Japanese Private Railway Companies and Their Business Diversification

Takahiko Saito

Basic Characteristics of Major Railway Company Groups

In Japan, as in many of the other industrialized countries, automobiles play the principal role in passenger transport, accounting for almost 50% of passenger-km in 1994 (unless noted otherwise, all statistics are for 1994). However, the most salient characteristic of traffic in Japan is probably that railways are the second most important means of passenger transport, contributing to 33.4% of passenger-km. In fact, railways in Japan, including the shinkansen in intercity transport and the express commuter trains in big cities, play a vitally important role in the passenger traffic market.

As is widely known, the Japanese National Railways (JNR) was privatized in 1987 into seven Japan Railways Companies (JRs)—six passenger companies and one freight company. This imparted a unique character to the structure of Japan's railway industry. Although the seven companies are still new, their management and businesses have been privatized to such an extent that it is difficult to find any vestige of the former JNR in them. Furthermore, it is the private railway companies, especially the 15 major ones accounting for 94% of total passenger-km of private railways, that serve as the other locomotive of the Japanese railway industry.

Japanese private railway companies, which operate with no government subsidy, offered services at lower costs than did the former JNR, especially in large cities. Because of their efficient management, they won high social recognition and their success had a significant effect on the government plan to privatize JNR, by helping reduce much of the uncertainty and hesitation in deciding to privatize. The practice of JR management following the example of private railway companies has proved very successful. Since privatization, the huge annual loss in the JNR days has returned to the black.

It could be said that the profitable operation of the JRs and private railway companies in large cities is a unique phenomenon not found elsewhere.

The Japanese passenger railway business is conducted mainly by three groups—JR, private railway companies, and public railway companies. The JR group manages the nationwide network of railways that belonged to JNR. Private railway companies operate regional railways and twelve public railway companies operate subways and/or trams. Of the nine Japanese cities with subways, only Tokyo has two bodies operating subways: the Toei Subway run by the municipal government, and the Eidan Subway, which is run by the Teito Rapid Transit Authority, a publicly-owned independent corporation. The underground railways operated by JRs or private railway companies in urban areas are not called subways so they are treated separately from subways in the statistics. Incidentally, the Government has already decided to privatize the Teito Rapid Transit Authority which now operates 162 km of subway lines, or 70% of the total subways in Tokyo.

There are 149 private railway companies, 135 of which are engaged in passenger transport. Of these 135, 15 are major companies. The total length of line operated by the 15 majors is 2,860 km, or a mere14% of the total length of line—20,580 km—operated by the six JRs. Nevertheless, the number of passengers carried by the 15 majors is equivalent to 89% of the total number of passengers transported by the six JRs, and their passenger-km reaches 45% of those of the six JRs. In Tokyo, Osaka, and Nagoya, in particular, the 15 majors carry far more passengers than the JRs (60% vs. 40%), showing that the principal field of activity of the major private railway companies is big cities.

When it comes to railway operations in large cities, even JNR, let alone the major private railway companies, was in the black. The fact that railway companies engaged in commuter transport in large cities could maintain sound management without government subsidy is remarkable to managers of railway companies in other countries. The traffic market in large Japanese cities is extremely favourable to railway management. For example, the population within a 50-km radius of Tokyo is 29,570,000, for Osaka, 16,050,000, and for Nagoya, 8,530,000 (in 1995). Tokyo and Osaka are densely-populated metropolises, and most commuters to the city centres are captives of railways. Most of the major private railway companies have an average traffic density (number of persons in transit per day–km) of more than 100,000. For six companies, the average traffic density exceeds 200,000. High-density markets like these favour any railway company. On the other hand, these densities indicate the congestion on trains in Tokyo and Osaka. As a matter of fact, the infamous overcrowded passenger transport on an extremely tight schedule supports the profits of urban railways in Japan.

