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The Privatization Experience of Japan: The Case of the Japan National Railways

JOEL V. MANGAHAS*

It is the idea of financial gain that drives governments to establish income-generating institutions, more commonly known as government-owned or -controlled corporations. Privatization as a means of saving a bankrupt or losing entity has been espoused by governments in order to save themselves from further financial losses. Also, privatization is used as a course of action to remedy the moribund financial situation of said entities into a profitable and income-generating venture by turning over the ownership and control from the government to the private sector which usually has more business acumen when it comes to the remunerative aspects of commercial enterprise. Presented here is the predicament of the Japan National Railways. Also discussed is some of its inherent problems which are by and large similar to the ones encountered by comparable agencies concerned.

Background to Privatization

Public enterprises play a pervasive role in state governance. There seems to be no universally agreed upon definition of a public enterprise, but the term is generally referred to as an organization owned and controlled by the government involved in the production and provision of social, industrial, commercial and financial goods and services to the public which in some cases incorporates profit-seeking objectives characteristic of a private corporation.

Public enterprises take a wide variety of forms depending on the state of development of the country and the policy stand of the government on state ownership and control of means of production (Cowan 1987: 2). In terms of the extent of government ownership, public enterprises may be categorized as: departmental or ministerial corporations; corporations wholly owned and operated by the state; enterprises partially owned by the state and partially by private investors; and those owned by the government but privately managed.

The establishment of public enterprises is conceived as measure by which the state can intervene into economic activities. The need for public enterprises becomes particularly strong in situations when a country attempts to overcome

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*Assistant Professor, College of Public Administration, University of the Philippines, Diliman, Quezon City.

certain economic difficulties or where "market failure" becomes apparent, that is, where certain goods and services essential to daily life cannot be supplied through the market mechanism. Public enterprises serve as the stop-gap instrument by the state to engage in types of business where the private sector is either incapable of financing due to large capital investment required or unwilling to venture because of high economic risks involved.

Public enterprises had been useful to the industrialized countries in pursuing allocative, redistributive and stabilizing objectives. The allocative justifications include engaging in the areas of economic activity characterized by natural monopoly, upholding the strategic role of the state and the accomplishment of particular industrial policies. Redistributive functions are addressed through various services delivered by public enterprises in the fields of transportation, telecommunications, utilities, among others where the elements of cross-subsidization or discounts on user charges are applied according to the ability to pay of the public. In the area of economic stabilization, public enterprises became popular in providing stable employment and in expanding government expenditures as instruments to fine-tune the economy particularly during the worldwide recession of the 1930s.

The abovementioned justifications have also been upheld in many developing countries, but the weakness of their capital markets and the absence of basic infrastructure have further strengthened the need for establishing public enterprises as instruments of economic development or industrialization. Thus, public enterprises became integral components of nation-building in developing countries, where the public administrative systems and the economic frameworks are simultaneously being developed. Until the early 1970s, there had been a general conviction in both industrialized and developing countries that only governments can undertake the necessary steps to promote and guide the development process (Pelkmans and Wagner 1990: 18-19). Needless to say, the objectives behind the creation of public enterprises varies among countries.

Some public enterprises are created beyond purely economic reasons to include ideological, political and practical considerations. Changes in ideology have led to shifts in policy convictions backwards and forwards. The rise of socialism, for example, had justified state ownership and control of productive resources as a reaction to the perceived threat of capitalism and neocolonialism, but the sociopolitical changes in countries advocating such an ideology have led to the gradual abandonment of socialist framework of governance adding credence to the strength of the market forces and the effectiveness of free enterprise system. Public enterprises may also be organized for national security reasons. In some developing countries, the expansion of government activities through public enterprises has enhanced the consolidation of political power by the dominant groups and their control over the national economies. Political exigencies sometimes require public corporations to provide jobs in the face of worsening unemployment and declining popularity of the national leadership or to provide management and board sinecures in exchange for past political favors. In some cases, public corporations have led to the emergence of crony capitalism (See Koike 1988). In this regard, public enterprises have been described as "politico-economic organizations" and "practical class instruments" that cater to the interests of the society's influential groups (Allende 1988:147-163).

The outlook towards the traditional role of the government began to change as economies worldwide slackened and the delivery of social goods and services deteriorated. In recent years, there has been a striking policy shift towards the reduction of the role of the state and the enlargement of the scope of market forces as a reaction to the growing perception of "government failure." Governments have started withdrawing from activities that are deemed to be more suitable for private initiative. The renewed interest in the private sector has been precipitated by both external and internal factors. The growing demands on the national revenues for increased public services and new infrastructure combined with economic difficulties have led to the desire to reduce the burden on the government budget. In addition, changes in the international government pressure nations to make structural adjustments in their economies and administrative systems.

The widening fiscal deficits and rising public debt of many countries have caused governments to reconsider and constrain their expenditure pattern. Governments have found it difficult to sustain their operations at previous pace and levels due to budgetary problems. Meanwhile, public corporations in both industrialized and developing countries have produced a staggering burden of subsidy costs for their governments. The huge financial losses and poor performances of many public enterprises have added urgency to the search for relief.

World trade fluctuated widely and generally stagnated for the past two decades. The oil shocks and prolonged recessions created difficulties even for developed countries. The large fiscal imbalances, slower growth and rising unemployment in their countries have forced them to adopt stricter protectionist policies, administrative reform measures, and the reduction of aid and other official bilateral flows to developing countries. The situation, of course, is even more serious for developing countries since state decisions are usually influenced by the conditionalities imposed by their foreign creditors, not to mention the inherent difficulties posed by their underdeveloped and fragile economies.

The search for solutions has also revived discussions on the role of the state. While some uphold the benevolence of the state and the need for it to intervene to correct market imperfections as well as to promote equity principles, others extol the virtues of the market system and argue for minimal state intervention. The strong bias against state intervention has been advanced by a growing number of scholars as the markets become much more popular. Baumol (1967), for example, dismisses the public sector as stagnant and characterizes the private sector as progressive. Baumol explains that the relative costs of public provision of goods and services would persistently and cumulatively rise for given proportions of output because labor is the major item that the government "buys" and competitive pressures on the labor market require uniform wage increases in the entire economy over time.

The inherent pressures in the government to increase the public budget are also expressed by Downs (1967) and Niskanen (1971). Bureaucrats and interest groups tend to inflate government expenditures and expand the scope of government both as a surrogate and a means for benefitting their self-interests (e.g., prestige, power, wealth). This behavior combined with the lack of effective performance standards such as the profit goal in the market systems have led to wasteful consumption of public resources and indiscriminate government growth.

Picht (1988) provides an extensive survey of literature complementing and extending the so-called "cost-disease" phenomenon and expansionist tendencies of the public sector. Buchanan and Wagner (1977), Friedman (1978), Peacock and Wiseman (1979), to mention a few, have associated the expansion of state activities, government expenditure, and taxation patterns with cost illusions, crowding-out effect, and potential welfare loss. Some empirical studies also indicate the negative impact of increased government size on economic development.

The study conducted by Landau (1983) involving a sample of 96 developed and developing countries between 1961 and 1976, reports a negative relationship between the share of government expenditures in Gross Domestic Product (GDP) and the growth of per capita GDP. In Marsden's (1983) assessment of 20 developed and developing countries from 1970 to 1979, government involvement in the economy as measured by tax revenue and GDP ratios is found to be inversely related to economic growth. In a study by Singh (1985), a state intervention variable is utilized to measure the extent of government's propensity to nationalize and control economic activities and concluded that the greater the intervention, the smaller the rate of GNP growth.

Thus, in recent years, there has been a growing belief that governments have actually distorted market forces. Government failure, not market failure is being blamed for unsatisfactory economic results (Krueger 1990). Given this backdrop, privatization has become one of the dominant public policy themes throughout the world. Between 1980 and 1991, nearly 7,000 public enterprises were privatized (UNDP 1993: 48). Privatization is relatively a new term that first appeared in a dictionary in 1983. The concept is nonetheless not new and it can be traced as early as the 1700s in the writings of Adam Smith.

Privatization is generally defined as the process of transfer of assets and service functions from public to private hands or the shift of ownership from financing by public money to financing by private money. The process of privatization may take a number of forms. To a certain extent, "privatization itself has been 'privatized' in the sense that it has different connotations and meanings in different contextual backgrounds (APO 1993: 2-3)." For instance, privatization is referred to as corporatization in Singapore or peoplization in Sri Lanka while other Asian countries call it denationalization, commercialization, among others.

Approaches to privatization can be categorized into micro and macro standpoints — the former being concerned with the enterprise level while the latter refers to changes in the economy. Heald identifies four major features of privatization, namely: substitution of market systems of allocation for nonmarket systems; privatization of production without privatizing financing; liberalization; and denationalization and load-shedding (Heald 1985: 59-61).

In the first component, privatization involves the transfer of the source of financing for a public good or service from taxes to user charges. Such a shift embodies the imposition of fees where none previously existed, the expansion of the range of fees, or simply a maintenance of existing fees to recoup a greater portion of the total cost of provision. The most common form of the second type of privatization is subcontracting management and labor. Under this arrangement, operations are put in the hands of a private management group while leaving ownership or financing in government hands. Franchising public functions or leasing government assets to the private sector are likewise alternatives to traditional organizational setups of government. Liberalization primarily involves policy measures that harmonize the administrative and economic systems with international norms. As related to public corporations, liberalization refers to the relaxation or abolition of statutory controls.

