Japanese Style Privatization in Comparison with Thatcher's Style Privatization

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Preface

The subject of this paper is to analyze the policies of privatization in Britain and Japan, and to compare both policies from the points of their character, effects, and problems.

Deregulation and privatization have spread all over the world as means of promoting competition, market economy or relieving the financial crisis of national budgets. In particular privatization has proceeded not only in Europe, but also in the middle of third world recently.

The international organizations such as IMF, the World Bank so on have influenced on this trend through advices or recommendations.

The empirical study of the two nations' privatizations is important to understand the meaning, role, and impact of this policy. Because the privatization plan has implemented completely judging from their sale, targets, degree of ownership transformation, and social-economic influences.

1. Historical background of the privatization

We can regard the 1980s as an age of deregulation. Many advanced countries has pursued "a cheap government" through deregulation, because they faced
financial crisis and found it difficult to continue to maintain the welfare state as before. Especially in the U. S. A, where the competitiveness of the main industries declined and the government deficit increased as a result of the growth of military expenditure, deregulation was expected to become the effective policy to revitalize the private sector and reduce administrative costs. So to speak, deregulation was thought to lead to overcome “twins deficits”.

In the age of Reagan, the policy of deregulation reached its culmination, and with joining the wave of economic globalization, it influenced rapidly on almost advanced countries which fell into the same disease.

However, the degree of its influence varied in accordance with the conditions of each region or state. In Europe, the EC Commission has tried to promote regulatory reform consistently. The Commission has to break up the national divisions within the common market in order to integrate EC economies. In addition, so as to achieve this purpose, the Commission has to require the member states to abandon their national regulations and to transfer their discretionary powers to the EC Commission. But there was a powerful policy trend which resisted neo-liberalism or neo-conservatism among the member states. This so-called social-democratic policy under which the Continental states have sought for “organized capitalism” gave precedence to industrial policy (including employment policy and regional policy) rather than competition policy. They developed the public sector by maintaining the nationalized industries (France) or state-owned holding companies (Italy), and pursued the mixed economy in the name of “sozial markt” (Germany).

Despite these policy trends, deregulation has passed into the continental Europe gradually.

A. The case of Britain

It was Britain, strictly speaking Thatcher’s privatization that took the lead on the political permeation of deregulation into Europe. In Britain, where the Conservative and the Labour Party had played catchball of nationalization and privatization repeatedly postwar age, deregulation was represented by Thatcher’s privatization policy.
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Thatcher had developed the policy of opening up the capital markets trying to introduce the leading big businesses of Japan and U.S.A into domestic industries to enhance the competitiveness of the U.K. industry.

These policies, however, may conflict with the industrial policies, which were symbolized by protecting infant industries and maintaining nationalized enterprises. Thus they had to be connected to denationalization or liberalization and eventually be embodied into privatization policy. Britain had fallen into economic stagnation called the "British disease" in 1970s. Thatcher insisted on the recovery of the U.K pride and found a valid remedy in the reconstruction of the "laissez-faire" state of the 19th century.

Another reason for privatization lies in the expectation of the EC integration in 1992. It seemed that Thatcher's government might consider it profitable to transform the ownership of big businesses in the public sector (including the public utilities) into that of the private sector regulated under the Commercial Code. In spite of her anxiety about the EC super-state, this was the reason why Thatcher had a positive concern in the EC integration.

B. The case of Japan

The factors of accelerating privatization in Japan were found in the increase of national budgetary deficits and the worsening of management in the public corporations. Private companies in Japan got over oil crises in 1970s through adopting an energy saving strategy and promoting "genryoh-keiei" such as rationalization, innovation, down-sizing etc...

