

Radical Change in the Transport Policy Framework? : A Review of Recent and Likely Trends

*Tom Hart, Honorary Research Fellow, Dept. of Economic & Social History,
University of Glasgow*

SUMMARY

This article reviews trends in the transport policy framework and concludes that the 21st century is likely to see major changes from previous practice to ensure a better match of transport policies with implementation and monitoring. A substantial continuing role for competition is seen but with a rise of competition ‘for’ rather than ‘in’ markets for local and regional transport along with further developments in the transparency of transport accounting and a transformed approach to road pricing. The relationships between competition, monopoly, regulation and fiscal/pricing policies are seen as entering a new phase in the UK, the EU and more widely.

Transport Policy Frameworks : Historical Patterns

Any attempt to outline historical patterns is beset by inconsistencies and by the fact that different countries have been at different stages of development within cultures themselves often very different. Nevertheless, certain broad patterns are evident in the ‘modern’ period initiated from the post-medieval expansion and influence of the western world.

From the 17th to the 19th century

As modern states and local governments emerged, this period saw increased interest in trade and transport as a means of economic development as well as attributes of power, administration and military policy. While trade had a large private element, it could be protected and encouraged by public policy – including ‘the imperialism of free trade’. However, since transport was becoming more dependent on human interventions to improve internal as well as external movement, it attracted increasing attention at various levels of government. Key issues included *rights for compulsory land purchase and the creation of canals, improved rivers, new ports or upgraded natural harbours, road and bridge networks of higher quality and suited to wheeled vehicle use and, latterly, the creation of rail networks*. Though private funding could be drawn into some infrastructure projects, there was a considerable growth of public funding at various levels of government and public trusts with associated changes in taxation, charging and public borrowing. These changes included statutory port dues, canal dues and road tolls as well as innovations in local taxation. A closely related development – though with many examples of corruption and abuse – was the notion that *governments were accountable* and NOT free to use public money as they saw fit. The use of funds had to be related to the purposes of government and open to audit. Politicians had to be seen not to be using funds and influence simply for their own personal benefit.

This period also saw the rise of a stronger faith in the effectiveness of *open and competitive markets* with the state using the power of competition to prevent, or in

some cases, regulate monopoly e.g. unified trust ports as at Liverpool or a degree of protection for initial rail companies pending traffic growth. Indeed, the funding of initial lines often involved state ownership, favourable concessions or land grants. As the strongest economies, the UK and USA were among the first to find that extensive private funds were available for rail investment without any state sweeteners and had become strongly supportive of competing rail companies by the 1860s though within new legal arrangements facilitating shareholding companies. Roads could revert to a local or regional function. Apart from a few bridge crossings, the existence of alternative routes made tolls impractical for local movement and most were replaced by tax-based financing through local government or trusts.

The third development in this period was a *rise of regulation*. The concept of accountability itself involved a degree of regulation as did compulsory purchase procedures and the standard clauses which began to appear in rail company legislation. But other forms of regulation were also appearing. Measures included rail and shipping safety, railway gauges and other standards, urban taxi licensing and other forms of *economic regulation* e.g. of fares and charges. The later 19th century saw major increases in regulatory activity in both the UK and USA despite the special attachment of these countries to the market ethos. The motivations here were complex – some of the increased regulation was to prevent monopoly and block company mergers which would create companies dominating particular areas. In contrast, the UK was becoming more attracted by the 1890s to the French example of zonal companies (also found on the local North Eastern Railway – dominant in NE England) and to the views of some economists that private regulated monopolies or municipal/state ownership might offer efficiency gains – including the topical issue of the *integrated planning of ports and railways* to cope with rising world trade. The technical monopoly of rail and the interests of rural areas also gave added support to the greater regulation of rail fares and charges and the development of *cross-subsidy*. Business and popular opinion on both sides of the Atlantic looked to a curbing of the power of the ‘rail barons’ while, on mainland Europe, there was visible evidence that some state railways – notably in Germany – could reach high levels of efficiency.

