

Why Have Not Toll-free Highways been Attained?

Privatization of the four highway-related public corporations disguised as reform. The Koizumi and Inose approach poses a perpetual burden on the national people.

By Yasuyo Yamazaki

My "Nippon Retto Kaiso Ron" holds that the future construction of highways and repayment of debts incurred so far can be covered by the specified revenue sources for roads and refinancing by the issuance of the low interest Japanese government bonds. No new tax would be required. On the contrary, the Koizumi and Inose plan offers no solutions and calls for the continuous collection of tolls from the national people. This is a transformation from toll collection to a tax levy.

Prime Minister Koizumi who centered his platform on the privatization of the highway public corporations, was re-elected as the President of the Liberal Democratic Party (LDP). Meanwhile, the Democratic Party announced a manifesto with the promise to attain toll-free highways. These are likely to be hot issues at the coming general election. A deeper understanding of the highway issue will reveal the limits of Koizumi's structural reforms and the true options available to the national people. The author recommended his strategies to attain toll-free highways and revitalize Japan in a September article entitled "Highways can be real "free"way: Surpassing Kakuei Tanaka with the Proposal to convert the world most expensive highway system of Japan to toll free "Nippon Retto Kaiso Ron" ". Counterarguments, however, were written up in an article entitled "Koizumi is a True Reformer" published in the October edition of *Bungei Shunju*. According to Prime Minister Koizumi, the privatization of the four highway-related public corporations would bring about true structural reform. In this article, the author would like to concentrate on the issue of the privatization of the highway public corporations and verify the effect and feasibility of the Koizumi structural reform.

Privatization would result in perpetual toll collection.

At the behest of the prime minister, the Promotion Committee for the Privatization of the Four Highway-Related Public Corporations was formed some time ago. As the name

of the committee implies, Koizumi is defying the opponents of privatization by selling it as the only pathway to structural reform. Yet from the beginning he has ignored the issue of whether to continue toll collection or attain toll-free highways. Why? To privatize the highway public corporations and list the privatized company as a going concern on a stock exchange would effectively result in perpetual toll collections for highways. This is a betrayal of the national people. The prime minister intends to break the promise of toll-free highways to the national people.

In 1956, when the highway program commenced, treasury accounts were devoid of money. As seen in today's developing countries, the construction of highways was financed by the borrowings from the World Bank. To repay the borrowings, the toll collection system was adopted. The then government promised the national people that once the borrowings for respective highways were repaid, the relevant highway routes would become toll free. The pay-as-you-use and redemption principles were the underlying principles pertinent to the highways prescribed in the Special Highway Maintenance and Improvement Measures Law. When both the Meishin and Tomei Highways were finally completed in the 1960's, the construction expenditures totaled ¥460 billion. Yet as of this year, the national people have paid more than ¥7 trillion tolls for these two highways alone and highways are still toll roads. How can this have happened?

If the Law had been complied, both would have been toll free a long time ago. Why has Japan, the world's second largest economic power, been collecting the world's most expensive tolls? This runs counter the common sense subscribed to in other advanced countries such as the US, England, and Germany. Koizumi's offers no answers to these questions.

Koizumi has no plan to touch the world's largest revenue sources for roads and public works

The primary rationale for the world's highest toll is that the government has not attained toll-free highways pursuant to the Law and has continued to construct highways using borrowings without appropriating the gigantic revenue source for roads to fund the highway construction or using the tolls collected to make the huge interest payments. The government has imposed a double burden on the shoulder of the national people—huge taxes such as the gasoline tax and the world's highest tolls—and appropriated a staggering ¥12 trillion to road maintenance and improvement each year.

This equals the amount used in the US, a country with 25 times more land than Japan, and 5 times the amount in Germany, the country with Europe's largest road budget (and half the roads, in terms of total road length, compared to Japan). Furthermore, the proceeds from revenue sources for roads account for a quarter of the tax revenue in Japan. How can Japan be allowed to proceed in such a course amidst its worst economic depression since World War II? The privatization would effectively result in perpetual toll collection without any solution to this double burden issue.