Denationalization and load-shedding refer to divestiture of public assets and nonmarket functions. Divestiture or ownership transfer can itself take many different forms, to wit (Heald 1985: 68):

(1) sale of a public corporation as a single unit;

(2) sale of a public corporation after dividing it into component parts;

(3) sale of some of the component parts of a public corporation after its division; and

(4) sale of peripheral parts of a public corporation.

In complete ownership transfer, government owned assets may be fully divested by sale to private individuals or groups which is the clearest form of privatization, but is often the most difficult to accomplish. On the other hand, the government may retain partial ownership by selling a portion of the assets to individual buyers either directly or by means of a public stock flotation (Cowan 1990: 6). In some cases, the sale is offered to a cooperative association of employees, consumers, producers on an "each person, one voting share" principle or to an Employee Stock Ownership Plan (ESOP) with entitlements to buy shares depending on the worker's salary level (Eaton 1989: 470-471). Partial divestiture may leave the government with either a majority or minority share of the assets. There is so far no general agreement about the proportion of the equity of a public corporation which must be sold before a divestiture is reckoned to have taken place. In any case, the general aim is to put the existing operation of the enterprise in the hands of private managers.

A program of ownership transfer must, nonetheless, contend with a number of important concerns. For instance, it is necessary to formulate a set of criteria for selecting public corporations to be divested. Decisions might be made on the basis of the sector or environment in which the corporation is situated. Some public corporations may be located in competitive markets where private capital has fully matured while others may be retained as monopoly enterprises in the public sector on the basis of national security reasons or the nature of activities which is beyond or simply unattractive to the private sector. Furthermore, there is an option of divesting profitable and well-managed corporations as against those which continue to incur deficits and show poor performance.

Divestment strategies are classified by Eaton into bureaucratic, capitalist and populist methods (Eaton 1989: 467-492). In all these options, management and financial responsibilities are shifted from the government to private groups.

Privatization carries potential solutions as well as risks and if hastily applied can achieve very little. Issues in privatization actually extend far beyond public enterprises. The current disillusionment with the results of public policy has led to the uncritical acceptance of public ownership as against economic logic. Discussions of the role of public ownership or of the performance of public corporations have generated more heat than light. Instead of adequately defining practicable means of achieving the proper mix of the state and markets, the overwhelming pressure is for everything to be presented in dialectical terms (i.e., the state and the market are necessarily separate and that one is superior than the other) with hardly any realistic and balanced assessment of the strengths and weaknesses of each.

The key factor determining the efficiency of an enterprise, however, is not whether it is publicly or privately owned, but how it is managed. Not all public corporations incur financial losses and not all are always less efficient than their private sector counterparts. The sense of frustration with the public sector is caused by the widening gap between public aspiration and government achievement. Expectations of what public enterprises can achieve are dashed by failures in policymaking processes and not necessarily as a function of ownership. For one thing, public corporations are required to fulfill so many diverse and shifting purposes which in some cases are contradictory to each other. They are usually expected to conduct their business on strictly commercial lines while at the same time pursue certain social obligations. Consequently, public corporations lack clarity of purpose.

The presence of multiple objectives is aggravated by the problem of performance evaluation and straightforward technical and administrative shortcomings in operating public corporations. There are repeated examples of political interferences and limited managerial autonomy granted to public corporations. In the final analysis, it is possible to improve public enterprise management and performance without privatization. Despite the litanies advanced against governments, some scholars believe that public bureaucracies have been performing more satisfactorily than what is commonly perceived.

Ocampo (1988: 181) observes that the trend towards privatization tends to overestimate the excesses of public administration and the virtues of the markets without proper consideration of the important factors and conditions in the government that require a more discriminating application of privatization. Ocampo (1988: 180) further argues that even the strongest advocates of minimum government would still concede a wide range of activities to the public sector as proper for it to perform.

Goodsell as cited by Ocampo defends the bureaucracy and public administration in the US while pointing out the complexities, difficulties and costs associated with privatization (Ocampo 1988: 180; See Goodsell 1983: 67-71). Goodsell suggests that the perceived government failure is more attributable to the nature of the problems and functions that the government handles than to the nature of government itself. The real issue is not really to choose between the government and the private sector but to promote a situation wherein the two are working in tandem. Privatization as a policy tool is not a panacea for the observed inefficiencies and pathologies of the public sector.

There are a number of concerns that should be taken into account prior to a decision is made to privatize public corporations in terms of objectives and the general criteria to be used in the selection. In addition, once the decision is made to privatize a given enterprise, it is important to consider the methods and procedures, the terms and conditions, and the benefits and costs associated with the move. Furthermore, securing public support and legislative consent are necessary.

Villalba and De Escobar (1986) offer a framework for government decision making about public corporations. A set of six sequentially arranged questions are used to evaluate a public corporation (Villalba and De Escobar 1986: 49-57):

(1) is the enterprise strategic, in the sense that divestment could endanger national security and sovereignty?

(2) does the firm provide a positive balance of social benefits and costs?

(3) could another government organization provide the same social benefits and costs?

(4) does the enterprise has possibilities of increasing profitability?

(5) is the firm's size too big to execute its sale to private interests?

(6) are there alternatives for improving efficiency within the public sector?

The abovementioned questions would be useful in generating at least three major policy options (or combination of them):

(1) adopt the status quo or leave the enterprise in its present position;

(2) undertake reform measures in the structure and operations of the firm to improve its efficiency; and

(3) privatize or transfer the ownership of firm.

In too many cases, privatization has been implemented for the wrong justifications, under the wrong conditions and in the wrong manner. The UNDP (1993) reports of the seven deadly sins committed in privatization:

(1) privatization strategies aimed at increasing short-term revenue rather than creating competitive environment in the long-run;

(2) replacement of public monopolies with private monopolies;

(3) implementation of privatization through discretionary and non-transparent procedures, which invite criticisms of corruption and nepotism;

(4) sale of government assets intended to cover current budget deficits of public enterprises rather than to reduce the national budget;

(5) poor financial strategy usually characterized by increased public borrowing at a time of public disinvestment which tend to crowd capital markets;

(6) unrealistic labor strategies which tend to include false promises and displacement of workers; and

(7) lack of political consensus.

Privatization in Japan

Overview of Public Corporations in Japan

Historical Background. Independent public organizations in Japan have their early beginnings in the second half of the 19th century. During this period, Japan started to modernize in order to catch up with the advanced European countries. Nationalism and etatism were upheld as the driving forces for modernization of Japan. As such, the authority of the state and the role of government in economic activities increased considerably. The government established a number of industries engaged in mining, textile, steel, shipping and brewery. These industries were managed as state enterprises. Most of these enterprises with the few exceptions of ammunition factories and naval dockyards were subsequently divested to the private sector after incurring huge financial losses (Sato 1985: 119). The divestiture of these enterprises marked the initial attempts of Japan towards privatization which proved to be meritorious as most of the divested industries showed a high rate of survival.

During the postwar era, various public corporations were created to exercise control over the economy. From 1946 to 1955, large public corporations such as the Japan National Railways (JNR), Japan Tobacco and Salt Public Corporation (JTSPC), and Nippon Telegraph and Telephone Public Corporation (NTTPC) were established. These corporations were previously under the direct management of the government. Financial organizations were likewise created to support imports and exports, industrial development, small and medium businesses, agriculture, forestry, fisheries, and housing construction. Special companies such as the Electric Power Development Company, Japan Airlines Co., Ltd., and Kokusai Denshin Denwa Co. (International Telephone and Telegraph Corporation) were also established during this period (AMA 1984: 37-38). By the end of 1955, the number of public corporations increased to 33 from a total of 21 in 1946 .

The number of public corporations reached a peak of 113 in 1967 as more independent public organizations were created to be in charge of public works, such as road construction and development of water resources, social and economic programs, and research activities. Public corporations also began to engage in atomic energy development, space development, the construction and management of a new airport and of berths for international container freighters.

After 1967, there have been several reorganizations in Japan's public administrative system wherein a policy of restraint on the establishment of public corporations has been in effect. As a result, the number of public corporations were maintained at 113 in the 1970s and by 1980 it dropped to 108. In 1989, the number was further trimmed even down to 92. Table 1 shows the trend in the number of public corporations in Japan from 1946 to 1992. The remarkable decrease in the number of public corporations through privatization manifests a strong policy pursued by Japan to stimulate competition in situations where it is insufficient brought about by the changes in economic, technical and social conditions (Strzyzewska-Kaminska 1993: 494).

Table 1. Number of Public Corporations in Japan, 1946-1992

Year	*Number*	*Year*	*Number*
1946	21	1971	112
1950	21	1972	113
1951	15	1973	112
1952	18	1974	112
1953	22	1975	113
1954	25	1976	113
1955	33	1977	111
1956	39	1978	111
1957	44	1979	111
1958	53	1980	108
1959	62	1981	103
1960	66	1982	99
1961	71	1983	99
1962	81.	1984	98
1963	93	1985	96
1964	99	1986	87
1965	104	1987	93
1966	108	1988	92
1967	113	1989	92
1968	109	1990	92
1969	110	1991	92
1970	112	1992	92

Source: Management and Coordination Agency, 1992

The increasing trend towards privatization indicates that the role of the state is changing, but it does not necessarily mean diminishing (Strzyzewska-Kaminska 1993: 494). In as much as the nationalization of enterprises was intended to speed-up economic development and make the country "prosperous and powerful," privatization in Japan is part of adjustment policies motivated by the same desire (Strzyzewska-Kaminska 1993: 494; Also see Kato 1987).

