Railways in Japan — An Overseas Perspective

Ian Smith

The BBC recently broadcast a TV series in the UK called *Locomotion*. It charted the history of railways throughout the world, and Japan's railways merited significant attention—indeed, the commentator was moved to say, "Japan's railways are the envy of the world; fast, clean, frequent and punctual, they are a daunting example to other nations of what can be achieved when government, business and science cooperate for the benefit of all."

Few would argue with these sentiments, for Japan is one of the few countries to maintain faith in the use of a railway network as an integral part of the mass transportation market. In highlighting the development of new light railway systems in the USA and elsewhere as well as the restructuring of the railways in many countries including Britain, *Locomotion* itself revealed a level of interest in rail transport that would have been unheard of 10 years ago. The revived enthusiasm for railways in a wide variety of countries reflects the growing realization that the Japanese system of urban transportation by rail, and its medium-range, high-speed railway network is a model for all to emulate.

There are fundamental reasons for the continued importance of railways relative to other means of transport in Japan; the country's geography with high population densities in urban areas in the small percentage of the inhabitable land mass militates against construction of an efficient national road system. Despite a strong road lobby and the world-famous car industry which has spawned a 'my car' movement among the public, the railways remain a key means of transport in and around cities. Even in long-range transport where, as in other industrialised countries, air transport has gained an increasing market share, the railways have maintained a strong position as a result of far-sighted development of high-speed networks linking the population centres.

Cultural factors also explain the importance of railways in Japan. The growth of car transport for individuals was pioneered in the USA as the epitome of individual expression. In advertising the merits of buying and owning a car, the emerging car industry used the virtue of personal motivation—the freedom to go wherever and whenever one wanted—over any social considerations. The social cost of owning and using a private car on public roads was not an important concept in the early days of the car industry.

The critical difference between the present transport systems of the so-called 'individualistic' nations exemplified by the USA, and the 'group-oriented' nations like Japan, is that the aspirations of the individual dominate the transport policies in the individualist countries to the detriment of society as a whole. By contrast, in Japan it is recognised, despite 'my-carism', that there are group considerations transcending individual preferences shaping what transport policies might be best for the common good. The acceptance of high levels of congestion on public transport—particularly commuter rail transport—which has been a persistent feature of urban railways in Japan since WWII, may reflect the subjugation of individual will to the implicit aim of preserving social harmony.

After 2 years of commuting on the Keio Line from my home in suburban Chofu into central Tokyo, I can vouch for the fortitude of the Japanese public in putting up with extreme overcrowding without rocking the common boat. In fact, it was hard to make my UK colleagues believe that the Tokyo rush hour is worse at 9 pm than at 5:30 pm.

The congestion I experienced on the private Keio Line was certainly no worse than on any of the other urban lines operated by the JR companies or other private groups, and it is to these private companies that the JRs are looking for models of future development. Japanese private railways have successfully blended highly-utilised rail services with associated activities in real estate, hotels, etc., to generate high levels of profitability—a compelling mix that the JR companies would like to emulate.

The favourable results of Japanese private railway groups have attracted considerable attention overseas since it is thought that the ability of companies such as Tokyu, Odakyu and Hankyu to run railways at a profit must provide lessons for others.

Even in the UK, Japanese private railways merited mention in the government *White Paper on the Privatisation of British Rail* which said: 'In other countries, the private sector is actively involved in the railways. Already 40% of Japan's railways are private and it is the Japanese government's intention to privatise the remainder'. However, this quote implies that the 40% of Japanese railways that are private became so recently, no doubt to support the British government's policy of introducing private capital and operating 'skills' into British railways. It ignores the truth that Japanese private railways groups are not the result of some new government initiative, but are very long standing, and that their quasi-monopoly in a market with very high localised population densities makes profitable operation less than difficult to achieve.

For example, my travelling on the Keio Line was less a decision of choice than of necessity. Keio, like several other private groups in the Tokyo area, operates geographically-distinct services facing little direct competition from peers in the private sector or from JR. While the quality of service is impressively high, customers of private railways like myself have no other realistic choice of transport. The carving up of major cities like Tokyo into commuter-transport monopo-

lies has lent itself to make money for private investors in a way not readily open to railway operators in other countries at present.

