

The Political Economy of Urban Transport Reform

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Abstract:

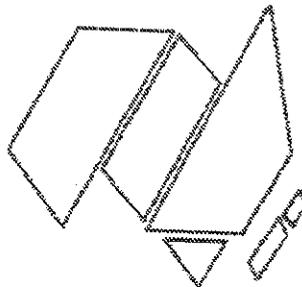
Economists increasingly recognise that demonstrating the gains to be made from market reform activities such as urban transport is only a part of their task as intellectuals. They must also analyse the political behaviour of those who would win or lose from market reform in order to understand the process and likelihood of reform. This second task involves a study of the political expression of self-interest in which very often, a well-organised minority of the population, each of whom stands to lose by a relatively large amount from reform, prevails over the less well-organised majority of the population, each of whom would win by a relatively small amount from reform.

The rational private interest model goes a long way in explaining the politics of reform and has considerable predictive power. This paper adds to the conventional model an analysis of the unequal capacity of individuals to see and pursue their own interests. Simply, people are often foolish. Recognition of this removes some logical problems from the rational model. The complete model is a better description of the political system and makes clearer why substantial market reform is very difficult to introduce. Rather, the political process is more likely to see relatively minor reforms or worse still policies that substantially worsen the problem.

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1 Introduction

Two years ago this month I presented a seminar paper at my university on reforming ACTION, the government-run bus service in Canberra. Since then, I have found myself writing and talking quite a lot about urban transport in Canberra. This work will culminate in a monograph on the subject to be released later this year called *Hard Road to the Market: an exercise in political economy*. *Hard Road* has two key points for the reader: how urban transport in Canberra can be significantly improved through market reform, and why such reform is unlikely to occur. I believe I have clearly established the first point in my work over the past two years. A statement of this was given at last year's ATRF in Canberra, and is very briefly restated here. The second lesson of *Hard Road*, outlined in this paper, is that while urban transport in Canberra is an easily solved economic problem, it is an intractable political problem.

2 An urban transport problem

Canberra is a spacious city of 300,000 people. Its population density, at 10 people per hectare, is much the same as for Perth and Brisbane but lower than for Adelaide (13), Melbourne (16) and Sydney (18). (Newman and Kenworthy, p ii) Owing to its position as the nation's capital, Canberra has been richly endowed by the nation with high quality public services and infrastructure. The dominance of public sector employment has given it the highest income per head and household in Australia. Average weekly earnings are 11% higher in Canberra than in the rest of Australia. Average household income per household member is 25% higher (Australian Bureau of Statistics, 1992).

In such a city, one expects that car use will be high, which it is, with at least 95 per cent of all passenger trips in Canberra being by private car. ACTION accounts for perhaps four of the five per cent of passenger traffic moved by public transport. Private buses are limited to specified services such as that between Canberra and Queanbeyan. Private taxis are restricted in number (at present, about 180) by a licence plate system. At the most recent auction of five licences, each licence fetched about \$180,000. Taxis provide approximately 2.6 million taxi journeys a year. The other forms of public transport such as chauffeured hire cars and coaches are very small.

The starting point for my discussion of urban transport in Canberra has always been ACTION because it is of so little importance, so ineffectual and so costly. These are the facts of ACTION's financial, environmental, distributional and historical performance, taken from official sources.

The total cost of ACTION in 1991/92 was \$90.1 million. Of this, \$14.1 million was paid directly by passengers as fares. Advertising and charter operations earned \$1.2 million. The rest of the cost of ACTION was met by public subsidy, that is, paid for by the public at large through government (see the appendix for a note on these figures). The financial burden of ACTION on Canberrans is large. The subsidy of nearly \$75 million is around \$750 per household per year or 2.5% of after-tax household income. The budgetary significance of the amount is very great. In the months leading up to the 1992-93 Budget, the shortfall facing the Labor government was estimated at \$73 million (Lamberton, 1992, p.1). The cost of ACTION per trip provided is large. If advertising and charters are excluded, so that only that part of total costs which is

directly for public transport is included, the average cost per boarding (not per trip) is \$3.62, giving an average cost per trip comparable to the local, highly regulated, taxis.

