devise the most efficient means of putting the share disposal policy into operation. This, in turn, resulted in the May 1991 production of a report for the Ministry of Transport by the Study Meeting on the Basic Problems of JR Shares which re-iterated the need that "effective disposal should be made as rapidly as possible in order to speed the complete privatisation of the JR and the redemption of JR's long term liabilities".<sup>32</sup>

Chart 21 STOCK EXCHANGE LISTING REQUIREMENTS:  
JR COMPANIES RESULTS

(00m Yen)



Source: Adapted from Ishizaki Shoji, Jigyō no Genkyō to Kadai (The Present Situation and Issues Faced by Our Business), Han Kōtsu, July 1991, Chart 1, p18.

□ Standard Attained  
■ Standard Not Attained

The specific recommendation was for the flotation of the shares in the three Honshu passenger companies as soon as the requirements for their listing on the Stock Exchange were met, and that separate study should be undertaken with regard to the other JR companies. The later point was a tacit admission of the unlikelihood of the Three Island JR's reaching a position in the foreseeable future in which flotation of their shares could be countenanced. It was, moreover, a recognition that despite the progress made by JR Freight, it would take considerably longer to fulfil the listing requirements than would JR East, JR Central or JR West<sup>33</sup>.

The Listing Standards of the Stock Exchange which the JR operating companies have to meet prior to any flotation are as follows:

- the company requiring a listing must have been in business for at least five consecutive years
  
- it must have net assets valued at a level no less than twice that of its paid-up capital

- its operating and pre-tax profits in the financial year immediately preceding any listing must be more than 40% of its paid-up capital, and its profits must also be more than 30% of its paid-up capital in the two previous years

- it must have paid a dividend in the financial year immediately before the proposed listing.<sup>34</sup>

As can be seen in Chart 21, JR East, JR Central, and JR West had met all of these listing requirements by fiscal 1991. It was, however, the expectation that the remaining JR operators would not fulfil the listing standards in time that led to the May 1991 report to the MoT recommending that the strategy for the JR share flotations should be confined in the short term to the three Honshu companies.

In spite of this scaling down of the original flotation plans - lip service is still being paid to the possibility of JR Freight and the Three Island Companies being sold off to the public at some stage in the future - the share listings of the three Honshu JRs were again postponed. Contrary to expectations, there were therefore no

JR share sales during fiscal 1991 and, while the management of the JR Honshu companies pressed for an early resolution of the issue, the commencement of the flotations during the next year (fiscal 1992) was also finally formally abandoned by the Ministry of Finance.<sup>35</sup>

The first tranche of the share flotation finally took place in October 1993 with the sale of equity in JR East. The listing involved the sale of 2.5 million out of JR East's total capital of 4 million shares. The flotation raised some 1.07 trillion Yen for the JNR Settlement Commission, and represented the first really significant receipt of funds to offset the debts it acquired on the dissolution of the JNR in 1987.

Mindful of the disastrous experience of the latter instalments of the NTT flotation, when the share price fell substantially below that at which the public had earlier subscribed for NTT shares<sup>36</sup>, the remaining JR share sales will doubtless be subject to very careful scrutiny by the Ministry of Finance in terms both of pricing and quantity of stock offered in each tranche. Nevertheless, the achievement of the first instalment of shares in JR East is an

important psychological event, one which now provides a more tangible basis on which to assess the overall potential value of the JR stocks in relation to the targets for the flotation by the JNR Restructuring Commission. This is particularly pertinent because, if real estate asset sales continue to be sluggish, the raising of revenue from the 'privatisation' of the JRs will be a critical factor in enabling the JNRSC to reduce its debt burden.

The Restructuring Commission, in its proposals for the division of the JNR, originally estimated the proceeds from the flotation of the JR stocks (as included in Table 32, adjoining p. 447) at 1.2 trillion Yen. That figure included the prospective revenues from the sale of the JNR's 51% holding in the Teito Rapid Transit Authority, the net sum from the JRs being forecast to be in the region of 0.7 trillion Yen ( a figure already surpassed with only the first JR East share flotation)<sup>37</sup>.

However, since the initial establishment of the JR group that original basis of estimation of the flotation value has been reviewed by a special body - the Assets Disposal Council - established by the JNR Settlement Corporation. The Assets

Disposal Council was established to make recommendations on the basic principles on which sales of assets by the JNRSC will be made. Having considered the flotation matter, the Council decided on a basis of estimating the worth of the JR companies geared to a comparison with the actual market valuation of comparable companies already quoted on the Tokyo Stock Exchange. In the case of the JRs, the relevant comparison is with the private railway companies such as Tôkyû Corporation, Tôbu Railway, Nagoya Railroad (*Meitetsu*), Kinki Nippon Railway (*Kintetsu*) and, in the case of JR Freight, Nippon Express.<sup>38</sup>

It was on this revised basis that the JR East flotation went ahead in October 1993, and the initial experience would suggest an ultimate market value of the realisable JR's, ie. the three Honshu passenger companies and JR Freight, several times higher than the 0.7 trillion Yen first estimated by the Reform Committee. A figure of revenues of 5 - 6 trillion Yen is now eminently possible, which would reduce the balance of debt outstanding after all asset sales by the JNRSC from the forecast figure of 13.8 trillion Yen to something in the region of 8 - 9 trillion Yen. It is also conceivable that a recovery in the real estate market would produce a final

return from land sales in excess of the 7.7 trillion Yen originally forecast, which would further reduce the net debt which would remain.

These are positive conclusions to be made from the initial JR share flotation, and from the hope that, eventually, a better climate in the real estate market will facilitate property sales to bring down the final legacy of JNR debt. It could, however, be some considerable time before there is a return to buoyant conditions in the property market. The wish of the Ministry of Finance to avoid the embarrassment caused by the NTT flotation would also suggest that there could be a lengthy period before the completion of the JR share sales, perhaps being accomplished in up to four or more tranches. The potential gains from higher than estimated receipts from real estate and share disposals are therefore likely to be offset by the continuation of a substantial interest burden on the existing liabilities for which the JNR Settlement Corporation remains liable.

On a narrow basis the policy of separating the JNR's long term liabilities, and apportioning them such that the JR operating

companies would still be able to generate profits, can be judged to have been a success. On a more balanced view, nevertheless, the first JR share flotation notwithstanding, the policy of repaying the liabilities inherited from the JNR can not be regarded as having achieved its aims. The remaining debt burden will not, because of the careful policy of dispersion of the JNR liabilities, have any major negative impact on the JR operating companies. The continuing existence of a substantial level of the former JNR's indebtedness, however, should not be overlooked in any evaluation of the achievements of the division and ultimate privatisation of the national railway.

#### Public Sector Funding of Railway Investment

It should be remembered that the aim of reducing the public sector financial burden related to the national railway was undoubtedly a fundamental objective of the privatisation process. The repayment of debt was a clear target, but also implicit in this policy was the wish to lessen the dependence of the national railway on public subsidies. Again, ostensibly, such an objective has been successfully accomplished, at least if the measure is limited to that of the results of the JR companies. A broader analysis of the

government's present role in financing railway investment, however, would suggest a somewhat different conclusion.

In order to evaluate the current position of public sector funding of the railway network, it is necessary to divide the post JNR privatisation era into two periods. The first would comprise the fiscal years 1987 to 1990, covering the period during which the three Honshu JR companies were leasing the existing *Shinkansen* from the Shinkansen Holding Corporation. The second period would commence from 1 October 1991 when the *Shinkansen* were sold to the Honshu JRs, and the Shinkansen Holding Corporation reorganised as the Railway Development Fund. The changes implemented in October 1991 incorporated a new basic framework for financing the construction of the proposed *Shinkansen* agreed in January 1989<sup>39</sup>. They, in fact, heralded a different approach to government funding of railway investment, and it is primarily the operation of this new policy which calls into question the notion that the privatisation process has led to a fundamental reduction in the public sector's fiscal obligations<sup>40</sup>.



Even looking first at the pre 1991 four year period, the surface view that the Government's financial burden associated with the JR's has been drastically reduced compared with that for the JNR, can not be fully supported. Table 42 shows the payment of subsidies to the JNR in its final fiscal year, 1986, and compares this government funding with the post privatisation experience up to fiscal 1990.

As has been discussed in the section on subsidy policy in the JNR era (in Chapter 3), payments made by government to the national railway after 1977 included grants and interest subsidies which were not credited to the JNR Profit and Loss Account. These non-revenue subsidies were paid to the JNR Capital and Special Accounts and, in Table 42 they are separated from payments into the Profit and Loss Account. Similarly, the JNR Settlement Corporation received, in fiscal 1989, in addition to regular subsidies to offset its burden of supporting JNR debt, special payments to supplement the former JNR's pension fund. In Table 42 these special subsidies are shown distinctly from the other Profit and Loss Account subsidies paid to the JNRSC.

Included as a further separate category of subsidies paid to the post- privatisation JR Group are the revenues generated by the Three Islands Management Stabilisation Fund. The establishment of this fund as part of the process of dividing the JNR into regional operating companies has already been covered in Chapter 6. To reiterate, it was designed as a means of providing financial support for the intrinsically lossmaking services in the three smaller islands of Kyushu, Shikoku and Hokkaido which would replace the need for annual payments from the public sector to meet the operating deficits in these regions.

In its operations the Fund - a system devised by Okano Yukihide, then Professor of Economics at Tokyo University - produces income for the Three Island JRs which is not regarded by some observers (Okano included)<sup>41</sup> as being a subsidy payment. The rationale for such a view is that the annual revenue from the Fund is basically different from the system of subsidising the former JNR which was essentially a post facto compensation for losses previously incurred. The *Keiei Antei Kikin*, it is argued, is simply a fund of money, the income on which can rise or fall according to decisions made on its investment. The return on the Fund is therefore the

product of management decisions which will dictate whether or not the overall income is sufficient to cover the Three Island JRs' operating losses. The management of the Kyushu, Shikoku and Hokkaido JR operating companies thus have, in theory at least, responsibility for the management of the investments, and their actions in deciding on policy towards the Fund will therefore be akin to decisions made on matters of railway operation<sup>42</sup>.

There is no argument with the case that the return on the Fund over time will be a variable, dependent on management decisions separate from government policy on offsetting losses incurred by the Three Island JRs in providing fundamentally unprofitable railway services. The difference in view is, rather, concerned with the process involved in setting the initial value of the Management Stabilisation Fund, and with the source of the funds which facilitated its creation.

The *Antei Kikin* was set up with funds 'provided' by the JNR Settlement Corporation, the wholly owned government agency whose primary function is to generate revenue from asset sales to provide for the repayment of the JNR's long term liabilities.

The total amount of 1.3 trillion Yen which makes up the Fund was divided as to JR Kyushu 388 billion Yen, JR Shikoku 208 billion Yen, and JR Hokkaido 682 billion Yen (as detailed in the earlier Table 31). The size of the fund was calculated on the basis of an amount which, if invested to produce an annual return of 7.3%, would produce a level of income which would broadly match the estimated operating deficit of each of these three JR operating companies.

The Settlement Corporation did not actually have the monies to set up the Fund, however, and so its establishment created a new debt which did not exist in the JNR era. For the first two years of the JR, no part of the principal of the debt was transferred to the Three Island Companies but, instead, the JNRSC paid over to JR Kyushu, JR Shikoku and JR Hokkaido an amount equivalent to a 7.3% return on its share of the still imaginary fund<sup>43</sup>. As the principal of the debt remained notional, the payment of this interest by the JNRSC in years one and two could only be made by further increasing its own interest payments and, in turn, its own indebtedness.

From the third year (1989) and for a further seven years the principal amount of the Fund is being paid in equal annual instalments to the Three Island JRs, but only at the end of this 10 year period will the JNRSC cease to have the obligation to fund the interest payments on which the continued operation of their unprofitable rail services is dependent.

The Management Stabilisation Fund was established as an integral part of the disposition of the JNR's liabilities, but its origin was, however, an additional long term debt created as part of the burden inherited by the JNR Settlement Corporation<sup>44</sup>. Its ultimate source is therefore government indebtedness and its existence as dependent on the provision of public funds as would be the case with the payment of 'normal' subsidies. The setting of a target for the investment return on these public monies, moreover, represented a process little different from the establishment of an annual subsidy. The necessity of the fund continuing to have to return around 7.3% per annum greatly limits management independence on investment policy, and in practice it is little different to the government accepting the obligation to finance the deficit from the operation of 'socially essential' railway services.

It is accepted that, since the commencement of payment of the loan principal in fiscal 1989, the scope for direct management responsibility for the Fund had increased. The implications of this additional element of risk on the financial management of the Three Island Companies are indeed to be discussed later in this Chapter. The conclusion of the evaluation of the *Keiei Antei Kikin* is, however that, sourced from the public sector, and with the level of funds calculated to finance lossmaking services, the income from the Fund should be regarded as a new and ingenious device, but still as a public subsidy.

To the subsidies paid to the JRs and to the JNR Settlement Corporation in Table 42 has therefore been added the annual payments generated by the Three Islands Management Stabilisation Fund. Far from showing the elimination of subsidies after privatisation, the reading of this Table is that a substantial public sector obligation on funding the railways network remained in place up to and including fiscal 1990. Allowing for the contributions made in corporate tax payments by the JR companies, the average level of public sector funding in the period 1987 - 1990 was certainly less than in the concluding JNR era but,

whether it was sufficiently lower to validate the more extravagant claims for the supposed new policy, is debatable. Thus, on a comparable basis, the JR Group's receipt of 265 billion Yen per annum in total subsidies between 1987 and 1990 can be set against the JNR's 375 billion Yen in fiscal 1986. Thus, also on comparative figures, the JR Group's four year annual average of 155 billion Yen per annum of subsidies exclusive of extraordinary payments, can be viewed in relation to the 1986 JNR Profit and Loss Account subsidy of 188 billion Yen.

That direct public subsidies paid to the JR operators of the national railway have been reduced compared to those to the JNR, has been taken as evidence that the privatisation process was successful in creating a greater degree of financial self sufficiency than in the public corporation era<sup>45</sup>. The acceptance of the need for a new system of funding railway investment projects, embodied in the decision to sell the *Shinkansen* network to its operators and in the establishment of the Railway Development Fund in 1991, however, has prompted a new interpretation of the present state of the relationship between the JR Companies and the government.

## JR - Government Relations

The interpretation that there is a new climate in JR-Government relations is predicated upon the changing balance of power since the 1987 division and privatisation of the JNR, between the JR companies, the Ministry of Transport, and the government. The essential point in provoking changes in national railway transport policy has been that, to paraphrase Ishihara Shintaro's collection of essays<sup>46</sup>, the new national railway operators have become 'The JRs That Can Say No'.

The public stance of the JR operating companies is that the level of control by the Ministry of Transport is unacceptably high, and that the flotation of their shares is necessary to give them the position of management independence commensurate with their private company status. The other major objective of the listing of the JR stock is, of course, to give the companies access to the private sector capital markets which will facilitate the raising of funds for future investments.

In certain respects, the claim by the JRs of unreasonable control by the bureaucracy and by Government has some validity. Under the

Privatisation Laws, the appointment of the Presidents of the operating companies, for example, remains a Ministry of Transport prerogative. This leaves scope for adverse political influence on the management policies of the JRs, although it is fair to say that the original appointees as JR Presidents did not raise any major objections to the introduction of the new system created on their behalf in 1987.

The Law Concerning the Passenger Railway Companies and the Japan Freight Railway Company further provides for prior Ministry of Transport approval of the business plans of the companies, for the disposal of significant assets, and for the issuing of stocks, bonds and other long term borrowing instruments<sup>47</sup>. It is in the latter context that the JR management would like the share listings to be accomplished as soon as practicable.

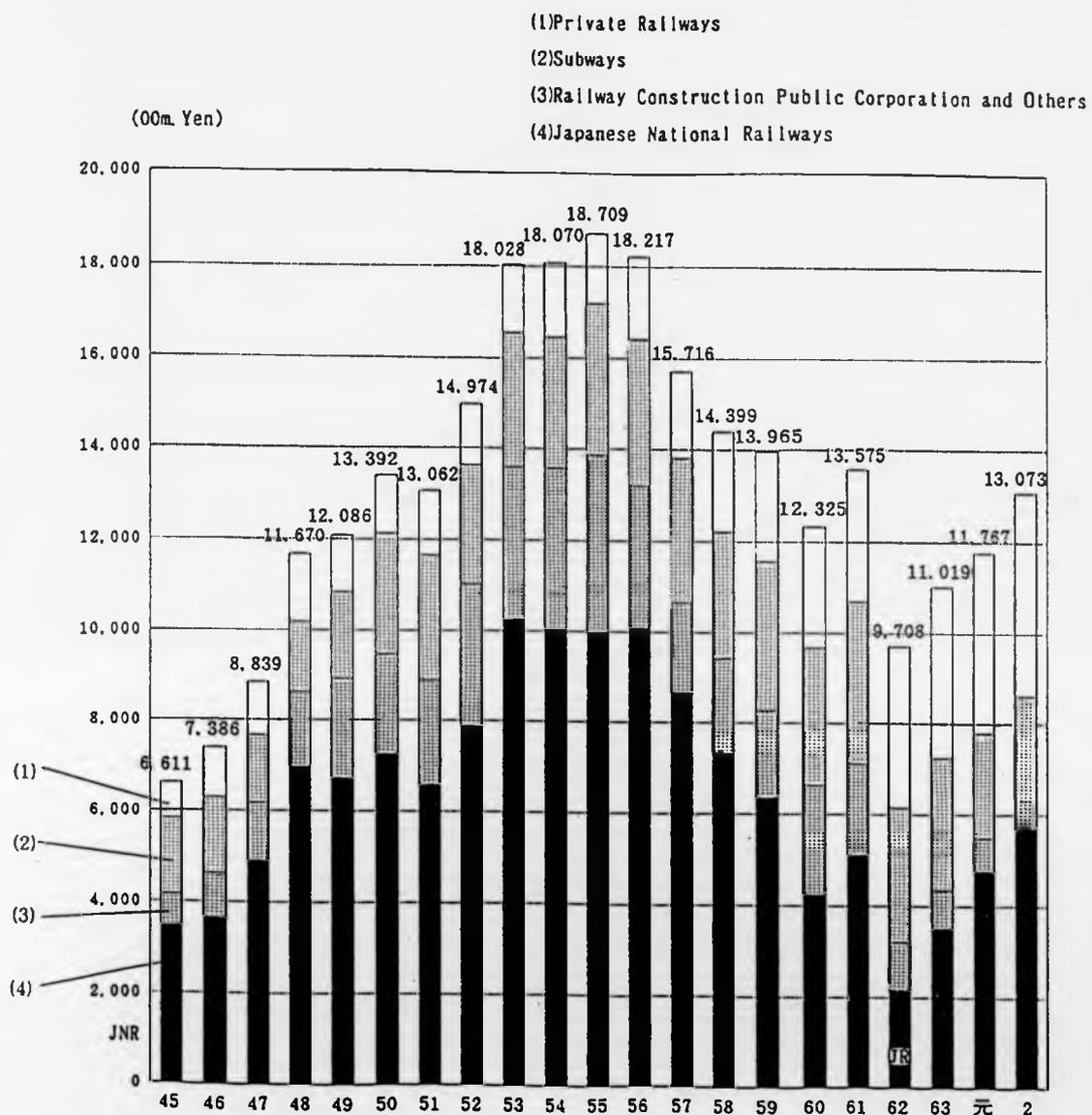
The remaining controls, on the activities of the JR's are offset, however, by the inclusion of an automatic right of approval from the Ministry of Transport for the operation of businesses other than railways unless it is deemed that such investments hinder the mainstream services provided by the companies. This has

facilitated the decision by the JRs to begin to divert capital investment away from their railway services into a wide range of other business activities such as hotels, shopping centres, and travel agencies<sup>48</sup>. The freedom to invest in non-railway businesses was not one granted to the JNR until such a time (1977), when it had no financial resources to undertake such a programme of diversification.

Representative of the JR operating companies, the long term aim of JR East in relation to diversification is to expand its non-railway activities - still accounting for under 10% of revenues - "to a level comparable to that of the railway passenger operations"<sup>49</sup>. This target of around half of its business comprising diversified activities was reiterated in the 1992 Annual Report of JR East in which it was also stated that it was consistent with the management policy in the private railway sector<sup>50</sup>.

The private railways have long had the freedom to develop non-railway operations (see Table 49 later in this Chapter), and the average percentage of revenues still coming from railway business in the "Big Fifteen" private rail operators is now lower than 50%.

Chart 22 CAPITAL INVESTMENT IN THE RAILWAYS



Source : Edited by Unyushō Tetsudōkyoku Tetsudō Kikakushitsu (Railway Planning Section of Ministry of Transport Railways Bureau). 21 Seiki ni Mukete no Chūchōki no Tetsudō Seibi ni Kansuru Kihonteki Kangaekata ni Tsuite (A Fundamental Review of Mid to Long Term Planning for the Railways as We Head Towards the 21st. Century). 1992. Chart8. p. 15.

The long established diversification policies of the major private railway companies have, however, provoked criticism of the lack of investment devoted to improvements in the rail network<sup>51</sup>, contributing to an overall level of capital spending on the railways in Japan which compares unfavourably with the ten year period from 1975 to 1985. Chart 22 highlights the massive capital investment programme begun in the mid 1970s, and borne substantially by the JNR. Although there has been a steady increase since the low figure in the year immediately following the JNR's dissolution, the total amount invested in the railway network presently remains well below the peak reached around 1980.

The newfound freedom to invest in, and promote businesses other than railway operations is an asset greatly coveted by the JR companies. Abe Seiji, who otherwise has been a critic of much of the JNR restructuring policies, was even moved to say that "The elimination of this prohibition (on the management of subsidiary businesses) might be the only true advantage of privatization."<sup>52</sup> The concomitant power to base management and, therefore, investment decisions, on potential financial return has, however,

put the JRs in the position of being able to influence decisions on railway projects put forward as part of national transport policy in a way which was not possible in the JNR era. This can be best seen in the proposals for extensions to the Shinkansen network which have been an integral part of the activities of the Railway Development Fund since its inception in October 1991<sup>53</sup>.

The transaction which resulted in the dissolving of the Shinkansen Holding Corporation and its replacement by the Railway Development Fund was, as already stated, the sale of the existing *Shinkansen* facilities to the Three Honshu JR companies. The main urging for an end to the leasing arrangements established as part of the privatisation process, came from JR Central which had the greatest imbalance between the lease financing burden and its ability to offset this by depreciation<sup>54</sup>. It was therefore a response to a JR initiative, the terms of the deal being the purchase by JR East, JR Central and JR West of the four *Shinkansen* and their related assets for the total sum of 9.1 trillion Yen.

Of this amount, 8 trillion Yen represented the original figure of replacement costs on which the 30 year leases had been based. This was converted into an instalment repayment plan for the 26 years remaining on the lease arrangements. The extra 1.1 trillion Yen was established as an additional liability on the Honshu JRs, but repayable over 60 years. This excess over replacement value - a notional profit on the sale of the *Shinkansen* assets to the Honshu JRs - became the basis of the Railway Development Fund (*Tetsudô Seibi Kikin*), representing a special fund to meet the cost of construction of the planned 'new' *Shinkansen* (*Seibi Shinkansen*).<sup>55</sup> The arrangements therefore had a dual purpose: firstly of enabling the JR Companies to acquire assets which could be depreciated and so create a cash flow for their eventual replacement; and secondly of providing the resources for the resumption of the *Shinkansen* construction programme postponed since 1982.

The need to find a new method of funding the investment costs of the proposed *Shinkansen* was dictated by the refusal by the JR companies, in the expectation of the negative investment returns, to bear the construction costs themselves. There would thus, for

JR East, be no repeat of the *Tôhoku Shinkansen* project which the JNR had financed in the 1970s. A new system of financing was required, out of which the Railway Development Fund (*Tetsudô Seibi Kikin*) was born.

The RDF's brief is not restricted to the funding of the *Seibi Shinkansen* , but encompasses the following:

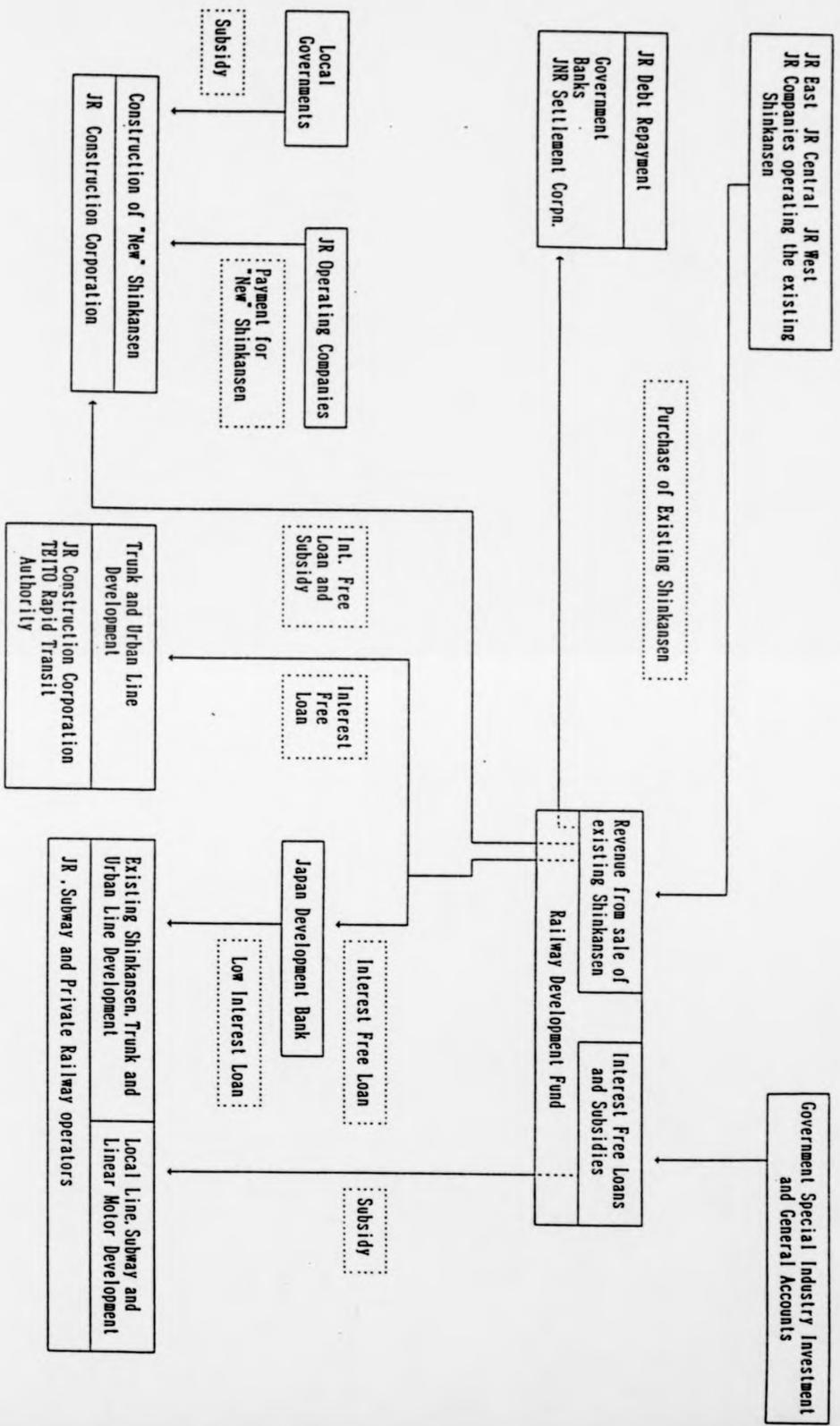
- to provide financial aid for the development of those *Shinkansen* lines, main trunk and urban railway lines whose development is urgently required for a balanced development of the whole country and furthering of the urban functions of metropolitan areas
- to provide subsidies for the improvement of railway facilities related to safety and amenities
- to provide subsidies for measures taken to make railway operations more efficient or to bring healthy development of the railway business

- to redeem long term debt inherited from the Japan National Railways.<sup>56</sup>

Its revenues come from two sources, the proceeds from the sale of the existing *Shinkansen* facilities, and subsidies from the Government. The decision by the JRs not to countenance lossmaking investments has thus been rewarded with the introduction of a system of more widely based financial support for new railway projects involving greater recognition of the need for substantial public sector participation.

The system of financing the Railway Development Fund, together with the disbursement of its revenues, is shown in Table 43. Funds from the Government's Special Industry Investment and General Accounts are supplemented by the instalment payments for the four *Shinkansen* being purchased by the JR Companies. Expenditure by the Fund is spread across the new *Shinkansen*, and projects involving the JRs, the private railway sector, and the subway authorities.

Table 43 FINANCING OF RAILWAY INVESTMENT: RAILWAY DEVELOPMENT FUND



Source : Railway Development Fund.

Table 44 1987 SYSTEM OF LEASING THE EXISTING  
SHINKANSEN TO THE HONSHU JR COMPANIES

|            | Shinkansen operated | Route Length | % of Shinkansen Network | Annual Lease Obligation | % of Total Annual Shinkansen Lease Obligation | Lease Costs as % of Estimated 1987 Revenues |
|------------|---------------------|--------------|-------------------------|-------------------------|---|---|
| JR East    | Tohoku<br>Joetsu    | 763km        | 42%                     | ¥ 199b.                 | 28%   | 14%   |
| JR Central | Tokaido             | 515km        | 28%                     | ¥ 417b.                 | 59%   | 51%   |
| JR West    | Sanyo               | 554km        | 30%                     | ¥ 94b.                  | 13%   | 12%   |

Note : This System existed until October 1991.

Source : Adapted from data in Kōtsū Kyōryoku kai(Traffic Cooperation Association). Kōtsū Nenkan(Transport Yearbook). 1976, 1988 Editions. Unyushō(Ministry of Transportation). Showa 63 Nenban Unyu Hakusho(Annual Ministry of Transport White Papers for 1988). 1988.

Reference Materials p. 11.

Nihon Kokuyū Teisudō(Japanese National Railways). Sūji De Mira Kokuteisu(Japanese National Railways Statistics Hand Book). 1986. p. 14.

In the case of the JR companies the three Honshu JRs paid a total of 710 billion Yen annually (the division being shown in Table 44) when the financing arrangements were on the basis of a leasing agreement. Since the *Shinkansen* purchase deal was established in 1991, the annual instalments have risen to just over 750 billion Yen, the extra 40 billion Yen per annum being the annual servicing costs of the portion relating to the 1.1 trillion Yen additional purchase price over the replacement value of the acquired assets. For this excess payment of only 40 billion Yen per annum - which compares to annual combined profits of the three Honshu JRs in the year to March 1992 of 293 billion Yen - the JR companies are credited with the ownership of the existing *Shinkansen* assets to which they can now apply depreciation against their assessment for corporate taxation<sup>57</sup>.

