Outcome of the Privatisation of the Japanese National Railways

by Mitsuhide Imashiro

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1. Introduction

We are now in the third year since the break-up/privatisation of the JNR (Japanese National Railways), which took place in April 1987. The newly-formed Japan Railway (JR) companies have, with the help provided by a period of economic prosperity, been able to record better-than-predicted results. The only previous example of a country privatising a national railway system plagued by debt is that of Chile, and many countries will be observing the current success of the privatisation of the JNR with considerable interest.

In this paper I attempt to clarify which of the problems that troubled the JNR have been solved, and those which still have to be resolved, Privatisation itself has created new problems, and I discuss how these might be resolved. To do this, an accurate understanding of the original privatisation policy and its method of implementation is required. The stage the process has reached at present is that the JNR has been converted from a public corporation to a limited company, the stock of which is owned completely by the JNR Settlement Corporation, a public company. From the point of view of ownership, therefore, the JR companies are still public enterprises.

The privatisation process will be completed during the next year or two with the flotation of their shares.

This is the second research paper I have written on this subject, the first — Restructuring of JNR and Its Problems (Daito Bunka University Institute of Business Research Paper No.5, March 1988) — was published when the form privatisation would take had been settled upon. I suggest these two papers be read in tandem.

2. The Financial Structure of the JNR

The way in which the JNR would be broken up/privatised, the'Basic Policy for the Reform of the JNR' and its timing, were decided at Cabinet Meeting held in October 1985. This Cabinet decision was based upon a report produced by the JNR Restructuring Supervisory Committee entitled 'Opinion on the Restructuring of the JNR' produced three months earlier, in July 1985. The supervisory committee consisted of five committee members and office staff. It was established in June 1983, according to the law, under the auspices of the Prime Minister's Office. There were no JNR representatives on the committee, and it was independent of the JNR. The committee members and the office staff were either people who had been involved in the 'Second Special Government Inspection Group', or civil servants from the office within the Ministry of Transport which supervised the JNR.

Having completed its investigations, the committee presented its 'opinion' to the Prime Minister. It included their ideas on how the railways should be managed, how the long-term debts should be paid off, and recommended that it should be done with all possible speed. The Prime Minister respected their opinion, and was obliged to implement their proposed policy. The committee had considerable authority over the JNR and also with the government; it had the right to give 'recommendations' (although recommendations sounds weak in translation, they carry a considerable amount of authority) , and to make pronouncements regarding the JNR budget.

At first the JNR were very reluctant to cooperate with the committee. The committee announced their policy of breaking up and privatising the JNR in August 1984. The JNR Management's retort was to publish, in January 1985, their own 'Basic Plan for the Restructuring of the JNR', in which they proposed that it should not be broken up, and that privatisation should be a much more gradual process. The response of Prime Minister Nakasone was to remonve, in June 1985, all the top management of the JNR, including the President, who was replaced by a civil servant from the Ministry of Transport. After this, progress towards reform was rapid. In the following month, July, the committee published their 'opinion', from which point it could be said that the reform of the JNR had begun in earnest. The financial results of the reforms became apparent in the figures for 1986.

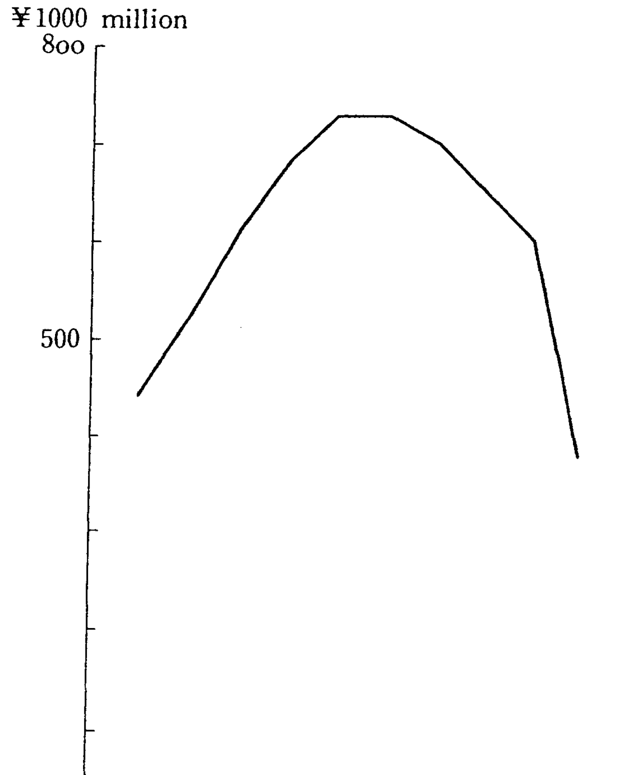
The eight laws necessary for the reforms were passed in December 1986. By this stage, however, the reforms were actually already under way; once the governmnet (the Cabinet) had made their decision it was not felt necessary to wait for the Diet's endorsement. I think it is fair to say that preparations were made in the latter part of 1985, implementation began during 1986, and management was delegated to the new companies in 1987.

Looking at the JNR's last ten years, we find that although there was a slight fall in 1982 the number of passenger kilometres remained steady at just under two hundred billion for the whole of the period. The breakdown for the different sectors within the National railway system, however, reveals that the situation was changing. The numbers of passengers on the Shinkansen lines was increasing, the numbers excluding season ticket holders on other (ie. not Shinkansen) lines was decreasing, and the number of season ticket holders (ie. commuters) was gradually increasing. During these ten years fares were raised every vear except 1977 and 1983, with an average increase of 6.7% over the previous years. In 1985, for the first time, the combined revenue from Shinkansen lines was greater than from the combined revenue from other lines (excluding the revenue from season tickets for the latter). From 1979 onwards the amount of freight carried by the National railways decreased rapidly, halving in the space of seven years This was because they reduced the number of 'complete wagon load goods' (which are costly to transport), although container freight was increasing. The revenue from freight has decreased sharply; it represented a mere 5.4% of the revenue from passenger services in 1986 (and has stayed about the same since). A breakdown of sources of revenue shows that 84% was from passenger fares, 4.6% from freight, 6.2% was miscellaneous revenues, and 5.2% was from grants. Miscellaneous revenue has increased rapidly as more shops and restaurants are run by the railways, but it remains a small amount in relation to the total.

The type of grants involved were the 'grant in support of operations', the 'grant for construction costs', and the 'special account grant', the special account being an account created in 1976 because of the severe pressure the JNR was under as a result of its long-term debts. The payment of a part of the long-term debts was deferred, and the government grant was used to pay the interest on it. This step was taken again in 1980. About half of the total grant received was used for the special account, the majority of the remainder to subsidise the profit and loss account, and very little went into the capital account. The profit and loss subsidies were for the cost of repairs, for provincial services, and for special retirement allowances. As can be seen in Fig.1, the total amount of the grant decreased from 1981 onwards.

