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The Theory and Practice of 'Competition'
IMPLICATIONS FOR ADELAIDE'S PUBLIC TRANSPORT

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THE 'CONSENSUS'

In a paper to be presented to the 22nd Australian Transport Researchers Forum later this year Paul Mees of the University of Melbourne notes:

there has been for some years a near-consensus among commentators that increased competition and private sector involvement are the key to improving financial performance and service quality [in public transport",]...

Considering that only a couple of decades ago it was widely accepted that urban public transport is a natural monopoly, it is surprising how little dissent occurs from the current consensus.ⁱ

The absence of critical debate about the merits of private involvement in public transport service provision is all the more surprising when one considers the significant and sometimes dramatic effects that the introduction of competition, privatisation and deregulation has had. Much of this change has been driven by a body of thought which we may conveniently call 'competition theory', the embodiment of which is the document known as National Competition Policy ('NCP'). The principles of competition theory form the rationale for the South Australian Government's policy of outsourcing and privatisation and are used as the frequent justification for accelerated public sector 'reform' - but they are principles which, though rarely challenged, are based on an unsound understanding of the nature of public sector economics.

It is the intent of this paper to explain how competition theory is based on unsound economic principles and in particular to show the adverse impact it has had and will continue to have on public transport policy direction and service delivery.

Let us then begin by introducing the 'theory'.

PART 1: THE THEORY

Introducing... 'National Competition Policy' NCP was ushered in with much fanfare by the nine governments of the Council of Australian Governments ('COAG') in April 1995. A new bureaucracy was created to oversee it and since then it has steamrolled its way through a multitude of public sector 'reforms'.

The administrative architecture of bureaux, specialised units and taskforces that have been established to implement, regulate and administer NCP is astonishingly intricate - in South Australia we have the octopus-like empire of the Passenger Transport Board, which has increased its operating budget each year of its short life - money which is being spent on administration rather than increased service provision. All of which points to just one of the false premises upon which theories of 'competitive restructuring' are founded, viz smaller is better'. More of that anon.

Finer detail aside, the fundamental reasoning on which NCP is based and justified is the premise that competition is ipso facto 'good management practice' - indeed, is the best management practice. As such competitive principles should be - must be - applied wherever and whenever they can. Those who support NCP are therefore not passive agents, but zealots in its cause!

The inexorable drive for competition is vitiated only by two key assessment criteria. These were outlined in the Issues Paper for the recent Competition Policy Review of the Passenger Transport Act 1994:

The guiding principles of the assessment is that... legislation should not restrict competition unless it can be demonstrated that:

- the benefits to the community of the restriction outweigh the cost; and
- the objectives of the legislation can only be achieved by restricting competition.ⁱⁱ

This test bears closer examination. It starts from the position of presuming competition principles should be applied unless their application has been expressly negated. Its key assumption is therefore that a competitive structure is at all times inherently more efficient and productive than any -- other. To accept this premise, however, requires a leap in logic which is not necessarily supported by the empirical evidence. Speaking before the House of Representatives Standing Committee on Financial Institutions and Public Administration, John Quiggin of James Cook University argued that this key assumption is far from being sound. His comments are instructive:

I think there is a misunderstanding of what the role of competition in the economy is... there is nothing in economic theory that suggests that a monopolistic firm will be technically less efficient than a competitive firm. There is nothing in standard economic theory which suggests that by introducing competition firms will become more efficient.. All of these claims have no basis in sound economic theory and in my view are not supported by the evidence.ⁱⁱⁱ

The argument that competition breeds better quality and greater efficiency is a fallacy. There is nothing intrinsic to a monopoly, whether public or private, or to an organisation in competition with others which makes one or the other likely to be more 'efficient'. The regularity of bankruptcies and corporate collapse in the business world clearly demonstrates this point (even taking into account the vagaries of the capital market). On the flip side of the equation it is 'not difficult to find examples of public sector organisations which have an impressive record of our rather narrowly-defined concept 'efficiency'- public corporations such as the Australian Film Finance Corporation, or, for that matter, the public hospitals and schools which have always had to operate on shoestring budgets.

Of course this comes back to what we mean by 'efficiency'. NCP sees efficiency merely in terms of reducing economic loss - a very limited viewpoint. The practical thrust of NCP is therefore often towards cost-cutting - which is one of the reasons why it is intrinsically linked to outsourcing and privatisation, both of which are vehicles of government cost-cutting. If we look at the economy from a macro-level, however, efficiency is that which brings a net gain to the economy - if all we are doing is shifting the costs from the government to the community we are not in any way increasing the overall productivity of the economy at all. Quiggin argues that 'The critical difference is the difference between working harder and working more efficiently':

Obviously, if any of us choose to work harder in whatever business we are engaged in, we can supply the product we make at lower cost - just as we can if we choose to work the same hours and take a lower wage for ourselves. But there is no net gain to the community. All that is happening is that the consumer is benefiting and the producer is losing...