The annual instalments presently being made by the Honshu JR Companies for the four in-service *Shinkansen* which they are buying through the Railway Development Fund (RDF) do not, however, simply count towards the total purchase cost of these existing *Shinkansen* assets. The system of financing the 'new' *Shinkansen* currently under construction (*Seibi Shinkansen*) has

been structured by the RDF to take account of the notional contribution made by the management of the JR operating companies to the - equally notional - increase in market value of the *Shinkansen* which they inherited from the JNR. When the JRs' *Shinkansen* leasing arrangement was replaced by the purchase contract in 1991, the calculation of the amount which the JR companies would have to pay included a sum of 1.1 trillion Yen deemed to represent an excess 'asset value' created in the four years of their operation of the existing *Shinkansen* so acquired<sup>58</sup>.

As previously discussed, this excess of 1.1 trillion Yen is now the capital of the RDF, out of which its future obligations to finance national and local railway investment will be met<sup>59</sup>. The calculation of this sum bore absolutely no relation to the supposed increase in asset value of the existing *Shinkansen* <sup>60</sup>; it was rather based on what the RDF required for its investment funding, and on what the Honshu JRs could reasonably be expected to pay over and above their previous leasing instalments.

As a quid pro quo for the extra cost of the new purchase arrangements, and justified by attributing to the JRs a substantial role in creating the hypothetical added asset value of the *Shinkansen* network, the additional payments by the three Honshu JR companies - ostensibly for buying the existing *Shinkansen* - are thus also counting towards their obligation to fund the new *Shinkansen*. In the accounts of the Railway Development Fund the added annual commitment of 40 billion Yen per annum shared by JR East, JR Central and JR West is actually credited as the equivalent of a 30% contribution by the JRs to the overall *Seibi Shinkansen* costs<sup>61</sup>.

The JR companies are, in fact, responsible for only half of the total outlays for the construction of the *Seibi Shinkansen*, as opposed to the 100% borne by the JNR as a public corporation; the balance is being provided by central and local government. The RDF system has thus resulted in 50% of the costs of building the new *Shinkansen* being removed from the JRs' orbit.

The JRs' share of the cost of the new lines is, moreover, presently being funded not by new additional liabilities but, in effect, by the proceeds from the annual sums already being paid by the three Honshu JRs for the purchase of the 'old' *Shinkansen*. Such a system would not have been countenanced in the JNR era, and its adoption clearly reflects the power of the JRs to say no to projects which are likely to result in the operation of lossmaking services<sup>62</sup>.

The 50% of the cost of the *Seibi Shinkansen* borne by the public sector is split broadly into a 35% contribution by central government, and 15% by the relevant local authorities. This resulted in a public sector subsidy towards *Shinkansen* planning and construction costs including in the government's contribution to the RDF which for fiscal 1992 was budgeted at 116 billion Yen<sup>63</sup>.

Running alongside the Railway Development Fund, the operation of the Three Islands Management Stabilisation Fund (*Keiei Antei Kikin*) will be a further important factor in the shaping of relations between the JR companies and the government. The

setting up of this fund, and the argument that it represents an additional, if oblique form of public sector subsidy, has already been depicted in this Chapter; Table 45 now shows the pattern of income generated by this Fund since 1987, and the impact on the Profit and Loss Accounts of the Three Island JRs.

The operation of the *Antei Kikin* has been broadly successful to date, in that it has met the original objective of offsetting the operating losses made by the JRs on Kyushu, Shikoku and Hokkaido. Since 1989, the year in which the JNRSC began the repayment of the loan principal to the Three Island JRs, however, the yield on the fund has started to decline. The original target of a 7.3% annual investment return has fallen to 7.1% in fiscal 1991, coinciding with the period in which the recipient JR companies have taken over the responsibility for the investment of an increasing position of the fund's assets. Although the fall in the investment yield is, as yet, with the exception of JR Shikoku, relatively small, it confirms that any material and sustained reduction in interest rates in Japan will make the achievement of the required 7.3% annual return increasingly difficult<sup>64</sup>.

Table 45 THREE ISLANDS JR COMPANIES MANAGEMENT  
STABILISATION FUND: FISCAL YEARS 1987-1991

(¥ billion)

| Fiscal year  | 1987   | 1988   | 1989   | 1990   | 1991   |
|--|--------|--------|--------|--------|--------|
| <b>JR Kyushu</b>                                       |        |        |        |        |        |
| JNRSC Stabilisation Fund Credit                        | 387.7  | 387.7  | 350.5  | 310.5  | 265.6  |
| Liquid Assets  | —      | —      | 34.2   | 40.6   | 54.8   |
| Investments etc.                                       | —      | —      | 3.0    | 36.6   | 65.3   |
| Total Management Stabilisation Funds                   | 387.7  | 387.7  | 387.7  | 387.7  | 387.7  |
| Investment Income -                                    | 28.3   | 28.3   | 28.3   | 28.2   | 28.0   |
| Return on Fund Value                                   | 7.3%   | 7.3%   | 7.3%   | 7.2%   | 7.2%   |
| Operating Profits/(Losses)<br>before Investment Income | (28.8) | (28.5) | (28.8) | (28.7) | (28.1) |
| <b>JR Shikoku</b>                                      |        |        |        |        |        |
| JNRSC Stabilisation Fund Credit                        | 208.2  | 208.2  | 188.2  | 166.8  | 143.7  |
| Liquid Assets  | —      | —      | 20.0   | 41.4   | 64.5   |
| Investments etc.                                       | —      | —      | —      | —      | —      |
| Total Management Stabilisation Funds                   | 208.2  | 208.2  | 208.2  | 208.2  | 208.2  |
| Investment Income                                      | 15.2   | 15.2   | 15.2   | 15.0   | 14.2   |
| Return on Fund Value                                   | 7.3%   | 7.3%   | 7.3%   | 7.2%   | 6.8%   |
| Operating Profits/(Losses)<br>before Investment Income | (14.9) | (10.8) | (11.6) | (8.7)  | (9.0)  |
| <b>JR Hokkaido</b>                                     |        |        |        |        |        |
| JNRSC Stabilisation Fund Credit                        | 682.2  | 682.2  | 616.7  | 546.4  | 470.8  |
| Liquid Assets  | —      | —      | 33.3   | 12.3   | 28.2   |
| Investments etc.                                       | —      | —      | 32.1   | 123.3  | 183.0  |
| Total Management Stabilisation Funds                   | 682.2  | 682.2  | 682.2  | 682.2  | 682.2  |
| Investment Income                                      | 49.8   | 49.8   | 49.6   | 48.9   | 49.0   |
| Return on Fund Value                                   | 7.3%   | 7.3%   | 7.3%   | 7.2%   | 7.2%   |
| Operating Profits/(Losses)<br>before Investment Income | (53.8) | (53.3) | (52.7) | (49.0) | (48.3) |

Note : JNRSC:Japan National Railway Settlement Corporation (JNR Seisan Jigyo Dan).  
Management Stabilisation Fund:(Keiei Antei Kikin).

Source : Adapted from data in JR Kakusha(Japan Railway Companies). JR Kessan Hōkokusho  
(JR Companies Financial Results). 1987-1991 Editions.

In the short term, any shortfall in the required 7.3% interest yield will be made up by a simple expedient ie. the JNR Settlement Corporation will have to bear the loss between the interest rate it receives on its own 'real' investments and the amount (7.3% per annum on the remainder of the 1.3 trillion Yen Fund) it is obliged to pay the Three Island JRs. The resultant losses so incurred by the JNRSC will merely add to its debt levels, and further reduce the likelihood of it ever being able to repay the indebtedness it took over from the dissolved JNR.

As the payment of the principal of the Fund takes effect (over eight years of equal annual instalments which began in 1991), however, the onus will increasingly be on the Three Island JRs themselves to find a way of bridging the gap between actual interest rates - currently around 3% - and the 7.3% needed on the *Keiei Antei Kikin* to offset their operating losses. The amounts of the 'Fund' already transferred to the Three Island JRs is shown in Table 45 under the heading "Liquid Assets and Investments etc.

In this regard, despite the increasing divergence between investment returns in the real world and the required (7.3%) yield

on the Fund, it is somewhat surprising to note from this Table that JR Kyushu and JR Hokkaido have been able to maintain the monetary value of the interest returns on the portion of the *Antei Kikin* which they now manage. JR Kyushu was, in fact, one of a list of companies which had so-called *Hoten* agreements with stock market securities houses, which helps to explain why it was able to obtain a higher return on its portion of the *Anti Kikin* than was available to ordinary investors<sup>65</sup>.

In the late 1980s, at which time the Japanese economy was growing strongly, and the stock market buoyant, the unofficial practice - known as '*Hoten*' - by securities companies was widespread. In *Hoten* agreements, a securities company would guarantee to the investing institution a minimum return on its investment, even if the actual interest generated from the real amount invested in the financial market was below that figure. This practice has since been deemed inequitable in Japan and its use discouraged<sup>66</sup>. Therefore, even if it were the reason for the extraordinarily high financial return on the investment funds of JR Kyushu and JR Hokkaido up to fiscal 1991, it will not easily serve the same purpose in future years.

A further point of issue is that, given the freedom of the JRs to invest in non-rail businesses, the income from the Management Stabilisation Fund could conceivably become a form of subsidy to cover losses made outside the mainstream operation of providing railway services. This fear has already become reality in the case of JR Kyushu where its non railway operations are unprofitable<sup>67</sup>; the operating deficit of its associate companies is therefore, in addition to that in the rail division, being offset by income from the Fund. It is not likely that the original proposal for the setting up of such a Stabilisation Fund envisaged that its use might encompass the effective payment of subsidies to cover losses in non railway investments made by the management of the Three Island JR Companies.

What the procedure should be if a shortfall on the *Keiei Antei Kikin* at some point in the future takes the Three Island JRs back into losses is an unanswered question from the JNR privatisation process. The original target of flotation of the shares of the Three Islands JR companies is an unrealistic one, and it is much more likely that they will remain 100% publicly owned. If they begin to

incur losses on a regular basis, therefore, the method of their financing may, of necessity, return to the basis adopted in the JNR era of increasing indebtedness.

One alternative would be for the unprofitable operations of the socially advantageous services provided in the less populous areas of Japan to be subsidised from the profits made by the larger JR companies. Such an option will not be practical to implement, however, if by that time, the capital of the companies with the resources to provide the required subsidies to the lossmakers has already been sold to the investing public. Given the flotation plans for JR Central and JR West, as well as for the remainder of JR East<sup>68</sup>, that scenario is eminently feasible. Central government, in conjunction with the local authorities in the islands involved, would therefore be left with the obligation of increasing the public subsidy to the rail operators to avoid the closure of services.

In summary, to properly evaluate the post privatisation relationships between the JRs and government funding of railway investment<sup>69</sup>, the public sector contribution to the *Shinkansen* programme must thus be added to the payments made to support

the JNR Settlement Corporation, and to the Three Island Companies through the Management Stabilisation Fund. Taking the Fiscal 1991 subsidies paid to the JNRSC, and the return on the *Keiei Antei Kikin*, together with the new subsidies for the first year of the RDF, the total overall government subsidy to the national railway would amount to 307 billion Yen. As shown in Table 46 the net outlay by government, even after deducting the taxation paid by the JR Companies, is running at the annual level of some 157 billion Yen. As per the earlier Table 42, this figure for 1991/2 remains consistent with the average annual public sector outlay for the first three years (1987 - 1990) of the JR Group's existence. The overall subsidy figures therefore provide further evidence of the increasing strength of the JR Companies to negotiate for substantial government contributions towards the financing of what is, ostensibly, a 'privatised' national railway operation.

Table 46 GOVERNMENT FINANCIAL SUPPORT FOR RAILWAY OPERATIONS

|   | ¥ billion |
|---|-----------|
| JNR Settlement Corporation<br>Subsidies(Fiscal 1991)                      | 100       |
| Management Stabilisation Fund<br>Investment Income (Fiscal 1991)          | 91        |
| Railway Development Fund<br>Subsidies(Budgeted Figure for<br>Fiscal 1992) | 116       |
| Total Subsidies Received  | 307       |
| Corporate Taxation Paid   | 150       |
| Net Public Sector Burden  | 157       |

Note : The RDF was established in October 1991. The government subsidy shown is that budgeted for the first full year of the Fund's operation, fiscal 1992.

Source : Adapted from data in Nihon Kokuyū Tetsudō Seisan Jigyōdan (Japanese National Railways Settlement Corporation), Heisei 3 Nendo Kessan Hōkokusho (Financial Results for Fiscal 1991), 1992. Hokkaidō Ryokaku Tetsudō Kabushikigaisha (Hokkaido Railway Company), Heisei 3 Nendo Kessan Hōkokusho (Financial Results for Fiscal 1991), 1992. Shikoku Ryokaku Tetsudō Kabushikigaisha (Shikoku Railway Company), Heisei 3 Nendo Kessan Hōkokusho (Financial Results for Fiscal 1991), 1992. Kyushu Ryokaku Tetsudō Kabushikigaisha (Kyushu Railway Company), Heisei 3 Nendo Kessan Hōkokusho (Financial Results for Fiscal 1991), 1992. Tetsudō Seibi Kikin (Railway Development Fund), Heisei 4 Nendo Kessan Hōkokusho (Financial Results for Fiscal 1992), 1993.

## Management:Labour Relations in the JR Group

In a consumer oriented business, the outward manifestation of the state of staff relations is the assessment made by its customers of the quality of the service provided. With this in mind, the privatised JR companies emphasised from the outset a marketing strategy of 'service to the consumer'. A JR East publication (This is JR East) typified the JR group's wish to contrast the railway operations of 'private enterprises' with those of the JNR run as a public corporation, this publicity material setting out the following corporate philosophy:

After privatization, JR East set out to prove that it was a new company, and that it would put the customer first. After all, service is the basic purpose of a passenger railway.

We asked our employees what we should be doing to improve customer services. Their insights, drawn from daily contact with JR East's 16 million passengers, provided the key to upgrading services, strengthening competitiveness and building customer confidence in JR East. Central to our service orientation is the concept "high-quality service and reasonable fares." The revision of timetables each spring allows us to meet changing demand trends and offer customers more convenient and appropriate rail services.<sup>70</sup>

The emphasis on customer service which comes out clearly in the JR East business strategy has been mirrored in the policies of the other JR operating companies. Such attainment of better service

to the travelling public should, of course, be the intrinsic aim of the national railway companies. It is here argued, however, that in practice, the concept of 'customer service' in the post-privatisation era has also reflected the public relations justification of business decisions actually taken on straight profitability grounds by the JR companies.

In this regard the subtle shift in the balance of power between bureaucratic control and the 'independence' of the JR railway management has been a crucial factor. The JRs now operate in a climate in which their role in the national transport system has been modified to reduce the onerous burden of having to maintain a nationwide service whether profitable or not. Capital investment decisions by the JR companies no longer must reflect a duty by the national railway that its resources must be devoted to the maintenance of lossmaking services on the basis of some notion of national interest; nor is there any such duty to champion capital investment in railway as opposed to diversified activities.

Thus, while 'customer interest' is the ostensible basis for business decisions by the JRs, in reality it is because management believe that the services to which the resources will be applied will be capable of justifying the required capital investment in terms of potential profit.

It is this new freedom of management action which has enabled the JR companies to turn down proposed investments in areas which might well have broader social or national benefits - such as the construction of new *Shinkansen* or commuter lines - on the pragmatic basis that they could not be justified on the basis of the likely return on capital. Improvements in 'customer service' by the JRs have not been the result of some sort of post privatisation altruism but, in reality, the identification by JR management of potentially profitable areas for investment<sup>71</sup>.

As implied in the above quotes from JR East, the principle of improved relations between customers and the staff of the JR Companies has been considered a crucial factor in the process of service enhancement. Compared with the impression lingering from the JNR era of national railway staff insensitive to the needs

of the travelling public, the intention has been to generate an image of service given by JR employees which is positive and co-operative.

Behind the policy aim of improvements in personnel service, however, lies the changed composition of the workforce of the JR Companies. Reference has already been made to the method devised of recruiting staff for the new JRs by dismissing all of the former JNR's employees, and then rehiring those personnel who met the managements' set criteria for employment. Whether wholly ethical or not, this policy enabled the JR Companies to select only those who were likely to support the new management philosophies which were to be introduced post-privatisation. Thus, personnel lacking empathy with the customer could be, and were, rejected and those chosen were more likely to react positively to policies which were consumer-led<sup>72</sup>.

The increased spirit of co-operation between the management of the JRs and their labour force which this unity of approach towards the outward aims of the business would imply, further suggests that internal labour:management relations should also

have improved. In this regard the immediate 'favourable' impact of the pre-arranged 'no strike' deals in 1986 between management and two of the main railway labour unions (*Tetsurô* and *Dôrô*) has already been mentioned in Chapter 5 of this study, these agreements being part of the essential nature of the preparatory process which made the privatisation effective, and which contributed to the success of the JNR reconstruction policy in bringing about the final break-up of the main anti-management union, *Kokurô*.

Proper consideration of the issue of labour relations in the JR era can therefore not be undertaken unless it is borne in mind that built-in to the JNR privatisation was a policy of discrimination against one union (*Kokurô*) and in favour of those unions (*Tetsurô* and *Dôrô*) which had given their support to the reforms. The following analysis<sup>73</sup> of the state of post-privatisation management:labour relations takes that issue as its starting point.

Table 47 THE CHANGE IN THE NUMBER OF KOKURŌ MEMBERS

| Year | Number of Kokurō Members(A) | Number of JNR Employees(B) | (A)/(B)<br>% | Events  |
|------|-----------------------------|----------------------------|--------------|---|
| 1976 | 247,171                     | 429,216                    | 57.6         |   |
| 1977 | 249,557                     | 428,928                    | 58.2         |   |
| 1978 | 253,191                     | 426,697                    | 59.3         | Rationalisation of JNR Freight (October 1978)                   |
| 1979 | 252,429                     | 420,815                    | 60.0         |   |
| 1980 | 250,270                     | 413,594                    | 60.5         |   |
| 1981 | 245,405                     | 401,362                    | 61.1         |   |
| 1982 | 238,169                     | 386,677                    | 61.6         |   |
| 1983 | 224,226                     | 358,045                    | 62.6         | Cessation of New JNR Recruitment                                |
| 1984 | 208,558                     | 326,025                    | 64.0         | Abolition of Freight Yard System (February 1984)                |
| 1985 | 187,530                     | 276,774                    | 67.8         |   |
| 1986 | 161,383                     | 223,947                    | 72.1         |   |
| 1987 | 40,997                      | 199,752                    | 20.5         | From JNR to JR (April 1987)                                     |
| 1988 | 37,832                      | 198,164                    | 19.0         |   |
| 1989 | 36,083                      | 193,911                    | 18.6         |   |
| 1990 | 34,000                      | 190,514                    | 17.8         | Termination of Temporary JNRSC Employment Measures (March 1990) |
| 1991 | 31,856                      | 191,218                    | 16.7         |   |
| 1992 | 32,000                      | 193,524                    | 16.5         |   |

Note : 1976~1986 Total number of JNR employees.

1987~1992 Number of JR Passenger companies and JR Freight company employees.

Source : (A) Ministry of Labour/Annual Report of Research for Trade Unions.

(B) 1976~1985 Kokuteisu Kansa Hōkoku Sho (JNR Annual Audit Reports).

1986~1991 Data of JNR Settlement Corporation.

1992 Annual Transportation Report.

Zaidanhōjin Kōtsu Kyōryoku Kai, Tokyo.

Data collated by the Institute of Transport Statistics (Kōtsu Tōkei Kenkyūjo).

Table 47 shows the dramatic effect on the membership of *Kokurô*, the once dominant JNR labour union, of the implementation of the privatisation policies. By the time that the JNR became the JR group of companies in April 1987, *Kokurô's* membership had dwindled to a figure no more than 15% of the peak level which had pertained ten years before. As the JR companies took over the operation of the national rail network, moreover, *Kokurô* was in a negligible position vis a vis the other railway labour unions. Following the completion of their Joint Management:Labour Agreements (*Rôshi Kyodo Sengen*) in late 1986, *Dôrô* and *Tetsurô* merged their operations in February 1987 to form a combined affiliation, *Tetsudô Rôren* which, in turn, became the *JR Sôren* union affiliation on the JNR's privatisation two months later<sup>74</sup>.

Also established in February 1987 was another labour union affiliation formed as a 'right wing' splinter group from *Kokurô*. The latter grouping, *Tessan Sôren*, took sufficient of the old *Kokurô* members to leave the latter with less than 20% of the total membership of the national railway unions at the privatisation date, 1 April 1987<sup>75</sup>.



JR

(ZENROKYO)  
29,600  
(As Of '94.9.1)

(RENGO)

| Tessan Soren      |               |
|-------------------|---------------|
| Hokkaido Tessanro | 2,500         |
| East Tessanro     | 4,300         |
| Tokai Tessanro    | 2,600         |
| West Tessanro     | 6,500         |
| Shikoku Tessanro  | 220           |
| Kyushu Tessanro   | 2,900         |
| Freight Tessanro  | 1,500         |
| <b>TOTAL</b>      | <b>20,520</b> |

(RENGO)

| JR Rengo          |               |
|-------------------|---------------|
| Hokkaido Tessanro | 2,400         |
| East Tessanro     | 3,800         |
| JR Tokai Union    | 17,600        |
| JR West Roso      | 35,200        |
| JR Shikoku Roso   | 3,400         |
| JR Kyushu Roso    | 11,100        |
| Freight Tessanro  | 1,500         |
| JR East Shinro    | 100           |
| <b>TOTAL</b>      | <b>75,100</b> |

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(RENGO)

| JR Soren         |                |
|------------------|----------------|
| JR Hokkaido Roso | 7,600          |
| JR East Roso     | 54,300         |
| JR Tokai Roso    | 15,800         |
| JR West Roso     | 33,000         |
| JR Shikoku Roso  | 3,200          |
| JR Kyushu Roso   | 9,800          |
| JR Freight Roso  | 6,800          |
| <b>TOTAL</b>     | <b>130,500</b> |

(RENGO)

| JR Soren         |               |
|------------------|---------------|
| JR Hokkaido Roso | 7,600         |
| JR East Roso     | 54,800        |
| JR Tokairo       | 1,200         |
| JR Nishiro       | 3,700         |
| JR Kyushuro      | 1,300         |
| JR Freight Roso  | 7,100         |
| <b>TOTAL</b>     | <b>75,700</b> |

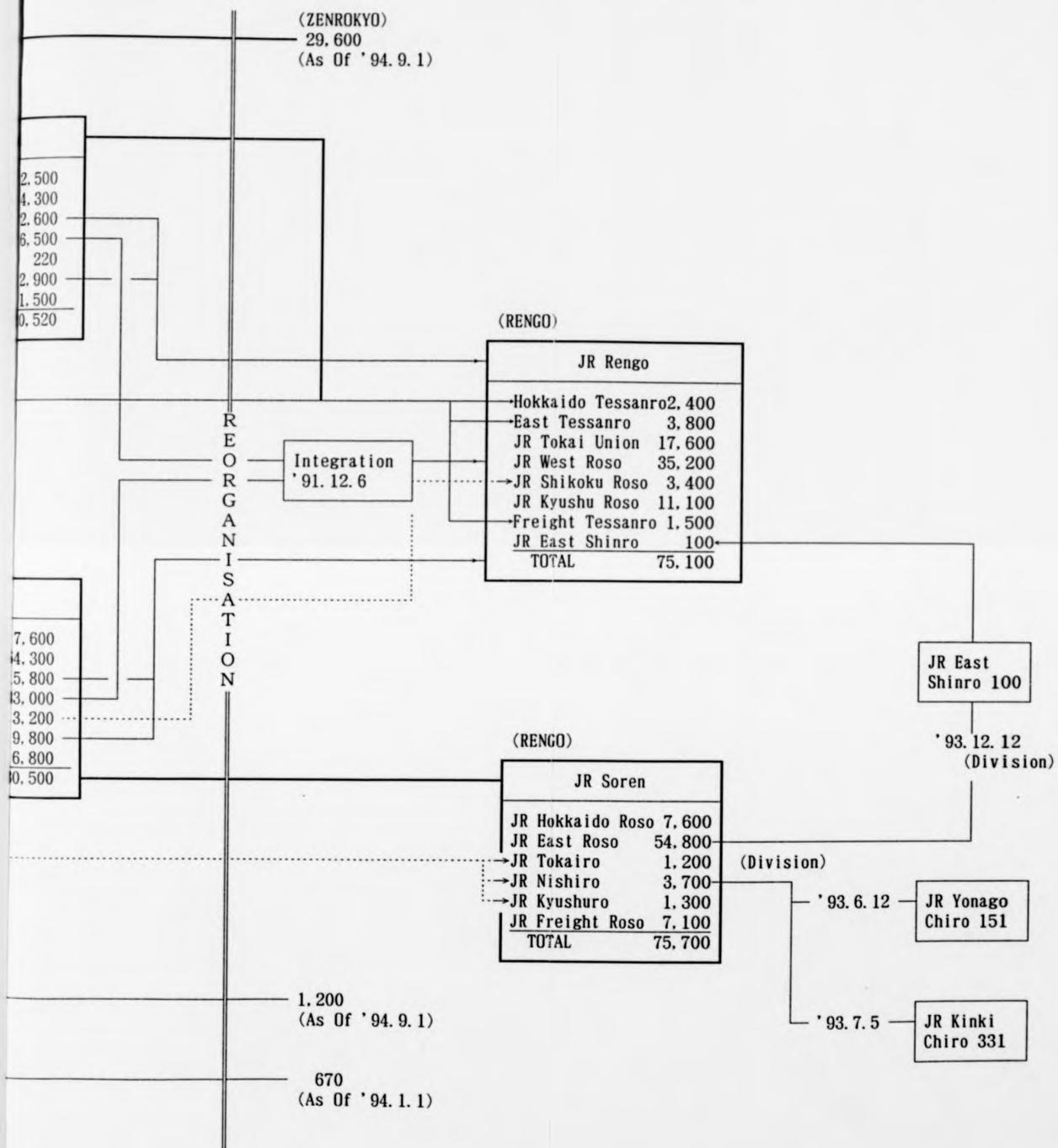
(Division)

'93.6.12

'93.7.5

1,200  
(As Of '94.9.1)

670  
(As Of '94.1.1)



The transformation of the railway labour union structure is exhibited in Figure II, which sets out the revised groupings as at the time of the JNR's division and privatisation and as later developments in the labour movement further altered the composition of the unions in the JR companies. The position in April 1987, with the vanquished 'militant' *Kokurô* in an insignificant minority amongst the railway unions, supported the view that privatisation had accomplished a reduction in the potential for labour disputes in the operation of the JRs. This 'potential', moreover, became an automatic reality because the new union groupings were bound by their pre-privatisation no-strike deals, thus helping to sustain the impression that, with its privatisation, relations between workers and management in the national railway had become significantly better.

Below this favourable surface view, however, analysis of the real state of affairs in the JR companies reveals the contrived nature of this 'improvement' in labour relations. Not only was there an artificiality about the situation in management:labour relations at the time of the JNR privatisation because of the prior joint agreements to avoid strikes and other disputes but, as the 'real

world' problems of achieving the efficient operation of the national rail system have since manifested themselves, so have tensions again increased between the JR company managements and their labour unions<sup>76</sup>. In reality, these tensions were there at the time of the JNR privatisation but were, for a time, masked both by the management:union anti-strike pacts and by the satisfaction felt by the leadership of the former *Tetsurô* and *Dôrô* unions that they had attained a strong bargaining position at the expense of *Kokurô*.

In relation to the latter point it should be recalled - as discussed in Chapter 5 - that *Tetsurô* was highly motivated in its support for the break-up and privatisation of the JNR in the aim to secure victory in its inter-JNR union struggle with *Kokurô*. The key factor in *Dôrô's* conversion from a position of militant opposition to privatisation to that of wholehearted support was, similarly, the protection of the union's organisation and thus the ensuring of its continued existence<sup>77</sup>. The early stages of the JR's operation thus brought stability to labour:management relations in the national railway, but it was achieved only through the means of

'buying' labour docility by guaranteeing the ascendancy of certain unions (notably *Tetsurô* and *Dôrô* ) at the expense of others (specifically *Kokurô* ).

That there were cracks in the facade of this contrived stability was not particularly apparent in the first two years after privatisation, but elements of the problems which were to come in the form of the resumption of labour disputes were actually there from the outset of the JR's operation. In this regard there were two main aspects; first, that contrary to the wishes of the management, the railway labour side did not establish a single union for each JR company but instead (as Figure II attests) set up a multiplicity of union groupings; and secondly, that the 'victory' of *Tetsurô/Dôrô* in the inter-union strife was an unequal one, with the latter (*Dôrô*) soon emerging in a considerably stronger position in the post-privatisation labour union hierarchy<sup>78</sup>.

The first of these factors, the establishment of a complicated web of unions across the JR Group, has resulted in a high degree of complexity in management:labour negotiations. In the second case, the real 'victory' of *Dôrô* has led to an imbalance in the level of

bargaining power amongst the new groupings, such that it provoked a further destabilising reorganisation of the railway unions in 1991. Initially the *JR Sôren* union affiliation had been formed from a fairly equal amalgamation of *Tetsurô* and *Dôrô* (the former actually supplying more members than *Dôrô*) but the latter union's membership contained a greater proportion of activists with labour negotiations experience; this disparity was reflected in *Dôrô* officials quickly obtaining the majority of influential positions in the new union hierarchy including, very significantly, its senior leadership<sup>79</sup>.

*Dôrô's* domination of the new *JR Sôren* grouping has been epitomised by the role of Matsuzaki Akira, the architect of his union's 'U-turn' in 1986 to a position in favour of the JNR reform proposals. Matsuzaki's conversion to a pro-division and privatisation stance, and his apparent position of favouring the JR ideal of "enlightened capitalism"<sup>80</sup> are somewhat at odds with his radical background of connections with the extreme left wing militant political group, *Kakumaru*. Whatever his real motives, however, Matsuzaki's tactic of building a power base in the JR empire for his *Dôrô* faction has been extremely successful. He is

currently Chairman of the biggest single JR labour union, JR East's *Higashi Rôshô* (with 55,000 members), and therefore is the most influential individual on the labour side in the entire JR Group<sup>81</sup>. In addition, his build-up of affiliated unions particularly in JR Hokkaido and in JR West has enabled the former *Dôrô* faction to destabilise management:labour relations in these two JR companies.

It was the imbalance of power between the *Dôrô* and *Tetsurô* groups which led to the further restructuring of the railway unions in 1991, as also depicted in Figure II. With tacit encouragement from the JR management, notably in JR Central and JR West, the former *Tetsurô* faction within the *JR Sôren* union affiliation set up a new grouping, *JR Rengô* into which, moreover, the *Tessan Sôren* (formerly right wing *Kokurô*) unions also merged. Figure II shows that the establishment of *JR Rengô* - in December 1991 - achieved a broad numerical balance of union members between this new affiliation and *JR Sôren*, with *Kokurô* making up a forlorn third place.

