INSTITUTIONS AND OBJECTIVES
IN TRANSPORT POLICY

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I. INTRODUCTION
Among the best known of Denys Munby's contributions to transport economics are his careful and perceptive appraisals of transport policy in the European Economic Community [1] and the United Kingdom [2, 3]. In these studies his essential interest was in the way in which regulations, whether made by E.E.C. or by the national government, would affect the efficiency of the transport sector.

Two types of defects concerned Munby particularly. Firstly, while carefully avoiding the belief that economic problems can be solved by institutional tinkering, he argued that bad organisation can make it impossible for sensible policies to be carried out. In the British context he was particularly critical of the reorganisation of the railways and of the failure to bring management of the road system fully within the purview of a national transport policy. Secondly, however, he strongly argued that the success of perfectly workable institutions depends much more on the policies they follow than on the exact powers they possess. The National Freight Corporation and the Passenger Transport Authorities were seen as particularly suspect in this respect.

British transport policy in 1979 still shows a range of organisational conflicts which make it difficult for sensible and consistent policies to be pursued. The relationships between U.K. and E.E.C. on transport policy; the relationships of central government both with nationalised industries and with local government; and the relationships between local government and public transport operators, all appear as the subjects of controversy. The purpose of this essay is to examine how far the conflicts observed are evidence of bad organisational structure; how far they are symptomatic of inappropriate setting of objectives by or for the institutions in a broadly acceptable structure; or whether they are an essential and desirable part of the process by which decisions emerge in the transport sector. In section 2 we describe the conflicts and their origins; in section 3 we examine some alternative institutional models for the organisation of the transport sector; and in section 4 we attempt to suggest those modifications in institutions and objectives most likely to improve performance in the sector. Finally, and very briefly, we draw the conclusion.

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2. THE PROBLEMS

E.E.C. and Britain

Progress in the creation of a common transport policy in E.E.C. has always been slow. Since the accession of the new member states in 1973 it has come to a standstill. Such regulations or directives as have been adopted during the last five years have reflected the abandonment of existing policies (as in the replacement of the mandatory forked tariff for international road haulage by the reference tariff) or have been purely preparatory legislation adopted without certain commitment to the ultimate policy objectives for which they prepare (as in the fields of rail accounting and infrastructure costing).

Britain has used an effective power of veto on a long list of policy issues. These include weights and measures of road vehicles; controls on entry into the road haulage industry; supranational price control systems; infrastructure pricing policy; supranational control of levels of rail subsidies; and supranational control of national transport investment policies [4].

The institutional foundation of this state of affairs is well known. The Commission, representing the European ethic, is responsible for the preparation of policy but has not the power to secure its adoption. The Council of Ministers, representing the separate national interests, has since 1965 legislated only on the basis of complete unanimity; and there is little indication of willingness to revert in the near future to the majority voting provisions of the Rome Treaty. A semblance of progress is retained only by a trimming process on the part of the Commission. While retaining ambitious aims in principle, it proposes only less controversial measures with no immediate impact.

The historical foundation is equally clear. Despite some common elements, particularly the use of rail policy for social and strategic ends and the control of road transport to support that purpose, there are wide differences between the transport sectors of the member states [5]. The Treaty of Rome provides for a comprehensive common transport policy, and the Commission paid little regard to existing differences in its early attempts to seek harmonisation of the national systems. Hopes of the rapid creation of a common transport policy have been cruelly disappointed.

The reason for this disappointment is not, however, simply a matter of trying to achieve too much too quickly. It is rather that there are differences in objectives and style of U.K. and E.E.C. transport policies which are not reflected in the institutional arrangements.

The differences in objectives are crucial. United Kingdom policy, as spelt out in the 1976 Consultation Document [6] and the 1977 White Paper [7], postulates economic efficiency as the primary objective, with subsidiary distributional (social) and environmental objectives. Structural questions concerning competition in transport are viewed as second order questions of the appropriate instruments for achieving the (necessarily very generally stated) fundamental objectives. One of the most striking aspects of the policy this has produced is the large degree of reliance on a free market to bring about allocative efficiency.

E.E.C. transport policy seems to be quite different. While the general objectives of the Community, as set out in Article 2 of the Treaty of Rome, are very similar to those of U.K. transport policy, the E.E.C. sees transport policy itself as merely instru-
mental in achieving those objectives. In Articles 74 to 84, which deal specifically with transport, the objectives are set out in much more structural terms. Primarily transport policy is to be so arranged as to contribute in the best possible way to the development of a free, competitive, market in goods and services. Secondly, so far as is compatible with the primary objective, it should aim to achieve a free market in transport itself. The Treaty contains a number of specific prohibitions on discrimination, and permissive powers for a wider ranging policy to be developed subsequently. In the event, the subsequent attempts by the Commission to create a policy have been largely devoted to such measures as controls on entry, price controls, and harmonisation of conditions of operation, which have immediately been of a restrictive rather than liberalising nature. The obsession of the Commission with eliminating distortions of competition between modes or states has led it to insist on a transparent uniformity.