The issue of dispute is whether, by putting pressure on people, you will lead them to find ways of working more efficiently that produce a gain to everybody.^{iv}

This is clearly a complicated and confusing area of 'high policy', but the essential message is clear: the link between competition and efficiency that competition theorists insist upon as the cornerstone of their thesis is at best doubtful in practice and is dependent upon a very narrowly defined concept of efficiency. If all we are doing is transferring costs from one sector to another, ie from government to passengers in the form of higher fares and reduced services and to employees in the form of less jobs and lower wages, there is no net gain to the economy and a direct loss suffered by a number of stakeholders without direct compensation. The evidence in South Australia reflects exactly this with higher fares, reduced access to services in a number of areas, fewer jobs and lower wages.

The Passenger Transport Act: an exercise in competition theory

In 1994 the Brown Liberal Government promulgated the Passenger -Transport Act and ushered in the so-called 'first wave' of competitive tendering for Adelaide's public transport system. The model of competitive tendering is one of a number of approaches adopted by Australian Governments in applying NCP to public transport services.¹ According to Ian Wallis while Australian Governments have been unwilling to follow the Thatcherite model of complete deregulation, they have been willing to use the 'threat' of competition 'as the main spur to improving efficiency.' Thus in South Australia tenders were called for only three contract areas (inner North, Outer North and Outer South) with the remaining contracts being negotiated between the Passenger Transport Board and service operators (TransAdelaide and Hills Transit) according to vague 'contestability benchmarks'. The South Australian Government has been at pains to demonstrate its interpretation and application of competition policy principles is far from the radical approach advocated by more zealous economic reformist governments in other states and around the world. Despite efforts to moderate NCP principles, no one should doubt that the ultimate direction of competition theory is towards full privatisation.

¹ The approach should be contrasted to the open-slathe deregulatory approach advocated by the British White Paper Buses and implemented in the UK and in part in New Zealand. Full deregulation has thus far been eschewed by Australian Governments, however, as will be discussed further on in this paper, the implications of NCP lead ultimately to both private ownership and full deregulation.

One of the fond claims Minister Laidlaw likes to make about the competitive tendering process is that, unlike the experience of outsourcing in Western Australia and other jurisdictions, in South Australia the government-owned service provider TransAdelaide has been 'allowed' to tender equally with private sector transport companies for service contracts. Responding to a question from Frances Bedford MP in the House of Assembly Estimates this year the Minister commented:

What this Government has done and the Parliament has provided is for TransAdelaide to have the best possible opportunity if it wishes to exercise that opportunity. The Western Australian and Victorian Governments did not do that - they just privatised: we have not done that in South Australia. If the business, the work force and the unions want to go after these contracts, I would encourage them to do so, but it is over to them.^{vi}

Similarly in her first reading speech to the Passenger Transport Bill the Minister was at pains to point out that the Government was not pursuing a deregulatory policy such as that adopted in Britain and New Zealand: 'It is important to note that... [the Government's] approach does not involve the deregulation of public transport'.^{vii} So anxious was the Government not to be seen as pursuing a radical policy of privatisation that a provision was incorporated in the 1994 legislation² which guaranteed TransAdelaide a minimum 50 per cent share of contracts awarded in the first round of tendering - a provision which in the latest round of 'reform' has not only been removed but indeed reversed by the introduction of anti-monopoly principles.³ More of that in a moment.

Of course, a cynic might suggest that this 'guarantee' to TransAdelaide was made only to ameliorate public opinion, which has always retained some fondness for the STA as one of the most visible legacies of the Dunstan era. (it is no wonder that the Government also changed the name of the state public transport organisation to TransAdelaide - an obvious attempt to detach the community's loyalties.) Having now detached community loyalties the Government is able to move beyond merely using the threat of competition to improve public service provision towards a more deregulated-competitive model eventually leading to a complete withdrawal of the public sector from service provision or even a regulatory role.

Late last year the Government passed two pieces of amending legislation which opened the door for the 'second wave' of outsourcing. These two statutes, the Passenger Transport (Service Contracts) Amendment Act 1998 and the TransAdelaide (Corporate Structure) Act 1998, have placed the primacy of the public service provider in serious jeopardy - despite' the Minister's fond claims to the contrary. The latter Act removes TransAdelaide from the purview of the Minister's authority and sets it up under a corporatised structure with a separate board and reduced accountability to the Minister or the Parliament.