As a rule, individual private railway companies in large cities hold a monopoly in their territory. However, due to the circumstances leading to the formation of the present railway network (most JR local lines were originally intercity lines), there are cases where a JR and one or two private railway companies maintain lines in the same area and compete in terms of fares and passengers. In particular, in the Osaka-Kyoto and Osaka-Kobe areas where JR Central and two private railway companies compete, they are very active in setting competitive fares and improving speed and comfort.

Despite such competitive relationships, in terms of joint operation of trains, there are cooperative or supplementary relations between urban railway companies irrespective of differences in management mode. This is a characteristic of urban railway traffic in Japan. For example, in Tokyo, joint train operations have already been implemented between local JR lines or private railway companies and subway lines. Eight of the major private railway companies have such operations with subways. Similar operations have also been implemented in Osaka, Nagoya, Kobe, Kyoto, and Fukuoka.

As described above, the three factors supporting sound management of private railway companies are: (1) efficient management, (2) large, high-density market, and (3) overcrowding during rush hours. However, I would like to propose a fourth factor: business diversification at private railway companies. The following sections discuss the characteristics of Japan's private railway industry with focus on this fourth factor.

Private Railway Companies As Developers

The major private railway companies can no longer be viewed as mere railway or transportation businesses. Today, they are more like urban developers or local service businesses supporting the lives of people living along the railway line. Probably, the JRs and private railway companies differ most in this respect. The major private railway companies have many years of experience in business diversification and community development along their lines. In this respect, the JRs are far behind the major private railway companies because the former JNR was prevented by law from diversifying its business or forming a group.

Imagine living near a private railway line in a large city, particularly a residential town developed by the railway company. Not only will you be using the railway but the buses, taxis operated by the railway company and also the shopping and recreational facilities owned by the railway affiliates. Life in a town developed by a private railway company is sometimes called ironically 'cradle-to-grave security'. However, any town developed by a private railway company is associated in the minds of many people with a comfortable life in a space developed and maintained in a planned manner.

Many existing lines of the major private railway companies were constructed from the very beginning as electric railways for transportation in large cities. The Japanese railway network has expanded through several construction booms with intervening nationalization of railways; for example, the first railway boom (for 7 to 8 years from 1885), the second railway boom (1896–1898), the nationalization of railways (1906–1907), the light railway boom (1911–1915), the electric railway boom (around 1910 in Osaka and 1920s in Tokyo), and so on. In 1905, immediately before the nationalization of railways, the total track length of private railways was more than double that of the government railways (5,231 vs. 2,562 km). In those days, private railways were mostly intercity lines. As political and military demands for a nationwide railway network strengthened, the government took over 17 private railways (4,527 km) and merged them into the government railways in 1906–1907.

After this nationalization, establishment of new private railways was permitted only when they were to be engaged in local transport not interfering with JNR operations. As a result, in the field of rural transport, light steam railways were constructed around the country. In large cities, including Tokyo and Osaka, an electric railway boom occurred, giving rise to a succession of local private railway companies. The current network of the major private railway companies consists mainly of rapid urban railways (1) constructed as electric railways, (2) built originally as steam railways and later electrified, and (3) constructed as elec-

Tobu Bus Serving New Station and Housing Development (EJRCF)

Tobu's Housing Development near New Station (EJRCF)

Tama Den-en-toshi near Fujigaoka in 1966 (K. Sekita)

The Same Place 30 Years Later (EJRCF)

tric trams. The private railway companies promoted business diversification from the time they constructed their lines. Since there was strong tendency to readily permit private railway companies in areas with no railway lines, in order to survive, the newly-established companies had to increase the population near their lines and attract as many passengers as possible by creating entertainment near their lines. This practice created a stereotype for business diversification of private railway companies.

The pioneer was Hanshin which connected Osaka and Kobe by large-scale tram in 1905. To attract passengers, the company developed residential areas and recreational facilities (spas, mountain-climbing sites, and playgrounds) along the line. In addition, it started letting houses and building department stores at terminals. Within 10 years after its foundation, the company became widely known for its business diversification.

