Adam Smith Institute
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TRANSPORT POLICY

Adam Smith Institute

THE OMEGA FILE

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FOREWORD

The Adam Smith Institute's OMEGA PROJECT was conceived to fill a significant gap in the field of policy research. Administrations entering office in democratic societies are often aware of the problems which they face, but lack a developed programme of policy options. The process by which policy innovations are brought forward and examined is often wasteful of time, and unconducive to creative thought.

The OMEGA PROJECT was designed to develop new policy initiatives, to research these new ideas, and to bring them forward for public discussion in ways which overcame the conventional difficulties.

Twenty working parties were established more than one year ago to cover each major area of government concern. Each of these groups was structured so as to include those with high academic qualification, those with business experience, those trained in economics, those with expert knowledge of policy analysis and those with knowledge of parliamentary or legislative procedures. The project as a whole has thus involved the work of more than one hundred specialists for over a year.

Each working party had secretarial and research assistance made available to it, and each began its work with a detailed report on the area of its concern, showing the extent of government power, the statutory duties and the instruments which fell within its remit. Each group has explored in a systematic way the opportunities for developing choice and enterprise within the area of its concern.

The reports of these working parties, containing, as they do, several hundred new policy options, constitute the OMEGA FILE. All of them are to be made available for public discussion. The OMEGA PROJECT represents the most complete review of the activity of government ever undertaken in Britain. It presents the most comprehensive range of policy initiatives which has ever been researched under one programme.

The Adam Smith Institute hopes that the alternative possible solutions which emerge from this process will enhance the nation's ability to deal with many of the serious problems which face it. The addition of researched initiatives to policy debate could also serve to encourage both innovation and criticism in public policy.

Thanks are owed to all of those who participated in this venture. For this report in particular, thanks are due to Peter Fells, John Hibbs, Sandy McGregor and Anthony Shephard, amongst others.

1. INTRODUCTION

A FREE MARKET IN INLAND TRANSPORT

There is no necessity for public transport to be provided by monopolistic corporations - whether national, regional or municipal - despite an entrenched assumption to the contrary. This assumption, fundamental to public policy for most of the present century, is unsupported by economic theory and is increasingly questioned by critics both inside and outside the industry itself.

It is an assumption that originates from two sources. One is by analogy from the development of railway organization, where a process of merger that began in the 19th century was consummated by nationalization in 1947. Yet this is to ignore the atypical nature of the railway age, the period before motor vehicles began to offer the public an alternative means of moving people and goods. The second is the mistaken belief that assets and jobs already committed to a specific use ought to be protected from replacement by new technology, or fresh entrepreneurial drive.

It is assumed here that the restoration of a free market in public transport, with barriers to outright subsidization, will restore the commercial health of those parts of the industry that can survive, and ensure the replacement of any services which fail with alternatives justified by effective demand. This will involve the dismantling of a number of bureaucratic organizations; but the ensuing health of the industry will do more to retain (and indeed increase) employment than any amount of protection for dinosaurs. And it does not imply that the disabled or elderly passenger will be denied the help of a caring community, for councils can still assist them by using tokens, which any operator will accept, so helping the needy while leaving the competitive structure undamaged.

In the United States, it is commonly held that urban passenger transport is a utility, while many European cities have adopted what is called the 'continental approach', which sees it as an arm of urban planning and control. In both cases it is assumed that the market will not satisfy the needs of society unaided, the same assumption being applied to public transport in general. But without denying that transport - whether public or private - is essential to the survival of society, and inextricably bound up with the land-use problem in cities, it is not necessary to entrust its provision to the whim of the politician or the paternalism of the planner. Even where market imperfections occur, local authorities wishing to add services for disadvantaged groups can buy them in a market situation in the knowledge that their funds are being economically applied.

There is, however, one imperfection that is basic to transport today, and that is the method whereby we charge road users for the costs that they impose on what may be called the

'infrastructure' of the industry. Until these costs are brought home to the private vehicle owner and the transport industry by some form of direct pricing, there can be no sound foundation for the development of a free market economy for transport. But with such a reform, the remaining barriers to competition can be dismantled, and the public corporations returned to private ownership in units small enough to be competitive, and so truly responsive to public demand.

Three main objectives characterize the programme that is outlined here. The first is the maximum satisfaction of the transport consumer (and that means everyone). The second is the optimum application of the nation's wealth to this vital industry, through the working of the capital market. The third is the long term continuance of jobs and job satisfaction for those who staff the industry at every level.

2. THE ROADS

ROAD USE PRICING

The objective of an efficient road transport pricing policy is to create some form of relationship between the costs that a vehicle operator imposes on both the road network and on other drivers and the amount that he pays towards to the financing of that network.

The use of any scarce resource is encouraged by low prices and discouraged by high prices. This can clearly be seen by the use of the roads. Roads are a limited resource, like other goods and services; and since there is no direct charge to the motorist, they are over-used, resulting in widespread congestion. If a system of efficient transport pricing were introduced, every road user would meet the share of the costs associated with his level of use.

The introduction of road use pricing, whereby the driver of a vehicle is charged various rates depending on which roads are used, fulfils two main functions:

(1) to ration available resources fairly amongst potential users;
(2) to provide a system of direct funding for the maintenance and construction of roads in Britain.

Advantages of road pricing

Exactly how pricing will operate can only be seen after an examination of the costs involved. There are two main areas of cost associated with road use: direct costs, which are those imposed as a result of resources being used in the provision and use of the roads (e.g., road maintenance, fuel, and environmental costs); and congestion costs, which are those imposed on others as a direct result of road use.

The importance of direct costs is easily and generally recognized, but the same cannot be said of congestion costs. Under the system of road use pricing, users are not only charged an amount equivalent to the direct costs of their journey, but also an element representing a 'rent', which applies to the busier roads and encourages their use to settle at an optimal level.

Thus where there was very little or no congestion, the cost to the motorist would be solely the direct cost, that is, the value of the resources consumed as a result of the motorist's use of that particular road.

Where congestion is heavy and persistent, as in Greater London, the 'congestion' or 'rent' element would be a large part of the charge. Although at first it might seem unfair to impose such an

extra charge, careful consideration shows otherwise: the higher price will effectively reduce the numbers using the road, and will in turn reduce the amount of delay and frustration that is associated with congestion. The net result will be an economic incentive to travel either by a different mode (by bus), by an alternative route, or at a different time.

The flexibility of a metering system allows variable rates not only on different roads, but also at different times of the day, and so is able to cope with rush-hours.

An additional advantage is that the larger revenue will be earned not only by the more efficient road owner but also by the road that is used the most. This means that there will be a direct correlation between the revenue a road earns, the maintenance required, and improvements to critical sections of the road system.

Such a move towards road use pricing would reduce many of the inequities of the present system. A prime example of this is the way lorries are charged. Lorries account for over ninety per cent of the damage done to roads, but while about one quarter of all heavy vehicle miles are on motorways, expenditure on motorway maintenance and repair is only one tenth of that of total road expenditure. With road use pricing (and a national highway trust, which will be discussed later) there could be investment and improvement where it was needed, i.e., where the vehicles caused the most wear and tear. So there would be a shift towards greater repair expenditure on the motorways and other places where it was needed.