² Section 39(3)(a)(ii).

³ According to the Minister 'This condition was designed to allow TransAdelaide sufficient time to make the transition from being a monopoly provider of public transport services in Adelaide to a provider of services in a competitive environment' (Legislative Council, Hansard, 28 October 1998, p 49).

In this context it is interesting to note that in 1994 the Minister was happy to guarantee no forced redundancies of STA staff in 1994 but is not prepared to offer a similar guarantee in 1999.

There should be no doubt in anyone's mind that corporatisation - which is said to make the 'business' more competitive - is but a prelude to eventual privatisation. Indeed, as the legislation currently stands, the Government may put TransAdelaide up to tender without reference to the Parliament. (You might well ask the question how setting up an independent board makes TransAdelaide - or any government instrumentality - 'more competitive'? And indeed this is a question which our organisation has raised, but with little success so far. After all what will TransAdelaide be doing under its corporatised structure that it would not be doing under the previous system of a General Manager appointed by the Government?)

More insidious than the corporatisation process, however, are the changes made to the Passenger Transport Act. In the 1994 Act the Minister guaranteed TransAdelaide's market share at 50 per cent.⁴

This provision has now been removed - a clear signal of the Government's intent to downgrade public sector involvement in the provision of public transport. Not only has the Government erased TransAdelaide's legislative position as the favoured service operator, it has introduced a number of new provisions which make it virtually impossible for TransAdelaide to retain its current position:

39(3) The Board is awarding service contracts under this Part - (a)... must take into account the following principles (and may take into account other principles):

- (i) service contracts should not be awarded so as to allow a single operator to obtain a monopoly, or a market share that is close to a monopoly, in the provision of regular passenger services within Metropolitan Adelaide;
- (ii) sustainable competition in the..provision of regular passenger services should be developed and maintained..."

This section has the effect of guaranteeing private involvement in the provision of public transport - regardless of how much better the tender bids of Transadelaide may be for all contract areas. The effect of this section is therefore contrary to the principles of competition policy - with a pronounced bias against the public service operator. What has happened to 'competitive neutrality', much-vaunted as one the key principles of NCP? What happens if TransAdelaide puts in the best bids for all contract areas of even for seventy per cent of them? And is TransAdeiaide's current market share a 'near monopoly'?

The effect of these amendments is clear. TransAdelaide cannot but lose market share in the next round of tenders, particularly when we consider that at present its near 75 per cent share will probably be construed by the PTB as a 'near monopoly' - and this is no surprise given the political thrust behind NCP principles that is driving this process forward. Eventual privatisation and full deregulation is the only logical direction of such a policy.

⁴ The provision required the Passenger Transport Board to apply certain principles in awarding service contracts including 'that, until 1 March 1997, TransAdelaide should be given a reasonable opportunity to provide, or to control the provision of (for example by subcontracting), a level of services within Metropolitan Adelaide that, when considered on the basis of passenger journeys per annum, does not fall below 50 per cent of the total number of passenger journeys undertaken within Metropolitan Adelaide on regular passenger services provided by TransAdelaide in 1993' (s 39(3)(a)(ii) Flassenger Transport Act 1994).

The thrust of Minister Laidlaw's policy approach conforms to this model - and leads with banal inevitability towards a fully private and deregulated system, despite all her claims to the contrary. At the same time, coincidentally, it has led to lower wages and job losses - all to the accompaniment of the Minister's relentless union-bashing under the cover of parliamentary privileges.⁵ Wallis points out that most cost reductions made as a result of competitive tendering have been at the expense of jobs and wages:

[A]wards have been restructured, particularly for drivers, with more flexibility of hours, less overtime and penalty payments, and some increase in worked hours to achieve the previous gross pay levels."

It makes you wonder what the real agenda is behind the rhetoric.

'Competitive tendering' means privatisation

What really drives competition policy forward, then? According to Yencken competition policy has become a 'standard tool to improve the efficiency and effectiveness of public sector performance' but:

The way competition policy is applied to the transport sector will depend very significantly on assumptions policy makers hold about the role and potential of different transport modes in Australian cities.^x

In an era which doubts the capacity of politics to change society for the better it is natural that governments expect more and more to keep out of matters 'best left' to the private sector. It is essentially driven by a deep scepticism about what government can do. While such scepticism is healthy, to make it official policy is socially destructive: it should stimulate our government to work harder at the problems not to abdicate their responsibilities to us. The claims of the economic rationalist zealots, moreover, should be viewed with a similar scepticism.