There is, however, a more complicated split amongst the JR operating companies such that (as shown in Figure II, adjoining p. 543) JR East, JR Hokkaido and JR Freight remain *Dôrô* led, while JR Central, JR Kyushu, JR Shikoku, and JR West are ostensibly answerable on labour matters to the *Tetsurô* line<sup>82</sup>. The complexity which the 1991 split brought to the negotiating table has not been lessened, moreover, by the fact that the *JR Sôren* affiliation remains a highly integrated organisation (under the direct control of Matsuzaki) while *JR Rengô* is a much more decentralised grouping with the affiliated unions dealing separately with each JR company. Thus, although numerically not particularly strong, Matsuzaki's unions within JR West or JR Central, for example, are able to make a greater impact on labour relations than their *JR Rengô* counterparts can in, say, JR East<sup>83</sup>.

The incidence of labour disputes in the JR companies since 1991 is shown in Figure III. Although nothing approaching a 'national' strike has occurred, the regularity of local disputes across the range of JR operating companies gives the lie to the notion that privatisation of the national railway provided a lasting solution to the area of management:labour relations.

Figure III LABOUR DISPUTES WITHIN JR

| No. | Date                   | Company                 | Union           | Objective & Characteristic                               |
|-----|------------------------|-------------------------|-----------------|--|
| 1   | 91. 2. 23.             | JR EAST                 | CHIBA DORO      | Opposition To Change In La<br>To New Train Schedule(Mar. |
| 2   | 91. 11. 9.             | JR TOKAI                | JR TOKAIRO      | Decision To Hold a Voting<br>Of The Right To Strike (6   |
| 3   | 91. 11. 20.            | JR TOKAI                | JR TOKAIRO      | Establishment Of The Right                               |
| 4   | 91. 11. 26.            | JR TOKAI                | JR TOKAIRO      | Several Demands, Safety, I<br>Notification Of Strike(If  |
| 5   | 91. 11. 26.            | JR EAST                 | CHIBA DORO      | Opposition To Change In La<br>Drivers & Guards           |
| 6   | 91. 12. 3.             | JR TOKAI                | JR TOKAIRO      | Postponement Of Strike (1                                |
| 7   | 91. 12. 10.            | JR TOKAI                | JR TOKAIRO      | Postponement Of Strike (T                                |
| 8   | 92. 2. 19.             | JR IN HONSHU            | KOKURO          | Fulfillment Of Regional La<br>Order, Improvement In Labo |
| 9   | 92. 2. 21.             | JR EAST                 | CHIBA DORO      | Opposition To New Labour S<br>New Train Schedule         |
| 10  | 92. 3. 16.             | JR TOKAI                | JR TOKAIRO      | Postponement Of Strike (T                                |
| 11  | 92. 3. 25              | JR KYUSHU<br>JR FREIGHT | KOKURO KYUSHU   | Drivers & Guards<br>Members Not On Trains                |
| 12  | 92. 3. 30.             | JR WEST                 | JR NISHIRO      | Wage Hikes (8.5% Av.),                                   |
| 13  | 92. 3. 30.             | JR KYUSHU               | JR KYUSHURO     | Labour Parctices, Canca                                  |
| 14  | 92. 3. 30.             | JR TOKAI                | JR TOKAIRO      | Training University Gra                                  |
| 15  | 92. 3. 31. -4. 1.      | JR KYUSHU               | JR KYUSHURO     | Holding Of Safety Counc                                  |
| 16  | 92. 3. 31. -4. 1.      | JR TOKAI                | JR TOKAIRO      | (Same As Above)  |
| 17  | 92. 3. 31.             | JR TOKAI                | JR TOKAIRO      | (Same As Above)  |
| 18  | 92. 3. 31. -4. 1.      | JR WEST                 | JR NISHIRO      | (Same As Above)  |
| 19  | 92. 12. 8. -12. 11     | JR WEST                 | JR NISHIRO      | Opposition To Change In La<br>Drivers & Guards (Pay For  |
| 20  | 93. 2. 16.             | JR TOKAI                | JR TOKAIRO      | Establishment Of The Right                               |
| 21  | 93. 2. 18. -2. 20.     | JR FREIGHT              | KOKURO, ZENDORO | Correction Of Dispari                                    |
| 22  | 93. 2. 19. (-2. 20. ?) | JR FREIGHT              | DORO SOREN      | Bonuses(Compared With                                    |
| 23  | 93. 3. 17.             | JR KYUSHU               | JR KYUSHURO     | Opposition To Change                                     |
| 24  | 93. 3. 17.             | JR TOKAI                | JR TOKAIRO      | Wage Hikes (Shunto),                                     |
| 25  | 93. 3. 18.             | JR TOKAI                | JR TOKAIRO      | (Same As Above)  |

| Characteristics  | Time Period   | Participants   | Train Stoppage   | People Affected                  |
|--|---|--|--|----------------------------------|
| Change In Labour System Due<br>to Schedule(Mar. 16)  | 12 hrs.   | (Approx. 750)  | All Lines Except For<br>JR Kururi Line & Isumi Line(3rd Sect |                                  |
| Hold a Voting On Establishment<br>of Right To Strike (6 Days From Nov. 14)   |   | (1,270)  |  |                                  |
| Of The Right To Strike(94.57% In Favour)   |   | (1,280)  |  |                                  |
| On Safety, Labour Relations, Management.<br>of Strike(If Collective Bargaining Fails)                              |   |  |  |                                  |
| Change In Labour System Of<br>Trains   | 1st Train-15:00   | (540)  | Parts Of Uchibo,<br>Sotobo Lines, Etc.                       | 42,000                           |
| of Strike (1 wk.)  |   | (1,280)  |  |                                  |
| of Strike (To At Least Next Jan.)  |   | (1,280)  |  |                                  |
| Regional Labour Committee's<br>Movement In Labour Conditions   | 4 hrs.<br>(Basically)   | Approx. 1,900<br>(Members Not On Trains)   |  |                                  |
| New Labour System Due To<br>Schedule   | 6 hrs.  | All Drivers,<br>Excluding Freight  | Uchibo, Sotobo, Togane, Kashima, Kururi                      |                                  |
| of Strike (To At Least 27th)<br>Trains   | 24 hrs.<br>8 hrs.   | 100<br>170   | None   |                                  |
| 8.5% Av.), Cease Of Unfair<br>Practices, Cancellation Of<br>University Graduates To Drive,<br>Safety Council, Etc. | Midnight-<br>Early Morning<br>12:00-<br>48 hrs.<br>48 hrs.<br>-12:00<br>26 hrs. | Certain Members<br>Certain Members<br>Certain Members<br>Approx. 500(Drivers)<br>Approx. 300(Car Maintenance)<br>(Approx. 4,600) | None<br>None<br>None   | 353,000                          |
| Change In Labour System Of<br>Trains (Pay For Non-working Hours)   |   | (Approx. 4,400)  | Approx. 2,100<br>13,698                                      | Approx. 1 mill<br>Approx. 5.32 m |
| Of The Right To Strike For '93 Shunto  |   | (1,250)  |  |                                  |
| Of Disparity In Year-end<br>Compared With Other JR Companies)  | 48 hrs.<br>24 hrs.  |  | Container 140<br>Wagon Load 500                              |                                  |
| To Change In Labour System,<br>(Shunto), Etc.  | 24 hrs.   | 23(Drivers)<br>Approx. 30<br>Approx. 250   |  |                                  |

|               | Time Period        | Participants                 | Train Stoppage  | People Affected      |
|---------------|--------------------|------------------------------|---|----------------------|
| em Due        | 12 hrs.            | (Approx. 750)                | All Lines Except For<br>JR Kururi Line & Isumi Line(3rd Sector) |                      |
| shment        |                    |                              |   |                      |
|               | Nov. 14)           |                              |   |                      |
|               | (94.57% In Favour) | (1,270)                      |   |                      |
|               | tions, Management. | (1,280)                      |   |                      |
|               | Bargaining Fails)  |                              |   |                      |
| m Of          | 1st Train-15:00    | (540)                        | Parts Of Uchibo,<br>Sotobo Lines, Etc.                          | 42,000               |
|               |                    | (1,280)                      |   |                      |
|               | next Jan.)         | (1,280)                      |   |                      |
| tee's         | 4 hrs.             | Approx. 1,900                |   |                      |
| ns            | (Basically)        | (Members Not On Trains)      |   |                      |
| o             | 6 hrs.             | All Drivers.                 | Uchibo, Sotobo, Togane, Kashima, Kururi Lines                   |                      |
|               |                    |                              | Excluding Freight   |                      |
| 7th)          |                    |                              |   |                      |
|               | 24 hrs.            | 100                          |   |                      |
|               | 8 hrs.             | 170                          | None  |                      |
| air           | Midnight-          | Certain Members              |   |                      |
|               | Early Morning      | Certain Members              |   |                      |
| ve,           | 12:00-             | Certain Members              | None  |                      |
|               | 48 hrs.            |                              | 1,860   | 353,000              |
|               | 48 hrs.            | Approx. 500(Drivers)         | None  |                      |
|               | -12:00             | Approx. 300(Car Maintenance) | None  |                      |
|               | 26 hrs.            | (Approx. 4,600)              | Approx. 2,100   | Approx. 1 million    |
| Of            |                    | (Approx. 4,400)              | 13,698  | Approx. 5.32 million |
| Hours)        |                    |                              |   |                      |
| or '93 Shunto |                    | (1,250)                      |   |                      |
| i             | 48 hrs.            |                              | Container 140   |                      |
| panies)       | 24 hrs.            |                              | Wagon Load 500  |                      |
| em,           | 24 hrs.            | 23(Drivers)                  |   |                      |
|               |                    | Approx. 30                   |   |                      |
|               |                    | Approx. 250                  |   |                      |

| No. | Date               | Company                              | Union          | Objective & Characterist  |
|-----|--------------------|--------------------------------------|----------------|---|
| 26  | 93. 3. 18.         | JR KYUSHU                            | JR KYUSHURO    | [ Opposition To Change<br>Wage Hikes (Shunto),<br>Opposition To One Driver<br>Blue Train (Hiroshima - S |
| 27  | 93. 3. 18.         | JR WEST                              | JR NISHIRO     |   |
| 28  | 93. 3. 18. -8. 11. | JR WEST                              | JR NISHIRO     |   |
| 29  | 93. 3. 19.         | JR KYUSHU                            | JR KYUSHURO    | [ Opposition To Change<br>Wage Hikes (Shunto),<br>(Same As Above)                                       |
| 30  | 93. 3. 25.         | JR WEST                              | JR NISHIRO     |   |
| 31  | 93. 3. 25.         | JR KYUSHU                            | JR KYUSHURO    |   |
| 32  | 93. 3. 25.         | JR KYUSHU                            | JR KYUSHURO    | (Same As Above)   |
| 33  | 93. 4. 27.         | JR WEST                              | JR NISHIRO     | Opposition To One Driver<br>Blue Train (Hiroshima - S   |
| 34  | 93. 6. 10. -6. 11. | JR KYUSHU                            | JR KYUSHURO    | Opposition To Change In D   |
| 35  | 93. 9. 27. -9. 28. | JR TOKAI                             | JR TOKAIRO     | Opposition To Punishment  |
| 36  | 93. 12. 12.        | JR EAST                              | JR EAST SHINRO | Newly Formed (From JR East  |
| 37  | 93. 12. 24.        | JR HOKKAIDO<br>JR FREIGHT<br>JR WEST | KOKURO         | Central Labour Committee<br>HOKKAIDO, FREIGHT: Recd<br>WEST: No Recognition                             |

Notes : 1. The incidents are all taken from KOTSU SHINBUN.

2. For the number of participants, the numbers in ( ) are the total participants.

Source : Adapted from data in Kotsu Shinbunsha. Kotsu Shinbun. 1991-1993.

| Characteristics                                       | Time Period         | Participants  | Train Stoppage   | People Affected               |
|---|---------------------|---|------------------|-------------------------------|
| Change In Labour System.<br>(Mito), Etc.              |                     | Certain Regions<br>(4,300)  | 37<br>(AM: 32)   | Approx. 7,000<br>(AM: 30,000) |
| Driver System On<br>(Hiroshima - Shimonoseki)         |                     | In Shimonoseki Region   |                  |                               |
| Change In Labour System.<br>(Mito), Etc.              | Half Day<br>24 hrs. | Certain Regions<br>Hiroshima Region<br>Drivers & Guards.<br>Car Maintenance, Etc. | None<br>28<br>85 | 9,000<br>Approx. 7,000        |
| Driver System On<br>(Hiroshima - Shimonoseki)         | 12 hrs.<br>24 hrs.  | Drivers & Guards<br>Hiroshima Region  |                  | None<br>Approx. 214,600       |
| Change In Labour System<br>(Mito)                     | 24 hrs.             |   | 152              | Approx. 13,900                |
| Incident (Sept. 20)                                   | 48 hrs.             | Approx. 600   | None             |                               |
| JR East Roso In Sendai Region; Formerly In Tetsuro)   |                     |   |                  |                               |
| Committee Sends Orders                                |                     |   |                  |                               |
| Recognition Of Unfair Labour Practice On Some Aspects |                     |   |                  |                               |
| Union   |                     |   |                  |                               |

the total number of union members at that time; thus, it may not be the exact number that  
1993.

|  | Time Period | Participants                               | Train Stoppage | People Affected               |
|--|-------------|--|----------------|-------------------------------|
| hour System,                                   |             | Certain Regions<br>(4,300)                 | 37<br>(AM: 32) | Approx. 7,000<br>(AM: 30,000) |
| On<br>(Shimonoseki)                            |             | In Shimonoseki Region                      |                |                               |
| hour System,                                   |             | Certain Regions                            | None           |                               |
|  | Half Day    | Hiroshima Region                           | 28             | 9,000                         |
|  | 24 hrs.     | Drivers & Guards.<br>Car Maintenance, Etc. | 85             | Approx. 7,000                 |
|  | 12 hrs.     | Drivers & Guards                           |                | None                          |
| On<br>(Shimonoseki)                            | 24 hrs.     | Hiroshima Region                           | 574            | Approx. 214,600               |
| System   | 24 hrs.     |  | 152            |                               |
| (t. 20)  | 48 hrs.     | Approx. 600                                | None           | Approx. 13,900                |
| so In Sendai Region; Formerly In Tetsuro)      |             |  |                |                               |
| Orders   |             |  |                |                               |
| tion Of Unfair Labour Practice On Some Aspects |             |  |                |                               |

number of union members at that time; thus, it may not be the exact number that

One further manifestation, moreover, of the real instability within the JR companies on labour issues was the incident, as reported in the *Mainichi Shinbun*<sup>84</sup> on 26 November 1992, that JR Central (*JR Tôkai*) had been allowing management trainees to drive passenger trains in contravention of safety regulations. The explanation for this course of action was that the JR Central Executive had taken a decision to provide driving instruction to its management recruits as a precaution "...in case of revived union militancy". A key factor in this dispute, and a theme running through the list of stoppages cited in Figure III has been the continuing presence of former *Dôrô* activists, their lack of numerical strength being transcended by the simple fact that, as employed train drivers, the *Dôrô* faction can stop trains running more easily than can station workers or ticket clerks.

The myth of harmonious management:labour relations as a result of privatisation has also been highlighted by a substantial number of cases for unfair labour practices<sup>85</sup> which have subsequently come before the Regional and Central Labour Relations Committees. In those few cases in which judgements have been made by the Committees the rulings have been in favour of the unions,

supporting the view that the re-employment policy of the JR Companies involved an element of deliberate suppression of Kokurô members. The great majority of the complaints have, not yet, however, been resolved.

A compromise plan proposed in May 1992 by the Central Labour Relations Committee that the JR companies accept a decision of unfair labour practices - but would not then suffer any severe penalties - was not accepted by JR East<sup>86</sup>. This company's attitude has been influenced by the strong former *Dôrô* faction in its labour union organisation, the *Dôrô* position being that it does not wish to see any *Kokurô* revival in the Tokyo area. Despite offers of mediation by both the Ministries of Labour and Transport, JR East has decided to enter an administrative lawsuit to the Japanese Court of Justice. The issue of unfair labour practices arising out of the employment practices of the JR companies at the outset of their operations thus remains unresolved seven years after the event.

In conclusion, the aim of improving on the JNR's record of management:labour relations has been achieved more by a legislative process than by one in which the fundamental conditions within which these relations exist has been reformed. The judgement that the privatisation of the national railway has achieved a level of stability in labour relations not found in the JNR era must be viewed in relation to the fact that this improvement has been manufactured rather than earned.

The recent cracks in the facade of the apparent stability may indicate that the measures taken to weaken the unions in the national railway have swung the pendulum too far in the direction of the JR management. Thus, while the public perception has been of improved service and better employee attitudes as a consequence of the privatisation, the outward appearance of these gains masks tensions between management and labour which have already resurfaced in the form of regular disputes throughout the JR Group of companies.

## The Place of the JR Companies in the Post-Privatisation Railway Sector

The establishment of 'better' labour relations by statute is a prime example of the fulfilment of the JNR privatisation policy through the implementation of the pre-conditions set out as an integral part of its enactment. The enduring theme of the policies of dissolving and privatising the JNR has been the achievement of putting in place a structure for the operation of the national railway which would guarantee favourable comparison with its predecessor. This process was completed with the legislative package for the JNR privatisation, which established a framework for the new JR Group with built-in safeguards against failure. Previously discussed in detail in Chapter 6, the measures in the JNR Privatisation Acts dealt successfully with the issues of the disposition of the national railway's long term liabilities; the reduced employment levels of the new JR Companies; and the subsidisation of the activities of the smaller JRs in order that the overall JR operating Group could declare profits to contrast with the losses of the former JNR.

The removal from the JRs of the social obligation which had existed in the JNR era to provide sufficient capital investment to maintain a fully nationwide service was an additional factor which facilitated the achievement of profit figures from the JR Group which reinforced the favourable impression of the benefits from the JNR's privatisation. The epitome of such a positive view of the state of the Japanese railway system in the post-privatisation era may be represented by that of the BBC television series on world railways, Locomotion, which stated that "Japan's railways are the envy of the world. Fast, clean, frequent and punctual, they are a daunting example to other nations of what can be achieved when government, business and science cooperate for the benefit of all."<sup>87</sup>

This BBC quote, however, views Japan's railways as a single system, and makes no differentiation between the national railway of Japan and its network of private railway companies. It therefore requires that attention be drawn to the reality that the JRs are but part of the Japanese railway system, within which the private rail companies are another major constituent part. It might further be said, moreover, that the JNR privatisation policy,

itself, through the reorganisation of the former, unified Japanese state railway into separate, 'private' railway companies will, when the process is finalised by the complete flotation of the shares of the Honshu JR's, further break down the barriers between the JR group which operates the national rail services, and the private railways which continue to run the nation's main commuter lines.

Implicitly at least, thus, the "envy of the world" tag which the BBC's world railway survey, Locomotion, gave to Japan must have been aimed to encompass the private rail companies in Japan, those which were established in the early years of the development of the railways, and which have remained the country's predominant mode of commuter transport. Their important presence was further recognised, indeed, in another previously cited reference by the UK Ministry of Transport, which acknowledged that "Already 40% of Japan's railways are private ..."88 It is alongside these 'real' private railway companies that the JR companies now operate, the structure of which, and of their relations with the JR group in the operation of the country's rail network, is now the subject of further analysis.

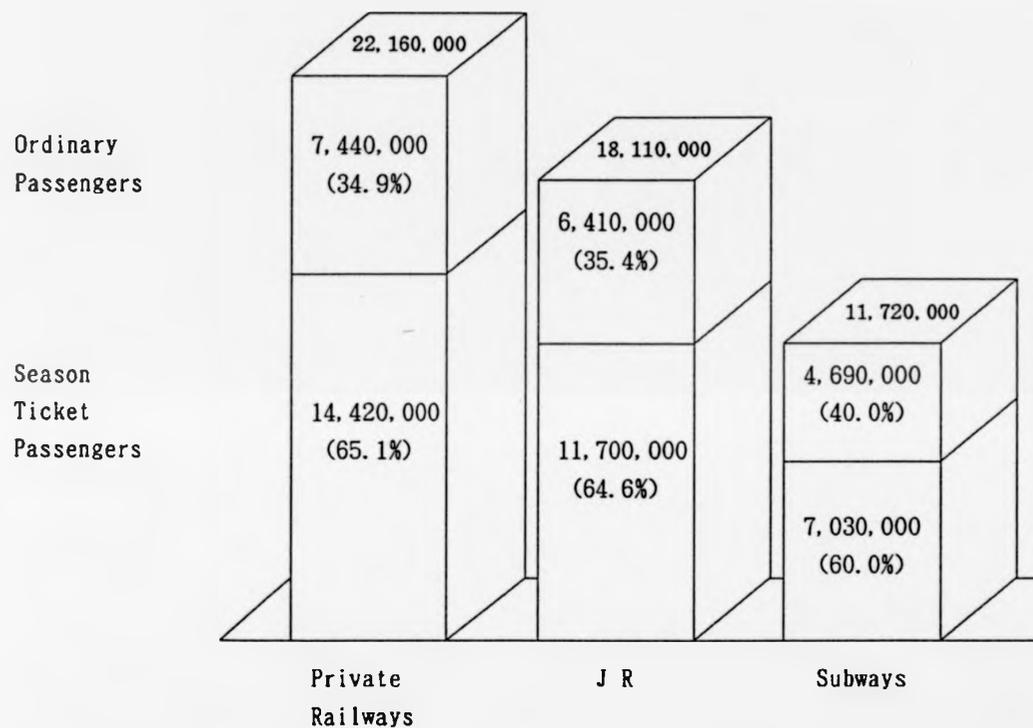
Table 48 THE MAJOR PRIVATE RAILWAYS IN JAPAN

(As of March 1992)

| Company    | Date of Establishment | Date of Startup of Operations | Capital (Million Yen) | Distance Covered (kilometres) | Number of Stations |
|------------|-----------------------|-------------------------------|-----------------------|-------------------------------|--------------------|
| Tobu       | 1897 11. 1            | 1899 8. 27                    | 64. 388               | 464. 1                        | 202                |
| Seibu      | 1912 5. 7             | 1915 4. 15                    | 21. 665               | 178. 4                        | 93                 |
| Keisei     | 1909 6. 30            | 1912 11. 3                    | 13. 583               | 91. 6                         | 58                 |
| Keio       | 1910 9. 21            | 1913 4. 15                    | 50. 069               | 84. 8                         | 69                 |
| Odakyu     | 1923 5. 1             | 1927 4. 1                     | 59. 883               | 121. 6                        | 71                 |
| Tokyu      | 1922 9. 2             | 1911 10. 6                    | 107. 335              | 100. 7                        | 99                 |
| Keikyu     | 1898 2. 25            | 1899 1. 21                    | 31. 847               | 83. 6                         | 71                 |
| Sotetsu    | 1917 12. 18           | 1921 9. 28                    | 27. 400               | 35. 0                         | 25                 |
| Meitetsu   | 1894 6. 25            | 1898 5. 6                     | 66. 315               | 539. 3                        | 359                |
| Kintetsu   | 1910 9. 16            | 1914 4. 30                    | 90. 779               | 595. 2                        | 346                |
| Nankai     | 1884 6. 16            | 1885 12. 29                   | 41. 266               | 164. 7                        | 118                |
| Keihan     | 1906 11. 19           | 1910 4. 15                    | 47. 097               | 91. 9                         | 90                 |
| Hankyu     | 1907 10. 19           | 1910 3. 10                    | 69. 899               | 146. 8                        | 90                 |
| Hanshin    | 1899 6. 12            | 1905 4. 12                    | 28. 467               | 45. 1                         | 48                 |
| Nishitetsu | 1908 12. 17           | 1911 6. 5                     | 25. 889               | 133. 8                        | 112                |
| Total      |                       |                               | 803. 982              | 3. 038. 8                     | 1. 999             |

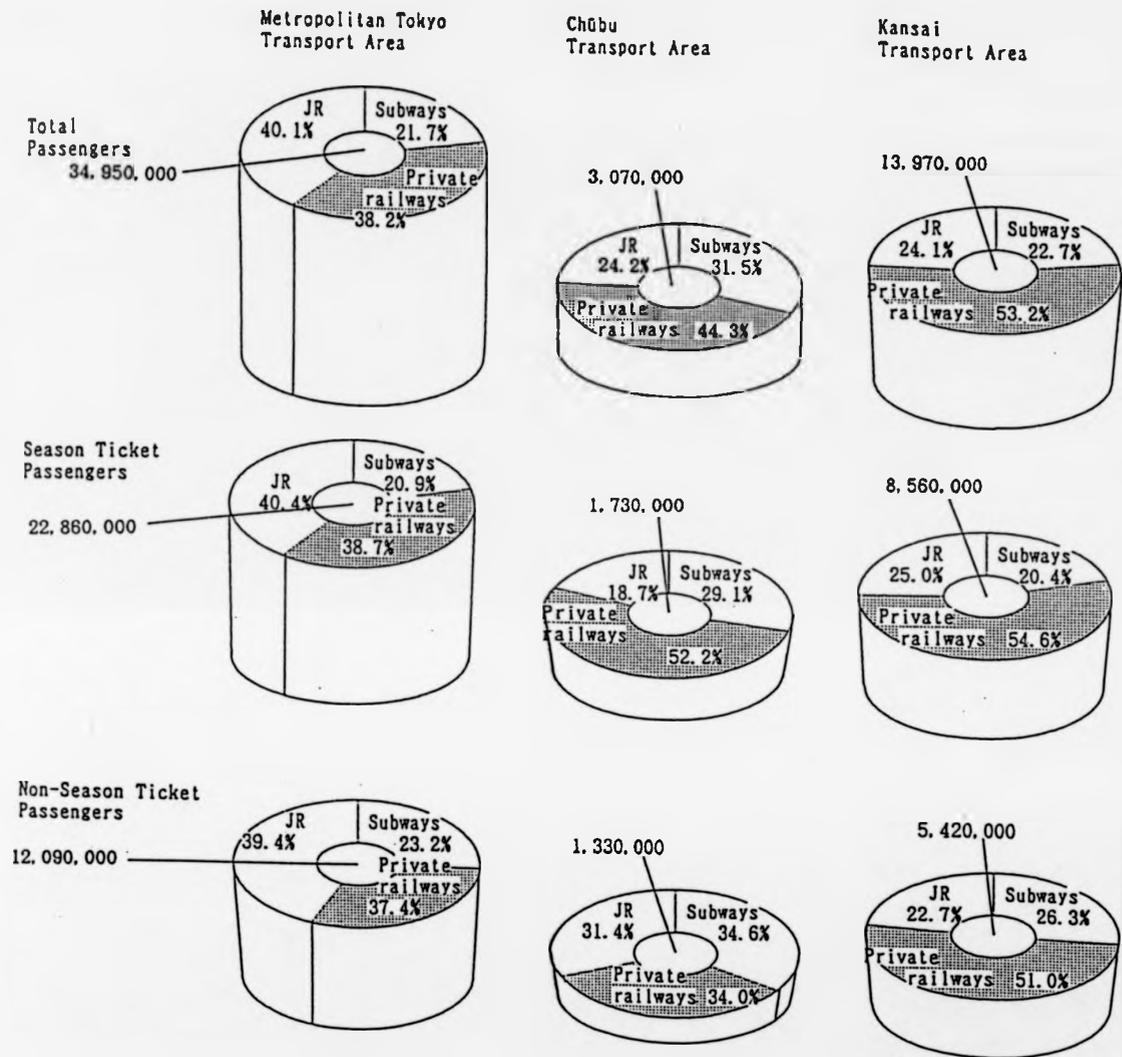
Source : Adapted from data in Japan International Cooperation Agency. Overview of Private Railways And Their Business. 1993. p. 3.

Chart 23 AVERAGE NUMBER OF PASSENGERS PER DAY BY MODE OF TRANSPORTATION: FISCAL YEAR 1990



Source : Adapted from data in Unyushō (Ministry of Transport). Heisei 4 Nenban Toshi Kōtsū Nenpō (Urban Transportation Yearbook for 1992). 1992. p.122-125.  
 Japan International Cooperation Agency. Reproduce in Overview of Private Railways And Their Business. 1993.

Chart 24 AVERAGE NUMBER OF PASSENGERS PER DAY IN  
THE THREE MAJOR URBAN AREAS: FISCAL YEAR 1990



Source: Adapted from data in Unyushō (Ministry of Transport). Heisei 4 Nenban Toshi Kōtsū Nenpō (Urban Transportation Yearbook for 1992). 1992. p.122.

Japan International Cooperation Agency. Reproduce in Overview of Private Railways And Their Business. 1993.