It must be noted here that this system of road use pricing is applicable only to those roads responsible to a national body. It would not apply to local and minor roads, which could be given to those who are their main users (for example, in the case of farm roads), or would be placed under the control of the relevant local authority. Thus, road use pricing would apply only to selected urban roads, trunk roads and motorways. Exactly what would happen to various roads which were not in any of these classifications would be for the consideration of the national road body, (the National Highway Trust). Any extension of the NHT's commitment would be governed by the over-riding rule that those who benefit from a road should pay for its upkeep.

THE NEED FOR AN ELECTRONIC METERING SYSTEM

A pricing policy should be based on the introduction of a direct link between what people use and what they pay for, and would have two main effects; it would be harder for funds raised in this manner to be used elsewhere; and it would enable vehicle operators to perceive the costs which they imposed on others when using the road network.

Alternative systems

The most satisfactory system of direct charging for roads is to make a unit charge each time a vehicle passes over a road pricing point. There are two main metering systems. The first is an off-vehicle meter system, where remote control units are activated by vehicles but are situated at central computing stations. This is comparable to the Automatic Vehicle Identification system (AVI), and is similar in design to the twenty-one month electronic road pricing scheme now on trial in Hong Kong.

The second is an on-vehicle meter system, using devices very similar to taxi meters. An expendable meter carried on the vehicle would absorb and count electrical impulses generated by low current cables laid across the roads at certain strategic pricing points. The 'life' of the meter is expended by continuing use.

The two systems function differently, even though the basic principle is the same. The AVI system would be based on individual vehicle identities being recorded as they pass road pricing points. The identities are then passed via land lines (e.g., the telephone network) to a central computer, where individual records can be kept and bills can be processed. Compared to its alternative it has the advantage of providing continuous up-to-date traffic data.

The main method of payment with the on-vehicle system is simple and easily administered. The meter is carried in (or under) the car, and includes a tell-tale indicator visible from the outside. When the credit cartridge that powers the meter is run down by the pulses from the induction coils in the road, it causes the indicator to register the absence of further credit. New cartridges could be purchased from any 'approved' dealers.

An advantage of this disposable cartridge system is that it involves pre-payment: i.e., the congestion tax is paid before the road is used. The driver is instantly aware of the costs he is incurring, and may arrange the meter so that he can see his credit ticking away - quickly on congested roads, slowly on others. With the AVI there could be a tendency for people to treat it like an electricity bill, and worry about it only when it arrives. While this could probably be overcome in the AVI system by having to have an account in credit, the administrative problems would increase.

One problem that may prove decisive between the two alternatives is the matter of privacy in the 'off-vehicle' system. The advantage it offers in providing statistics will not compensate for the loss of privacy that this system involves. The problem does not occur with the on-vehicle metering system.

Before all vehicles are fitted with meters, it might be possible to introduce the short-term hire of meters for the

occasional or the 'out of town' user. These would be available from a wide range of retail sources - shops, post offices, petrol stations.

After the installation of the metering system, road-use will be charged at a two-part tariff, with the smaller element being vehicle road tax and the larger element a congestion tax and maintenance charge, represented by the revenue from the sale of cartridges. The road tax licence would cost less as road-use pricing becomes widespread.

Advantages of road metering

One great advantage of the system is its simplicity and its easy comprehension, since the charge rate for each vehicle is determined by the frequency of road pricing points. From this it can be seen that the point system is extremely flexible. Not only can the number of points be altered (by adding some or turning some off) but different vehicles can be charged at variable rates (e.g., a lorry at 2 units per point, and a small car or motorcycle at 0.5 units per point).

Another advantage is the low potential for fraud or theft. If the box on the vehicle is sealed correctly, then such a contingency will be quite rare. If it is placed in a readily accessible area, then there will be both improved maintenance and security enforcement, since 'spot checks' can be easily performed.

The almost impossible enforcement problems associated with illegal parking in city centres, and other congested areas, would virtually disappear, as such spaces would be subject to very high electronic meter tariffs set at a level aimed at discouraging their use.

The initial cost of developing the system would be met mainly by interested manufacturers and the installation costscan be offset against savings achieved in parking supervision, as both parking meters can be disposed of and traffic wardens greatly reduced in number. Operating costs would be manifestly very low. Areas with high congestion costs would, or course, benefit most from their initial expenditure on the system.

The implementation of an effective pricing policy will inevitably take time. The most practical course seems to be to start with central London and include other cities and road links gradually thereafter.

ORGANIZATION AND CONTROL OF THE ROAD SYSTEM - A NATIONAL HIGHWAY TRUST

While it is clear that the future health and stability of the road system lies with a fair and practical system of road pricing and the market, it is of vital significance to establish exactly how such a policy will be implemented and administered. Since there cannot sensibly be more than one body responsible for managing a given section of road, the solution involves striking a balance between the monopoly power of a private road owner and the tendency for a state run organization to grow into a monolithic bureaucracy, with the inertia that this implies.

A National Highway Trust, (NHT), with sole responsibility for the road network, would go a long way towards attaining this balance. The main determining factors influencing its performance would be its terms of reference, powers and finance. Initially, the primary requirements of such a body would be fourfold:

(1) to carry out a road survey of Britain, leading to a complete inventory of the whole of the British road network, and the order of priority for the application of the pricing system;

(2) to maintain the present road system on a self-financing basis;

(3) to arrange contracts with private companies to build new roads, and to maintain existing roads;

(4) to act as a planning body for new roads.

The economic justification for a national trust for roads may be seen by noting the requirements of a rational road pricing policy. These are twofold:

(1) the need to apply road use pricing to as many roads as possible.

(2) the need to ensure that the total costs of any section of the road system should, wherever possible, be borne by those who use it.

With these in mind, the most practical solution for the implementation of such a policy is the establishment of a National Highway Trust, as this would create a sound financial structure, while at the same time assisting in the more general aim of removing transport as a whole from the political stage to a base on which it can be genuinely self-supporting and paid for equitably by users.

There are also sound financial arguments for the NHT. Firstly, there can be no rationality in road finance as long as it is included in the public sector borrowing limits. Such a straight-jacket, on top of the normal political pressures, must produce either under- or over- investment. The introduction of market disciplines through road use pricing will lead to an optimal level of investment based on the system's needs rather than politicians' whims. Secondly, a single entity, being non-

political and unsubsidized, can improve the road system by responding to prescribed statutory objectives which make such improvement its sole function.

Structure of the National Highway Trust

Scope. The NHT must be an autonomous body set up under an independent charter and subject to certain ground rules:

(1) it would be in charge of only selected urban and trunk roads, and motorways;

(2) all of its work would be contracted out;

(3) there would be restrictions on its authority, for example, overall trusteeship would be with a board of directors who would conduct statutory policy, maintain central records, oversee financial returns, and communicate with other bodies, e.g., the Department of Transport, the Treasury, etc.;

(4) it would be required to liaise with the appropriate planning authorities:

Finance. Funding is a critical point. During the implementation period, the trust could be funded from road vehicle licence fees or directly from the Treasury. Whichever way was chosen would not be very significant, since it would be only a temporary solution until the electronic meters were operational. and funds were coming in from that source. In the long term the finances of the trust take on a far more important air. The trust would have access to the capital markets, if necessary,but would get most of its income from the electronic metering (road use pricing) system supplemented by a (much reduced) road licence.

