

NATIONAL

Illusory promise of freeways exacts a toll

Rivals split on ending expressway firms' perpetual debts, construction

By TETSUSHI KAJIMOTO
Staff writer

There is no such thing as a freeway in Japan.

For decades, it has been a given for drivers that if they use expressways they must pay the tolls, even though they've been promised that someday when the construction debts disappear so will the tollbooths.

So when think tank chief Yasuyo Yamazaki, former president of Goldman Sachs Asset Management Co., recently proposed making most

ELECTION
2003

expressways free, it struck many as a fresh idea.

Whereas Prime Minister Junichiro Koizumi has vowed to privatize Japan Highway Public Corp. and three other heavily indebted semigovernmental expressway operators, Yamazaki's proposal was taken up by the Democratic Party of Japan as a key feature of its manifesto for Sunday's Lower House general election.

The DPJ platform calls for disbanding Japan Highway and another expressway corporation and ending tolls within three years, except for large urban areas such as the Tokyo metropolis and cities in the Hanshin region, spanning Osaka and Hyogo prefectures. Local governments would then be empowered to carry out expressway maintenance and development.

Koizumi, the Liberal Democratic Party president, plans to introduce bills during the next regular Diet session, which starts in January, to privatize the four expressway operators in fiscal 2005.

He has offered few details and only said his administration will prepare the bills in line with an advisory panel's proposal made in December.

The panel proposed that the highway firms be split into a debt-holding and asset-servicing organ and five expressway operators. They would be prevented from cross-subsidizing one another for construction of unprofitable expressways.

"Koizumi's privatization scheme ultimately means toll collection will be perpetuated," said Yamazaki, who the DPJ said earlier this week would become land, infrastructure and transport minister should the party take power as a result of Sunday's election.

"How else could the privatized entities generate profits and thus be considered going concerns for future stock market listing?" he asked.

"Privatization would allow the state to keep neglecting its promise to make expressways toll-free," Yamazaki said, referring to a 1956 law on road improvement stipulating that once the debts from an expressway's con-

struction have been repaid, it would become toll-free.

However, the law's principle of independent debt redemption and benefit for each expressway has been on hold since 1972, when Prime Minister Kakuei Tanaka introduced the "toll-pooling system."

This system paved the way for the expressway operators to continue collecting tolls until their total construction debt has been repaid and to continue building expressways.

"Under the toll-pooling system, expressway users have ended up paying more than ¥7 trillion in tolls for the Toei and Meishin expressways (that link Tokyo, Nagoya and Kobe), which cost only ¥460 billion to build and would otherwise have been toll-free a long time ago," Yamazaki said. "Why did this happen?"

He said his proposal would rectify the pooling system, whereas Koizumi's plan would lead to permanent violation of the 1956 road maintenance law.

The prime minister has brushed aside Yamazaki's proposal, questioning how the expressway operators would be able to repay their debts — which total some ¥40 trillion — without toll revenues.

His panel wants the privatized entities to focus on repaying the debts in 50 years via tolls while limiting construction. Whether they keep collecting tolls after clearing the debts was not made clear.

Yamazaki said that under the government plan, the principal and interest would total at least ¥120 trillion, assuming interest rates stay at a relatively low 4 percent.

But he described even that estimate as "optimistic," considering the panel's proposal for reducing tolls upon privatization and prospects that in-



YASUYO YAMAZAKI holds up a mock "toll-free" expressway ticket at his office in Tokyo. TETSUSHI KAJIMOTO PHOTO

terest rates will rise.

"The swollen debts would end up being covered by taxpayers," he warned, citing the late-1980s Japanese National Railways privatization, which forced taxpayers to pay more than ¥22 trillion in JNR debts and massive interest.

To mitigate that burden, Yamazaki wants the government to take advantage of the current low interest rates to issue bonds with maturities of up to 30 years to repay the expressway debts all at once.

"With issuance of government bonds with an average coupon rate of 2 percent on the strength of its credit standing, the total payment of principal and interest would be ¥64 trillion over 30 years" — about half the debt repayment cost under the government plan, he said.

Yamazaki thus believes

new taxes would not be needed to repay the debts.

By cutting construction costs, the government should be able to find ¥2 trillion a year for debt repayment from the roughly ¥9 trillion put aside each year for road improvement, including gas and vehicle-related taxes, he said.

Like other industrialized nations, Yamazaki said such tax revenues should be used to construct ordinary roads as well as expressways, and the national government should empower local governments to plan their own road networks in efficient ways.

"Privatization would do little in terms of economic impact," Yamazaki said. "But toll-free expressways would help revitalize local economies nationwide by making the flow of goods and people between urban and rural

areas cheaper."

However, Yamazaki's proposals still leave the question of who should bear the cost of using expressways.

"How can one justify forcing people who don't use expressways to bear the burden for those drivers who do use them when there are alternative routes available?" asked Yoshitaka Fukui, an associate professor at Aoyama Gakuin University's international management graduate school.

"Not charging expressway users would be like giving bullet train passengers a free ride," said Fukui, who has studied privatization issues.

He also questioned the DPJ's pledge to continue charging tolls in large metropolitan areas but do away with them in other areas. That contradicts its promise to support urban residents.

Fukui also wonders why Koizumi and his panel have dodged the crucial issue of whether tolls will remain forever, while concentrating on repaying the operators' debts.

He said the operators, if they stop building expressways, could be considered top-rated firms like Japan's power utilities, whose combined interest-bearing debts total ¥30 trillion but still enjoy a steady cash flow from electricity charges.

The government may even reap capital gains by listing privatized expressway operators on the stock market and use the proceeds to build new expressways, Fukui said.

"It's time for the government to amend the 1956 law and stop letting the people live under the illusion that expressways will someday be toll-free," he said, adding that unlike the U.S., Japan is small and land is costly. It can't afford to have freeways.