MRS. CASTLE'S TRANSPORT POLICY

By D. L. Munby

Mrs. Castle's Transport Bill is the third major revolution in transport policy since the war.¹ In 1948 came the attempt to co-ordinate the major part of internal transport (but not the private car, the "own account" lorry, or the road track) under the umbrella of the British Transport Commission; the 1947 Act determined the structure, but not the functions, of the new organisations then set up, and neither Act nor organisations had clear aims. The second revolution, in so far as it had constructive aims, culminated in the 1962 Act, which divided the nationalised sector into a number of units with clearly defined functions and the obligation to break even. The "commercial" and competitive approach to transport policy brought a breath of fresh air to the industry, and has provided a sound base for Mrs. Castle's further advances; it is clear, in the event, that she has learnt much from Mr. Marples. The defects of the 1962 Act were fivefold: (a) the failure to pursue the logic of its policy to the end by abolishing the archaic licensing systems for road haulage and buses;² (b) the failure to take account of the need (outside the urban field) for planning to encourage vertical integration, or "through" transport;³ (c) the failure to produce any comprehensive urban transport policy, except for the introduction of engineer-biased traffic surveys to a standardised and rather ill-thought-out pattern; (d) the failure to resolve the contradictions in railway policy; and (e) the failure to make the best use of road/rail resources in the public sector. The great contribution of Mr. Marples to twentieth century socialism in Britain was the establishment of the

²Carriers' Licensing, the report of the Geddes Committee set up by Mr. Marples in 1963, only appeared in 1965, and has proved an embarrassment to the Labour Government. (The statement in the White Paper of 1966 (Cmd. 2057, para. 97) that "the terms of reference ... were so limited that it was unable to consider policy on road goods transport as part of a plan for the carriage of freight as a whole" does not make sense when one looks at the extremely wide terms of reference (they are in no way limited) and the way in which they were interpreted by the Committee, with particular reference to chapter 9 on "Licensing and the Railways". The Government should have stated clearly that it did not agree with the arguments in this chapter). There has been no serious official analysis of road passenger licensing since its establishment in 1930. The Thesiger Committee's report of 1953 on Licensing of Road Passenger Services accepted the system uncritically and concentrated attention on relatively minor details of reform.
Transport Holding Company, a new form of decentralised tough-minded national enterprise with open-ended powers on the lines of the Italian enterprises.

It is perhaps illuminating to look at the new policy in the light of these specific successes and failures. Mrs. Castle's *dirigisme* throws over both the traditional Socialist dogmas of "coordination by nationalisation" and the naive belief that competition in the transport industries will solve every problem without any coordinated control of the market as a whole. Her policy is the first since the war to try to grapple with the overall market situation and to use all means of policy ("market" measures, such as taxation and subsidy, as well as "administrative" measures, such as licensing and the establishment of new institutions). For the first time since 1934 the "own account" lorry is treated on an equality with the haulier "for hire and reward". The problems of the private car are grappled with, if not yet solved. Only the road system does not yet appear to have been fully brought within the purview of national policy; we still await a Transport Minister who can, in this sense, "nationalise" his own roads division. (The evidence for this view will be found in the later discussion of road track costs).

In relation to the failures of the 1962 Act, we can see that Mrs. Castle has dealt radically with road haulage licensing (but not with passenger transport licensing); has laid the foundations of a comprehensive urban transport policy; has resolved the contradictions in railway policy; and has produced a reshaping of the public freight sector which *could* bring about a new optimum use of its resources. Vertical integration within the public sector is taken a step forward by this reorganisation, and has been encouraged (e.g. with the development of Inland Clearance Depots) outside the main transport policy measures; but it is still left as rather a Cinderella of policy, in spite of the more general acceptance of its importance. Finally, the effect of the new policy is to destroy the Transport Holding Company as it has been, though its ideas and management will no doubt be preserved within the new organisations to be set up; it will be interesting to see whether the Minister, in the event, gives it the coup-de-grace for which she has taken the powers.  

Politicians and civil servants are biased in favour of what Professor J. R. Sargent has called "institutionalism", the belief that economic problems can be solved by altering institutions rather than laying down the policies required to achieve given ends. This writer has often criticised past transport policies for their concentration on measures of reorganisation, particularly in the case of the railways, which have merely prevented already over-stretched managements from doing what they would have been capable of doing. On the other hand, it must be clear that bad organisation can make it impossible for sensible policies to be carried out, though a good organisational framework will not ensure success without good people and sensible objectives.

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4This is illustrated by the separation of policy for ports from the transport policies under discussion, though Clause 6 of the Transport Bill gives the Freight Integration Council powers in relation to the Docks Board (but not the National Ports Council or the docks not at present nationalised). But see paras. 4-5, 23 and 75-7 of Cmdn. 3470.

5Clause 50 of Transport Bill.

6See paper to Section F of the British Association, Leeds, September 5, 1967, on Regional Economic Planning.

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The new policies are not so "institutionalist" as those of the fifties, but something of the same emphasis can still be seen. The success of the new Passenger Transport Authorities and the National Freight Corporation depends on the policies they actually follow much more than on the exact powers they possess. And, on the other hand, the gaps referred to above (in relation to roads and "through" transport) can be seen as related to the structure of the civil service, which, with its divisional and departmental hierarchies, is not well adapted for coherent economic planning.\(^8\)

This article deals with various aspects of the new policy in relation to cities and passengers, freight, the railways and road track costs. In these vast fields only some of the issues will be treated, and inevitably not always at the length they deserve.\(^9\)

1. CITIES AND PASSENGERS

Urban transport presents the biggest transport issue facing the country, the simplest to state in its general outlines and the most difficult to solve in practice. The new policy provides an outline which will be wholeheartedly welcomed by most of those concerned. It clears away a large number of obstacles to rational solutions, and sets up an organisational framework within which it will be possible for particular conurbations and cities to work out the right policy for their areas. But of course this does not guarantee that the right policy will in fact be worked out.

It is fortunate that the Government has decided to go ahead with its urban transport plans before the major reforms which may be expected from the Royal Commission on Local Government; otherwise there would have been an intolerable delay. It is to be hoped, and expected, that there will be no major clash between the two sets of reforms. This is the more important because for the first time there is a real grappling with the relations between all forms of urban transport and overall planning of city regions. The major strategy may be described in terms of three principles: (a) the formulation, for all conurbations and large towns, of transport plans which take account of roads and parking, bus transport and rail services, all in relation to the overall planning of the areas; (b) firm placing of responsibility on local areas for their transport needs, within a framework of particular government subsidies on a much wider basis than hitherto; and (c) more flexible central control through

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\(^8\)See, e.g., my evidence to the Fulton Committee and to the Select Committee on Nationalised Industries, Sub-Committee A (H.C. 1966–7, no. 440–XIII).

\(^9\)The main documents are: Transport Policy (Cmd. 3057, July 1966), Railway Policy (Cmd. 3439, Nov. 1967), The Transport of Freight (Cmd. 3470, Nov. 1967), Public Transport and Traffic (Cmd. 3481, Dec. 1967), Road Track Costs – A report by the Ministry of Transport (H.M.S.O., 1968), and Transport Bill, 1967. Also relevant are Nationalised Industries – A review of economic and financial objectives (Cmd. 3437, Nov. 1967), and the evidence given to the Select Committee on Nationalised Industries, Sub-Committee A on Ministerial control of the nationalised industries (H.C. 1966–7, no. 440–I–XIII). This article does not concern itself with roads policy as such, or with ports. It equally ignores the White Papers on road safety and inland waterways (Cmd. 3339, July 1967, and Cmd. 3401, Sept. 1967).
Ministerial approval of the overall transport plans, specific grants for transport “infrastructure” and new investment in buses, and remission of fuel tax for public service vehicles.

The Four Conurbations

The organisational framework for the four conurbations of Greater Manchester, Merseyside, the West Midlands and Tyneside looks at first sight rather clumsy. Each will have a Passenger Transport Authority, almost wholly appointed by local authorities, which will have control of policy and finance. It will appoint an Executive and approve its general policies and plans. Together with the Executive it will within twelve months publish a statement of policies to be followed, and thereafter will produce an annual report. The Executive itself is to be “professional” and to have responsibility for “day to day management”; “the relations between the Authority and the Executive will in many ways be similar to those between a Minister and a nationalised industry”. But the Executive will not itself necessarily be the management body for its bus operations. These can be run by subsidiaries, organised as companies wholly owned by the Executive, the exact form of organisation being left to the Authority and Executive to arrange. A three-tier organisation may thus emerge.

The reason for this form of organisation and the justification of its rather topheavy structure must lie in the relationship with the local authorities. As the Authority will have power to precept on the rates, it must consist mainly of representatives of local authorities who will have to approve these levies. But such a body would not be a suitable body to execute the wide-ranging policies required; hence the Executive. Similarly, as the Executive will be like a board of directors responsible for planning and policy rather than an executive management team running a company, the holding company structure, familiar in the bus industry both in the nationalised (Transport Holding Company) sector and in the private (British Electric Traction) sector, provides a natural framework for detailed management. The solution is clearly interim pending a reform of local government, which it is to be hoped will establish new authorities over wide enough areas to enable the Authority to become a committee of the new regional or conurbation council. In London, the G.L.C. already is such a council and is to take over London Transport; but the White Paper and the Bill exclude London, and the form of organisation to be established there is not yet known in detail.

The first duties of these bodies will be within twelve months (or later if the Minister so decides) to present a statement of their “policies” and within two years (with the same proviso) to produce a “plan”. Their overriding duties are to provide “a properly integrated and efficient system of public transport to meet the needs of [the] area”, with due regard to “the contribution to the effective implementation by

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10Cmnd. 3481, para. 20. In this section, unless otherwise stated, all references to paras. are to this White Paper, and all references to Clauses to the Transport Bill.
11Para. 27.
12“its primary job will be to plan the public transport system of the Area as a whole in the context of the development and traffic plans of the local authorities” (para. 24).
13Clause 18.
the councils of constituent areas of town planning and traffic and parking policies which can be made by public transport services which through their efficiency and convenience attract persons to use those services rather than any other means of transport” and to “economy and safety of operation”. The “statement” of policy to meet these aims will have to deal with the organisation of the bus services to be managed by the Executive, agreements with other bus operators, agreements with British Railways, financial prospects, staff arrangements, the progress of the “plan”, and the machinery for coordination between bus planning and operation and “the preparation and execution by the councils of constituent areas of any plans and policies of those councils with respect to traffic regulation or parking”.

The White Paper stated that one of the Executive’s “most urgent tasks will be to reorganise the bus undertakings in the area”. Municpal buses will be transferred to the Executives by the Bill. Other bus services in their areas will be owned either by the National Bus Company, which takes over all the English and Welsh bus companies of the Transport Holding Company, or by those private operators who remain. The Bill gives no power to purchase them compulsorily, though the N.B.C. will have powers (as the T.H.C. has had hitherto) to acquire them voluntarily. Passenger Transport Executives will have to negotiate agreements with the N.B.C., which may involve taking over the services within their area. Private operators will be subject to the control of the Executives, which will take over the service licensing powers at present exercised by the Traffic Commissioners. But their existing rights will be preserved; they will have to be paid compensation if they suffer loss from withdrawal of the right to operate particular services, and will be able to claim to be fully bought out by the Executive if the viability of their businesses is endangered.

All this will make possible a rational reorganisation of the bus services throughout the whole conurbation area. But the danger is that it will take up a disproportionate amount of the time and efforts of the new authorities. The benefits to be gained by reorganisation may not be all that great, and are likely to be long-term rather than short-term. The White Paper of 1966 referred to the diseconomies of “the small size of the undertakings” in many areas; but the White Paper of 1967, while refraining from dogmatism, admits that diseconomies of management begin to occur in an undertaking with more than 1,000 buses, and suggests that separate units of 500 to 1,000 buses should probably be set up, the total numbers of buses involved in Manchester, Merseyside and the West Midlands being 2,000 or more. The danger is that the new authorities will become so involved in these immediately pressing

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14Clause 9 (1) and (3).
15Clause 18 (1).
16Para. 23.
17As a result of the £35 million purchase of the British Electric Traction Company, the T.H.C. will own about 25,000 vehicles. In Scotland a separate Scottish Transport Group will be set up, and rather different arrangements will be made for coordination; in what follows we confine our attention to England and Wales (see paras. 48–52, 63–70).
18Private operators will still own 25,000 vehicles (as many as the T.H.C.), but less than a third of their mileage is on ordinary stage bus services, and they include only four companies with more than 60 buses engaged in stage bus operations (para. 48).
19Clause 19 and Schedule 6.
20Cmnd. 3057, para. 56; Cmnd. 3481, paras. 26–7.
problems of reorganisation that they will not have time to think out coherently the major issues of strategy for public transport as a whole. The history of the British Transport Commission’s early years may give pause for thought.