A problem which seems likely to occur is that the trust would find itself generating a substantial surplus in its accounts, arising mainly from the congestion element in the road charge. Exactly how it should be used would be up to the Trust, but would probably be restricted to the following areas:

* ploughing back some of the profits to lower prices;
* investing in safety and fuel economy research
* (in special cases) subsidizing unprofitable roads
* expanding and building new roads to relieve congestion;
* aesthetic improvements and better sound-proofing of existing roads;
* the creation of separate, safe, walk-ways and cycle-paths.

It is difficult to find exact parallels in British institutions, but the NHT would, in some respects, be similar to the National Trust. The ultimate aim is to have a national body which is efficiently administered because all of its functions are privatized, but which in turn regulates the private concerns who control the roads.

Maintenance and new road building

The National Highway Trust would employ minimal staff and

contract out all work relating to the road system. This means it would put out to tender the maintenance and general upkeep of existing roads (road repair and maintenance of signs, lights etc). Through metering of individual roads, it would attempt to relate charges to the costs of upkeep of those roads. Given that contracts would be offered on a regular basis and the lowest effective bid accepted, there would be constant pressure to keep costs down.

As far as new roads are concerned, there are greater possibilities for full privatization. The NHT would offer contracts for the building of new roads to private road suppliers who would build the roads at their expense and gain their recompense from the metering charges on that section of road. The contract to build the road would be given to the road supplier who offered to do it at the lowest charge to the vehicle owner.

Private suppliers should also be allowed to initiate road projects as they would have the strongest incentives to spot any possibilities which the NHT would miss. Or a local authority could approach a civil engineering contractor with a suggestion and if accepted, it could be taken on to the NHT for approval. In this way some of the production of roads could be placed into the hands of the road suppliers, with the likely profitability of useful roads acting as the stimulus to efficient distribution of new road building activity.

The supplier would also be responsible for the subsequent upkeep of the road, though he might wish to sub-contract that to others. The revenue from the meters on the road would of course be gathered by the NHT from users in the normal way, and then passed on to the private road supplier. Not all metering systems are capable of identifing how many cars pass over each metering point, so separate car counting systems like those which are in common use at the moment, would probably be employed. Under this new system new roads would effectively be fully private, and public expenditure constraints on the building of necessary new roads would be removed. The greatest financial inducements for new road building would be at exactly those points where existing congestion or presently inadequate roads make new alternative routes necessary and desirable.

Conclusion

The move towards an almost autonomously financed system will have a number of beneficial effects on the road network in Britain: it will remove the provision, maintenance and management of roads from the political arena and lead to greater continuity in policy; it will make the roads more responsive to the needs of their users; it will improve the standards of the roads by encouraging expenditure on expansion and repair to go where it is needed, not where civil servants think it should go; and it would improve the efficiency of the road transport network as a whole,

since private organizations will cut waste and costs in an attempt to satisfy the consumer.

3. ROAD TRANSPORT

INTRODUCTION

A realistic transport policy will need to be pursued on many fronts if it is to be fully successful. Not only will it require extensive deregulation, but efforts will be needed to highlight the misconceptions held by many people about transport issues.

The first part of the policy would therefore involve the excising from the statute book of the mass of legislative provisions designed to restrict entry by private bodies into the operation of public transport services. The Transport (London) Act and other similar restrictive legislation would need to be repealed and not replaced. Market efficiency requires that there be no restriction on any operator setting up a business to convey people or goods except the 'quality' restriction exercised by the Traffic Commissioners - the ability to provide, maintain and manage a vehicle or fleet of vehicles. The arguments that such de-regulation and freedom will over-provide services and lead to chaos, criminal practices, etc., are a plea for the continuing insulation of existing operators from competition. In an open market, the inefficient will fail, but effective and competitive private services will provide the cheapest possible transport with no requirement for general subsidy. All complications imposed on the provision of private transport services for hire and reward tend to promote public monopolies and waste resources.

Certain general points about transport policy should be stressed:

* that deregulation in rural and low-density suburban areas is the only means of providing any form of public transport to many of those areas;
* that 'quality' and 'safety' provisions will remain in force;
* that caution should be exercised in subscribing to restrictions on professional driving hours. The safety of the public is the only important criterion.
* many of the present restrictions are designed to protect and increase employment levels in the transport industry;
* that the economies of scale argument applied to public transport is a myth. In fact, bigger vehicles are disproportionately expensive to buy, to operate and to maintain. The greater use of personnel on smaller vehicles can be no objection as long as they form part of competitive businesses;
* that the idea that competitive public transport adds to traffic on the roads and causes congestion is also untrue. Nobody will run empty buses or goods vehicles, and six passengers or more justify the road-space taken up by even a large bus.

Fortunately, public road transport is so highly tariffed that even without the removal of subsidy (with few notable exceptions such as South Yorkshire), private operators could take over and

offer better services at a profit simply by their greater efficiency and economy of operation. The present transport monopolists are aware of this, which may be why debate is avoided on efficiency grounds, and concentrated instead on the higher level of tax/rate support available on the Continent for notably more effective transit systems.

THE BUS INDUSTRY AND THE ROLE OF CONURBATION TRANSPORT AUTHORITIES

Buses tend to be the poor relations of ships, aircraft and trains, yet the industry carries 8 per cent of passengers in Great Britain compared with 7 per cent by train and 2.8 per cent by air: the bus industry employs about as many people as the railways. The partial de-regulation offered by the Transport Act 1980 has been something of a damp squib, and more extensive reform is needed.

The shape of the industry

The industry is divided broadly into three sectors, roughly equal in the number of vehicles they own. The private sector consists of some 5,400 firms with an average fleet size of five, which make a small but useful contribution to line-haul bus services, but are generally more concerned with coach operations. The public sector is itself divided into a state-owned part consisting of the subsidiary companies of the National Bus Company (NBC) and the Scottish Bus Group (SBG), and a municipal part which comprises the seven PTEs (average fleet size 1,437) and some 50 municipal transport departments that vary widely in size. The public sector dominates stage carriage operation (local buses), but despite the NBC/SBG dominance of regular long-distance services, plays a much smaller part in the coach trade. London Transport, while clearly in the public sector, is *sui generis* in its relationship with government. It is both the monopoly supplier of public transport in London and also the arbiter of what private competition with those services is permitted.

Subsidy. There is a substantial subsidy to buses, but none to the coaches, except where small firms use coaches on bus services. Bus operators are given a full rebate of fuel tax, and while the 'new bus grant' is being phased out, there are pressures upon government to retain or replace it. There is also a wide provision of 'revenue support grants' from central and local government, whose benefits are enjoyed by bus operators in all three sectors, but chiefly by the PTEs and the municipals. The level of subsidy varies extremely widely, as does in consequence the level of fares, the subsidy being used in some areas to achieve a political aim of no fares; and the less tractable problems of rural transport attract varying amounts of public

money from one county council to another. The greater part of the subsidy goes to undertakings in the public sector.

Overmanning in municipal operations is a serious problem, particularly in the unwieldy Passenger Transport Executives (PTEs) set up by the Transport Act 1968, and in London Transport. The problem is not just too many foot-soldiers: it is also the tendency of these operators to expand into planning functions which do not really belong to them.

False assumptions. Policy for the bus industry has been influenced for most of its history by two untenable assumptions: the need for substantial internal cross-subsidization, and the belief in the existence of substantial economies of scale. Together, these have given rise to a system of licensing that has created monopolies in an essentially competitive industry. Neither is justified.

