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Directorate of **Learning Resources**

An analysis of the impact of privatisation and deregulation on the UK bus and coach and port industries

Roger Derek Sealey

Oxford Brookes University

Submitted in partial fulfilment of the requirements of the award of Doctor of Philosophy

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ABSTRACT

The main objectives of this dissertation are:

(1) To analyse the pre and post privatisation and deregulation performance of two United Kingdom industries from the transport sector.

(2) To analyse the earning and employment in these industries prior to deregulation and/or privatisation, and to examine what has happened to them after these changes.

(3) To investigate any changes that have occurred in trade union density in these industries compared with what has happened in the rest of the economy.

(4) To see if there was any evidence of rent sharing prior to privatisation and deregulation. If it did exist, did it continue after privatisation and deregulation, or was it substantially reduced or eliminated.

The methodology of the dissertation is eclectic, so it examined these issues from a number of different perspectives, and its contribution to knowledge is incremental.

In regard to the bus and coach industry in the newly competitive period following deregulation and privatisation, the major firms emerged almost solely through external rather than organic growth. This went against one of the main aims of privatisation, which was to create a competitive industry of many small-to-medium sized operations. Privatisation and deregulation also failed to stop the decline in passenger numbers, which was another objective of the programme.

In the case of the UK ports, it is extremely difficult to conclude that the changing ownership constituted a significant factor in port performance and efficiency. Instead, factors such as geographical location and labour market deregulation seems to have had a greater influence on efficiency in the ports. That the measure of liberalisation most associated with privatisation, and that offered the most in terms of potential gains in efficiency, were those on which major concessions had to be made by the Government to win management support for the political process of privatisation. If managerial support for privatisation was absent then process was unlikely to occur.

The underlying success of deregulation and privatisation in these industries has been in reducing the power of trade unions to obtain rent for their members, which was one of the main, if understated aims of the policy.

1 INTRODUCTION

1.1 Key Objectives and Outline of Dissertation

1.1.0 Introduction. In this introductory chapter we start by setting out the key objectives and an outline of this dissertation. Section 1.2 is an introduction to the Structure, Conduct and Performance (SCP) paradigm, which is one of the main tools of analysis used in this work. Having completed this introduction to the elements of the SCP paradigm, in Section 1.3 we then go on to examine the theory of contestable markets and Section 1.4 then discusses some criticisms of the theory. Section 1.5 then undertakes a brief analysis of the American airline industry which was used as a model for the deregulation of the United Kingdom bus and coach industry. In Section 1.6 we then examine some of the theories and philosophies behind regulation and privatisation, and how it was expected to affect trade unions.

1.1.1 Key Objectives. The main objectives of this dissertation are:

(1) To analyse the pre and post privatisation and deregulation performance of two United Kingdom industries from the transport sector, and to try to test the hypothesis that privatisation and deregulation will result in changes in the structure, conduct and performance of those industries.

(2) To analyse the earnings and employment in these industries prior to deregulation and/or privatisation, and to examine what has happened to them after these changes.

(3) To investigate any changes that have occurred in trade union density in these industries and to compare these with what has happened in the rest of the economy.

(4) To assess the existence of rent sharing and non-competitive wage determination prior to privatisation and deregulation. If there was rent sharing, did it continue after privatisation and deregulation, or was it substantially reduced or eliminated.

The methodology of the dissertation is eclectic, so it will examine the above issues from a number of different perspectives.

1.1.2 Outline of the Dissertation. This dissertation is about changes in the product and labour markets due to privatisation and deregulation, and the effects of these policies on earnings, employment and performance in the relevant industries. It is argued by Haskel (1991) that a high level of product market power leads to inefficiency and market failure, and there is a debate in the literature that it can allow the existence and persistence of supranormal profits ceteris paribus. A reduction in product market power will reduce the scope for inefficiencies and reduce or eliminate the potential to earn supranormal profits. It is also argued that publicly owned firms can be less efficient than those in the private sector and by putting these firms into the private sector they would become more efficient, due in part to the disciplining effect of the capital markets.

There has been a great deal of debate about the success of or failure of deregulation and privatisation especially in the UK (Beesley 1997)(Hood 1994) where this has been taken further than in any other country. In this dissertation we examine the pre and post privatisation performance of two sectors of the UK transport industry.

In Chapter 2 we evaluate the claim that once the quantity regulatory barrier (see 2.2.2) was removed in the bus and coach industry there would be no need for regulation other than the general rules laid down by competition and health and safety policy. Once the barrier to entry was removed it was believed that the market would have been made contestable (Baumol et al 1988). The effects of the change of ownership from the public to the private sector and the increase of competition as a result of that change will be analysed.

Chapter 3 evaluates the case of the port industry which was different due to the presence of sunk costs, but where it was still believed that the dominant publicly owned firm would become more efficient if it was transferred to the private sector. Also the abolition of the National Dock Labour Scheme (NDLS) would increase productivity in the Scheme Ports[1] (Walton Economic Forecasting Associates 1988) and the effect of the increased productivity would also impact on the Non-Scheme Ports as well. This requires an examination to see if there were any changes in performance between former Scheme and Non-Scheme Ports which have resulted in changes in concentration - based on cargo size and type in the port industry from 1984. The analysis will seek to establish if these changes can be explained,

[1] Scheme Ports were those ports included in the NDLS

either by increased labour market flexibility due to the abolition of the Scheme or changes in the product market.

However in the UK during the 1980s, while product markets were being deregulated, other types of regulation increased. There were two major areas of increased regulation. One area related to the trade unions, which is found in Chapter 4 and the other was health and safety.

The increased regulation of trade unions was based on the belief that the labour market was inefficient due in part to the rent-sharing hypothesis in which the actions of strong trade unions in non-competitive product markets would raise wages above the competitive level. Wages could also be above the competitive level according to the union threat model, as the threat of unionisation would force employers with a non-unionised workforce to raise wages above the equilibrium level in order to stop unions organising their workforce. Trade union power is normally proxied by union density (Disney 1990) or the union mark-up over the competitive wage. Changes in trade union density for the industries concerned will be calculated using data from the 1984, 1990 and 1998 Workplace Industrial Relations Surveys (WIRS). By increasing the regulation [weakening] of trade unions it was believed that this would reduce their ability to claim a mark-up over the competitive wage.

There could also be a fall in employment if the union had also raised employment above the equilibrium level due to 'labour hoarding' (Booth 1995). Since the 1980s in the UK there has been a decrease in union density due in part to general economic factors as well as increased labour market regulation. This should have resulted in a reduction of the union mark-up according to the rent-sharing hypothesis.

We go on to investigate the changes in real earnings by occupation for bus drivers and dockers. These changes will be compared with what has happened in the economy in general, and we will see if there has been a reduction of the union mark-up which may have been the result of privatisation and deregulation.

We then discuss the changes in inequality in the USA (Freeman and Katz 1994), and in the UK (Leslie and Pu 1996) since the 1970s. This is to attempt to find out if institutional changes to the labour market have resulted in increasing inequality. Then we will compare the changes in inequality at the UK national level to the pre and post privatisation and/or deregulation changes in inequality in the industries concerned in this dissertation.

Finally in Chapter 5 we will discuss the outcomes of the research, going on to debate some of the problems encountered during the research, and identifying some possible areas for future research.

1.2 The SCP Paradigm

1.2.0 Introduction to the SCP Paradigm. The pioneering work for the Structure, Conduct and Performance (SCP) paradigm is associated with Edward S Mason. Mason laid the foundations of the SCP paradigm and provided the intellectual leadership for a group of young scholars including Joe S Bain, Carl Kaysen, James W McKie, Jesse Markham and Morris Adelman who developed and extended this approach, and much of the mainstream industrial economic literature since then has been based upon this model - see for example Ferguson and Ferguson (1994), Martin (1993) and Lipczynski and Wilson (2001). However, any use of this model should be made in the context that it has its limitations, especially in regard to its neoclassical foundations. The main thrust of its approach is that exogenous basic conditions determine market structure and that there is a single direction of causality from market structure, through conduct to performance (Reid 1987).

1.2.1 A Simple Definition of the SCP Paradigm. In its simplest form the SCP paradigm can be understood schematically as follows:

STRUCTURE	→	CONDUCT	→	PERFORMANCE
Extent of concentration		Profit maximisation under zero conjectural variation[2]		Extent of departure from Paretian conditions

Figure 1.1 The SCP Paradigm

In this dissertation we use the terms of the paradigm, Structure, Conduct and Performance to assist our analysis, but we do not assume direct causality, as the paradigm does in the form shown. In this work we use the headings to collect and collate information on the industries concerned in this study.

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[2] This reflects the output or price adjustments a firm will make following real or expected changes made by its rivals.

1.2.2 Market Structure. Structure describes the characteristic and composition of the market and is assumed to depend upon basic conditions in both the supply and demand in the particular market.

The main aspects of market structure are the degree of seller concentration, which is described by the number and size distribution of sellers in the market. The level of buyer concentration that is defined in a similar way to seller concentration, and the amount of product differentiation amongst the outputs of the various sellers in the market. Conditions of entry into the market, the extent to which the established firms are integrated or diversified, and any economies of scale that are present in the market, are other aspects of market structure.

The number of firms was regarded as the prime determinant of the degree of competition or co-operation amongst firms, which in turn would determine their level of profit. Structure in this sense can be defined either by simple concentration indices, or something more elaborate involving many characteristics. Empirical correlations were sought between the degree of concentration in the industry and its profitability. Structure is assumed to cause but not be caused by conduct.

1.2.3 Conduct. Each firm controls a number of decision variables such as the methods and scale of production, advertising, research and development activities and prices etc. How they actually make these decisions is more difficult to identify empirically than either structure or performance. The process of choosing between alternative levels of these decision variables is usually referred to as the behaviour or the conduct of the firm. The focus is on how firms set their prices, whether independently or in collusion with other firms in the market. More often than not though, conduct is either ignored or assumed to take some single form like profit maximisation.

1.2.4 Performance. As with structure and conduct, performance of a firm or firms can be measured in many different ways. A typical list of performance measures or indicators would include allocative efficiency, X-inefficiency[3], equity, employment creation, technological

[3] X-inefficiency is the gap between the actual and minimum attainable supply cost, and is likely to be present in large organisations, which lack effective competition.

progress, and the quality of the product. The essential question is whether or not the firm's operation enhances economic welfare.

Although a firm may be productively efficient at the given level of output it may not meet the requirements of allocative efficiency. Such a firm would posses a degree of market power and it would have some discretion in determining the price at which to sell its output. It would be able to raise its prices above marginal cost. "High" or "supranormal" profits are assumed to be another sign of market power and poor economic performance.

1.2.5 Problems with the SCP Approach. Neo-classical theory assumes that in a perfectly competitive market an atomistically-sized firm is an 'economically' efficient firm. However, empirical observation would tend to identify that some companies have made excess profits over the long term.

But the difficulty in interpreting the cause of excess profits has caused some debate. Demsetz (1974), from the Chicago School, argues that profit is, simply put, a sign of efficiency, not an abuse of market power. Efficient firms gain market share from less competitive firms and exhibit above average profit rates. Thus high levels of concentration may be associated with high profits, as a result of good economic performance, not the result of distorting the market, eg through collusive behaviour.

1.2.6 The SCP Paradigm and Problems with Market Structure. The SCP paradigm by focusing on the different types of market structure implicitly incorporates the neo-classical view that competition implies a certain market structure. This leads to the assumption that 'good' economic performance can be encouraged by an industrial policy that stresses the importance of a competitive market structure.

Apart from the Demsetz issues it is clear that the number and size distribution of firms in a market may change over time. These changes can be brought about by mergers and differential rates of growth caused by different responses to technological developments and changes in patterns of demand. 'In addition, there may be purely stochastic explanations for changes in relative firm sizes: if a fixed number of firms were to face the same probability distribution of growth rates (which are independent of past growth rates) then Gilbrat's Law (1931) will apply. This states that, even where all firms are initially identical in size, chance

application of randomly selected growth rates will eventually produce a size distribution that is log normal. In other words, markets will become progressively dominated by fewer firms' (Ferguson and Ferguson 1994: 27).

1.2.7 Concluding Comments on the SCP Paradigm. The SCP paradigm has then various criticisms. But it is still a useful framework for gathering and presenting information about the way(s) in which markets may operate.

One particular and important evolutionary development of the paradigm was the theory of contestable markets. This suggested that the emphasis on market structure, especially 0concentration, was misplaced. The originators of the theory suggested that this resulted in poor policy making. Their arguments, which were based on the experience in liberalising certain sectors of the US transport market, had a significant impact on the UK bus and coach industry. The theory and criticisms of contestable markets is discussed in the next section.

1.3 Contestable Markets

1.3.0 Introduction to Contestable Markets. In this section of this chapter we will discuss the theory of contestable markets. We need to do this so that we can understand the arguments used by the Conservative Government in the UK for the deregulation and privatisation of the bus and coach industry which are discussed in 2.6. Then we consider some of the criticisms of the theory of contestable markets. Finally we will discuss what happened in the United States airline market, which was taken by some to be one of the models for perfectly contestable markets.

1.3.1 The Background to Contestability Theory. According to Thompson (1990: 17) the intellectual pedigree of 'contestable market analysis' is not easily classifiable in terms of either the neo-classical or neo-Austrian approaches. Although it is formulated in neo-classical terms, it can easily be accommodated within the neo-Austrian approach as well.

In regard to transport policy, contestability has been described by Tolly and Turton (1995: 333) as the fourth age of transport policy. The theory was developed in the USA and was enthusiastically adopted and promoted by the Thatcher administration in the 1984 White Paper 'Buses' - see 2.4.8.

1.3.2 Contestable Markets and Natural Monopoly. The literature on contestable markets has concerned itself in the main with the criteria for natural monopoly. Although it can equally be applied to 'generated' monopolies.

According to Baumol et al (1988: 17) an industry is said to be a natural monopoly if, over the relevant range of outputs the cost function is subadditive. A cost function is subadditive if it costs less to produce the various outputs with a single firm than by any combination of smaller firms. Decreasing marginal costs imply decreasing average costs, and decreasing average costs imply subadditivity - see 1.3.8 for discussion on marginal and average cost functions.

In a contestable market, even where an industry is a natural monopoly, uncompetitive behaviour in certain circumstances will make the incumbent firm vulnerable to competitive incursions. According to Baumol (1987: 230) in such cases, the prohibition of entry is both unnecessary and undesirable because, in the presence of acceptable behaviour by the incumbent, entry will not occur even if it is undeterred by legal impediments. In fact preclusion to entry is undesirable because it robs the market mechanism of its most powerful instrument for the achievement of economic efficiency and acceptable behaviour, the threat of entry by competitors.

If this analysis is correct, it follows that natural monopoly does not automatically justify recourse to either nationalisation or regulation. Baumol (1987: 230) argues that it has been shown that the market mechanism is quite capable of eliciting acceptable performance without government intervention [regulation], although no empirical evidence is given to support this statement. He then goes on to argue that even where an industry is, to a significant degree, not contestable it may be advisable to consider whether there exists effective means to impart contestability to the market, before embarking upon such drastic steps as the nationalisation or the erection of a complex regulatory mechanism in a market.

1.3.3 Contestable Markets and Perfect Competition.. The concept of a perfectly contestable market can be considered an extension of the perfectly competitive market. Contestability theory holds that in a perfectly contestable market the threat of competition by potential entrants can discipline firms to price their products in a socially efficient manner that yield only normal returns (Cairns and Mahabir 1988: 269). All firms producing any given product

must select output levels at which the marginal cost of all the firms is equal, ie perfect competition. Moreover, these marginal costs must equal the market price of that product, so that profits must be zero when there are constant returns to scale. But these results are supposed to hold not only for an industry with a large number of firms, but for any contestable market in which each good is supplied by two or more firms (Baumol et al 1988: xiv).

Any industry that is perfectly competitive thereby automatically qualifies as perfectly contestable. However, the converse is not true. An industry may be perfectly contestable without being perfectly competitive (Baumol 1987: 231).

The concept of a perfectly contestable market was designed to be able of embracing industries such as aviation, automobile manufacturing and telecommunications in which a vast multiplicity of tiny enterprises is clearly out of the question. 'The concept of a perfectly contestable market is intended to be capable of encompassing such industries, or, more specifically, to include this type of industry in those cases where technological and institutional circumstances permit the invisible hand of the market to retain its beneficent power over the behaviour of the firm' (Baumol 1987: 231).

1.3.4 Conditions for a Contestable Market. Shepherd (1984: 573) has argued that a perfectly contestable market requires three conditions:

1. Entry is free and without limit
2. Entry is absolute
3. Entry is perfectly reversible. Exit is perfectly free at no sacrifice of any cost and sunk costs are zero.

These are pure conditions and the analysis of a perfectly contestable market only holds when all these conditions apply. We will now go on to discuss these concepts in greater detail.

1.3.5 Freedom of Entry and Without Limit. According to Baumol (1987: 243) any perfectly competitive industry must, by definition, be free of all barriers to entry and exit, and that is the defining attribute of perfect contestability. This means that there are no legal restrictions on market entry. The entrant can, without restriction, serve the existing market demands. The

perfectly contestable market may or may not be characterised by economies of scale or scope, but it has no entry barriers. Economies of scale are neither necessary nor sufficient for monopoly to be the least costly form of productive organisation.

A perfectly contestable market is one in which a potential entrant will have equal access to all the customers in the market and must not be precluded from or penalised for selling their product to any or all of the incumbent's customers. They will also face the same market demands as those of the incumbent firms.

The incumbent firm or firms will not be able to respond quickly enough with a reduction in price to close off a (shortrun) profit opportunity to the entrant. Because of these conditions an entrant may 'hit and run' if an opportunity for profit presents itself, with no risk of oligopolistic interaction.

If, however, the incumbent readjusts his price, reducing it to beneath that of the entrant, then the new competitor can readily exit from the market without loss of investment due to there being no sunk costs. Thus, any attempt by incumbent firms to earn excessive profits will be unsuccessful (Cairns and Mahabir 1988: 269).

1.3.6 Sunk v Fixed Costs. In the theory of a perfect contestable market the absence of sunk costs is essential. However, the concept of a sunk cost is easily confused with that of a fixed cost. A fixed cost may be defined as a cost that a firm must incur in order to produce and that is independent of the number of units of output. Fixed costs may be the major source of economies of scale. If fixed costs are not sunk costs, this may constitute the most pertinent markets that are contestable despite the presence of economies of scale (Baumol 1987: 232).

Sunk costs, on the other hand, are costs that (in some short or intermediate run) cannot be eliminated, even by total cessation of production. Sunk costs are those investment costs that produce a stream of benefits over a long horizon but can never be recouped. Sunk costs are not necessarily fixed costs - see Baumol et al 1988: 281.

If there are no sunk costs, this allows freedom of exit, which means that a firm leaving the market is able to salvage its capital costs, minus depreciation (Ferguson and Ferguson 1994: 18). However, the nature of the entrant's outlay must be such that they can recoup their

money quickly and easily in the event his incursion into the industry proves to have been a mistake. The absence of sunk costs is clearly tantamount to complete freedom (absolute costlessness) of exit and is an effective guarantee to the entrant against errors of foresight (Baumol 1987: 231).

1.3.7 Hit and Run Profit Taking. According to Schwartz (1986: 38) the threat of hit-and-run entry is the linchpin of contestabilty theory. The operative force is the threat of entry not actual entry. According to him this distinction is often overlooked, but the radical implications of contestability theory hinges on the threat of entry. Baumol (1987: 230) has also argued that the threat of competitive entry can in many cases impose effective discipline upon private firms even when they are unregulated monopolies. However, Schwartz's view is slightly different from that of Baumol, who believes that (1987: 234) the threat of entry, even if it never materialises, can force the incumbent firm to deny itself all monopoly profits and, indeed, in these circumstances entry will not materialise because the incumbent's good behaviour eliminates any profit to entry. However, the disciplining effect of potential entrants is weaker, less predictable, and less efficient when actual entry - rather than the threat of entry – occurs.

The disciplining effects are critical to private industry, and there is no reason to believe that they need to be any less salutary in industries populated by nationalised firms (Baumol 1987: 230). Above all, contestability analysis endeavours to show the crucial role of unrestricted freedom of entry and exit has on the performance of firms in a contestable market -see 2.6.4 in relation to the bus and coach industry.

1.3.8 No Inefficiency in a Contestable Market. In a perfectly contestable market waste and inefficiency are ruled out. If a potential entrant identifies that it could produce the product at a lower cost than the existing firm(s) using the same technology, then it would lure away all the existing firm(s) customers.

Also, if the market structure was inefficient because there were too many firms producing at a higher cost than the competitive solution, then it would be possible for either a potential entrant with lower costs or an existing firm to expand its output and reduce its costs, bringing its prices closer to the competitive solution, and as a result be able to gain market share. They could recruit customers from other firms in the market who have lower output and higher

costs by undercutting their prices. The firms whose cost base is higher if they remain in the market will suffer financial losses. However, due to the absence of sunk costs, they will exit from the market and the number of firms will decline until the competitive solution of least-cost production is arrived at.

1.3.9 The Absence of Cross Subsidy. In a perfectly contestable market cross subsidy will not occur due to threat of entry. The existence of cross subsidy for a given product, means that a potential entrant can acquire a potential pool of incremental profit above that of the incumbent. This profit will be achieved by not producing the subsidised product, and so the potential entrant can reduce the price of other products, which have been used to subsidise the first product. This will result in the potential entrant luring away customers from the incumbent, resulting in either the incumbent firm removing the subsidy, and increasing the price and reducing the quantity supplied, or withdrawing completely from producing it.

The only way in which an incumbent can prevent entry is by offering the consumer all the benefits they would receive from a supplier operating in a competitive market.

1.3.10 Contestability and Regulation. It has been argued by Baumol and Willig (1986: 27) that it is in the area of regulation that contestability may make its main contribution: not as an argument for the elimination of regulation but as a guide for regulation, especially in the presence of economies of scale and scope. It offers to consumers in markets with unavoidable entry barriers just the same sort of protection from excessive pricing that they would have derived from perfect freedom of entry, if such freedom had been possible.

1.3.11 A Theoretical Benchmark. Contestability theory shifts the attention away from structural measures of market power and from the nature of oligopoly interactions towards variables that affect the ease of entry and exit. Perfect contestability, the commonly discussed case is put forward as a useful theoretical benchmark. It is recognised by Baumol (1987: 232) that in 'the real world undoubtedly no industry is *perfectly* contestable. Some are probably fairly close to that state of affairs, requiring only negligible sunk costs, and having only minor impediments to one firm's use of another's production techniques or pursuit of its customers.' It is likely that the majority of industries are unlikely to constitute anything like a contestable market. According to Schwartz (1986: 37) the key unsettled issues are what is

meant by imperfect contestability and whether many actual markets are imperfectly contestable.

1.4 Criticism of the Contestable Market Theory

1.4.0 Introduction. Almost from the first publication of the theory of contestable markets it has been contentious, and in this section we will look at some of the issues raised by critics of the theory.

1.4.1 Contiguous Markets and Surmountable Barriers to Entry. In the theory of contestability, one of the main sanctions on a firm making supra-normal profits is the threat of entry. The ability to enter assumes that there are no barriers to entry or exit and there are no sunk costs. In certain circumstances although entry into a market may not be possible for all firms, it may be possible for those in related or contiguous markets - see 2.6.2. For this to happen it requires barriers to entry that are surmountable by these firms.

The disciplining effect on the incumbent of potential entry from a related or contiguous market is similar to and may be even more potent than that of the contestable market. The threat of entry from these firms could constrain the incumbent firm even more than the threat of entry by a new firm which has no prior knowledge of this or similar markets. Entry for an established firm into another market is easier than for a new firm entering the market. The important factor here is the reserve or excess capacity in the short run that may be shifted to producing other types of products. However, Cairns and Mahabir (1987: 272) have proposed that potential entry as a disciplining force requires latent excess capacity, latent fungibility[4], and the ability of firms to alter endogenously the industry product set through their own strategies.

1.4.2 Contestable Markets and Technological Change. A number of economic theories of industrial organisation rely on a model which assumes that technology is unchanging. Yet, according to Stiglitz (1987: 883) markets in which technological change is important are never perfectly competitive. This is because technological change inherently involves increasing returns and sunk costs and where the technological change is a result of either

[4] Fungibility means 'substitutability'

Research and Development or learning by doing, there are likely to be increasing returns to scale and a high concentration of market power. Stiglitz (1987: 889) has argued that most expenditure on R&D is, by its nature, a sunk cost. The resources spent on a scientist to do research cannot be recovered. Once his time is spent, it is spent. Contestability theory is not appropriate to industries where technology is important; potential competition ensures neither economic efficiency nor zero profits (Stiglitz 1987: 887).

It is difficult to reconcile this view with that of Baumol who believes that contestability theory is able to encompass industries like telecommunications and automobile manufacturing where there is large expenditure on research and development. In technologically advanced industries, a potential entrant would need to invest in research and development (R&D), not only to be viable but also to maintain viability once it is established.

1.4.3 Freedom of Entry with Imperfect Contestability. Let us now relax the pure condition of contestability that entry into the market is absolute, and use the condition of imperfect contestability and assume that partial entry into the market by another firm or firms is possible. If a potential entrant or entrants believes that they will incur substantial sunk costs if it enters the market, this could affect the initial decision to enter that market. This is due to the increased risk of the loss of some of its capital if it enters the market and is not successful. If it then has to withdraw from that market because its estimates of demand prove to be over-optimistic or if the incumbent or incumbents adopt retaliatory actions it will incur losses due to the existence of sunk costs. With imperfect contestability the entrant is not guaranteed against errors of foresight, the more imperfectly contestable the market the greater the risk - see 2.6.4.

1.4.4 Sunk Costs. Expenditure on sunk costs is also a state variable and this expenditure has a critical effect on competition. However, according to Tirole (1988: 308) the notion of fixed and sunk costs are idealisations for several reasons. There is a continuum of degrees of commitment between the two polar cases of short and eternal commitment. With both fixed and sunk costs it is assumed that the investment cost cannot be recouped at all during the period in which the assets are committed, and it is important to realise that fixed costs are always sunk to some extent (Tirole 1988; 307). The distinction between "fixed costs" and "sunk costs" is one of degree, not of nature. Fixed costs are sunk only in the short term (Tirole 1988; 308).

However, the commitment of the assets is not quite an all-or-nothing notion. What is really meant by a period of commitment is the period of time over which the costs of being freed from the commitment is sufficiently high so that it will not pay to be released. The notion of commitment is largely a purely technological one. In practice its success or lack of success in the product market may affect the date when a firm resells its assets. While most investments are not primarily sunk costs, there is an element of this type of cost in almost every investment.

The use of 'sunk costs' normally refers to the 'homogeneous product' case (Sutton 1990: 23). The more specific the physical asset, the greater the extent to which the investment in assets is sunk (Martin 1993: 306). If we initially confine the analysis to physical assets, sunk costs are absent when firms use non-specific physical assets. The quality and therefore the purchase price of these assets would be easily ascertained by the potential purchaser in the event of resale.

> 'Otherwise, some of the costs of the physical assets are sunk, and the theory of perfectly contestable markets fails' (Martin 1993: 306)

However, if we extend the analysis to intangible assets - which are involved in every entry decision - then a potential entrant will invest in information about the market before they make a decision to enter or not to enter. This information is valuable to the firm so long as it enters the market, but it cannot be resold (Martin 1993: 306) at anything like the cost of producing it if it does not enter the market, so it involves an element of 'sunk costs'. Martin (1993; 307) has also argued that sunk costs are ubiquitous in the real world.

According to Baumol (1987: 232) the existence of fixed costs may well be the prime source of economies of scale in practice. It is therefore important to ascertain the nature of competitive interactions that arise when there are sunk costs. Even if there are small sunk costs this can fully cushion the incumbent against encroachment - see Stiglitz (1987: 890-1). This contradicts the contestability theory which suggests that, while even with a small degree of increasing return to scale there will only be one firm operating in the market, and price should be just slightly above marginal cost - the Ramsey price.

1.4.5 Sunk Costs and Market Structure. What is fundamental is that sunk costs are, in practice, almost always incurred in connection with the long-run decision on entry, advertising, and R&D and that the presence of such sunk costs play a primary role in the determination of market structure (Sutton 1990: 24). Through their effect on entry, sunk costs constrain structure and can create concentration.

But even in the best of circumstances, plant and equipment have a finite duration and there is therefore a natural connection between durability and sunk costs. Contestability theory holds that a natural monopolist will set a price equal to average cost and government regulation will not be necessary. Stiglitz's analysis shows that this conclusion is not valid if there are durable sunk costs - see Stiglitz 1987: 894. Competition, actual or potential, is not necessarily sufficient by itself to ensure the efficiency of a natural monopoly.

If the market is characterised as a 'homogeneous-goods' industry in which all the firms offer identical products, then the cost of entry will be the cost of acquiring a single plant of the minimum efficient scale, net of any 'resale value', which any of the plant might have. This is the sunk cost of entry into the market and is an irrecoverable element of fixed costs. The level of the sunk cost has no role in determining the firm's day-to-day pricing policy after it has entered the market (Sutton 1990: 24). The decision to enter the market will be decided by two factors and their inter-relationship to each other. The first is the level of the set-up costs, if the firm decides to enter the market.

The second is the intensity of price competition it will face once it has entered the market. The more intense the competition the lower the perceived profitability, and as a result fewer firms will enter the market. The equilibrium structure reflects the tension between the level of set-up costs which must be recovered in order to justify entry ex post and the intensity of the price competition following entry. The greater number of firms that enter the market will result in an increased number of goods being produced in that market. And according to the 'normal' rules of supply and demand, this will mean that the price will move towards the equilibrium price. The result of lower prices will be reduced profitability and will mean it will be less attractive for potential entrants to enter the market (Sutton 1990: 24).

However, in markets where product differentiation is important, a potential entrant will have to invest in advertising or other forms of product promotion. If the firm then left the market it

might recover some of its investment as 'goodwill' if it managed to place the product with another firm. If most of the investment is sunk, and if it did not manage to place the product with another firm all the investment in the differentiation of that product would be lost. Investment in product differentiation creates an asset for a going concern, but their costs are largely sunk.

Advertising and R&D are examples of 'endogenous sunk costs'. Sutton (1990: 23) has argued that by increasing the level of these costs over the 'long run', in developing and advertising its products, the firm can increase the consumers' 'willingness to pay' for its product relative to its rivals' offerings. In those markets where such increases in *fixed* costs (as opposed to *variable* costs), are effective in raising the consumers' 'willingness to pay', there is an in-built tendency in favour of a competitive escalation of expenditures on R&D and advertising. The most fundamental consequence of this is that increases in the size of the market do not imply a more fragmented structure. On the contrary, as market size increases, the return from a given increase in fixed outlays rises, so we tend to see an increased level of equilibrium outlays rather than a tendency towards market fragmentation.

1.4.6 Specific Assets. This refers to assets that most firms posses which can be exploited in other activities and industries, for example innovation, labour skills, and brands. Williamson (1987: 168) believes that it is asset specificity which brings out the difference between transaction cost economics and 'contestability theory'. Both approaches to the study of economic organisation acknowledge the importance of asset specificity, but they view it from opposite ends of the telescope. Thus contestability theory reduces asset specificity to insignificance, where hit-and-run entry is easy.

Transaction cost economics by contrast magnifies the condition of asset specificity. It maintains that durable, firm specific assets are widespread, in which cases hit-and-run entry is often not feasible. 'Put more formally: "Because non-redeployable specific assets make it costly to switch to a new relationship, the market safeguard against opportunism is no longer effective." As a result the market transaction is characterised by expensive haggling and high contractual costs which may propel the firms to integrate vertically' (Lipczynski and Wilson 2001: 278).

1.4.7 Fixed Costs and Barriers to Entry. Shepherd (1984: 577) identifies three criticisms relating to fixed costs and barriers to entry.

1. Fixed costs are claimed (or defined) to be irrelevant to entry barriers. But this is only true if the entrant can match identically the incumbent firm's output. But this can only be achieved by means of total entry (see below). Otherwise the fixed cost per unit is higher for the potential entrant along with a smaller output. In this situation the incumbent can maintain a price differential without inducing entry.
2. Sunk costs are closely and inversely related to time duration. By definition sunk costs are larger in the short run than the long run. Sunk costs are most likely to be the highest, and to cause entry barriers, in those periods when the incumbent is assumed not to respond to entry.
3. Virtually all production requires specific assets which cannot be transferred or sold costlessly. As pointed out earlier, fixed costs and sunk costs commonly overlap. The existence of zero sunk costs is therefore a doubtful, counterfactual assumption for a general theory.

1.4.8 The Austrians and Monopoly. According to the Austrian view, a firm - excluding a statutory monopoly - may be a monopolist because:

1. Other firms may not find it worthwhile to compete but they have access to the market if they want to.
2. The monopolist is producing products which other firms have not seen as profitable, or whose potential profitability they have belatedly recognised.
3. They own the entire stock of some resource to produce the product.

In the first case there is no cause for concern.

In the second case there is also no cause for concern, provided that a potential competitor or competitors can enter the market. Even where a monopoly exists, the monopoly position is only temporary, provided that competition can exist, competition will reduce or eliminate the 'monopoly profit'. In this situation according to the Austrian view 'monopoly profits' are more accurately described as 'entrepreneurial profits', as they result from the successful exploitation of an opportunity, which others have not seen. According to Littlechild (1978:

34) 'it suffices here to establish the emphasis which Austrians place upon freedom of entry as a necessary and sufficient condition for competition in the sense of a market process. Even "highly" concentrated industries can be explained by the differences in the perception of, and speed of reaction to, *changes* in the underlying market phenomena. These changes set in motion a market process which takes time to work: indeed, firms are *always* in transition. Some have learned and grown, some are learning and growing, others have misjudged the situation and are shrinking.'

For the Austrians it is the third case that causes concern. Other firms that might like to enter the market are prevented from doing so, not by the government, but by the company having the sole access to the resource. The monopolist by restricting output can increase its price, and then earn supranormal profits because of its exclusive ownership of the resource. It is only in this last case that the market mechanism does not ensure that resources are distributed according to the wishes of the consumer.

1.4.9 Ultra-Free Entry. Shepherd (1984: 573) has argued that 'contestability' is a vague term and that it needs to be replaced by a more accurate phrase and he suggests the use of 'ultra-free entry'. Baumol et al have focused on several aspects of entry, but their result holds only for the pure case of perfect contestability or ultra-free entry. Yet, every market to some degree is partly vulnerable to entry and is therefore imperfectly contestable. A perfectly contestable market - as discussed earlier - means that the entrant will face an immediate and absolute result, it will either prevail or not prevail over the incumbent.

> 'The premier question is whether the ultra-free entry results apply when entry is not ultra-free. The term contestability confuses precisely this issue.' (Shepherd 1984: 573)

Shepherd (1984: 576) has argued that contestability (ultra-free entry to use his terminology) involves inconsistent assumptions. In assuming that total entry can occur before the incumbent responds and that this total entry forces, even a pure monopolist, to set prices at efficient levels. If the entrant is small in comparison to the market, then entry may be ignored. However, as we have already stated, in a perfectly contestable market entry is assumed to be total. That is the entrant would entirely replace and duplicate even a monopolist.

He [Shepherd] goes on to argue that we are left with three cases of entry:

1. *ultra free entry*: with its inconsistent assumptions of total entry and trivial small entry. Since one can't have it both ways, the analysts must choose between the other two options.
2. *minimal entry*: which is trivially small and results in no response from the incumbent.
3. *strong entry*: entry on a large scale (up to total entry) but drawing strong resistance from the incumbent.

Both the minimal and strong entry are mixed cases and would not necessarily give a clear cut result.

By implication, the theory of contestable markets, particularly in its perfect form, is largely inapplicable to the real world (see Baumol 1987: 232-233). So we have to analyse both quantitatively and qualitatively the degree to which the performance of an industry does, or can be expected to, reflect the predictions of contestability theory. According to Baumol and Willig (1986: 25) this should come as no surprise since most industries can be expected to depart in some important respects from the model of perfect contestability, and it will therefore generally be necessary in applying the theory to assess the economic significance of the deviation, and we do this in Chapter 2.

1.4.10 The Problem of Endogeneity. Another conceptual problem with the SCP paradigm is the assumption that the structural variables impinge on the system from outside, they are exogeneous. According to Walman and Jensen (2001: 514) 'The assumed chain of causation runs from market structure to market conduct to market performance. This assumption is clearly too simple: In the long run, conduct affects structure. Mergers affect concentration, the actions of established firms influence the attractiveness of entry, and innovation changes available technologies.

Thus, in the long run, almost all, if not all structural variables are essentially endogenous.... At this point, the most that can confidently be said is that economists have recognised the problem of endogeneity but have not yet solved it definitively.'

1.4.11 A Final Comment on the SCP Paradigm. As we have established the SCP paradigm has then various criticisms. But it is still a useful framework for gathering and presenting information about the way(s) in which markets operate.

One particular and important development that came from the contestability theorist was the suggestion that the emphasis on market structure, especially concentration, was misplaced. They suggested that this misplaced focus on concentration lead to poor policy making. Their arguments had a significant impact in the USA, and subsequently in the UK, especially in the bus and coach industry.

1.5 The United States Airline Market

1.5.0 Introduction. Given its relevance to British policy making in this section we will critically examine the changes that took place in the USA airline market after it started to be deregulated in 1977.

1.5.1 The United States Airline Market and Contestability. Deregulation in the USA airline market started in 1977 by opening up the air cargo market to competition. In 1978 the Airline Deregulation Act initiated a phased removal of fare setting and market entry controls, but since 1982, entry has been open to all national carriers that are willing and able to enter. The existing carriers have complete freedom to abandon or add routes as they see fit and it is argued that contestable market theory has been particularly applicable to the city-pair airline markets. However, Shepherd (1984: 584) has argued that the market is not well defined, and so the roles of barriers to entry and exit are not clear. The industry covers air traffic in the United States, along hundreds of city-pair routes. At one extreme the market could be defined as a national market. The other extreme would be to describe each city-pair route as the market. Baumol et al (1988) argues that each airline's addition of a route is entry into a new market. If this is correct, then contestability may (almost) exist, as established airlines could be potential entrants into other routes. Yet as Shepherd (1986: 584) points out many or most of these hundreds of city-pair routes are not relevant markets by the standard criteria of substitutability. Many are paralleled closely by alternative routes that are close substitutes; many are merely intermediate stops in longer routes.

1.5.2 City-Pair Airline Markets. It has also been argued by Bailey (1988: xiv) that the city-pair airline markets are characterised both by easy entry and exit and significant economies of scale. In this situation potential competition was thought to be an adequate policeman to ensure competitive behaviour. Even if a route has a single carrier, other carriers who have stations at both end-point cities can readily enter if monopoly profits become evident. However, according to Shepherd (1986: 584) route changes are part of a multipoint competitive strategy in related markets, not simply entry. Even route-addition "entry" does not go unchallenged by existing incumbents. In many cases entry has not been "total" and the existing carriers have often responded effectively when entry has occurred.

Bailey (1988: xv) believed that potential (rather than actual) competition by trunk carriers had provided an effective competitive check on the pricing behaviour of local service carriers in long and medium-haul routes. If prices are set to deter entry why then has entry occurred?

> 'Thus the threat of entry does not by itself suffice to keep profits to zero, as perfect contestability would require. Moreover, when new entry does occur, established carriers do reduce their fares in response, something one would expect in a conventional oligopolistic market other than one that is perfectly contestable.' (Baumol and Willig 1986: 25)

Also Schwartz (1986: 48) has also argued that since deregulation airlines have to respond quickly to entrants' price cutting. Such a rapid price response can make the threat of entry irrelevant to the incumbents' pricing, rendering the market non-contestable. He goes on to argue that the available evidence points to non-contestability, when new entry does occur the established carriers reduce their fares in response to such entry. In other words, prices are not kept low to deter entry.

The entry of existing large carriers has also been found to have an especially large impact on fares. It is their ability to match an incumbent's reputational advantage that probably explained this. In general, the large airlines did not lower fares quickly when faced with entry by a low cost airline that promoted itself as a discount carrier. Instead, a two-tier pricing system was usually employed, in which lower fares were only available on a fixed number of seats. The question here is were these seats subsidised by the more expensive seats? If they were this would conflict with the theory of contestable markets, as in a perfectly contestable market cross-subsidy is not possible.

It also takes time to establish ground facilities and to build up a customer base, which involves taking decisions about the level of prices set and the type of services offered, and as a result of these decisions market share is gained or lost. This is a process that accords with the mainstream industrial economic analysis.

However, by also having control over computer reservation systems through which bookings are made and the use of loyalty payments to regular travellers, existing firms can create barriers to entry which make it almost impossible for new entrants to penetrate the market. According to Schwartz (1986: 48) studies undertaken in the mid-1980s, analysing the issue of how market structure affected profitability, came to the general conclusion that increases in concentration lead to an increase in profitability.

1.5.3 Hub-And-Spoke Route Structures. According to an Organisation for Economic Co-operation and Development (OECD) report, the most significant result of route deregulation has been the development of hub-and-spoke route structures. The economic rationale for hub operations arises from the airlines' ability to take advantage of economies of scope (OECD 1988: 55). The airlines rapidly realised the benefits of these operations where their flight hubs are on a limited number of airports and then offer their customers a wide range of linking services. The higher load factors resulted in keeping operating costs and fares down. But for passengers it has meant that they have to change aircraft and as a result have longer door-to-door times (Button 1990: 149).

1.5.4 No Sunk Costs. It has been argued that airline markets can be contestable because their capital costs, while substantial, are not sunk costs. That is, the major portion of the capital - the aircraft - can be recovered from any particular market at little or no cost (Bailey 1988: xiv) and according to Schwartz (1986: 48) the intrinsic mobility of aeroplanes between routes strongly suggests that entry and exit is considerably easier than most industries. However Stiglitz (1987: 889) has argued that an airline must advertise to obtain customers; it must solve complicated routing problems and this creates an asset for a going concern, and that the cost of this is largely sunk. These costs have to be balanced against the multi-million dollar investment in an aeroplane, or the heavy sunk costs involved in the construction of an airport.

1.5.5 Hit and Run Entry. For the competitive check to be effective on local service carriers, the carriers must believe that the competitive check is credible. However, Cairns & Mahabir

(1988: 271) have challenged this proposition, questioning the ability of carriers to switch capacity from their existing market. To be able to do this implies the existence of spare capacity, which would be impossible in a perfectly competitive market. They also argue that if a carrier shifts capacity away from its existing market, intending to return to the original market - after making a hit and run entry in to another market - it may not be able to return to its primary market. This is because by shifting some or all of its capacity into the new market it will affect the equilibrium in its existing market. The resulting disequilbrium in the market will result in increased prices which will increase the profitability of the remaining carriers - including a carrier who shifted only part of its capacity into another market. Other possible entrants will see the increase in profitability and enter the market and compete away the excess profitability. This then would leave no room for the original carrier to return all or part of capacity to the original market. This would affect the profitability of the original carrier and has been described by Cairns & Mahabir (1988: 271) as a game of musical chairs where the number of players (aircraft) equals the number of chairs (city-pair slots).

Also in a busy airport there may also be a shortage of gates and landing slots, which would prevent hit-and-run entry. According to Baumol et al (1986: 24) such a shortage of slots prevented Peoples Express from acquiring even a single gate of its own at Denver's Stapleton International Airport, so that it was forced instead to lease gates from other carriers during a year of flying to that airport.

1.5.6 Post Deregulation Structure. After deregulation, the industry has become significantly more concentrated in the United States. The theory of contestability would not be concerned by this, as long as the threat of entry is sufficient to maintain competitive performance. According to Button (1990: 150) in the two and a half years after 1985 there were 24 acquisitions or mergers in the industry compared with only 15 in the 40 years between 1938 and 1978. In some cases the mergers had resulted in airlines gaining almost total control over airports.

