Research Note on the History of the Private Railways in Japan – 1

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Research on the history of Japanese railways was once considered a vacuum in the field of studies related to economic history, and although great progress has been made in this area over the past several years, research on the business history of private railways does not seem to have produced a sufficient accumulation of results to permit the formation of a balanced historical perspective.

On the other hand, the overall success of privatising the Japanese National Railways (JNR) and the fact that urban railways are being effectively operated by private enterprises in Japan have attracted worldwide attention, and more foreign researchers have the opportunity to study Japanese railways. In particular, the management of private railways, on which the privatisation of JNR was modeled, is a focus of special attention. This paper elucidates basic viewpoints on and issues related to research on the history of the country's private railways.

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1. Establishment of the Imperial Government Railways and the Role of British Technology

The history of the Japanese railways as a common carrier began in 1872 when the Meiji government, shortly after its establishment upon the overthrow of the Shogunate, opened a line running between Shinbashi (Tokyo) and Yokohama. The construction plans for this line had become concrete several years earlier, in 1869, with the first meeting attended by Tomomi Iwakura, Nobuyoshi Sawa, Shigenobu Ohkuma, and Hirobumi Ito from the Japanese side, and Sir Harry Parkes, the British Minister to Japan.

The Japanese members explained that the basic section of planned railway construction should be between Tokyo and Kyoto, with branch lines running from Tokyo to Yokohama and Kyoto to Kobe, and that they wished to commission the United Kingdom to draw up the actual plans. Parkes understood the goals of the Japanese side, and at the same time emphasized that the railway should be constructed and managed by the Japanese government itself. This advice had a significant effect, resulting in the subsequent Japanese railway system which was primarily based on national railways. Japan in those days was under strong foreign pressure to construct railways. In particular, the United States, on the pretext of a license issued by the Shogunate, pressured the government relentlessly. On the Japanese side, Ohkuma and Ito were enthusiastic to construct railways, seeing this as a means of demonstrating the prestige of the Meiji government and strengthening national unity.

The first Japanese railways were constructed with British technology brought into the country by such engineers as Edmund Morel, the first governmentally employed chief engineer, and financed with British capital, provided by the Oriental Bank.

2. The Appearance of Private Railways

Although the government constructed lines from Shinbashi to Yokohama and Kyoto to Kobe, it was difficult to extend them because of financial limitations. Under these circumstances, the country's financial authorities advocated the construction of railways utilizing private capital, a concept that was accepted.

In 1883, the Nihon Railway Company commenced service as Japan's first private railway, and constructed a succession of long – distance lines stretching out to the Tohoku region. Although the company was established as a joint stock company, an advanced organisational system for Japan in those days, the prevailing economic conditions did not allow widespread fund – raising from the public. The investors in the Nihon Railway Company were, in fact, peers descended from daimyos or members of the samurai class in the Edo period. Their feudal sources of income having been halted by the enactment of Chitsuroku Shobun ("rice allowance abolition") legislation, and replaced by government – issued national bonds, these members of the former ruling class invested in the Nihon Railway Company seeking greater financial advantage than that offered by the bonds. They did not participate directly in forming and managing the company ; rather, the government executed the business for them.

The Nihon Railway Company was followed by the inauguration of the Hankai (Bankai) Railway Company in Osaka. This company was established by merchants in Osaka, who purchased a railway from the government at low cost which had served the Kamaishi Ironworks, a state – run business. Both railway companies achieved great success under the protection of the government.

Prompted by their success, the first boom of investment in railways occurred around 1887, giving birth to privately constructed trunk lines and the era of five major private railways. After the Sino – Japanese War, a second railway investment boom took place in the latter half of the 1890s, and a large number of branch lines were constructed by the various private companies. The Kobu Railway, whose terminal was located in the city of Tokyo, electrified the urban sections of its lines and began the operation of electric trains in 1904.

3. Nationalisation of the Railways

The Japanese railway network was formed rapidly as a result of construction by both governmental and private railways, and the latter came to exceed greatly the former in terms of route kilometres. The government railway authority was led by Masaru Inoue, who had secretly sailed with Hirobumi Ito and others to the United Kingdom at the end of the Shogunate where he studied civil engineering and geology. It was this experience that led to his appointment as head of the railway authority.

