
Bus Deregulation- the Next Step

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MEMORANDUM TO THE
SECRETARY OF STATE FOR TRANSPORT

B U S D E R E G U L A T I O N
- T H E N E X T S T E P -

1. THE POTENTIAL

- 1.1 Leaving aside for a moment the outcome of deregulation of coach services, the Transport Act 1980 has hardly been the success expected by its advocates, or the disaster forecast by its opponents. There has been a moderate development of new services, largely in rural or semi-rural areas, with here and there a cause celebre such as the Yeowarts dispute. There has been no sign of the massive impact of competition upon the more profitable operations of the industry, and neither has there been very much sign of new and innovatory ideas that might stand to benefit the public.
- 1.2 Part of the reason for the sluggish reaction of the industry to the partial deregulation of 1980 can be seen to follow from the retention of the route licensing system. Despite the requirement that the traffic commissioners should assume, prima facie, the desirability of any new application, the grounds for objection still rest upon the notion of 'the public interest', and this is always as long as a piece of string. It cannot be measured, and therefore a clever advocate can make use of it in traffic court proceedings. The industry has no lack of clever advocates, among its managers as well as among the legal profession, and every opportunity has been taken to use the licensing system for the protection of existing interests. It is not unfair to say that in this process the scales have been weighted against new and innovatory propositions, nor is it a criticism of the established operators that they have used the system to protect their own interests, as they have seen them.

- 1.3 It should also be said that the established operators have not all failed to innovate, for many promising developments have followed from the virtual abandonment of price control under the Act of 1980. What was not generally foreseen has been the fierce and largely successful opposition to new developments in the places where new propositions did appear, such as Bristol, Cardiff and Whitehaven. What is equally important, though, is the small number of places where such licence applications were submitted. It is this that may make the prospect for innovation under a further measure of deregulation seem doubtful. It is doubtless unlikely that there will be any less resistance to it as a consequence, for a statement such as this can be used both ways to oppose deregulation: it can be said that it is dangerous, and also that, if it is not dangerous, it is not needed. Those who still advocate deregulation must consider the possibility that, when it has been achieved, nothing much - initially - may come of it.
- 1.4 To begin with, it must be observed that the mere possibility of new competition can be an effective spur to change and innovation, as the developments in the express coach sector since 1980 have shown. Only the bigotted observer could deplore the retention by National Travel of its place in an open market, and the benefit to the public of deregulation has become plain. If no major developments take place in urban transport in any post-deregulation period, it will be a serious criticism of the bus industry; if no new competition breaks out, it will be no fault of deregulation, and new developments without competition are surely to be warmly welcomed. In fact, the prospects for urban transport after a more extensive measure of deregulation can by now begin to be discerned. There are five practical sources of innovation and progress, which deregulation might free. It is probably unlikely that they would all emerge on the morrow of the new system, and it is certain that they would interact with each other, so that any detailed attempt at prophecy is bound to err.

- 1.5 First, there are the small firms, already existing and thought by some to be the main reservoir of new initiative. Their contribution may well at first be small. There was a general air of disapproval among the coach operators of Cardiff when CK Coaches launched into competition with the City Transport. If, however, other interests show signs of success, it is by no means impossible that the coach operators will be attracted in some measure, even though their caution postpones any substantial developments in the early years of a new regime.
- 1.6 Second, there may be new entrants with new ideas, such as AMOS, who would certainly be seen as a danger by existing operators too set in their ways to contemplate innovation. Against this must be set the liberation of innovative forces within the existing undertakings: it is always open to the established operator to get in first. From this quarter may be expected the fireworks of the post-deregulation period.
- 1.7 Third, there is the possibility of new entrants of a rather different kind (although this category may overlap with the previous one). The deregulation of road freight transport was accompanied by the entry of the Transport Development Group to that part of the industry, with the intention of channelling new investment into new opportunities. Such a development, which might be attractive in the City, could also be linked with the next category, and might also be associated with any possible privatisation of National Bus.
- 1.8 The fourth possibility is already prefigured by the White Paper Streamlining the Cities, and its equivalent for London. Some district councils in existing urban areas could be given authority by the government to set up their own passenger transport departments, or to contract out such services as they wish. Councils with a political commitment to private enterprise may well seek such authority, and then turn either to an existing local operator, or to new capital, to obtain the services they desire.

- 1.9 The existing local operator may not, of course, be a small or even a medium sized coach proprietor, with little or no knowledge of bus operation, as seems in some quarters to be feared. It may even be an existing 'established' operator, especially in the event of the privatisation of National Bus. This brings us to the fifth of these categories - the potential for innovation of the undertakings, state-owned or municipal, that now exist. What is widely ignored in the dispute over deregulation is the reservoir of capable and professional talent that exists within the businesses that now dominate urban transport, and that would be liberated by a new found freedom of action.

2. THE PRESENT STATE OF THE PRIVATE SECTOR

- 2.1 Statistics indicate that 'private operators', while owning approximately one third of the total vehicle stock of the bus industry, and performing something approaching half of the total annual vehicle kilometres, provide only a small proportion of stage services. Like most such derivatives, the figures for stage operation conceal certain aspects of operating reality which might deserve further investigation.
- 2.2 The economic consequences of the Road Traffic Act 1930 led to the consolidation of ownership of stage services (outwith the municipal field) in the hands of the 'territorial' companies. By 1960 it was possible to predict the eclipse of the private sector insofar as stage operation was concerned. This consummation was indeed regarded in some quarters with equanimity.
- 2.3 Subsequent events have caused a shift away from this process, with an underlying trend to the establishment of new stage services. This has been largely due to economic problems, and has reflected the decision of the National Bus Company to progressively withdraw from 'deep rural' operation.