According to the National Competition Council - the quango established under NCP to support governments in 'explaining to the community' the benefits of competition policy^{xi} - 'The structural reform principles.' in NCP are neutral on the question of private versus public ownership,^{.xii} in the opinion of these well-meaning bureaucrats privatisation is merely 'an option -for applying... "competitive neutrality" to significant government business activities...',^{xiii} and therefore, rather than it being a case of NCP having any causative relationship with privatisation and outsourcing policy, a 'decision to provide government services through. a tendering process is a policy decision for the government in question'^{xiv} - in other words it is a political decision, and the National.Competition Council acknowledges it as exactly that.

And who would we expect to be driving this political decision? - the very same zealots who are so anxious to reduce the role of government and entrench competition policy in the national agenda. It is after all the logical direction of their theories - if you believe that competition is the 'most efficient' management practice then it is only logical to believe that publicly operated organisations not in competition are inherently less efficient than their private sector counterparts. You cannot introduce competitive principles to the public sector and not allow for the eventuality of the total privatisation of the service being provided. Is it any wonder that the deck is so badly stacked against TransAdelaide?

The direction of Adelaide's public transport policy depends upon a fundamentally pessimistic view of what the public sector can - achieve through involvement in service delivery. The proponents of competitive tendering invariably fervently believe in reducing the role of government.

⁵ In a recent outburst the Minister accused members of the opposition of 'bankrolling' the Rail, Tram and Bus Union's campaign against the current round of tendering (Legislative council, Hansard, 27 May 1999)

Publicly owned organisations like TransAdelaide are an irritating anomaly in an outsourced public transport system: it should come as little surprise that the latest round of 'reform' to Adelaide's public transport system has left the public service operator TransAdelaide in an even more precarious position.

PART 2: IN PRACTICE ...

Disintegration and fragmentation

The experience of competitive tendering and deregulation in South Australia and other jurisdictions has been less than satisfactory. In most areas patronage has suffered - largely as a result, I would contend, of the fragmentation of the public transport network. Successful integration of a multimodal transport system becomes increasingly difficult to maintain once centralised control of policy development and service delivery has been abandoned. A simple example is the fact that TransAdelaide and Serco do not operate on the same radio frequency - thwarting service integration between rail and bus services at interchanges in the northern suburbs.

Shadow competition between TransAdelaide and Serco has already become evident during the course of the current contracts. Most obviously Serco has run separate transit services to the Royal Show in direct competition with the TransAdelaide, however competition between the Serco Bullet service and TransAdelaide's Gawler rail line and TransitLink services, while not as apparent, is having a detrimental impact on service integration in the northern suburbs. The experience of the National Bus privatisation in Victoria is indicative of the direction which competitive tendering will take us in the future:

Mees asserts that rather than initiate a -new era of 'innovative, customer-responsive services' privatisation has led to "cream-skimming" by competing with other public transport operators - mainly the parallel rail service - rather than the car'." Rumours that rail will be next on the competitive tendering list point to the eventual direction of the Government's policy: the system of competitive tendering has set up an environment in which competition between transport modes is not only possible but is positively encouraged. More insidious, and ultimately short-sighted, is the petty competition for the PTB's favour which the system encourages between the service operators on issues like wages, service innovations etc. A classic example is how Sereo brought forward the termination date of its current contracts to enable the contracts under the current round of tendering to commence on the same date. This kind of petty shadow competition is ultimately self-destructive and certainly has no beneficial impact on service provision.

The dream of a fully integrated, multimodal public transport system will continue to remain an illusion while ever the practice of competitive tendering is the driving force behind public transport policy. The effect of competitive tendering has in fact seen the fragmentation of the transport system. Mees notes 'the experiences with deregulated and planned public transport in both British and Brazilian cities suggest the existence of economies of service integration" which may mean that urban public transport exhibits at least some of the characteristics of a natural monopoly'^{xvi} The experience in South Australia certainly backs up this assertion.

