
Privatisation and Deregulation of Public Road Transport in Britain

The Economic Background and Effects

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1. Summary Abstract

◆ This *paper* aims at characterising the underlying values and assumptions and the actual policy of deregulation and privatisation of the bus market. It will include as well short cross-references in relation to the transport market as a whole. The massive investment in road schemes which is free for everybody to use, distorted the market substantially. Furthermore, this *paper* will examine the steps which have been taken and the results, covering a variety of economic and other factors like prices, services, patronage, passenger attitudes, but also external effects like the trends in car ownership. The different effects in the non-deregulated London area and a short outlook into the future will add to the more empiric part. The *paper* concludes that although reasonable success was achieved in the express coach market and the situation in the rural areas did not deteriorate at least, passengers and employees were the losers in the majority of the market. The policy failed to deliver benefits to them and it failed to increase efficiency as well. Although it decreased public subsidy, the fragmented network resulting from direct "on the road"-competition made the situation worse. Many aims set out prior to the relevant steps were not achieved. It can be shown that some expectations were not consistent with economic theory and disregarded important side effects. Furthermore, the laissez-faire approach contains no prospect of agreed values and targets for the development of the transport market as a whole. A long term policy to adjust to transport on a ecologically sustainable basis is urgently needed.



2. Introduction

The United Kingdom of Great Britain has chosen a considerably unique way to deal with its transport system as well as with some other matters. The pursuit of a radical policy of free enterprise and the reliance on market forces to develop the "common good" (Adam Smith, the great ancestor of to whom British free market advocates draw upon) was not only singular in Europe, but according to literature, rare in the world, as even in the USA, public transport is widely regarded as a public utility¹. This paper aims at characterising the development this particular way took. It will do so by briefly analysing the historic and ideological background, which underlies the changes in policy, then by summarising the steps taken and then evaluating the results which followed the decisions, now dating back almost a decade. A short view into the future will be added. Finally, the purpose of this paper is not narrative, but to provide a short overview and insight into measures, which have been put in place while discussions and proposals are still going on elsewhere. The final section therefore is an evaluation of the envisaged aims, the proposed measures and the degree of success to add to discussions about similar measures elsewhere in Europe.

Apparently, this is not only the most interesting, but also the most controversial part: Especially the definition of "success" is hard to grasp. An obvious basis is set with the aims laid down prior to the measures. It turns more and more ideological when the validity of the aims is assessed. This is especially the case, when it can be shown that crucial "truths", on which the aims and measures are based, turn out to be axioms, where mainstream economics has failed (or not attempted) to prove their validity. Due to its limited length, the discussion in this *paper* about this widening issue is rather mentioned than properly argued.

Although this *paper* concentrates on public road transport, a single-minded and consequently single-mode approach must be avoided. The transport system contains road, rail, air and water, public and "private", and in the wider sense even land use planning. Up to certain limits, modes are exchangeable, which has been proven over

¹Hibbs (1982) and Dempsey (1989)



time. Therefore the reader will find cross-references and matching thoughts on some occasions to private road and rail transport.

Finally, the reader should be aware, that "economic analysis cannot be objective, apolitical or neutral"² and that this statement does not only apply to mentioned literature but also to this *paper* itself. This essay will therefore not refrain from expressing or quoting views (where appropriate), in an environment where not only underlying values, but also the actual perception of reality, is based on opinions and beliefs. Nevertheless, it should assist in attaining a insight into one of the strongest attempts to reorganise public road transport in Britain.

²Bell and Cloke (1990), p. 195



3. The Roots of Policy

◆ **The present policy is largely the result of a strong free market tradition and entrepreneurship. The basic assumptions of today's policy state that the free market ensures optimal resource allocation, that individual needs are not subject to consideration, but sufficiently reflected in their demand for goods and that the only rôle of the state is to ensure a framework for the free market. Transport is considered mainly as a scarce good as every other, where competition should take place "on the road". The state should refrain from interference and may act as a customer for "socially desired services". However, this applies only to public transport and not to road infrastructure, showing the mixture of ideology and political pragmatism of a lobby state.**

3.1. The Underlying Ideology

History of entrepreneurship and free market enterprise in Great Britain is almost endless. The United Kingdom was effectively the first country in the world undergoing industrialisation where terms like markets, demand and economies of scale (which now can be found in every economics book) became first relevant. Its imperialistic inheritance of colonies enabled the country for the first time in history to explore and use mechanisms, which in variations and changing shapes are still in place in the world markets. Furthermore, it is not accidentally, that the great free market thinkers were British or chose the island as their home, ranging from Adam Smith to Sir Charles Popper.

Nevertheless, the liberalistic doctrine of free markets underwent a major transition during the decades. Whereas its accidental founder Adam Smith³ still advocated the "common good" as the supreme value to achieve (and he addressed the state in this rôle to watch this goal and pursue it with its authoritative powers, where

³In basis, Smith called his theory a social theory, where free trade is the substitute for communication and he never intended to found any economic school



others fail to deliver it), the best assumed mechanism to achieve the “good” for all — the free exchange of goods on markets — turned into the believed panacea to achieve each individual's optimum (by assuming that each "individual good” is considered as best by definition) and founding the ideological framework of a "laissez-faire"-liberalism which condemned the state to its rôle to regulate money supply, free market conditions and some other minor issues. Although many economists stress the point that "subjective individual valuations do not permit the establishment of common goals”⁴, it is generally assumed that the common goal is to allow everyone to pursue his individual "best”, if ever it is "common good” or not.

Whichever ideology or scientific framework the reader adheres, there is little doubt about the basic underlying properties of the free market doctrine, which are primarily based on micro-economics:

3.2. Economic Assumptions

- Demand and supply on the free market ensure highest satisfaction and optimal resource allocation by establishing a market-clearing price. A scarce resource like transportation is preferably allocated by market price mechanisms than by means of regulation, quantity restriction or other methods.
- Wants and needs are individually autonomous and not subject to (economic) consideration. The market establishes the optimal degree of satisfaction according to all demand satisfied at a particular price.
- Exit from markets is done on the basis of the free will of the individual, who expects his utility not sufficient to the price to pay.
- The most efficient allocation of scarce resources is (with minor exceptions of "social need”) the most desirable, as by definition the optimum of the whole is the aggregate individual behaviour which is assumed to be optimal.
- The state has to ensure individual freedom on open markets by ensuring free market conditions and preventing distorted structures.

⁴Reynolds (1966), p.8



- There may be wants which exceed market principles, as they are not individually, but socially determined. It is up to the community (resp. the state) to decide which of these "merit goods" to pursue and at which costs.

Applying these basic principles of neo-classic economics onto the transport market, the following underlying assumptions are reflected in related literature:

3.3. Transport Assumptions

- Public transport is in its nature considered as a rival and excludable good. This is the necessary precondition, if transport is assumed to be a good which is allocated best in free competition "on the road".
- Transport operators offering the best service will be determined by the customers' higher propensity to use them. Most efficient transport rewards each operator in the field itself.⁵
- The need for travel is reflected best in the demand for travel and the willingness to use the one or other transport service offered on the free market.
- Competition between operators will ensure a network of services, which will match best the different travel needs.⁶
- The interaction of the marginal propensity to consume the "good" "travel" and the marginal price which is offered for a particular journey ensures the optimal use of resources (which is bus capacity in time in the short run) and will attract more passengers by "fine-tuning" to the demand for travel. Marginal pricing should be encouraged throughout the network.⁷
- The opposite policy to cross-subsidiarise several services or a whole network results in a distortion of cost/price relations, continuous non-viable service and encourages inefficient use of scarce resources. It is only possible in a monopolistic situation with

⁵DTP (1984)

⁶DTP (1984)

⁷Hibbs (1982)



entry barriers to competitors. Competition ensures that cross-subsidiarized practices will stop.⁸

- Competition and marginal pricing will ensure lower prices and better service for passengers.⁹
- Where unprofitable services are decided to be socially desired as a "merit good", the relevant elected bodies may turn to the market as customer, ensuring best "value for money".

Generally, wherever "socially desired services" are mentioned (which apparently exceed market mechanisms), they are treated with extreme caution and are mentioned as side effects, which do no harm to the basic principles.¹⁰

- In order to establish a free undistorted transport market to ensure most efficient use of the transport resources it is necessary to establish a "level playing field" which commits all users to the same rules. The infrastructure should be available to everyone and should be priced on the use. Marginal pricing should be applied both to road and rail tracks.¹¹

However, this is a crucial point where the central Government took an opposite position, offering the road use for free. Only very recently measures like congestion charging and motorway tolling have been taken into consideration.¹²

⁸Hibbs (1982)

⁹DTP (1984)

¹⁰DTP (1984)

¹¹Hibbs (1971), Hibbs (1982), Reynolds (1966), Hibbs (1993), Glaister (1981)

¹²DTP (1991-1993)



One of the most comprehensive and precise definitions of the policy goals may be found in [Hibbs (1987)], from the author of several pamphlets which are the ideologic basis of the Buses White Paper:

"To satisfy public demand for bus and coach travel, while achieving financial success and giving a rewarding career to those who work in the industry"
(p. 13)

It is worth to comment on this quotation: Hibbs talks of "demand" and not need, underlining the assumption, that needs are private, subjective and are satisfactorily reflected in demand, which curve usually has a downward sloping shape, indicating that demand varies with the attainable price. Furthermore, he uses the term "financial success" as a goal, avoiding any statements to include wider costs and benefits. This reflects his assumption, that a free market economy attains the common best.



4. The Aims and Envisaged Measures

◆ **Releasing business from its licensing restrictions and privatisation of the large public transport companies in small slices shall diversify the transport market to suit better demand for travel, thereby bringing better service and often lower fares for more passengers through competition. Furthermore, it should enable the industry and its employees to achieve financial success. The practice of road priority in enormous investment schemes distorts these aims substantially, is inconsistent with economic, social and transport theory and practice.**

The "Buses" White Paper¹³ followed the basic assumptions stated above and intended the following developments to happen:

- greater variety of services, using different types of vehicles running on different routes and frequencies, offering more choices to meet peoples' needs;
- new services to link residential areas with out-of-town shopping centres;
- bring costs of bus operation down and thus reduce the need for subsidy. "If costs were to fall by 15 %, the saving would be over £200 million a year against the total cost of revenue support of about £350 million."¹⁴;
- better value for money from subsidised services;
- offer the opportunity for lower fares, new services, more passengers;
- maintaining links for people depending on buses in rural communities.

These aims are best to be achieved by the following measures:¹⁵

¹³DTp (1984)

¹⁴DTp (1984), p. 2

¹⁵DTp (1984), p. 4



- Bus services will be freed from restriction on competition by abolishing road service licensing throughout Great Britain, except for London;
- Supervision of the quality and safety standards will be maintained and tightened;
- Local authorities will be able to continue to subsidise services that would cease in the free market, but they will be required to seek competitive tenders for contracts;
- All operators will be enabled to participate in concessionary fare schemes on an equitable basis;
- Additional resources will be available for rural areas (Special Innovation Grant, Transitional Grant);
- National Bus Company will be reorganised into smaller free-standing parts which will then be transferred to the private sector. Passenger Transport Executives (PTEs) will be required to break down their operations into smaller units, which will become independent companies. Municipal bus operations will be incorporated into companies still owned by their district councils. Eventually, both PTE and municipal companies will stand on their own feet;
- Taxis and licensed hire cars will be allowed to carry passengers at separate fares in certain circumstances. A gradual relaxation of the quantity limitation of taxis in certain areas is intended.