At this time, the *land use planning* theme was also appearing in relation to health and housing, upgraded urban street and tram networks, urban zoning and efforts to aid rural economies. While the US in particular had had some examples of competing urban trams, the late 19th century favoured consolidated networks and planned extensions which could help improve health by lowering housing densities while offering relatively cheap travel to work. The US was unusual in having both well above average incomes and extensive vacant land on city outskirts. This allowed some speculative developers – especially around Los Angeles – to link landholdings with major tram extensions into undeveloped land. Costs could be recouped from sales of land made developable by the tram extensions. Elsewhere, the legal framework, previous development and split land ownership made it difficult for a transport company to acquire land more extensive than that required for a proposed new route. This led to the beginnings of a discussion, as in the case of the Tower Bridge in London, on the recovery of the *betterment* to adjacent property arising from a new or improved route as a means of aiding transport project financing. Albeit slightly, the land market was beginning to be influenced by planning considerations.

The 20th century

The 20th century can be characterised as a period in which a rising trend of public intervention was evident at least until the 1960s until being modified by some revival of market approaches. Public funding of *infrastructure* reached very high levels under the combined influence of increased rail nationalisation and the substantial extra investments in upgrading road networks to meet the needs of motor vehicles. Influenced by the legacy of late 19th attitudes favouring intervention and public ownership, airports also gained substantial public finance. Many ports tapped into public funding though there were examples of privately funded ports. Nationalisation brought state involvement in rail operations with growing problems of deficit control as trade union power and competition from air travel, buses, cars and lorries increased. With a more individualistic tradition, giant trucks and very high levels of car ownership, the private railways of the USA opted out of most of the passenger rail market though the size and scale of the country allowed profitable operation in the bulk and long-haul rail freight sector. A small amount of federal and state aid was made available for some passenger routes but passenger movement was predominantly by air and car by the later 20th century.

The 20th century also saw a marked rise in the *range and depth of regulatory activity*. Safety attracted greater attention and was also a factor in infrastructure spending. Rising standards for safety tended to raise costs, not least in relation to railway passengers and travel by air. Safety issues also became extended to cover staff safety, staff conditions, hours of work and – in some cases - wage levels. A further, and major extension, was into the sphere of environmental regulation and increased activity in relation to land use and economic planning. As well as considerable nationalisation, economic regulation was also extended from the 19th century beginnings in railways, shipping and some urban transit operations. The bus and lorry industries became major spheres of regulation as did air travel and road traffic e.g. parking, speeds, vehicle dimensions, vehicle weights and axle-loads, authorised routes, legal requirements to improve fuel efficiency. In part such regulation reflected social, environmental and political objectives in addition to narrower issues of economic regulation. Lorry regulation involved a degree of protection for railways, burdened by published rates and cross-subsidy expectations, but there were general views that safety and public service expectations were more likely to be fulfilled through area mergers (or full nationalisation) involving cross-subsidy in the air, rail and bus sectors rather than direct subsidy from public sources. Mergers and monopoly were also seen as ways of restoring, or increasing, profitability and facilitating higher levels of investment than under cut-throat competition. With intensified car and lorry competition from the 1960s, cross-subsidy became supplemented by *open-ended deficits* met from public funds, some *direct subsidy* and *substantial withdrawals of passenger rail and bus services*, often followed by the complete closure of rail branches and secondary/duplicate routes or a sharp contraction to lower maintenance and low-speed freight only operation.

Yet the most outstanding innovation of the 20th century was the *development of fiscal instruments* in relation to transport – and particularly the provision of road infrastructure. Such ‘fiscal regulation’ can be found in the 19th century and earlier – railways, for example, were subject to national passenger taxes in the UK while also making significant contributions to local taxation through rateable value assessments.

