

# Financial Control and Price Policy of Public Enterprise in Japan

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## 1. Financial Provision

Financial provision for public enterprise in Japan varies according to groups; most of the semi-independent agencies like Gigyodan, Kai, and Kenkyujo can be regarded together with the government department so far as financial provision is concerned; financial independence is granted chiefly to the JNR and the NTT among the various groups, though this independence is incomplete in comparison with that of public corporation in the U.K.; within the range of this financial independence both ends of which are semi-independent agencies and the JNR and the NTT, some groups of public enterprise like Ginko stand near to the JNR, and some other groups near to the semi-independent agencies.

Three financial principles have been established for public corporations in the U.K.: self-sufficiency, self-financing of capital investment and self-disposal of surplus. I shall examine these principles in the Japanese case in the following:

### (a) Self-sufficiency (Break Even)

With the exception of semi-independent agencies all other public enterprises have a statutory duty to pay their way. In this sense they are not the same as the government department. Take the Japan National Railways as an example. Until 1947 the JNR adopted Receipt and Payment Accounts as a government department for more than half a century. In 1947 the JNR changed its accounting system from this traditional one to commercial accounting system. With the transformation of organization in 1948, namely, introduction of public corporation, this commercial accounting system was prescribed more clearly than before. This was for business-like management of the JNR. In this respect the JNR has the same accounting system as that of public corporation in the U.K. There are, however, still remnants of the

system in which it was managed as government department: a traditional accounting system of government department is still adopted in the JNR. Furthermore reports based on this system must be submitted to Parliament for Voting as they were so until 1947. Thus there are still elements of government department not only in finance but also in control of the JNR. Many scholars recognize, however, that the self-sufficiency is established as the first financial objective of the JNR as is the case with public corporation in the U.K. of today. This means that the JNR should arrange its finance so that their revenue should not be less than their expenditure properly chargeable to revenue account taking one year with another. The revenue account liabilities include the amortization of the capital loans, depreciation of capital goods, and the establishment of a reserve fund. An important condition for attaining this objective is, however, lacking in the JNR. the JNR has no freedom to determine the railway fares: they are subject of parliamentary voting.

(b) Self-financing of capital investment

As it was in the U.K. until 1956, many public enterprises in Japan are now allowed to finance capital investment by issuing bonds of their own under the approval of the Minister concerned. The JNR gets approval from the Minister of Transport, the NTT from the Minister of Post and Communication, NHK from the Minister of Finance. The approval of Parliament is needed for the maximum limit of issue of JNR Bond and NTT Bond. The Law of Broadcasting prescribes that the limit of NHK Bond cannot be more than three times as much as its net assets as shown in the recent balance sheets. Each public corporation must also get approval for the debt retirement program by the Minister concerned.

(c) Disposal of profits

The term "profit" is not used for public corporation in the U.K., but is commonly used in Japan.

Until 1947 self-disposal of profits had not been granted either to the JNR or to the NTT. Their profits had to be paid into the account of the national treasury because they had been managed as government department. With the organizational change in 1948 the self-disposal was granted to both corporations. But it is not granted to some other

groups of public corporation. The Japan Monopoly Corporation and Kōko (Public Corporations of Loans and Finance) must pay their profits into the National Treasury; Japan Housing Corporation must pay its profits into the local authorities which are its investors according to Law of Japan Housing Corporation, Article 48 Section 3. In many Kōdans (public corporation which is engaged in construction) disposal of profits is under the ministerial control.

Self-disposal of profits in the JNR and the NTT means that profits can be disposed for development: to accumulate in Profit Reserve to pay interest, to improve labour conditions and to make their fares cheaper.

## 2. Financial Control

The governmental control over finance of public enterprise in Japan is rigid; it is far more rigid than that in the U.K. The degree of this rigidity and the field of financial control are different according to the types of public enterprise. Generally speaking, however, rigid control of finance by the government must be regarded as one feature of governmental control over public enterprise in Japan.