However, there is a contentious point with regard to private railways in Japan related to the virtue of their diversification. Critics point to the lack of capital investment particularly in the Tokyo area where the real demand for transport services has consistently outstripped the expected demand. Delays in investment have been compounded by the government's policy of suppressing fare increases with the result that the railway groups have sought to assign resources to other business fields because they have doubts about the potential earnings rate of their railway business. Therefore, the overcrowding levels are not being alleviated to any extent through capital investment by the private companies themselves.

In addition to looking at profitable private railways companies in Japan, railway operators in other countries also look to the privatisation of JNR as evidence that privatisation is the universal answer to operating railways. The JNR privatisation drew a great deal of attention with *The Times* newspaper of 27 October 1993 saying 'Japanese show Britain the right way to run a Railroad. Plans to privatise British Rail could draw important lessons from the latest big listing in Japan'.

The big listing to which *The Times* referred was the first tranche of shares in JR East, the largest of the six regional companies created by the break-up of JNR which was dissolved and divided into separate operating units in 1987. Although this was commonly called 'privatisation', the implementation of the change in ownership required to complete privatisation is only now taking place. The lengthy delays in floating shares have prevented observers such as *The Times* from deciding that the privatisation has been a success from which others could learn.

Studies of the JNR privatisation have concentrated on the financial performance of the new JR companies which has ostensibly been much better than in the JNR era. Likewise, the state of labour and management relations is now more harmonious than pre-1987. The third main strand of the 'benefits of privatisation' school of thought is that the JRs have been able to achieve significantly higher growth rates in traffic volume than in the JNR days because they operate as private companies with a simplified set of objectives compared to those imposed on a national railway.

Passenger volume growth of the JRs has surpassed that of the private railways and although this has been achieved in the period of strong economic growth until last year, the effective increase in market share must to some extent reflect the efforts by JR managements to generate new business through improved services and better marketing. The JR companies have also begun using their substantial customer base to develop non-railway business. In this, and in the increased emphasis on marketing non-railway services, the concept of competition in what is essentially a non-competitive market has acted as a spur to JR managements. Consequently, while the division of JNR into regional companies ensured a minimum of cross-border traffic—thereby creating an oligopolistic market—there is a spirit of competition between JR companies acting as an incentive for both management and employees.

The positive financial results of the JRs in the 6 years since 1987 are seen as the ultimate expression of the benefits of the division and privatisation. However, this achievement owes much to the implementation of a number of crucial pre-conditions to the privatisation legislation established before the dissolution of JNR. In the stage management of the privatisation policies—a brilliant handling of the political process—a structure was established for the new JR companies with built-in safeguards against failure. These pre-conditions, which included substantial cuts in employment and the hiving off of the vast bulk of the JNR debts to a new public corporation set up for the purpose, facilitated the attainment of profits by the JRs giving an instantly favourable impression of the benefits of privatisation.

Another of the prior conditions to

which I alluded in talking of the simplification of the objectives of the JRs raises important issues for the future of railways in Japan. The removal of the full social obligation which existed in the JNR era to provide sufficient capital investment to maintain a nationwide service immediately lowered railway infrastructure spending and helped boost the short-term profitability of the new JRs. However, this also has consequences for the long-term outlook for investment in Japan's rail system, an issue of prime importance within the context of the government's overall transport policy.

The future basis of decisions on capital investment must change because the JRs no longer have to face the difficult task of balancing the pursuit of profitability with social considerations. In the run up to the dissolution of JNR, the establishment of a Third Sector to manage local lines, whose existence can only be justified by their social contribution irrespective of their operating losses, formed an important precedent. The setting up as part of the JNR privatisation process of the Management Stabilization Fund to subsidise the continued loss-making services of the three island JRs took the new approach a stage further. The long-term question of whether or not the remaining unprofitable lines operated by the JRs will stay open has moved the debate into the public arena. In the future, investment to maintain services on unprofitable lines will be more a matter of government transport policy than for JR managements.