4.1. The Practice of Free Road Priority

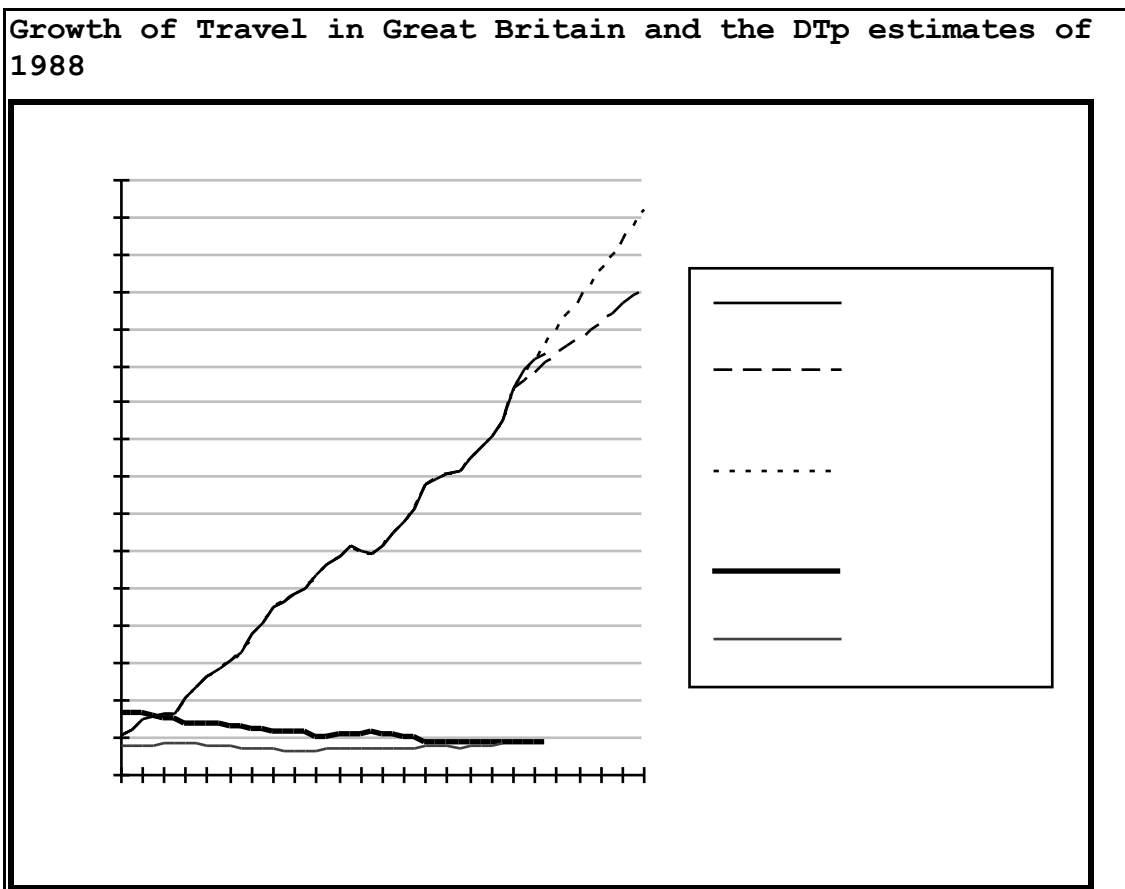
Central Government adopted most of the free-market assumptions in its policy. However, against most of their advisors, it chose different explanations and policies in one case: Parallel to deregulation and privatisation, it launched the largest trunk road building programme ever, more than doubling the investment to £12bn.

There is a fundamental gap between the value of public and "private" transport infrastructure. Where as the former is considered as a public enterprise which can be done with better "value for money" by private companies, thereby leaving the decision entirely to the unregulated open market, it considers the latter as a necessary public utility, which is offered free in order to underpin economic growth, and its main motor,



private enterprise. The White Paper "Roads for Prosperity" committed the Government to consider primarily the preferences and needs of the industry.¹⁶ Clearly, a free transport infrastructure considered as free external benefit is never unwelcome.

Furthermore, it assumed traffic volume in public transport to be settled on the market, whereas for "Roads for prosperity" traffic forecasts were used which assume traffic growth to go in line with economic growth. "Roads for prosperity" was designed to accommodate additional traffic of these forecasts, without considering alternative views, environmental concerns or land use planning. The DTp estimated a non-growth-scenario for buses and coaches.¹⁷



Billion passenger kilometres. Source: Mitchell, Poulton and Wootton, "Transport in Europe – demand, environment and energy" and DTp (1989)

The government's arguments on the distinction of modes of transport are the following:

¹⁶DTp (1989)

¹⁷DTp (1989), annex



- Road and rail transport are said to be two strongly distinguished markets where changes from one to the other are limited.
- The rail transport system has by far not the capacity to accommodate a reasonable amount of road traffic. A doubling of the use of rail would only result in a 5% reduction of the use of cars.
- Roads are said to have much higher economic benefits (up to twice the cost of construction and maintenance) than public transport investment.

However, the fundamental difference between public and road transport goes much deeper and leads to the utility evaluation of the different transport types:

The user benefit of public transport enterprise is assumed to be found in the fare box. The more people ride and the more they are willing to pay for the service, the higher they assume their expected benefit to be. Following this assumption, it is up to the operators to find commercially viable transport schemes. The Treasury requires British Rail to ensure a minimum 8% return on investment on its proposals.

On the other hand, the assumed user benefits of the construction of a new road mainly consist of savings because of shorter travel times, less congestion, lower vehicle operating costs and reduced accidents. Furthermore, costs are basically restricted to (commercial) land value, construction and maintenance, excluding vital external costs which would bring the "benefit" of a road further down. All these fallacies tend to make the appraisal highly doubtful and erratic.¹⁸

There is no assessment method to determine the different levels of subsidy for both road and public transport investment as a whole, as the applied COBA⁹ is only used to evaluate different alternatives of a limited area and evaluations of public transport investment is left to the operators¹⁹. The overall level of investment remains a political decision, which is mostly made in favour of the road.

¹⁸for further reading: Kageson (1993), Saunders (1993).

¹⁹A minor exception is possible through Section 56 grants for light rail investment, where some "non-user-benefits" are allowed to be taken into consideration. However, S56 has a budget of under £50m p.a., not allowing to support more than one light rail scheme at a time.



The main reason for the road overhang might be found in the exceptionally strong road lobby, which (as a private lobby) has a particularly strong stake at a government, which considers public enterprise as "bad" and private entrepreneurship as "good". It shows the strong political background of a policy which partly emerged from ideological beliefs and partly of political pragmatism.

To conclude, the government's policy to assess road and rail schemes is inconsistent in terms of economics and its own ideology, to say the least. The result of this inconsistency distorted the transport market and made public transport schemes "unprofitable", where they would be a considerable alternative. Furthermore, the government followed a policy, which results (more traffic and yet more congestion) were already proven in other countries in Europe. Governments there often turned around to support public transport instead.



5. The Steps

◆ **The 1980 Transport Act deregulated the transport market for express-coaches and introduced easier access to road licenses in all other areas. Some "trial areas" of total deregulation, none of them in larger cities, were introduced. The 1982 Transport Act started the split and sale of the National Bus Company and the Scottish Bus Group. Despite fierce criticisms, the 1986 Transport Act abolished the road licensing system entirely (with the exception for London) and gradually brought the public bus companies into the private sector.**

After the conservative government first came into power in 1979, a challenging project to privatise state-owned industries and public utilities was launched, leading major companies like British Telecom, Coal and Steel, British Airways, the water and electricity industries and others into private hands. It was assumed that "private companies could provide the same service as the state, cheaper and with better value for money" (Margaret Thatcher, 1979). Parallel to it, the market was successively deregulated and subsidy to utilities ceased.

5.1. The 1980 Transport Act

The purpose of the 1980 Transport Act was amongst others:

- (a) *"Redefining and reclassifying public service vehicles;*
- (b) *abolishing road service licenses for express carriages as redefined;*
- (c) *making it easier for applicants to obtain road service licenses and restricting the power to attach thereto conditions as to fares;*



(d) *providing for the designation of areas as trial areas in which road services licenses are not required for stage carriage services*²⁰.

The 1980 Transport Act explicitly excluded the London area, which is still subject to separate legislation.

The 1980 act did not change the system entirely, but granted easier access to licenses by shifting the burden of proof of "public necessity" to the authorities (resp. PTEs). There was no necessity to prove demand, but the possibility to oppose. Price controls were abolished, but the option to set a cap or a bottom line was maintained in case of excess fares due to monopoly power or ruinous price wars. For the remaining legal framework, the licensing system from 1930 for coaches under 30 miles distance between pickup and set down points (measured in a straight line) remained in power.

5.2. The 1982 Transport Act

The following Transport Act 1982²¹ intended "to make provision with respect to the disposal by the National Bus Company and their subsidiaries of property, rights and liabilities" (p. A3). It intended to start the sale of the express coach services and the many local and rural services (up to a quarter of all local public transport). In 1991, the express coach division was sold to a consortium of private investors, now operating as "National Express Group Plc".

5.3. White Paper "Buses" and 1985 Transport Act

The White Paper "Buses" , published in 1984, announced the final steps to nation-wide complete deregulation of the bus market, which passed parliament in 1985 and became law on October 26th, 1986²². It removed hesitant obstacles by force of law and allowed complete competition "on the road" with the Office for Fair Trading (OFT) to monitor fairness in competition and the Traffic Commissioner to register new services and withdrawals. The need to prove demand (resp. the possibility

²⁰Transport Act (1980), 1.-(1)

²¹Transport Act (1982)

²²The Transport Act 1985 is mentioned in some literature also as Transport Act 1986



to object, if harmful to the general public) was abolished. The process of setting up a new service takes approximately 6 weeks, the withdrawal can be effective within 6 days. Exit and entry into the market was substantially eased. The 1985 Transport Act also enabled all operators to participate in concessionary fare schemes and gave access to stations on an equitable basis. The Local Authorities and PTEs were left with their duty to maintain stations and stops and their right of information. Local authorities were able to provide "socially necessary" transport by compulsory competitive tendering of the proposed route to the private sector.

Two types of tenders have been developed: cost contracts (also called "fixed cost contracts" or "minimum cost contracts") and subsidy contracts (also called "bottom line contracts" or "minimum subsidy contracts"). In the first case, the authority puts out a tender to pay the operation of a bus line, comprising the least cost. In other words, the authority buys the desired bus capacity and runs it on its own risk, being rewarded by the fares which are collected by the bus drivers. The second type offers a contract of subsidy, where the fare (which is usually fixed in the contract) remains with the operator. Currently, more than two thirds of all contracts are let on a subsidy basis, offering an incentive to increase passenger service and integrate the tendered service in promotions. Generally, it is assumed that around £155 million p.a. are allocated outside London through non-commercial contracts, amounting to approx. 10% of the whole revenue.²³

Very strict rules are set out by the 1985 Transport Act concerning the behaviour of local authorities concerning subsidies: They are required to formulate policies on descriptions of public transport services they propose to secure. They are obliged to consult the involved parties and make the results publicly available (S.63). The range of concessionary fares is limited and to be agreed by the Secretary of State for Transport (S.93). Local authorities (or their PTEs) remain in duty to maintain bus stations and act as highway authorities (S. 81(2) Transport Act 1985 and SS. 32 and 38 Road Traffic Regulation Act 1984)²⁴.

The tendering procedure has to fulfil the following conditions:

- Offers must be invited by "open tender" to anyone who wishes to bid.

²³Huntley (1989), p. 7 and 3

²⁴Huntley (1989), p. 21



- Tenders must be brought to the attention of interested parties and sent to anyone who has requested them.
- The contract duration is limited with a maximum of 5 years.
- The results must be published.

Parallel, London Transport reorganised its bus companies in separate subsidiaries, which will gradually be sold off and compete for route tenders within the London area. Within the London Transport area, every line is subject to road licensing. Profitable routes therefore are tendered on a "maximum pay" basis. Tendered routes amounted up to 42 % in 1993 with the aim to tender the whole network eventually.²⁵ Furthermore, London Transport was granted the exception to issue closed tenders to a limited list of parties which have to qualify. Also, the results do not need to be published.