Mr. Inose makes an admission on this point in his article entitled "Japan Highway Public Corporation, Not be deceived by Reformists," published in the October edition of *Ronza*. While affirming that the Committee for the Promotion of Privatization of the Four Highway-related Public Corporations has guided the path to the split-up and privatization of four highway-related public corporations, he admits that the issues on the specified revenue sources for roads to support the excessive investments in road construction will remain unsolved.

Toll free available without new tax

The author recommends that Japan attain toll-free highways with the use of its specified revenue sources for roads, one of the largest such revenue sources in the world, without introducing new tax. Maintaining toll collections relates to the debts of ¥40 trillion incurred by the four highway-related public corporations. Elimination of the debts will result in the realization of toll-free highways. If the government takes advantage of the current low interest rates and issues Japanese Government Bonds (JGBs) with maturities of up to 30 years to repay the total debts of ¥40 trillion incurred by the four highway-related public corporations, it would considerably mitigate the national burden, including the interest payments. Due to the economic recession, yields on the JGBs have been hovering between 1% and 2%. With the issuance of JGBs with an average coupon rate of 2%, the total payment of principal and interest would amount to ¥60 trillion over a 30-year time horizon. Annual repayment stands at approximately ¥2 trillion and can be affordably serviced with the revenue sources for roads, which amount to about ¥10 trillion annually. In other words, toll-free highways can be attained within the scope of the taxes now paid by the national people. No new tax would be needed if just a portion of one of the world largest road budgets was used for ordinary roads. This approach would prevent the government from imposing a double burden, namely tolls and taxes, on the shoulder of the national people. Other advanced countries such as the US, England, and Germany have constructed both ordinary roads

and highways with revenue sources for roads. If Japan follows suit, it would merely be behaving as an “ordinary advanced country.”

Surprisingly, if the privatization were effected under the Koizumi plan, the debts of the four highway-related public corporations would remain as are and it would take more than 50 years to repay the ¥40 trillion debts. Moreover, since the debts have been incurred with floating interest rates and must be rolled over every 10 years, the exposure to interest rate hike risks is huge. Optimistically assuming an average interest rate of 4% for the coming 50 years, the total payment of principal and interest would amount to ¥120 trillion. This exceeds the amount that would be incurred under a toll-free scheme by about ¥60 trillion or about ¥10 trillion more than the annual national tax revenue (¥50 trillion). If the interest rate jumps to 7%, the burden would amount to ¥180 trillion. If toll-free highways were attained now, on the other hand, the fiscal budget and national burden would be largely mitigated. In spite of these obvious advantages, Prime Minister Koizumi has been shirking his duty to improve fiscal conditions by ignoring the toll-free issue altogether. Why has he been doing so?

Privatization with perpetual toll collection stands for the preservation of Tanaka-initiated “public works”

The blighted cause of Japan’s exorbitant and perpetual highway tolls is the toll pooling system pushed through by the Kakuei Tanaka Cabinet without resolution at the Diet in 1972. Under this toll pooling system, tolls for every highway are to be collected until the borrowings for the construction of all the highways are redeemed. As a result of this system, the pay-as-you-use and redemption principles calling for the lifting of tolls once all the construction debts are repaid have been neglected and users have been forced to shoulder the construction expenditures for routes they do not drive. Ultimately, Japanese highways have come to be almost perpetually tolled. This is why the Japanese people continue to pay the world’s highest tolls and taxes at the same time.