The style of policy also differs. The U.K. is engaged in "reactive" policy making. It is essentially adapting its existing policies and institutions progressively as the situation changes. Despite the appearance of presenting elegant and comprehensive reviews, there have been no sharp, comprehensive and rationally founded revolutions in policy since denationalisation of road haulage in the early 1950s [8]. The Commission of the E.E.C., in contrast, has attempted to engage in "active" policy making, establishing, ab initio, comprehensive rational policies and structures. That task is quantitatively different from, and in many respects more demanding than, that of a member state government.

Given these differences in style and objectives, and the de facto superiority of the national governments in policy formulation which we have discussed earlier, it would seem that the conflict between E.E.C. and U.K. governments can only be resolved by the explicit recognition in the policy making process of their differing powers and responsibilities.

Central Government and the Nationalised Industries

In the post-war acts of nationalisation in the U.K., the relationship between the government and the public corporations was a central issue of concern. Morrison's concept, which these acts embodied, was that the Boards should be autonomous in matters of day-to-day administration but subject to government guidance on important policy issues. The borderline was incapable of precise definition; a succession of reports from the Select Committee on Nationalised Industries have suggested that Ministers were using covert pressure, and informal arrangements with the Chairmen, to avoid responsibility for their political decisions. British Rail, in the person of its former Chairman, Sir Richard Marsh, in particular resented a situation in which it was unable to rely on any stable continuing objective.

The recent history of British Rail is germane. The 1968 Transport Act provided for a system of specific subsidies, apart from which British Rail was to aim to cover its costs. By 1972/73 it was already clear that this was not being achieved for the existing network; either some areas of activity (which might be large) would have to be abandoned or a new settlement would have to be reached. British Rail having argued, and the 1973 Rail Policy Review having confirmed, that no substantial network was likely to prove viable at politically acceptable price levels, a new approach was adopted. The 1974 Railways Act required British Rail to maintain
its network and services at broadly their existing levels; in return a global subsidy would be provided. The solution of the Public Service Obligation subsidy (chosen partly because it was a form compatible with E.E.C. regulations) involved some detailed supervision by the Ministry of the timetables, as well as of decisions covering the whole network. The division of responsibility for day-to-day administration and "general policy" was substantially changed. What remained barely looks compatible with the traditional view of the relationship between Ministers and nationalised industries.

This example may perhaps be best seen in the light of the wider discussion of the relationship between government and the management of the nationalised industries. The 1967 White Paper [9] defined their respective roles within the context of an "arm's length" relationship. In a study of the operation of this system the National Economic Development Office pointed to a general lack of understanding within the government machine of the problems of management: in particular a reluctance to accept the importance of continuity and of some assurance of stable objectives and policies [10]. Ministers tend to respond to short-term political pressures. In doing so they create confusion, and eventually mistrust, in management attempting to make plans for investment, technology and manpower with much longer time horizons than the Parliamentary term.

The N.E.D.O. solution was the creation of a new "Policy Council" to lie between the Minister and the Corporation Board. This Council, which would have membership representing industrial management, government, unions, industrial users and consumers, would agree corporate objectives and the strategies to achieve them; establish performance criteria; endorse corporate plans; and monitor performance. The Corporation Board would manage the Corporation within this framework. The government would intervene in the management of the industries only by a published ministerial directive overriding a Policy Council decision.

In the event, this suggestion has not proved attractive to government. Instead, in a White Paper [11], the government has chosen a much more conservative approach, calling for a more transparent division of responsibility between Minister and Board, with more statutory protection of the Board against hidden interventions.

In this framework the present situation of the railways is still most unsatisfactory. Though the Transport White Paper claims to offer a firmer basis for rail management, several crucial strategic issues (particularly the size of the Public Service Obligation payment and investment plans) are reserved for future agreement between the Ministry and the Board. But it is not clear how public the decisions should be or to what extent they will be accepted as the responsibility of government. Unless this is resolved one can envisage periodic bouts of mutual recrimination as new problems emerge.

**Central Government and Local Government**

The Local Government Act 1974 required county councils to become responsible for the promotion of a coordinated system of transport to meet the needs of their areas. This responsibility is discharged by the annual submission to the Department of the Environment of a Transport Policy and Programme (TPP). The TPP contains programmes in three time scales—a one-year detailed programme; a five-year rolling programme; and a fifteen-year provisional programme. A number of specific
grants (for principal roads, public transport infrastructure, rural buses and ferries, and transportation studies) were discontinued. These specific grants were replaced by a system whereby the central government contribution to expenditure comes in part through the rate support grant (RSG), and, to the extent that the counties' expenditure exceeds a prescribed level (known as the "threshold"), through a transport supplementary grant (TSG). TSG is allocated on the basis of the approved level of expenditure outlined in the TPP. Grants will be made on the basis of the TPP estimates, but the counties have discretion over the subsequent use of the grant. To this system the 1978 Transport Act added the requirement that the county should also produce an annual Public Transport Plan, which would ensure the integration of public transport planning within the system.

