

## **FISCAL FEDERALISM AND REGIONALISATION OF TRANSPORT POLICY IN EUROPE**

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### **Abstract**

The growth of mobility resulted in a change of transport policy in many countries. The administrative structure to deal with the transport problems has been reconsidered as well. This issue directly refers to the theory of fiscal federalism, which offers guidelines for the administrative organisation. In the paper attempts in the Netherlands, Germany and France to deal with the changed transportation patterns and its resulting problems are described and analysed. In these countries trends of regionalisation may be recognised, but all of them try to tackle the problems another way. It is concluded that in the studied countries fiscal federalist insights are not being used as they could have been.

## **TRANSPORT : THE PROBLEM**

Since the beginning of the sixties in western Europe car mobility and car ownership have increased considerably. The growing welfare was used by people to buy a car, the welfare symbol. Governments built new infrastructure, but generally withheld investments in public transport infrastructure. These developments, together with growing live-work distances and a growing population, led to a considerable growth in (car)mobility. Transport policy in the sixties and seventies was demand following. The supply of infrastructure was adapted to the demand for it. The aim was to more or less certify an efficient flow of transport. Unfortunately, new infrastructure resulted in new demand (and more mobility). (Every supply creates its own demand.)

Transport flows are still increasing rapidly, and even on the long run for instance for the Netherlands annual growth figures of 3 % or more are envisaged. Estimates of growth seem to be outdated quickly. Transport flows will increase rapidly, but to which extent cannot be told by certainty.

Unfortunately, the growth of mobility is not without problems. Congestion increases. Mobility and especially car mobility deteriorates the accessibility of economic centres and inner cities. Secondly, transport does influence environment and liveability negatively. When these problems would fade away of itself, there would be no need for the government to take action. However, this is not the case.

The problems did result in a change of transport policy in many countries. Managing this mobility boom has become a challenge for most European governments, especially in urban areas. In this paper attempts in three European countries, the Netherlands, Germany and France, to deal with the changed transportation patterns and its resulting problems will be described and analysed from a fiscal federalist point of view. First, it will be concluded that the transport system may be considered to be a kind of public good. This leads to the conclusion that it is the government which has to deal with the problems. Then, it may be concluded that a single administrative organisation will not suffice. Fiscal federalism offers a theory which can be used to build an administrative structure. In the cases attention will be paid to the position of regions. Developments in the three countries will be described and conclusions will be drawn with respect to the theory of fiscal federalism.

## **THE TRANSPORT SYSTEM : A COMMON GOOD**

A first question to be answered is : "Why has it to be the government who deals with the transport problem?"

To answer this question, the difference between private and public goods may be essential. The difference between these two kinds of goods may be explained by the characteristics exclusion and rivalry. Using these characteristics and supposing a dichotomy, four possibilities do exist. Exclusion may be easy or difficult (impossible), and rivalry may be small (absent) or large. With respect to pure private goods exclusion is easy and rivalry is large. In that case, the prize mechanism does function. Theoretically, it can be stated that in cases where public goods are at stake, market will fail. Prize mechanism does not function.

Individuals can not be withheld from consumption, because exclusion is difficult or impossible to realise. Besides, consumption is not rivaling. When some individual consumes the good, it does not limit the potential consumption of the good by another individual. The two other possibilities are

common pool goods (or common pool resources) and toll goods. With respect to common pool goods exclusion is difficult to achieve and rivalry is large. With respect to toll goods exclusion is easy to achieve and rivalry is small. A good may move from one category to another, since its characteristics may change.

In case of both public goods and common pool goods, several problems may be recognised as a results of the characteristics of non-exclusion and absence of rivalry. If a good is nonexclusive, an individual may decide not to contribute, because he can enjoy the good for free. Besides, a reason not to contribute arises if an individual believes it would be futile to contribute because the good will not be provided anyway. Finally, individuals may contribute sub-optimally not because they are free riders, but because they are averse to being taken for a free ride. In fact, it is the character of the goods which impairs a production by the market. Therein lies a role for government.

In the case where the management of regional transport networks (infrastructure) is at stake, the transport network is the "good" to be managed (or to be produced). Exclusion of individuals of the use of the transport network is difficult to achieve. It will be very precious to keep individuals from using the roads.

The second characteristic, rivalry, is more dubious. In fact, when no one (or very few individuals) is using the transport network, rivalry is absent. In this case, the transport network may be classified as a pure public good. However, when many individuals use the network, crowding may appear. Congestion may be the result. In that case, the transport network may be classified as a common pool good. From this, it may be concluded that the transport network may be a public good at first, but when more individuals use the transport network, the good will shift from the category of pure public goods towards the category of common pool goods.