Types of Public Corporations. A public corporation in Japanese is called *tokushu-hojin* which literally means a corporation with a special status (IAM 1992: 108). There are various kinds of public corporations in Japan which can be classified in terms of name or title, function and the extent or degree of government ownership. Classification of public corporations by name or title in Japan has very significant meaning. In naming each public corporation, the extent of government supervision and control, financial management system, procurement of supplies, personnel administration, among others are taken into account (AMA 1984: 38). Thus, public enterprises in Japan have different titles, i.e., *kosha, kodan, jigyodan, koko, ginko, kinko, eidan, tokushu-gaisha, kenkyusho, kumiai or kyokai, shinkokai* and *kikin* (See Appendix 1 for descriptions). Table 2 indicates the number of corporations under each type in 1982 and 1992. Most of these organizations, however are translated in English as "public corporations."

Table 2. Number of Public Corporations by Type

Type of Public Corporation	*Year* *1982*	*1992*
Kosha	3	0
Kodan	10	13
Jigyodan	16	17
Koko	10	9
Kinko, Ginko	4	3
Eidan	1	1
Tokushu-Gaisha	10	12
Others	45	37
Total	99	92

Source: Management and Coordination Agency, 1992.

In terms of the nature and scope of business that these corporations perform, they are categorized into public-service-oriented group, public works, loans and insurance of loan and investment, inspection and authorization, establishment and management of public facilities, financing and services for subscribers of public annuities, mutual aid and annuities, commodity price control, management of racing, development and research, promotion and aid, etc.

Classification according to the degree or extent of government ownership sets four general types of public enterprises: departmental or ministerial corporations (Type I), enterprises wholly owned by the the government (Type II), joint stock companies or the mixed ownership corporation (Type III), and public utility companies (Type IV). Type III enterprises are still part of the government administrative system but they are granted a certain degree of autonomy in executing their functions. Type IV corporations can be privately owned, but still regulated by certain legal provisions of government control. Sato (1985: 112) shows the classification of public corporations. The public nature, efficiency and government control varies with the type of government ownership.

Types I and II public corporations tend to have stronger public nature and government control than those of Types III and IV. The latter however would tend to have higher enterprise efficiency than the former. In Japan, organizations called kosha and koko belong to Type II while kikin and kodan belong to Type III. The JNR was a an example of a kosha before it was privatized and can now be categorized under Type III or Type IV. The JNR was also once a Type I organization when it was a government enterprise under the Ministry of Transportation prior to its establishment as a kosha (See Appendix 2).

Organization and Supervision of Public Corporations. Public corporations are established by the national government by special law as instruments to implement particular activities required by the state. They are created primarily when certain tasks are better handled in the form of a profitmaking enterprise, when efficient management is more likely to be accomplished than under direct government operation, or when more flexibility in financial or personnel administration is needed than is normally possible under the mandate of government agencies (IAM 1992: 108).

Public corporations are also established to ensure continuous and stable provision of services especially in situations where the required amount of capital cannot be obtained by private financial sources alone or private sector participation is difficult due to high market risks or the small prospect of profits. Furthermore, public corporations are expected to execute certain activities more fairly and impartially than private institutions or organizations.

Public corporations are given certain powers and are supervised by the national government in the conduct of their business as stipulated by law. The law provides the corporation's mandate, nature and scope of activities, organization and management, financial arrangements and the control by the national government. The mode of control by the national government and the power of public corporations vary according to the differences in the nature of operations.

Every public corporation in Japan is under the supervision of a competent minister who is empowered to direct, collect reports and conduct on-the-spot inspections. Most corporations are also required to confer with the Ministry of Finance regarding financial matters.

A public corporation is headed by a president or a board chairman who oversee its operations with the assistance of staff directors. In some cases, a public corporation has a vice-president or a vice-chairman. In general, the competent minister is empowered to appoint or authorize the selection of these officers. The number of officers, their job and position description and tenure of office are prescribed in the law that authorizes the establishment of a tokushu-hojin. Personnel are recruited by the corporations themselves and are exempted from the National Public Service Law. The competent minister approve the salary structure and rates of officers and employees.

Some corporations have an administration committee which presides over important policy decisions or an operations committee which serves as an advisory organ to management. In general, public corporations conduct their activities in accordance with the operation procedure documents (detailing the programs, budget and financial plans, compensation for services) drawn up each year under the supervision and control of competent ministers.

Public corporations are financed differently. Some are financed through capital investment and loans by the national government or local public entities while others receive private investments. Some corporations may issue bonds or receive loans from the postal saving funds.

The revenues earned by public corporations through their operations may be kept as reserve funds after compensation for losses are settled. There are cases when a part of or the entire profits are remitted to the national government or disbursed as dividends to investors with the approval of the competent minister.

Reasons for Privatization

The privatization of public corporations in Japan has been carried out within the framework of a comprehensive administrative reform in the 1980s. In a situation where the market has failed, the need to establish public corporations became particularly strong. The worldwide and prolonged recession in the 1970s, however, triggered a series of economic crises and fiscal deficits among many industrialized nations including Japan which precipitated in the loss of confidence in market intervention policies or the loss of credibility of governments (Sato 1985: 114).

In the face of serious economic difficulties, many became critical of public corporations. A number of problems have been raised with regard to the system and management of public corporations. Due to the changes in the social and economic environment, the significance of many Japanese public corporations has declined and that the private sector has sufficiently matured to take over certain activities of public corporations. More importantly, the rising financial losses of public enterprises has aggravated government deficits. Furthermore, public corporations has been featured by lack of cost consciousness, unclear location of managerial responsibility, and low motivation for improving productivity, efficiency and profitability (Economic Survey of Japan 1987-1988: 225-226). The monopolistic tendencies of some public corporations has also been pointed out. In the light of all these considerations, the need for consolidating and reorganizing public corporations through privatization has been fully justified. As a result, the government started to adopt a restrictive policy toward public enterprises.

Administrative Reform and Privatization

Faced with the growing rigidity of the Japanese fiscal system, the Provisional Commission on Administrative Reform (PCAR) (*Rinji-Gyosei-Chosa-Kai* or *Rincho* in short) was created on 16 March 1981 to examine ways and means of reforming the public bureaucracy and reducing government expenditure. The basic precepts in the development of reform measures were: (a) review of the role of public administration; (b) promotion of fiscal reconstruction without tax increase; and (c) reexamination of trade-offs between the delivery of government services and the fiscal burden (Masujima 1993: 163-164). Between 1981 and 1983, the PCAR issued five reports of recommendations with the rationalization of public enterprises as one of the major issues of administrative reform.

The first report (10 August 1981) highlighted the huge financial losses of JNR. The second report (10 February 1982) called for the relaxation of government regulatory policies and the simplification of approval and certification procedures. The third report (30 August 1982) contained the recommendations to privatize the country's giant state enterprises referred to as the "Big Three" or "*San-Kosha*" - JNR, NTTPC and JTSPC. In the fourth report (28 February 1983), the organization of reform implementation was spelled out and the final report (14 March 1983) proposed for the reorganization and revitalization of 44 public corporations.

The criteria used by the PCAR in choosing corporations for merger or privatization or abolition were as follows (Sato 1985: 127):

(1) corporations whose objectives were already achieved or about to be achieved;

(2) corporations whose existence became no longer justifiable due to a considerable decline in the number of beneficiaries brought about by socioeconomic changes;

(3) corporations whose undertakings could be put in the hands of the private sector and carried out more efficiently;

(4) corporations whose beneficiaries were unduly protected over others;

(5) corporations whose financial performance were poor or corporations whose socioeconomic objectives were no longer meaningful;

(6) corporations which could be operated more efficiently by the private sector because of the nature of the activity; and

(7) consolidation of corporations with duplicative or overlapping functions.

The PCAR also made recommendations to revitalize public corporations whose continued existence is justifiable. Many of these corporations were engaged in activities concerning public works, credit and industrial assistance, social services and facilities, international cooperation, and certification of tests and examination. The guidelines issued to them by the PCAR emphasized the enhancement of organizational and economic efficiency through cost reduction measures, delimitation of functions and operations, and contracting-out of services to the private sector. The establishment of a new corporation was agreed to be only allowed in principle on the basis of "scrap and build."

In order to oversee and ensure the effective implementation of the recommendations made by the PCAR, the Provisional Council for the Promotion of Administrative Reform (PCPAR) was inaugurated on 1 August 1983.

The Case of JNR

Developments in Japan's Railway System

The reform of the *San-Kosha* was considered to be a historic move because Japan had no experience of privatizing large state enterprises which had been in operation for over a century. At the very core of this much-vaunted reform program was the privatization of JNR which symbolized the country's worsening administrative and financial ills (Tanaka and Horie 1992: 188).

The railway business in Japan was founded by the national government in 1872. Until 1905, state and private ownership of railways coexisted. Private ventures in railway development and operation were strongly encouraged as the weak fiscal position of the government at that time precluded the growth of an extensive state-run railway system. Thus, the active participation of the private sector in the railway business greatly contributed in laying the foundations of Japan's national and industrial progress. By the end of 1905, privately-owned railways covered 5,231 kms. and national railways had 2,562 kms. for a total of 7,793 kms.

In 1906, private railway companies with the exception of those which operated in urban areas were purchased by the government and incorporated them into a nationally owned and operated network of railways (Tsukamoto 1991: 4-5). After the nationalization was completed, the government owned 7,153 kms. of railways while the privately owned railways was reduced to 717 kms.