Table 49 PRIVATE RAILWAYS OPERATING INCOME BREAKDOWN

| Company       | Fiscal Year | Total  |     | Railways |      | Bus    |       | Others※ |      |
|---------------|-------------|--------|-----|----------|------|--------|-------|---------|------|
|               |             | ¥m     | %   | ¥m       | %    | ¥m     | %     | ¥m      | %    |
| Kanto<br>Tobu | 87          | 23,880 | 100 | 11,693   | 49.0 | 105    | 0.4   | 12,082  | 50.6 |
|               | 88          | 27,582 | 100 | 19,314   | 70.0 | 55     | 0.2   | 8,212   | 29.8 |
|               | 89          | 29,843 | 100 | 18,479   | 61.9 | -303   | -1.0  | 11,667  | 39.1 |
|               | 90          | 32,580 | 100 | 18,267   | 56.0 | -1,283 | -3.9  | 15,596  | 47.9 |
|               | 91          | 37,268 | 100 | 19,930   | 53.4 | -610   | -1.6  | 17,948  | 48.2 |
| Seibu         | 87          | 15,941 | 100 | 8,693    | 54.5 | --     | --    | 7,248   | 45.5 |
|               | 88          | 18,235 | 100 | 12,260   | 67.2 | --     | --    | 5,975   | 32.8 |
|               | 89          | 20,842 | 100 | 12,543   | 60.2 | --     | --    | 8,299   | 39.8 |
|               | 90          | 27,811 | 100 | 11,049   | 39.7 | --     | --    | 16,762  | 60.3 |
|               | 91          | 32,028 | 100 | 12,305   | 38.4 | --     | --    | 19,723  | 61.6 |
| Tokyu         | 87          | 29,710 | 100 | 11,341   | 38.2 | -982   | -3.3  | 19,351  | 65.1 |
|               | 88          | 31,757 | 100 | 14,967   | 47.1 | -2,777 | -8.7  | 19,567  | 61.6 |
|               | 89          | 30,794 | 100 | 15,012   | 48.8 | -3,282 | -10.7 | 19,064  | 61.9 |
|               | 90          | 41,202 | 100 | 14,927   | 36.2 | -2,206 | -5.3  | 28,481  | 69.1 |
|               | 91          | 47,741 | 100 | 16,013   | 33.5 | -712   | -1.5  | 32,440  | 68.0 |
| Keihin        | 87          | 15,866 | 100 | 6,447    | 40.6 | 815    | 5.1   | 8,604   | 54.3 |
|               | 88          | 17,092 | 100 | 8,361    | 48.9 | -213   | -1.2  | 8,945   | 52.3 |
|               | 89          | 14,055 | 100 | 7,468    | 53.1 | 51     | 0.4   | 6,536   | 46.5 |
|               | 90          | 15,636 | 100 | 6,539    | 41.8 | 222    | 1.4   | 8,875   | 56.8 |
|               | 91          | 19,521 | 100 | 8,372    | 42.9 | -174   | -0.9  | 11,323  | 58.0 |
| Odakyu        | 87          | 17,601 | 100 | 6,998    | 39.8 | 0.2    | 0.001 | 10,603  | 60.2 |
|               | 88          | 21,939 | 100 | 11,064   | 50.4 | -39    | -0.2  | 10,914  | 49.7 |
|               | 89          | 20,224 | 100 | 10,022   | 49.6 | -75    | -0.4  | 10,277  | 50.8 |
|               | 90          | 22,692 | 100 | 9,089    | 40.1 | -64    | -0.3  | 13,667  | 60.2 |
|               | 91          | 24,616 | 100 | 12,207   | 49.6 | -90    | -0.4  | 12,499  | 50.8 |
| Keio          | 87          | 16,259 | 100 | 9,168    | 56.4 | 808    | 5.0   | 6,283   | 38.6 |
|               | 88          | 16,671 | 100 | 10,999   | 66.0 | 144    | 0.9   | 5,528   | 33.2 |
|               | 89          | 15,774 | 100 | 9,640    | 61.1 | -270   | -1.7  | 6,404   | 40.6 |
|               | 90          | 14,452 | 100 | 8,803    | 60.9 | -455   | -3.1  | 6,104   | 42.2 |
|               | 91          | 14,767 | 100 | 8,984    | 60.8 | -222   | -1.5  | 6,005   | 40.7 |
| Keisei        | 87          | 12,892 | 100 | 8,535    | 66.2 | 1,649  | 12.8  | 2,708   | 21.0 |
|               | 88          | 13,244 | 100 | 8,205    | 62.0 | 955    | 7.2   | 4,083   | 30.8 |
|               | 89          | 12,501 | 100 | 8,523    | 68.2 | 661    | 5.3   | 3,317   | 26.5 |
|               | 90          | 13,369 | 100 | 8,084    | 60.5 | -102   | -0.8  | 5,387   | 40.3 |
|               | 91          | 12,462 | 100 | 9,315    | 74.7 | 147    | 1.2   | 3,000   | 24.1 |

Table 49 continued

## PRIVATE RAILWAYS OPERATING INCOME BREAKDOWN

| Company       | Fiscal Year | Total  |     | Railways |      | Bus    |       | Others※ |      |
|---------------|-------------|--------|-----|----------|------|--------|-------|---------|------|
|               |             | ¥m     | %   | ¥m       | %    | ¥m     | %     | ¥m      | %    |
| <b>Kansai</b> |             |        |     |          |      |        |       |         |      |
| Kintetsu      | 87          | 32,096 | 100 | 23,338   | 72.6 | -546   | -1.5  | 9,304   | 28.9 |
|               | 88          | 37,186 | 100 | 25,582   | 68.8 | -577   | -1.6  | 12,181  | 32.8 |
|               | 89          | 40,012 | 100 | 22,772   | 56.9 | -740   | -1.8  | 17,980  | 44.9 |
|               | 90          | 41,819 | 100 | 18,520   | 44.3 | -216   | -0.5  | 23,515  | 56.2 |
|               | 91          | 41,038 | 100 | 19,045   | 46.4 | -971   | -2.4  | 22,964  | 56.0 |
| Hankyu        | 87          | 21,925 | 100 | 12,562   | 57.3 | --     | --    | 9,363   | 42.7 |
|               | 88          | 22,367 | 100 | 12,536   | 56.0 | --     | --    | 9,831   | 44.0 |
|               | 89          | 24,428 | 100 | 7,183    | 29.4 | --     | --    | 17,245  | 70.6 |
|               | 90          | 22,646 | 100 | 4,632    | 20.5 | --     | --    | 18,014  | 79.5 |
|               | 91          | 27,462 | 100 | 5,391    | 19.6 | --     | --    | 22,071  | 80.4 |
| Hanshin       | 87          | 7,320  | 100 | 2,492    | 34.0 | 203    | 2.8   | 4,625   | 63.2 |
|               | 88          | 7,631  | 100 | 2,594    | 34.0 | 218    | 2.9   | 4,818   | 63.1 |
|               | 89          | 8,265  | 100 | 3,117    | 37.7 | 251    | 3.0   | 4,897   | 59.3 |
|               | 90          | 8,513  | 100 | 2,426    | 28.5 | 196    | 2.3   | 5,891   | 69.2 |
|               | 91          | 9,360  | 100 | 2,890    | 30.9 | 259    | 2.8   | 6,211   | 66.3 |
| Nankai        | 87          | 18,679 | 100 | 12,205   | 65.3 | -761   | -4.0  | 7,235   | 38.7 |
|               | 88          | 20,449 | 100 | 11,653   | 57.0 | -745   | -3.6  | 9,541   | 46.7 |
|               | 89          | 20,289 | 100 | 10,194   | 50.2 | -1,315 | -6.4  | 11,410  | 56.2 |
|               | 90          | 20,719 | 100 | 10,123   | 48.9 | -721   | -3.5  | 11,317  | 54.6 |
|               | 91          | 21,106 | 100 | 9,877    | 46.8 | -973   | -4.6  | 12,202  | 57.8 |
| Keihan        | 87          | 12,762 | 100 | 7,089    | 55.5 | --     | --    | 5,673   | 44.5 |
|               | 88          | 12,965 | 100 | 7,218    | 55.7 | --     | --    | 5,747   | 44.3 |
|               | 89          | 13,670 | 100 | 6,392    | 46.8 | --     | --    | 7,278   | 53.2 |
|               | 90          | 15,536 | 100 | 6,808    | 43.8 | --     | --    | 8,728   | 56.2 |
|               | 91          | 15,854 | 100 | 7,317    | 46.2 | --     | --    | 8,537   | 53.8 |
| <b>Chubu</b>  |             |        |     |          |      |        |       |         |      |
| Nagoya        | 87          | 19,087 | 100 | 8,982    | 47.1 | -223   | -1.2  | 10,328  | 54.1 |
|               | 88          | 17,243 | 100 | 8,289    | 48.1 | -48    | -0.3  | 9,003   | 52.2 |
|               | 89          | 14,632 | 100 | 5,752    | 39.3 | -763   | -5.2  | 9,643   | 65.9 |
|               | 90          | 17,685 | 100 | 10,069   | 56.9 | -1,263 | -7.1  | 8,879   | 50.2 |
|               | 91          | 20,584 | 100 | 10,792   | 52.4 | -457   | -2.2  | 10,249  | 49.8 |
| <b>Kyushu</b> |             |        |     |          |      |        |       |         |      |
| Nishitetsu    | 87          | 7,446  | 100 | 2,650    | 35.6 | 191    | 2.6   | 4,605   | 61.8 |
|               | 88          | 7,333  | 100 | 2,558    | 34.9 | -990   | -13.5 | 5,765   | 78.6 |
|               | 89          | 7,998  | 100 | 2,594    | 32.4 | 160    | 2.0   | 5,244   | 65.6 |
|               | 90          | 7,629  | 100 | 2,655    | 34.8 | -609   | -8.0  | 5,583   | 73.2 |
|               | 91          | 7,034  | 100 | 2,124    | 30.2 | -1,103 | -15.7 | 6,013   | 85.5 |

Note : ※ includes real estate and other businesses.

Source : Adapted from data in Unyushō (Ministry of Transport). Tetsudō Tōkei Nenpō (Annual Railway Statistics). 1987-1991 Editions.

Table 50 PRIVATE RAILWAY COMPANIES:  
CAPITAL INVESTMENT PLANS FOR FISCAL 1993

(00m. Yen)

| Company | Investment in         |                      | Planned Total<br>for Fiscal<br>1993 | Actual Total<br>for Fiscal<br>1992 | 1993/1992<br>% Change |
|---------|-----------------------|----------------------|-------------------------------------|------------------------------------|-----------------------|
|         | Railway<br>Businesses | Others<br>Activities |                                     |                                    |                       |
| Tobu    | 580                   | 267                  | 847                                 | 990                                | -15%                  |
| Seibu   | 314                   | 690                  | 1004                                | 760                                | +32%                  |
| Keisei  | 141                   | 50                   | 191                                 | 204                                | -6%                   |
| Odakyu  | 528                   | 162                  | 790                                 | 959                                | -18%                  |
| Keio    | 186                   | 316                  | 502                                 | 390                                | +29%                  |
| Kei Ryu | 307                   | 313                  | 620                                 | 540                                | +15%                  |
| Tokyu   | 450                   | 440                  | 890                                 | 1370                               | -35%                  |
| Sojetsu | 101                   | 299                  | 400                                 | 252                                | +59%                  |

Source : Adapted from data in Kōtsū Shinbun (Transportation Newspaper), 2 June, 1993.

## The Private Railway Companies in Japan

### 1. The Business Activities of the Private Railways

As shown in Table 48, the present major railway companies in the private sector in Japan are widely diversified groupings within which their railway businesses are but a part of their overall operations. Those railway activities, however, remain of a very significant scale, and the private railways continue to perform a vital role in the country's commuter transport network. In fiscal 1990, the number of passengers carried daily by the private railways in the country's three major urban areas, those around Tokyo, Nagoya, and Osaka, was 22.4 million. As can be seen in Chart 23, this accounted for 43% of the total number of people transported<sup>89</sup> by the three modes of private railways, the JR companies, and the metropolitan subways.

While the growth in passenger volume achieved recently by the JRs has surpassed that of the private rail companies (see the earlier Table 37), the private rail sector still provides a crucial service in the country's large metropolitan areas. This point is reinforced in Chart 24, which shows the split of commuter transport amongst the three competing modes in each of Japan's three major centres

of population. In one of these areas, Kansai, (defined here as a fifty mile radius of Osaka Station), the private railways actually carried over 53% of the total number of passengers in fiscal 1990.

## 2. Diversification in the Railway Sector

A measure of the extent of the diversification policies by the private railways can be made by judging the percentage of income from and the scale of capital investment on rail activities against the levels pertaining to non-rail operations. The former can be seen in Table 49, which shows that, even looking only at the private companies' parent accounts (ie. not on a fully consolidated group basis), non-railway businesses account on average for around 55% of the revenues of the major 15 private railway companies.

The current position on capital spending is also illustrated by the figures in Table 50 which contains the planned investment by the large private companies in fiscal 1993. The average percentage of planned capital spending on railway operations out of the total investment of the 8 railway companies shown in this Table is 50%, so half of their resources are being employed outside of the mainstream business of the provision of rail services.

The private railway sector, left behind as unimportant in the nationalisation policy<sup>90</sup> of 1906, has developed into a major transport mode in Japan. Without the services which the private railway companies provide in short haul transport, the country's urban communications network truly could not exist. It is the fact, however, that they also provide a wide range of other services, such as real estate, retail, tourism and leisure that has been the real engine of the growth of the private railway groups. It is this model of the development of diversified businesses within a cohesive group structure that was adopted as a management strategy by the new JR companies<sup>91</sup>.

Whether or not the JRs are able to emulate the pattern of diversified activities such as that epitomised by the private railway groups will depend on the attitude of the Ministry of Transport. In this regard, the official standpoint of the MoT, as the transport regulatory authority, is that it continues to regulate the JR Companies in their role as operators of the national railway network<sup>92</sup>. Therefore, in the light of the difficult experience of the private railway sector in balancing its investment resources in the railway infrastructure vis a vis its non-rail activities, future

MoT regulatory policy towards the JRs must require a balance between liberalisation on diversification plans with the recognition that it remains the prime duty of the JR operating companies to place the highest priority on measures to enhance their railway services.

Privatisation notwithstanding, the function of both the JR and private railway companies within the framework of national transport strategy is thus still the provision of efficient rail services to the Japanese nation. Continuing MoT regulation of the activities of the railway operators - both JR and private - will therefore, inevitably involve the evaluation, from a national policy standpoint, of the extent of the companies' diversification measured against the quality of the railway services which they offer to the travelling public.

#### **Remaining Post Privatisation Issues**

The final stage of the JNR privatisation process is that of flotation of the shares of the JR companies on the Stock Market. The listing programme has begun with the first tranche of JR East stock but the JRs have objected to its tardy implementation<sup>93</sup>.

The wish of the Honshu JRs to increase their independence from governmental and bureaucratic control through the sale of stock to private investors, however, masks the fact that the gains they have made in the first five years since 'privatisation' were achieved while under continuing public sector ownership. The remaining share flotations, when permitted by Stock Market conditions, might then be viewed in the context that change of ownership has not been necessary for the achievement of increased profitability by the JR Companies.

When the JR flotation schedule is resumed, one further policy matter with which the legislation will have to deal is that of the 'subsidies' provided to JR Freight and to the Three Island JRs. The principle of profit adjustment, brilliantly carried out in the JNR reconstruction process, has left an element of imbalance in the system with the JR passenger companies subsidising JR Freight to the extent that if full costing was applied, the freight operations would become heavily lossmaking<sup>94</sup>. The imbalance is accentuated by the operation of the Three Islands Management Stabilisation Fund which, as here argued, subsidises the operation of lossmaking services. Should the income from this Fund become insufficient to

offset the operating losses of the Three Island JRs, it is not clear from which source would come the necessary financial support for the maintenance of the national network.

The requirement on publicly listed companies to produce profits adequate to fund the payment of dividends to shareholders will also put pressure on the JR operating companies to review their policy on tariffs. In order to achieve the standards of profitability dictated by their wished-for status as independent, privately owned companies, the carefully structured policy of avoiding fare increases will come under threat.

The delays in effecting the share flotations have had, as previously outlined, an adverse impact on the proposed programme of JNR debt repayment. The failure to deal with the issue has no direct bearing on the JR operating companies, and is not their direct responsibility. The removal from the JRs, in the privatisation process, of the main burden of paying off the long term liabilities of the JNR, however, does not alter the fact that a massive level of debt still exists. It exists as a burden on the Japanese people which the privatisation of the JNR has not resolved. It exists as a

testament to the lack, in the past, of effective government responsibility in the financing and operation of the public sector railway system.

The forthcoming Stock Exchange listings of the shares of the Honshu JR companies, the programme having been eased by the implementation of stage one of the JR East flotation, could conceivably lead to further changes in the relationship between the eventually fully private operators and the government and bureaucracy. Indeed, the Honshu JRs are still hopeful that the flotations will be accompanied by the easing of what they view as restrictive bureaucratic controls<sup>95</sup>, and thereby that there will be a reduction in the degree of Ministry of Transport regulation of their activities.

The privatisation process has not actually, however, resolved the issue of the appropriate degree of public control over the operation of the national railway network. The brilliantly conceived new structure for the Japanese National Railway provided no final solution to the question of the definitive function of the JR operating companies with the overall context of national transport

policy. The final resolution of the issue of what role the JRs should play in the Japanese transport market will determine the extent to which the JR companies are able to diversify into non-railway activities, and the level of capital investment which will therefore be available to maintain their rail services. Only with the long term evidence of the effects of the new JR management policies on the national rail network will a final judgement be possible on the question of whether or not privatisation has resulted in a better rail service than the preceding methods of administering the national railway in Japan.

1. As in Chapter 6, in which a financial analysis of the JR group of companies was undertaken at the end of their first year of operation, this Chapter focuses on a detailed evaluation of the financial results of the national railway in its privatised form. The analysis of the results of the JR group for the five years since the privatisation of the JNR is the individual work of the author, utilising data from the JR Companies' annual financial statements (*Kessan Hôkuku Sho*), the annual financial returns of the JNR Settlement Corporation (*Nihon Tetsudô Seisan Jigyô Dan*), and of the Shinkansen Holding Corporation (*Shinkansen Hoyû Kikô*), and statistics obtained from the library of the Institute of Transport Statistics (*Kôtsû Tôkei Kenkyûjo*), Tokyo. This material is presented in tabular form, with accompanying analysis in the text.

2. *JR Go Nen no Kiseki to Kadai* (Five Years' Progress of JR and Its Future Tasks) *Unyu to Keizai* (1992) (Transportation and Economy), Vol. 52, No. 12, December, pp. 4 - 81.

3. Since, up to October 1993, there was only one shareholder in the JR companies - the Government, which held a 100% shareholding through the JNR Settlement Corporation - this comment is inexplicable.

4. *Unyu to Keizai* (1992), December, p.18 and p. 20.

5. Ibid, p. 27.

6. Ibid, pp.38-40.

7. Ibid, pp.12-13.

8. It should be noted that the *Seto Ohashi* was constructed during the public corporation era, and can not be taken as a benefit arising from the division and privatisation of the JNR.

9. *Unyu to Keizai* (1992), December, pp.45 - 46.

10. Ibid, pp. 54 - 57.

11. Ibid, pp.62 - 65.

12. As shown in Tables 37 and 38, adjoining p. 510.

13. In his assessment of the efficiency benefits derived from the JNR privatisation process, Fukui Kôichirô's Japanese National Railways Privatisation Study also makes this assumption "... we define the contribution made by economic expansion as the increase in transport volume which equals the increase in transport volume of private railway companies over the same period." Fukui Kôichirô (1992) (The World Bank), Japanese National Railway Privatisation Study. The Experience of Japan and Lessons for Developing Countries, Washington, p.110.

14. The national railway tariff has increased since the privatisation of the JNR only to the extent of incorporation into railway fares of the 3% Consumption Tax introduced in 1989.

15. See discussion in this Chapter, p. 536 and pp. 548 - 555.

16. Fukui (1992), p. 109.

17. Ibid.

18. This was the conclusion of the analysis of the reform of the JNR in Chapter 5, particularly derived from the material on pp. 399 - 428.

19. The only other financial analysis on similar principles known to the author is that undertaken by a Ministry of Transport official, Kurono Tadahiko (Vice-Director of the Ministry of Transport Railways Bureau). Kurono states in his work that the calculations were made using "...bold assumptions" but, as these are not explained, the accuracy of his data is difficult to verify. Nevertheless, his analysis concludes that - as was found in the present study - the consolidated JR Group made a profit in only one out of the five years in the period 1987-1992. Kurono Tadahiko (1993), "*Kokutetsu Kaikaku ni Tsuite*" (On JNR Reform), Han Kôtsû, Vol. 93, Issue 5, May, pp. 2 - 5.

20. This point is further discussed on pp. 522 - 535, and the relevant figures shown in Table 41, adjoining p. 523.

21. As listed in Table 35 (adjoining p. 494) in Chapter 6.

22. The process of transfer of lossmaking small lines either to Third Sector operation or to bus services was discussed earlier in Chapter 3, pp. 223 - 225. The policy removed any obligation from the new JR Group to run 83 unprofitable services which, as later shown in Appendix 4, were spread across all of the six JR passenger companies.

23. "... On April 1, 1987 the Japanese Railways were drastically restructured. Thousands of workers were dismissed, and over 80 lines were closed." Salvesen, Paul (1989), British Rail - the Radical Alternative to Privatisation, Manchester, p.56.

24. Shinkansen Tetsudô ni Kakawaru Tetsudô Shisetsu no Jôto to ni Kan Suru Hôritsu (Shikorei) (Law Concerning the Transfer of Shinkansen Facilities - Supplement) in Chûkai Tetsudô Roppô (Compendium of Railway Laws) (1993), p.2535.

25. As shown in Table 41, adjoining p. 523.

26. See Table 32, adjoining p. 469.

27. Nikkei Shinbun (Evening Edition), 16 October 1987. See also JNR Settlement Corporation '91 (1991), Tokyo, p.4.

28. The Land Trusts were established to take over parcels of JNRSC land for the purpose of constructing and letting buildings to third parties. Shares in the Land Trusts were sold to investing institutions in Japan. JNR Settlement Corporation (1991), JNR Settlement Corporation '91, p.12 and Supplementary Page (unnumbered). Confirmed also in Ishizuki Shôji (1992), "Kokutetsu Seisan Jigyô Dan no Genjô to Kada?" (The Present Situation and Issues faced by Our Business), Han Kôtsû, Vol.92, No.11, November, pp.19-21.

29. Nikkei Shinbun (1991), 18 September, and Kôtsû Shinbun (1991), 19 September. See also JNR Settlement Corporation '91

(1991), p.5.

30. As shown in Table 41, adjoining p. 523.

31. JNR Settlement Corporation (Fiscal 1991), Annual Report, p. 6.

32. Ibid, p.6.

33. This conclusion was drawn from the foregoing analysis of the JR flotation plans on pp. 528-529, taking particular account of the 'artificial' contribution made to the profits of JR Freight by the operation of an Avoidable Cost system of accounting (as discussed on p.462).

34. Quoted from The Tokyo Stock Exchange, Listing Standards .

35. "On the 25th August (1992) Transport Minister Okuda told reporters that the Ministry had given up hopes of selling and listing the shares of JR East within the current financial year. The Finance Ministry had demanded the postponement of the sale and listing of JR East shares because they feared the impact this might have on The Stock Market, and the Transport Ministry finally agreed. This is the third time since 1990 that the sale of JR East shares has been put off. It now looks as though the plan to repay the long-term debts inherited from the defunct Japanese National Railways by selling the shares of the JR companies is not working out as first hoped." Nihon Keizai Shinbun (1992), 26 August.

36. Originally issued at 1.5m Yen, the NTT share price rose in 1987 to a peak of 3.18m Yen. The shares of NTT then fell substantially in price - to an extent much greater than the general trend in the Japanese stock market - such that the second and third tranches of the share flotation were at successively lower prices. The share price reached its lowest level in late 1992 (some 80% lower than at its peak), at which point only one-third of the NTT equity had been sold to investors. Mochizuki (1993), p. 194.

37. As discussed in Kôtsû Nenkan (1995) (Transport Annual), Tokyo, pp. 360-362.

38. Further discussion of the activities of the private railway

companies in Japan is incorporated in the text of this Chapter, pp. 578 -582.

39. Shinkansen Tetsudô ni Kakawaru Tetsudô Shisetsu no Jôto to ni Kan Suru Hôritsu in Chûkai Tetsudô Roppô (1993), pp .2532-2537.

40. Such a claim is made in Fukui Kôichirô's World Bank Study on the privatisation of the JNR. "The government's financial burden associated with the JRs has been drastically reduced compared with that for JNR." Fukui (1992), p. 96.

41. See Okano Yukihide (1989), Privatisation of Railways in Japan. Tokyo. "Three JR passenger companies, JR Hokkaido, JR Shikoku and JR Kyushu are not viable. The government has endowed each of these three companies with a fund on which interest gained would be just enough to cover the annual deficits. Accordingly, the current profits shown by these companies have included the interest revenue on the funds. This one-time lump-sum grant is superior to subsidizing deficits every year." Note 5, p.156. Professor Okano also told the author in Interview (Tokyo, November 1991) that he did not consider the Three Islands Subsidisation fund to be equivalent to a public sector subsidy.

42. As explained by Okano Yukihide, in Interview, Tokyo, November 1991.

43. The workings of the *Keiei Antei Kikin* (Management Stabilisation Fund) were explained to the author by Ishii Naoki in Interview, Tokyo. September 1994.

44. As shown in Table 32, adjoining p. 469.

45. For example, Fukui (1992), says (p. XV) "After restructuring, the annual subsidy to JRs has been drastically reduced."

46. Ishihara Shintarô (1991), The Japan That Can Say No - Why Japan Will Be First Among Equals. New York.

47. Material provided by Professor Imashiro Mitsuhide in Interview, Tokyo, September 1994.

48. For the intentions of JR East - the largest of the privatised passenger rail companies - with regard to diversification, see JR East (1989), Forward to the 1990s .. and Beyond, Tokyo, August, p.1; and JR East (1992), Annual Report, Tokyo, p.3.

49. JR East (1989), p.1.

50. JR East (1992), p.3.

51. See Moriya Hideki (1991), Daitoshi Ken Shitetsu no Setsubi Tôshi ni Tsuite (Concerning Capital Investment by Private Railways in Major Metropolitan Areas), Tokyo. The author also attended a meeting of the Society of Railway History (*Tetsudô Shigakkai*) at Rikkyô University, Tokyo, on 29 June 1991, at which Moriya Hideki presented his findings on private railway capital investment.

52. Abe Seiji (1991), "Privatisation of Japanese National Railways and its Consequences", Keiei Kenkyû (Business Review), Tokyo, Vol. 41, No. 5/6, January, p.127. Abe was the first Japanese academic to question the 'success' of the financial aspects of the JNR privatisation. His work was also cited in Chapter 6 (p. 491) of this thesis.

53. The setting up of the Railway Development Fund is covered in this Chapter, pp. 550 - 555.

54. The annual financial accounts (*Kessan Hôkoku Sho*) of JR Central for its initial three years of operations revealed that this JR company had by far the largest lease finance burden of the three Honshu JRs which had taken over the *Shinkansen* assets. The later Table 44 (adjoining p. 551) in this Chapter shows that JR Central was responsible for over half of the total *Shinkansen* leasing payments; it therefore had a vested interest in having the financing system changed to a purchase contract, in order that it could use depreciation of the assets acquired to reduce its corporation tax bill.

55. Shinkansen Tetsudô ni Kakawaru Tetsudô Shisetsu no Jôto To ni Kan Suru Hôritsu (Shikorei) in Chûkai Tetsudô Roppô (1993), p.

2535.

56. Quoted from the Japanese Railway Development Fund (undated), Objectives and Business.

57. Material obtained from Table 44, adjoining p. 527; The Outline of the Japanese Railway Subsidy System (in Appendix 6); and the JR Companies Annual Financial Statements (Kessan Hôkokusho).

58. As shown in Appendix 6, The Outline of the Japanese Railway Subsidy System. See also Wada Kôichi(1991), "Kisetsu Shinkansen no Jôto ni Tsuite" (About the Transfer of the 4 Shinkansen Already Constructed), JR Gazette (JR Gazette), No.57, December, pp.58-61.

59. The four *Shinkansen* currently being purchased by the JR companies were previously assets of the JNR public corporation. The proceeds of their sale, it might therefore be argued, should be utilised to repay the long term liabilities of the JNR inherited by the JNR Settlement Corporation. It is an interesting development of post-privatisation government transport policy that the *Shinkansen* sale receipts are not going to offset the JNRSC's indebtedness but will instead be used to fund the construction of new railways. Material obtained in Interview with Ishii Naoki, Tokyo, September 1994. Confirmed in the Tetsudô Seibi Kikin Hô (1991) (Railway Development Fund Law), Article 20, Clause 4.

60. It is inconceivable that the value of the *Shinkansen* network could have increased by 1 trillion Yen in the four years from 1987 during which they were owned by the Shinkansen Holding Corporation. The sole capital investment in that period was the completion of the construction of the extension to the *Tôhoku/Jôetsu* lines between Ueno and Tokyo Stations, over half of which had been built in the JNR era. In relation to the 1.1 trillion Yen uplift in the overall hypothetical value of the existing *Shinkansen*, the actual investment on the Ueno extension was 121 billion Yen, split as to 66 billion Yen by the JNR and 55 billion Yen by the Shinkansen Holding corporation. Confirmed in Shinkansen Hoyû Kikô (1989), Shinkansen Hoyû Kikô to Tôhoku Shinkansen Tokyo-Ueno Kan Kensetsu Jigyô (Shinkansen Holding Corporation and Construction Operation on the Tôhoku Shinkansen Between Tokyo and Ueno), Tokyo, pages unnumbered.

61. Confirmed in the Fiscal 1992 Budget of the Railway Development Fund. See Appendix 6.

62. The *Seibi Shinkansen* programme is set out in Map form in Appendix 5, with accompanying discussion of the technical standards and financing system of each new line.

63. See Appendix 6.

64. This conclusion was derived from the analysis of the operation of the *Antei Kikin* on pp. 538- 542.

65. Nihon Keizai Shinbunsha (ed.) (1991), *Utage no Akuma, Shoken Sukyandaru no Shinso* ('Devil at the Banquet', The Roots of the Stock Market Scandal), p. 280.

66. Exposure of the practice of *Hoten* (compensation for financial losses) provoked adverse public reaction not least because the beneficiaries were invariably large private corporations and not small scale individual investors. An unattributable source - a former JNR manager, and observer of the *Santô JRs* (the JR companies on the islands of Kyushu, Hokkaido and Shikoku) - told the author (in Interview, Tokyo, September 1994) that at least one of the three small JR companies was believed to be a former recipient of this now outlawed system of compensation for investment losses.

67. This situation was pointed out to the author by an executive member of JR East (in Interview, Tokyo, September 1994). The view that the Management Stabilisation Fund should not be used to subsidise lossmaking diversification activities by the *Santô JRs* was part of a wider concern of the potential financial responsibility which might be imposed on the profitable Honshu JR companies should the three small island JR operators fall into the red. The issue has already been discussed further in the text of this Chapter (pp. 538 - 542).

68. At the time of writing the Ministry of Finance plans for the flotation of the shares of the Honshu JR companies are as follows: 1995 JR West and JR Central; 1996 JR East (2nd Tranche). *Nikkei*

Shinbun (1994), 15 May.

69. The provision of dedicated government funds for railway investment projects already extends beyond the construction of *Shinkansen*. In Appendix 6, the 1992 Budget of the Railway Construction Fund shows the range of government subsidies available to railway and subway operators. The system introduced for the funding of *Shinkansen* construction remains, however, the most comprehensive form of public sector support for the railways. The pressure brought by the strength of the bargaining position of the JR Companies, and the economic reality of the cost of new line construction may well, however, force the provision of more substantial government funding in the future across a wide range of railway investment projects. Should such a comprehensive system of public sector financing develop, it would be an unexpected but very positive result of the privatisation of the Japanese National Railway.

70. JR East (1991), This is JR East, pp.16 - 18.

71. This conclusion was drawn from the analysis in this Chapter of the operation of the JRs since privatisation, notably on pp. 544 - 548, and pp. 562 - 564.

72. As covered in Chapter 6, pp. 477 - 479.

73. The factual material (on union membership etc) for the analysis of the effect of the JNR privatisation on the state of labour relations in the national railway has been derived, in the main, from the library of *Kôtsû Tôkei Kenkyûjo* (Institute of Transport Statistics), Tokyo. The documents sources are listed in Figure II, adjoining p. 567. Opinions expressed on management:labour relations in the JR era reflect material obtained in interviews with expert sources on national railway labour matters, notably Professor Imashiro Mitsuhide of Daitô Bunka University, Tokyo; Ishii Naoki, Managing Director of the aforementioned *Kôtsû Tôkei Kenkyûjo*, Tokyo; Dr Kakumoto Ryôhei, Director of *Unyu Keizai Kenkyû Sentâ* (Transport Economics Research Centre), Tokyo; Kitsutaka Hiromasa, formerly of the JNR Staff Relations Department and Advisor to the JNR President; and Mutô Hisashi, former Secretary General of the labour union, *Kokurô*.