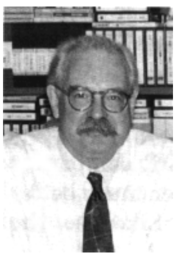
A second related concern in the context of future transport investment is epitomised by the changes implemented in the post-privatisation era in the operation of the *Shinkansen* network. Perhaps the only aspect of the privatisation planning that did not significantly meet the approval of the JRs was the leasing system introduced to pay for the acquired *Shinkansen* assets. However, the alteration in 1991 of the arrangements for financing the *Shinkansen* network to a long-term purchase agreement was a success for the JR argument that the JRs operating the *Shinkansen* lines should be allowed to use depreciation to improve cash flow. The new system coincided with the establishment of the Railway Development Fund to facilitate construction of the *Seibi Shinkansen* (new high-speed lines) including the line to Nagano—the site of the next Winter Olympics.

The establishment of the RDF to provide financial support for new lines other than the *Shinkansen* is a positive initiative and it represents a much-needed acknowledgment by the government of the requirement for substantial public-sector participation in major railway projects. However, it confirms the changing balance of power between the participants in the formulation of transport policy. The RDF is clearly a response to the JRs refusal—a luxury not allowed to the old JNR—to fund construction of a new *Shinkansen*. This intransigence was rewarded by the allocation of 50% of the costs of the *Seibi Shinkansen* from public funds—a further indication, which will not be lost on the JRs or the private railways that they are no longer expected to meet the full costs of investment in the railway infrastructure. The onus has firmly switched to the government to formulate long-term transport policies incorporating a coherent strategy for future railway investment.

It remains the contention of the JRs that the regulatory regime—a legacy of the JNR era—is unreasonably harsh. The JRs have long anticipated becoming real private corporations with the flotation of shares accompanied by easing of controls on their activities by the Ministry of Transport. However, the transport bureaucracy views the regulatory framework within the context of an overall transport policy serving to maximise the benefits to the travelling public of a safe and efficient railway network.

The key issue for the future is finding a suitable balance between the potentially conflicting aims of the private sector—maximising profits—and the national interest as a whole—provision of rail services for the broader good of the people.

The crystallisation of this issue will be achieved by establishing a financial system that guarantees a level of capital investment in the railway infrastructure sufficient for the BBC's claim that "Japan's railways are the envy of the world..." to be as true in 20 years time as it is today. ■

