TRANSPORT, LABOR AND MICRO ECONOMIC REFORM

Steven O'Neill

Major strategies for the rationalisation of Australia's transport system have emanated from influential employer groups during the late 1980's. The A.L.P. has sought an accord with organisations such as the Business Council of Australia on the subject of transport reform. However, the faith in such quarters is misplaced, and 'microeconomic reform' in transport requires a new focus.

It is a poor reflection on Australian politics that no attempt has been developed by the A.L.P. or other progressive forces to address transport issues as a whole - long distance freight by sea and rail, heavy road vehicles, urban congestion, road accidents and pollution, the depletion of fossil fuels, the rights and obligations of individuals using transport, and greenhouse gases from vehicle emissions. These issues are all part of the same subject matter, and the employers have been inventive in hiving off separate elements in furthering their particular interests.

This discussion focuses on the social costs of land transport issues, with particular reference to railways. It addresses current issues such as the 'high cost' of Australian transport and microeconomic reform in transport. By expanding public transport (railways), the social cost of transport can be minimised and a system providing cost effective and environmentally sensitive transport can evolve. It is important to look at the forces behind the current shake-out of transport, so that the social costs of their proposals can be identified. It is also important to look at the trends of transport user costs so that judgments can be made as to whether present costs are excessive.

Employers' Interests

Proposals for the widespread rationalisation of surface transport can be found in the *Bulletin* of the Business Council of Australia (BCA) (Business Council of Australia, 1988a; 1988b; 1989). Such articles consistently argue for the liberalisation of transport. Particular demands are that foreign crewed ships be permitted to operate on the Australian coast, or that super long and heavy road vehicles (B Doubles) be allowed to operate without current restrictions on Australian roads.

These suggested reforms constitute a 'wish list' from employers but are dressed in actuarial clothes such as to sound unambiguous. Behind the arguments for cost effectiveness, involving deregulation of one form or another, is a constant reminder that Australia needs to lift its game in order to improve its competitiveness: "Micro-economic reform is widely recognised as fundamental to creation of lasting improvements in Australia's competitiveness" (1988a).

These statements suggest that Australia can trade its way out of debt by becoming competitive. It is also suggested that the debt has been incurred by having lived slothfully. Ross Gittins outlines this presumption:

> The proposition that micro reform is the key to reducing the current account deficit and controlling our foreign debt has become an article of faith among the nation's economists, politicians and businessmen.... "The idea is that the many items on the micro reform agenda will increase the efficiency of markets, raising the productivity of industry.... 'Higher productivity will make our export and import competing industries more competitive internationally. This, in turn, will raise exports and reduce imports, cutting the current account deficit'. (Gittins, 1990)

The BCA (1988a) states that saving $3.2 billion (1987) in transport costs would lift output by $6 billion, or 2.3% in the long term: "To put this gain in perspective the rise in real consumption is three times as great as the benefit from abolishing tariffs". Of the $3.2 billion, about 40% come from railways, 27% from water transport, coastal shipping, ports and waterfront, 19% from cheaper bulk land transport and 14% from international shipping.

The implication of these business views is that the current transport cost structures are excessive. Other sectors of the economy have presumably been restrained. Reducing these transport costs improves the profitability

of the export sector and enhanced performance reduces Australia's current account deficit, ultimately pushing it into surplus.

The Government's View

The Federal Department of Transport and Communications (DOTC) has taken a more sombre view of transport costs because the correlation between transport reform and debt reduction is by no means apparent. In its submission to the Economic and Planning Advisory Council , DOTC set out the government's microeconomic reform strategy:

> Since it took office, the Government has been aware of a range of inefficiencies and distortions in the transport industries, and of their adverse implications for economic development and for the export sector in particular....Most of the problems are not new, some have been in the too-hard basket for a generation.... There are some practical limits on the pace at which reforms can be effected in the transport sector. The Federal Government is only one of the interested parties and most of the problems at issue must also involve the States, employers, employees and user groups. Micro economic reform in this area is not like taxation or tariff cuts, where the Federal Government can more readily implement the changes which it thinks are needed (DOTC, 1989).

The DOTC submission noted that:

- road transport operators and motorist associations point to the overall tax system and the fuel excise as a justification for greater road spending and the minimisation of registration fees;
- road transport has not been used as an instrument of social policy nor has it been encumbered by community service obligations (whereas rail has);
- roads have also fared better in the public provision of infrastructure over the past decade (While the Federal Government has invested $730 million in the Hume Highway from 1983 to 1989, it has invested nothing in the Sydney-Melbourne rail corridor (Australian Railways Union/Australian Conservation Foundation, 1990).)

