TRANSPORT POLICY IN THE UNITED KINGDOM

A critique of the 1977 White Paper

By M. E. Beesley* and K. M. Gwilliam†

This Journal has always sought to encourage work relevant to the formation and execution of transport policy. The Editors would like to receive papers directly concerned with assessing governments' programmes for transport, and to provide a forum for discussing the issues that emerge. To set this in motion, they include this comment on the recent White Paper [1] on Transport Policy issued in the United Kingdom. The Journal has subscribers in over 60 countries, and the United Kingdom, for example, provides a minority of readers. The Editors hope that comments will be directed to issues of common interest and that contributors with greater familiarity with other countries' transport problems will offer papers.

In the British political system the conventional role of a "White Paper" is to explain and justify major changes in government policy. Usually, though not always, changes in policy involve legislation; in that case the White Paper becomes the background to an Act of Parliament. White Papers, like the Acts or administrative actions that they explain, vary in their breadth. Ten years ago revised transport arrangements were contained in White Papers on specific modes *(Railway Policy,* Cmnd 3439), the sectoral problems *(Transport Policy,* Cmnd 3057), and the wider obligations of public sector enterprises *(Economic and Financial Obligations of Nationalised Industries,* Cmnd 3437). Taken together, it was envisaged that they constructed a framework within which resource allocation to and among transport modes could be efficiently managed. Broadly, the philosophy of that framework was one of fair competition in the market between competing modes, managed by government only to the extent that direct subsidies were necessary to enable socially desirable "non-commercial" services to be provided without distorting fair competition in the market sector.

Since the late 1960s this framework has been altered in two important ways. Firstly, the reorganisation of local government was accompanied by a measure (the Local Government Finance Act 1974) which in principle assigned to the local political process a much greater degree of discretion in determining how transport

*London Graduate School of Business Studies
†Institute for Transport Studies, University of Leeds.

should be managed, operated and financed at the local level. In particular, it was felt that adequate local public transport could be best secured in this way. This was a development, rather than a rejection, of the 1967 framework. The second major change was more fundamental, a response to mounting rail deficits. In the 1974 Railways Act subsidies for individual services, deemed to be justified in principle by criteria of social desirability, were replaced by a global subsidy. The Government undertook to provide a "Public Service Obligation" subvention consistent with E.E.C. rules governing railway subsidy. It required British Rail to provide passenger services "comparable" to those existing at the time of the legislation.

The present White Paper [1], and the Consultative Document [2][1] that preceded it, emerged largely because of the the increasing difficulty, in a time of financial restraint, of reconciling the maintenance of the desired level of public transport facilities with acceptable public expenditure levels for the sector. In their own response to the Consultative Document, British Rail represented this situation as one in which government willed the ends without the means, and left operators—themselves particularly—hopelessly short of operable criteria for sensible business management. Similarly, the National Bus Company put great emphasis on the need for a stable and managerially workable set of financial arrangements and rules within which the levels of service could be decided.

Viewed as a response to this kind of fundamental challenge, the White Paper is a notable non-event. Its opening chapter spells out, tediously, the need to keep options open and concludes: "In the years ahead, transport policy must remain flexible and open to revision so that it can match changing realities" (Para 36). Meanwhile, the White Paper promises to maintain traditional institutions. It retains the Traffic Commissioners, leaves unaltered the control framework in London, and makes no provision for transferring bus operations between Passenger Transport Authorities (P.T.A.s) and the National Bus Company (N.B.C.).[2] It hedges, by promising further thought and consultation, on other structural questions raised in the Consultative Document, such as the control of Freightliners Ltd and the creation of an Economic Development Council for transport.[3] This may be no bad thing—the U.K. transport industry has had more than its fair share of structural tinkering over the last 30 years. But, if our identification of problems is correct, the absence of proposals for structural change simply emphasises the importance of creating conditions in which the existing institutions can reasonably hope to achieve what is expected of them.

So, it seems, we return to the two problems which the 1968 Act tried to address—proper compensatory and management arrangements in the non-commercial sector, and fair competition in the commercial sector of transport. They remain the outstanding issues.

---

[1] In recent years White Papers have sometimes been preceded by a Green Paper presenting policy developments for discussion before they emerge in a more final form.

[2] Passenger Transport Authorities were set up by the 1968 Transport Act to control and, where desired, operate public transport in the major conurbations. Some services in the conurbations have continued to be operated by the nationally owned National Bus Company.

[3] Freightliners Ltd. was set up by the 1968 Transport Act to operate rail container trains and terminals. British Rail, with a 49% holding compared with the 51% holding of the road-dominated National Freight Corporation, have argued for the return of this activity to their control.