Rapid expansion of fiscal instruments came in the 20th century. Some of this new taxation – such as car licenses, represented a continuation of the view that cars, like railways, were a ‘luxury’ mode of passenger movement which ought to make a higher contribution to general Exchequer needs. From the late 20th century, other changes in tax levels and structures reflected environmental objectives – notably the UK decision to encourage unleaded petrol by a reduced rate of fuel tax as opposed to a direct ban on the leaded variety. Such tax policies were seen as a way of contributing to the external costs caused by motor traffic while also producing Exchequer funds. Yet the biggest influence on fiscal policy was the desire to ensure that the costs (including public borrowing) of larger spending on road infrastructure plus claims on capital funding from the airport and rail sectors and the requirement to cover operating deficits did not impact adversely on other government spending priorities or pressures to cut overall tax levels.

There were sub-arguments that increased government spending and public borrowing might encourage economic revival and expansion with improved transport – especially roads and air services – often seen as aids to general economic growth. Nevertheless, Treasuries were either skeptical of such views or forced into spending cutbacks due to high levels of public borrowing and pressures to ease tax burdens. One alternative would have been a return to road tolls. There was some movement in this direction from the 1920s with more extensive tolls from the 1960s in a few countries –including France, Italy and Spain. In more densely populated areas with reasonable road networks already available (though congested at times), there was a reluctance to consider tolls. They were an old-fashioned ‘solution’, involving time delays and encouraging many users to continue to use existing roads. In the **Development and Roads Improvement Act of 1909**, the UK was one of the leaders in using new forms of taxation as the best means of financing improvements. Hence the rise of vehicle licences, tyre taxes and, above all, fuel tax. Initially, there was a concept of ‘*transparency*’ in the use of such funds but this was soon in conflict with Treasury views that road taxation should be seen as part of general tax revenues with the Treasury deciding how much might be allocated to roads. In North America and continental Europe, it has to be said that there was somewhat greater readiness to retain, and develop, transparency in relation to both road infrastructure and public transport funding e.g. through local sales taxes related to particular projects, earmarked petrol duties, employer paid surcharges to aid public transport (as in France) and urban fuel surcharges (as in British Columbia). For larger projects, however, all governments made increased transport allocations from general funds though with a mainland European tendency to support rail, road, port and airport schemes while Anglo-America concentrated more heavily on roads and airports. Both political attitudes and international agreements had the effect of ruling out any significant level of air travel taxation (in contrast to motoring) though the UK was an innovator in introducing Air Passenger Duty in the 1990s (with some relief for remoter parts of the UK). Taxation of land values arising from transport projects did receive some discussion but generated strong political opposition and technical/legal objections in relation to enforcement and the separation of land value gains arising from buoyant economies from the particular gains related to specific transport schemes. It was also argued that economic growth already boosted the general tax revenues of state and local government. At the margins, there was some rise in developer contributions to particular projects towards the close of the century.

The Market – Dead or Alive?

It would be wrong to suggest that the sections above imply that competitive market principles virtually disappeared from transport in the 20th century. There was indeed a considerable growth of regulation, monopoly and activity in the fiscal and planning fields but the market remained a significant force. Even in the peak years of intervention from the 1900s to the 1960s, there were prominent competitive elements in ports and shipping, partial competition in air, bus, rail and lorry operations plus added competitive pressures placed on rail and shipping by the rapid development of buses, larger lorries and individual car ownership. By the 1950s, the extension of car ownership and patterns of economic activity and land use more favourable to car/lorry use were also placing added competitive pressure on rail freight and on buses.

From the 1960s, there were growing doubts about the impact of several aspects of the growth of regulation and monopoly. While environmental, safety, fiscal and land use regulation continued to expand, attitudes to nationalisation and economic regulation changed. The USA and UK led in dismantling many aspects of lorry, bus and air travel regulation. A related action was the removal of the requirement for most rail freight to be offered at published prices. Extensive privatisation was pursued in the airport, airline, port and rail sectors with the UK being a specially controversial innovator in privatising rail track (though with indirect aid from public funds) and rail freight while introducing competitive franchising for passenger operation.