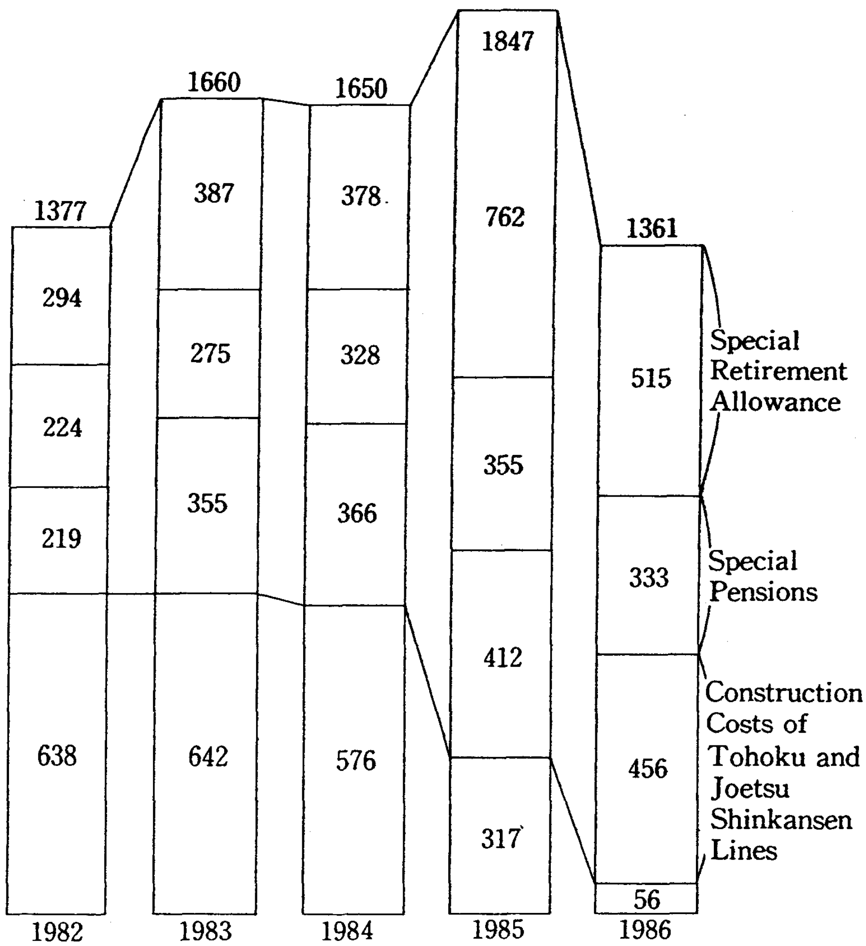
Fig.2 shows fluctuations in net losses. The total had decreased significant-

Fig.1 Fluctuations in the Amount of Grants to the JNR[1]



ly by 1986, clearly feflecting improved management practices. 'General losses' improved in real terms from 1984 onwards. By 'general losses' we mean the remainder after the losses incurred as a result of factors for which the JNR was not deemed responsible (payment of special retirement allowances, special pensions, and the construction costs of the Tohoku and Joetsu Shinkansen lines) were subtracted from net losses. The special retirement allowances and special pensions were payments to railway workers from Japan's former colonies who had been brought over to work for the JNR after the World War II. This had been national policy, so that it is not deemed the responsibility of the JNR; private companies also brought workers over from the colonies. The government had refused to let the JNR set up a 'reserve fund retirement allowances' for these people, so the responsibility for these costs in indeed the government's. As for the construction of the Tohoku and Joetsu Shinkansen lines, the government

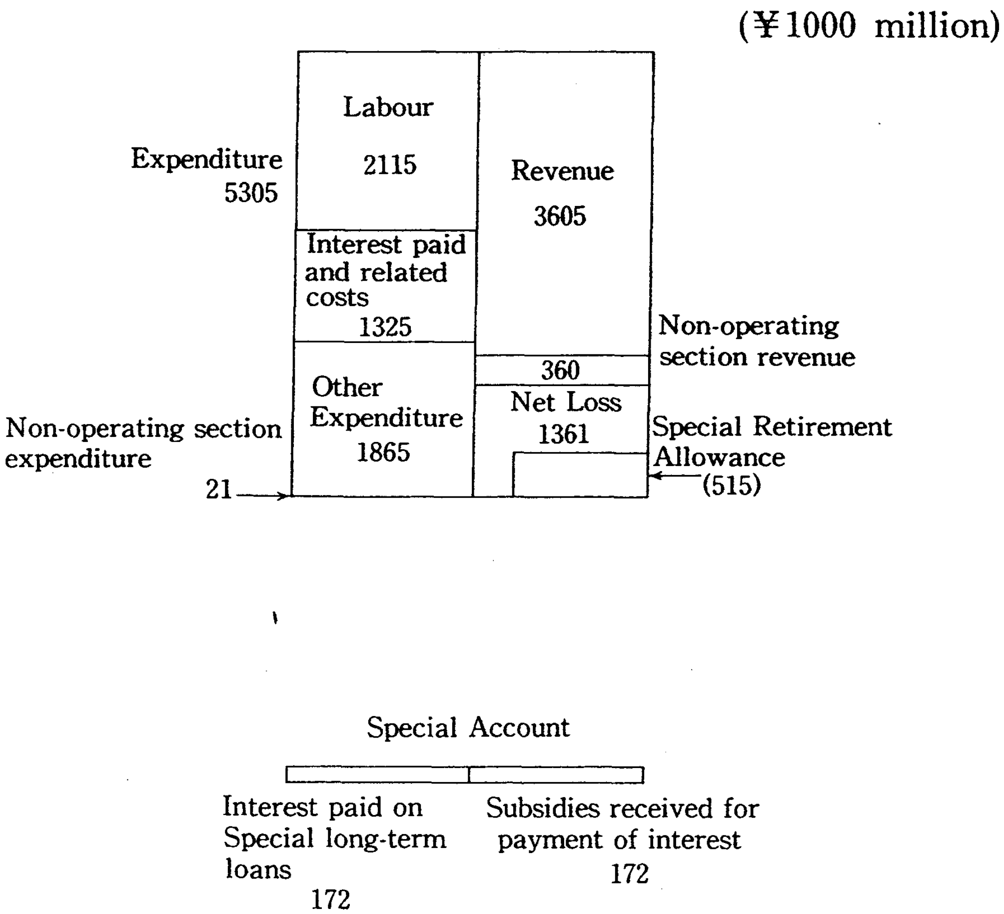
Fig.2 Net Losses 1982-6
(Unit : ¥1000 million)



recognized that the burden would be too great for the JNR, and stated that the JNR would not be responsible for them.

With these substracted, the accounts for the JNR's final year, 1986, show a considerable improvement. Fig.3 shows a simplified Profit and Loss Statement for that year. The special account grant has already decreased. The ratio of labour costs to revenue has decreased to 58.7%, reflecting the improvement in the structure of the JNR. However the ratio of interest payments to revenue is high, at 36.8%, and the most pressing task at this time was to free the railways from the pressure of interest payments. The government, however, was not prepared to defer payment of these debts as in the past. Their intention was to have them paid doff in conjunction with the privatisation process.

