

NEW ZEALAND BUSINESS ROUNDTABLE

**SUBMISSION ON THE DRAFT WELLINGTON
REGIONAL COUNCIL LAND TRANSPORT
STRATEGY 1999-2004**

JUNE 1999

1.0 Introduction

- 1.1 This submission on the draft Wellington Regional Land Transport Strategy, 1999-2004 (the Strategy) is made by the New Zealand Business Roundtable (NZBR), an organisation of chief executives of major New Zealand business firms. The purpose of the NZBR is to contribute to the development of sound public policies that reflect overall New Zealand interests.
- 1.2 The Regional Land Transport Committee (the Committee) is responsible for preparing the Strategy. The Committee is chaired by a Wellington Regional Council (WRC) councillor and includes the representatives of 17 organisations. It also produced strategies in 1993 and 1996. The Committee is required to include the WRC's Regional Policy Statement in the Strategy. Transfund New Zealand took a particular interest in the Strategy and provided a peer review of the Committee's technical work.¹
- 1.3 The NZBR has taken a close interest in road reform issues since publishing *Options for the Reform of Roothing in New Zealand* in June 1993. We strongly support the government's proposals in *Better Transport Better Roads* to put the supply of road network services on a commercial basis. We also expressed serious reservations about some aspects of these proposals. These included the ongoing roles proposed for Transfund and for local authorities as owners of roads and what we saw as an over-reliance on regulation and an under-emphasis on the benefits of private ownership and competition. A copy of our submission is attached.
- 1.4 In our submission in May 1999 on the WRC's draft annual plan 1999/2000 we welcomed the WRC's support for congestion pricing but stressed the importance of a commercial approach to roading. In particular, we see capacity-enhancing decisions as being best made on a commercial, entrepreneurial basis. The critical need is to design a credible transition towards such a structure. We also questioned, as we have for many years, the WRC's rationale for continuing to subsidise buses and trains. They appear to be inefficient and inequitable.

¹ See paragraph 25 in the Strategy. In the following footnotes all references to paragraphs will refer to the Strategy unless explicitly noted otherwise.

- 1.5 In section 2 of this submission we list many concerns we have with the Strategy. Section 3 outlines an alternative approach. It would place less emphasis on mandating outcomes and more emphasis on incentives and institutional arrangements, the need for a transition towards more commercial structures, and the benefits of private ownership and competition.
- 1.6 Section 4 presents some conclusions.

2.0 Weaknesses in the strategy

- 2.1 The Strategy is a central planning document. Outcomes are centrally determined, rather than allowed to emerge through provider responses to user requirements. We agree that elements of a central planning approach are inevitable under current arrangements. However, the document needs to acknowledge the limitations of this approach and provide a strategy for achieving a transition to more decentralised approach.
- 2.2 The Strategy does not plan for such a transition.² Furthermore it contains many undesirable features. Many are avoidable, even within the confines of a central planning approach. The following list illustrates the weaknesses. The Strategy:
- sets five potentially conflicting objectives,³ yet provides no criterion for determining how to optimally resolve conflicts. No one can be held accountable if any particular proposal can be justified by emphasising the objectives that best support that proposal at the expense of conflicting objectives. Nor can any consistency in decision-making be expected;
 - does not consider the alternative approach of improving institutional arrangements and letting outcomes emerge by spontaneous interactions between providers and users;

² In paragraph 22 it notes that implications of the passing of any road reform legislation for the Strategy would need to be assessed.

³ See, for example, paragraph 2 on page 2.

- does not adequately acknowledge the problems that arise under a central planning approach from inadequate information and political incentives;⁴
- provides no cost-benefit calculations for any of its favoured capital expenditure projects, or for any rejected projects;
- focuses on achieving fundamentally arbitrary centrally-determined *outcomes*.⁵ No cost-benefit case is made for selecting these outcomes;
- is imbued by what appears to be a strong anti-motorist bias.⁶
- does not address the problem of motorist resistance to congestion prices. Motorists could fear that congestion prices could be used to fleece them for the benefit of non-motorists.⁷ This is a fear that local authority providers could abuse their market power;
- fails to demonstrate that the proposed capital expenditures on buses and trains pass a cost-benefit test and do not reflect an anti-motorist bias;
- fails to adequately explain why economically efficient pricing is rejected;⁸

⁴ For example, paragraph 3 on page 2 is not informed by an awareness of the limitations to technical analysis that arise from inadequate information about users' willingness to pay.

⁵ For example, it sets quantity targets for indicators of safety in paragraph 101, for travel times in paragraph 97 and for carbon monoxide and fuel consumption in paragraph 102.