The interviews were carried out in Tokyo, in the period from July 1991 to May 1992, and in September 1994.

74. *Kôtsû Nenkan* (1988), p. 381.

75. See Figure II, adjoining p. 567.

76. This point is discussed in the succeeding text, on pp. 569 - 576.

77. Ibid.

78. Yamaji Norio (1991), "*Tokushu: JR Go Nenme no Hikari to Kage - Kumiai Bunretsu de Hibiwareta Roshi Kyôcho Rosen: Tôkai, Nishi Nihon (vs.) Higashi Nihon no Kozu*" (Special Article: Light and Shade in JR in its Fifth Year -Breakdown in Management:Labour Union Co-operation As a Result of Divisions in the Unions: Tôkai and Nishi Nihon vs. Higashi Nihon), *Shûkan Economisuto* (Weekly Economist), 24 December, Tokyo, p.27. See also Mochizuki (1993), pp.187-190.

79. Yamaji (1991), p. 27.

80. The description "enlightened capitalism" is taken from Mike Mochizuki's work on the response of the Japanese public sector unions to the privatisation policies of the 1980's. He sums up Matsuzaki Akira thus: "Matsuzaki's journey from revolutionary Marxism (Kakumaru) to this form of 'enlightened capitalism' symbolizes the dramatic transformation of the movement in the national railways." Mochizuki (1993), p.190.

81. Ibid.

82. See Figure II, adjoining p. 567.

83. Yamaji (1991), p. 27.

84. *Mainichi Shinbun* (1992). "*JR Tôkai no Mushikaku Unten*" (JR Central's Unqualified Driving), 26 November.

85. The contentious issue of 'unfair labour practices' within the

national railway has not been resolved by the privatisation process. Indeed, the fire and re-hire system of employment adopted by the JR companies in 1987 has compounded the problem, there being a substantial residue of complaints (largely from *Kokurô* members) of unfair treatment by the new JR employers. Ishii Naoki, Managing Director of *Kôtsu Tôkei Kenkyûjo*, provided information in Interview (Tokyo, March 1992) on the scale of the outstanding disputes (some 180 cases taken before the labour commissions) and the further discussion of the matter of the 'unfair labour' lawsuits is based on input from this source.

86. This material was obtained in Interview with Ishii Naoki, Tokyo, September 1994.

87. Quote from the Commentary to the BBC Television Series. Locomotion (1993), Programme 6, "Track to the Future", 12 December.

88. UK Ministry of Transport (1992), White Paper, New Opportunities for The Railways - The Privatisation of British Rail, London, p. 2.

89. The Japan International Cooperation Agency uses this statistic to put forward the claim that in Japan "Quite literally, private railways are the major mode of transport for commuting to work and school." Japan International Cooperation Agency (ed.), Overview of Private Railways And Their Business (1993), Tokyo, p. 6.

90. The 1906 government policy to nationalise only the main trunk line private railway companies had, as an implicit assumption, that the remaining private railways not so nationalised would never thereafter be important in the Japanese transport system. Their crucial present-day position in commuter transport - particularly in Japan's major cities - gives the lie to that prediction.

91. See p. 546 and this Chapter's Endnotes 48- 50.

92. Abe (1991), pp.126-127. Abe states that, under the Act of the Passenger Railway Companies and the Japan Freight Railway

Company, Article 13, "... the absolute supervisory power of the Ministry of Transport was clearly prescribed.", p.127.

93. Imashiro Mitsuhide, in Interview, explained to the author that the JR Companies have expressed dissatisfaction at the slow pace of the share flotations. The JRs believe that the sale of the Government's Shareholding to other investors will weaken the MoT's power in respect of control over their activities. Tokyo, September 1994.

94. A Director of JR Freight informed the author in Interview (Tokyo, March 1992) that full costing of its use of the track infrastructure owned by the JR passenger companies would increase JR Freight's operating costs from 20 billion Yen per annum to around 70-120 billion Yen per annum. By comparison, JR Freight's pre-tax profits in fiscal 1991 were 2.2 billion Yen.

95. Under the *Tetsudô Jigyô Hô* (Railway Business Law) changes in the railway tariff (by the JRs and the private railway companies) must be sanctioned by the Ministry of Transport. Safety regulations are also under MoT jurisdiction, as are the approval of the appointment of Chairman and President of the JR companies. On the matter of the attitude of the JR management to the flotation of their companies' shares, the following comment from a JR East executive is instructive. Giving evidence before the UK House of Commons Transport Committee, and in replying to the question "What are the benefits which your top management think will follow from privatisation?" Suga Tatsuhiko replied "We now have only one shareholder, which is the government, and for that reason I think we are still under the special control of the government in various terms and we expect that when we become a genuine private company we will have more freedom." Suga Tatsuhiko, quoted in Hansard (1993), 20 January, p.665.

The JR East position on the deregulation issue was also put forward by Matsuda Masatake (who had been promoted to Company President in June 1993) in a lecture on transport matters in December 1993. In the material supporting his lecture, Matsuda outlined the legal structure for the regulation by the MoT of JR East's business activities (under the *Tetsudô Jigyô Hô* - Railway Business Law, and the *JR Kaisha Hô* - JR Company Law),

commenting that the privatised railway companies were still "highly regulated". He also indicated that, in the first three years of its operation, the Company had submitted more than 1,000 applications per annum to the MoT for its approval, covering such areas as revisions to the railway timetable, changes in railway facilities, and operating licences for train drivers. Matsuda Masatake (1993), *JR Higashi Nihon no Genjô to Kadai* (JR East - The Present State of Affairs and Problems). Material produced for Lecture, *Kôku Seisaku Kenkyûkai* (Air Transport Research Group), Tokyo, 6 December.

## CHAPTER 8

### CONCLUSION

#### Evaluation of the JNR Privatisation Policies

It has been a major objective of this thesis to evaluate the success of the policies of division and privatisation of the Japanese National Railways. In this exercise it has been found that evaluation of the privatisation of the JNR purely from a political standpoint could legitimately conclude that it has been eminently 'successful'.

The conclusion of a successful privatisation process was the achievement of a policy initiative in which its advocates overcame public indifference and opposition from both the entrenched JNR Board of Directors, and the rank and file within the party of government, the LDP. The accomplishment of the division and privatisation of the JNR - against the odds - was an end in itself<sup>1</sup>, the culmination of a determined political campaign, one which conferred to the administration of PM Nakasone Yasuhiro plaudits akin to those which were addressed to the Thatcher government in the UK for its privatisation policies. To a right wing regime, the execution of its manifesto of dissolution and privatisation of the

former national railway public corporation represented a clear 'success' in that the government which implemented the proposals could claim that it had put a stop to the escalation of operating losses by the JNR; had dealt with the indebtedness built up by the JNR; and had vanquished the hitherto 'militant' JNR labour unions.

Judging the privatisation of the JNR as a political exercise must produce a favourable verdict, but it is here argued that this sole parameter is not a sufficient basis on which to judge the results of the process by which the Japanese National Railway was dissolved, broken up, and recreated as a group of private enterprises. A comprehensive evaluation of the JNR privatisation must surely take into account wider considerations, those of the operational efficiency of the national rail service in its post-privatisation mode, and of the financial consequences of the privatisation process. It is particularly because the objectives of the policies of division and privatisation of the JNR addressed these issues that they must be taken into account in their judgement.

It is, essentially, because an objective evaluation of the JNR privatisation requires that its 'achievements' be subject to independent assessment that this thesis has, in fact, adopted the technique of testing conventional hypotheses of the results of government policy on the railways in Japan. Such a method of analysis has been utilised throughout the study to examine the consequences of government policy on the JNR since its inception, in order to judge whether the perceptions of the national railway in its various phases of operation have been justified by events. The state railway organisation has been identified as operating in three broad phases, initially, as a national asset with a high status in the government service (1872 - 1964); then as a national financial liability, its status diminishing as its losses and indebtedness increased (1964 - 1987); and, finally, as an operation which achieved rehabilitation under privatisation, its status in Japanese public life consequently restored (1987 - 1992).

In the most recent phase of the national railway's operation - that since its division and privatisation in 1987 - the conventional image has been of an organisation resurrected by the successful implementation of policies achieved through the political process.

While it is accepted that this image is fully warranted as a reflection of the political accomplishment of carrying through the privatisation policies it is the view of this study that a balanced judgement of the privatisation of the JNR must incorporate an evaluation of its financial and operational consequences.

In examining the wider implications of the JNR privatisation process, key questions which have arisen from the research in this study have thus included the following: the extent to which the positive image of the post-privatisation Japanese railways is justified in reality; even if so warranted, has this image been earned as a direct result of the privatisation policies, or could an outside observer have made essentially the same judgement about the state of the Japanese railway system as it existed in the pre-privatisation era; does the existence of eulogistic quotes from commentators in and outside Japan validate the privatisation process; and to what extent does the image of the Japanese railway system which the rest of the world holds up as an icon owe its position to the stage management of the policies which led up to the break-up and privatisation of the JNR.

To address these points, this study has undertaken to examine both the legislative process of the privatisation of the Japanese National Railways and, critically, its financial results. The conclusions borne out by this critique support the positive view epitomised by the BBC that the railways of Japan are, indeed, worthy of their reputation of being "... the envy of the world"<sup>2</sup>. It is the view of this author, however, that the degree to which the privatisation of the JNR has enhanced this reputation is, however, more easily discernable at this uncritical 'image' level than in detailed analysis.

Thus, it is contended that the aura of success - attached to the JNR privatisation by commentators making facile comparison with the public corporation which previously operated the national railway network of services - is due, in reality, as much to the prior conditions applied to the privatisation process as it is to the tangible results of the new policy for managing the national railway. This was the conclusion to the examination of the following hypotheses on the JNR privatisation as set out in the Introduction:

- that the division and privatisation of the Japanese National Railways has produced definitive solutions to the problems inherent in the operation of the JNR as a public corporation

- that the JNR privatisation has, in itself, resulted in a sea-change in the management performance of the national railway

- that the reorganisation of the JNR into a group of private enterprises has meant a significant and durable reduction in the level of public subsidies for the national railway operation<sup>3</sup>.

As outlined above it has been possible, by setting the financial results of the JR companies against the above hypotheses, to draw the following conclusions from the privatisation process:

- massive operating losses under JNR management have been replaced by profits achieved by the privatised JR companies

- the privatisation process has removed the problem of the JNR's indebtedness

- the cost of labour disputes has shown a significant decrease.

It can, indeed, be said that these 'results' are incontrovertible, and it is therefore hardly surprising that a limited assessment of the privatisation of the Japanese National Railways would evince the conclusion that its implementation has been not only a political but also a financial success. The key to understanding the creation of this aura is, however, to be found in the analysis of the pre-conditions established as an integral part of the legislative process by which the JNR's division and privatisation was enacted. The procedures introduced to shelve the bulk of the JNR's debt and thereby to remove the massive interest burden, to cut drastically the labour force of the national railway and to neutralise any union opposition, were the essential elements of a policy initiative designed to conceive an instantly profitable JR Group of operating companies. The implementation of these measures need not have been accompanied by the policies of division and privatisation of the JNR; they could have been initiated as a means of financial

reconstruction of the national railway in its continuing form as a public corporation. Their execution, moreover, did not solve the financial problems; it merely ensured that they were not inherited by the new 'profitable' privatised JR Companies and, instead, that the real financing burden remained in the public domain.

The meticulous planning of the JNR privatisation process reflects the fact that the reconstruction of the Japanese National Railway became the focus of the policy for administrative reform in Japan in the 1980s. For the administrative reform movement to be deemed successful one significant, tangible result had to be achieved, and the privatisation of the JNR was that 'glittering prize'. As such, it was essential that the reorganisation of the national railway, its division and privatisation, be subject to exacting standards of preparation prior to the completion of the legislative mechanism.

The preparatory steps for the JNR's privatisation<sup>4</sup>, thereby set in position under the auspices of PM Nakasone and his administrative reform policies, were what produced the immediate aura of success, and were what produced the financial 'results' as outlined

above. Without the pre-conditions which ensured the instant profitability of the JR Companies, the privatisation of the national railway would have evoked a very different reaction from interested onlookers and, more importantly, from the Japanese public in whose name the administrative reform policies were carried out.

The pre-condition in the labour area, namely the major reduction in the labour force inherited from the JNR by the JR companies, and its selective nature ie. the filtering out of the JNR 'left wing' union members, substantially bolstered the initial operating performance of the JRs. It is pertinent to observe that this rationalisation of the workforce was not an option available to the management of the JNR when 'public' considerations were more to the fore.

Similarly, the hiving off of the vast proportion of the JNR's indebtedness to a separate public body, the introduction of a subsidy system for the unprofitable JR companies on the three smaller islands of Kyushu, Hokkaido and Shikoku, and the 'Avoidable Cost' system adopted for JR Freight were other factors

which augmented the financial results of the new JR group. The effect was the creation of the illusion of an immediate transformation of massive losses by the JNR public corporation into sizeable profits from the privatised JRs. As with the labour provisions, the shelving of debt and the establishment of a subsidy system for the lossmaking passenger and freight operations were not options previously open to the JNR management in its public corporation guise.

In each case, the reason why these policies - introduced instead only as part of the privatisation package - were not open to the existing JNR in the 1980s is that in the Second Rinchō's administrative reform proposals it was the case that dissolution of the public corporation structure would itself be a necessary precondition to the reorganisation of the national railway operation. While the management of the JNR pressed (as they did through the 1970s) for a review of government policy on subsidies towards the financing of unprofitable but socially valuable rail services, and for the autonomy to run the national railway with a labour force appropriate to its real needs, consideration of these requests by the Ministry of Transport and ultimately by the JNR's paymasters

in the National Diet was only granted in the context of the forthcoming privatisation of the JNR and its break-up into separate operating units.

The key point on the prerequisites for privatisation which reduced the debt burden, cut the labour force, transformed operating losses into profits, and obviated the need for fare increases - in addition to giving the privatisation its required gloss - is that all of this could have been achieved in the JNR era had the political will then existed so to do.

#### The Motivation for the JNR Privatisation Proposals

The fact that decisions were made, and policies implemented on issues such as government subsidies to the national railway, the JNR's position on employment, and the handling of its accumulated debt only in the context of how these new approaches would affect the national railway in its post-privatised form raises questions about the real motivation for the JNR privatisation. It was the context in this study for examination of the hypothesis:

- that the motivation for the JNR privatisation policies was solely to solve the national railway's financing difficulties<sup>5</sup>.

At first sight an appraisal of the grounds for the proposals to reorganise the national railway supports the above hypothesis. By the early 1980s, if not long before that point, the JNR was completely insolvent, its continuing operation supported only by the incurring of additional debt. Commentators vied with each other to find superlatives to describe the scale of the JNR's accumulated losses and indebtedness<sup>6</sup> and, in a climate of government financial stringency, it was clear that 'something had to be done' with Japan's national railway. If justification was then required for a policy initiative to reform the JNR, it could be provided on the straightforward basis that a financial reconstruction of the national railway operation was long overdue.

In contrast with this singular explanation for the aims of privatising the JNR, however, in the view of this study the specific proposals to restructure the state railway operation, which symbolised the administrative reform movement, and which were

embodied in the division and privatisation of the JNR in 1987 do not stand up to close scrutiny in respect of the singular aim of solving its financial problems. The financial difficulties of the national railway were not solved by the JNR's privatisation per se. There was, of course, no realistic hope of finding a real solution to the repayment of the debts built up by the JNR over a period of over twenty years of operating losses. The method adopted in the privatisation package was for the bulk of the accumulated debt to be transferred to a separate public body, the JNR Settlement Corporation, and for that indebtedness to be offset eventually by the sale of real estate assets inherited from the JNR, and by the flotation of the equity of the new JR companies.

It is fair to say that the collapse in the property market which occurred in the late 1980s, and the depressed condition of the Japanese stock market which accompanied it could not have been predicted by the proponents of the JNR privatisation. The fact remains, however, that these market factors have resulted in substantial delays in the JNR Settlement Corporation's programme of asset sales, throwing into question the ultimate amount which

the disposals will raise to offset the debts acquired from the former Japanese National Railways.

Calculations made in the evaluation of the post-privatisation Japanese railways (in Chapter 7) suggest that, eventually, the sums achieved by the sale of real estate and of shares in the JRs may well exceed the amounts envisaged in the JNR privatisation proposals. The share flotations have, however, only recently begun<sup>7</sup>, some three years behind schedule, and the timetable for the sale of former JNR assets has similarly had to be rewritten. While the aggregate sums amassed from the asset and share disposals may finally exceed the figures on which the JNR privatisation was based, the length of time before the amounts are so received will be a multiple of the period originally forecast.

The accumulation of interest on the inherited debt had resulted in the JNR Settlement Corporation's indebtedness in fiscal 1992 actually exceeding the amount it took over from the JNR five years previously. The continuation of a heavy interest burden on the JNR Settlement Corporation until the receipt of the final JNR asset sale proceeds will, moreover, offset any amounts raised by these

disposals in excess of the initial forecasts. It is impossible to make an exact estimation of the ultimate net figure of debt which will remain after the completion of the share and real estate sales. Whatever precise net obligation is left in the JNR Settlement Corporation, however, it will be very substantial by any standards and the critical factor is that it will be a public sector debt for which the JNR division and privatisation could provide no resolution.

In terms of understanding the motivation for the break-up of the JNR, it is therefore essential to emphasise that all of the financial measures which comprised the national railway privatisation policy could have been implemented at any time during the public corporation's long history of operating losses and could equally well have eliminated these deficits.

In the process of privatising the national railway in the 1980s there was thus also a crucial political component which served to reconcile the differing viewpoints on what to do with the JNR, and converted them into a cohesive set of policy objectives. This political dimension was personified by Nakasone Yasuhiro who, in

taking up the mantle of champion of the administrative reform programme, identified the achievement of a fundamental restructuring of the JNR as a potential prize which would gain him substantial reward in terms of a stronger domestic political power base, and greater international recognition. Building on the lead shown by Dokô Toshio as Chairman of the Second Rinchô, and on an embryonic pro-reform movement within the national railway management itself, Nakasone thus set out to orchestrate the JNR privatisation proposals and to turn them into decisive action.

Even before becoming Prime Minister in November 1982, Nakasone had astutely sensed that much could be gained by fostering a changing political mood in Japan, away from centralised government and nationalised bureaucratic organisations as epitomised in the public mind by the JNR. In this process, his views were shaped by observation of similar trends in the USA, under President Reagan and, absolutely critically, by those in Thatcherite Britain. It is perhaps ironic that the privatisation of British Rail was not one of the achievements of the Thatcher administration in the UK<sup>8</sup>, but the extensive programme of privatisation carried out by the UK government was undoubtedly a

role model for the policies taken up by Nakasone in Japan. Integral to the philosophy adopted by Nakasone as new-found advocate of reform of Japanese bureaucratic organisations, which also mirrored developments in Britain, was the aim to 'break' the labour unions in the public sector. The destruction of union influence in government was a very useful demonstration of the Nakasone administration's will to eliminate the inefficiencies considered endemic in the Japanese public service; the 'radical' labour unions in the JNR thus became a direct target for a government policy stance which, as had been proven in the UK, had immediate appeal with the electorate.

The JNR unions, particularly the supposedly militant *Kokurô*, failed to observe that evidence of a sharp fall in labour action within the national railway - easily demonstrable as set out in Chapter 3 - would not be sufficient to counter a well orchestrated campaign purporting to show the dangers to Japanese public life of a 'strong' labour movement. If the left wing labour unions and the mainstream JNR Board had anything in common in the early 1980s, it was an inability to see the changing political climate in which the national railway's dissolution was carried through.

The 'success' of the JNR privatisation process, and its position as the embodiment of the movement for administrative reform of Japanese public sector organisations, should therefore be viewed in the context of it being taken up as a political issue with motives not restricted to the simple desire to improve the financial efficiency of the national railway operation.

#### The National Railway in its Public Corporation Mode

The recollection that the role of the public sector in the financing of transport infrastructure investment was only properly addressed when there was a need to produce proposals to ensure profitable 'privatised' national railway operating companies, should also stand as a basis for judging the function of government in the running of the national railway as a public corporation.

Comparison was therefore made in this study, of the national railway between its post-privatisation state and the public corporation mode of operation which preceded it. Examination of the JNR as a public corporation involved the testing of the following hypotheses on the post-War reorganisation of the national railway:

- that the financial problems of the JNR as run in the form of a public corporation were simply the result of an organisational structure inappropriate to Japan, and that this gave rise to irresponsible management of the national railway operation

- that the public corporation was, itself, an 'alien concept', and one imposed by a foreign administration on an unwilling Japanese government

- that it is acceptable to evaluate the performance of the JNR in its public corporation mode singly on the basis of its financial results

- that the state of management;labour relations in the JNR public corporation was inherently negative, and that this provided justification for its break-up and privatisation<sup>9</sup>

In response to these hypotheses, detailed study was made of the JNR period, from its establishment as a public corporation to manage the Japanese national rail network in 1949, and as it continued so to do until its dissolution and replacement by the JR group of companies in 1987. It was critical that this analysis be undertaken here because the 'inefficiencies' of a public corporation structure and, indeed, its supposedly 'alien' nature in the Japanese public sector were held against the JNR, and used as an argument in favour of its dismantling as part of the administrative reform process. The final decision to end its 37 year existence, and to replace it with a series of operating companies on a private enterprise basis was all the easier because it could be argued that the establishment of a public corporation to administer the national railways was not a Japanese initiative but one 'imposed' by the foreign powers of the Allied Occupation.

Faults in the running of the state railways, the years of lossmaking operation, and the build up of a very un-Japanese level of indebtedness<sup>10</sup> could thus be attributed to the foisting of an unfamiliar organisational structure on the government service in Japan. The attribution of blame for the national railway's ills to

the SCAP administration and its supposed imposition of the JNR as a public corporation on to an unwilling Japanese national administration in legislation enacted in 1948 undoubtedly made it more acceptable, psychologically, to bear the existence of a public sector organisation whose financial performance was unsatisfactory.

The political context for the proposals to reorganise the operating structure of the national railway was, indeed, the incoming Occupation administration in 1945. It was clear, however, that both the SCAP authorities and the national administration in Japan put great emphasis on the need to restructure the national railway to provide efficient services and aid the economic recovery. The early identification of the pressing requirement to establish an efficient business structure for the state railway was embodied in the SCAP policy initiative to separate the operating functions of the national railway enterprise from those of its administration<sup>11</sup>.

The definitive SCAP proposals for the *Kokutetsu* which followed - that it should be established as a public corporation - were, however, regarded by the transport bureaucracy and by politicians

in the National Diet as a distinct threat to their privileged position of influence on national railway affairs. Under the guise of a spurious argument that the public corporation was a concept alien to Japan<sup>12</sup>, the SCAP proposals for the setting up of a quasi-private enterprise with a high degree of operating autonomy were reshaped to preserve the traditional Japanese system of bureaucratic and political manipulation of the national railway to suit vested interests. The alterations to the structure originally recommended by General MacArthur resulted in specific provisions with regard to the remit of the new public corporation, its management and freedom of operation, as embodied in the JNR Law, at major variance with SCAP's initial intentions.

It was precisely the introduction of the 'Japanised' version, rather than the SCAP public corporation model, that led to the future difficulties in managing the national railway enterprise. This was particularly apparent in the area of management:labour relations, whose supposedly imperfect state the later JNR privatisation proposals were designed to 'cure'. Both the JNR management and the labour unions knew from the outset that there would be no autonomy in reaching agreements on labour matters. Since the

legal procedures were found wanting, the railway unions adopted a new set of disruptive tactics which set the tone for a troublesome period of internal labour disputes within the JNR which lasted until the mid 1970s. It was this climate - of apparently militant, politicised labour unions in the JNR - which, moreover, provided the opportunity for the proponents of the administrative reform policies to identify the national railway operation as a target for its initiatives aimed at destroying the power of organised labour in the Japanese public sector. As set out above and as analysed in Chapter 3, the incidence of labour disputes in the JNR had fallen to negligible levels in the last decade of its operation, but the image which prevailed - and which was exploited by politicians intent on gaining the kudos from 'breaking the unions' - was of the unsatisfactory management:labour relations which the 1949 legislation had helped to create.

The lack of management autonomy in the national railway structure, as ensured by the JNR Law, also established the basis on which major railway policy decisions were taken. This basis was related less to the real needs of the national railway than to the benefits which could be gained through the orchestration of JNR

strategy by the civil service bureaucracy and by Diet politicians. The problems so caused by the imperfect implementation of the SCAP public corporation proposals were masked only by the period of rapid growth in demand for rail services which continued up to the early 1960s. The favourable market conditions allowed the JNR to remain in the black until fiscal year 1964. The use of the JNR as a political vehicle - for the construction of new lines and for railway related contracts - came unstuck only when competition from other forms of transport grew strongly from the mid 1960s. The weaknesses in the JNR management, accustomed to a bureaucratic style of operation, and ill-equipped to take a line independent of their political masters, were then revealed in their inability to alter the railway's strategy to meet changing market conditions.

Even the construction of the *Shinkansen* network of high speed lines, to the outside world at least the symbol of the JNR's technological achievements, must be related to the politicisation of JNR policy decisions. In reality, the *Shinkansen* formed part of a twenty year period of intensive capital investment in the national rail infrastructure, the benefits of which are now being

enjoyed by the privatised JR companies. Since, moreover, the later *Shinkansen* - the *Tôhoku* and *Jôetsu* - were built in the knowledge that they would, from the outset, be lossmaking, they comprised capital investments in projects of national interest and not those which the national railway could justify on grounds of profitability. As such, the political decision to decline the provision of specific public sector funding for the operation of the unprofitable *Shinkansen* <sup>13</sup> was at major variance with the expectation that the JNR should remain 'in the black'.

The national rail network which was the product of the public corporation era was impressively comprehensive, and one which provided a nationwide passenger and freight service ranging from local lines serving rural communities to the high speed *Shinkansen* linking the country's major centres of population. The financial performance of the JNR was the subject of much criticism but the quality of service it offered to the Japanese public much less so. There were, to be sure, sporadic protests by the travelling public against disruptions to services as a result of labour disputes, but the standard of service remained throughout the JNR era at a level of which any other national railway would have been justifiably

proud. It is this service quality which was before described as "...fast, clean, frequent and punctual"<sup>14</sup> in the words of the BBC television series Locomotion, and which was provided and maintained by the much pilloried Japanese National Railways. If the attainment of service quality standards which are the "envy of the world" was at a monetary cost greater than outside observers might have deemed reasonable, it was only because the national railway was run in the JNR era for the benefit of politicians and transport bureaucrats who were not directly accountable for the operating losses incurred, in reality, in their name by the Japanese National Railway.

It might therefore be said that this was the price to be paid for the achievement of building and operating a world-class railway system. The Japanese national railway network which is envied the world over was in place long before the establishment of the JR operating companies, and therefore its creation can not be claimed as an achievement of the privatisation process. As such, the debt which remained after the dissolution of the JNR might be viewed as the sum of the necessary capital investment on the national rail infrastructure which was created in the JNR era. If a

portion of the funding was on services which would be unprofitable, and which were justifiable only on social grounds - as much of it undoubtedly was - the blame should not be put on the JNR management but on the shoulders of Diet politicians and Transport Ministry bureaucrats responsible for the formulation and implementation of railway investment policy.

#### The National Railway as a Government Department

Further implicit in the JNR privatisation proposals was the assumption that such political interference as evidenced by the *Seijisen* (political lines) phenomenon was synonymous with the public corporation, that supposed 'alien' concept introduced by a foreign administration. Such conjecture provided the opportunity to evaluate the facts of the matter against the final hypothesis listed in the Introduction to this study:

- that the concept of a 'politicised' national railway only materialised with the adoption of a public corporation structure in 1949<sup>15</sup>.

In examination of this hypothesis through analysis of the original establishment and subsequent development of the Japanese national railway, it has instead been established here that the operation of the national railway, from its earliest inception, had been party to political manipulation. The experience in the period after the Second World War of a state railway run to suit politicians and civil servants irrespective of the financial consequences was thus by no means novel, and was in no way one which could be equated with the public corporation structure.

As it existed as a government agency from its foundation in the 1870s up to its conversion into a public corporation in 1949, the national railway of Japan was operated as an instrument of political policy, its function being redefined according to the national priorities at each stage of its development. It was, indeed, the excess of political influence in the running of the state railway to which the incoming SCAP administration drew attention, the epitome of which was the usurping of the rail network by the national administration in the 1930s to support its expansionist policies.

Political influence in the railways' operation was therefore nothing new in the late 1940s and it was certainly not something created by the 'foreign' concept of a public corporation as introduced by the SCAP administration. Considerations of national politics, in fact, were also strongly evident in the national railway's earliest times and, manifesting themselves in that period as 'national security', were the driving force behind the policy of nationalising the major private trunk line railway companies as carried out in 1906/7.

The nationalisation of the main private railways created, at a stroke, the nucleus of a national rail network and its accomplishment served to enhance the feeling amongst its administrators of the state railway as a unique and all powerful organisation within the Japanese public sector. The principle of *Kokutetsu Ikka* (National Railway Family) advocated as a management policy by Gotô Shinpei, one of the 'greats' in the annals of the state railway, further helped to maintain the image of the *Kokutetsu* being at the pinnacle of the government service in Japan. It was, indeed, the bureaucratic mentality fostered by the *Kokutetsu Ikka*, reinforced by the accompanying reflected

glory of having the national railway run as a key element of national policy in the 1930s, which was a major contributory factor in the failure to implement the original SCAP proposals to end political interference in the affairs of the state rail operation.

### Final Observations

The issues of management autonomy and of accountability, important factors throughout the JNR's history, are still very relevant to the operation of the national railway in its present day post-privatisation form. The management of the JR companies crave such autonomy of operation and have already - in the form of their forcing a government decision to subsidise the construction of the 'new' *Shinkansen* <sup>16</sup> - demonstrated that there had been a distinct shift in the balance of power between the regulators in the Ministry of Transport and the operators of the national rail service. On the subject of accountability, however, the privatisation process has not completely resolved the issue of what should be, in the future, the appropriate degree of public sector control over the operation of the national railway network. The key area in which this matter will be debated is one fundamental to the outlook for the railways in Japan, that of the

financing of infrastructure investment. The JNR privatisation did not address this problem directly and the establishment of a coherent national policy for the funding of railway investment remains an outstanding issue.

In summary, it has been the contention of this thesis that the success of the process of the division and privatisation of the Japanese National Railway must be judged in the context of the historical background of its development and operation as a government department and then as a public corporation. The difficulties encountered in the public corporation era were those inherent in the State railway's previous incarnation as a government agency, and were endemic to the long-established system of using the national railway for the promotion of interests other than those of its operation for the public good.