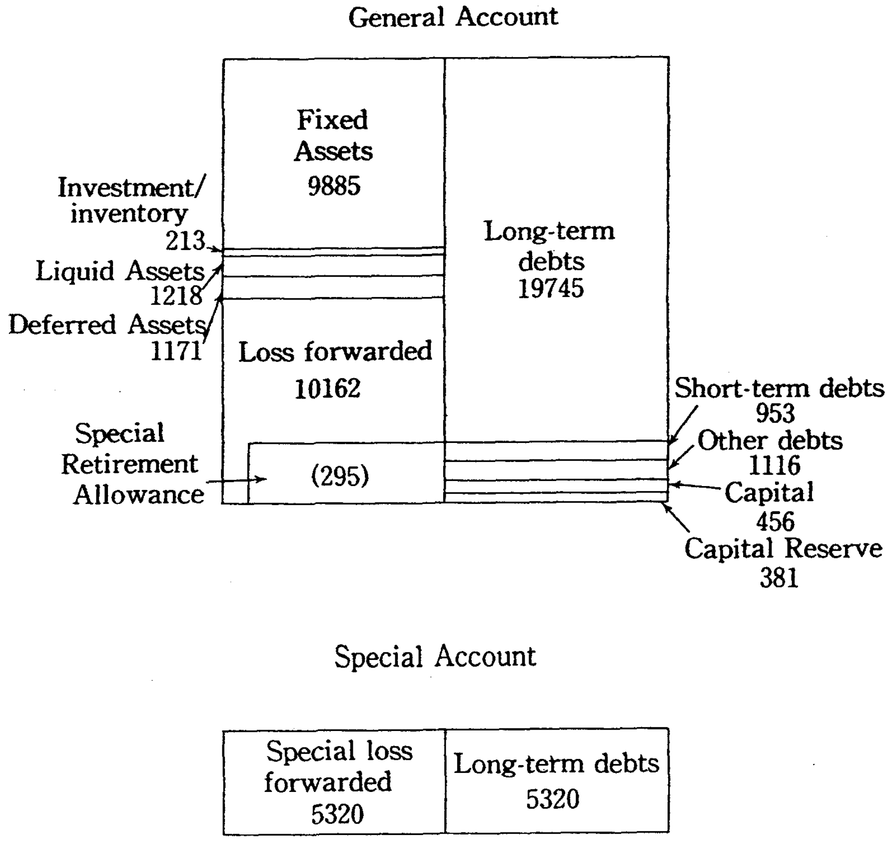
Fig.3 The Final Profit and loss Statement of the JNR (April 1st 1986-March 31st 1987)



The reason that interest payments had become such a burden was that the JNR was severely restricted in its menas of raising capital, and came to be extremely dependent upon long-term loans. Fig.4 shows the liquidation balance sheet for the JNR's final year. We can see that the long-term debts are virtually equivalent to the combined total for the fixed assets and loss forwarded. Long-term debts accounted for a staggering 82.7% of the total debts/capital. The figure for long-term debts with the special account included was 25 billion yen. Next I will discuss how they were to be paid of.

Fig.4 Linquidation Balance Sheet for the JNR (March 31st 1987)

(¥1000 million)



3. Payment of Debts through Privatisation

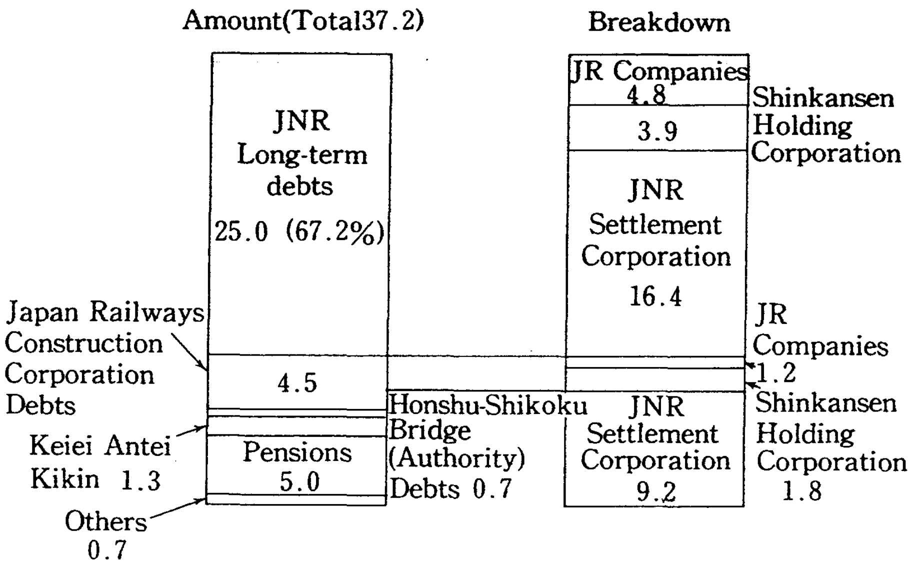
Long-term debts amounted to ¥25 billion, but the total amount of debts which had to be repaid was calculated to be ¥37.2 billion. A breakdown of the extra twelve bellion is shown in Fig.5. The debts of the Japan Railways Construction Corporation and the Honshu-Shikoku Construction Corporation were included, because the costs of the projects involved (such as the Aomori-Hakodate Tunnel and the Honshu-Shikoku Bridge) would normally be borne by the National Railways.

The *Keiei Antei Kikin* (literally Management Stability Fund) is a fund set up to support the running of passenger services on the three islands of Hokkaido, Shikoku, and Kyushu, because the passenger lines there all ran at a loss. It was therefore decided that the interest from the fund should be used to meet the anticipated losses.

The expenditure on pensions, ¥5 billion, almost all of which is to meet the shortfall in accumulated pensions (the rest is to cover the expenses involved in finding employment for the JNR staff who were not taken on by the JR companies, or for the JNR Settlement Corporation) is not an enormous amount.

Let us look again at Fig.5, this time concentrating on who is to shoulder

Fig.5 Breakdown of Burden of Long-term Debts (Unit : ¥billion)