One of the characteristics of public corporation in the U.K. is the financial independence from the government. The finances of public corporation are not parts of the finances of the government except advances made for capital expenditure, subsidies and temporary loans to cover operating deficits. This financial independence consists of the following three principles: 1) self-sufficiency, 2) self-financing, and 3) self-disposal of surplus. Though the governmental control over the finance of public corporation in U.K. has been stronger since 1945 than before that date, the financial independence has been regarded as one of the essential features of public corporation.

But this financial independence has not been regarded as an essential condition for the management of public enterprise in Japan. Among the various controls which the government exercises on public enterprises financial control is the strongest. Freedom in personnel management as well as day-to-day business affairs has been realized so that the board can pursue their policies on their own initiative for the tenure of their appointment; but such degree of freedom has not been realized in the financial aspect of public enterprise. So far as this aspect is concerned, there are still no discernible differences between

the government department and public corporation.

Why is the governmental control on finance so rigid? There are three reasons for that. Firstly, the development of public enterprise has different historical background in Japan from that in the U.K. A substantial part of public enterprise in the U.K. originates from private enterprise and, therefore, the accounting system of public enterprise also has its origin in the private enterprise. The Japanese public enterprises either succeeded government department (e.g. railways, telecommunication, tobacco) or were newly established after 1945. The strong control on finance of the former group is a relic of this past organization which has history of nearly a century.

Secondly, the introduction of public corporation had an entirely different motive from that in the U.K. For example the organizational change from governmental department to public corporation of railways in 1949 was solely motivated by urgent need for solving labour dispute. The new organization was introduced only to create a different legal framework of labour relation for the railway workers from that of civil servants by depriving the former of the right to strike and awarding only the right to collective bargaining. Considering this motive it is natural that no great change could come out also in the governmental control on finance of the JNR.

Thirdly, severe control is required in connection with the national economic planning. Public enterprises should be managed according to the planning of national economy. Their investment and price policy should correspond with the aims of economic policy.

In this financial respect public enterprises in Japan are similar to the government corporations in the United States which, even if financially self-supporting, have been required to submit annual 'business type' budgets for approval by Congress<sup>(1)</sup> since 1945. But the adopting of this 'business type' budgets indicated that government corporation in the United States enjoys much greater financial freedom than public corporations in Japan where this new type of accounting has not been adopted yet.

The case of the Japan National Railways will serve to show the common features of governmental control over the finance of public enterprise. The following is the case study of the JNR.

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(1) A Study Groups of the Royoyal Institute of Public Administration, *Budgeting in Public Administration*, p. 59.

### 1) Control of Budget

In the U.K. it is one of the fundamental principles that the public corporation is not included in the Budget of the central government; it does not present its estimates of income and expenditure for approval by Parliament; this is the natural result of the financial independence of public corporation. In Japan no public enterprise has such a financial independence as the British case. The JNR is no exception. The Law of the JNR says: "Article 39 II 1. Each fiscal year, the JNR must make its annual estimates and submit them to the Minister of Transport with the development planning, financial planning, and other papers which are connected with the estimates of that year. 2. The Minister of Transport, after submission of the budget, must consult with the Minister of Finance, and, after necessary co-ordination, get the decision of the Cabinet. 3. The Cabinet, having made this decision, must submit the estimates to the Parliament with the general budget."<sup>(2)</sup>

### 2) Control of Price

There is another matter which must be subject to Parliamentary decision: basic rates of passengers fares and freight charges. In the U.K., besides the control of Transport Tribunal, there had been also limitation of freedom for British Railways in determining the railway charges through the informal interference of the Minister of Transport in the fifties, but the degree of this interference diminished in the sixties and now they can be determined more freely than before by British Railways. But such a freedom has not been granted to the JNR. The main reason for this submission of the basic rates approval to Parliament is economic: the rates have considerable influence on every aspect of the national economy.

Consequently there is no great freedom for the JNR to make adjustment in its financial matters.