Tendered Share of London Bus Traffic

Source: DTp (1993), p. 27

²⁵DTp (1993), p. 27



6. The Results

◆ **As promising the deregulated express coach market turned out, as disappointing the metropolitan market reacted. More buses compete for fewer passengers with substantially higher fares. Safety standards dropped and passengers considered the new situation as "worse". Revenue support dropped substantially. Networks became disintegrated and the most effective competition turned out to be headrunning on few commercially viable routes. The metropolitan areas were especially affected and rural areas remained relatively stable. Public subsidy was substantially decreased. Operating cost fell 20% on average, mostly at the expense of wages and working conditions for staff. Operators turned to more frequent services with minibuses, penetrating residential areas and increasing service density in a few areas. The level of car ownership increased over-proportionally in the most affected areas. The non-deregulated Greater London Area showed reverse trends in most parameters.**

6.1. The Express Coach Market

The express coach market proved some promising results through lower fares and better adjusted services. It entered directly into competition with British Rail InterCity services. Fare structures, levels and services were directly planned to challenge the new railway price policy. However, it is not clear if competition with British Rail is a result of deregulation. The leading company, National Express Group Plc, which became independent in 1991, transports still the vast majority of all express coach travellers. It has been challenged on popular destinations by smaller companies, which forced them usually to adjust prices. This shows the effect, that the threat of a potential competitor to enter often is enough to force a quasi-monopolist into competitive behaviour. The attempt of an independent network of long distance coaches ("National Coachways") ceased shortly afterwards.

Fares after deregulation dropped considerably due to nationwide recession, aggressive price wars with British Rail and entering competitors: The mean fare rate was 1.93 pence/km in october 1983, compared with 2.26p/km for september 1980.



24% of newly introduced services competed against other entrants and 27% competed against former NBC/SBC services. Increase in service is estimated to have amounted by 45%.²⁶

Nevertheless, National Express has the advantage of the only nation-wide booking system. Facing a relatively stable or shrinking market, the company diversifies (by acquisition of the East Midlands Airport) and grows via acquisition (like Scottish Citylink or SpeedLink). Special services to airports were introduced.²⁷

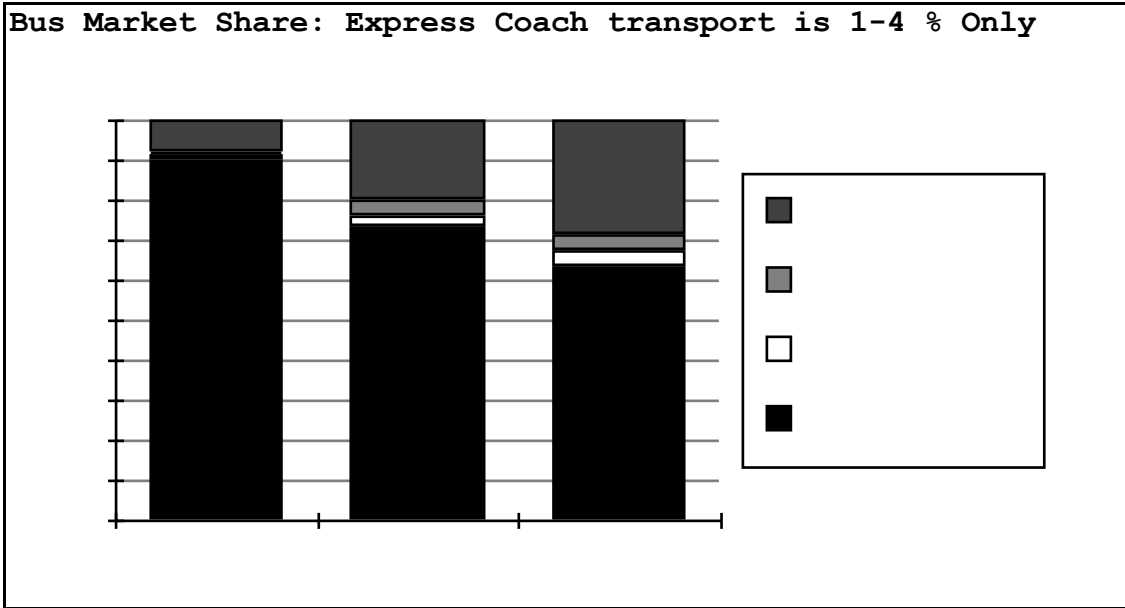
These results may have encouraged politicians to move forward with the next proposal to deregulate the whole industry. Nevertheless, several factors make comparisons to the residual market very difficult:

- Elasticity of demand is substantially higher in long distance travel. Therefore competition via price can be successful. In this case the market is an incentive to provide high service and cheap fares. This is not the case in local and most rural areas.
- The express coach market is a submarket of an almost negligible size and by no means comparable to the transport markets in towns and rural areas. Problems and "competitive behaviour" tend to be much more complex in areas with shorter travel distances and intensive interrelations.

²⁶Barton and Everest (1984)

²⁷National Express Group Plc (1991-1993)





Source: Transport Statistics Great Britain (HMSO 1986), in: Hibbs (1987), p. 17 and Huntley (1989), p. 2

6.2. "Deregulation Light" and Trial Areas

The trial areas defined in the 1980 Act were selected on a voluntary basis of the local authority and comprised mostly rural areas. The results were mostly in line with the results of total deregulation in the other rural areas after 1986.

Throughout the rest of the country, the 1980 Act enabled limited competition through easier-accessible road licenses. However, several factors left the amount of access into the new market very limited: The bureaucracy still took up to a year to have a license granted. Local authorities were often hostile to new entrants and excluded them from established concessionary schemes. In the end, only 0.4% of all licenses were new.

In many cases, the "threat" of an entering competitor was sufficient for an established operator to give up monopolistic practices and drop fares, though making entrance into the market unfeasible. Two thirds of the new competitors entered with a fare below the established level, one third choose the same level. Eventually, in only 20 % of the cases, the fare level was lowered.²⁸

²⁸Savage (1985), p. 38



Where direct competition started, the reaction of established operators was diverse: 25% did not react at all, 22% entered into a "swamping" competition by introducing more and parallel services to drain profitability for the competitor and 37% started "headrunning" by scheduling a bus shortly before the competitor.²⁹ In the majority of the cases, the larger established operator won the competition.

Furthermore, the bus industry interested in entering into the market was limited. Most of them came from the contract hire and excursion business, allocating available resources. Three quarters of the new competitors had a bus fleet size of up to 5. The second hand bus market, one of the first "foots in the door" for new competitors, was limited over a long period, as the National Bus Company (at this time running 1/4 of local and all express bus services) had a strict second hand policy via a limited range of authorised dealers who were in charge not to sell NBC buses to competitors.

6.3. The Total Abolition of Road Service Licensing in 1986

6.3.1. Prices

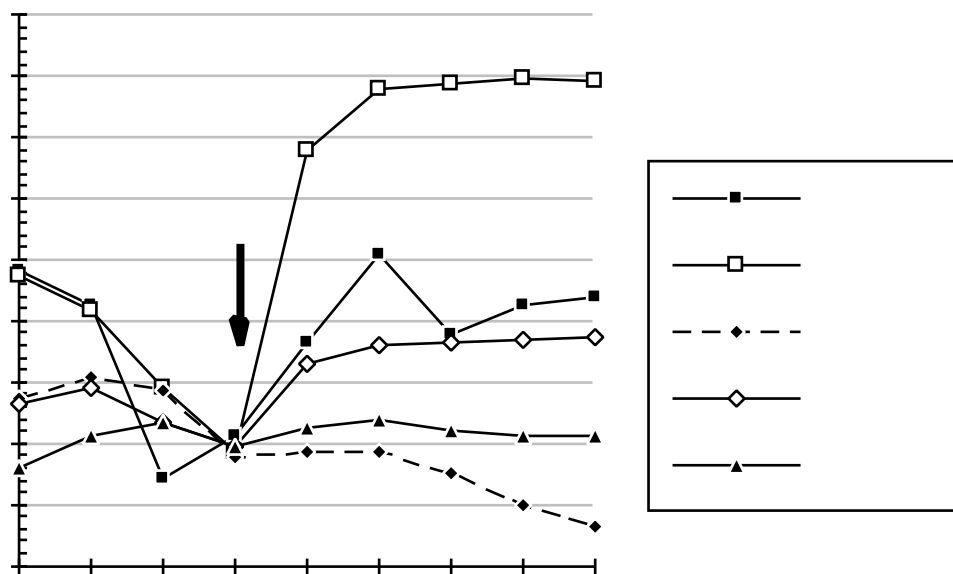
The short term results of the 1986 deregulation could be described as a disaster waiting to happen: As the law explicitly forbid mass subsidising (as it was the case in many metropolitan areas) and dropped area regulation, the first reaction was a substantial drop in service and a price explosion. The metropolitan areas with their complex and widespread networks were affected worst. However, the following trend showed a levelling-off of the fare level at approx. 130 % of the original price. Nevertheless the average figures disguise the substantial differences, as in some areas with low-fare policy like South Yorkshire PTA, fares exploded threefold or more.

Prices in the non-metropolitan areas remained fairly stable. The good performance in rural areas ("all non-Mets") may be partly attributed to the transitional grants, which were made available at the same time. The exception London showed a moderate increase.

²⁹Savage (1985), p. 39

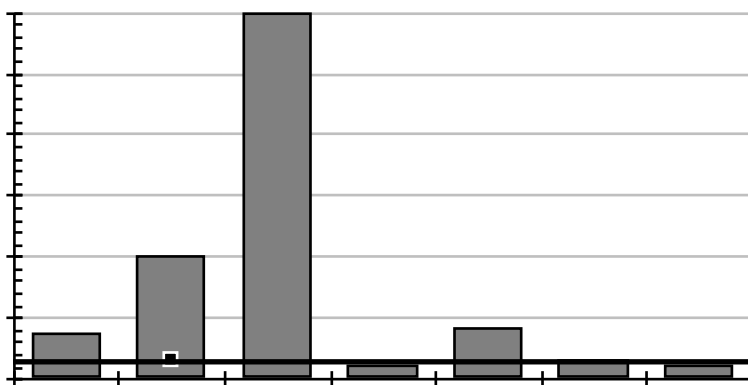


Increased Bus Prices



Real relative change in bus prices, RPI 1984 adjusted. Source: Hibbs (1993), table 6

Substantial Differences in Fare Level Increases

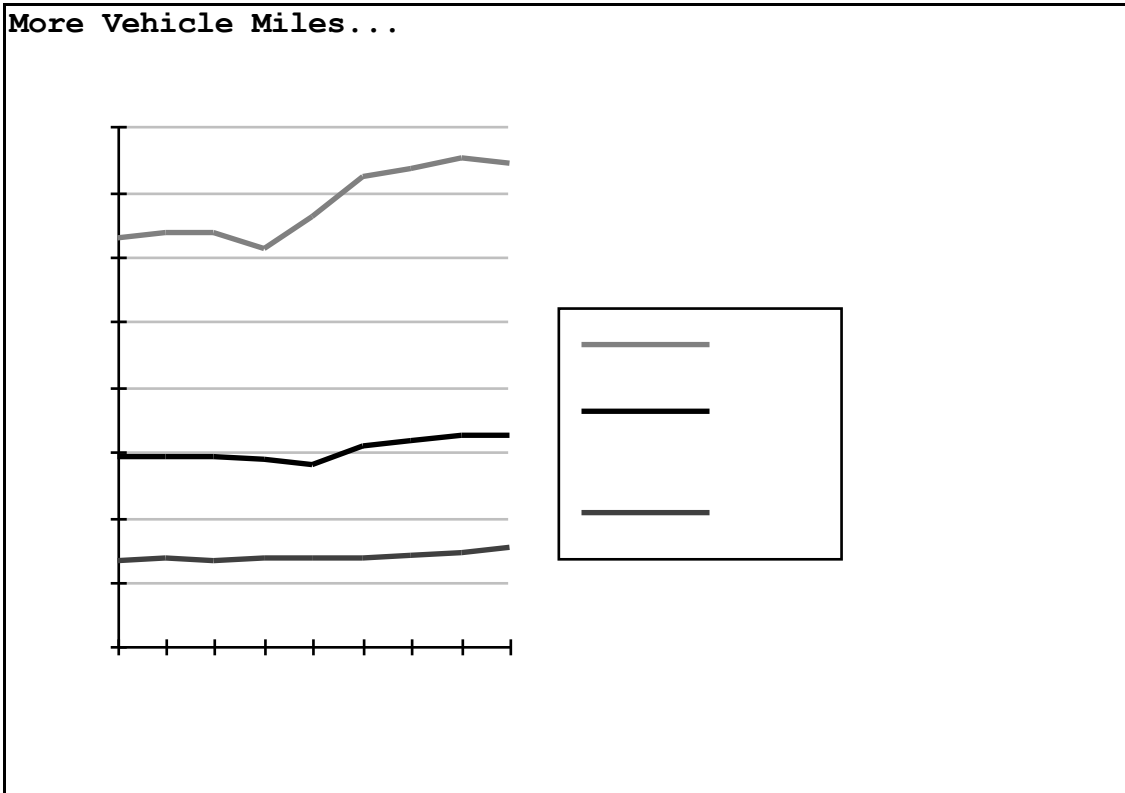


Changes in standard cash fares (nominal, 1986-1988). Source: Banister and Pickup (1990), table 4.4, p.75