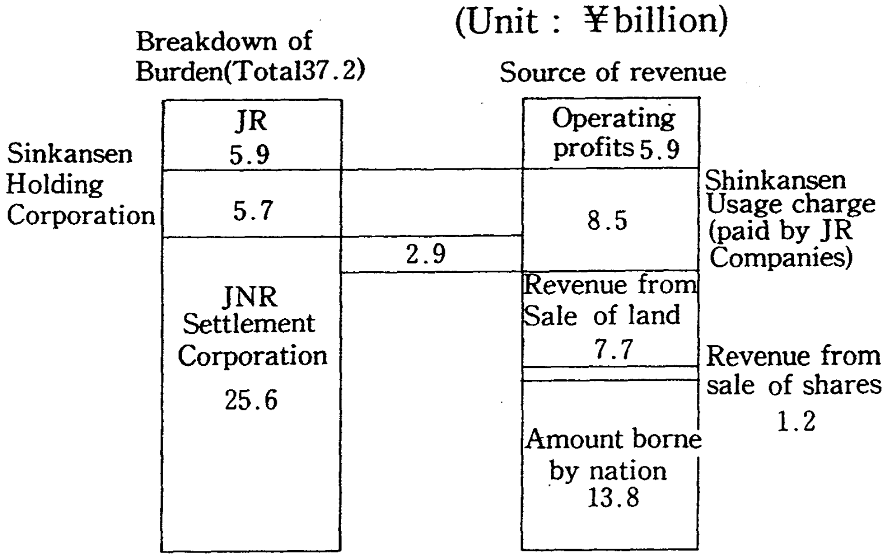


the debts. The three island JR companies, (Hokkaido, Shikoku, and Kyushu) will not take over any of the debts. They will be shared by the Honshu JR companies. It was calculated that the latter would be able to operate smoothly with debts in the order of ¥4.8 billion, the amount of long-term debt they have taken over from the JNR. They will also pay the sum of ¥1.2 billion to the Japan Railways Construction Corporation for the use of their facilities, which will be used to repay the debts of the Corporation, so that they will actually have direct debts of ¥5.9 billion. The Shinkansen Holding Corporation took over ¥3.9 billion of the JNR's debts, the book value of the Tokaido, Sanyo, and Tohoku shinkansen lines' assets, as well as the Japan Railways Construction Corporation's ¥1.8 billion debt for the Joetsu Shinkansen line. All the remaining debts, a total of ¥25.6 billion, were to be taken over by the JNR Settlement Corporation. To give some idea of the enormity of this latter figure, it is equal to the combined debts of the world's two leading debtor countries, Brazil and Mexico, in 1987.[1]

Thus the debts were to be inherited by the Honshu JR companies, the Shinkansen Holding Corporation, and the JNR Settlement Corporation, but we must move on to Fig.6 to see precisely where the revenue to pay them off was to come from. The Honshu JR companies' share, ¥5.9 billion, will all be paid off from running profits. The source of revenue for the Shinkan-

Fig.6 Sources of Revenue for Payment of Long-term Debts

(Unit : ¥billion)



sen Holding Corporation's ¥5.7 billion debts will be the charges to the three Honshu JR companies for the use of the Shinkansen lines. You will notice from Fig.6 that these charges amount to ¥8.5 billion, in other words ¥2.9 billion more than the Corporation's debts. This is because the ¥3.9 billion debts inherited from the JNR for the Tokaido, Sanyo, and Tohoku Shinkansen lines was calculated at book value, but if they are calculated at current replacement cost the figure increases by ¥2.9 billion. In other words the Shinkansen lines are being loaned to the JR companies at current replacement cost, but the debts will be repaid at book value. Part of the extra revenue will be channelled, via the JNR Settlement Corporation, to the *Keiei Antei Kikin* which supports the operations of the three island JR companies.[2] Thus the profits from the Honshu Shinkansen lines will be used to stabilise the loss-making railways of Hokkaido, Shikoku, and Kyushu. The JR group of companies' main source of revenue will be the Shinkansen lines. I believe that further discussions are needed regarding whether it is really appropriate to finance the fund from the profits of the Shinkansen lines, but this is outside the scope of this paper.

As well as the above-mentioned ¥2.9 billion for the loan of the Shinkansen lines, the JNR Settlement Corporation will obtain revenue to pay off its share of the debts from sales of land and shares. It will sell the 8180 hectares (13% of the total) of land it inherited from the JNR (The JR companies received only the minimun amount of land necessary for them to operate their railway services). The Corporation currently holds all the shares in the JR companies. After the flotation it will sell all of them. This flotation is currently the major target of both the JNR Settlement Corporation and the JR companies. Also the Corporation will sell to the government its holding in the Teito Rapid Transit Authority (the Tokyo Underground). Although the revenue from these sales will be used to pay off a part of the debts, the nation will still bear the burden of paying off the remaining ¥13.8 billion, 37.1% of the total debts.

4. The Averaging Out of Profits between the JR Companies

It was decided to split up the JNR was because it was believed that it was too big and unwieldly to be managed efficiently. However, because of the wide variations in profitability depending on the region and the type of services (freight or passenger) involved, measures were necessary to ensure that each of the private companies would be able to operate independently.

By far the largest transportation market in Japan is the Tokaido region, the 550 kilometres between the conurbations of Tokyo and Osaka. This is not only because of the amount of travel between the two cities, the area between them is also very built-up and densely populated. The Tokaido Shinkansen line is extremely profitable, and is well able to compete with both air services and the motorways. The suburban railways have a large share of the commuter (company and schools/universities) market for Tokyo and Osaka. The roads are very congested and finding parking space is no easy matter, so commuting by car is not the norm.

On other markets the railways are less competitive. The other (ie. not Shinkansen) trunk lines face fierce competition from both road and air. Provincial lines have already lost the battle to the motor car. For freight the Tokaido region is again the most important market, but generally speaking freight is less profitable than passenger services.

It was realized that there would be big differences in the profitability of the various JR companies, because of the markets they would have to compete in. The government was forced to adopt a plan incorporating 'profit adjustment measures' in order to ensure that the JR companies would be able to stand on their own feet and that the debts could be paid off. The plan had two basic elements. The firsts was that the Shinkansen facilities should be held by a public company known as the Shinkansen Railways Holding Corporation, which would lease the Shinkansen lines to the three Honshu JR companies. In other words, they would pay the Corporation a usage charge for lease the Shinkansen lines and continue to operate them.

It was decided that the Honshu JR companies would pay the Corporation ¥8.5 billion in 30 annual instalments (principal and interest in equal proportions). I have already pointed out that this sum represented the current replacement cost of these facilities. The East Japan JR Company will operate the Tohoku and Joetsu Shinkansen lines, the Central Japan JR Company the Tokaido Shinkansen line, and the West Japan JR Company the Sanyo Shinkansen line. The proportions of the current replacement cost to be borne by these three companies are shown in Fig.7, and you can see from it that these proportions differ from their relative shares of the usage charge. The Central Japan company's share of the usage charge is by far the largest. This was intentional, the aim being to average out the profits of the companies, charging more to the company most able to pay and reducing the burden of the other two. Thus the Central Japan company was asked to bear approximately twice the burden of the other two, conversely their burden would be 50-60% of the Central Japan Company's.

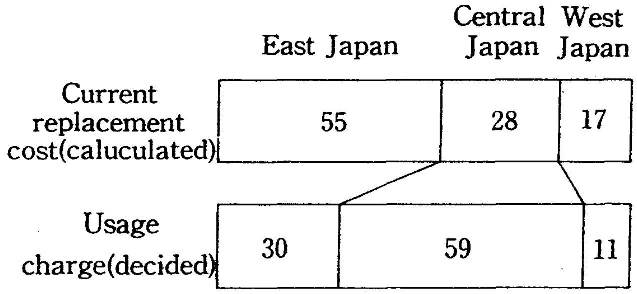
As well as giving the Central Japan Company an enormous burden, these measures created a new problem. Although the Corporation owned the Shinkansen lines and leased them to the Honshu JR companies, it would not carry out the maintenance and renewal of the fixed assets. This had to be done by the JR companies, so that although they had to put up the investment for maintenance and renewal, because they did not own these assets they would not be able to use depreciation on them as a means of raising capital. Hence they would be forced to raise loans instead, placing significant restrictions on management.