Inoue consistently advocated that the country's railways be nationalised.

The military forces, which attached importance to transport in wartime, and some stockholders of private railways, hoping to raise depressed stock prices, also supported nationalisation of the railways, while the Mitsubishi Zaibatsu (conglomerate), which held shares of some excellent railway companies, opposed it.

The reason why nationalisation of the railways took place under these conditions was the recognition that the comparatively high level of tariffs resulting from the separate management of private railways acted as an economic bottleneck, hindering the country's moves to increase exports of primary products after the Russo – Japanese War. Among those promoting nationalisation was Eiichi Shibusawa, an opinion leader in financial circles, and his view was supported by the country's financial authorities in expectation of revenues from the railways. The railway authority led by Inoue and the military forces also agreed – – both had been advocating this line of action, and now the road was clear. The model they adopted for nationalisation was based on a plan formulated by Bismarck in Prussia.

These proponents of nationalisation hurried to achieve their goal as though confronted by a movement, which was, in fact, advocated at that time, to introduce foreign capital for railway construction. As a background to this, the government had been concerned about an inflow of foreign capital for the construction of railways since the opening of the first lines, fearing that Japan would become semi – colonised as a result in the same way as China. The Railway Nationalisation Act was promulgated in 1906 and 17 private railways were nationalised in 1906 and 1907, placing all of the country's trunk lines in government hands.

The purchase price of each railway was set at an amount equal to that obtained by capitalizing the profit of the company, and the stockholders were paid with national bonds. Later, these bonds were converted to investment in stocks of companies in the industrial chemical sector, and became capital supporting the modernisation of the Japanese economy.

4. The Tramways as an Adjunct to Road Transport

Although it was mentioned above that the first railway in Japan was the Nihon Railway Company, in fact the Tokyo Basha Tetsudo (Tokyo Horse Tramway) established in 1882 should be named the first if the definition of a railway is extended to include railway tracks laid on roads.

The Tokyo Horse Tramway was an urban transport medium operating in the city of Tokyo. Railways laid mainly on roads were called tramways and were under the supervision of the road authority at first, since they were regarded as an adjunct to road transport.

In 1895, the Kyoto Electric Railway Company commenced services as the country's first electric tramway. Since electric tramways had greater capacity and lower running costs than horse tramways, they spread to one city after another including Nagoya, Tokyo, Osaka, and Yokohama, as well as local areas such as Kawasaki－Taishi, Enoshima, and Ise, where they were constructed to transport people visiting the shrines.

Although electric tramways were generally operated at low speed, some, such as the Keihin Electric Railway and Hanshin Electric Railway, laid dedicated tracks instead of constructing rails on the roads and operated at speeds comparing favorably with those of ordinary railways, thus competing with the trains of the Imperial Government Railways (IGR). These so－called tramways were the equivalent of the inter－urban electric railways in the United States. As Japan's railway regulations did not permit competition through the construction of parallel lines and gave monopoly rights to the IGR and private railways in principle, the Keihin and Hanshin operations proved to be unexpected cases for the administration of the railways.

Tramways also opened in local areas utilizing horsepower, steam engines, internal combustion engines, and even manpower. All of these were operated privately until the beginning of the 1900s when urban electric tramways, or streetcars, were municipalised one after another in Tokyo, Yokohama, Nagoya, Kobe, and Kyoto. In the case of Osaka, the city itself constructed and operated a tramway from the outset.

Many of today's major private railways originated as tramway companies. Tramway operations later came under the joint supervision of the road and railway authorities.

5. The National Railways after Nationalisation

Despite the fact that the official English name, Imperial Government Railways, continued to be used, the railways gradually became known as the Kokutetsu, or national railways. After nationalisation, the railway authority was restructured into a new organisation called the Tetsudoin (Railways Bureau). With the establishment of the Tetsudoin, the IGR underwent major changes and the substance of the national railways, operating on an independent account, was formed. This state of affairs lasted through the era of the railway public corporation after World War II, until its privatisation in 1987.

railway. These private lines were regarded as offshoots playing the role of branch lines of the national railways, and a subsidy system for them funded by the profits of the national railways was established.