SUBSIDIES

In terms of likely economic effects, the most notable positive feature of the White Paper is the planned shift of resources from investment, particularly in roads, to subsidy of current operations in public transport. Although this simply follows a trend of the past four years, it represents a change of view since the Consultative Document, in which it was suggested that the subsidy of rail services in London and the South East, and of bus services in the other major conurbations, would be reduced. Moreover, the level of subsidy for British Rail and London Transport is not explicit. For instance, fuel tax relief, a major and explicit source of subsidy for the National Bus Company, is ignored in the treatment of London Transport and British Rail.

One might have expected such a shift of emphasis to be presented and justified in a common theoretical framework. The White Paper continues to emphasise the importance of economy in resource use; indeed, it discusses improvements in the assessment of investments in the road context, particularly with respect to cost-benefit analysis, and refers to the forthcoming report of the Leitch Committee on Trunk Road Assessment. But there is no similar appraisal of the subsidies, despite the White Paper's own stern comment that "those who want to spend more in one area must show where, within the budget, compensating savings should be found" (Para 1). The Government indeed shows the "sacrifices" in road investment, but does not expose any rationale for the resource transfer.

The main reason for this omission is that the White Paper justifies subsidy from a standpoint which views transport as a merit good, "mobility", a minimum level of which is to be supplied to all irrespective of their financial capacity to purchase. It is analytically very tough to make operational analyses to serve such a judgment. Cost benefit analysis and its extensions to individual gains and losses and effects on distribution of income (as in [3], for example) certainly does not do it. Indeed, it takes quite the opposite tack—that individuals know what is best for them, and politicians choose on grounds of consumer gains, corrected for possible "resource" considerations, weighted according to income effects. Thus, while the government appears to be advocating some kind of "mobility standards" as the basis for subsidy, it is not offering any advice or indication as to how these can be formulated or appraised. Nor is there any reason to believe that either local government (on whom a good part of this task will devolve) or the operators are any better equipped to face it. The National Bus Company have recognised the problem, and have recently employed consultants to advise them on criteria for the identification of needs for accessibility [4]; but no operable criterion for assessment emerges.

Sudden escalation of subsidy

The problem of consistent assessment is of course not entirely intellectual. Subsidy on the present scale arrived suddenly and largely unforeseen. Procedures of investment appraisal were gradually developed from the early 1960s to deal with a foreseeable situation. Moreover, subsidies in the early 1970s differed not only in scale but also in style from the situation we now appear to face. Fuel rebate was viewed as a compensating correction for a sumptuary tax levied principally on motorists; grants for new buses had their analogies in other government efforts of

the time to encourage industrial efficiency (though whether this was a legitimate analogy is arguable). Even rail subsidies, billed as being specific in the 1968 Act, were mainly thought of as a form in which to carry out the 1968 financial settlement, and not as a mechanism involving assessment of the right scale of support. Thus, when the inflation of 1973-75 posed the choice between rapid escalation either of subsidy or of prices, and government-wide macro-economic strategy dictated the choice of the former, the means for dealing with subsidy appraisal had not been prepared.

The White Paper excludes the "second best" argument for public transport subsidy. The rejection of this common justification is based on three main propositions—that congestion costs are not as high as was once thought, that the marginal social costs of public transport are also high at the peak, and that cross elasticities between public and private transport are low. For most conurbations all three propositions probably hold; but it still does not necessarily follow that there is no scope for subsidy to improve efficiency. Glaister and Lewis [5] have recently suggested, for example, that, allowing for transfers of traffic between car, bus and rail modes, and between peak and off peak, the most plausible values of the relevant elasticities for London would suggest an annual public transport subsidy of the order of £150 million as a welfare maximising level. The work is not definitive, and it is still possible that better instruments exist to achieve the same ends. But, if road pricing is not acceptable (as the White Paper implies) and increased rigour of parking restraint proves politically or technically difficult, there is still an argument in favour of public transport fare and service policy as an essential element of an efficiency, rather than simply an equity, policy. It is interesting to note, however, that the subsidy suggested by this argument is less than the level of subsidy presently obtaining when London Transport and British Rail deficits in London are taken together.

Social needs

The argument for subsidy in the White Paper derives ostensibly from the second of the main objectives set out for transport policy, namely, "to meet social needs by securing a reasonable level of personal mobility, in particular by maintaining public transport for the many people who do not have the effective choice of travelling by car" (Para 9). Unfortunately, when one examines the specific proposals of the document it becomes clear that the special needs set out in paras 12 and 13 of the White Paper bear little relationship to the actual directions of subsidy proposed.