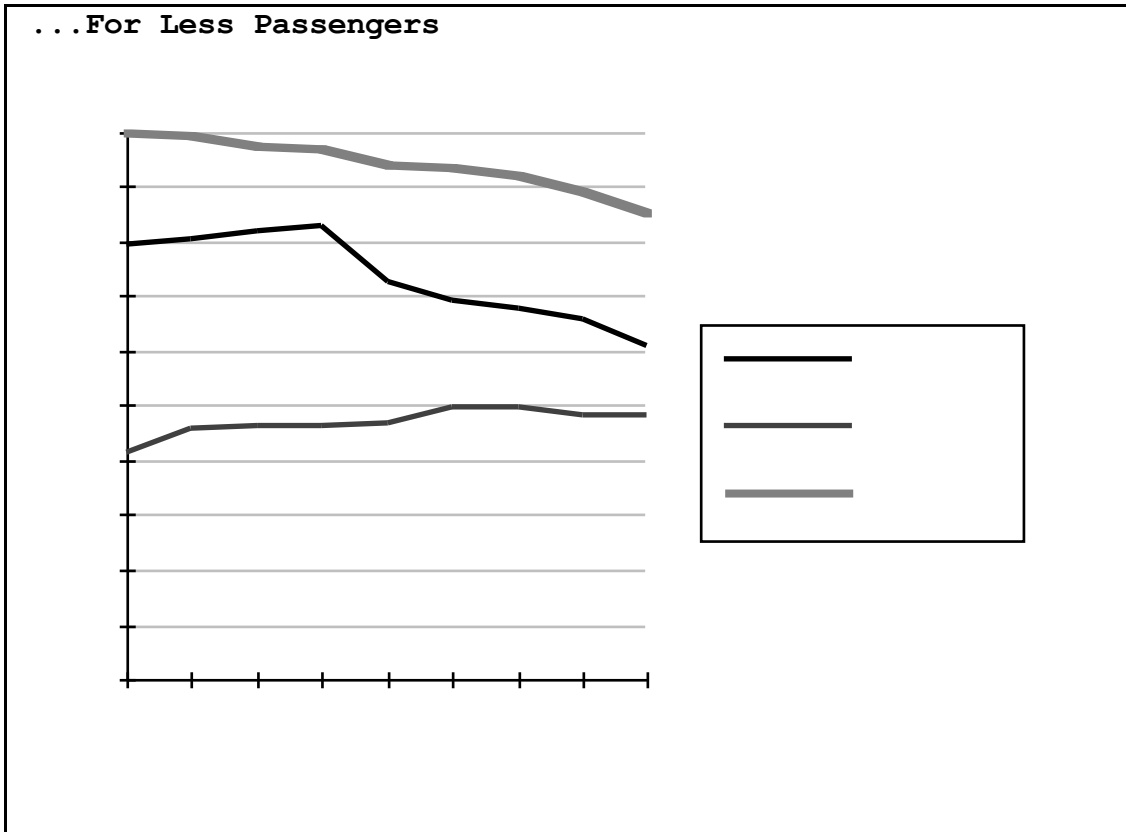
6.3.2. Passengers and Services

The reaction of passenger journeys was adequate. Although more vehicles than ever before penetrated the streets, they did it for less people. The costs per passenger journey (a good indicator for efficiency) remained stable at maximum.



Million vehicle miles. Source: Hibbs (1993), table 5





Million passenger trips sold. Source: Hibbs (1993), table 5

Again, London showed a reverse trend, operating a moderate increase in vehicle miles for slightly more passengers.

The freedom of operation led to a remarkable change in the shape of vehicles: The "minibus revolution" brought small buses with up to 30 seats onto the road, penetrating residential areas and allowing higher flexibility, as the costs per vehicle mile for minibuses are half of those of a double-decker bus. Nevertheless, this may be partly due to an adjustment to shrinking patronage.

6.3.3. Network Integration and Competition

Deregulation did not fall short of competition. The necessity to stand on their own feet without the chance to receive area-wide subsidy forced all operators to squeeze costs and cease unprofitable routes and shifting their resources into markets, where profits could be made. Unfortunately, there were too many of them.



The necessity to concentrate assets on profitable routes lead to a partial oversupply, which is reflected in the exceptionally low profit margins. Nevertheless, excess bus service can not explain the dramatic passenger slump which occurred.

Besides rising prices, two other factors may have contributed to the decline in passengers: Excess competition behaviour and the choices in direct competition, operators have to make in the absence of a planning and managing authority.

{Fairhurst (1993)} argues, that "the competitive forces set in motion by deregulation have worked in perverse ways in terms of public and consumer interests":

- As elasticity of demand is low (and short time price elasticity, when waiting at the bus stop is almost zero), the first available service is the "best". Therefore, the competitive practice of "headrunning" turns out to be one of the most rational and efficient. Cheaper fares and higher quality (also in "network facilities" like ticketing machines and information material) may attract further passengers, but only to the stop, where he takes the first available bus. Increasing quality is therefore a rarely thanked merit to all operating companies. To maximise patronage to reduce capital and overhead cost, it is therefore rational and profitable to run as many buses as possible, thereby perhaps over-servicing it. "Predatory behaviour" between buses turns out to be rational and attractive. This may also prove the fact that the envisaged differentiation of services concerning quality and price in "Sainsbury's and Quicksave buses" (J. Hibbs) did never happen.
- The "economic sin" (Stephen Glaister) of cross subsidiarisation ensured an area-wide working network, where excess profits of commercial routes were transferred to loss-making destinations, which thereby made the commercial routes more viable by "feeding" passengers onto them. As this practice stopped, the viability of commercial routes fell and was shared by more buses than before. This practice leads to substantial misallocation of resources in terms of areas and times of the day.
- The attempt to overturn competition and to form "operator loyalty", a variety of multi-ride-tickets, daypasses and return tickets with restricted use to certain routes and operators makes transport planning for passengers extremely confusing.

This split of network integration, resulting in confusing, un-accorded timetables, lack of co-ordinated information (in most cases in Sheffield, the stops do not even show the information, which bus line serves, where it goes and rarely when), unreliable



service, excess waiting times and a misleading variety of fare offers make a directly competitive market very unattractive to use.

The exception London showed the effects of a maintained network, where travelcards are still accepted everywhere. Although travelcards are still used in almost all areas on a contracted basis, the acceptance and price level varies and many large operators undermine the attractiveness with their own attempts to "win" passengers from their competitors.

6.3.4. The Viability of the Bus Industry

Several studies show a very low rate of profit across the industry. Although the situation tends to stabilise by now, several factors show the situation:

- The large operators, split up into small entities and to a large extent privatised by management- or workers-buyout, partly merged again to associations in need to cut capital costs and overheads, leading to a series of OFT and Monopolies and Mergers Commission (MMC) investigations. Nevertheless, this development did not seem to create substantial barriers to entering competitors.
- A general trend shows an increase in the share of small operators: The share of vehicle kilometres provided by operators running less than 5 million vehicle kms increased from 2.5% in 1985 to 9.9% in the metropolitan areas.³⁰
- The pressure to cut costs lead to less drivers per vehicle, less staff and falling wages for drivers. (See detailed graphs further ahead). Operators also cut costs and freed assets by selling off property, moving out depots, reviewing and closing routes, decentralising maintenance and tight cost monitoring procedures.
- As low profit margins sometimes do not allow to regain all capital costs, the fleet age is growing, thereby lowering service quality, reliability and safety. [Huntley (1989)] quotes several managing directors of companies, who assume a pre-tax profit of not less than 10% as essential in the long run to provide enough investment capital for ageing fleets and new market innovations.

³⁰DTP transport statistics, in Fairhurst (1993), par. 2



A study by the consulting agency Price Waterhouse in 1988³¹ examined the following key figures:

- The profit margins declined in 1986 and 1987 and showed slight recovery tendencies in 1988. However, average still stays below 5%, being very low compared with other industries. The decline after deregulation and subsequent recovery was strongest for ex-NBC companies. Further improvements of this ratio are not likely expected. This ratio is not assumed to be enough to attract further capital to the industry.
- Current ratios (current assets/current liabilities) have remained mostly constant, although varying significantly from 100% for ex-NBC companies and 75% for independent operators. This result shows that short time assets and expenditure are well under control.
- The gearing ratio (debt to equity ratio) showed marked differences between companies, but generally decreasing over the 3 years examined. Most companies remaining in public ownership had a gearing ratio below 100%. This shows a general movement i“nto the right direction”.

Price Waterhouse stated a direct relationship between the financial performance of a company and the level of competition in the area, seeing head-to-head competition and the fear of entering competitors as most important factors.

Despite wide variations, companies with a large tendered proportion did not tend to perform different from those in competitive business.

The future is said to be to those companies, who have high quality management information systems, minimal risks, high efficiency, tariffs tight to demand on every single route, a balanced network of reliable income and greater flexibility.³²

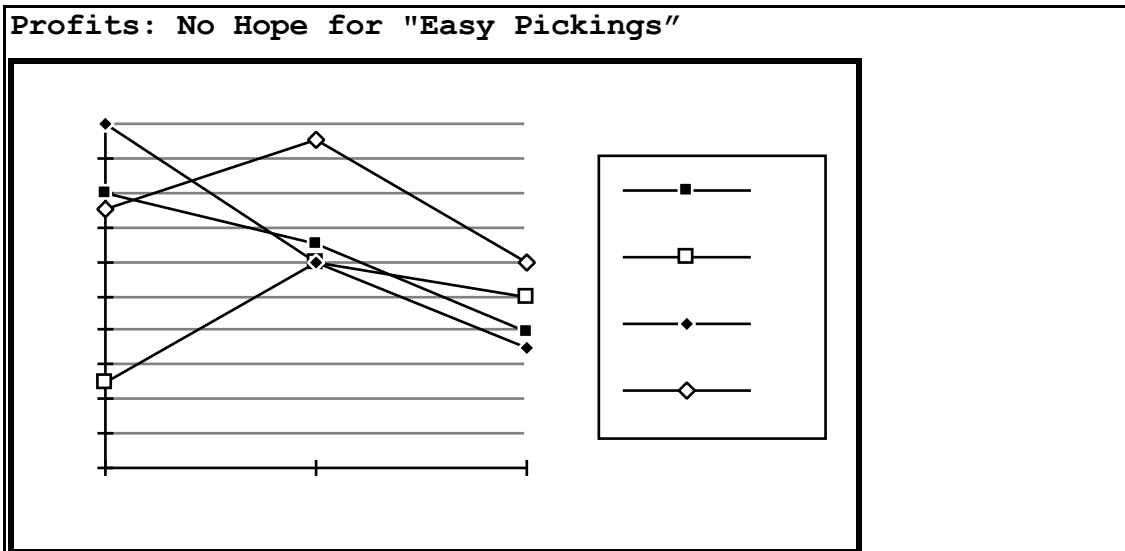
The initial sale of the companies in small shares has led to a re-concentration in some areas: [Bell and Cloke (1990)] assumes that some early purchasers capitalised

³¹Price Waterhouse (1990). However, Price Waterhouse states that results should be treated with caution due to the short time period the survey covers.