Contrary to this, government continued to pursue the Keynesian Welfare state. As a result of this, it had to face with a financial crisis in the 1980s and didn't manage the public finance elastically because of the accumulation of "red ink" bonds. Then the Nakasone government, considering the criticism for the government's failure by the business world, established the Second Ad. Hoc. Council on the administrative reform (the second Rinchoh) in 1982, and promoted reform under the leadership of Toshio Dokoh (former chairman of Keidanren) and Yasuhiro Nakasone (prime minister). In this Rinchoh, the reorganization or restructuring of public corporations was expected to be a major contributor to the
national financial deficit. Rinchoh suggested that three public corporations should be privatized.

As for the other domestic factors, we can point out that rapid technical progress and a change in the 'industrial structure', combined with the so called maturity of "hi-tech society" achieved in the 1980s. This change forced the public corporation such as NTT to review its existing economic role. The government as well as the business world were anxious that if they were left alone continuously, the public corporations could not function as the infrastructure of "hi-tech Japan". Without organizational reform, there was a concern that the public corporations would not match the industrial needs.

In addition, there was another catalytic factor in privatizing the public corporations, namely foreign pressure. In particular Japan bashing by the U. S. A., which resulted from trade friction, influenced on domestic economic system in Japan. The Reagan government expected that the privatizations of NTT and JTSCP would enable the related industries in the U. S. A. to enter Japanese telecom and tobacco markets. In general, deregulation or privatization in Japan would lead to the opening up of its domestic market and would accelerate the exports of the U. S. A..

2. Thatcher's style privatization

Thatcher won the general election in 1979 and after that maintained her leadership of the government till 1990. This should be evaluated as "the longest government" post world war II, and the philosophy of her policy was based on neoliberalism. Thatcher, as well as Reagan, pursued "a cheap government" adopting monetarism and supply-side economics. Although the first Thatcher government succeeded in constraint of inflation, achievement of economic growth, and increase of tax revenue to some degree, she failed in regulating the money supply and the reduction of financial expenditure. Then, the second government put forth a series of privatization scheme as a major micro-economic policy to make up for the failure of macro-economic policy. Here privatization could be, in general, defined as components of three factors-denationalization, deregulation or liberalization, and contracting out.
The number of major privatizations amounted to about thirty. In the first government (1979-1983), a series of privatizations took place in the fields of oil and electronics where the enterprises had been exposed to severe competition at home and abroad. It can be said that most of them had less public character and their scales was not so large. The annual amount of sale was below 500 million pounds.

In the second government (1983-1987), the targets of privatization expanded to the field of "natural monopoly" such as public utilities and the annual amount of sale increased to above 2 billion pounds. In this period, the movement towards the EC integration, the activity of the domestic economy, and the financial reform accompanied by "big bang" accelerated privatization programs. In the third government (1987-1990), the water industry was privatized and the annual amount of sale came up to about 5 billion pounds. It seems that the public utilities, which could not be expected to be profitable remain in the existing form.

It should be noted that the project of selling public house has been implemented on a large scale in parallel with the above privatizations. Since 1979, the number of sales has reached about 900 thousand houses.

A. Ideology and objectives of privatization

The ideology of Thatcher's privatization was based on "popular capitalism". This consisted of share holder or asset holder democracy supported by an ideology which aimed at expanding the middle class, evoking labour incentives and strengthening British industries. In privatizing, many preferential measures (loyalty bonus, bill voucher, matching shares, installment), which recommended the public to purchase the privatized shares, were adopted to increase the number of applicants such as employees, regional people, and the general public. The objectives of privatization were as follows:

1) Economic effect;
   a) Micro effect; promoting competition, enhancing efficiency (total element of productivity, allocation of resources, abolition of cross-subsidy), increasing the consumer benefit (price, service and so on).
   b) Macro effect; financial effect (reduction of PSBR, proceeds, increase of corporate tax and so on), industrial effect (industrial competitiveness, re-
adjustment of infrastructure), international trade effect, employment effect
(employment creation, revitalizing manpower).

(2) Political effect;
(a) reduction of political intervention and administrative regulation.
(b) trade union crushing and pressure on the labour movement.
(c) influence upon election.