**Bus Services and Cross-Subsidies**

Before turning to these major issues, we must discuss the fate of bus services outside the four conurbations and London. Here it is envisaged that the merger of T.H.C. and B.E.T. will give the N.B.C. opportunities for “economies (apart from other improvements) by rationalisation of services”.21 One major issue which has disturbed many people in the bus industry is the danger of hiving off the more “profitable” urban services from the less “profitable” rural services, which they cross-subsidise. As the Passenger Transport Authorities and Executives will be in control of fares policy in the conurbations, they will control the profitability of the N.B.C.’s buses within these areas, and could therefore put a stop to this cross-subsidisation, whether or not the N.B.C. is left with truncated rural services. The White Paper is aware of this danger: “The agreements between the Executives and the N.B.C. companies must not destroy the basis on which the N.B.C. companies can operate profitably. . . . They will need a proportion of more profitable urban routes if the ‘mix’ of their services is to enable them to be viable undertakings. . . . These considerations will need to be taken into account in the arrangements made between Executives and the N.B.C.”.22

In other words, cross-subsidisation must continue. Why? It is no doubt common practice, as with electricity charges, for the town to subsidise the country. It is also true that a bus “service” which is the minimum unit which can be separately costed may be quite a large unit, and that all the problems of joint costs and “contributory revenue” which are well known in the case of railway branch line costing arise in the case of buses also. But there has been very little public discussion and analysis of these issues, the Jack Committee of 1959–61 having lamentably failed to face them.23 No doubt there is need for more research and clearer public understanding. But once a “service” has been defined and the issues delimited, there would be few economists who would defend cross-subsidisation. The danger is that the potentially cheaper services are “taxed” and thereby discouraged, while the public is not made aware of the real costs of the “dearer” services. If the cross-subsidisation by conurbations is really small, it does not matter much; if it is large, it could affect the whole strategy of urban transport planning. It may be, of course, that the sums are small in relation to the conurbations, and therefore likely to have little effect in distorting their pattern of services, but large in relation to the smaller number of rural services. But even so it would be better to subsidise the rural services directly and openly from some clearly defined source of taxation (e.g. either the Exchequer or a direct levy on the rates in the conurbations) than to collect the money from the conurbation bus travellers. The tenderness of the White Paper towards the cross-subsidisation issue is the odder in that elsewhere it gives a specific warning against overall equality of fares – a great advance over the “social contract” theory long held by London Transport. “Costs of

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21Para. 59.
22Para. 55.
running buses may vary widely over the Area, and these variations should not be
masked in an overall average for the whole of a monolithic undertaking. If costs in a
particular part of the Area are relatively low, then it would seem right for the travel-
ing public in that part to enjoy the benefits”. (The economist would also stress the
economic effects on demand for services of raising fares above costs). “Although
therefore the Authority would establish a general fares policy for the Area as a whole,
there is no reason why the individual and detailed fares scales of particular sub-
sidiaries should be identical”.

Furthermore, direct subsidies for rural buses are envisaged. Local authorities will be
able to make grants to operators in rural areas on a very wide basis “where the
essential services could not be provided on a commercial basis”. The Minister will
give 50 per cent grants for approved schemes, and these may involve services pro-
vided by minibuses, etc. There is thus real hope that we may get away from the
rigid pattern of “either a maxi-bus or nothing”. Experiments are being conducted with
combined postal and bus services; thus we move a few steps away from the postal
perfectionism illustrated in the Jack Report, where it was argued that, since it is a
natural right of the British citizen to have his post delivered early in the morning, it is
impossible to combine postal vans with the demands of rural dwellers for transport to
work in the towns. One might think, as other countries do, that rural dwellers might
prefer transport to suit their needs to delivery of letters by 9 a.m. It is estimated that
the total costs of these subsidies would not rise beyond about £4 million a year, with
£2 million paid by the Exchequer. All these services will also benefit from the other
bus grants to be referred to later.

Outside the conurbations, regional Passenger Transport Co-ordinating Committees
were set up by the Minister earlier in 1967, and these are to play a part in co-ordinat-
ing services with the N.B.C. and the Traffic Commissioners. What about the role of
the Commissioners? So far as stage services are concerned, their powers inside the
conurbations will only concern appeals about disputes between the Executive and
private operators; outside, they will remain as hitherto. They will be responsible for
supervision of the services run under contract (with subsidy) where railway branch
lines have been closed, though payment of these subsidies will now be taken over by
the N.B.C. from British Railways—a sensible removal of a (minor) irritant for B.R.
They will deal with disputes over the cost of concessions to particular groups which
local authorities will be allowed to grant. They will also be responsible everywhere
for inspecting vehicles, licensing drivers and controlling their hours, etc., and licens-
ing excursions and tours. How necessary is it to continue the existence of these
rather archaic bodies, which were set up in 1930 to deal with a very different situation?
It is almost an axiom of British practice that when a new organisation is
created all the older ones which formerly performed its functions should be continued

34 Para. 29.
35 Para. 96.
36 Paras. 97–8.
38 Para. 18.
40 Paras. 103–4.
alongside — a policy which reduces friction and opposition to change, but hardly encourages the dynamism which the British economy needs. It might well be thought that the opportunity should have been taken to abolish the Traffic Commissioners, particularly with the reduction of the powers of the parallel (and often almost identical) Licensing Authorities for the road haulage industry. Would not the powers to be left with the Traffic Commissioners have been better divided between local authorities and Ministry inspectors? Perhaps this will follow the reform of local government, when the new pattern outside the major conurbations becomes clear.

The Conurbations and British Railways

The major issues for the conurbations concern the agreements to be negotiated with British Railways and the overall transport plans. Agreements about British Railways’ suburban services will involve both the level of services and the fares structure. The latter has to be related both to British Railways’ main line fares and to the overall conurbation fares policy for public transport. Fares concessions may add to losses on these services, and in the long run the aim is for the Authorities to take responsibility for paying this part of B.R.’s deficit. Immediately, they will be required to pay 10 per cent of the Government subsidy for these loss-making services, increasing over the years until the Executives pay all the cost. The transfer of this responsibility from central government to local shoulders is to be welcomed, though it is to be noted that the equivalent policy is not to be followed for branch lines outside the conurbations, in spite of the fact that for rural bus services local authorities will have to find half the subsidy. The difficulties in the new arrangements will result from the operational links between suburban and main line railway services. British Railways may be in a position to obstruct a rational reorganisation, or to demand excessive subsidies for suburban services, whereas on the other hand the P.T.A.’s may make impossible demands on the railways. One cannot but welcome the bringing together of the various interests to look at these problems as a whole. Even if in the early stages “agreements” may be hard-fought bargains, in the longer run one may hope for clear rules for the division of responsibility and costs. In suitable cases it may well be possible to hive off some suburban lines and leave them to be run by the P.T.A.’s. (It is perfectly possible, and well known on the Continent, for a minor railway to run its own services, gaining all the advantages of the major railway’s expertise. The minor railway pays a rental for the track, the main line railway retaining responsibility for upkeep of the track and carrying out vehicle maintenance under contract). Unfortunately, these possibilities are not allowed for in the legislation.

Transport Planning and Finance

A major aspect of the new policy is the widening of the powers of local authorities in the whole field of roads, traffic management, parking, etc., and a corresponding reduction of the powers of the Ministry. One part of the new Bill amends the basic Road Traffic Regulation Act, 1967. The sweeping away of restrictive procedural

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32Paras. 33–5, 93–95.
33See later on railways.
34Clauses 141–146; see paras. 113–136 of Cmnd. 3481.
requirements in the field of parking schemes, etc., is a great advance. The details will not be dealt with here. Three important points are to be noted: (a) Surplus revenue from parking may be used for general transport purposes; this removes one of the less justifiable concessions to the motor lobby; (b) Greater use of traffic wardens is envisaged; and (c) More important, amenity and the convenience of pedestrians are given clear statutory status: traffic regulation can now be used to facilitate the passage of foot passengers, and “for preserving or improving the amenities of the area through which the road runs”.35 Similarly, the duties of local authorities are to be widened from a concern with access and amenity to include “the importance of facilitating the passage of public service vehicles and of securing the safety and convenience of persons using or desiring to use such vehicles”.36

By the first half of 1969, the Minister is requiring local authorities in the conurbations and larger towns to produce plans for dealing with traffic and transport in their areas up to the mid 1970s.37 Eventually, these will tie in with the major Structure Plans to be required under the new town planning legislation. Immediately, they will have to be related to the policy “statements” and “plans” of the P.T.A.’s and P.T.E.’s in the areas where these are to be set up. The Minister clearly envisages that the L.A. plans “must hold the scale between the needs of people on foot and those using vehicles”.38 Similarly, though “a thorough-going parking policy is needed” and “over the next few years, parking control will be needed over quite wide areas in all cities and indeed in many small towns”, nevertheless where congestion exists “it is not sensible to provide additional parking spaces which would attract traffic in excess of the capacity of the road system”.39 All this opens the way to much more humane treatment of traffic in our cities.

But how are these plans to be related to the policies and plans of the P.T.A.’s and P.T.E.’s? In preparing its plan, the Executive is to “have regard to any exercise or proposed exercise by a local planning authority of any of its functions in connection with the development of . . . the Executive’s designated area”.40 As the White Paper put it, “The Authority and the Executive must plan public transport so as to fit in with a unified plan including land use, highways and traffic management”.41 Until there is a new local government structure in which the council is more or less coterminous with the P.T.A. area, possibilities of conflict can well arise. Hitherto, the local authority has often had an interest in roads (i.e. mainly the private motorist) as against public transport. Public transport is now given more power to its arm, and railway interests are included. But the clash can still arise. Even in a united local authority, it will still be possible for clashes to occur between the Traffic and Highways Committee and the Passenger Transport Committee (assuming this is what follows on the P.T.A.), just as the situation is not unknown where the borough engineer’s department is in conflict with the planning department. It will be many

35Clause 141 (1).
36Clause 145 (3).
37Para. 114 f.
38Para. 116.
39Para. 124–5, 127.
40Clause 18 (2).
41Para. 22.
years, no doubt, before the G.L.C.’s planning and highway departments really merge with London Transport.

The financial provisions of the new arrangements provide the final link. It is here, if anywhere, that the policy will be tested, and the new subsidies may help to smooth the complicated organisational arrangements that will be required. How far do they serve the major aims of policy? Transport plans for cities need to provide for all the needs of the community and for all the forms of transport that people use, including feet and bicycles (the latter regrettably are not mentioned in the White Papers or legislation), firstly for the journey to work, and then for other transport needs. But these needs have to be seen in the context of the pattern of activities of the town and possible changes in this pattern, and account must also be taken of all that is implied in amenity and “environmental standards”. It is a major criticism of the Buchanan Report that, though it regarded physical rebuilding as the major tool of urban reorganisation, it did not consider the possibility of changing the pattern of a town’s activities as an alternative to providing for the traffic resulting from existing patterns. The new policy, by making possible the integration of transport plans with development plans, allows for this to be taken into account. But the grants for “transport infrastructure” are still independent of whatever grants there are for town planning purposes, and cannot be transferred to other uses. Nor has there been any discussion of the balance between these various grants. To be concrete, the issue is whether in a given case it may not be cheaper to relocate a factory or shopping centre rather than to provide investment for transport to bring people to it. Any grants given for one purpose should not be greater than those given for the other. It is hard to be sure that the new grant proposals will not worsen the imbalance.

The major issue in the past has been that central government grants have been given for roads in cities, but not for public transport. This is to be changed. Grants of 75 per cent are at present given for major road improvements, and specific grants are now to be made towards traffic management schemes. In future 75 per cent grants will also be made for approved projects in the public transport field, including improvement of railway lines (grants to be given for the rolling stock as well as the infrastructure), new fixed track rail and bus systems, and work on bus stations and depots, local passenger ferry services, and interchanges, including car parks, for people transferring to and from public transport systems. These projects will have to fit into the overall plans and will have to be justified by their financial and non-financial benefits in terms of social cost benefit analysis.

Reference is made in particular to new railways and tubes in London, an underground railway in Manchester based on the Manchester Rapid Transit Study, and the proposed Mersey railway extension in Liverpool.

Secondly, a grant of 25 per cent will be given for new buses to allow for new forms of operation (e.g. one-man operation and standee buses), where buses are delivered to operators from the autumn of 1968 onwards; the grants will be subject to Ministry conditions, and will continue for seven years in the first place. At the same time, buses will be relieved of a further 9d. a gallon in fuel tax, in addition to the existing 1od. a gallon remission on recent pre-Budget increases. The cost of these two conces-

42 Para. 119.
43 Paras. 72–79.
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sions is estimated to be some £5 million and £7 million respectively.\(^{44}\) (In addition, the Budget increase of 4d. a gallon will be remitted at a cost of a further £3 million).