Therefore, to deal with the mobility problems, it is the government who has to take action. And most western countries did change their transport policy in order to reduce car mobility growth and to increase attractiveness of alternative transport modes (like public transport, bicycle). But apart from the change in transport policy, governments recognised that tasks and competencies with regard to transport policy were distributed among various administrative levels. This fact was impeding an effective and coherent policy formulation and implementation. Consequently, in many countries discussions were held about the appropriate level of formulating and implementing transport policy, the role of various organisations with respect to the policy and the way in which tasks and competencies were distributed and the way they should be distributed.

## **RESTRUCTURING THE ADMINISTRATIVE ORGANISATION : A FISCAL FEDERALIST ARGUMENT**

Since the transport network may be considered to be a common pool good or a public good, Oates' theory of fiscal federalism may be used to consider the appropriate administrative organisation. According to fiscal federalism, every public good has its own optimal level of provision and production. The level of costs and benefits differ between public goods. Consequently, a single administrative level providing (and producing) all public goods is not an optimal situation. Fiscal federalism argues that every public good should be provided (and produced) at the level coinciding with the needs and preferences present at that level. Needs and preferences may differ between locations or regions and therefore a decentral provision may meet the local preferences better than a central provision. Tuning the administrative provision level at the spatial area of the users will result in an optimal allocation of provisions. This is the principle of fiscal equivalence, meaning that individuals (households or firms) and groups (neighbourhoods or communities) get what they pay for and pay for what they get. Efficiency on the provision side of a local public economy depends on

the degree of fiscal equivalence that is attained. A lack of fiscal equivalence undermines the local community of interest. This argument does have a decentralising influence.

However, realising an administrative organisation for the provision of every public good would result in a multiple layer of administrative organisations. This might lead to high costs of organisation and decision-making. Limiting the number of organisations and combining them may yield economies of scale. These economies of scale may exist with regard to both provision (costs of organisation and decision-making) and production (production techniques of the provisions). This distinction between provision and production may result in an administrative organisation choosing to provide a community with some provisions but not producing themselves. It may contract a private organisation which has to take care of the production. For instance, a municipality chooses to provide its community with free public transport on Sunday and contracts a bus company to transport inhabitants of the community for free on Sunday. The possibility to realise economies of scale is a well-known argument against decentralisation and often used as a justification for centralisation.

Secondly, it will almost be impossible to limit the costs and benefits of public goods to the spatial area of the providing authority. This is the problem of spatial external effects. These effects may bring individuals or groups to show free rider behaviour. Consuming the benefits and not paying for it. To internalise spatial external effects, the provision should be at a higher level.

These two influences, the possibility to realise economies of scale and the internalisation of external effects, do have a centralising influence.

To conclude, it can be stated that the administrative organisation is a result of decentralising forces (local preferences) on the one hand and centralising forces (economies of scale and internalisation of spatial external effects) on the other hand. According to King then the optimal size occurs where any further gains resulting from an increase in size would be more than offset by the losses. Authorities may be of an optimal size even if they are too small fully to exploit economies of scale. The more tastes vary between areas, the smaller the optimal size will be. However, these economic arguments are not the only ones influencing the structure of an administrative organisation. The political opinion is important as well. It is the politicians who decide and therefore their opinion is important. And their opinions may differ considerably from the economic (fiscal federalist) arguments. It is because of these facts that administrative organisations of states differ from one another.

The resulting administrative organisation does not have to be immobile. In line with Oakersons statements it can be stated that to maintain an efficient public economy structural flexibility and continued availability of alternative arrangements for provision and production is required. Changing societal or technological circumstances may result in a centralising or decentralising pressure at the organisation. In case of changes, an administrative authority can react by :

1. reorganising itself;
2. co-operating voluntarily (with other administrative organisations);
3. asking other (higher) administrative organisations for an appropriate fit between interests and organisation.

Hence, changes may bring about a formal change in the administrative structure. When, in case of a centralising pressure, politicians choose not to change or adapt the administrative structure formally, co-operation between administrative providers may be an option to overcome changing circumstances and lead to a more optimal provision of the public goods.