The new regime was introduced in conditions of severe financial stringency; so there was little scope for authorities to spread themselves in policy formulation or expenditure. But the real conflicts which have emerged cannot be explained away simply by the unpropitious circumstances. The conflict between the Department and South Yorkshire Metropolitan County over the role and level of revenue support for public transport exemplifies a much more fundamental issue of the respective roles of central and local government.

The issue is simple. One of the declared objectives of the revised arrangements was to extend both the planning capacity and the planning discretion of the local authorities. But a series of departmental circulars have had the effect of constraining the local authorities very severely. Thus, despite the promise of a shifting threshold, the actual extension of local discretion introduced by this system has been very limited. This reluctance to allow complete local discretion may have quite different roots. On the one hand there may be reservations about the immediate capability of local government to undertake the comprehensive planning function, and these reservations are accentuated by the conviction that central government will inevitably attract and retain skills which could improve local planning. On the other hand, central government may very positively desire to retain a channel whereby it can impose some of its own imperatives on the local planning process. What appears to emerge, therefore, is a system within which central government fulfils the dual role of allocating national resources between counties and of checking, both by ex ante appraisal and by ex post monitoring, that local government is fulfilling its functions efficiently. The functions of local authorities appear to be to identify "needs" or define "objectives" at the local level, to define a general strategy to achieve these objectives, and to design and implement a programme to further the strategy.

For this system to work satisfactorily several requirements must be met. Local authorities must be able to identify their objectives in such a way as to test alternative programmes against them. Central government must be able to understand the efficiency of the policies proposed in the authorities' programmes in their own terms, and must also have its own criteria for deciding on the allocation between counties. The criteria used in local and central appraisals may, of course, be different. For instance, we have already mentioned a conflict over the role and level of revenue support for public transport; this, in logic, may be crucial to a local strategy, but it has been made subject to a blanket central government constraint. Such a conflict inevitably confronts us with an inherent contradiction in the administrative structure which has been established.
Local Government and Transport Operators

In the comprehensive reappraisal of transport policy which took place in 1966/67 urban transport problems were described as the most important and difficult [3]. In particular the need was seen to bring public transport in urban areas within the framework of comprehensive urban transport planning.

Two steps to achieve this were taken in the 1968 Transport Act. Firstly, in four large conurbations (Merseyside, West Midlands, Greater Manchester and Tyne and Wear) the Act created Passenger Transport Authorities and Executives with the object of co-ordinating local passenger transport and ultimately, with the help of local government reorganisation, of co-ordinating the activities of general urban planning and public transport operation at the local level in the metropolitan areas. Secondly, the Act contained some financial reforms to eliminate the bias against public transport in local transport finance. Thus capital investments in public transport became eligible for capital grant.

These changes were supplemented by the development in local government organisation and finance in the early seventies. The 1972 Local Government Act aimed at creating local government units of appropriate size and competence for the functions assigned to them. Transport planning became a county function both in the metropolitan areas and in the shires. The 1974 Local Government Finance Act required these authorities to submit annual Transport Policies and Programmes (TPPs) on which some block grant (Transport Supplementary Grant) would be paid. The aim of this was to further encourage comprehensiveness in transport planning at the local level and to increase the discretion of local authorities to shift expenditure between different heads. In principle, revenue support for public transport became a recognised instrument of local transport planning.

There remains, however, an institutional anomaly concerning the method of achieving this integration of public transport within the comprehensive framework. In the metropolitan counties, the planning authority acquired responsibility as the Passenger Transport Authority. That seemed to have ensured proper co-ordination. But complete integration has not taken place for two reasons. Firstly, the P.T.E.s in four of the six metropolitan areas existed before the creation of their planning authorities and had already developed their own organisation and modes of operation. Secondly, the P.T.E.s had some independent powers and responsibilities assigned to them in the 1968 Act, which were not repealed by subsequent legislation. However hard the counties have tried to swallow them, the P.T.E.s have proudly retained their separate identity.

In the shire counties the situation is different. For the most part bus services are provided by the National Bus Company, a nationalised undertaking with a financial obligation to break even, or by municipal companies which are now the responsibility of the lower tier in local government, the district. The 1972 Act created the role of public transport co-ordinator in the shire counties, while the 1978 Transport Act requires each county to produce an annual Public Transport Plan which would further ensure co-ordination of public and private transport planning in the shires.

Though the institutional arrangements differ, the problem is the same for metropolitan and shire counties. Both have to find a way of ensuring that their general transport planning strategies are converted efficiently into strategies of public transport service and prices. The 1976 Consultative Document [6] thus argued that one
of the most pressing needs is to involve locally elected members more widely with the running of the bus industry. The arrangements for achieving this link between the political and operational elements have left something to be desired.