The total effect of this is estimated to be a cost of some £18 million in the first full year to the government,\(^{45}\) rising thereafter as the number of approved capital projects increases. Of this sum £6 million is for capital grants for infrastructure, implying a total expenditure rising from £8 million. In addition P.T.A.’s will be able to precept on the rates for further sums to cover operating losses (or presumably capital grants). Unfortunately, there is no provision for them to raise money by a levy on employment in central urban areas; this would seem to be a suitable source of funds for paying for the transport needs which are often occasioned by crowding of activities in central locations.

All this is in the right direction. In the longer run, one might hope that central government grants would disappear and that all transport expenditure, in conurbations at least, should be paid for by their main users, namely, the inhabitants of the conurbations themselves.\(^ {46}\) This should include roads, as well as all the rest. And in the longer run, when road pricing is introduced to charge the private car the real economic cost of its use of roads, there need not be much public subsidy at all. Meanwhile, it is reasonable to tilt the balance against the private car by specific subsidies to public transport. The only question is whether the actual subsidies are of the right size. It is impossible in our present state of knowledge to be at all sure about this. Overall it can be estimated that they should reduce costs by some 4 per cent,\(^ {47}\) and much of this will be outside towns, where the economic case (except for rural buses) is weaker than in cities. For conurbations, not only has the relative impact of the 75 per cent grant for major projects to be compared with the 75 per cent road grants and the other specific and general grants for local authority expenditure in related fields, but account has to be taken of the subsidies to railway commuter services (in total not more than £18 million)\(^ {48}\) and whatever rate precepts are levied by the P.T.A.’s. It is to be hoped that it will be one of the major exercises of the P.T.A.’s, not merely to do cost benefit studies of particular projects, but also to develop some overall balance sheets which will make the rationalisation of all these grants possible in the future. Meanwhile Mrs. Castle has at least got the ball rolling in the right direction.

\(^{44}\) Paras. 80–90.

\(^{45}\) Para. 101, where £20 million is mentioned, from which £2 million has to be deducted for rural bus subsidies. Total grants are to be limited to £10 million in 1968-69 and £20 million in 1969-70 (Cmd 3515, para. 46).

\(^{46}\) This assumes that the boundaries of the conurbation are large enough to cover the bulk of the activities (including residences) which generate the traffic.

\(^{47}\) Total passenger receipts in 1966 were £392 million. The tax relief is worth £7 million, and the rural bus subsidies £4 million. The annual value of the capital grant of £5 million cannot be worth more than £3 million, though it will be cumulative. One might therefore take £16 million as a maximum, or some 4 per cent of receipts. (Capital costs of vehicles, including renewal, depreciation and interest, came to £18 million in 1965-6 for bus operators with passenger receipts of £335 million. (Passenger Transport in Great Britain 1966 (Ministry of Transport, 1968), Table 29). If the 25 per cent grant reduced total capital charges, it could not be much more than £5 million for the whole country).

\(^{48}\) This is the deficit on all suburban services, but grants are likely to be less than this total. See Cmd 3439, page 19.
There are two main aims of Government freight policy. The first is to provide an
efficient service in the public sector and “eliminate wasteful and inefficient competi-
tion between publicly owned road and rail services for the same traffic”.49 The second
aim is to produce the optimum balance of traffic between road and rail by altering
the terms of competition; this is described as “to make the maximum economic use
of our railways as well as our roads by promoting the transfer of all suitable traffic
from congested roads on to the railways”.50

Through all the proposals runs the assumption that it is economic to make the
maximum use of railways. This is implicit in the above quotation; it is also to be
found in the proposals for road haulage licensing, and it crops up again in the first
clause of the Transport Bill, which lays down the aim of the National Freight
Corporation. These are:

(i) to provide, or secure or promote the provision of, properly integrated
    services for the carriage of goods within Great Britain by road and rail; and
(ii) to secure that, in the provision of those services, goods are carried by rail
    whenever such carriage is efficient and economic”.

Granted that such a presumption lies behind the policy, one can admire the masterly
way in which the two strands have been woven together. Wherever it is suggested
that traffic should be encouraged to go by rail, it is made quite clear at the same time
that carriage by rail should be economic. What is not so clear is what is to happen
where there emerges a conflict between the two aims. This problem arises both in the
policies to be followed by the National Freight Corporation and in the enforcement of
the new road haulage licensing system. In both cases, whether the optimum allocation
of traffic between road and rail will be achieved will depend on the actual
administrative arrangements made and executive action taken. Only then shall we
know whether traffic is being diverted to the railways to the detriment of the economy.

### a] The Public Sector

Ever since the British Transport Commission failed to provide for a common public
service to traders in the goods sector, there has been something a little odd about the
competition between British Railways and British Road Services. There may well be
a place for competition within one organisation, as can be seen from the practices of
large private firms, but the rules for it must be carefully laid down so as to achieve
the desired overall aims. The Government does not believe that such competition is
desirable; it refers to “wasteful and inefficient competition” and prefers “properly
integrated services”. The question at issue is what is the best method of achieving the
desired aims from the point of view of the trader, the operator and the economy as a
whole. The establishment of the N.F.C. at least allows the opportunity both to
develop a coherent sales service to customers and to provide the required service at
the lowest cost in terms of resources.

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49Cmd. 3470, para. 7. All quotations in this section, unless otherwise stated, are from this White
Paper or the Transport Bill.

50Ibid.
To achieve these aims the N.F.C. will take over all the road haulage services of the Transport Holding Company and most of the selling side of the railway haulage business. It will also take over all the railway depots and collection and delivery services, as well as the ownership of freightliners and their associated equipment. It will thus be responsible for all the railway sundries traffic and the bulk of the railway general merchandise traffic. Its heavy investment in road haulage assets might have given the N.F.C. a bias in favour of road haulage; its ownership of freightliners is intended to avoid this danger by giving it a stake in rail as well.

The freightliner services will be run by a Freightliner Company, which will be a subsidiary of the N.F.C. The British Railways Board will have a 49 per cent shareholding in this company and an appropriate number of seats on its board. Thus the railways will receive about half the profits of the company, in addition to whatever charges they make for the services they themselves provide for the freightliners. Freightliner terminals will continue to be open without discrimination to the private haulier and to the operators on own account.\(^{51}\) The Bill provides that the general arrangements will be supervised by a Freight Integration Council, which will include the chairman of the N.F.C. and the chairman of B.R.B. as well as other persons appointed by the Minister. The Council will concern itself with freight transport throughout the whole public sector, including nationalised corporations other than the N.F.C. and B.R.B. It will have to make an annual report, and the Minister may make directions to the various nationalised bodies as a result of its recommendations.\(^{52}\)

Two basic issues arise: firstly, the extent to which the investment and pricing policies of the new bodies achieve the optimum allocation of traffic, and secondly, the effect of the new bodies on the railways. The effect on sundries will differ from that on the freightliner service. One also has to take into account the remaining railway freight services. The railways are required by Clause 5 of the Bill to separate into two subsidiaries (a) their freightliner activities and (b) “rail sundries traffic” and the collection and delivery of goods by road. The subsidiaries will be taken over by the N.F.C. Clearly the exact delimitation of the assets to be taken over is of importance.

Sundries create less problems than the other aspects of this reform. The Post Office makes a loss on its parcels service, and British Railways in 1966 lost £25 million on sundries traffic which produced total receipts of exactly the same amount. Clearly there must be an enormous rationalisation in sundries. British Road Services has shown itself efficient in organising depots and providing a road trunk service for sundries traffic; all this will have to be integrated with the railway organisation, which at the moment duplicates it. A major issue arises here in relation to the trade unions, which have proved in the past one of the most serious sources of difficulty. The comment in the White Paper is brief: “The Joint Parcels Organisation which they have created, in consultation with the trade unions, will in due course be incorporated within the N.F.C.”.\(^{53}\)

The White Paper hopes that the £25 million deficit on sundries will have been reduced by the time the N.F.C. takes over; but some steps will clearly have to be taken to provide for it, as the N.F.C., in general, will have to cover its cost and meet

\(^{51}\)Para. 18.
\(^{52}\)Clause 6.
\(^{53}\)Para. 14.
a financial target, like the other nationalised industries. The Transport Bill therefore allows for a Government grant in respect of the full loss for the first three years, two thirds of the loss in the fourth year and one third in the fifth year. Thus after the fifth year the new organisation will be expected either to make the sundries service pay its way or to finance losses from other profits. It will remain to be seen how much the N.F.C. will be able to achieve in this peculiarly tangled sector, where the railways have hitherto been so unsuccessful. It is to be expected that reorganisation will necessitate a large reduction in manpower.

The freightliner field presents diametrically opposite problems. Here there is every reason to think that there could easily be efficient modern organisation and large profits. The problems arise in organisation from the overlap of ownership and responsibility between B.R. and N.F.C., and in economic terms in relation to pricing and investment policy.

The containers and other equipment associated with freightliners will belong to the new Freightliner Company, but the trains will still belong to British Railways, which will be responsible for running them and providing a service to meet the requirements of its customer, the Freightliner Company. What incentive will British Railways have to provide an efficient train service for freightliners? The White Paper is concerned that “both organisations have a clear incentive to develop the service to the maximum economic extent”, and to this end British Railways will receive 49 per cent of the profits. This means that if it charges too high rates for running the trains it will only gain about half of these rates, at the expense of possibly losing the traffic to road. The danger is less likely to arise in charges than in the level of service provided. According to the estimates shown in Table 4 below (in the section on railways), it is expected that in 1974 the railways will get revenue of only about £30 million from freightliners out of total revenue of £430 million. In contrast with this £30 million they will be receiving about £120 million from their train load freight traffic (including coal and iron and steel) and £250 million from passenger trains. Freightliners will therefore be a small part of railway business. If there is excess capacity there will be no problem in fitting freightliner trains into the normal pattern of operation, but if, as one may hope and expect, rail capacity has been reduced by 1974 to meet the traffic, the freightliner trains may well be in conflict with fast passenger trains and B.R.’s own train load freight trains. Will freightliners be given the priority that will be needed to attract traffic to the railways?

The fundamental economic principles for the running of the Freightliner Company are laid down in the White Paper as follows: “The decisions on the mode of transport in which investment is to take place will be expected to take account not only of the statutory financial duty which each undertaking will have, but also of the need to send freight by rail where it is economic to do so. This will be reflected in the statutory duty which the N.F.C. will have to make the maximum economic use of rail. The two undertakings will be expected to invest in new freightliner services wherever the return on capital to them jointly would be better than if the investment were not made and the traffic continued to go throughout by road”. This really leaves open

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54 Up to a maximum of £60 million (Clause 5).
55 Para. 17.
56 Para. 19.
the questions mentioned earlier, whether the maximum use of rail is economic and what share of goods traffic should really go by rail on economic grounds alone. Is there much traffic which is completely indifferent? A lot will clearly depend on the charging policies devised by the Freightliner Company and the comparable charges quoted in other parts of the N.F.C. business. Until this has been worked out and we can see how it operates in practice, the future of the freightliner services is bound to be doubtful. It is, however, to be noted that the N.F.C. will be likely to have a very much larger stake in the road haulage business than in freightliners. The net book value of all the Transport Holding Company’s road haulage companies at the end of 1966 was £63 million. At the same date the net book value of containers owned by British Railways was less than £2 million, to which has to be added the investment in associated equipment such as gantry cranes and depots (perhaps some £25 million). This investment will no doubt expand over time, but the danger cannot be entirely eliminated that the N.F.C. will be predominately an organisation with a road interest, even though its subsidiary, the Freightliner Company, will have a half ownership by British Railways.

What of the traffic left to British Railways? This will include all full train load traffic and company trains and wagon load traffic originating by rail, but none of the traffic for goods trains originating at stations by road. Much of this will come from large customers and will be easily dealt with at railway headquarters, but the railways will still have to maintain some kind of selling service. There may be cases where traffic originating at sidings is in competition with goods collected from the same factories by public or private road hauliers, and some of these goods may eventually travel on freightliner trains. How important is traffic originating at sidings? The Beeching Report showed that in the test week just over 70 per cent of the tonnage of wagon-load traffic in general merchandise and minerals originated at sidings (including also dock traffic), and a further 20 per cent of traffic either originated or terminated at private sidings. But a great deal of this traffic which originated in sidings or docks travelled only short distances. Well over half, in fact, travelled distances of not more than 50 miles; this compares with less than a quarter of other traffic. Thus, though this traffic from sidings and docks may not contribute very much in proportion to railway revenue, it may still remain large in total quantity and involve frequent contact with customers. But the takeover of all the traffic originating by road will inevitably leave the railways with a much reduced sales service and without contact with manufacturers “in the field”, so to speak. There is thus a real problem for the railways on the marketing side of their freight operations.