### 3) Audit

At the end of a fiscal year the JNR submits its financial statements to the Ministry of Transport who, after approval, then submits them to the Cabinet. The Cabinet, in turn, submits them to the Board of Audit for review of JNR's financial transaction. After the audit by

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(2) Law of the Japan National Railways, 1948.

the Board, Audit Reports are submitted to Parliament through the Cabinet.

Besides this auditing there is also another kind of auditing in the JNR: Auditing by the Auditing Committee which is established in the JNR. The Committee audits the financial statements based on commercial account of the JNR. Therefore the JNR undergoes two kinds of auditing. This dual auditing system shows that the JNR is far nearer to government department than public corporation.

#### 4) Accounting System

In the U.K. the published accounts of public corporation must be in 'a form which shall conform with the best commercial standards.' This conformity with the commercial standards is a feature of public enterprise in the U.K. Through this practice separate operating and financial results are shown for each main activity of public enterprise. These statutory obligations about the form of accounts determine the form of the board's internal accounting systems.

In the JNR the accounting system is far more complicated than the general British practice. This means that the JNR uses two types of accounting system; one is like that of governmental department and the other is like that of business. In other words the JNR prepares on the one hand an accounting system suitable for the budget which they must submit to parliament and on the other hand businesslike one suitable for efficient management. A result of such accounting systems is the loss of managerial mobility and flexibility in the execution of budget.<sup>(3)</sup>

#### 5) A Comparison with TVA

TVA submits business type budget to Congress for approval. The items of budget for which an approval of Congress are required are limited only to main capital developments and non commercial capital expenditure. Those items which are financially self-supporting do not need the approval of Congress.

In the JNR the budget which is submitted to Parliament includes current income and expenditure as well as capital income and capital

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(3) Tomoji Ichinse, *Gendai Kōkigyo Ron* (Contemporary Public Enterprise) (Tokyo: Tōyō Keizai Co., 1969), p. 84.

expenditure.<sup>(4)</sup> Further even internal dealings like depreciation are also included in the budget.<sup>(5)</sup> Prof. Ichinose concludes as follows:

“A public enterprise which is controlled so rigidly in the finance as public corporations in Japan cannot enjoy independence even when it can have freedom in the field of personnel. My conclusion concerning the governmental control on finance is that the accounting system of three corporations (the JNR, the NTT, and the Japan Monopoly Corporation) is nearly the same as that of government department, and that the elements of business accounting can be seen in them only to the slightest extent.”<sup>(6)</sup>

#### 6) Other matters subject to ministerial control

There are some other matters which are subject to ministerial control. They are: 1) borrowing of operating funds and issuing railway bonds, 2) the virement of the sums which are designated to a specific purpose in the budget, 3) transfer of this sum into the next year.

Table 1 shows the detail of financial control over different groups of public enterprise in Japan.

(4) The difference between the estimates of the JNR and that of government in connection with the approval by Parliament is stressed by Manabu Kanematsu, consultant of the JNR. His argument is this: parliamentary approval of income and expenditure of ordinary government estimate means an authorization under which each item of government account is controlled; but parliamentary approval of current account of the JNR does not mean such a strict authorization; it means only approval of the future estimates of income and, if the current income turns out to be more or less than the estimates, the surplus or deficit must be treated under the responsibility of the JNR but not of Parliament; free disposal of the surplus or deficit is permitted to the JNR so far as these amounts are concerned; the same thing can be said also on the capital income. His conclusion is that parliamentary approval has a restraining effect only on the expenditure side of the JNR. Cf. Manabu Kanematsu, *Nippon Kokuyū Teisudo Ron* (A Treatise on the Japan National Railways) (Tokyo: Tokyo University Press, 1962), pp. 117-118.

(5) Tomoji Ichinose, *Kōkigyō Zaimu Kanri*, (Financial Accounting of Public Enterprise) (Tokyo: Shinjusha, 1961), p. 190.

(6) Tomoji Ichinose, *op. cit.*, p. 190.