It has been argued by Schwartz (1986: 50) that the airline experience since deregulation weighs against perfect contestability, but is inconclusive regarding imperfect contestability. In this context imperfectly contestable is taken to mean 'almost contestable.' In 1984 Bailey and Baumol (see Schwartz 1986: 49) attempted to argue that although the behaviour in the industry resembled that of oligopoly, in the long run the equilibrium result - a situation the

industry at that time may not have reached - would be that of a contestable market. They reconsidered the situation in the industry, and this led them to adopt a more qualified position.

> 'We now believe that transportation by trucks, barges and even buses may be more highly contestable than passenger air transport' (Baumol and Willig 1986: 24).

They go on to argue that the post-deregulation experience in the airline industry had revealed several elements of the structure of supply that conflicted significantly with the conditions necessary for the pure theory of contestability to apply without modification.

The OECD (1988: 56) believed that the contestable market hypothesis, which states that the actual number of competitors is irrelevant, had been generally rejected. This evidence points against even imperfect contestability. Schwartz (1986: 49) cites Bailey and Baumol as conceding that airline behaviour had resembled that expected from rival oligopolists in standard analysis, not from players in a perfectly contestable world. Baumol and Willig (1986: 25) also believe that the airline industry does not conform to the perfectly contestable model, although airlines are cited as structurally among the most conducive to contestability theory.

1.5.7 A Concluding Comment. It is important to remember that if the pricing behaviour of an industry is found to be largely independent of threat of entry, then contestability theory is unlikely to be relevant to that industry. Indeed contestability is unlikely to be relevant in the most concentrated of industries.

1.6 Privatisation and Deregulation

1.6.0 Introduction. In this section we will look at deregulation and privatisation concentrating on deregulation, because so much has already been written about privatisation during the 1980s and '90s. For example, see Bishop et al (1994), Chapman (1990), Foster (1992), Henderson (1998), Jackson et al (1994), Kay and Vickers (1988), Saunders and Harris (1994), Thompson (1990), Veljanovski (1987) and Vickers and Yarrow (1988).

In Chapter 2 we discuss quantity regulation in regard to the bus industry, and in Chapter 4 we discuss the regulation of the labour market generally, and with specific reference to the NDLS.

1.6.1 Regulation. In this dissertation regulation is generally used in the narrow traditional American usage, which means a specific kind of policy making by governments, designed to interfere with the way that public and private sector firms operate in a market by enforcing standards or rules.

This it is claimed can be achieved by a government making and enforcing standards or rules, which are designed to bring about a situation, which to a greater or lesser extent emulates the perfectly competitive market. The implicit assumption behind this intervention is that there was some kind of market failure. However, Hood (1994: 19) has argued that regulation ultimately comes from government's traditional role in providing a basis for trading, by setting standards and rules for the operation of the market. This would especially apply where there was asymmetry of information between the consumer and the producer/supplier.

The regulatory agencies are charged with devising methods of control that try to prevent the abuse of market power while ensuring efficient operation of that market. This type of intervention in the private sector of the economy at the microeconomic level by government departments and state agencies is part of a broad approach to influence industrial performance and is generically known as competition policy. Devine et al (1988: 331) believes that this seeks to influence industrial performance indirectly, by maintaining or creating a framework within which the pursuit by independent firms of their private interests in accordance with market forces results in desirable economic performance. This consists of the market structure in which the firms operate, and a set of state-determined rules regulating their behaviour. The regulatory structure is designed to reduce or remove the opportunity for undesired conduct rather than prohibit it from occurring. Merger policy is an example of structural regulation, and policy against anti-competitive behaviour is a form of conduct regulation.

However, even this narrow definition of regulation can have many different forms in the way that standards are set and how compliance is obtained, and will not provide a general explanation for all regulatory policies. Utton (1986: 14) recognises that regulation in all its

forms covers such a wide range of markets and varies so much in form and scope at different time periods, that no simple hypothesis could be expected to explain the majority of cases.

1.6.2 Market Failure and Regulation. Under a familiar albeit limited set of conditions, competitive markets ensure resources are allocated efficiently. Where these conditions do not apply market failure can be said to exist. Kay and Thompson (1991: 21) have categorised these into three groups of circumstances. These are:

- Competitive solutions may not exist, in circumstances where there is natural monopoly and high sunk costs of market entry.
- Competitive solutions may exist but may not be achieved; incumbent firms may be able successfully to deter market entry, encourage the exit, merger, or acquiescence of competitors and establish a dominant position.
- Competitive solutions may exist and be achieved, but the outcome may not be considered desirable. This undesirable outcome may arise in particular where externalities exist, where information asymmetries between market participants are important, where social concerns are considered relevant or where a more efficient arrangement of production cannot be sustained in the face of market entry.

According to Kay and Vickers (1988: 301) the primary rationale for regulation is to remedy various kinds of market failure, externalities, asymmetric information and market power which are sources of welfare loss. However the existence of market failure on its own [they argue] is not a sufficient condition for intervention [regulation]. This is because intervention itself carries the twin dangers of regulatory failure and regulatory capture – see below. Intervening to correct the market failure it may unintentionally result in suppressing the efficiency-enhancing characteristics of the [perfect] market mechanism. In view of this the test might be, is competition feasible in the absence of Government intervention? If it is, then we should not regulate, and vice versa.

1.6.3 Market Failure Involving Monopoly. According to Kay and Vickers (1988: 304) it is not only a question of is competition desirable, but as we asked in the previous paragraph, whether it is feasible without Government intervention. They argue that are there are three kinds of market failure involving monopoly and competition, and, correspondingly, three types of regulation. These are:

1. Regulation to contain the monopoly
2. Regulation to limit competition
3. Regulation to promote competition

The matrix (Table 1.1) shows these cases.

		Is Competition Desirable?	
Is Competition Feasible?		**Yes**	**No**
	Yes	Typical Case	Cream Skimming
	No	Dominant Incumbent(s) Prevent Entry	Severe Natural Monopoly

Table 1.1. Desirability and feasibility of competition – Source Kay & Vickers 1988: 304

The first case is where competition is neither feasible nor desirable, which holds under the conditions of severe natural monopoly, although if the natural monopoly conditions are not severe, competition may be possible. If the monopoly condition is severe then the only check on the firm's behaviour is anti-monopoly regulation.

The second case is where competition is not desirable, but it is feasible. The key policy question here is whether there should be regulatory measures to restrict competition eg prohibiting entry. Kay and Vickers (1988: 305) are wary about taking such a step as they believe it may be hard to determine whether or not natural monopoly conditions prevail. Limiting entry into a market might be due to the possibility of 'cream-skimming', which is said to occur when entrants undercut the incumbent's profitable business segments and leave it with a loss on the rest of its activities. This might result in the elimination of any cross subsidy in an industry, but it could occur when there is no cross subsidy. In this situation it could undermine 'the stability of equilibrium and has shades of 'destructive competition' (Kay and Vickers 1988: 305).

The third case is where competition is desirable but in danger of being prevented by the anti-competitive behaviour of incumbent firms. One of the most obvious threats in this situation is predatory behaviour by price or other means. Conduct regulation aimed at checking the anti-competitive behaviour of the dominant firms would be necessary.

1.6.4 The Role of Governments. The rationale for state regulations is largely economic, based upon a market failure argument and the public interest theory of regulation. However, the central issue is whether the regulatory methods are properly targeted on the market failure they seek to check.

In the UK regulation of transport started with the railways in the 1830s out of public safety concerns – quality regulation - see Mulley 1983:2. But the dominance of the railway companies in the UK inland transportation market at that time was due to their technical superiority over other forms of transport – see Hibbs 1975: 30.

The regulation of industry in the USA began in 1877, following a Supreme Court decision to control the market prices of companies operating elevators in Chicago. In other countries the commercial law is based upon the Napoleonic civil code, and the assumption that the right to provide a service/product is seen as a privilege at the disposal of the state. Each firm is effectively given a franchise, permitting the exploitation for gain of what is in principle a public responsibility – see Hibbs 1984: 35.

The mainstream thinking of Anglo-American economists in the early twentieth century assumed that the government's aim in regulation was to promote general economic efficiency when faced with market failure. When markets failed, governments as guardians of the public interest stepped in to check the growth of monopoly power in particular industries or to manage the spillover problems, which the conventional forms of private ownership could not easily handle. So in theory, whenever market failure was discovered, there should have been an appropriate government response to get the market back to operating as closely as possible to the competitive solution. Given the abundance of markets in which the conditions necessary for competition are not even approximately met, the potential scope for regulatory policies appears to be almost limitless. According to Utton (1986: 13) the instrument of regulation may differ, but the government must be prepared to operate in whatever market is necessary. If the public interest theory is broadly correct, we should expect to find regulatory policies in a wide range of industries: where natural or artificial monopoly is present; where external effects dominate; where public good attributes are significant.

This evolved into a set of standard 'welfare economics' justifications for regulation identifying types of market failure and welfare problems which government would seek to correct.

> 'This perspective was ironic, in several ways. First, to interpret regulation as a corrective to market failure implied a functional explanation of government behaviour, that is, a vision of government as a dispassionate 'super-capitalist', prompted solely by an interest in the long-run viability of the market system and better able to spot and correct weaknesses in the market than other actors. Such an explanation of public policy is the normal stock-in-trade of Marxist political economy - not a branch of social sciences with which mainstream economics traditionally has much affinity. A strain of Marxist 'state theory' explained policy as a *deus ex machina*[5], which popped out at the nick of time to put the crisis-prone capitalist system back on its feet and get capital accumulation going again. What exactly brought the deus out of the machina was obscure; the possibility of disastrous mistakes and miscalculations little considered; and the style of the argument is deeply teleological[6].
>
> Second, the functional interpretation sat ill with the tradition of Adam Smith, who portrayed public regulation as typically error-prone, welfare-minimizing and reflecting the entrenched power of unrepresentative interests. Why, in a world of selfish, 'rent-seeking'[7] private actors, should public officials - of all people - be able and willing to act in an altruistic, system-maintaining fashion? Was it not more plausible to see government regulation as a product of self-interest of politicians and bureaucrats, allied with self-interested groups?' (Hood 1994: 20)

In reality governments may have many other micro-economic objectives apart from correcting market failure. At any one time we should anticipate intervention in many markets that only have a tenuous connection with market failure, as we would normally understand it.

1.6.5 A Realist View of Regulation. Although the study of economic regulation goes back to at least the eighteenth-century, no single academic discipline came to 'own' the subject of regulation. It was liberal political scientists who first developed a 'realist' view of regulation,

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[5] Power, event, that comes in the nick of time to solve a difficulty, providential interposition.

[6] Doctrine of final causes, view that developments are due to the purpose or design that is served by them.

[7] Rent seeking is the attempt to exploit a particular form of institutional arrangements which has the effect of preventing entry and thus preventing the erosion of economic rent by new competition.

putting the mobilisation of political power at centre stage and rejecting any teleological or functional explanation of policy in terms of the outcome of a play of interests. Observers like Marver Bernstein argued that original 'functional' activity by governments could be 'corrupted' by a process of capture. 'Capture' meant effective control of regulatory agencies by the regulated interests, which the agencies were originally set up to oversee. The mice ended up in charge of the cheese - see Hood, 1994: 21.

This capture came about because the initial circumstances - generally protection of the public from corporate misdemeanours or incompetence - which brought about the regulation has become dulled or blurred over time. The very information asymmetry, which created the need for regulation in the first place, makes the regulatory agent dependent on those it regulates, while producer lobbies are normally better organised and resourced than those serving the consumers interest.

The reason behind the call for some form of regulation, has in the main been to erect entry barriers against competition, which in other industries would be seen as a form of market failure. The seminal work on this was by Stigler in 1975. He placed particular emphasis on two sources of the coercive power of the state that certain industries might try to use for their own advantage. One - which has already been identified - is the creation of barriers to entry, which could apply to either entry to an industry or occupation. The second is the power of the state to use its taxation to give grants or subsidies to particular groups.

The idea of regulatory self-interest is more powerful than some orthodox economists believe, and the model lends credence to the idea of 'original sin'. This is that the capture of a public regulatory agency is not an abnormal situation. It may be the inevitable and permanent condition of such an agency. According to Hood (1994: 23) regulation was not diverted or captured from an original high purpose. It never served the interests of consumers or other vulnerable social groups in the first place, for one simple reason - *it was never intended to.*

1.6.6 The Cost of Maintaining Regulation. Regulation is not a costless process and not all the costs of regulation will be an obvious item on a firm's balance sheet. According to Utton (1986: 24) not only does successful rent seeking allocate to the privileged industry or group returns that are unnecessary for the continued supply of the goods or services, but the process

of attempting to acquire the necessary regulation and subsequently ensuring that it is maintained also uses resources (of consultants, public relations firms, lawyers, advertising agents, etc.), which have a positive opportunity cost and therefore impose welfare losses on the rest of society.

If rent seeking in a particular regulated industry was made pointless, all the resources previously devoted to this would be eventually re-allocated to the next most profitable use.

There are also the costs of regulation itself. According to public interest theory, market failure can, in principle, be corrected by low-cost intervention of officials who administer policies designed to improve resource allocation and economic welfare. If, however, we assume that the officials are likely to pursue their own interests - the same as anybody else - while performing their duties, we will arrive at a different assumption. That the officials will be attracted to those policies that do most to meet their budget maximising objectives, rather than those that may perform the required task more efficiently. So regulation introduced basically on a public interest or market failure ground may have a number of indirect or hidden costs that the public interest theory has failed to identify. Also, if firms operating in a market environment which shields them from competition can become x-inefficient, we can also expect a similar result from the regulatory agency, which by its very nature has no strong incentive to remain internally efficient.

1.6.7 Protecting the Interests of the Regulated. If the lobbying for regulation is successful and the regulator behaves in the way Stigler predicted, in the interest of the regulated, it is then in the interest of both parties to keep as low a profile as possible. In such cases the industry and its agency will strive to remain as invisible as possible to prevent the mobilisation of a counter group to oppose the regulation. However, if it becomes contentious, it will be defended by attempts to show that the public benefits by higher safety standards, lower incidence of fraud and protection from 'cowboy' operators - see Utton 1986: 21. As we shall see in 2.2.2 the introduction of quantity and quality controls in the bus industry by the 1930 Transport Act was welcomed by the train operators who owned the bus companies.

The problem is that it is possible for the regulatory officials to become more and more identified with the problems of the industry that they control. The regulators also rely on the firms in the industry to supply the information that they need to assess the performance of the industry or individual firms within the industry. In an industry where regulation is well

established, it is possible that the regulatory mechanism will be seen to work in favour of the incumbents, rather than to correct market failure and improve resource allocation.

There may also be a tendency for regulation to take on a momentum of its own and the regulator almost inevitably becomes more deeply involved in the affairs of the industry the regulator is supposed to regulate. Therefore the scope of regulation may well increase over time.

If there is a divergence of objectives between the principal [Government] and agent [regulated firm(s)], this divergence will remain whatever structures or mechanisms of regulation are put in place. The agent can be required to observe the regulation, but not to adopt its objectives. The pursuit of divergent objectives within the regulatory framework may lead to inefficiencies. As we stated earlier the regulatory structure is designed to reduce or remove the opportunity for undesired conduct, rather than prohibit it.

1.6.8 Other Sources of Regulatory Failure. We will now look briefly at other possible causes of regulatory failure which are related to information and incentives. Markets economise on information, because each participant needs to know only their tastes or costs and the price. They are incentive-compatible, because as each individual is following their own interests, they are also serving the public interest.

Conversely, the role of the regulator and the regulated are divergent as it is the task of the regulator to devise a structure of incentives, which will ensure that the regulated firms achieve the regulator's objective. According to Kay and Thompson (1991: 22) the regulators task can usefully be characterised in the principal-agent framework in which one party, the 'principal', relies on another party, the 'agent', to achieve their objectives, but in which the two parties' access to information is asymmetric. Information is both required and, given divergent objectives, less likely to be available.

1.6.9 Escapable and Inescapable Regulatory Failure. Following on from Kay and Thompson (1991: 23) we will distinguish between escapable and inescapable regulatory failure.

These are those failures in the regulatory system brought about by adopting inappropriate methods of regulation. These can arise from several causes: regulatory capture; the interest of

the regulator in expanding their area of activity, and the interaction between regulatory policy and the political process which governs it all, and which can contribute to the incidence of escapable failures.

Kay and Thompson go onto to argue 'that the unnecessary suppression of competition is an important source - we consider the most important source – of [escapable] regulatory failure' (Kay and Thompson 1991: 23).

By inescapable failure we mean those that follow directly from the economic characteristics of the sector being regulated – where, for example, natural monopoly and high sunk costs prevent competitive solutions being achieved, and information asymmetries are an inevitable consequence of monopoly supply. In this situation regulation is almost inevitable, but it will result in an imperfect result. The case for regulation arises especially when consumers are poorly informed about product quality, and this asymmetry of information problem motivated some of the first instances of government economic regulation

1.6.10 Regulation in the 1980s. In the 1980s many OECD countries saw the transformation of traditional regulatory regimes in important sectors of their economies, such as the financial sector, aviation and telecommunications. It has been argued that this 'evolution of economic policies can be seen as the latest chapter in a continuing story which goes back at any rate to the mid-18th century, the hero of which is economic liberalism. Recent events have involved a shift, not from left to right, but in the balance between liberalism and interventionism in economic systems. Economic reform is a process of *liberalisation*... In the West, reforms have brought with them a shift in emphasis within economies which were market-based before and after the event' (Henderson 1998: 18).

This was described in many cases as deregulation. However, a better description would be re-regulation. Regulation was massively extended in some areas, notably safety and pollution - see Hood 1994: 19. According to Kay and Vickers (1988: 314) the recent combinations of deregulation with re-regulation are less paradoxical if we remember that there are two broad types of regulation.

1. Structural Regulation – which aims to create a situation in which the incentives or opportunities for undesirable behaviour are removed.

2. Conduct Regulation – addresses the behaviour, which would be induced if the undesirable incentives existed.

In a number of cases structural regulation and conduct regulation are alternatives to one another. In other cases we may have to use both of them together.

Structural regulation can take a variety of different forms. Merger policy is an example of this, which stops the additional incentive and opportunity for anti-competitive behaviour.

Conduct regulation aims to address the anti-competitive directly. However, Kay and Vickers (1988: 315) question if the authorities are always sufficiently well informed to detect undesirable behaviour. This makes it difficult to detect anti-competitive behaviour and to enforce measures intended to combat it. '(It is hard enough to reach an acceptable definition of 'predatory behaviour', let alone detect and deter it.) In the face of asymmetries of information, conduct regulation is prone to error and evasion. On those scores, regulation of structure has advantages' (Kay and Vickers 1988: 319).

Kay and Vickers (1988: 315) have also argued that if the definition of structural regulation is extended to include the structure of ownership, then the most important recent shift from structure to conduct regulation has been the privatisation programme. The wisdom of privatisation depends critically upon the effectiveness of such conduct regulation, in combination with any regulation of the firm's structure and market structure (Kay and Vickers 1988: 316).

In the United Kingdom conduct regulation was used in the labour market, especially in relation to the trade unions to limit the type of actions they could take. These new regulations were used by the employers in the legal action surrounding the abolition of the National Dock Labour Scheme.

1.6.11 Conclusions on Regulation. As we have pointed out earlier, regulation can take different forms and could be applied across many industries.

> 'So a theory of regulation based simply on welfare economics and market failure has too narrow a base. It necessarily assumes that the sole objectives of

> regulation is the maximization of welfare through the optimal allocation of resources, regardless of equity, the aspirations of the regulators themselves, or the political debt that the party elected to power has to repay' (Utton 1986: p19).

Therefore, we must accept that there will not be a complete explanation of those general measures to protect the consumer or to clean up the environment that have become more prominent over the last thirty-five years. There is, however, one thing we can be almost certain of, and that is that once the regulatory process is initiated there will be strong forces arguing for an expansion both in range and complexity.

1.6.12 Privatisation. In economics, like other disciplines, there are ideas which cause ripples. These ideas have short-term popularity and are then forgotten. Then there are ideas that cause waves. These bring different or even new schools of thought to the forefront of economic thinking for a longer time, but after a while they also fade away. Then there are tides and cycles that can last for decades. Privatisation is like a tide, it had its peaks and troughs and they did not necessarily occur in the same place and at the same time.

De-nationalisation or privatisation was not a new 'Thatcherite' concept of the 1980s, it had taken place in the 1950s and early 1970s in the UK under Conservative Governments. It had also occurred in mainland Europe during the 1950s and 1960s. According to Hood (1994: 45) it was the international privatisation wave that began in the late 1970s that caught the attention, not these earlier privatisations.

There had also been a change in the generally accepted view of what constituted viable economic and political solutions. The changing 'climate of opinion, which was defined as 'an outlook or set of assumptions about policy that is largely taken for granted' exactly captures the result of the change in the tide' (Douglas 1989: 401). Thatcherism was a return to individualism after a long period of collectivism. This change of climate was not peculiar to the UK, it was almost a world-wide movement. In the United States it was called 'Neo-Conservatism. There had been much interaction between British Thatcherism and American Neo-Conservatism - Milton Friedman and von Mises are only two of several intellectual progenitors they had in common (Douglas 1989: 402) - while still forming part of a wider New Right Movement.

The Mont Pelerin Society was probably the most influential international organisation of the New Right. Founded in 1947 by F A von Hayek, it brought together economists, philosophers and politicians and political activists of the libertarian tradition. According to Douglas (1989: 402) the society indirectly 'through its influence on advisers, it seems to have been a powerful force in both Thatcherism and Reaganomics.'

In the UK there were various institutions which tested the path for Thatcherism - the Institute of Economic Affairs (IEA), the Centre for Policy Studies, and the Adam Smith Institute. All these organisations were internationalists in their outlook. The IEA had contacts with the Mont Pelerin Society through Lord Harris, one of the IEA Founder Presidents.

1.6.13 The Conservatives and Privatisation. A final report of the Conservative Party's policy group on the nationalised industries, which was leaked to the Economist (The Economist 1978: 21) and was drafted by the radical right-wing MP Nicholas Ridley, considered the scope for denationalisation, as it was called then. They believed that it would be easier, and more permanent, to fragment industries rather than sell off whole corporations. It concluded there was least opportunity for this in the "true utilities" (gas, electricity, railways, water, ports and telephones). The greatest opportunities were seen in coal, shipbuilding, docks, airports, motor car manufacturing, buses and freight.

The report contained specific proposals, some of these were:

- form worker cooperatives at coal pits wherever possible
- separate ports, and either sell them off or make them into workers cooperatives
- make each airport independent and either sell it or hand it over to local authorities

At the time of the report being leaked it had been discussed by the powerful Economic Reconstruction Group under Sir Geoffrey Howe, and went before a group under Sir Keith Joseph, the then Tory industry spokesperson and general political overlord. At the time it was thought that the general thinking behind the report had been accepted, but its detailed proposals were likely to be modified and these would be reflected in the manifesto only in the most general terms.

However, it did not become party policy, and according to Foster (1992: 108) as the 1979 election approached the dominant view within the Conservative Party was that it was not clear that denationalisation would be a vote-winner with either the electorate or most Tory back-bench MPs. According to Kandiah and Seldon (1986: 104) privatisation was a central tenet of the Thatcher years, and although the policy was not pursued in earnest until after the 1983 general election, the IEA was supportive of it. The actual method and means of privatisation were never explored by the IEA. The Institute did, however, publish a number of pamphlets examining what they thought were the shortcomings of political control over electricity, coal, post-offices and telephones.

1.6.14 Some Objectives of Privatisation and Deregulation. 'Privatisation, as a hallmark of Thatchersim, was a natural response to the perceived failure of nationalization in terms of the public sector performance. Fast changes in the underlying economic situation and technological innovations also required a shift in public policy - the economy became less controllable...' (Gupta 2000: 52).

According to Bishop et al (1994: 1) the three main objectives behind the privatisation programme are finance, information and control.

1. *Finance* - 'the financing of both government and the firm is affected by privatisation. The government raises finances in the process of disposing of assets; firms are free to raise finance on the capital markets.'
2. *Information* - 'is of relevance in setting prices. Competition ensures that prices are consistent with efficient allocation of resources and lowest costs of supply. Even in the absence of competition it has been suggested that privatization may allow prices to be imposed that encourage greater efficiency of supply.'
3. *Control* - 'Changes of ownership are most directly associated with changes in control. Privatization programmes involve a weakening in control exerted by the state and a transfer of control to private investors.'

'Privatisation is also likely to undermine the power of the trade unions because they are typically concentrated in the public sector. Unions may react strongly against privatization, not only because of its direct impact on employment, but also because of the apprehension

that their political powers and influence might be jeopardized after privatisation and the *modus vivendi* with government upset' (Gupta 2000; 38).

> 'In fact, one of the primary motives for adopting a privatization policy in advanced capitalist economies has been to curb the power and influence of the trade unions' (Gupta 2000; 38).

During the late 1970s the Conservatives while they were in opposition set out their strategy for weakening the power of various unions in the public sector - see The Economist 1978: 21. However, this strategy included which strikes not to fight. Docks were classified in the intermediate group, and public transport was in the least vulnerable group. By adopting a gradualist approach to reforming industrial relations laws, they were able to reduce trade union power and influence. 'Privatisation has contributed to the rebalancing of control between trade unions and management. In the absence of tight external control by capital markets, control over privatised companies essentially lies with management. Weakening of trade union power has allowed management to achieve remarkable reductions in employment without provoking disruptive industrial disputes' (Bishop et al 1994: 14).

This along with the injection of new competitive pressures resulted in a greater concentration on efficiency and profitability, moving away from the pluralism of the post-war decades to a more unitarist approach. 'It is clear that developments within the economy and labour market [like privatisation] had provided employers with a major incentive to re-examine the way that workplaces were managed' (Millward et al 2000: 12).

1.7 Conclusions

1.7.0 Introduction. In this chapter we have set out the key objectives of this dissertation, which are to analyse the pre and post privatisation and deregulation performance of two United Kingdom (UK) industries from the transport sector.

1.7.1 Key Research Areas of the Dissertation. We use the elements of the SCP paradigm to test the hypothesis that privatisation and deregulation will result in changes in the structure, conduct and performance of those industries.

To analyse the earnings and employment in these industries prior to deregulation and or privatisation, to examine what has happened to them since deregulation and privatisation, and to see if the outcomes fulfil the expectations of the theory, or to provide alternative explanations if they exist.

To investigate any changes that have occurred in trade union density in these industries in relation to what has happened in the rest of the economy and to see if there is any evidence of rent sharing and the non-competitive model of wage determination prior to privatisation and deregulation. Again, this is to see if the outcomes fulfil the expectations of the theory, or to provide alternative explanations if they exist.

1.7.2 Tools of Analysis. In this chapter we have examined the tools of economic analysis which will be used in the rest of this dissertation. These are the elements of the SCP paradigm, and economic theories relating to contestable markets, regulation and privatisation.

In the next chapter we examine the changes that have taken place in the bus and coach industry both in the United States and the UK as a result of privatisation and deregulation.

2 The Bus and Coach Industry: A contestable market?

2.1 Introduction to Chapter

2.1.0 Introduction. In this chapter we will critically examine some of the many arguments put forward for the proposed changes in the bus and coach industry and investigate the extent to which the objectives of privatisation have been achieved. If they have not, we will look at the some of the possible reasons.

Section 2.2 will examine the history of the bus and coach industry in the United Kingdom until 1980. This is to give an overview of what had happened in the industry and how it had been effected by different governments' policy over the years. In section 2.3 we will consider what has ``````````happened to the USA bus and coach industry. The reason for this is that it has been argued by Pucher (1995a: 103) that Great Britain appears to be much further down the road to Americanization of its urban transport and land-use patterns than any other European country. So we could expect the UK bus and coach industry to show similar characteristics and outcomes to those experienced by the American industry. This section will also contrast what happened in the industry with some of the arguments for privatisation and deregulation which were based in part on the experience in American airline industry. Section 2.4 will scrutinise the developments in the UK industry since 1980.

In section 2.5 we critically examine the privatisation process to see what has happened within the industry and to see if the objectives set by the Conservative Government have been achieved. We also consider the proposition that there may also have been ideological reasons for these proposals that fitted into the Conservative Government's wider macroeconomics agenda. This agenda included reducing the influence of the state, and other labour market institutions such as trade unions, especially if they were perceived to interfere with the efficient operation of the market.

Section 2.6 of the chapter examines the bus market to see if it conforms to one of the hypotheses of the Buses White Paper that it was believed that the bus market would be "high contestable" or "partially contestable" once the primary barrier of restricted entry was removed.

The change in market structure, conduct and performance due to the privatisation process is considered in section 2.7 of the chapter. The final section of the chapter 2.8 draws some general conclusions from the chapter.

2.1.1 An Overview of the Market. The history of mass transport has been one of changing technologies. In most developed countries since the end of the Second World War the decline in public transport has been linked with the growth of the motor car. 'From the 1950s to the present, mass transit systems have had to deal with the competition of the private automobile. Unlike the earlier competitive technologies the auto is not a new form of mass transit. Therefore, the private auto is not merely a threat to a particular mode of transit, but a threat to the mass transit industry itself' (Windle 1988: 121-122).

The growth of the motor car along with a shift in population away from city centre to the suburbs (Acton 1980: 26) has resulted in the decline of mass passenger transport systems in most developed countries.

2.2 The UK Experience

2.2.1 A Historic Review of Regulation. According to Mackie (1983: 45) 'Unlike other public services, such as post and telecommunications, electricity and the railways, bus transport is not a statutory monopoly. As one of the few British examples - independent television and scheduled air transport are others - of a regulated industry, it has operated since 1930 under a form of franchising system'.

In the past there have been three traditional arguments for regulation in inter-urban transport, 'priority, protection and public need. The first two were designed to protect existing operators from outside competition; in return, and in order to meet the third principle, they had to undertake to operate a number of unprofitable routes along with the profitable ones' (Mackie 1983: 45).

The third was achieved by the use of cross subsidy, the profitable routes subsidising other routes needed by specific groups or geographical location within the given area. In the case of

inter-urban transport it was argued - see Bleasdale (1983: 513) - that regulation prevented wasteful competition. During the 1970s however this view was increasingly challenged.

According to Le Fevre (1981: 15) 'There is an influential school of thought, both here and overseas, which argued that there should be a relaxation of the framework of quantity licensing and monopoly franchises which have hitherto been regarded as an essential part of well regulated city transport.'

In 1979 the newly elected Conservative Government denied that competition was wasteful and suggested that any losses from the unexploited economies of scale in the bus and coach industry would be outweighed by other benefits. The increased competition induced by deregulation would force operators to improve their productivity and control their costs. It would also compel them to develop products and services more responsive to consumer needs, and to improve their marketing of them. By contrast, regulatory mechanisms, despite their good intent, end up depriving consumers of choice and feather bedding existing operators - see Bleasdale 1983: 513.

Mackie was one of the many commentators citing market protection and the excessive use of cross-subsidies for the poor performance of the industry. He argued 'that the provision of a network of services at standard fares has resulted in excessive cross-subsidy: this had led to higher prices and lower levels of service on the good routes, while having the opposite effects on the thin routes, and so distorts the market' (Mackie 1983: 45).

2.2.2 The Road Traffic Act 1930. The introduction of 1930 Road Traffic Act according to Vickers & Yarrow (1988: 367-368) was motivated by concern about passenger safety and the danger of destructive and inefficient competition, and accordingly it provided a regime of control over both quality and quantity.

Davis (1987: 287) showed that the regulation of the bus and coach industry in the United Kingdom was placed on a quasi-judicial basis and that the industry was controlled by the Traffic Commissioners, who were the appointed guardians of the public interest.

The regulation of the industry was based on two controls:

1. Quality controls, relating in particular to vehicle safety and the competence of drivers and conductors

2. Quantity controls, requiring each route in operation to have a separate licence and maintaining control of the overall numbers and type of services offered by the operators

The Commissioners regulated the entry of new firms into the industry or existing firms moving into new areas. They were required to grant a licence only if they were positively persuaded that the proposed service was in the public interest. The onus of proving that this was in the public interest was the responsibility of the potential entrant. The Traffic Commissioners 'usually interpreted this to mean that a proposed service was not in the public interest if any existing coach companies or British Rail argued that they would lose customers to the new service. In other words, new coach services could only be started up, prior to deregulation, if they did not compete with any existing services' (Jaffer and Thompson 1986: 46).

The 1930 Road Traffic Act also required that all timetabled services had to have a Road Service Licence (RSL), which would lay down the conditions of operation, including the route, fare and timetable. It was argued by Davis (1987: 287) that the system was bureaucratic and was not responsive to change. Also, with the presumption of public interest against those seeking to introduce change, innovation would have been further discouraged, existing RSL holders on a proposed route were allowed to register objections. It was also difficult for new operators to compete with British Rail, this being due to British Rail also having the right to object to the introduction of new services or changes to existing ones. It was also argued by Thompson & Whitfield (1995: 20) that 'the requirement to hold a RSL acted as a barrier to entry by new operators and so gave incumbents an effective monopoly on each route.' This, it could be argued is a clear case of the suppression of the competitive solution, and therefore an example of regulatory failure.

However, once established, the incumbent bus companies were free to exercise their local market power in a number of different ways. It was argued by Vickers & Yarrow (1988: 368) that there was no pressing need to cut costs, or to reduce inefficiency, or respond to consumers' changing preferences with innovative solutions, and there was also ample scope for cross-subsidization between routes and between times of day.

Also, it was argued by Dodgson (1991: 120) that the consumer did not always gain from the potential benefits of regulation. The producer could capture the potential gains of regulation called 'regulatory capture', and this was believed to be happening within the bus and coach industry at the time. The industry was perceived to be gaining twofold from the coercive power of the state. Stigler has identified four powers that could be used by the state, but he placed particular emphasis on two - see Utton 1986: 20. Firstly, the power of the state to use its taxation first to give subsidies. Secondly, its power to control entry into the industry.

However, the bus industry, according to Bonavia (1987: 5) was only lightly controlled [regulated] through a system of 'Defence Permits' replacing the road service licences previously issued under the 1930 Road Traffic Act.

2.2.3 The 1947 Transport Act. The nationalisation of transport was the most ambitious project of the post-war Labour Government. In 1947 the Transport Act established the British Transport Commission (BTC) which was to take-over and control a number of transport industries. The BTC was made up of a number of executive bodies such as the Road Haulage Executive, which were responsible for the various aspects of the Commission's activities. According to Bonavia (1987: 94) 'Although transport integration was a main purpose, underlying the creation of the BTC, it was never defined clearly by government spokesmen either during the passage of the Act or at other times. Its expected benefits were emphasized; but there was complete vagueness about the means by which the goal was to be approached.'

Not all of the sectors of the transport industry were immediately nationalised, and the only major bus undertakings acquired outright were those owned by the railways - see Devine et al 1988: 401. There is a certain irony in this, as currently, the privatised bus companies have been establishing or purchasing privatised railway companies.

Also, Devine et al (1988: 439) pointed out that the BTC acquired minority share holdings in a number of other bus undertakings from the railways and several were acquired indirectly as a result of nationalising electricity undertakings.

In 1962 the BTC was replaced by five separate boards and in 1966 the newly elected Labour Government removed the restrictions on acquisitions placed on the Transport Holding

Company (THC). This was the board that was responsible for road haulage[8] and buses. The THC purchased the bus companies owned by British Electric Traction Company. This acquisition almost completed the nationalisation of major bus operators outside the local authority sector. However, the state also held a minority share in Tillings.

2.2.4 The 1968 Transport Act. The 1968 Transport Act that had been preceded by a series of White Papers on various aspects of transport policy represented the most comprehensive review of transport policy undertaken by any previous government. As a result of this review the bus interests were split into separate companies.

Under this Act the county council Passenger Transport Executives (PTE) were required to meet the passenger transport needs in the English metropolitan counties and in Strathclyde in Scotland.

Before the 1968 Transport Act came into force, buses were expected to run on a commercial basis and were not generally subsidised by the state. However, as Bignell & Fortune (1984: 119) have shown, some municipal systems received small indirect subsidies from the rates, but other undertakings made a positive contribution to the rates. In 1965 the urban section of the bus industry almost broke even, with capital debt of only £12 million upon which it had to pay interest.

However, the industry became increasingly dependent on public support, and its performance was reasonably good in the early years, but problems emerged in the 1950s as car ownership became more widespread. According to Bignell & Fortune (1984: 119) by 1970 there was a revenue deficiency of £2 million on a turnover of £130 million and the capital debt had risen to £21 million, requiring a further £2 million to service it.

According to Mackie and Preston (1996: 21) between 1930 and the early 1970s direct subsidies were not on the political or social agenda. Operators, whether private, municipal or nationalized were required to behave commercially within regulatory constraints. One interpretation of the licensing system was that by permitting cross-subsidy, a second-best response was produced in the absence of direct subsidies.

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[8] BTC denationalised (privatised) road haulage in 1953 except for British Road Services

The 1968 Act also effectively created a nationalised industry of the bus and coach industry with the establishment of the National Bus Company. It took over a large number of buses and coach services that were then in public ownership, and its local bus operations were divided into four regional units.

2.2.5 The 1970s and Financial Targets. Devine et al (1988: 416) argued that from 1970 the assessment of financial performance of all nationalised industries was made difficult for several reasons. The transport industry in particular was affected, because it was subjected to price restraint at the time of increasing general inflation.

In the period between 1974 and 1979 the government's priority was to eliminate the deficits for the nationalised industries and by 1977 this had been achieved in most cases. The 1978 White Paper -The Nationalised Industries, Cmnd 7131 - set the financial target for the National Bus Company to break even after receipt of grants from local authorities for unremunerative services - see Devine et al (1988: 418).

Between 1975 and 1979 the NBC, apart from 1975 when it was still recovering from the effect of the Government's counter inflation policy, exceeded its financial target, see Table 2.1.

The bus and coach industry continued to receive payments from government that increased over time. Dodgson (1991: 120) has shown that by 1982/83 Government payments to the industry totalled £911 million at current prices, of which £558 million was for general revenue support and £220 million was concessionary fare payments. Income from subsidies accounted for 54 per cent of total revenue in London, 45 per cent in the Metropolitan counties, 35 per cent for other municipal operators and 24 per cent for the nationalised NBC and SBG.

Year	1975	1976	1977	1978	1979
Result	-19.0	5.8	9.6	29.6	20.0

Table 2.1 National Bus Company: Financial results after interest, grants etc, 1975-79 (£m).
Source: adapted from (Devine et al 1988:418)

2.3 The USA Experience

2.3.0 Introduction. This part of the chapter will examine the changes that occurred in the USA bus and coach industry due to the deregulation of the industry. It will also look at some of the arguments for privatisation and deregulation which were based in part on the experience in the USA airline industry, and which were diametrically opposed to what was actually happening in the USA bus and coach industry.

2.3.1 The USA Bus and Coach Industry. At the time it was argued that changes in the airline industry due to the 1978 Airline Deregulation Act were resulting in fares falling, service choice between various destinations increasing, and that safety standards were being maintained at pre-deregulation levels - see 1.5 The United States Airline Market.

At this point it is may be helpful to remember that in America 'public' in public transport usually refers to the usage of such modes of transport by the public, and not to the type of ownership, operation or subsidisation. Indeed, the basic philosophy in the United States has always been that transportation should be provided by private enterprise. 'However, since 1887 that philosophy has also included economic regulation of entry, rates, and service' (Smerk 1981a: 209).

In the first two decades of the twentieth century, public transport dominated urban travel in the United States. However, by the late 1950s and early 1960s US public transport was in serious trouble in all but the largest cities. This was in part due to the rise in private car ownership and the resulting decline in the public transport system in the US, which is well documented. 'The correlation between car ownership and income meant that higher income, and thus less fare-sensitive, passengers ceased to use buses' (Button 1987: 48).

Pucher (1995b: 213) has roughly divided public sector involvement in American public transport into three periods:

1. a period of neglect up to 1970
2. a period of sky-rocketing government subsidies from about 1970 to 1980
3. a period of consolidation and almost constant subsidy levels from 1980

2.3.2 Passenger Decline. Passenger trips declined by 72% between 1945 and 1972 and vehicle miles declined by 40% between 1950 and 1972. Windle (1988: 122) has shown that unlinked passenger trips declined from a high of 23.3 billion in 1945 to 6.6 billion in 1972. Total vehicle miles operated declined from a high of 3.0 billion in 1950 to 1.8 billion in 1972.

According to Pucher (1995b: 213) in 1950 only 28 per cent of public transport services in the United States was provided by publicly operated and owned firms. The market share of public transport services steadily increased and this was due in part to a decline in passenger trips. These adverse market conditions resulted in a growing number of transit company failures in the 1960s and 1970s. Dodgson (1981: 132) has shown that as a result of these failures, the federal government became increasingly involved in the provision of public transport. Capital subsidies were often used to buy out private bus operators so that over the period from 1960 to 1975 the dominant form of ownership switched from private to public. 'By 1970, publicly owned systems accounted for 66% of total vehicle miles of service' (Pucher 1995b: 213).

During this period public transport services were only marginally profitable. Many of the operators were part of joint utility firms and had received the benefits of cross-subsidisation by the profits from land speculation and freight transport. Also as a result of various anti-trust rulings, firms were forced to divest their electric and gas utilities. With these divestitures the use of cross-subsidise in the non-profitable public transport services became more apparent. The non-profitability of the industry continued to increase over time and this was largely due to the increase usage of the private car, with the inevitable result of decreasing passenger numbers even further.

2.3.3 Regulation. The regulatory regime in the US also limited entry into the various transport markets, and the rates/fares charged were made under the supervision of the regulatory agency. Service levels and quality was also regulated, as was any attempt to withdraw from any service. Due to this regulation by the Interstate Commerce Commission (ICC), the bus companies were not under the jurisdiction of the federal antitrust laws that were administered by the Department of Justice. 'Transport firms in the US were commonly engaged in intramodel price-fixing agreements that were illegal under antitrust laws' (Smerk 1981b: 209).

According to Utton (1986: 20) demand for such regulation which exempted them from antitrust laws is likely to have come not only from the groups that have the most to gain, but also where the effectiveness of private co-operation may be the most difficult to attain.

	Greyhound and Trailways as a percentage of all Class 1 carriers	Greyhound and Trailways as a percentage of total industry
Number of Buses	77.4	28.5
Number of Employees	79.8	50.2
Total bus-miles	79.8	50.8
Revenue passengers	62.3	20.9
Revenue passenger-miles	80.4	47.2
Operating revenue (all services)	80.9	57.3
Net operating revenue (before income tax)	67.7	43.7

Table 2.2 Duopolistic Nature of the US Inter-City Bus Industry 1981
Source: Button 1987: 47.

Prior to 1982 inter-state bus services had been regulated under the 1935 Carriers Act. The ICC was more concerned with developing a network of inter-state service while at the same time attempting to create a limited amount of competition. This resulted in a duopoly situation between two national carriers Greyhound and Trailways. These companies were in competition, while sharing 80 per cent of the inter-state market by 1981- see Table 2.2.

This contrasted with the situation in the UK where under the 1930 Road Traffic Act 'The Traffic Commissioners in the UK, by exercise of their licensing powers, pursued a policy of cross-subsidisation of unprofitable services from profitable and, thus, competition, even of a duopolistic nature, was not favoured' (Button 1987: 47).

Although the ICC did not believe its terms of reference required it to provide social bus services, prior to 1982 there was some cross-subsidisation of the inter-city bus industry (Button 1987: 47). As a regulator of the federal government, the ICC had sought to ensure that services provided by these transportation companies were safe [quality regulation] for the American public to travel on. They also ensured that the fares were reasonable and that the services were generally adequate to meet local demand. Also they had to ensure that the financing of the industry was carried out in a prudent fashion and that the nation was generally well served.

The regulatory commissions since the late 1920s had controlled intra-state bus operations. They were initially established to control the potential market power of bus operators and had a tradition of keeping fares low to limit customer exploitation (Button 1987: 46).

During this period competition was increasing from two alternative forms of transport. The deregulation of the domestic air transport pricing in 1978 had resulted in lower fares. This combined with the deregulation of airline routes the following year brought about direct competition from domestic air companies, eg People's Express with Greyhound on many of its formerly profitable routes.

Almost paradoxically, competition was also increasing from the railways which were now receiving public subsidy. In the Northeast Corridor market, many of the bus companies experienced serious market erosion.