Practical public intervention

Competitive tendering represents a retreat from active public sector involvement in the provision of public transport services. Significant expansion of the public transport system is unlikely to take place without significant investment by government. We are not likely to see sufficient private investment in Adelaide's urban transport infrastructure to enable the expansion and consolidation of existing services essential to the future of public transport in this city. The nature of investing in such major infrastructure programmes requires long-term planning and investment - the kind of investment that only the public sector can provide and which must therefore be coordinated by a single agency and not divided between competing shareholdings. The Adelaide O-Bahn would not have been built without active and long-term intervention from the public sector, starting with the reservation of a north-east transport corridor under the Dunstan Government and subsequent investment decisions under the Tonkin and Bannon Governments. According to one assessment, 'Adelaide's O-Bahn Busway... has been one of the relatively few public transport projects that can be considered to have in any way contributed to the economic welfare of the community':

It has been extremely popular with commuters, initial ridership projections have been exceeded... it was constructed at approximately half the cost of a comparable rail-based system and is one of the few public transport systems in this era of automobile dependency that has been able to attract (and retain) passengers.^{xvii}

The Minister promised to investigate the possibility of an O-Bahn for the south but instead sponsored the development of the expensive Southern Expressway - the first road in history to need a jingle!⁶ The project, which cost well in excess of \$1 00 million, could have paid for the electrification of the entire metropolitan rail network, or an extension of the Noarlunga line.⁷ The success of electrification and line extension is shown very clearly in Perth's Northern Suburbs Line - a project undertaken through public sector investment and still managed successfully in public hands - is indicative of the results that can be attained through sensible public involvement and investment. Instead the Minister sponsored the construction of a freeway which has had a negligible impact on journey time (three minutes according to Steve Hamnett in the Adelaide Review^{xviii}) from the southern suburbs - not a decision which will assist public transport patronage levels.

In his 1998 Whitiam Lecture 'We intervene, or we sink' the late Premier of South Australia Professor Hon Don Dunstan AC QC noted the need for public intervention to correct the vagaries of the marketplace remained a realistic and reasonable policy option for governments:

Historically, Labor (and at times as I shall show, non-Labor) governments have proved it necessary to intervene in various ways in the market place to ensure socially desirable results... Intervention involves more than nationalising assets or undertakings... The forms of intervention are necessarily empirically chosen, but as I shall show through the example of South Australia, intervention has been vital to produce a productive, fair and just society."^{xix}

⁶ This is an example of what could be referred to as 'hidden subsidies' to the car: see Hensher, D A, 'Selective but important challenges facing the transport sector'. 1996: Institute of Transport Studies Working Paper 96-5, and Pucher, J, 'Urban Travel Behavior as the Outcome of Public Policy: the Example of Modal Split in Europe and North America'. Autumn 1988: Journal of the American Planning Association 54:4, pp 513ff.

⁷ It is believed that a report has been commissioned by the PTB into this matter but, because of political sensitivities - the same political sensitivities which helped TransAdelaide retain the service contracts for the southern suburbs (where prior to 1997 the Liberal Party held a number of seats) - have prevented its release.

Further on he comments:

In planning our future it serves neither economic efficiency nor social justice to destroy the institutions that society from experience has created, and that are efficiently meeting the social needs of the community. They are not impediments to progress but foundations for it.^{xx}

Dunstan should know. It was his government that in 1974 established the State Transport Authority from the old Metropolitan Tramways Trust and initiated the process of nationalising the metropolitan public transport system. At the time Adelaide's public transport system was divided between the Government and over twelve private sector operators. Expanding suburbs like Fairview Park and Tea Tree Gully were serviced by two or three bus services a day - service levels that changed when the STA was established. Services like the Bee Line would not have been begun without the public investment made by the Dunstan Government and followed through by subsequent administrations with varying degrees of success. Vuchic notes:

Public investments in well planned, co-ordinated multimodal transport systems represent a sine qua non for development of liveable, sustainable urban areas.^{xxi}

Deconstruction of the existing centralised transport infrastructure will not lead to better services or increased patronage. Bold policy, favouring the need for an integrated multimodal system coordinated by a central body, is needed and will lay the foundation for practical success in public transport provision. The politics of the bottom line do not have the long-term vision that is required to achieve ultimate success in public transport - and if we persevere with the short-term bottom line approach 'public transport services may run down to a point that makes recovery unlikely'.^{xxii}

EXPLODING THE CONSENSUS

We have been lulled into seeing essentially reductive economic rationalist theories as 'reform', when they are in fact little more than measures which will have a regressive impact on the liveability of Adelaide. Instead of giving public transport a central role in the creation of a vibrant and comfortable urban environment current government policy inspired largely by the processes of competition theory have downsized the importance of public transport to the public sector. No longer is public transport seen as a service which either requires public sector involvement or indeed in which public sector involvement may be beneficial for economic and social reasons. Is there really a 'consensus' or are people just worn out arguing against the competition theory zealots?

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