

AN INTERNATIONAL COMPARISON OF PUBLIC ENTERPRISE

—In Relation to its National Origin—

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In the three countries - the United Kingdom, the United States and Japan - there are conspicuous national differences seen in various aspects of public enterprise. The fact that public enterprise can take multifarious forms in different countries is already stressed by professor W. Friedmann in his conclusion of his book *Government Enterprise*¹⁾. In this paper, however, I want to stress the national difference in the origin of public enterprise. This origin is *Socialism* in the United Kingdom, *Liberalism* in the United States and *Bureaucracy* in Japan.

Socialism in the United Kingdom

In the United Kingdom the public enterprise is usually called the nationalized industry. When we follow the history of the nationalization movement in the United Kingdom, we can find two important features which cannot be identified either in the United States or Japan. The first feature is connected with the ideology of socialism advocated by the British Labor Party since the beginning of this century. The party is, of course, closely connected with the labor movement in the United Kingdom. During the Industrial Revolution in the nineteenth century large working classes were crowded in miserable slums in the new cities where industries spawned. Their working hours were long, and wages extremely low. Hostility of

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- 1) W. Friedmann, (ed.), *Government Enterprise* (London: Stevens & Sons, 1970), pp. 303-310.

laboring classes against the capitalistic way of production was enormous and persistent. It was for and among them that radical ideologies and political movements, especially socialism, developed to challenge the capitalistic order. The nationalization of basic industries like railways, coal-mines was regarded as an indispensable means towards realizing socialism. Laissez-faire ideology and absolute right of private property which had been the basic principles of Victorian society in the nineteenth century became the targets of the attacks of socialists. After the First World War, and also during the period of Great Depression, the British socialists regarded the nationalization as an absolute postulate of socialism. As tools of controlling economy at that time did not develop yet, they regarded public ownership much more important than we do now.

Such ideological movement culminated in the zealous advocacy of 'Workers' Control' in the 1920's and the famous General Strike in 1926.

The second feature of nationalization in the United Kingdom is pragmatic and realistic compared with the first feature. This British feature will become clearer when we compare the similar movement in Germany after the First World War 'Sozialisierung Bewegung' which was very strong for a while but ephemeral. The feature is connected with the demand of re-organization of basic industries. Reorganization means standardization, co-ordination and realization of the economy of large scale production. Before the First World War the average scale of U. K. business was small by our present standard. Many utilities like gas, electricity had been managed by small businesses - private as well as public - among which there had not been any co-operation. Lack of this co-ordination and standardization meant a great loss in efficiency. For example the voltage of a electric company was different from that of other companies. Even within London a family had to buy new electric equipments because of a different voltage when it removed to another ward of London at the end of nineteenth century. Therefore, nationalization meant the re-organization of industries. Before the First World War Britain had been already overcome in the international trade competition by the United States and Germany because her scale of production had been much smaller than her international competitors. In the

beginning of the twentieth century the powerful mass production of automobile in the United States had been leading the world market and large scale production in steel industry as well as in chemical industry in Germany held the hegemony. In the 1920's the traditional British industries like coal, railroads, and shipbuilding were half collapsed²⁾.

The abandonment of the ideology of 'Worker's Control' brought a considerable change in the socialistic character of nationalization. In 1933 under the guidance and personnel influence of Ernest Bevin the relinquishing of the demand for workers' control was conceded by the British Trade Unions. The syndicalistic idea of control of industry by trade unions was finally abandoned³⁾.

One word about J. M. Keynes must be mentioned in connection with nationalization movement. He did not like socialistic ideas in general and nationalization movement was also no exception for him. He was rather cynic toward these ideas. His biggest, but rather negative contribution may be that he stressed the importance of fiscal policy as a measure of controlling industry and that, as a result, he did not regard the change of ownership of basic industries from private to public as an absolute necessity for controlling the economy.

After the Second World War many industries were nationalized: Coal, Electricity, Gas, Railways are named four major nationalized industries. Besides them many smaller industries were also nationalized. Furthermore steel industry was nationalized in the sixties. In 1966 the investment share of public enterprise in total investment in the United Kingdom was 33.6%, in Japan 11.8% and in the United States 2.4%.