Hankyu emulated Hanshin and aggressively diversified its business. It laid an electric railway line between Osaka and Takarazuka and had to develop urban communities and recreational facilities along the line in order to remain in business because the area along the line was still undeveloped. Foreseeing financial difficulties after opening the Osaka-Takarazuka line, the company president took the lead in distributing a pamphlet to Osaka citizens describing the pleasures of living on the line. After the company succeeded in developing residential areas, it set about developing recreational facilities along the line and department stores and hotels at terminals. While failing occasionally, success was steady. As urban developments along the line expanded, the huge high-quality residential town came to be known as the 'Hankyu Plain'. The management practice adopted by Hanshin and Hankyu strongly influenced the management of private railway companies in Tokyo in the 1920s when a real private railway boom occurred.

When it comes to business diversification, the Tokyu railway network (about 100 km) in the western suburbs of Tokyo is now the leader in the Japanese private railway industry. The company formed the Tokyu group—Japan's largest private railway company group with about 400 affiliated companies and more than 100,000 employees. The predecessor of Tokyu was a real-estate company which developed a high-class residential area in the Tokyo suburbs. Tokyu entered the railway business by founding a railway company to build and run a line linking the residential area to downtown Tokyo. It is a rare example where a real estate business preceded the railway business. However, the company is a good example of the mode of private railway management in Japan in which railway management and property development near the line go hand-in-hand.

The same strategy has been used in a recent large-scale Tokyu development. The company constructed the Den-en-toshi Line with a length of 20.1 km (15 stations) in the southwestern suburbs of Tokyo between 1963 and 1984. At the same time, it developed Tama Den-en-toshi (Tama Garden City) with an area of about 5,000 ha by levelling a huge hill along the line. The population of the new town is now almost 500,000. The Den-en-toshi Line was eventually linked to the 9.4-km Shin Tamagawa Line (an underground railway line closer to central Tokyo) that Tokyu opened in 1977. A connection with the Tokyo Rapid Transit Authority subway line enables Tokyu trains to run into central Tokyo.

The above business strategy by Tokyu is of an unusually large scale. Similar smaller-scale examples can be found almost everywhere along the lines of the major private railway companies. In many cases, community building by private railway companies accompanies development of residential and commercial areas, improvement of public access to the stations, and construction of neighborhood amenities. Some companies even invite in campuses of well-known universities to improve the town's image. Generally speaking, these railway towns are well-maintained in a planned manner and offer affordable housing lots and high-quality houses. Private railway companies receive high social recognition as developers because of this.

Urban redevelopment near private railway terminals and famous sightseeing spots near big cities also offer good opportunities to private railway companies. The large commercial districts located along the JR East Yamanote Line in Tokyo and those in Osaka were originally business quarters formed near private railway terminals. More than a few private railway terminals share the same building with department stores, hotels, restaurants, etc. Private railway companies also have strong influence in the management of commercial and office buildings and theatres near their terminals. The area near the Hankyu Osaka (Umeda) terminal, where there are many Hankyu-owned buildings, is called 'Hankyu Village'. Development of recreational facilities by big private railway companies at famous sightseeing spots has a long history, and the competition in resort development between private railway companies is so fierce that it became the subject of a novel, *Hakoneyama*, describing the fierce competition between the Odakyu and Seibu groups in developing resort business at Mt Hakone, about 60 km south of Tokyo. However, unlike private housing development, there are quite large differences in the eagerness of different private railway companies to redevelop areas around terminals and to develop holiday areas.

Diversification through Development of Side Businesses and Business Group Formation

When discussing business diversification of private railway companies, it is necessary to distinguish between the business diversification at the company itself, and the business diversification implemented by formation of a business group. The business diversification of individual urban railway companies has much in common, although details may differ. By contrast, business diversification by formation of a group, differs greatly from one company to another. For example, Seibu Railway's distribution group and Hankyu's Toho group are very independent of their parent company, although they use the parent company name. Thus, irrespective of past circumstances, some private railway company groups can hardly be regarded as such. Some groups deploy delocalized businesses having nothing to do with the business territory of their parent railway company.