³²Price Waterhouse (1990), p. 6



their assets by selling off key property, thereby permitting further acquisition of companies, mostly in a complementary or competitive field. In many areas, an oligopolistic situation emerged. In many Metropolitan areas, a few large operators remained dominating.³³



Pre-Tax Profitability in the Bus Industry. Source: Huntley (1989), p. 7

Inter Industry Comparisons of Net Profit Margins		
	1987/88	1986/87
Bus and Coach	-0.5	1.5
Tour Operators and Travel Agents	5.6	16.6
Contract Cleaning	1.3	2.1
Vehicle Rental and Leasing	7.3	5.7
Road Hauliers:		
Major	5.5	5.1
Intermediate	4.7	3.7
Computer Manufacturing	7.4	4.2

Source: Price Waterhouse (1990), table 6 (selection)

6.3.5. Passenger Attitudes

A TRRL report, based on two surveys in 1987 and 1988³⁴ showed the following results:

³³Pickup, et al. (1991), p. 65

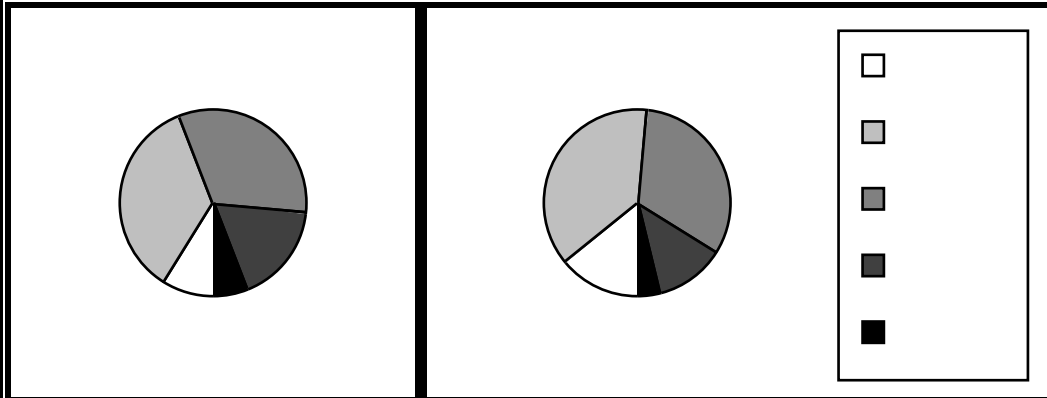
³⁴Walmsley and Simpson (1989)



- The overall service was still considered as good, with stronger positive results in the shire counties than in the metropolitan areas. Even there, almost twice of the opinions thought their services were good or very good (44%), compared with passengers considering it bad or very bad (23%).
- In the PTE areas, 46% of the bus users thought services were worse since deregulation, while the shire counties showed a more balanced attitude (30% in favour, 23% worse). A third of bus passengers in the PTE areas did not notice any or only little change.
- 5% of the PTE bus passengers used buses more and 23% less. This development is in line with the rapid fall in bus patronage observed. Three quarters of users did subjectively not change their use or were not affected. In the shire counties, each about a third used buses more and less. Here, the attribution of changes to deregulation is much lower than in the Metropolitan areas.
- Especially in the PTE areas, people who used buses before deregulation seemed to be more favourable to changes than non-bus-users. This underpins the theory that traditional non-bus-users were discouraged to change their mode of travel due to deregulation.
- Attitude of passengers in Merseyside was particularly unfavourably, whereas user opinion in South Yorkshire was especially good. This is especially interesting, as South Yorkshire suffered the worst fare increases of all Metropolitan areas.
- Elderly people are more strongly favourable to the changes than younger. Social classes did not influence much different attitudes as well as car ownership, except that they had the largest "neutral" response rate.
- However, "people who found the services so much worse that they actually stopped using them were automatically excluded from the analysis" (for whichever reason).



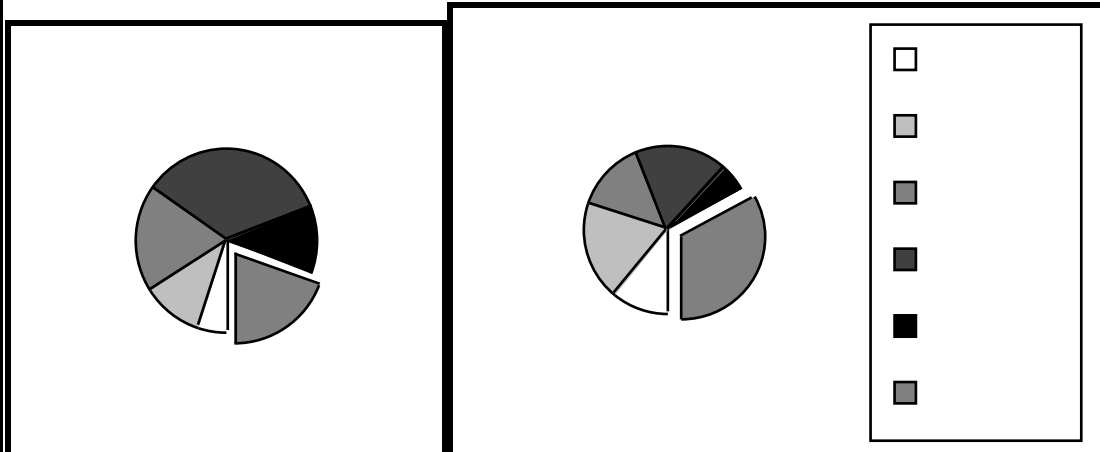
Question: What Do You Think About the Bus Service on the Whole?



All PTE areas

All shire counties

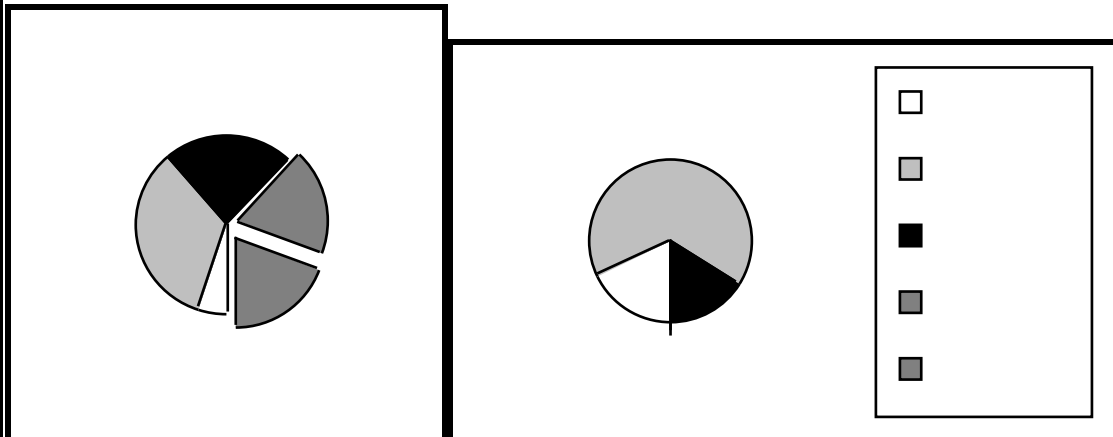
Question: What Do You Think About the Changes in last Autumn?



All PTE areas

All shire counties

Question: As a Result of the Changes, Do you Use the Buses more or Less?



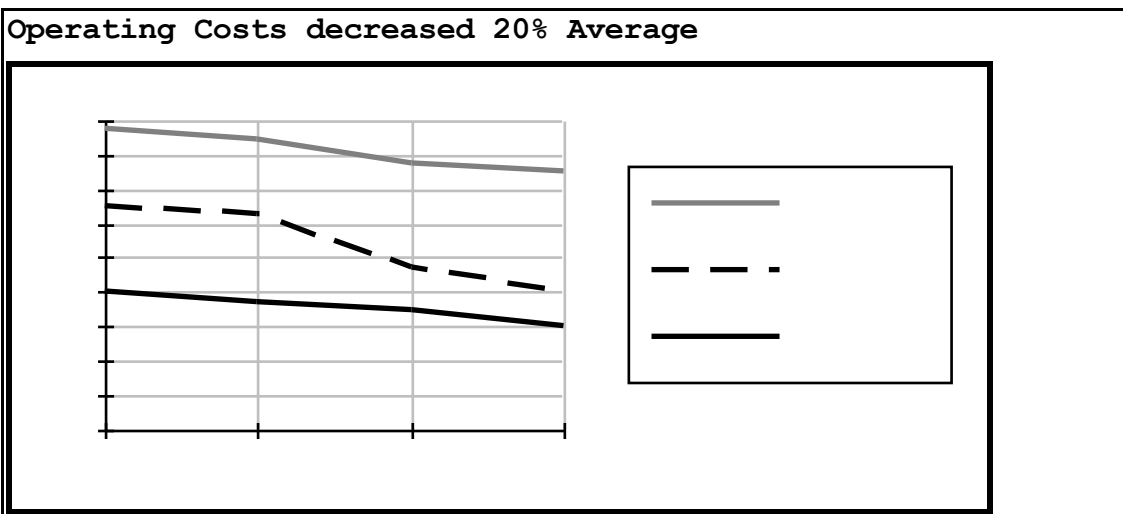
Passenger attitudes to deregulation. Source: Walmsley and Simpson (1989) p. 4-5



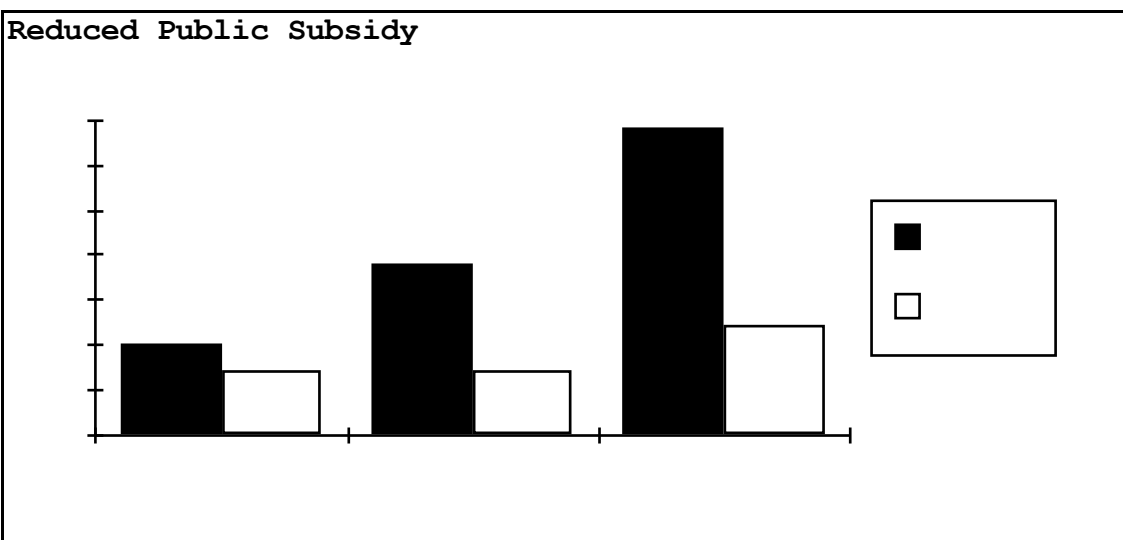
6.3.6. Operating Costs and Revenue Support

The Government predicted a reduction in operating costs of 15% at least³⁵. The years after deregulation proved a cost reduction of around 20% average, mostly at the expense of wages and working conditions, less drivers per bus and tight cost management on maintenance and administration.

The reduction of public subsidy was substantial, especially in the Metropolitan areas. A remarkable reduction per passenger journey was also achieved in London due to the tendering process.