The bus operators faced a continuing deterioration in their financial position in the early 1980s, net operating revenue fell from $132 million in 1980 to $57 million in 1982. Even with this fall in operating revenue there was no comparable reduction in costs. Profitability also declined by 1982 operating profits as a percentage of operating revenues had fallen to 0.67% for Greyhound and its affiliates and to 2.7% for Trailways - and even these were shrinking rapidly (Button 1987: 48).

During this period there had been an increasing belief that regulation made no sense in the highly competitive transportation market in the US. There was, therefore, a perceived need to allow the inter-city bus industry to compete on equal terms with other transport modes, and allow both innovation and cost saving opportunities to be taken by management. However, the bus industry was opposed to this. During the 1980s the argument for the deregulation of the bus and coach industry became more credible. Le Fevre (1981: 15) has argued that the model for delicensing coaches was the deregulation of air services in the US. The merits of de-regulation were brought into pre-eminence by the apparent success, of the policies of the American Civil Aeronautics Board and Laker's famous Skytrain. The 'safety of air travel was maintained but travellers had lower fares' (Le Fevre 1981: 15). The argument was also based in part on the success of the reform of the road haulage industry in the 1970s.

The intellectual basis for these reforms and the discussion of this can be linked in part to the development of the theory of contestable markets. At the beginning of the 1980s academics in the USA started to link subsidy levels and higher costs, an example of X inefficiency - see for example Dodgson (1991: 133) and 1.3.

Without this government intervention and support, many transport systems would have been abandoned years before. However, this support resulted in the creation of natural monopolies in many urban areas. As we shall see, the US privately owned transport system effectively went bankrupt in the 1960s. Acton (1980: 26) has shown that revenue increased from $1.3 bn in 1945 to $2.3 bn in 1978 whilst in the same period operating costs rose from $1.2 bn to $4.7 bn.

The inter city bus services were often the only form of public transport available in many rural areas of the US, and were perceived by many to be an inferior form of transport that increasingly became the residual mode of transport for the poorest members of the community. The majority of passengers were either very old or quite young, with a high proportion of these coming from the ethnic minorities. These were diffused groups with little or no economic or political power whom the politicians could ignore. This may be evidence of Stiglers 'original sin' process of regulation, where a concentrated group, with high per capita stakes, were able to transfer wealth to themselves through regulation at the expense of diffused groups, with low per capita stakes - see Hood 1994: 25.

By the early 1980s, the USA inter-city bus services had also become a minority mode of transport. Only three per cent of all trips in the US urban area were made by public transport compared with about 19 per cent in Great Britain (Dodgson 1991: 133).

2.3.4 Bus Regulatory Reform Act. The introduction of the Bus Regulatory Reform Act (BRRA) in 1982 was not simply the result of the deterioration in the bus industry. It was 'simply one of the last of a major package of reforms which liberalised entry and pricing in virtually all domestic US transport markets (and affecting, most notably, the road haulage and airline industries) but this package was merely one element of a much wider trend in regulatory reform which embraced communications, energy and finance besides transport' (Button 1987: 45).

The BRRA had three main objectives. These were:

1. To free the inter-state bus industry from entry controls, making it much more open to competition ie making it a more contestable market
2. Allow the industry to compete on equal terms with the domestic air transport industry
3. To allow the industry to develop on more commercial lines by allowing management more commercial freedom

The policy makers were well aware that such liberalisation of the market would probably result in established operators withdrawing from existing routes. This indeed happened, as we shall see below. However, they believed that new and often specialised operators would fill many of the gaps created, and that the social effects overall would be minimal. This would be due in part to the new business environment, in which management would be freed of many of the built in constraints which the old system of regulatory control had imposed.

The effect of the BRRA was to end quantity regulation and open the inter-state bus market to all operators. These were now only subject to quality regulation and only had to demonstrate that they were "fit, willing and able" to provide the service. 'Fare regulations were phased out and by November 1985 all fare controls virtually ceased' (Button 1987: 49).

The BRRA also removed anti-trust prosecution immunities to prevent collusion over fare policy and services. The Act also eased exit conditions and the ICC was given power to override state commissions' decisions and allow intra-state service closure. The power of the ICC was also extended to allow it to counter any measure by state authorities to impede the liberalisation process.

It was perceived that 'the low entry costs attracted a vast number of new independents, eg 55% of the applicants for non-scheduled and 65% for scheduled service licences in 18 months after the BRAA came from new independent operators' (Button 1987: 50), however this has been contested - see Kihl 1988: 258.

2.3.5 The Contestable Environment and the Management's Response. In this new deregulated environment, the response of management was to focus on reducing costs. Major areas of cost reduction were identified which were the reduction of the labour force, alterations of terms and conditions of employment and wage cuts. This was because it was believed that market protection [regulation] inevitably means protection for the labour force producing the

service which may have resulted in a number of restrictive working practices; in particular, subsidies tend to leak into higher wages and/or lower productivity - see Mackie 1983: 45.

Greyhound pursued an aggressive policy, cutting some 1,500 of its 11,000 labour force in 1985 and (following a seven-week strike by the Amalgamated Transit Union) pushing through a 15 per cent wage cut. Trailways negotiated similar wage reductions from its employees. In both cases two-tier wage systems were also introduced with new employees being on a lower pay scale than existing labour. The management in the industry became even tougher on wage agreements and because it was unable to gain additional wage concessions from the Amalgamated Transit Union, the Greyhound Corporation sold its bus operations to a Dallas company in 1985 (Button 1987: 51). The Dallas company intended to expand its services, and to assist in this process, they reduced costs by hiring non-union labour who were prepared to work at lower rates of pay.

Along with the reduction in the labour force and the cutting of wages there was also a reduction in the provision of existing services. In the first year some 1958 communities lost bus services. Button (1987: 50) has argued that although some of the larger bus companies withdrew from certain local markets, the impact of these withdrawals was diminished by the entry of new firms into the market. This would appear to understate the situation, the number of communities receiving a bus service declining on average by 3.3 per cent a year from 1975-82. After the bus deregulation act, these trends accelerated to an average decline of 9.2 per cent for 1982-83 and 11.6 per cent for 1983-84 - see Kihl 1988: 257.

The proponents of bus deregulation argued that with free-markets, new and smaller carriers would enter the market and replace larger carriers in servicing smaller cities. Button (1987) argued that independent companies provided the single largest group of applicants for regular route licences after deregulation, due in part to the freer entry and exit conditions. In all there were 2,028 applications for new passenger authorizations of all types in the first 18 months of the new regime - a rise of 275% over the total of the previous five years for regular services and a 500% increase in charter licences.

Kihl (1988: 258) believes that the experience since deregulation has not confirmed this expectation. She argues that most of the places listed in the American Association of State Highway and Transportation Officials' survey, as having acquired replacement services, were

served by expanded routes of existing carriers. Also the response of the larger bus companies was not always to withdraw from the market, in some cases they actually introduced new services. These new services were aimed, in the main, at the high-income travel market this being because of the potential of higher profits because of the low fare elasticity of demand. Airport bus services are one such example, some twenty-one airports by 1985 were being provided with express bus services offering transport to some 100 or more communities.

At the same time there was a move to reform the fare structure, moving towards a more cost - based structure. Intra-state fare levels rose to match the inter-state fares. The bus companies made use of their remaining anti-trust immunity to collude in reforming the general structures of fares to conform more closely to the actual pattern of costs. This resulted in short distance schedule fares increasing, Greyhound established fares ranging from $6 for 0-13 miles and $144 for any trip over 1,401 miles. Kihl (1988: 261) argued that the problem was of fairly high minimum fares discouragingd short trips, which were frequently made on buses, and the maximum fare was too high to compete with the discounted airfares. Also, prior to deregulation, cross-subsidisation of both inter and intra state services occurred which, however, due to the increased competitive environment, were reduced.

The overall effect of the BRRA was to increase efficiency and the market share for Greyhound, while at the same time actually losing passengers. Bus trips declined due to overall shrinkage in the market but enhanced efficiency had produced even greater cost savings, Table 2.3 gives the outcomes in response to the BRRA.

	Operating Revenue $'000		Net Operating Income $'000		Passengers '000	
	1982	1983	1982	1983	1982	1983
Greyhound	647,219	607,219	(2,981)	10,261	36,943	33,329
Other nine	206,184	199,234	9,688	7,176	11,952	11,168
Total	853,676	806,453	6,702	17,437	48,895	43,497

Table 2.3: Nine -Months Operating Results from the Ten Largest Inter -City Carriers
1982-1983. Source: Button 1987: 53.

2.3.6 Conclusions of the USA Experience. Due to the increase in car usage in both countries it is understandable that the two Governments were facing similar problems in their bus industry in the early 1980s. Therefore, given the similar political persuasion of these two Governments it is not surprising that there was a similarity in the thinking in how the problem could be remedied; ie to introduce competition into the market. However, the result of the

policy in the USA was to increase the profitability of the bus industry, at the expense of terms and conditions of employment of those working in the industry, and the level of employment. But the decline in passenger numbers was not halted. This, as we shall see, was to be the same for the UK.

2.4 The UK Experience from 1980

2.4.1 The 1980 Transport Act. According to Fawkner (1995/6: 18) the Government view of the situation in the bus and coach industry in the 1980s was:

- Continuously mounting subsidies (a 13-fold increase in real terms between the 1950s' to £520m p.a. in 1982;
- Decline in traffic (market share down from 42% in 1952 to 8% in 1985);
- A rigid, unchanging network;
- Restrictive labour practices;
- A system in large parts nationalised or owned by local authorities.

The Conservative Government as part of its wider policy objectives wanted to reduce public expenditure. Any industry therefore which received large subsidies was a possible candidate for reductions, and the bus and coach industry being one such target. They also believed that these subsidies resulted in increased costs, and the subsequent higher fares was making travel by car even more attractive to the public.

These problems - as far as the Government was concerned - were compounded by the fact that the industry was dominated by a large nationalised company and smaller local government owned companies, and in its view, this was a 'sure-fire' situation for inefficiency to occur. Also the market was not open to new competition, increasing the likelihood that inefficiencies would occur.

As a response to this situation in the early 1980s the Conservative Government passed the Transport Act. This Act was designed to liberalise the existing system in a number of similar ways to the American Bus Regulatory Reform Act.

1. The onus of proof in licensing cases was with the objector who had to show that application was against the public interest. The Traffic Commissioners when assessing the 'public interest' had to take into account the transport requirements of the whole area, as well as the needs of a particular community. They also had to take into account the county structure plans and transport plans contained within it and any other relevant representations.

2 The Act also abolished route service licensing for express services, excursions and tours. The perceived success of the deregulation of express coaching was one of the impetuses for the further deregulation of the bus and coach industry and its eventual privatisation.

3 Powers were given to local authorities, on application to the Minister of Transport, to establish 'trial' areas. Within these areas, entry to the market was completely free, subject only to quality control through the licensing of operators.

2.4.2 Deregulation of Express Coaching. Davis (1987: 286) has argued that the 1979-1997 Conservative Governments had been more interested in the transfer of ownership of nationalised industries to the private sector rather than subjecting them to more extensive competition. However, express coaching was different, the dominant state-owned firm National Express was to be exposed to competition through the deregulation process. Also, as a result of express coach deregulation, British Rail would be exposed to competition in its passenger market, while still remaining in public ownership.

The 1980 Transport Act marked a complete change in policy to express coaching market, and as a result most of the regulatory framework was removed. Clause 3 of the Act related to express coaching and amended the definition of express carriage (applied, curiously, to the vehicle rather than the service). The only restrictions - or regulations - which remained, related to the competence and the safety. The Government believed that the market was open to competition and it was anticipated that new entrants would come into the market after deregulation. Any operator, existing or potential, could enter any market segment without requiring a licence to operate a particular route.

It was argued by Thompson & Whitfield (1995: 20) that the express coaching market was seen by the Government to have low entry costs in particular because there already existed a

large, unregulated and highly competitive market in the provision of contract coach services from which cross entry would be possible.

2.4.3 Structure of the Express Coaching Market. When the 1980 Transport Act was passed, National Express was the largest operator in the express coach market and it provided a comprehensive network of scheduled express services. The characteristics of the market were described by Kilvington (1983: 35-36) as 'one dominated by publicly owned operators- National Express (NE) and the Scottish Bus Group (SBG); with an extensive network of places served but relatively slow operating speeds, limited frequencies and an emphasis away from motorway routes; fares around 50-75% of the normal rail tariffs; and a declining market'.

As Bleasdale (1983: 515) has pointed out, the scheduled express coaching market served a predominately leisure market and was important in only a few regional markets. There was a traditional coach market between the SouthEast and Yorkshire and the NorthEast. The possibility of overnight travel had led to the existence of a strong London-Scotland coach market.

Year	Municipal	NBC	SBG	Private
1974	1.7	27.6	0.0	70.7
1975	0.0	31.0	1.7	67.2
1976	0.0	25.9	1.7	70.7
1977	2.0	24.0	2.0	72.0
1978	2.3	22.7	0.0	75.0
1979	2.3	20.5	2.3	75.0
1980	2.6	23.1	0.0	74.4
% change 1974-1980	0.9	-4.5	0.0	3.7

Table 2.4 Percentage point change of Express Coaching Journeys by Operators 1974-80. Source: Transport Statistics various years

Although express coaching only accounted for 0.5 per cent of all the NBCs passenger journeys in 1980, it had a total of 1,669 million passenger trips of which 9 million were express coach. Between 1974 and 1980 NBC market share in this sector fell by 4.5 percentage points. In terms of passenger journeys, it fell from 16 million to 9 million, a fall of approximately 44 per cent. This was larger then the overall decline in the market over the period which was around 33 per cent (see Appendix 1 Table 1).

Part of the reason for the decline in passenger journeys was the increased competition from British Rail. The decline in NBC and Scottish Bus Group carryings between 1975 and 1980 was chronicled by White and he suggests BRs response was effective - see Bleasdale 1983: 515.

However, the NBC prior to deregulation was developing its subsidiary National Express so that it was able to respond to the challenge from BR and also to take advantage of the new market opportunities arising from deregulation. An example of this is given by Bleasdale (1983: 517) as the London-Oxford route. This is a relatively short route (63 miles by rail) served by an indirect route via Reading. It was an obvious target for a well managed coach service and even before deregulation, Oxford South Midland (an NBC subsidiary) introduced an hourly interval service using the direct motorway system.

Yet, as early as 1980 White (1980: 7) had raised doubts about the benefits of deregulating express coaching. With the introduction of competition on profitable trunk sectors, this threatened the incumbents ability to cross-subsidise and thus to maintain an extensive network of secondary but socially desirable services. There was also the danger of instability in the market, due to new operators entering with fares at an unsustainable low level, and running for a very short period against reputable firms who had competitive and sustainable fare structures.

The structure of the express coaching industry did alter after 1980, with National Express actually increasing its market share - see Table 2.5 - from 61.3 per cent in 1980 to 87.1 per cent by 1984 an increase of 25.8 per cent. As pointed out by Davis (1987: 288) National Express retained its dominant position essentially unscathed, and increased its profits in doing so (raising them from £3.1 m to £5.4 m between 1980 and 1982). It is possible that these results would not have been obtained without the increase in competition. However, with few exceptions, the competitive initiatives of independent operators have led either to ultimate failure or to a joint venture with National Express.

2.4.4 Conduct in the Express Coaching Market. The deregulation of express coaching had an immediate and dramatic impact on the level of fares. These fares, after deregulation, had fallen as new companies entered the market 'frequently offering innovative services, and

there were spectacular price cuts on the major intercity routes' (Jaffer and Thompson 1986: 45).

These reductions in fares were in part a result of the competition from the British Coach Consortium (BCC) which had been established specifically in response to the 1980 Act. The BCC was an association of six of the major independent coach operators in the country working in collaboration to establish a nation wide network of trunk routes between cities, travelling at high speeds and, where possible, using the motorway network. According to Kilvington (1983: 36) a major feature of the operation, attracting great publicity, was the low level of fares. The latter was often 50 per cent of the existing national or Scottish fare, and hence dramatically below railway prices.

This position did not go unchallenged from NE or SBG, who matched the majority of prices offered by BCC. As well, they increased the frequency of coaches on routes between the major centres of population. This period of fare reductions was short lived and from April 1981 members of the BCC began to withdraw from routes as well as the consortium itself. The concept of an independent network of coach routes disappeared and few of the October 1980 independent routes remained in place by 1983.

There would appear to be conflicting views on what has happened to prices after 1980. Davis (1987: 288) has argued that the general level of fares has fallen substantially since 1980. This largely reflected the particularly marked price reductions made between 1980 and 1981; since then, the impression has been one of constant or gentle rising prices.

While Jaffer and Thompson (1986: 45) have argued that since 1982, prices have risen steadily in real terms and are now substantially above the level to which they fell in the immediate aftermath of deregulation. This was a result of the exit from the market of many of its competitors, which allowed National Express to increase its prices in 1982 and 1983. 'However, it is still possible to conclude at the end of 1983 that prices were lower in money terms (and hence substantially lower in real terms) than before deregulation' (Jaffer and Thompson 1986: 48-49).

They also argued that the effects of deregulation impacted on NE in other ways. While prices may have remained high, this did not subtract from the benefits of deregulation. It could be

reasonably argued that the threat of competition forced NE to serve the market more efficiently.

According to Tomkins (1992), what is less well known and has a substantial impact on fare levels is that National Express owns few vehicles. It contracts about 55 coach operators to run its routes at fixed rates, using their vehicles painted in the National Express livery. The company makes its money from the difference between the fares it collects and the amount it pays its contractors. These contractual arrangements were finally established in April 1986, from then onwards National Express being responsible for planning, marketing and provision of its inter-city network while other NBC subsidiaries competed on equal terms with other operators to win seasonal contracts for running the services. According to Tomkins (1992) this policy gives its profits an air of fragility, representing as they do the difference between what the company can wring out of its low budget passengers and what it must pay the contractors who run some of its coach services.

Year	National Express	Total Express	NE Per Cent of Market
1980	9.2	15.0	61.3
1981	13.9	17.0	81.8
1982	14.0	18.0	77.8
1983	13.3	17.0	78.2
1984	14.8	17.0	87.1
1985	15.4	N/A	N/A

Table 2.5: Express Passenger Journeys (Millions)
Source: NBC Annual Reports and Accounts
Various Years

2.4.5 Performance of the Express Coaching Market. The 1980 deregulation of express coaching initially dramatically changed the performance of National Express. At first it appeared that deregulation was a success, but as the deregulated market developed, it became apparent that (see Table 2.5) National Express became even more dominant, increasing its market share from 61.3 per cent in 1980 to 87.1 per cent in 1984.

In nominal terms both National Express's income increased by 121.7 per cent and its working profit increased by 151.6 per cent between 1980 and 1985. However working profit as a percentage of income increased by only 13.5 per cent from 9.6 per cent in 1980 to 10.9 per cent in 1985 - see Table 2.6.

Year	Income £m	Working Profit £m	Working Profit as per cent of Income
1980	32.2	3.1	9.6
1981	42.0	4.0	9.5
1982	51.7.	5.9	11.4
1983	51.5	3.8	7.4
1984	59.6	2.6	4.4
1985	71.4	7.8	10.9

Table 2.6: National Express Financial Statistics 1980-1985
Source: NBC Annual Reports and Accounts Various Years

Table 2.7 shows that between 1980 and 1984 the market for express passenger journeys increased by 2 million an increase of 13.3 per cent at the same time private operators were losing market share to National Express.

Year	All Operators	Percentage Year on Year Change
1980	15	
1981	17	13.3
1982	18	5.9
1983	17	-5.5
1984	17	0.0

Table 2.7: Express Passenger Journeys 1980-84
(Millions) Source: Transport Statistics 1976-86 106

The decline in the private sector involvement in express coaching was due to a number of reasons. According to Brown (1987: 120) many of the existing small operators took advantage of what they thought was the new relaxed atmosphere and quickly introduced express routes - often to London. Most of these operators had inadequately researched their market and were unable to promote their services properly being surprised when National Express, adopted retaliatory tactics in the face of competition.

With deregulation and the cross-entry into the market of competing suppliers there was also significant product differentiation, with new services being offered. At this time National Express business was expanding rapidly, and this led it to reappraise the types of coaches it operated, with luxurious double-deckers appearing on trunk routes. 'These were not only attractive and eye-catching marketing tools; they also enabled more passengers to be carried at a lower unit cost and help ease congestion in busy terminals by reducing the number of vehicle movements. National's Rapide brand name, applied to services with hostess, video

and toilet facilities, has almost become to 20th century coaches what Pullman's name became for 19th century trains' (Brown 1987: 120).

White (1996: 25) has shown that National Express continued to dominate the express coaching market but the sharp rise in passenger journeys following deregulation which was associated with strong price competition was not sustained. National Express trips rose rapidly from under 10 million in 1980 to about 15 million in 1986, falling back to around 10 million in 1992, with some recovery since then.

The fortunes of the smaller independent operators were mixed. At one extreme it had led to financial disaster. Nevertheless, a small number of independent companies have succeeded and run very much on the pattern that was anticipated by the 1980 Act. However, according to Kilvington (1983: 36) the keyword for the success of the smaller operators has been specialisation. The identification and development of just one or two routes, either inadequately or not served by the existing market seems crucial. In route network terms these have been few and far between.

The apparent success of the deregulation of long-distance coach services was used in the 1984 White Paper to support the argument for the deregulation and privatisation of the rest of the bus and coach industry - see Department of Transport 1984: 2.

Nevertheless, as we have seen the results are not so clear as the White Paper makes out. Competition did result in new services and reduction of fares, such as the Oxford to London service - see 2.4.3. But it also resulted in the increased concentration of a market that was already dominated by a publicly owned operator. There is also some evidence that the competition which was introduced into the industry was of the 'cherry picking' type where firms competed on existing and profitable routes and some competition 'at the margins' by the smaller independent operators.

2.4.6 The Trial Areas. The 1980 Act provided for the designation of 'trial areas'. These were experimental areas where bus operators would no longer require Road Service Licences. Within these areas, duly qualified operators could run whatever services they chose, however they could only be set up by agreement with the relevant local authority. The thinking behind

the trial areas was to see if the public interest would be served by a complete abolition of road service licensing.

During the discussion period both the Department of Transport and many of the local authorities who had expressed an interest in the concept of the trial areas realised that there could be a risk of loss of services if Road Service Licences were immediately removed.

Also the local authorities may have been concerned that with an increase in competition and reduction in cross-subsidisation this may have resulted in them having to increase their revenue support of some of the routes, if they were to be maintained at the existing levels of service.

In the end three counties established trial areas of roughly similar sizes and were mainly rural areas. These were 'North-West Norfolk (with an 'island' in Norwich to which buses could be run from the Area), a large rural tract of East and Mid-Devon, with a similar 'island' in Exeter, and most of the old county of Herefordshire' (Mackie and Preston 1996: 52).

The three trial areas were established between April 1981 and October 1992, for a minimum period of two years, but they were all extended for an indefinite period.

According to Evans (1985: 48) the three authorities reasons for applying for trial area status were mixed. The areas were predominately rural and most services in them were loss making and subsidised, and were unlikely to be greatly affected by competition. Mackie and Preston (1996: 52) believe that Norfolk County Council deliberately excluded from their area the towns of Cromer and Kings Lynn where profitable routes did exist. It is believed that Ministers tried very hard to persuade more urbanised local authorities, such as Nottinghamshire, to designate Trial Areas which would have given a better cross-section, but without success.

The Government also used financial incentives for both county council and private operators, but it found it hard to persuade councils to establish them, despite inducements in the form of contingency funds and offers of new minibuses to new operators.
The counties were already the paymasters and had already decided which services were to be subsidised, so they had little to gain from the influence that the traffic commissioners could

exert in their role as the licensing authority. They thought at best the commissioners just endorsed the decision already taken by the counties and in the worst case they actually got in the way of the county policy. Evans (1985: 48) believed that some of the counties felt, like the Department of Transport, that private-sector operators might be able to provide better value for money on some subsidised services than the incumbent National Bus Company.

Opposition to the trial areas - some may say predictably - in part came from the public sector owned bus operators. This was due to the threat posed by competition to the whole of their networks, whose viability depended on the use of cross-subsidisation as well the grants that they received from the counties. They argued that competition could result in substantial cuts in services and staff. However, the opposition was not limited to the public sector bus operators as many of the private sector operators took the same line.

The opposition was the greatest in the Hereford trial area, where two NBC subsidiaries and most of the private operators opposed the setting up of the trial area. Their opposition was, according to Evans (1985: 48) directed not only at the trial area itself, but at the intention of the local authority to replace the previous arrangements for subsidising loss-making services by a new system of contracts by competitive tender.

In Hereford the new system permitted any operator to run any service they wanted, subject only to giving notice and meeting the required safety standards. It was to be left to the market mechanism to arrive at the optimal service levels. It was believed that on the profitable routes fares could be reduced - in part through the elimination of cross-subsidisation - and frequencies could increase if other operators saw the opportunity to make profits.

On other routes there might well be no services because it was uneconomical to maintain the existing service. In these cases subsidies could be used to ensure that these routes were maintained. In the case of Norfolk and Devon they continued to do this by negotiating with the existing operators. However, Hereford and Worcester identified their service requirements and invited tenders for them, and awarded contracts on the most favourable bid. The Council formally discouraged competition from other operators on subsidised routes, and warned that they might blacklist operators who did not compete, preventing them from tendering for educational contracts as well, an important sanction. Opponents of the trial area argued that this would enable the authority to exercise more control than the traffic

commissioners had done - see Evans 1985: 48. Herefordshire County Council established tender competition for 53 services that were identified as being unprofitable.

The rest of this section will concentrate on what happened in Herefordshire, because according to Mackie and Preston (1996: 52) the other Trial Areas were unrepresentative. With the sole exception of Hereford City, they were outlying rural areas where bus services were low, and were determined not by commercial decisions of operators but by network support decisions by local authorities.

Even before the start of the trial Hereford compared to the other two trial areas had many more services. Private operators ran half of the stage carriage-carriage bus kilometres in the area. According to Fairhead and Balcombe (1984: 4) this was because the NBC operators Midland Red and National Welsh who had experienced declining demand in the area had already surrendered a number of rural services to expanding and active independent operators in the previous six years.

The trial area consisted of two parts, the City of Hereford, which was a county town with a population of 50,000; and a large and exceptionally low-density rural area with a population of 80,000.

In the initial phase 53 tenders were involved, and it appeared that no operator was prepared to continue without subsidy, 15 of these were run by NBC subsidiaries. In the end these companies agreed to continue 12 of these services with no or in some cases part subsidies. There was competition for 32 of the contracts, and 19 changed hands, see Table 2.8

During the period between 1981 and 1983 there were a few changes in the pattern of bus services. The subsidies for the Hereford Trial Area increased slightly between 1981 and 1983 due to six contracts being surrendered and then re-let - see Table 2.8. Also support was requested and given to some previously unsubsidised services, which resulted in four new contracts. By the beginning of April 1983, when the original contracts expired, the tendering process was repeated, when a total of 38 contracts were awarded. This was less than before, and was due to some services having already been re-let, and some operators had opted to continue services without the subsidy from the county council. Some services were grouped together, and others carried so few passengers that the council decided not to continue

subsidising them. In 1983 competition for these contracts had increased since 1981 and also several new operators made bids (see Table 2.8).

	1981	Replacement Contracts	New Contracts	1983
Total number of contracts put out to tender	53	6	4	38
Number competed for	32	6	4	31
Number of bids	70	21	12	94
Number of changes of operator	19	6	1	10

Table 2.8 Competition for Services in Hereford Trial Area September 1981 and April 1983. Source: Fairhead and Balcombe 1984: 5.

The results of this tendering process resulted in first round annual savings of £62,000 (38 per cent) on revenue support and £65,000 on education transport payments were achieved with only minor service withdrawals - see Mackie and Preston (1996: 52).

However, these savings were not achieved without some loss of bus services and jobs. According to Fairhead & Balcombe (1984: 5) the total reduction of Midland Red services in the Trial Area was about 17,000 vehicle miles per annum; this involved the reduction of the Midland Red bus fleet in Hereford from 19 to 13 and a corresponding loss of employment.

The tendering process also impacted on Midland Red West's collective bargaining arrangements because pay rates were related to the Birmingham labour market prior to the establishment of the trial area. As a result of tendering Midland Red West (MRW) had improved productivity by some 25 per cent by negotiating more flexible working arrangements - see Mackie and Preston (1996: 53). However, some of this productivity gain might have come from breaking-up of the NBC in preparation for the privatisation. This break-up may have contributed to the competitive spur in MRW, not solely the introduction of competition into the market. According to Mackie and Preston (1996: 53) 'MRW itself suggested large parts of the gain had come from the break-up of the old Midland Red West Company rather than to the Trial Area itself'.

It was claimed that the most dramatic developments in the Trial Area had been in the bus services in the town of Hereford and its suburbs - see Fairhead and Balcombe 1984: 6. Before the introduction of the Trial Area, MRW or Yeoman Motors, a private operator, provided all the services in the town. When the Trial Area began, MRW - as previously indicated -

declined to make bids for subsidy contracts, and withdrew from all services that were not apparently commercially viable. These were mainly early morning, evening and Sunday services. The County Council asked for tenders for most of these services, and most of the contracts were awarded to a small independent company that was new to the area. This operator also provided services on other town services at more profitable times of day. This put them in direct competition with MRW who responded by reducing fares.

This was not the end of the competition. In the spring of 1983 a new competitor appeared, and started running cheap local services. Once again MRW responded aggressively with on the road competition including making substantial fare reductions, head running (running your buses just ahead of the competition), and, on occasions free buses. According to Mackie and Preston (1996: 52) a 'high degree of instability resulted with(sic), and by autumn 1983, the average revenues on two competed routes only half of NBC's average cost per vehicle mile.

The disapproval of the County Council brought an end to the free buses, but uneconomic fares were continued, as well as simultaneous departures on some routes.

In January 1984 MRW added five vehicles to its Hereford fleet, and ran them just ahead of its competitor's services and at the same time increased its flat fare to 15p an increase of 50 per cent. One operator increased its fare to the same amount but another operator maintained the fare at 10p on two routes.

Mackie and Preston (1996: 52) identified another problem with the city of Hereford Trial Area, this was that the estates within the city were mostly developed away from the main roads, so that the inter-urban and rural routes were somewhat isolated from the town routes. The interaction between commercial and tendered routes did not really arise in the trial area.

2.4.7 The 1982 Transport Act. This Act had three main objectives and the one relating to the transport sector was to reduce further the involvement of the state. This was to be achieved by selling off parts of the National Bus Company. It also had four other important features:

1. to limit subsidies up to a level which the guidelines would set down; up to this level subsidies would be legal

2. Transport operators would have to prepare a three-year rolling plan on the level of services, fares and capital spending
3. to put services provided by the operators out to tender from the private sector - from buffets at bus stations, to cleaning
4 It changed the constitutional relationship between operators, councils and Government. The operators used to report directly to councils. Under the Bill the Government would have certain direct links with the operator

2.4.8 The 1984 White Paper. In 1984 the Conservative Government published a White Paper 'Buses' which outlined its further thinking on the future of the bus and coach industry in the United Kingdom. The drive behind the White Paper was in part due to what the Government saw as the success of the introduction of competition into the express coaching market. However, the market for the express coach - see 2.4.3 - is a predominately leisure market. The underlying assumption of the White Paper would appear to have been, what worked in one market could also work in another, although different, type of market.

Some of the objectives of the policy proposals along with the relevant chapters or paragraphs in the White Paper are listed below:

1. Bus services freed from restrictions of competition by abolishing road service licensing through Great Britain - except London (Buses Chapter 4)
2 Local authorities would be able to continue essential bus routes that would have ceased in a free market. They would however, be required to seek competitive tenders for contracts to run bus services that they wish to subsidise (Buses Paragraphs 3.4-3.8)
3 The concessionary fare scheme would be continued and all operators would be allowed to participate in them on an equal basis (Buses Paragraphs 3.9-3.10)
4 The Government was determined to foster public transport in the rural areas (Buses Paragraphs 3.11-3.13)

However the White Paper also stated that 'It is generally agreed that this industry does not show economies of scale' (Department of Transport 1984: 15). Therefore the needs of the customer would be best served by creating locally-based companies with managers operating close to the market place (Mackie & Preston 1996:190).

The White Paper (Department of Transport 1984: 15) also argued that elements of the operation that might have developed more efficiently as separate units had been integrated into single organisations. According to the White Paper, a public sector bus company could have owned and run a bus station, had engineering, computing and office services. This had

tended to impose very large overheads and the development of policies and standards for the whole organisation that have may fitted ill with local circumstances or operational needs.

It went on to argue that it was not evident that the industry had to be dominated by large scale and integrated operations, they were not necessary or even efficient. Or that such an industrial structure would meet the needs of the consumer for a great variety of local journeys at the price they would be prepared to pay for them.

2.4.9 Structure of Market Prior to Deregulation. In 1983 there were approximate 68,000 buses and coaches operating in Great Britain, some 38,000 of these vehicles were publicly owned; private operators owned the remainder. There were four sectors in the industry: passenger transport executives, municipal, nationalised and the private sector. The structure of the bus fleets are given in Table 2.9.

	Number of Buses	
Operator		% of Total
National Bus Company	14,600	21.5
Scottish Bus Group	3,100	4.6
London Transport Executive	5,600	8.2
Passenger Transport Executive	9,600	7.8
Municipal	5,300	14.1
Private Operators[(E)]	30,000	44.1
All Operators	68,000	100.0

Table 2.9 Bus Operators in Great Britain 1983.
Source: Department of Transport 1984: 27 [(E)] = Estimate

The Passenger Transport Executives were responsible for the provision of passenger transport services in the English metropolitan counties and the Strathclyde Region of Scotland, although some bus services were provided in the PTE areas by subsidiaries of the NBC.

Certain district councils operated the municipal undertakings whose powers to operate services derived from local acts passed before 1930. There were 49 Councils - 37 English, 9 Welsh and 3 Scottish. The nationalised sector comprised of the NBC and the SBG that operated in both urban and rural areas. These two groups provided over 75 per cent of stage bus services in rural areas throughout Great Britain in 1983.

The overall market was in decline. Between 1953 and 1983 bus and coach passenger kilometres had halved and its share of the total travel market had declined from 42 per cent to 8 per cent. Between 1974 and 1983 25.3 per cent of this decline took place - see Table 2.10- the largest declines were experienced by National Express and the Municipal bus companies, followed closely by London Regional transport.

Operator	% Change
LRT	26.1
PTE	22.3
Municipal	29.2
National Bus Company	34.7
Scottish Bus Company	19.2
Private	0.0
All Operators	25.3

Table 2.10 : Percentage Change in Passenger Journeys between 1974-83. Source: Transport Statistics of Great Britain 1974-1984 2.30

Type of operator	Stage	Express	Excursion and tours	Contract	Private Hire	All Services
London	19.6		3.0		0.5	17.6
PTE	32.3			2.9	2.0	28.3
Municipal	15.1			2.4	3.0	13.8
NBC	25.2	70.6	15.2	8.4	4.9	23.6
SBG	5.5	5.9		3.1	1.5	5.2
Private	3.3	23.5	78.8	83.5	88.2	11.5

Table 2.11 Percentage of Passenger Journey by Service and Type of Operator in 1983. Source: Transport Statistics of Great Britain 1974-1984 2.12

Type of operator	Stage	Express	Excursion and tours	Contract	Private Hire	All Services
London	12.4		0.8		0.2	8.0
PTE	22.2			1.3	0.8	14.6
Municipal	10.4	0.7	0.8	0.9	1.1	7.0
NBC	38.6	63.8	10.1	4.8	1.7	29.3
SBG	8.0	10.9	1.7	2.4	0.6	6.1
Private	8.4	23.9	86.6	90.6	91.7	35.1

Table 2.12 Percentage of Passenger Journeys by Vehicle Kilometres and Type of Operator in 1983. Source: Transport Statistics of Great Britain 1973-1983 2.12

If we examine the number of passenger journeys by type of operator and service - Table 2.11- we see a clear divide between the then private and public sectors. The public sector firms were dominant in stage and express services while the private sector firms were dominant in excursions and tours, contracts and private hire, although this sector only accounted for approximately 11 per cent of all passenger journeys in the UK - see Table 2.11

Examination of Table 2.12 shows that the private sector had the largest percentage of vehicle kilometres. This reflects the area in which they were dominant eg excursions, contract hire and private hire.

2.4.10 Conduct and the Problem of Peak Loading. Devine et al (1988: 428) described the pricing policy in the bus industry at that time as being fairly conservative in its attitude. The pricing structure was uniform throughout large sectors of an operators network, and any variation would normally come about with the distance the consumer traveled. There were however considerable variations in costs among individual services and between peak and off-peak periods. The peak problem is similar to that of the electricity supply industry; that is, the demand levels vary over time, and output cannot be stored, therefore capacity must be enough to meet peak demand.

The cost of providing a bus service varies according to demand as well as the physical characteristics of the routes and the relevant population densities. Also the cost of producing peak period bus services are greater than they are for off-peak services. This is because the extra services required to meet peak demand cannot be stored, and must be supplied with extra vehicles when required. According to Hibbs (1975: 113) all forms of transport are characterised by the extreme perishability of the product (a factor that they share with other trades and professions). Seat miles produced and not sold perish in the moment of production; they cannot be stored.

It is this that makes the problem of peak demand so difficult to handle, and is complicated by the fact that peak demand is almost always in one direction, into a city/town centre in the morning, and out of the centre in the afternoon. So despite the overloading of vehicles at peak times in one direction, the average load in the peak may be no better than it is at times when total demand is relatively low, but is two way. For example people on shopping trips using

buses outside of the peak, going in and out of the city/town centre between the peak periods. Yet the normal practice through the industry was to arrive at fares from a standard rate per mile. One reason for this was that it was easier for the operator to obtain permission from the Traffic Commissioners for a general fare rise.

Devine et al (1988: 429) has argued that few attempts have been made by the bus industry to reflect the higher marginal costs of peak travel in higher prices, with the aim of covering the long-run marginal cost of meeting peak demand from peak revenue and/or of encouraging passengers to shift from peak to off-peak. Also, no account has been taken of the fact that the original price was probably well above off-peak marginal cost, and that the reduction could be justified on welfare grounds.

As W Vickery has observed, rational pricing policy may 'come into ... violent conflict with popular notions of equity.' Thus as he remarks, '... it is clear that on marginal cost principles transit fares should be substantially higher during rush hours than during off-peak hours. Yet a proposal of this sort is likely to be considered inequitable by many if not most of the lay population' (Hibbs 1975: 129). The major source of disputes with passengers in the bus industry is over fares, and it may well be that bus operators do not want to increase the potential for disputes by having different fares at different times on the same route. Which may be one reason why they have not introduced pricing structures like the railway companies, who operate peak pricing policies, especially on commuter routes into London.

In the 1984 White Paper, (Buses: 66-67), the Government argued that the main difficulties arise in attempting to allocate costs by time of day, in particular in assessing the costs of supplying peak services. Most cost allocation methods load the peak heavily on the grounds that total capacity is largely determined by the need to meet demand at these periods. Hence the bulk of overhead costs, including engineering and maintenance costs were attributed to the peaks. In the absence of part-time manning the level of peak operations also determines the number of full-time crews employed.

This perceived problem of peak loading and the surpluses generated by the services run between the morning and afternoon peaks were used to subsidise other unprofitable operations. The Buses White Paper (1984: 67) argued that a study of bus services in and around Taunton in 1978 concluded that internally generated surpluses, mostly from inter-

urban and inter-peak services, dominated external subsidy as the means of support of unremunerative operations.

The generation of these surpluses or monopoly profits meant that some consumers were subsidising other consumers and this resulted in a misallocation of resources. These monopoly profits allowed the incumbent financial power that could influence the structure of the market over and above those already given to it by the Road Service Licence.

It was argued by Nash (1993: 1042) that the financial power of the area-wide monopolies was such that they could generally drive away any potential entrant. Also in a regulated and subsidised environment costs were expected to be higher as there is less pressure to restrict them.

Nash (1993: 1043) also believed that the use of cross subsidies had hastened the decline of the industry because of these higher fares, and low service levels on the densely used routes that formed the core business of the industry. He believed that this favoured the better off rural and suburban dweller at the expense of the poorer inner city dweller.

The 1980 NBC Annual Report saw the use of cross-subsidies in a different light 'Following the abandonment of quality licensing for express services and longer tours and excursions, 11.2 per cent of the companies' revenue in 1980 came from deregulated services which had no support whatsoever, but whose contribution was important in sustaining loss-making stage carriage services' (Birks et al 1980: 127). But the objective of the 1985 Act was to clearly establish the social needs that the Government were prepared to support and provide at minimum cost to the public purse by putting them out to competitive tender. Any subsidies paid were to be specific and transparent - see Ridley 1989: 19.

Stage carriage did offer the potential for operators to make a profit in urban areas, and on many inter-urban routes there were profitable services. However, Kivington (1983: 37) argued that many of the routes were not operated at maximum profits. This was due to the use standardised fares and the maintenance of services on Sunday, evenings, etc., for social rather than economic reasons.

Between 1980 and 1983 developments in competition in the stage carriage sector had been few and far between. The introduction of competition into the express coach sector had little or no impact on the stage carriage sector, even though the procedure for obtaining Road Service Licences had been considerably relaxed. The reason for this, especially in the case of the small operator, may well have been the fear of retaliation by larger operators. It may well have been that the fear of retaliation affected even the largest municipal and national bus operators.

Another reason for the lack of competition could have been due to the co-ordinating duties of the county councils. The acceptance of a subsidy by an operator gives an inevitable control to the local authority. 'The latter can clearly influence, overtly or otherwise, the actions of the former' (Kilvington 1983: 37).

Also during this period at many traffic courts, the evidence from the county council had been crucial to the outcome. Kilvington (1983: 37) believed that most of the county councils argued against new entrants/services of a competitive nature because of the likely 'knock on effects' on the overall, cross-subsidised network.

From the Governments point of view, it thought that competition was being frustrated in this sector, despite some relaxation of regulation.

2.4.11 Possibility of Labour Efficiency Gains. As the White Paper pointed out (Department of Transport 1984: 36) the bus industry is labour intensive and wages accounted for as much as two-thirds of the total costs for the main public sector operators. It is inevitable in an industry like the bus industry where the largest single cost is labour, that the main focus would be on reducing unit labour costs. The employees' earnings, add-on costs and labour productivity determine this. The Government suggested 'that the private operators used their labour more flexibly, thus reducing costs' (Department of Transport 1984: 62).

The Government also believed that major improvements in efficiency were possible with deregulation, given the right pressures to identify and secure them. In the White Paper (1984: 16) it cited the Hereford Trial Area where the management Midland Red negotiated changes in the national agreements which led to an improvement in productivity of 25 to 30 per cent. Competition was seen as the only way to secure and sustain these efficiency gains

2.5 The Privatisation of the Industry

2.5.0 Introduction. In this section of the chapter we will examine the various privatisations which took place within the industry. We start with the sale of the NBC and the subsequent re-oligopolisation of these companies.

2.5.1 Sale of the National Bus Company. Following on from the publication of the Buses White Paper, the 1985 Transport Act was passed which deregulated local bus services in the UK - except those in London. Although the 1982 Transport Act had provided for the privatisation of parts of the NBC it was under the provisions of the 1985 Transport Act that the NBCs operations were to be transferred to the private sector as free standing companies. The Government also wanted to encourage participation by existing employees in these new companies, including bids from staff for the units in which they worked. This would not preclude other purchasers from bidding for these companies. The disposal programme was to be completed within three years.

Prior to the publication of the Act discussions had taken place about the future of the NBC, 'a management led buy out of the entire company along the same lines of the successful National Freight Corporation buy out in 1982 was being canvassed, particularly by chief executive, Robert Brook' (Mackie and Preston 1996: 56).

The driving force behind the splitting up of the NBC into these small free-standing units was perceived to be the then Secretary of State for Transport Nicholas Ridley, who in the end came out in favour of 'on the road' competition - see Ridley, 1989: 19.