Table 1 shows that the most popular side businesses of private railway companies are bus operations and real estate busi-

Table 1 Major Private Railway Company Statistics and Operating Revenues (fiscal 1994)

Company	Line Length (km)	Passenger-km (million)	Railway Revenues in ¥ billion (%)	Bus Revenues in ¥ billion (%)	Other Revenues in ¥ billion (%)	Total Operating Revenues in ¥ billion
[Tokyo area]						
Tobu	*464.1	14,366	141.6 (59)	35.4 (15)	63.3 (26)	240.3
Seibu	*179.8	9,489	87.3 (39)	– (–)	138.3 (61)	225.6
Keisei	91.5	3,860	51.3 (59)	26.9 (31)	8.1 (9)	86.3
Keio	84.8	6,936	69.4 (59)	21.3 (18)	26.6 (23)	117.3
Odakyu	121.6	10,983	95.6 (63)	0.7 (0.5)	56.4 (37)	152.7
Tokyu	100.7	8,759	105.5 (40)	– (–)	159.4 (60)	264.9
Keikyu	83.8	6,275	61.5 (46)	23.9 (18)	47.0 (35)	132.4
Sotetsu	*35.0	2,823	28.2 (21)	8.9 (7)	94.5 (72)	131.7
[Osaka area]						
Kintetsu	594.2	15,252	189.3 (74)	10.2 (4)	54.6 (22)	254.1
Nankai	172.3	5,036	65.7 (56)	12.3 (11)	38.6 (33)	116.6
Keihan	91.9	5,319	60.1 (57)	– (–)	45.3 (43)	105.4
Hankyu	146.2	10,339	103.6 (58)	– (–)	73.7 (42)	177.3
Hanshin	45.1	2,187	28.9 (41)	5.4 (8)	36.5 (52)	70.8
[Nagoya/ Fukuoka areas]						
Meitetsu	539.3	7,313	81.9 (55)	22.3 (15)	45.1 (30)	149.3
Nishitetsu	121.1	2,089	25.4 (17)	75.3 (51)	47.8 (32)	148.5
[Reference]						
JR East	7,502.0	128,144	1,872.3 (96)	– (–)	82.1 (4)	1,954.4
JR Central	1,983.5	49,508	1,119.0 (92)	– (–)	96.3 (8)	1,215.3
JR West	5,070.1	55,484	855.4 (98)	– (–)	18.6 (2)	874.0
TRTA	162.2	15,881	261.1 (98)	– (–)	4.2 (2)	265.3

* Including freight lines
Source: Yearbooks of individual private railway companies

nesses. The typical private railway company has three business departments: railway, bus, and real estate. Of the 15 major private railway companies, Tokyu, Seibu, Keihan, and Hankyu each have a subsidiary engaged in the bus business, so they do not have a bus department. (At Odakyu, the bulk of the bus business is entrusted to a subsidiary.) All the 15 major companies are involved in three types of bus operations (normal bus services, rapid intercity buses, and bus rental services). Some offer these services themselves, and others entrust them to subsidiaries. The same applies to the real estate business. Most major private railway companies allot some part of their real estate business to subsidiary companies. Therefore, it is not very meaningful to compare side businesses between private railway companies. However, to show the general trend, Tables 1 and 2 indicate revenues and earnings by department; at some companies including Tobu, Keisei, Keio, Keikyu, Kintetsu, Meitetsu, and Nishitetsu, the operating revenues of the railway or traffic department (railway and bus) are much larger than those of the development department, etc., whereas at other companies, the reverse is true. The former companies have a strong image of railway companies with modest business diversification. This is especially true of Keisei (90% of operating revenues from railway business), Kintetsu, Keio, Tobu, and Meitetsu. Kintetsu, Meitetsu, and Tobu have relatively long lines (594 km, 539 km, and 463 km, respectively). Nishitetsu, based in the Fukuoka area is a unique case. It is Japan's largest bus company, as well as a major private railway company, and the revenues from bus services account for about 50% of the total. By contrast, the proportion of revenue from the railway business is relatively low at Sotetsu, Seibu, Tokyu, and Hanshin. Sotetsu, which only became a major private railway company in 1989, is engaged mainly in the real estate business. In the railway business, it only runs a 35-km commuter line. Seibu with 175 km of lines has focused on the tourist industry in recent years and the revenues from this business account for 70% of the total from side businesses. Recently, the revenues from its tourist business exceeded revenue from its railway business. Seibu's tourist business comprises 23 types, including amusement parks and sports. Since many sites are located in the suburbs of Tokyo, they attract passengers.