B. Privatization plan — its character, form and procedure

It seems that privatizations in Britain were implemented inconsistently, taking consideration of the business situations and political conditions at times rather than subject to consistent planning. The most outstanding character of the privatizations lay in selling off the shares of the public utilities drastically. They were based on the theories of principal-agent relationship, contestability, public choice and so no. We can divide the form of privatizations into two types; (1) the sale of shares, (2) the sale of assets. Concerning the form of privatization from the view of law we can classify them as follows: (1) transformation into a limited Company and sale of the shares with a new act, (2) splitting enterprises with legal or regulatory reform (divestment), (3) disposal of assets without specific legislation. There are two kinds of sales; (1) private sale (2) public sale. Concerning the normal share-sate case, we can classify them into selling off the state-owned shares and selling off new shares (underwriting, floating). In selling off new shares, furthermore two methods (tender offer and public offer under a fixing price system) were adopted.

As for the procedure, we can understand it along the following stages:
Stage 1. Feasibility study. → Background & Options. → Ministerial decision.
Stage 3. Consider balance sheet and power to creat and sell a PLC → Well run PLC with reasonable balance sheet.
Stage 4. Select/reselect advisers for sale. → Choose market slot, Produce prospectus, and Build image. → Final decisions. → Sell. → Transfer of
ownership from public sector to private sector completed.

C. The subjects which promoted privatization

Although the privatization scheme was promoted by Thatcher’s government, it was also supported by the economic institutes such as IEA and Adam Smith Association. Many financial institutions including merchant banks in the City and some directors of the privatized enterprises also took part in this “event”. As for the market environment, London stock market continued to be active in the 1980s except for the shock of “Black Monday” in 1987. However, the government played an important role in creating this stock market boom. It invested much money in advertising, and gave the applicants chances to obtain capital-gains through “selling the family silver” cheaply, and forced the target firms of privatization to engage in “dressing up”.

D. Regulatory reform

When privatizing public utilities, the government set up new regulatory bodies. The discretionary power of supervising the industries involved was trusted to them so as to increase the consumer benefit, and safeguard the public interest (universal service, safety, and equity). OFGAS, OFTEL, OFLECT, OFWAT and NRA were established as new regulatory bodies. In the case of public utilities, therefore, the privatization means regulatory reform rather than liberalization. Thus, while many measures such as duopoly policy, horizontal or vertical division, divestment were implemented, new regulatory methods (“RPI – X” formula, Yard stick competition) were introduced to secure both efficiency and consumer benefit.

E. Privatization and national interest

In some privatizations, a “special share” different from common shares was introduced to prevent acquisition or control by a specific individual, group, or foreign investor. This special share, the so-called “golden share”, was only a share (one pound) owned by the related minister, when the privatization occurred in the industry which related to the public interest, especially to the public security,
defence, mass media and so on. In short, the government holds this share in order to secure the national interest. Although the special share has no voting right and no dividend requiring right, it has special rights. If unexpected events which conflicted with the memorandum of association happened, the government could convene an extraordinary general meeting and exercise the veto in the following items.

(1) 15% voting restrictions
(2) 15% restriction on foreign ownership
(3) Restriction on issue of new voting shares
(4) British chief executive
(5) Government appointed directors
(6) Disposal of assets
(7) Restriction on winding up or dissolution

F. Effect of privatization

(1) Economic effect

As for the level of individual management, the performance of the companies took a favorable turn after privatization. But we can not decide whether the success relied upon the reshaping related to the privatization or not. However the employee share holding plan has not succeeded socially, and the income disparity between manager and worker has also widened after privatization.

Concerning the micro-economic effects, it is sure that price-cutting and improvement of services have been realized in some industries. As indicated by the complaints of many consumers, the “RPI – X” formula has not played a substantial role in price-cutting because of two-digit inflation in the late 1980s. This is also the case of the promotion of competition. Monopoly has continued in some industries (telecom, gas, aviation), and on the contrary excessive competition has taken place in other industries (bus, financial sector) after privatization. The concept of “non-symmetrical (pseudo) competition” has not achieved such a good performance as was expected at the beginning.