The annual revenue sources for roads accounted for only ¥20 billion in 1952, when Kakuei Tanaka decided to appropriate gasoline taxes to specified revenue sources for roads. In 1972, when he adopted the toll pooling system, the annual revenue sources had swelled 100 times, amounting to ¥2 trillion, or the equivalent of 4 times the construction costs for the Meishin and Tomei Highways combined. The government should have made early redemptions and attained toll-free highways pursuant to the meaning of the Law. Instead, the Tanaka Cabinet determined, without Diet resolution,

to adopt the cabinet order for the enforcement allowing the collection of tolls almost perpetually. This was an outrageous story for the national people. But with this, the core business model of the Liberal Democratic Party, i.e., nationwide implementation of public works with huge tax revenues and tolls collected, was materialized, and the LDP acquired its source of power. Koizumi, the President of the LDP, now intends to succeed to the mechanism. A privatization, a move that would result in perpetual toll collection, would be another perpetual betrayal of the national people. Although the Prime Minister has emphasized structural reform, in action he is striving to maintain the structure with LDP interests preserved.

Privatization program full of contractions and deceptions

First, the privatization plan itself lacks reality. An equity likely to be valued at nil would be sold to the national people through the privatization and listing on a stock exchange.

The four highway-related public corporations are giant corporations with debts of ¥40 trillion. If their equities are widely sold by listing on a stock exchange pursuant to the recommendations of the Promotion Committee for the Privatization, what would take place? The Law prescribes the highways must become toll free at some time in the future. If tolls were to become free, the highways would earn no revenue and the stock price would be likely to fall to nothing. If the four highway-related public corporations were private companies, they essentially would already have failed. Although they receive large subsidies upwards of several hundred billion yen annually, their debts exceed assets. The Honshu-Shikoku Bridge Authority cannot even cover its interests with toll revenue. In addition, doubts of various false accounting practices have been pointed out. Worse, four major accounting firms refused to audit the Japan Highway Public Corporations. This is a very abnormal event. If the current situation continues, no listing will be effected.

There are also problems in the handling of the four highway-related public corporations at the privatization stage. Specifically, there is a strategy whereby the Debt Servicing and Holding Corporation can hide its debts by "*Tobashi*," a mechanism that allows the corporation to unrecognize its debts and transfer them to subsidies.

The Koizumi structural reform has given the national people the impression that they would shoulder no burden if privatization were attained. A similar contradiction can be

clearly seen by watching the Debts Holding and Servicing Corporation, an entity established to hold debts exceeding ¥40 trillion. If the privatization was to take place successfully, such entity would not be necessary. The privatized company is allegedly supposed to pay the tolls for highways to this Debts Holding and Servicing Corporation. To assure the success of the privatization, the Koizumi structural reform purports to reduce the tolls and make the privatized company profitable. With this scheme, the existing ¥40 trillion debts would swell. Clearly the Debts Holding and Servicing Corporation subrogates the huge debts of the four highway-related public corporations. The loss of the Corporation is covered by the treasury accounts, namely, the national people. In other words, the role of the Corporation is to hide the national burden, just as financial institutions with a large debts use the *Tobashi* mechanism to transfer the losses to off-balance accounts. The *Tobashi* mechanism practiced by financial institutions was clearly a crime, and the same mechanism practiced by the Debts Holding and Servicing Corporation is feared to be a crime against the national people.

The monopoly by the subsidiaries and associates of the four highway-related public corporations is likely to become worse. The privatized company is alleged to actively implement diversified businesses and reinforce the operations of parking areas and service areas. That is, they intend to privately control highways, public roads for the national people, and also monopolize businesses in those areas. It resembles even a medieval feudalism. Do they intend to control the check gates and markets and charge expensive tolls and concessions? Japan cannot be relieved of this medieval system unless it enables its people to drive toll-free highways and conduct their businesses freely.

We should not mix this privatization with the privatization of the Japan National Railway (JNR).

At the JNR reform initiated by the Nakasone Cabinet in the era of the bubble economy and heavy concentration in Tokyo, the only solution was the choice of privatization or maintenance of the current conditions. We can see no fare free for trains. If fares were free, the operation of trains would be suspended. But if highways were toll free, people would be pleased. They would function in the same manner as other roads. Trains run on infrastructure of rails. Train companies provide trains, fuel, and personnel. Contrary to this, the main character of highways is users. Users provide cars, fuel, and drivers. The four highway-related public corporations resemble Japan Railway Construction, Transport and Technology Agency responsible for the construction of railways, not JNR.