The nationalization of the railway system was motivated by a number of factors. First, a nationwide network of railways was beneficial to support increased military activities of the period. Second, from the standpoint of national economy, nationalization was anticipated to increase state revenue, promote trade and industry, and prevent foreign control of railways. Third, in terms of improving the transportation system, systematic development of railway facilities would be fostered through priority allocation of public funds. Fourth, the policy decision was expected to create economies of scale in railway operation making reduction in fares possible.

In 1907, the Imperial Railway Agency was established to manage the nationalized railway system. The Agency was renamed Railway Authority in 1908 and later elevated to the Ministry of Railways. During the Second World War, it was merged with the Ministry of Transportation and Communication which was reorganized into the Ministry of Transport in 1945.

On 1 June 1949, the management of the national railways was transferred to an independent public corporation fully financed by the government named Japan National Railways (JNR). The creation of JNR was in response to the need to increase the operational efficiency of government railway services by introducing profit-seeking goals and other features of private business. In addition, the creation of JNR was conceived to pave the way for the implementation of a democratic labor relations policy.

Immediately after the war, the national railway system was beset by a number of problems such as the damages of facilities caused by the war, deterioration of transport capacity, and mounting incidence of accidents and thefts of cargoes. Furthermore, the railway business experienced continued loss of revenues, increase in operating costs brought about by hyperinflation, and increase in borrowing to finance rehabilitation of facilities.

During the American Occupation period, Japan was instructed by the General Headquarters of Allied Powers (GHQ) to adopt the system of public corporation as the management structure for the state enterprises and to implement a democratic policy on labor relations to as broad an area as possible (Tsukamoto 1991: 6). Employees of state enterprises were placed in a special category distinct from the civil servants in terms of being entitled to basic rights of labor. Government employees were not awarded such rights from the standpoint of securing the public interest. The entitlement of employees of state enterprises to such rights was justified on the basis of the difference in their nature of work with those of the regular government employees.

Having been awarded with the flexibility comparable to private corporations, JNR was expected to manage railway transport more efficiently and effectively. The years following its inauguration, JNR achieved considerable progress in improving the transport capacity and dominated the nation's transportation market. In 1950, JNR's share of total domestic transportation was 60 percent of passengers and 51 percent of freight; and in 1955, they were 55 percent and 52 percent, respectively.

In 1964, the first bullet train route connecting Tokyo and Osaka was opened which proved to be a very profitable project. During the same year, however, JNR recorded its first net loss amounting to 30 billion yen. Since then, the deficit continued to mount each year. In 1980, the amount of deficit reached 1,008.4 billion yen. By 1986 the year before JNR was privatized, the total accumulated debt reached 30 trillion yen.

The 1960s also showed remarkable shifts in domestic transportation patterns. The JNR began to lose ground in the transport market as there had been increased use of automobiles and patronage of coastal shipping services and aviation transportation. By 1980, JNR's share of passenger transport and cargo transport reached 24.7 percent and 8.4 percent, respectively.

In an attempt to remedy the deteriorating situation facing JNR, a series of five reform plans were implemented in 1980. These plans mainly included manpower reduction in JNR (from 420,000 to 350,000), fare increases, abolition of unprofitable local lines, and grant of government subsidies to JNR for payment of interest on long-term debts. All of these efforts, nonetheless, resulted in failure because of the continued decline in passenger and cargo volumes caused by the degenerated discipline in the workplace and the relatively expensive fares of JNR as compared with those charged by the private railways.

The personnel cuts and other cost-reduction measures contained in the said plans met strong resistance from JNR employees which were dominated by the unions resulting into numerous illegal strikes and work stoppages. Such delays and suspension of services effected widespread dissatisfaction among customers and subsequent loss of important clients to JNR. In the freight operation, JNR also performed badly as it failed to ensure timely deliveries of cargoes leading to a popular loss of confidence and patronage among commercial customers. In addition to all the encumbrances mentioned, the reform measures were adversely affected by the unexpected rise in operating costs triggered by the world oil shock and the recession that followed.

The JNR Before Privatization

The primary reason for the privatization of JNR was its huge accumulated deficits and the serious strain that it brought on the national treasury which was confronted with a crisis of its own. As Japan entered the period of slow economic growth following the first oil crisis, the state budget found itself in deepening deficits as rising public expenditures were unmatched by government revenues. It was identified that among the major sources of deficits are the three "Ks" - *Kokutetsu* (JNR), *Kenpo* (Health Care System), and *Kome* (Food Management Law). By 1980, the deficits reached an alarming magnitude that required serious measures.

The government considered three policy options to solve the fiscal problem. One solution was to implement an expansionary expenditure policy to pump-prime the economy which would bring about an increase in government revenues. The second solution was to raise government revenues by raising taxes and the third was to reduce government expenditure by cutting subsidies. None of these solutions gained support from policymakers. The first option of Keynesian fiscal policy was recognized to be an inappropriate measure considering the already mature Japanese economy and that the business circles which provided strong political base support to the members of the legislature strongly opposed any tax increase and reduction in government subsidies. Meanwhile, the Diet acted lame in providing the necessary legal framework to implement any of the proposals.

Faced with an impasse in concretizing efforts to rationalize public administration and fiscal system, the government attracted heavy criticisms from the public. It was against this backdrop that the PCAR was created to submit recommendations that would ensure efficient provision of public services and proper management of the economy. It was agreed then by the Prime Minister and the Chairman of the PCAR to take the reform of JNR as the priority item on the PCAR's agenda in view of its grave implications for national government administration and finance.

One of the major causes of JNR's crisis can be attributed to the intrinsic structural deficiency of the JNR. The organic law that established the JNR gave it an appearance close to a private corporation, but in crucial business and financial decisions, JNR was subject to strong control by the government in a manner almost identical to that of a government ministry (Tsukamoto 1991: 7). For instance, the scope and nature of JNR's operations were remarkably limited by law. Its annual budget, payroll systems, service fees, and train fares were subject to approval by the National Diet (the Japanese parliament) while its business and investment plans required the approval of the Minister of Transport. Furthermore, the Cabinet had the power in the selection and appointment of the president of JNR.

The JNR, just like any other public corporation, had to serve two objectives that were generally opposed to each other. One is the requirement that it must provide railway operations as a public service and the other is the requirement that it should be as efficient as the private railway companies. The JNR was expected to maintain a high degree of public nature in its operations which warranted greater government control. The limited autonomy granted to JNR, nonetheless, adversely affected its overall efficiency that culminated in huge deficits and loss of vitality in railway operations.

Following the oil crisis in the early 1970s, the JNR was forced by the government to increase its facility investments which were likely to generate deficits on the balance sheets of JNR as a means to vitalize the sluggish Japanese economy (Strzyzewska-Kaminska 1993: 511). It was argued that the JNR must continue to serve the society irrespective of continuing deficits due to the nature of state-ownership.

In addition to strong government control, JNR was extremely vulnerable to political intervention. The proposals for fare increases to alleviate the ailing fiscal position of the JNR were often caught in the middle of lengthy political battles in the National Diet (Tsukamoto 1991: 12). The proposals were also justifiable on the grounds that train fares should have proportionately reflected the increase in all commodity prices. In the end, however, the Diet refused to approve the proposals (Sando 1993: 36).

Influential politicians even exploited the negotiations for fare revisions to exert pressure on the JNR to construct economically unsound railway lines that would satisfy their rural or depopulated constituencies leading to further aggravation of JNR's financial problems (Kurono 1993: 48; Sando 1993: 35). The construction of new lines was decided by the Railway Construction Council which was composed of 28 members and ten of them were Members of the Parliament. Some politicians took advantage of their positions to influence construction decisions as a means of gaining electoral support from their constituencies. Many unprofitable lines were built through logrolling among powerful politicians (Okano 1990: 147-148). Large investment projects such as the bullet train network which had serious implications on the operations of JNR were decided at the top level negotiations between the Cabinet members and the majority party in the Diet (Tsukamoto 1991: 12). Politicians also exerted influence in the awards of contracts and procurements related to the JNR (Tsukamoto 1991: 12).

The management of the JNR had no real decisionmaking power in running the corporation. For instance, Sando notes that the position of the JNR president was "nominal in that decisionmaking authority was equal to that of section chief in the Ministry of Transport" (Sando 1993: 37). It was also common for the JNR president to be summoned by parliamentary committees 70 to 80 times a year (Ishizuka 1985). The powerlessness of JNR was widely perceived and accepted by the JNR executives themselves. As a result, the JNR management tended to avoid taking responsibility in the affairs of the corporation particularly in matters concerning investments, financial administration, and personnel administration. According to Kurono, it became more important for the management of the JNR to maintain good relationships, to the extent of currying favors, with members of the Diet and high-ranking government officials in order to safeguard their own positions (Kurono 1993: 48).

Okano observes that the long-time monopoly the JNR had enjoyed coupled by the lax government auditing led to a high degree of inefficiency in the JNR (Okano 1990: 148). The JNR made little effort to minimize operation costs since its losses were absorbed by the national treasury. In addition, the monopolistic position of the JNR allowed the frequent hike railway charges as a means of narrowing the deficits. It is also suspected that there was a collusion between the JNR workers and their suppliers of equipment and other gadgets or services related to railway operations. It is said that retired personnel of the JNR were employed by the suppliers and that portion of the monopoly profit were shared by the JNR members and the suppliers. Capital costs were noted to be excessively high and the Board of Audit found it difficult to determine the minimum costs of railway business (Okano 1990: 148).