## **THE NETHERLANDS : INSTITUTIONAL CHANGE VERSUS CO-OPERATION**

### **Developments in the Netherlands**

Because mobility led to problems in the Netherlands, the Dutch government concluded that the transport policy should be changed to reduce the (growth) of car mobility. Government realised that times had changed. Commuter travel distances had increased, car ownership had increased resulting in individuals being more mobile and the spatial profit level of central (or municipal) provisions had increased. This had resulted in environmental problems and accessibility problems (like congestion). To maintain or even improve the environment and accessibility (of the main ports and inner cities) several measures were proposed by the government. The second long term National Transportation Plan provides this new direction in transport policy. Measures could be divided in push- and pull-measures. Push-measures like prize policy and parking policy should reduce the (growth of) car mobility. Pull-measures like the improvement of public transport and bicycle facilities should increase the use of public transport and bicycle.

However, the government realised that not all regions were alike. Problems differed in kind and degree between regions and therefore, transport policy should differ between regions (although the main aims were alike). The regional scale was according to the government the scale at which transport flows showed a functional coherence. To tune the transport policy to the region-specific situations, it therefore seemed appropriate to formulate and implement the transport policy on a regional level.

However, the problem was that in the Netherlands a regional authority did not exist. The administrative structure in the Netherlands consisted of three levels, but not a regional one. The three levels were state, provinces and municipalities. Although in some cases it could be argued that the area of a province was equal to the area of a defined region, in most cases the area of a region did not conform to the area of the province. Consequently, it could be stated that a regional level, a level between provinces and municipalities, did not exist. This problem was recognised and a discussion was initiated about the Dutch administrative structure. The government concluded that the tasks and competencies with regard to transport policy were dispersed among the administrative levels. This was impairing an effective and coherent policy. To attain the aims a more coherent approach and a more integral policy were nevertheless necessary. A reorganisation of the administrative structure therefore seemed indispensable.

The government launched incentives to create new (public) regional transport authorities (transport regions). These transport regions should facilitate the implementation of a more integral policy and a more collective approach of the problems. A transport region was a geographical area. It was a functional coherent area and potentially administrative coherent. A transport region was defined as a form of (regional) co-operation between municipalities, tuning their policy with other administrative levels and with public transport firms (and other private parties). Co-operation was both vertically and horizontally. This co-operation should develop into a new administrative level, the regional authority with its own tasks, competencies and financial means. These regional authorities should manage the (regional) transport systems. In all parts of the Netherlands municipalities started to co-operate at a regional level, although regions differed considerably in the development of their co-operation. The central government stimulated these developments by rewarding successful co-operation.

The elections of 1994 caused a political change. This political change changed the process, although the motives for a restructuring of the administrative organisation did not change. The new government stopped the process of regionalisation in the more peripheral regions and allowed only 7 (of the former 30) regions to continue development. According to this government, a simple

reshuffling of the financial means, competencies and tasks should suffice. During time, however, even these 7 (more urban) regions became increasingly uncertain about their future. The government nowadays is considering if not only a few regions should go further on their way to become a mature regional administrative organisation.

Nevertheless, even in the system where the present administrative structure remains unchanged and the problem "of the inadequate administrative structure" will be solved by a reshuffling of competencies, tasks and financial means, co-operation will remain an essential condition for the attainment of the aims of the policy. Without co-operation, the accessibility and the environmental condition will not be maintained or improved. This has been concluded by the government itself as well. On the other hand, however, rewards for successful co-operation were in the meantime (beginning 1996) abandoned. The central government changed its policy of rewarding successful co-operation and distributed financial means to the lower administrative levels more or less independent of their successes.

## **Analysis**

From a fiscal federalist point of view some remarkable developments may be mentioned. At first, in the Netherlands the changing circumstances were notified. It was notified that transport flows were changing (growing) and that mobility did not stick to the borders of a municipality or a province. Government concluded that transport flows did have a functional coherence at a regional level, a level at which an administrative organisation did not exist. To deal with the transport problems, from a fiscal federalist point of view a regional approach seemed appropriate. A local approach would not succeed. This could be illustrated by the fact that municipalities do have competencies with respect to parking policy, a potentially effective tool. However, municipalities are not willing to use parking policy because of a fear of losing customers at the benefit of other inner cities (spatial external effects of a measure). In this case a regional policy may be an attractive and effective option. Parking policy would be more effective if it would be formulated and implemented at a regional level.

From a fiscal federalist point of view the Dutch intent to realise regions was a justified one. To internalise the spatial external effects and to meet regional needs tasks and competencies should be at a regional level. To realise this the intent of the government to decentralise some tasks and competencies to the region and to have some local tasks and competencies be centralised can be justified.