Economists are virtually united in concluding that economies of scale are very limited, while the pragmatic evidence is that unregulated coach firms tend to remain very small. Because of the effect of regulation since 1930, there is little evidence about the optimum size of fleet for line-haul bus operations, but it is perhaps nearer 50 than 500 vehicles. In addition, there are the managerial disadvantages of large scale - remoteness from the customer, rigidity and institutionalized labour relations. The licensing system, invented to sanitize the atomistic competition that so much worried the cautious generation between the wars, is now irrelevant to the function of the public sector giants - and atomistic competition now looks preferable.

But if the economies of scale of large operations have been seriously overestimated, so also have the economies of scale of large vehicles. Within its cocoon of protective legislation, the public sector has pursued labour productivity at the cost of efficiency and its share of the market. The large double-decker, even with its most modern refinements, has meant in practice a great reduction in frequency, and greatly increased time at kerbside stops combined with a poorer quality of service. Recent theoretical work, combined with overseas practice, indicates that smaller, more frequent buses, with customer-centred standards of operation, could be commercially viable, at least in cities. In any case, since overmanning in London Transport, for example, is reckoned to exceed 50 per cent, present public sector policies of achieving increased productivity are little more than a bad joke.

A further criticism of contemporary bus management concerns its long (though changing) dislike of market-based pricing, which stems from a mistaken conviction that it is equitable to charge the same rate per mile throughout the system, irrespective of differences in either marginal cost or elasticity of demand. The practice of standard charging stems also from the licensing system, where it was imposed as a logical concomitant of cross-subsidization. Today it is questioned within the nationalized sector, but it still has undisputed reign over municipal

transport policy.

Finally, management have to be convinced that the public wishes to travel more, not less. The daily trip rate per head of population in Greater London and its dormitories is around 0.30 trips per day - half that of Paris/Ile de France. A large public demand for travel is latent and unsatisfied because of public sector inability to provide the right kind of service.

Practical measures: decentralization

The objective of policy for bus and coach operation must be the restoration of an expanding supply of market oriented public transport in place of the static or declining administrative dispensation that is now the norm. This will meet with some criticism, but the methods of bureaucratic transport, selling a sub-standard product at standard prices, are plainly absurd when it is reflected how they would operate in other service industries, for example, the restaurant trade.

A primary objective should be the further deregulation of the industry. This implies the removal of all remaining constraints upon who is allowed to provide bus or coach services, save for quality control through the Operator's Licence system. The enforcement of standards under this licence would need to be enhanced but simplified. At the same time, it requires that the PTEs and London Transport be relieved of their statutory duty to provide for all demand. These steps, however, form only the start of the process.

The National Bus Company has recently started to decentralize its operations, reverting to smaller and more manageable units, often with local or historical fleet names designed to encourage brand loyalties in the best entrepreneurial tradition. This might be encouraged with a view to disposing of these smaller units, possibly to their own staff in some form of co-operative venture. In particular, the experiment should be encouraged in the large urban areas where the NBC operates, as a precedent for similar developments in those where public transport is provided muncipally.

The NBC itself could then be left as an umbrella organization responsible for a limited number of centres, providing accountancy services and heavy docking facilities for the smaller units, together with marketing expertise and research and development on a contract basis. This organization could equally be returned to the market. Similar units could operate identically in Scotland. The long-distance coach operations of the NBC, which today have a position of dominance in the quite small function that they provide, seem still to need the spur of competition that the deregulation of 1980 failed to provide, though it may be early days yet for the full effects of the deregulation to be seen.

It is this that brings us to the heart of the bus problem. An industry that has been protected for 50 years or more, and one in which a paternalist ethos has become respectable (especially in the municipal sector), will not become entrepreneurial overnight. Large-scale private participation in urban transport ended in 1968 and was rare 10 years before that. There are reasons to suspect that the private sector is hesitant to attempt to overcome all the barriers to entry and to take on the combined union and establishment opposition to private operations of any scale. Similarly, it must be acknowledged that urban transport, in particular, has also to compete successfully with congestion from private cars and taxis. While the introduction of road-use pricing should tend to restore the balance of advantage to some extent in favour of the bus, there is no way in which legislation can imbue public sector management with the spirit of aggressive marketing that, belatedly can recover the fortunes of the industry. The answer must therefore lie in deregulation and in fostering private sector competition across the whole range of the bus industry.

Conurbation Transport Authorities

It must be acknowledged that the adverse experience and entrenched attitudes of the PTEs, London Transport Executive, and other municipal authorities do not fit them to become responsible for the disposition of an entrepreneurial industry.

For this reason we propose - as an interim measure - the formation of conurbation transport authorities (CTAs), not just for the erstwhile metropolitan counties, but for all the major urbanized areas of the country. In the metropolitan counties, they could acquire the existing PTEs, as a matter of temporary administrative convenience. The CTAs are to be charged with the duty of encouraging the decentralization and privatization of bus operations by such means as they deem appropriate, with the requirement of reporting annually upon their progress. In this they need the co-operation of the local councils within their areas, of the National Bus Company, and of whatever successor organizations replace British Rail.

The CTAs would consist of nominees of the municipal councils for their areas, together with a majority of directly appointed members with relevant experience, their chairmen to be appointed by the Secretary of State with specific attention to their purpose of encouraging private and consumer oriented operations in a market economy. This achieved, there would be no further purpose for them, although some form of loose federation of operators would be desirable in order to provide liaison between operators and the authority which exercises land-use planning functions.

Rural transport

Outside the towns, the decentralization currently being pursued by the National Bus Company should be encouraged, but the problems of purely rural transport are not to be under-rated. The varying experience of different county councils, with different policies, should be reviewed, so that the most cost-effective means of providing such facilities as a market-based industry fails to offer can be used where there is undoubted evidence of substantial hardship. There can be no doubt that this will imply the positive encouragement of market-related private management.

To encourage further competition and entrepreneurial progress, the present absurdly complicated regulations that govern the provision of intermediate public transport services need to be replaced by a general provision for the quality control of all public service vehicles, which should then be allowed to function without further constraint. The benefit of this would be felt as much in urban as in rural areas (for example, in the low-density and semi-urbanized fringes of our towns, where traditional public transport is inappropriate), and in the development of such innovations as the fixed-route minibus and shared taxi, giving a supplementary public transport system, at slightly higher cost if need be for those who choose it.

In some cases, bus operators may be prepared to undertake rail services. There have been some instances where rural rail lines have been closed. to be replaced by local authority bus services which after a few years have in turn been dismantled. This has left the carless rural dweller without adequate transport. But the answer is not to maintain obsolete rail services at huge costs: much of the blame can be laid at the door of the inept and over-large publicly owned bus companies who have lacked any competition to encourage innovation. There are many examples of small to medium sized private bus firms which meet the needs of rural areas well, by no means all of them requiring subsidy. Deregulation of rural bus transport will alleviate the problem in many areas.