The lack of managerial independence and responsibility gave rise to a string of labor relations problems. When the issue of low salaries surfaced, the JNR management found it virtually impossible to accommodate the demands for salary adjustments since the pay scale of JNR employees was fixed by law. The negotiations for wage increases ended up in tedious labor-management disputes which were settled in arbitration by the Public Corporation Labor Commission. Without the authority to control salaries, the management found it difficult to enforce discipline throughout the organization and improve worker's performance.

The prevailing climate at the JNR fostered irresponsible behavior, poor work attitudes, and low morale among JNR's members. The JNR employees were hardly concerned about their job security or the overall productivity of JNR. Workers were not motivated to work harder since they believed that they would not be rewarded with high salaries and that there were no dismissals due to poor work performance (Kurono 1993: 48). The labor unions also engaged in numerous illegal strikes that disrupted railway services for as long as eight days on some local lines (Tsukamoto 1991: 13). The strikes were carried out in protest for the management's lack of authority to improve worker's conditions and salaries. The labor unions also conducted mass protest actions against JNR reform measures. In some cases, they even went on strike in support of an anti-war propaganda of some radical political groups.

Meanwhile, the private railways which concentrated their operations in densely populated and highly profitable areas like Tokyo and Osaka outperformed the JNR. The private railways did not only offer cheaper fares than JNR (about 50 percent to 60 percent less), but they also managed to diversify their business along their railway lines to include real estate, malls, tourism, among others. It was impossible for JNR to enter non-rail businesses because of the legal restrictions imposed on public corporations and the strong pressure from big business groups claiming that the public sector should not impair the interest of the private sector (Strzyzewska-Kaminska 1993: 511).

The JNR likewise failed to respond quickly to socioeconomic changes that resulted into the stagnation of its overall growth. Passengers shifted to air transport as more local airports were opened while the expansion of expressways and highway construction greatly encouraged the use of automobiles. Developments in the industrial structure diminished the demand for cargo transport. A growing number of industries had shifted to dealing with lighter and more compact goods than those that were produced during the era of traditional heavy industries.

Another source of JNR's fiscal troubles were superannuation program or pension benefits for the retired workers of JNR. The JNR was dispropotionately composed of older workers. After the Second World War, the government instructed JNR to hire a large group of war veterans and other Japanese who rendered services in railway companies of Japan's former colonies. This bulk of workers reached the retirement age at about the same time. By 1986, the budget for pensions and retirement allowances amounted to 4.9 trillion yen which meant that each JNR worker had to support 1.4 retired workers (Sando 1993: 35). Redundancy in JNR personnel also added to accelerating deficits.

Recommendations by the PCAR

After careful prognosis of the ills that plagued the JNR, the PCAR submitted drastic recommendations in 1982. The general philosophy of the reform measures were to grant the managerial autonomy and sense of responsibility in the operation of national railway system. The PCAR declared that a system of joint-stock company should be adopted as the new framework of operation to supplant the old system of public corporation. It was argued by the PCAR that the privatization of JNR would enhance efficiency in operations under the principle of profit seeking organization in the truest sense of the term. The PCAR also suggested that the reorganization of the JNR into a joint-stock company should be complemented with the division of the JNR's gigantic structure into seven smaller companies operating on a regional basis. The division of the JNR into regional companies was mainly intended to allow flexible decisionmaking and make railway services responsive to the needs of the local market and clients.

With respect to the liabilities of the JNR, the companies were to absorb only the portion that they can afford to pay based on their projected revenues. The rest of the deficits would remain in the successor company of the JNR or an authorized body. This company or body would acquire the JNR's landholdings and the shares issued by the new firms which would be sold to the public after they become marketable. The revenues that would be derived from the sale of the said assets would be utilized for the repayment of JNR's debts.

The PCAR likewise moved for the establishment of a body to develop a concrete program for implementing the division and privatization of the JNR and the liquidation of its assets and liabilities. Thus, the JNR Reform Commission (hereinafter referred to as the Commission) was created in June 1983 consisting of five members from JNR management, top executives in the private sector, and industrial relations experts. In order to make the newly established firms profitable and viable, the Commission focused on the following concerns: the repayment of long-term debt; safety nets for the redundant personnel; and concrete methods to divide the JNR. Two years after its inauguration, the Commission issued its final report in July 1985.

The Process and Contents of Reform

Emergency Measures. Before the JNR was transferred to a new system, both the PCAR and the Commission suggested several emergency measures to be executed in order to provide the new companies the best possible environment to start their operations. The measures included the enforcement of work discipline, suspension of hiring additional workers, personnel reduction, restriction of investments in facilities and equipment, streamlining of the freight transport, abolition of local lines, reexamination of the "free-pass" system, adjustment of train fares, review of the system allowing JNR employees to have simultaneous appointment in local assemblies, and increasing revenues by selling of assets (Ministry of Transport 1982: 27-28).

Management Structure. In April 1987, the JNR was split into six regional passenger railway companies and a nationwide cargo railway company. Following the recommendations of both the PCAR and the Commission, a system of joint-stock company was adopted. The entire stocks of these companies were to be temporarily owned by the national government through the JNR Settlement Corporation (SC), a provisional government-owned special corporation. The Bullet Train Systems Holding Corporation was also established to handle the bullet train operations before they were leased to the appropriate passenger railways companies. The immediate transfer of the bullet train systems to the new companies was considered impracticable due to the substantial gaps in capital investments and passenger volumes between routes (Tsukamoto 1991: 20). The SC was likewise organized to administer the disposition of JNR's accumulated deficits and the reemployment of redundant personnel.

Three additional organizations were also established, i.e., the Railway Telecommunications Co. Ltd. (RTC), the Railway Information System Co. Ltd. (RISC), and the Railway Technical Research Institute (RTRI). The RTC would be the nationwide telecommunications carrier which would lease microwave circuits and coaxial and fiber cables to the companies while the RISC were to be in-charge of JNR's computer systems and operations.

Division of the JNR. Railway operations on the mainland were split into three companies, namely, the East Japan Passenger Railway Company (JR East), the Central Japan Passenger Railway Company (JR Tokai), and West Japan Passenger Railway Company (JR West) with headquarters situated in Tokyo, Osaka and Nagoya, respectively. Railway operations on the other three islands of Hokkaido, Shikoku and Kyushu were given to independent firms called the Hokkaido Passenger Railway Company (JR Hokkaido), Shikoku Island Passenger Railway Company (JR Shikoku), and Kyushu Island Passenger Railway Company (JR Kyushu), respectively. The cargo transport firm was named the Japan Freight Railway Company (JR Freight) and was tasked to cover the nationwide transport network. The rails and other facilities would be owned by the passenger transport firms and leased to the cargo transport company.

The division of the JNR, however, would create disparities in revenues among the transport firms. For instance, the transport firms on the mainland would likely earn more profits in view of the greater number of passengers than those operating on the three islands with limited transport demand. In this regard, a handicap which is analogous to the game of golf was introduced on each firm in order to maintain a balance between the newly created firms. Under the handicap method, a certain portion the long-term debt of the JNR would be absorbed by the three larger passenger transport companies and the cargo firm. On the other hand, the three smaller passenger railway firms would inherit none of the liabilities. A special fund (The Three Islands Fund) amounting to 1.3 trillion yen was also allocated by the government to earn interest for the subsidy of the less profitable passenger railway companies on the three islands. Some of the local lines would be converted into bus service.

Repayment of the Long-Term Debts. The disposition of the JNR's accumulated deficits was the most pressing issue in the reform plan. In 1985, the total debt of the JNR reached 37.1 trillion yen and it was simply impossible for the new transport companies to succeed in their operations if they had to inherit the gargantuan amount of the liabilities. It was suggested that 11.6 trillion yen or 30 percent of the total debt would be absorbed by the three larger firms and that the remaining 25.5 trillion yen or 70 percent be transferred to the SC.

According to the reform plans, JR East, JR Tokai and JR West would inherit 33.0, 3.2 and 10.2 billion yen, respectively. The JR Freight was to absorb 0.9 billion yen while the Shinkansen Holding Corporation, the Japan

Telecommunication Co., Ltd., and Railway Information System Co., Ltd. absorbed 56.5, 0.4, and 0.2 billion yen, respectively.

The repayment of the debt absorbed by the SC would be made from the sale of land owned by the JNR and shares issued by the new firms which were expected to yield 58.0 and 6.0 billion yen, respectively. The land targeted for sale would be the parcels which would not be utilized by the cargo transport business. The stocks would be sold in stages depending on the financial conditions of new companies and the stock market situation. The reform plan envisaged that taxpayers' money would not be required for the repayment scheme. It was speculated, nonetheless, that the revenues from the sale of land and shares would fall short of the total debt and that the remaining amount would be inevitably borne by the taxpayers. A total of 16.7 trillion yen was expected to come from tax proceeds.

Redundant Personnel. The JNR had been criticized for overstaffing. In 1986, a year before the official implementation of the reform program, the JNR employed about 277,000 workers. In order to put the new railway firms on equal footing with their counterparts in the private sector in terms of operations costs and productivity, it was decided that only 184,000 or 66 percent of the former JNR manpower complement would be rehired and that the remaining 93,000 or 44 percent were considered redundant. The retrenchment of the redundant workers raised a very sensitive issue due to the practice of life-time employment system in Japan (under this system, a Japanese employee works with the same company until retirement - changing jobs is quite extraordinary).