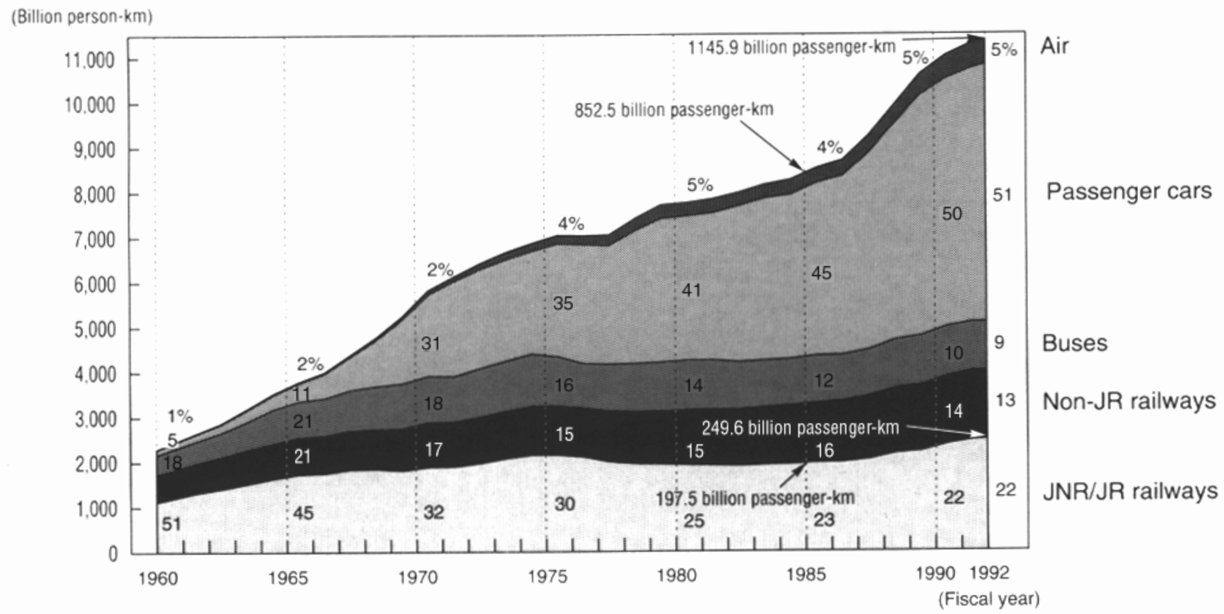


Ian Smith

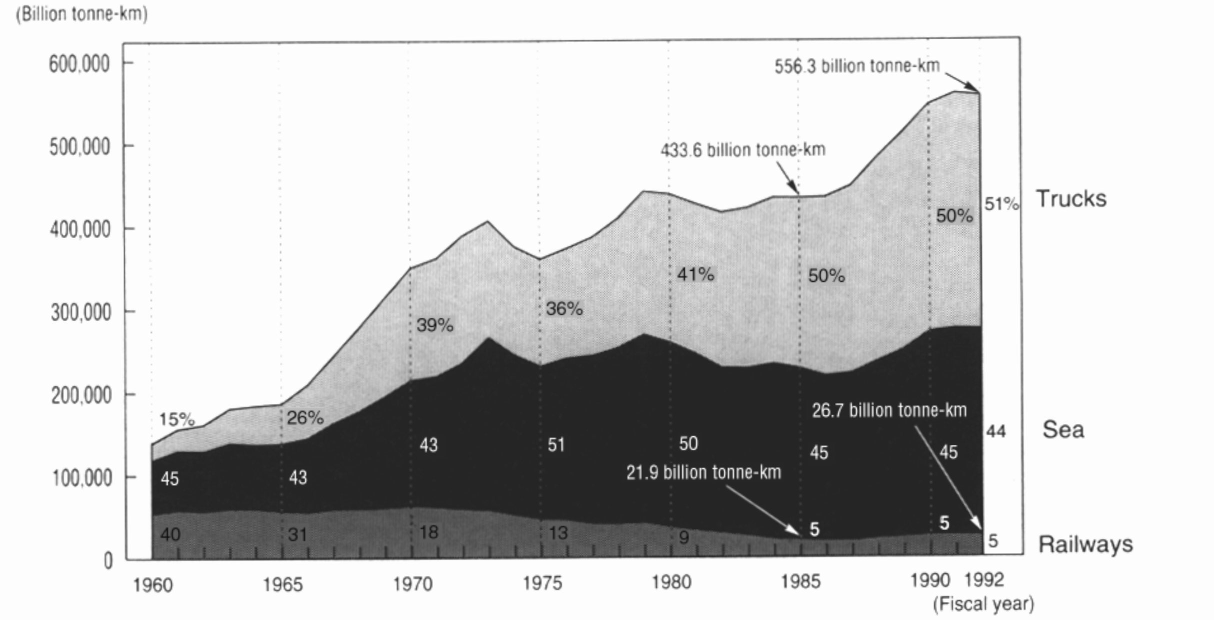
Ian Smith was born in 1947 and educated at George Heriots School and Edinburgh University where he graduated Honours MA in Economics. After a career in stockbroking and fund-management specialising in Japan, he joined the Scottish Centre for Japanese Studies at the University of Stirling, Scotland. He is currently lecturing in Japanese studies and undertaking specialist research on Japanese transport.