Such developments were not exclusive to Anglo-America. Examples can also be found from South America, Australasia, Asia and the areas formerly in the Soviet Union. The European Union, founded as the EEC in 1957, has also placed increased emphasis on liberalisation and the opening-up of competition in transport as well as in other sectors. Though earlier pro-intervention attitudes and national traditions continue to be influential, the pace of European liberalisation intensified from the 1980s with new requirements for *transparency* between transport infrastructure and operating accounts, the *internalisation of external costs*, the *removal of the deficit financing* of transport undertakings and the creation and enforcement of *state-aid rules*. Aid under recognised Public Service Obligations (PSOs) is still permissible but within a tightly specified framework which is already affecting the way in which support is awarded to Scottish ferries and, potentially, internal air services and bus services. The overall intention is to open up competition on trunk routes – including competing rail freight companies – while moving towards a franchising approach to local/regional (and mainly) passenger transport i.e. competition is at the stage of the bidding process though with differing views on an appropriate length for franchises.

All of the above is associated with moves to market-led pricing and to the application of more varied approaches to road charging using electronic pricing which can reflect differing levels of costs and benefits; a direct market approach being ruled out due to strong public policies favoured public ownership of most roads (outwith normal financial accounting) and very limited competition in the provision of transport infrastructure. Instead, the possibilities for competition between operators on inter-regional infrastructure attracted greater attention subject to revised forms of infrastructure charging, safeguards to ensure that shipping (with low infrastructure costs) is not penalised and competition at the stage of bids for regional and/or local passenger franchises. The EU and UK are also considering ways in which air travel taxation might be increased to reflect external costs.

This approach suggests both a *reinvigoration of market principles* and *planned infrastructure pricing* though it may take several years to reach agreement on the details of a new framework. Two problems with the theory have attracted attention. The first is the under-estimation of the bureaucracy, delays and fragmentation arising from complex privatisation and partnerships. Creating 'open' markets requires simpler and more coherent structures marrying market principles with more integrated approaches to infrastructure pricing and state-aid rules (including guidelines for competitive bids for regional services or designated corridors). The second problem is the existence of monopolistic conditions in the ownership of road and rail infrastructure (and, to a lesser extent, in ports and airports). Without price controls, such monopolies could have considerable windfall gains from higher prices for the use of facilities at congested periods with the risk of such windfalls going to shareholders or governments rather than to appropriate investment. Yet without such extra charges, congestion delays increase and damage both business and individual travellers. This situation already arises on many urban and some inter-urban roads but is also a feature of both air and rail travel where public policy has tended to hold down fares and landing charges below maximum yield on congested railways and at congested airports. The effect of this is to worsen congestion and overcrowding.

More recently, public policy has seen the demand management advantages of encouraging, rather than discouraging, higher charges at peak periods with the added bonus of creating extra funding for appropriate investment. BAA, for example, has been allowed to impose higher charges at London Heathrow to ease immediate problems and assist with future investment. Legislation allowing local authorities to introduce road congestion charging is similar to the extent that there must be a package for public transport improvement but different in that the charges, unlike the approved BAA scheme, must be delayed until public transport improvements are in place. Such inconsistencies need to be resolved as does the issue of the ownership and possible taxation of scarce airport, port or rail route 'slots'. There appears to be a consensus that charging should depart from the standard rate principle (the present norm for road use) to a more varied and flexible basis - including higher charges to reduce or deflect demand at peak periods but associated with transparency in the use of the proceeds.

Transport Policy Frameworks for the 21st century?

If the 20th century was an era of intervention featuring extensive public ownership and expanded regulatory intervention incorporating fiscal policy innovations, it is possible to discern significant departures from this pattern in the present century? Recent developments point to the probability of substantial change in the direction of qualified competition, greater transparency and a strengthened regional dimension. The precise course and timing of such changes is a matter for ongoing debate but it is arguable that both transport users and those affected (positively and negatively) by transport will be greater gainers if agreement can be reached fairly soon on changes within the UK. Some issues will involve EU decisions by the Commission, the Council of Ministers and the European Court of Justice but it would be unfortunate if delays at the European level frustrated policy delivery and monitoring within the UK.