In the shires, the National Bus Company has argued that arrangements for revenue support are neither sufficiently directive nor sufficiently secure to permit sensible planning. The new requirement to produce a Public Transport Plan forces the counties to face the issue publicly, but the absence of any guidelines regulating the basis for support makes it very easy for them to misallocate and procrastinate on the level of support negotiation. In the metropolitan counties some of the P.T.E.s also find themselves in great difficulty in management. In the medium and short term there are three possible dimensions in which to respond to a worsening financial position: these are fares, subsidies and levels of service. In the absence of any obvious avenues of improvement in productivity, this exhausts the possibilities. But the local authority, subject to government influence, determines the level of subsidy; the Traffic Commissioner determines the level of fares; and, increasingly, the local authority, the Traffic Commissioner and the unions all attempt to determine the level of services to be provided. The operator is left with little room for management action. The outcome depends on which of the parties at any point in time is least able to maintain its position, and that outcome need not be particularly rational nor conducive to sensible planning and management.

3. THE INSTITUTIONAL ALTERNATIVES

Though the institutional conflicts we have described differ in content and origin, they have one important common element. In each case two or more separate administrations, with different responsibilities and objectives, are attempting to make or influence the same decisions.

The consequences of these institutional problems are substantial. Where, as a result, operational objectives are unclear there is an immediate loss in internal efficiency. The absence of any clear understanding of objectives is also bound to have a debilitating effect on long-term planning, which will also be made less effective by the absence of any consistent direction. There is also likely to be a waste of resources by virtue of the duplication of effort resulting from the overlapping of institutional interests. At worst the duplication will lead to excessive bureaucracy for both parties, which will pay more attention to the way in which they relate to each other than to the pursuit of their primary function. Some or all of these elements are clearly visible in each of the conflicts we have discussed.

Of course, the problems are neither special to the transport sector nor novel in that sector. But, because of the very complex institutions of the sector, it is difficult to identify appropriate remedies. It is not even easy to define the characteristics which we are looking for in an ideal arrangement. But three criteria seem to be implicit in our discussion of the problems chosen.

Firstly, the formal allocation of responsibility must be clear and consistent. That is to say, all the parties must know what their powers and duties are, and these allocations must be mutually compatible. Secondly, there should be economy in adminis-
tration, with as little duplication as possible. Thirdly, the administrative units must be appropriate to the powers and duties assigned to them in order to secure efficiency in performance.

There appear to be three different classes of institutional arrangements within which this kind of complex overlapping of powers and interests can be managed. They are

(i) Unitary structure with delegation;
(ii) Federal structure;
(iii) Institutionally fragmented structure.

The unitary structure presumes the existence of an agreed primary objective or criterion from which actions can be deduced. Delegation is required for operational purposes, but the discretion allowed to lower levels in the hierarchy must be consistent with the fundamental objective. Within this kind of structure it is possible to allow for a variety of patterns of action in policy implementation so long as the priority of central direction is clear in those matters relating to the fundamental objective. When local objectives are set they must be consistent with, and contribute to, the achievement of the overall objective.

Federal structures have tended to be adopted in circumstances where originally separate sovereign bodies have recognised that for some purposes there are great advantages to be gained by acting together. They would seem to be appropriate where the intent and objectives of the parties diverge in some matters and coincide in others. Powers are normally assigned to the federal institutions where there is both a coincidence of objective and a need, for the sake of efficient performance, for uniformity between instruments adopted by the members of the federation. Powers are retained by members where there is no agreement between them. Matters on which there is no conflict, but which might equally be pursued at member party or federation level, might fall to either level of administration. Because of the implicit sovereignty of each of the members, it is common for federal structures to be founded in a written constitution which assigns specific powers and duties to the federal government, leaving all residual powers to the members. The alternative which specifies members’ powers and leaves the residue to the federation is less common, and probably more problematical.

The institutionally fragmented structure may be adopted where it is recognised that community of interest does not exist and where the resolution of conflicts through a process of negotiation and compromise is of the essence. To some extent all federal systems operate this way, with a continuing, organised forum within which intergovernmental agreements can be reached. Within a national state the equivalent situation is that sectoral issues which may appear to be of a technical kind are resolved politically because there is no fundamental agreement on objectives to allow the formulation of operable criteria for decision making at a technical level. But even where this occurs it is probably better to recognise the fact, and to endow the institutions involved with the appropriate powers and responsibilities for the process to converge to compromise rather than diverge to confrontation.

In this brief review of the alternative basic structures of administration four conditions appeared to be particularly relevant to the choice of the most appropriate structure:
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(i) Sovereignty—the ultimate right to decide—is not easily foregone. Hence, where there is overlap of institutions or interests, primacy usually rests with, and is rigorously defended by, its historical holder. If other forces do not intervene it is usually necessary for the allocation of powers to reflect this historical primacy.

(ii) Efficiency in operation, however, is a powerful reason for transferring or partially surrendering this sovereignty. The institutional directions in which this search for efficiency leads will depend very much on the kind of sector of policy concerned. Efficiency is just as important as a justification for delegation in unitary structures as for separation of powers in federal structures.