The White Paper proposals imply that about the same proportion of total passenger subsidy will go to British Rail as at present. Within this total the directions of subvention change. Both freight and intercity services are to pay "full economic charges". But the White Paper drops the Consultative Document's suggestion that British Rail should make a timetabled move towards viability in its London services. It is not even made clear what the ultimate objective is. The issue is confused rather than helped by an oblique reference to future cross subsidisation—"the more successful the Board is in the other parts of its business, the less the burden on commuters will be" (Para 132). So, there would appear to be a shift towards urban, in this case London, subsidies. A similar weakening in

reliance on market disciplines is apparent in the approach to bus revenue support. The proposal in the Consultative Document and in the Public Expenditure White Paper (Cmnd 6721), to halve the revenue support for local bus services by the end of the decade, is replaced by a commitment to maintain it at the present level (£150 million per annum), supplemented by about £15 million p.a. for rural services, £25 million to "level up" the concessionary fare provisions, and the deferring of the phasing out of bus grants and fuel rebate.

While this may appear to be the continuation of a well tried policy, the reality is very different. The explosion of bus subsidy was, as we have already noted, an unplanned result of macroeconomic policy. In particular, the distribution of that increased subsidy was also the unplanned result of the institutional arrangements. Thus, it was the local-authority-controlled Public Transport Authorities—by definition in the larger conurbations—which, together with London, soaked up the bulk of the increased subsidy.

Lower fares in the conurbations

The redistribution which is proposed appears to take the form of an across-the-board maintenance of lower fares than would otherwise be charged for residents of the large conurbations. Although reference is made to the possibiltiy (no more) that specific subsidies in cities may be needed for services to link inner areas to job opportunities further away, there is little also to indicate that any selectivity by reference to "needs" is either planned or likely. Hence, if the subsidy proposals are to pass the White Paper's own declared test "to help towards a fairer distribution of income", they appear likely to do so only on the general presumption that public transport in the major conurbations is consumed predominantly by the poorer groups. The evidence of the Consultative Document suggested that this might be true for bus users, but certainly not for British Rail rail commuters. Even for bus services, however, the subsidy is very unselective within the areas selected, and redistributes much more significantly—and arbitrarily—between areas.

Rural areas

In terms of providing bus services to meet "social needs that would not otherwise be met", it would appear that these are most likely to be required in lower-density, particularly rural, areas. For the most part these services are provided by the National Bus Company, which, subject to financial objectives, has in fact a successful record of diversifying *away* from this market. For the years 1971-74, National Bus Company accounts show a reduction of the ratio of its revenues between stage services and other services (express, contract hire) from 87 : 13 to 80 : 20. With a harder initial commercial environment (higher rural car ownership and far more non-Labour local governments to deal with), it trimmed its services far more than B.R., L.T., or the P.T.A.s.

There are some slight signs of advance on this front. We have already noted N.B.C.'s own attempts to identify "need" in rural areas. Though, ultimately, N.B.C. are not the appropriate institution to make judgements on need, their efforts may at least stimulate local authorities to more thought on the matter. Moreover, there are institutioinal proposals which should help. The Government intends to introduce legislation requiring each of the shire counties to prepare and publish a county public transport plan, which will be rolled forward annually, and

will form the basis of public transport planning within the Transport Policies and Programmes process.[4] The legislation is also intended to require county councils to enter into binding arrangements with operators for those services requiring support, including break clauses providing minimum periods of notice for changes in support. The revised procedures providing for local finance of some rural rail services are also designed to give a "stable" source of finance over a "reasonable" time period.

There are also signs of a public recognition of the need for new and more flexible forms of public transport (though only in the rural context). The White Paper concedes "There are many places where so few people want to use an existing public transport service that it does not make sense to attempt to continue to meet their needs by a normal bus service" (Para 146). Various modifications of the traditional licensing system to encourage forms of "para transit" are therefore discussed. Already the Minibus Bill proposes to allow minibuses to be used by voluntary bodies and schools on the basis of a simplified system of permits. The White Paper suggests that community buses may be exempt from traditional public service vehicle and driver licensing requirements. It is even proposed that the restrictions on payment for lifts in private cars will be removed.

Given the diagnosis that the problem is a deficiency of mobility for certain groups in the population, and the prognosis that this cannot be adequately fed by traditional types of bus service, the prescription of a very limited amount of flexibility in service provision is extremely conservative. The Traffic Commissioners' duties are to be amended so that they should have regard in making their decisions to the local authorities' policies and plans for local transport. It is explained that the government has considered the case for further relaxation of the licensing system, but: "When the problem is that the main bus operators are carrying fewer and fewer passengers it is just not sensible to allow competition to move in and cream off a few more" (Para 157). The retention of the Traffic Commissioners is the means whereby it is intended that protection of traditional bus services can be ensured.

