Case study

The British bus industry

- The structure of the supply side of the industry was effectively a state-controlled monopoly with all major bus companies publicly owned, with very few private operators on staged services

- Two national operators existed
  - The National Bus Company (NBC)- England and Wales
  - Scottish Bus Group (SBG) - Scotland

- These companies operated services in outlying areas and the smaller towns as well as inter-city bus services between the major centers of population

- In addition to the two national operators, there were over 70 local authority-run bus operators, which in most cases were provided as a function of the local administration, i.e. a local authority department
  - All of these operators had exclusive rights to operate in their respective towns and cities, while the NBC and SBG had exclusive rights to operate everywhere else
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- Deregulated by the Transport Act 1980 – removes all economic regulation from the long distance bus market, thus any operator was free to compete with the NBC and SBG on these routes and charge whatever price they wished
  - This act in itself was successful with increased patronage, reduced prices and a significantly increased network of cross-country bus services

- Following the success, the Transport Act 1985
  - The main problems perceived with the bus industry at the time were a long time decline in patronage, rising costs and considerable increases in subsidy
  - The 1985 Act removed all economic regulation (price and capacity constraints) from staged services throughout the country except in London
  - Outside of London, the Act reorganized the supply side of the market, resulting in the creating of around 150 new bus companies

- The NBC was divided into 72 regionally based operators and the SBG into nine
  - These were sold to the private sector in the form of a share issue and private sales, either to the existing management of the company or to existing bus companies
  - To encourage and maintain competition, sales were restricted to no more than 3 NBC subsidiaries and 2 SBG subsidiaries to any single buyer

- Local authority powers in the planning and control of bus routes was thus severely limited
- Before 1985 Act – local authorities acted as a single authority in the planning and operation of services in their respective areas as well as dictating the fares to be charged and making up any losses by a lump-sum payment
- After 1985 Act- these power severely restricted and the planning and operating functions transferred to the private sector

- The rationale was exclusively based on the premise of the power of competition, with the vision being of a bus industry made up of a large number of small to medium sized operators

- Bus companies would compete with each other in order to better meet the needs of passengers in terms of price, quality, and the overall standard of the service provided

- Effective the reforms moved the industry from a tightly controlled monopoly to one of a highly competitive industry
  - Costs would be expected to fall
  - Supply and patronage increase

- What happened after 1985?
  - Massive disruption in most major cities
  - The bus wars- some cut-throat competition took place in order to gain market share
  - Example –the streets in Glasgow were swamped by buses of various vintages
  - Bus wars period included constant changes in timetable, wasteful competition in the form of duplication of well-served routes, the withdrawal of rural services, dangerous driving behavior etc

- Although significant reducing costs and subsidy, the privatization /de-regulation measures failed to stem the decline of passenger numbers, and with rising prices and the creation of considerable confusion of bus services

- This unsatisfactory period for the bus industry came to an end with the emergence, through acquisition, of four major operators, Firstbus, Arriva, Stagecoach and GoAhead

- These bus companies now dominate the market, with around 70 per cent of passenger revenue in the staged bus market

- What has emerged is now a series of territories, where one bus company dominates in one area with limited competition from another
- These markets are neither competitive nor contestable
- Bus costs have begun to rise again – as the industry has become far less competitive

Reflection

- Bus deregulation occurred in 1986; however; the 1985 Act remains as the main piece of legislation overseeing the supply of bus services in Great Britain today
- What however went wrong, and why as the industry structure that the reforms intended to create not actually achieved?
- The market is not perfectly competitive, particularly with regard to an homogenous product, hence low price services may be achievable using vintage bus stock, this is not really what the consumer wants

- There is mixed evidence regarding economies of scale, with Cole (2004) for example arguing that small companies can compete with larger companies by achieving cost savings that larger companies cannot, there does exist economies in carriage. This there are cost advantages to larger firms and to a degree certain aspects of the natural monopoly

Reference

Cowie J. (2010). The Economics of Transport. Routledge.