Given that ACTION's share of total passenger traffic is less than 4%, it necessarily will provide, at best, a very small environmental benefit. The available evidence suggests, however, that the environmental record of ACTION could be worse than small. The data indicate that fuel consumption per passenger kilometre for buses is about the same as for cars and may be slightly higher. ACTION's energy use per kilometre and per passenger kilometre is reported to have doubled for 1961 to 1989-90 (Newman and Kenworthy, p. 14). Over the same time, of course, energy use per kilometre for cars has fallen significantly. The other environmental concerns of pollution and congestion do not alter the picture. ACTION's record on fuel use is suggestive of a similar record on pollution. Regarding congestion, the effect of ACTION is limited to a few main roads during peak hour. Against this, ACTION buses often cause congestion on single lane suburban roads while the development of bus only lanes on major traffic routes diverts resources from dealing with congestion and in some places creates bottlenecks. Putting all of these influences together as best we can, the conclusion is that ACTION contributes no substantial environmental benefit to set against the financial cost, and indeed may be adding a small environmental cost to its very poor financial record.

While the environmental effects of ACTION are small and indeterminate, the distributional effects are large and bad. The chief group to benefit from ACTION's subsidy are the well-off. A recent survey of Canberra households reports 54% of work trips by bus were taken by people earning more than \$30,000 a year, that is, by people earning more than average weekly earnings in the ACT, and that 71% of total bus trips were taken by private schoolchildren (Johnston et al, 1992, p.15). As a starting point, 40% of all bus travel in Canberra is by commuters earning more than \$30,000 a year and private schoolchildren. When we start looking at the other travellers, this figure mounts. Middle class university students are not poor, nor are most holders of seniors cards (which are not means tested), nor are many of those earning less than \$30,000 a year (such as younger public servants, recently graduated from university and at the start of their careers), nor are many of the casual users outside work and school use. It is doubtful whether one fifth of users could be broadly called poor. ACTION fails on vertical and horizontal equity grounds. It does not effectively redistribute from the rich to the poor. It does not treat people in the same circumstances equally. Where ACTION is environmentally useless, it is distributionally counter-productive.

Finally, the record is getting worse. In a city with one of the fastest growing populations in the country, where car trips per head of population have increased about 25% over the last decade, total public transport usage has been stagnant at around 24 to 25 million trips a year since the mid 1980s. In the last five years, bus trips per head of population have declined from 93.1 in 1987-88 to 86.9 in 1991-92. The mission statement of ACTION is "to provide an efficient and effective public transport system for the ACT community". (ACTION, 1992a, p.7) Within this general objective are specific environmental and distributional objectives. It is impossible not to conclude that the general and specific objectives set for ACTION are not met by its performance.

3 A market solution

The proposals I have outlined in response to this appalling record have been for a quite unconstrained open market for public transport, although I have also spoken about reform which involves a larger role for government. In all I have written, I have made clear that private transport should be included in reform and that in returning the subsidy of \$75 million to Canberrans, significant allowance should be made for redistribution of income to the poor. Obviously, taxis would also be deregulated. I have provided considerable detail about what we might conservatively expect the new system to look like based on the existing private bus and taxi operations in the region, experience elsewhere, and what we know about patterns of use and price elasticities of demand. Very briefly, the larger part of the system in terms of passenger numbers - core route, commuter and school services - would change relatively little in its operations. The smaller part of the system - suburban services - would, I suspect, operate rather differently but would require only a limited response from existing and new taxi and bus operators to provide a similar level of service. Using the most conservative figures to establish commercial fares, there would be a net efficiency gain of about \$20 million, that is to say, private provision would reduce the cost of provision of the existing level of service by up to a quarter. Private provision would allow the sale of assets worth about \$100 million, which would make a significant difference to the financial state of the government in meeting future superannuation and other liabilities. The environmental effect is not great, but there would be some minor improvement in fuel efficiency in the existing low occupancy routes which characterise such a large part of ACTION's operations. Changes in the funding of roads, parking and related services, which are included in the package of reform, are likely to be more important. The main benefit, especially, in the future, is the clear establishment of a price mechanism where the costs of a travel decision are met by the individual making the decision. The ability to use this as the basis for further refinements where private and social costs diverge significantly stands in sharp contrast to the present chaotic system of cross-subsidies and indirect funding. Distributionally, there is an enormous improvement, by removing the unfair and quite arbitrary redistribution among people in similar circumstances and, very often, to the rich, and by using part of the efficiency gain to allow for a significant increase in the income of the poor of 5 to 10%.