- 2.4 The overall statistical impact of this shift has been relatively small, because the type of service involved characteristically provides only a small number of journeys per week - in some cases, no more than one out-and-home trip. In cases where the private firm with a garage in the rural hinterland replaces a service that had previously required 'positioning mileage' - ie, the scheduling of the bus out from the town to start the service, and back to the town after completing it - there could even result a net decrease in stage mileage, yet with no significant worsening of service.
- 2.5 A once-a-week market service of this type may be every bit as important socially as the provision of a high density urban bus service, for the needs of the communities being served. Thus, the contribution of the private sector bus firms ought not to be underestimated merely on the basis of their share of the market, as measured by vehicle kilometres performed.

3. DEREGULATION AND THE UNREMUNERATIVE SERVICE

- 3.1 Deregulation may be expected to attract new competition to the busier routes. It is commonly assumed that 'territorial' operators (including municipalities) will thereby lose revenue out of which they are cross-subsidising 'thinner' routes. To the extent that this is true, it implies the extraction of monopoly profit from the busier routes (Ponsonby, 1963) in order to balance out-of-pocket loss elsewhere. It is difficult to justify such practice in terms of either social or economic policy.
- 3.2 To the extent to which the territorial operator withdraws mileage from the busier routes, however, there will be a corresponding rise in his unit costs, as his overheads become spread over a smaller total mileage. This will of course raise the cost of many thinner routes above a threshold beyond which they are no longer supported by revenue. It is in this sense that deregulation may present a problem for the so-called unremunerative service.

3.3 The problem is not by any means as stark as it is sometimes painted:

- (a) If there were no territorial operators it would not concern us. While the territorial operators will probably continue to exist, their pleas for protection are thereby weakened.
- (b) The territorial operators may survive deregulation without severe contraction of their net revenue - either by successfully resisting the competition, or by the exploitation of new markets. (In this context it is exceedingly important that the current move away from standard charging within the National Bus Company be encouraged, and also emulated by the Passenger Transport Executives - including London - and the municipal undertakings).
- (c) By no means all of the thin routes thereby put at risk will fail to be replaced by other firms. It is often forgotten that a thin route offers a degree of security, just because it is unlikely to attract new competition.

3.4 Therefore, the danger of widespread loss of bus transport in rural and suburban areas is less severe than might at first sight be supposed, were deregulation to be carried to its logical extent. It is a matter of record that the period of competition prior to the introduction of quantity control in 1930 saw the establishment of numerous services on thin routes, while the so-called pirates in London in the 1920's frequently sought out useful suburban traffics which they could make their own.

3.5 There is still likely to be a period of change in various marginal areas following from the further deregulation of the industry. It is understandable that people in the areas likely to be affected will feel disturbed at the prospect. Yet machinery can be built into the legislation that will enable the problem to be handled at the local level.

- 3.6 Recent work on the licensing and control of bus services (Glaister & Mulley, 1983) repeats the recommendation made by the present author (Hibbs, 1963, 1982) to the effect that a residual 'registration' of bus services will be desirable. To dismantle a system that has been effective for two generations should not be regarded as something to be undertaken 'at a stroke'; indeed, the deregulation of bus services in Chile was spread over a period as long as seven years, and there remains an element of exit control intended to provide an element of stability.
- 3.7 The system that we suggest would also enable the local authorities to identify bus services put at risk by deregulation, and thus to take any necessary action. Under this system, all local bus services would continue to be provided under a route licence, but this would be issued as of right, with no powers of objection for any party whatsoever. The applicant would be required to specify in advance the minimum period for which he intended to operate, and to give advance warning as to whether or not he intended to renew the licence at the end of such period. So as to allow for mistaken judgement, he would also be allowed to withdraw the service short of its authorised life on submission of financial data indicating severe out-of-pocket loss. The Traffic Commissioners could be relied upon to administer the system, with the proviso that an operator who withdrew a service without authority would place his operators' licence in jeopardy.
- 3.8 Such a system has the advantage that it discourages the 'twin evils' of competition: the fly-by-night operator seeking a quick killing, and the large operator setting out to kill competitors by using his superior reserves. What has not previously been observed is that it offers an effective 'early warning' to local authorities. (It could be expected to 'remove the existing criticism of the 'experimental areas', where rapid turnover of services has been observed). Using existing powers of co-ordination, the shire county councils could evaluate the consequences of an 'intent to withdraw', and then seek a replacement (with or without subsidy), or decide that no such action would be justified.

- 3.9 A minimum element of quantity control of this kind (which would have different but equally valuable consequences in busier areas) offers a considerable advantage over the alternatives of either 'franchise' or 'tender', by ensuring that the forces of the market operate with the least possible constraint, while at the same time re-assuring those concerned with residual social need that the hardships that they fear can be mitigated so far as may be justified. If it were to be extended to the whole field of regular service bus and coach operation, the present clumsy '30 mile' distinction between long-distance and local services could be abandoned, thereby freeing the market still further.

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