(iii) Complexity of objectives is also very relevant. The more complex the objectives the more difficult it is likely to be to achieve transfer of responsibilities, either upward in a federal arrangement or downward by delegation.

(iv) Proliferation of interests may well be the reason for very complex sets of objectives being sought. But it also has an influence of its own. The greater the proliferation of interests the less acceptable would any tidy, logically tightly structured, organisation appear to be. Where there is an obvious proliferation of interests, but no historical exercise of sovereignty, it is likely that the institutional arrangements sought may be those appropriate to the exercise of countervailing power, rather than dominant power.

This completes our groundwork. We have suggested some criteria for selecting an administrative structure, listed broad classes of alternative administrative structures, and examined some conditions which appear particularly relevant to the choice between them. Now we must return to our problem of organisation of the transport sector and explore the implications of these thoughts for policy.

4. THE SOLUTIONS

E.E.C. and U.K.

Dominating every consideration of the relationship between E.E.C. and a member state must be the issue of sovereignty. Hence, in terms of our administrative models, we are led immediately to examine the federal solution.

Curiously, the Treaty of Rome lacks any clear division of functions between the Community institutions and those of member states. Article 2 of the Treaty, having set out the objectives of the Community in very general terms, specifies two means whereby these objectives may be achieved. The first is the establishment of a common market; the second the progressive approximation of the economic policies of the member states. A similar distinction in means is found in the transport chapter of the treaty, which contains, on the one hand, specific injunctions against the kinds of discrimination which would inhibit the development of a common market, and, on the other, more general, permissive powers to develop a more comprehensive common transport policy.

On this basis the Commission has been encouraged to try to obtain a set of common rules for the structuring and operation of both international and domestic transport
within the Community. The disappointments of the last fifteen years have already led
the Commission to withdraw from some areas of approximation of member states' policies (e.g. road haulage licensing) and hence to accept a de facto reservation of some matters by members states [4]. The weakness of the Commission’s strategy has thus been that it has tried to define an ideal transport policy for a European state, almost as though national policies did not exist. In ignoring the importance of the issue of sovereignty, it has counterproductively slowed down the development of an effective common policy in those areas where one is possible.

If one were to seek a federal type of solution, what remains is the problem of defining a basis for the division of functions between the Community policy and those of the member states. A number of alternative bases might be suggested.

(i) **Principle/Detail**

The Community might be assigned the task of determining agreed general principles for transport policy, leaving to member states the details of regulation and implementation. The task of the Commission would be to appraise the consistency of transport policy in the member states with the agreed principles.

(ii) **National/International**

Community interest might be restricted to international movements within E.E.C., leaving the regulation and control of domestic traffics reserved exclusively to member states.

(iii) **Infrastructure/Operations**

Community policy might be restricted to infrastructure policies; these are at present the direct executive responsibility of central governments in most member states, and they are a powerful lever in management of the whole sector. The much more complex and administratively difficult problem of regulating the network of many thousands of operators would be left to the more “local” level.

(iv) **Discriminatory action**

The Community might restrict itself solely to the control of discriminatory action in the transport sector, not attempting any approximation of national policies unless it could be justified on this ground.

There are problems with each of these distinctions. Formulating “principles” which can be generally agreed but which are also operationally meaningful is a difficult task; this division of functions might well rob the Community policy of absolutely all content. For the Community to concern itself only with international traffic would not preclude the use by member states of domestic transport policies (for example, a discriminating subsidy) which indirectly, but effectively, militate against the development of a common market. To concentrate on Community control of infrastructure policy would fly in the face of the clear belief of member states that national investment programmes are one clear area of national sovereignty. Restriction of the Community to concern with conscious national discrimination, without any framework of common rules on infrastructure, pricing and operation, would call for monitoring and interpretation of a very difficult kind.

It might therefore be best to seek a division of functions deriving directly from the statement of objectives contained in Article 2 of the Treaty of Rome. The Community’s transport policy functions would be as follows:
(a) Establishment of the common market:
   (i) To identify specific impediments to the establishment of the common market.
   (ii) To propose regulations to eliminate those impediments.

(b) Progressive approximation of the economic policies of the member states:
   (i) To identify the main dimensions of transport policy in the member states.
   (ii) To seek, by consultation with the member states, acceptable general principles in each of these dimensions.
   (iii) To promulgate those measures which have to be entirely common, or can only be promulgated centrally, in order to implement the general principles.
   (iv) To appraise, and organise consultation on, general transport measures in the member countries in respect of their consistency with the agreed general principles.

The adoption of such a policy would substantially change the balance of the Commission's activity. The concern with the elimination of conscious national discrimination would remain, and so would its interest in securing the greatest possible freedom for international movements. Its attempt to secure productive consultation on infrastructure programmes and aids would be extended to a much wider consultation on all national policy proposals. But many of the more detailed efforts to obtain international standardisation would not be pursued unless it could be demonstrated that they were necessary in order to eliminate the significant obstacles to the common market in goods and services, or were required to be standardised by the common wish of the member states. It is doubtful whether any common policy on the control of terms and conditions of operation in the domestic markets, or the present infrastructure pricing proposals, could pass that test.