There will be no particular difficulty with coal and iron and steel and oil traffic, or with trainload arrangements with particular companies. The problems will arise in the field of general merchandise. On this the White Paper states: “Here the basic need is to reorganise old-fashioned methods. The carriage of unsuitable traffic by rail must be eliminated and better methods must be developed of collecting, bulking and distributing both consignments of wagon-load size and those traffics which present themselves in smaller quantities. These are the traffics which incur most of the

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57This includes investments in subsidiary Associated Undertakings as valued in their books. The collection and delivery services of British Railways will also add to these road assets.

58See Beeching Report, pages 78–83.
losses. An important element in this reorganisation will be the provision by the N.F.C. of a modern and efficient through service from door to door, using road for collection and delivery, with traffic grouped at the terminals for trunk movement in bulk by rail, thus exploiting to the full the new rail freightliner services for the carriage of traffic in containers.”\textsuperscript{59} This still leaves open the whole question of the methods of organisation that British Railways will use for that part of the wagon-load traffic, whether originating in sidings or in stations through the N.F.C., which will not be carried by freightliner trains. The revenue at stake is some £20 million in 1974. Will trains still be broken up and sorted in marshalling yards? Will odd wagons still be collected in “trip trains” and assembled into longer trains in some larger centre? These questions were left open by the Beeching Report and seem to be still left open. The Beeching Report suggested that there might be an ideal railway system in which all freight trains ran from origin to destination, like passenger trains, without being broken up. The railways have never committed themselves to this, though in fact it is likely that the old-fashioned method of organisation with trains running through marshalling yards is one of the main sources of loss in railway operation, as well as of delays to traffic and difficulty in finding out where goods go astray. There is still nothing clear about all this. The railways are studying the problem but do not seem to have come to any conclusions yet.\textsuperscript{60}

[b] Road Haulage

The major change in road haulage is the complete reorganisation of the licensing system, following on the report of the Geddes Committee.\textsuperscript{61} This report and Ministry investigation showed that the road haulage licensing system had failed to provide adequately for the inspection of vehicles and for ensuring their safe running. It is therefore intended to set up a new licensing system, now called “quality licensing”. It will not only cover such matters as maintenance facilities and inspection of vehicles, but will also require those operating in the business to have adequate financial resources and to carry a new type of personal licence, “a transport manager’s licence”, to ensure that the industry carries out its responsibilities. We do not propose to discuss this in detail, as it would probably be generally agreed that this kind of provision is essential nowadays.

The major issue concerns what the White Paper calls “quantity licensing”. For the first time this will cover all goods vehicles, whether run “on own account” or for “hire and reward”. Owners of own account vehicles, the old C licences, are to be treated exactly the same as private hauliers operating for hire and reward. This means

\textsuperscript{59}Para. 15. See also para. 34.

\textsuperscript{60}See a paper by Mr. K. V. Smith, B.R.B. Director of Planning, given in November 1967, called “A new Era for B.R.” (outlined in Modern Railways, February 1968, pages 96, 104): “The outcome could conceivably be a conclusion that wagon-load working would never be viable in the long term and that B.R. would be better off without it. If so, it would need Ministerial endorsement before such a finding could be implemented. However, Mr. Smith warned that when a specific traffic was discarded, it affected the unit costs of the whole rail operation with which it shared any expenses”. The White Paper merely says that “the Railways Board will reorganise and rationalise their service so as to improve and simplify the pattern of movement” (para. 34).

\textsuperscript{61}Carriers’ Licensing – Report of the Committee (H.M.S.O., 1965).
MRS. CASTLE’S TRANSPORT POLICY

that the restriction which has been universal throughout the whole period of licensing and which is common in many other countries, that hauliers on own account can only carry their own goods, will henceforward be removed. And these hauliers will be subjected for the first time to exactly the same licensing as hauliers for hire and reward.

What the Bill calls “special authorisations” apply only to large vehicles engaged on journeys of more than 100 miles (“controlled journeys”) or carrying prescribed goods.\textsuperscript{62} The vehicles in question are those with a plated weight of more than 16 tons, or an unladen weight of more than 5 tons where there is no plated weight. The condition about prescribed goods will apply only on journeys where the weight carried is more than 10 tons. The goods will be prescribed in regulations to be made by the Minister. In the White Paper there was a reference to “certain specified bulk materials such as coal, various extracted materials, and iron and steel (mainly in the unfinished and semi-finished categories)”\textsuperscript{63}

The form of this licensing by special authorisation is new. Only the railways and the National Freight Corporation (Freightliner Company) will be able to object (and not, as hitherto, other road haulage concerns). Even they will be able to object on only one ground, that the goods could be better carried by rail. The applicant for a licence will then have to prove that this is not so. If he can prove it he will get the licence; otherwise it will be refused. The details of procedure and the criteria to be used are therefore of very great importance.

Any application for a special authorisation has to be referred by the licensing authority to the Railways Board and the N.F.C. Within 14 days they can object “on the ground that the service or part can be provided by that body, or by a subsidiary of that body, wholly or partly by rail”; they have then to submit to the licensing authority a statement containing “particulars of the manner in which, and the charges at which, the disputed service can be provided by that body, or by a subsidiary of that body, wholly or partly by rail, and of any other matters on which that body relies for the purposes of the objection”.\textsuperscript{64} The licensing authority can grant the licence straightway if it thinks fit after consideration of these statements; otherwise the applicant has to make a case. The grounds on which the applicant can make his case are that “the provision of the disputed service, or of the part of that service in question, by the objector, or a subsidiary of the objector, wholly or partly by rail, as compared with its provision in pursuance of the special authorisation, will be less advantageous for the person for whom the goods in question are to be carried”. The factors to be taken into account in making the comparison are “speed, reliability and cost”, and the licensing authority has to assess these in relation to directions contained in regulations made by the Minister and “by reference to the needs of the person for whom the goods in question are to be carried and to the nature of those goods”.\textsuperscript{65} It is also of interest that this Clause of the Bill envisages that the licensing authority will be assisted by an assessor, presumably because the licensing

\textsuperscript{62}Clause 67.
\textsuperscript{63}Para. 52.
\textsuperscript{64}Clause 69 (2) and (4)(a).
\textsuperscript{65}Clause 70 (3) and (4).
authorities as at present constituted are not competent to deal with these complicated economic questions.

The basic difficulty is that this arrangement seems to fall on the horns of a dilemma. It may be that there are service elements not included in “speed, reliability and cost” which a consignor might wish to take account of, but it seems likely that applicants will be able to justify most of these service elements under one or other of these criteria. If, therefore, the right economic balance will result from the application of these criteria, the question still remains, why have any licensing at all? Either the licensing might be thought to benefit the railways against the wishes of consignors, or, if not, there seems no reason why consignors should not make the right choice for themselves. The answer to this dilemma is in the grounds given in the White Paper for introducing the licensing system. These start by countering the argument “that the normal forces of competition are sufficient to ensure that all traffic which is suitable for rail will go there without any need for additional pressures from licensing.” This is rebutted as follows: “The Government believes that, in the long run, rail will secure its proper share of the available traffic primarily by improvements in the type and efficiency of the services it offers. At the same time, there will often be a natural reluctance by consignors to alter their habitual arrangements for the transport of their goods, unless the advantage of the rail alternative is obvious and substantial. Inertia and habit will play their part and some consignors may not even be aware of the advantage to them of the new rail services, nor of the true economic cost of their present arrangements. The arrangements now proposed, which are firmly based on the principle that licences will be witheld only when rail is overall as satisfactory as road, will also have value in encouraging some consignors to make a conscious comparison between the actual costs to them of road and rail trunk haul in relation to different classes of traffic.” The White Paper goes on to say that the new system will not be introduced until the new freightliner service has proved itself in practice.\textsuperscript{66}

No doubt there are political reasons for the introduction of this system, based on the desire to boost the railways’ morale and to strike a blow at the Road Haulage Association. The latter has risen nobly to the bait. But it cannot be thought otherwise than odd to base the system on such weak grounds. No doubt there are many sectors of British industry where inertia is important, not least in the transport managements of firms. Equally there must be many sectors of the economy where costs are not adequately taken into account. But these would hardly be grounds for introducing such a system if a licensing system did not already exist. It would hardly be thought that this was a more useful way of encouraging productivity than similar action in any of the other fields where it could be taken. No doubt the administrative cost is not very high, but it still remains true that administrators are in short supply. One’s general rough conclusion might well be that the proposals are either unnecessary or positively harmful.

The other White Paper proposals concerning the road haulage industry are the re-organisation of drivers’ hours, the charge for abnormal loads and the special levy on heavy lorries. The first of these should be treated on its merits and is not discussed here. Clearly there is a very strong case for controlling the hours and conditions of

\textsuperscript{66}Para. 62.
work of people in this occupation, and the economic costs must fall where they do fall if the proposals are justifiable on their merits. As for the abnormal loads charge, it is again clear that so long as this is based on the proper costs incurred by these kinds of journeys this is a legitimate levy. It is indeed odd, in view of all the police time involved and congestion costs inflicted on other road users, that no such general charges have been made before.

The special levy on heavy lorries (withdrawn in the Budget) is discussed in the last section, where it is argued that the charge really bore no relationship to the costs of the road system and was difficult to justify on any economic grounds. In this context it is interesting that the freight White Paper states that the special levy “will reflect the extra costs imposed on the roads by heavy goods vehicles”,67 while the White Paper on Railway Policy says: “The Ministry also explained that they did not think that the case for saying that heavy goods vehicles and buses did not make an adequate contribution [to road costs] had been proved”.68

What is likely to be the effect of all these measures on the relative shares of road and rail transport? The White Paper gives the figures for 1975 as compared with 1966; these are shown in the following table. It is estimated that the railways may obtain four and a quarter thousand million ton miles more traffic in fields other than fuel and steel in 1975 than in 1966. This is related to some sixteen thousand million ton miles at present carried by road transport on hauls of over 100 miles, which would be likely to increase by about another five thousand million ton miles by 1975 if there were no transfer to rail. The conclusion of the White Paper is that this transfer to rail could take place “given energetic promotion of company trains and freightliner services, reinforced by the road transport licensing proposals, and allowing for some transfer of uneconomic rail traffic to road”.69 (There is no reference here to the effect of the levy on heavy vehicles, which was believed in the White Paper on Road Track Costs to be insignificant in its effects on the transfer of traffic. It is there estimated that less than one thousand million ton miles would be diverted.70) Thus

<table>
<thead>
<tr>
<th></th>
<th>Rail</th>
<th>Road</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>10½</td>
<td>8</td>
<td>7</td>
<td>10½</td>
</tr>
<tr>
<td>1975</td>
<td>16½</td>
<td>24</td>
<td>49½</td>
<td>49½</td>
</tr>
<tr>
<td>Total</td>
<td>14½</td>
<td>16½</td>
<td>56</td>
<td>68</td>
</tr>
</tbody>
</table>

67Para. 68.
68Cmdnd. 3439, page 42.

Share of traffic %

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>17</td>
<td>13</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1975</td>
<td>22</td>
<td>22</td>
<td>61</td>
<td>65</td>
</tr>
</tbody>
</table>

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the major impact is expected to come from the improvement in railway services and
the licensing proposals. But none of this alters the fact that what appears to be en-
visaged is an uneconomic transfer of traffic from road to rail which can hardly, on the
basis of the arguments in the White Papers, be based either on cost or on service
considerations.

3. RAILWAY POLICY

The first major issue is the railways' deficit. Table 2 shows the railways' own estimate
of the losses incurred on different services in 1961 and 1966. The broad position is
that between 1961 and 1966 receipts fell by 2 per cent and costs by 3 per cent, leaving
the loss more or less the same. But there was a big difference between freight and
passenger services. Freight had a 12 1/4 per cent fall in revenue with a 7 per cent fall
in costs, leading to an increase in the loss of £9 million, while passenger trains
increased their revenue by 10 per cent with a marginal increase of 1 per cent in
costs, thus reducing the loss on passenger trains by £19 million. Slowly the railways
shifted from freight to passengers; in 1961 more than half their revenue and less than
half their losses came from freight, but by 1966 the position had been reversed.

Similarly, when we look at the different categories of passenger and freight traffic,
the different experience is interesting. In all passenger train services, except for parcels
and mails, costs rose less or fell more than receipts. The opposite is true for all items of
freight traffic, except for the important item of wagon-load traffic other than coal
and iron and steel.

The two biggest loss-makers in 1961 were stopping passenger trains and “general”
wagon-load traffic. These accounted for £105 million out of total losses of £172
million, but contributed only £92 million to total gross revenue of £475 million. By
1966 they accounted for rather less than half the total loss (£75 million out of £162
million); their contribution to gross revenue had risen relatively, though absolutely
it was almost the same as in 1961 (£89 million out of £464 million).