The NBC was perceived to be too large and would start from too strong a financial base to ensure 'fair competition'. According to Mackie and Preston (1996: 56) the NBCs proposal for privatisation *en bloc*, which might have been acceptable in a regulated environment, was not consistent with deregulation.

Yet according to Fisher (1986) there was no reason to split up NBC if other far-flung organisations were not to have the same treatment. Associated British Ports (ABP) for example, which runs 19 ports, was privatised as a single company. "If the argument for breaking up NBC is valid then its equally valid for breaking up the British Airports Authority

or British Airways. If it's not valid for those, then it is not valid for NBC." It should be remembered that Ridley had taken over from Tom King as Minister of Transport, and King was not seen as belonging to the radical wing of the Government. So the change in policy may have had more to do with ministerial whim, rather than a consistent policy objective.

2.5.2 Structure of the Industry. Prior to deregulation according to Booth (1997: 17) more than one out of every two buses in Britain was in public ownership, with 49 local authority-owned undertakings, seven PTEs, London Transport, the 72 NBC subsidiaries, and the 11 SGB subsidiaries. Between them these organisations owned some 38,000 of Britain's 68,000 buses and coaches.

The consolidation of the industry after deregulation has been divided into two stages, the first stage took place between 1988-1991, and the second from 1993 onwards. The deregulation process created an unstable environment that was further complicated by the privatisation of the NBC and the organisational changes to subsidiaries as part of this process. It has been suggested that there were two problems with this:

- 'It created a large number of smaller bus companies, with no sustained or established trading record, with new managing directors having limited experience of such appointments. These people were then expected, within months (or some cases weeks), to lead bids for the privatisation of their company. With hindsight, it is miraculous that all managed to remain in business. Ironically enough, the only ex NBC to have gone into receivership since privatisation, National Welsh, was not affected by the break-up policy.

- It left other companies with central works and other overhead structures much too large for their remaining operations.' (TAS 1997: F4)

2.5.3 Weakness of ex-NBC Subsidiaries. The Government policy of splitting up the NBC according to the TAS Partnership went against the historical nature of the industry. The privatisation structure, which was forced on the ex NBC subsidiaries, created a large number of unstable units, some of which had been taken over even before the privatisation process had been completed.

This resulted in the creation of several groups of companies, originating from management buy outs (MBO) of NBC subsidiaries which had been successful from the early days of privatisation and had taken over these unsuccessful MBOs. Other unsuccessful MBOs were taken over by 'outsiders' from this latter process came Stagecoach Holdings and Drawlane

(later British Bus, now part of the Arriva Group). From the former process came groups such as Badgerline, Caldaire and Western Travel - see TAS 1997: F4.

According to the Transport Committee (1995-96 Volume I : xvi) by 1989 most of the unstable units had been sold and all but 14 of the 72 companies into which NBC was split had became part of one of five larger groups.

2.5.4 The ex-PTE. The seven Passenger Transport Authorities were required to establish arms- length wholly owned subsidiaries in 1986 to carry out the bus operations carried out by the PTEs. These companies remained as single units, with the exception of Greater Manchester Buses which was split into two.

Privatised	Company	Original Sold to	Year	Sold on to
May 1989	Busways Travel Services Ltd	Management and Employees	1994	Stagecoach Holdings plc
Mar 1994	Greater Manchester Buses North	Management	Apr 1996	FirstBus plc
Mar 1994	Greater Manchester Buses South	Management and Employees	Feb 1996	Stagecoach Holdings plc
Nov 1993	Mainline Group Limited	Employees		20% of equity owned by FirstGroup - Remaining 80% brought Jul 1998
Dec 1992	MTL Trust Holding Ltd	Employees		No change
Feb 1993	Srathclyde Buses Ltd	Management and Employees	Jun 1993	FirstBus plc
1991	West Midlands Travel	Employees	Apr 1995	Merged with National Express
Oct 1988	Yorkshire Rider Ltd	Management and Employees	Apr 1994	Badgerline Group (now FirstBus)

Table: 2.13: Privatisation of Passenger Transport Executive Bus Companies
Source: Adapted from TAS 1999: Page FA-4

According to Batchelor (8 Jan 1994: 4) the governments' intention was to free them from local political interference and the constraint of public spending limits. All of these subsidiaries were sold to management or management and employee buy outs.

A number of the former PTE operators lost market share due to competition mainly from new entrants and from former NBC and STG operators and neighbouring ex-PTE operators. Only in West Yorkshire and in the West Midlands did the strength and strong response of these companies enable them to retain, in large measure, the market share they enjoyed in October

1986. The ability to retain share may have been linked in part to the quality of the management in the particular firms.

These companies also faced the difficulties, while being in public ownership, of achieving similar cost reductions that were being achieved in the private sector. The result was that some of the companies incurred substantial trading losses while at the same time having to deal with restructuring costs. This resulted in the operations being less stable than their size and asset base would have implied. As a result of this instability by February 1996 only one of the former PTE operations was still owned by the original management - see Table 2.13.

2.5.5 The Municipal Sector. Like the PTEs local authorities were required to establish their bus operations as 'arms-length' wholly owned companies by October 1986. This was an attempt to commercialise their operations but not to privatise them in the first instance. According to Moore (1993: 42) by placing the political control "at arm's length" and ridding the municipal operator of entanglement with local authority bureaucracy and attitudes, a very effective means of managing public assets has been created. Unlike nationalised organisations, there is a sense of local ownership in the municipal company, the coat of arms symbolising that local connection.

After deregulation many of these companies were vulnerable to competition. Their environment had changed dramatically. TAS (1997: F-7) has argued that the protection of joint agreements and co-ordinated, subsidised networks was removed, but the companies could not expand without inviting retaliation from their ex-NBC or Scottish Transport Group (STG) neighbours. At the same time, their own networks were open to competitive attack from those neighbours, as well as new entrants to the market. Since 1986 eight local authority owned companies have ceased trading.

Until 1986, local authorities were free to dispose of bus operations as they wished and there were sales of these undertakings prior to 1986. Since 1986 twenty-one local authority companies have been sold, in many cases originally to management or management and employee buyouts - see Table 2.14.

The reason why so many companies have been taken-over is diverse. Partly it was due to company's management, which were faced with a change in the organisational culture, and

having to operate in a high competitive commercial environment. Five local authority operations did not survive for various reasons and either went into receivership or were wound up.

Privatised	Company	Purchaser	Date	Sold on to
May 1989	Barrow	Ribble	Company ceased trading	
Dec 1993	Brighton Transport Ltd	Management and Employees	Jul 1997	Go-Ahead Group plc
	Burnley & Pendle Transport Co Ltd	Burnley & Pendle Council	Sep 1996	Stagecoach Holding plc
Mar 1989	Chesterfield Transport Ltd	Management and Employees	Jul 1995	Stagecoach Holdings plc
May 1991	Cleveland Transit Ltd	Management and Employees	Nov 1994	Stagecoach Holdings plc
	Colchester Borough Transport Ltd	Colchester Council	Dec 1993	British Bus
	Cynon Valley	Western Travel	Aug 1992	Brought from receivers to form Aberdare Bus Company
	Darlington		Nov 1994	Ceased trading
Aug 1989	Derby City Transport Ltd	Management and Employees	Jul 1994	BritishBus (Cowie Group)
Dec1993	Fylde Transport Ltd	Management	May 1994	Blackpool Transport Services Ltd
Jan 1989	Grampian Regional Transport Ltd	Management and Employees	Jun 1995	GTR merged with Badgerline to form FirstBus plc
	Great Yarmouth Transport	Great Yarmouth Council	Sep 1996	FirstBus plc
	Grimsby-Cleethropes Transport Co Ltd	Grimsby-Cleethropes Council	Oct 1993	Stagecoach Holding plc
Jun 1993	Hartlepool Transport	Management and Employees	Dec 1994	Stagecoach Holdings plc
	Hyndburn Transport Ltd	Hyndburn Council	Sep 1996	Stagecoach Holding plc
1986	Ipswich Buses	Ipswich Borough Council	Nov 1994	17% equity stake By GRT Bus Group
Dec 1993	Kingston upon Hull Transport Ltd	Employees & Cleveland Transport	Nov 1994	Stagecoach Holdings plc
	Lancaster		Aug 1993	Ceased trading
	Leicester Citybus Ltd	Leicester City Council	Dec 1993	GTR Bus Group (now FirstBus)
Nov 1991	Lincoln City Transport Ltd	Employees & Deby City Transport	Jul 1993	The Yorkshire Traction Company Ltd
	Maidstone		May 1993	Ceased trading
	Merthyr Tydfil		Aug 1989	Ceased trading
	Northampton Transport Ltd	Northampton City Council	Sep 1993	GTR Bus Group) (GRT now FirstGroup)
Jun 1986	Portsmouth Transport Ltd	Employees & Southampton City Transport	Jun 1997	Stagecoach then Transit Holding now FirstHampshire
	Preston Bus Limited	Preston Council	Mar 1993	Employees
	Rhymney Valley	National Welsh	Mar 1989	National Welsh went backrupt
Dec 1993	Southampton City Transport Co Ltd	Management and Employees	Jun 1997	FirstBus plc
1986	Southend Transport Ltd	Southend Council	Jun 1993	British Bus (Cowie Group)
1991	Tayside Public Transport	Management and Employees	Mar 1997	National Express Group

Table: 2.14 Privatisation of Local Authority Owned Bus Companies.
Source: Adapted from TAS 1999: FA-2-3

There were 51 arms-length companies originally established, ten of these were sold on to management and employee buy-outs. Nine of these were sold to operators in the private sector with only Preston Bus still being owned by its management and employees. One other notable exception was Fylde Transport which sold the majority holding to Blackpool Transport in May 1994, and this returned the company to public ownership. This is the only time this has happened in the industry.

From the Table 2.14 we can see that 13 of the 21 local authority companies were sold in 1993. This according to Batchelor (1994: 4) was brought about by a change in the rules governing their finances. Local authorities up and down the country had been racing to sell off their bus companies before the end of 1993. From January 1 1994 local authorities were required to devote half the proceeds of assets sales to paying off debt. Before, they could spend the money where they liked. It is possible that all these sales may not have happened without considerable political pressure from the Government. 'South Yorkshire Passenger Transport Authority yesterday announced the sale of Mainline Group, its bus company, to an employee buy-out but complained it had been done under pressure from the government. Mr Jack Meredith, chairman, said: The authority has fought long and hard for several years to keep Mainline a publicly owned company but ever increasing government pressure has forced our hand' (Financial Times 1993b).

In contrast to the privatisation of the NBC, the privatisation of the local authority owned operations has been a gradual process. This may have been due, in part to the political opposition of some Labour controlled councils. Also as TAS (1997: F-8) have pointed out, the Conservative Government did not take powers in the 1985 Transport Act to force local authorities to sell their bus companies, and had to resort to exhortation and limited financial incentives to encourage privatisation. This gradual process may also have been influenced by the difficult trading conditions in and outside of the industry. According to Mackie and Preston (1996:74) in particular, high interest rates have acted as a dampener on privatisation and take-over activity in the late 1980s and early 1990s. According to TAS (1999: F-7) in 1998 15 companies still remained in local authority ownership.

In 1992 the Government severely damaged its objective of encouraging the sale of these companies to their management and employees by withdrawing the concession that operators could be sold by single-bidder sales - especially since the level of proceeds realised from

those municipal sales which had gone ahead was subject to the scrutiny of the District Auditor - see TAS 1997: F-8. The privatisation process 'in future except in "exceptional circumstances" would be by the competitive tender' (TAS 1999: F-7).

2.5.6 The Scottish Transport Group. Prior to privatisation the STG had made considerable changes to its structure, creating a number of subsidiaries broadly in line geographically with the Scottish Regional Councils which came into existence in 1974. The Government acquired powers to privatise the STG in 1989. The sell-of process was similar to the NBC sale, with each subsidiary being offered for tender Table 2.15 gives the outcome of this privatisation.

In 1991 the privatisation process was completed and as can be seen from the Table 2.15 there were major changes in ownership. Only one company Highland and Scottish remained in independent ownership.

2.5.7 The Sale of London Transport's Bus Operating Companies. London Transport (LT) was established in 1984 as a public corporation directly accountable to the Secretary of State for Transport with 13 operating subsidiaries. This transferred the control of LT from the Greater London Council.

In December 1992 when the Department of Transport (DoT) announced the sale, they expected LT to sell the companies into a market based on contracts with privatised companies (and other operators) for all of London Transport's bus routes. This was expected to operate briefly, enabling purchasers to obtain experience of managing the newly privatised companies and their routes before deregulation - National Audit Office 1995: p6.

The privatisation of LT bus operating companies was different from the previous privatisations because the market had not been deregulated. This meant that LT had to put all its bus routes onto a contractual basis, including the extension of the existing competitive programme for LT bus routes, which had started in 1985 - see also 4.3.

The decision to postpone the deregulation of London's bus services was confirmed by the Government in November 1993. This postponement appears to have been for solely for political reasons. According to the Financial Times (1993b), the reason for withdrawing the

plans would have been the desire of some ministers - believed to include Mr John Major - to get rid of controversial issues from a programme that was supposed to unite the Conservative party.

Privatised	Company	Purchaser	date	Sold on to
Mar 91	Bluebird Buses	Stagecoach Holding plc		
Oct 91	Clydeside Buses Ltd(part of Western Scottish)	Management & Employees (17% Luton & District)	Nov 94	Luton & District Purchased remaining share - taken over by British Bus (Cowie Group)
Oct 90	Eastern Scottish Omnibuses Ltd	Management & Employees	Sep 94	GRT (now FirstGroup)
Jul 91	Fife Scottish Omnibus Ltd	Stagecoach Holding plc		
Aug 91	Highland Scottish Omnibuses Ltd	Rapsons /Scottish Citylink (Clansman)	Oct 95	Highland Bus & Coach Company (Rapsons sold out)
Feb 92	Kelvin Central Buses Ltd	Management & Employees	Aug 94	SB Holdings Ltd (now FirstBus plc)
Aug 90	Lowland Omnibus Ltd	Management & Employees	Autumn 94	GRT Bus Group (now FirstBus plc)
Sep 90	Midland Bluebird Ltd			GRT Bus Group (now FirstBus plc)
Jun 91	Strathtay Scottish Omnibuses Ltd			The Yorkshire Traction Ltd
Oct 91	Western Scottish	Management & Employees	Jun 94	Stagecoach Holding plc

Table 2.15: The Sale of the Scottish Transport Group with outcomes.
Source: adapted From TAS 1997 FA-5

The DoT then had to reconsider the LT post-sale regulatory role. According to the National Audit Office (1995: 6) the decision required the creation of a long-term contract-tendering regime. The Department aimed to promote sustained and fair competition after the sales, by building on London Transport's competitive tendering programme for route contracts.

In 1985 LT had introduced a system of gross cost tendering for a specific route, with the revenue accruing directly to LT. Under this system an entire service was put out to competitive tender. Both LT subsidiaries and other operators were able to bid. By March 1993 LT had put all its untendered routes, about 43 per cent of the network, on a contractual basis, and about half of these had been gained by LT owned subsidiaries.

In April 1993, according to the Chartered Institute of Transport (1994: 7), the remaining 'block grant' routes operated directly by LT's own subsidiaries were placed on a negotiated

net cost contract, where the operator took the revenue risk. By 1994, following some further tendering on specific routes, about 50 per cent of the bus-kilometres were run on a gross cost basis and the other 50 per cent on a net cost basis.

The London bus market was substantially different from the rest of Great Britain. Outside of London, 85 per cent of the bus-kilometres were provided commercially without any specific subsidy. This may have played a part in producing results in London which were substantially different from the rest of the country.

The privatisation process began in 1992 with the sale of London Coaches - London's largest sightseeing bus operator - to its management. The ten bus operating companies were privatised between September 1994 and January 1995.

Like previous privatisations within the industry, management and employees were to be given the opportunity to purchase their own companies. However, according to the National Audit Office (1995: 14) ministers considered that without experience of management in the private sector, management and employees might find greater difficulty than private sector bidders in raising finance, and be discouraged by the financial commitment involved in preparing the bid. They therefore agreed that London Transport should offer management and employees a limited price preference in the sale, and financial support to encourage them to bid. When the sale was completed, four of the companies were management and employee buy-outs.

The London bus market has not been immune from the consolidation process, with the larger groups or companies buying up smaller competitors since privatisation. As TAS (1997: F-13) has pointed out, the sale of London General by its management to the Go-Ahead Group in June 1996 marked the first consolidation of ownership of the former LBL subsidiaries, yielding a substantial profit for both managers and, more critically, their City backers. By 1998 three of these companies have been taken over, only Metroline Travel remains independent - see Table 2.16 - although in the summer of 1997 Metroline Travel was successfully floated on the stock exchange. The floatation valued the company at about £35m; the privatisation proceeds were £20m in Oct 1994. In August 1998 MTL Trust Holdings sold London Northern to Metroline plc for £41.8m including debt.

Privatised	Company	Sold to	Date	Sold on to
Aug 94	Centre West London Buses Ltd	Management & Employees	Feb 97	FirstGroup plc
Sep 94	East London Bus & Coach Company	Stagecoach plc		
Sep 94	Leaside Bus Company Ltd	Cowie Group plc (now Arriva)		
Sep 94	London Central Bus Co Ltd	Go-Ahead Group Ltd		
Nov 94	London General Transport Services Ltd	Management & Employees	Jun 96	Go-Ahead Group Ltd
Nov 94	London Northern Limited	MTL Trust Holdings		
Nov 94	London United Busways Ltd	Management & Employees	Aug 97	Transdev (French transport operator)
Oct 94	Metroline Travel Ltd	Management & Employees	Sum 97	Floated on stock market
Sep 94	South East London & Kent Bus Co Ltd	Stagecoach plc		
Jan 95	South London Transport Ltd	Cowie Group plc		
Jan 94	Stanwell Buses Ltd	Management & Employees	Sep 95	London United Busways Ltd Aug 97

Table 2.16 The Sale of the London Buses Subsidiaries 1988-1998 with outcomes. Source: adapted From TAS 1997 FA-2

The independent London operators have not been immune from this consolidation process either. In 1998 'FirstGroup acquired Capital City Bus - one of the largest independent contractors - from its management' (TAS 1999: F-13).

2.5.8 A Natural Oligopoly? After the privatisation of the industry as Robbins (1989: 11) has pointed out 'there was nothing to prevent a 1930s style wave of takeovers and mergers to form a new group of operators', allowing 'the industry to find its own optimal level of concentration? This could well have been the case and would be in line with the advice they would have been receiving from leading economists who had the ear of government' (Langridge and Sealey 2000: 113).

> 'When in doubt smaller rather than larger successor companies should be created, and allowed to merge thereafter...'(Beasley and Littlechild 1997: 30).

'Ironically, the outcome for the industry, in terms of its structure, is similar to NBC's own management proposals for privatisation at the time of deregulation' (Langridge and Sealey 2000: 114).

2.6 Type of market

2.6.0 Introduction. In this section we will attempt to identify the type of market operating in the industry at the time of its privatisation and deregulation.

2.6.1 A Contestable Market. One of the central hypotheses of the Buses White Paper was that the bus market was believed to be "highly contestable" or "partially contestable" once the primary barrier of restricted entry was removed. The Confederation of Passenger Transport (CPT) in evidence to the Transport Committee believed that the public transport market was shown to be partially contestable. Both incumbents and entrants face risks and opportunities, and each has the potential to take actions which could reduce or increase the degree of contestability (Transport Committee Minutes of Evidence 1995: 135).

2.6.2 Two Types of Market. The 'White Paper thought that there would be two types of market within the industry, one of which involved heavily used routes (the commercial sector) and the other which had less heavily-used unprofitable routes (the subsidised sector). But for both types of markets, although they were considerably different, contestability would bring about the competitive solution' (Langridge and Sealey 2000: 109).

The commercial sector market was one that had routes with a frequent service, intending passengers did not necessarily need to know the timetable to arrange their journeys. Knowing that buses run frequently means that waiting times will be short and they can catch the next available bus. It was argued by the White Paper (Department of Transport 1984: 52) that this was the kind of route on which, in the absence of quantity regulation, competition on the ground was likely to develop. It was thought that there would be opportunities for several operators to survive. Also, with deregulation, much of the competition would take the form

of new types of services. For that reason, the total market should have expanded and on many services fares would fall. However none of these predictions were consistent with a highly contestable market. Contestability would have been consistent with little, or no, change in the incumbents level of service, as long as it earned only normal profits' (Langridge and Sealey 2000: 111).

The subsidised sector involved less heavily used routes, which had totally free entry - and therefore totally free exit according to the theory of perfectly contestable markets - see 1.3 - it was argued that on these routes, the intending travellers would benefit from a number of different outcomes:

1. Operators offering different types of services and the market would become differentiated.

2. Operators would withdraw from the market if there was not sufficient demand for their services.

3. If there were enough demand to support more than one operator with the same kind of service, they would usually agree to co-ordinate their services (subject to the provisions of the Restrictive Trade Practices Act).

Although, one and two conform to the principles of contestability, three is a standard neo-classical analysis of an imperfect market.

The White Paper (1984: 52) argued that substitution of one operator for another would not be a frequent occurrence once the market had settled down after deregulation, and there were few reasons in principle for fearing that competition would lead to frequent and unsettling changes in the supply of services. 'The actual degree of competition on the ground - and therefore the amount of change travellers would have to face, would be much less than the potential degree of competition. Consistent with market contestability theory, incumbent operators would be kept up to the mark by the threat of competition' (Langridge and Sealey 2000: 111).

The CPT believed that although deregulation opened up the market to any public service vehicle operator, an existing operator would still have an advantage over a new entrant to the industry through

- knowledge and experience
- resources (staff and experience)
- infrastructure and planning
- reputation

They also believed that entrants would seek to minimise these barriers, for example by:

- entering from a contiguous market in which they had already gained some knowledge and experience which they could use in the new market
- initially entry into the local bus market would be on a small scale and this would be achieved by obtaining local authority contracts (Transport Committee Minutes of Evidence 1995: 135).

2.6.3 Entry into the Market. A bus could be described as a fixed cost with wheels drawing on an analogy by Baumol (1987: 232). If demand in a particular market declines and there is plenty of demand in another market, the operator can simply transfer the bus out of one market into another one. The bus is a fixed cost and constitutes no sunk cost on any particular route, this would allow costless exit from an existing market and costless entry into a new one.

Even if it was not possible for a new firm to enter the industry, there would not be surmountable barriers to entry for an established firm in the industry - see 1.3. This would mean that it would be possible for it to enter a new market if it saw supra-normal profits being made. Therefore, if an incumbent operator believed that another established firm within the industry had reserve or excess capacity, which in the short run might be shifted into their market, this could have the effect of restraining supra-normal profits being made by an incumbent operator. However, as pointed out earlier, the existence of reserve or excess capacity conflicts with the concept of a contestable market.

According to the Buses White Paper (Department of Transport 1984: 51-52) in the bus industry entry costs are low, sunk costs are comparatively small in relation to operating costs and economies of scale are limited. So in the absence of quantity regulation any operator

would know that, in respect of any service they provide, they are liable to challenge from other operators or potential operators who think they can offer better value for money.

However, as we have pointed out earlier, if there is entry into the market, this would mean that contestability had failed - see 1.3 - unless the market demand has increased more than the capacity of the incumbent(s), and new entrants entered to make up the shortfall in supply. Not because they saw the existence of supra normal profits. 'It is the threat of entry that is supposed to ensure that the incumbent is innovative and price responsive as any potential entrant, while still bringing about the competitive solution. If entry occurs, this implies the existence of supra-normal profits, although this has to be qualified, as it could be argued that deregulation was creating a new market and until this market had matured the full effects of contestability would not be seen' (Langridge and Sealey 2000: 111). According to Mackie and Preston (1996: 79) the White Paper assumed that there would be considerable on-the-road-competition, particularly as independent operators that had previously been limited to the express, contracts and excursions and tour markets cross-entered the local (or stage) bus industry and ex-NBC/SBG began to compete with the metropolitan PTCs and Municipal bus companies.

The CPT also argued that deregulation made it possible for companies to enter markets on an experimental basis, from which they could either expand or withdraw. They also argued that on the road experimentation might be quicker and cheaper than theoretical service planning.

In theory, the entry and exit costs are the same for all operators, but this does not take into account that there could be different degrees of entry and especially exit costs in a market. This could depend in part on the type of ownership of a particular operator. A large privately owned company is more likely to have a greater degree of flexibility on whether it enters or exits a particular market. The survival of a large company would not be put in jeopardy by the loss of one service. If it was a small independent firm that withdrew from a particular

market, the implications for it could be greater than for a larger firm, as it also might lose its livelihood.

Also, if an operator was originally established by a council to service a particular area and if it left that market, the initial rationale for its existence would cease and it may have no other market to go to. In this case it would sell its assets - with some element of sunk costs involved due to asymmetry of information - so exit from the market would not be costless. According to the CPT (Transport Committee, Minutes of Evidence 1995: 136), since deregulation, and due in part to the depth of the recession, there has been no shortage of cheap second hand vehicles and this has enabled new firms to enter the industry with ease. However, inadequate enforcement has made entry into the market too cheap, enabling unscrupulous operators to achieve excessively low operating costs. Where this occurred, fair competition is impossible, as quality operator's costs can always be undercut.

2.6.4 Hit and Run Entry. According to evidence given by the CPT to the Transport Select Committee (Transport Committee, Minutes of Evidence 1995: 135) when a bus operator puts on a new commercial service in a competitive market its aim is to make a profit, and they intend this profit to be a continuing one. Firms do not normally start services with the idea of making a quick profit at the expense of the incumbent, and then get out.

The CPT went on to argue that where market entry is of short duration, it is likely that the entrant actually hoped to become a long term player, but was forced out by more effective retaliation than anticipated from the incumbent, and/or because of shortcomings in their own operation. If entry into the market is by a firm which has underestimated the true cost of the scheduled service and set a price below the true market price the incumbent will have no other choice than to compete on price, even though it means the incumbent occurring losses.

Often both incumbent and entrant incur losses during this period of short-lived competition. The "winner" is the operator that can withstand the losses for the longest time. According to

Kay and Thompson (1991: 29) the existence of barriers to entry can give an incumbent a 'longer purse' in a post entry war. The recognition of this by both the entrant and the incumbent means that resisting entry is more likely to be a worthwhile strategy. Sometimes the customer may gain, because innovation is forced upon an incumbent that endures after the end of competition, for example, higher frequencies. This situation contradicts contestability theory, an incumbent is in theory unable to alter its prices in the short run - see 1.5.5. According to the CPT (Transport Committee, Minutes of Evidence 1995: 136) in practice operators do compete on price and alter their prices whenever they wish.

Another possible situation is given - although the CPT gave no example - that if a particular market cannot sustain an additional operator, once the new entrant has withdrawn, the status quo will return.

2.6.5 Conclusions on Contestability. This part of the chapter has tried to show that there is some confusion over the theory of contestable markets. It is generally accepted that a perfect contestable market is unrealistic - see Baumol 1987: 233 - in reality, it is the degree of contestability in a particular market that is important and the policy outcomes that come as a result of that analysis. In regard to the UK bus industry the market is probably not as contestable as the Conservative Government believed.

The last word in this section is left to the White Paper Buses:

> 'Instability, excess provision and deliberate fare cutting below cost occur when only parts of the market are effectively contestable' (Buses 1984: 53).

2.7 Change in Market Structure

2.7.0 Introduction. In this section we will analyse the changes that have taken place in the market structure since the start of the privatisation process using the SCP paradigm..

2.7.1 Overall Changes in Market Structure. Through the privatisation process the bus market has changed from one dominated by the public sector firms, which accounted for 75 per cent of the turnover in 1985 to one dominated by three privately owned groups, who accounted for 52.2 per cent of the market by turnover in 1998 - see table 2.17. However, Bachelor (1994: 4) has argued that floatations and mergers may change the structure of the bus industry but organic growth will depend to a large degree on planning policies that favour public transport.

	Year 1989	Year 1998	Actual Increase
Major Groups			
FirstGroup	3.7	22.4	18.7
Stagecoach Holding	3.9	15.8	11.9
Cowie (Arriva)	3.4	14.0	10.6
Total	11.0	52.2	41.2
Second Tier Groups			
Go-Ahead Group	1.7	6.7	5.0
National Express*	6.0	6.5	0.5
MTL Trust**	2.1	2.2	0.1
Total	1.7	15.4	13.7
Total All Groups	12.7	67.6	54.9
Others			
Smaller Groups	8.1	3.1	-5.0
Employee Owned	1.7	0.3	-1.4
Management Owned	13.8	7.8	-6.0
Publicly Owned	30.4	6.6	-23.8
Scottish Bus Group	5.7	0.0	-5.7
London Transport	15.5	0.0	-15.5
Independent Operators	12.0	14.6	2.6
Total Other Groups	87.2	31.9	-55.3

Table 2.17 Change in Percentage Market Share by Turnover in Bus Industry 1989-1998.
Source: Adapted from Bus Industry Monitor 1999; F-15. *data from 1991 **data from 1993

2.7.2 Conduct. We will now examine what has happened to fares and costs in the industry since deregulation. In the 1984 White Paper the Government argued that one of the factors that had contributed to the decline in public transport use had been the upward trend in real fares. The only exception to this was the PTE sector, where the maintenance of low fares had been a policy objective of the controlling authorities - see Buses 1984: 35. The data for the increase in local bus fares indices for different areas between 1985/86 and 1997/98 is given in Appendix 1 Table 2.

The information to calculate the index is obtained from a panel of bus operators, who account for about 85 per cent of passenger receipts on local bus services. However the index has been criticised for a number of reasons. In the Transport Statistics Report (1997: 50) it is claimed that in theory, the index measures the change in the average charge to the fare-paying passenger. In practice however, changes in the generosity of concessionary fare schemes may not always be included in the fare changes supplied by operators when constructing the price index.

Mackie et al (1995: 240/1) has also argued that the true rise in real fares outside London, may be understated in the official statistics. The reason for this is that bus services consists of a large number of different products which should receive the correct weights when calculating the index. If market conditions are stable, then the inherent errors probably balance out when computing rates of change in the index. However, the last decade has seen unprecedented change in the route structure, affecting the pattern of through services offered and fares paid for given journeys. This is through the availability and price of Travelcards and multi-journey tickets, including operator-specific tickets, and the generosities of concessionary travel arrangements for elderly and children who account for a large proportion of bus travellers.

Bearing these criticisms in mind we will now look at what has happened to the real fare index since 1985/86. Overall in Great Britain, the real fare index has increased by 28.7 per cent over the period. The largest increase - 6.5 per cent - occurred between 85/86 and 86/87 when the full affects of deregulation were coming into effect. The change in fare increases has broadly reflected the pattern of subsidy withdrawal, with large real increases in London and the Metropolitan areas, especially South Yorkshire and Merseyside. In the metropolitan areas the largest increase - 22.6 per cent - occurred between 85/86 and 86/87, following a major reorganisation of local bus services, bringing fares closer to those in the rest of Great Britain. According to Mackie et al 1995 (pp 240/1) in the rest of the country, real fare changes have been much more modest.

The 1984 White paper believed that as a result of deregulation on many services passengers would pay lower fares. The assumption for this may have been in part that competition would induce operators to bring in fares policies that would be based on route pricing. However, in giving evidence to the Transport Committee Brian Souter, Executive Chairman of Stagecoach Holdings stated 'personally I have been disappointed to some extent with (sic) has been that,

as an industry, we have not abandoned network pricing. I thought that with deregulation probably the industry would have moved to route pricing....and I think route pricing would be a good thing because with network pricing we really do not take into account elasticity of demand on a route by route basis' (The Consequences of Bus Deregulation Volume II: 24).

Local Bus Fares	Rail Fares	Motoring Costs
28.6	25.1	1.0

Table 2.18 Percentage Change in Real Passenger Transport Price indices 1985/86 to 1997/98 1995=100
Source: Focus on Public Transport 1999 page 58,

Between 1972 and 1983, stage bus fares rose by over 30 per cent above the rate of inflation, while motoring grew by only 3 per cent and as was stated earlier was considered by the Government a major contributory factor to the decline in passenger usage. At this point it will be useful to look at what has happened to real bus fares compared with other travelling costs since deregulation to see if this trend has been reduced or reversed. Table 2.18 (see Appendix 1 Table 3 for detail) gives the change in real indices for 1985/86 to 1997/98 for local bus fares, rail fares, motoring costs.

Since deregulation bus fares have risen by an average of 2.2 per cent year on year and by 28.6 per cent for the period. This was the largest increase for any of the groups during the period. However, in evidence to the Transport Committee the DoT stated that fares had been rising slightly ahead of general inflation but (apart from the large increases in some of the metropolitan areas as general fare subsidies ended) on a trend similar to that experienced before 1985 (Transport Committee Volume II: 170). A trend which since 1984 had been largely responsible for the decline in bus usage?

It is not surprising then that along with increasing real fares there has been a decline in real passenger receipts between 1985/86 and 1997/98. These fell by 4.8 per cent over the period (see Appendix 1 Table 4 for detail). London was the only area that showed an increase in passenger receipts during the period, an increase of 29.5 per cent. The reasons for this were discussed earlier.

We will now examine what has happened to operating costs since deregulation. In this section we are using costs per vehicle kilometre excluding depreciation. Fuel Duty Rebate,

which is available to operators of local bus services, has been taken into account when calculating the operating costs.

Changes to cost occur through changes in passenger journeys as well as by changes in actual operating costs. Cost reductions have been brought about by a number of factors, including the introduction of driver only buses, mini buses, more flexible wage structures and working practices. There has also been greater investment in new buses and this has brought about reductions in maintenance costs. New, more efficient vehicles have also contributed to these savings.

Table 2.19 shows the percentage change in real operating costs pence per kilometre between 1986/87 and 1997/98 see Appendix 1 Table 6 for details. From the table we can see that there has been a wide difference in the reduction of costs.

London	Metropolitan	Shires	Scotland	Wales	GB
-42.0	-47.9	-34.5	-43.9	-37.7	-40.7

Table 2.19 Percentage Change in Real Operating Costs Pence Per Vehicle Kilometre by Area 1986/87-1997/98 - Including Depreciation

Source: Focus on Public Transport 1999: 77

The cost reduction should have been beneficial to the consumer. However, it has been argued by Mackie et al (1995: 240) that since deregulation the cost savings resulting from deregulation have been wholly swallowed up by subsidy cuts and mileage increases with nothing left over for reductions in fares. Indeed as we have shown real fares increased substantially.

Public Transport Support (PTS) is a term that covers all forms of local authority current expenditure on public transport, but does not include concessionary fare reimbursement. Outside of London, the Passenger Transport Executives and county and regional councils provide this support. It has been called 'public transport support' outside London since deregulation; prior to this it was known as 'revenue support'. 'Costs and local authority subsidies have been reduced but continuing declines in the number of passengers using the buses coupled with increases in route mileage's run has pushed up average costs per passenger' (Batchelor 1994: 4).

Over the period local bus service PTS in Great Britain declined by 68 per cent in real terms (see Appendix 1 Table 7 for detail). Following the implementation of the Transport Act 1985, transport support was targeted towards services not provided commercially, after a competitive tendering process had taken place for these socially necessary services.

London	Metropolitan	Shires	Scotland	Wales	GB
-99.6	-73.0	-43.4	-36.4	-55.0	-72.7

Table 2.20 Percentage Change in Real Passenger Transport Support by Area 1985/86-1997/98. Source: Table A3.6

Table 2.20 shows the Percentage change in real passenger transport support by area 1985/86-1997/98. From the table we can see that London has had the greatest fall in PTS this was due to the change to funding as in London from 1994/95 London Transport internally funded support, with no direct revenue support from central government.

Concessionary fare reimbursement, under 1985 Act local authorities and PTAs were able to provide concessionary fare schemes for elderly people, the disabled and children. The local authorities or the PTEs reimburses the operators for the revenue lost as a result of their participation in the schemes, after taking into account any extra income generated from the extra travel by the scheme. The concessionary fare reimbursement scheme should be seen as a subsidy to the passenger, not to the operator taking part in the scheme.

London	Metropolitan	Shires	Scotland	Wales	GB
0.0	4.0	0.8	-15.9	-6.6	-0.9

Table 2.21 Percentage in Real Concessionary Fares Reimbursement by Area 1985/86-1996/97
Source: Table 5.3 Bus and Coach Statistics Great Britain 1996/97

Over the decade in Great Britain the real expenditure on the concessionary fare reimbursement has remained almost static, showing a 0.9 per cent decrease (see Appendix 1 Table 5 for details). However, there have been substantial variations between the different areas.

2.7.3.1 Performance. The thinking behind the 1985 White Paper and the desired outcome of all the measures proposed by the Government would be to slow or halt the seemingly

inevitable decline in service to the travelling public. They believed that the total market for public transport should expand - see Buses (Department of Transport 1984:25)

London	Metropolitan	Shires	Scotland	Wales	GB
7.8	-39.7	-20.1	-30.4	-20.2	-22.8

Table 2.22 Percentage Change in Passenger Journeys (m) by Area 1985/86-1996/97. Source: Table 2.1 Bus and Coach Statistics Great Britain 1997/98

Table 2.22 gives the changes in passenger journeys by area between 1985/86 and 1996/97. From this table we can see that overall in Great Britain local bus passenger journeys declined by 22.8 per cent - see Appendix 1 Table 8 for details.

The exception to this was London where passenger journeys increased between 1985/86 and 1996/97 by 7.8 per in 1996/97- the reasons for this have already been discussed. However, it was the only area that was still regulated, which may have had some influence on the results. Since 1993/94 passenger journeys increased by 11.2 per cent from 1,117m to 1,242m. The last time there was a significant increase in patronage was by 7 per cent between 1983 and 1984. This coincided with a policy of reductions in fares and a structure based on fare zones - see Bus and Coach Statistics Great Britain 1997: 8.

In contrast, in the English metropolitan areas passenger journeys declined by 39.7 per cent of which 12.5 per cent occurred between 1985/86 and 1986/87. This exceptional may be associated with substantial fare increases and reorganisation of services which took place. The metropolitan areas - even taking into account the exceptional decrease between 1985/86-1986/87 - have lost a greater percentage of passenger journeys than any other area between 1986/87 and 1997/98.

The English shire counties experienced a decline of 20.1 per cent between 1985/86 and 1996/97. In Scotland passenger journeys fell by 30.4 per cent over the period whilst Wales experienced a decrease of 20.2 per cent.

One of the main objectives of the 1985 Transport Act was to increase passenger usage. If patronage had increased it was argued by Nash (1993: 1044) we could have seen the 'Mohring-effect' whereby as patronage and output increase, the quality of service also

increases, and service frequency rises while waiting times falls. This is exactly analogous to a producer economy of scale, except that the benefits of the reduced costs are felt by the consumer.

There is some evidence to support this point of view according to Batchelor (1994: 4) the ingredients for a successful bus operation include an aggressive approach to bus frequencies, often combined with a switch from cumbersome double-deckers to mini or midi buses; improved financial controls and a crackdown on costs.

Although overall bus patronage has continued to decline and some bus operators have blamed the recession for this, others have managed to increase passenger numbers, despite the downturn. Plymouth Citybus, still municipally owned, has increased passenger numbers by 5 per cent a year over the past five years and converted a £400,000 annual subsidy into a pre-tax profit of £1.3m. - see Batchelor 1994: 4.

In evidence to the Transport Committee the Department of Transport believed that the 24 per cent bus mileage increase outside of London since 1985/86 had given passengers more choice. This according to Nash (1993: 1044) was primarily due to a big increase in minibus operators in medium sized towns and cities. They are popular and successful, particularly where they have turned a relatively low frequency service (say half hourly) into a high frequency one (perhaps every ten minutes) and also penetrated housing estates where the conventional bus was confined to the main roads. Although these smaller buses are cheaper to buy, operate and maintain and are nimbler in traffic, according to Batchelor (1994: 4) Badgerline, the quoted Bristol-based operator, has put midi-buses on less travelled routes to allow no opening for competitors.

London	Metropolitan	Shires	Scotland	Wales	GB
32.6	21.9	27.8	29.1	23.2	26.7

Table 2.23 Percentage Change in Local Bus Service Vehicle Kilometres (millions) 1985/86-1997/98. Source: Table 12 Focus on Public Transport 1999 Edition p 62

Table 2.23 gives the changes in vehicle kilometres by area between 1985/96 and 1996/97, overall in Great Britain vehicle kilometres increased by 29.7 over the period - see Appendix 1 Table 9 for details. In the English metropolitan areas the largest year on year increase

occurred, 10.6 per cent from 557 million vehicle kilometres to 616 million vehicle kilometres between 1986/87 and 1987/88. This could be attributed to increased competition in the deregulated environment.

2.7.3.2 Financial Ratios. So far we have concentrated on the outcome of various performance indicators in assessing the performance of the industry since privatisation and deregulation. We will now examine the changes in the performance of 12 former national Bus subsidiaries between 1984 and 1998. In Table 2.24 we give the change in various ratios between 1984 and 1998.

Year	Pre-Tax Profit %	Pre-Tax Profit £000* per Employee	Wages as a % of average Total Cost	Real Average wage £000	Average Employment
1984	6.1	1.1	62.0	16.3	996
1990	8.1	2.5	60.4	15.5	748
1998	9.6	2.5	60.2	14.5	669
Percentage Change					
1984/90	33.1	130.3	-2.7	-4.8	-24.9
1990/98	18.3	-0.7	-0.2	-6.6	-10.6
1984/98	57.4	128.7	-2.9	-11.0	-32.8

Table 2.24 Change in performance of former NBC subsidiaries 1984-1998. * 1998 =100

Between 1984 and 1998 pre-tax profitability increased by 57.4 per cent, the majority of the increase 33.1 per cent occurring between 1984 and 1990. The largest increase in any ratio was the pre-tax profit per employee that increased by 128.7 per cent between 1984 and 1998. However, the largest increased occurred between 1984 and 1990, an increase of 130.3 per cent.

Wages as a percentage of total costs decline by 2.9 per cent from 62.0 per cent to 60.2 per cent. Again the largest decrease occurred between 1984 and 1990, when they declined by 2.7 per cent, only 0.2 per cent of the reduction occurred between 1990 and 1998. However, the real average wage declined by 11.0 over the period, but the largest decrease 6.6 per cent occurred between 1990 and 1998. Average employment fell by 32.8 per cent over the period,

again the largest decline occurred, of the average 327 job reductions, 248 (75.8 per cent) occurred between 1984 and 1990.

These results would tend to indicate that the main effects of privatisation and deregulation took place between 1984 and 1990. Only the rate of decline in the real average wage was greater between 1990 and 1998 than 1984 and 1990. A more detailed discussion on the changes in earnings is undertaken in Chapter 4. However, the re-oliogopolisation of the industry has appeared to have little effect on the financial performance of the industry.

2.8 Conclusions of Chapter

2.8.0 Conclusion. In this chapter we have critically examined using in part the SCP paradigm, the changes that have taken place to the bus and coach industry both in the United States and the UK. From this examination we have seen that there are certain similarities in the outcomes, but for deregulation especially. The opening up of markets to competition, particularly in the UK, resulted in the reduction of trade unions ability to influence the earnings of their members, this is discussed more fully in Chapter 4. One result of the introduction of competition both in the UK and the United States into the bus and coach industry was that labour contracts had to be re-negotiated. This may have been an incidental, but a welcome result of deregulation, for the Government in the United States, but it was an anticipated consequence of deregulation in the UK.

The privatisation of the NBC, as we shall see was substantially different from that of Associated British Ports (ABP) - see 3.3.2.4. The NBC was broken down into the smallest possible units against the wishes of its senior management, while ABP was transferred as a complete entity to the private sector. The reason for this would appear to have more to do with ministerial whim, rather than a consistent application of set policy.

As a result of the privatisation process the structure of the industry in the UK has changed from one being dominated by a publicly owned firm to one which is dominated by three private firms. The process of oligopolisation of the industry took place over a relatively short time period in the 1990s. 'The process of consolidation has been such that, at the time of writing, of over 70 NBC subsidiaries privatised, less than ten retain an existence outside of the major groups' (TAS 1999: F-4).