Overall, the emphasis of the Commission would be shifted from comprehensive policy formulation towards the roles of steering and stimulating the policy-making functions of the Council and the member states, administering those regulations which do exist, and examining the consistency of national transport policies with the agreed principles. In policy formulation it would simply be trying to identify areas where, for efficiency reasons, member states wanted common rules, rather than trying to persuade them of the desirability of some imposed common structure. The common transport policy would be a smaller one, but would certainly be more credible and realistic than at present.

**Government and the Nationalised Industries**

There is little dispute that the nationalised industries are, and should be, subservient to the objectives of the central government. The dispute arises on the way in which that relationship should be handled, and in particular on the extent to which government should delegate its powers, voluntarily, to the boards of management of the industries.

This is, of course, a general problem applying to all the nationalised industries. Throughout the post-war period it has been determined by a combination of the provisions of the founding statutes of the industries and a series of White Papers on
the Commercial and Financial Obligations of the Nationalised Industries. The underlying principle in all these sources of guidance (particularly the 1967 White Paper) is that central government shall set financial targets and/or principles for pricing and investment decisions and that thereafter the Boards shall have the freedom, and the responsibility, to pursue these objectives. On several occasions the Select Committee on Nationalised Industries has complained that Ministers were intervening in ways not compatible with those principles. But governments have still not been led to abandon the basic philosophy of the "arm's-length" relationship. The most recent White Paper [11] is a further reiteration of the same approach.

British Rail has always been something of an exception to the rule. For nearly twenty-five years it has consistently failed to meet its financial objectives. For most of that time there has been a tacit acceptance, ex post, that the kind of actions which would have been necessary to meet the objectives were not politically feasible. In 1974 this was finally acknowledged in the Public Service Obligation settlement, the cost of which was much closer involvement by central government in such day-to-day matters as approval of the timetable, as well as approval of decisions affecting the size of the network.

The 1974 settlement has not proved lasting. The 1976 Consultative Document and the 1977 White Paper were largely stimulated by the re-emergence of the problem of reconciling the level of public transport services required with the level of support considered possible. The White Paper states the broad financial target as "to contain, and then to reduce, subsidy to the revenue account for the operation of passenger services" and "to eliminate any continuing requirement beyond this year for support to the other railway business". But, with freight and part of the passenger service costed on an avoidable cost basis, the achievement of these objectives still does not amount to a simple commercial solution. There remains as the Public Service Obligation objective a residual of unallocated joint costs, apparently negotiable between British Rail and the Ministry. The absence of any criterion for determining this amount, or any security of, or criterion for, future investment funding, nullifies the apparent clarity of the financial target. The quiet response which British Rail has given to this solution probably owes more to the fact that BR now has a relatively newly appointed Chairman, and any public dissent would appear unseemly, than to a recognition that a manageable long-term arrangement has been achieved.

It is clear that our criterion of a clear and consistent allocation of functions and responsibility is not met. But there are two diametrically opposed directions in which the arrangements might be changed to satisfy this end. On the one hand one might explicitly make the setting of the size of the network and the level of passenger service, and investment planning, a government function, leaving to the railway management the functions of setting rail rates, of promoting new services and of operating competitively in the freight market. If a financial target were also sought, rail management would basically be responsible for operating in the dimension of price discrimination or cost reduction. Its progress on these scores could be monitored by indications of price and productivity. The division of functions between Minister and Board would be manageable; but, of course, this approach gives no guarantee that any more "correct" decisions would be made in those dimensions which had been explicitly politicised.
The alternative kind of solution would be for central government to attempt to return to a much more distant relationship with BR, specifying only a global financial obligation and giving specific subsidies for any interventions which it makes in BR "commercial" decisions. The problem is that, given the importance of joint costs in rail transport, the increments of activity in which it would be necessary to work might be very large indeed. So this sort of solution might eventually reduce to a small number of Public Service Obligation calculations and negotiations. This kind of solution, to be acceptable, would need to be supplemented by some minimum period of renegotiation of P.S.O. on some kind of transparent basis.

The essential element in the rail transport issue is thus the high degree of jointness of costs. This means that decisions are very "lumpy" and that specific subsidies may need to be arranged on substantial sections of the system. Any such subsidies would need to be based on a thorough cost-benefit analysis of the sector concerned. Deciding whether such subventions as would be necessary are justifiable is clearly a matter for government. The institutional challenge is to provide a framework within which these decisions can be made efficiently, openly and unambiguously.

**Local Government/Central Government**

The most notable aspect of the conflict between central government and some local authorities on local transport planning is that it is of very recent origin. Before local government reorganisation, and the consequential revised arrangements for local transport planning, responsibilities were clear. Major capital projects in roads, and in some types of public transport infrastructure, ranked for grant; proposal was the responsibility of the local authority, disposal that of central government. Other expenditures were the responsibility of local government; the element of rate support grant nominally related to transport facilities carried with it no hypothecation and no specific monitoring requirements.