The DOTC submission also noted that competition between the modes was not simply a question of price. On particular corridors, rail freight rates were "often significantly less than road rates but rail is not increasing its market share". DOTC leans towards getting transport 'right', but is less

confident in transport reforms leading to spectacular economic benefits. Social considerations have been included, for example, in the annual cost of road transport accidents, amounting to $6.2 billion. However, broader environmental, access and equity issues have not been addressed.

The 'Excessive' Costs of Railways

The Industries Assistance Commission (now the Industry Commission) has been concerned with the level of charges exacted on industry by public enterprises. The IAC's *Inquiry into Government (Non-Tax) Charges: Public Rail Services* (1989a) sets out the case for excessive rail operations by the government-owned railways:

> Charges for government-provided transport services constitute a significant proportion of all government charges incurred by Australian business... Previous inquiries have highlighted inefficiencies in the provision of a wide range of Australian transport services and related infrastructure.... Overmanning, low productivity and also poor performance relative to some private railways in Australia and railways in other developed countries point to inefficient production practices...
>
> Preliminary empirical work undertaken by the Commission shows that inefficient practices have serious implications for the efficiency and competitiveness of Australian businesses. The Commission estimates that productivity improvements, mainly associated with the use of labour could result in annual cost savings in public rail authorities of around $1 billion. If those savings were passed on to users, increases in the competitiveness of a wide range of Australian industries could lead to an increase in real national output of approximately $1.8 billion. Although the short-term effects on employment could be adverse, in the long term an additional 3000 jobs would be created.

The IAC's views on railway reform sound remarkably similar to the arguments put up by the BCA. The BCA's assumptions on productivity savings from railway rationalisation, while of similar magnitude to the IAC (40% of $3.2 billion equals $1.28 billion), require more consideration as railway rationalisation is linked to the promotion of B Double trucks, grain and coal deregulation. In other words, there is envisaged a substantial shift of freight from rail to road transport, especially in the transport of bulk products; but there are also involved some dubious overseas productivity comparisons.

Productivity Comparisons

The BCA's involvement in railway rationalisation stems from its participation in the Victorian S.T.A.P. (State Transport Authority Plan) process of 1987. The S.T.A.P. Report (1988) introduces productivity comparisons of overseas railways. The BCA has applied this process on a national basis without consideration as to suitability. The BCA (1989) argues that potential savings also exist in achieving the productivity levels of overseas railways. Nowhere is it asked whether the productivity measure is appropriate or the comparisons justified.

Comparisons of productivity performance between Australia and other countries are difficult given different population sizes, density, capital, labour skills, and infrastructure qualities. The rail productivity measure used in S.T.A.P. - train kilometres per employee - has been selected by the proponents of S.T.A.P. (the V/Line Administration) because it's a measure which favours rail systems like V/Line which are geared more to moving people rather than freight. Train kilometres per employee as a productivity measure favours rail systems which carry little weight over relatively short distances but do so frequently.

Such a measure allows the Netherlands rail system to win the contest (at 4,000 train kilometres per employee) followed by the well known Bernese Alps Railways. NSW railways at 1600 kilometres come ahead of both the Canadian railways and the sophisticated Class 1 heavy haul (freight) railways of the United States. In short, the measure chosen by V/Line favours passenger rail operations. V/Line operates a mixed passenger/freight service and is Australia's largest country railway in terms of passenger numbers.

Finance Charges

The S.T.A.P. Report evaluated five scenarios ranging from closure of the rail system to significant expansion. Various manning levels and technology bases were factored into the scenarios. Whereas aggregate capital costs were considered, the costs of dispensing or hiring labour were not calculated, nor were the capital costs for the expansion scenarios.

The inequity of financing rail capital and infrastructure programmes from debt while road infrastructure finance is derived from equity (motor vehicle registration charges, fuel excise fees, fuel franchise fees etc) has been illustrated by the ARU/ACF in *Mobility in a Clean Environment*

(1990). The reliance on debt financing by rail systems and governments to upgrade their infrastructure has not been referred to by the BCA, yet these charges have risen spectacularly during the 1980's:

Table 1: All Rail Systems: Capital Charges (1981-1986)

($ million)

1981	1985	1986
242.8	704.8	667.3

Source: Australian Railways Union

The direct contribution from the Federal Government and by some State governments of fuel excise and franchise fees into road building should be seen as an injection of equity into road transport operations. This complements the well-known cross-subsidisation of heavy vehicles by motorists.