If we ask if the objectives of the 1984 White Paper have been achieved the answer must be that to some extent they have been. In its evidence to the Transport Committee the DoT believed that most of the objectives of the reforms have been achieved (Minutes of Evidence 1995: 170). Its reply was:

- operating costs have been reduced by 43% per vehicle mile in real terms:
- subsidies paid by local authorities are better targeted and the competitive tendering regime has reduced costs by more than half in real terms
- bus mileage has increased by 24% outside London since 1985/86, giving passengers more choice
- the use of mini and midi buses, is now widespread and many people, especially off main corridors and on outlying housing estates, are now served by buses when previously they were not
- competition still exists both on the road and for local authority contracts although the nature of the competition is changing

However, by 1998 the most important objective of the White Paper to slow or halt the seemingly inevitable decline in service to the travelling public had not been achieved. The DoT, in its evidence to the Transport Committee stated, nevertheless, despite the improvements to services, patronage has continued to decline at a rate very similar to that prevailing before. The causes are basically the growth of car ownership with growing national prosperity (annual mileage travelled per person by bus has remained almost constant for those households without a car and for those with one car), and changes in patterns of living and working.

The deregulation and privatisation process has failed to stop the decline in bus usage, and by itself could not have stopped this decline. As was pointed out earlier, the privatisation and subsequent mergers may change the structure of the bus industry, but the organic growth of passenger numbers will probably depend upon a non-market solution such as planning policies that favour public transport.

In the next chapter we will examine the changes that have taken place in the port industry as a result of the privatisation process.

3 The UK Port Industry: Nationalisation and privatisation

3.1 Introduction

3.1.0 Introduction. This chapter will use the elements of the SCP paradigm to critically analyse what has happened to the UK port industry pre and post privatisation. This chapter will also compare and contrast what occurred in the port industry with what has taken place in the bus and coach industry. This is due to the difference in the cost structures, the port industry having high levels of sunk costs, the existence of which, theoretically at least, should make it a less contestable market.

3.1.1 Different Types of Ownership Around the World. The way in which ports were organised and owned differed around the world in the 1980s. Any type of organisation - public or private - could be involved in providing port facilities, and according to Liu (1995a: 164):

> 'port ownership is not simply a dichotomy between public and private ownership. The allocation of the provision rights, and hence property rights for the infrastructure, superstructure and services among various parties gives rise to different patterns of ownership.'

In the USA they were the responsibility of the state or municipal authorities, although this did not prevent the Federal Government having several important and expensive programmes within them - see Goss 1984: 10.

In Canada, the ports were a federal responsibility, and this was a source of resentment because the provinces and cities had no influence on their management. The situation became so serious that it had to be rectified by statute, which gave powers to create local port corporations. However, they were still ultimately under federal control, but with strong local influences.

Liu (1995a: 169) believed that the UK's approach to port administration had traditionally been less interventionist than many other industrialised nations (for instance, most of Continental Europe). Receiving neither financial assistance nor intervention from the state, public ports in the UK operated in much the same way as private ports. The view which

underlies the port policy of successive UK Governments, whether Conservative or Labour, is that ports should be treated as commercial undertakings whenever appropriate and public control in the port sector should be kept to the minimum. However, the Labour Government in the 1960s was considering nationalising all the UK ports, but abandoned this for political reasons.

According to Goss (1984: 10) in the early 1980s, it appears that, in almost any country except the UK, it was accepted that national, regional and local governments had legitimate interests in seaports. There were very few ports in the early 1980s around the world, which were not controlled in some way by public-sector port authorities. However, there were exceptions, such as Felixstowe in Suffolk and Bernicia on the shores of San Fransico Bay - see Goss 1984: 10.

3.1.2 What is a Port? At this point a question we might like to ask is what is a port? According to Liu (1995a: 164) a 'port basically functions as a meeting point for various transport modes, including maritime shipping, inland navigation, highway and railway transport.' However it also has to provide certain facilities and services in order to be able to meet the requirements of its customers. These are as follows (see Liu 1995a: 164):

- *Infrastructure* - land, water area, docks, locks, breakwaters, channels, navigational aids and physical links to inland transport
- *Superstructure* - quay cranes, gantries, forklift trucks, warehousing and sheds
- *Services* - cargo loading/unloading, storage, pilotage and towage

Not all ports provide all these comprehensive services. There are many port owners who are largely, or entirely, landlords in that they own, and construct their facilities, and then they lease them out to other firms who will provide cargo-handling facilities.

According to Goss (1984: 10) there are two basic components to the cost of sea transport: the cost incurred in the ports; and the tonne/mile costs at sea. We are concerned with ports rather than the cost of sea transport. In general port costs are greater than for other transport modes.

3.1.3 Ports as Public Goods. Seaports generally involve an element of what economists call 'public goods' - see Goss 1984: 11. Public goods are distinguished by a number of factors, such as the inability to exclude users who refuse to pay - the 'free-rider' problem. The provision of navigational aids is one such service, in that it increases maritime safety and extends to other port users who are not paying for the service.

Goss cites the case of a dredged channel towards the entrance of a port as a special and interesting case of a 'public good'. This is because there is no relationship between the cost of the channel and the number passing through the channel once it is there. The cost involved in originally dredging and maintaining a channel is a 'sunk cost' - *no pun intended* - and one which could be re-occurring, if the channel is prone to silting-up. If the port owner - public or private - let the channels silt up it would go out of business; the fact that others benefit is irrelevant. To stay in business they have to spend money on something which has no other alternative use and therefore once spent is 'gone forever'. It is the existence of such large sunk costs which makes this industry so different from the bus and coach industry and this has implications for the type of competition which takes place in the industry.

However, Baird (1999: 116) shows that even though it is a sunk cost, some if not all of the money, can be recuperated. The Harwich Haven Authority (HHA) undertook a dredging programme in Harwich Haven in 1996, which cost £19m, the cost of which was to be recovered through fees on vessels. To cover these dredging costs there was an increase in the HHA tariff with larger ships paying more in conservancy fees. To ensure that the dredging programme went ahead the Felixstowe Dock and Railway Company (FD&RC) – the owners of Felixstowe Docks – provided guarantees to HHA that ships would continue to call at the port and pay the necessary fees to cover the increased capital costs. According to the FD&RC, the ultimate financial risk is therefore borne by the private sector, with all port costs being recovered through user charges.

3.1.4 Economies of Scale and Merger Activity. Horizontal mergers can take place in seaports for two distinct reasons. The first reason is economies of scale; these can be gained in investing in new and smaller roll-on/roll-off (ro/ro) facilities, or with the installation of bulk handling equipment.

The second reason, especially for private-sector port operators, is the reduction of competition. Existing private sector operators would either own or have leases on the prime sites. For potential entrants, even if there was a reasonable alternative site, to develop the site would require massive investments in sunk costs. An example of this would be the establishment of Thameport, in the early 1990s, although it was set up on a brown-field site.

However by taking over other firms, it would be possible in theory for the existing firms to raise their prices and therefore profits, without inducing new entry into the industry, because of the existence of the high sunk costs – a barrier to entry - in the industry. But as we shall see – 3.2.7- the customers in the port industry can switch ships to other ports if they need to, and this has reduced the ability of the port owner to raise prices.

The other alternative for entry into the market is for a potential entrant to take over an existing firm. This as we shall see occurred when Hutchinson Whampoa took over the Port of Felixstowe – see 3.6.3.

3.1.5 Measurement. Another question we might like to ask is how do we measure the structure of this industry? In examining the structure of the port industry, we need, according to Bird (1963: 21) to handle port statistics with care, if they are to give valid comparisons of the size of port functions. Some of the different criteria for the statistics and their disadvantages are given in Table 3.1.

Criteria	**Main Disadvantage**
Berthing accommodation for ships and capacity for handling cargo	May not be fully used by vessels trading regularly
Depth of port approaches and the accommodation for ships	Ports which can accommodate the largest ships are not necessarily the largest ports
Weight of cargoes landed and shipped	Raw material and fuel-handling over-'weighted'
Value of cargo landed and shipped	Fluctuates with rise and fall of prices
Net registered tonnage of shipping entering port	Vessels may arrive with partly-loaded cargoes or in ballast

Table 3.1 Criteria for Assessing Comparative Sizes of Ports - adapted from Bird 1963: 21

The analysis in Table 3.1 shows that to some extent two of the criteria tend to cancel each other out. These are:

1. value of cargo landed and shipped
2. net registered tonnage of shipping entering port

In the 1989 White Paper (Employment Department 1989: 34) the figures used for the major ports excluded crude oil and oil products. This resulted in some of the dock labour scheme and non-scheme ports not being included in the list of major ports, because their non-oil tonnage was low. However, they handled very large tonnage of oil products in relation to the small tonnage of non-oil goods. This methodology is supported by Goss (1998: 54) arguing that oil and other liquid cargoes should be excluded, because they are usually handled over the oil company's own installations, or by other specialists, and because the very large volumes involved would distort the figures if they were included. However, in this study we will use total tonnage through the ports including oil and domestic trade, both excluded by Goss, except for the trust ports where we will use his methodology - see 3.5.7.2.

To gain an overview of what was happening within the industry between 1965 and 1998 we have had to use a time series data set, which unfortunately includes the 'substantial elements' not used by Goss. So the main data set used in this chapter is derived from the historic series issued by the Department of Transport in their Port\Maritime Statistics series publications.

However, we will also use a more limited data set that was used in the White Paper (Employment Department 1989), which excluded oil, and oil related products. In the White Paper the figures used were for 1987 only, and in this study we will use the data set from 1983 to 1998. This is part of a wider problem of trying to use data sets over a long period, the base on which they are calculated is often revised, making statistically valid calculation difficult if not impossible.

3.2 Nationalisation of the Railway Ports

3.2.1 The 1947 Transport Act. During the Second World War the UK ports were grouped for wartime purposes and administered by Regional Port Directors who were empowered to issue instructions to the port authorities, which continued to function as previously. But it was the nationalisation of the railway companies, which automatically brought about 30 per cent of the nation's ports under public ownership. Under the terms of the 1947 Act all properties owned by rail ports and docks were transferred to the British Transport Commission (BTC) -

see Liu 1995a: 166. The main groups brought under public ownership were in South Wales, on Humberside, in Scotland and at Southampton. Also included were the so called 'packet ports' such as Folkestone, Parkstone Quay, or Holyhead, where ferry services predominated but were regarded as virtual extensions of train services (Bonavia 1987: 106). The main ports, however, such as London, Merseyside, Manchester and the Clyde had never been owned by the railways, and were administered by public authorities.

3.2.2 Economic Objectives. The economic objectives of the 1947 Act were to secure the provision of an efficient, adequate, economic and properly integrated system of public inland and port facilities. The majority of the ports were brought into public ownership as part of the BTC in 1948. One of the five executives of the BTC – The Docks and Inland Waterways Executive (DIWE) was given the responsibility for co-ordinating the publicly owned ports and waterways. The DIWE had also taken over all the canals and was responsible for surveying the harbours of the country and preparing group schemes of reorganisation (Kelf-Cohen 1969: 67). Integration, it appeared could only be achieved by common ownership, which meant state ownership (Thompson & Hunter 1973: 131).

From 1948 until the early 1980s about a third of all the UK harbours including many of the major ports were managed by nationalised bodies.

3.2.3 Structure of the Industry. The UK coast has been described as being littered with the legacies of our island history with some 300 'ports' in total and the majority type of ownership prior to the privatisation programme was public, albeit of different types. Prior to 1980 there were about 70 port authorities of commercial significance in Britain, although the ten largest authorities accounted for 80 per cent of the industry's revenue. This view about the size of the ports was also pointed out by Bird (1963: 21) 'of the 112 British sea ports recognised by Her Majesty's Customs for statistical purposes, only about a dozen deserve the adjective 'major', dealing as they do with nine-tenths of the foreign trade by value.'

Although the dominant ports in the UK were mostly publicly owned, nearly all kinds of ownership could have been found –see appendix 3.2 for a list of Port Authorities by type of ownership in 1965. The reason the majority of the UK ports were public owned was because the legal regime of property rights is generally different between land (or territory) and water (or aquatory). On land it is generally quite easy to establish or acquire property rights - all

that is required is money! On water, however the situation is quite different and in the UK normally requires an Act of Parliament. The approval of the Crown Estates Commissioners is not sufficient, partly because they only control rights on the foreshore, ie between high and low water-marks, and partly because much of the property rights, even within this area, are actually vested elsewhere. Yet, without a secure right, who would construct port facilities? - see Goss 1984: 11.

In 1965 the top 10 ports accounted for 72 percent of all the tonnage going through the UK ports – see Table 3.2.

Port	Type of ownership	'000,000 tonnes	Market Share
London	Trust Port	64.6	20.2
Liverpool	Trust Port	31.7	9.9
Milford Haven	Trust Port	24.8	7.8
Southampton	BTDB[9]	24.4	7.6
Medway	Trust Port	22.3	7.0
Manchester	Private Company	15.8	5.0
Clyde (including Androssan)	Trust Port	15.3	4.8
Tees and Hartlepool	Trust Port	12.1	3.8
Hull	BTDB	9.4	3.0
Bristol	Local Authority	9.3	2.9
	TOTAL	229.7	72.0

Table 3.2 Foreign and Domestic Traffic through Top 10 Largest UK Ports in 1965. Source: Port Statistics 1996 Table 4.3

Prior to the start of the privatisation programme, which began in 1982, there had already been changes in the structure of the industry. These changes, in the main, had been due to the advent of North Sea Oil. Only five of the original Top 10 stayed in the 1980 Top 10 Ports. However there had been a reduction in the market concentration from 72 per cent in 1965 to 68.4 per cent in 1980.

If we consolidate the figures from Tables 3.2 and 3.3 into market share by type of ownership - see Table 3.4 - we see that the predominant form of ownership of the top 10 ports in 1965 was trust ports, which accounted for 53.5 percent of the total market share. However, while still the predominant form of ownership in 1980, the trust ports market had declined to 43.3 per cent, a decline of nearly 19 per cent. The market share of the local authority ports had

[9] British Transport Docks Board

risen from 2.9 per cent to 10.7 per cent, an increase of 269 per cent. The BTDB market share had also increased, but only by 5.6 per cent from 10.6 per cent to 11.2 per cent. The only other sector to show a decrease was the private sector, which declined from 5.0 per cent to 3.1 per cent, a decrease of 38 per cent.

Port	Ownership Type	000'000 Tonnes	Market Share
London	Trust Port	54.2	13.2
Tees and Hartlepool	Trust Port	39.4	9.6
Milford Haven	Trust Port	39.3	9.5
0Forth	Trust Port	28.8	7.0
Sullom Voe	Local Authority	28.5	6.9
Southampton	Nationalised	23.9	5.8
Grimsby and Immingham	Nationalised	22.1	5.4
Medway	Trust Port	17.2	4.2
Orkney	Local Authority	15.4	3.7
Manchester	Private and Others	12.7	3.1
	Total	281.5	68.4

Table 3.3 Foreign and Domestic Traffic through Top 10 Largest UK Ports in 1980. Source: Port Statistics 1996 pp 87-89

Type of Ownership	Market Share	
	1965	1980
Trust Port	53.5	43.4
BTDB	10.6	11.2
Private Company	5.0	3.1
Local Authority	2.9	10.7
TOTAL	72.0	68.3

Table 3.4 Percentage of Total Market Share by Ownership Type 1965-80

3.2.4 Changing Trade Patterns. Part of the explanation for this change was that during the 1970s the trading pattern swung from relatively long distance routes eg Australia and New Zealand, towards the then European Economic Community (EEC). This resulted in a shift in demand away from West Coast ports, such as Liverpool and Glasgow, to those on the East Coast. This change also affected the pattern of sea transport techniques from those which were suitable for long voyages to those which were short, ie roll-on, roll-off services.

J K Stuart [10] (1981: 13), who was then the deputy chairman and managing director of the British Transport Docks Board (BTDB), argued that the UK as an island offered little real scope for developing trade other than for UK exports and imports. He also argued that the concept that there was massive scope for trans-shipment to and from Continental Europe[11]was illusory. He cities the fact that the European market for shipping trades was up to twelve times the size of the UK market. The problem facing the UK ports was to stop the European ports from eating further into their markets. This meant stopping the European ports dominating the direct deep-sea markets and trans-shipping to and from the UK - see Stuart 1981: 13.

3.2.5 The National Ports Council. Prior to 1964 there was no central control over the development and management of the UK port authorities. The port authority's powers were set out in local Acts and there was little central government involvement. The Conservative Government of the time established the National Ports Council (NPC) after the 1962 report of the Committee of Inquiry into the Major Ports of Great Britain – known as the Rochdale Report, after its Chairperson. The NPC had mainly advisory powers, but under the 1964 Harbours Act it was given responsibility to secure the improvement and greater efficiency of the nation's harbours and this was accomplished primarily through controls on harbour development and capital loans and grants – see Thomas 1994: 137. During the life of the NPC the industry underwent considerable changes.

In the 1970s in the port industry there had been increasing disillusionment with centralised planning techniques, and an increasing tendency to favour market-based solutions. According to Goss (1998: 65), the NPC appeared to be a prime target as a central, if small, bureaucracy which was increasingly disliked by those with whom it was supposed to work. The campaign to abolish the NPC was greatly strengthened with the coming to power of the Conservative government in 1979, and in 1981 it was abolished.

3.2.6. A Complex Structure. From the previous sections it can be seen that the structure of the UK port industry was a complex and dynamic one. But, in many ways its structure was very similar to that of the bus and coach industry prior to deregulation and privatisation. The BTDB was the largest individual firm in the industry, and like the National Bus Company it

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[10] Stuart was one of main architects of privatisation (see Financial Times 1989a: 12)

was spread over a wide geographical area. Their market share was also similar, prior to privatisation in 1982 the BTDB market share was 18.4 per cent, although it had peaked at 23.7 per cent in 1970. In 1985/86 the NBC had a market share of 24.9 per cent. There was also a mixture of different types of ownership, municipal and private, and in both cases, the private sector was the smallest element of the market.

However there were two significant differences between the industries. The first was that there were no formal quantitative restrictions on entry into the ports industry prior to privatisation, although getting the required parliamentary legislation passed would probably have been very difficult. The second was that overall, the traffic passing through the UK ports was increasing - see Fig 3.1 - while demand for bus journeys was declining. This increasing traffic through the ports continued on a steady upward trend through the whole period of this study.

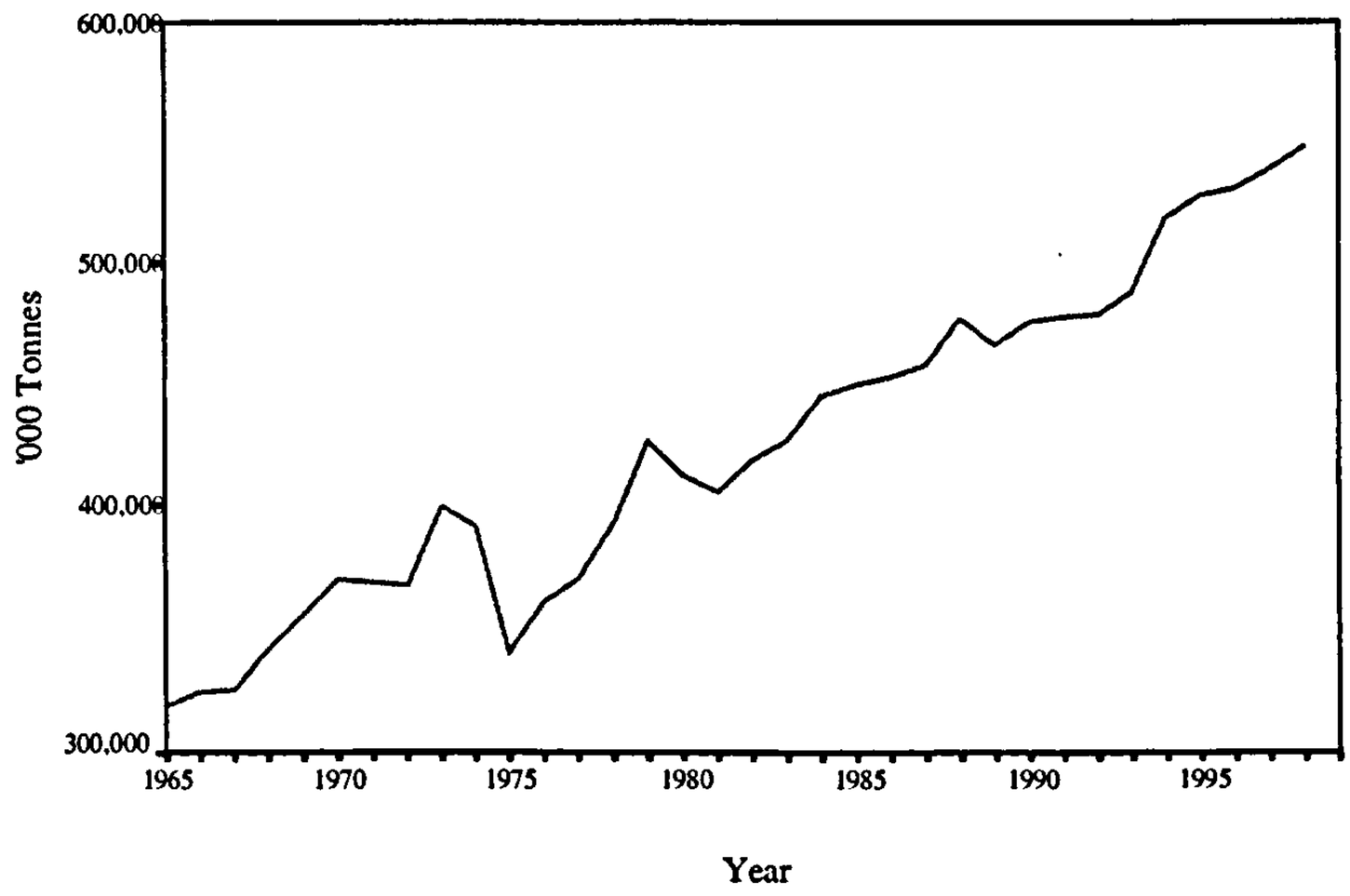

Fig: 3.1 Total Tonnage Through UK Ports 1965-1998
Source: Port/Maritime Statistics

3.2.7 Competition in the Industry. According to Stuart (1981: 13) there was no real competition in the industry, partly because of the pattern of ownership. He argued that because 90 per cent of the UK ports were publicly owned what competition could there be? He also said that the ports were a service industry and could not in the main create trade, they were almost dependent on producer and manufacturing industries to supply the cargoes for

[11] In future European will be an equivalent term for Continental Europe

which the ports were competing. The consumers on the other hand were very large companies and could play one port authority off against another. To illustrate this Stuart compared the 1979 annual turnover of the BTDB and six of its customers with which it was trying to trade and whose business it [BTDB] was constantly seeking - see table 3.5.

British Transport Docks Board	133.5
Ocean Transport & Trading	534.2
P&O	1,377.6
British Steel Corporation	3,105.0
Esso Petroleum	3,112.5
National Coal Board	3,740.4
British Petroleum	18,234.7

Table 3.5. Annual Turnover in 1979 £m
Source Stuart 1981: 13

However, later in the same article he wrote 'In many of the other container areas, for example the Trans-Atlantic trades and even the Far-East trades, container operators have switched from port to port with lightning rapidity. It is quite false to suggest, therefore, that competition is not a major force in the new containerised systems, just as it always has been in the conventional trades' (Stuart 1981: 13). This statement would appear to confirm that the UK port industry, because of 'consumer power', has been competitive for a long time.

Consumer or buyer power according to Johnson & Scholes (2002: 117) is likely to be high:

- When there is a concentration of buyers, particularly if the volume of purchases of the buyers are high.
- The supplying industry comprises a large number of small operators.
- When there are alternative sources of supply, perhaps because the product required is undifferentiated between suppliers – *this would be the case for the port industry*[12] – or, as for many public sector operations, when the deregulation of markets spawns new competitors. *However, this was not the case in the port industry, there was excess capacity, but the structure of the industry both in number and location of the ports, was virtually the same, ie highly fragmented.*
- The component or material cost is a high percentage of their total cost, since buyers will be likely to 'shop around' to get the best price and therefore 'squeeze' the suppliers.

[12] Authors' own comment

- The cost of switching a supplier is low or involves little risk - for example if there are no long-term contracts or supplier approval requirements
- There is the threat of *backward/forward or both* integration by the buyer (e.g. by acquiring a supplier) if satisfactory prices or quality cannot be obtained.

The port industry was also affected by the dramatic redevelopment of the transport infrastructure in the UK. The change in the infrastructure increased the competitive pressure on the ports, as the customer could pick and choose which port to use for virtually any inland destination or origin of cargo.

Baird (1995: 140) has argued that such competition between ports had been evident for many years and intensified further after the introduction of roll-on roll-off ferries and containerships revolutionised the industry. The fixed asset base of the industry - which involved high sunk costs - meant that ports must operate where they are and with the basic infrastructure which was handed down by their founders and predecessors. Also the shippers were unwilling to sign long-term agreements with a particular port: a port therefore could invest heavily in new facilities to attract a customer, only to have the customer switch to a rival port after a year of two, leaving the facilities redundant (Walker 1994: 138).

> 'Thus, competition between ports is nothing new, competition has characterised the industry for some time and will doubtless continue to do so irrespective of whether or not ports are privately or publicly owned.' Baird 1995: 140.

However, what is more important according to Liu (1995a: 169) is that modern ships are large in size and expensive in terms of opportunity costs of waiting time at ports. Thus both port and ship operators' interests require traffic to be concentrated at bigger and fewer ports than they once were. The degree of spatial competition between ports is a function of geographical separation of ports, the configuration of the inland transport system, and the nature of the trade. Its long coastline endows the UK with a large number of seaports and they are well connected with their hinterland by a well-developed inland transport system. Thus the local monopoly power enjoyed by UK ports is probably limited. However Baird has challenged this view – see 3.5.9.3.

3.3 Privatisation of the State Owned Ports

3.3.1.A Brief History. The British Transports Docks Board was created by the Transport Act of 1962 to take on this responsibility for the nationalised ports when the BTC was dissolved. The exception was four small docks which linked to the inland waterway system, and which were put under the control of the British Waterways Board. These smaller ports situated on estuaries, canals or rivers handled only small quantities of cargo – see Appendix 3.2.

On the 1st January 1963 the BTDB became the owners of the ports which had been administered by the docks division of the BTC, together with the port of Lowestoft, previously administered by British Rail. The BTDB had its own powers and jurisdiction and was responsible to the Minister of Transport. It owned over nineteen ports - including some of the largest and some of the smallest docks in the UK, and in 1965 accounted for about 21.5 per cent of the total tonnage going through UK ports.

The Transport Act 1962 laid down the primary duty of the BTDB to 'provide port facilities at the harbours it owned or managed. Its principal powers included the operation of harbours and the provision of port facilities at them, the consignment of goods to, from or through its harbours and the storage of goods.'(Associate British Ports Holding plc 1983: 5)

3.3.2 .1 The Structure, Conduct and Performance of the BTDB. In the next part of this chapter we examine the BTDB using the various elements of the SCP paradigm.

3.3.2.2 Structure. Between 1965 and 1982 the market share of the BTDB declined from 21.8 per cent to a low of 17.4 per cent in 1980, although actual tonnage had increased from 68,573 thousand tonnes to 71,672 thousand tonnes, an increase of 4.5 per cent. By 1982, just prior to privatisation its market share had risen slightly to 18.6 per cent - see Fig 3.2.

However, it has to be remembered that when the BTDB was formed it owned 26 ports. When it was privatised in 1982 the number of ports it owned had declined to 19. Some of these ports had been transferred to other port authorities within the public sector.

Fig 3.2 BTDB/ABP Market Share 1965-1998
Source: Report & Accounts

3.3.2.3 Conduct of the BTDB. When the BTDB was established in 1963 the Board mapped out several complementary strategies and applied what it hoped would be effective and relevant policies. Sir Humphrey Browne (1980: 57) the chairman of BTDBs described the strategy as being based on two main objectives;

1. to operate the ports profitably and to be totally self-financing
2. to increase progressively BTDB's share of UK seaborne traffic

One of the first jobs was to reduce and eliminate as quickly as possible any excess and redundant capacity, while at the same time reducing manpower. Prior to this, the BTDB had been actively taking over stevedoring companies within its ports to bring this activity directly under its control.

3.3.2.4 Performance of the BTDB. The BTDB was one of the most successful nationalised industries (Hamer 1981b: 9). In 1979 it made a profit, before tax and interest of £27m and received a return on capital of 15 per cent. Since 1972, the BTDB had generated all the investment it had needed internally and, despite the 1980 recession, it had achieved a return on capital of 10 per cent. The success of the BTDB was even recognised by the Conservative Party (Fowler 1977: 23) as 'one of the few nationalised industries to produce an adequate return on capital: while its accounts correctly show each port as a different profit centre.'

When the BTDB was established it had a large capital debt, nothing had been written-off, and there were virtually no reserves and the physical state of the ports was also of concern. It was faced with the major task of replacing its entire superstructure due to the rapidly changing technology in cargo handling, while at the same time, putting its finances on a sound financial footing.

According to Walker (1994: 138) the organisation was popularly denigrated as the 'sleepy dinosaur' of the industry, and compared unfavourably with the relatively successful private port of Felixstowe, which it had tried and failed to take over in 1976. In fact the Docks Board had been making a profit out of running its 19 ports since 1974, and had been paying back its debt to the taxpayer ahead of schedule – indeed, a model of successful state enterprise.

In its last year of trading the BTDB made its third loss since being established in 1963. The main reason for this loss was the recession and BTDB suffered accordingly. However, this was not the only reason for the loss. Its performance was also adversely affected by a number of special factors – see British Transport Docks Board 1982: 5 for detail.
One of the reasons was that at this time the Government was financially assisting both the Port of London, a trust port, and the Mersey Docks and Harbour Company, a private sector company in which the Government was a majority shareholder. It may appear strange that a government which was opposed, in the main, to state intervention was prepared to support both public and private 'lame ducks' at the expense of a successful public company. However, the subsidising of competition was not the sole prerogative of the Government. 'The perennial losses by the port of Bristol continued to mount reaching £10m in 1980/81: even higher losses have been indicated for 1981/82, and over half the local rates have been devoted to subsidising the port.' (British Transport Docks Board 1982: 5) In March 1984 the Bristol City Council raised a loan of £55m to clear the port debt, generated primarily by the building of the Royal Portbury Dock in the late 1970s. Unfortunately for Bristol, unlike London or Liverpool, the Conservative Government, did not see Bristol as a suitable case for treatment in giving the city a financial helping hand.

According to Baxter (1981: 51) the financial problems and the need for control or local government support were not new to the UK ports. But the 1981 recession had accelerated the need for adjustment to be made in the industry. Overcapacity was rife and only one port had closed down in recent years and that was Preston. But this was not the only factor

affecting all the UK ports in the early 1980s. Stuart (1981: 15) described these as the three 'Rs'. These were:

1. The unit load **revolution**
2. **Rigidity** of the labour supply - particularly enshrined in the Dock Labour Scheme
3. Lack of growth in the market, indeed better described as a deepening **recession**

3.3.2 5 Privatisation of the BTDB. According to Lui (1995a: 163) the port industry was one of the earliest sectors involved in the UK Government's privatisation programme. The Transport Act 1981 empowered the Government to transfer the ownership of the BTDB from the public sector. On the 31st December 1982 the BTDB was reconstituted as Associated British Ports (ABP) and the Company was granted powers corresponding to that of a holding company over a wholly owned subsidiary. ABP was a body corporate and a public authority deriving its constitution from the 1981 Transport Act. As a statutory corporation, it was not subject to the provisions of the Companies Act.

As we stated earlier, the market conditions prior to privatisation of the BTBD differed from the privatisation of the National Bus Company. One of the major differences was the product market in which it was operating. Unlike the market for bus travel, which was declining, tonnage going through the UK ports traffic was increasing – see Fig 3.3. Between 1965 and 1982 tonnage had increased by 31 per cent from 319,212 thousand tonnes to 418,373 thousand tonnes. Figure 3.3 shows both the total UK tonnage and ABP tonnage from 1965 to 1998. UK tonnage increased by 71.8 per cent during this period from 319 million tonnes to 548.4 million tonnes. This overall growth was considerably greater than that achieved by ABP, even after privatisation.

Another difference was that in the legislation, which authorised the sale of the BTDB, there was to be 'no break-up of the business and no individual sale of the board's 19 ports' (Baily 1980a: 4). This was different from the break-up of the National Bus Company – see 2.5.1, and was also unlike most other cases of privatisation where the Government retained important ownership rights. There were no restrictions on the amount of individual shareholdings, the reservation of a golden share and the prohibition of foreign ownership was not applied to the sale of ABP. According to Liu (1995a: 167) the withdrawal of ownership rights in ABP reflects the attitude of the Government to treat ports as normal commercial undertakings.

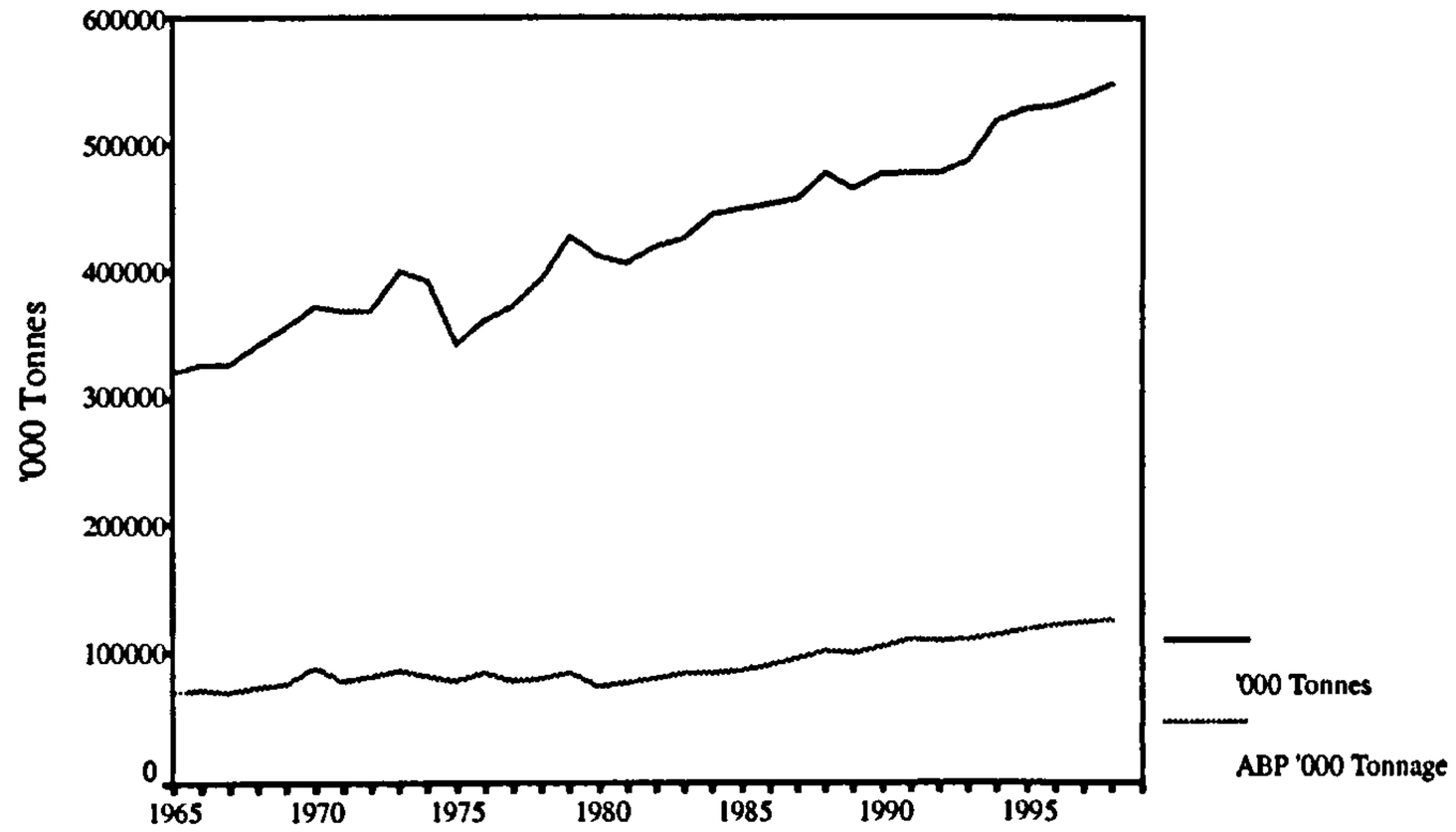

Fig 3.3 Total UK and ABP Tonnage 1965-1998
Source: Port/Maritime Statistics & ABP Reports & Accounts

Another important element in the public offer of a privatised industry is the structure of the privatised company. In the main British privatisations have involved the disposal of an entire nationalised industry, and would not have involved any substantial change in the role of the board or other structural relationships existing within the company prior to privatisation. An exception to this was when the statutory position of the company was perceived to be unattractive to private investors. In such a case, a holding company or some other such device was used to distance the asset holder from the operating company - this was the case for ABP (see Letwin 1988: 100).

ABP was floated on the stock market in 1983, and was a runaway success with investors, mainly, some observers commented, because the Government fixed the offer price at a low level and effectively wrote off a debt of some £80 million owed by the Docks Board to the Government (Walker 1994: 138).

The sale at 'a knock down price' may have been seen by some as just part of the wider approach by the Conservative Government to encourage the sale of state assets, particularly when the privatisation concerned is a natural monopoly, and it involved only the change of ownership from the public to private sector.

However, in the case of ABP, and the later port privatisations, there could be cause for concern. In this particular privatisation we are interested to see the outcome of two effects. The first is a universal one, which is associated with the argument for the superiority of private ownership over public ownership, which may be advanced from the perspective of principal-agent theory. Liu (1995b: 263) points out the 'principal-agent' effect, which is the theory that a switch to private ownership will improve the efficiency and hence the profitability of the firm. Even with no change in the competitive environment, it will still improve the cost efficiency of the firm because the change in ownership will sharpen managerial incentives and replace defective bureaucratic monitoring hierarchies with the capital market for corporate control. However, Liu points out that the strength of this argument has been questioned by a number of economists, who suggest that the principal-agent problems may also arise in the private sector as a result of capital market imperfections.

The second is about full cost recovery (Baird 1999: 118) which largely rests on the assumption that ports in the UK do actually fully recover their total costs of infrastructure and equipment from user charges. The assumption for this argument is that the market is already competitive, therefore price should approximately equal marginal cost. However the privatised ports in the UK – as we shall see – have been transferred from the public to the private sector at significant discounts. This has resulted in reduced debt and hence reduced interest payments incurred by the successor companies than would have otherwise been the case, and this could be regarded as a form of State Aid.

> 'This implies that private ports in the UK do not fully recover their costs from user charges as is being claimed.' Baird 1999: 119.

This would especially apply to the privatised ports and due to the long life of assets in this industry, this could give them a considerable advantage in the long term. However this aid is not restricted to the public sector, the private sector had also received subsidies or been given state aid. 'Thamesport cost £150 to build in 1990 and was sold to bankers for just one third of its capital cost (£50 million) in 1995. The port was expanded further with an injection of capital from the second owner, and then after to Hutchison Ports, the third owner, in 1998 for a price of £112 million, approximately equivalent to half its real capital cost at the time.' (Baird 1999: 119).

According to Moore (1984: 11) the primary objective of the Government's privatisation programme was to reduce the power of the monopolist and encourage competition. Yet we have demonstrated that the UK port industry was not a monopoly, and that there was also a competitive product market in operation. So the primary objectives of privatisation could not be achieved, it is difficult therefore to understand why ABP, and the other ports were privatised. Also it is hard to see how by effectively subsidising some competition that the Conservative Government lived up to its primary objective of encouraging competition. Or was it more likely that the privatisation(s) of the ports was carried out as a revenue-raising exercise or more simply for political motive?

3.3.3.1 ABP Structure. When ABP was privatised in 1983 it owned and operated 19 ports and had a market share of 19.6 per cent - see Fig 3.2. By 1991 its market share had reached 22.9 per cent and since then it has remained fairly stable, albeit with a slight upward trend.

In 1992 ABP announced that it owned a 49 per cent stake in Tilbury Container Services (TCS). TCS is the largest refrigerated container terminal in the northern hemisphere, with a capacity for over 1,000 refrigerated containers. It is also London's only deep-water riverside container berth. By 1998 ABP shareholding in TCS was reduced to 33 per cent, this was due to the Port of London Tilbury Limited taking a one-third share in the company. Each of the three groups now own one-third of the company.

The TCS tonnage is not included in ABP total tonnage, they are included in the overall figures for the Port of London in Port/Maritime Statistics.[13] This means that ABP market share is actually higher that we have used in Figure 3.1.

3.3.3.2 ABP Conduct. In terms of conduct, the major change since privatisation has been the move away from providing both dock and stevedoring services to being a 'landlord' who only provides port facilities, stevedoring services are provided by other firms within the various ports. The effect of this on employment within ABP has been dramatic, as Table 3.6 shows, although the effects of the abolition of the NDSL on employment have to be remembered.

[13] The DoTER collects these figures on a Port Group basis and they do not have the disagregated figures for Tilbury Container Services.

Year	Employees
1976	11,656
1982	9,242
1997	2,096

Table 3.6 Employees in ABP Ports Group

3.3.3.3 ABP Performance. The post-privatisation performance of ABP could be judged in a number of ways. An example of which is how it performed in relation to its tonnage compared with the UK as a whole. As we can see from Figure 3.3 the tonnage going through ABP has not mirrored the overall growth of tonnage through the UK ports. Furthermore, it should be remembered that ABP acquired a number of ports after privatisation and if we deducted those ports' tonnage from the ABP total, the performance results would be even lower.

Another way of assessing ABP performance is to look at its real revenue. According to Liu (1995b: 268) since port markets in the UK are fairly competitive, its is reasonable to assume that port charges are more or less in line with costs, and therefore reflects the true level of output.

The poor performance of ABP can be confirmed by examination of Figure 3.4, which shows the logs of the real GDP and ABPs real revenue from 1963 to 1998 - see Appendix 5 for data. From Figure 3.4 we can see that the period of greatest growth occurred when it was in public ownership, the largest growth occurring between 1963 and 1978. Real revenue peaked in 1976 at £415m. Since it was privatised in 1983 the real revenue has declined from £306m to £254m, a decrease of 17 per cent. This would appear to go against one of the main tenets of privatisation, that firms would be better managed under private sector management. However . 'Part of the erratic nature of the data can be explained by the changes in the UK economy, the fortunes of the [port] sector mirror changes in gross domestic product' (Voyle 1992: 2).

In 1992 ABP came under pressure from financial analysis in the City of London because of its under-performance, this under-performance was also seen as holding down the shares of better performers in the industry, such as Mersey Docks and Clydeport. This pressure resulted in a management shake-up (Voyle 1994: 2). It could be reasonable to ask why did it take so long for the market to put pressure on ABP performance? It is not in the interests of individuals to invest large resources in monitoring management, especially if they possess to few votes to effect the decision. This is known as the collective action problem. Therefore management may not be effectively monitored and disciplined by the capital markets, especially in a situation where share ownership is highly diffused.

In June 1998 ABP like other privatised transport companies acquired a foreign subsidiary.

Figure 3.4 ABP real revenue and Real GDP 1963-1998 at 2000-2001 prices

The company purchased was American Port Services Inc (APS). APS has two core businesses – port services and airport/aviation services – principally operating within the USA. The overseas expansion is likely to have been driven by the possibility of a reference to the MMC [now the Competition Commission] if ABP took over a major rival in the UK.