The anomaly which has given rise to conflict in the new system is the gulf between the declared objectives of the new scheme and the way in which it has been implemented. The declared purpose was to encourage comprehensiveness in transport planning and to allow local plans to be tailored to local perception of objectives, even if this involved substantially different balances between capital and current expenditure, or between private and public transport, from those of traditional programmes. In the event, not only have total expenditures been severely constrained, but local authorities have been forced to accept central government directives on levels of expenditure on road maintenance, capital expenditure on roads, and revenue support for public transport.

The issue may thus be restated in terms of our institutional models. The words of the government circular which spell out the desired autonomy of the local authorities imply an essentially federal relationship [12]. But the realities of financial control very clearly indicate that that interpretation is quite unrealistic. The fundamental problem is that considerations of economic efficiency, environmental acceptability and equity have different dimensions, and it has not been possible to reduce project or programme selection to a simple and unique social welfare function. If such a resolution were possible there could be no conflict between central and local government objectives, and local autonomy would be unnecessary. It is the very absence of any single measure welfare criterion, and the importance of value judgements on
distribution, that make the procedures and powers assigned to various affected or responsible parties a matter of crucial significance.

One consideration dominates the search for acceptable arrangements. Central government will certainly insist that it retains control over any spatial redistribution of welfare implicit in the system of local transport finance. There must be no more "Clay Crosses". Whether funds be allocated on a project, programme, or problem basis, it is thus central government criteria which must determine that allocation. Only if local transport planning were completely financed from local sources could this responsibility be abrogated. Both the inefficiency and the political unacceptability of such a radical reform of fiscal structure as that would imply led to its being rejected by the Layfield Committee on Local Government Finance. It is unlikely that any political party would resurrect such a proposal.

So we return to the quandary which led to the introduction of the new regime of finance for local transport in 1974. How do you simultaneously retain central government control over the extent of redistribution finances and stimulate comprehensiveness, flexibility and initiative in local transport planning? The answer must lie in the criteria which local government are asked to satisfy in order to obtain transport supplementary grant, and in the level of the "threshold" on which T.S.G. is calculated. For the system to be consistent and workable it is clearly necessary for central government to define, clearly and unambiguously, the criterion on which funding is to be determined. The local authorities would then be able to respond intelligibly to those inducements.

**Local Government and Public Transport Operators**

In terms of our institutional paradigm it is clear that there must be a hierarchical relationship between the general planning objectives of the planning authorities and the operational objectives of public transport. The conflict seems to arise because, at present, this relationship is not achieved either by institutional integration or by appropriately determined operational objectives for public transport.

This suggests two radically different types of solution. On the institutional side we could seek further integration between local authority transport planning and public transport operation. The first step towards this might be the creation of Passenger Transport Executives for all counties, ultimately to become departments of local government. This would ensure a very direct translation of general objectives into public transport objectives. The weakness of the solution might lie in a loss of operational efficiency resulting from shorter term, politically directed, and fluctuating intervention.

At the other extreme, attention has been concentrated on the formulation of corporate objectives for independent transport operators to ensure "correct" responses to local planning objectives without the loss of independence and operational efficiency which complete integration might imply. A whole school of such objectives can be investigated [13]; the best known is the London Transport objective of maximising passenger miles subject to a budgetary constraint [14]. Even more disaggregated solutions, attempting to harness the adaptive ingenuity of small-scale private enterprises, have been suggested for the U.K. [15], and have appeared to work effectively even in very large cities elsewhere in the world.

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In the *shire counties* the currently preferred solution appears to be of the second kind. Public transport is provided by the National Bus Company, by municipal undertakings managed by the districts, or, occasionally, by smaller independent operators. The need to give these operators clear objectives is being met by the requirement for the *shire counties* to publish a county public transport plan to be rolled forward annually with the Transport Policy and Programme. Financial provision is to be sought by requiring councils to enter into binding contracts for those services requiring support, with break clauses providing minimum periods of notice for changes in support.

The curiosity in this arrangement is the continuing role of Traffic Commissioners. Traditionally their office has performed the function of attempting to maintain network density and levels of service while keeping fares at "reasonable" levels. This they have pursued, with considerable success, by building and protecting a framework of cross-subsidy within the operations of the large bus companies. Competition, whether it be from new operators offering traditional bus services, or from novel types of bus services, has been resisted; as a *quid pro quo* for this protection the established operators have allowed themselves to be kept at a very low level of profit by the maintenance of a proportion of plainly unremunerative services.

The origins of this arrangement lay in a period when the responsibility for the network and level of bus services was implicitly accepted by central government. The Traffic Commissioner was an instrument in the process of delegation of responsibility to institutionally independent operators. But this situation has changed in a number of ways. Declining demand has made it increasingly difficult for the Traffic Commissioner to hold the line with the powers at his disposal. Local authorities have taken over from central government the responsibility of deciding the desirable minimum levels of local public transport services, and have the sole right and responsibility to subsidise those services. Moreover, there are signs of public recognition of the potential and need for new and more flexible forms of public transport which the Traffic Commissioners have only occasionally permitted or encouraged (as for example in the case of postal buses).