However, it is too early to conclude about the macro-economic effects. Dare to say, it is doubtful whether the privatization policy has strengthened the
competitiveness of British industry. The reason exists in the difficulty of promoting competition, which has come into collision with the industrial policy of preserving the national champions. Concerning the trade effect privatizations have improved the balance of trade to some degree. But it can be concluded that the privatization policy has resulted in a deterioration of working conditions and contributed to an increase of unemployment.

Summing up, British economy has been faced with recession since the late 1980s, and has not yet overcome depression. The ideology of “popular capitalism” has died with Thatcher’s decampment. Though it was announced that the number of share holders exceeded that of the TUC members, according to recent research, the number of share holders has decreased through their staggering behaviours. The privatized shares are being concentrated into the hands of the financial institutions.

(2) Political effect

The privatization policy was supported by the City, which stirred up investment fever among the public. A series of privatizations provided a wide political base to support the Conservative party by bringing prosperity to British economy temporarily. However privatizations lost their political influence in the late 1980s when the British economy decelerated. The setback of introducing the poll-tax and the failure of EC policy (opposing the entry of the ERM) were reasons for Thatcher’s retirement politically. As for privatization, Thatcher privatized the water industry by force despite the majority’s opposition, and furthermore suggested the renewal of charge (meter-system) along the lines of poll-tax. At the final stage of privatizations, people selected the status quo rather than reform.

G. Problems of privatization

Concerning motives, the privatization policy was criticized for being motivated by bashing the TUC or by contributing to the profits of big business rather than by the increase of consumer benefit.

As for the methods of privatization, the following problems were pointed out; (1) writing off debt or liability, (2) artificial improvement of the financial conditions of the target company by means of review of the depreciation cost, (3)
undervaluation ("selling the family silver" cheaply), (4) the collusion between government and City through employing the merchant banks as advisers, (5) enormous advertising cost, adviser's fee, and so on.

Concerning the results of the privatizations, the following demerits were pointed out: (1) destruction of the industrial infrastructure, (2) deterioration of service, (3) apprehension of consumer's becoming a 'loser'. We can conclude that the conflict between efficiency and equity would not be overcome easily.

As for the regulatory reform, the new regulatory bodies were too weak to secure the consumer benefit and to promote competition. Their regulatory activities were restricted by the small member, the financial dependence on the subscription of regulated industries, the difficulty of obtaining information, and the fact that they have no proper rights to regulate. It was observed that they were torn in a dilemma between government and regulated industries.

Major's government may strengthen the regulation on the privatized companies. Although British Rail will be privatized partially in 1993, it is uncertain that British Coal will be privatized. Because the government and BC failed to obtain peoples' support in dressing up the corporation We must keep on watching the movement of regulatory reform. It is difficult to tell at present whether privatization or deregulation will continue or not.

3. Japanese style privatization

— Focussing on the case of JNR

The period of 1981-1987 could be characterized as the age of administrative reform in Japan. This period began with the creation of the Second Ad Hoc Council on Administrative Reform (Rinchoh) and ended with the privatization of the Japan National Railway (JNR).

Rinchoh, chaired by Toshio Dokoh, raised two basic ideas of reform, namely (1) building a revitalized welfare society, (2) positive contribution to the world. To put it concretely, Rinchou aimed at drastic reforms in the following points: (1) the replacement of a paternal and protective administration by a new one which would require the people to be more independent and self-supportive, (2) the promotion of deregulation and privatization instead of the increase of government's control, (3) a
re-adjustment of relationships between the central and local governments, especially with respect to the transfer of power or jurisdictions to the local autonomous entities. Rinchoh submitted five reports during 1981-83.