Tokyu is well known for its efficient railway management and aggressive, stable real estate management. It is highly evaluated as Japan's leading private railway company. The company has four departments: railways, real estate, hotels, and others. The railway and real estate departments account for the bulk of operating revenues and earnings (railways 49%, real estate 33%, hotels 2%, others

Table 2 Operating Profits and Loss of Major Private Railway Companies

Company	Railway in ¥ billion (%)	Bus in ¥ billion (%)	Other in ¥ billion (%)	Operating Profit in ¥ billion
Tobu	15.00 (44)	-2.12 (-6)	21.49 (63)	34.37
Seibu	14.31 (52)	– (–)	13.02 (48)	27.33
Keisei	8.45 (87)	-0.35 (-4)	1.62 (17)	9.72
Keio	11.03 (58)	-0.25 (1)	7.58 (40)	18.86
Odakyu	14.02 (51)	0.16(-0.6)	13.44 (49)	27.30
Tokyu	20.39 (49)	– (–)	21.52 (51)	41.91
Keikyu	9.78 (55)	-0.66 (-4)	8.56 (48)	17.68
Sotetsu	4.54 (28)	-1.06 (-6)	12.50 (78)	15.98
Kintetsu	16.04 (51)	-1.43 (-5)	16.63 (53)	31.24
Nankai	8.08 (44)	-1.25 (-7)	11.50 (63)	18.33
Keihan	6.64 (49)	– (–)	7.02 (51)	13.66
Hankyu	8.73 (42)	– (–)	11.97 (58)	20.70
Hanshin	2.76 (23)	0.13 (1)	9.38 (76)	12.28
Meitetsu	7.24 (43)	-1.24 (-7)	10.98 (65)	16.98
Nishitetsu*	2.43 (25)	0.77 (8)	6.36 (67)	9.55

* Figures for Nishitetsu are for fiscal 1995.
Source: Yearbooks of individual private railway companies

Table 3 Profile of Nine Major Private Railway Company Groups (fiscal 1994)

Company	Affiliated companies	Total capital (¥ billion)	Total annual sales (¥ billion)	Employees	Employees of parent company
Tobu	79	91.8	1,016.9	27,845	10,858
Keisei	139	75.8	521.4	21,204	4,706
Keio	40	63.1	513.4	16,000+	4,452
Odakyu	105	86.8	961.0	30,607	4,187
Tokyu	400	443.6	4,783.3	107,266	5,087
Keikyu	69	43.1	315.4	14,880	5,585
Sotetsu	38	64.6	377.4	6,750	2,430
Kintetsu	152	205.0	3,240.7	74,912	12,458
Meitetsu	294	173.0	1,560.9	59,677	8,277

Only groups from which all five data items were obtained are shown.
+ Approximate figure
Source: Yearbooks of individual private railway companies

Railway Business Diversification with JR Hotel and Office/Shopping Complex, and Seibu and Tobu Department Stores near Ikebukuro station (Tokyo) *(JR East)*

16%).

Odakyu, Hankyu, and Keihan fall between the above two groups. With the bus business (of subsidiary) added to their side business, they approach the former group. However, it should be noted that in terms of revenue from side businesses, Hankyu is the No. 1 private railway company outside the Tokyo area. Table 1 also shows the figures for the three JRs in Honshu and the Tokyo Rapid Transit Authority. Although the proportion of revenue from side businesses at the three JRs is considerably smaller than at private railway companies, the absolute amount is not much smaller than that at any private railway company.