⁶ Whereas paragraph 49 favours a level-playing field approach to funding different modes, objective 1 on page 21 unashamedly sets out to favour buses and trains relative to the private car (and taxis). Paragraph 232 proposes that only 65 percent of bus and train costs be recovered from fares, yet paragraph 114 notes that peak congestion is becoming an issue on parts of the rail network and paragraph 136 favours ensuring all users (ultimately) pay the cost of their use. Paragraph 115 proposes giving buses priority at key intersections or through congested areas. Paragraph 188 considers a bus lane from Petone to Ngauranga. Paragraph 139 proposes car park levies in Wellington CBD to reduce congestion and "to help fund other elements of the Strategy". Paragraph 144 states that use of single occupant private vehicles during peak periods can be inefficient. This is, simultaneously, trivially true, biased and a classic central planning fallacy. It is trivially true if it reflects under-pricing but biased in that it fails to note that the use of buses at peak time could also be inefficient if peak use is under-priced. It is fallacious because it embeds the presumption that single-occupant use is inefficient even when users are paying their way. Price, not occupancy, matters for efficiency. Only central planners who have lost sight of the importance of user preferences think otherwise.

⁷ Paragraph 139 proposes levies on car parks in the Wellington CBD in part "to help fund other elements of the Strategy".

⁸ Paragraph 172 only sees a case for road pricing to fund new roads and services. Paragraph 52 ignores every argument for (fully) efficient prices. Instead it discusses

- fails to explain why investment decisions are not driven by standard (central planning) cost-benefit decisions until more commercial structures can be put in place;⁹
- fails to justify the proposed ongoing subsidies for buses and trains;
- fails to put specific proposals for congestion pricing to the public. This should have been done years ago;¹⁰
- does not consider the problem of how to reconcile subsidies for buses and trains and inter-modal neutrality;¹¹
- sees congestion prices as a means of raising revenue, rather than as a means of improving efficiency.¹² However, charges for peak use do not increase overall revenue if they are fully offset by lower off-peak charges to encourage use;
- fails to consider the possibility that subsidies for all train and bus commuters, students and over 60s are inefficient – even as a means of assisting the needy; and
- would shelter 24-hour-a-day taxi operators from competition.¹³

the issue purely in terms of political acceptability and funding requirements. But funding is a different issue and political acceptability puts the cart before the horse. Why would efficient prices be politically acceptable if local authorities never attempt to explain to the public why they are desirable? In paragraph 77 the Strategy states that "pricing at the most economically efficient levels would result in net economic (and social) losses to the region through severe losses in discretionary income". This is nonsensical. First, redistribution through efficient prices does not reduce regional income. Efficient prices reduce losses through wasted time and pollution. They thereby increase effective regional income. Second, peak charges are just one component of motorists' costs. Higher peak charges do not necessitate higher total charges. Fourth, by definition, only those who can afford to pay the charges will use the roads at peak time. Those experiencing poverty can't afford cars and certainly won't be driving at peak time.

⁹ Paragraph 35 (last bullet point) indicates that the Strategy did contemplate the option of "whatever qualifies for funding, roads or public transport is built". This must surely refer to the current technocratic, formulaic cost-benefit approach to determining what qualifies. Revealingly, the Strategy refers to this as the "Laissez Faire" option. This suggests that it sees anything not determined directly by politicians as laissez faire.

¹⁰ Refer to paragraph 54.

¹¹ In paragraphs 87 and 88 the Strategy stresses that it wishes to promote public transport as a positive choice, by implication relative to the private car (see paragraph 85).

¹² See, for example, paragraph 6 on page 2.

¹³ Refer to paragraph 274.

- 2.3 It is not easy to apportion fault for these shortcomings between the Committee and its terms of reference. The sharp distinctions the Strategy makes between those who commute by bus, train, taxi and private car are likely to be considerably influenced by its terms of reference and the reality of existing subsidies. The WRC has a clear conflict of interest if it is both subsidising buses and trains and playing a major role in a committee that could effectively force motorists to subsidise buses and trains. The case for drawing any policy distinction between buses, trains, taxis and cars seems weak. In a neutral environment, users would determine the optimal allocation of resources between these modes.
- 2.4 The analytical weaknesses in the Strategy are more puzzling. They appear to have an anti-efficiency, anti-motorist bias. The fact that commercialisation, franchising, private ownership and competition receive no attention at all also indicates a bureaucratic bias.
- 2.5 These biases increase our fears about the future level of congestion and air pollution in the Wellington region, should the Committee be misjudging the malleability of user preferences for buses and trains relative to the private car. Road providers should satisfy, not deny, user preferences where there is a willingness to pay.
- 2.6 The Strategy understandably attempts to 'balance' the demands of private motorists and those wanting subsidies for buses and trains. But, it is doing so while avoiding a hard-headed analysis of the issues. The risk is that its pragmatic compromise will prove ineffectual. The critical issue here is the quality of the proposed spending. Greater transparency, much better analysis and more leadership appear to be required.
- 2.7 On the positive side, the Strategy clearly recognises a case for congestion pricing. Nor is it so anti-motorist as to assert that peak road capacity should never be increased, regardless of the benefits. It also proposes that buses should be permitted to compete with rail routes, albeit only where "they complement and increase overall public transport use".¹⁴

¹⁴ See paragraph 113. The qualification should be explicitly justified or dropped. As it stands it merely suggests a lack of understanding of the benefits from competition.