The parameters of the new framework which is emerging are:-

- a) a continued emphasis on safety and environmental regulation
- b) expanded competition on longer-distance routes complemented by:-
 - i) clarification of permissible action to aid access to and from regions with below average incomes and capacity for growth
 - ii) development of a franchising approach to regional/local transport
- c) the development at regional/local within national guidelines of new standards for access to facilities both in terms of human disabilities and of other policy changes providing/retaining local access or easing access to regional centres
- d) greater internalisation and transparency in transport-related costs
- e) a separation of transport taxation from transport charging
- f) an agreed framework for congestion charging and the use of the proceeds

Parameter (a) reflects practice already developed with the most pressing need being to develop a 'reasonable cost' and 'cross-modal' approach. Though court decisions can present problems, there are concerns that the nature and timescale of environmental requirements may be over-rigid and over-bureaucratic. Similarly, safety regulations differ between transport modes and can lead to excessive spending (and possibly higher fares and charges shifting movement to less safe modes) on 'super-safety' within one mode when greater safety gains would come from equivalent spending on other modes.

Parameter (b) reflects EU, UK and US preferences for increased competition on inter-regional and global routes while leaving scope to use transport policy as one of the instruments influencing change in the balance between regions of population and economic activity (with possible shifts from 'overheating' regions to those with capacity to absorb more growth and reverse population decline) (b)ii) also recognises the growing interest in devolved regional decision-taking with particular reference to passenger movement and regional road/rail/bus policies (extending in some cases to ferries and airports). It supports the case for more extensive devolution of rail powers to Scotland. Competition for regional franchises and other measures of regional transport devolution have moved higher on the EU and UK agenda. This issue merits urgent attention in the context of regional government and financing. Probable developments include combined bus/rail/tram franchises for main routes in certain areas along with other franchising packages catering for smaller operators.

Parameter (c) reflects the rapid rise of interest in access issues as part of socio-economic policies. Some national guidance is already provided but it is in a regional context that 'reasonable cost' and delivery programmes are best devised and applied in conjunction with an expansion of franchising.

Parameters (d), (e) & (f) are closely linked but present the greatest challenges in reaching agreement on ways of moving forward. It is accepted that, unlike other sectors, transport creates substantial external costs and that present pricing, tax and land-use policies often send the wrong signals in relation to public preferences and policy delivery. What causes disagreement is the actual level and distribution of costs involved, the dangers of costs 'internalised' via tax policy being treated as revenue gains for government and the special problems of congestion costs. These issues were addressed by both the 18th Report of the Royal Commission on Environmental Pollution on *Transport and the Environment* in 1994 and by the SACTRA Report on *Transport and the Economy* in 1999 but have still to be resolved at both UK and EU levels.

The EU, DfT, the Scottish Executive, CfIT, CBI, BAA, FTA, ILT, transport operators, academics and the AA Motoring Trust have all shown recent interest in reformed approaches to transport charging which take account of actual costs in charges related to times and places of travel. The problem is a deep suspicion that government might use such changes as a way of increasing its own revenue without any balancing commitment. For example, arbitrary estimates for environmental costs could be added to transport charges. This in itself could produce some slight environmental gain but, if the bulk of the extra revenue was retained by government rather than devoted to accelerated programmes for environmental improvement, total environmental gain would be restricted. If funding did go to increased environmental programmes, this could also be seen as giving excessive power to government in the allocation of funds.

The **AA Motoring Trust** has argued that the reality of transparency can only be achieved by creating an Independent Trust Fund (or Regional Funds?) to manage the proceeds of road user charges. This concept could also be extended to other forms of charging e.g. on rail and for airports but raises the issue of how to define 'independence' when the transport framework must involve some continuing political decisions and increased democratic accountability. The AA Trust has accepted that a portion of the proceeds of road charging should be available for public transport improvement schemes of proven value for car users but politicians argue that they must have a role in determining such 'portions' and taking account of social access objectives as well as shifts from car use. Similarly, there is an argument for a political role in determining portions of trunk motorway charging and airport charging (including parking charges) which could be made available for rail access to airports and domestic high-speed rail routes. Integrated transport delivery cannot rely on a fragmented framework.

