

# WHY BUS DEREGULATION WORKS BETTER THAN FRANCHISING

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What follows is the written text of a talk given by Professor John Hibbs to a conference organised by the Public Transport Information Unit, "Bus Deregulation Ten Years On", September 2nd 1997.

You will no doubt be expecting something outspoken from this paper. One of my prized possessions is a "Lifetime Achievement Award" which I received at a Bus Industry Monitor Conference in 1995. It is "for saying the unsayable", and I have no intention of giving up that practice. Someone, after all, has to point out that the Emperor has no clothes.

But I can become strangely put about if I am accused of clinging to an ideology. And neither have I any party political affiliation. I am just an economist, with management experience, and I have never failed to test my conclusions about the transport industry against the arguments of those who disagree with me — and frequently to modify them.

## A BETTER SERVICE THAN BEFORE 1986

One conclusion must be that *deregulation we have not got*. The Transport Acts of 1980 and 1985 provided for something best called "regulatory reform and re-

structuring", and I would contend that the restructuring bit was where things tended to go wrong. What so-called deregulation did was to achieve what economists always seek: a contestable market.

Like it or not, that has freed up management to innovate, and increased the choice — actual or potential — available to the transport user. The industry is still tied up by far too many petty regulations, but overall it offers a very much better service now than it did before 1986, and it is continuing to improve the product.

I don't think anyone who looks at the bus industry today with any degree of insight could subscribe to the conclusion that "deregulation has been a disaster", even though not a few journalists still seem to think so. There may be those who still dream of a centrally controlled transport industry, of the style of the British Transport Commission of 1947, but we know enough now to understand why it *could* not work. Chaos theory and non-linear dynamics explain why over-sophistication produces disasters like the Sheffield tramways. Like I say, it is not a political issue.

Neither do I know of anyone who wants to go back to the bus licensing system set up in 1930, which is what

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was dismantled in 1985 (thirty years after I had recommended it). One of its outcomes had been generations of managers who failed to realise that the car was their chief competitor, and it led to a philosophy of 'managed decline' which is only now coming to an end.

And surely no-one would go back to 1968, when things started to get worse, as the industry lost touch with its market, and wholesale subsidy led to wholesale waste. I hope you would all of you share my distaste for the elitism and paternalism that assumes it knows best what is good for the masses. Or am I alone in being an old-fashioned radical?

In James Stephens' delightful novel *The Crock of Gold*, which contains more wisdom in it than all of economics, the Philosopher says: "Finality is death. Perfection is finality. Nothing is perfect." By this I understand that there is no perfect end-state that we can plan for. But we must still seek to increase efficiency. As an economist, I would claim that over the past ten years the efficiency of the bus industry has improved, whether measured by the allocation of scarce resources or by the satisfaction of the consumer.

And I would contend that the improvement is continuing, even though there is no planning to achieve some finality of perfection. So let's not interfere, and risk making things worse.

### **FRANCHISING: THE POWER TO SECOND-GUESS THE MARKET**

It is a maxim of economics that the market works best for the increase of efficiency if it is left alone. Any argument for intervention must be made against that assumption. And it is the experience of economists that intervention only too often does more harm than good. That is why I put it to you that franchise is to be avoided as a retrograde step. It was the American John L. O'Sullivan who said: "The best government is that which governs least."

I see the danger of franchising as giving power to people who are at more than one remove from the consumer to second-guess the market. And since franchising thus intervenes in the market process, it is open to the risk of doing more harm than good. In particular, franchising can only limit the freedom of managers to innovate — and to do so at their own risk.

For franchise means bureaucracy. And bureaucrats, administering public funds, must not go into the risk business. This does not mean that managers in an open market will not make mistakes — I am sure there are many examples of those who have. But it is their shareholders' money they put at risk — and thus, their own jobs. Can you say the same of those who would administer franchise?

### **FREEZING THE PATTERN OF SUPPLY**

Before I conclude, let me make one thing plain. The concept of franchise that is advocated for the bus industry is not the same sort of animal as Macdonalds, or Sockshop or Knickerbox. Commercial franchises have to survive in a competitive arena, and even there they may fail by enforcing too much conformity. Simon Price, the author of a recent book called *The Franchise Paradox*, argues that the standardisation fostered by franchisers often kills innovation — and that is in an open market! It accounts, he says, for the failure of many franchise schemes.

Where I live, "BALTI 2000" is an effective competitor that keeps the franchised fast food outlets up to scratch. And a few years ago North Birmingham Busways, still a reputable operator, did the same for what was then West Midlands Travel. The implication of bus franchising is inevitably to close the market to newcomers who would spot the weaknesses of the system, and to freeze the pattern of supply, which must be fluid if it is to respond to changes in demand that can never be planned for and foreseen.

Only recently we have seen the effect of the freezing process. In London — the Home of the Franchise — there is a problem of overcrowding on the number 31, and people are calling for bigger buses. But we read in *Coach and Bus Week* that "the net cost contract is not up for re-tender for two years and London Transport Buses has not authorised larger vehicles". No doubt they will, but what kind of efficiency is this!

*Transit* on 21 August put the case as well as I have seen it argued. "The very essence of competition", they say, "has been, and still is, the offer of better quality services at an affordable price." Franchise, it is everywhere assumed, will mean the end of competition. The end of operators, existing or new, having the freedom to develop improvements, on their own initiative, responding quickly to opportunities in the market. And franchise, it is everywhere assumed, means price control — and *that* is the end of competition.

### **POLITICIANS AND ADMINISTRATORS DO NOT KNOW WHAT IS BEST FOR THE PEOPLE**

Let us have done with it! The function of the market, I was taught, is to ensure that the consumer benefits as quickly as possible from technical and managerial progress. Any system of franchise must interfere with that process, and deprive the people of its benefits. *The people*, I say. I am sorry, but everything I have seen in my study of the transport industry leads me to conclude that politicians and administrators do *not* know what is best for the people; under 'deregulation' firms competing in an open market have a powerful incentive to find out.