The following developments in the Netherlands make clear that although economic arguments may be used to defend some choices, political opinion is more important. Transport flows and problems did not change (on the contrary, they kept increasing), but political opinion did. And a regionalisation was more or less abandoned. From a fiscal federalist point of view the conclusion may be drawn that, the other two options not been chosen in the Netherlands, voluntary co-operation between the Dutch municipalities has to be the panacea. Voluntary co-operation between administrative providers may be an option to overcome the changing circumstances.

Concluding that a real change of the administrative structure in the Netherlands will not be attainable the next few years, it may be concluded that according to fiscal federalism (voluntary) co-operation is an option. Besides, lessons from the past learned that without co-operation transport policy was not very successful. Therefore, it would be interesting to know whether co-operation will lead to a more effective co-operation with respect to transport policy, and to study the key factors within the process of co-operation. This may be a contribution to the theory of fiscal federalism. With regard to this subject, by Witbreuk (Witbreuk, 1997) a study has been carried out to answer the question how the effectiveness of co-operation with regard to the management of regional transport networks can

be described and predicted and which key variables do influence the success of the process of co-operation. From the results it is concluded that a "tragedy of the commons" can be prevented. A number of variables can be pointed out that have a positive impact on the effectiveness of co-operation. Consequently, there are opportunities for increasing the probability of an effective co-operation in regional transport policy formulation and implementation.

### **Conclusions with respect to co-operation**

In the more urban Dutch regions, the municipalities do have a common goal with respect to transport policy. This is the improvement of accessibility and liveability (and safety). Their transport networks are congested and their environment is affected. However, within regions differences are present. Although their transport flows are related and their situation is an interdependent one, municipalities located in the more peripheral areas of the studied regions do not identify their situation as problematic, and consequently are not really motivated to take measures which should help the more central and urban municipalities. And as long as municipalities do not identify their situation as problematic or do not expect problems on the short term, they will not co-operate the way other municipalities would like to. It may be expected that in the Netherlands problems will continue to grow and that in the regions not yet confronted with serious problems prevention of the problems which may be expected will not succeed. Besides, in the regions where problems are already at stake, the intentions of the central municipalities will be impaired by the reluctant behaviour of more peripheral municipalities.

From the findings it may be concluded that fiscal federalism may be used to study the administrative structure of a country and developments in this structure. Besides, it may be used to recommend changes in the administrative structure. On the other hand, other forces (politicians) do influence the administrative structure of a country as well. This does result in a structure that may not be appropriate to overcome changing circumstances. Fiscal federalism offers a way out: co-operation. Unfortunately, co-operation is not that easy to realise. Research results show that several variables do influence co-operation and its chances for success.

## **GERMANY : LEARNINGS FROM THE FISCAL FEDERALISM THEORY**

### **Introduction**

In Germany, the challenge of public and regional transport is a main element of the German public life both for the Government and German railway : first, for reasons which refer to the mobility of everyone : a limitation of people's mobility is unacceptable (§ 11 of the Fundamental Law). Second because road transports deal with environmental pollution. Decrease of exhaust fumes, especially in CO<sub>2</sub>, are one of the main objectives of transport policies which have to take into account the high sensitivity of population to quality of life and environment. At least, road infrastructure cannot extend endlessly in space. A further extension of road infrastructure seems to be impossible in West-Germany: limitation of car-mobility in urban area is also a necessity. (Experts evaluated the West-German territories to be covered at 8 % by road infrastructures.)

To face this challenge, regional transport can appear as an alternative to the extension of individual mobility. It is also major objectives of the Government to grant regional transport the right financial basis and structures for its development. The *Bundesverkehrswegeplan 1992* gives details of this engagement:

*"We want to focus our action on the development of rail infrastructure and rail offer in order to attract passengers on regional rail transport, on park and ride opportunities as well as emphasise*

on managing information and transport for regulating transport flows. Rail transport will play a major role in our efforts to cope with transport issues. This aim was also expressed by the Federal Chancellor in his governmental political discussion of January 30th, 1991". (Bundesverkehrswegeplan, 1992)

Following European directives, the Government has decided, on the one hand, to privatise German railways. On the other hand, in order to allow regional transport to develop, it has decided to give the Länder the competence for financing and implementing a regional rail policy.

### The rail reform and regionalisation in Germany

Concerning the privatisation of German railway, the Bund, the central Government, which used to be before in charge of rail transport, created a share-company, the DB A.G., in which shares, at this point, were mostly detained by the Bund. A four-branch independent structure emerges : regional passenger transport, long distance passenger transport, goods transport, and managing the infrastructures. Final objectives of the reform is privatisation of this 4-branch structure. A Federal Railway Authority was also created to take care of the global missions of railway transport and avoid deconstruction of the network : it is in charge, for example, of closing non-profitable connections.