Where the Losses Occur

After these two big items come three kinds of traffic which contributed about
£20 million each to the loss in both 1961 and 1966 – fast passenger trains, suburban
trains and sundries traffic. (But, while the two former reduced their losses slightly
after 1961, that of sundries traffic increased). These three items are of very different
importance, and contributed respectively £101, £53 and £25 million to gross
revenue in 1966 (£91, £40 and £38 million in 1961); the losses were 16 per cent of
revenue for fast passenger trains, 20 per cent for suburban services and 100 per cent
for sundries. The remaining three items, coal traffic (with a revenue of £103 million
in 1966), parcels and mails (£58 million) and iron and steel (£35 million), made only
TABLE 2  
Analysis of Railway Deficit (£m.)

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1966</th>
<th>1966 % of 1961</th>
<th>Overall Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Receipts</td>
<td>Direct Costs</td>
<td>Total Costs</td>
<td>Gross Receipts</td>
</tr>
<tr>
<td>PASSENGER</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast &amp; semi-fast</td>
<td>91</td>
<td>73</td>
<td>164</td>
<td></td>
</tr>
<tr>
<td>Stopping</td>
<td>31</td>
<td>57</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>Suburban</td>
<td>40</td>
<td>40</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>162</td>
<td>170</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Parcels, mails etc. by passenger train</td>
<td>57</td>
<td>40</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Passenger trains</td>
<td>219</td>
<td>210</td>
<td>359</td>
<td></td>
</tr>
<tr>
<td>FREIGHT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wagon-load</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>109</td>
<td>84</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>Iron &amp; steel</td>
<td>48</td>
<td>45</td>
<td>93</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>61</td>
<td>89</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Sundries</td>
<td>38</td>
<td>51</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>Freight trains</td>
<td>256</td>
<td>269</td>
<td>332</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>475</td>
<td>479</td>
<td>644</td>
<td></td>
</tr>
</tbody>
</table>

**Notes.** Figures from B.R.B. Reports for 1965 (p. 70) and 1966 (p. 54). The 1961 figures divided wagon-load traffic (other than coal) into “minerals” and “general merchandise”. These have been adjusted to the 1966 categories by consideration of the 1965 figures, which are available on both bases. For fuller notes see the source. The most important point is that “direct costs are those which can be assumed, in the long term, to vary with the quantity of traffic carried”, and include some interest and renewal allowances.

small losses (though in the case of iron and steel this represented 40 per cent of revenue).

If it could be assumed that the allocated indirect costs could indeed be cut down by cutting off the services, then the elimination of all stopping passenger trains and all freight traffic other than coal and iron and steel would have reduced revenue by £114 million and costs by £214 million, leaving a total loss of £62 million on a gross revenue of £350 million, or less than 20 per cent. Cutting out iron and steel traffic would have reduced the loss still further to £48 million on a gross revenue of £315 million. The assumption is of course incorrect, as the indirect costs are allocated rather than escapable costs, and even the direct costs include a large element of averaging and interest and depreciation costs on equipment which are not escapable in the short run.

The picture is not very different if we take direct costs alone, which give a better
measure of escapable costs. Table 3 presents some of the data in a different way; the items are ranked by their contribution to the surplus over direct cost.

<table>
<thead>
<tr>
<th></th>
<th>1961 Surplus/Deficit (Revenue on Direct Costs)</th>
<th>1966 Surplus/Deficit (Revenue on Direct Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast passenger trains</td>
<td>92</td>
<td>101</td>
</tr>
<tr>
<td>Coal</td>
<td>109</td>
<td>103</td>
</tr>
<tr>
<td>Parcels, mails, etc.</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Suburban trains</td>
<td>40</td>
<td>53</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>48</td>
<td>32</td>
</tr>
<tr>
<td>&quot;Other&quot; wagon-load freight</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>Stopping trains</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td>Sundries</td>
<td>30</td>
<td>25</td>
</tr>
</tbody>
</table>

There is clearly a close relationship between the size of the revenue and the surplus/deficit on direct costs; indeed, if we left out "general" freight, the relationship would be very close indeed. If the direct costs of the services were independent of one another, the figures might almost suggest the traditional picture of high overhead costs and low marginal costs, with a minimum break-even point of £40–50 million for each block of services. On this theory, "general" freight, coal traffic and fast passenger trains would be out of line with much higher break-even points. It is not suggested that theory makes sense, but it does illustrate some facts. In the five years the railways have in fact reduced the costs which they attribute directly to certain low-yielding activities, notably stopping trains and general freight (by, for example, cutting out branch line and non-paying stopping passenger services, introducing liner trains and making other costs reductions on the freight side), but they are still left with large losses on these services which could only be reduced by further cuts in costs or revenue increases.

It is thus clear that the railways' problem is centred firstly on sundries, stopping trains and general freight, and secondly on the capacity to earn an adequate margin on the other services to pay for the indirect costs of track, signalling and general administration. It is towards these sectors that government policy is mainly directed.

Table 4 gives the railways' estimates of their future position in 1974, as presented in May 1967 to the Joint Steering Group. There is a rather finer breakdown of the figures given in the 1966 annual report, but the revenue figures for 1966 are more or less the same. "Allocated expenses" differ from "direct costs" largely because

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71 Appendix G.2 of Cmd. 3439, omitting the estimates for 1969. Further references in this section will be to this White Paper or to the Transport Bill, unless otherwise stated.

72 Miscellaneous receipts have been added to receipts from particular services in the figures from the annual reports in Table 2.
## Table 4

**British Railways Board Long-term Revenue Forecasts (£m.)**

<table>
<thead>
<tr>
<th>Traffic</th>
<th>1966 Actual Allocations (Base)</th>
<th>1974 Provisional Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Allocated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expenses</td>
</tr>
<tr>
<td><strong>Passenger</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>74</td>
<td>43</td>
</tr>
<tr>
<td>Secondary</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td>Stopping</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>Suburban</td>
<td>52</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>180</td>
<td>145</td>
</tr>
<tr>
<td><strong>Coaching Traffic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.R. Parcels</td>
<td>37</td>
<td>33</td>
</tr>
<tr>
<td>G.P.O. Mails</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>58</td>
<td>43</td>
</tr>
<tr>
<td><strong>Freight</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>100</td>
<td>68</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>34</td>
<td>31</td>
</tr>
<tr>
<td>Oil-Train-Load</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Other-Train-load</td>
<td>53</td>
<td>54</td>
</tr>
<tr>
<td>Other-Wagon-load</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>High Capacity Containers</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td><strong>Sundries...</strong></td>
<td>217</td>
<td>196</td>
</tr>
<tr>
<td><strong>Total Direct Expenses/Margin</strong></td>
<td>464</td>
<td>388</td>
</tr>
<tr>
<td><strong>Miscellaneous Receipts and Expenditure</strong></td>
<td>9</td>
<td>4*</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>429</td>
<td>378</td>
</tr>
<tr>
<td><strong>Indirect Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track and Signalling</td>
<td>-</td>
<td>105</td>
</tr>
<tr>
<td>Administration</td>
<td>-</td>
<td>42</td>
</tr>
<tr>
<td>General Expenses and Adjustments</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>464</td>
<td>542</td>
</tr>
<tr>
<td><strong>Add Ancillary Income (Net)</strong></td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Revenue/Expenses/Margin</strong></td>
<td>470</td>
<td>542</td>
</tr>
</tbody>
</table>

*The expenditure shown here is that relating to Miscellaneous Receipts which have not been covered already in the estimates given for the individual traffics above.*
interest has not been charged. Total allocated expenses are £60 million less than total direct costs, and track, signalling and general expenses at £154 million are £24 million less than the total in the annual report (£178 million). These differences are largely accounted for by interest charges of £64 million, omitted from Table 4, which are included in direct and indirect costs. The remaining £20 million difference is due to the fact that the Steering Group, which, as we shall see, took account of interest, did not take account of depreciation at replacement cost, but used the costs as given in the ordinary accounts of B.R.B. Though the Steering Group was critical of the railways’ estimate, it did not apparently concern itself with the fact that the current cost figures it used were about £20 million short on the basis of replacement cost depreciation – with implications for the writing-down of capital proposed.

**Proposed Remedies**

The main aims of government policy are to stabilise the size of the railway system, to compensate B.R.B. for loss-making services which are to be kept open for “social” reasons, to reduce the railways’ financial burdens in various ways, and to provide a framework within which they can break even. The clear separation of the government “social” subsidies from the general deficit will be welcomed by most economists. The major issues arise in relation to the overall framework and financial obligations, which will be major determinants of success in reducing the deficit. It will be convenient to discuss the future of the particular services rendered by the railways before turning to the overall outlook.

First, passengers. The railways’ estimate as shown in Table 2 was that passenger services as a whole made a loss of £77 million; the consultants employed by the Joint Steering Group estimated the deficit on loss-making services at £83 million. The sums are roughly comparable, though not necessarily identical.73 The Joint Steering Group then proceeded to estimate the grant required on “social” grounds by deducting £14 million for lines to be closed in any case, and £17 million for interest on the remaining lines,74 thus leaving the following losses to be dealt with:

<table>
<thead>
<tr>
<th>Class</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban</td>
<td>18</td>
</tr>
<tr>
<td>Stopping</td>
<td>21</td>
</tr>
<tr>
<td>Principal and secondary</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>52</td>
</tr>
</tbody>
</table>

On the basis of these figures it estimated that the grants which the Board might receive in 1969 and 1974 would not exceed £40 million and £35 million respectively (excluding interest). The above figures were written down to take account of [a] services which might be made viable, or which the Board might wish to retain for

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73Para. 2.12. The deficit on loss-making services and the overall loss differ by the assumed profit on profitable services.

74This might be compared with the £20 million difference between direct costs and allocated expenses for passenger services, but interest on track and signalling has also to be taken into account.
commercial reasons, and (b) further analysis of smaller loss-making units of service which would be likely to increase the overall assessed loss. "The net effect of these qualifications is likely to be a reduction in claims, particularly for suburban and principal and secondary services: in relation to the latter the case for a grant on social grounds might often not be strong". The last point is important in relation to the general question whether there has not been too much concentration of attention on "branch lines" and closures to the detriment of reorganisation and economies on the main line network.

As noted in section 1, the losses on suburban services will mostly in the long run be borne by Passenger Transport Authorities, while the other losses will be paid for by the Exchequer. These grants will be paid on the basis of forecast losses for periods of 3 years. This will give the railways some incentive to reduce costs, but not at the expense of the level of service, which the Ministry will be able to control. The Joint Steering Group suggested that these grants should be related to revenue and losses per passenger mile, which is obviously sensible. What is lacking, as suggested earlier, is any possibility of losses outside conurbations being borne by local authorities rather than by the Exchequer, or of branch lines being run by independent organisations.

Secondly, freight services. From 1900 to 1948 freight train receipts were about 20 per cent higher than receipts from passenger trains. From 1950 to 1957 they were 50 per cent or more higher. After that they declined both relatively and absolutely. In 1965, for the first time in the post-war period, passenger train receipts were actually larger than freight train receipts, and 1974 estimates shown in Table 4 suggest that by the mid-70's the difference will be some 50 per cent. British Railways is expected to become progressively more passenger-oriented, on the lines of Dutch railways, rather than to follow American experience. This probably makes sense in a country of relatively short distances.

The decline in coal and steel traffic will more than offset the expected rise in oil, train-load and sundries traffic. It is not entirely clear how far these estimates take account of the shift to rail envisaged as a result of the licensing proposals. It may be that the traffic forecasts in ton-miles for 1975 given in the previous section would, if achieved, somewhat improve the revenue forecasts shown in Table 4. But it might be wise to be rather sceptical, as was the Joint Steering Group, which preferred to adjust the railways' estimate of an overall break-even position in 1974 to a range between a £10 million surplus and a £40 million deficit. The 1974 estimate was based on the assumption that the loss on sundries would be transferred to the N.F.C. and "that there will be no difficulty in getting rid of freight traffic or services which cannot be made profitable".

The government proposes to help the railways by the £40 million grant (excluding interest) for "social" passenger services, to write off their capital, and to make a

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79Para. 2.14.
76Clause 36. See Section 3 of Joint Steering Group report.
78This position would have been reached some years earlier if collection and delivery receipts were excluded.
79The arguments are given on pages 17-18, and should be compared with the railways' assumptions on page 62.
further (declining) grant for five years to enable them to reduce their excessive track investment. The Joint Steering Group firmly rebutted the railways’ claim for a grant for “standby” capacity,80 and preferred to make a direct grant of roughly £15 million, “essentially as a tool for securing the most rapid possible rationalisation of the system”. This grant should be reduced to zero “at the earliest period by which the Board could be expected to have removed at least the greater part of this surplus” (which the Group thought should be fixed at 5 years).81

For the first time there is in the report of the Joint Steering Group an estimate of the cost of other obligations derived from the past from which the railways could legitimately be freed. These consist of about £1 1/4 million for road bridges, £1 million for level crossings, £1 1/4 million for services by British Transport Police to the public as a whole, and £5 million for superannuation obligations arising from past decisions. For practical reasons it was decided not to make specific grants for these purposes, but to take account of them in the proposed recapitalisation of British Railways.82 This last is the most drastic of all the proposals.

