Keeping a balance

By HENRY LAW

TRANSPORT issues have attracted a great deal of public attention in Britain over the past few months. Road congestion is constantly getting worse. Anyone who travels by train will be aware that the system is being pared to the bone: trains overcrowded, delayed or cancelled through equipment failures, staff shortages or trade union disputes, and spartan new rolling stock with cramped seating designed to strict accountancy standards.

The controversy over the Channel Tunnel has dragged on, and the enquiries following the King's Cross and Clapham rail disasters have revealed that both the London Underground and British Rail are suffering from serious under-funding and shortcomings in management. The Government is talking of bringing forward its proposals for privatisation.

Since the start of 1989, the Department of Transport has issued no less than four documents on transport: *Transport in London* and the *Central London Rail Study* set out official views on transport in London. *Roads for Prosperity* announced a major expansion in the motorway construction programme, and *New Roads by New Means* proposed the private finance of new roads.

At a local level, proposals for tram and trolleybus systems are being put forward in towns in many parts of Britain as a possible cure for traffic congestion.

Government policy shows a definite pattern: a bias in favour of roads rather than railways, and reluctance to spend public money on any form of infrastructure or to subsidise public transport. Nevertheless, the Government seems to accept that public transport is the only way of bringing large numbers of workers into the major cities.

This position is summarised in *Transport in London*, which states that, "the cost of running services, of renewing their infrastructure and of investing in new facilities should generally be borne by those who use and benefit from the system", although "there may be justification for public grants where specific external benefits can be identified which cannot be recovered through the charging mechanism.

Accordingly, grants to rail should be available in respect of particular environmental objectives, such as investments to relieve road congestion...there are also specific cases where a government grant may be one way to start a desirable development, but it will then be appropriate for the developer to make a contribution reflecting the gain to him."

BEHIND this policy lies a philosophy which claims to allow the maximum choice for all users: let the user decide how to travel or how to send his goods; market forces will create the most efficient transport system. But there are major objections to the Government's line of argument.

• Setting fares at the highest possible levels will discourage motorists from transferring to public transport, and the benefits of the investment will not be fully realised.

• Different modes of transport give rise to different external costs. Heavy goods vehicles, for instance, are responsible for a disproportionate number of fatal road accidents; large trucks and heavy flows of private cars give rise to heavy environmental damage in the form of noise, pollution, vibration, and damage to buildings, as well as wear and tear on the roads themselves. Rail transport, by contrast, gives rise to far less in the way of environmental costs of this kind.

• Choices of transport mode are inevitably distorted by the tax system. Company-car tax concessions encourage the ownership of cars, whilst taxes associated with the purchase and ownership of cars encourage people to maximise their use of them. Taxes on vehicle fuel have the opposite effect. Railways and public road transport, being relatively labour-intensive, are penalised by labour-related taxes such as employers' and employees' National Insurance contributions and PAYE Income Tax.

• Decisions relating to public investment in road and rail are judged by completely different criteria. Road investment is assessed by cost/benefit measurements, which takes into account factors such as "time saved", and attempts to put a price tag on them. Rail investment, on the other hand, is assessed in terms of increase in traffic receipts and savings in operating costs, and expected to yield an 8% return on capital. External benefits due to rail investment are ignored, even though it is known that improvement of train services following electrification has greatly enhanced land values in areas which have benefitted.

TAX THE COMMUTING LANDOWNERS


• Walter Eltis

WALTER ELTIS, the Director General of Britain's National Economic Development Office, said in his review of the financing of mass transit systems:

"There is one class of beneficiaries who have so far escaped paying any significant share: the landowners.

"The provision of an enhanced transport infrastructure in some areas, such as the M25 and a better train service to East Anglia, have directly increased property values.

"It has placed these areas within commuting distance of London and thus made them alternative and attractive residential sites.

"The exodus of people to these outer regions bids up property values but the rates [property tax] that these property owners pay — soon to be phased out — do not reflect the higher value.

"Taxing land via increases in realised site values rather than when it is used is another way in which users, or beneficiaries, can contribute to the cost of the transport infrastructure.

"Given that land cannot be expanded or withdrawn except in a very limited sense, it is very difficult for landowners to pass taxes such as the present capital gains tax (in so far as it applies to land disposals) on to users.

"Increasing the marginal cost of private motoring, and taxing increases in the realised value of land at higher rates, are possible measures which could enhance the finance that central government could devote to the extra capital investment in the infrastructure which will undoubtedly be needed if congestion is not to become even more severe in the early decades of the 21st century than it is today".

• Road investment has, up to now, been paid for out of public funds, whereas rail investment is funded from British Rail's own resources.

• If property owners were to contribute to the cost of infrastructure, a mechanism would have to be devised for collecting the money, since none exists at the moment. It would also be virtually impossible to devise a formula which ensured that those contributions related to the benefits received, which are widely diffused and would not appear until the trains started running; it would certainly be unreasonable to ask property owners for an advance contribution.

OVERALL, these factors give rise to a bias against public transport in general, and against rail transport in particular. But there is clearly a need for a balanced strategy in which all modes of transport have their part to play.

In particular, it is essential to get off the road transport treadmill; the more that transport policy is committed to motorways, the more everyone is dependent on road transport. This is because motorways encourage a diffused pattern of development which can only be serviced by private transport. Railways can then have no role as carriers either of freight or passengers.

Worse still, this kind of diffusion will ultimately create the nightmare which is dreaded by planners and public: a conurbation stretching from the North Sea to the Bristol Channel, and from the South Coast to Birmingham.

To put road and rail investment on a comparable basis, it would be necessary, firstly, to devise a method of measuring the external benefits generated by rail investment, and secondly, to intervene, if necessary, by subsiding those modes of transport which inflict least damage on the environment.

The existence of a tax on land values would play an important part in the shaping of a balanced transport policy. All of the benefits of investment in transport infrastructure are ultimately reflected in land values. With a tax on the annual rental value of land, these effects would automatically be measured in the valuation process. Valuable advantages would follow:

• With land being valued regularly and systematically, the external benefits of all transport investment would automatically be measured. Consequently, rail investment could be assessed on the same basis as other infrastructure investment.

• In considering proposals for future investment, the existence of comprehensive data on land values would make it possible to forecast the economic benefits with more accuracy than at present.

• The tax would provide a fair and straightforward way of providing for property owners to pay for improvements to the infrastructure, since the payments would be related to benefits already received.

• Capital investment by the government would generate a direct and measureable return, as enhanced land values would increase the tax base and give rise to higher revenue yields.

• A tax on the annual rental value of land would act as an effective clawback mechanism; at present, the increases in land value arising from transport investment and subsidies are a windfall gain to landowners. The tax would capture for the community a proportion of all enhancements to land value arising from investment in transport infrastructure.