For the United Kingdom the nationalization of industry meant only the beginning of things. Various and constant endeavours have been made also after nationalization to make this change of ownership fruitful. The history of nationalization from 1945 testifies this. When we follow the history, we find many changes and improvements have been tried in this policy. If

2) A. F. Lucas, *Industrial Reconstruction and the Control of Competition* (London, 1937), pp. 21-25.

3) Henry Pelling, *A History of British Trade Unionism* (London: Penguin Books, 1967), p. 202.

we investigate these changes, we may find a highly pragmatic approach instead of ideological approach in them.

Liberalism in the United States

When we compare the public enterprise of the United States with that of the United Kingdom, we realize that in the United States there is complete lack of socialistic element in the role of public enterprise. It dislikes the increase of governmental activity in general. This public opinion is closely related to the firm belief in laissez-faire ideology. Historically seen, however, there is an interesting relationship between the laissez-faire ideology and the role of public enterprise in the U. S. In the formative period of American capitalism, namely, in the eighteenth century, this country was much readier to accept governmental intervention than Britain. A Total of over 150 mixed corporations in which the state government and private enterprise were partners, was marked in the official records of the year 1844⁴⁾. Two hundred years ago the U. S. made full use of public enterprise. This fact teaches us that any country makes full use of public enterprise as a device of rapid economic development and accelerating capital accumulation. President Andrew Jackson, however, rejected decisively the older form of tutelary government and asserted the principle of free enterprises at any cost⁵⁾. In the last quarter of the nineteenth century as a result of this policy the ideology of laissez-faire came to dominate in the public life of the United States.

The character and extent of public enterprise in the United States today has been appreciated by Professor Clair Wilcox as follows⁶⁾.

“Public enterprise, in all its forms, still plays a minor role in the American economy. In 1968, enterprise owned and operated by state and local government accounted for 0.45 percent of the national income, federal enterprises for 0.92 percent, all public enterprise

4) A. Shonfield, *Modern Capitalism* (Oxford University Press, 1961) p. 302.

5) A. Shonfield, *op. cit.*, p. 303.

6) Clair Wilcox, *Policies Toward Business*, (4th ed.: Illinois; R. D. Irwin 1971), p. 487.

only 1.37 percent.

The establishment of public enterprise in the United States, is not to be attributed to socialist ideology. For, in this country, the doctrine of socialsim have never been embraced by more than a tiny minority.”

Because of the general hostility toward governmental activity there has never been any development of public enterprse except in emergency cases. These emergencies happened in this country in two occasions: the one is the two World Wars and the second is the Great Depression in the 1930's. In the First and Second World War many government corporations were established. For example, there were approximately one hundred important corporations in the federal in 1949 according to the first Hoover Commission. But with few exceptions these corporations were liquidated in the 1950's. Likewise the New Deal brought also an expansion of public sector for a while. T. V. A. and Reconstruction Finance Corporation are typical examples of public enterprise in the 1930's.

The general dislike to the governmental activity can be found in the following statement made by the Shannon Committee in 1933. The Committe recommended the abdndonment of government connection with private enterprise and stated as follows: 7)

“The entrance of the government into commercial and industrial undertakings, backed by public credit and resources and its military and civilian personnel, for the purpose of competing with the business establishments and opportunities for livelihood of its citizens is in general, repugnant to our fundamental democratic institutions and aspirations.”

Typical examples of public enterprises existing now are: Tennessee Valley Authority, Post Office, Electric Power (but only 21.2 percent publicly owned, the rest privately owned) Port of New York Authorities, Water-distribution Projects, Urban Trasportation Authorities.

7) M. Fainsod & Gordon, *Government and the American Economy* (3rd ed.: New York: W. W. Norton and Company, 1959), pp. 751-752.

In the United States, however, there are some new developments in regard to the role of public enterprise. It is true, as Dow Votaw points out, that the economic system works best in this country if state intervention does not become extensive or too detailed⁸⁾. Nevertheless, two new tendencies must be pointed out which are closely connected with the new roles of public enterprise.