This judgement has been made on the basis that there are real limitations on the extent of the economic or financial benefits which can be claimed to have resulted directly from the JNR privatisation process. Its success can therefore most easily be assessed in political terms, involving the dissolution of the

national railway hitherto run for the benefit of bureaucrats and politicians. It remains a major irony, however, that the credit for the implementation of the privatisation strategy may be claimed on behalf of a domestic political system in Japan, which, by its dereliction of duty to the general public in allowing the mismanagement of the national railway over a long period, was itself responsible for the necessity of putting the new policies into operation.

1. Several independent commentators on the JNR privatisation, listed in the Introduction to this study, have given credit to the proponents of the national railway privatisation policies in Japan for their successful implementation in the face of entrenched opposition to change.

The associated question of whether a similar political process is possible in other countries seeking to reorganise their national railway operations has also interested a number of observers of the Japanese experience. As the title would suggest this was, indeed, the theme of the World Bank Study authored by Fukui Kōichirō (1992), Japanese National Railways Privatisation Study - The Experience of Japan and Lessons for Developing Countries, Washington. Fukui's objective of a comparative evaluation of the restructuring of the Japanese national railway was, moreover, shared by the UK observers quoted at length in the Introduction (pp. 18 - 22) to this thesis. While they had different views on the subject, these commentators (such as Gourvish, Irvine, Salvesen and Adley) all addressed the question of whether or not the experience of Japan could be utilised to provide 'answers' to the problems of operating a national public sector rail network in Britain.

2. Quote from the Commentary to the BBC Television Series. Locomotion (1993), Programme 6, "Track to the Future", 12 December.

3. These hypotheses were examined in Chapters 6 and 7, in discussion of the status of the national railway one and five years after its privatisation.

4. The preparatory measures ('pre-conditions') for the privatisation process are set out in detail in Chapter 6 (pp. 487 - 490) in assessment of the immediate financial results of the JNR reform.

5. As examined in Chapter 5 in the evaluation of the JNR reform programme as a central theme in the administrative reform

movement.

6. Such as ... "Long term debts outstanding amounted to 14 trillion Yen (about US\$62 billion in FY 1980, or 5.8% of GNP in that year. JNR was in a virtual bankruptcy." Taniuchi Mitsuru (1991)," Privatisation and Deregulation in Japan", Outlook, Summer, p. 34; and "... the company running the largest losses in the world, the Japan National Railways." van Wolferen , Karel (1990), The Enigma of Japanese Power, London, p.32; and "The long-term debt in FY 1986 ... was more than 25 trillion Yen, and if the obligation for JNR mutual aid pension and other expenses are added to this, the total amount exceeded 30 trillion Yen (slightly more than US\$ 210 billion). To see how enormous this sum was, note that it was nearly ten percent of Japanese GNP in FY 1987 and over 60 percent of the government's budget in that year." Tanahashi Yasushi (1992), Reform of Railways in Japan, Tokyo, p. 3.

7. The first tranche of the equity capital of JR East was sold to the investing public in October 1993. This issue is covered in Chapter 7 (pp. 528 - 532).

8. At the time of writing, the initial stages of the restructuring of British Rail, its split into infrastructure (a track authority), and operating companies (franchises), are being put into operation. The Major administration which succeeded Mrs, now Lady Thatcher's, has, however, abandoned its original proposal to sell off an integrated British Rail to outside investors and instead is planning the flotation of Railtrack, the railway track authority.

9. Consideration of these hypotheses was the basis of the discussion in Chapters 2 and 3 on the operation of the JNR in its public corporation mode.

10. Described thus in Horsley, William and Buckley, Roger (1990), Nippon, New Superpower - Japan Since 1945, London, "... Its (JNR's) accumulated debt was even larger than those of Brazil and Mexico, the two biggest debtor nations, combined." p197.

11. The analysis in this study of the Occupation phase, and of the proposals to reorganise the national railway, would have been considerably more difficult to accomplish without the substantial

interview material from Japanese experts on this period such as Kakumoto Ryôhei, Ishikawa Tatsujirô and Kanematsu Manabu. The library of *Kôtsû Tôkei Kenkyûjo*, and the unpublished papers made available from the *Abiko Bunko* at *Unyu Chôsa Kyoku* (both in Tokyo) were also invaluable in this respect.

12. As expounded by Choi, Eunbong (1991), The Break-up and Privatization Policy of The Japan National Railways. 1980 - 87: A Case Study of Japanese Public Policy-making Structure and Process. Ann Arbor, Michigan, p. 250.

13. The 'new' *Shinkansen* construction programme is further discussed in Appendix 5.

14. Commentary to Locomotion (1993), Programme 6, "Track to the Future", 12 December.

15. As discussed in Chapter 1 on the establishment and development of the Japanese national railway network.

16. Cited in this study as an indication of the quest by JR company management for independent operation. This issue was covered under the topic of 'The JR's That Can Say No' in Chapter 7 (pp. 544 - 546).

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## APPENDIX 1

### LIST OF RESEARCH INTERVIEWS ON THE JAPANESE RAILWAYS<sup>1</sup>

#### Source and Organisation

##### Universities

Professor Imashiro Mitsuhide, Institute of Business Research, Daitô Bunka University, Tokyo.

Professor Okano Yukihide, Formerly Professor of Economics, Tokyo University. Now Professor of Economics, Sôka University, Tokyo.

Associate Professor, Yamauchi Hirotaka<sup>2</sup>, Faculty of Commerce, Hitosubashi University, Tokyo.

Associate Professor Yamamoto Tetsuzo<sup>3</sup>, School of Commerce, Waseda University, Tokyo.

Professor Yuzawa Takeshi, Faculty of Economics, Gakushuin University, Tokyo.

##### Transport Institutes

Aoki Mami, Senior Researcher, *Unyu Chôsa Kyoku* (Institute of Transport Economics), Tokyo.

Maeda Kiyoji, Director General, *Unyu Chôsa Kyoku* (Institute of Transport Economics), Tokyo.

Ishii Naoki, Managing Director, *Kôtsu Tôkei Kenkyûjo* (Institute of Transport Statistics), Tokyo.

Ishikawa Tatsujirô, Chairman, *Kôtsu Tôkei Kenkyûjo* (Institute of Transport Statistics), Tokyo.

Izumi Nobuhisa, Executive Director, Railway Technical Research Institute, Tokyo.

Dr Kakumoto Ryôhei, Director, *Unyu Keizai Kenkyû Sentâ* (Transport Economics Research Centre), Tokyo.

Wakuda Yasuo, Director, *Unyu Keizai Kenkyû Sentâ* (Transport Economics Research Centre), Tokyo.

Misaka Takeyasu, President, *Tetsudô Kôsaikai* (Japan Railway Association), Tokyo.

#### Ministries

Katô Shinichi, Archivist, *Okurashô* (Ministry of Finance).

Dr Kanematsu Manabu, Barrister at Law, Formerly *Unyushô* (Ministry of Transport) - later Managing Director of the JNR.

Nakashima Hirô, Formerly Executive Vice President, *Nihon Unyu Sôko* (Japan Transportation Warehouse Company). Now Director General, Research Office of the Standing Committee on Transport, House of Councillors (*Sangiin*).

#### Labour Unions

Mutô Hisashi, Former Secretary General, *Kokurô* (Japan Railway Workers Union).

Kitsutaka Hiromasa, Former Staff Relations Department, Advisory Director to the JNR President.

#### Shinkansen

Takamatsu Masanobu, Deputy Director, *Shinkansen* Department Japan Railway Construction Public Corporation.

Nishio Gentarô, Former Chief Engineer, JNR Rolling Stock, JNR.

JR and Private Railway Companies

Visits to the Corporate Headquarters of:

*Eidan Chikatetsu* (Teito Rapid Transit Authority)

*Keio Teito* (Keio Railway Company)

Tokyū Corporation.

Itō Tadashi, Director, *Meitetsu* (Nagoya Railroad).

Dr Takahashi Kōji, President, Tekken Construction Company,  
(Former Director of JNR).

Fukushima Toru, Manager, International Section, *JR Tōkai* (JR  
Central).

Itō Naohiko, then Director of Planning, *JR Kamotsu* (JR Freight ).

Suga Tatsuhiko, Director - International and Cultural Affairs, *JR  
Higashi Nihon* (JR East).

Tao Norio, General Manager, JR Systems (Railway Information  
Systems Company).

1. Meetings on more than one single occasion were held with several of the interviewees, notably Imashiro Mitsuhide, Ishii Naoki, Maeda Kiyoji, Aoki Mami, Ishikawa Tatsujirō, Kakumoto Ryōhei, Wakuda Yasuo, Kitsutaka Hiromasa, Takamatsu Masanobu, and Suga Tatsuhiko. The interviews were conducted in Tokyo, between July 1991 and May 1992, and in September 1994. The total number of interviews in which research material was obtained was in excess of one hundred.
2. The author also took part with Associate Professor Yamauchi Hirotaiki in a Forum on the privatisation of British state-owned organisations. The findings were published in *Unyu to Keizai* (1993) (Transportation and Economy), Vol. 53, No. 12, December.
3. Associate Professor Yamamoto Tetsuzo was another participant in the Forum cited in Endnote 2.

## APPENDIX 2

### THE JAPANESE NATIONAL RAILWAYS - A CHRONOLOGY OF MAJOR RELATED EVENTS 1872 - 1992

- 1872 The opening of the first railway line in Japan, from Shinbashi Station in Tokyo to Yokohama.
- 1870s & 1880s Construction of important trunk lines linking the country's main centres of population.
- 1883 The commencement of services by the Nihon Railway Company, the country's first private railway enterprise.
- Late 1880s A period of substantial investment in the railways of Japan, particularly for the construction of privately funded trunk lines.
- 1892 Formation of the Ministry of Communications, with jurisdiction over the Railways Bureau.
- Enactment of the Railway Construction Law, establishing the principle of the Government designating which lines should be built in the future, and giving the authorisation for the State to acquire the private railways.
- 1894 - 5 The Sino-Japanese war, which set off a second railway investment boom in which a large number of branch lines were constructed by private railway companies.
- 1895 Establishment of the Kyoto Electric Railway Company as the country's first electric tramway.
- Early 1900s Completion, with the exception of services on the island of Hokkaido, of the nationwide network of trunk railway lines.

- 1904 - 5      The Russo-Japanese War, in the course of which the railway network was used intensively for the movement of troops and materials.
- 1906          The passing of the Railway Nationalisation Act (*Tetsudô Kokuyû Hô*) in which 17 trunk line railway companies were acquired by the State.
- 1908          Creation of the Railways Agency (*Tetsudôin*) under direct Cabinet control, to administer the national railways.
- Late 1900s    Initiation of a programme of conversion of the national rail network from steam to electricity. This policy was also promoted rapidly by the remaining private railway companies.
- 1920          The establishment of a separate Ministry of Railways (*Tetsudôshô*).
- 1922          The promulgation of the Railway Construction Act (*Tetsudô Fusetsu Hô*) which laid the foundation for the construction of a nationwide network of local lines to be built by the national railway.
- 1928          The ceding of control over the automotive sector by the Ministry of Communications to the Railways Ministry
- 1930s         The earning of substantial profits by the state railway, which funded improvements to the main trunk line services, subsidies to the local private railways, the repayment of the fund provided for the nationalisation of the major private companies in 1906, and the substantial construction of rural lines.
- Late 1930s    Adoption of expansionist national policies which led to the administration of the state railway to serve the interests of the country's military objectives.

1941 - 1945

Substantial damage inflicted on the national rail network by Allied bombings in major cities, and by the intensive use of rail facilities for military purposes.

1945

Establishment of the Ministry of Transport to centralise control over all forms of transport, the railways being administered by a newly formed Railways General Bureau (*Tetsudô Sôkyoku*).

The Japanese surrender at the end of the Second World War and the beginning of the Allied Occupation (SCAP), headed by General Douglas MacArthur.

Promotion by SCAP of policies aimed at the 'democratisation' of Japan, and at aiding its economic recovery.

Enactment of the Trade Union Law (*Rôdô Kumiai Hô*) providing for the establishment of democratically organised labour unions (including those in the national railway).

1946

Initiation by the SCAP administration of 'The Purge', designed to remove from Japanese public life those elements which had been responsible for the promotion of the militaristic policies of the 1930's.

The enactment of the Labour Relations Adjustment Law (*Rôchô Hô*) establishing mediation and conciliation procedures for employees in the public sector, but also limiting their right to strike.

The US Personnel and Advisory Mission to Japan headed by Blaine Hoover, the President of the Civil Service Assembly of the US and Canada. The Hoover Mission's brief was to effect a thorough reform of the Japanese public service.

1947

A proposal to hold a General Strike (on 1 February 1947), subsequently forbidden in a statement by General MacArthur on the grounds that it would threaten public welfare.

Enactment of the Labour Standards Law (*Rôki Hô*) setting standards for conditions of work.

Establishment of the state railway labour union as a national organisation, the National Railway Workers Union (*Kokutetsu Rôdô Kumiai* or *Kokurô*).

Enactment of the National Public Service Law (*Kokkô Hô*) which sought to reform the administration of the civil service, and to impose restrictions on the rights of public service workers.

1948

The letter from General MacArthur to PM Ashida (commonly known as the *Mashokan*) calling for the revision of the National Public Service Law, and for the establishment of public corporations to administer the government's tobacco and salt enterprise and the national railway. The letter marked the formal confirmation of the reversal of SCAP policy away from democratisation and towards economic growth and the suppression of the perceived Communist threat to Japan's political stability.

The passing of a Cabinet Order implementing the *Mashokan* proposals, which were enacted in the Revised National Public Service Law, the Japanese National Railway Law, (*Nihon Kokuyû Tetsudô Hô*), the Public Corporations Labour Relations Law (*Kôrô Hô*), and the Revised Labour Relations Adjustment Law. The revised National Public Service Law removed the right to strike from all public sector workers but collective bargaining procedures were established for those

employees covered by the Public Corporations Labour Relations Law.

1949

The Dodge Mission to Japan headed by Joseph M. Dodge, then a Detroit Bank President. The subsequent enactment of the Law for the Fixed Level of Personnel in Administrative Organisations (*Teiin Hô*), setting ceilings on the number of workers in the public service which led to cutbacks in government employment levels.

Establishment of the JNR Public Corporation (*Nihon Kokuyû Tetsudô*) on 1 July 1949 to operate the national railway network.

The occurrence of 'incidents' related to the running of the state railway. In particular the death of the first JNR President, Shimoyama Sadanori, the Mitaka train crash (*Mitaka Jiken*), and the Matsukawa train crash (*Matsukawa Jiken*).

The overturning by the Government of the first decision on a JNR matter of the National Enterprises Labour Relations Committee (*Kôrôji*), which had been set up to administer the conciliation procedures for the national railway public corporation.

1950

General MacArthur's letter to PM Yoshida, which initiated a Purge of left wing 'extremists' in Japan designed to limit the influence of Communists in the public service.

Establishment of the Railway Construction Council (*Tetsudô Kensetsu Shingikai*) to authorise - independently from the Board of Directors of the JNR - capital spending on the railway network.

- 1950s Strong growth in the demand for rail passenger and freight services, necessitating high levels of investment to modernise the network and to extend its capacity.
- 1951 Formation of the National Railway Locomotive Crew Union (later to become known as *Dōrō* ).
- 1955 The appointment as JNR President of Sogō Shinji, later the promoter of the construction of the *Tōkaidō Shinkansen* .
- 1957 The first JNR Expansion Plan, which sought to replace obsolescent facilities, and to extend the electrification of the track network.
- Announcement of the proposal by the JNR Railway Technical Research Institute for the construction of a standard gauge line from Tokyo to Osaka which would take only three hours (the *Tōkaidō Shinkansen* ) .
- The introduction of a decentralised management structure in the JNR through the establishment of a branch office system.
- Formation of the Japan Railway Workers Union (*Tetsurō* ) .
- 1959 Approval by the Ministry of Transport for the building of the *Tōkaidō Shinkansen* (The New *Tōkaidō* Line) from Tokyo to Osaka, and the commencement of construction work on the project.
- 1960s Rapid growth in road transport in Japan, resulting in a dramatic loss of market share by the national railway in both passenger and freight services. This trend continued and, indeed, accelerated through the 1970's.

- 1961 The second JNR Expansion Plan, aimed at increasing transport capacity, the completion of the New Tôkaidô Line, large scale conversion to diesel locomotives, and further line electrification.
- 1964 Commencement of services on the *Tôkaidô Shinkansen* just prior to the opening of the Tokyo Olympics.
- The first substantial operating loss by the JNR since its establishment as a public corporation in 1949.
- Establishment of the Japan Railway Construction Public Corporation (*Nihon Tetsudô Kensetsu Kôdan*) to provide funding for railway construction projects in both the national and private sectors.
- 1965 The third JNR Expansion Plan which sought to increase capacity in commuter services and trunk routes, to extend the New Tôkaidô Line by building the *Sanyô Shinkansen*, and to continue with the programme of track electrification.
- 1966 Announcement of an operating loss of 123 billion Yen by the JNR. This completely eliminated the corporation's capital reserves, thus effectively rendering it insolvent.
- 1968 The introduction of government subsidies to the JNR.
- Adoption by the JNR of the policy of *Yôin Gôrika* (Rationalisation of the Essential Workforce).
- 1969 The first JNR Reconstruction Plan aimed at maintaining the corporation's capital investment programme. This was to be financed by cutting back on employment levels, by the closure of

many lossmaking lines, and by initiating a system of four yearly fare increases.

- 1970 Introduction of the policy of *Marusei Undō* (Increasing Productivity Movement) by the JNR administration, designed in principle to improve the operating efficiency of the national railway enterprise.
- 1972 The opening of the *Sanyō Shinkansen* from Shin Osaka to Okayama.
- Tanaka Kakuei's election as Prime Minister, on a manifesto based on his Plan for Building a New Japan (*Nihon Rettō Kaizō Ron*).
- The planned introduction of a further JNR Reconstruction Plan, abandoned without being implemented.
- 1973 Implementation of a further JNR Reconstruction Plan which envisaged a high level of new capital expenditure, to be offset by three-yearly tariff increases.
- The first 'Oil Shock', which resulted in the 1973 Reconstruction Plan being shelved after only one year.
- 1975 An extension to the *Sanyō Shinkansen*, from Okayama to Hakata, opened for service.
- The *Sutokensuto*, an illegal eight day strike by JNR workers for the reinstatement of the legal right to strike.
- 1976 The first JNR Rehabilitation Plan, maintaining capital spending but reducing employment levels and initiating substantial increases in fares. The 1976 Plan also saw the introduction of interest subsidies (*Mago no Rishi*) to the JNR.

1977 Implementation of revisions to the 1976 Rehabilitation Plan through the enactment of the reform of the Fare Law and the revised Japan National Railways Law. These changes, embodied in the JNR Management Improvement Plan (*Keiei Kaizen Keikaku*), provided for diversified investment by the JNR in areas not directly linked to the provision of railway services, and gave it the authority to raise tariffs without prior Diet approval.

1980 Enactment of a Special Act for the Promotion of JNR Reconstruction (*Kokuyū Tetsudō Keiei Saiken Sokushin Tokubetsu Sochi Hō*). The JNR Reconstruction Act implemented the rationalisation of unprofitable lines proposed some twelve years previously.

1981 Inauguration of the Second Commission on Administrative Reform (*Daini Rinji Gyōsei Chōsakai* or *Rinchō*). Chaired by Dokō Toshio, its brief was to find means of reducing the public sector financing deficit, and to recommend policies by which the administration of the government service could be restructured.

Publication of the initial findings of the Commission on Administrative Reform (*Rinchō*) recommending retrenchment in government expenditure.

1982 The opening of the *Tōhoku Shinkansen* (Omiya to Morioka) and the *Jōetsu Shinkansen* (Omiya to Niigata).

Cabinet ratification of the shelving of plans for the further expansion of the Shinkansen network.

Publication of the Third Report of the Commission on Administrative Reform (*Rinchō*), outlining its formal recommendation that the JNR should be

divided into separate operating units and privatised. Subsequently, the Emergency Measures for the Rehabilitation of the JNR Business Operations were approved by the Cabinet.

The appointment as Prime Minister of Nakasone Yasuhiro, signalling the promotion of the policies of administrative reform.

1983 Enactment of the Special Law for the Promotion of JNR Business Rehabilitation (*Kokutetsu Saiken Kanri linkai Sechi Hô*).

The inauguration of the JNR Reform Supervisory Commission (*Kokutetsu Saiken Kanri linkai*) and the delivery of its first Emergency Recommendations for the restructuring of the national railway.

1984 Implementation of the JNR Plan for the New Management of Goods Transportation (*Atarashii Tetsudô Kamotsu Eigyo ni Tsuite*). This involved the abolition of the freight marshalling yard system and the rationalisation of the JNR's goods transport operation into a direct station to station service.

Publication of the Second Emergency Report of the JNR Reform Commission, formalising its proposals to break-up and privatise the JNR.

1985 The opening of the extension of the *Tôhoku* and *Jôetsu Shinkansen* from Omiya to Ueno Station in Tokyo.

PM Nakasone's dismissal of JNR President Nisugi and his replacement by the pro-privatisation Sugiura Takaya, former Vice Minister of Finance.

Delivery of the JNR Restructuring Commission's Opinions Regarding JNR Reform (*Kokutetsu Kaikaku ni Kan Suru Iken*). The Commission's findings that the JNR should be divided into six regional passenger companies and one nationwide freight operation, that its manning levels should be substantially reduced, and that its privatisation should be preceded by the disposition of its long term debts were immediately endorsed by the Cabinet.

The peaking of the JNR's annual operating losses - which had continued unabated since 1964 - at 1847.8 billion Yen.

1986

Landslide election victories by the ruling Liberal Democratic Party (*Jimintô*), giving impetus to the implementation of the government's privatisation policies.

Enactment of the JNR Restructuring Law (*Kokuyû Tetsudô Kaikaku Hô*) and the associated Acts for the dissolution of the JNR Public Corporation and its replacement by seven joint stock operating companies and new public bodies responsible for debt disposal.

1987

The termination of the Japanese National Railway (JNR), being succeeded on 1 April 1987 by the JR Group of operating companies. Two new public bodies were created, the JNR Settlement Corporation (*Kokutetsu Seisan Jigyô Dan*) and the Shinkansen Holding Corporation (*Shinkansen Hoyû Kikô*), respectively to manage the disposal of the JNR's long term indebtedness, and to acquire the existing *Shinkansen* facilities which would then be leased to the JR Honshu companies. The new structure also incorporated the creation of a fund, the *Keiei Antei Kikin* (Management Stabilisation Fund) to subsidise the operations of

the lossmaking Three Islands JRs (Hokkaido, Shikoku, and Kyushu).

1988

The opening of the Seikan Tunnel linking rail traffic between the islands of Honshu and Hokkaido.

The opening of the Honshu-Shikoku Bridge System, linking road and rail transport between the islands of Honshu and Shikoku.

Publication of the first year's results of the JR operating companies, showing profits from all 7 JRs in excess of the forecasts contained in the privatisation proposals.

1989

Approval for a new system of financing the construction of extensions to the *Shinkansen* network. In contrast to the *Shinkansen* built in the JNR era, the 'new' *Shinkansen* construction costs were to be divided as to 50% from local/national governments and 50% from the Honshu JR companies.

1990

Announcement of a third consecutive year of transport volume increases - both passenger and freight - by the JR companies, in excess of those achieved by the private railway sector.

1991

The opening of the Narita Express, linking stations in Yokohama and Tokyo with Narita Airport.

The opening of the extension of the *Tôhoku* and *Jôetsu Shinkansen* between Ueno and Tokyo Stations.

Formal announcement by the Ministry of Finance of a postponement in the plan to float the shares of the Honshu JRs on the stock market.

The dissolution of the Shinkansen Holding Corporation, and its reorganisation as the Railway Development Fund. Under the new arrangements, the leasing system for the existing *Shinkansen* was terminated, and replaced by a long term purchase contract in which the Honshu JRs would acquire the facilities of the *Tôkaidô*, *Sanyô*, *Tôhoku* and *Jôetsu Shinkansen*.

1992

The introduction by JR East of the Nozomi service on the *Tôkaidô Shinkansen*, reducing the time taken between Tokyo and Shin Osaka to two hours, thirty minutes.

The opening by JR East of the *Yamagata Shinkansen* from Fukushima to Yamagata.

The announcement of a further postponement - despite the fact that JR East, JR Central and JR West had met the Stock Exchange requirements in full - in the proposals for their share flotations.

Publication of the fifth year's results of the JNR Settlement Corporation, confirming that the programme of disposing of the JNR's long term indebtedness remained behind schedule. The level of debt held by the JNR Settlement corporation in fiscal 1992 was still higher than the amount inherited from the JNR five years previously.

Announcement of the fifth year's results of the JR operating companies, showing a slowdown in the overall rate of profits growth, and accompanied by forecasts of profit declines for the forthcoming fiscal year.

## JNR PROFITABLE AND LOSSMAKING LINES: 1965-1985

( m . y e n )

| Line                       | Route                         | 1965              |          |          | 1975    |          |         | 1985    |          |         |
|----------------------------|-------------------------------|-------------------|----------|----------|---------|----------|---------|---------|----------|---------|
|                            |                               | Income            | Expenses | Profits  | Income  | Expenses | Profits | Income  | Expenses | Profits |
| Tokai, Sanyo<br>Shinkansen | Tokyo-Hakata                  | (Tokyo-shinosaka) |          |          | 477,863 | 296,016  | 181,847 | 960,712 | 492,210  | 468,502 |
|                            |                               | 54,974            | 67,774   | (12,800) |         |          |         |         |          |         |
|                            |                               |                   |          |          |         |          |         |         |          |         |
| Yamanote Line              | Shinagawa-Shinjuku-<br>Tabata | 11,743            | 7,721    | 4,022    | 26,790  | 23,841   | 2,949   | 85,616  | 37,811   | 47,805  |
|                            | Shinagawa-Osaki               |                   |          |          | 1,315   | 1,668    | (353)   | 4,480   | 3,071    | 1,409   |
|                            | Osaki-Ikebukuro               |                   |          |          | 19,921  | 15,628   | 4,293   | 65,621  | 23,105   | 42,516  |
|                            | Ikebukuro-Tabata              |                   |          |          | 5,554   | 6,545    | (991)   | 15,515  | 11,635   | 3,880   |
| Akabane Line               | Ikebukuro-Akabane             |                   |          |          | 2,660   | 1,728    | 932     | 8,276   | 3,986    | 4,290   |
| Nambu Line                 | Kawasaki-Tachikawa            | 1,892             | 2,442    | (550)    | 5,882   | 9,317    | (3,435) | 19,190  | 19,087   | 103     |
|                            | Kawasaki-Mukai-gawara         |                   |          |          | 1,933   | 3,581    | (1,648) | 5,084   | 6,343    | (1,259) |
|                            | Mukai-gawara-Tachikawa        |                   |          |          | 3,949   | 5,736    | (1,787) | 14,107  | 12,744   | 1,363   |
| Yokohama Line              | Hi-gashikanagawa-Hachioji     | 1,007             | 1,241    | (234)    | 3,616   | 5,339    | (1,723) | 19,166  | 14,890   | 4,276   |
|                            | Hi-gashikanagawa-Kozukue      |                   |          |          | 941     | 1,210    | (269)   | 4,320   | 2,682    | 1,638   |
|                            | Kozukue-Hachioji              |                   |          |          | 2,675   | 4,129    | (1,454) | 14,846  | 12,208   | 2,638   |
| Neishi Line                | Yokohama-Ofuna                | 726               | 1,083    | (357)    | 4,161   | 6,243    | (2,082) | 15,652  | 13,961   | 1,691   |
| Ito Line                   | Atami-Ito                     | 733               | 568      | 165      | 1,573   | 1,951    | (378)   | 4,306   | 4,504    | (198)   |

(m. yen)

| Line             | Route                | 1965   |          |          | 1975    |          |          | 1985    |          |           |
|------------------|----------------------|--------|----------|----------|---------|----------|----------|---------|----------|-----------|
|                  |                      | Income | Expenses | Profits  | Income  | Expenses | Profits  | Income  | Expenses | Profits   |
| Tohoku Main Line | Tokyo-Aomori         | 56,596 | 57,523   | (927)    | 158,722 | 192,248  | (33,526) | 200,112 | 314,797  | (114,685) |
|                  | Tokyo-Shirakawa      | 28,799 | 24,834   | 3,965    | 83,721  | 87,143   | (3,422)  | 135,859 | 159,376  | (23,517)  |
|                  | Tokyo-Akihabara      | 15,824 | 14,471   | 1,353    | 3,261   | 2,837    | 424      | 9,512   | 6,211    | 3,301     |
|                  | Akihabara-Shirakawa  | 12,975 | 10,363   | 2,612    | 80,459  | 84,306   | (3,847)  | 126,347 | 153,165  | (26,818)  |
|                  | Shirakawa-Aomori     | 22,315 | 32,689   | (10,374) | 75,002  | 105,105  | (30,103) | 64,253  | 155,421  | (91,168)  |
| Joban line       | Shirakawa-Ishikoshi  | 14,115 | 15,998   | (1,883)  | 42,126  | 54,124   | (11,998) | 29,347  | 71,981   | (42,634)  |
|                  | Ishikoshi-Aomori     | 13,682 | 16,690   | (3,008)  | 32,876  | 50,981   | (18,105) | 34,906  | 83,440   | (48,534)  |
|                  | Nippori-Iwanuma      | 21,591 | 20,879   | 712      | 49,065  | 70,703   | (21,638) | 118,945 | 116,832  | 2,113     |
|                  | Nippori-Toride       | 6,272  | 6,345    | (73)     | 17,832  | 27,653   | (9,821)  | 60,685  | 48,220   | 12,465    |
|                  | Toride-Iwanuma       | 15,319 | 14,534   | 785      | 31,233  | 43,050   | (11,817) | 58,260  | 68,612   | (10,352)  |
| Tokasaki Line    | Omiya-Tokasaki       | 7,813  | 6,016    | 1,797    | 25,133  | 22,836   | 2,297    | 42,604  | 41,698   | 906       |
| Joetsu Line      | Tokasaki-Miyauchi    | 7,237  | 7,553    | (316)    | 19,397  | 25,642   | (6,245)  | 9,704   | 32,967   | (23,263)  |
|                  | Tokasaki-Minakami    | 2,940  | 2,898    | 42       | 8,409   | 9,895    | (1,486)  | 5,539   | 14,996   | (9,457)   |
|                  | Minakami-Miyauchi    | 4,298  | 4,655    | (357)    | 10,988  | 15,747   | (4,759)  | 4,166   | 17,971   | (13,805)  |
| Sobu Main line   | Tokyo-Choshi         | 9,832  | 9,298    | 534      | 29,698  | 37,630   | (7,932)  | 100,062 | 79,884   | 20,178    |
|                  | Tokyo-Kinshicho      | 191    | 146      | 45       | 1,450   | 3,482    | (2,032)  | 5,349   | 6,530    | (1,181)   |
|                  | Akihabara-Choshi     | 9,641  | 9,152    | 489      | 27,390  | 34,148   | (6,758)  | 92,104  | 72,744   | 19,360    |
|                  | Ochanomizu-Akihabara |        |          |          | 857     | 246      | 611      | 2,609   | 610      | 1,999     |