Japanese Transport Statistics

Modal split of passenger traffic

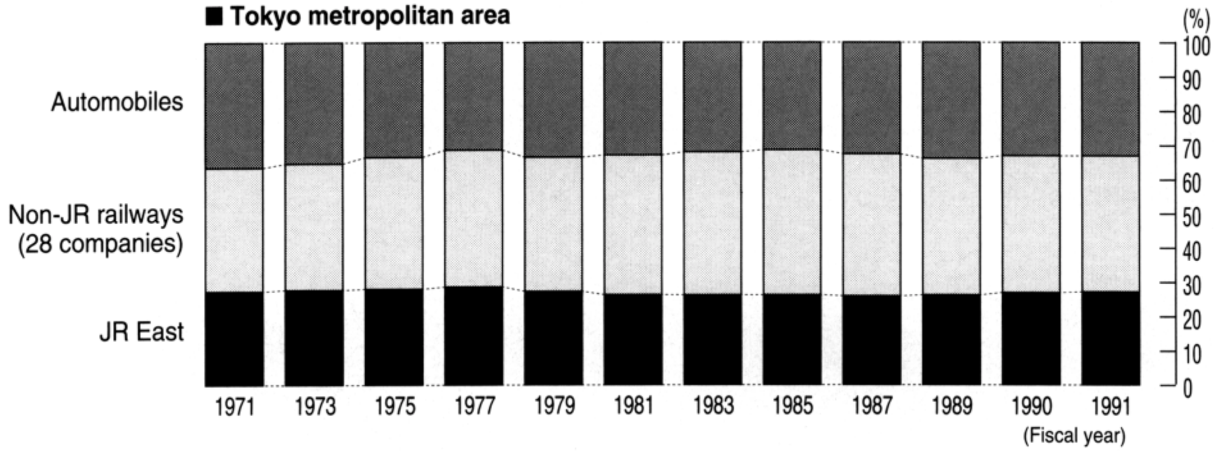


Modal split of freight traffic

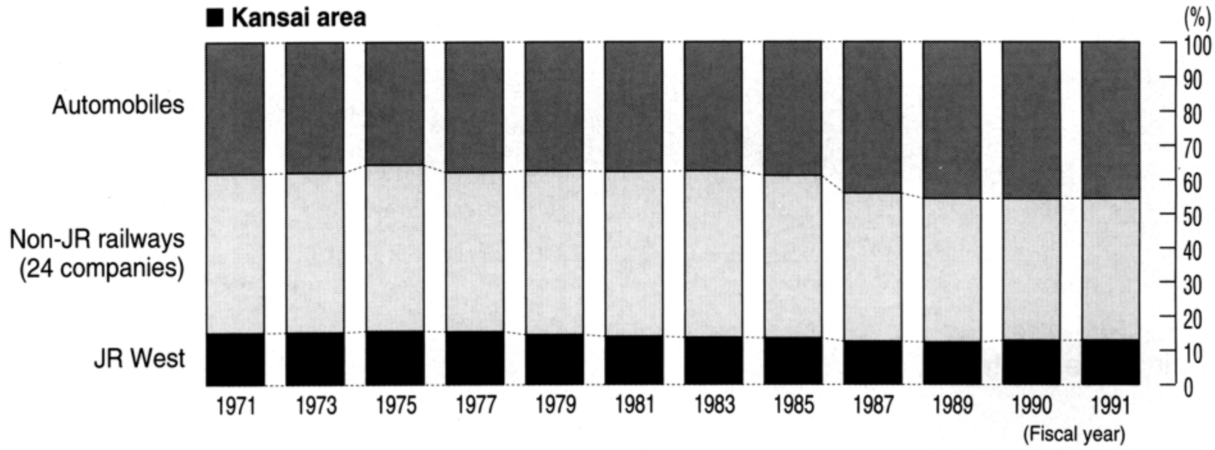


Source: Ministry of Transport statistics

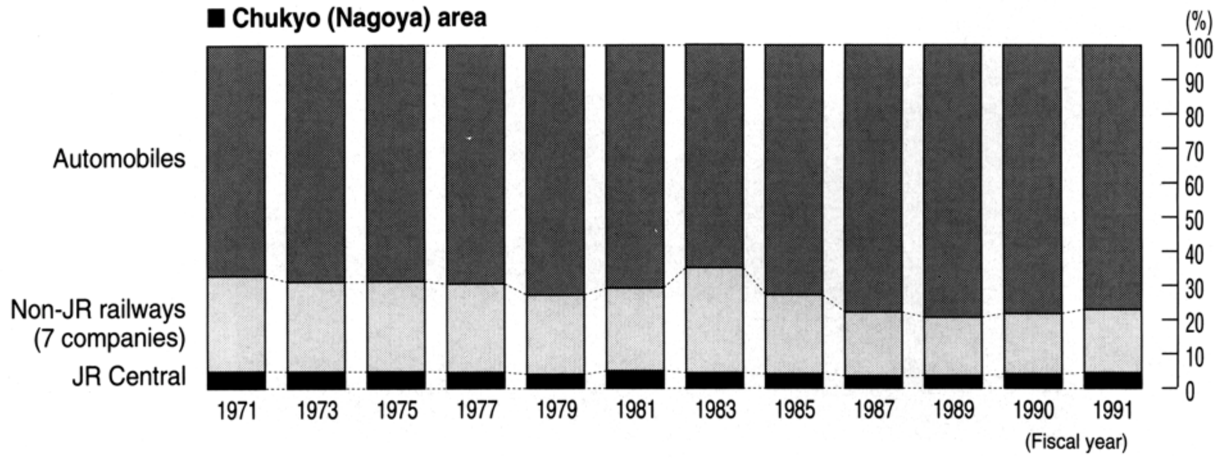
Modal split of passenger traffic in large cities