If the law so prescribes, *and* the necessary financial support is forthcoming from local authorities, traditional bus services can be maintained in this way. But it is not possible to defend licensing in rural areas on the grounds of either service network co-ordination or the enforcement of internal cross-subsidisation—the two traditional supports. On the one hand, the services provided are for the most part non-connecting and are determined by operational factors. On the other hand, the problems arise from, and the move to flexibility is forced by, the inadequacy of cross subsidy to maintain the standards considered to be the minimum. In any case, there is no reason why the required degree of connectivity—or indeed a certain amount of cross subsidy—should not be obtained by a local authority in other ways than by treating with a monopoly bus supplier under rules supervised by Traffic Commissioners. It could, for instance, use restricted franchise in a much more innovative way by putting its requirements for "social" services out to competitive tender. One is left with the clear impression that only two considerations militate

[4] Each county is required to produce annually a statement of its Transport Policies and Programmes.

against this type of solution. First, there is suspicion of the ability of County Councils to perform their functions effectively in the public transport field. If that is a concern, however, the transfer of powers to local authorities might have been linked to the provision of adequate Public Transport Plans. Second, and more crucially, there is the unremarked general context of a need to support, or appear to support, protection for transport jobs as part of the larger strategy of tripartite bargaining between Government, union and employers, deemed necessary for macro-economic policy reasons.

Urban policy and job protection

We have noted that the effect of the White Paper proposals is to redistribute subsidy to urban areas despite an identification of a problem which appears to be predominantly extra-urban; it must also be remarked that the White Paper view of urban policy is somewhat muddy. It declares that there are more often than not conflicts between the three main objectives—efficiency, equity and environment. It then particularly points to the conflicts between the environmental objective and the other two. As far as efficiency and equity are concerned two points are made. First (as in the Consultative Document) it is argued that, because of the low cross elasticity of demand, subsidy is not a cost-effective way of diverting peak hour travellers from car to bus. Second, it is argued that, because of the structure of public transport costs, reduced fares off-peak may well be efficient, and that the government will encourage the operators to explore and implement them. The logical corollory of these observations would appear to be that, with a cash limit on total subsidy, peak fares are too low; while fares are not properly related to costs by time of day, the provision of peak services below cost weakens rather than strengthens the ability of the bus industry to provide an "adequate" network of services. The Consultative Document did hint at this conflict by suggesting that frequencies might need to be reduced on some of the better served corridors in urban areas in order to support basic minima elsewhere. On the other hand, the Consultative Document undermined this by suggesting that public transport service levels would need to be maintained as the necessary support of restraint policies in areas where congestion was high. The implicit conflict between efficiency and distributional objectives was not remarked.

The White Paper attempts to avoid the contradiction by proposing increased restraint powers for local authorities more as a means of improving overall speed and reliability of person movements than as being concerned with altering peak modal split *per se*. But the logic of its treatment of this subject still seems to be deficient. In most conurbations outside London congestion is a peak phenomenon, and further parking controls to reduce peak congestion must either change timing of trips or affect modal split. The White Paper says nothing to suggest that the former is either the objective or the likely effect, so one must conclude that the effect would be to increase public transport use at the peak, and thus to add further to the peak/off peak disparity in public transport demand. Where faster public transport running at the peak is achieved, the adverse financial effects of this will be offset. But that such an offset is achievable is far from clear. If peak-hour modal split is affected and no peak-hour fare discrimination is practised, the likely effect will be to make it more rather than less difficult to reconcile the overall financial

limitations with the "mobility" objective. One of the main advantages of supplementary licensing, cordon pricing schemes, or new taxes on private non-residential parking would be to create scope for peak public tansport fares related to costs and offering appropriate inducements in *both* modal split *and* trip timing. Unfortunately the White Paper concludes that there is now no need for the first two types of control (Para 125) and is far from decisive on the means whereby private non-residential parking is to be controlled. As the policy stands, it seems that subsidy will be dissipated in supporting unecomically low fares, particularly at peak times in urban areas, and will not be used selectively to maintain services to meet social needs which will not otherwise be met.

As a postscript to this argument, we may again suspect the unreported importance of job protection in public transport. A concerted attack on the twin problems of efficient peak hour movement and off-peak service maintenance would almost certainly include strong policies to discourage movement at the peak *both* by public transport *and* by cars, and increased car sharing or other forms of para transit at peak, *even* at the expense of losing some peak public transport passengers. The former policy is not seriously discussed, whilst car sharing is considered peripherally as a policy only for rural situations on the assumption that public transport services are not thereby affected. Thus the underlying problem of how high peak costs, mainly labour costs, are to be tackled in conventional public transport in the future is left open.

FAIR COMPETITION

In inter-city passenger and freight transport the Government still appears to believe that social welfare will be best served by ensuring "fair" competition between modes. What is meant by this is that the railways should aim for strictly "commercial" operation in these parts of their services and that road freight should meet, via taxes, its "proper allocation of costs" for use of the road track. This conclusion simply repeats in general terms that embodied in the 1967 White Paper and the 1968 Transport Act. It does not pay explicit tribute to all the subsequent problems of defining its meaning precisely, or securing its effective operation. It requires a proper basis for the allocation of costs between the commercial and non-commercial sectors of rail operation and a solution to the perennial problem of interpretation and allocation of road track costs.