(m. yen)

| Line             | Route                         | 1965   |          |         | 1975   |          |          | 1985    |          |           |
|------------------|-------------------------------|--------|----------|---------|--------|----------|----------|---------|----------|-----------|
|                  |                               | Income | Expenses | Profits | Income | Expenses | Profits  | Income  | Expenses | Profits   |
| Osaka Kanjo Line | Osaka-Tennoji-Osaka           | 3,741  | 3,583    | 158     | 10,721 | 14,784   | (4,063)  | 31,108  | 29,499   | 1,609     |
|                  | Osaka-Nishikujo-Tennoji-Osaka | 3,161  | 2,535    | 626     | 8,970  | 10,376   | (1,406)  | 26,074  | 20,876   | 5,198     |
|                  | Nishikujo-Tennoji             | 580    | 1,049    | (469)   | 1,751  | 4,411    | (2,660)  | 5,034   | 8,623    | (3,589)   |
| Chuo Main Line   | Tokyo-Nagoya                  | 23,363 | 24,128   | (765)   | 66,646 | 86,723   | (20,077) | 160,864 | 179,827  | (18,963)  |
|                  | Tokyo-Kobuchizawa             | 16,733 | 14,390   | 2,343   | 49,632 | 54,009   | (4,377)  | 128,387 | 116,436  | 11,951    |
|                  | Tokyo-Kanda                   |        |          |         | 1,360  | 2,444    | (1,084)  | 3,330   | 5,060    | (1,730)   |
|                  | Kanda-Kobuchizawa             |        |          |         | 48,273 | 51,565   | (3,292)  | 125,057 | 111,376  | 13,681    |
|                  | Kobuchizawa-Nagoya            | 6,630  | 9,738    | (3,108) | 17,013 | 32,714   | (15,701) | 32,477  | 63,391   | 30,914    |
|                  | Kobuchizawa-Tadachi           | 3,719  | 5,759    | (2,040) | 8,260  | 16,292   | (8,032)  | 13,820  | 33,757   | (19,937)  |
| Sanyo Main Line  | Tadachi-Nagoya                | 2,911  | 3,979    | (1,068) | 8,753  | 16,422   | (7,669)  | 18,657  | 29,634   | (10,977)  |
|                  | Kobe-Moji                     | 58,303 | 51,348   | 6,955   | 83,355 | 152,571  | (69,216) | 114,638 | 232,785  | (118,147) |
|                  | Kobe-Itozaki                  | 30,922 | 24,017   | 6,905   | 43,046 | 72,990   | (29,944) | 67,817  | 113,928  | (46,111)  |
|                  | Kobe-Kamigori                 | 14,511 | 11,714   | 2,797   | 22,080 | 35,292   | (13,212) | 43,416  | 59,323   | (15,907)  |
|                  | Kamigori-Itozaki              | 16,411 | 12,303   | 4,108   | 20,966 | 37,698   | (16,732) | 24,401  | 54,605   | (30,204)  |
|                  | Itozaki-Shimonoseki           | 26,853 | 26,210   | 643     | 39,522 | 77,484   | (37,962) | 45,821  | 115,977  | (70,156)  |
|                  | Shimonoseki-Moji              | 528    | 1,121    | (593)   | 787    | 2,097    | (1,310)  | 1,000   | 2,880    | (1,880)   |

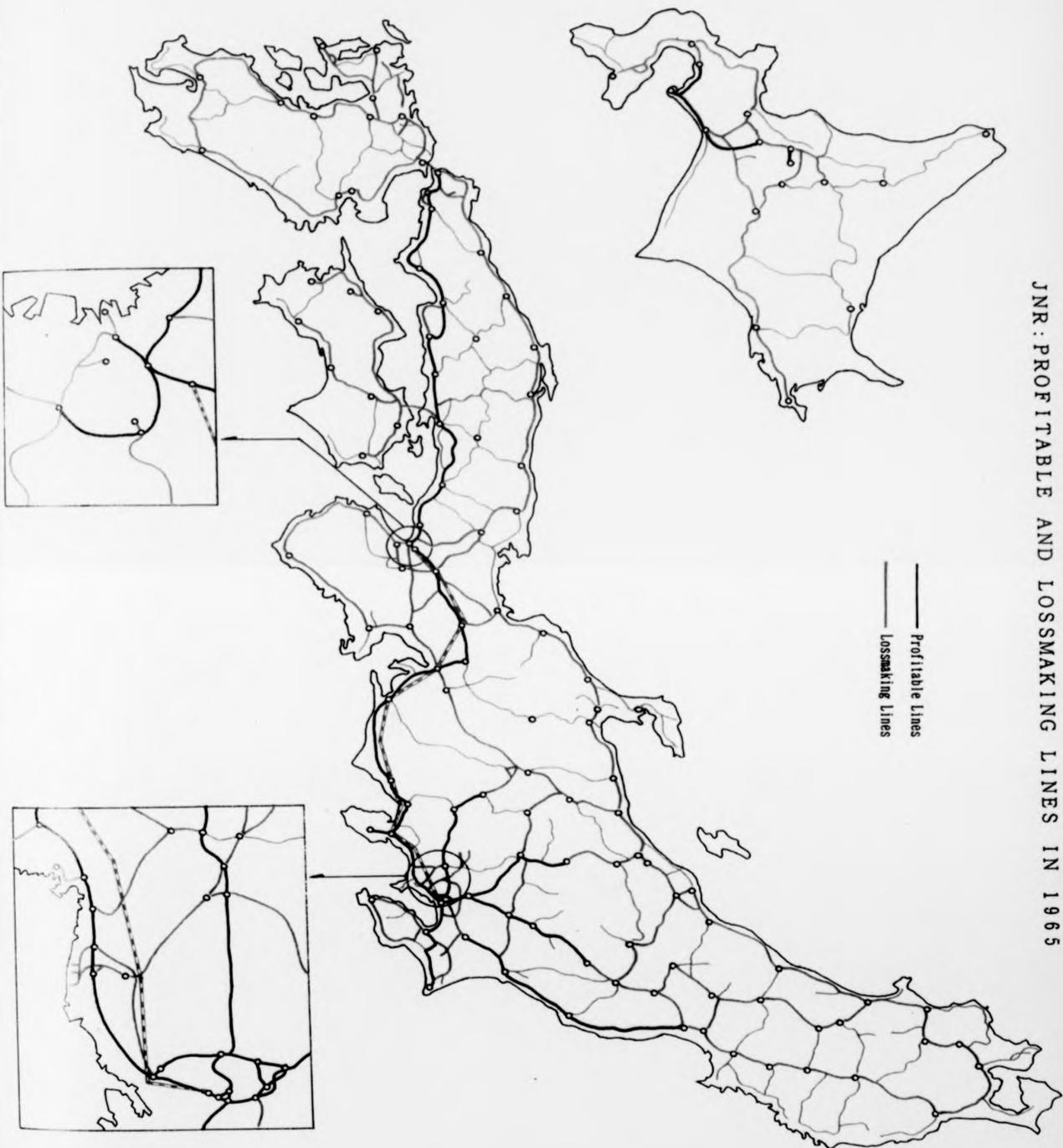
(m. yen)

| Line              | Route               | 1965    |          |         | 1975    |          |           | 1985    |          |           |
|-------------------|---------------------|---------|----------|---------|---------|----------|-----------|---------|----------|-----------|
|                   |                     | Income  | Expenses | Profits | Income  | Expenses | Profits   | Income  | Expenses | Profits   |
| Utashinaï Line    | Sunagawa-Utashinaï  | 214     | 204      | 10      | 90      | 499      | (409)     | 230     | 855      | (625)     |
|                   | Oshamanbe-Iwamizawa | 11,493  | 11,275   | 218     | 13,019  | 33,610   | (20,591)  | 15,171  | 50,462   | (35,291)  |
| Mororan Main Line | Oshamanbe-Reibun    | 702     | 830      | (128)   | 1,148   | 2,215    | (1,067)   | 1,178   | 3,842    | (2,664)   |
|                   | Reibun-Iwamizawa    | 10,792  | 10,445   | 347     | 11,872  | 31,395   | (19,523)  | 13,993  | 46,620   | (32,627)  |
| Tokaido Main Line | Tokyo-Kobe          | 123,107 | 102,234  | 20,873  | 175,206 | 305,128  | (129,922) | 377,827 | 541,061  | (163,234) |
|                   | Tokyo-Atami         | 39,331  | 32,372   | 6,959   | 66,633  | 104,264  | (37,631)  | 184,336 | 202,189  | (17,853)  |
|                   | Atami-Maibara       | 51,450  | 38,297   | 13,153  | 58,881  | 109,545  | (50,664)  | 113,583 | 178,147  | (64,564)  |
|                   | Atami-Toyohashi     | 29,608  | 18,645   | 10,963  | 30,883  | 53,135   | (22,252)  | 63,937  | 84,173   | (20,236)  |
|                   | Toyohashi-Maibara   | 21,842  | 19,652   | 2,190   | 27,999  | 56,410   | (28,411)  | 49,647  | 93,974   | (44,327)  |
|                   | Maibara-Kobe        | 34,725  | 31,566   | 3,159   | 49,692  | 91,319   | (41,627)  | 110,897 | 160,725  | (49,828)  |

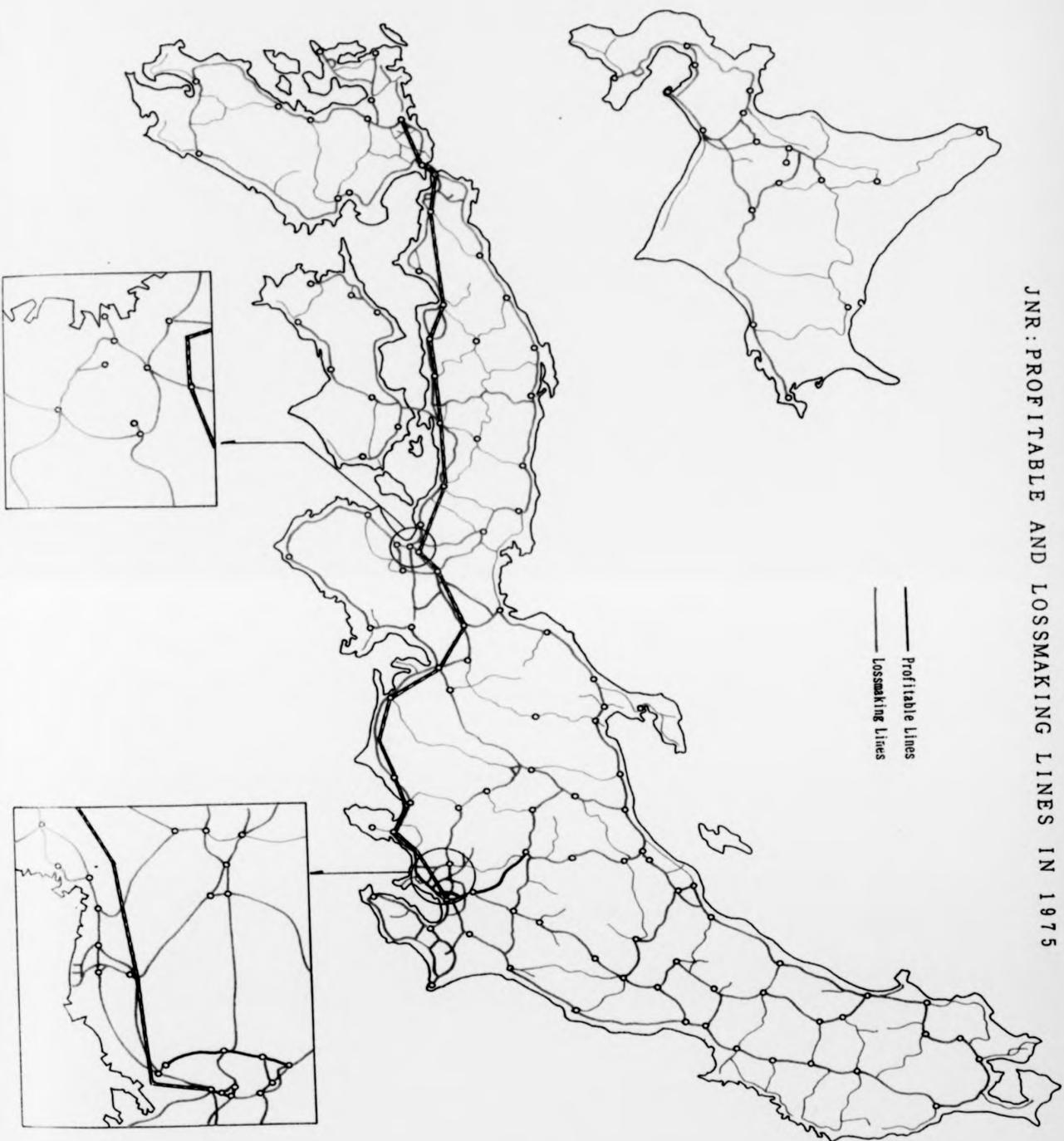
Note: ( ) Loss.

Source: Institute of Transport Statistics (Kōtisu Tōkei Kenkyūjō).

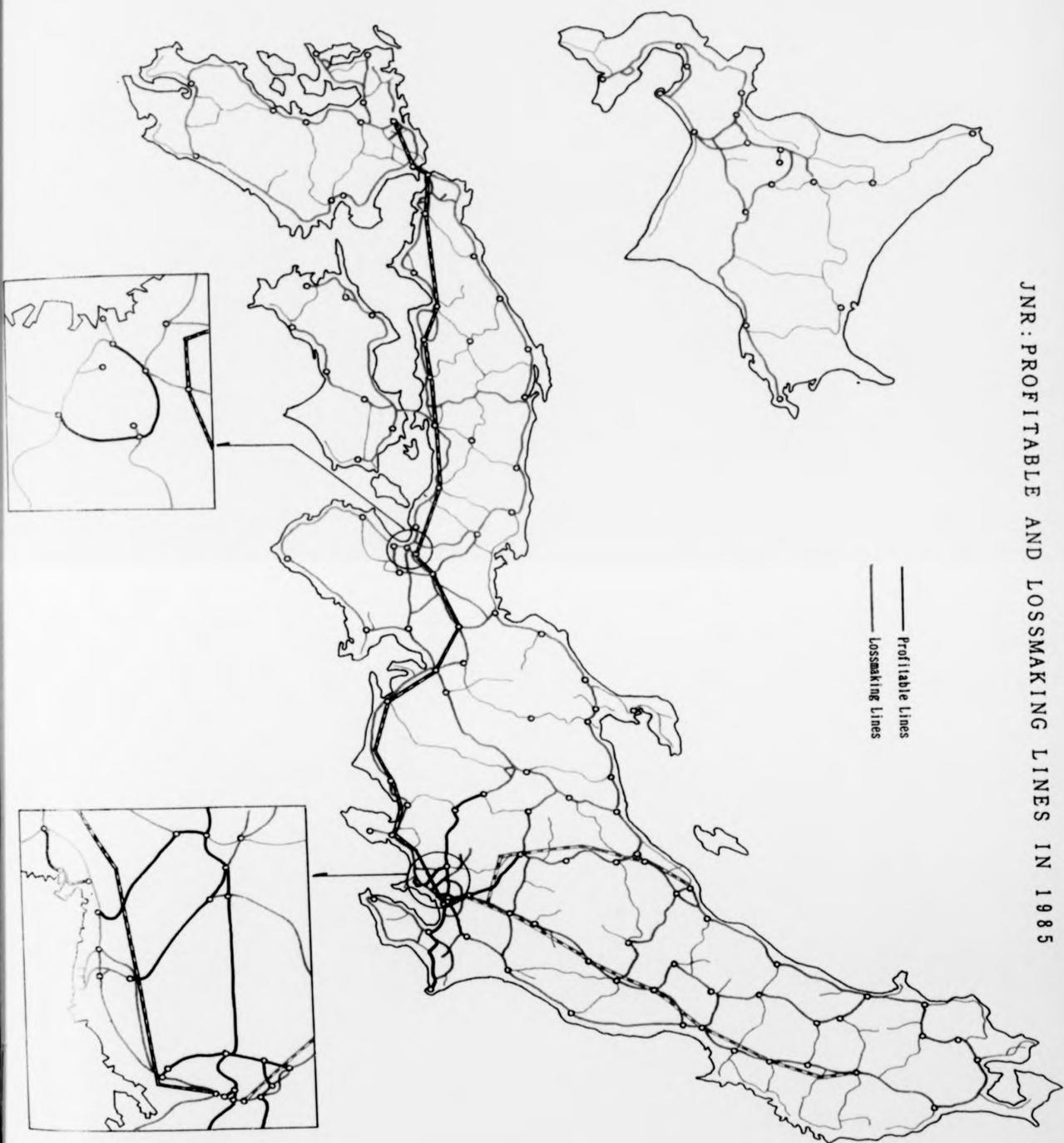
JNR: PROFITABLE AND LOSSMAKING LINES IN 1965



JNR: PROFITABLE AND LOSSMAKING LINES IN 1975



JNR: PROFITABLE AND LOSSMAKING LINES IN 1985



## JNR LOCAL LINES CLOSED OR TRANSFERRED TO THE THIRD

NO. 1

## SECTOR

| Company       | No. | Line      | Content  | Date ①      | Date ②       | km    | Section                  | Company    | No. | Line       | Content  | Date ①       | Date ②       | km   | Section                      |
|---------------|-----|-----------|----------|-------------|--------------|-------|--------------------------|------------|-----|------------|----------|--------------|--------------|------|------------------------------|
| JR Hokkaido ※ | 1   | Tomoku    | Closing  | 1984. 8. 2  | 1989. 5. 1   | 148.9 | Oinoeppu-Minamikkama     | JR East    | 23  | Ohata      | 3 Sector | 1981. 9. 18  | 1985. 7. 1   | 18.0 | Shimokita - Ohata            |
| "             | 2   | Kohinhoku | "        | 1981. 9. 18 | 1985. 7. 1   | 30.4  | Hamatobetsu-Kitamiyasasi | "          | 24  | Kurotsi    | "        | "            | 1984. 11. 1  | 6.6  | Kanabe - Kurotsi             |
| "             | 3   | Biko      | "        | "           | 1985. 9. 17  | 21.2  | Bifuka - Niyou           | "          | 25  | Anai       | "        | 1984. 6. 22  | 1986. 11. 1  | 46.1 | Tanamosu - Hitachinai        |
| "             | 4   | Kohinan   | "        | "           | 1985. 7. 15  | 19.9  | Okoppe - Onu             | "          | 25  | Kakunodate | "        | 1981. 9. 18  | 1986. 11. 1  | 19.2 | Kakunodate - Matsuba         |
| "             | 5   | Nayoro    | "        | 1984. 8. 2  | 1989. 5. 1   | 138.1 | Nayoro - Engaru          | "          | 27  | Yashima    | "        | "            | 1985. 10. 1  | 23.0 | Ugo Honjo - Ugo Yashima      |
| ※             |     |           | "        | "           | "            | 4.9   | Naka Yubetsu - Yubetsu   | "          | 28  | Nagai      | "        | 1986. 11. 28 | 1988. 10. 25 | 30.5 | Avayu - Arato                |
|               |     |           |          |             |              | 143.0 |                          | "          |     |            |          |              |              |      |                              |
| ※             | 6   | Sokotsu   | "        | 1981. 9. 18 | 1985. 4. 1   | 34.3  | Sokotsu-Kitami Takinoue  | "          | 29  | Akatani    | Closing  | 1981. 9. 18  | 1984. 4. 1   | 18.9 | Shibata-Hiragashi Akatani    |
| "             | 7   | Yuno      | "        | 1984. 6. 22 | 1987. 3. 20  | 89.8  | Naka Yubetsu - Abashiri  | "          | 30  | Uonuma     | "        | "            | 1984. 4. 1   | 12.6 | Raikoji - Nishi Ojiya        |
| ※             | 8   | Aioi      | "        | 1981. 9. 18 | 1985. 4. 1   | 36.8  | Bihoro - Kitami Aioi     | "          | 31  | Kuji       | 3 Sector | "            | 1984. 4. 1   | 26.0 | Kuji - Fudai                 |
| ※             | 9   | Shibetsu  | "        | 1984. 8. 2  | 1989. 4. 30  | 69.4  | Shibetsu-Nemuro Shibetsu | "          | 32  | Miyako     | "        | "            | 1984. 4. 1   | 12.8 | Miyako - Taro                |
|               |     |           | "        | "           | "            | 47.5  | Naka Shibetsu - Attoho   | "          | 33  | Sakari     | "        | "            | 1984. 4. 1   | 21.5 | Sakari - Yoshitama           |
|               |     |           |          |             |              | 116.9 |                          | "          |     |            |          |              |              |      |                              |
| "             | 10  | Shiranuka | "        | 1981. 9. 18 | 1983. 10. 23 | 33.1  | Shiranuka - Hokushin     | "          | 34  | Marumori   | "        | "            | 1986. 7. 1   | 17.4 | Tsukinoki - Marumori         |
| ※             | 11  | Chihoku   | 3 Sector | 1984. 8. 2  | 1989. 6. 4   | 140.0 | Iweda - Kitami           | "          | 35  | Nitcho     | Closing  | "            | 1984. 4. 1   | 11.6 | Kitakata - Aisushio          |
| "             | 12  | Shihoro   | Closing  | 1984. 6. 22 | 1987. 3. 23  | 78.3  | Obihiro-Tokachimatsumata | "          | 36  | Aizu       | 3 Sector | 1984. 6. 22  | 1987. 7. 16  | 57.4 | Nishi wakamatsu - Aizu Kogen |
| "             | 13  | Hiroo     | "        | "           | 1987. 2. 2   | 84.0  | Obihiro - Hiroo          | "          |     |            |          |              |              |      |                              |
| "             | 14  | Tomuchi   | "        | "           | 1986. 11. 1  | 82.5  | Makawa - Hidakacho       | "          | 37  | Ashio      | "        | "            | 1989. 3. 29  | 46.0 | Kiryu - Ashio Honzan         |
| "             | 15  | Manji     | "        | 1981. 9. 18 | 1985. 4. 1   | 23.8  | Shibui - Manji Tanzan    | "          | 38  | Maka       | "        | "            | 1988. 4. 11  | 42.0 | Shimodate - Muregi           |
| "             | 16  | Iburi     | "        | 1984. 6. 22 | 1986. 11. 1  | 83.0  | Dale Mombetsu - Kutchan  | "          | 39  | Kihara     | "        | 1981. 9. 18  | 1988. 3. 24  | 26.9 | Ohara - Kazusa Nakano        |
| ※             | 17  | Matsue    | "        | "           | 1988. 2. 1   | 50.8  | Kikonai - Matsunae       | JR Central | 40  | Shimizuko  | Closing  | "            | 1984. 4. 1   | 8.3  | Shimizuko - Mito             |
| "             | 18  | Setana    | "        | "           | 1987. 3. 16  | 48.4  | Kunimi - Setana          | "          | 41  | Aechi      | 3 Sector | "            | 1985. 11. 16 | 25.2 | Ena - Aechi                  |
| "             | 19  | Iwanai    | "        | 1981. 9. 18 | 1985. 7. 1   | 14.9  | Kozawa - Iwanai          | "          | 42  | Futamata   | "        | 1984. 6. 22  | 1987. 3. 15  | 67.7 | Kakegawa - Shinjohara        |
| ※             | 20  | Horonai   | "        | 1984. 6. 22 | 1987. 7. 13  | 18.1  | Iwanizawa - Kusshubetsu  | "          | 43  | Okata      | "        | 1986. 5. 27  | 1988. 1. 31  | 19.5 | Okazaki - Shinoyota          |
|               |     |           | "        | "           | "            | 2.7   | Mikasa - Horonai         | "          | 44  | Ise        | "        | 1984. 6. 22  | 1987. 3. 27  | 26.0 | Miranai Yokatchi - Tsu       |
|               |     |           |          |             |              | 20.8  |                          | "          |     |            |          |              |              |      |                              |
| ※             | 21  | Utashinai | "        | "           | 1988. 4. 25  | 14.5  | Sunazawa - Utashinai     | "          | 45  | Etsuinaan  | "        | "            | 1986. 12. 11 | 72.2 | Mino Ota - Hakono            |
| "             | 22  | Haboro    | "        | "           | 1987. 3. 30  | 141.1 | Ruoi - Horonobe          | "          | 46  | Tarumi     | "        | 1981. 9. 18  | 1984. 10. 6  | 24.0 | Ipaki - Mino Komi            |

| Company    | No. | Line          | Content  | Date ①      | Date ②       | Km   | Section                      | Company   | No. | Line      | Content  | Date ①      | Date ②      | Km   | Section                    |
|------------|-----|---------------|----------|-------------|--------------|------|------------------------------|-----------|-----|-----------|----------|-------------|-------------|------|----------------------------|
| JR West    | 47  | Shirakaki     | 3 Sector | 1981. 9. 18 | 1987. 7. 13  | 14.8 | Kibukawa - Shirakaki         | JR Kyushu | 71  | Anagi     | 3 Sector | 1981. 9. 18 | 1986. 4. 1  | 14.0 | Kiyama - Anagi             |
| "          | 48  | Miki          | "        | "           | 1985. 4. 1   | 6.8  | Yakujin - Miki               | "         | 72  | Matsura   | "        | 1984. 6. 22 | 1988. 4. 1  | 83.9 | Arifa - Sasebo             |
| "          | 49  | Takasago      | Closing  | "           | 1984. 12. 1  | 6.3  | Kokogawa - Takasago          | "         | 73  | Saga      | Closing  | "           | 1987. 3. 28 | 24.1 | Saga - Setaka              |
| "          | 50  | Noto          | 3 Sector | 1986. 5. 27 | 1988. 3. 25  | 61.1 | Amanzu - Takojima            | "         | 74  | Yabe      | "        | 1981. 9. 18 | 1985. 4. 1  | 19.7 | Hanazuka - Kuraki          |
| "          | 51  | Kamioka       | "        | 1981. 9. 18 | 1984. 10. 1  | 20.3 | Irontani - Kamioka           | "         | 75  | Yunome    | 3 Sector | 1987. 2. 3  | 1989. 10. 1 | 24.9 | Hirovoshi - Yunome         |
| "          | 52  | Miyazu        | "        | 1987. 2. 3  | 1990. 4. 1   | 84.0 | Nishi Matsuru - Toyooka      | "         | 76  | Yanano    | Closing  | 1984. 6. 22 | 1988. 2. 1  | 55.7 | Minamata - Kurino          |
| "          | 53  | Kajiya        | Closing  | "           | 1990. 4. 1   | 13.2 | Nomura - Kajiya              | "         | 77  | Miyanojo  | "        | "           | 1987. 1. 10 | 66.1 | Sendai - Satsuna Okuchi    |
| "          | 54  | Hojo          | 3 Sector | 1981. 9. 18 | 1985. 4. 1   | 13.8 | Ho - Hojocho                 | "         | 78  | Osami     | "        | "           | 1987. 3. 14 | 98.3 | Shibushi - Kakuu           |
| "          | 55  | Wakasa        | "        | "           | 1987. 10. 14 | 19.2 | Koge - Wakasa                | "         | 79  | Shibushi  | "        | "           | 1987. 3. 28 | 38.6 | Nishi Miyakonjo - Shibushi |
| "          | 56  | Kurayoshi     | Closing  | "           | 1985. 4. 1   | 20.0 | Kurayoshi - Yamori           | "         | 80  | Tsuma     | "        | 1981. 9. 18 | 1984. 12. 1 | 19.3 | Sadowara - Suiryasu        |
| "          | 57  | Taisha        | "        | 1987. 2. 3  | 1990. 4. 1   | 7.5  | Izunoshi - Taisha            | "         | 81  | Takachino | 3 Sector | 1984. 6. 22 | 1989. 4. 28 | 50.1 | Nobeoka - Takachino        |
| "          | 58  | Gannichi      | 3 Sector | 1984. 6. 22 | 1987. 7. 25  | 32.7 | Kawanishi - Nishikicho       | "         | 82  | Takaori   | "        | 1981. 9. 18 | 1986. 4. 1  | 17.7 | Tateno - Takaori           |
| JR Shikoku | 59  | Komatsu Shima | Closing  | 1981. 9. 18 | 1985. 3. 14  | 1.9  | Chuden - Komatsushima        | "         | 83  | Miyabiaru | Closing  | "           | 1984. 12. 1 | 26.6 | Era - Higashi Onni         |
| "          | 60  | Nakamura      | 3 Sector | 1986. 5. 27 | 1988. 4. 1   | 43.4 | Kudokawa - Nakamura          |           |     |           |          |             |             |      |                            |
| JR Kyushu  | 61  | Katsuki       | Closing  | 1981. 9. 18 | 1985. 4. 1   | 3.5  | Nakama - Katsuki             |           |     |           |          |             |             |      |                            |
| "          | 62  | Muroki        | "        | "           | 1985. 4. 1   | 11.2 | Onagawa - Muroki             |           |     |           |          |             |             |      |                            |
| "          | 63  | Miyada        | "        | 1987. 2. 3  | 1989. 12. 23 | 5.3  | Katsuno-Chikuzen Miyada      |           |     |           |          |             |             |      |                            |
| "          | 64  | Iia           | 3 Sector | "           | 1989. 10. 1  | 16.2 | Hogata - Tagawa Iia          |           |     |           |          |             |             |      |                            |
| "          | 65  | Iioda         | "        | "           | 1989. 10. 1  | 6.9  | Kanada - Tagawa Gotoji       |           |     |           |          |             |             |      |                            |
| "          | 66  | Tagawa        | "        | "           | 1989. 10. 1  | 26.3 | Yukinashi - Tagawa Iia       |           |     |           |          |             |             |      |                            |
| "          | 67  | Soeda         | Closing  | 1981. 9. 18 | 1985. 4. 1   | 12.1 | Kawara - Soeda               |           |     |           |          |             |             |      |                            |
| "          | 68  | Urushio       | "        | 1984. 6. 22 | 1986. 4. 1   | 7.9  | Shimokanno - Shimoyamada     |           |     |           |          |             |             |      |                            |
| "          | 69  | Kanayamada    | "        | "           | 1988. 9. 1   | 25.9 | Iizuka - Buzen Kawasaki      |           |     |           |          |             |             |      |                            |
| "          | 70  | Katsuta       | "        | 1981. 9. 18 | 1985. 4. 1   | 13.8 | Yoshizuka - Chikuzen katsuta |           |     |           |          |             |             |      |                            |