Further, there are no substantial transitional costs. In the recent general strike by ACTION, the city barely skipped a beat. If, tomorrow, Canberrans woke up to find that ACTION had been scrapped overnight without announcement, and the \$75 million a year subsidy was returned in a general reduction in taxes and charges, the great majority would be better off. If market reform includes a clearly announced timetable allowing firms to organise themselves, continued government provision of major bus stations to promote links between private operators, and a substantial and well-directed welfare payment to the poor, the result would be better still. In all of this, given the size of the amount raised from the sale of assets, compensation to public transport providers, in particular, taxi licence plate holders and ACTION employees, is perfectly feasible.

4 A political economy problem

The advice I have given for the ACT is not necessarily the advice I would give for other cities, which may present a different urban transport problem. But my concern has been Canberra, and here there is no doubt whatsoever: a private market for public transport, with some, as it turns out, relatively minor, changes to road pricing, but significant changes to welfare provision, would be a considerable improvement on the system we have now against all of the conventional objectives set for it.

That this is so is most eloquently supported by the fact that in the two years I have discussed this no one has provided a single, substantial argument against what I have said. Rather, the criticism has been to repeat the claims about ACTION which I have shown to be incorrect. To give an example: in response to my pointing out of ACTION's poor environmental record both in absolute terms and relative to the financial and distributional costs, critics have simply repeated that ACTION is good for the environment. Not one critic has responded to the evidence or to the placing of the evidence in the context of ACTION's overall effect on the welfare of Canberrans. Most of the replies, of course, manage to include the now familiar epithet of 'economic rationalism', as if this constituted an argument. Many claim that I am against public transport. No one has provided even the beginnings of an argument that ACTION performs better than a market alternative or is worth the money.

The supporters of ACTION have not responded to my argument but have simply condemned my conclusions. There has of course been some support for change: some newspaper editorials and Opposition statements call for reform, some letters to the editor support the view that ACTION performs badly and support market provision. But there has been no change. Despite the failure of the present system to achieve any of its stated aims, the market is not being pressed strongly by any political party or lobby group as a program of reform. There are pressures at work which make it most likely that the system will stay much as it is, with prospects only for the, at best, inconsequential change of internal management review, and, at worst, the costly commitment of more money in a light rail system. Why, when the benefits from change to the market are so large and so widely spread among the ACT community, is liberal reform unlikely?

5 The rational interest model

The usual explanation offered by economists for this outcome is based on the observation that people have very different interests at stake in establishing and defending illiberal policies. In any particular case, some few people each have a lot to gain from an illiberal policy while the majority each stand to lose a much smaller amount. So, taxi operators stand to gain a considerable amount from a licensing system which keeps out or limits new entrants into the market for public transport, while taxi users each stand to lose a much smaller amount in higher taxi fares. Taxi fares make up the whole annual income of the taxi operator; they are only a small part of the annual expenditure of the taxi passenger. The different relative effects of the policy on people constitute very different levels of incentive to promote or oppose the policy. Different incentives lead to very different levels of commitment to affecting the political process on this particular policy. Those who as individuals have the most to gain or lose will go

to the greatest lengths to grab or preserve their particular rorts. They will use propaganda, appealing to the rhetoric of public interest to defend private interests. They will more diligently and effectively lobby politicians. They will spend more money. The losers, by contrast, though they greatly outnumber the winners, each have only a small loss or gain from opposing the introduction or continuation of a particular rort. How much time and money will typical taxi users devote to removing restrictions which cost them, say, \$20 each a year in higher fares? The knowledge that other losers are similarly poorly motivated to act and that the winners are well-organised and enthusiastic makes it unlikely that any individual loser will risk even a few dollars to try. Many will think that 'someone ought to do something about it'. Many will complain about high taxi fares over dinner. But few, if any, will act. Dissatisfaction with illiberal policies amounts to nothing.

It is not surprising then that, in society at large, each particular illiberal rort will be promoted and defended by well-organised and enthusiastic special interests, and opposition will be weak. In each case, redistribution of income takes place in which there is the considerable cost of government administration and private lobbying and a large reduction in welfare by changing behaviour from the best choices under the best circumstances of a free market to the best choices under the far worse circumstances of a political market. The total gains for the few winners from an illiberal policy are smaller than the total losses for the many losers, so that each rort imposes a reduction in the welfare of the society.