Regarding the legislation, both the Private Railway Act and the Light Railway Act remained in force from 1911 until their repeal by the promulgation of the Local Railway Act in 1919. Thereafter, until 1987, the private railways were controlled by that legislation.

7. The Prototype of Today's Management of Major Private Railways

The major private railways located in the large cities mainly serve the role of commuter transport. White – collar workers first appeared as residents in Japan's cities in the years following World War I. In those days, the industrial chemical sector occupied a prominent position in the Japanese economy, and the new white – collar workers found employment with the central administrative organisations of various enterprises as well as with government offices. Although commuter transport of factory workers and military servicemen had existed before, that of the white – collar workers was incomparably larger in scale. It was Ichizo Kobayashi of the Mino – Arima Electric Railway – the present day Hankyu Electric Railway – who first provided commuter transport and housing for the white – collar workers in the cities.

Kobayashi, who hailed from Yamanashi Prefecture, joined the Mitsui Bank after graduating from Keio Gijuku (the forerunner of Keio University), and then transferred his attention to the management of a private railway. The Mino – Arima Electric Railway was established in the suburbs of Osaka. Its management was difficult at first, but Kobayashi operated a real estate business in the areas bordering the tracks as a sideline to support the management of the railway. This side business served to increase the population along the railway line, thereby creating demand for railway services, and also generated profits itself. Next, he opened a terminal department store in one of the terminal stations, located in Osaka's Umeda district, and entertainment facilities such as the Takarazuka Theater at the other terminal.

This diversification attracted great attention, but from the viewpoint of company management it was the railway and real estate businesses that were of primary importance. Even today, these businesses are like the two wheels of a cart in the management of private railways. Nowadays, this style of management, where private companies operate urban railways while diversifying their management, is said to be unique to Japan. But in fact, Ichizo Kobayashi adopted a method used by the inter – urban electric railways in the United States at that time.

Electric railway companies in the United States developed residential districts called trolley suburbs along their lines, and performed combined management of their railway and real estate operations. Kobayashi obtained information about this system and adopted it for himself, based on the expectation that it would also be successful in Japan. There are several possible reasons why the management of private railways subsequently developed in Japan but not in the United States. These include the fact that the era of the private automobile dawned at different times in each country, that the costs associated with the congestion of private automobile traffic were different, that public utilities were prohibited by antitrust laws from operating side businesses in the United States while the opposite was true in Japan, and so on. The style of management of the private railway begun by Kobayashi was followed by Keita Goto of the Tokyo – Yokohama Electric Railway.

8. The Tokyo – Yokohama Electric Railway and Den'en – toshi

Under the leadership of Eiichi Shibusawa, Kintaro Hattori and other members of the so – called Nihonbashi Club established Den'en – toshi Co., Ltd. to build a British – style garden city in Tokyo. The first garden city had been constructed by Ebenezer Howard in Letchworth, a suburb of London, and this concept spread thereafter to various places in the United Kingdom. The garden city was a social improvement project aiming to provide the working class with quality housing, although it actually served this function for white – collar workers.

The concept of the garden city was brought to Japan at an early stage, and Shibusawa tried to build one in the suburbs of Tokyo. The backers of Den'en – toshi Co., Ltd., however, were adversely affected by the depression in the textile industry at the time, and Shibusawa asked Ichizo Kobayashi for help through an intermediary. The company had established a subsidiary, the Meguro – Kamata Electric Railway, to provide the residential area with access to stations on the national railways. But since Kobayashi operated the Hankyu Electric Railway (former Mino – Arima Electric Railway) in Osaka and was unable to devote himself to management of the Meguro – Kamata Electric Railway, he entrusted the latter to Keita Goto. Goto, who had once been a railway bureaucrat, entered business by managing the Meguro – Kamata Electric Railway and Den'en – toshi Co., Ltd. and later established the Tokyo – Yokohama Electric Railway, given to the introduction of foreign capital, which made the procedures complicated. However, the system was utilized when private urban railways borrowed money from financial institutions handling long-term funds, the government-run Nihon Kangyo Bank and the Industrial Bank of Japan, trust and banking companies, and insurance companies. At the same time, private urban railways issued secured debentures to generate long-term financing.