The first is related with the technological improvement. Adolf A. Berle mentions the relation between the technological research and public finance in his Preface to the Revised Edition of *The Modern Corporation and Private Property* as follows:⁹⁾

“Narly two-thirds of all technical research is now financed by the federal government. Through a great number of modern industries – one thinks at once of electronics, of aviation, and of space-satellite communication – this government-financed technique enters the process of corporate expansion. By no stretch of imagination can it be described as property primarily created by private enterprise. Like it or not, these assets are social and statist in origin. Complete turnover of these assets to “private” (that is, nonstatist) ownership seems wholly unlikely. Illustration of the impact – and of a compromise – is found in the Communication Satellite Act authorizing creation of Comsat, a corporation owned one-half by the federal government and onyhalf by private investors”

The second new development is “public authority” or in wider terms “special district”. The following is the definition made by the Council of State Governments in 1953:¹⁰⁾

“The organizational structure and powers of public authorities are of the type of usually associated with public corporations and like the latter they have relative administrative authorities. Public

8) Dow Votaw, *Modern Corporations*, (New Jersey: Prentice-Hall, Inc., 1965). p. 107.

9) A. A. Berle and G. C. Means, *The Modern Corporation and Private Property* (Revised ed.: The Macmillan Company, p. xiii.

10) Robert G. Smith, *Public Authorities, Special Districts and Local Government* (Washington: National Association of Counties Research Foundation, 1964), p. 21.

authorities are authorized to issue their own revenue bonds. They lack the power to levy taxes, but are empowered to collect fees or other charges for use of their facilities”

The total number of Public Authorities in the United States in 1972 is about 9,000. Most turnpikes, mass transit, parking facilities, port facilities are managed by this kind of public corporation. The characteristic of public authorities is found in its bond-financing, multi-county or multi-state activities. The existence of vast number of public authorities indicates that there is a new need for public corporation.

These two tendencies suggests the new developments of public enterprise in this country. The liberal tradition, however, prefers control of industry to public ownership of industry.

Bureaucracy in Japan

In comparison with the case in the United States or the United Kingdom there are two salient features in public enterprise in Japan. These features may not be unique in Japan; they may be recognized also in those countries such as Germany or France or many developing countries in which industrialization started later than in the United Kingdom. These two features are; first, public enterprise is a tool of faster economic development; second, it is connected with bureaucracy very closely.

Therefore, in the Japanese case there is neither the element of socialism as in the United Kingdom nor distrust to government prevailing in the U. S. In prewar Japan the ideology of laissez-faire was regarded as a luxury that only the most advanced capitalist countries could afford. Under the impact of nationalist sentiments, active government protection and promotion of domestic private and state-owned industry were readily accepted and sought in Japan.

The government enterprises which were established in the 1860's and 1870's could be divided into the following two classes: those which had a military and political purpose and those which promoted the infant industries. Mining, railways, telegraph, dockyards, cement factories are the examples

of first class. Cotton mill, woolen mill and agricultural implements are the examples of second class.

To catch up with the European countries and the United States became the highest objectives of Japan in 1868. Government enterprises became one of the most important measures for this policy. The government spent money lavishly in these industries. The expenditure for the investment in these government enterprises in the national budget of the 1870's was equal to the naval expenditure and nearly half of total army expenditure.

These government enterprises, however, when grown up, were sold to private entrepreneurs suddenly and very cheap in the 1880's. Most of them were sold to *Zaibatsu* (family clique of the business). After the sale of these enterprises industrial revolution started in the end of the nineteenth century.

I shall try to write about the role of public enterprise after the Second World War. The American occupation policy of Japan 1945-1950 brought many fundamental changes in regard to the Japanese economy and also to the government activities. The Supreme Commander of the Allied Powers did not allow the increase of governmental activities as a whole. Its purpose was to realize a free competitive system in Japan. As a result the share of public finance in the national economy as well as the activities of public enterprise were minimized. The deconcentration policy of the Supreme Commander of the Allied Powers had an extremely important effect in relation to the industrial structure since 1945. The new order of free competition was established. It was the free and vigorous competition between entrepreneurs in private sector that brought the dynamic development of Japanese economy in the sixties. This development was promoted by the high ratio of investment in Japan. Let me make an international comparison of gross private domestic investment in the nineteen sixties. The share of gross private domestic investment of Gross National Product was in the sixties was about 9.3% in the United Kingdom, 15% in the United States, but 25% in Japan. Thus the capital accumulation was very high in the sixties. This high ratio of capital accumulation in the private sector resulted in relative shortage of social overhead capital like road, transportation, water,