I also believe that the 30 year payment of the usage charge to the Shinkansen Holding Corporation will constitute costs of an extremely fixed nature, further increasing the pressure upon management. With an ordinary debt it is possible to pay it off early, or have it renewed with changed conditions, but in this case there would be no such flexiblility. This problem was identified after the first part of the privatisation had taken place. The government is currently considering the possibility of changing from leasing (the Shinkansen lines) to transfer by instalments.

The second basic element of the 'profit adjustment measures' plan was the setting up of the *Keiei Antei Kikin* to cover the anticipated losses of the three island JR companies. The total amount of this fund was to be ¥1.3

Fig.7 The Shinkansen Usage Charges to be paid by the three Honshu JR Companies[4]

(%)



billion, and the principal was to be transferred to the three companies over a period of eight years. As I have already said, the fund was to be financed by the profits from the Honshu Shinkansen lines, particularly the Tokaido Shinkansen. Thus the Tokaido Shinkansen would play a critical role in the maintenance of the railway network of the whole of Japan. The calculation was that the fund would yield 7.3% which would be sufficient to meet the losses of the three companies. The figure of 7.3 was based on the yield from national bonds over the previous ten years. When the principal has been transferred, the three island JR companies will have to manage the fund themselves. It is of course by no means certain that they will be able to manage it so that it yields 7.3% or more, so they could be left in a difficult position.

A minor element in the profit adjustment plan was the adjustment of freight and passenger service profits. Like the provincial lines, the freight sector in the days of the JNR ran at a loss. There were misgivings about whether a single company could run the whole of the freight sector successfully. The plan was therefore to improve the competitiveness of the freight sector and to change the cost accounting method to one of 'avoidable costs' that is to reduce the burden of the freight company where transportation costs were common to freight and passenger services. Naturally, what was gained by the freight company would be lost by the passenger side. This 'avoidable costs' method had first been used by British Rail.

5. The Accounts of the Privatised Companies/Japan Railways

The JR companies have performed much better than anticipated since privatisation. In the first year after privatisation their combined profits totalled ¥151 thousand million, four times the government's forecast in its profit plan. Table 1 shows the accounts of the three Honshu passenger companies and the freight company, all of which have made both an operating profit and an ordinary profit. All of them have had much bigger profits from operating the railways than from other sources.

Tabel 2 shows the accounts of the three island JR companies. They had all taken over unprofitable passenger services, and they all made operating losses. They were also unable to make a profit in other areas, perhaps because they had only recently commenced running businesses other than the railways. It was of course the profit from the *Keiei Antei Kikin* which shored up the financial weaknesses of these companies. The ratio of profits from the fund to revenue from the railways was quite high, 60% for Hokkaido, 37% for Shikoku, and 21% for Kyushu. Although they all made operating losses, the revenue from the fund enabled the ordinary profit section to be balanced. The Hokkaido company made a loss for this section in the first year but balanced the accounts in the second year, while the

Table 1 The Accounts of the three Honshu JR Companies and the JR Freight Freight Company (Unit:¥1,000,000,000)

Company	Year	Operating Profit/Loss Section					Non—Operating Section Revenue	Non—Operating Section Expenses	Ordinary Profit	Net Profit
		Railways			Other Profits	Total Operating Profit				
		Revenue	Expenses	Profit						
East Japan	88 89	1,612 1,672	1,296 1,395	316 277	7 3	323 281	17 20	254 198	85 103	41 57
Central Japan	88 89	965 999	864 887	101 112	0 1	102 113	16 17	24 23	94 108	35 66
West Japan	88 89	747 823	676 734	70 88	0 2	70 90	8 10	71 60	8 40	20 25
Freight	88 89	182 192	172 182	10 9	— —	10 9	1 1	5 5	6 6	3 2

(Amounts less than ¥1,000 million ignored)

Table 2 The Accounts of the three Island JR Companies (Unit:¥1,000,000,000)

Company	Year	Operating Profit/Loss Section					Profit from Management of Keiei Antei Kikin	Ordinary Profit	Net Profit
		Railways			Other Profits	Total Operating Profit			
		Revenue	Expenses	Profit					
Hokkaido	88 89	81 80	132 131	−51 −50	−1 −1	−53 −52	49 49	−1 0	1 0
Shikoku	88 89	40 41	50 51	−9 −10	0 −1	−10 −11	15 15	5 6	1 3
Kyushu	88 89	129 135	152 163	−23 −27	−5 0	−28 −28	28 28	3 3	3 1

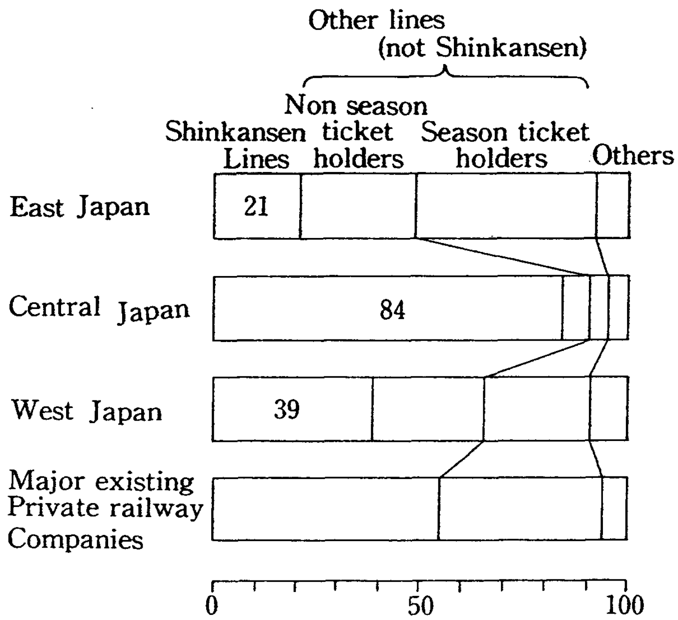
(Amounts less than ¥1,000million ignored) other two managed to do so in both years. The results for these three, indeed for all the JR companies, were excellent.

There are, I believe, three reasons why they were better than expected. The first, and the one which everyone concerned admits to be the most significant, is the extremely healthy state of the Japanese economy. The second is that they have been freed from the constant pressure they were under when they were part of the JNR stemming from the inability to pay the interest on debts. The third is the reduction in labour costs.