Multiplied many times over, these rorts make society significantly worse off, and the rational interest model goes some way to explaining why the rorts do multiply, so that society becomes a complex system of rorts. Everyone, seeing the relatively small reward to be gained from opposing the rorts of others, will direct his efforts at securing his own particular rort. Such widespread, purposeful manipulation of the political system will be reflected in the behaviour of politicians who will attempt to draw the support of as many particular interest groups as possible and, indeed, the various interest groups themselves may develop some sense of a community of interest in opposing liberal reform, fearing that a breaking down of rorting by one group will lead to pressure for reform in their own area. People might then oppose a reform which brings them immediate benefits for fear that it will set in train reforms which will eventually hurt them. People want ACTION to be made more efficient, but they fear that if this is done, there will be a snowballing of reform in which a few liberal reforms become a comprehensive liberal program. And while such a program would see a wealthier society, each of us would be concerned at the costs of change to us. In particular, we would be concerned at the risk that we might be one of those who lose out from change.

6 The insufficiency of the model

Though it says much about politics in a modern democracy, this analysis is not an entirely satisfactory answer of why particular liberal reforms are so hard to achieve. In the analysis as it stands, all of us are caught up in our own pursuit of a better life and in this we find ourselves doing many illiberal things, using the system as best we can, even though we can see what we and others are doing and how we could benefit from change to a liberal economy. The model is built on rational individuals who can see

that the economy and the various parts of it are working badly but who are unwilling to act to change things, because the cost of political action to the individual in any one case exceeds the benefit, and because of the element of risk for the individual from general reform which might follow from specific reform.

Both supporting arguments are flawed. We live in a democracy, the institutional arrangements of which should overcome the disincentive to individual political action for liberal reform established by the rational interest model. If the majority know that they will gain from a liberal reform, why will there not be representatives of the people's interests to do the work which it is not profitable for each voter to do? The voter is not prepared to agitate for such a reform but why would he be unresponsive to a party seeking his vote? Listening to the offers of different parties at election time and casting a vote, which is compulsory throughout Australia, is a negligible cost compared to the gains to be had. There is a clear reason why we do not often see mass action by enthusiastic individuals against a particular port, but there is no clear reason why we do not see a knowledgeable majority voting for a liberal reform or why the incentive of being elected is insufficient to ensure that at least one major party will offer us this reform or perhaps a limited package of liberal reforms to secure the votes of this knowledgeable majority who lose from the present system.

The matter of risk is also less than convincing. Even a quite comprehensive program of liberal reform of ACT government would not put the majority of voters at risk. But more to the point the same potential for an effective offer from rational and self-interested politicians would seem to exist as in the previous paragraph. The gains are so great from reforming ACTION that compensation is quite affordable. It would be only a part of the value of the assets, leaving the entire efficiency gain and part of the money realised from the sale of the assets to be distributed to the public at large. The argument on risk explains opposition to general liberal reform but not to specific reform.

These logical questions are supported by the evidence of everyday life. We do see self-interest, but we do not see large numbers of people saying that they would like liberal reform but the political system lets them down or that they would like to support liberal reform but are worried that it might one day harm their particular interests. A simple question brings the shortcomings of the rational interest model into focus. Why do we see constant propaganda from the winners from a particular port, if the rest of the population have rationally assessed the port and decided not to act? If the majority know the propaganda is nonsense, so that it achieves nothing, why is there so much of it?

The essence of any particular liberal reform is that all but a very small group gain. If people were alive to the failings of government policies and the possibilities of liberal reforms then in a democracy there would be far more pressure than we see for liberal reforms. The simple truth is that people are not so alive. Something is missing from the rational interest analysis: the role of understanding or the lack of it.

7 The want of understanding

If we identify a government policy where income is redistributed not to the poor but to particular lobby groups, and if in the course of this redistribution there is a substantial loss of welfare for society, if we are faced, in other words, with a policy that is unfair

and inefficient, and we come across someone who supports that policy, and states that it is fair and efficient, we can only conclude one of two things - he is aware of the effects of the policy or he is not. If we feel that he is aware of the effects of the policy, then we are led further to conclude that he is defending his own interests in the matter. There is a great unwillingness to put the matter bluntly in this way and yet it is necessarily true that the defenders of inefficient and unfair policies are either dishonestly self-interested or foolish.