**Table 1.**  
Financial Control by the Government on main Groups  
of Public Enterprise in Japan

Group		Kōsha (JNR, NTT, Japan Monopoly Corp.)	Kōko (Public Corporation of Loans Finance)	Kōdan (Japan Road Corporation, Japan Hous- ing Cop. etc.)	Mixed Enterprise (Example : Japan Air Lines)
Items					
Estimates		Voting of Parliament	Voting of Parliament	Approval of Minister	
Yearly Business Planning		Examined together with the Estimate	Examined together with the Estimate	All by approval of Minister concerned	Approval of Minister concerned
Disposal of Profit		Self-disposal	Paid into the National Treasury		Approval of Minister concerned
Financing	Bond Issue	All by approval of Minister concerned	Approval of Minister concerned		Approval of Minister concerned
	Long-term Borrowing			Approval of Minister concerned	
	Short-term Borrowing				
Spare Money		Deposit to the National Treasury	1. Investment in Public Bond 2. Deposit in Trust Jund bureaus	1. Investment in Public Bond 2. Deposit in Postal Saving 3. Deposit in Bank	
Price Determination		Voting of Parliament or approval of Minister concerned	Concerning Standard Rates either voting of Parliament or approval of Minister Concerned	Approval of Minister of Transport for road toll. Rates for renting or selling house are deter- mined by Law	Approval of Minister concerned for Japan Air Lines fare and international telephone and telegram tariff

Source: Hiroshi Kato (ed.), *Kōigyō no Keizaigaku* (Economics of Public Enterprise), (Tokyo: Nihon Keizai, 1966), p. 263.

### 3. Price Policy

The history of price policy of public enterprise in Japan can be divided into three periods: the first period is from 1945 to 1952, the second is from 1952 to 1960, and the third is from 1961 to 1970.



The first period was a period of explosive after-war inflation. It was the period of economic control, and prices of services or commodities produced in public sector had been controlled strictly as those of all the other goods had been so. The public enterprises did not recover from damages which they received during the war. Financial funds were invested in some basic enterprises like electricity intensively so that the industrial production could recover quickly. As the prices had been kept low on the one hand and the investment for modernizing public enterprise had been neglected on the other hand, the financial situation got worse and the productivity was necessarily low. Low price, combined with bad quality of service was characteristic of this period.

The second period 1952-1960 showed progress in the management of public enterprise in many aspects. There were some favourable conditions for this progress: there was no big inflation in the fifties and this economic stability contributed to the progress in their rational management; the national loan funds which had been invested exclusively into the basic industries like coal, electricity, steel and shipping in the first period could be poured into the public utilities so that their modernization-plan could be realized; the productivity increase which was an achievement of this modernization-plan was so large that the large downing of costs became possible; as a result of this increase sound management could be maintained in spite of its lower price-level than that of other commodities; since the "substitute" like moter-car in the transport service having not yet appeared the public enterprise could enjoy more or less monopoly position; the demand increase for the service of public enterprise which was accompanied by the rise in the general level of standard of living was also favourable for the managerial improvement in the sense that it brought big revenue increase without requiring large-scale investment in the capacity of production.

The post-war inflation during 1945-1949 and its aftermath resulted in frequent revisions of prices of public enterprise services. From 1946 till 1955 revisions were made in electricity eight times, gas eight times, private transport seven times, metropolitan tram-ways seven times, telephone five times, and postal charge five times. But their fares levels showed always 'regulatory lag' behind the general price index. Table 2 shows the index number of public utility rates in Tokyo 1958-1966. The index number ranges from 108.6 (electric light) to 333 (stamp charge for post-cards). The index-number of retail prices in

**Table 2.**  
Index-Number of Public Utility Prices in Tokyo 1958-1966  
(1933=100)

Year	Electric Light 80 kW	Gas 40 m <sup>3</sup>	Water 15 m <sup>3</sup>	Post-Card	Public Tele- phone	JNR Cargo 200 km- ton	JNR Passenger 1 km	Metropolitan Bus Minimum charge
1958	108.6	247.4	156.3	333	200	221.5	149.0	150
1960	108.6	275.6	156.3	333	200	229.5	153.9	150
1961	104.3	275.6	168.3	333	200	254.8	170.4	150
1963	101.7	269.7	187.5	333	200	263.8	176.3	150
1964	100.5	266.6	187.5	333	200	263.8	176.3	150
1965	100.5	266.6	187.5	333	200	263.8	176.3	150
1966	—	—	—	466	200	300.0	229.0	183.6