A further solution to the problem is to encourage the private car owner to advertise his intended journey with a view to attracting share-paying passengers, or perhaps to ply for hire as a spare-time occupation. Part-time taxi or minibus driving can be an especially attractive job for young people in higher education. As the number of those willing and able to offer such services multiplies, the cost should come down. The development of cable television could offer opportunities for a much more efficient advertising of regular , daily trip availabilities. The authorities should help, rather than hinder, this evolution by:

(1) advertising the fact that legal restrictions on accepting paying passengers have been eliminated;

(2) encouraging the setting-up of 'trip buyer and seller' centres with up-to-date communications systems, including radio communication with private motorists who are prepared to install

transmitter/receivers in their vehicles.

Conclusions

The shift to smaller and more frequent buses is more difficult to encourage by legislation, though it is to be hoped that competition from fixed-route taxis and other forms of intermediate public transport will demonstrate its desirability. The equally desirable shift away from standard charging towards a market-based price policy, similar to that of British Rail, should be given positive encouragement by the proposed conurbation transport authorities, despite the fact that it is likely to meet with unjustified political resistance, probably from all parties, in rural areas. Outside the towns, the National Bus Company should be encouraged to continue its development of sound pricing policy, and the Scottish Bus Group to follow suit. The increasingly private operation of the bus industry will of course ensure market pricing as the more appropriate method of charging.

While the industry is being subjected to such a period of change, it may be unreasonable to expect it to come to terms with the immediate removal of general grant and subsidy, but it would be a sensible Treasury target to stipulate their elimination within three years. The introduction of road-use pricing would permit the fuel tax to become purely sumptuary, and there would then be an argument for continuing the present rebate to stage bus operators, and even extending it to coach operation and intermediate public transport: after all, the railways pay no tax on fuel. The private car is by nature a relatively wasteful user of road space, and some measure of advantage to the public passenger vehicle can therefore be justified. The return of the bus industry to a market economy with market-based pricing, should lead rapidly to a situation where revenue support is no longer required.

THE TAXI TRADE

At present the control of the taxi trade lies with local authorities, except in London, where they are the concern of the Public Carriage Office, a branch of the Metropolitan Police. The legislation under which all taxis are controlled places their ultimate supervision in the hands of the Home Office. In most provincial towns there is a policy of limiting the number of taxi licences, which gives their fortunate holders a share in an artificial monopoly. In London there is open entry to the trade, but the effect of the examinations which an applicant has to pass before obtaining his licence ('the knowledge') is to put a brake on the process. Finally, the British seem to be the only people who impose a requirement that the taxi may not be a

suitable production car, but has to be a specialized (and antiquated) vehicle whose costs of acquisition and of operation raise the cost of using the service still further.

The matter could be dealt with simply and quickly. Given that the existing restrictions on the entry of new firms to the bus trade are removed, taxi legislation could be brought into line with the following simple measures:

(1) transfer the responsibility for the trade to the Department of Transport;

(2) require all taxi proprietors to hold a modified form of the Operators Licence currently applicable to bus operators;

(3) abolish the licensing powers of the Metropolitan Police and of all local authorities;

(4) require the Secretary of State for Transport to issue a modified set of safety standards governing the use of private cars to ply for hire;

(5) abolish all existing controls over private hire cars, an artificial category which would disappear with the deregulation of the taxi trade. The definition of plying for hire should be extended to cover the booking of cabs by telephone or through a bureau.

Free of regulation, the trade could be expected to expand to meet the new demand, but there would also be an immediate benefit in the development of shared taxis and fixed-route taxis and the introduction of jitney operationsof the kind still found in the USA. The measure would thus greatly increase the flexibility of public transport in meeting public demand. Even in Moscow there are fixed-route taxis.

Innovations

Deregulation will lead to many new forms of transportation unfamiliar to Britain, as their very existence is dependent on more free entry to the market. In the taxi trade, entrepreneurs will be attracted to the opportunities to be had in the use of the 'sherut', the shared cab, where passengers go to designated points (such as rail stations) and shared cabs await use, advertising specific destinations. Since most taxis in Britain are large vehicles occupied by only one passenger, the sherut principle obviously would become popular.

In addition, one could expect a multiplicity of new forms of travel. In parts of the USA, Latin America and Asia, where minimal restrictions in road transport exist, the 'jitney' is a popular mode of transport. The jitney is generally an 8-12 seat vehicle, usually owned and operated by the driver, which plies along recognized routes. Experience, in the areas mentioned, suggests that they are cheaper than taxis, costing about the same as a bus while being more flexible. Also, it is common that for an extra charge, the driver will take a passenger two or three streets out of the way to drop at an exact destination.

While these are probably the most popular modes of travel in deregulated countries, other examples which could follow deregulation are:

Contract jitneys. These pick up the same passengers every day at their doors, deliver them to work and make the reverse run in the evening;

Subscription buses. Often originating from employers, it is the modern equivalent of the works bus, operating in a similar way to a contract jitney;

Pooling arrangements. This occurs to some extent now. It involves commuters who live near each other travelling in one car (which is usually owned by one of the commuters). In this way travel costs are pooled - and reduced.

It is important to note that while these forms of transport appear likely to spring up in response to less restricted market entry, what is actually provided should be as a direct response to the demands of the commuters in the transport market. There would be no role for government in encouraging one mode of transport above another.

Excessive regulation

Road freight transport is one of the most highly regulated of all economic activities. A conservative estimate once showed that if the pages of all the Acts, Orders, Statutory Instruments and Traffic Regulations were laid end to end, they would stretch across the Atlantic. Many believe that this is where they should be left.

The prevailing attitude towards transport in general is that certain items must travel by certain modes of transport; for example, that coal ought to go by rail, or bulk machinery ought to be containerized, etc. Under a consumer-based transport system (as against a planned one) such decisions are left up to the individual who has the choice between competition - not only within one mode of transport but between different modes.

Historical problems. Looking back at the way in which road freight transport has been treated, such attempts to 'encourage' the use of rail transport via the A, B and C licensing systems for road haulage between 1933 to 1968, had 'no significant effect in securing for the railways any traffic whose consigner wished it to go by road', according to the Geddes Committee of 1966.

In fiscal terms, the picture is no different. Not only is road freight penalized by the imposition of a 400m arbitrary sumptuary tax on top of the strict track cost element, but rail freight frequently makes a loss, despite the ambitions of various governments to avoid its subsidization.

The 1968 Transport Act abolished capacity control on road transport through the introduction of the operator's licence system. This was an improvement over the A, B and C licensing of the '30's in that it increased flexibility and reduced the amount of time wasted by would-be hauliers (and customers), who no longer had to cut through the bureaucratic jungle of road and rail negotiating committees, licensing courts and tribunals. The 1968 Act produced the Transport Manager's Licence, but it was not implemented until 1978 when it took the guise of an EEC 'admission to the occupation of road haulier'. It did very little to improve safety or professionalism in the industry, and considering the resources that have been poured into training and examination for the qualification, and the compliance costs to the hauliers, it is highly suspect on cost-benefit grounds.

Safety standards. The two common justifications for government action in economic activity are environmental considerations and safety (or quality) standards. Road transport is no exception. However, the British safety standards on lorries, especially the annual testing of heavy lorries, are far stricter than those for the private car (perhaps necessarily, it may be argued) and stricter than those in most of the rest of the world. The safety

legislation is so voluminous and comprehensive that its effect is to restrict competition, and so lead to a poorer allocation of resources.

The environmental argument, which is the more recent of the two, has similarly led to extensive regulations: limitations on lorry size and traffic restrictions are but two examples of many actions by government to consider the 'needs of the environment'. While there may be a case for certain basic restrictions, e.g., on exhausts or where a vehicle may travel, there are many unnecessary controls.