The government provided the Nihon Railway Company and other private railways with a high degree of protection, including undertaking construction projects by proxy, providing subsidies to cover the interest on the raised funds, guaranteeing the companies' operating profits, and so on. After nationalisation, subsidies to guarantee the operating profits of private railways were provided based on the Light Railway Subsidy Act (1911), later renamed the Local Railway Subsidy Act (1919). These subsidies were funded by the profits from the national railways. There is no doubt that the subsidy system promoted the construction of private railways, but at the same time the system was apt to play the role of prolonging the lives of certain local private railways whose social mission had expired.

After the major part of nationalisation had been implemented in 1906, the government intermittently purchased and nationalised private railways. Such cases amounted to 71 companies and 2,400 kilometres of routes between 1917 and 1944. Reasons for these purchases varied, but included such factors as saving a railway whose business had declined, maintaining transport services during wartime, and so on.

11. Transport Adjustments and Mergers during Wartime

In order to rectify the situation of intensifying competition between railway and bus services and the inconvenient connections of private railways, the government began to advocate a merger policy around 1932 which was referred to as "transport adjustment," and enacted the Land transport Business Adjustment Act in 1938. The areas subject to the policy were Tokyo, Osaka, Toyama, Kagawa, and Fukuoka, among which Tokyo attracted the most attention.

In Tokyo, the railways in the metropolitan area were merged under the administration of Tokyo City, and those in the suburbs were structured into four companies according to the respective areas: Tokyu Corporation (it is, to be exact, Tokyu Rapid Electric Railway Co.), the Seibu Railway (known in those days as the Seibu Agricultural Railway), the Tobu

Railway, and the Keisei Electric Railway. The subways, on the other hand, were unified into the Teito Rapid Transit Authority (TRTA). In Osaka, the Kinki Nippon Railway and the Keihanshin Rapid Electric Railway were established by mergers. Moreover, in areas not subject to this adjustment process, mergers of private companies were promoted voluntarily, such as those establishing the Nagoya Railway in Nagoya, the Nishi－Nippon Railway in Fukuoka, and so on. In Kagawa, a system was also adopted for two years whereby the national and private railways pooled their fares.

The overall adjustment process in Japan had thus originally started as a transport policy, but some compulsory mergers took place as this was the time when the country was moving headlong toward World War II. Some of the companies organised through such compulsory mergers were separated after the war, to establish the major private railways of today.

12. Major Private Railways after World War II

As a result of the allied air raids and overuse during World War II, the equipment of the private railways was in extremely poor condition at the end of the war. In addition, the passenger traffic expanded as people returned from working on plantations or military service, went to suburban areas in search of food, and so on, causing a substantial shortage of transport capacity. At the same time, railway fares were at a lower level than before the war because, in spite of the drastic inflation immediately following the war, fare raises lagged behind the rise in general prices.

After the war, the population rapidly became concentrated in Tokyo, and the major private railways servicing the city constantly suffered from a shortage of capacity. Although they continued to make investments in equipment intermittently after 1957 under the guidance of the Ministry of Transport, the growth in demand kept on outstripping the available capacity and it was difficult to relieve the congested conditions.

As part of its policy to counteract inflation which occurred in the period of Japan's high economic growth, the government did not allow increases in charges for public services including railway fares. This lowered the profitability of private railway businesses, and reduced their motivation to actively invest in equipment, such as adding or extending railway lines. At the same time, investment for the rationalisation of railways was promoted.

The major private railway companies therefore launched into more profitable business activities than operating railways, and promoted diversification of their management. The business areas into which they diversified varied widely, including real estate, distribution as in department stores and supermarkets, tourism, trucking, and so on, and corporate groups came to be formed. As a result, the sales from railway services of Tokyu Corporation, for example, fell to 35 percent of the company's total sales, representing less than 3 percent of the overall sales of the group (1990 fiscal year).

The diversification of private railways has been carried out with emphasis mainly on the characteristics of individual markets, and is heavily weighted toward the service industries. While it cannot be said that there is no diversification into manufacturing industry, such cases are rare. Rather, transport, real estate, distribution, and tourism industries are areas of strength for the private railways.