This advocacy of fair competition is, however, partial in two senses. First, the arguments in support of the approach (e.g. "subsidies make freight operations less efficient", para 11), are simple economic arguments which could be, but are not, applied to other spheres. The fact that they are only applied to inter-city passenger transport and freight could be explained in terms of trades union structures. In these markets, and these alone, there is a clear conflict of interest between unions, which probably cannot be accommodated in a different way without major structural upheaval not only in the organisation of the industry but also, and particularly, in union organisation.

Second, "fair" competition does not mean free competition. There is no intention to free markets in inter-city transport by encouraging either competitive investment or entry to the markets. In inter-city passenger markets, for example,

"There are grounds for concern about the co-ordination of operators' investment plans in the longer term. Improvements by one operator to services can oblige others to invest in improvements to theirs or to cut fares" (para 173). The likely result is stated to be excessive capacity which the public have to pay for. Hence the government propose to launch studies aimed to secure better co-ordination of operators' policies on pricing and investment in the interests of better service to the public. This is reminiscent of the ill-fated Transport Costs Model exercise of the mid-sixties, which, on the basis of a very limited corridor selection, attempted to come to conclusions about the respective roles of rail and road in trunk transport. Moreover, it does not fit easily with the flat rejection of highly centralised national traffic planning on the ground that "The nature and size of the demand for transport is constantly changing as a result of many diverse factors such as the requirements of industry; people's needs for travel and their preferences about how to spend their time and money; patterns of land use and the cost of transport services" (Para 41). Of course, there are problems of investment allocation, given indivisibilities and differences in timing of replacement needs. But the presumption that a solution can be found by separating investment planning from controls of the use of capacity and allocation between modes has foundation neither in theory nor (it appears from the Transport Cost Model experience) in practice. True, on the basis of this kind of argument one might view the retention of the Traffic Commissioners as a regulatory authority as a logical corollory of the planning approach. Unfortunately, that interpretation does not stand up to closer scrutiny. Freight allocation is unaffected by Traffic Commissioners. Moreover, the role of the private car in inter-city markets appears to be explicitly excluded—"The issue in passenger transport is not so much a question of fairness between one mode of transport and another, but rather how much we can and should spend as a nation on supporting public transport" (Para 53). Above all, even in the public passenger transport sector the licensing system has existed for more than 40 years as a check on road incursions into the rail market and as a protection of existing operators' priority within the public road passenger transport market. The Traffic Commissioners have neither the duty nor the necessary information and understanding to form part of, still less the keystone of, a rational mechanism of traffic allocation.

The complement to centralised investment planning as a means of securing economic use of resources is thus still seen narrowly as equalising the prices of factors paid for with their current value in alternative uses. On the rail side this is seen as the necessity for inter-city passenger and freight services to "pay their way". In practice it seems likely that this effectively means increasing net revenues from both freight and passengers, though the White Paper has refrained, perhaps wisely in the light of past experience, from quantifying the effort required or from predicting future progress. That omission would be forgiveable if it were clear that the White Paper did offer a clear basis for the relevant railway decision making. Unfortunately, while the requirements for freight are clear and have implications which are likely to be tolerable to both the railways and the government, the same does not appear to be true for the passenger markets. Moreover, there seem to be institutional implications of a kind which may not in the long term be conducive to efficient decision making.

Rail freight

The government is determined to remove subsidies on freight whether by road or by rail. Rail freight costing is to be done on the basis of "avoidable cost", that is, those costs which would be saved if freight were withdrawn. For some quite significant traffics (e.g. a good deal of coal traffic) this will include all track costs as well as terminal and operating costs. For some traffics using lines also required for passenger services, it would involve little in the way of track costs. On the assumption that major pruning of the rail network will not take place, this is a clear target and allows rail management to make sensible price and output decisions. The problems that arise if the network is curtailed, though vexatious for rail management, will still be intelligible.

Inter-city services

The treatment of rail passenger service is much less clear. It is asserted that British Rail's "inter city services must aim to make their full contribution to the costs of providing the service, including a proper share of the cost of infrastructure" (Para 171). Although no time table is set for the achievement of this target, it is confidently stated that "with improving productivity and lower costs, and services planned to meet demand, the inter city network will have an assured future" (Para 171). This begs two important questions, namely, how the "full contribution" is to be defined, and how inter city services are to be defined.