Index Number of Non Public Utility Charge in Tokyo in June 1965  
(1933=100)

Newspaper	Cinema	Public Bath	Hair-cutting	Laundry	Hotel
580	440.4	540	896	250.6	437.8

Source; *Kōeki Gigyō Kenkyū* (Journal of Public Utility) Vol. 18, No. 2. Dec., 1966. p. 119. These figures are from the Bank of Japan.

1962 according to the data of the Bank of Japan is 342. Comparing this level of general commodity with the level of public utility it becomes clear that most of the public utility rates are under half the level of general retail commodity prices. JNR passenger fare was just half (170.4 in 1961); electric light charge is only one third (104.3 in 1961); telephone charge is a little more than half (200 in 1961); only stamp charge for postcards reaches the general level (333 in 1961).

In spite of this relatively low level of public utility rates the management of public utility could be stable and its financial position was not so bad in the fifties as in the sixties. This stability is due to the favourable factors mentioned above and, above all, to the large scale investment through which the technological innovations could be quickly introduced.

With the beginning of the sixties the circumstances changed suddenly and accordingly the favourable factors also disappeared; an unprecedentedly high rate of economic growth of the Japanese economy started; dynamic development in the private industry occurred rapidly; the economic stability had to be shaken and the prices of commodities had to rise at one bound; powerful competitors for public transport service challenged the enterprises in this field for their monopolistic

position.

Before considering the price policy of public enterprise in Japan in the sixties, it seems to me useful to consider the history of price policy of the nationalized industries in the U.K. because it has some similarities with the Japanese case. According to Prof. R. L. Meek the history can be divided into two periods—the first running from the time of the post-war nationalization to 1961, and the second from 1961 to the present day.<sup>(7)</sup>

The first was a period of keeping the prices so low that most of nationalized industries were unable to keep the "break-even principle."

The reasons for this policy were twofold: firstly the political unpopularity of raising public service charges and secondly as a measure of combating the inflation which had been the result of devaluation of the pound in 1948. The prices of these industries were determined politically rather than economically. The ministers concerned either put informal pressure on the boards of the nationalized industries to postpone the realization of price-rises of these industries or admitted their price-rises only to lesser extent than the boards had intended. The consequences of this policy on them were clear: substantial deficits in many nationalized enterprises, lowering of morale within the industries concerned, and lessening of the degree in the self-finance in the capital account.

In the second period of the British case the new policy started through reflecting these results. Political interference in determining the price-level receded and economic rationality came from. The Paper on the *Financial and Economic Obligations of the Nationalized Industries* in 1961 (Cmd. 1337) showed clearly the new attitude. The paper made three points: the prices charged by the nationalized industries would have to be sufficient to enable them to cover their costs including depreciation and replacement cost over a period of not more than five years; the degree of dependence on the Exchequer in the financing capital of these industries should be lessened; the allocation of capital investment not only among each nationalized industry but also between public sector and private sector should be taken into account.

Considering this history, we find that there are similarities between the British circumstances *in the fifties* and the Japanese ones *in the sixties* and consequently also between the British policy *in the fifties*

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(7) R. L. Meek, 'Public Authority Pricing', in *Public Sector Economics* (ed. by A. R. Prest), (London: Manchester Univ. Press. 1968), p. 111.

and that *in the sixties* in Japan. The public enterprise in Japan at the beginning of the seventies is facing same difficult problems as that in the U.K. did at the beginning in the sixties.