Moreover, the rationalisation proposals suggested in S.T.A.P. (new fuel efficient locomotives, signalling technologies and so on) are by nature expensive, slow and difficult programmes to implement. In addition, they are often justified on a corridor by corridor basis. This process leads to a mixture of technologies, differing skill requirements and so on. Finance charges associated with debt financing of infrastructure accrue even when services are reduced or removed. Overall, the issues of labour reduction costs and the capital financing associated with reduction or expansion have not been well addressed by the BCA, borrowing uncritically from the S.T.A.P. approach, and considering only the direct costs to freight transport users.

The Loss of Freight from Rail

As high value general freight has been largely lost from rail (and coastal shipping) to road transport, bulk commodity transport activities have become very important to railways. These can be regarded as the rump of the transport task, largely low value and time insensitive commodities, and uniform in general specifications. They remain one of the last areas of activities for which State owned and operated railways are suitable as

there is usually minimal transfer of the commodities across State borders (grain flowing from the Riverina to Geelong or from the Tenterfield area (NSW) to Fisherman's Island (Qld) are exceptions).

Table 2: Australian Domestic Freight Consignment by Mode 1970-71 to 1984-85

(million tonnes)

Mode(b)	1970-71(a)	1975-76	1978-79	1981-82	1984-85
Road	720.5	756.4	912.6	950.1	1031.8
Govt Rail	79.0	96.0	102.5	127.3	159.8
Non-Govt rail	72.6	116.7	114.1	123.2	129.2
Sea	39.9	48.1	48.1	43.5	42.0
Air	0.1	0.1	0.1	0.1	0.1
Total:	912.1	1017.3	1177.4	1244.2	1362.9

(thousand million tonne-kilometres)

Mode(b)	1970-71(a)	1975-76	1978-79	1981-82	1984-85
Road	27.3	36.7	48.1	60.1	74.3
Govt Rail	25.2	30.8	32.1	37.4	44.6
Non-Govt Rail	13.8	26.3	25.1	27.4	28.4
Sea	72.0	104.9	105.0	98.2	96.3
Air	0.1	0.1	0.1	0.1	0.1
Total:	138.4	198.8	210.8	223.2	243.7

a. 1970-71 figures are not directly comparable with later years; 1981-82 figures are not directly comparable with earlier years in both tables.

b. These figures exclude pipelines and conveyors.

Source: Inter State Commission (1987)

By advocating the introduction of heavier road vehicles into bulk transport activities, the BCA (1988b) is co-ordinating a strategy to undermine the traffic task for which State owned rail systems were designed to undertake since their inception - transport primary produce from the hinterland to port. The BCA's road/rail transport agenda needs to be put in the context of long term land transport trends. The Inter State Commission has provided a break down of Australia's transport task (provided to it by DOTC), seen in Table 2 above.

While road and rail performed roughly a similar task in terms of weight over distance (net tonne kilometres) in the 1970's, road freight had clearly moved ahead by the mid 1980's. By the mid 1980's, trucks were shifting heavy loads over longer distances. It can be surmised that business has diverted its spending patterns away from rail and to road transport for its transport needs. A survey of rail charges on business competitiveness , discussed below, supports these conclusions.

Survey of Rail Charges on Business Competitiveness

The IAC, in *Survey of Government Charges on Business 1987/88* (1989b), has itself provided strong evidence in support of the minimal impact which rail freight charges have on Australian business. The impact of government charges on Australian business competitiveness was the *raison d'etre* for the Treasurer instigating the IAC Non Tax Charges Inquiry in the first instance. The IAC surveyed 20,000 businesses across Australia on the impact on their competitiveness of government charges.

Of those surveyed, 6,300 chose to respond. The IAC cross-correlated these firms into industry sectors according to standard A.S.I.C. coding. By using input-output tables of flows of income and expenditure across the economy, the IAC estimated the amount spent on these government charges by business. Six publicly owned services were included in the survey: Postal Services, Water Supply, Rail Freight, Workers Compensation, Telecommunications and Electricity. Total payments by business for these government services amounted to $15 billion. In turn $15 billion represented just 3% of the total costs faced by business. Rail freight charges on business amounted to $2.091 billion or merely 0.4% of business costs.