The rational interest model deals best with the minority who benefit from bad government, although there are two things which seem to be missing. On the one hand, the model's focus on the significant differences in the interests at stake for different groups of people has tended to give an amoral air to the analysis. The model concludes that our success in redistributing income to ourselves through government is determined by the relative costs and benefits facing us in promoting a bad policy against the relative costs and benefits facing the rest of the population in opposing it. It is understandable why economists have tended to concentrate on the differences in the objective interests of individuals, but I do feel that greater understanding would follow from adding that many of the winners from bad government policies are dishonest in their pursuit of their interests. On the other hand, it is difficult to tell how consciously manipulative and dishonest the winners are. It is hard to believe that all of the people using public interest defences of policies from which they benefit are so calculating and clever in maintaining a constant facade of public-mindedness. Some beneficiaries from a bad policy are overwhelmingly transparent in their insincerity in using public interest rhetoric to prevent reform, but others speak with such sincerity that one is unable to believe that it is an act. It seems that beneficiaries from a bad policy come to believe that the policy is good for others, and that they are not consciously dishonest in their pursuit of their interests. In short, there is a considerable amount of self-deception among the winners as well as conscious deception of others.

The weaker part of the rational interest model of politics deals with the behaviour of the great majority who would gain from, to take my example, a market reform of urban transport in Canberra. As I said above, if this majority is aware of the benefits of market reform, the balance of objective interests which underlies the rational interest model is not a sufficient explanation of why reform does not occur. Some of this majority of losers from the present policy do understand the gains to be had. And to a certain extent they are relatively inactive in pressing for change, compared to the activity of those who would lose from reform, as the rational interest model would suggest. A significant part of those who would gain from market reform, however, do not support it.

There is the obvious point that some people are not very bright. Again, a sense of propriety keeps us from saying such a thing even though we know it is true. Some people are unable to see their own interests. There is a veil of ignorance about the costs and benefits of government subsidised operations like ACTION. A very common response to any suggestion of 'cashing out' a subsidy, that is, removing the subsidy and returning the money saved to the people, is that prices for the subsidised service will rise. All but the heaviest users of ACTION buses would gain from a private market and reduced government taxes and charges. Yet many people who use buses relatively infrequently will be swayed by an argument that says simply, fares will rise. We know that many people in receipt of welfare benefits through concessions overstate the value

of the concessions. We know, in short, that acquiring facts and analytical skills is hard and that it is beyond a number of people.

We know also that there are pressures which tend to push able people away from knowing the facts about poor government policies and from having the analytical skills required to make sense of these facts. While the beneficiaries from a particular policy have a clear reason to know what is going on, or to hire someone to know for them, for the majority, a particular political problem is just one of many. To understand the facts of each in order to have an informed opinion as a citizen requires far more effort than to understand one very well in order to benefit as a lobbyist. As discussed in section 5, the incentives are always pressing each of us to find our own little rort to exploit, rather than to be active in preventing the rorts of others. More generally, there is a greater return from learning and working at one's trade, whether honestly or through political means, than from active and principled citizenship. In the former, the returns on one's efforts are largely internalised; in the latter, they are largely externalised. It is reasonable to assume that this structure of incentives not only decreases our political activism but also our efforts at acquiring political knowledge and so, ultimately, our ability to think about specific political problems. This would apply not only to acquiring the facts about particular political rorts but to acquiring the analytical skills to make sense of them.

The want of understanding, which prevents an appreciation of the costs of a policy like ACTION, can arise from the inability to acquire understanding, or the unprofitability of doing so. But the problem is worse than this. Just as there seems to be a complex psychology among the winners by which they come to believe their own rhetoric, so there seems to be a complex psychology among the losers from bad government to believe in government and to fear the market. For all of the talk in the last few years of the triumph of 'economic rationalism' and the ideology of the market, the truth is that we are as a society ill-disposed to the idea of the open market. While the larger part of the defence of ACTION comes from providers and heavy users, some of the defence comes from those who cannot imagine that a private market for public transport could work. In particular, these critics exhibit very commonly held views about the ability of government services like ACTION to provide significant environmental and distributional benefits.

Some of these critics, I am sure, have a genuine concern for the poor and yet they are unmoved by the evidence which shows that most of the ACTION subsidy does not go to the poor and they do not get excited by the idea that we might dramatically improve the efficiency of public transport and use some of the money saved to dramatically increase the income of the poor. Some of these critics, I am sure, have a genuine concern for the environment, and yet they do not write angry letters to the paper asking why it is that so much money is going into a government program to so little effect. They do not ask whether there might be something to this idea of private provision. They write angry letters denouncing the criticism as 'economic rationalism'.