To some extent this has been met by a modification of the licensing system. The Minibus Act 1977 allows small vehicles to be used as passenger carriers by schools and voluntary bodies on the basis of a simplified system of permits. The Transport Act 1978 revised the system of public service vehicle drivers' licences for community buses and removed—in certain circumstances and with local authority approval—the prescription on payment for lifts in private cars. Moreover, the Traffic Commissioners are now required to pay regard, in the exercise of their licensing functions, to the local authority Public Transport Plan. In effect, a good deal of the power of the Traffic Commissioner has passed to the local authority.

This inevitably raises the question whether there is any useful function left for the Traffic Commissioner. The 1977 White Paper considered, but rejected, the case for further relaxation of the controls, arguing: "When the problem is that the main bus operators are carrying fewer and fewer passengers it is just not sensible to allow competition to move in and cream off a few more". The weaknesses of the argument are twofold. Firstly, it presupposes that the maintenance of the "desired" network is effectively the result of the Traffic Commissioners' protection of the established operators rather than of the subsidy power of the local authority. Secondly, even if
control on entry is an important instrument, it denies the possibility of using restrictive franchise more directly and in a more innovative fashion by giving local authorities complete responsibility as licensing authorities.

There remain two important arguments for retaining a liaising function in the Traffic Commissioner's office, rather than transferring it to the local authority. First, the bus operators are suspicious that some of the more conservative counties would use the opportunity to reduce further their commitment to public transport. Second, some users are suspicious that the elimination of the Traffic Commissioner would eliminate the last important protection of their interests in the matters of fares and conditions of service. Both arguments reduce to the suspicion that some elected local authorities will not protect minority interests among the electorate. While that may be true, it really represents a conflict between national and local government which might best be handled, if national government considers it necessary, through its financial leverage rather than through a confusing, and predominantly redundant, quasi-autonomous institution.

In the Metropolitan counties the independent role of the Traffic Commissioner is equally difficult to justify. But there is also the added dimension of the curious statutory position of the P.T.E.s, which are totally dependent on the county for financial purposes but which, by the historical accident that they existed before the creation of the new metropolitan counties, have a certain independence enshrined in statute.

In logical terms this residue of countervailing power is difficult to justify. There is no reason why the transport operator, as such, should be viewed as an interest group requiring the independence of an institutionally disaggregate structure. The problem of determining criteria for provision of bus services remains, whether this is done explicitly in order to give criteria to a delegate function or implicitly in the detailed direction of bus services at the local political level. The case for separation rests purely on ground of the efficiency of delegation to an experienced, specialist agency. To deny the responsible local authority the right to choose the degree and terms of delegation is a concession to a quite different, American-style, model of institutional autonomy, quite inappropriate to the rest of the framework within which urban public transport is provided.

5. CONCLUSION

One should not expect the problems of political economy to be easy. Nor perhaps should one expect them to permit institutional solutions of tidy logic. But, as Munby himself pointed out, that is no excuse for the complete absence of logic in institutional arrangements or in operational criteria. This essay has therefore built on two propositions, accepted as axiomatic:

(i) Institutional arrangements should sensibly reflect political reality; in particular, no organisation should be wasting its time attempting to act in areas where it cannot, by virtue of its powers, have any impact.
(ii) The objectives of institutions within the transport sector should also reflect this reality; in particular, the operational objectives for different bodies should be mutually consistent and should be logically related to the high-level objectives of the superior authority.
INSTITUTIONS AND OBJECTIVES IN TRANSPORT POLICY

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Our four studies have examined the common problem of two or more separate administrations with different responsibilities and objectives, attempting to make or influence the same decisions. In each case we have seen that there is an ultimate seat of power which can, and frequently does, determine the outcome when it wishes. In each case, however, the ultimate authority has been willing to delegate or abrogate large areas of responsibility to another body, usually for reasons of efficiency. The conflicts have arisen because the formal institutions and objectives do not properly reflect these ultimate relationships or the properly accepted boundaries to delegation or abrogation.

The lesson for policy makers is clear but unpalatable. The difficult problem of reconciling efficiency with equity in the transport sector in a mixed economy seems inevitably to be one which requires continual reappraisal by the sovereign political authority. Delegation or abrogation of some powers may help to secure internal efficiency in the modes of transport, but cannot make the fundamental distributional problems disappear. Financial problems for public transport or for local government units are not necessarily, or even usually, evidence of declining operational efficiency in the operating agency. More probably they simply reflect the need for government to reappraise its distributional judgements. Institutional tinkering in such circumstances may camouflage but will not solve. Help can come only from a more explicit, and more realistic, recognition of the nature of the problem, and also of the ultimate realities of political power.

REFERENCES