3.3.3.4 ABP: a Summary. The privatisation of ABP transferred a significant proportion of the UK port industry and a successful state asset to the private sector. The political rationale for

this transfer is not clear, as there was no reference to transferring the ports to the private sector in the 1979 Conservative manifesto. The only reference to any form of privatisation was 'We aim to sell shares in the National Freight Corporation to the general public in order to achieve substantial private investment in it (Times Newspapers 1979: 287). According to Desai (1994: 35), Samuel Brittan records that the option of privatisation was considered and rejected by the Conservative Party for the 1979 and 1983 manifestos as being technically too difficult or politically unacceptable. Brittan (1986: 33) pointed out that most of the early privatisations [including ABP] did not include public sector monopolies. They were sales of concerns already operating in highly competitive markets, although it might be argued that ABP was a semi-monopoly – to use Brittan's terminology. However, in its 1983 manifesto it stated 'A company which has to satisfy its customers and compete to survive is more likely to be efficient, alert to innovation, and genuinely accountable to the public. That is why we have transferred to private ownership, in whole or in part, Cable and Wireless, Associated British Ports' (Times Newspapers 1983: 292).

The privatisation of ABP, was not simply the transfer of ownership from the public to the private sector. It was also the transfer of publicly owned local monopolies, which were responsible to Government and were supposed to serve the 'public interest', to private commercially driven local monopolies, with no requirement of acting in the 'public interest'. This concept will be discussed in more detail when we examine the sale of the trust ports. However, one of the reasons why publicly owned companies may not be as profitable as private firms, is that they [the public company] may have contradictory aims of trying to meet social and commercial obligations simultaneously. One of the unanswered questions is would a privately owned firm be more efficient than a publicly owned company if they had to meet the same criteria?

Also, why should we expect differences in the performance of private and public industries? When an industry is privatised, if the managers of the newly privatised firm are the same management of the public company, any change does not necessarily come from the character or abilities of the management, but, from the constraints and opportunities with which that management is faced.

'Under privatisation, management is likely to become more efficient and search for more profitable opportunities.... It also leads to an increase in capital market incentives for

managers to perform well. These incentives can be examined with reference to the principal-agent theory, and from this theoretical framework, the implications of the separation of ownership from control for the efficiency and performance of privatised industries' (Lipczynski and Wilson 2001: 386). However, there would appear to be no significant evidence of the 'principal-agent' effect when ABP was transferred to the private sector. As we have shown its post-privatisation performance compared to the rest of the industry has been unspectacular. Indeed according to Liu (1995a: 167) much of the financial growth of ABP has been attributed to property development, rather than its port interests. This has been excluded from this analysis and therefore may explain the results obtained.

According to Kay and Thompson (1986: 18) 'the paradox of privatisation is that (sic) the view that it contributes to economic efficiency is derived from the belief that private sector managers are subject to incentives and disciplines from, and more demanding than those which apply to their public sector counterparts. They go onto to argue that if this were so, then it would be expected that the prospect of privatisation would be distinctly unwelcome by the management concerned. But without the consent, or acquiescence, of the same managers privatisation of any sort is a difficult and protracted business. In the case of ABP its chief executive actively encouraged privatisation. The clear theme to emerge from the political history of this privatisation is that by far the most effective and influential of the various interest groups was the senior management. Their positive interest in privatisation was being rid of what was seen as the burdensome form of Treasury control; their concurrent interests were to ensure that this was achieved without changes to the existing organisational structure and without a more competitive environment. However, we cannot rule out the possibility that they saw the opportunity to make large personal financial gains for themselves, and this may have been the real driving force behind their call for ABP to be privatised.

It also has to be remembered that unlike the bus industry, where quantity regulation was abolished, there was no change to the competitive environment within the port industry as a direct result of the privatisation of ABP. It was the transfer of a company from the public to the private sector, in a market that was already competitive.

3.4 The Privatisation of Sealink.

3.4.0 Introduction. In this section we critically examine the second privatisation of ports within the UK, which involved the Sealink ports.

3.4.1 Sealink: a Historic Review. The second port privatisation involved the ports and shipping services owned and managed by the British Rail Board subsidiary company Sealink Harbours Ltd. A number of ports were operated by state-owned companies other than BTDB, the principal one was Sealink (a wholly owned subsidiary of British Rail) which operated seven ports – see Appendix 3.2. These ports were used primarily for ferry services of the railways and for passengers travelling to Europe and Ireland.

It may seem surprising that a railway company – albeit a nationalised one - would own and operate ports and a shipping fleet. However from the middle of the 19th century the privately owned railway companies in the United Kingdom diversified into ports and shipping in order to provide links between their railways systems and those in Europe including Ireland. Boat trains and ships were scheduled to provide good connections and convenient port interchanges for rail passengers.

With the nationalisation of the railways in 1948 the shipping services and ports of the nationalised railway companies became part of the individual railway regions of British Rail (BR). In 1969 the shipping services and ports were brought together under the management of the Shipping and International Services Division (SISD) of the British Railways Board (BRB).

3.4.2 Sealink and Privatisation. According to Tomkins (1992c: 12) the privatisation of BR had started even before the first Thatcher administration in 1979. BR had started selling off the station hotels it had inherited from the former private railway companies. However, as a first stage in the Conservative denationalisation programme in 1979, the SISD was reconstituted as a wholly owned subsidiary company under the name of Sealink UK, to which the harbour undertakings were transferred – see Thomas 1994: 142.

3.4.3 European Ferries. The proposed sale of Sealink attracted the interest of European Ferries Limited (EFL), the publicly quoted company, which owned Townsend Thoresen and

the Felixstowe Dock and Railway Company. EFL expressed its desire to acquire Sealink in December 1980. Under the powers given to the BRB in the 1981 Transport Act it was able to dispose of the whole, or any part of the undertakings of any of its subsidiaries – MMC 1981: 88. However from the outset the BRB was opposed to EFL acquiring Sealink.

In March 1981 the Department of Trade and Industry (DTI) sent to the Monopolies and Mergers Commission (MMC) a reference to look at the merger situation between EF and Sealink, because they were the only two UK ferry operators who also owned ports. EFL at that time owned two harbours, Larne Harbour Ltd and the Felixstowe Dock and Railway Company. Felixstowe by 1981 had become a major port for deep-sea container traffic and was also used by other companies for ro/ro freight services to the continent. Some 70 per cent of the capacity on the Ipswich-Europort service was supplied for Ferrymaster's – a subsidiary of P&O's European Services Division - exclusive use, the balance of the available capacity being marketed to other customers by North Sea Ferries, the ferry operator concerned. All the operators at Felixstowe in 1981 had been using the port before EFL acquired it. EFL had also acquired a 50 per cent interest in the former naval dockyard in Harwich in 1973 – see MMC1981: 33.

There were no other competing tourist ferry services operating in their ports, although the right of entry to a port and to use its was established in the Harbours, Docks and Piers Clauses Act of 1847 – see MMC 1981: 55. The MMC noted that neither company had granted access to their ports to ferry operators who would provide services, which directly compete with their services. The MMC came to the conclusion that the merged company would own ten ports, and have effective control or priority of facilities in a further six ports – MMC 1981: 91. The MMC concluded that the merger may have been expected to operate against the public interest and accordingly recommended that the merger should not be allowed. The Government accepted the report of the MMC.

3.4.4. The Auction. In March 1984 the Government did a 'U-turn' and decided to sell Sealink by auction. The reasons for this 'U-turn' are not clear although it is unlikely that it was at the instigation of the Minister of Transport, Nicholas Ridley, who had been appointed to that position in October 1983.

While preparing for its privatisation, in 1982, Sealink announced that it had plans to reduce its workforce by over 2,000 in the next five years. This was part of an economy programme

aimed at reducing losses, which amounted to £9.6m in 1981. Somewhat surprisingly, the details of the job reductions became known 24 hours after a final agreement had been reached with the National Union of Seamen (NUS) which ended a strike at all Sealink's ports (Felton 1982: 2).

At the end of May there was a strike at Sealink and, apparently, among insiders there was a growing conviction that Nicholas Ridley, incensed by the strike, was prepared to reverse his decision to sell Sealink as a whole and to dispose of it piecemeal if necessary – Eglin 1984: 57. However, the unanswered question is why, if Ridley was the arch neo-classicist, did he not insist on breaking up Sealink, into the small possible units to ensure fair competition, as he would argue later in the year, in the 1984 Buses White Paper, for the break-up of the National Bus Company? As we pointed out earlier, Ridley had been appointed Secretary of State in October 1983 and had plenty of time to reverse the decision of his predecessor Tom King if he wanted to.

If part of the policy of privatisation was to increase competition, why undertake a trade auction and not a floatation, which was what had happened to ABP? The only perceived difference brought about by the auction would be the possibility of a change in senior management, unless it was taken over MBO consortium, at the time the MBO team were perceived to be the favourites to take control of Sealink. This could imply that he had little or no belief in the 'principal-agent' effect.

There was also a strong case at the time for separating the ports from the ferries at the very least. It was perhaps unfortunate that the MMC in 1981 decided that the case put forward by P&O Ferries that Sealinks ports should be transferred to other ownership was outside of their terms of reference – MMC 1981: 89.

One potential biddder, P&O was told by the DTI that any bid it made would be referred to the MMC. This effectively ruled out P&O bidding for Sealink because BR had set the deadline for the sale of Sealink for the end of May. The reason they were effectively ruled out was because an examination by the MMC would normal be expected to take six months and BR was already under pressure from the Government to complete the sale as soon as possible – see Warner 1984: 15. This would appear to be a rather strange decision, in terms of competition policy, that a company could be excluded from bidding on the grounds it would

not be practical to wait for an inquiry to decide whether such a merger could operate against the UK public interest. Even though the wait may well have been worthwhile financially for the UK taxpayer – see Hannah 1984: 19.

3.4.5. The Sale. In July the Sealink subsidiary was sold by tender to British Ferries Ltd, which itself was a subsidiary of Sea Containers Ltd, an American owned, Bermuda based company. According to Vickers and Yarrow (1988: 166) only three companies submitted proposals to buy Sealink, but there was only one firm bid which was accepted. The £66 million realised from the sale fell far short of the £108 million book value of the company. Was this another illustration of more state aid – see 3.3.2.4. Yet according to Nicholas Ridley, announcing the sale of Sealink to Sea Containers to the House of Commons said "The price is good and the sale makes good industrial logic" Times 18 July 1984: 4. However, Vickers and Yarrow (1988: 166) have questioned whether the method and the timing of the sale were appropriate.

The Sea Containers bid outstripped the much lower sum put forward by the National Freight/Sealink management consortium, which until then had been considered by many to be the favourite to take control of the company. The view of the BRB was that it had obtained a fair price for Sealink, considering two of the most obvious potential purchasers were ruled out on competition grounds – Davis 1984e: 15.

3.4.6 The Stena Bid. There had been a dramatic change in the profile of the Sea Containers group, since it acquired Sealink from the UK Government in 1984. Sea Containers posted net profits of $70m that year, of which Sealink contributed only $15m. But revenue jumped from $143 m to $369m, indicating that there was plenty of potential for future profits if Sealink's costs could be reduced. The Sea Container group ran into financial trouble in 1986 when there was a decline in container and roll-on roll-off traffic. At Harwich it declined from 3.6m tonnes to 2.6m tonnes between 1985 and 1986. This was one of the reasons behind the Sea Containers' decision to put the port up for sale - along with Heysham and Newhaven. In the event, the talks between Sea Containers and Associated British Ports broke down over the price, and all three ports were taken off the market. It would appear that ABP was not concerned about the possibility of a MMC investigation at this time. If ABP had purchased these ports it would have had a marginal effect on its market share. The three ports in 1985 accounted for 1.3 per cent of the total UK tonnage.

Stena Line acquired Sealink for £350m in April 1990 after a year long and bitter takeover battle. In the end Stena paid $570m in cash (then equivalent to £350m) for a substantial part of Sealink, with Sea Containers retaining the profitable Hoverspeed and Isle of Wight ferry operations, as well as the three ports of Heysham, Newhaven and Folkestone.

During the take-over battle, as part of its defensive strategy, Sea Containers was planning to sell Sealink's Isle of Wight ferry service for £107.5m to the Radiant Shipping Company – see Hill 1989: 30. If they had sold the ferry service to Radiant, Sea Containers would have received £41.5 more for the service than the £66 they paid for the whole of Sealink 5 years earlier.

The price obtained by them for the sale of these assets may go in some way to support the argument of Vickers and Yarrow (1988: 166), who had questioned whether the method and the timing of the sale were appropriate. That is, that the asset was sold well below its true market value, and was the chosen method, a trade auction, the best way to maximise the sale price for the taxpayer?

The sale to Stenna of some of its Sealink assets could be argued was 'good' business, as Sea Containers negotiated a very good deal. However, the sale price on the Isle of Wight ferry indicates that Sealink's assets were originally sold below their true worth.

3.4.7 Sealink Structure. The seven Sealink ports have only had a small share of the tonnage going through the UK ports. In this section we will group all the ports under the heading of the Sealink ports, irrespective of who owned them after their privatisation. In the earlier data sets there is inconsistency in the data due to the unavailability of information for all the ports. There is also a problem with the data set for Harwich, this data set includes information on Parkeston Quay (Sealink) and Navyard Wharf, ideally we would like information on Parkeston Quay only. Bearing these limitations in mind, when they were privatised in 1984 the Sealink ports accounted for 2.13 per cent of all UK tonnage – see Figure 3.5.

The ports total market share rose from 1.87 per cent in 1984 to 2.57 per cent in 1998 and increase of some 37 per cent. Along with the other UK ports the Sealinks port had an increase in tonnage going through them. Tonnage increased from 9.5m Tonnes in 1984 to 14.1m Tonnes in 1998, an increase of 48 per cent - see Figure 3.6.

3.4.8 Harwich Takeover. In August 1997 HSBC Holding, a unit of HSBC Investment Banking, bought Harwich International port – the former Sealink port - for £72m from Stena Line, the shipping group (Gresser 1997: 22). Mr Nigel Hammond, a HSBC director, said the business would be 'eminently floatable' in the medium term, but added that HSBC hoped to use Harwich for acquisitions before then. HSBC envisaged that Harwich, would double in size and would be able to make acquisitions through increased earnings. Stena booked a £11.5m capital gain from the disposal of Harwich.

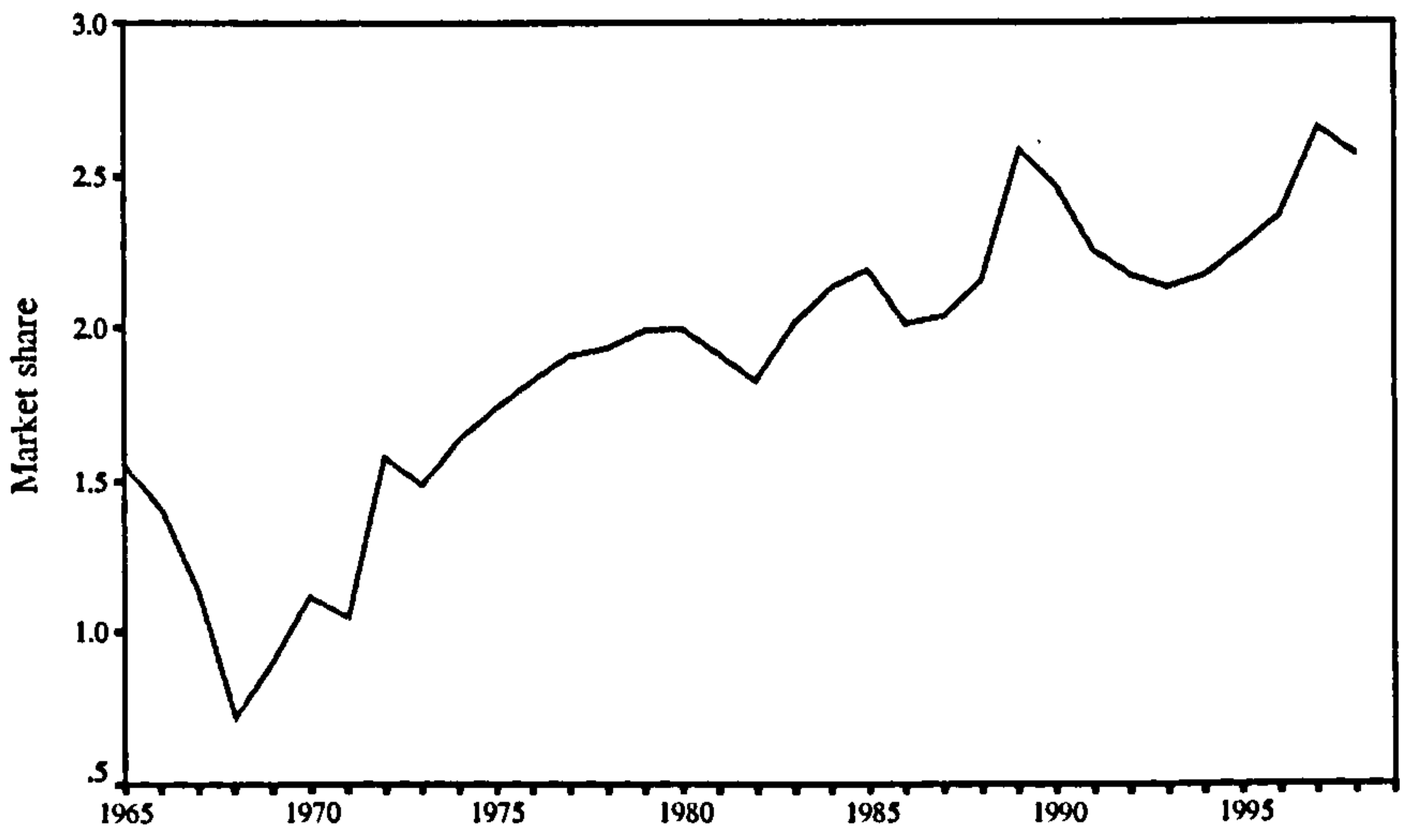

Fig 3.5 Sealink Ports Market Share 1965-1998
Source: Port/Martime Statistics

Hutchison Whampoa, the diversified Hong Kong group, added Harwich to its UK port holdings alongside Thamesport and Felixstowe. Taking over Harwich is believed to have cost Hutchison Ports £112m. Derek Harrington, managing director of Hutchison Ports (UK), said the company planned to develop Harwich as an entry point to the European mainland and as a stop-off for cruise liners. The purchase complemented Hutchison's two other ports, which are also on the East Coast and which are primarily container ports.

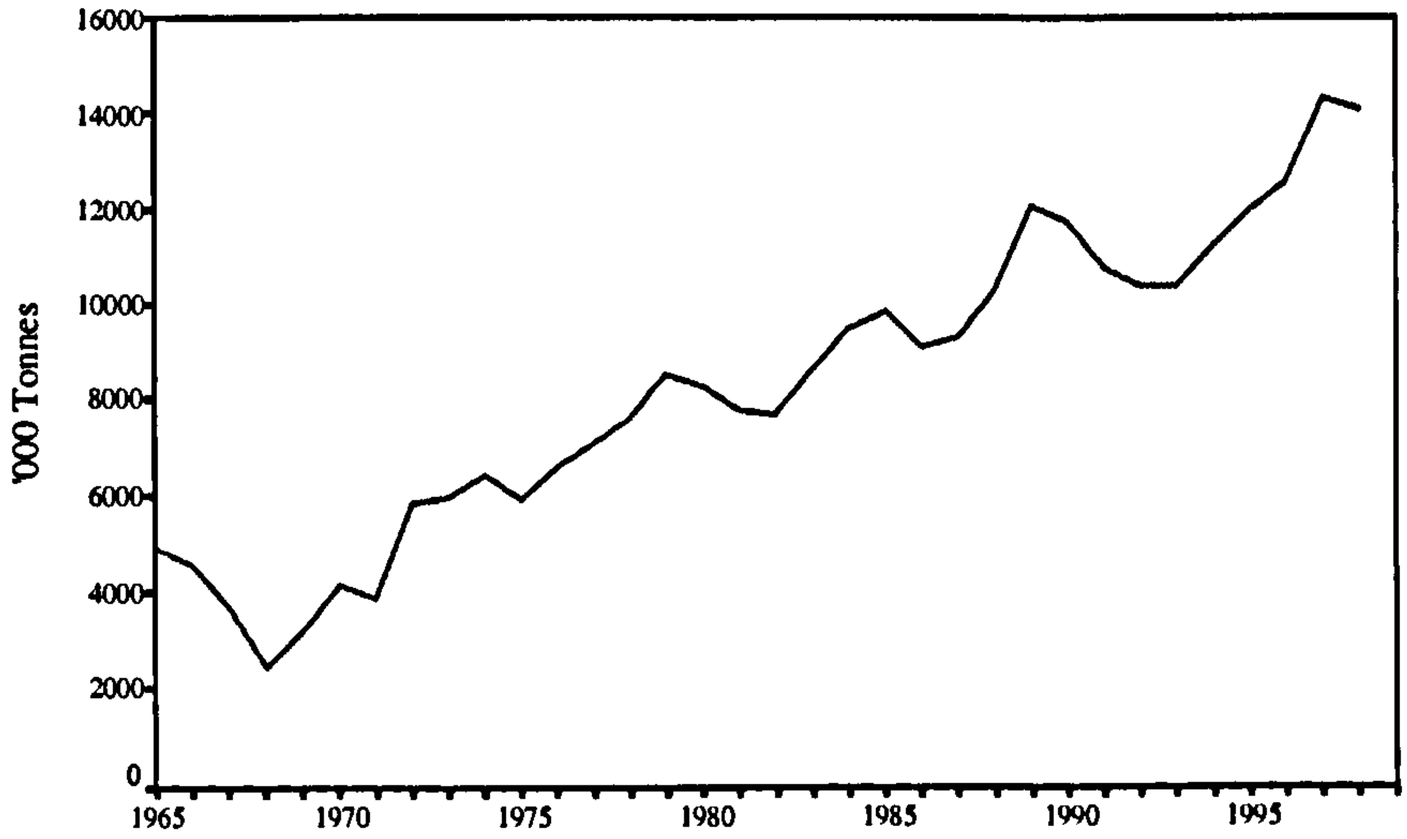

Fig 3.6 Tonnage Through Sealink Ports 1965-1998
Source: Port/Maritime Statistics

3.5. The Privatisation of the Trust and Local Authority Ports.

3.5.0. Introduction. This section will scrutinise the privatisation of the local authority and trust ports. It will start with a review of the trust and local authority ports, and then go on to evaluate the results of the privatisation process.

3.5.1 The Trust Ports. In the UK prior to privatisation there were 16 major Trust Ports; there were also 111 ports administered and owned by autonomous statutory authorities. These ports were collectively referred to as the trust ports, and they were designated as Boards, Trust, Authorities or Commissions. In 1965, 38 of these trust ports made statistical returns to the National Ports Council. These trust ports were established by individual acts of Parliament or statutory orders, however they were not directly responsible to Parliament. The trust ports were non-profit making organisations and were not permitted to engage in non-port related activities. According to Liu (1995a: 165) the development of the trust ports took place in the 19th century and they were responsible for ensuring that harbour facilities in a given area were properly maintained for the benefit of the shipping and fishing communities. However, according to Thomas (1994: 136) several of the trust ports were established in the late 19th and early 20th centuries to take over, ironically, from private dock companies which had proved unable to develop or maintain adequate port facilities. There was a board of trustees for each port, which was responsible for the running of the port. The trustees were drawn

from representatives of port users, trade unions and other local interests. The Port of London Authority - the largest of the trust ports - accounted for 12 per cent of the total trade prior to privatisation. The other significant trust port was the Dover Harbour Board.

3.5.2 Municipal Ports. The local authorities owned this type of port where they were located. According to Liu (1995a: 167) this was the earliest type of ownership for ports in the UK, being the approach to port administration by the British monarchy as early as the 10th century. It was not a widely developed system, and the most significant examples were Bristol, Boston and Ramsgate. Twenty of the municipal ports submitted returns to the National Ports Council in 1965 – see Appendix 3.2. These ports are administered under relevant local harbour legislation and are ultimately responsible, through local councillors, to Council Taxpayers.

3.5.3 The Privatisation of the Municipal and Trust Ports. The move to privatise the local authority and trust ports started in March 1988, when Paul Channon, the then Transport Secretary, said that it was high time the public sector of the industry took a close look at the benefits of privatisation (Brown 1988-b: 11). The remarks about privatisation were made after approaches from the British Ports Federation (BPF), the trade association for the port authorities. The BPF had argued that some of the public sector ports were prevented by statutory restrictions, from competing effectively with the privately owned sector of the industry. However, it is possible that the real reason some of the trust port managers wanted to transfer to the private sector, was the possibility of making 'windfall' profit gains, which had been experienced by other privatised industry managers.

It was believed [wrongly so] that the trust ports could not easily diversify, this was partly due to their trust status. 'In reality, some trust ports, prior to privatisation, had already established subsidiary companies in property development' (Baird 1995: 137). In effect diversification was taking place prior to privatisation.[14] However, the Government specifically ruled out the option of relaxing the existing rules preventing the trust ports from borrowing more money and diversifying into non-port operations, without a change of ownership. However, it was not expected at the time that there would be early legislation, because of the complexity of the issues (Brown 1988c: 18).

However, privatisation was thought to be especially relevant for the larger trust ports, such as Dover, Hull and London. The top 5 ports in 1991 handled 43.4 per cent of the total tonnage going through the UK ports. Three of the five ports were trust ports, and one was owned by a local authority. Only one port was privately owned, that was Grimsby and Immingham which was owned by the privatised ABP. The top 10 ports handled 66.7 per cent, while the top 20 handled 82.9 per cent of all UK tonnage. It was however recognised that different conditions applied to the smaller trust ports, and that privatisation was not seen as an automatic option, although it was not ruled out if they wanted it.

3.5.4. The First Sale. In November 1989, the small port of Boston, in Lincolnshire, became the first publicly owned port to be sold to the private sector, since the Government urged the public sector to investigate the benefits of privatisation (Brown 1989: 4). The port was originally put up for sale in July 1988 (Brown 1988b: 11). Boston Council decide to sell it to a local joint venture of for £4.1m. It was not surprising that the first privatisation was of a local authority owned port. The sale of a local authority port would have been relatively straightforward compared to the sale of a trust port. The sale of a trust port would have required enabling legislation.

However, this was not the first attempt by a council to sell its port, Bristol Council had tried to sell its port to ABP without success (Brown 1988a: 8). Finally in August 1991 the Bristol City Council agreed a £36m deal to hand over the management of the Avonmouth and Royal Portbury Docks for an initial payment of £22.5m for a 150-year lease on the port (Financial Times 23 Aug 1991c: 7).

3.5.5 The Trust Ports Bill. In July 1990, a seemingly innocent Commons question asked by Roger Moate, MP for Faversham, resulted in the Prime Minister outlining the policy for the trust ports.

> 'The abolition of the dock labour scheme was a great success for the ports and their hinterlands. I understand that for other ports in trust to be privatised it would have to be done by the private bill procedure, which is very cumbersome. We are looking into the possibility of an enabling bill so that

[14] Under the Transport and Works Act 1993 restrictions on the right of trust ports to diversify their activities was

they could be privatised more easily.' (Kelly 1990: 19)

In the 1990 Queen's Speech, it was announced that there would be a Trust Ports Bill introduced during that session of Parliament (Tompkins 1990: 14). The purpose of the Bill was to establish a simple framework and mechanism through which the trust ports could voluntarily privatise themselves without recourse to complex private legislation, obviating the need for separate Acts each time a trust port wanted to privatise.

However, the bill contained controversial reserve powers enabling the transport secretary to enforce the privatisation of the 14 trust ports each with annual turnover of more than £5m. In the end the Port Act gave the Government powers to force the privatisation of these trust ports if they did not volunteer for privatisation in the following two years (Tomkins 1991c). If the port failed to do so, the Government would start consultations with the port's management to see whether it had valid reasons for retaining its trust status. If the port succeeded in persuading the government to leave it in the public sector, it would be given a further five years before the position was reviewed again.

Mr Patrick McLoughlin, the then shipping minister, said that most of the larger ports [management] favoured privatisation and compulsion was unlikely to be used often. This would appear to confirm that this was important if a trust port was privatised, although it would not guarantee that they would actually take over control of the port. If the management were in favour of privatisation it was likely to happen. 'However,' he said, 'the presumption is that we would want these ports to go into the private sector, and unless there were very good arguments against doing so, we would be ready to use our reserve powers if needed.' (Tompkins 1991a: 8) For a number of reasons having these reserve powers would appear to have been excessive. One reason was because the port privatisation was not going to be a big money raiser for the Government. According to Kirby (1992: 12) it was unlikely to raise more than £500m. Compared to the then recently floated tranche of British Telecom shares which was worth £6bn to the Government. Also, all these ports were already being encouraged to seek privatisation, the Act could then be seen as a "big stick".

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removed - see Liu 1995a:181.

At the time it was assumed that the ports would be taken over by a MBO or MEBO, as these were believed to be the favoured exit route to the private sector. However, the Act required the port authorities to obtain the best open market price through fair and open competition.

Interestingly, the BPF said it would oppose that part of the bill relating to compulsion. It said: 'A few ports are keen to privatise as soon as possible and this bill will enable them to do so. But the government shouldn't try to push privatisation on ports that don't need it ' (Tomkins 1991a: 8). This would appear to be in line with the idea that the drive for privatisation was coming from individual port management. The BPF also argued that the ports industry was not like the electricity or water industries: each port is different and has a close relationship with the community in which it exists, often counting for a large part of local infrastructure and providing a high percentage of employment.

But it could be that some of the trust port managers were concerned that enforced privatisation would throw them into the clutches of bidders who would be more interested in closing the ports to either eliminate competition or to exploit the redevelopment potential of their land assets, rather than continuing to run the individual port as an independent and successful public enterprises. A leading article in the Financial Times (1991b) was unclear why any trust ports should deserve such a fate. According to the FT there was no groundswell of opinion craving their privatisation, nor was the conversion of the ports into housing or commercial estates likely to be seen in the same light as the abolition of the Dock Labour Scheme. The FT argued the Government should leave the rest of the trust ports to decide if they should privatise themselves.

3.5.6. The First Sales of the Trust Ports[15]. The 1991 Port Act (the Act) enabled all the major trust ports to be converted into companies. In 1992, before the compulsory powers available under the Act took effect, five port authorities used the Act voluntarily, with the consent of the Secretary of State, to sell their trust ports. 'An important feature of the trust ports' privatisation is that each sale, whether voluntary or compulsory, is conducted by the relevant port authority, and not by the Department (National Audit Office 1993: 3).

[15] The title of this section is taken in part from the Report by the Comptroller and Auditor General 'Department of Transport: The First sales of Trust Ports'.

3.5.7.0 Introduction. The following section provides an analysis of the first five trust ports to be privatised.

3.5.7.1 Tees and Hartlepool. This was the first trust port to be privatised under the Act. The port authority board accepted the recommendations of its assessment committee, endorsed by its professional advisors, that the second highest bid from Teeside Holdings should be accepted. The boards judged that this bid was to be preferred to the other bids in terms of general commercial quality, the business's long term stability, and the potential benefit both to the port and the local community.

The winning consortium, called Teesside Holdings, was a three-way joint venture between Powell Duffryn, Humberside Holdings and 3i, the venture capital group.

3.5.7.2 Tees and Hartlepool's Market Share. In analysing the performance of the privatised trust ports we will use the non-oil tonnage rather than the total tonnage used in analysing the SCP of ABP. The data set is more limited running from 1983, but it does allow us to compare the performance of these ports in line with the methodology used in the 1989 White Paper Employment in the Ports: The Dock Labour Scheme.

In terms of market share Tees & Hartlepool had a market share of 6.8 per cent in 1983 and the following year it reached its second highest market share of 8.3 per cent - see Figure 3.7. From 1984 until 1990 its market share declined to 6.6 per cent. After that there was a steady rise until 1995 when it market share peaked at 8.4 per cent. But since then it has continued to decline. The increase in market share between 1994 and 1995 can be explained by an increase in container tonnage from 3.2m tonnes to 4.9m tonnes an increase of 53 per cent in its container trade. In 1998 it had declined to 7.5 per cent despite the increase in the overall non-oil traffic of 0.7 per cent over the previous year.

3.5.7.3 Tees and Hartlepool's Performance. From Fig 3.8 it can be seen that Tees and Hartlepool has experienced a growth rate similar to the national trend, much of it coming between 1983 and 1989. From 1993 there has been steady growth, but there does not appear to be any clear indication of any principal-agent effect from privatisation in 1994. After 1995 there was a slight decline in tonnage. Over the 1983-1999 period the national non-oil tonnage grew by 43.2 per cent while Tees and Hartlepool tonnage grew by 56.4 per cent.

Again this would appear to contradict one of the main tenets of privatisation, which is that the performance of the firm would improve just by transferring the ownership to the private sector. There could be a number of possible reasons for there not being a privatisation or principal-agent effect. In this case it may be due to the port already operating in a competitive market, and therefore it was already efficient.

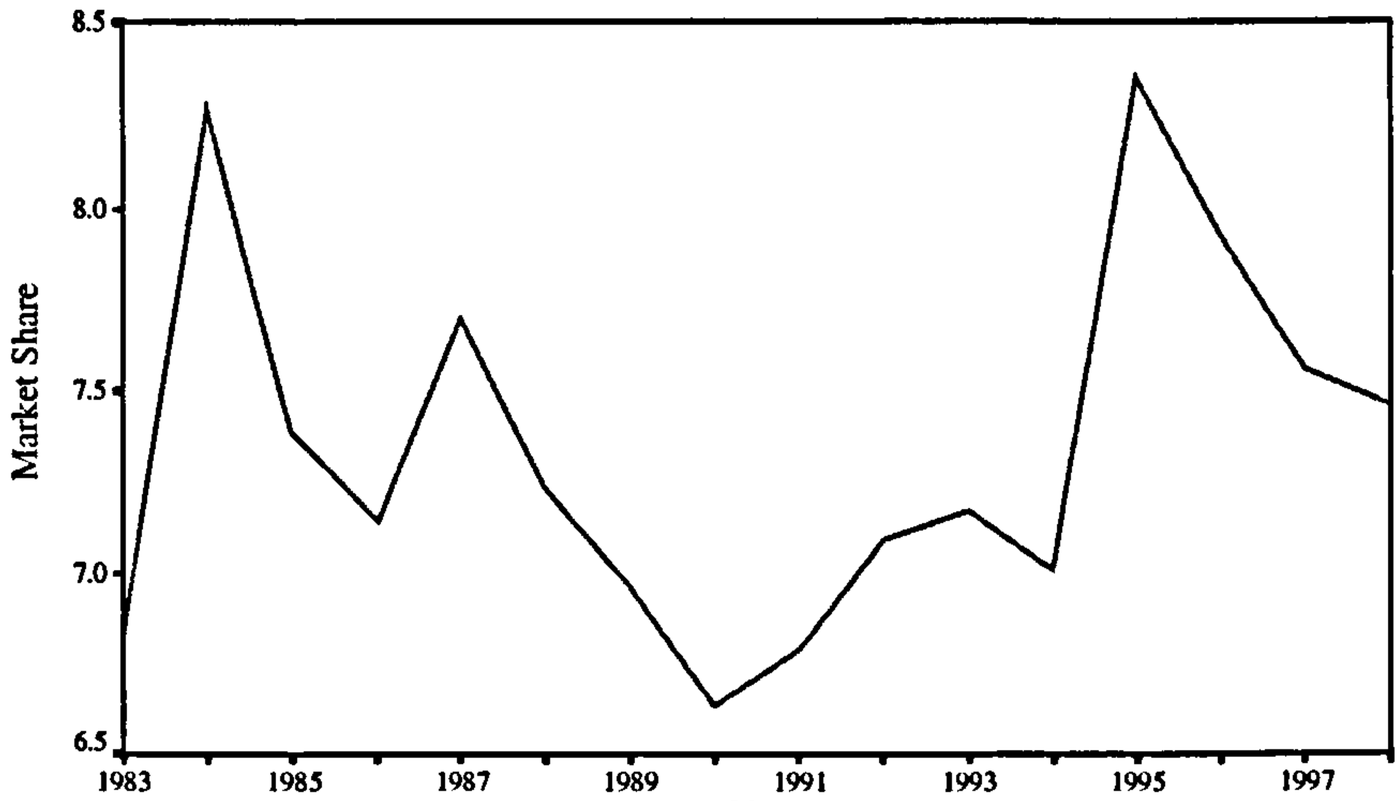

Fig 3.7 Tees & Hartlepool Non-Oil Market Share 1983-1998 Source: Port/Maritime Statistics

'The privatisation of industries has often been accompanied by increased competition. The introduction of market forces leads companies to pursue strategies aimed at improving efficiency' (Lipczynski and Wilson 2001: 386). However, we have argued that the port industry was already competitive, therefore the gains from any x-inefficiencies would be limited. If this is the case then it is the nature of the market which is more important than the type of ownership. The privatisation process and the principal-agent effect would have little or no effect in a market that is already competitive.

According to a study carried out by Saundry and Turnbull (1997: 327) those who reported any positive benefits from privatisation indicated that these benefits were conditional on the abolition of the NDLS. They go on to state:

> 'To reiterate employment deregulation, rather than privatisation, was more important in reducing costs' Saundry and Turnbull 1997: 329.

The second possible reason is the change in managerial environment, when privatisation took place. Again there would appear to be no clear evidence that the private sector management performance was in anyway superior to the management prior to privatisation.

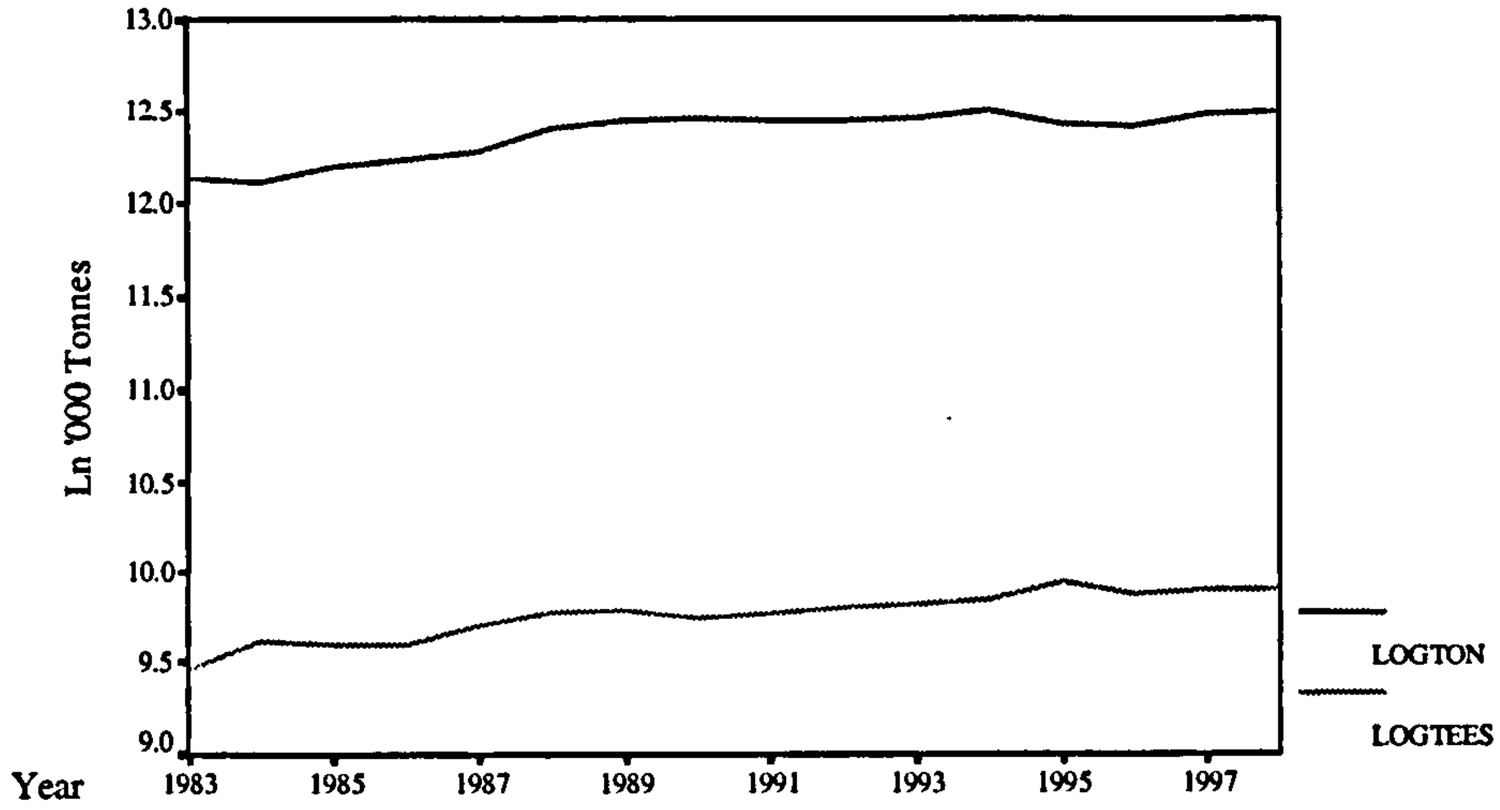

Fig 3.8 UK and Tees & Hatlepool Non-oil Tonnage 1983-1998 Source: Port/Maritime Statistics

Year	1993	1994	1995	1996	1997	1998
Real Profit '000	14,437	15,593	16,854	18,736	20,353	25,627
Real Profit Margin %	36.9	38.8	42.0	45.9	47.5	34.8
Annual % change		8.0	8.1	11.2	8.6	(25.9)

Table 3.7. Tees & Hartlepool Real Profit and Real Profit Margin 1993-1998 Source: Fame Database

In 3.3.3.3 we used the concept of real revenue as a proxy for the performance of the firm, and in Fig 3.9 we show the real revenue for Tees and Hartlepool for the period 1992-1998. Between 1993 and 1997 increased by 1.0.7 per cent from £39,907,000 to £42,900,000. Between 1997 and 1998 real revenue increased by 81.7 per cent from £42,900,000 to £74,297,000. Looking at the non-oil tonnage there would be no obvious reason for this increase in real revenue. This would also apply to oil traffic, which increased by 1 per cent from 31,271 million tonnes in 1987 to 31,600 million tonnes in 1988. It is not clear if this is a one off occurrence or the start of a new trend.

From Table 3.7. it can be seen that although turnover increased between 1997 and 1998, real profit margin declined by 25.9 per cent from 47.5 per cent to 34.8 per cent.