A debate is needed on answers to these issues. A possible way forward is for the UK and devolved governments to collaborate on cross-modal schemes for environmental and congestion charging which included:-

- a) a right for non-local government to receive a agreed proportion (perhaps 25%), reviewed every five years, of the net proceeds of environmental and congestion charges for use at their discretion (including possible tax reductions and some redistribution of congestion-related income to UK regions)
- b) retention by the levying authorities of all other charge incomes with an obligation to use such income for purposes related to transport and the environment verified in annual accounts and with an obligation to consult interested parties on rolling five-year programmes before finalisation
- c) a parallel reduction by the UK government in rates of vehicle licence and fuel duty to the level considered appropriate as pure tax (but with the balance shifted from licences to Fuel Duty) [inclusive of a 'charge' element in Fuel Duty pending more sophisticated electronic pricing, an anticipated result is that many users of smaller or more fuel-efficient cars would, in total, pay less than at present though users in larger urban areas and on most motorways would pay more, especially at peak periods]
- d) a parallel reform of non-renewable energy taxation to apply it to all uses of energy in association with an expanded Energy Conservation and Renewable Energy Fund and some cuts in National Insurance or Business Rates

A final issue relating to transparency is the need to distinguish between infrastructure maintenance, renewal and enhancement costs and costs related to operations on infrastructure. At present, UK practice is to give comparatively small support to bus operations but much larger support to rail (though still below continental levels). Most principal city bus routes fully cover their costs from fares after allowance is made for Bus Operators Grant (the former Bus Fuel Duty Rebate) and compensation for social fare concessions. Average fares are higher than on the continent with only limited integration between bus companies and with rail. Franchising could help achieve both a lowering of fares, cross-modal integration and enhanced efficiency with related gains for social inclusion and modal shift from car use. Rail passenger support is an unclarified combination of support for operations and support towards payment of Track Access Charges. It is not evident whether recent, and potential, rises in rail support have been due to major failures in the control of track costs (partly due to rising standards for safety) or to deficiencies in operating control (after due allowance for revenue loss due to track disruption and signalling problems). There have been indications that the former factor has been more important and is contributing to pressure for rail passenger operators to raise fares and make a larger contribution to track costs. A more integrated view might suggest that franchise specifications should include track cost charges at levels comparable to road charges (i.e. lower than at present except at busy times) with bidders expected to compete in raising quality of service and introducing multi-modal zonal fares rather than seeking to maximise fares income. Gaining better value from rail infrastructure spending could become a direct responsibility of the Scottish Executive or regions within Scotland. Consideration should also be given to removing expectations of a premium to be payable by bidders for more profitable routes. In effect, this is a tax on rail passenger services and should be replaced by specific authorisation of higher track access charges and fares at busy periods related to increased investment assisted by some transfers from the proceeds of road and airport charging.

To round off, one further issue arises – that of *planning policy* and possible recoupment of *development gain*. Planning policy is already closely linked to the principles of sustainable development, seeking more compact forms of development and a concentration on corridors and areas with good conditions for encouraging public transport use, walking, cycling and mixed development. No major changes in such policies are seen in the 21st century as policies are delivered for better urban environments, employment opportunities and cumulative cuts in greenhouse gas and other emissions. However, the legacy of more dispersed development remains and there are tensions between more compact and brownfield development on the one hand and shorter-term pressures for greenfield and less dense development where developers may be willing to contribute to improved junctions and other transport costs. There is uncertainty about future tendencies but it seems probable that, except in overheated areas requiring more housing (especially SE England), a heavy emphasis will remain on regeneration within, or immediately adjacent to, existing towns with some rise in developer contributions, planning agreements and Business Regeneration Areas providing funding. Such agreements cannot be pushed too far in weaker urban economies or they could conflict with the aim of securing at least some transfer of economic activity away from overheating areas.

Tom Hart, 27 August, 2003