Among them the Third Report in July 1982 was very important. The Special Panel chaired by Hiroshi Katoh, pointed out that public corporations had some troubles in the following points.

(a) An existence of special principal-agent relations; the Diet and government interventions, ambiguity of managerial responsibility, lack of ability to deal with labor problems etc.

(b) Lack of self-awareness on the labour side of thier role as public servants.

(c) Excessive requirements of the peole to the public corporations.

(d) Difficulty of managerial control due to a large scale of organization.

The report insisted that the public corporations could not control themselves within the existing framework. Then it suggested that the public corporations (JNR, NTT, JTSPC) should be privatized, and effective competition be introduced in these fields. Privatization could be evaluated as the representative policy among many measures suggested by Rinchoh. In fact privatization scheme of three public corporations became a key problem in terms of overcoming (1) inefficiency, (2) harmful monopolies, (3) diseconomies of scale. In particular the privatization of JNR was the most controversial and symbolic of a series of Rinchoh’s reforms.

It was seen as the focus of Rinchoh because of its huge financial deficit and fierce objections against the privatization (possibility of disregarding the public interest, bad influence on labour conditions and passenger safety, managerial inequality among the divided companies).

In this chapter, we consider the privatization in Japan according to the same form as the above chapter.

A. Ideology and objectives of privatization

As for ideology, there were no powerful ideologies in promoting the privatization and no academic groups or research institutes which affected a policy formation like IEA in Britain. Though some scholars, who believe in the thoughts of neo-liberalism and public choice theory, participated in Rinchoh as commission-
ers, they could not provide the new thought for the privatization. This was the case of others, who imported the theories of contestability and principal-agent relation. It is wrong, however, to say that there was no ideologies in privatizing the public corporations. For example, previous failures of reconstructing JNR required considering of the following problems: (1) government's failure, (2) comparison of performance between the public sector and the private sector, (3) principal-agent relations, (4) management accountability, (5) relationship between management and labour. The privatizations in Japan were implemented pragmatically on the basis of analyses obtained from domestic experiences.

Concerning the objectives, as the new theories were imported from the U.S.A. and Britain, there were no differences in comparison with the case of Thatcher's privatization. However, it should be noted that the word of privatization, which reminds the Japanese of “Kangyoh Haraisage” (private sale of the government enterprises) in the Meiji era, means basically the transfer of the public corporations to private companies within the framework of the Commercial Code. In contrast to Britain's privatization, it can be said that Japanese style privatization means only a narrow sense, that is, denationalization.

B. Privatization plan — its character, form, procedure

The target of privatization accompanied by ownership transformation in Japan was limited to the three public corporations. These three were privatized at a stretch in the middle 1980s. One of outstanding points which characterized the privatizations is that the government took a prudent attitude in selling the shares. It was said that the privatized companies should wait for selling their shares till the recovery of management. In fact it was worried that the stock market might reach a saturation or crowding out through selling NTT shares. Thus the two of the three corporations remains in the form of “special company”, where the principal-agent relationship has not changed in reality. Only the shares of NTT has been sold off three times.

Concerning the procedure, so far as observing NTT’s case, almost the same procedure as that of Britain's privatization was adopted. Namely the big four security companies underwrote and floated NTT's shares. However, it should be
noted that the special share was not introduced.

C. The subjects which promoted privatization

As for the subjects, no differences were found there. The conservative government and the Liberal Democratic Party promoted the privatization policy by force advised by the security companies. The business world also supported this policy and gave pressure on the bureaucrats, and some managers of the public corporations worked upon the government in concert with Rinchoh's recommendation. Despite the Kokuroh (the JNR's largest trade union)'s appeal to people and the Japan Socialist Party's resistance in the Diet, the proposal for privatization was supported by most of the people and mass media. The consumers had felt displeased with the frequent increases of fares and the quality of services.