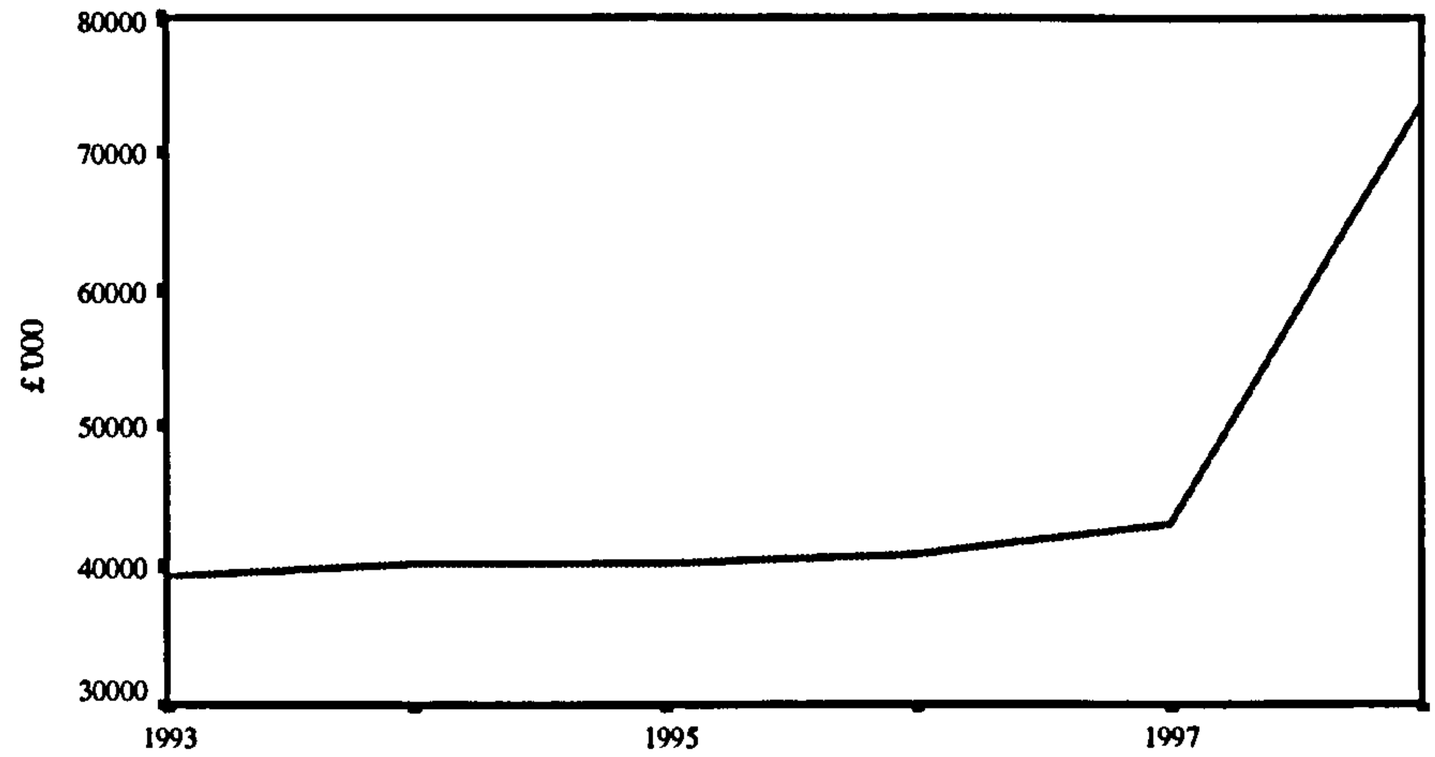

Fig 3.9 Tees & Hartlepool Real Revenue 1993-1998 - 1993=100

3.5.8.1 The Sale of the Clyde Port Authority. Clydeport which had been described as the gateway to Scotland's industrial heartland, received three indicative bids although two days before the deadline for indicative bids the earlier than expected closure of Ravenscraig Steel, one of the port's major customers, was announced. This according to the National Audit Office (1993: 7) increased uncertainty as to the port's future prospects. There was also concern that deferring the sale might weaken the port's commercial position and there was no certainty that a higher price could be obtained if they delayed the sale.

The successful Clydeport Holdings MEBO bid included offering employees at least a 60 per cent stake in the equity share capital of the port. The £26m bid fell below the benchmark valuation range, however the Department noted that the benchmark valuation had excluded a number of contingent liabilities, including the closure of Ravenscraig. They considered the MEBO the best 'bid emerging from a properly marketed sale such as this was a fairer reflection of the market value than a theoretical benchmark valuation' (National Audit Office 1993: 7).

The sale of the port took place in March 1992 and in 1994 Clydeport announced that it intended to float on the stock market, and the way the shares were placed on the Stock Exchange, virtually ruled out any future hostile bid for the company. This in effect would

then reduce the disciplining effect of the capital markets, which was another argument for privatisation.

3.5.8.2. Clydeport's Market Share. In 1983 Clydeport had a market share of 3.33 per cent in 1983. It rose to a peak of 3.7 per cent in 1985. From then onwards Clydeport experienced a sustained and substantial decline in its market share, reaching a low of 1.2 per cent in 1993. This decline was arrested in 1993 and its market share rose to 2.4 per cent in 1995, but since then it has declined slightly to 2.2 per cent in 1998 - see Figure 3.10.

Fig 3.10 Clydeport Market Share 1983-1998
Source: Port/Maritime Statistics

The initial increase in market share may be evidence of the principal-agent effect, but the increase in market was not maintained after 1995, although all non-oil tonnage increased by 7.0 per cent between 1995 and 1998.

3.5.8.3 Clydeport's Performance. In terms of tonnage Clydeport matched the national trend until 1988. From 1989 its tonnage started to decline, in 1991 it went into steep decline until 1993. In 1993 its tonnage reached its lowest level, while between 1993 and 1994 the trend was reversed, and its tonnage increased in 1994 and peaked in 1995 - see Figure 3.11.

Between 1992 and 1998 the real revenue for Clydeport increased by 108.3 per cent from £10.6m to £22.0 million. However, where non-oil traffic declined between 1991 and 1993, real total revenue fell between 1995 and 1996, after that it continued to rise – see Fig 3.12

Year	1992	1993	1994	1995	1996	1997	1998
Real Profit £'000	1,633	2,454	5,617	5324	5,311	7,852	11,023
Profit Margin	15.4	20.7	35.4	29.3	30.4	38.2	42.3
Annual % Change		34.4	71.0	17.2	3.7	25.7	10.7

Table 3.8 Clydeport Real Profit and Real Profit Margin 1992-1998
Source: Fame database

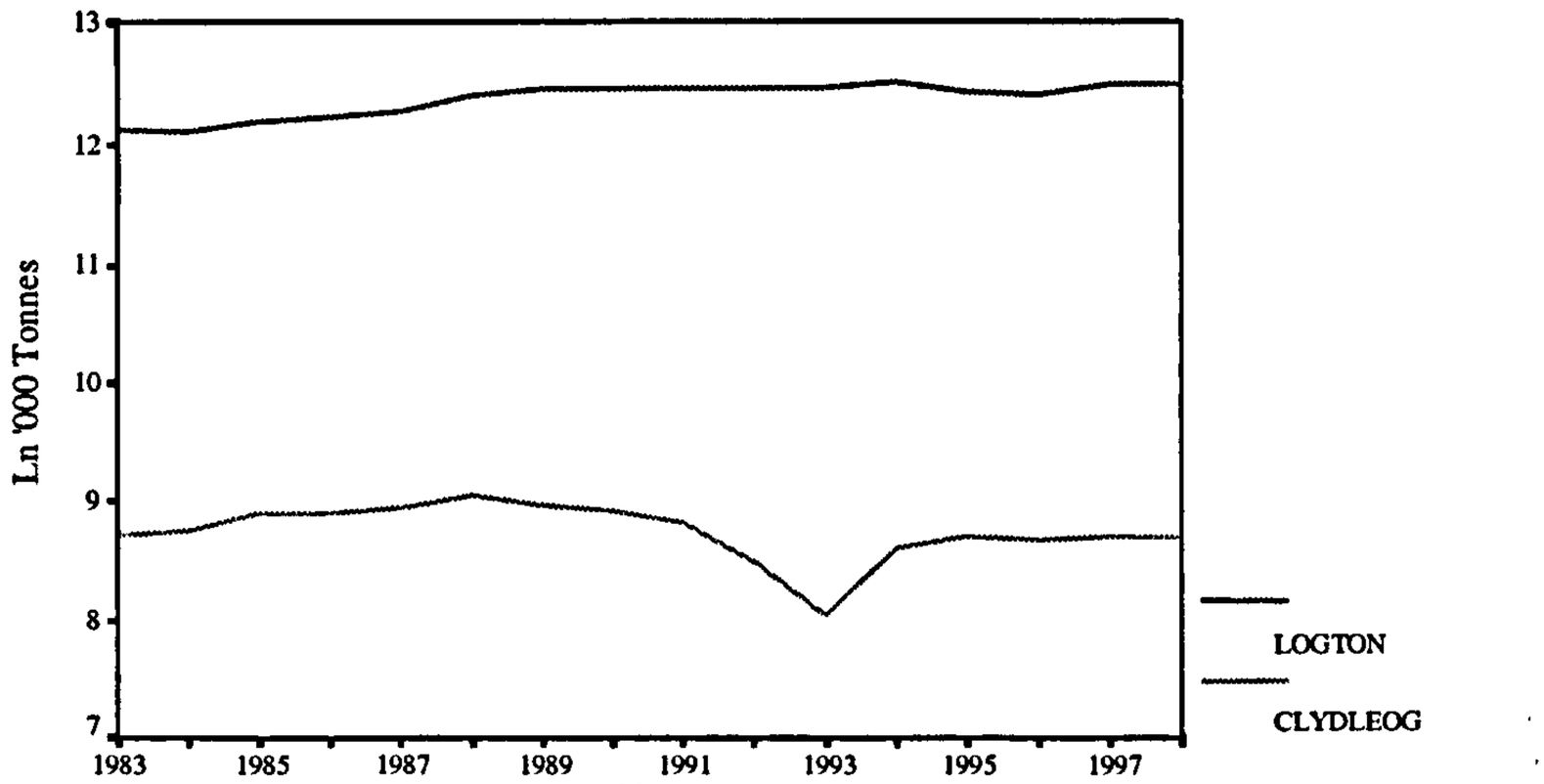

Fig 3.11 UK and Clyde Non-oil Tonnage 1983-1998
Source: Port/Maritime Statistics

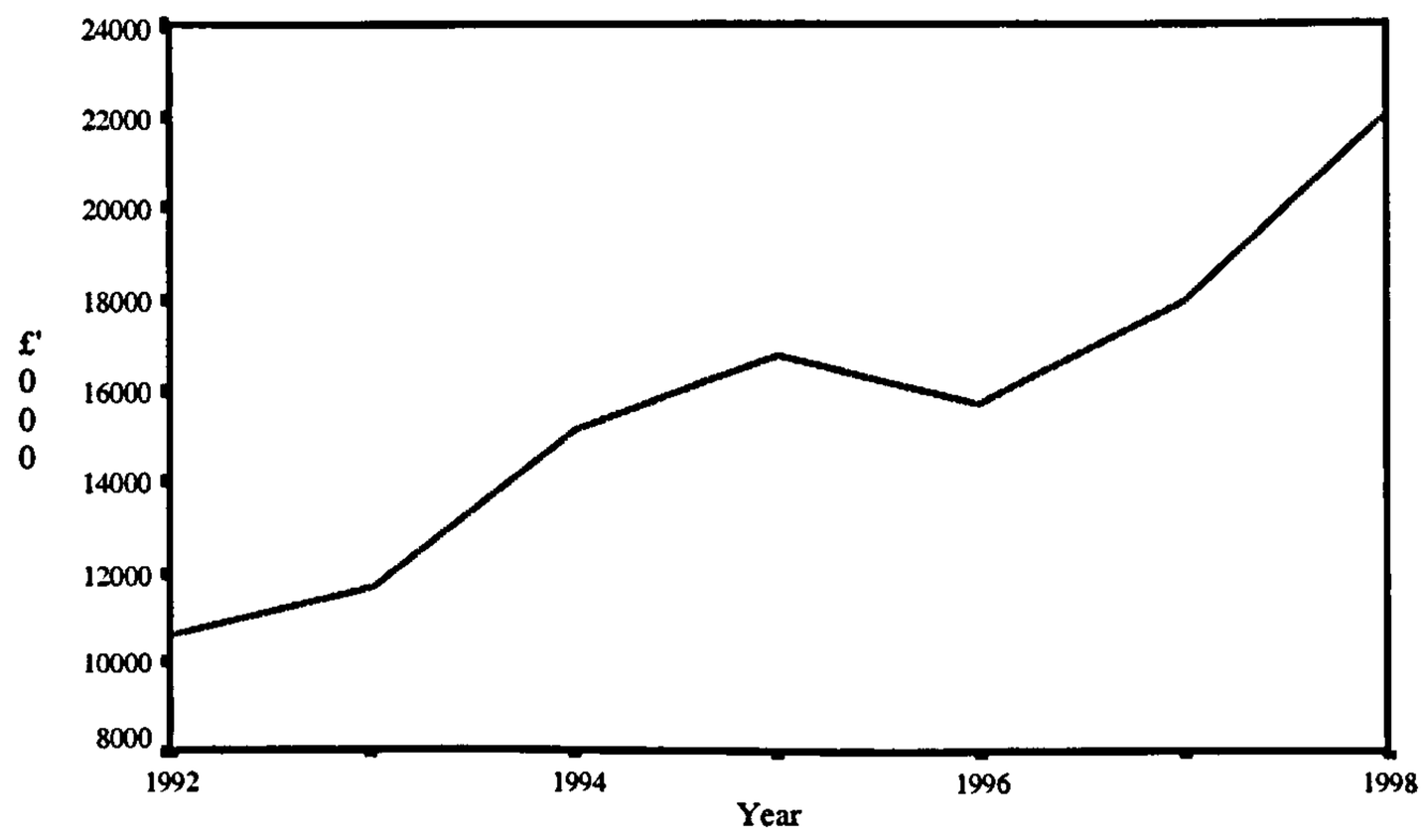

Fig 3.12 Clydeport Real Revenue 1992-1998
Source: Fame Database

Overall Clydeports real profits increased by 586 per cent between 1992 and 1998, from £1.633m to £11.023m. Also the profit margin increased from 15.4 per cent to 42.3 per cent an increase of 174.7 per cent - see Table 3.8

3.5.9.1 The Sale of the Forth Port Authority. Forth Ports in 1992 operated the ports of Leith, Grangemouth, Burtisland, Kirkcaldy, Methil and Granton. The privatisation of the Forth Port Authority was different from the other privatisations because the authority wanted to be floated on the stock exchange. It believed that this method would best achieve the Government's objectives and also ensure a significant and substantial involvement of managers and employees.

Mr Hugh Thompson, Forth's chief executive, said he had rejected the more popular management buy-out route because the company would have been highly geared, limiting its activities and scope to make acquisitions (Bolger 1992: 20). Also the directors of Forth Ports decided to attempt a flotation to ensure its management team remained intact, something which might have been threatened if it had been sold to an external bidder (Buxton 1992: 10). However, flotation went against the government's stated objective concerning the desire to seek competing bids.

Market Share. The Forth Ports has experienced a volatile market share performance. In 1983 its market share was 2.1 per cent, which steadily declined to 1.6 per cent in 1989. In 1990 it rose to 1.9 per cent, from then it declined to 1.4 per cent. From 1994 there was an increase in market share to 2.0 per cent in 1998. In this section we have excluded the effects of the takeover of Tilbury on Forth Ports market share.

The performance of Forth Ports from 1994 may indicate the principal/agent effect. If this is the case it begs the question why in this case and not the other privatised trust ports? In 3.5.9.1 we pointed out that Forth Ports wanted to be floated on the stock exchange. This flotation would allow the company to take over other companies, indicating a more aggressive management style than in the other trust ports.

Fig 3. 13 Forth Ports Market Share 1983-1998
Source: Port/Maritime Statistics

3.5.9.3 Conduct. Criticism has been expressed of the estuarial monopoly power of the successor to the Forth Trust Port. Forth Ports plc now owns virtually every single commercial harbour on the estuary. There is therefore no competition between these ports, or in the entire estuary. According to Baird (1995: 140) a ship requiring to load or discharge cargo in the Firth of Forth is more or less compelled to use one of the commercial harbours now owned by the successor to the trust; in other words a private estuarial monopoly. Also when another company sought to establish a competing harbour facility, Forth Ports has used its powers – it retained its maritime regulatory and statutory functions of a Port Authority when its was privatised – to stop the reopening of Alloa Harbour. It was still responsible for estuarial safety, pilotage, and conservancy, and in overall control of a defined area of jurisdiction – see Baird 1995: 139 for details. The Chamber of Shipping described the action taken by Forth Ports as being 'vexatious and unjustified interference with the public right of navigation'.

From the start of the flotation process Forth Ports indicated that they were looking actively at acquisition opportunities. In September 1995 the privatised ports operator, paid £131.6m for the port of Tilbury, which had been privatised in 1992 and sold to a MBO for £32m (Batchelor and Dyer 1995: 22).

3.5.9.4 Performance. The increase in tonnage through the Forth Ports between 1983 and 1998 was below the increase in its non-oil tonnage - see Figure 3.14. Between 1983 and 1998 total

non-oil traffic increased by 43.2 per cent while the Forth Ports non-oil traffic increased by 32.2 per cent.

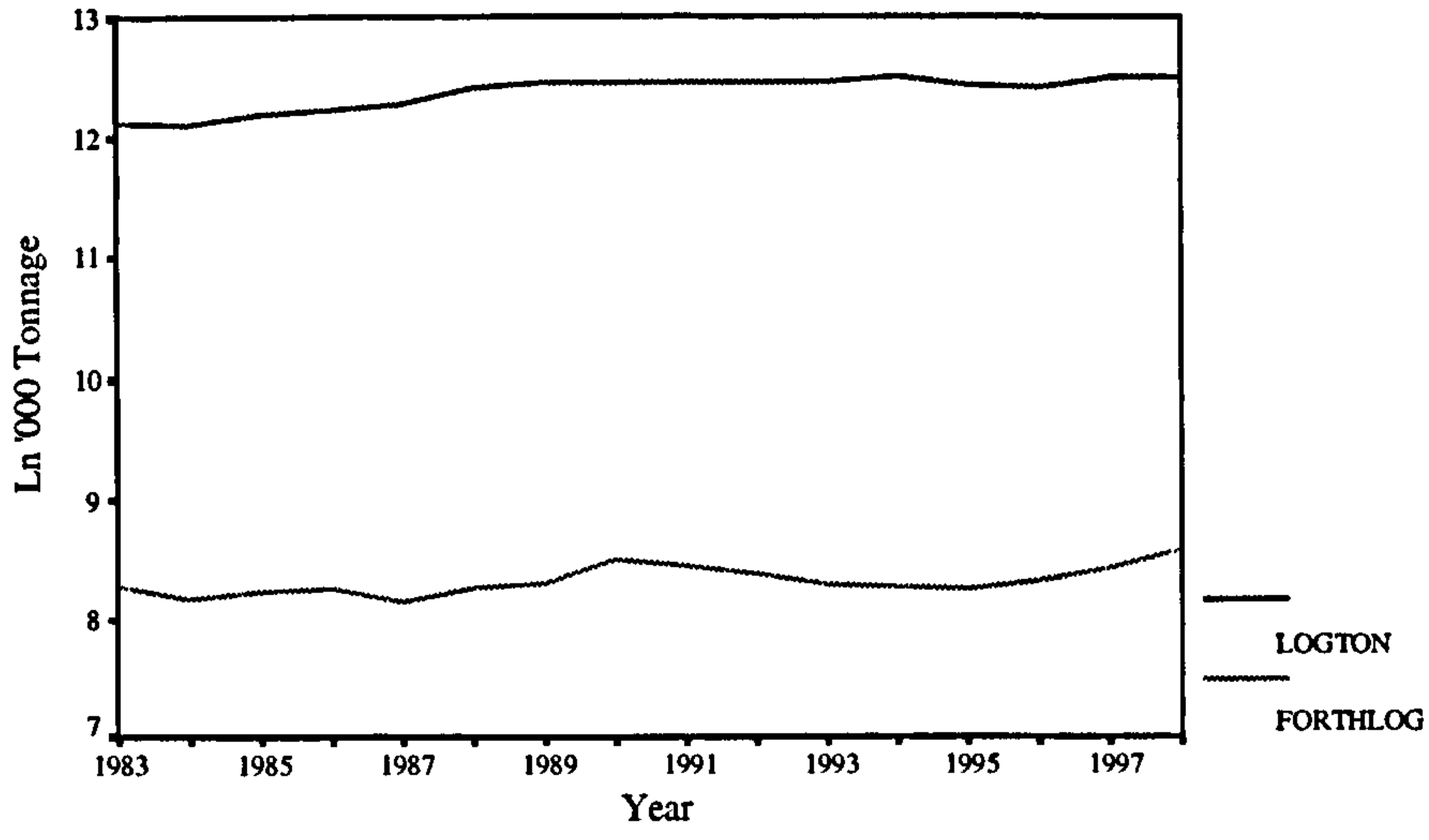

Fig 3.14 UK and Forth Ports Non-oil Tonnage 1983-1998
Source: Port/Maritime Statistics

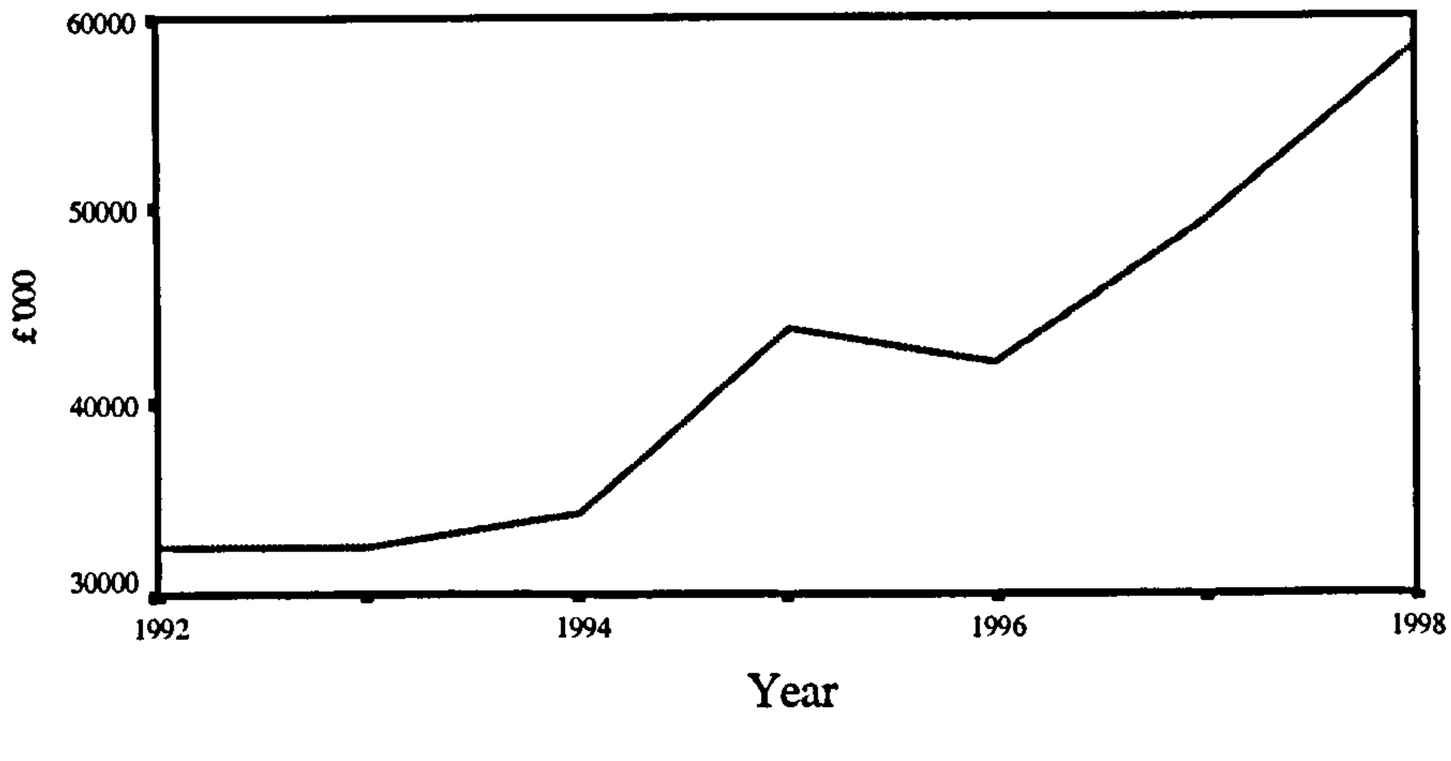

Fig 3.15. Forth Ports Real Revenue 1992-1998
Source: Fame Database

The port's real revenue between 1992 and 1998 increased by 80 per cent from £32.4m to £58.4m. These figures exclude the increase in revenue from the takeover of the Port of Tilbury London Ltd in 1996. The real revenue was fairly constant between 1992 and 1994. Between 1994 and 1995 there was a substantial increase from £34.1m to £43.7m, while there

was a slight downturn between 1995 and 1996. From 1996 until 1998 there was an 18.5 per cent increase from £49.m to £58.4m.

Real profits have also increased since privatisation, rising from £10.9m in 1992 to £23.7m in 1999, an increase of 117 per cent - see Table 3.9. Profit margins also increased over the same period from 28.7 per cent to 40.5 per cent an increase of 41.1 per cent.

Year	1992	1993	1994	1995	1996	1997	1998
Real Profit £'000	10,899	9,616	13,744	15,348	14,642	16,670	23,659
Profit Margin	28.7	25.7	26.2	32.4	34.8	33.8	40.5
per cent Change		(10.5)	1.8	23.7	7.4	(2.9)	19.8

Table 3.9. Forth Ports Real Profit and Real Profit Margin 1992-1998
Source: Fame database

3.5.10.1 The Medway Sale. By November 1998 the Medway Ports Authority had announced its intention to seek privatisation under the Ports Act. The Medway Port's fixed assets included Sheerness, a deep water port and the former Royal Navy dock yard at Chatham, which included 140 acres of land with considerable development potential within fairly close proximity to the Medway road tunnel, which was then under construction (Arnold and Cooper 1999: 145).

The management buyout team, Medports Mebo Ltd bid £28m for the ports. However, financial and banking interests apparently held 49 per cent of the equity and the amount of employee participation was 51 per cent. Further analysis revealed that five directors had purchased 250,000 shares, the 250 employees were only allowed to buy 307,000. Charterhouse Development, the financial backers to the MEBO "owned something like £15m equity preference shares and £1m ordinary shares" (Arnold and Cooper 1999: 145).

Like the other trust ports Medway was subject to a clawback arrangement, which was supposed to enable the taxpayer to benefit from value not identified at the time of sale. This clawback arrangement, however, only applied to gains from the disposal of land and buildings. Not to the sale the sale of the port as an entity; a fact, according to Arnold and Cooper (1999: 139), that was to prove significant in the light subsequent resale of the port – see 3.5.10.2.

3.5.10.2 The Sale to Mersey Docks and Harbour Co. On the 20 August 1993, the Mersey Docks and Harbour Company announced it was in the early stages of exclusive discussions with the Medway Ports regarding a possible take over (Pearce 1993: 8). Earlier that week Medway had received a number of approaches from potential bidders, including Forth Ports and Powell Duffryn. The approaches could have been the response to an announcement at the beginning of the month when it announced plans for a stock market flotation. The flotation was expected to raise about £70m, although at the time they still did not rule out the possibility of becoming part of a larger port group. The port had made no secret of its desire to link up with other port and shipping groups, and had indicated that in the absence of a merger its flotation would enable it to make its own acquisitions.

The port had achieved large cost savings. It had halved its workforce from 600 at privatisation and introduced new working practices (Hamilton Fazey 1993: 19). At the end of the previous year it had been embroiled in a bitter dispute with some of its workforce. The company wanted to cut wages and increase working hours, doing away with working practices which it considered hampering its chances of retaining customers. This, it has to be remembered, was some four years after the abolition of the National Dock Labour Scheme, which was supposed to have given management control over manning and working practices. The dispute ended in the redundancy of 269 dockers, who were obliged to sell their shares back to the company, because they ceased to be employees. They were required to sell their shares back to the company for £2.50 per share under the independent valuation by KPMG Peat Marwick, the accountants. By September 1993 Medway employed 100 dockers, bringing in contractors employed by other stevedoring companies for specialist work when required

3.5.10.3 Market Share. In 1983 Medway accounted for 3.1 per cent of the non-oil UK tonnage. From 1984 until 1992 there was an almost continuous increase in its market share, increasing by 88 per cent from 2.5 per cent to 4.7 per cent. This was considerably greater than the 41.2 per cent increase in total UK non-oil tonnage over the same period. From 1992 to 1994 the market share declined from 4.7 per cent to 3.5 per cent. Again we see a slight increase at the time of privatisation, with a decline in market share from 1996.

3.5.10.4 Performance. Between 1984 and 1992 the percentage growth of non-oil tonnage through the Medway ports was greater than the growth of the UK. Since 1992 there has been

a decline in the rate of growth. However, between 1994 and 1998 UK non-oil traffic decreased by 1.2 per cent from 269m tonnes to 266m tonnes. During the same period Medway's non-oil tonnage increased by 5.3 per cent from 9.3m tonnes to 9.8m tonnes. This may be indicative of the principal-agent effect.

Due to the restructuring of the company it is not possible to construct a data set for real revenue and real profits and profit margins.

3.5.11.1 The Sale of Tilbury. The Port of London Authority (PLA) was the only authority to continue to operate after the sale of a port. The PLA still had the navigation responsibility and remained in the public sector. The sale, or rather the 'non-sale' of Tilbury represented something of an inconsistency in the port privatisation process (Baird 1995: 138). Under the Act no levy was payable to the Government. All the proceeds of the sale would be required by the authority to restructure its finances and to repay Government debt (National Audit Office 1993: 12). Under Tilbury's ESOP, 7 per cent of the company was given free to employees, 17 per cent of the ordinary shares were offered for sale to employees, management kept 20.1 per cent, some 6 per cent was being held in reserve, and the remaining 49.9 per cent went to Schroder Ventures (Purkiss 1992: 32).

Fig 3.16 Medway Non-oil Market Share 1983-1998
Source: Port/Maritime Statistics

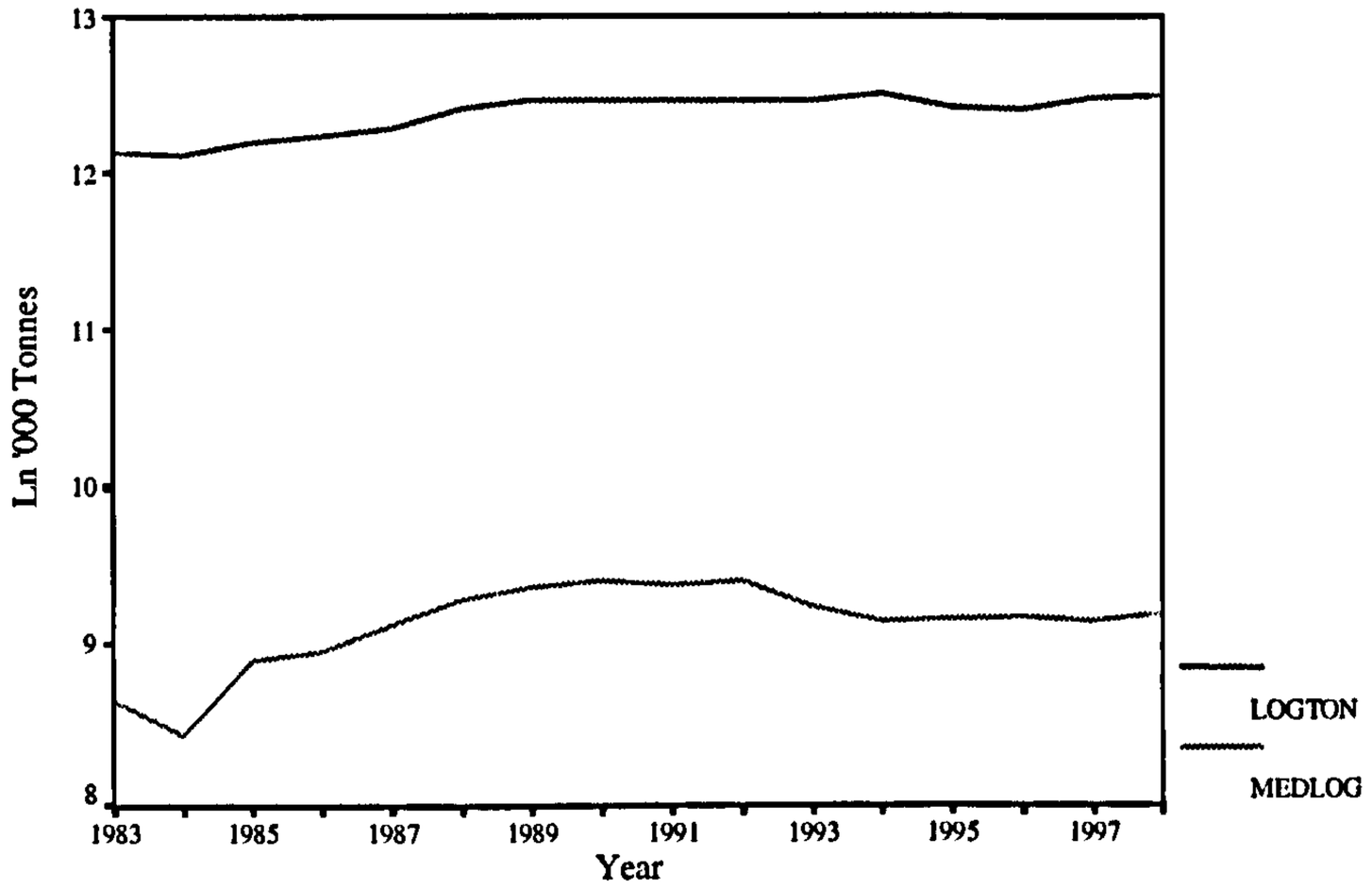

Fig 3.17 Meway Non-oil Tonnage 1983-1998
Source: Port/Maritime Statistics

3.5.11.2 Market Share. The Department of Transport, the Environment and the Regions does not have individual information on the Port of Tilbury. The returns from the Port of London aggregate Tilbury into the Port of London total[16]. In September 1995 Forth Ports the privatised trust port operator, paid £131.6m for the port of Tilbury (Batchelor & Dyer 1995: 22).

3.5.11.3 Performance. The Port of Tilbury London Ltd performance is difference from the rest of the privatised trust ports. In real terms it is the only port to experience a smallest increase in its real revenue. Between 1992 and 1998 it increased by 0.5 per cent, however its performance was more volatile as can be seen from Fig 3.18. Its real revenue peaked in 1994 and since then it has declined at a steady rate. From its peak it has declined by 12 per cent to £33.7 million.

Year	1992	1993	1994	1995	1996	1997	1998
Real Profit £'000	5,427	3,029	9,785	5,866	8,646	9,169	8,774
Profit Margin	16.2	7.8	24.3	15.1	21.9	23.9	22.0

Table 3.10 Port of Tilbury London Ltd Real Profit and Real Profit Margin 1992-1998. Source: Fame database

[16] The Port of London Tilbury London Ltd have been approached directly about supplying this information but they have not responded to this request.

The port has also had the lowest level of profit margins of all the privatised ports on which we have been able to gather data.

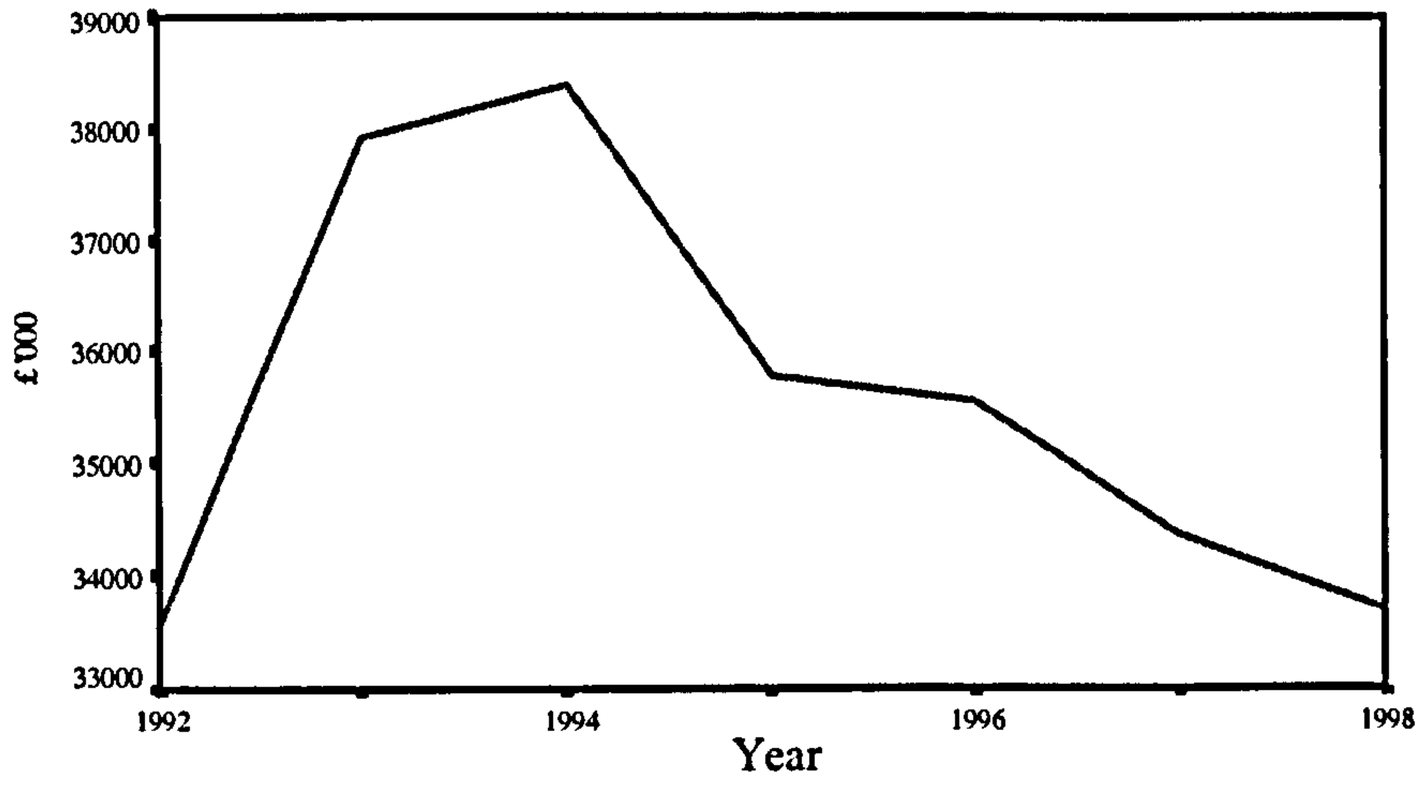

Fig 3.18 Port of Tilbury London Ltd Real Revenue 1992-1998 Source: Fame Database

3.5.12.1 The Market Structure After the Sale of the Trust Ports. The transfer of the seven trust ports to the private sector had a major impact on the structure of the industry. As Table 3.11 shows nearly 34 percent of the Great Britain port tonnage in 1991 was transferred to the private sector between 1992 and 1997. Tonnage through these ports has increased since 1991 by 18.5 per cent, although all the ports have experienced a decline in their market share. Overall their market share has declined by 13.6 per cent from 33.9 per cent to 29.3 per cent.

	1991		1998	
Port	Million Tonnes	Market Share	Million Tonnes	Market Share
London	52.8	11.8	57.3	10.4
Tees & Harlepool	42.7	9.5	51.4	9.1
Forth Ports	26.4	5.9	44.4	4.9
Medway	16.0	3.6	15.5	3.0
Clyde	8.2	1.8	8.1	1.3
Dundee	1.2	0.3	1.1	0.2
Ipswich	4.6	1.0	2.2	0.4
Total	151.9	33.9	180.0	29.3

Table 3.11 Market Share of Trust Ports 1991 and 1998 Source: Table 1.3 and Table 4.3 Maritime Statistics 1998

From 1993 the Act gave the Secretary of State powers to compel a port authority to privatise where the related trust port had an annual turnover of above £5m at 1991 prices. These

provisions had, at the time, the potential to compel the further sale of a further 10 trust ports. However, only two further sales of trust ports took place. These were the Port of Dundee, voluntary in 1995, and Ipswich in 1997 under the compulsory provisions of the Act. ABP paid £24.4m for Ipswich, which was put up for sale in 1995 (Batchelor 1997: 15).

At the time of the 1997 General Election, a final decision on the compulsory sale of the Port of Tyne had not been taken. The incoming Labour Administration decided that the compulsory privatisation of Tyne should not be pursued.

3.5.12.2.Conduct. As we argued earlier – 3.2.7, the UK port industry was already competitive, and because of this we have not seen any major changes in the conduct of the industry. The disciplining effect of consumer power has resulted in a stable market and this has been assisted by the fact that firms were operating in an expanding and profitable market.

3.5.12.3 Performance. Since privatisation the former trust ports have experienced improvements in their financial position, rather than marked increases in their non-oil market share. This may indicate that there have been two different effects and these have happened at different times within the industry. The first, which we will discuss in more detail in the next chapter, is the abolition of the National Dock Labour Scheme. If supernormal profits were being made before abolition, and abolition reduced the relative share going to labour, this is an issue of distribution. But, as we have demonstrated, profitability increased after privatisation, some three years after the abolition of the NDLS.

The second effect, efficiency, would appear to have come into effect after the privatisation of the trust ports. This, it could be argued, is evidence of the principal-agent effect. If this were the case it would appear that the efficiency effect has a greater influence on the performance of the privatised trust ports than the distribution effect of the change in rent sharing with the trade unions.

3.5.13 Conclusions of Trust Port Privatisation. The success of the Conservative Government's stated objective of increasing competition in the port industry by privatising the trust ports has to be questioned. According to Baird (1995: 140), if anything, especially in the case of the privatised trust ports, by creating such private estuarial monopolies the privatisation of these ports could be said to be anti-competitive.

The sale policy for the trust ports would also appear to be inconsistent with the stated objective of ensuring that the sales should be through fair and open competition, and obtain the best open market price.

The policy of increasing the efficiency of the trusts ports due to the principal-agent effect does appear to have been successful,.

3.6 Post -Privatisation Structure

3.6.0 The New Structure of the Port Industry. In this section we will examine the changes in the structure of the port industry as well as changes in concentration.

3.6.1 Post-Privatisation Structure of the Port Industry. The structure of the UK port industry has been radically changed by the privatisation process Table 3.12 shows the change in structure by total tonnage going through different ports by type of ownership. The data set used in this analysis involves 97.9 per cent of the total tonnage in 1982 and 99.5 per cent of the total tonnage in 1998. The privatisation process has changed the private sector from being the smallest sector in 1982, to being the largest sector in 1998 in terms of tonnage – Table 3.12.

Trust ports now account for only 13.3 per cent of the total tonnage through the UK ports, while nationalised ports now only account for 0.1 per cent of the total. The sector which has been least affected by the privatisation process has been the local authority owned ports.

	1982		1998	
Type	Tonnage	per cent	Tonnage	per cent
Private	41,296	10.1	416,259	76.3
Trust Port	209,957	51.3	72,730	13.3
Nationalised	86,714	21.2	410	0.1
Local Auth	71,480	17.5	56,180	10.3
Total	409,447	100.0	545,579	100.0

Table 3.12 Change in Market Structure 1982 – 1998
'000 Tonnes

3.6.2 Change in Market Concentration. However, by using a Herfindahl-Hirschman index (HHI) we can show that the industry is still diffused in structure - see Table 3.13 - although there has been a slight increase in concentration between 1982 and 1998.

The HHI is a measure of concentration if the market was made up of equivalent size firms and the index shows a slight decrease in the equivalent firm size between 1982 and. 1998, indicating a slight increase in concentration.

	1965	1982	1998
HHI	0.119	0.084	0.092
Number Equivalent	8.4	11.9	10.9

Table 3.13 HHI of the UK Port Industry

However, where there may be competition concerns is in the container/unit sector of the market - see Table 3.14.

Port	M Tonnes	per cent
Felixstowe	29.5	25.4
ABP Group	18.4	15.9
Dover	17.2	14.8
London	11.2	9.7
Liverpool	7.8	6.8
Medway	4.6	3.9
Harwich	2.6	2.3
Total	91.3	78.8

Table 3.14 Container/unit market.
Source Maritime Statistics 1999

Container/Unit Market	1998
HHI	0.134
Equal Sized Firms	7.5

Table 3.15 HHI for Container/Unit Market
Source Maritime Statistics 1999

In 1998 18.9m tonnes in containers/units went through UK ports. Of which 78.8 per cent went through 7 ports or port groups. In certain cases there are connections between the ports eg Felixstowe, Harwich and Thamesport – included in London. These 3 ports are owned by Hutchinson Whampoa and account for about 30 per cent of the UK total container/unit market. Creating a HHI shows the degree of concentration in this market. The HHI gives an index of 0.134 and a equal firm size of 7.5 - see Table 3.15.

3.7 Differences between the Port and Bus and Coach Industries

3.7.0. Some Differences between the Port and Bus and Coach Industry. In this section we will compare and contrast some of the differences between the port and the bus and coach industry.