At the end of 1966 British Railways had an interest-bearing debt of £912 million, on which £52 million was paid in interest. There were also savings bank deposits, superannuation deposits, etc., of £311 million, on which £121 1/4 million interest was paid. Overall the railways were paying about 5 per cent on this debt, and nearer 6 per cent on the debt to the government. In addition, the 1962 Act had already transferred £705 million of the initial capital liabilities of the British Railways Board to a “suspended debt” account, on which no interest was payable. The Bill now proposes to write this off and to write down the interest-bearing debt to £355 million83. At 6 per cent this would involve a reduction in interest obligations from £52 million to £21 million. The net effect of all these changes is estimated as follows:84

| Table 5 | (£m.) |
|---|---|---|
| Deficit/Surplus | 1966 | 1969 | 1974 |
| Deficit before interest | 72 | 30—55 | 10—40 |
| Grants (including interest) for “social” passenger services | — | 55 | 30 |
| Track rationalisation grants (or reductions in costs) | — | 15 | 15 |
| Deficit/Surplus | 72 | 40—15 | 75—25 |
| Interest obligations (on present basis) | 64 | 70 | 80 |
| Deficit after interest | 136 | 30—55 | 5—55 |
| Surplus after capital reconstruction | 1—24 | 26—24 |

Writing off capital is certainly the cleanest way to deal with an irretrievable situation. But its implications should be noted. The “commencing debt” of British Railways is taken to be £300 million at its start of operations at the beginning of

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80See Appendix B and page 20.
82Appendix C and page 19.
83Clause 39. The £300 million in this Clause refers to the basic £857 million of commencing debt at 1 January 1969, not the £912 million debt at the end of 1966.
84The basic figures are taken from page 21. It is assumed that there is a reduction of £31 million in interest payments as a result of the capital reconstruction.
1963. From 1959 to 1962 inclusive, gross investment in British Railways totalled £347 million. If we take the effective start of the modernisation plan as 1956, a further £263 million gross was spent in the years 1956 to 1958. A fair part of this must now be regarded as wasted expenditure. One can regard the capital reconstruction as implying that the railways’ assets were worth nothing at the end of 1955, and that seven years’ investment had depreciated to half its original cost by the end of the period.\textsuperscript{85} It is perhaps worth looking at vehicles and plant separately, as these might be thought to represent the “on-going” assets of the business, regardless of ways and structures and buildings. If we depreciate the gross investment in vehicles and plant at 5 per cent (20 years’ life), we have a net value for the assets bought from 1956 to the end of 1962 of about £470 million. This compares with net book values for all assets of the same categories of some £740 million in the books of the Railways Board at 1 January 1963. The new capitalisation thus clearly implies that not merely the fixed assets are worthless, but also a large part of the vehicles bought under the modernisation plan. The implications of a similar treatment of road investment are discussed in the next section.

**The Future**

The upshot of all this is that there is a reasonable chance of the railways being put in a position to move out of an accounting deficit to an accounting profit, though not to cover what might be thought to be their economic costs. There still remain four major questions: (a) Can they achieve the right “mix” of assets? (b) Can they find a right pricing policy? (c) Can they develop the right pattern of operation? and (d) Can they get the management the system deserves? On all these questions the White Paper and government policy has something to say. We shall deal with them briefly in turn.

(a) The right mix of assets. In March 1967, before the Joint Steering Group had completed its examination of the railways, the Ministry and British Railways Board published *British Railways Network for Development*, which laid down the 11,000 route miles to be retained. The figure was obviously a shot in the dark, more closely related to political targets than to economic reality. But, granted that the route system is determined, at least to 1974, there still remains the size of investment in track and signalling. The railways are put under notice to reduce their track expenditure, and many believe it is within their powers to do so.\textsuperscript{86} This is but one example of the wider question of better use of assets on the main line system, which has tended to be ignored since Dr. Beeching concentrated attention on closures.\textsuperscript{87} But it is not only a matter of scrapping redundant assets, but also of investing adequately and efficiently. It may well be that more investment of the right kind is the necessary accompaniment of modernisation, concentration and cost-reduction. The need to

\textsuperscript{85}The calculation is no doubt rough, and makes no allowance for depreciation. But lives of rolling stock are much longer than the 7 years between 1956 and 1963, and much of the investment was in still longer-lived assets. Furthermore, our figures of gross investment are at historical cost.

\textsuperscript{86}See *Railway Track Costs in Britain*, by S. Joy and C. D. Foster (Institution of Civil Engineers, 16 May 1967).

\textsuperscript{87}*The Development of the Major Railway Trunk Routes* (British Railways Board, February 1965) was a most disappointing document, particularly to anyone concerned with the economics of the railway system.
write off so drastically so much recent investment must, however, make many people pause.

(b) Right Pricing Policy. The railways have all the freedom they could want to price in relation to their costs and the markets they face. But doubts clearly remain on the use they have made of this freedom, both in the maintenance of “standard” passenger fares and in excessively low charges for “sundries” and some other goods traffic. This is too large an issue to discuss here.

(c) The Right Pattern of Operation. Here we come back again to the issues of main line organisation and the question whether there is still a place, and if so what it should be, for wagon-load traffic handled through marshalling yards. But the pattern of operation also covers train loads and the nature of the investment in wagon stock. Maximum utilisation of track implies a narrow range of speeds for trains using the track. The wide range of train speeds in Britain militates against this optimum use. It is not clear that the real costs of present operating practices have been fully worked out. Are there not too many too small and too slow goods trains interfering with potentially more paying traffic?

(d) The Right Management. The White Paper discussed the railways’ costing principles, and the Joint Steering Group devoted a whole chapter to the structure and organisation of the Board. As implied at the beginning of this article, the importance of organisational changes can be exaggerated. But the importance of good people can hardly be over-emphasised. The railways have not had enough of them.

4. ROAD TRACK COSTS

The White Paper of February 1968 on Road Track Costs is described as presenting “some of the results of the Ministry of Transport’s economic research programme”. It has therefore a particular interest for economists. Cmd. 3057 of July 1966 referred to the Ministry’s “research into trunk route transport costs in order to establish the relative costs of carrying goods by road and rail on certain trunk routes and the effect of costs on the road traffic distribution between road and rail”, and went on to say that “the Government expects to have results from this research towards the end of this year.” The recent White Paper is the first published indication of this work.

One of the useful services performed by the White Paper is to publish in print the Ministry of Transport’s 1964 evidence on road costs to the Geddes Committee. Much of the other literature on the controversies aroused by the railways’ evidence

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88 Appendix E.
89 Chapter 4, and paras. 19–21 of White Paper. See also Clause 35 of the Bill.
90 Para. 98.
91 This evidence was hitherto available only in duplicated form.
to the committee is surveyed and commented upon. There are some revisions of the
erlier figures, but the quantity of new factual data made available in the White
Paper is very small.

What is new is a discussion of alternative methods of charging for the use of roads,
which the Ministry of Transport carefully eschewed in 1964. The discussion is at a
reasonably high level and a useful contribution to public debate, but there is little
that will strike an economist as novel. We will consider the arguments in detail below.
Unfortunately the practical arguments seem biased, firstly to justify the evidence
given by the Ministry to the Geddes Committee in 1964, which lacked the support of
economic argument, and secondly to justify the (later abandoned) Ministerial
decision to raise an extra £30 million from a new specific charge on goods vehicles
over 3 tons unladen weight. On the second point the arguments are straightforward,
if unconvincing. The first is more serious. The 1964 evidence was useful, but the
defence of its least defensible aspects by new and apparently sophisticated arguments
suggests the influence of established divisional views.

The discussion starts with a division of road costs into user costs, public costs and
community costs. The White Paper is essentially concerned with public costs, though
there is some mention of community costs. These are regarded as important but
largely non-measurable, and hence are inevitably ignored, though, as noted earlier,
some estimates in money values of the costs of accidents, noise and air pollution are
given in various parts of the report. The most notable omission – unfortunately all
too frequent in official treatment of these matters – is in the treatment of pedestrians.
Pedestrians are admitted to suffer from the noise and fumes of vehicles, but not
apparently from delay caused by vehicles – indeed, they cause delay to vehicles. As
the delay caused to pedestrians by traffic and traffic management schemes is in
principle fairly easily measurable, unlike some of the other matters dealt with, the
omission might seem to imply a decision not to try to measure it.

The breakdown of costs follows closely the 1964 evidence, with figures updated
from 1962 to 1965-6. All the figuring that has been done in this field shows the major
importance of capital costs, which represent about half or two-thirds of the total
allocated public costs, according to the alternative formulations. It is here that the

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92See A Study of the Relative True Costs of Rail and Road Freight Transport over Trunk Routes (British
Railways Board, 1964); Road Revenues and Costs (Transport Holding Company, 1964); evidence to the
Geddes Committee by the Road Haulage Association and Traders' Road Transport Association;
J. M. W. Stewart, A Pricing System for Roads (University of Glasgow, Social and Economic Studies,
Occasional Papers no. 4; Oliver and Boyd, 1965); G. J. Roth, A Self-financing Road System (Institute of
Economic Affairs, 1966), and Paying for Roads: The Economics of Traffic Congestion (Penguin, 1967);
A. R. Prest, “Some Aspects of Road Finance in the U.K.” (Manchester School, Sept. 1965); D. L.
Munby, "The Roads as Economic Assets" (Bulletin of the Oxford University Institute of Statistics, Nov.
1960), and “Road and Rail Track Costs” (Manchester Statistical Society, Nov. 14, 1962).

93There is a reassessment of police traffic costs, based on work done at Cambridge (p. 115); some
partly new estimates of the community costs of accidents, noise and pollution (Annex 12, and paras.
36, 50–51); estimates of public road costs and revenue in 1975 as well as 1965–6 (paras. 37, 44); and
data on axle loadings (Annex 18).


95Paras. 24 and 28.

96Bicycles do not seem to be mentioned at all, and motor cycles are dismissed somewhat summarily
for various reasons (see page 117).
White Paper shows its too slavish following of the 1964 evidence. Two figures of capital costs were given in 1964, one the actual investment in the chosen year, 1962, the other a figure representing interest on the stock of capital (valued at historic cost). The two figures turned out by accident to be the same in 1962, so that the Ministry did not find it necessary to choose between them or to sort out the theoretical issues involved.

The new White Paper produces two figures on the same sort of basis, one relating to current investment, the other to capital charges calculated in a different way. The two figures are no longer the same, and for practical purposes, i.e., the justification of the road haulage levy, the first, the “pay-as-you-go” basis, is chosen. But this is now apparently justified on economic grounds by some remarkable arguments. We will first discuss the second method, the “public enterprise basis”.

Road Capital and Annual Charges

The statistical valuation of the capital sunk in the road system varies according to four factors: (a) whether historic or replacement cost is used, (b) the length of life assumed for roads, (c) the treatment of land and legal fees etc., and (d) the inclusion or exclusion of expenditure on minor improvements. The National Income Blue Book uses replacement cost, assumes a life of 75 years97 (i.e. only road investment since 1890 has a value in 1965), and excludes land costs and minor improvement expenditure. The result is a figure of £2,470 million for 1965. If 14 per cent were added for land costs, following Prest, this sum would rise to £2,816 million. About £600 million would have to be added for minor improvements, bringing the total to about £3,400 million. The alternative estimate of the Ministry of Transport in its 1964 evidence used historic cost, and only took into account expenditure since 1909 (i.e. assuming a life of 53 years in 1962 and 56 years in 1965); it included minor improvements.98 The result was a figure of £2,050 million in 1965.

In Annex 13 the White Paper quotes the four figures of £2,470, £2,816, £2,050 and £3,400 million, and then decides to “assume” a figure of £3,000 million, “chosen to fall in between the highest and the lowest figures quoted above”. But when it comes to convert this into an annual charge, it adds a figure for “the land component of roads capital”. The chosen figure should thus be compared with a figure net of land costs of £3,070 on the Blue Book basis, and is thus not a middle figure but the highest figure of the estimates.