On the question of the "full contribution" there is a notable asymmetry with the freight situation, where the costing basis is that of "avoidable" costs. However, there are indications in the latest British Rail annual report that the test of avoidable costs may supplant the test of contribution for inter-city pricing also. This may provide what the White Paper lacks—a definite target for price setting for passenger services. But, if there are indeed substantial joint costs between freight, inter-city and local rail services, as has always been asserted, it will also disclose an adding-up problem—that substantial costs will remain unaccounted for. The proposed procedure for "non-commercial services" is that the British Railways Board would identify those falling well short of meeting their avoidable cost (the word "well" muddies what is otherwise a fairly clear prescription). Any such service would be notified first to the Secretary of State, who would decide whether "there were in the Government's view overriding reasons for retaining the service as part of the national network" (Para 101). If so, the Government would continue to support it and the Board would be required to operate it under the Public Service Obligation. If the Government decided otherwise the choice would then be offered to the relevant local councils, who would be able to secure retention of the service on payment of avoidable costs less direct revenue. Even on this basis, it is stated, the councils would receive Government support. The magnitude of the financial burden thus appears as the residual emerging from a series of decisions on network size and service provision, not all of which are taken by national government. While it is clear that the system proposed allows central government to appraise, on an incremental basis, whether it wishes unremunerative services to be viewed as part of the Public Service Obligation, it does not appear to be capable of limiting the services it supports to those approved in this way, or of ensuring consistency between the sum of these incremental decisions (and the consequences

of past decisions when amended by inflation and changes in costs or demands) and overall public expenditure limits. We shall return to this in discussing the relationship between government and the British Rail Board.

On the question how inter-city services are to be defined there appears to be a similar problem. The requirement that inter-city services pay "full contribution" *or* meet "avoidable costs" seems likely to result in several routes which are presently considered as inter-city coming up for withdrawal (e.g. Scottish services and the NE-SW services). This would appear to conflict with the assertion that "A system will continue to be required which provides long-distance passenger services (including, of course, the inter-city services)" (Para 98). Two reconciliations of this apparent conflict are possible. The Government may take the optimistic view that all existing inter-city services could pass the test with appropriate, and possible, adjustments in costs, prices or levels of service. While B.R. still appear to be satisfied that there remain markets with sufficiently low elasticities to allow net revenue to be improved by fare increases, it is very unlikely that this solution is possible for each and every inter-city route. The alternative reconciliation is semantic: to redefine "inter-city" to mean those inter-urban routes which can meet the financial test. In that case, of course, the maintenance of the "demoted" inter-city routes as part of the national Public Service Obligation would accentuate the residual and uncontrolled nature of the financial obligation.

Is this a satisfactory framework?

The economist may ask whether the White Paper has provided the framework for an efficient allocation of resources between modes and an effective way of achieving the explicit social and distributional objective of Government. Railway management will certainly be asking whether the White Paper offers the kind of framework within which they can make the necessary decisions to ensure that such rail services as are to be provided can be provided efficiently. As we remarked at the outset, the railways' concern has long been that they were not given clear enough statements of objective, or a stable enough financial framework within which to manage. For instance, an open-ended definition of the Pubic Service Obligation is also an open invitation for the rail unions to assume that their wage bargains are relatively unfettered by any tiresome market restraints.

The White Paper quite blatantly claims to have provided such a framework: "It has set out the tasks for the railways, has provided as much stability as the Government can secure, and has pointed to the main areas where change must be accepted by all concerned. It has thus marked out for the Board and the unions the framework within which they must work together to serve the public and to build the future of the railways, and has set challenging targets to be achieved" (Para 225). But when one examines the proposals supporting this assertion they are found to be physical targets, the financial resource implications of which are not spelled out, or statements to the effect that Government *will* in the future set targets or agree financial limits. The broad financial targets, "to contain, and then to reduce, subsidy to the revenue account for the operation of passenger services" and "to eliminate any continuing requirement beyond this year for support to the other railway business", are nullified by the absence of any criterion for determining the global Public Service Obligation or any security of or criterion for future

investment funding. In the likely event of continuing financial pressure on the railways it is far from clear that, as the Government seems to infer, a basis has been provided within which railway management can manage.

Perhaps this particular sectoral problem is best seen in the light of the wider discussion concerning the relationship between Government and the management of the nationalised industries. Broadly, the existing arrangement is set out in the 1967 White Paper [6], which attempts to define their respective roles carefully within the context of an "arm's length" relationship. In a recent report [7] the National Economic Development Office concluded that this framework is in need of radical change. They pointed to a lack of understanding within the government machine of the problems of management: in particular, a reluctance to accept the importance of continuity and of some assurance of stable objectives and policies. Plans for investment, technology and manpower have to be made for periods extending well beyond the life of one Parliament. The root of the problem is seen to lie in the mistrust and confusion that is generated as ministers respond to short-term pressures of political expediency.