Pence per vehicle km (88/9 prices). Source: Bus and Coach statistics 1988/9, in: Pickup, et al. (1991), p. 224

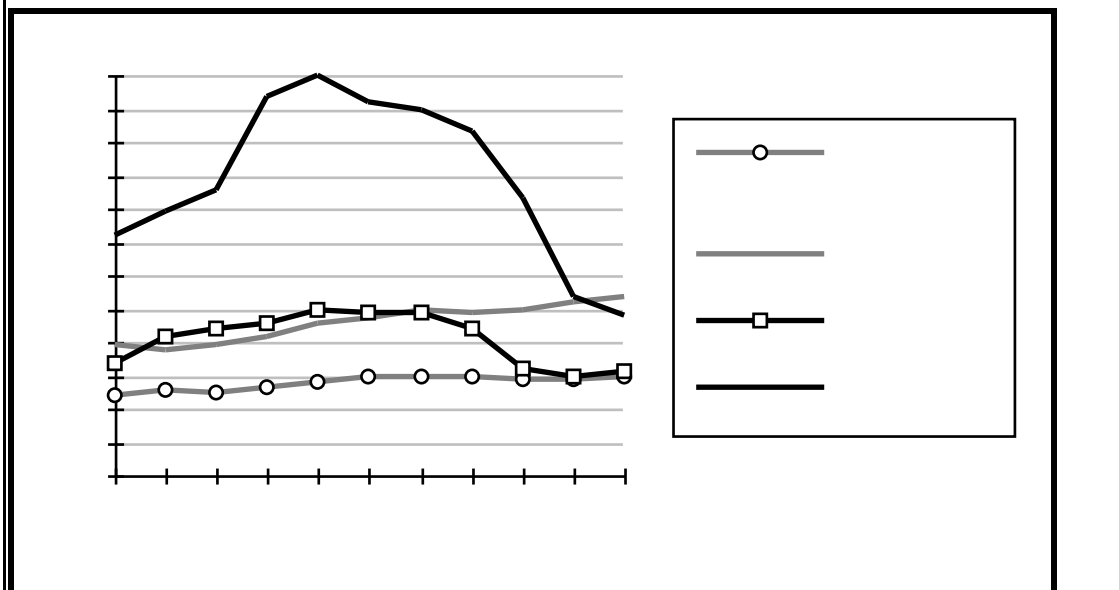


Revenue Support per Bus Passenger Journey. Source: London Transport in: Bradshaw (1993), p. 37

³⁵DTP (1984), p. 2



Public Transport Subsidies Fell Substantially



£million (adjusted for inflation to 1988). Source: Bus and Coach Statistics 1988/9, in: Pickup, et al. (1991), p. 229

The number and the offered prices for tendering varied substantially between 2 and 12 offers. The often more than 10fold differing prices foot in differing marginal costs, different estimates of revenue, tactical pricing for cross-subsidy or "staying in business" and unserious tenders, which acceptance is not desired.³⁶

Evidence after deregulation in rural areas³⁷ shows some substantial threats to the tendering approach in the long run: First, one of the most efficient strategies to win competition is to buy up the small competitor. According to some views, this development may lead to the situation of Great Britain eventually managed by some 6 large companies, forming a private unaccountable monopoly. In some rural areas time has proven that larger operators, successfully defending their routes against small entrants, are disregistering their routes with the expectation to win them back through local authority tendering. As entering a market for new competitors may take substantially longer than the 5 years of a contract (remembering the necessity to prove operating ability, stable financial background, safe buses, trained staff and other requirements), there is no sufficient market in the short run to bring tendering contracts down to marginal costs. A tendering contract will then be achieved more on the basis of the maximum attainable price, facing an authority which may not be willing to

³⁶Huntley (1989), p. 61f

³⁷Bell and Cloke (1990), p. 196



drop a service, even when licated by a quasi-monopolist. It may therefore be lethal to local authority fundings to rely on compulsory tendering in a oligopolistic situation. Furthermore, an exaggerated tendering result may lead to reverse cross-subsidiarisation to commercial routes to increase market shares and "to stay in the business".

Operators also claim that the profitability of tendering depended more on the "management" of the tendering process than the number of competitors.³⁸

6.3.7. The Standards of Quality, Safety and Reliability

As the industry faced squeezed profit margins, safety standards in line with reduced maintenance staff decreased.

Most companies reacted to capital shortage with longer use of old buses. This more than doubled the percentage of buses 12 or more years old from approx. 16% in 1984 to approx. 38% in 1991.

Furthermore, entering competitors frequently did so with second hand buses from established operators. Only recently the bus manufacturing industry registered a slight stabilisation of the trend.

Police in South Manchester made random street checks and discovered a long list of often dangerous fallacies on buses. 28 of 49 stopped buses had defects to claim, 5 of them were so serious they were immediately banned from the road. Inspector Malcom Cattarall, traffic inspector for south Manchester, said "it does seem to be an increase in the number of vehicles in less than tip-top condition". Vehicle checks in other areas showed similar situations.³⁹

Reliability of service shows a very diverse picture. In some cases buses repeatedly ran not in time, did not stop or took wrong routes. A major source of unreliability is congestion in peak hours, a factor only partly contestable to deregulation (see: changes in car ownership). [Pickup, et al. (1991)] states, that reliability in general has improved since deregulation, even if there is not enough quantitative data to draw a

³⁸Price Waterhouse (1990), p. 3

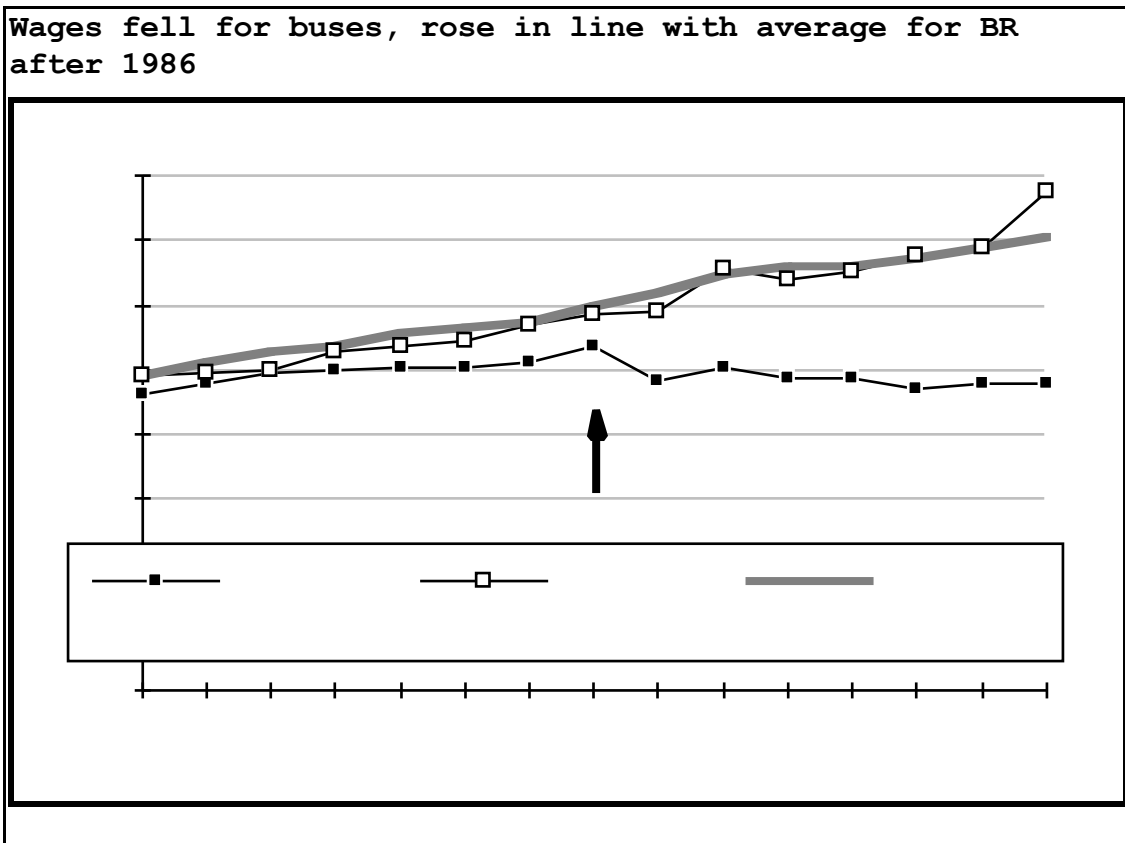
³⁹Johnson (1994)



comprehensive conclusion.⁴⁰ However, a large disturbance and subjective unreliability occurred through frequent changes of services. In Merseyside, almost 90% of all bus miles operated were subject to changes from schedule within the year 1987⁴¹.

6.3.8. Falling Wages, Lost Jobs: The Price of Efficiency

The public transport industry is very labour-intensive, with labour costs amounting up to 50% of total costs.⁴² Therefore, labour is one of the most important unit costs to cut. A combination of improved productivity with less drivers per bus, changes in working practices and pay reductions occurred.



Full time male gross week earnings including absences, discounted to net present value with retail price index (RPI). Source: DoE ([SERIAL]), and Central Statistical Office ([SERIAL]), years 1979-1993.