Specific reform measures were, therefore, developed to deal with the 93,000 displaced workers which included the following:

(1) the introduction of a voluntary retirement program with severance pay (equivalent to 10 months' salary) in addition to the statutory retirement benefits to cover a total of 20,000 employees;

(2) the temporary transfer of about 41,000 workers to the JNR Settlement Corporation who would be provided with job training and placement assistance for a maximum period of three years; and

(3) the reestimation of staff requirements by the new firms to accommodate 32,000 workers.

Pursuant to the job placement plan for the displaced JNR personnel issued by the Cabinet, the Law on the Special Measures for the Promotion of Early Retirement and Displaced Workers of the JNR was enacted to take effect for three years until 31 March 1990. The law instructed the government to push for the reemployment of these workers in the public and private sectors. Under the government plan, out of the total 61,000 employees as stated in items 1 and 2 above, 21,000 would be absorbed by the JNR-related companies, 30,000 by the public sector (i.e., national government, government corporations, and local governments), and the remaining 10,000 by the private sector.

By the fiscal year of 1986, a total of 200,650 former JNR employees were hired by the new railway firms. It must be noted that reemployment efforts had actually taken place as early as 1985 with the establishment of the Headquarters for Measures for the Displaced Personnel. Under the direction of the Headuarters, every government ministry was prescribed a mandatory quota for hiring former JNR employees. Cooperation from the private sector in the hiring process was likewise achieved. As a result, there were only 7,630 who needed reemployment at the start of JNR's privatization in April 1987. These workers were absorbed by the SC and most of them found new employment opportunities through the SC's assistance programs. In April 1990, there were still 1,000 workers who were not able to find jobs, but they had to be finally dismissed when the Special Measures Law expired.

Legal Support. The reform measures required laborious efforts to pass through the Diet. The reform bills received strong support from the ruling Liberal Democratic Party (LDP), but the major opposition parties which were sympathetic to the radical unions of the JNR, such as the Japan Socialists Party (JSP) and Japan Communist Party (JCP), denounced the reform as an infringement on workers' rights and betrayal of public interest by selling state assets to a limited number of capitalists. After long deliberations, a total of eight laws including 400 legal articles were readied for the implementation of the recommendations (Kurono 1993: 53). The laws stipulated the specific guidelines on the following:

(1) disposition of JNR's long-term debt;

(2) provision of financial incentives for voluntary retirement;

(3) reform of the management structure;

(4) organization and management of the new railway companies;

(5) ownership and leasing procedures of the bullet train systems;

(6) structure and operation of an organization to deal with the liquidation of JNR's long-term liabilities and the reemployment of the retrenched workers after the reform;

(7) repeal of related laws concerning the reform;

(8) new regulatory framework of public and private railway business; and

(9) tax concessions for the new railway companies.

Evaluation of the Reform

Seven years have passed since the privatized railway firms were inaugurated and their business and financial performances indicate several positive consequences of the JNR reform. It has been noted that the privatization of the JNR has provided renewed organizational climate which could make prompt and appropriate responses to the actual needs of the clientele. Railway services have significantly improved as evidenced by the increase in the number of users (Management and Coordination Agency 1987). Railway facilities have become cleaner and better customer relations have been fostered. According to the opinion polls on railway users conducted by the Management and Coordination Office of the Prime Minister's Office, the number of respondents rating the services in the national railway as "leaving good impression" increased from 50.3 percent in 1986 (a year prior to the implementation of the reform) to 67.4 percent in 1988 (Tsukamoto 1991: 24).

The general trend in the domestic passenger transport, however, indicates a steady increase in transport by passenger cars even after privatization of the JNR. Out of the nationwide passenger volume in 1988, 43.68 billion persons or 59.69 percent used cars while those who patronized JR and private railways amounted to only 7.77 billion or 10.61 percent and 12.98 billion or 17.74 percent, respectively (Government of Japan 1989). In 1976, the number of passengers carried by cars, JNR(JR), and private railways were 18.68 billion or 40.01 percent, 7.18 billion or 15.38 percent, and 10.40 billion or 22.28 percent, respectively. The trend shown by passenger-kilometers by mode of transportation reveal similar patterns (Government of Japan 1989). The statistics indicate the decreasing demand for public transport, i.e., railways, buses and passenger boats. In terms of freight transport by mode of transportation, automobiles have maintained their strong position in the number of tons carried (Government of Japan 1989).

In the face of the aforementioned developments in the transportation patterns, the revitalization of the JNR, enabled the new firms to reshape their business strategies and attract new markets and clients. From 1987 to 1992, the new firms have recorded net profits in contrast to the yearly huge deficits incurred by the JNR (Management and Coordination Agency 1987). Whereas before the reform, the JNR received a yearly government subsidy amounting to 600 billion yen, the new companies are contributing a total of about 150 billion yen in taxes to the national coffers (Kurono 1993: 54). It is estimated that the new firms have contributed about 750 billion yen to the Japanese economy (Kurono 1993: 54).

There are, however, a number of issues that still have to be addressed. Although the aim of the JNR privatization was to convert the JNR public corporation into purely privately owned railway companies, ownership has not yet changed. Most of the shares of the new railway companies are still in the hands of the government-owned SC (Management and Coordination Agency 1987). Just as when the JR stocks were being readied for sale, the stock market situation became unfavorable due to brokerage and financial scandals that pulled down share prices. Furthermore, it was perceived that given the large volume of the JR stocks, their sale would have upset the market (Kurono1993: 54). As a result, the plan to sell JR stocks was abandoned in 1992. To date, only the stocks of the East, Central and West Japan Railway Companies have been up for qualification in the stock market. However, only 2.5 million out of the 4 million shares of the East Japan Railway Company have been sold. It is observed that it might take some time before the JR firms to become private in both management and ownership.

The government is firm in maintaining that privatization should proceed in line with economic principles wherein the sale of stocks would not be forcibly executed to simply expedite privatization (Kurono 1993: 54). In the same fashion, the sale of JNR land has been limited by the government to avoid further aggravation of soaring urban land prices. Between 1987 and 1992, 3,917 has. or 44.5 percent of the total 8,808 has. land transferred to the JNR SC have been sold (Management and Coordination Agency 1987). It is estimated that the revenues made from the sale of properties were insufficient even to cover the yearly interest payments amounting to 1.3 trillion yen. With respect to tax proceeds, the government is yet to decide how to raise the necessary revenues amounting to 16.7 trillion yen. As of the beginning of the 1992 fiscal year, the total debt of the JNR SC increased to 26.4 trillion yen (Management Coordination Agency 1987). In this regard, the reimbursement of the total accumulated deficits of JNR transferred to the SC has not proceeded as smoothly as planned. Unless these issues related to ownership and debt management are settled, it cannot be claimed that the JNR reform has been fully accomplished.

Several arguments have also been raised against official reports asserting the positive consequences of the JNR reform. First, the overall profits of the JR group should not be taken at face value because such became possible due to the absorption of most of the JNR debt by the SC (Strzyzewska-Kaminska 1993: 518; Sasaki 1989: 7). Second, the three smaller railway companies - Hokkaido, Shikoku and Kyushu - have actually made losses, but the profits of interest from the 1.3 trillion yen Three Island Fund have been incorporated in their non-operating profit balances. Third, the user charges paid by the JR Freight to the passenger railway companies of the JR group have been politically settled at a low level which somehow distorts the net profits reported (Strzyzewska-Kaminska 1993: 518; Abe 1990: 9). Hence, the JR group is in the black because of the special treatment it receives from the government.

Complaints of unfair labor practices arising from the JNR reform have been filed before the Central Labor Relations Commission awaiting settlement. When the plans to privatize the JNR were disclosed in 1985, the government encountered tough opposition from the trade unions. There were three major unions in the former JNR, namely, the *Kokuro* (National Railway Workers' Union), *Doro* (Nihon National Railway Motive Power Union), and *Tetsuro* (Japan Railways Workers' Union). The *Kokuro* and *Doro* were affiliated with Sohyo (General Council of Trade Unions in Japan) which advocated a Marxist ideology of class struggle.

The Kokuro, one of the central unions that led Japan's postwar labor movement, had 68 percent membership while Doro had 13 percent. Both were opposed to privatization because they believed that it could lead to termination of workers and deterioration of working conditions. The Tetsuro, on the other hand, accounted for 17 percent membership and accepted the reform in principle. Overall, about 80 percent of union members were against privatization and in certain instances strikes and sabotage of railway operations were staged by some radical members.

In the course of long and complicated negotiations between the government and the unions, public opinion moved in favor of the proposed reform of the JNR. It became very clear then that the public also wanted efficient and quality railway services. Influenced by this development, Doro which was considered to be the most militant group, changed its policy stand and forged a pro-reform alliance with Tetsuro. The strength of Kokuro eventually weakened after 75 percent of its members dropped out and joined the newly merged union. It is said that JNR authorities made it a precondition to rehire Kokuro members only after they gave up their union membership with Kokuro (Abe 1990: 13). Hence, the Kokuro is the major casualty of the JNR reform and whether intentional or not on the part of the government, its collapse highlights one of the most important consequences of privatization (Schregle 1993: 22-23).

As mentioned earlier, there were 7,630 JNR employees who needed reemployment in April 1987 and they were absorbed and given job training by the SC. Out of this number, 63 percent or 4,810 were Kokuro members (Strzyzewska-Kaminska 1993: 521). After the reemployment promotion law expired in April 1990, about 1,000 workers were not able to obtain any jobs and 986 or 98 percent of them were Kokuro members. Most of these workers are residents of Hokkaido and Kyushu (Strzyzewska-Kaminska 1993: 521).