harbor and housing. For example, there were huge economic losses which were due to the traffic congestion: the same kinds of loss in industrial production occurred also in the harbor, railroads, postal service, industrial water and so on because of this imbalance of investment. This combination of two characteristics, namely, very rapid industrialization and merge accumulation of social overhead capital was the principal economic factor which determined the role and pattern of public sector investment in general and also public enterprise in Japan. There are many public enterprises which are engaged in some kinds of construction, transportation and housing. Examples of them are: National Railways, Telegraph and Telephone, Housing, Highway, Expressway, Water-Resource, International Airport, Port Authority, Bridge Authority and so on.

Another characteristic of public enterprise in Japan is under the strong control of bureaucracy. There are intimate relationships between public enterprises and bureaucracy. When Japan started as modern state in 1868, initiative was taken by young militant bureaucrats. Whereas the promoters of the development of public enterprise in Britain were trade-unionists, Fabianists, and members of the Labor Party, those in Japan were young military bureaucrats who, after having overthrown the Tokugawa Regime in 1868, set themselves to the task of bringing Japan's military strength and economic power to the level of the European powers. The strong tradition of this bureaucracy was weakened for a while during the occupation. But the tradition revived in the nineteen fifties.

There are many pieces of evidence of these intimate relationships: the main recruiting source of the governing boards of public enterprises is this bureaucracy;¹¹⁾ it makes conspicuous contrast with the British case in which

11) Many important posts with boards of public enterprises in Japan are monopolized by former civil servants. Mr. Kase Socialist M. P. raised the following figures concerning this occupation of posts by civil servants in June 1967 in Parliament. Cf., Asahi Newspaper, Article, 9th June, 1967.

It turned out from the statement of Socialist M. P. Kase that more than 52 percent of main posts of public enterprises is monopolized by former civil servants. The sources other than civil servant cannot be ascertained statistically. But it is certain that the second big source is senior managers within each public enterprise.

manager class of private enterprises makes the main source of personnel of the governing boards of her nationalized industries; ministerial control on the public enterprise is the strongest in Japan among these three countries; there is manifest insufficiency in regard to the accountability of public enterprise to consumers and citizens in general; some public enterprises are established without any big economic rationale only to provide the job

A comparison with the U. K.'s case is useful. Two sources of information are available: Acton Trust Society, and *University and Left Review*, 3rd issue 1958. The following table shows the former source of information.

**Full Time Members of the Board of the
Nationalized Industry in the U. K.**

| | Number |
|-----------------------------------|-----------|
| Company Directors..... | 13 |
| Managers and Engineers..... | 10 |
| Trade Unionists..... | 9 |
| Civil Servants..... | 4 |
| Accountant..... | 3 |
| Armed Forces..... | 3 |
| Solicitors..... | 2 |
| Co-operative Movement Leader..... | 1 |
| Scientists..... | 1 |
| No Classification..... | 1 |
| Total..... | 47 |

Source: The Acton Society Trust, *The Men on the Boards*, No. 4. 1951. p. 6.

On the part-time members the Acton Report says: "The part-time members follow a somewhat similar pattern with an even greater bias towards the company director or the manager director of companies." (The Acton Society Trust, *The Men on the Boards*, p. 8) The latter information is newer than the Acton Society Trust. According to *University and Left Review* in 1958 the biggest source of recruitment in the U. K. is private company executives (39%), the second one is expert in various kinds (accountant, financial expert and engineer) (26%), the third is ex-trade officers (17%). The total percentage of three sources is 82 percent. The proportion of civil servant is only 6 percent. There is no great difference between these two sources informations so far as the order of importance is concerned.

The proportion of civil servants in the U. K. is only 6% whereas it is 52% in Japan. A Comparison of these two figures show how civil servants are important as a source of recruitment of public enterprise in Japan compared with the U. K.

opportunities for higher officials who usually retire at the age of 55. There are strong criticisms against this bureaucratic domination recently.

