Chapter 15

Final thoughts and reflections

This last brief chapter pulls together the ideas outlined in the book in an attempt to come to some overall conclusions concerning the economics of transport. We began with an introduction into economic issues and finished with Tom Rye's chapter on transport appraisal. The intervening chapters covered considerable ground. This began with an examination of the relationship between transport and economic development and society at large. This chapter largely focused on the fact that transport is important to economic well being and modern society. The other early chapters surrounded the workings of the market and attempted to explain the market actions and interactions of individual consumers and transport suppliers. This also revealed a number of different approaches, in the form of economic systems, to solving the basic economic problem of scarcity. These ranged from little government intervention in the form of the free market, through to one of complete government intervention in the form of the command economy. What was also shown was that all societies in the world today employ some hybrid of these two approaches, the mixed market economy, and that this was no more so in evidence than in the provision of transport services and facilities. As a consequence of this mixed approach, economic questions surrounding transport issues are resolved as a result of the combined actions of individual buyers and sellers in the market place and transport planning authorities' actions impacting upon that market place. This mix was found to be true even in markets which are considered as 'deregulated' or 'privatised', and hence often mistakenly believed to operate along purely free market principles. The difference in the mix therefore was not in the type of transport market – deregulated, regulated or publicly owned – but rather on the role played by public authorities within that market. In deregulated transport markets, the levels of transport provided are as a result of the actions of individuals, with transport authorities historically acting in the role of an enabler rather than as an active participant. A number of examples of such markets were shown in Chapter 12 on freight, where for example road haulage and shipping lines broadly operate along market principles within the overall framework. Historically, however, transport has tended to see a far higher level of state intervention than other industries, with railways throughout Europe all nationalised by 1948 and most urban-based public transport modes run by local authorities. Other sectors, notably aviation and road haulage, have either been publicly owned or tightly controlled through market regulation. Why this was the case was specifically illustrated in Chapter 6 with the introduction of the concept of 'market failure', which is anything present in the market which is inconsistent with the assumptions of the economist's model of perfect competition. Most of these breaches arise from two particular characteristics, externalities that cause the negative impacts of transport activities to spill over into other areas of society and the natural environment, and other aspects that lead to imperfectly competitive markets in the provision of public, freight and private transport services. As a consequence this results in transport markets that in most cases cannot be left entirely to market forces. Most however still operate along the line of economic principles, thus for example services in many areas are subsidised or regulated in order to take into account external market effects.

As seen in Chapter 10, however, there has been a marked shift away from the public ownership model of delivery for public transport services, with the onus moving to a combination of private/public or full private provision through regulation. Nevertheless, whilst past paradigms have assumed that public transport can pay for itself, a view no better encompassed than by Beeching in the 1960s and his search for the profitable railway, today there is a far more general overview taken of public transport and the role it plays in the wider economy and society in general. In its most extreme form this standpoint would be that rising patronage requires more subsidy not less. This is something that in part we saw in Chapter 2 in the case of London, which had experienced this apparent contradiction of rising patronage and rising subsidy levels.

Most of the issues within public transport markets surround the issue of the payment of subsidy and reforms that attempt to bring in further aspects of private sector involvement. Reformation of public transport services however based on more market-focused principles has not been a smooth process. In many cases these difficulties are related to the basic problems identified with private sector involvement in the first place and eulogised in the views of Herbert Morrison of public transport provided by a single public corporation on the basis of the public interest and not on the basis of profit. What we have also seen in the course of the text, although never specifically highlighted, is a development of the knowledge of transport economics itself over the last 20 years or so. Over that period, the understanding of bus economics has been enhanced considerably, and a lot more is known and understood today about such issues than was known at the time of bus industry reform in Britain in 1985. Thus whilst bus operations may appear not to meet the exact conditions of perfect competition, they certainly do appear to meet them close enough to suggest that competition in the market is both achievable and sustainable. Nevertheless, experience has improved understanding and more is known about the process of reform and the impact that has on the supply side of the market, particularly the tendency for industry consolidation and thus eradication of competition. As a consequence, no other urban bus reforms have followed the British deregulated model.

Railway economics is also developing, with Professor Chris Nash once announcing his thanks to the British government in providing him with a lifetime's worth of study into railway economics due to their privatisation of the British rail network! Whilst intended as a light hearted comment, there nevertheless was and still remains much truth in Professor Nash's statement. This is because what was termed in Chapter 7 as the 'traditional' view of railway economics of a single integrated state-owned railway was previously the only view that prevailed. As a consequence, the understanding of railway economics was restricted to a comparison of different systems that in nature and ethos were basically very similar. Railway reform across Europe and many other parts of the world has introduced a range of different forms of railway organisation and delivery, and has thus presented the opportunity to study and develop the field of railway economics through a comparison of systems that are very different in nature. Thus the impacts of vertical and horizontal separation can be considered, tendering and open access services, the potential roles of the public and private sectors in railway delivery and so on can all be better understood. Nonetheless, there still appears to be a long way to go until the full consequences of reform are identified, as the restructuring of rail services towards more market-driven approaches continue to be problematic. Attempts at major change in Britain and other countries, notably Germany, have been labelled by some as complete disasters, and the problems refuse to go away. We saw in Chapter 10 that the reasons why this has proved so problematic are unclear; however, one potential contributory factor put forward was the difficulty in replacing 'poor' performers, and hence the market for rail services would appear to be far more imperfect than the market for bus operations due to monopoly effects. As a consequence, private sector involvement becomes more problematic.