Nationalised industries and Ministers

Neither the problem nor its recognition is new. For instance, the Select Committee on Nationalised Industries (S.C.N.I.) have frequently commented on relationships between Ministers and Boards. But there appear to be two quite different solutions. S.C.N.I. has usually argued in the context of the "arm's length" approach, in which the Boards should be guided by the general papers on the objectives of nationalised industries, supplemented by specific sectoral acts or policy papers, and any ministerial interventions which conflict or confuse this issue should be given formally and responsibly. The National Economic Development Office report [7] considers this thinking to be based on a false analogy with the private sector. It argues that "the issues of public policy involved are so large that is is not realistic to suppose that they would ever be left for long to management alone to determine". It therefore starts from the premise that the evolution of strategic plans for the nationalised industries must be a combined operation between industrial management, government, unions, industrial users and consumers. It implicitly rejects solutions which involve direct integration of Ministry and Nationalised Board, which would effectively abolish the independence of the nationalised industries. It proposes that for each nationalised industry there should be a Policy Council and a separate Corporation Board. The main function of the Policy Council would be to agree corporate objectives and the strategies to achieve them; to establish performance criteria; to endorse corporate plans; and to monitor performance. The Corporation Board would manage the Corporation within the framework of these objectives, strategies and criteria. The Policy Council would be responsible to Parliament and would act as a buffer between the Board and government, and government would not be able to intervene directly in the management of the industries except by a published ministerial directive which overrode a Policy Council decision. Whether this would be workable in practice may be doubted. Perhaps a more likely direction, for rail at least, is closer but more publicly accountable Ministry involvement.

Unfortunately, the present White Paper embodies a conception which falls

squarely between all these possibilities. Several crucial strategic issues (Public Service Obligation, investment funds, the objectives of subsidies) are reserved for future agreement between the government and the Board, without its being made clear how public the decisions should be or to what extent they will be the responsibility of government. Meanwhile, the definition of the current tasks and responsibilities of the Board and the Department of Transport are not spelt out with sufficient clarity, consistency and comprehensiveness to form a basis on which either party can manage, and ultimately be judged. The S.C.N.I. approach places responsibility for setting objectives on Parliament; N.E.D.O. places it on the Policy Council, responsible to Parliament; the While Paper leaves it very much in the air. Unless the issue is resolved we can foresee more years of fruitless mutual recriminations between the B.R. Board and government, with the potential of rail being frittered away in the process.

Road infrastructure

The complement to policy for rail in securing "fair competition" is the discussion of the amount and kind of road infrastructure available and the terms on which it is used. On the first matter the White Paper further tightens the budget limits but says little about appraisal. Expenditure on new road construction by central and local government authorities has already been cut by more than one-third from £1,000 million in 1971-72 to £630m in 1977-78; this new level will be roughly maintained, in present price terms at least until 1980-81. Even in comparison with the Public Expenditure White Paper of February 1977 (Cmnd 6721), this represents a reduction of £60 million, which, together with a £20 million reduction in local road maintenance, provides the space within a fixed total for the £80 million increase in the proposed level of local bus subsidies for 1980-81. Within those new expenditure limits emphasis is to be moved from the achievement of a completed strategic network of motorway and dual carriageway standard (as contained in [8]) to a more selective improvement of roads in phases to standards varying to reflect the degree of use. This new emphasis increases the importance of individual project appraisal, and hence also enhances the importance of the findings of the Leitch Committee on appraisal methods and the recommendations of the Council on Tribunals. In that context is is interesting to note that the White Paper highlights the special road needs of inner cities (Para 63) and of industrial traffic (Para 251), the implication in both cases being that more emphasis will be given than has hitherto been the case.

Road charging

The White Paper does not envisage any changes in the basic structure of road charging. It presumes that the types of taxes already levied constitute an acceptable framework for road charges, and that by adjusting rates and tax bases where necessary the proper conditions for "fair competition" can be achieved. Thus, it is the intention to modify the goods vehicle taxation system to allow excise duty to be related to laden weight and the number of axles. The implication of this is that for some vehicle categories (the 4 axle 32 ton articulated is particularly mentioned) large discrepancies between revenue and allocated costs can be eliminated by tax changes. Correct inducements would thus be given for selection of vehicle types.

These proposals rest on the continued acceptance of the "cost responsibility" approach to road taxation developed in the 1967 paper on Road Track Costs and embodied in the basis of the 1968 Act. The rationale of that approach was as a best approximation to the concept of long-run marginal cost for roads. It complements the avoidable cost approach to rail costing and pricing only if it is a reasonable approximation to this concept.

Unfortunately there is a formidable list of objections to this interpretation. First, the system is used to allocate an arbitrary expenditure total. This total includes the current year's capital expenditure on roads, an amount which is determined, and fluctuates, largely independently of the incremental costs of road capacity. There is neither logical nor institutional reason to link the totals arbitrarily determined in this way with those which would emerge as the sum of long-run marginal cost for all units of traffic on all links.