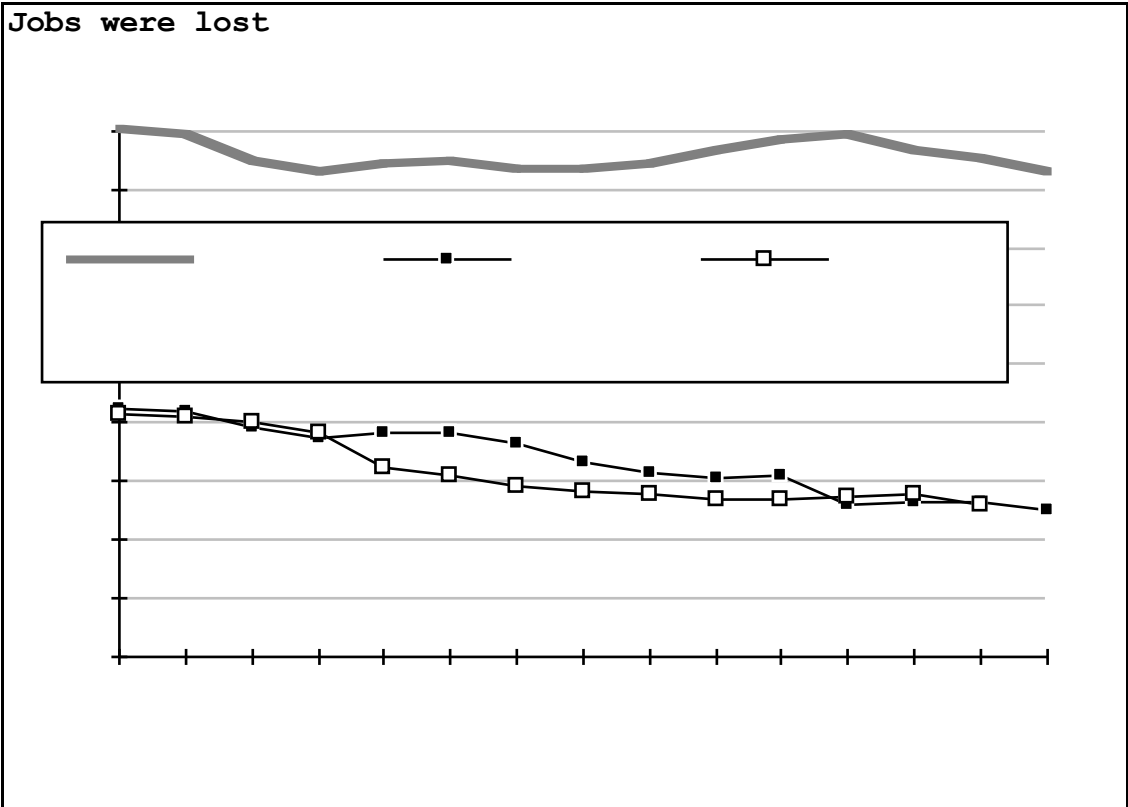
⁴⁰Pickup, et al. (1991), p. 145

⁴¹Merseytravel (1990), in: Pickup, et al. (1991), p. 148

⁴²Heseltine and Silcock (1989), p. 9



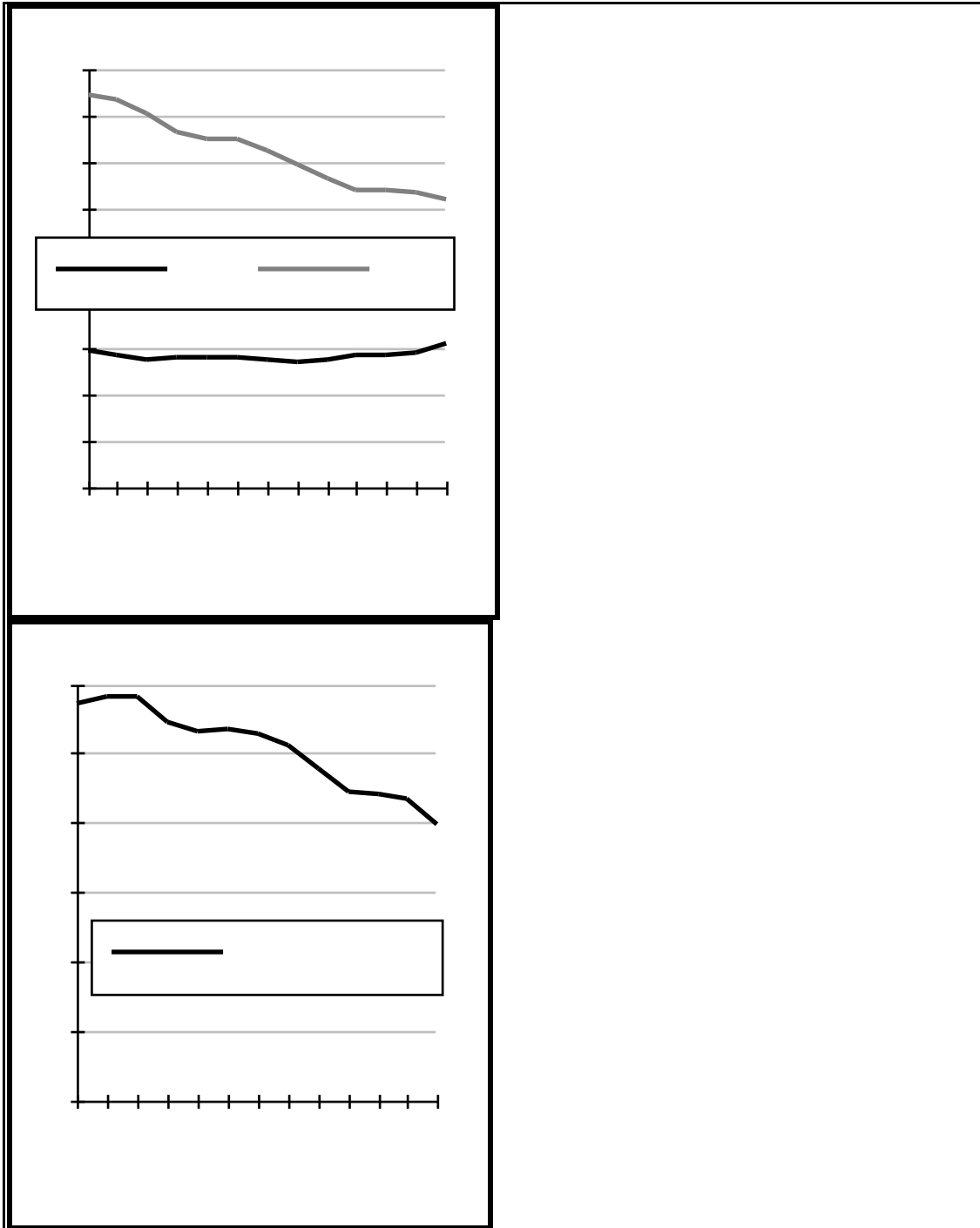
Jobs were lost



Net employment figures in absolute terms in Great Britain in relevant industry sector. Figures in 1,000 (in 50,000 for Total Employment).
*) Not available data for 1980 linear interpolated.

Efficiency: Less Drivers, More Buses





Source: Hibbs (1993), table 7

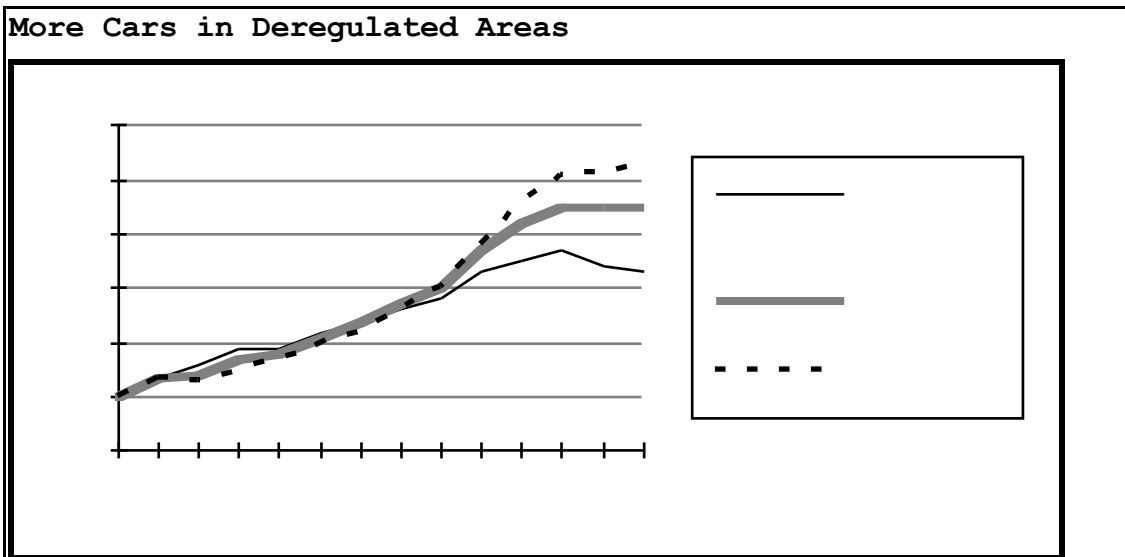
Several changes in working practices since deregulation have been aimed at increasing bus miles per labour hour: The fixed guaranteed day of 7h48min was replaced by a guaranteed 39 hours week, thereby reducing overtime payment. Moreover, many operators negotiated wage agreements containing less fringe benefits, paid breaks and sign on and off times. New minibus drivers in metropolitan areas were hired on around 75% of their conventional drivers' wages. As newer laws enabled



operators to hire younger staff, the average age of employees fell, in line with lower wages of a tier-wage structure to job specification and length of service, which has been introduced in the Metropolitan Passenger Transport Companies (PTCs). Small private operators largely employed older experienced drivers made redundant by established drivers. They also grant substantially shorter paid holidays. Engineering staff productivity (bus miles per engineer) has increased by up to 67% for PTCs, remaining relatively stable for private operators.

Due to the relative fragmentation of the industry and locally negotiated contracts as well as a growing awareness of staff of the economic situation, industry action was almost absent since 1986. In line with the national trend, the influence of the Transport and General Workers Union (TGWU) is declining.⁴³

6.3.9. Other Contributing Factors



Index of car ownership per head (1979 = 100) Source: Fairhurst (1993), diagram 2

The persistent trend of car ownership rising higher than average in the areas who faced deregulation is widely assumed to be a direct result. Furthermore, as car ownership is a very long term trend, it is assumed that conditions in the public transport market will get tougher over time.⁴⁴ London Transport assumes the effect of a 1% rise in car ownership relative to an underlying trend growth rate of 2% in a

⁴³Heseltine and Silcock (1989)

⁴⁴Fairhurst (1993), par. 3



resulting decline of bus patronage by 0.4%, which exceeds the estimated price elasticity.⁴⁵

London and Metropolitan Areas: Comparative Performance		
	Full deregulation Metropolitan PTAs	Competitive regulation London Buses Ltd
Passenger Journeys	- 16.2%	+10.2%
Vehicle kilometres	+7.5%	+1.8%
Fares	+27.5%	+4%
Ticketing	Travelcards can be used on most services	Travelcards and Capital Cards on any service
Stability	Low but improving	High
Staff employed	-26%	-23%
Passenger receipts real	-1.1%	-8.1%
Revenue support	-22%	-18%
Proportion of network tendered	14%*)	25%*)

Changes over the initial period of deregulation (1985-87). Source: DTp in: Banister and Pickup (1990), p.81. * The proportion of the network tendered shows limited comparability, as London eventually will tender the whole network, including the commercially viable routes.

⁴⁵Fairhurst (1993), par. 3.1



7. The Future

◆ **Central Government currently prepares a u-turn in its road policy with the scrapping of major trunk road proposals and road pricing, which may have extensive side effects on the public transport industry. Despite strong criticisms there is no willingness to support public transport substantially instead. But at present, it is very likely that after 1996 a Labour Government will reconsider deregulation. In either case, further deregulation in London is unlikely.**

The Royal Commission on Environmental Pollution, in line with many others like the Standing Advisory Committee for Trunk Road Assessment (SACTRA), South East Regional Planning and Advisory Board (SERPLAN), London Planning and Advisory Committee (LPAC) and the Chartered Institute for Transport (CIT) have been calling for a halt or substantial reduction in road transport investment and a shift to public transport.⁴⁶

Several explanations were published to explain the market failures. Astonishingly, a proposition from one of the advocates of the free-market approach suggested scrapping the 46 days notifying period to allow "hit-and-run-competition"⁴⁷

Central government has committed itself not to deregulate the London bus market before the next general election in 1996. Planning Officials of London Transport expect a further move after it, but are in doubt if deregulation in London can ever be achieved.⁴⁸ The House of Commons Transport Committee has expressed serious reservations to deregulate London's bus system. The committee calls for a study of three possibilities: net cost tendering, franchising and full deregulation.⁴⁹

At present, the politic situation points towards the end of the conservative area in Great Britain, showing the Labour Party at the lead of 34 percentage points of public

⁴⁶Local Transport Today (1994), SERPLAN (1991), Bradshaw (1993)

⁴⁷John Hibbs, in Bell and Cloke (1990), p. 80

⁴⁸personal interview with Mr. K. Seale, London Transport

⁴⁹Local Transport Today (1993a)



opinion at present. The Labour Party has committed itself to common ownership of British Rail and will reconsider deregulation in the Metropolitan areas.



8. Evaluation

◆ **Comparison between the expected development and the results show that passengers and employees were the losers of the policy, which substantially suffered from the situation. The policy succeeded in reducing costs and public subsidy but failed to make the industry more efficient. There is a need for integrated networks within densely populated areas which comprise different modes of travel and land use planning, including strategic aims and targets and suitable institutions to deliver them. The market may play an important rôle to achieve them most efficiently. However, it is doubtful, if the underlying values had as their most important goal a better public transport. The lack of agreed values together with a laissez-faire approach is unsuitable to lead Great Britain into the future. Finally, a long term policy to adjust to transport on a sustainable basis is urgently needed.**

8.1. Introduction: The Results, But Which Aims?

An evaluation of the "success" or "failure" of the envisaged measures is potentially highly controversial. The Secretary of State for Transport recently called the development a success because more buses cruise more miles than ever before. Others criticise the more and more fading patronage and blame deregulation. The crucial question to "success" or "failure" is the question of the aims of a public transport system.

On the one hand, Central Government did provide us with goals they intended to achieve. It is therefore valid to judge the results on this scale. Following these (mentioned in the second chapter), the measures definitely succeeded in reducing public subsidy substantially. Furthermore, it brought the majority of the bus industry successfully into the private sector, which then reduced costs by more than 20%. The minibus development was the most shining result of innovation, brought along by private enterprise. On the other hand, the aim to increase "efficiency" failed to deliver, as the majority of commercial services fights ruinous competition in a very small sector



at profit rates unsustainable in the long run, thereby oversupplying it, offering more bus capacity for less patronage.

On the other hand, an evaluation not questioning the value and validity of the aims, which underlie the specific measures, falls short of scope. Whatever they **did** achieve in pursuing their policy, they may be "wrong" in what they **wanted** to achieve, in their underlying properties. The discussion about this very wide issue may be directed here towards some of the crucial points: First, if the obvious gap between the assumptions made and the results achieved may be of theoretical nature. In other words: Did economic theory underlying the policy disregard important factors. Second, what the economic theory assumes as the "best to come". And third, towards the inverted commas which surround the "wrong" at the beginning of this paragraph: What is right, what may be the goals and targets the author considers.