Proposals

As in many areas of economic activity, deregulation and the simplification of rules and constraints can reap large benefits for all those involved. Therefore, the following proposals suggest themselves:

* Face up to the fact that EEC rules for drivers' hours are absurdly complicated (and only work in other member countries because of lax enforcement). Legislate for a simple rule - maximum driving time of 9 or 10 hours a day - and leave the trade unions to negotiate the finer points. Then see that the law is enforced.

* Delete all legislative provisions intended to protect the railways (experience throughout the world shows that they do not work).

* When road use taxation has been introduced (but not before), remove all fuel tax from road freight vehicles being used under the authority of an Operator's Licence.

* Revise the examination system for the Certificate of Professional Competence to ensure that it maintains reasonable commercial and technical standards.

* Ensure that road freight transport is not made to suffer from the blind prejudice of certain elements in the environmentalist lobby, while using the necessary measures of quality control and road-use taxation to see that operators pay their fair share of the costs they impose on others.

LONDON TRANSPORT

There is no reason to suppose that the beneficial effects of deregulation and effective pricing for buses, coaches and taxis could not apply to London Transport, which owns most of the tubes, some surface lines, and all of London's buses, while the other surface lines and two tubes are owned by British Rail.

The land holdings of London Transport are very great, much of them being in the form of unused land in potentially valuable development sites. It would naturally help the capital position of passenger transport in London if a programme of sales were undertaken as soon as possible. This would have the additional economic effect of freeing a number of potential sites for offices, housing, or other amenities.

Bus services

London Transport's bus services could be broken up and sold, where possible to the men operating the individual services: the first step should be to decentralize the bus service splitting it up into units based around the garage. Then these units should be sold as soon as possible. Some demanning will necessarily take place, but there will be plenty of employment opportunities in the small private bus companies which will spring up once the LT monopoly has been removed.

The underground

A similar approach to the buses should be taken towards the tubes. The London Underground dates from 1863, and the tubes from 1890. Its history is one of insulation from market competition and this, plus the fact that London Transport has been a prime example of a political football, are the main reasons for its present condition.

Originally built by private firms, the tubes have been under the control of many different committees and boards since their completion. In 1933, the London Passenger Transport Board was created and was far from a financial success. Then in 1947 it was nationalized as the London Transport Executive, but lasted only until 1962, when it was broken up and replaced by the London Transport Board. Seven years later it was passed on to be a responsibility of the GLC as the (once again) London Transport Executive, the situation that now prevails, but will no doubt change once again when the GLC is abolished in 1986.

The common solution proposed by many is of a flat rate fare system, but this is at the very heart of the problems of the notorious New York Subway. Not only is it a very expensive and inefficient way of subsidizing travel, but it discourages short distance trips (which because of the very low marginal costs, are highly remunerative), and subsidizes long-distance travel. These seem undesirable consequences of any transport policy.

A general policy of introducing a competitive market in transport would include moves to privatize the tubes. The most attractive and workable policy would be to introduce leasing arrangements. A public body with clear duties and no powers of subsidy, such as a CTA, or body nominated by the London borough councils, would seek tenders for the lease of each line, with

powers for joint running where necessary, on a long-term 'improving tenancy'. The successful bidder would be required to buy the rolling stock and other assets, but the terms of the lease would allow for compensation where, as might be expected, new investment was required. The terms of the lease would allow for any redundancy payments and protection of pension rights that might be required to enable the new operating companies to start with a clean sheet in terms of their labour relations. Given the operating record of the Underground and the potential for increased efficiency there need be no fear that bidders would not appear.

CONCESSIONARY SUBSIDY THROUGH TRANSPORT TOKENS

If there is to be public subsidy for disabled and elderly passengers, then this should not be arranged in a way which restricts the growth of a competitive transport system.

We propose therefore that any subsidy deemed necessary should be given on the demand side of the system through tokens that can be exchanged for travel on buses. Such a policy can equally apply to the railway network, and would allow greater natural integration between the two systems.

The introduction of transport tokens in a competitive system would be a move which would not only shift transport away from the political arena and the purview of politicians, but would also be an improvement in resource allocation terms over present proposals for cheap highly subsidized bus fares.

Not only is a system of uneconomically low fares very costly to the taxpayer but it is also a highly inefficient way of subsidizing those who need it most, since even those on comparatively high incomes obtain the benefits of the subsidy, in addition to the primary target recipients.

Furthermore, due to their general privileged monopoly position, the bus and rail networks have become extremely inefficient and inflexible. This can be seen in London, with its preponderance of double-decker buses that are big, expensive, and unfillable for much of the day. Competition would overcome these problems and transport tokens would benefit all who are directlyinvolved in the transport network, as the operation would be extremely easy to understand and administer.

Operation of the scheme

The local authority would calculate how much money it could afford to spend on concessionary fares, and would also count the number of individuals who were eligible to receive the subsidy. A simple division, or weighted division according to special

circumstances, would give the size of the subsidy per head.

The subsidy is distributed to the individuals concerned in the form of transport tokens. The tokens are 'bought' from a private company supplier and distributed in lieu of cash to buy journeys on buses, trains, minibuses, sheruts and any other form of transport accepting them.

The transport operators can then redeem the tokens for cash from the original supplier.

Investment returns. In the short period between the time when the local authority buys the tokens and when the supplier has to redeem them the supplier will have a credit in his books. This is invested, and some of the proceeds go to defray the supplier's operating costs, which include minting the tokens, accounting, and possibly distributing the tokens to the subsidy recipients on behalf of the local authority.

But other parts of the investment return can be passed back to the local authority to help reduce the costs of the transport system to the taxpayer. This rebate system has already been worked out successfully by one token supplier in the field

Advantages

There are benefits accruing to the four groups involved in the system: the passengers, the taxpayers, the transport operators and the local authorities.

Advantages to the passengers. There is total freedom of choice about where and when the tokens will be spent. So there will not be any restrictions on what time of the day they can be used, as at present exists with many bus passes. Also, the value of the tokens can be 'stretched' further by being used in combination with cash. Lastly, the absence of complicated restrictions means that there is much less chance of confusion or mistakes.

Advantages to the taxpayer. The involvement of private firms and the opportunity for investing the value of the subsidy means that there is greater all round efficiency - this implies that the cost of implementing a given subsidy is lower and therefore the taxpayer pays less. Furthermore, the subsidy itself is being used on the people who need it most, because only those who specifically need assistance will receive it. Again, this means that the cost to the taxpayer can be reduced even if benefits to those who really need them are improved.

Advantages to the transport operators. There is a nominal administration cost, and no great inconvenience in using tokens. Also, there is no slowing of journey time associated with special fare limitations or boundary restrictions, and no confusion or ill-will from passengers associated with a complicated system. It would be profitable for operators to accept tokens since the

main effect of the subsidy is to increase the demand for the service which they are in the market to provide. This attraction once again helps ensure that operators come forward to provide new services where they are really needed.

Advantages to the local authority. Under the token system, the local authority knows exactly what it is spending in subsidizing transport. Budgetary cuts or expansions could easily be achieved by issuing fewer or more tokens.

In more general terms, the introduction of transport tokens would allow assistance to be continued to those that need it, while permitting the breakup of public monopolies in local transport and the creation of a free market. This can be expected to have beneficial effects for all concerned.