So the market is dismissed without evidence or argument as inefficient and unworkable for public transport in Canberra. But the view against the market sometimes seems to be even more fundamental than this. Many people seem to regard the market as immoral and unpalatable, *whether it works or not*. In regard to ACTION, many defenders of the present system seemed to be concerned to protect the correct means rather than to achieve the desired ends. The means is a comprehensive,

government owned, heavily subsidised public transport system of large, new, shiny orange buses.

The rational model of politics necessarily requires that a significant number of people who lose from a policy can be convinced to support it. A want of understanding among many of the losers is necessarily implied by the observation of winners from bad policies and of the means which they use to secure their ends. How is a particular rort defended? By deluding people with false claims of public interest. How can propaganda work unless there are gullible people? It cannot. The point may be applied to the rational supporters of reform, to strengthen the conclusion we draw from the rational interest model. Why are the people who know that something is terribly wrong with a policy unwilling to lobby for reform? It is not simply that the winners from bad policies are so enthusiastic in defending their large interests while the losers are so apathetic. It is also because a significant part of the opposition to reform comes from the losers. Self-interest remains at the heart of the economic analysis of politics, but it must be incorporated into our thinking that people differ greatly in ability, and, I would add, honesty, in pursuing their interests.

8 The prospects for change

Given a structure of incentives favouring the beneficiaries of bad policies, and a considerable lack of understanding of the costs and benefits of each policy among a significant part of the population, one expects that reports and rhetoric, not reform, will characterise politics. So with ACTION, there is now underway a study, worth \$250,000, on options for ACT public transport including light rail, and a separate 'benchmark study' into ACTION. The public is informed by a recent advertising campaign on ACTION buses that 'ACTION is good for the environment', the argument for which is a drawing of a bus, on the left, and a line of cars, on the right, beneath which are the equations: $60 \text{ people} = 1 \text{ bus}$ and $60 \text{ people} = 60 \text{ cars}$. The campaign cost \$75,000 (ACT Government (1991), pp.7 and 72). There is no serious consideration of a private market for public transport.

In a political system of strong interest groups and a largely inactive public weakened by lack of understanding of the problem and its solution, the only significant and concerted pressure for greater efficiency is the government's budget. So the ACT government has a particular problem of reduced Commonwealth government funding associated with the granting of self-government to the ACT in 1989. The ACT government has set ACTION the task of shaving \$10 million from its deficit over the next three years. This should not be thought of as reform. There is no sense in this directive that we should actually judge the performance of ACTION against the cost, and no sense that we should chose the system of urban transport which will contribute the greatest net benefit to the people of Canberra or best achieve the specific objectives which are set for ACTION.

Speaking generally, there is a budgetary limit on government, which is essentially a point where people will not accept a greater tax burden, that is to say, a greater fall in private expenditure. At some point people will act on the size and inefficiency of government. This is very often brought home to electors in a financial crisis. Governments are profligate and inefficient for a number of years and then the matter comes to a head. The essential story of government seems to be a lurching

between irresponsibility and a necessary reaction which is called responsibility, but which does not involve a permanent change in attitude.

The financial constraints on government merely place an upper limit to inefficiency, not a mechanism for reform. If the cuts are achieved, bringing government expenditure 'within budget', few people will ask why we pay \$65 million a year in subsidy, or indeed any money at all, for a system which performs so badly and which is so unnecessary, just as few people have forcefully questioned a subsidy of \$75 million and poor performance.

To the extent that a worsening budgetary position forces savings to be made, we expect that the means to doing this will reflect the pressures from the most politically powerful interests. Some of these changes may be reasonable, such as raising fares or cutting the routes with the worst occupancy rates, although again one would note that by not allowing any competition in the system, these savings are purely a matter of reducing the cost to government rather than a matter of improving the performance of urban transport. If larger cuts are forced on government, then we might see tendering or contracting out of services, pushed especially by those who will manage the new system. As a generalisation, we would expect to see such responses to serious problems in an urban transport system, rather than a move to an open market, even where the market is the better alternative.

Of course, in the absence of a real threat of market reform, the pressure for managerial reform can be very weak, so that even these limited savings do not eventuate. Things may simply continue on, with accumulating debt, coped with as best as can be. Worse still, this absence of strong pressure for substantial reform means that there are opportunities for some groups to press successfully for changes which exacerbate the problem. The observation that governments have crises reminds us that things can get worse, either by omission or commission. Of the latter, ACTION could be extended to rural dwellers or made free, as has been suggested by two people in the *Canberra Times* recently. The suggestion for conversion to wheelchair access of all buses strikes some as a good idea. The real spectre haunting Canberra though is light rail.