Firms surveyed by the IAC were required to assess the impact of the six government charges on the competitiveness by responding to a question-

naire. Questions were asked in relation to the impact of charges on competitiveness, the level of government charges, reliability of supply, customer responsiveness, and repairs responsiveness. Responses to the first two questions are reproduced below:

Table 3: Impact of Government Charges on Competitiveness

Response	Electricity	Rail	Post	Telecom	Water	Workers Comp
Small	58.9	79.6	59.5	34.0	69.3	44.6
Important	18.1	10.5	15.9	33.7	14.3	28.6

Rail has the most responses for having a small impact on business competitiveness. Rail also has the least number of responses for its charges having an important impact on business.

Table 4: Level of Government Charges

Response	Electricity	Rail	Post	Telecom	Water	Workers Comp
Excessive	25.5	12.0	31.3	54.5	27.5	43.8
Too Low	1.4	5.5	1.0	0.4	4.4	1.0

Of all utilities rail has the fewest responses claiming its charges are excessive (12%). Rail has the most number of responses saying its charges are too low (5.5%). In all, business thought rail charges were either reasonable or too low at 88.1%, the highest number of such responses.

In all it is difficult to accept that the IAC's argument that: "inefficient (rail) practices have serious implications for the efficiency and competitiveness of Australian businesses" has any standing, at least in the solicited view of Australian business. Furthermore, evidence compiled by the Bureau of Transport Economics (BTE) (1987) shows that Australia, and

particularly Australian businesses, are now spending less on transport than was the case in 1970.

Long Term Transport Costs in Australia

Figures compiled by the BTE show that transport costs both locally- and trade-based are not excessive; indeed they have fallen during the period 1970-1985 and are comparable to other developed countries. The Bureau also noted that Australia's traffic task had grown more rapidly in Australia than in other developed countries, particularly for road and rail.

Export Costs

On the costs of transporting Australian exports, the BTE selected a number of Australian exports destined for various parts of the globe and plotted their transport costs over the period 1981 to 1986. The commodities studied can be seen as characteristic of our export trade - coal, beef and wool. Generally the trend is downwards. In the case of transporting coal to Europe, it is spectacularly downwards.

Table 5: Trends in Real Freight Rates for Selected Export Commodities and Trades, 1981 to 1986

(Index 1981 = 100)

Year	Coal to Europe	Wool on all trades	Beef to East Coast of North America	Hides to to Japan
1981	100	100	100	100
1982	56.5	81.5	94	95.5
1983	33.9	75.2	101	90.3
1984	36.7	61.6	93	84.8
1985	37.7	46.5	93	79.9
1986	22.3	n.a	93.6	90.8

Source: BTE (1987).

For grain, the BTE (1987) showed that the cost of exporting (sea-going costs) from the east coast of Australia to the middle east had fallen from $29.00-$30.00 per tonne in 1979/80 to $20.00 per tonne in 1986 (in current U.S. dollars).

Domestic Costs

In the local transport context the key interstate rail and road freight rates have also shown consistent trend downwards. In 1985 both were around 90% (road) to 95% (rail) of their levels of 1977 in real terms. Of the *household* expenditure on transport, 9% was spent on public transport fares in 1970; by 1985 this had dropped to 6.6%. Households spent less of their transport budget on motor vehicle purchase and more on motor vehicle operations over the 15 year period. Nevertheless, households tended to spend a constant 14% of their total expenditures on mainly private transport over the period.

In respect of private capital expenditure on transport equipment, the transport share of total capital expenditure spent on equipment by private corporate trading enterprises had also declined from over 7% in the early 1970's to around 5% in the early 1980's. All the evidence shows that private transport costs have fallen in the 1980's, in terms of both local and overseas surface freight costs. The Bureau of Transport Economics concluded:

> Over the past 15 years the share of GDP accounted for by the value added in the transport operations industry, excluding passenger travel in cars, has gradually declined from 5.5% to 4.6%.

Two reasons for this decline were given: either the transport task as measured in physical terms had grown more slowly than other economic activities or the cost of producing each unit of the transport task in terms of primary inputs (wages and gross operating surplus) had declined relative to the costs of producing the output of other sectors in the economy. The Bureau found that the first possibility was not sustainable and leaned towards the second.