The chosen capital cost is converted to an annual cost by using 6 per cent (following C.E.G.B., but not the Treasury rate of 8 per cent used for appraisal of new investment). To this is added a 50 per cent self-financing requirement, taken to be rather higher than that currently raised from electricity users, and £100 million p.a. for the opportunity cost value of land (the figure is based on Roth’s estimate of £72 million99 marked up on the assumption that his values for residential sites are too low). The result is as follows:

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97This is wrongly described as 70 years in Annex 13, though correctly in Annex 10, para. 11.
98It is not clear whether land costs are included, though one might assume that they are.
### MRS. CASTLE’S TRANSPORT POLICY

#### TABLE 6

**Public Road Costs 1965/6 (£m.)**

(a) Current expenditure basis

<table>
<thead>
<tr>
<th>Item</th>
<th>Costs (£m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment—New Roads and Major Improvements</td>
<td>179</td>
</tr>
<tr>
<td>Minor Improvements</td>
<td>36</td>
</tr>
<tr>
<td>Maintenance</td>
<td>96</td>
</tr>
<tr>
<td>Cleansing</td>
<td>23</td>
</tr>
<tr>
<td>Lighting</td>
<td>52</td>
</tr>
<tr>
<td>Policing</td>
<td>40</td>
</tr>
<tr>
<td>Administration</td>
<td>15</td>
</tr>
<tr>
<td>Accidents</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>415</td>
</tr>
</tbody>
</table>

(b) Public Enterprise basis

<table>
<thead>
<tr>
<th>Item</th>
<th>Costs (£m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital charges:</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>100</td>
</tr>
<tr>
<td>Interest</td>
<td>180</td>
</tr>
<tr>
<td>Self-finance</td>
<td>390</td>
</tr>
<tr>
<td>Other costs as above</td>
<td>235</td>
</tr>
<tr>
<td>Total</td>
<td>625</td>
</tr>
</tbody>
</table>

**Notes**

Figures from Tables 3:1 and 3:2 of *Road Track Costs.*

Police costs are taken at about a quarter of total police costs (see page 115).

Accident costs represent the difference between total costs as estimated by the Road Research Laboratory (£246 million for 1965) and insurance payments by road users (see page 10).

Capital costs on basis (a) represent actual gross investment in 1965-6. Capital costs on basis (b) are according to Annex 13 of the White Paper, as described in the text. Interest is calculated at 6 per cent on a capital value of £3,000. Self-finance represents 50 per cent of gross investment (as above) of £215 million.

The justification of the particular figures chosen to assess the annual capital charge, given the capital cost, is of doubtful economic significance.

The 6 per cent chosen on the analogy of C.E.G.B. seems to be the ratio of net earnings to average capital employed. (Gross earnings (i.e. adding in depreciation) were exactly double the net figure in 1966-7. It is this figure which the Treasury uses for its financial target of 11.9 per cent.) As roads are assumed not to require depreciation, the analogy is to this extent correct. But the C.E.G.B. figure is based on historic cost, whereas replacement cost is used for roads. Nor is it easy to see why any figure should be chosen rather than the Treasury overall figure of 8 per cent used in appraising investment projects, though the Treasury by fixing both an investment rate and a financial target has got itself properly muddled. The logic of a replacement cost measure of capital is that it represents over time the cost of keeping the system going, which consumers should be ready to pay if over time they want this use of resources rather than some other—a choice which becomes a real choice when investment decisions have to be made. If assets are not to be replaced, or if technical
change requires a totally new kind of asset, then the charge on past sunk capital ceases to have economic relevance except as an indication of what consumers may be persuaded to pay, i.e., the benefit they obtain from existing assets. Thus, in arriving at a charge performing the function of allocating resources, one seems to be left with the dilemma that either replacement cost with 8 per cent is the right answer, or any charge on capital is arbitrary and meaningless, as bygones are bygones.

Confusion is worse confounded when self-finance is added as a further requirement. The degree of surplus earned should come out of a right pricing and investment policy; it is strictly a surplus, not a cost to be added to other costs to determine price. Here the recent White Paper on the Nationalised Industries provided a start in the right direction, though it still hankers after the old doctrine of the 1961 White Paper, that nationalised industries should follow some norm of private industry and some target of self-finance. It is no doubt of interest to see what some given figure would involve for roads, but it should not provide any norm of policy.

In short, on our argument a possible “public enterprise basis” for capital charges would involve an annual charge of £340 million instead of £390 million (£100 million for land plus £240 million for interest at 8 per cent), making no very great difference to the total annual charge (£575 million instead of £625 million). The figures in themselves are not very important, though the logic of the exercise is. In any case, the White Paper abandons this approach and in practice uses the first, the “current expenditure basis”. The justification of this starts from an argument that “many economists have advocated a system of long-run marginal costs as efficient”, the reason is rightly given as “the essential purpose of this pricing system, that of presenting users with the future rather than the past costs of road provision”, or, as it is put in the body of the report, “long-run marginal cost is defined to include all costs associated with the production of an extra unit of output, capital as well as running costs. Consequently, and this is the main justification for this charging principle, existing users pay the costs that actually will have to be incurred to replace the facilities they are using and additional users pay what it costs to provide for them”. So far, so good. The application of this principle to roads is difficult because “demand is spatially specific” and the system is never completely renewed. The difficulty can be got round, as is suggested, by taking some average for the system as a whole of the cost of expanding capacity as required by the expected demand. We need not quarrel with this.

What figure should one take? The first point to decide is whether one takes actual investment as it arises each year from today (the method implies that we write off all past capital), so that the capital stock which has to be paid for rises with investment in the future (though of course traffic rises also), or whether we take some discounted present value of the future investment stream to represent our capital stock.

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100 See The Financial and Economic Obligations of the Nationalised Industries (Cmnd. 1337, 1961).
101 Para. 79. An obvious reference would be Professor W. A. Lewis’s article on “Fixed Costs” in Overhead Costs (Allen & Unwin, 1949), though this very clearly leaves out everlasting assets.
102 Annex 17, para. 3.
103 Para. 70; see the whole discussion in paras. 70–74.
104 Annex 17, para. 2.
In the latter case, the chosen figure depends entirely on the time-period considered and the rate of rise of investment.\footnote{One might be tempted to multiply either of these figures by some factor representing the ratio of the roads rebuilt to the total roads in the system. But we should then be back at a replacement cost "public enterprise basis", representing not merely the present cost of building the existing road system but the cost of renewing the whole system to modern standards. It was implicitly this criterion that the railways assumed as the basis of road charging policy. As the whole system will not be renewed for as far ahead as we can see, it implies a very odd charging policy.}

The second decision that has to be made, as in any investment appraisal, concerns the time over which the cost of the capital has to be spread, and also the pattern of cost recovery over this period. If we assume that a life is given for roads, there still remains the pattern of charging over this life. Where an industry such as steel follows a L.R.M.C. price system, it does not necessarily spread the capital charges equally over the years of operation of the plant. A commercial firm may rightly follow a policy of quick capital recovery, as demand may fall over time or be more certain in the near future. On the other hand, a firm financing a motorway from tolls and expecting traffic to rise over time would normally aim to raise a disproportionately small part of its total capital charges in the first years, and a proportionately larger part in the later years as traffic increased. If it aimed at collecting the same capital charges each year, it would have to charge higher tolls in earlier years and lower in later years, whereas common sense would suggest that it should rather have lower tolls in the early years and higher tolls in later years, when congestion begins to appear. In other words, for assets such as roads there is no necessary conflict between a pricing policy based on short-run marginal cost and one based on long-run marginal cost. All that the L.R.M.C. policy demands is that, in some way or other over the life of the asset, the capital charges shall be collected.

The White Paper hardly discusses these issues.\footnote{In fact, paras. 4–6 of Annex 10 do refer to them rather obliquely, as we shall see later.} Instead it baldly asserts that "in practice . . . L.R.M.C. pricing is equivalent to the current expenditure version" of public road costs.\footnote{Para. 72.} The only argument leading up to this conclusion in the main report is as follows:

"Unlike electricity supply, where the theory of L.R.M.C. pricing is most thoroughly developed, demand in one place cannot be met by facilities located in another. Further, capital invested in roads has virtually an infinite physical life, so that in practice it is not necessary to replace capital, only to add to it or modify it to meet additional demands. For these two reasons, the concept of L.R.M.C. cannot, in terms of its strict definition, be applied to roads. These difficulties with capital can, however, be overcome by charging for capital expenditure as though it were a current item, i.e. in the year it is spent".\footnote{Paras. 71–2.}

Of the two apparent arguments, the first seems a complete non-sequitur. The conclusion of the second might well be that to write off an everlasting asset over any period is arbitrary; to write it off over one year is extreme. Normally, firms in these cases (including nationalised industries) write these assets off over 100 years. A strong case could be made out for writing them off quickly, say in 20 or 30 years. But to write them off in 1 year is very strange, and cannot "overcome" the difficulties.
Annex 17 suggests another reason for this policy. After arguing as in the paragraph quoted above, it continues with the assertion that “the sum required of road users as a whole will tend through time to equal the sums actually spent on roads as a whole. . . . Consequently, in this Report current expenditure has been regarded as the appropriate method of defining L.R.M.C. for roads”.\textsuperscript{109} It is very difficult to see how the sums “will tend through time” to become equal, except by accident. Let us assume that the annual costs of a given gross investment on roads are 10 per cent (this is clearly a compound of what is assumed for the life of roads and the rate of interest), the figure being chosen for convenience (it would be compatible with a 50-year life, and interest at 8 per cent). Then it follows that, if the annual costs are to equal annual investment, the capital value of the system must always be 10 times the annual investment. If annual investment is constant, then, for the equality to hold through time, exactly 10 per cent of the capital must be retired every year. This would, for example, be compatible with an assumed life of 10 years and an evenly balanced capital stock; if the assumed life is longer, exactly 10 per cent of the present stock must have been built every year at some stage in the past (we assume that roads “die” suddenly, say through obsolescence, and do not wear out gradually). If annual investment is rising by (say) 10 per cent, the annual retirement of capital must exactly equal the increase in investment each year.\textsuperscript{110} (If investment had been increasing steadily at 10 per cent p.a. this would imply a life of 250 years.) What these figures show is that for annual costs to equal annual investment implies a rather rigid set of assumptions about the life of the assets and the pattern of past and future investment. There is no general tendency towards equality.

A third set of arguments on the same point occurs in Annex 10.\textsuperscript{111} Here the “current expenditure basis” is discussed, and it is rightly pointed out that “a decision to self-finance completely implies a decision that users investing when capital investment is high will in effect subsidise users at a period when investment is low”. This is said to be a decision about the distribution of income between users today and tomorrow, which is not the sole matter of relevance unless prices do not affect the allocation of resources. The argument then continues as follows: “In the cases of roads, the case for [this] treatment of capital at the present time is a strong one. Capital expenditure and traffic are both rising and are likely to continue rising for some years . . . If these predictions are fulfilled, and if, therefore, the burden of capital cost per vehicle does not fluctuate widely, then the main reason for treating capital differently from other costs no longer applies”. Again, a complete non-sequitur. The argument concludes with a reference to the “considerable economic advantages of this alternative”, which “gives the best available approximation to long-run marginal cost pricing, which (as Chapter 5 makes clear) has merit from the point of view of the efficient allocation of resources”.

In effect, the interpretation of long-run marginal costs is quite arbitrary, and is

\textsuperscript{109}Annex 17, para. 4.

\textsuperscript{110}The point can be illustrated as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual investment</td>
<td>100</td>
<td>110</td>
<td>121</td>
<td>133.1</td>
</tr>
<tr>
<td>Equilibrium capital value</td>
<td>1,000</td>
<td>1,100</td>
<td>1,210</td>
<td>1,331.0</td>
</tr>
<tr>
<td>Retirement of capital</td>
<td>—</td>
<td>10</td>
<td>11</td>
<td>12.1</td>
</tr>
</tbody>
</table>

\textsuperscript{111}Paras. 4–7.
asserted rather than justified by any argument. The economic jargon is however likely
to confuse the layman. Consider two alternatives which would seem to have quite as
good a justification as approximations to long-run marginal cost, and in the view of
the writer would make more sense. Alternative A would indeed treat bygones as
bygones, and would start next year charging for investment in roads as it occurred
from year to year on an ordinary capital accounting basis. We might take 10 per
cent and the assumptions mentioned earlier of 8 per cent interest and amortisation
over 50 years. The effect would be that, instead of a capital charge of £215 million in
1965-6, we should have a capital charge of £21.5 million, taking this as the first year.
The annual charge would of course rise over time as investment rose. Alternative B
would be to treat the roads roughly in the same way as the railways and write off all
their capital before 1956, assuming that we had started the "new look" in that year.
The rough effect of this would be to impute a capital charge of some £130 million,\textsuperscript{112}
instead of £21.5 million on Alternative A and £215 million according to the Ministry.

\textbf{Classes of Vehicles}

The importance of the calculation of capital cost is not merely that it produces a
total road cost which is different, and therefore produces a different overall balance
of revenue over cost. But it also affects the relative position of different classes of
vehicles in the revenue/cost scale. The argument of the White Paper is that classes of
vehicles should (with exceptions) contribute revenue roughly in proportion to their
share of imputed costs. The argument thus proceeds to allocate the total costs as
above estimated over the various vehicle categories, according to various formulae.
The formulae are much as in the 1964 evidence, though with some changes resulting
from more recent research.

We do not propose to discuss these allocations, though they raise a number of
interesting points. To summarise them:

\begin{itemize}
  \item[(a)] For capital costs, 15 per cent of major capital works and 20 per cent of
 minor improvements have been imputed to heavy vehicles (\textit{i.e.} vehicles over 30
 cwt. unladen weight). The remaining capital costs have been allocated by
 weighted vehicle miles, the weighting being related to, but not identical with,
 normal p.c.u. values. (The values are $\frac{1}{2}$ for motor cycles, 1 for cars and light
 vans, 2 for heavy vehicles and buses).