Concerning the regionalisation of regional railway transport, the reform deals with the transfer of competence for passenger regional transport, both for mission and financing, from the Bund, at the federal level, to the regional level, that is to say the Länder but also communes or counties. The Länder remain in charge, as transport authority and demanding party, of the service which will be proposed to the population. Thus, they may choose the structure of regional transport they prefer to implement : some Länder have transferred this activity onto a more local level, communes or counties. To sum up the German reform of regionalisation and the lessons that can be drawn for France for example, the following graph gives us some details and points out three main results.

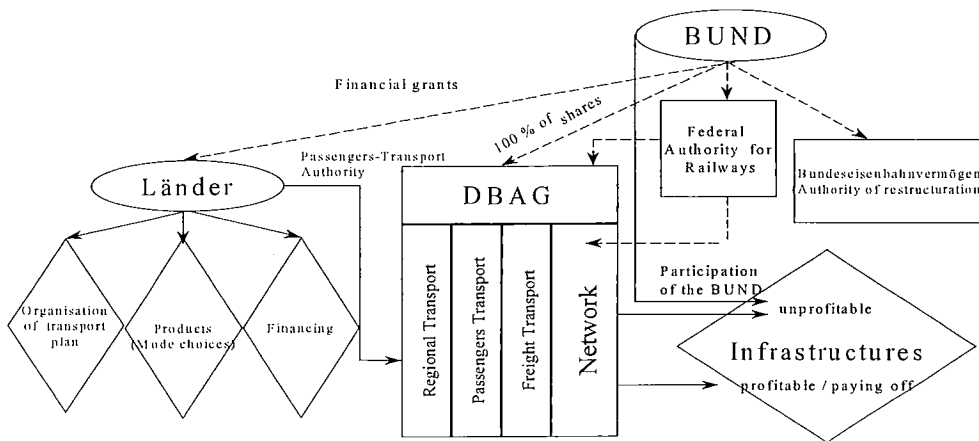


Figure 1 : rail reform and regionalisation in Germany



The Law of Regionalisation gives the Länder the competence for regional railway transport but the Länder are free to organise on their wish the management of this competency, for example by remaining on a regional level (Bayern, Thuringen, Schleswig Holstein). They can also transfer this competence to local authorities by creating a co-operative structure like *Zweckverbände*, or *Verkehrsverbände*. This alternative was chosen by the Länder Berlin, Bremen, Hessen, Nordrhein-Westfalen and Rheinland-Pfalz. The aim is to set up a bottom-up institution, which integrates, in a co-operative framework, both the Land, communes and partners (operators, users,...) and will decide for the whole transport plan and supply. This institution will decide for the transport plan, the time schedule, connections, networks development, financing, cover of operators deficit, revenues sharing, etc. The competence of the *Verkehrsverbände* does not match exactly the administrative jurisdiction of the Land or the communes but more the "labour-space" and the travel demand. Their competencies can then go over the boundaries of the Land, like the *Zweckverband Rhein-Neckar* (ZRN) which gathers together the Länder of Rheinland-Palatinat, Hessen and Bade-Württemberg. In the new Länder, this co-operative structure is implemented between Leipzig (Saxen) and Halle (Saxe-Anhalt).

A plan for grants was set up (8.7 billions DM and 12 billion DM transferred by the Bund to the Länder in 1996 and 1997, coming from a tax on oil consumption (*Mineralölsteuer*). The Länder have to use the funds for regional passenger transport but not necessarily for rail transport ! Instead of train, buses could be set up, in rural areas for example: a competition will then occur between the DBAG and private firms in the field of regional transport ! But also concerning rails, companies could develop a private supply for regional railway transport, such as the "*Karlsruher Verkehrsverbund*" which has developed a "rail-tramway" which can compete with local trains of the DBAG on its own railway.

Competition on the regional railway network is at the heart of the German regionalisation's perspective : new companies operate on 1/3 of the network, and the DBAG on the remaining 2/3. Foreign operators are also active on the German network, like CFTA (France) in Stuttgart Region or a Swedish firm in Bavaria, which has led to a situation really different from the French experience. Public urban transport companies are coming in regional railway transport with concepts of interconnected rail-tramway, which connects both on urban public network and DBAG rail network directly pedestrians street with the around region (Karlsruhe).