Second, the White Paper itself discloses the arbitrariness of the totals in another way in its dicussion of environmental effects. In Para 49 it is asserted that "The existence of social and environmental costs, as well as other factors such as the need to encourage efficiency in the use of fuel, may justify taxes which in total exceed the public costs that can be measured". But in Para 183 it concedes "Such costs cannot, however, be measured in any objective way." "Fair competition" thus has a substantial element of quite untestable arbitrary assessment about it.

Third, there is no attempt to optimise initial road expenditure in terms of provision for different classes of vehicles. Thus, the fact that some incremental costs could have been avoided if a particular category of vehicles were not allowed for does not necessarily mean that those costs were justifiable, or even appropriate, as the minimum costs to allocate to that vehicle class. The allocation basis only makes sense in the context of a positive effort to optimise the expenditures being allocated. A particularly significant dimension of this optimisation would be the trade-off between capital costs and maintenance expenditure. Because the allocation of part of the costs is based on the variability of maintenance with axle weights, any variation in the balance between capital and maintenance expenditures in road design would vary the appropriate allocation of taxation.

Fourth, if maintenance expenditures relate to use at all—as they clearly do—the basis for "fair competition" would require vehicle taxes which are related to mileage. The present system achieves this only to a small degree, as it reflects variation between the average mileages by vehicle categories in the allocation between vehicle categories. Variation within classes, which may be very large, is unreflected.

Finally, even if all these problems were overcome, there are problems of divisibility. The prescription of prices equal to long-run marginal cost is normally linked to a presumption that capacity is optimally or near to optimally adjusted. Only in those circumstances will long-run and short-run marginal costs approach equality and either over or under-utilisation of capacity be avoided. This is not the case with roads; particularly in urban areas where there is congestion, optimal utilisation would call for prices exceeding long-run marginal costs. This would indicate more urban-based, and less inter-urban based, road taxes.

Taken together, these theoretical defects reduce the status of what is said in the White Paper on "fair competition" to the level of untestable assertations of value

judgments. But even in its own logic the White Paper is inconsistent. If, as asserted in the Consultative Document paper on Track Costs, much of the cost is related to vehicle mileage, then so should be the tax structure. No proposals for systems (such as already exist in Sweden) are discussed or proposed. Moreover, the relation of road prices to long-run marginal costs and of rail prices to avoidable costs only makes sense as a basis for co-ordination if there is feedback from the prices charged to investment decisions. On the contrary, the White Paper makes commitments about road and rail investment which are completely independent of the pricing issues.

SUMMARY

In summary, the White Paper offers nothing theoretically or practically novel to resolve the perennial problem of securing allocational efficiency in the transport sector between road and rail modes. In that sense it must be viewed as a pretentious failure. Moreover, in the absence of such insights it shows all the earmarks of an uneasy compromise between (a) the wish to promote efficiency via reliance on market forces and the perceived need to constrain expenditure and (b) the difficulties of satisfying the pressures of the labour unions within the industry. At this more practical and opportunistic level its most significant advances appear to be in the recognition of the role of more "unorthodox" transport modes in rural areas and of the need to provide a more rational and stable basis for subsidy management. But, at the end of the day, one feels that the problems which gave rise to the White Paper—the financial problems of railways and of local public transport—remain fundamentally untouched by it. British Rail management must feel just as confused and insecure as ever about the absence of any clear framework in which to operate; and those, in both urban and rural areas, who are most vulnerable to the loss of public transport services must more than ever fear that limited financial resources will be dissipated in an unhelpful across-the-board subsidy of predominantly urban bus services.

REFERENCES

[1] *Transport Policy.* Cmnd 6836. London: H.M. Stationery Office, June 1977.
[2] *Transport Policy: A Consultative Document.* HMSO, 1976.
[3] Lichfield, N., and H. Chapman: "Cost Benefit Analysis on Road Proposals for a Shopping Centre". *Journal of Transport Economics and Policy,* Vol. II no. 3, September 1968.
[4] Peat, Marwick, Mitchell & Co.: *An Initial Report on Minimum Levels of Service for Public Transport.* Prepared for the National Bus Company, April 1977.
[5] Glaister, S., and D. L. Lewis: "An Integrated Fares Policy for Transport in Greater London: Second Best Estimates computed from Recent Empirical Findings." *Urban Economics Conference,* Keele, July 1977.
[6] *Nationalised Industries: A Review of Economic and Financial Objectives.* Cmnd 3437. HMSO, 1967.
[7] *A Study of the Nationalised Industries: Their Role in the Economy and Control in the Future.* National Economic Development Office, 1976.
[8] *Roads for the Future.* Cmnd 4369. HMSO, 1970.