The Kokuro argues that the privatization of the JNR has led the railway business to emphasize more profit-seeking goals than public welfare. After the privatization, JR has concentrated most of its improvement efforts in urban areas and trimmed down services in the rural areas in addition to the elimination of some unprofitable lines. This situation has a negative effect on promoting balanced regional development and improving the local economy. According to Kokuro, working conditions have deteriorated. Working hours became longer, paid vacations were reduced, additional work assignments were imposed, among others (Abe 1990:13). The increase in railway accidents particularly in the provincial areas has been attributed to the lack of consciousness to ensure proper safety by the profit-seeking JR and the negligence of management to rationalize labor conditions. This claim, nonetheless, is challenged by the statistics showing that the average number of accidents per year has actually decreased after privatization (Management and Coordination Agency 1987).

The reform of the JNR presents an interesting and unique case in privatization. Privatization of public corporations in Japan has been implemented as part of a comprehensive administrative reform program aimed at rationalizing the entire government machinery and to make the national economy more flexible and competitive in the face of socioeconomic changes. The implementation of privatization in itself is a success because it was able to overcome a number of barriers common to many countries in carrying out privatization.

The reform program was able to get the support of the political system. This is amazing to note because it was the same political system which was one of the major causes of the failure of many public corporations. The limited autonomy allowed to the JNR (as well as in the case of other public corporations) was largely shaped by what the political system deemed as appropriate to the extent that the status and power of the controlling policy actors would be preserved. The case of the JNR fits Allende's characterization of public corporations as "politico-economic organizations" and "practical class instruments" used by the dominant groups to serve their vested interests (Allende 1988: 147-163). It was actually possible to solve many of the JNR's administrative ills without privatization, e.g., expansion and diversification of JNR activities, relaxation of government restrictions, and division of the JNR. There were indeed several attempts to reform JNR prior to the privatization, but most were ineffective due to lack of support from the status quo - within and without JNR. The concept of privatization and its popularity as a policy tool worldwide provided a conducive climate for Japan to introduce reforms in the face of increasing public discontent on government service and economic difficulties.

The incorporation of privatization program in the PCAR recommendations was an ingenious move since it matched not only the urgency and necessity of improving public administration but the public mood as well. Although, privatization normally involves the transfer of public functions and activities to the private sector, it does not necessarily mean the reduction of government role in Japan. Privatization to a certain extent may serve as an instrument by the ruling groups to avoid the diminution of their status and power. In cases wherein privatization could show positive results, the national leadership could be given the credit as a government that pays attention to legitimate concerns of the people and is sincere in bringing about the desired - a very good public relations strategy that could boost their political images and redeem their waning credibility in running the affairs of the state. Privatization carries its political rewards as well as risks and just as much it is a political exercise, its success depends on the political commitment of a nation.

The political leadership of Japan demonstrated its firm resolve on privatization. Despite the various objections raised by the critics, the Prime Minister of the time positioned the reorganization of JNR as the symbol of the administrative reform initiative and gave full support to the recommendations of the PCAR. Administrative reform was accorded a top-priority in the national agenda. The commitment of the political leadership was further put into test when the forces of the opposition intensified in blocking the subsequent recommendations of the JNR Reform Commission on the practical measures and the drafting of relevant laws.

Since the reform measures involved changes in the status quo, resistance from the beneficiaries of the existing order of the JNR was inevitable. The elimination of local railway lines with low passenger demands was opposed by the users of the lines and the towns and villages located along the lines, not to mention the politicians who sponsored the construction of these lines. The labor unions supported by the leftist parties in the parliament disputed personnel reduction plans and the principles advanced by the privatization turning the workplaces, the parliamentary floors and the mass media as the battlefields. The management of the JNR was also divided on the merits of privatization. The objections raised against privatization precipitated in moral, political and ideological issues that found considerable support in various sectors of the society.

As these developed, the government maintained its staunch position and even allowed the reform of the JNR to be publicly debated. The mass media played an important role in mobilizing public support to the reform. While the overall framework of the administrative reform program outlined by the PCAR received extensive reporting by the press, the media coverage accorded to the subject of JNR's reform was more remarkable (Tsukamoto 1991: 32). The operations of the JNR Reform Commission, the preparatory efforts by the government for the smooth transition to the new system of national railways, and every turn of events including the reactions of parties involved were reported in detail by the media. A number of Japanese dailies and magazines released a series of articles exposing the deterioration of work discipline, corruption, sabotage of railway operations by radical union members, among others, elicited angry reactions among the readers and drew public opinion away from the JNR workers.

For instance, the *Yomiuri Shimbun* published in April 1987 the results of an opinion survey it conducted involving 3,000 respondents about certain issues related to the JNR (See Kato 1987). Asked about their impression of JNR workers, 52 percent of the respondents perceive JNR workers as having unenthusiastic attitude towards their work while only 18 percent claim-otherwise. Regarding the problem of JNR deficits, 50 percent attribute it to overstaffing while 36 percent mentioned the increase of motor vehicle transport. On the issue of JNR's management structure, 16 percent were in favor of the status quo while 22 percent endorsed the division of JNR into several regional networks to be administered by smaller public corporations or other special bodies to be established. About 42 percent support the division of JNR and the subsequent turnover of its management to the private sector. In another article, the April 1987 issue of *Bungei Shunju* released an exposé by Taro Yayama on the deterioration and inefficiency of the JNR (See Kato 1987). Yayama pointed out cases of irresponsibility by JNR executives and how the workers were beguiled by their labor union leaders. In 1987, Kato estimated that only ten percent of the Japanese were opposed to the privatization of JNR.

The JNR experience also displays the importance of finding a role model that can provide valuable knowledge and expertise in managing private firms. The private railway companies in Japan were used as the model and their corporate structure and operations became useful pointers in privatizing the JNR. In addition to this, individuals with rich experience and background in corporate management were invited to run the privatized firms. Extra measures were also undertaken by the government to help the new firms in its initial period of operation.

The establishment of a special fund for financial support and the introduction of the handicap method were intended to lighten the financial burden on the new firms. It was very clear to the government that the three smaller JR passenger companies would be economically unviable. In this respect, the government decided to grant these three companies with a special fund on which the interest gained would be able to cover the annual deficits. As such, the yearly financial balance of these three companies include the interest revenue on the special fund. This one-time lump-sum grant is preferable to subsidizing losses every year (Okano 1990: 156). Furthermore, the three larger railway firms on the mainland and the freight company which were expected to generate good profits were asked to take over a certain portion of the deficits left by the JNR. Whatever deficits the new firms could not shoulder were absorbed by the SC.

The relationship between the SC and the new railway firms exemplifies the principal-agent theory advanced by Vickers and Yarrow (Okano 1990: 152-153; See Vickers and Yarrow 1989: 9-11). The principal-agent presupposes the existence of a principal and an agent, e.g., the owner and the manager of a firm. The principal wants to induce the agent to act in his (the principal's) interests, but he is prevented from successfully controlling the agent's behavior because he does not have full information about the circumstances surrounding the agent (Vickers and Yarrow 1989: 9-11; Also Vickers and Yarrow 1991: 111-132). The situation leads the principal to devise an optimal incentive scheme for the agent in order for the latter to behave in a way that would more or less be beneficial to the former's objectives. In a nutshell, the principal-agent model addresses the problem of information and incentives as related to privately-owned firms.

Using the model advanced by Vickers and Yarrow, the SC which owns the stocks of the privatized firms serves as the principal representing the government with the newly established railway companies as the agents. By all means the government through the SC would want the agents to show positive results for certain important reasons. The reform of the JNR was a pilot program of the government's privatization efforts and its failure would have further aggravated the already weakening stature of the political leadership. The new companies also need to demonstrate their financial viability in order for their stocks to be sold at the highest possible prices in the open market. Furthermore, the successful repayment of the JNR deficits would be detrimental to revenues earned by the new firms.

Under the present system, the principal is prevented from directly intervening in the affairs of the agents by virtue of privatization and the abolition of parliamentary and government controls. The government has nonetheless prepared a system of special measures and incentives by which the agents could be provided with the most favorable and attractive climate to efficiently and effectively manage the railway business. The relaxation of regulations has enabled new companies to diversify and adopt new business strategies.

The privatization of the JNR also provides a brilliant example of coping with the displaced employees. Before the JNR was privatized, the government had prepared a detailed plan of how to reemploy redundant employees. Out of the huge number of JNR personnel which totalled 277,000, only 7,630 or two percent needed to find jobs when the privatization took effect in 1987 (Management and Coordination Agency 1987). The SC employed these workers temporarily and extended them vocational training and job placement assistance. With most of the former JNR employees being assured of jobs after the reform, doubts on job security raised by the radical unions considerably weakened paving the way for smooth implementation of privatization. The relocation of JNR workers was not treated as matter for the JNR or the privatized firms to tackle, but as a national concern. Serious efforts were made to solicit the support and cooperation of private businesses and other public bodies in the reemployment of former JNR employees.

Conclusion

In Japan, privatization as a policy option was carried out in response to a growing public concern about "government failure." While public enterprises were initially adopted by government to correct "market failures," the proliferation of public enterprises, not only in numbers but also in the scope of their intrusion into the private sector domain led to huge financial losses.

Privatization as a tool of administrative reform was undertaken by the government of Japan in response to initially perceived problems.

Regardless of the source of policy influence or initiative, the mechanisms were similar. Japan created a Provisional Commission on Administrative Reform (PCAR) to oversee the privatization effort.