8.2. The Pitfalls of Micro-Economic Implications

8.2.1. The Nature of the Good "Transport"

The acts and White Papers implicitly assume public transport to be an excludable, rival good, as only these types of goods can be allocated most efficiently through a free market. It imposes it to a non-excludable, but still rival good "road". If the assumptions of the nature of public transport are adequate or not, this must lead to the drain of the excludable market and thereby destroying both.⁵⁰ Furthermore, the bus market is a small sub-market of several modes of mobility, in the widest sense even including living and housing patterns as well as land use planning. Whereas the White Paper "Roads for Prosperity" aimed at accommodating "occurring" traffic, the now valid PPG13 speaks of "planning for less travel".⁵¹ Facing this contradiction, it may be doubtful if a complete free play is even desirable. Furthermore, there are strong interrelations between the "rival" good of commercial line and the "meritgood" of tendering, as the commercial network would be less attractive, the market as a whole would be expected to shrink substantially and very large unwanted side effects can be expected, if the tendered service were to be ceased.

⁵⁰Peston (1972), p. 13

⁵¹DTP (1994)



8.2.2. The Nature of Competition: The Prisoner's Dilemma?

It has been assumed prior to deregulation, that each operator will see, that co-operation in a network is most profitable for all.⁵² Nevertheless game theory and institutionalism teaches us that in competition in a framework of low institutional control it is more profitable (i.e. the higher ratio of gains against resources and risks) for the singular competitor to "skim the cream" instead of attempting an "encompassing strategy" (M. Olson) to increase the cake to share as a whole. Furthermore, metropolitan bus markets are markets with strong interrelations, where the use of one service is strongly dependent on the attractiveness of others and the network as a whole. As it is not in the interest of a particular competitor that his customer may also use a different bus, attempts to establish "loyalty behaviour" (with cheap return fares and operator-based travelcards) reduce travel flexibility and segments the network, thereby reducing its attractiveness as a whole. Theoretically, in the most extreme extent, operators will try to consume the maximum of the cake before it is eaten up by others without being able to care, what to eat next. This prisoner's dilemma keeps the market trapped in a suboptimal solution.⁵³

8.2.3. Elasticity of Demand for Local Bus Transport Is Very Inelastic

Competition is carried out with those methods which are most successful to attract passengers, by whichever means. In a market with short term settled and inelastic demand, the bus with the first instead of the best service wins. This makes headrunning and similar practices to the best competitive (because most successful) behaviour.

8.2.4. Need = Demand?

In stark contrast to neo-classic economic theory, it can not be assumed that the majority of people refraining from travel because of higher fares or worse service do so on their own free will. As these economic assumptions do not include equality and the right of access, this is a large area where markets can not achieve satisfactory results for disadvantaged people. On the other hand, passengers with the highest willingness to pay the fare might not have the highest "need". A public transport which matches

⁵²Hibbs (1982)

⁵³for further reading about institutionalism and encompassing theory: Olson (1982), North (1993), Hodgson (1989)



closer the need to move is a public transport which is less based on the ability to pay high prices.

8.2.5. Oligopolies in the Bus Market

Several factors tend to move the bus industry into a quasi-oligopolic situation:

- The low profit margins support growth rather by acquisition than by competition.
- Consumer habits to board rather the first than the preferred bus (a very rational behaviour, regarding the value of time-consuming waiting) make price competition unsuccessful. Therefore, the scale of a particular operator plays an important rôle.

Price determination in a quasi-oligopolic situation encompasses several factors as well: The "best" situation would be a quasi-cartel to treat the market as monopolist. The OFT, MMC and potential competitors make this behaviour unlikely. Game theory teaches that prices in oligopolies will never fall below a certain level as the fare reduction of one operator to gain market share (a necessary result to reach success of the lower fares) will result in price reduction of the other competitors, equalling market shares again and making all operators worse off.⁵⁴

⁵⁴Beardshaw (1989), p. 211f



8.2.6. Marginal Pricing: The First Passenger Who Never Came

There are assumptions stating that true marginal pricing is impossible in the transport market which is a "decreasing cost industry", as "transport supply" is a good which "perishes" immediately. If it is not consumed at the bus stop, it is wasted. Therefore, true marginal pricing will ever fall below cost, as the marginal cost of an additional passenger (assuming the capacity of the seat in the bus which is already standing at the stop) is zero. Theoretically, the first passenger in the bus has to pay for the whole bus and the others ride free. Practically, the costs for the first passenger are already paid at the time he enters the bus, so even he might ride free under pure marginal pricing.

Theoretically, marginal pricing could be applied to the *expected* ridership, dividing the cost of running a bus by the quantity of passengers usually expected. But this would *lower* the price during peak hours and raise it off peak, thereby encouraging more people riding when buses are full than when they are empty.

Empirically, operators tend to approach the market on the *expected willingness to pay*, which is a more significant determinant of price than the marginal costs of more buses and drivers operating at peak hours, thereby gaining excess profit which is cross-subsidised to off peak hours to maintain a reliable network. But together with other pricing policies to attract riders from other competitors, the network as a whole becomes less and less attractive. Furthermore, it allows outside operators (from other businesses, which have free resources in peak hours) to "fly by night" and thereby disintegrating the network even more.

8.3. The Success

Especially the exception of London showed remarkable results:

- The planning authority "London Transport" was separated in responsibility and accounting from operators. This enables them to pursue their aims for passengers and regional development more efficiently as if they had to take commercial interests of the large operators on board as well. It downgraded operating responsibility to lower levels. This development happened equally in the other deregulated areas, but thereby stripping the authorities of their planning power as well.



- A gradual privatisation avoided the confusing situation which occurred in the Metropolitan areas, where a variety of operators, often with old used fleets and little experience competed to survive. The degree of cost reduction in the London area is less, but still comparable with the Mets.
- The limited tendering approach with no obligation to publish results bears the risk of "hidden bargaining" and inefficient use. On the other hand, contracts can be allocated more sensibly, putting a higher emphasis on reliability and quality standards. Limited tendering to certain approved partners ensures reliable service. However, this is a matter of tight management practice. The possibility of abuse makes third party control (through publicly accountable bodies or similar) necessary.
- Both practices in the deregulated and regulated areas brought a substantial degree of cost-awareness with it, thereby reducing public subsidy. Even if passengers rarely profited from the situation, taxpayers did. This degree of efficiency is rare in Europe. However, the other side of the coin shows slim profit margins, reducing the ability to invest in newer, safer and more environmentally friendly buses, thereby increasing attractiveness. Whereas in other cities like Vienna local buses are powered by fluid gas and catalytic converter, British buses still leave black clouds of smoke behind.

8.4. The Lessons to Learn

Deregulation showed very varying results: It succeeded both in terms of quality and quantity in the express coach market. It proved fairly indifferent to services and prices in rural areas, but reduced public subsidy substantially. It failed almost in every sense in the metropolitan areas (which are by far the majority of vehicle miles, passengers and revenues), as the reduced rate of public subsidy was similarly achieved in the still regulated London market. It is therefore highly recommended to rethink a free market "on the road" in densely populated areas. Furthermore, it is theoretically and practically fatal to deregulate in a situation where roads are free for everyone.

The Metropolitan experience shows that fragmentation of a densely interrelated network is fatal and must be avoided.



On the other hand, competition does encourage more efficiency and operation with less costs. Elements of competition can therefore help to improve public transport by making public funds available for other uses.

8.4.1. Wanted: A Different View, a Different Policy

Generally, the most important questions are not whether to support one or the other singular measure, but whether to pursue the one or other aim and resulting policy. The present policy assumed private enterprise and competition on the road achieved the best situation and was undoubtedly wrong (even in its own definitions) in the largest part of the road transport market. The crucial question therefore is, which alternative model of underlying aims, envisaged policy and single measures can be pursued instead.

To me, the only real aims to pursue lie in the overall situation of the industrialised world: Confronted with a threatening greenhouse effect, hazardous pollution and "mobility" patterns, which pressed travel speed down to the level of the Victorian age with a tendency to slow down further, the task is to find a transport policy which can cope with the masses of needed travel with less congestion and a rate of pollution which is compatible with sustainable development.

Regardless of other, maybe even more important factors, public transport in this context has to fulfil an important social function: It has to be a viable alternative to the use of the car, with only a fraction of today's pollution. Furthermore, public transport has an important rôle in offering access to disadvantaged groups of society, which otherwise would be excluded. But it has to be added, that these statements are assumptions, assigning public transport a rôle to fulfil which may be well-argued, but are still values and assumptions, comparable with the assumption that "the market will do the best". Therefore, this approach is no "truth", but subject to politic and social discussions about values and aims as any other. Some points may contribute to it:

- The rôle of land use planning is the key lever in long term development to attain living and working structures which grant reasonable access with substantially less traffic. It has to be considered together with investment and operation of public transport. Development targets are needed. However, in the short run a better and more public transport is needed to accommodate car traffic.



- Planners and regulators must follow these targets and should be strongly publicly accountable for their rôle in public service, as they not only plan for public, but also allocate public funds.
- Following a cybernetic approach, systems tend to their internal optimisation. Competition in transport may be very fruitful if the market frameworks awards better public service. It is therefore a question of developing an institutional framework, within market optimisation is identical with optimal achievements of the agreed aims. Following this approach, markets can help to pursue an integrated public transport market with through-ticketing and area-wide services.
- The economic sin of cross subsidiarisation instead of marginal pricing for each individual journey seems as a matter of fact to be one of the most efficient methods to promote the use of public transport. Stephen Glaister about the London Travelcard, one of the most popular tickets:

"For all its advantages, it does confound the price system because the holder faces no charge for the additional trips he makes"⁵⁵

Nevertheless, it is an easy-to-use, reliable tool which costs are foreseeable to the customer. It is the incentive of "mobility over a time-period and within a specified area" instead of the good "single ride", assuming the need to travel as given in the short run.

Modern technology can help to achieve this integration: Booking networks, smartcards, machine-readable and even touch-less tickets, automated and fast entry and exit from buses may contribute to an efficient, modern system of public transport. This may even help to administer integrated transport as a whole, like with the proposal of the Transport and Environment Group of a "mobility card" which can be used for road pricing, rail and bus travel.

⁵⁵Glaister (1991), p.96



8.5. The Need for Tough Targets: The Far Future is Nearer Than Everybody Wants

Public transport is not only a scarce resource in economic terms (where allocation is done by price adjustment), but also in ecological terms, exceeding the scope and logic of economics allocation methods. It does not make sense to allocate natural resources according to methods, which are incompatible with our natural environment, which is the case with our established price allocation mechanisms. There is no logical sense in the imperative in "efficient" use of resources, if they are unsustainable in ecological terms. Economic "efficiency" is defined with the maximum output by given input or minimum input with given output. Efficiency in sustainable transport may be the maximum access with sustainable degree of pollution (which is almost 0 pollution). In the foreseeable future we have to face an environment which forces us on sustainable economics and transport without any renewable resources. We have to face this future now. The "free market on the road" does not.

If we want to preserve a reasonable future for mankind, we have to reduce our amount of travel substantially. This requires consensus, strong community agreement and respect for fairness and equality, if we do not want to lose access to facilities for a majority of the population. We cannot escape into "market forces" which should then be blamed if they fail to deliver what we do not dare to. The "market on the road" as a panacea is an attempt to escape from the definition and discussion of objective values. The market may be a means within a framework, not an aim.



9. Appendix

9.1. Abbreviations

DoE	here: Department of Employment (in some lit.: Department of the Environment)
DTP (in some lit.: DoT)	Department of Transport
LPAC	London Planning and Advisory Committee
MMC	Monopolies and Mergers Commission
OFT	Office for Fair Trading
PTA	Passenger Transport Authority
PTC	Passenger Transport Company
PTE	Passenger Transport Executive
RPI	Retail price index
SACTRA	Standing Advisory Committee for Trunk Road Assessment
SERPLAN	South East Regional Planning and Advisory Committee



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