The serious consequences of the policy pursued in the sixties are now requiring quick change of attitude and drastic measures for improvement. The similarities between the two countries are as follows :

### 1. Inflation

The most important factor which determined the price-policy of both countries was inflation. Comparing the inflation in Japan with that in the U.K. two features of inflation in Japan can be found : the wholesale price is more stable in Japan than in the U.K. (for example the price-level of manufactured investment goods in Japan was almost the same all through the sixties); but the consumer prices were rising more rapidly in Japan than in the U.K. The consumer prices are more important for public enterprise than the wholesale prices, because the prices as well as costs of public enterprise are closely connected with the former.

### 2. Political intervention

The successive governments in Japan in the sixties kept the price-level of public enterprise as low as possible like the governments in the U.K. in the fifties. Both governments took this policy as a measure against inflation. But as far as the degree of political control of this kind and process of control are concerned, there was a marked difference. In the U.K. it is commonly admitted that the price is in principle a matter which should be entrusted to the boards of nationalized industries so that the break-even principle could be maintained. This is a result of the theory of public corporation in the U.K. In the U.K. the price is a matter about which the ministers interfered in fact but should have avoided interfering as far as possible in principle. But in Japan it is a different matter : the passenger as well as cargo fare of JNR, postal charges, telephone and telegram charges and radio-charge require all parliamentary voting ; water charge, electricity charge, gas charge, commuter fare of the JNR, private transport charge, underground railway charge, tramway charge and regular ferry charge, all require permission of ministers concerned. Thus the political interference into the settlement of prices of public services is widespread and far-

reaching still in Japan. It is a natural consequence that there is no clear concept about public corporation in Japan yet. Still worse the ministers being in most cases party-politicians it is inevitable that the price policy of public enterprise is influenced by the interest of party politics. In this respect public corporation is the same with the government department. Thus in the extent of political interference and also in the attitude of politics towards public enterprise there is a great difference between Japan and the U.K. There was, however, common purpose between the both governments: checking the tempo of inflation by stopping the rise of prices in the public enterprises.

When the inflation started, above all, the consumer prices jumped up by several per cent with a bound at the beginning of the sixties, the Ikeda Cabinet quickly declared in September 1960 the principle of checking the rise of public service rates as far as possible. This sort of policy was declared several times during sixties and executed with every measures.<sup>(8)</sup>

### 3. Competition from Substitutes

The substitutes for the products or services of the nationalized industries in the U.K. appeared in the market in the middle of the nineteen-fifties. The consumption of oil increased from 5.3 million ton in 1950 to 10.0 million ton in 1955. The proportion of moter-car trans-

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(8) Prof Hidio Hosoya, Chuō University shows the governmental attitude towards checking the price rise in the following example. In 1961 an application for revision of bus-fares in Tokyo was made to the Transport Council. A year had passed in waste because of the policy of stopping the price rise of this kind until the Minister of Transport decided to approve this price rise after consultation with the Transport Council. This intention, however, could not be realized because the Director of Economic Planning Board and Cabinet Secretary rejected it. In a meeting the Cabinet Secretary said, "Stopping rise is not a matter of reasoning but of political consideration." As the result of this rejection the application was left to spent once again two years and a half wastefully. It was in January 1965, after four years, that the application was finally approved. This example illustrates also the lack of co-ordination between members of Cabinet.

In some ministeries applications for price rise were illegally refused by the department concerned because it was afraid that its acceptance would not please the party politicians. In some cases the applications were deliberately neglected by the department for a considerable time.

Cf. Hideo Hosoya, "Public Utility Rates and Governmental Price Policy" (in Japanese) in *Kōeki Jigyō Kenkyū* (Journal of Public Utility Economics) Vol. 18. No. 2. Dec., 1966. pp. 116-117.

port in the whole transport system also increased in the middle of the fifties.