  \item[(b)] Maintenance costs have been divided into two categories, surface main-
 tenance (repairs, patching and surface dressing) and the rest, the first category
 being nearly all allocated to heavy vehicles, the latter being allocated by
 vehicle miles;

  \item[(c)] Accident costs have been allocated by vehicle miles weighted by the
 relative frequency with which each category of vehicle experiences accidents
 and the cost of these accidents;
\end{itemize}

\textsuperscript{112}Total expenditure on major improvement and new construction from 1956 to 1965 inclusive was
£1,002 million; total expenditure on maintenance and minor improvement over the same period
was £1,040 million. Minor improvement accounted for about a quarter of the latter item in 1965,
and about a third in 1962. Taking 30 per cent for the whole period, the total value of investment in
the period at \textit{historic} cost was £1,314 million. The calculation is only meant to be rough.
(d) All other costs have been allocated by vehicle miles.\textsuperscript{113}

To show the effect of using different capital charges it is necessary to know the distribution of traffic over the whole system. We have taken the 1965 figures for the system (which are not quite the same as figures taken by the Ministry), and the following table shows the results on the various alternative bases.\textsuperscript{114}

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Allocated public costs, 1965/6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ministry basis</td>
</tr>
<tr>
<td>Cars and taxis</td>
<td></td>
</tr>
<tr>
<td>Capital costs</td>
<td>112</td>
</tr>
<tr>
<td>Other costs</td>
<td>141</td>
</tr>
<tr>
<td>All costs</td>
<td>253</td>
</tr>
<tr>
<td>Light vans</td>
<td></td>
</tr>
<tr>
<td>Capital costs</td>
<td>18</td>
</tr>
<tr>
<td>Other costs</td>
<td>15</td>
</tr>
<tr>
<td>All costs</td>
<td>33</td>
</tr>
<tr>
<td>Motor cycles, buses and coaches</td>
<td></td>
</tr>
<tr>
<td>Capital costs</td>
<td>11</td>
</tr>
<tr>
<td>Other costs</td>
<td>27</td>
</tr>
<tr>
<td>All costs</td>
<td>38</td>
</tr>
<tr>
<td>Heavy goods vehicles</td>
<td></td>
</tr>
<tr>
<td>Capital costs</td>
<td></td>
</tr>
<tr>
<td>Major capital (15%)</td>
<td>27</td>
</tr>
<tr>
<td>Minor capital (20%)</td>
<td>7</td>
</tr>
<tr>
<td>Other capital</td>
<td>40</td>
</tr>
<tr>
<td>Other costs</td>
<td>52</td>
</tr>
<tr>
<td>All costs</td>
<td>126</td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
</tr>
</tbody>
</table>

Note. The figures in this table do not exactly represent the make-up of the Ministry’s figures, as these were allocated according to the traffic on each category of road separately; whereas we have taken the overall distribution of traffic on the whole system to allocate capital costs. Other costs are derived. It would be reasonable to assume that capital expenditure is biased towards the major roads, which have a greater share of heavy vehicle traffic. Thus our figures have under-estimated the capital cost allocated to heavy vehicles on the Ministry formula. This would mean that the difference between the Ministry figures and the alternatives is also underestimated for heavy vehicles.

It is not possible to estimate detailed figures for public service vehicles from the White Paper, which only gives a figure of £24 million for their total costs.

\textsuperscript{113}See Notes on Tables, pages 118-9.

\textsuperscript{114}The traffic in vehicle miles is taken from Table 19 of \textit{Highway Statistics}, 1966. When weighted by the White Paper factors, the shares are: cars and taxis 62 per cent, light vans 10 per cent, motor cycles and buses and coaches 6 per cent, and heavy goods vehicles 22 per cent.
MRS. CASTLE’S TRANSPORT POLICY

D. L. Munby

The final stage is to compare costs with revenues. Table 8 gives the White Paper figures and compares them with the equivalent figures on our alternative bases. As most of the White Paper argument is concentrated on the relative position of cars and heavy vehicles, we refer to this in particular.

<table>
<thead>
<tr>
<th></th>
<th>Before charge</th>
<th></th>
<th>After charge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M.O.T.</td>
<td>Alternatives</td>
<td>M.O.T.</td>
</tr>
<tr>
<td></td>
<td>A  B</td>
<td></td>
<td>A  B</td>
</tr>
<tr>
<td>Cars ...</td>
<td>2:1:1</td>
<td>3:5:1</td>
<td>2:1:1</td>
</tr>
<tr>
<td>Light vans ...</td>
<td>3:3:1</td>
<td>6:2:1</td>
<td>4:0:1</td>
</tr>
<tr>
<td>Heavy goods vehicles</td>
<td>1:8:1</td>
<td>3:8:1</td>
<td>2:3:1</td>
</tr>
</tbody>
</table>

Note. The Ministry ratios are taken from Tables 8:3 and 9:3 of the White Paper. The revenue allocations are taken from Table 8:1.

As capital costs are weighted against the heavy vehicles, the effect of reducing the capital element in costs is to reduce more than proportionately the costs allocated to heavy vehicles. Thus our alternative A results in a halving of heavy vehicle costs (\(£59\) million as compared with \(£126\) million) and only a 40 per cent reduction of car costs (\(£152\) million as compared with \(£253\) million), while alternative B reduces heavy vehicle costs by nearly a quarter and car costs by less than a fifth. In terms of revenue cost/ratios, alternative A shows a higher ratio for heavy vehicles than for cars, and alternative B, though still showing a lower ratio as in the Ministry case, reduces the gap between heavy vehicles and cars (the difference between the ratios is a sixth in the Ministry case and just over an eighth for alternative B).

The conclusion of this rather tedious arithmetic is that the revenue/cost ratios on which the case for the special charge for heavy vehicles is based are sensitive to the capital charge imputed to roads as a whole, which, as we have seen, is based on highly dubious economic arguments. Alternative capital charges, which might be thought reasonable by some people, would produce results which would be very different. Indeed, one of our results (alternative A), which might be thought to be rather extreme (but quite as logical as the Ministry basis), would justify a reduction in taxation on heavy vehicles as compared with cars.

The final question to be asked is whether, granted that the allocated costs are “correct” and economically meaningful, the conclusion follows that taxation should be raised on heavy lorries. As the table shows, the result is to bring the revenue/cost ratio of heavy lorries roughly into line with that for cars, to bring it nearer to (but still a long way away from) that for light vans, and further from that for public service vehicles. This raises an interesting question for welfare theory: how to behave when trying to bring one margin in relation to two other conflicting margins.

If we were starting from the beginning, we should argue that the first requirement in aligning margins is to know where elasticities of substitution are high. If there is no elasticity of substitution, it does not matter what charges are made; if elasticities are high, it matters correspondingly more that relative prices should be “right”. Where then in this field are the margins that matter? It would probably be generally accepted that there is more elasticity of substitution between road and rail for freight than between the private car and any form of public passenger transport, at least outside cities; it might, however, be argued that elasticities of substitution between
rail transport and bus transport are higher than between road and rail freight, because service elements are less important to the vast mass of travellers, who are also fairly price-conscious (again ignoring towns), than they are to businessmen. Clearly within any one of these categories elasticities are high, e.g. between goods carried in heavy or light lorries, or passengers on different kinds of trains.

My own conclusion from this is that the low elasticity of substitution between the car and other forms of transport means that the car can rightly be more heavily taxed than any other form of road transport, without any serious adverse effects on the allocation of resources (chiefly, in this context, the use of time). It is unlikely that too high relative taxation of private cars (at present levels of licence duties and petrol tax) will adversely affect the economic balance for the critical journey to work. Nor should I want to shed many tears on grounds of income distribution, though politicians will be sensitive about the impact of motor taxation on those who have just become, or are just about to become, members of the car-owning group. This problem could be dealt with, in any case, fairly easily by discriminatory licence (or purchase tax) duties in favour of cheaper cars.

If the private car can be milked to pay for the overheads of the road system and to make a contribution to general revenue in addition, there is no similar case for charging either buses or goods transport more than is required to give them equality of treatment with rail transport. The White Paper explicitly states that it "has not considered the relationship between road and rail", though "it remains one of the most important aspects of the track cost problem". In any case, assuming that the aim of transport policy is to produce the optimum allocation of traffic between road and rail, what would follow? The railways are able to charge down to marginal cost, with powers to discriminate, where they can, to cover their indivisible costs, whether joint or specific, and whether current or capital. The roads should then be charged for likewise; and if road haulage or buses are to be specially taxed, so should the railways. In this context the petrol tax is more serious than the licence duties; but because of the relatively short life of vehicles, and because both road and rail are often likely to treat vehicle capital costs as marginal costs for charging purposes, it cannot be argued that duties on vehicles are irrelevant to the distribution of traffic.

The best part of the White Paper is the discussion of short-run marginal costs, which are only not accepted as the basis for charging because of their (present) impracticability. The arguments for charging congestion costs to vehicles apply in principle only to situations where congestion occurs, and where there is some price elasticity of demand, but because lorries cause more congestion on average than

\[115\] Para 116. The low ratio for public service vehicles is justified (rightly) because of their "special" role (para. 105).

\[116\] The following case is sometimes ignored. If a main road passes through a small town or village, and there is no near substitute for through traffic, a congestion tax is likely to increase the proportion of through traffic to local traffic, and probably of heavy traffic to light traffic (because the cost of the tax will be a smaller proportion of the total journey costs in these cases, even if the elasticity of demand is higher than for local traffic). Many would argue that the result is to favour precisely that kind of traffic which should not be favoured. This case of course is one where the economic case for a by-pass is likely to be strong; but if, through budgetary restraints, the by-pass is not built, this is no consolation to the inhabitants. The economic case for the right price has been weakened because it has not been allowed to perform all its signalling functions.

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other vehicles there is a (rough) general case for charging them more heavily, unless
it can be shown that (leaving out towns) they are concentrated on the non-congested
routes, which is doubtful. Similarly, lorries should pay the appropriate extra marginal
maintenance costs for which they are responsible, and allowance should be made for
extra investment costs which are incurred to meet their requirements, e.g. additional
lanes on motorways, or more costly specifications. All this is (in theory) taken account
of in the revenue/cost ratios for lorries,\textsuperscript{117} so that one is left with the conclusion either
that the 2:1 ratio for heavy lorries is wrong in its figures, or that, if the figures are
right, there is no case for any other ratio than 1:1.

The final point concerns the substitution possible between vehicles of different
kinds. The White Paper argues that it is impracticable to reduce the high revenue/
cost ratio for light vans, “because of the possibilities of substitution between light vans
and cars”.\textsuperscript{118} One would want a more detailed examination of this problem to be sure
that the dangers here were more serious than the dangers at the other end of the
scale, of substitution between light vans and heavy vehicles. A further point arises in
relation to the balance between diesel and petrol taxation, and the extent to which
this may affect substitution between classes of vehicles and is not itself based on the
optimum refinery output pattern. All this suggests that there is need for a narrower,
but more intense, examination of the way in which taxation in its various forms
affects operating costs and substitutions in road haulage. The whole question is, in
any case, confused by the admission, no doubt insisted upon by the Treasury, that
“for purely fiscal reasons – unconnected with any arguments about the allocation
of road costs – the Government may wish to increase or decrease the taxation levied
on a particular class of road user without taking corresponding action \textit{vis-a-vis} other
classes”.\textsuperscript{119} As these “purely fiscal” reasons were unspecified, it might have been
better if the Government had merely stated that it had decided to levy a given sum
to take account of the fact “that the Government is committed to a continuing pro-
gramme of heavy expenditure on roads”, which is “the background” against which
it wishes the levy to be viewed.\textsuperscript{120} In the event, the Budget quickly revealed the
significance of the Treasury’s caveat. The new licence duties are lower than the
abandoned levy for heavy lorries, but, being raised for all goods vehicles (as well as
cars), will produce about the same revenue from goods vehicles in total. In addition,
all will bear the extra 4d. a gallon in oil duty. The new licence duties represent an
increase of a third for the lighter vans rising to a half for the heavy lorries, but the
White Paper ratios have gone by the board. \textit{Road Track Costs} would have been a
much more valuable document if it had been published on its own as a contribu-
tion to general discussion, and not together with a rather unsuccessful attempt to
justify the levy.

\textit{Nuffield College, Oxford}

\textsuperscript{117}If congestion costs were not averaged but charged for where they occur, the revenue/cost ratios in
these cases would be too low; but this involves real short-run marginal cost pricing.
\textsuperscript{118}Para. 105.
\textsuperscript{119}Para. 106.
\textsuperscript{120}Cmnd. 3470, para. 68.