

[Common Error No. 76](#) [1]

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76. "If state industries are opened up to competition, private firms cream off the lucrative trade, leaving the poor and outlying regions without adequate service."

This argument exists only on the fiction shelves of libraries. In practice the private sector shows a remarkable ability to make profits on what were loss-making services for the state. Examples are plentiful. State airline routes abandoned as loss-makers are taken over by private airlines and run at a profit.

Deregulation of US airlines was widely predicted to cut services to outlying areas. The reverse happened. Instead of "cowboys" engaging in their customary "creaming off" of the large and heavily used services, there was an increase in small airlines serving smaller towns. The private sector is more innovative. It introduced the "hub and spoke" system of air traffic, for example. It uses smaller planes and buses. It brings in the "no frills" economy services which have proved so popular. It uses unfashionable airports. It brings in new types of service and uses up-to-date technology.

Private firms have the incentives state ones do not. They seek customers because that is where profits can be made. They do not impose a national standard, as state bureaucracies tend to do, but vary their output according to the conditions and needs of different areas and sectors. This has happened in mail services, in telephones, in freight and package delivery. Far from just losing their loss-making state services, people gained viable and innovative alternatives.

In rare cases where private business cannot manage to provide service for outlying areas, society will get a better deal if private firms are invited to bid on the basis of least subsidy needed. That way we get competition and consumer pressure, and the incentive to operate efficiently, none of which are normally to be found in state monopolies.

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