In Japan this sort of change occurred in the sixties but not in the fifties. As the coal industry is privately owned, the energy revolution did not mean a big shock to public enterprise in general though it was a disaster to this industry. But the development of using liquid gas

**Table 3.**  
Transport Statistics by Means 1946-1964

FREIGHT						
Billions of Ton-km						
Fiscal Year	Total	Railways		Moter-vehicles	Ships	Aircraft
		National	Private			
1946	21.4	19.0	0.1	2.0	—	—
1950	39.2	33.3	0.5	5.4	—	—
1955	82.5	42.6	0.7	9.5	29.0	0.7
1960	144.0	53.6	0.9	20.8	66.0	3.6
1962	170.5	56.3	0.9	32.4	71.9	9.0
1963	192.3	59.2	1.0	42.0	78.8	11.3
1964	201.5	58.9	1.0	47.2	77.1	17.3
Component (%)						
1946	—	—	—	—	—	—
1950	—	—	—	—	—	—
1955	100.0	51.6	0.8	11.5	35.1	0.8
1960	100.0	37.0	0.6	14.4	45.5	2.5
1962	100.0	33.0	0.5	19.0	42.2	5.3
1963	100.0	30.8	0.5	21.8	41.0	5.9
1964	100.0	29.2	0.5	23.4	38.3	8.6
PASSENGER						
Fiscal Year	Total	Railways		Moter-vehicles	Ships	Aircraft
		National	Private			
1946	—	87.4	38.8	—	—	—
1950	115.2	69.1	36.5	9.6	—	—
1955	171.1	91.2	44.9	32.8	2.0	0.2
1960	243.2	124.0	60.4	55.5	2.6	0.7
1962	289.7	141.2	70.0	74.0	2.9	1.6
1963	321.1	152.7	73.9	89.4	3.0	2.1
1964	355.6	164.2	77.6	108.0	3.1	2.7
Component (%)						
1946	—	—	—	—	—	—
1950	—	—	—	—	—	—
1955	100.0	53.3	26.2	19.2	1.2	0.1
1960	100.0	51.0	24.8	22.8	1.1	0.3
1962	100.0	48.7	24.2	25.5	1.0	0.6
1963	100.0	47.6	23.0	27.8	0.9	0.7
1964	100.0	46.2	21.8	30.4	0.9	0.7

Source; The Japan Development Bank, *Facts and Figures on the Japanese Economy* (Tokyo: The Diamond Co., 1966), p. 63.

which started at the beginning of sixties meant competition to the gas industry. Transport revolution, however, had profound influence on the public sector in general. The Japan National Railways began to suffer the loss of market share not only in the good but also passenger transport in the sixties as the result of development of road and aviation transport services. As Table 3 shows, its percentage in freight traffic decreased from 51.6 percent in 1955 to 29.2 percent in 1964. Its market share decreased also in passenger traffic. Another example is municipal transport services like bus, tramways and underground railways. They suffered more severely than the national railways service. Besides the competition from substitute traffic congestion was largely responsible for loss of efficiency in urban transport, and the enormous amount of construction cost in constructing underground railways in great cities must be also taken as another cause of financial deterioration of the public transport services.

#### 4. Increase of social obligation

There are many examples of social obligation in Japan: commuter reduction and unprofitable local lines in the JNR; charge reduction for printed matter in postal charges; private telephone service in the NTT. Among public enterprises in Japan the JNR is suffering most the burden of social obligation of this kind which is an important reason of its financial deterioration.<sup>(9)</sup> With the rapid urbanization in the sixties these social obligations increased rapidly and there has been no compensation for it. Similar burden could be found also in the public sector industries in the U.K. in the fifties.

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(9) IN THE TIMES SATURDAY (30th January 1971) Mr G. Freedman Allen reported on this social obligation as follows: "JNR's situation is partly the result of refusal by the politicians to put the system on a reasonably commercial footing: it is run more as a social service than any other major railways in the world. Over 70 per cent of the 19,000,000 passengers who travel daily have massively reduced fares. Even though season ticket discounts were lowered nearly 40 per cent in 1968, the ordinary commuter still gets a six-monthly season at a third of the normal rate, while a student gets as much as a reduction of nearly 90 per cent."