The only problem of significance (which would occur during the introductory stages, but would decrease as more and more local authorities took up the idea) would be the problem of travelling between different areas if one or more did not operate the token system.

Over time, individuals wishing to use tokens in these areas would form an effective market demand which an operator could exploit. In the short term, while the system adapted to meet the demand , the flexibility of the tokens might help overcome this. In many cases, tokens would be used in conjunction with cash, so a journey from a 'token' area to a 'non-token' area would be perfectly possible.

4. THE RAILWAYS

Britain's Railways are in a poor state. In 1982 they lost over £1,000 million, and the revenue they raised covered only half the actual cost of running the railways. Rail now accounts for less than ten per cent of the total transport market. Its huge subsidy cannot be justified on cost-benefit grounds.

PROSPECTS AND PROBLEMS

Rail policy should include a definition of the place ofrailways in Britain at least to the year 2000. This must be a commercial, rather than an emotional, assessment of which elements of British Rail can stand on their own feet in competition with the rest of the (road and air) transport system. It is likely that the assessment will reveal at least marginal financial viability for a main line system of passenger trains and bulk freight, provided that management and operation is conducted upon a sound commercial basis. Assuming that there is a justifiable place for railways in Britain, subject to the elimination of wasteful practices, the introduction of commercial management, and the renewal of capital investment, then these three conditions must be understood and methods must be devised to meet them. The railways have been losing custom in Britain since 1918, so there is little chance of them recouping more than a few per cent of the traffic lost to roads in the past sixty-five years. However, a revitalized private railway system might well be able to increase substantially its share of the market on some lines.

The railways do have a great potential for technical development and innovation, a potential that is largely suffocated by vested interests and restrictive practices: had the attitudes of today prevailed in the 1830's it is doubtful whether the railways would have been built at all. British Rail is today very inefficient, heavily overmanned, and bedevilled by restrictive practices. Some BR managers privately admit that the present network could easily be run by 100,000 staff, as opposed to the 160,000 now employed. The output per working day for each BR man employed to crew freight trains is a mere 14 train-miles, a small fraction of what could be achieved.

But railways can make money and once did make money. Few people remember that British Rail was profitable until the mid-fifties. The second Beeching report in 1964 outlined constructively the shape of a profitable railway, and Pryke and Dodgson* have suggested how BR could be made to generate a positive cash flow. The new Tyne and Wear metro, which has trains with only the driver on board calling at unmanned

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* The Rail Problem (London: Martin Robertson, 1975).

stations, shows that the running costs of a railway need not be as much as traditional British Rail technology might imply. In Lille there is a new metro which operates with unmanned trains.

Furthermore, having one big centralized railway organization for a country the size of Britain is not sensible. So long as railways had their 19th century monopoly, they naturally tended to merge. When the petrol engine was about to end that monopoly, government in 1921 decided to merge them by Act of Parliament, and then in 1947 took what was thought to be the logical step of making the 'big four' into one. But experience from the USA shows that it is the big railways which have tended to be the most inefficient. Big is neither beautiful, nor even necessary: small railways are easier to manage and are more responsive to demand.

A FUTURE FOR RAILWAYS

Railways in Britain can have a bright future. There is no reason why a whole new range of possibilities should not make railways a profitable industry, and a great place to work. The key measures are decentralization and privatization.

Initial steps

These measures require an initial ground clearing, with British Rail's remaining peripheral activities being hived off as soon as possible. BR's non-railway property and interests, such as non-operational railway estate, its 50% holding in Hoverlloyd, and its catering services would be included.

In Italy, track renewal is carried out by private enterprise and it is the only efficient part of the railway system. There may be a lesson here for Britain, where track renewal and major maintenance work across the whole BR network could be contracted out, although we believe that day-to-day maintenance work should continue to be carried out by BR staff.

The process of dismantling British Rail Engineering Ltd can be begun at an early stage. It is anomalous that British Rail should be in the business of manufacturing equipment of any kind, either for itself or for export. But phasing out manufacturing will realistically take three to five years. Those parts in which the private sector is interested, for example BREL's York works where electrical multiple-units are produced, could naturally be sold more quickly.

General economic considerations require BR to sell off all disused railway lines as quickly as possible and within a period set by the Secretary of State for Transport, giving private developers the option of turning them into toll-roads. Hopelessly

unprofitable and under-used lines if closed and disposed of, can also speed the emergence of innovative alternatives.

It is vital to find out which parts of British Rail are, and which are not, profitable. Accordingly, British Rail's management structure should be broken down into cost centres, so a financial and traffic record can be built up for each line. Private management consultants would be most appropriate for this restructuring and, as independent experts, to monitor the results. It will take some time to build up a full set of information about the financial and traffic records of individual lines and units of British Rail, but this is essential if decentralization and privatization are to proceed smoothly.

Further development

In our judgement, the 1974 Railways Act, which put an end to the line by line assessment of the railways, was a mistake. Previously, the government had carried out the recommendations of Sir Toby Low's committee, and told British Rail to 'be commercial', promising that individual lines could attract a specific subsidy if it were justified. The 1974 Act undermined this approach, and introduced instead the continental method of general subsidy to the railways. Those inside and outside the railways who sought to foster a hard-headed, well-informed attitude to the costs and benefits of public subsidy, found their efforts were rendered quite fruitless. Government lost, at a stroke, its ability to know which parts of the railway were viable and to determine which most deserved to be subsidized. The speedy dismantling of this approach of giving a general subsidy to a centralized national railway organization is the key to ensuring a healthy future for the railways in Britain.

Investment is much more likely to be stepped up if the railways are run on a private commercial basis. It is not possible to run a nationalized undertaking on a properly commercial basis for numerous reasons, including the restraint imposed by investment being part of the PSBR. Parts of the railways do require an urgent injection of capital and thorough modernization, but this will not come about if railways remain state-owned, because of the inevitable government pressure to hold down public expenditure. A private railway line, if viable, will be able to attract investment for modernization and electrification from the capital markets.

Leasehold sales. Once sufficient information has been built up about the commercial viability of individual lines and units of British Rail, then these can be sold bit by bit. We propose that the lines should be sold leasehold by the government. Sale by lease reduces the amount of capital private companies will have to find to buy part of the railway.

The lease could run for some fifty years, and would be sold by auction to the highest bidder. Laws relating to renumeration for improvements to leasehold property would apply, so the incentive

to modernize would remain. Leasing by auction would also deal with the problem of value of the real estate of the railway. The best method of leasing would probably be for the lessee to negotiate an annual payment for the lease out of current revenue. The payment for the lease could be reviewed at set periods. Once given up, the land would revert to the leasing authority.

Franchise packages. Non-rail land and property development rights could, if included in franchises, widen the bidding and improve commercial utilization of total assets as well as profitability. Some examples are:

* BR has extensive storage facilities and sidings which, under commercial management, will greatly assist a freight operation.

* In cases where rail to road conversion is attractive, for example in London and other extensive urban areas, the 'spare' land and property could be of more use and value as part of the franchise than as separately stripped off parcels.