In the nineteenth eighties public enterprise in Japan has come to a most important turning point in relation to its role, namely, the second advent of a Jacksonian Liberalism in Japan. The first period of Liberalism was that of Taisho Era (1912-1926) in which the ideology of liberalism and laissez-faire principle was introduced as the best guide to the Japanese economy.

This second time has a different background from that of the first time. The tradition of tutelary government has become unable to be observed in the eighties from several reasons: a grave reflection is casted on the crisis of Welfare State in the present EC countries;¹²⁾ an aging society is expected to come in Japan much faster than in the EC countries and the U. S., which will inevitably require an enormous fiscal expenditure for old age pension in the near future; in the past twenty years Social Overhead Capital has been accumulated so quickly that a *raison d'être* of some public enterprises (especially *Kōdan* and *Jigyōdan*) has diminished: continual scandals and loose discipline in the management of some of public enterprises, which has become evident in the last ten years, have been reported in the seventies in the clear contrast to the efficient and skillful management of private sector industries. With the loss of its discipline which had been the precious asset since the Meiji Era the role of public enterprise as a tool for higher economic growth has been no more expected.

In the eighties the bureaucracy itself sees the danger of big government and diverts its attention into the realization of small government. Though the relations between bureaucracy and public enterprise are close and intimate still today, it does not expect any expansion of public enterprise.

In consideration of the several reasons mentioned above the public enterprise will play a minor role in the Japanese economy in the nineteenth eighties.

12) OECD Report, *The Welfare State in Crisis* in 1981 makes a careful analysis of the Welfare State in the EC countries.

CONCLUSIONS

Thus big national differences in the field of public enterprise exist. But universal phenomena in this field also exist. I shall try to find out some common tendencies.

1. Public Authority Device

The public utilities like water, gas and electricity are classical examples of public enterprise. The industrial or technical characteristics of these services determine the management and organization. Recent example is Public authority device as a measure of coordination of transportation system in big cities in the world. Whenever automobile traffic develops, the coordination between various of mass transportation and automobile traffic becomes urgently needed. Metropolitan officers face the same kind of transportation problem all over the world. Another example may be the impact of technological development on management form of enterprise. Comsat'a mixed enterprise in the United States, is an example of this kind of impact. The technological impacts are universal and decisive factor in determining the role, organization and management of public enterprise.

2. Close Relationship between Public and Private Sector

My second conclusion is connected with the close relation between the public enterprise and private sector. As far as the economic system of a country is mixed economy, the private sector gives various and important influences on every side of public enterprise. *Nolens volens* the public enterprise has close relationships with private sector.

Usually the role of public enterprise itself in a mixed economy is determined by the need of private sector. When the private sector does not work well from some reasons, public enterprise appears as a measure of rescue. In the United States it was in war-economy or depression period when the private sector could not adopt itself to the new situation that public enterprises were established. In the initial stage of industrialization

when the accumulation of capital in private sector is not enough public enterprises are often used to facilitate the capital accumulation. In the contrary case to this, public enterprises can also be used. It is namely when the accumulation of capital *in private sector* is so fast that there appears shortage in social overhead capital in proportion to private capital, which was the case in the 1960's in Japan. When private enterprise which is closely involved in national security like electronics or aviation face crisis of bankruptcy, it may be made also public enterprise.

Not only the role but also the management of public enterprise are affected by private sector. Finance, labor, price and investment of public enterprise are also influenced by the private sector. Therefore public enterprise itself cannot be appreciated without the understanding of private sector.

3. Changing Rationale of Public Enterprise

My third conclusion about the public enterprise is that the rationale of public enterprise is changing. In one direction the rationale of public ownership is diminishing, but in the other direction the rationale is increasing. Good examples of the latter cases are the rapid increase of public authorities which are engaged in metropolitan transportation or urban renewal and urban redevelopment. I want to stress that new type of public enterprises develop all over the world. The initial causes of this new role of public enterprise may be motorization, urbanization or technological innovation. Where these causes develop, public enterprise may necessarily be established beyond the national differences of economy and society,

We shall have to consider the changing rationale of public ownership in accordance with the new needs of changing society. There is no need of our regarding the rationale of public enterprise static or rigid.