In many people's eyes these excellent results are seen as the fruits of privatisation and they therefore conclude that privatisation has solved the many problems which plagued the JNR. However the privatisation plan was calculated carefully so that these companies would be profit-making and these results could therefore be said to be half-expected. I believe what is required at this stage is to point to some of the potential problems embodied in these calculations.[3]

The first problem is that the Shinkansen lines, which are such an important source of revenue to the JR companies, are susceptible to fluctuations in business conditions. (This is also true of old non-suburban lines.) Revenue is excellent when the economy is booming but they experience difficulties in a recession. The existing private railways (there were a number of private railway companies operating alongside the JNR) which serve Tokyo and

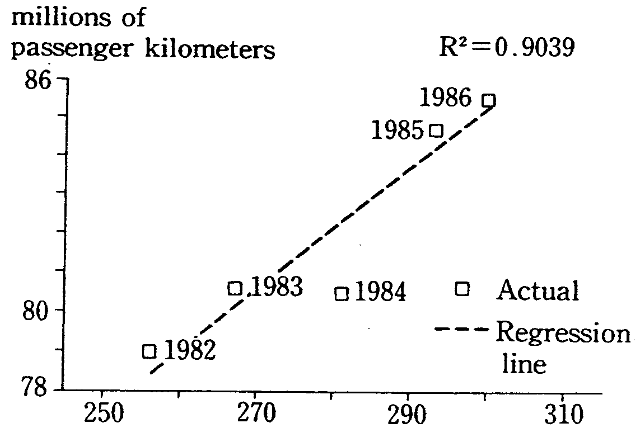
Fig.8 Breakdown of Revenue Sources of Railway Companies[4]



Osaka have a high proportion of season ticket holders, so that they are not as badly affected by recession. Of the JR companies, the only one about which the same can be said is the East Japan Company, which has a large share of the commuter market in Tokyo. Fig.8 shows the breakdown of the revenue of the Honshu JR companies and the main existing private railway companies by type of passenger. We can see from it that the Central Japan and West Japan JR Companies recieve a high proportion of their revenue from Shinkansen and old non-suburban line passengers. Hence, their results may well deteriorate sharply if the economy begins to stagnate. Fig.9, taken from a paper by Takao Makido[4], shows the regression line for the correlation between the number of passengers using the Shinkansen and the GNP. It is clear that there is a strong correlation. The fact that revenue from this source is so susceptible to fluctuations in the economy on the one hand, and the extremely inflexible nature of the railway companies'costs on the other, means that they would have a lot to fear from a recession.

The second problem concerns the management of the *Keiei Antei Kikin*, which might be described as the lifeline of the three island JR companies. In the near future they will have to manage it themselves. Interest rates are decided on the market and companies have to live with them, so that no matter how well the fund is managed, if the market situation is unfavourable it may not be possible to obtained the revenue required from this source. Let us look, for example, at the Hokkaido Company, which receives such a

Fig.9 The Correlation between the GNP and the Number of Passengers on the Tokaido Shinkansen See, Source of Reference No.4



large part of its revenue from the fund. A one percent fall in interest rates would mean a fall in revenue of ¥6800 million. It could almost be said that the interest rate level is the key to its survival. It is essential to change to a structure which makes the three island companies depend as little as possible on the fund. Fig.10 to 12 show the assets and debts of these three companies and illustrate graphically the extreme importance of the fund to them at the present time.

The third problem is a basic weakness in the financial structure of the Honshu passenger companies and the freight company. To illustrate this let us look at their liquidation balance sheets (Fig.13 to 16). The problem common to all of them is their low ratio of equity. What is more, the figures for the three passenger companies do not reflect the usage charge for the Shinkansen, which is in actuality a debt. When this is included, their ratio of equity is less than 10%. Railway companies tend to have a lower ratio of equity than companies in order industries because they have a higher level of fixed costs. However the major existing private railway companies' average ratio of equity is 18%, significantly higher than the newly -privatised JR companies. It is therefore vital that the JR companies strive to increase their equity ratio. The flotation will provide a new means of raising capital, and should help them to improve the situation.

Fig.10 Hokkaido JR Company Balance Sheet, March 31st 1988
(Unit : ¥1000 million)

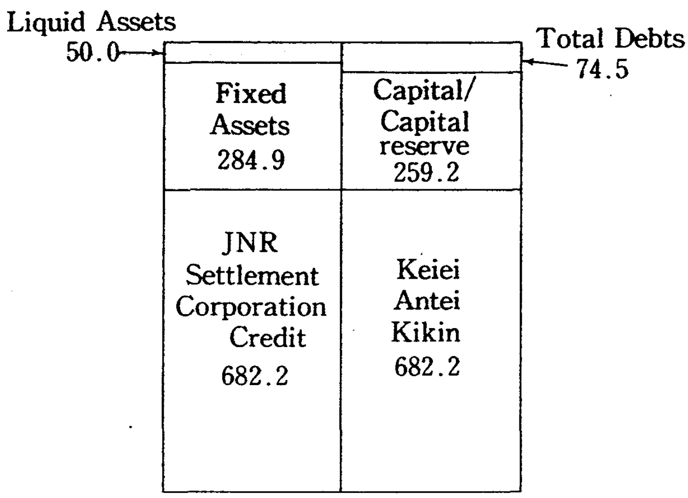


Fig.11 Shikoku JR Company Balance Sheet, March 31st 1988
(Unit ¥1000 million)

Liquid Assets 22.5	Total Debts 26.1
Fixed Assets 108.3	Capital/ Capital Reserve 104.4
JNR Settlement Corporation Credit 208.2	Keiei Antei Kikin 208.2

Fig.12 Kyushu JR Company Balance Sheet, March 31st 1988
(Unit : ¥1000 million)

Liquid Assets 62.5	Total Debts 80.1
Fixed Assets 329.9	Capital/ Capital Reserve 311.3
JNR Settlement Corporation Credit 387.7	Keiei Antei Kikin 387.7

Fig.13 East Japan JR Company Balance Sheet, March 31st 1988
(Unit ; ¥1000 million)

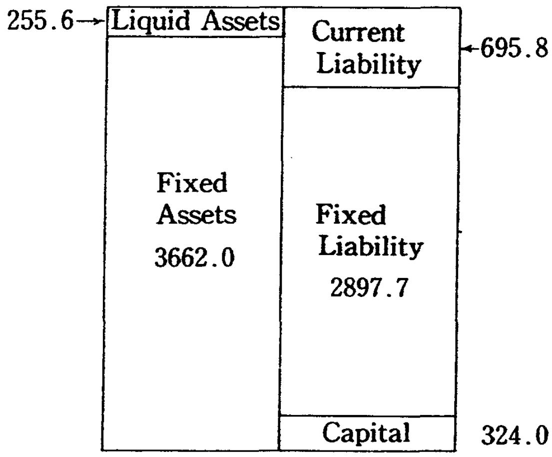


Fig.14 Central Japan JR Company Balance Sheet, March 31st 1988
(Unit : ¥1000 million)

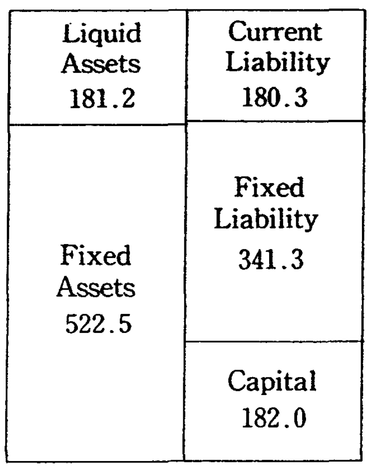


Fig.15 West Japan JR Company Balance Sheet, March 31st 1988
(Unit : ¥1000 million)