London, and other cities where the new divisions of the railway system meet, will pose particular problems of disposal and interfacing. Here there may be substantial portions of under-used rail right-of-way stations, sidings, etc., which need to be excised for the purposes of road conversion before private franchises take up the existing BR system. If this does not happen it may be impossible subsequently to provide adequately co-ordinated planning and use of converted road-from-rail sections. It is already clear that the conversion of urban railways to roads will depend principally upon terminal parking and/or debouchment into the existing road-system.

Flexible approach. The railway right of way, rails, stations, parking areas, essential access roads, and yards would be leased, but the rolling-stock and other equipment would be simply sold. Some stations would be sold on a joint lease basis. The lines would be sold leasehold on the condition that they would be used for transport, but should the companies buying the lines calculate that it would be more profitable to replace the railway track with roads, then they would be able to do this. a company could run its own fleet of high-speed buses on the road, or charge a toll on others using the road. Market pressure will make these decisions and bear any losses resulting from the wrong decisions.

Any remaining land or assets of British Rail not essential for running transport undertakings would be sold off freehold. Private companies would take on those they thought necessary. The remainder would be made redundant, but BR would be, with government, the initial leasing partner and would use lease revenues to defray any consequent redundancy or pension obligations. Encouragement would also be given to railwaymen to form themselves into co-operatives and put in bids to run lines. There would have to be restrictions to prevent one company buying up leases for adjacent lines, so that competition is maximized.

Dissolution and residual authority. Once the lines have all been leased out, British Rail would be dissolved and cease to exist. There is the further problem of residual authority: it would be undesirable for a normal ministry such as the Department of Transport to have the responsibility and authority for controlling the free-enterprise disposition of the national rail network. The better course would be to submit the railways to the body which will oversee, but not operate, the nation's main roads (the National Highway Trust), or to set up a parallel body to oversee the railway network.

The rural railway problem

Rural railways will pose a special problem, due to strong political pressure to keep open even the most hopelessly unprofitable rural lines. Where politicians are insistent on keeping lines open, this can be done at the lowest cost by offering a franchise to run the line to whoever will do so for the smallest subsidy. There is no need to keep an inefficient, over-manned and ruinously expensive British Rail in existence just to operate some rural railway lines. In many cases, the most appropriate organization to run a small rural line is a small independent company with a flexible mix of paid staff and volunteers. There are already 25 independent companies running scheduled passenger trains in Britain on lines that are not subsidized from public funds, some using volunteer support.

While a franchise system would operate quite effectively, it would be quite unrealistic to assume that, in certain rural areas especially, problems of subsidy would not occur. Experience, from Denmark and Switzerland where many privately-run lines exist, suggests that an over-dependence on subsidies could become a problem. To reduce the possibility of such a contingency, an examination and consequent reduction of the artificially high safety standards imposed by the railway inspectorate on lines and of the similarly high standards of track maintenance self-imposed by some railway engineers, should be made.

In this way deregulation can lower costs - production costs to the private firm and subsidy costs to the local authority.

5. CONCLUSION AND SUMMARY

Public transport in Britain has suffered from the presumption that it must be supplied by monopolistic corporations. In key areas its economic efficiency has suffered because there has been no means of assessing either the demand for it, or the cost of supply.

Protected by monopolies at national or local level, it has proved easy for transport undertakings to resist the improvements which new technology could have brought, and to resist even more strenuously the improvements which modern working practices and entrepreneurial innovations could have introduced.

There is no evidence at all in support of the widespread presumption that transport services require to be centrally planned and supplied, and that without such central supply they would be inadequate to the needs of the community. On the contrary, there is now considerable critical recognition that large-scale supply based on central planning brings serious problems in its wake. Remoteness from the consumer, lack of responsiveness to his or her needs and the absence of clear information concerning what demand there is, are some of the weaknesses which have been highlighted.

An alternative philosophy recognizes that a transport system can emerge spontaneously in response to need if there is scope for flexibility in supply, and accurate information concerning the cost. Indeed, given the fact that transport needs are constantly changing as new patterns of living develop, the system which is built up from adaptable and varied forms of supply will more readily meet those changing needs.

Such a system seeks to replace the advance planning of the bureaucrat by the opportunity for entrepreneurs to meet anticipated needs. It seeks to replace the judgement of the administrator as to which system is superior by the test of the market and the judgement of the consumer. In place of preconceptions concerning the appropriate supply or the economies which are possible, it substitutes competition between suppliers.

The process of transfer from a system dominated by the thinking of monopolistic and corporate supply into one derived from that alternative philosophy is a complex one, and it involves important changes. It requires the introduction of accurate cost comparisons. The cost of supplying and maintaining the infrastructure of road transport must figure in the price paid by users. The cost of supplying difficult or outlying transport needs must be clearly identified in order that social decisions may be taken. The cost of operating different parts of the rail network must be known so that optimum efficiency of operation may be sought.

No less important is the opening up of the system to greater

competition and variety. The monopolies and restrictions which prevent the entry of new suppliers have to be removed, and much more sympathetic consideration is needed of innovative transport services. A successful service will almost certainly be characterized by a wide variety of modes and vehicles, with a wide range of services available at different prices to meet differing needs.

If this move away from corporate monopoly is made, the rewards will include a transport system which meets the needs of its consumers, which responds to changing needs, and which offers the highest quality of service at the most economic price.

SUMMARY OF MAIN PROPOSALS

(1) The introduction of an electronic vehicle metering system and a road use pricing policy to charge for the use of certain parts of the road network, so reducing congestion and putting capital to where new roads are needed.

(2) The creation of a National Highway Trust to act as a planning body for new roads, to administer the electronic metering system, and to contract out the maintenance of existing of new roads.

(3) A consequent reduction in fuel tax and a similar reduction in road tax.

(4) The deregulation of the bus and coach industries and removal of unnecessary restrictions to allow the creation of a free market in transport.

(5) The splitting up and sale of the National Bus Company, to encourage innovative developments in urban and rural transport.

(6) The interim creation of Conurbation Transport Authorities to oversee the decentralization and privatization of bus operations.

(7) The deregulation of the taxi trade, subject to safety standards, to promote a greater supply of paratransit alternatives at lower cost.

(8) The leasing of underground lines to private concerns.

(9) The removal of general subsidies to operators and the payment of concessionary subsidies for OAPs, the disabled and other deserving individuals through transport tokens.

(10) The disposal of British Rail's non-railway property and interests.

(11) Railway catering services put out to tender.

(12) The contracting out of railway track renewal and major maintenance work.

(13) The phasing out over a period of British Rail Engineering Ltd.

(14) The selling-off of all disused railway lines, with the option of conversion to toll roads.

(15) The management structure of British Rail to be broken into cost centres, to achieve a financial and traffic record for each line.

(16) The leasehold sale of commercially viable railway lines, with auction as the preferred method.

(17) The inclusion of non-rail land and property development rights in franchise packages to improve commercial utilization.

(18) The leasing of railway right-of-way, rails, stations, parking areas, yards and essential access roads to commercial operators.

(19) The sale of rolling-stock and other equipment.

(20) The sale of some stations on a joint lease basis.

(21) The leasehold sale of some lines conditional upon transport operation, with the option of conversion of the tracks into roads.

(22) The freehold sale of remaining British Rail land or assets not essential for transport undertakings.

(23) The encouragement of railway co-operatives formed of railwaymen.

(24) The provision of rural services by a core of professional staff supplemented by volunteers.

(25) The offering of franchises for hopelessly unprofitable lines on a 'least subsidy' basis.