



Evaluating the long term impacts of transport policy: An initial assessment of bus deregulation

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ABSTRACT

Local buses in Britain, outside London, were 'deregulated' as a result of the 1985 Transport Act, with most of the organisational changes implemented in 1986 but many of the ownership changes occurring over a longer period. By contrast, in London, the 1984 London Regional Transport Act introduced a system of comprehensive tendering – but it took 10 years for the organisational and ownership changes to be fully implemented. This paper examines the long term impacts of these changes. A key issue when examining long term changes is that of the counterfactual – what would have happened if the changes had not occurred? An econometric model of the demand for local bus services in Britain is outlined and used in conjunction with extrapolative methods for key variables such as fares and bus kms to determine demand-side counterfactuals. Some analyses of subsidy and of costs will also be outlined. This will then permit the examination of welfare change by estimating changes in consumer and producer surpluses, updating earlier studies. It is found that outside London, bus demand declined strongly, at least up to the year 2000 and some of this reduction can be ascribed to deregulation. By contrast in London, demand has generally been increasing. However, in both areas operating costs also declined strongly, again up to 2000, but since then there have been strong increases in costs and subsidy. Our initial finding is that there are net welfare increases both outside and inside London, but with welfare increases per capita being five times greater in London than elsewhere. However, sensitivity analysis shows that our results are sensitive to the specification of the modelling system and assumptions made concerning the counterfactual, particularly for the results for London.

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1. Introduction

Transport, as in many other sectors, exhibits a relative paucity of policy evaluation and where such evaluation does occur it tends to focus on short run effects. Bus deregulation in Great Britain is no exception. There was a slew of studies of the early effects (e.g. Mackie, Preston, & Nash, 1995; Romilly, 2001; White, 1990) but there have been no studies in recent years. There are good reasons for this – 'evaluation research is tortured by time constraints' (Pawson, 2002). The effects of a policy change are distorted by exogenous variables such as changes in population and income and are overtaken by other policy initiatives. Undeterred, this paper draws on the recent work of Almutairi (2011, 2012) and attempts to evaluate the long terms impacts of the deregulation of bus services in Great Britain.

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In the next section, we briefly review the history of bus deregulation in Great Britain. Then, in section 3, we outline some of the key trends in the bus market in Great Britain. In section 4, we outline the development of a demand model of the bus market in Great Britain. In section 5, we undertake an initial evaluation. In section 6, we draw some preliminary conclusions, undertake some sensitivity analysis and make recommendations for further research.

2. A brief history of bus deregulation

The local bus deregulation story is documented in detail elsewhere (see, for example, Mackie & Preston, 1996). It originates with the neo-liberal reform agenda of the Thatcher Conservative Governments (1979–90). The 1980 Transport Act deregulated local bus fares and set up some trial areas (most notably in Hereford). These early reforms are documented in Savage (1985). They were followed by the 'Buses' White Paper in 1984, which stimulated a huge amount of debate (Banister, 1985; Beesley & Glaister, 1985a, 1985b; Gwilliam, Nash, & Mackie, 1985a, 1985b). Beesley and Glaister (1985a) put forward four key propositions. They argued

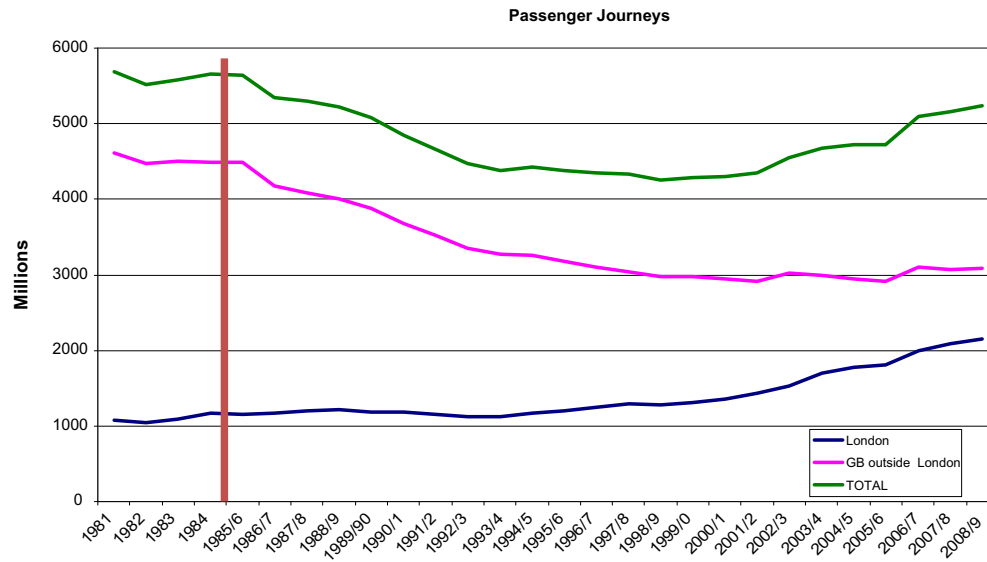


Fig. 1. Trends in local bus demand (passenger journeys, millions).