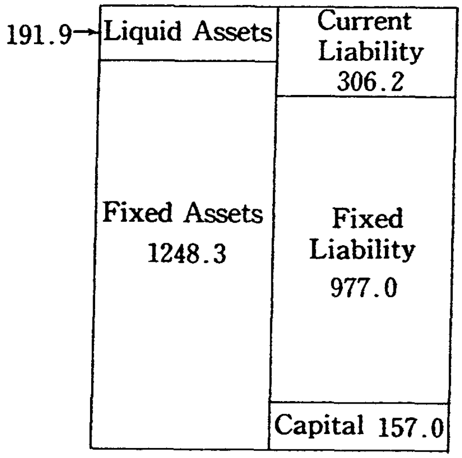
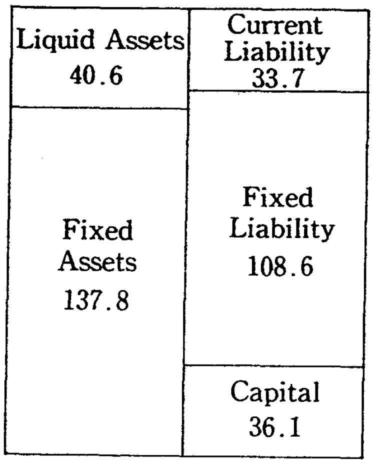


Fig.16 JR Freight Company Balance Sheet, March 31st 1988
(Unit : ¥1000 million)



6. The Flotation

The situation at present is that the companies have been converted from public corporation to private companies, but their shares are still held by the JNR Settlement Corporation. This corporation is a public company owned by the government, so from the point of view of ownership the JR companies are still public companies. The next stage of the privatisation process is the flotation.

The flotation will only be for the three Honshu and freight companies for the present. They have to satisfy the criteria laid down by the Stock Exchange, hence they have been attempting to raise their equity ratio. It seems almost certain that they will succeed despite the pressures of debt repayments and the fixed nature of their assets. The intention is for the Corporation to sell all the shares, so that the three companies will then become private companies in every sense. The East Japan Company, which its large share of the Tokyo market, and the Central Japan Company, which operates the Tokaido Shinkansen, are very profitable companies, the West Japan Company somewhat less so.

As I said earlier, the method of leasing the Shinkansen lines means that these companies are unable to use depreciation. This problem is of particular significance for the Central Japan Company. The Ministry of Transport has therefore formulated a new plan, and for this purpose they have founded the'Railway Construction Fund'. The assets of the Shinkansen lines have been 'reevaluated', and they will be sold to the JR companies at the new value, which is ¥9.1 billion, one billion more than the usage charge was to have been. The payment will of course be by instalments, but it does mean that when the JR companies receive the Shinkansen lines they will take over debts of ¥9.1 billion. The book value, ¥5.7 billion, is to be paid over a period of 26 years, while a period of 100 years is being considered for the payment of the remaining (reevaluated portion) ¥3.4 billion. The extra one billion is to be a source of revene for the construction of extensions to the Shinkansen lines. These extensions are known as the 'Shinkansen Construction Plan', and local communities in the areas concerned are very keen to see these extensions constructed (Fig.17).

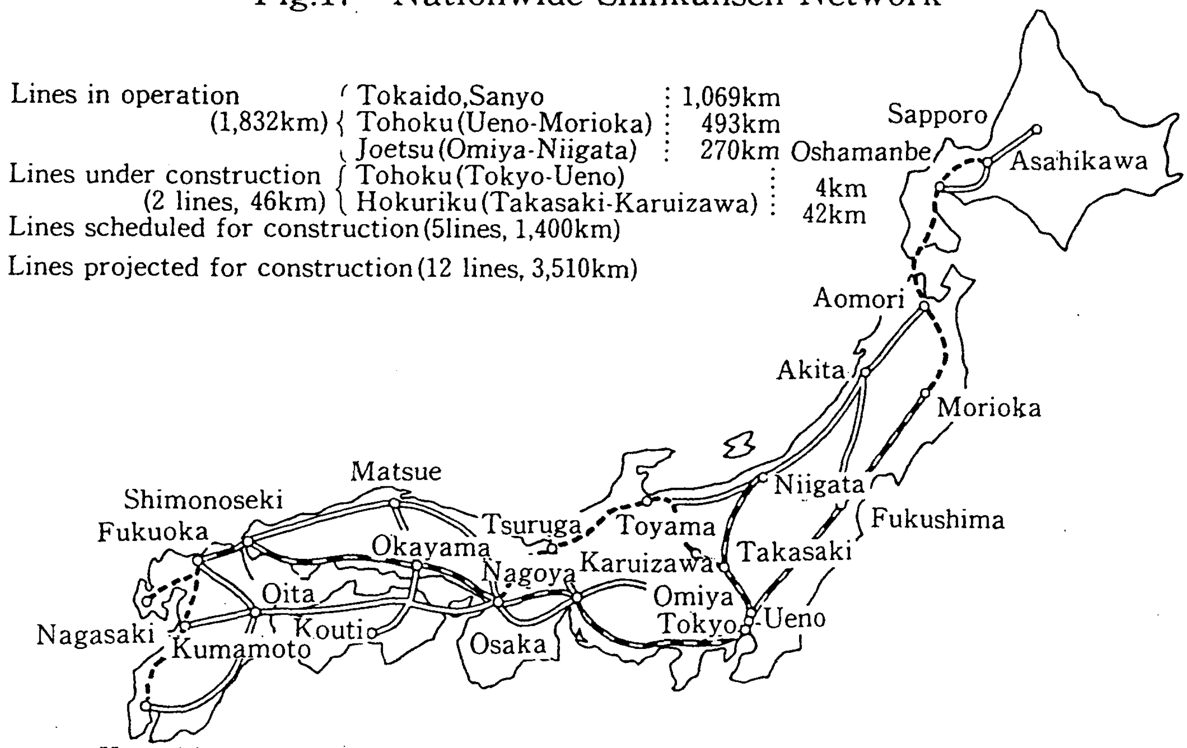
I am in favour of the change from lease to transfer, but believe that the wisdom of burdening the three Honshu JR companies with a further billion yen in highly debatable. Is it really appropriate, I ask, to finance the Shinkansen Construction Plan from the profits of the existing Shinkansen lines? With the current healthy state of the economy the Central Japan Company is making good profits, but I still feel that we shold ask ourselves again whether it is really wise to burden them with debts of this magnitude.[5]

The timing of the completion of privatisation for the Honshu companies will depend on the stock market situation and the judgement of the government, but will surely take place. However afterwards these companies will still continue to have an interdependent relationship with the rest of the JR group, including the three island companies whose shares will not have been put on the market. They will also continue to have dealings with the JNR Settlement Corporation, and the Railway Construction Corporation. I believe that the differences in the sizes of the various companies' markets (due to the population density along the lines they run) will widen, and the difference in their ability to raise capital will become increasingly apparent (Fig.18).