The case on privatization of Japan National Railways (JNR) illustrates contesting experiences in finding role models. Japan used the private railway companies as a model for JNR. Japan provided a special fund to lighten the burden on the new firms to which JNR was privatized.

Apparently, the privatization of JNR has resulted not only in helping reduce the burden of government in subsidizing unprofitable corporate operations. It has also resulted in marked improvements in the quality of services.

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Appendix 1

Types of Public Corporations in Japan

Classification by Name

Kosha. The three giant public corporations which were privatized belonged to this category — the Japan National Railways, the Japan Tobacco and Salt Public Corporation, and the Nippon Telegraph and Telephone Public Corporation. During the prewar period, these corporations were directly run by the government and financed by special accounts. After the war, they were established as independent organizations fully financed by the government. Their budgets and financial accounts were subject to scrutiny and approval of the Diet. Employees of these corporations were given the right to collective bargaining, but not the right to strike (unlike employees of other corporations).

Kodan. These corporations are tasked with the implementation of public works such as the construction of roads and airports and the development of water resources and forest roads. They are mainly financed through capital investment and loans by the national government or local public entities.

Jigyodan. Corporations in this category are smaller in size than the *kodan.* The *jigyodan* are responsible for implementing social policy programs concerning welfare and employment, industrial policy programs for the development of agriculture, small and medium-size enterprises, etc. In addition, they carry out policy programs for technology development and technical cooperation overseas. The *jigyodan* are financed differently. Some derive capital resources from the national government while others get theirs from local public entities or private investments.

Koko. These are financial corporations fully financed by the national government. They augment the operation of commercial finance institutions by financing special projects in agro-forest activities, fishing industries, small and medium-sized businesses and housing construction at policy-oriented interest rates. As in the case of *kosha,* the Diet controls the budget and final accounts of the *koko.*

Ginko. These are similar to *koko* in the sense that they also serve as supplementary corporations to private financial institutions. They are likewise fully financed by the national government and their budgets and final accounts are subject to the approval of the Diet. The *ginko,* nonetheless have more autonomy and function more as a commercial bank than the *koko.* For instance, business plans and operational procedures of the *ginko* may be carried out without the approval of competent ministers. In addition, the *ginko* are allowed to keep internal reserves such as legal reserves.

Kinko. Corporations in this category are established to provide financial support to cooperatives. They enjoy a relatively high degree of autonomy in their operations and in the preparation of their business plans and budgets. They issue bonds to be used as sources for loans to cooperatives. The *kinko* hardly receives any financial aid from the national government.

Eidan. The only corporation under this category is the Teito Rapid Transit Authority.

Tokushu-gaisha (Special Companies). These companies are mainly joint-stock corporations which provide services in the fields of air transportation, electric power generation, international electronic communication, and investment for small and medium-sized enterprises. Some receive capital and loans directly from the national government, some directly, and some receive no aid. The *tokushu-gaisha* also maintain strong autonomy from the government. They are nonetheless regulated by certain legal provisions of government control.

Others. Corporations in this category have names like *kenkyusho* (research institute), *kumiai/Kyokai* (association), *shinkokai* (promotion society), and *kikin* (foundation). They are engaged in research, mutual benefit payments, and related services to workers in certain occupational areas, maintenance of facilities, inspection and authorization, management of public races, insurance of loans, etc. Their sources of capital and the extent of government control vary according to the type of business.

Classification by Function

Public Service-Oriented Corporations. These organizations provide service in the fields of transportation, telecommunications and broadcasting. The JNR, NTT, Kokusai Denshin Denwa Co., Nippon Hoso Kyokai (Japan Broadcasting Corporation), and Japan Airlines Co., Ltd. belong in this category.

Public Works. The public corporations called *Kodan* belong to this group.

Loans and Insurance of Loan and Investment. In this category are the *koko, ginko* and *kinko.* Majority of these corporations finance specific activities at discounted rate of interest. The national government finances these corporations and grants interest subsidies.

Inspection and Authorization. Corporations in charge of the inspection of facilities for high-pressure gas safety and the authorization of electrical instruments and fire-fighting apparatus are grouped into this category.

Establishment and Management of Public Facilities. Classified into this category are corporations in charge of the management of National Stadiums or National Theaters.

Financing and Services for Subscribers of Public Annuities. Included in this category are *jigyodan*, which implement finance or welfare promotion programs such as loans and recreational facilities for subscribers to public annuities and insurance by using reserve funds.

Mutual Aid and Annuities. Mutual benefit associations providing casualty, retirement, and annuity benefits to private school teachers, employees of agriculture, forestry and fishery organizations and small and medium-sized enterprises, and other such groups are classified here.

Commodity Price Control. Jigyodan responsible for commodity sales and storage for the stabilization of livestock, sugar and silk prices are in this category.

Management of Racing. Classified here are corporations which manage horse, boat and bicycle racing.

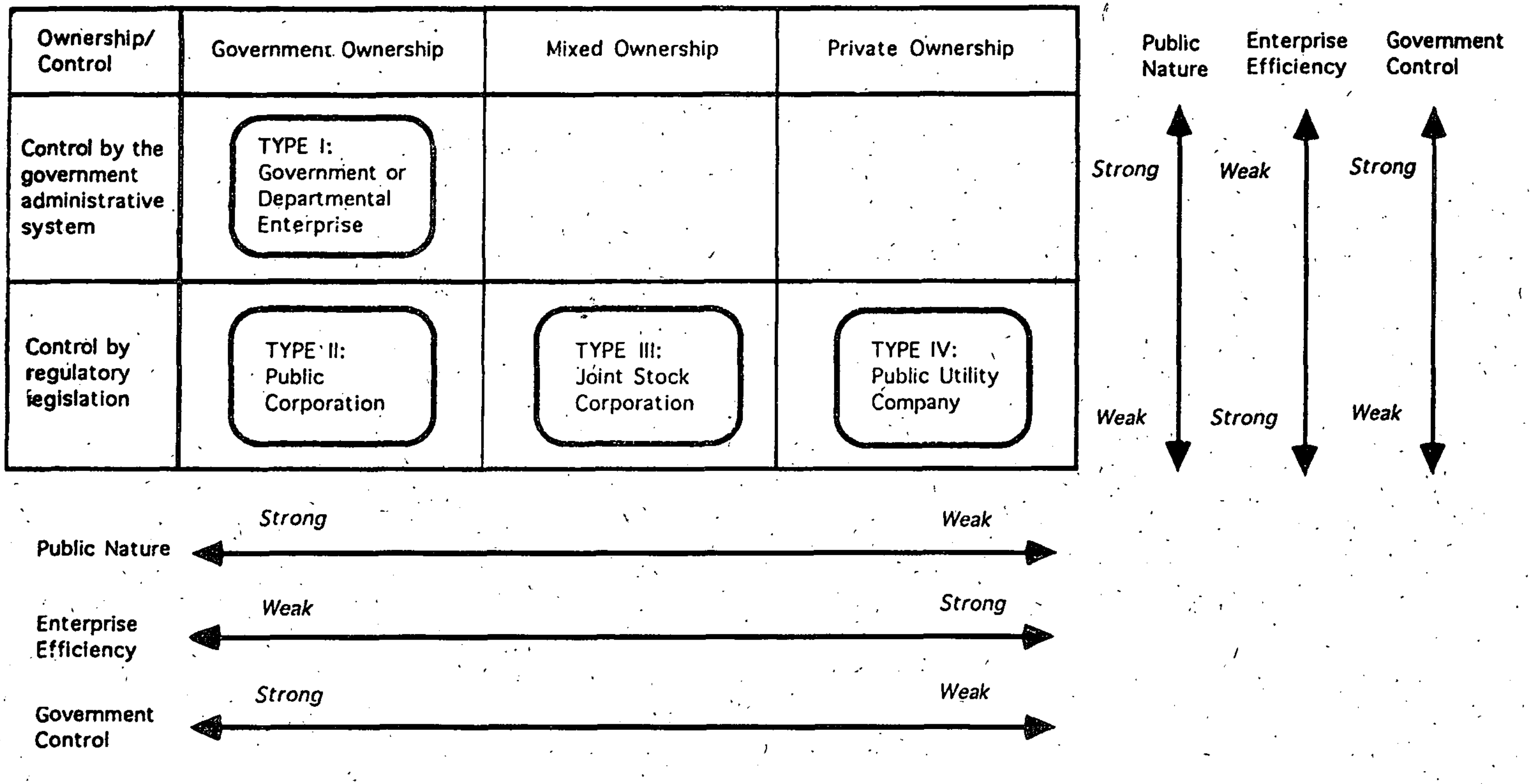
Development and Research. Corporations for research from an impartial standpoint or for advanced technological development which cannot be carried out by private enterprises are in this category.

Promotion and Aid. Classified here are corporations carrying out international technological cooperation and promotion of academic activities, trade, and tourism, with financial aid from the national government.

Others. Classified here are corporations which manage the collection and payment of fees for medical treatment, etc. An example is the one entrusted with the payment of medical treatment fees from insured persons, and with implementing the payment and inspection of bills for treatment at medical institutions.

Appendix 2

Types of Public Corporations



Ownership/ Control	Government Ownership	Mixed Ownership	Private Ownership
Control by the government administrative system	TYPE I: Government or Departmental Enterprise		
Control by regulatory legislation	TYPE II: Public Corporation	TYPE III: Joint Stock Corporation	TYPE IV: Public Utility Company

Source: Sato 1985: 112