In terms of overseas comparisons the BTE found that:

> ...the share of GDP accounted for by the value added in the transport operations industry in Australia is close to the average of the share of a number of other countries... there remains the possibility that the amount of resources required to operate

Australia's extensive transport services may not be too different, in relation to GDP, from those required for other countries.

Foreign Debt Reduction?

The BCA's case for speeding and widening the micro reform programme in transport to reduce Australia's foreign debt was referred to earlier. It comes as a surprise to find that the BCA also assumes that Australia's current account deficit will worsen should the full programme of cost cutting across the transport sectors be achieved. The BCA (1989) reproduced IAC material on the economic benefits of transport cost reduction, work done for the Business Council, National Farmers Federation, Australian Mining Industry Council and other employer groups. The National Institute of Economic and Industry Research (NIEIR) was also commissioned to estimate the benefits of transport reform.

The results from the modelling exercises are similar for both - over a ten year period every dollar saved in transport costs increases GDP by about two dollars. Yet "the trade balance deteriorates marginally in both models, with income payable abroad causing an increase in the current account deficit of nearly 1% of GDP in the NIEIR model" (BCA, 1989:32). Both modelling exercises showed employment falling in the early years, "but an expansion later, with a significant rise in real consumption and real wages".

In sum, the sophisticated modelling exercises also fail to support the arguments positing crude simple inverse relations between transport cost reduction and recovery in the current account. The modelling reinforces the continuing significance of increasing income payable abroad for Australia's current account deficit. The largest growing part of the deficit has been income payable abroad - interest, profits being remitted overseas, paying overseas ship owners to carry Australia's bulk exports, and so on. Contrary to conventional wisdom, the BCA has not drafted a programme to remedy Australia's 'trade' problem as the structural faults of the problem have not been addressed. For example the continued ability of corporations to deduct interest repayments of overseas borrowing from income is guaranteed to bolster Australia's foreign debt as well and exacerbate the current account deficit.

Ken Davidson (1989) expresses this recent economic history succinctly:

> Financial deregulation, high inflation and our tax laws have proved a potent mixture.
>
> ...They have provided a window of opportunity to our paper entrepreneurial class, allowing them to borrow amounts of money which prior to deregulation would have been impossible. They have used this money to finance takeovers of soundly operating companies, which have then been loaded with debt.
>
> ...Australians are silent partners in the takeover process. As taxpayers they are expected to pick up at least part of the tab in the form of higher personal taxes or lower Government spending on the social wage, because the tax liabilities of takeover targets are reduced by loading them with debt.
>
> ...Now it is clear there is a further burden. The borrowings, by pushing up Australia's overseas debt for ultimately non-productive purposes, have reduced Australia's creditworthiness and increased the cost of all domestic borrowings - including the borrowings of ordinary householders who cannot write off the interest expense of their mortgages against other income.

Proposals to reform Australia's transport structure to address the 'down side' of financial deregulation should be taken for what they are - a con job. As Australia's burgeoning foreign debt did not arise because of transport problems, it is ludicrous to suggest that 'reforming' transport will address the debt and trade problem. Rail employment has already fallen by 30% over 10 years, from 114,000 in 1979 to 84,200 in 1989.

Despite the glaring errors in the BCA approach to transport, the then Federal Transport Minister Mr Bob Brown sympathised with the arguments raised by declaring 'Hawke Government Makes Rail Reform a Priority' (Press Statement 6.12.89). There he revealed that a strategy had been devised within the Federal Cabinet which comprised two studies: one by the Industry Commission which would act to rationalise the industry and the second would be conducted by the Bureau of Transport and Communications Economics (BTCE) into the social consequences of the rationalisation (truck 'accidents', regional unemployment and so on). Thus the A.L.P. fundamentally agrees with the BCA on the thrust for railway 'reform'. Note that a 'saving' of railway costs of the order of $1.28 billion equates to at least another 30,000 jobs, or 40% of the current national rail workforce.

The underlying question is - are the strategies put up by the Industry Commission and the BCA the correct focus of micro reform of transport?

What aspects of transport have been put under the microscope and which have been ignored?

The Correct Focus of Micro Reform

It was mentioned earlier that the annual cost of road traffic accidents in Australia amounts to $6.2 billion. This estimate is based on assessments of the 'cost' of trauma and suffering, the loss of income over a working life, medical and hospitalisation costs and other deprivations associated with road accidents. (DOTC, 1989:38-41; BTCE, 1989b). It is difficult to find any reference to these costs of road transport in BCA/IAC reports. Reducing these would produce the same or better long term benefits for Australia as reducing the transport costs paid by corporations.