2.8 The Strategy also includes an appendix that demonstrates that the Committee has commissioned a considerable amount of modelling work on investment strategies. However, no amount of modelling can overcome the problems of conflicting objectives, lack of information, and incentives to 'strike a balance' between competing interest groups before the issues have been thoroughly analysed and put to the public.

3.0 What should the Strategy focus on instead?

3.1 In our view, the Strategy should explicitly analyse issues of incentives and institutional reform. Competition and private ownership provide incentives to discover user preferences and meet them at least cost. The Strategy should discuss transitional options for moving to a commercial model, franchising possibilities and other options.

3.2 The Committee should review its land transport objectives. It is hard to see how it can justify going beyond just two objectives – efficiency and equity.

3.3 The Strategy should identify the projects that would be justified purely on efficiency grounds using existing cost-benefit analyses. It is essential for accountability that the findings are published and the detailed calculations made available for public scrutiny.

3.4 It should then explain carefully why equity considerations warrant departures from this set of projects, taking incidence-shifting possibilities into account. Subsidies for buses and train commuters are hard to justify, even on equity grounds.¹⁵ Adult commuters are likely to have jobs. Other things being equal, they should be better off than the unemployed and those on welfare. Many school age commuters are likely to come from middle-income families. In any case, there is the problem of incidence shifting.¹⁶ Central governments are the best placed to provide a residual safety net for incomes through tax and

¹⁵ Our May 1999 submission (see paragraph 1.3 above) provided reasons why these subsidies are hard to justify on efficiency grounds.

¹⁶ For example, subsidies for travel to and from work might drive down wages. Subsidies for travel from work to home might increase property prices. Excessive charges for CBD car parks could lead the middle class to bid up property prices close to the CBD, forcing low income groups to live further afield.

welfare policies. Even the case for financially assisting those who are too disabled to be able to use conventional forms of transport requires establishing that there is a problem that is not best addressed by adjustments to components of the welfare system that cater for special needs.¹⁷ Competitive tenders could be used to allocate the financial support to specialist agencies.

- 3.5 The Committee or the WRC should take responsibility for providing a deadline for putting detailed plans for congestion pricing to the public. The Strategy should also explain to the public why it is desirable to toll existing routes in order to avoid the wastage inherent in a competing congested existing toll-free route and an under-utilised but tolled new route.
- 3.6 Rather than fuel road user fears that local government's intentions in relation to congestion charges, car park levies or regional fuel taxes are predatory, the Strategy should explain that efficient pricing does not necessitate an increase in the average cost per motorist for road access and use.
- 3.7 For the same reason, the Strategy should also explicitly address the issue of constraints on the abuse of a statutory monopoly position by local government providers.

4.0 Conclusions

- 4.1 The foreword to the Strategy asserts that it is "not inconsistent" with the government's reform proposals. This assertion lacks the context that would be required to make it credible. Standing still today is arguably "not inconsistent" with an intention to reach a distant destination tomorrow. But announcing a credible strategy today for achieving tomorrow's destination is clearly much more consistent with the stated intention.
- 4.2 To make a credible case that the Strategy is "not inconsistent" with the government's reform proposals, the Committee would need to establish that the reasons for rejecting a more consistent strategy were not themselves inconsistent with the government's reform proposals. Since the Strategy fails to contemplate any alternative strategy for explicitly making the transition to a

¹⁷ Cash benefits give the disabled more options than an equivalent benefit that is tied to transport services.

more commercial structure, it fails to establish any reasons for rejecting such an alternative. The 'not inconsistent' claim is empty.

- 4.3 The NZBR's criticisms of the Strategy reflect a familiar theme. All too often we find that local government and local government agencies are overly protective of their own operations and of cross-subsidies for favoured groups. Discussion documents repeatedly fail to make sound arguments for efficient prices, greater reliance on competition and the profit motive, asset sales and the ending of inefficient cross-subsidies to the public. To the contrary, all too often they present unsound arguments against such approaches.
- 4.4 What we see at present as an anti-motorist bias seems to be heavily entrenched in local authority circles. In part the problem arises from central government policies. The NZBR is looking to central government for remedies to the problems we have alluded to in the previous paragraph, including the issue of subsidies for buses and trains.
- 4.5 In the meantime, we urge the Committee and the WRC to take responsibility for providing an agreed timetable for detailed proposals for congestion pricing.
- 4.6 We also urge the Committee to base its expenditure proposals on publicly disclosed, best practice, cost-benefit analyses. The draft Strategy provides no grounds for confidence that the proposed capital expenditure programme would pass this test.