There are some curbs on grandiose and ridiculous ideas like light rail. Governments must find the money and there are some interested parties, such as residents action groups, which sometimes provide effective if often ignoble and illogical opposition. But the opposition can be overcome. The money can be found, often from the resulting increases in land values or perhaps from Federal government funding (in recent discussion in the ACT about bus only lanes, the cost has been defended by some by noting that the money came from a Federal government scheme). And enthusiasm can be generated among a wider public than simply those with an obvious interest in building or running the light rail or developing sites made more valuable by its operation. Just as with the defence of ACTION, there can be an appeal to its environmental benefits, without an acknowledgement that these are very small relative to the financial cost. The developmental argument of jobs in its construction can be invoked, without any acknowledgement that it is a very poor investment compared to alternative uses of the funds. And through it all is a rhetoric of modernism and the conjuring of cosmopolitan images: urban transport for the twenty first century, a cafe-lined boulevard in Europe. The fear of the market which prevents serious consideration of getting rid of ACTION sees people looking for any solution which is

not the market. As government cannot reform itself, this leads many to the cargo cult of light rail. Light rail is an example of fear of the market and technological blindness. And this fear and blindness can be cynically manipulated or unconsciously pandered to by those who might gain from the idea.

9 Conclusion

Market reform is not impossible, just very hard. Financial crisis or broader economic discontent in particular might bring the failures of government to the attention of the public and stimulate demand for and acceptance of significant reform. And there is of course, always, the power of rational and disinterested argument. But the hard truth is that the consistent pressure in society is against market reform. For liberal reformers this is a dismal conclusion. If we are not to fall into despair, it forces us to look again at how we go about our work. There is a greater need to explain things simply in order to demonstrate the benefits of reform. In this, we must directly identify the interested parties and draw them into discussion. This includes both those who would gain from reform, but who are not convinced they would or who are inactive in promoting their interests, and those who would lose, asking what grounds they have for defending their interests through political means. Crucial in this is tackling head on the conventional use of the 'non-economic' defences of equity and the environment. All of this means spending more time publicising one's work, speaking to it publicly, in short, campaigning. This campaigning should not be avoided by liberal academics. It is a legitimate part of their job as teachers, and, indeed, I would suggest, a moral obligation, to see that ignorance and dishonest self-interest do not so constantly prevail in the political life of this country. In saying this, I am conscious that enthusiastic involvement in public issues is not always in an academic's interests. It is time consuming, intellectually less stimulating, sometimes unpleasant and less useful to one's career than getting on with publishing. That is, I believe, the wrong view to take, both morally and intellectually, and I would conclude with Karl Marx's 11th Thesis on Feuerbach: the philosophers have only succeeded in understanding the world; the point, however, is to change it.

Appendix

Debate on ACTION continues to suffer from a failure of most people engaged in the debate to be aware of or respond to the evidence. In this, one must include a widespread inability to even know how much ACTION costs Canberrans. The most commonly used figure is the 'real deficit', given in the annual report for 1991/2 as \$52.5 million. This is based on a 'real operating cost' of \$76.2 million. The 'real operating cost' is not a measure of total cost, and the 'real deficit' is not a measure of government subsidy.

Total Cost = $RE + (K_t - K_{t-1}) + rK_t$, where RE is recurrent expenditure, including expenditure borne by other parts of government; $(K_t - K_{t-1})$ is replacement of capital, that is, capital expenditure minus sale of assets minus addition to assets; and rK_t is a normal rate of return on the value of assets. Arriving at precise figures for total cost is difficult (see Hughes (1993) for a detailed discussion). The figures used here are RE of \$64 million; $(K_t - K_{t-1})$ of \$13.9 million; and rK_t of \$12.2 million, calculated using a 9% interest rate.

The 'real deficit' of \$52.5 million dollars is made up of the 'government contribution' of \$46.2 million and the 'operating deficit', that is, the difference between reported expenditure and revenue, of \$6.4 million. It does not include expenditure by other ACT government departments on ACTION services for schools and pensioners. In this paper, as in all my work, I have given 'government subsidy' its literal and most revealing definition: that part of total cost which is met by government rather than private expenditure. This was about \$75 million in 1991/92.

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