European countries, while long promoting a key role for public transport, have been forced into developing social cost methodologies to justify private motoring restraint and public transport expansion. These are required to evaluate financial, economic and social costs of transport options given the rising incidence of auto based atmospheric pollution, the financial and opportunity costs of freeway construction, destruction of the natural environment through road building and traffic flows, accidents, congestion and so on. Some reference to these initiatives is useful.

A House of Commons all party Transport Committee report, *The Financing of Rail Services* (1987), argued that the subsidisation of British rail services was justified on the basis of reducing the externalities of (mainly) road transport. The reasons for subsidisation put forward by this Committee are as follows:

- Congestion - Subsidy may attract passengers from road transport to rail with a set benefit to society;
- Environment - The Committee endorsed the environmental benefits of rail. It was suggested that more research should take place with perhaps more subsidy to the less damaging mode;
- Safety - Rail is not allowed to operate at the high risk levels which are more or less common on the roads. As safety has a cost and the Committee sought not to reduce safety levels railways should be compensated;

- Asset Utilisation - Once the infrastructure is in, use the rail to its potential so as to minimise unit costs;
- Social Service - The premise is that the government has some responsibility for minimum levels of service provided by a national railway system;
- Heritage - The Committee favoured specific grants for the repair of listed structures which should be maintained irrespective of whether rail services continued.

These are the common elements which have to be considered in the debate on the future of rail services in any developed country. They are assuming increasing importance as citizens, residents and planners come to appreciate the expanding and subsidised role of private transport. The swing back to rail and light rail systems is clearly taking place with 26 cities in Canada/North America putting in, or upgrading such systems in 1987 (Progressive Railroading, May 1988).

Sweden also has made a fairly strong attempt (via the Swedish Transport Policy Act of 1988) to:

- Establish the road and rail modes on an equal footing;
- Charge rail operations for the use of the track and signals;
- Make private road users pay for their externalities;
- Establish full marginal social costs for road and rail, thus forcing consumers to make rational choices for their transport;
- Remove the deficit mentality from the rail administration by funding the infrastructure costs separately from rail operations (thus the rail operator can make commercial decisions on the levels of services, length of trains and quality of service);
- Maintain public transport at adequate levels to all parts of the country.

Other countries in Europe are looking towards separate infrastructure financing (from traffic operations) to both breathe vitality into rail administrations by addressing and minimising the rail deficit syndrome, while at the same time maintaining public policy responsibilities by directing where services should be provided. Local authorities can 'buy' extra services and substitute buses for rail where this is opportune.

The important aspect of the policy is that the modes (and users) should be charged the marginal social costs for the use of the infrastructure as well as for those costs which they inflict on society, so that rational choices can be made. Using this methodology, Swedish transport economists Hansson and Nilsson (1989), observed that rail traffics seemed to pay their marginal costs for using tracks while road vehicles did not pay their marginal social costs.

Laird (1989) showed that the per kilometre cost of road transport in Sweden could be give the following values (converted into $Australian):

Table 6: Marginal Social Road Traffic Costs, Sweden 1987

(Cents (Australian) per kilometre

	Private Car		Truck		Bus	
	Rural	Urban	Rural	Urban	Rural	Urban
Road Maintenance	0.2	0.2	6.4	4.6	5.6	4.0
Congestion	0.2	3.6	1.1	10.8	0.4	10.8
Accidents	2.2	7.6	3.0	9.2	3.2	29.6
Environmental	1.3	5.8	5.5	13.6	4.6	32.3
Total	4.0	17.4	16.2	38.4	14.0	77.2

Notes:

1. Road maintenance costs for trucks (22.5 tonnes) and buses (16 tons are average values for different weights and axle/tyre configurations.
2. The environmental impact costs fall to 0.2 cents (rural) and 1 cent (urban) per km.
3. The total includes a uniform 0.22 cents per km costs for traffic surveillance.

Applying this vision to the Australian context, Laird has argued that the road accident costs of heavy vehicles operating in NSW (with reference to current accident statistics and accident cost estimates) equates to $106 million in 1988 or $23,000 per truck. In the Coronial Inquiry into the Grafton Bus Crash, Laird argued that it was difficult to reconcile these accident costs of heavy vehicles with the current third party registration fee of $761.00 per truck (Laird, 1990). Other social costs of transport have similarly been put in the too hard basket. A genuine 'microeconomic

reform' creates a process to disentangle the structure of cross subsidies, social costs and establish the incidence of such costs.