The difference between ordinary roads and highways is whether or not they are exclusive for automobiles. Given that roads are free, it would be not at all strange to make the highways toll free and liquidate the highway public corporations.

Privatization with nothing learned from history

The major relief to the failed German economy after World War I was the construction of the nationwide network of autobahns. The economic driver for the 1950's and 1960's in the US, the so-called golden age, can be cited as the construction of the Interstate Expressways. The construction of a toll free expressway network brought about decentralization to local areas and economic growth. The Roman Empire developed roads that could be likened to ancient highways and attained prosperous system wherein "all roads led to Rome." The empirical economic effect generated by toll-free highway networks has been proved in history. Looking at Japanese history back in the 16th century, Nobunaga Oda developed the economy by providing free roads to people for trade and markets and making trade available to any one.

Based on the US recommendation that Japan is essential among the free and democratic regimes in the world, the highways were constructed with US technologies and funds provided to Japan at a time when treasury accounts were low and Japan was on the way to economic restoration. If the government had observed the original promise of the redemption principle based on a pay-as-you-use basis, the highway routes would have become toll free once the debts were paid. Furthermore, at the time of larger revenue sources for roads, if the government had integrated ordinary roads and highways and maintained and improved them with taxes, as seen in the US, Germany, and England, Japanese highways would have long been toll free by this time. Structural reform should relate to learning from history and changing to the right path for national prosperity.

Privatization in the form of perpetual toll collection fixes excessive density in urban areas and depopulation in rural areas. The population in Japan has further concentrated in metropolitan areas, mainly in Tokyo, where 65% of the population, or 80 million people, live in an area accounting for only 3% of the total land area in the country. Excessive density has apparently adverse effects on all aspects of life, including commuting, nursing of children, education, caring, housing, commodity prices, land prices. On the other hand, 97% of land is in rural areas. A serious problem in rural areas is that no works attain self reliance. This has generated the structure dependent on

public works, hindered the self reliance, and facilitated the outflow of youth to metropolitan cities. No transportation modes other than automobiles are available in most rural areas. Despite this, cars are the only fast means of transportation within those areas, where the highways pay the most expensive tolls levied anywhere in the world. No matter how long one drives on the Metropolitan Expressways in the Tokyo metropolitan areas, the toll is a flat ¥700. A driver driving for one hour on a highway in a rural area will pay several thousand yen. General people cannot use the highways in daily life and work. The current system clearly amplifies the inconvenience inherent in rural areas and has accelerated a vicious cycle.

The attainment of toll-free highways would correct this mobility gap. An increased number of entrances and exits connecting to ordinary roads would largely enhance the capabilities of the existing road system. In addition to this, the areas adjacent to entrances and exits would largely grow with service and parking areas available to various service industries and new towns created around them. Businesses and corporations could relocate their operations in expensive urban areas to rural areas. With these achieved, the cycle of life, consumption, employment and retirement would be generated in rural areas and self-reliant development would be probable. New opportunities for prosperity would be created with the toll-free highways: the materialization of a low cost society, free mobility, decentralization, enhanced life services, etc. The privatization, a system that would result in perpetual toll collection, would demolish all of these possibilities. Thus, the high cost society, excessive density, and depopulation would continue, and Japan would be further deadlocked amidst aging and fewer children with industries transferring production bases and operations to the low-cost China.

By the way, Mr. Inose has been criticizing the author's articles in the September edition in *Weekly Bunshun* and other magazines. Yet his criticisms have missed the mark, as he contends that the author's emphasis is to impose new tax to be used as revenue source for attaining toll-free highways. As readers of the author's article understand, the underlying rationale for his insistence relates to the appropriation of a part of specified revenue sources for roads amounting to ¥10 trillion, one of the world largest revenue sources, to the attainment of toll-free highways (¥2 trillion under the current estimate). The author welcomes his constructive criticism, but only after Mr. Inose fully understands the meaning of the author's articles.