D. Regulatory Reform

As for this problem, unlike that of Britain, the privatizations have not much changed the existing regulatory system. In the case of NTT, although competition was introduced to some degree in the fields of a long distance telephone and equipments, the NTT has maintained a dominant position in the telecommunication industry. It has been regulated substantially or informally by the ministry of the Postal Service after privatization. The NTT complains about the regulations of price, service and entry into new businesses. JRs has been also regulated substantialy by the Railroad Department of the Transport Ministry, though the statutory control system was transformed into the approval system concerning the fare, service, investment plan and so on. After all, the privatizations only excluded the political intervention to some degree. It can be said that in Japan the bureaucrats have adhered to the existing discretionary power intently.

E. Privatization and national interest

It should be noted that a special share was not introduced in Japan. Instead in order to secure the national interest one third of total shares should be held by the government under the Telecommunication Business Act and no share-holding of foreigners had been permitted under NTT's memorandum (now being under
consideration of opening up 20% to the foreigners). Though it is difficult to judge which measure is more suitable for open market, the measure in Japan seems to be much closed to the foreigners.

F. Effect of privatization

Before examining the effects, we explain the outline of JNR’s privatization. JNR was split up and privatized in 1987. The regional division was decided by the following reasons; (1) to realize the appropriate size of management, (2) to respond to the demand of regional economies, (3) to introduce competition, and (4) to guarantee accountability in each region. In privatizing, the JNR Settlement Corporation undertook the burden of ¥25.5 trillion of the total longterm liabilities (¥37.1 trillion, as of April, 1987). The seven companies (six passenger railway companies and one freight railway company) and the Shinkansen Holding Corporation took over ¥5.9 trillion and ¥5.7 trillion respectively. With regard to the clearance of the huge liabilities, Japan Railways (JR) should inherit a level of debts consistent with being able to repay the amount with interest included, subject to the implementation of rationalization and cost reduction. In order to settle the problem of overmanning, a measure to suspend the recruitment was adopted. Surplus workers were gathered to the JNR Settlement Corporation, which was responsible for promoting reemployment through its activities such as job-training. It also holds the shares of the seven companies (9.19 million shares, the sum of unit share ¥50 thousand, the total, ¥459.5 billion) and a part of the railway lands.

The Shinkansen Holding Corporation was established to deal with the debts related to the Shinkansen. It owned four Shinkansen lines and began to lease them to JR. The debts related to Shinkansen are expected to be made up for by the lease proceeds. In October 1991 this corporation was dissolved (the four Shinkansen were sold and now owned by JR) and a new special corporation named the Railroad Adjustment Fund was set up for “the purpose of constructing the Seibi Shinkansen”.

The industrial behaviour of JR has changed remarkably since 1987. Although some economists commented that JR’s profits after privatization were
artificially made by the Transport Ministry's plan and that their actual management was inferior to that of the JNR age, it is sure that the financial conditions of JR$s have improved gradually. Concerning the volume of passenger traffic (person/kilometer), the three inland JR$s have increased volume by 1–3 percent yearly. With regard to freight transport, despite a decrease in the volume transported by freight car, it has increased the annual growth rate by 3–7 percent as a whole because of rapid growth of container transport. Reflecting the gradual increase of the volume, the conditions of profit and loss have improved to some extent. While the three inland JR$s have recorded operating profits of ¥100–300 billion, the three island JR$s have barely maintained plus profits through making up for the losses by the proceeds obtained from the use of the Fund for Stabilizing Management. In 1989, the total operating profits of JR$s reached ¥268.4 billion and increased by 2.67 per cent. The Japan Freight Railway Company has also secured ordinary profits through the increase of container transport and rationalization such as cost-cutting and reduction of employees.

The good performance of JR$s has been supported by the domestic prosperity, and the effect of big projects such as the Seto Bridge. Much of this is, however, due to the endeavour of JR$s' management to develop positive profit-earning policies (operation of extra trains, speed-up, improvement of train connections, provision of diversified services, introduction of new trains, improvement of stations and facilities) and the retrenchment policy through rationalization.