Methodology

Those who are involved in the debate over the future of land based transport need to develop a methodology, a social cost benefit analysis which gives monetary values to the social costs of transport options. This is all the more important if it is thought desirable to shift transport infrastructure spending away from road construction. This is not an impossible task. Until recently, it was thought difficult to accord different classes of motor vehicles different charges for road usage. However empirical research in the United States in the 1960's has spawned a multi disciplinary approach to assessing such costs. For the usage of Australian roads by vehicles, the BTCE (1989a) provides the most detailed analysis to date, and using a generous interpretation of fuel excises equating to road usage contributions, still shows the heaviest class of articulated vehicles (six axle trucks) to be under recovering their fully allocated costs by some $30,000.

Just as European countries have introduced marginal social pricing for transport options, it is important for Australian governments to follow suit. It is also important to note that uniform methodology is required to assess social costs. As with Sweden's social cost model, the actual costs will vary with the class of vehicle, whether the traffic environment is urban or regional, and so on. For whatever the reasons, land transport in Australia has structured itself into certain patterns. The only changes which can be introduced are those at the margins. However it is imperative that a start be made and this should be the focus of Labor's micro reform strategy for land transport.

Laird noted that when the Swedish Government introduced marginal social costs for infrastructure costs in 1988, distance taxes for trucks were increased by an average of 45% and for buses by 100%. Australia remains one of the few developed countries without any distance/weight charges for heavy vehicles. Yet without such charges road usage becomes under-priced, heavy vehicle numbers increase disproportionately and generally there is no means for the community to recover the costs inflicted on it. Surely Labor's first task of 'microeconomic reform' in transport is the introduction of such a charge.

Seen in this light, the approach to transport reform by the Business Council and the Industry Commission is both narrow and ill-informed. This latter approach has received broad media coverage and is now taken as the conventional wisdom. It is vitally important to an efficient and publically viable transport system that this 'wisdom' be countered.

References

Australia, Bureau of Transport Economics (1987a), *The Transport Sector in the Australian Economy*, Information Paper 22

Australia, Bureau of Transport Economics (1987b), *Competition and Regulation in Grain Transport*, Occasional Paper 82

Australia, Bureau of Transport and Communications Economics (1989a), *Review of Road Cost Recovery*, Occasional paper, No.90

Australia, Bureau of Transport and Communications Economics (1989b), *Cost of Road Accidents in Australia*, Occasional paper, No. 91

Australia, Department of Transport and Communications (1989), *Transport and Australian Industry*, Discussion paper 89/07, June

Australia, Industries Assistance Commission (1989a), *Inquiry into Government (Non-Tax) Charges: Public Rail Services*, Information Paper No.5

Australia, Industries Assistance Commission (1989b), *Inquiry into Government (Non-Tax) Charges: Survey of Government Charges on Business*, Information Paper No.9

Australia, Interstate Commission (1987), *Review of Federal Registration Charges*

Australian Railways Union/Australian Conservation Foundation (1990), *Mobility in a Clean Environment*

Business Council of Australia (1988a), 'The Excess Cost of Shipping and Related Shore Transport', *Business Council Bulletin*, August

Business Council of Australia (1988b), 'Road Transport: Getting the Commonwealth into the Driver's Seat', *Business Council Bulletin*, October

Business Council of Australia (1989), 'The Benefits from Transport Reform', *Business Council Bulletin*, March

Davidson, Ken (1989), 'The Real Victims of Bad Debts', *The Age*, 9 November

Gittins, Ross (1990), 'The Forsyth Thesis...', *Sydney Morning Herald*, 3 March

Hansson, L & Nilsson, I (1989), *Railroad Infrastructure Pricing, First-Best Recommendations and Second-Best Problems*, paper presented to the Fifth World Conference on Transport Research, Yokohama, July

House of Commons, All Party Report (1987), *The Financing of Rail Services, 3 Vols.*

Laird, P (1989), *Swedish Transport Costing*, mimeo, July

Laird, P (1990), 'The Cost of Truck Accidents Revealed', *Sydney Morning Herald*, 22 March

Swedish Transport Ministry (1988), *Transport Policy for the 1990s*

Victoria, V/Line State Transport Authority Plan (1988), *V/Line Towards 2002*