The economics surrounding the use of the private car also remains problematic and is becoming increasingly acute, as the car remains central to modern-day living for most individuals. Over the last few years there has been a significant rise in out of town shopping and ever more dispersed and decentralised patterns of employment, hence making it difficult for public transport to serve. Some balance however needs to be struck between the two, and the economic solution, i.e. make users pay the full cost, is just not viable.

No one is anti-car, the question is finding a balance, thus the issue is over the use of the car, not over a total embargo on car use. There was once the example given of a hypothetical world in which there is only one form of transport, the bus. All individuals in this world therefore have no alternative but to use the bus. Average bus times take 20 minutes and everyone lives rather naively using the bus to get to work, which enables them to play and generally 'live' hard! All are therefore happy and as a result industrial productivity rises. With increased productivity comes increased incomes. One person therefore goes out and buys a car. Average bus journey time is still 20 minutes, but by car the journey time is only ten minutes. Passengers using the bus every morning see their old friend, the ex-bus user, fly by in their car and soon realise that they too could cut their journey times if they purchased a car. Note also that as incomes are rising, the opportunity cost of that time is increasing and hence the motivation to reduce journey times, i.e. purchase a private vehicle, grows. Therefore others go out and also purchase a car. To cut a long process short, there will come a situation when congestion becomes an issue, hence all road traffic slows down considerably. Thus the car journey that was ten minutes eventually becomes a tiresome 35 minutes, and the bus at 50 minutes takes even longer. In such a situation if given the choice all would want to return to the original position of the 20 minute bus journey, but no one is going to do it, and in fact more passengers will continue to leave the bus and switch to the car. That however is not an inevitable everlasting cycle, as in some parts of the world there has been a reverse of this general pattern, London being the prime case in point. In that instance, however, the transport system had reached a point that could be considered to be far beyond anything that could be remotely termed as optimum before such a change took place. It also required the action of a third party, namely Transport for London, in order to help enable that change to come about.

Most transport economics texts tend to treat transport like any other normal economic good or service and this one whilst also guilty is hopefully less so than others. Much space and attention therefore is devoted to outlining the forces of supply and demand, the factors behind them in the form of demand elasticities and cost structures, and finally market structures in terms of the theory of the firm. In other words, this is public and freight transport, both of which conform far more to the idea of a normal economic good or service. Even here, however, some fail to move on from there and only briefly consider market externalities and the potential solutions in the form of market regulation and the payment of subsidy. The major omission however is that over 80 per cent of passenger transport is in the form of the private car. What about the economics of the private car, therefore, and has any of that previous analysis taught us anything at all? The one thing that we learned is about market failure, and private transport suffers from a whole range of market failures. This ranges from a high degree of externalities, in the form of pollution and time constraints, to the problems with perfect information and the fact that most decisions on the use of the private car are based upon incomplete or downright false information. As a consequence, the economics surrounding the use of the private car remain problematic. Nevertheless, the perceived problems facing the road industry are not new – problems of congestion were identified in Britain as long ago as 1962 in the Buchanan Report; however, little notice appears to have been taken of that. Even when the problems of congestion and the negative environmental impact of the private car became far more acute during the 1980s, still not much appeared to change. Whilst in some cases the introduction of congestion charging has alleviated some of the problems, the level of charge that would have to be imposed to completely eradicate it would be unacceptable to most. This is not so much market failure as almost market meltdown. Over time, the price has come to mean increasingly less when it comes to decisions based on the use of the private car. In simple terms, whilst the study of economics allows us to come to a far better understanding of the underlying issues involved, it does not provide any viable answers. This is market failure in its purest form, i.e. one for which there is no economic solution. Solutions of course are available, such as severely tax the car, but the implementation of such measures would probably be economically inefficient, as the impact this would have upon the economy and wider society would far outweigh any benefits that would result as a consequence of such actions. Addressing these problems will have to be done over a long period of time and is a political, not an economic, issue, but one that nevertheless still requires economic measures. As noted above early examples of such action are already present in Northern Europe, with the imposition of congestion charging in London and several other major cities such as Stockholm and Oslo. One major change is that whilst these may now be considered as physical realities, such measures in the 1980s and 1990s were associated with political suicide and simply incomprehensible.

This in turn will impact upon public transport markets; however, due to social change these will have to be very different public transport markets to those of the pre-1990s. In many respects the changing economics of transport have in part been brought about by major social change, where as we saw in Chapter 10 choice is a greater part of society in general and the social profile of your 'average' commuter very different from that of thirty years ago. Whilst in the past therefore your 'typical' user would have simply put up with any bus service that was provided, no matter how bad, today they will not. The net result in many cases is that while buses could be operated for a profit, people will simply not pay for the standard of service they expect or that is offered by alternative forms of transport.

Choice, quality and consumer focus are what are required; however, the overall perspective will have to be very different. David Hensher (2006) perhaps puts this most succinctly, when he states that focus needs to shift from operator performance to institutional performance. In other words, less significance should be attached to how well or badly a particular operator is performing to a specified contract and far more onus attached to how well the whole mechanism and all of its constituent parts (public and private) are in delivering strategic transport goals.

A basic understanding of the economics of transport will go a long way to understanding the continual evolution of transport services in the very long term. Whilst private transport may have been described above as suffering from 'market meltdown' and a case of 'market failure in its purest form', this is only because realistic economic solutions are unviable and potentially regressive in the short term. Over the longer run however they will undoubtedly play an increasingly important role in the shaping of future transport patterns and the provision of private, public and freight transport services. We hope that in reading this book you have gained that basic understanding and in the process found it to be an interesting and enjoyable experience.