that deregulation would, firstly, produce a competitive market. Secondly, it would substantially reduce costs. Thirdly, it would improve resource allocation (through more service and lower fares). Fourthly, it would have no undesirable spin-offs. Counter arguments were provided by Gwilliam et al. (1985a) who favoured competition for the market (competition for the road) rather than competition in the market (competition on the road).

The White Paper was followed by the Transport Act in 1985. The Transport Act introduced a raft of measures of which four should be highlighted. The first of these was the abolition of the system of Road Service Licenses which meant that the quantity supplied of bus service outside London was deregulated with effect from October 1986. This ended a regulatory system of quantity control that had been in existence since the 1930 Road Traffic Act. The second was it was recognised that some services (e.g. those in rural areas) could not be provided commercially and therefore provisions were made for the competitive tendering of socially necessary services by Local Authorities. These tendered services have constituted a relatively small, but growing, part of the market (now up to 20% of bus miles). The third was the commercialisation and eventual privatisation of the industry. In 1985 around 75% of the industry was in public ownership with four big groups – namely the National Bus Company (with 70 subsidiaries and 28% of the industry), the metropolitan and municipal PTCs (around 60 companies and 28% of the industry), London Transport (with 13% of the industry) and the Scottish Bus Group (9 subsidiaries and 6% of the industry). By 1999, the public sector's share of the market had reduced to 6%, with the big five stock exchange listed companies¹ controlling 68% of the industry (Cole, 1998; TAS, 1999). The fourth was the tightening of regulations concerning safety (by strengthening the powers of the Traffic Commissioners) and competitive behaviour (by giving the Office of Fair Trading powers over the bus industry).

One of the interesting features of the bus industry outside London is the relative stability of the policy environment. The 1998 New Deal for Transport White Paper had ambitious plans to convert local buses from workhorses to thoroughbreds but the practice saw little substantive change (Preston, 2003). The 2000 Transport Act

brought in provision for Statutory Quality Bus Partnerships (with just a couple of take ups) and Quality Contracts (with no take ups), whilst the Local Transport Act 2008 enhanced the legislative provision for Quality Contracts and created Integrated Transport Authorities with very little effect. Arguably the most important change to the bus industry outside London has been to the concessionary fares regime. Since April 2006 a free fare concession for bus use has existed in England for the over 60s and eligible disabled people. This statutory concession operates between 9:30 am and 11:00 pm Monday to Friday and all day on Saturdays and Sundays and originally covered travel within a Travel Concessions Authority (TCA). In April 2008, a national scheme was introduced which extended free travel for concessionaires to any journey on a local bus in England.²

Another feature of bus deregulation was that the provisions did not apply to London, which as a result became a form of experimental control. The 1984 London Regional Transport Act took control of bus services away from local Government (and the soon to be abolished Greater London Council) and into central Government control. Competitive tendering for bus services was gradually introduced, with the process completed in 1994, whilst London Buses Limited was also privatised (see Kennedy, 1995). Again the broad policy has remained relatively unchanged, although the 1999 Greater London Authority Act meant that buses in the capital came once again under the control of local government, in the form of the elected Mayor and Greater London Assembly, and a new executive agency, Transport for London (established in 2000).

3. Key trends in the bus industry

Data on the performance of the local bus industry is available from a number of sources, most notably Transport Statistics Great Britain, and the key trends are relatively well known, including presentations to the International Conferences on Competition and Ownership in Land Passenger Transport (see, for example, Matthews, Bristow, & Nash, 2001; Preston, 1999). Figs. 1–5 illustrate the key trends between 1981/2 and 2008/9 with respect to demand (as measured by number of passengers), supply (as measured by

¹ Arriva, First Group, Go-Ahead, National Express and Stagecoach. Arriva was taken over by Deutsche Bahn in 2010.

² A national free scheme (including peak travel) has existed in Wales since April 2002 and in Scotland since April 2006.

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