Table 2 shows the earnings by department at the 15 major private railway companies. Although detailed explanation is omitted here, it can be understood that the proportions of earnings from other departments are generally high (compared with figures in Table 1), that the companies depend on the real estate business for profits, and that the bus business is generally in tight financial conditions.

Looking at the group formation by company, very different results are obtained. At Kintetsu and Meitetsu, the head offices focus on the railway business, but are active in large-scale business diversification by formation of a group. The Kintetsu group, in particular, has emerged as Japan's No. 2 private railway company group, second only to the Tokyu group. The Tokyu group is huge with about 400 member companies and 100,000 employees; annual sales total ¥4,783 billion. It includes 10 firms listed in the first section of the Tokyo Stock Exchange. The Kintetsu group has 152 members and almost 75,000 employees with annual sales amounting to ¥3,240 billion; seven companies are Stock-Exchange listed. In terms of the operating revenues at head office too, Tokyu and Kintetsu hold the No. 1 and No. 2 positions, respectively. At Tokyu, the revenues at the head office account for just 5.5% of the total operating revenues of the group, and the revenues from its railway business account for only 2.2% of the total group operating revenues. At Kintetsu too, the situation is roughly the same (7.8% and 5.8%), respectively. These figures show the size of the two groups (Table 3).

Other famous private railway company groups include the Meitetsu group (294 member companies; 60,000 employees;

Tobu World Square Theme Park near Kinugawa, 100 km North of Tokyo *(Tobu Railways)*

Kintetsu Tourist Bus in Hawaii *(Kinki-Nippon Tourist)*

¥1,600 billion annual sales), the Hankyu group (No. 4 in total capital; four companies listed on stock exchange), the Tobu group and Odakyu group (each registering annual sales amounting to some ¥1,000 billion).

Looking at the contents of business diversification by group formation, the 15 major private railway companies share the following types of business: bus and taxi operations along their lines; distribution (department stores and supermarkets); real estate (housing and building leasing); construction (land development, etc.); tourism and recreation; hotels; travel agency; culture, etc. The fact that the above businesses supporting community life along the lines are included in all 15 groups indicates the origin of the group formation. In recent years, information-related businesses, including CATV and information networking, are increasing.

Interesting examples are ownership of a professional baseball team (Seibu, Hanshin), television broadcasting (Hankyu), city gas (Tobu), and college management (Tokyu).

Some large-scale private railway company groups show a marked tendency towards delocalization. For example, they include railway companies operating in remote sightseeing areas and bus companies operating in local cities, or construction of department stores, hotels, and recreational facilities in various parts of the country and even overseas. In terms of bus traffic, the Tokyu, Kintetsu, and Meitetsu groups each have territory throughout the country. In the real estate and tourist industries, still more companies are in businesses having nothing to do with their main line of business.

As examples symbolizing these activities there are the fierce competition between private railway companies in management of ski slopes, theme parks, and other resorts; Tokyu's hotels and recreational facilities in Japan and also in the USA, Europe, Southeast Asia, and Oceania; entry into international businesses, including regular airplane flight services (Tokyu) and manufacturing of rolling stock (Tokyu, Kintetsu, and Hankyu).

Delocalization alone does not indicate the aggressiveness of business diversification. For example, the Kintetsu group is the most active in diversification. However, in diversifying, the group gives top priority to areas along its railway lines. Deploying a new business at a place far from the lines involves high risk. In fact, some private railway companies have become cautious about business diversification after learning from past failures.

Social Evaluation of Business Diversification

The essence of railway management practiced by Japanese private railway companies is that genuinely private railway companies have played an important role in the social field of transportation without government subsidy; their successful urban development activity along their railway lines has helped support their main business. The above method of railway management has something in common with the 'developer proposition' (optimum behavier for developers) in economic theory. If a railway company carries out railway improvement and urban development simultaneously, the deficits from railway operations under optimum fares (equal to marginal costs) can be covered by the revenues from land (internalization of profits from development).