Note: Date ① Date of Authorisation  
Date ② Date of Abolition

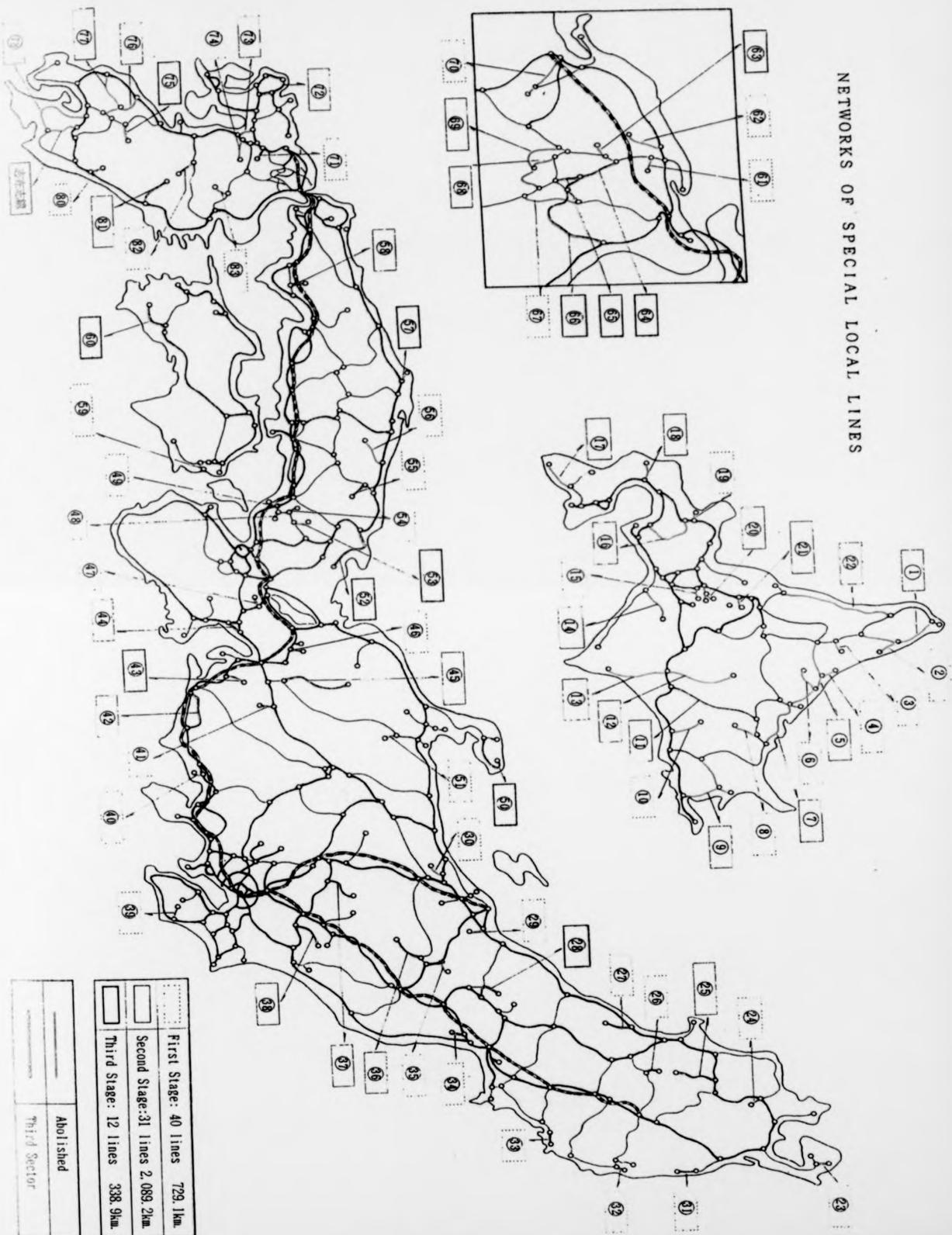
Source: The Date of Abolition: Ministry of Transport  
km with ※ : Japanese National Railway  
km : JNR Annual Statistical Handbooks, 1986

TIMETABLE OF AUTHORISATION FOR THE ABOLITION OF SPECIAL LOCAL LINES

| First Stage |             |            |             | Second Stage |             |            |             | Third Stage |              |
|-------------|-------------|------------|-------------|--------------|-------------|------------|-------------|-------------|--------------|
| Line        | Date        | Line       | Date        | Line         | Date        | Line       | Date        | Line        | Date         |
| Kohinhoku   | 1981. 9. 18 | Kamioka    | 1981. 9. 18 | Nayoro       | 1981. 8. 2  | Gannichi   | 1981. 6. 22 | Nagai       | 1983. 11. 28 |
| Biko        | "           | Akechi     | "           | Yumo         | 1981. 6. 22 | Urushio    | "           | Noto        | 1983. 5. 27  |
| Kohinnan    | "           | Tarumi     | "           | Shibetsu     | 1981. 8. 2  | kamiyamada | "           | Okata       | "            |
| Shokotsu    | "           | Shigaraki  | "           | Chihoku      | "           | Takachiho  | "           | Miyazu      | 1984. 2. 3   |
| Aioi        | "           | Miki       | "           | Shihoro      | 1981. 6. 22 | Matsuura   | "           | kajiya      | "            |
| Shiranuka   | "           | Houjo      | "           | Hiroo        | "           | Saga       | "           | Taisha      | "            |
| Manji       | "           | Takasago   | "           | Tomiuchi     | "           | Yamano     | "           | Nakamura    | 1983. 5. 27  |
| Iwanai      | "           | Wakasa     | "           | Iburi        | "           | Miyanojo   | "           | Miyata      | 1984. 2. 3   |
| Ohata       | "           | Kurayoshi  | "           | Matsumae     | "           | Osumioishi | "           | Ita         | "            |
| Kuji        | "           | Matsushima | "           | Setana       | "           | Shibushi   | "           | Itoda       | "            |
| Miyako      | "           | Katsuki    | "           | Horonai      | "           |            |             | Tagawa      | "            |
| Sakari      | "           | Muroki     | "           | Utashinai    | "           |            |             | Yunomae     | "            |
| Kuroisi     | "           | Soeda      | "           | Haboro       | "           |            |             |             |              |
| Kakunodate  | "           | Katsuta    | "           | Tenhoku      | 1981. 8. 2  |            |             |             |              |
| Yajima      | "           | Amaki      | "           | Aniai        | 1981. 6. 22 |            |             |             |              |
| Marumori    | "           | Yabe       | "           | Aizu         | "           |            |             |             |              |
| Nichu       | "           | Miyahara   | "           | Ashio        | "           |            |             |             |              |
| Akatani     | "           | Takamori   | "           | Moka         | "           |            |             |             |              |
| Uonuma      | "           | Tsuma      | "           | Etsuminan    | "           |            |             |             |              |
| Kihara      | "           |            | "           | Futamata     | "           |            |             |             |              |
| Shimi-zuko  | "           |            | "           | Ise          | "           |            |             |             |              |

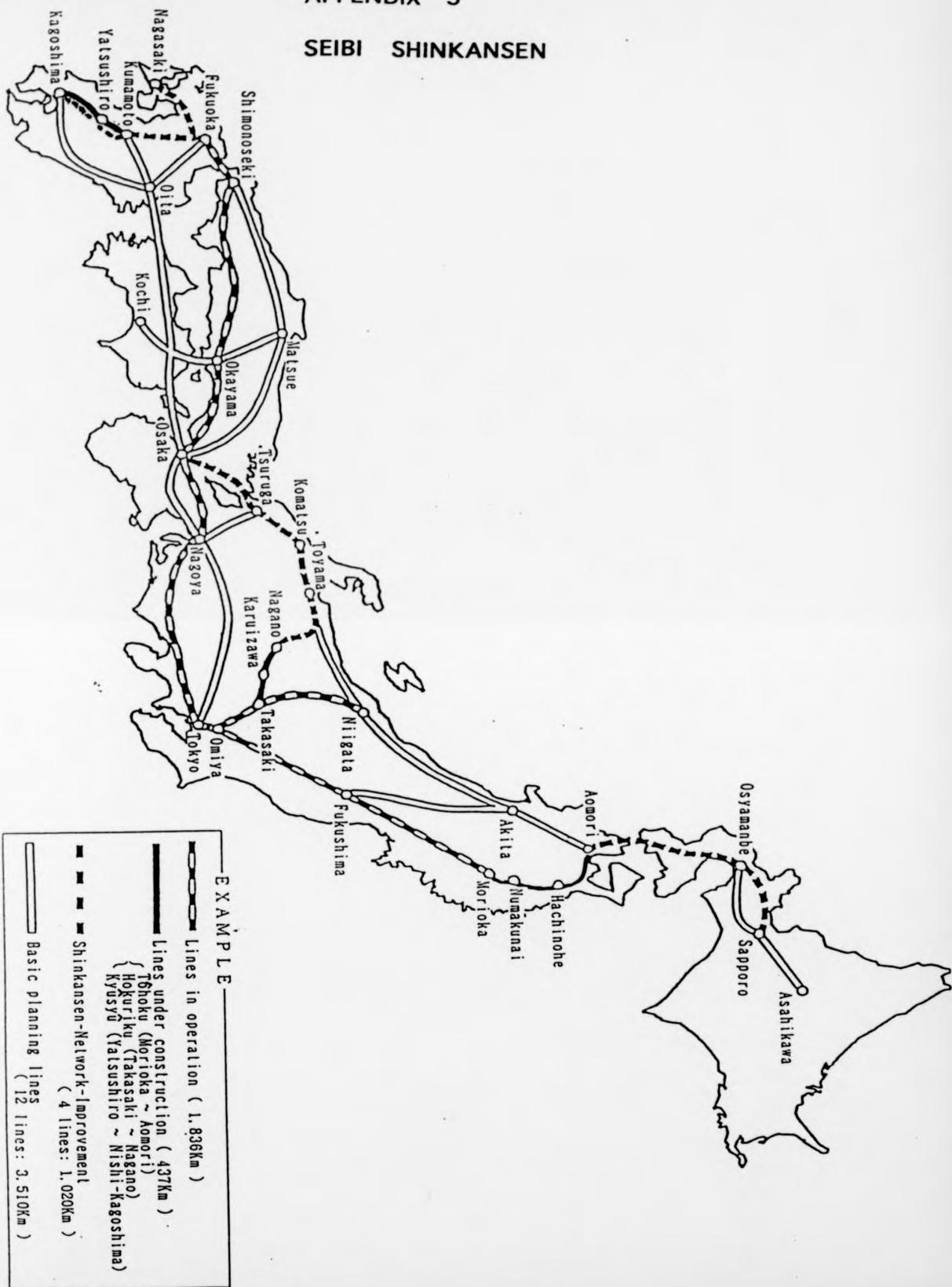
Source : Institute of Transport Statistics (Kōtsu Tōkei Kenkyūjo).

NETWORKS OF SPECIAL LOCAL LINES



APPENDIX 5

SEIBI SHINKANSEN



Source : Railway Development Fund

## SHINKANSEN UNDER CONSTRUCTION

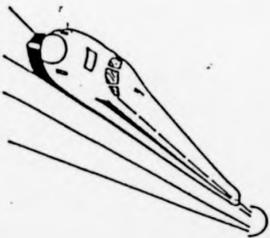
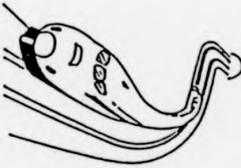
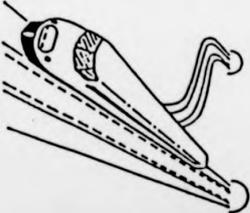
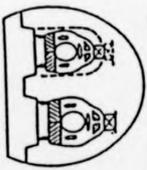
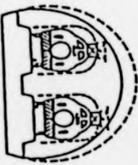
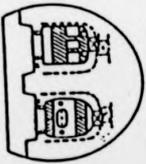
| Route name             | Section                         | Route length<br>km | Construction costs<br>¥billion | Standard classification                           |
|------------------------|---------------------------------|--------------------|--------------------------------|---|
| Tôhoku<br>Shinkansen   | Morioka ~<br>Numakunai          | 32                 | 38                             | Shinkansen through<br>operation                   |
|                        | Numakunai ~<br>Hachinohe        | 65                 | 237                            | New line with Shinkansen<br>standard gauge track  |
|                        | Hachinohe ~<br>Aomori           | 96                 | 387                            | Shinkansen through<br>operation                   |
| Hokuriku<br>Shinkansen | Takasaki ~<br>Karuzawa          | 42                 | 201                            | New line with Shinkansen<br>standard gauge track  |
|                        | Karuzawa ~<br>Nagano            | 76                 | 387                            | New line with Shinkansen<br>standard gauge track  |
| Kyûshû<br>Shinkansen   | Yastushiro ~<br>Nishi-Kagoshima | 126                | 457                            | New narrow gauge line<br>with Shinkansen standard |

Note : Construction costs are at April 1989 Prices, expect for the Takasaki to Karuzawa line  
which are at April 1987 Prices.

Source : Railway Development Fund.

# STANDARD CLASSIFICATION OF SHINKANSEN UNDER CONSTRUCTION

- ① New line with standard gauge track (full-size standard)  
They are new lines with the same standard as the Shinkansen now in operation.  
(Maximum speed 260km/h)
- ② Shinkansen through operation (Mini-Shinkansen)  
Another rail for a Standard gauge is laid by the side of one of the rails of the ordinary lines (narrow gauge), and both Shinkansen and ordinary cars are used as usual. The cars for Shinkansen through operation have wheels for standard gauge and smaller bodies.  
(Maximum speed 130km/h)
- ③ New narrow gauge line with Shinkansen standard (Super express)  
They are new lines which can also be used as full-size standard in the future, but for the present the rails for narrow gauge are laid, and the ordinary cars will run on them. Owing to the good quality of the structure in the new line section, even the narrow gauge cars run at up to 160~200km/h("Super express").

|  |  |   |
|--|--|---|
| <p>① New line with standard gauge track (full-size standard)</p>   | <p>② Shinkansen through operation (through-extension system)</p>    | <p>③ New narrow gauge line with Shinkansen standard (Seikan-Tunnel system)</p>   |
| <p>Mini-Ordinary Shinkansen<br/>(Maximum speed 260km/h)</p>  <ul style="list-style-type: none"> <li>• Establishment of Shinkansen gauge roadbeds</li> <li>• Shinkansen trains run on standard gauge track</li> </ul> | <p>Mini-Shinkansen<br/>(Maximum speed 130km/h)</p>  <ul style="list-style-type: none"> <li>• Introduction of standard gauge track on roadbeds of existing lines</li> <li>• Small-size shinkansen operate</li> </ul> | <p>Super express<br/>(Maximum speed 160km/h-200km/h)</p>  <ul style="list-style-type: none"> <li>• Establishment of Shinkansen standard gauge roadbeds (establishment of standard gauge possible in the future)</li> <li>• Express trains run on narrow gauge tracks for the time being</li> </ul> |

APPENDIX 6

OUTLINE OF THE JAPANESE RAILWAY SUBSIDY SYSTEM: FISCAL YEAR 1992

| Name of the System  | Outlines of Subsidies  |                                     |                |       |   |  |   |  |                    |
|---|--|-------------------------------------|----------------|-------|---|--|---|--|--------------------|
| <p>I. Improvement of trunk line railways</p> <p>1. Measures for Shinkansen-network improvement projects</p> <p>(1) Shinkansen-railway-network improvement project</p> <p>○ Subsidies for Shinkansen-railway-network improvement project</p> <p>○ Grants-in-aid of Shinkansen construction promotion project</p> <p>(2) Subsidies for Shinkansen-network-improvement-promotion-preparation project</p> | <p>Subsidies for Shinkansen construction works undertaken by Japan Railway Construction Public Corporation (JRCC)</p> <p>Grants-in-aid of Shinkansen construction expenses undertaken by JRCC</p> <p>[Reference]</p> <table data-bbox="980 1014 1649 1255"> <tr> <td>Takasaki ~ Nagano ( Standard size )</td> <td rowspan="3">} Project cost</td> <td rowspan="3">1.036</td> </tr> <tr> <td>Morioka ~ Aomori ( Standard size, Mini-Shinkansen )</td> </tr> <tr> <td>Yatsushiro ~ Nishi-Kagoshima ( Super-Express )</td> </tr> <tr> <td>Takaoka ~ Kanazawa . . . Works starting</td> <td></td> <td>adjustment cost 40</td> </tr> </table> <p>Subsidies for Shinkansen-network-improvement-promotion-preparation project, such as environmental impact assessment on the sections of Shinkansen construction works to be started by JRCC</p> | Takasaki ~ Nagano ( Standard size ) | } Project cost | 1.036 | Morioka ~ Aomori ( Standard size, Mini-Shinkansen ) | Yatsushiro ~ Nishi-Kagoshima ( Super-Express ) | Takaoka ~ Kanazawa . . . Works starting |  | adjustment cost 40 |
| Takasaki ~ Nagano ( Standard size )   | } Project cost   | 1.036                               |                |       |   |  |   |  |                    |
| Morioka ~ Aomori ( Standard size, Mini-Shinkansen )   |  |                                     |                |       |   |  |   |  |                    |
| Yatsushiro ~ Nishi-Kagoshima ( Super-Express )  |  |                                     |                |       |   |  |   |  |                    |
| Takaoka ~ Kanazawa . . . Works starting   |  | adjustment cost 40                  |                |       |   |  |   |  |                    |

FISCAL

( ¥ 100million )

|   | Contents of Subsidies  | Budget for FY 1992                             |
|---|--|--|
| works undertaken<br>Corporation             | Subsidies as part of the cost to be borne by the Government ( about 35% )  | Public works expenses of the Government 166    |
| on expenses                                 | Grants from Railway Development Fund (RDF) as part of the cost to be borne by the Government ( about 35% ) and by JR ( about 50% )<br>The source of the grants is part of the existing-Shinkansen-transfer revenue | Grants from RDF 724                            |
| object cost<br>1,036                        |  |  |
| at cost 40                                  |  |  |
| improvement-<br>environmental<br>Shinkansen | • Ratio of subsidies: 10/10 of the expenses of Shinkansen-network-improvement-promotion-preparation project  | General source of revenue of the Government 20 |

| Name of the System   | Outlines of Subsidies   |
|--|---|
| <p>2. Measures for the main-trunk-line-railway-network improvement</p> <p>(1) Subsidies for trunk-line-railway-activation project</p> <p>(2) Interest-free loans for trunk-line-railway-network improvement</p> <p>(3) Subsidies for the construction of local development lines and local trunk lines</p> | <p>Subsidies for Shinkansen-through-operation works between Fukushima and Yamagata on Ou Line, and for higher standardized works between Muikamachi and Saigata on Hokuetsu-Hokusen Line</p> <p>• Interest-free loans from RDF for higher standardization, Shinkansen-through-operation, and freight transport capacity improvement works on main trunk line railways</p> <p>• Deposit of necessary amount from RDF to The Japan Development Bank (JDB) which provides low-interest loans for the expenses of transport capacity improvement works of Tokaido Shinkansen</p> <p>Subsidies for JRCC construction expenses of local development lines and local trunk lines ( AB lines ), and JRCC new line survey expenses</p> |

|                | Contents of Subsidies   | Budget for FY 1992                              |
|----------------|---|---|
| ks<br>er<br>on | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 1/5 of the cost of works to be subsidized</li> <li>* Local governments invest money proportional to the expenses borne by the central government</li> </ul>  | General source of revenue of the Government 11  |
| d-<br>ht<br>nk | <p style="text-align: right;">( ratio of loans )</p> <ul style="list-style-type: none"> <li>• Higher standardization and Shinkansen through operations 50%</li> <li>* Local governments contribute in proportion to the central government</li> <li>• Main trunk line freight transport capacity improvement 30%</li> </ul> | Loan from RDF 65                                |
| an<br>st<br>ty | <p style="text-align: right;">( financing ratio )</p> <ul style="list-style-type: none"> <li>• Transport capacity improvement of Tokaido Shinkansen 50%</li> </ul> <p>RDF deposits interest-free fund in JDB in order for lend at the special interest rate for public works</p>  |   |
| al<br>)        | <ul style="list-style-type: none"> <li>• AB lines ( 5 lines )</li> <li>Ratio of subsidies: 10/10 of the construction expenses</li> <li>• New line surveys ( topographical and geological surveys of Chuo Shinkansen and Shikoku Shinkansen )</li> <li>Ratio of subsidies: 10/10 of the survey expenses</li> </ul>           | General source of revenue of the Government 150 |
|                |   | General source of revenue of the Government 4   |



|                                    | Contents of Subsidies   | Budget for FY 1992                                     |
|------------------------------------|---|--|
| <p>scale<br/>rtaken<br/>ransit</p> | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 70% of the expenses of construction works to be subsidized (1/2 by the central government, 1/2 by local governments)</li> <li>• Time to begin granting subsidies: <ul style="list-style-type: none"> <li>For the construction up to FY 1989 <ul style="list-style-type: none"> <li>--- Following FY of the constructions</li> </ul> </li> <li>For the construction from FY 1990 onward <ul style="list-style-type: none"> <li>--- The FY of the construction</li> </ul> </li> </ul> </li> <li>• Ratio of grants: <ul style="list-style-type: none"> <li>For lines adopted in or before FY 1990 <ul style="list-style-type: none"> <li>For the construction up to FY 1989 (10-year installments)---6. 5. 4. 3. 3. 3. 3. 3. 2 (%)</li> <li>For the construction from FY 1990 onward (10-year installments)---1. 2. 3. 4. 4. 5. 5. 4. 4. 3 (%)</li> </ul> </li> <li>For newly adopted lines in FY 1991 and 1992 <ul style="list-style-type: none"> <li>For the construction on FY 1991 (2-year installments) ---7.28 (%)</li> <li>For the construction on FY 1992 ( lump payment ) ---35 (%)</li> </ul> </li> </ul> </li> </ul> | <p>General source of revenue of the Government 568</p> |
| <p>rtaken<br/>ers</p>              | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 36% of the expenses of construction works to be subsidized (1/2 by the central government, 1/2 by local governments)</li> <li>• Time to begin granting subsidies: <ul style="list-style-type: none"> <li>Following FY of business operation started</li> </ul> </li> <li>• Ratio of grants: <ul style="list-style-type: none"> <li>6-year installment---3. 3. 3. 3. 3. 3 (%)</li> </ul> </li> </ul>  | <p>General source of revenue of the Government 4</p>   |

| Name of the System   | Outlines of Subsidies  |
|--|--|
| <p>3. Subsidies for the interest on construction expenses of rental lines and transfer lines</p> | <p>Subsidies for part of interest expenses on the capital required for constructions of JR main trunk lines and large-city urban lines ( CD lines ) lent by JRCC and large-city-zone private railway lines ( P lines ) transferred by JRCC for counter value</p> |
| <p>4. Interest-free loans for urban-railway-network improvement projects</p>                     | <p>Interest-free loans from RDF to large-scale improvement works such as track doubling of JR commuter lines undertaken by JRCC and to underground railway construction works undertaken by TRTA</p>   |

|                                       | Contents of Subsidies   | Budget for FY 1992  |
|---------------------------------------|---|---|
| capital<br>es and<br>CC and<br>ines ) | <ul style="list-style-type: none"> <li>• Rental lines ( CD lines )<br/>Subsidies for interest expenses for the part of interest over 5.0% on the required capital<br/>( Period of time to provide subsidy<br/>---for 40 years after inauguration )</li> <li>• Transfer lines ( P lines )<br/>Subsidies for interest expenses for the part of interest over 5.0% on the required capital<br/>( 1/2 of subsidies are borne by the central government and local governments respectively )<br/>( Period of time to provide subsidy<br/>---for 25 years after inauguration. as for new-town railway. for 15 years)</li> </ul> | <p style="text-align: right;">General source of revenue of the Government 148</p> |
| ovement<br>lines<br>ailway            | <ul style="list-style-type: none"> <li>- Ratio of loan: 40%</li> <li>* Local governments contribute in proportion to the central government</li> </ul>  | <p style="text-align: right;">Loan from RDF 251</p>                               |

| Name of the System   | Outlines of Subsidies  |
|--|--|
| <p>III. Technical development of Linear Motor-car and others</p> <p>1. Subsidies for the development of superconductive magnetic levitation railway technology</p> <p>2. Subsidies for other technical development</p> | <p>Subsidies to Railway Technical Research Institute (RTRI) for the basic technical development work utilizing Miyazaki Test Line and the applicational technical development work such as the construction of Yamanashi Test Line, with a view to promoting the technical development to put the superconductive magnetic levitation railway in practical use</p> <p>Subsidies for advanced and basic technical development for railway safety, disaster-prevention and environmental measures undertaken by RTRI</p> |

|  | Contents of Subsidies   | Budget for FY 1992                             |
|--|---|--|
| RI)<br>ing<br>cal<br>shi<br>cal<br>tic<br><br>ent<br>on-   | ( Ratio of subsidies )  |  |
|  | (1) Basic technical development expenses<br>on Miyazaki Test Line and in RTRI                                   | 1/2  |
|  | (2) Technical development expenses on<br>Yamanashi Test Line to put the<br>technology to practical use          |  |
|  | • Investment for practical use test:<br>( Yamanashi Test Line construction expenses )<br>( 7-year installment ) | 1/4  |
|  | • Expenses for practical use test:<br>( Development of test vehicles for the new<br>test line and others )      | 1/4  |
| (3) Equivalent in value of interest on<br>technical development expenses<br>financed by The Japan Development Bank | 1/  | General source of revenue<br>of the Government |
| • Railway technical development:<br>( Technical development for comprehensive<br>disaster-prevention system )      | 1/2   |  |
|  |   | 55   |
|  |   | 2  |

| Name of the System   | Outlines of Subsidies  |
|--|--|
| <p>IV. Measures for safety, disaster prevention and medium/small sized rural private railways</p> <p>1. Subsidies for railway disaster prevention project</p> <p>2. Subsidies for railway modernization and others</p> <p>(1) Subsidies for railway modernization</p> <p>(2) Subsidies for natural disaster restoration project</p> <p>3. Subsidies for level crossing safety facilities improvement</p> | <p>Subsidies for disaster prevention projects, such as those against falling rocks and snowslides on railway facilities and river improvements, undertaken by JR</p> <p>Subsidies for improvement of facilities which is instrumental in promoting safety and improving transport services and business performances of medium/small sized rural private railways which are under difficult financial circumstances</p> <p>Subsidies for disaster restoration works of the railway enterprise which has suffered from large-scale natural disasters and is placed under difficult financial circumstances</p> <p>Subsidies for improvement of level crossing safety facilities, for the purpose of preventing accidents on the level crossing, undertaken by the railway enterprise which is under difficult financial circumstances</p> |

|   | Contents of Subsidies  | Budget for FY 1992   |
|---|--|--|
| such as<br>railway<br>JR                            | <p style="text-align: center;">( Ratio of subsidies )</p> <ul style="list-style-type: none"> <li>• Measures against falling rocks and snowslides: 5.5/10</li> <li>• River improvements: 5.5/10</li> <li>• Seashore conservations: 1/3</li> </ul> | <p style="text-align: center;">..</p> <p>} Public works expenses<br/>of the Government 6</p> |
| which is<br>improving<br>facilities of<br>which are | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 2/3 or 2/5 of modernization<br/>expenses<br/>(1/3 or 1/5 by the central<br/>government, 1/3 or 1/5 by<br/>local governments)</li> </ul>   | <p>General source of revenue<br/>of the Government 8</p>                                     |
| the railway<br>the natural<br>financial             | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 1/2 of the restoration expenses<br/>(1/4 by the central government,<br/>1/4 by local governments)</li> </ul>  | <p>General source of revenue<br/>of the Government 1</p>                                     |
| ing safety<br>accidents<br>the railway<br>financial | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 1/2 or 1/3 by the central<br/>government and 1/3 by local<br/>governments</li> </ul>  | <p>General source of revenue<br/>of the Government 2</p>                                     |

| Name of the System  | Outlines of Subsidies  |
|---|--|
| 4. Subsidies for railway improvement  |  |
| (1) Subsidies for deficits  | Subsidies for the ordinary loss enterprise whose railway facilities obsolete owing to the difficulties in the disruption of whose service might damage to the lives of the local residents |
| (2) Subsidies for running expenses  | Subsidies for part of the ordinary loss enterprise which runs the railway specific local lines or new local lines constructed by JRCC  |
| (3) Subsidies for railway enterprise employee training expenses for safety promotion                        | Subsidies for the employee training of safety operation in the railway enterprise of small sized Semi-public corporations  |
| 5. Subsidies for upkeep and repair expenses of the connecting bridge between main island and Shikoku island | Subsidies for upkeep and repair expenses (a portion) of Onaruto-kyo Bridge, Honsyu-Shikoku Connecting Bridge Public  |

Source: Railway Development Fund.

| of Subsidies  | Contents of Subsidies   | Budget                                   |
|---|---|--|
| <p>inary loss of the railway<br/>ay facilities are becoming<br/>fficulties in maintenance, and<br/>ervice might cause a serious<br/>e local residents</p> <p>e ordinary loss of the railway<br/>the railway converted from<br/>or new local railway lines</p> | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 10/10 of the ordinary loss of the lines to be subsidized (1/2 by the central government, 1/2 by local governments)</li> <li>• Converted railways<br/>Ratio of subsidies: 5/10 of the ordinary loss</li> <li>• New local railway lines<br/>Ratio of subsidies: 4/10 of the ordinary loss</li> <li>*Period of time to be subsidized<br/>...for 5 years after inauguration</li> </ul> | <p>General sou<br/>of the Gove</p>       |
| <p>ye training for the promotion<br/>the railway enterprises such as<br/>corporations</p>   | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 2/5 of the expenses</li> </ul>   | <p>General source<br/>of the Governm</p> |
| <p>and repair expenses (railway<br/>-kyo Bridge, undertaken by<br/>g Bridge Public Corporation</p>  | <p>Subsidies for upkeep and repair expenses and the interest thereon ( railway portion )<br/>Payment of the subsidies is made in the next FY</p>  | <p>General source<br/>of the Governm</p> |

|   | Contents of Subsidies   | Budget for FY 1992                               |
|---|---|--|
| the railway<br>are becoming<br>aintenance, and<br>use a serious | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 10/10 of the ordinary loss of the lines to be subsidized (1/2 by the central government, 1/2 by local governments)</li> </ul>  | } General source of revenue of the Government 14 |
| of the railway<br>converted from<br>railway lines               | <ul style="list-style-type: none"> <li>• Converted railways<br/>Ratio of subsidies: 5/10 of the ordinary loss</li> <li>• New local railway lines<br/>Ratio of subsidies: 4/10 of the ordinary loss</li> <li>*Period of time to be subsidized<br/>...for 5 years after inauguration</li> </ul> |  |
| the promotion<br>orises such as                                 | <ul style="list-style-type: none"> <li>• Ratio of subsidies: 2/5 of the expenses</li> </ul>   | General source of revenue of the Government 0.4  |
| uses (railway<br>undertaken by<br>orporation                    | <ul style="list-style-type: none"> <li>Subsidies for upkeep and repair expenses and the interest thereon ( railway portion )</li> <li>Payment of the subsidies is made in the next FY</li> </ul>  | General source of revenue of the Government 0.2  |