7. In Conclusion

In this paper I have considered the outcome of the privatisation of the JNR

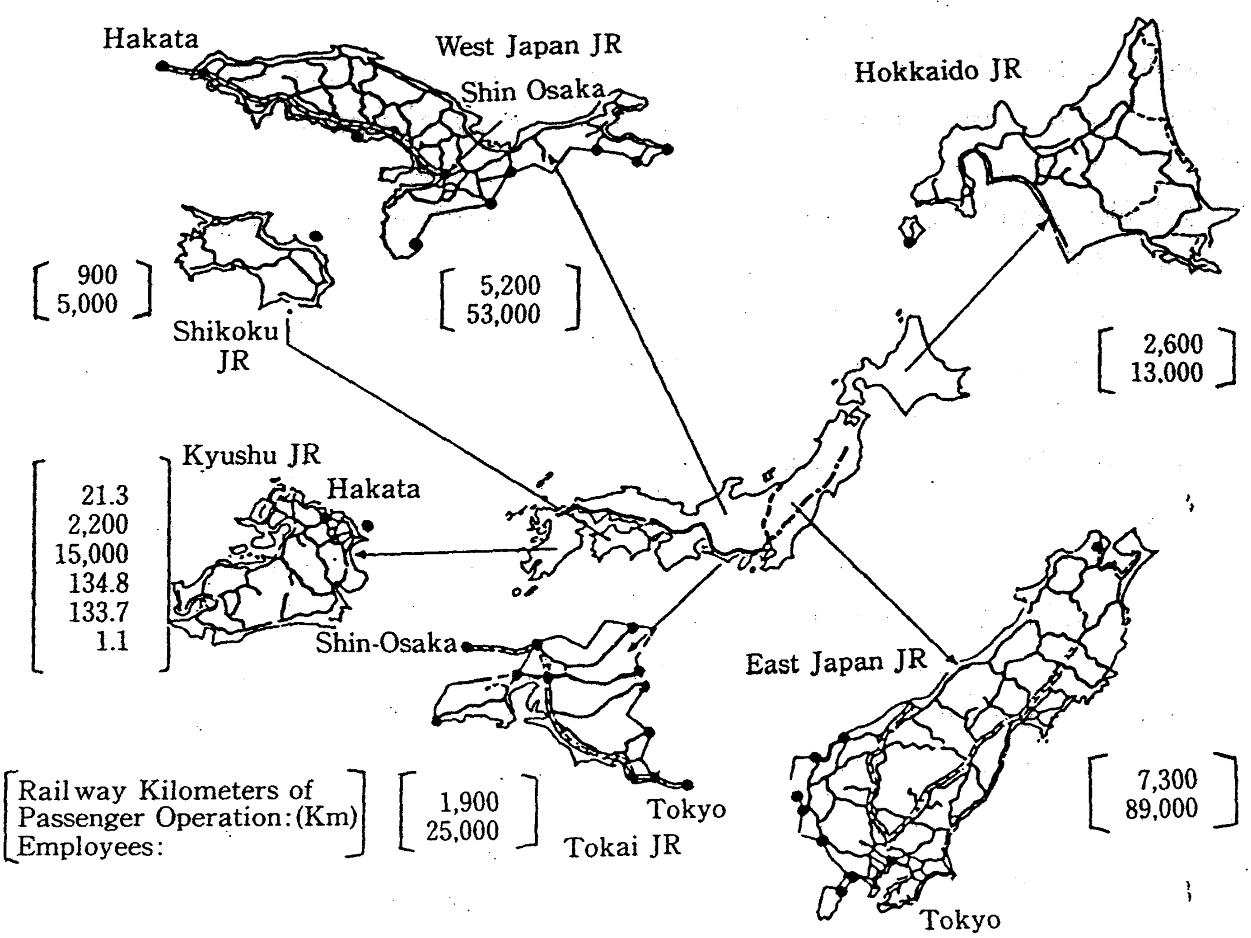
Fig.17 Nationwide Shinkansen Network



Note. Source: National Railways Reconstruction Promotion Headguarters, Minister's Secretariat, Ministry of Transport from the point of view of the finances of the railways. The privatisation process is at an intermediate stage, and I have indicated that several problems have still to be resolved. One definite achievement at this stage is that the JNR dilemma of debts it was incapable of paying off has been divorced from the management of the railways, and a plan set in motion to pay off those debts. Also, in the near future the three Honshu companies will be given new means of raising capital when their shares go onto the stock market. One of the reasons for the continual worsening of the financial position of the JNR was that it was restricted almost entirely to long-term loans to raise capital, so that these are indeed significant achievements.

However, we must not interpret the good results the JR has achieved so far as meaning that the basic situation facing the railways has altered. The railways are, as before, in a difficult position, facing fierce competition from airlines and motorways, and this is likely to be the case for the forseeable future. This must always be borne in mind when the future of the railways

Fig.18 The Six JR Comparies after the Break-up



is considered.

There is one important aspect of privatisation that has hardly been touched upon in this paper, the measures taken to tackle problems with staff. One aspect of this has been the reduction in the numbers of staff in order to reduce labour costs, the other the growing need to adopt a different policy in relations with the unions. There have been a series of disputes and acrimonious incidents. Up until now third parties have taken the view that most of the unions' demands are reasonable.

My personal task for the immediate future is to throw further light upon the whole privatisation process, including the issues involving the unions. I then hope to look at the growing privatisation movement in Eastern Europe and the developing countries, in the context of world history. One aspect common to all privatisation policies is the placing of confidence in the market mechanism when raising capital.

Sources of Reference

1) Mitsuru Yokobori, 'Kokutetsu Kaikaku no Saimu Shori', in *Unyu to Keizai*, Vol.48 No.10, Oct. 1988.
Regarding the JR companies first year in business, see Mitsuhide Imashiro, 'JR Kakusha Zaimu Bucho ni Kiku', in *Unyu to Keizai*, also in Vol.48 No. 10.

2) Hiroki Tsuchiya, 'Shinkansen Tetsudo Hoyukiko no Kino', in *Unyu to Keizai*, Vol.48 No.10, Oct. 1988.

3) On the problems since privatisation see Tatsujiro Ishikawa, 'Henka e no Taio', and Mitsuhide Imashiro, 'Keiei no Shinkyokumen to Tomen no Shokadai', both in *Unyu to Keizai*, Vol.48 No.10, Oct. 1988.

4) Takao Makido, 'JR no Kabushiki Jojo o Meguru Shomondai', in *Kigyo Kaikei*, Vol.42 No.1, Jan. 1990.

5) Takao Makido pointed out that when the accounting was done for the puchase of the Shinkansen assets (from the Shinkansen Holding Corporation by the three Honshu JR companies) it was better to use the current replacement cost rather than the actual puchase price of the assets. Takao Makido, 'Shinkansen Shisan Kaitori ni Tomonau Kaikei Shori', in *Kigyo Kaikei*, Vol.42 No.10, Oct. 1990.