The rail reform in Germany has put the DBAG in the comfortable situation of "grand father right", because of being both traditional transport operator and manager of the German railway network. But, in the end, a separation of the two activities will occur. In the light of the strategies chosen, the German reform is surprisingly advanced, clear and operational as regard to its main dispositions (Guihéry, 1997). Its genuine regionalisation of regional rail transport throws light on the foundations of the reform, that is to say guaranty the durability of the rail institution, particularly by granting the means for success, but also focus on the users. Could this German choice for a controlled and balanced competition on the rail network be offering some guidelines for a reform in France ?

## **Analysis**

From a fiscal federalist point of view adapted to regional transport, the transfer of competence from the upper level - the Bund - to a regional level - the Länder - could be an efficient solution for the offer of transport services in regional areas. In application to the principles of "fiscal federalism", many Länder have now decided - Berlin, Bremen, Hessen, Rheinland Pfalz, Nordrhein-Westphalen- to transfer this activity to the communes or county level of government (creation of "*Zweckverbände*"): the aim is to set up a structure which planification of transport will be made "from the base to the top". A set of alternatives, from the DBAG to other transport firms, have to be proposed to the authority and have now to be decided upon at a local level. Competition is also

introduced by separating the service from the infrastructure, this resembles the principle of "power separation" in the political theory of democracies (Tocqueville). Most of the advantages listed in the first part of the paper could be verified with the implementation of transport's policy in region. Can regional transport be then considered as "local public good"? In reference to the theory of "fiscal federalism", some theoretical results could be directly found in the regionalisation of passengers rail transport in Germany. The law of regionalisation refers directly to public finance principles of "institutional symmetry":

- *Autonomy principle*: freedom of decision for local governments in the field of public outlays and public revenues. In the German Constitution, the Länder are considered as one of the main parts of the political system. For missions of regional transport, they receive some lump-sum grants from the central government but they are free regarding the use of these funds.
- *Connexity principle*: this principle refers to the adequation between the competence of missions and implementation and the responsibility of financing. The principle is one of the fundamentals of the law of regionalisation in Germany : bring together order, execution and financing of regional transport
- *Fiscal equivalence's principle* : people which have utility gain of the offer of the public good must cover the costs of the public good. In the literature, the principle of fiscal equivalence is a model construction to avoid dealing with spill-over effects (or external costs). In the case of regional transport, we can assume that the regional impact of such service is localised in the region and in the Land. Some positive - location advantages - but also negative - noise, cut of space - externalities could occur but, for rail transport, can be considered as marginal.

## **FRANCE : THE EXPERIMENTATION OF REGIONALISATION**

### **Introduction**

While France is engaged in the discussion for the reform of the S.N.C.F. (French National Railway Company), some of its European neighbours have already got over many obstacles and a first assessment of the choices and first results may even be presented. Regional railway transport was often taken careless by public authorities, which prefer to develop and concentrate their action on high speed network and high speed transport. But now the situation has changed dramatically, in Germany and France for example, where regional transports is becoming a new challenge.

In France, characterised by a more centralised political background than for instance Germany, the constraints are less accurate but remain the same : the Government has decided to change the deal of regional railway transport by experimenting in 6 regions a regionalisation reform. According to Senator Haenel, which has written a main report for the government on this topic, this reform is the last chance for the future of French regional railway transport :

“ The success of the reform is not given. If it is not going on, 8000 till 10000 km of rail infrastructure will be closed ” (Haenel quoted by Vie du Rail, (1996), p. 14).

### **The French Experimentation of Regionalisation**

The Regionalisation of regional railway transport is one of the SNCF's safeguard plans which was decided in summer 1996. The next step is the clarification of the relation State - SNCF by creating a national office (RFF) in charge of the network and of the two third of the old national railway company's debts. The practice of decentralisation is new in France, especially for the competence of transport. The first step was the transfer of the competence of regional bus transport to the *Département* ("county") but nothing has been done for railway transport.

In January 1997, six French regions start to experiment with the regionalisation and will receive for three years the organisation and financing competencies of regional railway transport : Rhône-Alpes, Provence-Alpes-Côte d'Azur, Centre, Alsace, Pays de Loire, Nord Pas de Calais. These experiments are facing many problems as will be explained in following subparagraphs.

In many countries, railway transport is organised in a regional structure. In France, on the contrary, the organisation is mostly centralised and there is a lack of analytical and regional accountability. The national railway company (SNCF) refuses modern rail management practices (leasing, subcontracting), refused by the trade unions and remains widely above new standards in a dogmatic and systematic position (Batisse, 1996).