Each of the JR companies established by privatisation of the national railways is now trying to diversify its management, based on the model of the major private railways. Due to the scale of railway services provided by the JR companies, however, it is impossible for them to establish side businesses that can generate double the sales realized from railway services, let alone multiplying such sales figures by a factor of several tens.

13. Decline of Small – and Medium – Scale Private Railways in Local Areas

The concentration of population in Tokyo during the period of high economic growth had the simultaneous effect of decreasing the number of people living in local areas, thus leading to an unbalanced distribution of population. As a result, the management of small – and medium – scale private railways in local areas deteriorated. The problems that they faced were a decrease or stagnation in the local population and the encroachment of bus services. As regards the latter, bus services were promoted in the 1930s, were interrupted by the shortage of gasoline around the war years in the 1940s when railway services were utilized instead, and recovered again after the war.

In addition, local railways were hit even harder when the era of the private automobile dawned in the second half of the 1960s, and many local private railway companies shifted from railway to bus services. Bus services, however, also failed in competition with private cars, and fell into a state where they had to rely on subsidies. Local private railways of relatively large scale are now seeking for ways to survive in industries other than railway and bus services, including distribution and real estate, or by joining Keiretsu groupings of affiliated companies of the major private railways.

A further, more remote cause for the decline of local private railways was the fact that agrarian reform, implemented as one of the democratisation policies after the war, resulted in the fall of the prewar class of local landowners, who had constructed and operated the local private railways. Not a few local private railways still operating today cannot take the plunge into abolishing their services because of an unseverable connection with the local community or shareholders. However, it will be difficult for them to survive for long in the future, as the time is coming when subsidies are ended, which, although small in scale, have continued to compensate for their losses. The government has been subsidizing local private companies for their investments in equipment aiming at rationalisation, but this policy has only a little further to run.

In the 1980s, the non-profitable provincial lines of the national railways were separated and privatised into third-sector railways, or companies established with the joint investment of local self-governing bodies and the private sector. Difficulties in the management of these lines, similar to those experienced by small- and medium-scale private railways, are expected to occur in the future.

14. Delays in Equipment Investment and Problems in Relieving Congestion

After the war, all the railways in the Tokyo and Osaka areas suffered from a serious shortage of capacity. In the large cities of Japan, where the population density is exceedingly high, the volume of commuter traffic cannot be handled by private automobiles, so that railway services have held an overwhelming share up to the present day. Private railways in Osaka have been comparatively more enthusiastic about investing in equipment to increase capacity, because competition among the railways there has been more severe than in Tokyo. Moreover, since the growth in population has been less rapid in the Osaka area, the congestion of train services has been easier to relieve than in Tokyo.

On the contrary, private railways in Tokyo have been consistently late5 in investing in equipment, as the demand for transport services has increased at a higher rate than expected. Moreover, the delay has been worsened by the government's policy of suppressing fare increases to control inflation in the period of high economic growth. Doubting the potential earning rates of their railway services, the private railway companies have instead sought ways to assign their resources to other business fields.

In the meantime, the national railways made large-scale investments in equipment for commuter transport in Tokyo, under a project named the "Five-Point Operation." The construction of subways was also promoted by TRTA and the municipal government. As a result, the private railways' delay in investing in equipment has become notable in Tokyo compared with the national railways and subways. A problem apt to appear in the operation of railway services by a private company is therefore that investment in equipment from a long-term viewpoint is inclined to be insufficient.

The government has assisted the private railways to raise long-term funds by providing low-interest loans by the Japan Development Bank, subsidies for interest by the Japan Railway Construction Corporation, and so on, but still these measures were insufficient. Then, with the oil crisis as a turning point, the management of private railway companies underwent a transformation whereby the operation of railway services again became important. This was because, after the oil crisis, their side businesses were less profitable and it became difficult to newly enter different industries. At the same time, the profitability of railway services was recovering and a tighter supply and demand situation for commuter transport services was emerging, among other factors.

The government then established the Specified Urban Railways Reserve Fund System, allowing the private railways to charge increased fares and reserve the proceeds as funds for equipment. Upon the privatisation of the national railways in 1987, the legislation was changed and the traditional legal distinction between the national and the private railways was abolished. Since privatisation, the regionalisation of each JR company has been promoted and competition with private railways has been generated in such areas as Osaka and Nagoya.