## 4. Conclusions

### (1) Legal aspect

- (a) Three financial provisions—self-sufficiency, self-finance, and self-disposal of profits—are established for most of public enterprises in Japan with exception of semi-independent agencies like Gigyodan. In other words, the management of public enterprise is aiming at surplus, or at least at avoiding deficit. This, however, does not mean that all of them pursue these three objectives perfectly. Some groups like Kōko are near to semi-independent agencies which are not aiming at financial independence, others like Ginko are near to the JNR or the NTT in which these three principles are established legally.
- (b) There are, however, many legacies of the past half century in which public enterprises had been managed as government department: e.g. the JNR adopts still today two kinds of accounting system—cash account and commercial account—as the British Post Office was formerly obliged to do under the Exchequer and Audit Department Act, 1921; the estimates of income and expenditure of the JNR must be submitted to Parliament for approval each financial year; prices of goods or fares of services which public enterprise provides must be approved either by Parliament or the Minister; report on final accounts must be submitted first to Cabinet, then Board of Audit, and last to Parliament.
- (c) There are other governmental controls on finance of public enterprise as Table 1 shows. I agree with Prof. T. Ichinose's following conclusion:
- “My conclusion concerning the governmental control on finance is that the accounting system of three corporations (the JNR, the Japan Monopoly Corporation, and the NTT) is nearly the same as that of government department, and that the elements of business accounting can be seen in them only to the slightest extent.”
- (d) These features of financial provisions are due to the special circumstances in which the system of “public corporation” was introduced in 1947–48 in Japan by Supreme Commander for the Allied Powers. At that time SCAP required the Government at first to establish exactly the same system of public corporation as in the U.K. or the U.S.A. But the tradition of governmental department was still so strong and the notion of “public corporation” was so alien to every Japanese section concerned (Parliament, Ministeries,



the NTT and the JNR, and general public) that a compromise between SCAP democratization policy and Japanese conservatism resulted.

Since then more than twenty years have passed. The notion as well as system of "public corporation" permeated through Japan gradually and much valuable progress towards true public corporation has been made. Nevertheless the past history does not vanish so quickly. This is the reason why public enterprise in Japan is neither perfect public corporation nor pure government department.

(2) Economic aspect

- (a) Under "economic aspect" I understand the influences of national economy on public enterprise; the finance of public enterprise is greatly influenced by the movements of national economy.

In this aspect public enterprise in Japan *in the sixties* was in the same position as that in the U.K. *in the fifties*, though there were also differences between both countries. The same circumstances are as follows:

- 1) Inflation
- 2) Political control of price increase
- 3) Appearance of substitutes
- 4) Increase of social obligation

Strictly speaking, the second point may not be economic but political. But it may be regarded as an economic factor if it is regarded as a movement of price. There is no need to explain them in detail. What I want to emphasize here is that the inflation in Japan started suddenly at the beginning of the sixties. The same thing can be said on the last two points. Appearance of substitutes as well as increase of social obligation occurred in Japan more drastically than in the U.K. As a result, the deterioration in the financial conditions of public enterprises in Japan took place more abruptly than in the U.K.

- (b) One difference between Japan and the U.K. is the economic development of private sector. In Japan private sector took the lead in the economic growth, but in the U.K. private sector could not show such growth for various reasons. The private sector in Japan has been so dynamic in the sixties that every economic forecasting has never hit the true level of their records about investment, production, and productivity increase. It showed always higher records in every aspects. As a result of this capital accumulation in private

sector, an imbalance resulted between the investment of private and public sectors. This imbalance is a cause of economic inefficiency and bottleneck inflation. Rectifying this imbalance became the first task of the government of the sixties to minimize this sort of inefficiency and inflation. In this sense public sector as a whole was to be servant of private sector interest. It had not been servant of people in the sixties.

- (c) A consequence of this policy is an imbalance between sections within public sector; so-called social overhead capital like road, harbour, industrial water and electricity was accumulated very fast but social investment which has close connection with the welfare of people like housing, sewerage, refuse disposal, park and recreation services was neglected. There are thus two sorts of imbalance in the Japanese economy: imbalance between private and public on the one hand and imbalance within public sector in the other. To cure the former imbalance was the task of public sector and to cure the latter was neglected in the sixties. To cure this neglect will become the most urgent task for economic policy in the seventies.