The existing system before the experimentation reform of regionalisation (agreement (convention TER) has led to a good offer of regional railway transport in regions. But this system did not give much consideration to infrastructure investment in regions. Objectives of government infrastructures' investment were concentrated on high speed train, rather regional networks. Little by little, the SNCF has asked the Regions to be involved in the financing of rolling materials, but not in infrastructures, which remain a competence of the central State. This lack of new program for infrastructures development is a main hindrance for the success of regionalisation. Moreover, this system has led to an increase of inequalities between French rich and poor regions. The need of a deep reform appears unavoidable.

The experimentation of regionalisation "*à la française*" is based on a double negotiation process : first, with the central State, it deals with the determining of financial grants due to this transfer of competence without transfer of charges. Secondly, it deals with a negotiation for establishing a convention Transport Authority - Operators between the SNCF and the regions. For the Region Rhône-Alpes for example, this convention will lead, during the three coming years, to the transfer of the competence for regional railway transport to the Region : organisation and financing competence, communication, pricing, quality control,... Previously grants paid from the central state to the SNCF to cover deficit are now, for regional transport, granted by regions who ask for transparency of SNCF accountability.

Facing the regionalisation, the French regions face three demands :

- Transparency of the accountability for regional railway transport.
- Involvement of central State for infrastructure development.
- Transfers to the region of the today financial grants given to the SNCF for regional transport activities for an amount of 6 billion FF and not for the planned 4 billion FF.

The setting up of a regional accountability for regional railway transport is supposed to give a clear analysis of costs and revenues and will come to a clear separation of management of regional transport and infrastructures, which at this time has always been refused by the SNCF (Batisse, 1996). This separation, which already exists in Sweden or Germany, could also force the central State to be involved in a new infrastructure program, by making explicit the lack of infrastructure's investments and the delay accumulated.

Regions have the competence to ask for further information and then control the activities of the SNCF. This disposal is really new and tends to reduce uncertainty in the SNCF-regions co-operation schemes. The French experimentation is then based on partnership : the regions ask the SNCF to transfer its technical and old competencies in practice for regional railway transport. Studies, research programs, development plan and consulting will be SNCF's new competencies, which will become a " consulting operators ".

Service cancelled : the train did not run or was delayed more than 30 minutes, except emergency	Penalties	Reduction of 7 MF each year
punctuality of traffic Aim : 93% of TER must arrive on time or with a delay inferior to 5 minutes	Bonus / Surcharge	Limited to +0,850 million FF and -1,250 million FF each year
Quality of service	Bonus / Surcharge	Limited to 2,5 million FF and -5 million FF each year
Quality of station-services	Bonus / surcharge	Limited to 2 million FF and -5 million FF each year
Presentation on time of documents planned by the convention	Penalties	15,000 to 20,000 FF each delay (per day of business). Depends on type of documents, limited to 5 million FF each year

Source : Region Rhône-Alpes, Service T.E.R.

**Table 1 : Incentives system between Rhône-Alpes Region and SNCF**

The SNCF will be responsible for transport operating, marketing of regional railway transport but will remain independent in its business administration. The new function of the SNCF refers to consulting and “ service-instructor ” based on its experience. The reform requires from the SNCF to act loyally for the development of regional railway transport, and is based on certain incentives : the SNCF, who shares with the region the revenues risk, must balance its account. For Rhône-Alpes Region, a mechanism of bonus/malus and penalties strengthens the incentives on the SNCF and ask for responsibilities and high quality of service.

### **Limits and analysis of the French experimentation**

The SNCF remains the only operator in terms of the French Law of Orientation of National Transport (LOTI or *Loi d'Orientation des Transports Intérieurs*). The SNCF can find subcontractors like CFTA in the Brittany Region, but not the regions, which reveals one of the major limits of French experimentation of regionalisation, that means the lack of competition. But the region can decide on the implementation of buses instead of rail transport, and then will be in conflict with the bus transport plan which is a competence of the *Département* (“county”), not the regions !

For the financing of the regionalisation’s experimentation in six French regions, the government will continue to transfer grants usually allocated to regional railway transport, that means for all the French regions 4.4 billion FF. 800 millions FF are allocated to the six regions which take part in the experimentation : the Nord-Pas-de-Calais Region receive 456.4 million FF, that means about 46 centimes per passengers.km, that means, in passengers.km, twice less than Rhône-Alpes or Alsace (81 centimes per passengers.km in Rhône-Alpes, with 940.7 million FF, and 88 in Alsace, with 340.2 millions de FF). (Batisse, 1996). The Centre Region will get 361.3 million FF, Provence-Alpes-Côte-d’Azur, 414.9 million FF and the Region Pays de Loire, 268.5 million FF.