Some serious problems, however, still remain. The largest problem is that the primary plan of eliminating the long-term liabilities has not proceeded according to schedule. Though the JNR Settlement Corporation had a responsibility to sell the railway lands through competitive tendering, it could not do. Because the government was worried that sale of lands might contribute to a further rise of land prices. In addition, it was also unable to sell off the shares owing to the current decline of Japanese stock market.

(1) Economic effect.

We begin with examining the effect of privatization on the transport market. During 1987–1989 the total volume of JR$s' passenger traffic(person/kilometer) increased by 2–5 per cent year by year. The growth rate of JR$s' total volume in
passenger transport has exceeded that of private railway companies since 1987. Privatization has played a decisive role to increase the traffic volume. We analyze the micro-effect in the following criteria; (a) efficiency, (b) equity, (c) safety.

(a) Efficiency. It can be estimated by two criteria; productivity and allocation of resources. As for the former, especially labour productivity, JR s are seen to have achieved a substantial increase of productivity. The total number of employees has decreased from about 350 thousand in 1984 to below 200 thousand in 1989. As JNR's Workers Union (Kokuroh) and its political party (the JSP) lost their powers and declined rapidly in the 1980s, they could not resist the rationalization. Furthermore, the relationship between management and labour has been improved for the past several years. The wage scale has been restricted and no disputes such as strikes and walkouts have taken place. Concerning the allocation of resources, the division and reform have enabled JR s to secure managerial autonomy to some extent and to reduce operating costs. Allocation of resources has become efficient through the retrenchment policies and the adjustment policy of deficit local lines. 83 local lines have been abolished and replaced by the bus services or transferred to the third sector (the mixed enterprise). Furthermore, it is important that the super-base structure ("base" means mainly the fixed capital like railway lines, stations and railway lands; "super" means the operations and services which use the "base") was separated as seen in the case of the Shinkansen. The separation of ownership and use (enterprise: type 1, type 2, type 3), if it had been done thoroughly would have made JR s' management more efficient, by reducing the risk of fixing their capital for a long time. As the existing price regulation (Sohkatsu Genkashuigi; a variation of "fair rate of return" regulation) was not reformed, the cross-subsidy has not been eliminated from JR s' management. However, allocation of resources has become more efficient as a whole.

(b) Equity. In the case of railway industry the equity can be examined in terms of fares and services. As for the former, JR s maintain the traditional fares based on an equal nationwide rate system (unit fare multiples distance). This is because government thinks that JR s should serve the public interest and that if JR s set up fares freely in accordance with the fluctuations of demand (business cycle, season, regional conditions), some customers would become losers. As for the latter, the
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problem is related to the opportunity of enjoying a universal service. It can be said that universal service, including alternatives supplied by other means of transportation (e.g. bus), has been nearly guaranteed. The government subsidized the local small private railway companies (¥1.0 billion), regional bus companies (¥10.4 billion) and the companies managed by the third sector (1.4 billion) respectively in 1989. Generally speaking, as for the consumer benefit we can evaluate it positively. The services of passenger transport have been diversified in response to the demands of customers and shifted in accordance with the actual needs of regional economy. The staff attitude towards customers has improved rapidly. The largest benefit for consumers is that JRIs have not raised their fares after privatization. This has enabled JRIs to reduce the price-gap in relation to the private railway companies and to recapture customers in urban areas.

(c) Safety. With regard to safety, the number of railway accidents, especially those at crossing points, which account for almost 90 per cent of all the accidents, has decreased gradually. This is due to the promotion of safety policy (e.g. the improvement of railroad crossings) and technological progress.

Secondly we should refer to the effect from the viewpoint of macro-economics. Macro-effect can not be evaluated at the present time. Nevertheless, it seems that thoroughness of rationalizations, especially the price policy and cost-reduction tactics had a good effect on the Japanese economy, if we consider the fact that JRIs still constitute one of the main industrial infrastructures.