Passengers travelling into metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama) plus those travelling within area



Passengers travelling into Kansai area (Osaka, Kyoto, and Hyogo) plus those travelling within area

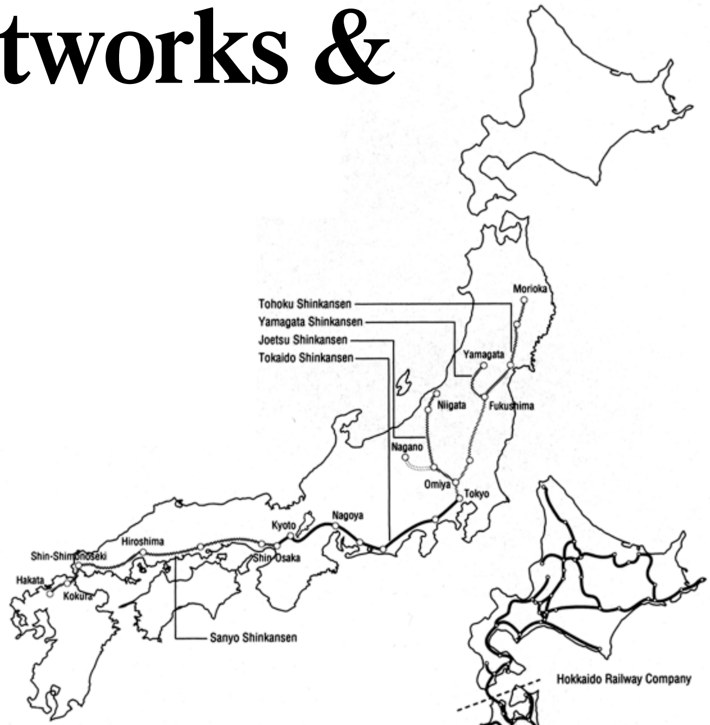


Passengers travelling into Chukyo area (Aichi, Gifu, and Mie) plus those travelling within area

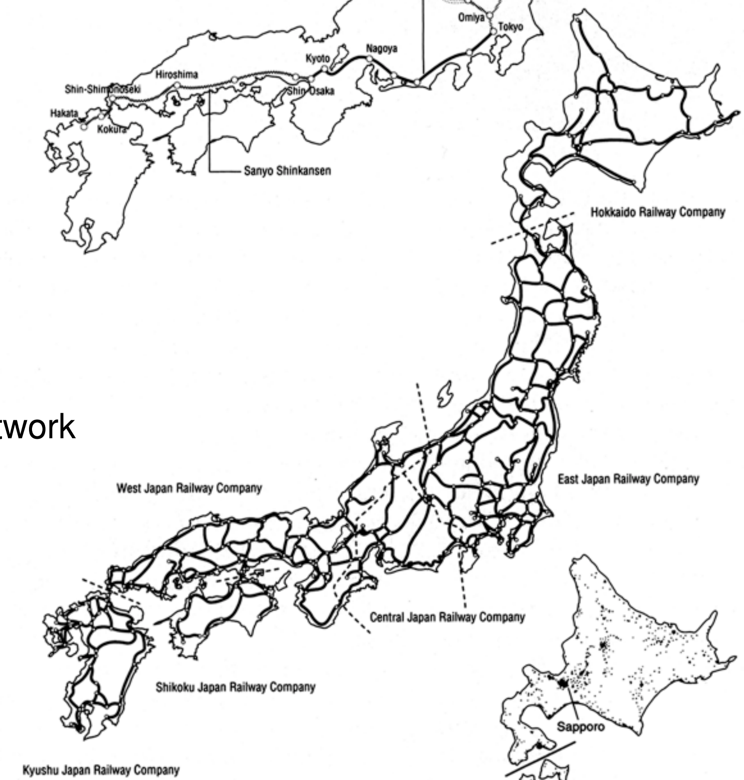
Source: Analytical data from studies of regional flow of freight and passenger traffic

Railway Networks & Population

● Shinkansen Network



● Narrow-Gauge Network



● Spread of Population