To compare with the German case, the grants allocated by the Bund, the German Federal Government, amounted to 12 billion DM in 1997, that means 41 billion FF pour the 16 Länder of the FRG. It represents a little bit less than 10 times the global amount of the French financial contribution ! Per capita and for 1997, the grants allocated by the Bund are rising 510 FF/inhabitants in average (for about 80 million inhabitants) while the French State will contribute for the six considered regions, thus for 21 millions inhabitants, to about 132 FF/ inhabitant (about 4 times less than the grants per capita allocated by the German Government). For example, Bavaria will receive from the Bund 4.7 billion FF in 1996, which means as much as the whole French regions. These elements reveal the little involvement of the central government from the French side, which tries, in the reform, to shirk these obligations rather than give, like in Germany, a signal and incentives for an efficient offer of railway service in Regions.

The French experimentation of regionalisation is facing two major issues :

First, the maintenance of the monopoly of the SNCF on the railway network limits the success and the future of the French Experimentation of Regionalisation : The regions cannot call for another rail-operator on the network. The monopoly of the SNCF is explicitly written in the French Regionalisation Program. The experimentation of Regionalisation "à la française" is based on loyalty and partnership principles. For a relation which is unprofitable on the rail, the region is likely to propose a bus-option, even if there are some operators on the market, who are likely to propose a rail-service with lower costs, for example like the world famous interconnected rail-tramway of Karlsruhe. The monopoly of the SNCF, which is not questioned in the French experimentation of regionalisation, remains one of the major problems of the reform and limits the chance for and development of an efficient regional railway transport in Regions. This fact does not match with most of "fiscal federalism" principles, which consider competition between jurisdictions as the best way for solving the issue between individual choices and collective values. This French framework contrasts with the German choices.

Secondly, the French way of regionalisation is facing an institutional issue : the sharing out of competencies, organised by the LOTI (the French Law of Orientation of National Transport), leads to many major institutional dysfunctions in the field of public transport : public urban transport is a competence of cities (and conurbation), interurban buses are responsibilities of "Département" ("County"), railway transport of Regions. This French compartmentalised management of public transport is a hindrance for an efficient supply of public transport in regions. A better way would be a global organisation of public transport, like in the German regionalisation reform, which has stress out the role of a co-operative institution, the *Zweckverbände*. The questionings of the institutional organisation of public transport in France is unavoidable : should the regions take all the competencies for public transport, from local public transport to regional railway transport ?

As it has been noticed in the first part, administrative organisation does not have to be immobile and must be flexible. Contrary to the German choices which are going towards flexibility, co-operation and reorganisation, the French choices will not bring a formal change in the administrative structure. The solution fiscal federalism offer, co-operation (as has to be the solution in the Netherlands), will not be easy to implement between all the actors of public decision making in transport policy. Principles of fiscal equivalence are not implemented in France : each institution in France, hanged on tradition, will try to maximise its own budget, which will lead to a sub-optimal supply of public transport in regions and cities and then go away from collective optimal choice. In a certain way, the French experiences are going towards "public choice" perspective (Buchanan, Tollinson 1979) and bureaucrats analysis (Niskanen, 1971).

## CONCLUSION

From a normative point of view, the main issues of transport policy changes in Europe refer to the following questions: "*Which level of government is most appropriate for handling with public function? (Rubinfeld, 1987)*" In this issue the "public function" concerns the transport policy. Such issues refer directly to the theory of "fiscal federalism" which is one of the major research streams in public economics. The aim of the theory is to build an efficient way for an optimal allocation of public goods in a "federal structure", that is to say, in the literature, a structure of different levels of governments.

These theoretical surveys have been elaborated with regard to actual developments of the transport policy in three European countries : firstly, with regard to the reorganisation of institutional competencies and co-operative choices in the Netherlands, secondly with the new Law of Regionalisation of railway regional transport in Germany where the responsibility for the public transport of persons over short distances (ÖPNV) goes over to the Länder and the communes and,

finally, with the French experimentation in regionalisation. From the research results it may be concluded that in all three countries the administrative organisation with respect to transport policy and the distribution of tasks, competencies and financial means is discussed. All countries face a challenge with respect to transport and transport problems and all countries try to tackle it another way. Fiscal federalism may be used to study discussions and developments with respect to the administrative organisation in these (and other) countries. Maybe unfortunately, in the studied countries fiscal federalist insights are not being used as they could have been in the political discussions and real administrative changes with regard to transport policy. It might contribute to the attainment of the aims of transport policy.

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