In other countries, business diversification at monopolistic railway companies has often been subject to strict regulation and companies were susceptible to public ownership. As a result, the method of railway management practiced by Japanese private railway companies is found only in exceptional cases as in the history of the Metropolitan Railways in London. Private railway companies in Japan were lucky that after nationalization in 1906, only private companies engaging in local transport were permitted, and that regulations were seldom enforced because of the fragile management foundation. It was also fortunate for the railway companies that although public ownership of urban transport was often suggested, it was not put into effect. Nevertheless, the present sound management could not have been achieved without a favourable market. The most fortunate aspect is the concentration of population and industry in large cities.

Although there is always a gap between

economic theory and actual economic phenomena, the history of the transport and community development activities of Japanese major private railway companies matches the above developer proposition quite well. Their aggressive management based on railway transport and community development was sometimes criticized as giving priority to profits rather than public good. However, after 1970, as the financial difficulties of JNR and publicly-managed railways worsened, the efficient and economically rational management of private railway companies gradually received high recognition. Today, even the success of the JR privatization is evaluated on the basis of its approach to business diversification.

If we are to evaluate private railway companies' diversification by the community development activities along their lines, the following two viewpoints can be taken.

One is that community development has offered convenient, high-quality urban life to the people living near the railway lines. Neither the former JNR nor public railways have undertaken any coordinated activity in urban transport and community development, and such coordination is also impossible for a housing developer. Private railway companies have clearly recognized and exploited their advantage in this field.

Needless to say, for railways running through built-up areas, development sites are hard to secure and the investment risk is high because it is uncertain whether the profits from the development will be large enough to cover the costs. This is why many urban redevelopment projects in towns or cities are entrusted to public entities. In fact, urban development projects by private railway companies were mostly concentrated in low-risk fields, such as development of large commercial areas near terminals.

The second viewpoint is that the urban development activity of private railway companies has helped them to maintain stable profitability. According to the developer proposition mentioned above, if a railway company is also to act as a landowner for housing along the line, without fare regulation, the company should set the train fares at an inexpensive but optimal level. However, this condition is not met in Japan where railway fares are set (with government approval) to maintain profitability. Needless to say, we cannot expect conformity of reality with pure theory. Even so, we should note that in the case of Japanese urban railways, overcrowding has played a favourable role. Regardless of whether or not it is good traffic policy, congested urban railways have enabled fares to be kept low. Since overcrowding has supported sound management, the successful community development may have been supported by it too.

Private railway companies have strived to increase passengers by developing large residential areas along their lines, building shopping centres, expanding business quarters near railway terminals, creating recreational facilities and sports facilities, inviting in universities, etc. With the exception of local private railway companies engaged in unprofitable railway transport, Japanese private railway companies have not as a rule been granted government subsidies for capital or management expenses. Although low-interest funds are available from government banks, the Japanese private railway industry has been strictly self-supporting.

Despite the terrible congestion during rush hours, the trains and stations of private railway companies are clean and individualistic. Furthermore, in big cities like Tokyo and Osaka, their fares are lower than those of the JRs. (In the JNR days, the fare gap was even wider.) The high social standing of the private railway industry can be traced to the fact that they have continued to offer passenger services at lower fares than those of the former JNR without public financial aid.

The successful management of private railway companies has not only brought better passenger service at lower cost but has also helped prevent unplanned development along the railway lines. Furthermore, it has saved public funds. Nevertheless, the ability of private railway companies should not be overestimated; their success is backed by a huge market and, more importantly, overcrowded passenger transport. Consequently, success may not be automatic even if their expertise is introduced into a foreign railway company. ■

Takahiko Saito

Takahiko Saito is a Professor at Kinki University where he has taught since 1971. He was Visiting Scholar at Erasmus University, the Netherlands, in 1994–1995, and was appointed Vice-Chairman of The Japan Society of Transportation Economics in 1995.