It should be noted that the reduction of employees did not cause an unemployment problem in Japan. The JNR Settlement Corporation, under a special law designed to promote the recruitment (1987), took care of their employment. The shortage of workers in a prosperous Japanese economy contributed to these changes of employment. Though the special law ended in 1990, at that time the number of surplus workers was reduced from about 19 thousand in 1987 to about 1 thousand.

(2) political effect. The privatizations contributed to the stability of the long conservative control by the LDP. The Nakasone government won the general election.
G. Problems of privatization

The most difficult problem in privatizing the public sector is to harmonize economic efficiency with public interest. External intervention stifles efficiency. Contrary to this, market economy, if it should be implemented thoroughly, often in the name of freedom, causes a market failure which damages public interest. The JNR’s reform has overcome this dilemma to some degree. This was the reason why the privatization did not lead to deregulation in Japan. At the same time this problem casts a doubt over the future of the privatized companies. In order to compete with the private companies, it is required that they should be transformed into complete private companies which make themselves responsible for their managements. In this respect, for example, we must pay attention to the continuous decline of JR’s market shares.

The second problem is that the share-sale of JRs is not realized on schedule because of the decline of the stock market. Despite the market trend, however, the shares of JR Tohkai and JR Higashi should be sold off as fast as possible. If impossible, the principal-agent relation would not change substantially.

Lastly we need to understand a style specific to JNR’s privatization. The delay of JR’s transformation into private companies causes some misunderstandings. Some economists, who refuse the introduction of a “profitability” concept into the public sector, regard it as not “Mineika” but “Shieika” (control by private monopolist). Others, who support Thatcher style privatization, regard it as “Tokushu Kaishaka” (changing to only a special company). The former neglects the public character of a network industry such as JRs. The JRs would be regulated by the government even if the necessary conditions of the privatization were satisfied completely. While the latter group disregards the fact that the shares of JRs will be sold off to the public in the near future. Except for the case of NTT, the privatizations were not accompanied by their share-sale at once, and in general lacked some important factors in comparison with a Thatcher style privatization. In spite of these differences, JNR’s reform should be interpreted as a Japanese style privatization.
Conclusion

Here I would like to compare the privatizations between Britain and Japan. The two styles of privatizations have common characters in the following points. The first is that the privatizations covered the public utilities. The second relates to the strategy that aimed at complete privatizations accompanied by transformation of ownership through share flotation and selling off. The third is that the policy of privatizations attracted the concerns of people nationwide and accelerated the aspect of "casino-capitalism". However, we can distinguish Thatcher's privatization from the Japanese one in the next points. The first point was whether the policy of privatizations had a clear strategy of the nation-state or not. Thatcher intended to give a free hand to the public utilities so that they could advance into the continental Europe, taking into consideration the opening up of public procurement market in the EC. Contrary to this, the privatization in Japan was thought to be passive in that it was only a result of financial crisis or foreign pressure.

There are many differences in the form of privatization. While the transformation of public corporations into private companies has made progress in Britain, only a change into a special company has occurred in Japan in the two case of three privatizations (JNR, JTSPC). Some economists in Japan criticized, judging from these situations, that the privatization meant only a change within a framework of public ownership. Concerning the sale, while several methods of "selling silver" were pursued in Britain, in Japan the share sale was thought to be the best method in privatising the public corporations, as seen in the case of selling the state-holding shares (JAL). because of the bull market, In comparison with Thatcher's privatizations, the government in Japan did not adopt preferential measures such as bonus share, bill voucher etc. for the owner, furthermore did not expend so much money in advertising the case of the NTT's privatization. In addition, while Britain introduced the special share in order to protect the national interest, Japan did not do. For example, Under Telecommunication Business Act the government hold one third of the NTT shares, to be surprised, the memorandum of NTT did not permit the share holding of foreigners.
Bibliography