The port industry has not been subject to the rash of takeovers, which happened in the bus and coach industry after privatisation, although there have been some takeovers. The reason for takeovers not taking place is not clear, but concerns about reference to the MMC by ABP may have been a factor. However, it is likely that the most significant factor was that the largest port group, ABP, remained intact when it was privatised, unlike the NBC, which was broken up into the smallest possible units. The rash of takeovers in the bus industry, it could be argued, is a result of firms in the bus industry returning to its 'natural' structure, which is highly concentrated - see Langridge and Sealey 2000.

The entry into the UK market by Hutchinson Whampoa, the Hong Kong property, container terminals and telecommunications conglomerate, by taking control of Flexistowe, Thamesport and Harwich, indicates that the UK port industry was perceived as being a worthwhile investment. By buying its market share Hutchinson Whampoa was similar in certain respects to cases in the bus and coach industry. Both Hutchinson Whampoa [ports] and Cowie [bus] became major players by takeover rather than by organic growth. Theoretically then, both markets could be assumed to be non-contestable, entry would only occur if supranormal profits were being earned.

In the port industry we could expect supra normalprofits to be earned because of existence of high sunk cost which are immovable, unlike the bus and coach industry, where their fixed costs are movable, (we have previously described a bus as a fixed cost with wheels).

3.8 Concluding Comments

The privatisation programme has changed the ownership structure of the industry from one which was predominantly a publicly owned to one, which is predominantly private dominated. This is a similar result to the privatisation of the bus and coach industry.

However, the port's privatisation programme has created some local private estuarial monopolies, which have given some cause for concern. It does nevertheless raise the perennial question that if you have a monopoly, is it in the interest of the consumer that it should be a public – theoretically accountable – as opposed to a private unaccountable monopoly? This would not be problematic to Austrian economists provided entry into the market was unconstrained. The overall structure of the market is still diffused, and therefore may not raise any competition concerns.

There would appear to be some evidence of the principal-agent effect taking place in some of the ports when they were privatised. The effect would appear to have been more predominant in the privatisation of the trust ports rather than in ABP. The reason for this may be that the market was already efficient due to the ability of the shipowners to switch cargoes between ports. This had the effect of keeping port charges low, and therefore there was little room to improve the efficiency of an already efficient industry. However, in the case of the trust ports there is evidence that profitability rose after privatisation. But it has to be remembered that this took place three years after the abolition of the National Dock Labour Scheme - see 4.4. - which was supposed to have removed labour restrictions within the industry. We may therefore have seen two different effects taking place. The first was a distributional effect, associated with the abolition of the NDLS, which will be discussed in the next chapter. The second is an efficiency effect due to the principal-agent effect of privatisation and the change of ethos from a public service orientated to a private sector profit orientated company.

There are a number of similarities between the privatisation of the bus and coach industry and the port industry, but there were differences as well, these were:

1. The port industry was operating in an expanding market, while the bus industry market was declining.
2. The largest nationalised firm in the port industry ABP was privatised as a whole, while the NBC was split up into the smallest possible units. By not splitting up ABP this did not create the opportunity for the wave of takeovers which occurred in the bus industry.
3. The reason why ABP was not split up was most likely due to the Minister involved in the relevant Departments of State at the time and the agitation of management of ABP. In the

case of the NBC the Minster overrode the views of the management and his desired outcome was imposed on the industry.

It would also be difficult to claim that the privatisation process in the port industry was consistent. By the time Sealink was privatised another Minister was involved and a different process of privatisation was used, ie a trade auction. In the case of the trust ports, there was some element of compulsory privatisation, but the trust ports' management attitude to the privatisation process would appear to have been the key element as to whether it was privatised. The outcome depended on whether the management were risk neutral, then it would be privatised, or if they were risk adverse, it would remain in the public sector.

A major influence on the performance of the industry was the deregulation of a major part of the labour market with the abolition of the NDLS. Some commentators have claimed that this had a greater effect on the industry than the privatisation programme - see 3.5.7.3. The effects of the privatisation process and deregulation on the labour markets are discussed in the next chapter.

4. Trade Unions, Institutional Change and Rent Sharing

4.1.0 Introduction. In this chapter we examine whether deregulation, privatisation and the introduction of competition into the market has affected the ability of the main trade union in these industries to effectively represent its members. The propositions examined in this chapter are:

1. that privatisation and deregulation will result in an increase in inequality;
2 privatisation and deregulation will result in changes to the bargaining relationship between the employers and the union;
3 there will be a reduction in the main index of trade union power, i.e. union density due to the change in the composition of the workforce;
4 privatisation and deregulation will result in a reduction in average earnings in these industries.

In 4.1.1 we consider briefly the changes that have taken place in inequality during the 1980s and 1990s at the aggregated level. We then examine how real earnings have changed between 1983 and 1994 in the United Kingdom, going on to consider the changes that have taken place for those industries which we are examining in this study.

The underlying objective of this chapter is to see if the changes that have taken place at the national level have been replicated in the sectors being studied in this dissertation. If they have not been replicated, we will then ask, what are some of the possible reasons for this.

4.1.1 Changes in Inequality and Institutional Bargaining Arrangements. During the 1980s and 1990s internationally there has been an increase in wage inequality. However, the UK and the USA were unique among the OECD countries in having a significant rise in wage inequality. 'The only country where wages differentials widened by an amount similar to the United States was Great Britain' (Freeman and Kazt 1994: 29).

During the 1980s there was an increased demand for more educated workers and those with problem solving skills. Firms are increasing their usage of more educated workers compared to less educated workers. Changes in technology have increased the relative productivity of skilled workers compared with unskilled workers. For example, this was the situation in the docks with the increasing usage of containerisation. The introduction of computerised tracking systems required more highly trained operators compared to the more traditional

labour intensive methods of loading and unloading certain types of cargo, eg cars. These changes in the supply and demand for labour would have influenced the wages and employment for the different groups of workers. 'Skilled workers are thus at more of a premium than before and there are fewer unskilled jobs at any given wage' (Gosling et al 1994: p 68)

Was this change in inequality as Freeman et al (1994: p30) have claimed 'due to a new era in modern economic development - a reversal of the broad trend of income inequality falling with economic growth?' Or as Fortin and Lemieux (1997:76) state that 'most analyses of the cause of rising wage inequality have implicated demand factors as the prominent source of change....Since the labor markets of most industrialized countries were exposed to similar technological and trade shocks, the experience of the United States [and the UK] requires a more comprehensive explanation. The different sets of institutions in which countries operate can be part of the explanation, since labor market institutions can mitigate the impact of supply and demand changes on the structure of wages'. During the 1980s in the USA there was a 'decline in the unionization rate which, unlike the decline in the real value of the minimum wage and deregulation, cannot be traced to legislative actions, since there were no explicit changes to the National Labor Relations Act during the 1980s' (Fortin and Lemieux 1997:94). The UK, in contrast, had five major changes in trade union legislation.

During the 1980s and the early 1990s both the UK and the USA had governments which followed "supply side" policies, and they had a strong belief in free markets and an enterprise culture. 'In the 1980s the United Kingdom led the 'West' in altering economic policies and institutions in ways designed to produce a better functioning market system. The Thatcher and Major governments sought to limit institutional intervention in the free market and unleash the powers of enterprenurship and untrammelled competition' (Blanchflower and Freeman 1994: p 51). 'Enterprenurship and the rule of the market were the new mantras of business, pushed along by what one commentator has termed a wave of "acquisitive individualism". Such a programme required freedom of action, both for individuals and the market.... To this end, there was a progressive weakening of the framework of statutory employment protection and a gradual tightening of restrictions on the activities of trade unions throughout the period covered by our survey [WIRS] series.... The abolition of the Wages Councils in 1993 also removed the last vestiges of minimum wage protection (except in agriculture)' (Millward et al 2000: 10). Also 'During the 1980s, the countries with the most

decentralized labor markets and wage setting systems-the United States and the United Kingdom - had exceptional increases in earnings inequality and in wage differentials by skill' (Freeman et al 1994: p30). In this chapter we will examine the effects of declining union density, economic deregulation, the change in the bargaining structure and the changing composition of the workforce. Prior to 1999 there had never been a national minimum wage in the UK, however, in certain industries there was some minimum wage protection through wages councils or national agreements which set minimum terms and conditions of employment. In the 1980s legislative moves to restrict the powers of wages councils were introduced by the Conservative Government, beginning with the Wages Act of 1986 (see Millward et al 2000: 192). However, in the industries we are concerned with in this study, there were no wages councils.

4.1.2 Three Important Institutional Changes. Fortin and Lemieux (1997:75) explored what they considered 'the impact of three of the most important institutional changes of the 1980s - the decline in the real value of the minimum wage, the decline in unionization rate, and the movement of economic deregulation - on rising wage inequality in the United States'. For the UK, Green (1992: 445) identified three changes that were important. These were: 'the altered legal framework for industrial relations [see 4.1.1 above], the macroeconomic environment, and the changing composition of the workforce.'

Many analysts of labour market institutions concentrate on the degree to which wage setting, in a particular country is centralised. They differentiate between countries like the United States, which have highly decentralised labour markets and wage setting systems, in which large numbers of firms bargain with trade unions or individual workers over pay and working conditions, with little or no interference with this bargaining process from the government. This is in contrast to the more centralised wage-setting systems of Western Europe, although these wage-setting institutions differ between the various European countries.

4.1.3. Changes in Inequality. The underlying philosophy of the decentralised labour markets is that this type of market is more likely to set the market-clearing rate for the job than a centralised market system. According to Leslie and Pu (1996: p121) 'The establishment of these local labour markets had the unintended consequence of widening earnings distributions', however, this may be a rather 'naïve' view of the consequences of the policy. The reason for this is that institutional forces like trade unions tend to reduce inequality.

Therefore by deliberately implementing policies designed to reduce their ability to negotiate 'effectively' on behalf of their members we would expect to see an increase in inequality. 'Since institutional forces such as unions tend to dampen inequality, wage inequality ought to be higher in the United States than in most other countries, and it is' (Freeman opt cit 1994: p53). Therefore any increase in inequality would appear to have been a direct and anticipated outcome of the policy, not an unintended consequence as suggested by Leslie and Pu

According to Metcalf (1989: 33) 'This greater equality of pay amongst union members, as compared with non-union members, reflects two forces. First, it seems likely that union members are less heterogeneous than non-members. Second, union goals play an important part... "one [trade union regulation] stands out as practically universal, namely, the insistence on payment according to the same definite standard, uniform in its application" ie the rate for the job'.

This however is not a universal view and Goodman et al (1997: 169) have argued that 'There is no a priori reason that unions should have an equalising rather than a disequalising effect on the distribution of wages.

Year	Lowest Decile/ Median	Lowest Quartile/ Median	Highest Quartile/ Median	Highest Decile/ Median	Highest Decile/ Lowest Decile
1984	63.8	80.4	124.8	154.0	241.5
1990	61.0	78.8	126.9	158.5	260.0
1998	62.3	78.0	128.8	162.0	260.1
		Percentage Change			
1984/90	-4.4	-2.0	1.7	2.9	7.7
1990/98	2.2	-0.9	1.4	2.2	0.1
1984/98	-2.3	-2.9	3.2	5.2	7.7

Table 4.1 Change in Male Inequality 1984-1998

Source: New Earning Survey for the relevant years

Table 4.1 shows the change in male manual inequality between 1984 and 1998. From this we can see that the Highest Decile/ Lowest Decile ratio has in creased by 7.7 percent from 241.5 to 260.1. Almost all of this increase in the ratio came between 1984 and 1990 with only 0.04 per cent of the increase occurring between 1990 and 1998. The lowest decile/median ratios also show an increased inequality between 1984 and 1990, an increase of 4.4 per cent. Overall it increased by 2.3 per cent between 1984 and 1998, inequality decreased by 2.2 per

cent between 1990 and 1998.

Examination of all the ratios indicates that inequality increased at a greater rate in the 1980s than the 1990s, which coincides with the time period of the main privatisation programme. As a direct result of the privatisation programme legislation was also being introduced to restrict the ability of the trade unions to undertake industrial action to stop or reduce job losses and maintain the earnings of their members.

The overall effect of unions on inequality depends on their ability to impact on pay 'However, when the required information is brought together (Metcalf, 1982) unions are indeed shown to have an egalitarian effect. Union activity narrows the wage structure by the following amounts:

	Per cent
Female - male	1
Black - white (male)	5
Unskilled - skilled (male)	2
Manual - non-manual (male)	9

Unions cause less inequality in pay. Further, union presence in the workplace tends to reduce arbitrary treatment of employees by managers and it ensures proper representation on other important non-pay matters like health and safety. But for unions the labour market would surely be a more unequal place' (Metcalf 1989 : 34).

4.1.4 Decline in Trade Union Membership Density. 'Trade union membership density may play a part in determining the power of the union to extract a share of any surplus from the firm.' (Booth 1995: 72). During the 1980s the unions share of the workforce in UK declined. Between 1980 and 1990, the proportion of the work-force belonging to a trade union fell from 58 per cent to 42 per cent (Goodman et al 1997: 169). This reduction in union density has been assumed to mean a decreasing role for collective bargaining as a force in the wage setting process. 'Weakened unionism and reduced centralization of wage setting contributed to the cross-country pattern of wage inequality in the 1980s. In the United Kingdom the fall in union density accounts for about one-fourth of the growth of inequality comparable to the estimated effect of declining unionism on U.S. inequality' (Freeman et al 1994: p53). In the

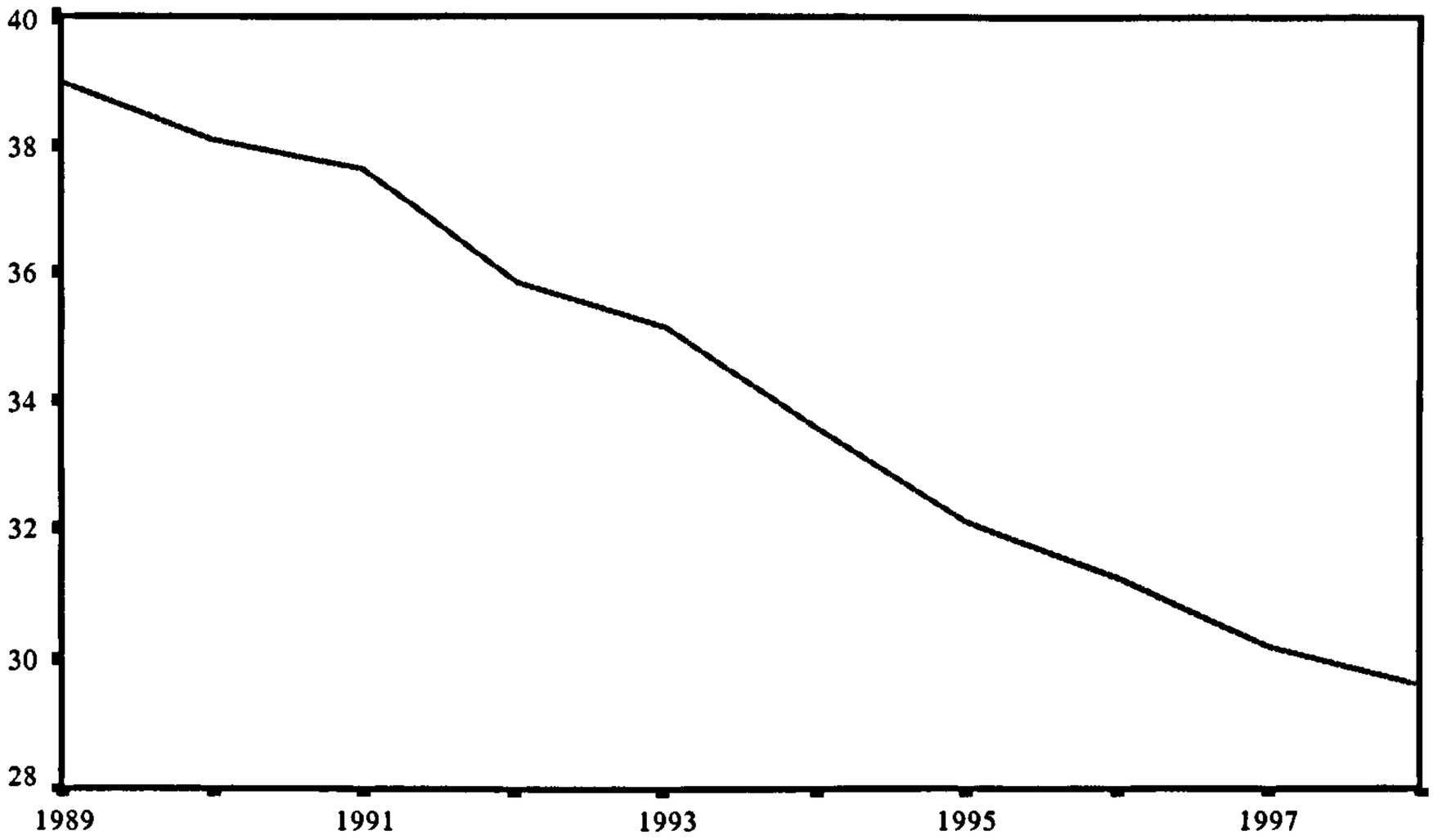

Fig 4.1 Union Density for Employees (per cent) 1989-1998
Source: Hicks 2000: 332

UK 'Thatcherism in the workplace rests on market forces, the legal framework and greater employee involvement. This contrasts sharply with the approach of the 1970s which emphasised joint regulation of the effort bargain between trade unions and employers.' (Metcalf 1989 : 35)

Year	1984	1990	1998
Density %	65	47	36
	1984/90	1990/98	1984/98
Change	-27.7	-23.4	-44.6

Table 4.2 : Change in Trade Union Density
Source adapted from Millward et al 2000: 87.

In the UK, data from the Labour Force Survey (LFS) shows overall union density decreased from 39.0 per cent in 1989 to 29.6 per cent in 1998 for all employees – see Fig. 4.1. 'Traditional strongholds of trade unionism have suffered some of the greatest reductions. For example, manual occupations have seen a reduction of 15 percentage points since 1989; density is similar now to that of non-manual occupations.... When looking at figures of this sort, it is easy to forget that the estimates of union membership and density presented here are stock estimates. Each year will see substantial flows of people joining and leaving trade

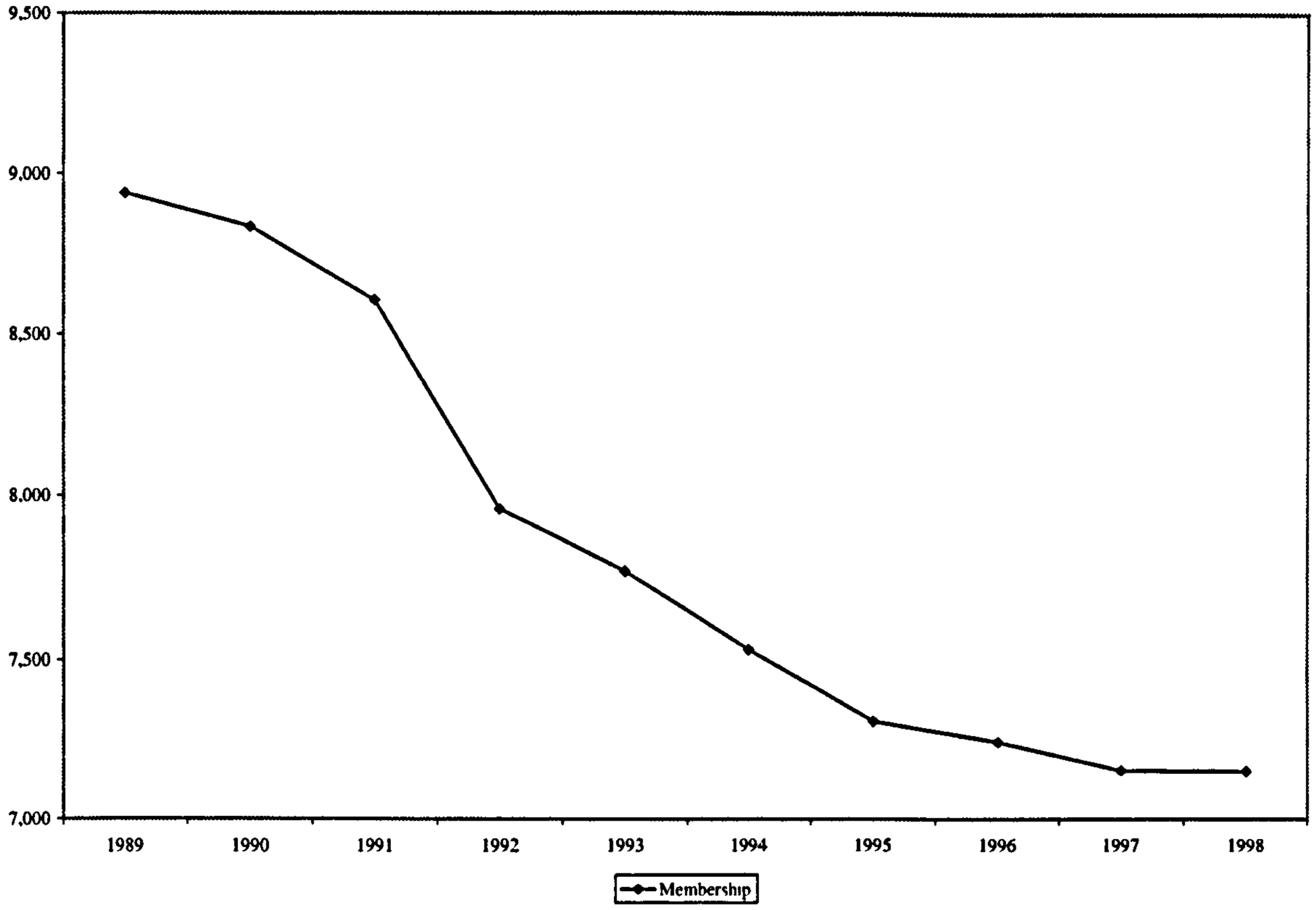

Fig 4.2 Union Membership (000s) 1989-1998. Source: Hicks 2000: 332.

unions' (Hicks 2000: 332). Data from the Workplace Industrial Relations Survey shows that aggregate union membership declining from 65 per cent in 1980 to 36 per cent in 1998 – see Table 4.2 - an overall decrease of 44.6 per cent.

Between 1983 and 1994 total membership of trade unions in the UK fell from 11.2 million to 8.3 million a reduction of 26 per cent (Labour Market Trends, February 1996: p51). Later data from the Labour Force Survey covering the period 1989-1998, shows union membership declining from 8.9 million to 7.1 million (Hicks 2000: 332). The figures from the LFS – see Fig 4.2 - are more likely to accurately reflect the number of trade union members who are in employment. Questions on trade union membership are asked only of those in employment in the survey's 'reference week'. Other figures, which use sources that are based on union total membership, are likely to over estimate membership. The reason for this is that these figures include unemployed members and those in retired member's sections/branches of the unions.

4.1.5. Trade Unions and Inequality. 'The fact that unionization fell in most countries in the 1980s, when market forces favoured greater inequality, is no accident.' (Freeman Richard et al 1994: p54). In the UK between 1984 and 1990, trade union density decreased and inequality increased substantially. Table 4.3 - which is based on tables 4.1 and 4.2 - gives the

relevant changes in trade union density and the change in the upper decile/lower decile ratios between 1984 and 1998. From this we can see that between 1990 and 1998 although union density continued to decline inequality remained virtually the same. However, this has to be qualified. The data in the table has to be treated as suggestive and not definitive, as there are many forces at work within the economy.

	1984/90	1990/98	1984/98
Change in Inequality	7.7	0.1	7.7
Change in Union Density	-27.0	-23.4	-44.6

Table 4.3 Changes in Inequality and Union Density in the UK between 1984 and 1998

The reason union density continued to decline while inequality appeared to be stabilised may be due to a number of different factors, one of which may be the lagged effect on union membership. When inequality increased and then remained stable this may have resulted in people believing it was not worth their while remaining in a trade union.

4.1.6 Change in Aggregate Union Membership Density. The decline of trade union density in the United Kingdom has not been evenly spread across the industrial divisions. Table 4.4 gives the aggregate union density in relation to workplace characteristics between 1984 and 1998. 'Aggregate union density is the number of employees summed across the sample of workplaces, divided by the number of employees in the same workplaces.' (Millward et al 2000: 263)

Table 4.4 shows that the largest decline in trade union density was in distribution, hotel, catering and repairs, which declined by 61 per cent from 31 per cent to 12 per cent. The lowest decline was in construction, which declined by 17 per cent from 36 per cent to 30 per cent. Transport and communications had the third largest change, 40 per cent from 90 per cent to 54 per cent, while the overall density declined by 38 per cent from 58 per cent to 36 per cent.

The change in union density between the private and public sector was also uneven. The private sector declined by 40 per cent from 43 per cent to 26 per cent. However, we can assume that the transfer of highly unionised firms from the public sector (due to the privatisation programme) to the private sector would have masked the real decline in the

sectors union density. During the same period, the public sector aggregate union density declined by 30 per cent from 81 per cent to 57 per cent.

Industrial Division	1984	1990	1998	% Change
Energy and Water Supply	88	75	68	23
Extraction of minerals/ores	64	56	47	27
Metal goods, engineering & vehicles industries	60	46	45	25
Other manufacturing industries	53	47	33	38
Construction	36	46	30	17
Distribution, hotels & catering, repairs	31	19	12	61
Transport and communications	90	73	54	40
Banking, finance, insurance, business services and leasing	29	28	15	48
Other services	68	61	46	32
All industries	58	47	36	38
Sector				
Private	43	36	26	40
Public	81	72	57	30

Table 4.4 Aggregate Trade Union Density 1984-1998. Source adapted from Millward et al 2000: 87

If we take union density to be a proxy for union strength 'we find the greater level of union density the more likely management were to consult and negotiate over workplace matters. Those workplaces where at least some negotiations took place with union representatives had a union density of 61 per cent, compared with 56 per cent where there was no negotiation but some consultation, and 42 per cent where there was neither' (Cully et al 1999: 105).

4.1.7 Mean Union Density. The mean union density allows us to identify the average level of trade union density in different workplaces. Table 4.5, which is calculated directly from the various WIRS surveys, gives the mean union densities for the SIC 1980 nine industrial divisions. Between 1984 and 1998 the mean trade union density declined by 44 per cent from 47 per cent to 27 per cent, this was a slightly larger than aggregate trade union density. Possibly unsurprisingly, distribution, hotels & catering and repairs had the largest decline, 74 per cent from 25 per cent to 7 per cent. The smallest change took place in energy and water supply, which had a 16 per cent decline from 87 per cent to 74 per cent. Transport and communications had the third largest decline, 51 per cent from 82 per cent to 40 per cent. The change in union density between the private and public sector was also uneven. The private sector declined by 69 per cent from 42 per cent to 13 per cent. While the public sector declined by 25 per cent from 81 per cent to 61 per cent.

Industrial Division	1984	1990	1998	% Change
Energy and Water Supply	87	76	74	16
Extraction of minerals/ores	36	41	26	28
Metal goods, engineering & vehicles industries	38	30	14	63
Other manufacturing industries	39	28	22	44
Construction	26	38	16	39
Distribution, hotels & catering, repairs	25	13	7	74
Transport and communications	82	61	40	51
Banking, finance, insurance, business services and leasing	28	33	18	34
Other services	66	58	44	32
All industries	47	38	27	44
Sector				
Private	42	25	13	69
Public	81	72	61	25

Table 4.5 Mean Trade Union Densities 1984-1998.

If we divide aggregate union density by the mean union density this gives us some indication as to the size distribution of the establishments 'because union density was generally higher in larger workplaces, meaning that aggregate density exceeds average workplace density.' Cully et al 1999:86 - see Table 4.6.

Industrial Division	1984	1990	1998	% Change
Energy and Water Supply	1.0	1.0	0.9	-9.2
Extraction of minerals/ores	1.8	1.4	1.8	1.7
Metal goods, engineering & vehicles industries	1.6	1.5	3.2	103.6
Other manufacturing industries	1.4	1.7	1.5	10.4
Construction	1.4	1.2	1.9	35.4
Distribution, hotels & catering, repairs	1.2	1.5	1.7	38.2
Transport and communications	1.1	1.2	1.4	23.0
Banking, finance, insurance, business services and leasing	1.0	0.8	0.8	-19.5
Other services	1.0	1.1	1.0	1.5
All industries	1.2	1.2	1.3	8.0
Sector				
Private	1.0	1.4	2.0	95.3
Public	1.0	1.0	0.9	-6.6

Table 4.6 Index of Industry Size Distribution

Where the result in table 4.6 is greater than one, it indicates larger type establishments exist in that sector. Between 1984 and 1998 there would appear to have been an increase in larger

sized establishments in the private sector, the ratio increased from 1 to 2 an increase of 95.3[17] per cent, while the pubic sector establishments experienced a slight decrease. The largest increase was in metal goods, engineering and vehicle industries. While the largest decrease occurred in larger sized establishments in banking, finance insurance, business services and leasing, which declined by 19.5 per cent. In transport and communications large size establishments increased by 23 per cent. Part of which may be explained by the consolidation of ownership within the bus and coach industry that took place between 1990 and 1998 - see 2.7.1.

4.1.8 Union Coverage. Collective bargaining normally exists where there is a recognised union or staff association within the establishment for the individual to join, which is the 'determinant of coverage... Coverage itself may well be determined by compositional factors, employer recognition and derecognition strategies (in turn affected by macroeconomic conditions), and the industrial relations climate' (Disney 1990: 171). But a 'union may represent only a small section of the workforce, perhaps bargaining on behalf of a single occupation at the workplace. Often collective agreements do not cover managers and senior professional staff' (Millward et al 2000; 160).

However, coverage itself does not imply recognition of the union or staff association. It is possible that an employer will pay the industry's nationally agreed rate through being a member of an employers association, while having no employees who are members of trade unions. In this case the nationally agreed rate acts as a minimum wage for that industry. It would be difficult for an employer to recruit labour at a wage rate below the nationally agreed rate. Individual employees therefore who do not belong to a trade union may still have their earnings determined by collective bargaining involving a recognised trade union and an employers association, and are then covered by a national union agreement because their employer is a member of an employers association. Then there is the question of whether an individual chooses to join a union that is recognised.

'Whether a workplace's union or unions can improve the workforce's terms and conditions of employment depends, as a starting point, on the proportion of those workers covered by collective bargaining. Where a high proportion of workers are covered, the union is likely to have greater influence in the workplace as a whole than if it bargains only for a minority of

[17] Does not equal 100 per cent due to rounding errors.

workers' (Millward et al 2000; 160).

In analysing changes in coverage we will use two sources. The first is the New Earnings Survey for the years 1973, 1978 and 1985. The second is the WIRS series for 1984, 1990 and 1998; the WIRS first asked questions about coverage in 1984. This overlap allows us to roughly estimate the change in coverage between 1973 and 1998, a 25-year period.

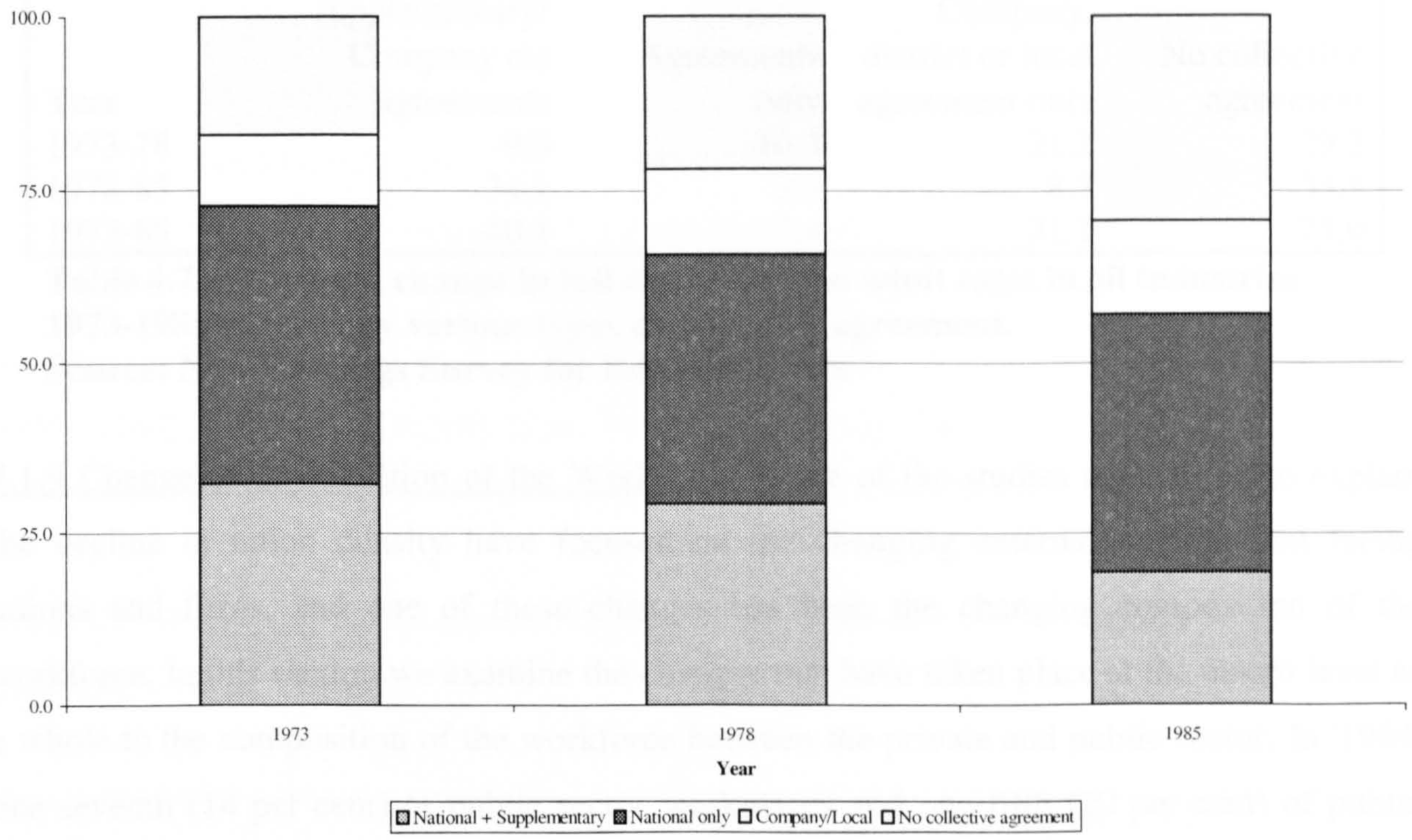

Figure 4.3 Change in Male Manual Coverage 1973-1985 all industries and services. Source New Earning Survey for Relevant Year

Figure 4.3 shows the overall change in the composition of full-time men for all industries and services between 1973 and 1985. The two most significant changes are the decline in national and supplementary /company etc agreements and the increase in people not being covered by any collective agreement. Table 4.7 gives the percentage changes overall within all the SIC groups for the three relevant years. We see that national and supplementary\company agreement declined by 40 per cent. The largest decrease was 34 per cent, which took place between 1978 and 1985. From this table we can see that there was a move away from national and supplementary/company agreements to company, district or local agreements. However, the largest change was those not being covered by any form of collective

bargaining, rising from 16.8 per cent to 29.2 per cent an increase of 75.0 per cent.

In 1984 according to the WIRS survey 'collective agreements fixed pay rates for an average of almost nine out of ten workers in unionized workplaces. This fell to three quarters (75 per cent) in 1990 and then again to two thirds (67 per cent) in 1998' (Millward et al 2000: 160). By 1998 only 31 per cent of all workplaces employing 25 or more employees had any form of collective bargaining - see Cully et al 1999: 89.

Year	National and supplementary/ Company etc agreements	National Agreements only	Company, district or local agreement only	No collective agreement
1973-78	-9.0	-10.3	21.2	29.2
1978-85	-34.1	3.3	8.7	35.5
1973-85	-40.1	-7.4	31.7	75.0

Table 4.7 Percentage change in full-time males on adult rates in all industries 1973-1985 covered by various types of collective agreement.
Source: New Earnings Survey for Relevant Years

4.1.9 Change in Composition of the Workforce. Some of the studies undertaken to explain the decline in union density have focused on the changing external environment facing unions and firms, and one of these changes has been the changing composition of the workforce. In this section we examine the changes that have taken place at the macro level as a whole to the composition of the workforce between the private and public sector. In '1984, one seventh (14 per cent) of public sector workplaces and one fifth (20 per cent) of public sector employees formed part of public sector trading corporations or nationalised industries. Across the whole economy, these accounted for one in every twenty workplaces (5 per cent) and one in every ten employees (9 per cent)....The overall impact of the privatisation programme was to reduce the proportion of all workplaces that were part of public trading corporations or nationalized industries from 5 per cent in 1984 to 2 per cent in 1990. The proportion of all employees working in such establishments fell from 9 per cent to 3 per cent over the same period' (Millward et al 2000: 21). Yet in the economy as a whole during this period employment increased by nearly 10 per cent, and union density declined by nearly 38 per cent.

'The standard method of quantifying the impact of compositional change uses "shift -share" analysis. This method splits the fall in overall union density into three components' (Green 1992: 451). To calculate these components we have used the following formula:

$$\Delta U = \sum_i u_i^{n2} n_i^{n2} - \sum_i u_i^{n1} n_i^{n1}$$

where u_i is union density within group i, n_i is the proportion of all employees in group i, superscripts delineate the year, and the sum is over both groups. We may rewrite this as

$$\Delta U = \sum(u_i^{n2} - u_i^{n1})n_i^{n1} + \sum(n_i^{n2} - n_i^{n1})u_i^{n1} + \sum(u_i^{n2} - u_i^{n1})(n_i^{n2} - n_i^{n1})$$

The first term on the right hand side of the expression, $\sum(u_i^{n2} - u_i^{n1})n_i^{n1}$, measures the change in density that would have occurred if the employee composition had stayed the same as the base year n_1, but the within-group densities had changed. The second term, $\sum(n_i^{n2} - n_i^{n1})u_i^{n1}$, is the change that would have occurred due to the change in employee composition if the within-group density had stayed at the base year n_1 level. The third term $\sum(u_i^{n2} - u_i^{n1})(n_i^{n2} - n_i^{n1})$, is the interaction of the other two effects and is generally small by comparison.

Table 4.8 shows the compositional change between the private and public sectors of the economy between 1984 and 1998.

	1984-1990	1990-1998	1984-1998
% of change due to within group changes in union density between private and public sector	25	6	15
% of change due to the change in the composition of the workforce between private and public sector	76	95	87

Note: The percentages do not sum to 100, owing to the interactive term

Table 4.8 Compositional Change of Workforce Between the Private and Public Sector 1984-1998. Source: Millward et al 2000 Tables 2.1 and 4.2

What is significant is the size of the percentage change due to the changes in the composition of the workforce, especially between 1990 and 1998, when 95 per cent of the change is due to the change in composition. During 1984 and 1990 25 per cent of the change can be accounted for due to the change in union density, and partly to the privatisation programme. However, between 1990 and 1998 only 6 per cent of the change can be attributed to the change union density. Overall 87 per cent of changes that occurred between 1984 and 1998 can be

accounted for by the change in composition of the workforce between the public and the private sector, and 15 per cent due to the changing in union density.

4.1.10 Structure of the Product Market. Wage setting institutions like trade unions are not immune to market forces. Any major shift in supply and demand that results in increasing relative wage differentials will reduce the strength of centralised collective bargaining and lower the unions influence on the wage setting process. Wage setting institutions that go strongly against market forces face a difficult task in the long run.

According to Beaumont (1990: 28) 'Industrial-relations researchers have had a long-standing, if somewhat limited, interest in the impact of the nature of the product market environment on the structures, processes, and outcomes of collective bargaining.' He argues that if the product market is highly competitive we could observe three effects. These are:

1. Limits the extent of union organisation, which weres due to the difficulty, and cost to the union(s) of effectively organising a relatively large number of small sized firms.
2. Considerable employer opposition to recognising trade unions for collective bargaining purposes, especially if the employer is restricted in their ability to pass on any wage increase in the form of higher prices.
3. If unions do manage to organise such industries, both the employers and the union(s) are likely to favour the establishment, and maintenance, of multi-employer, industrial-level collective bargaining arrangements in order to try and take wage competition out of the industry concerned. That is, at the very least set a minimum wage level to minimise the amount of wage competition in the industry.

It could also be argued that the establishment of a uniform wage rate in an industry would create a barrier to entry into the industry or even force small rivals to exit the industry. According to Williamson (1987: 195) however, 'The most ambitious objective of an attempt at using wage rates to eliminate rivals and bar entry would be one of throughgoing joint profit maximzation among the favoured members of the industry.' This he concludes is unlikely to be realised in any but the most exceptional circumstances. More to the point is the amount of deviation from the joint profit maximisation objectives, which can be expected. In general [he concludes], the degree of adherence to a qualified joint profit maximisation agreement will depend on the structure of the industry and the conditions of the environment.

According to Hirsch and Addison (1986: 116) 'Unions in the long run cannot markedly increase the wages of union members relative to otherwise similar nonunion workers unless

there are monopoly returns, Ricardian rents accruing as a result of special cost advantages, or unions are organised across most firms in an industry.' In a competitive industry, if a union raises the wage bill for a minority of the firms in the industry, these firms are not likely to survive in the long-term if they continue to have higher costs than the majority of firms in the industry. 'However, union wage gains will create an excess supply of workers in covered jobs. Because profit-maximizing firms will select the relatively most productive workers from this queue, in the (very) long run union-nonunion wage differentials between similar workers or labour efficient units may be small' (Hirsch and Addison 1986: 117). The union can only maintain wage rates above the competitive rate in the long run where it has organised the majority of the firms in the industry.

But, it can be argued that other factors are also important, some of these are:

1. if the particular market is regulated – regulation could 'facilitate rent-seeking behaviour rather than tapping into the economies of scale as a method for enhancing consumer welfare' (Gupta, Barnali 1998: 53);
2. if the labour in question also face little or no foreign competition; and
3. have an inelastic demand curve for their products.

In such a non-competitive market situation, trade unions may redistribute a portion of the supra-normal profits from capital to labour (see next section for a more detailed argument about non-competitive markets). If supra-normal profits exist due to the structure of the market, any lowering of the profits available to a firm due to rent seeking actives of the union raises a distribution issue. That is what share, if any, of the supra normal profits should be redistributed to labour? The extent to which either party can appropriate this supra-normal profit will depend on the relative power of the two sides, and this will depend in part upon the prevailing institutional climate eg hostile or favourable to the employers or the unions.

4.1.11 Trade Unions and Rent Sharing. There are many theories in economics about trade unions and their ability to raise the earnings of their members above the market-clearing rate. One of the widely held beliefs is that trade unions through their rent-seeking activities reduce the amount of profits available to firms. This could reduce or even eliminate potential supra-normal profits available to capital.

According to Rose (1987: 1147) 'understanding rent sharing is essential to analysing government regulation. Regulatory protectionism can create rents over which workers and

firms may negotiate, regulatory profit constraints may distort firms' labor inputs or alter firms' relative bargaining strengths vis-à-vis unions, regulatory barriers to entry may enhance unions' power, and the political nature of regulatory agencies can expand the scope of potential games between firms and workers.' Regulation of an industry 'may have important effects on industry wages: failing to account for these effects may lead to underestimates of regulatory rents and distortions' (Rose 1987: 1147).

The relationship between the structure of the market and profitability also raises efficiency issues. Market power as we have already demonstrated – see 1.4.5 - may be a function of the existence of large sunk costs within the particular industry. These sunk costs could allow the existence of supra normal profits, and the union or a group of workers may be able to appropriate a share of the profits arising from the existence of those sunk costs.

However, there is a countervailing argument that firms could use supra-normal profits to forestall higher wages by enduring or threatening to endure long strikes – see Freeman and Medoff 1984: 52. The existence of these polar opposite theories could be because of the problem of measuring the bargaining power of trade unions.

'To illustrate this problem, [of measuring the bargaining power of trade unions] consider trucking, where no one firm has a significant market share, but where the Teamsters wage gains have been sizeable, to a large extent because government regulation has worked to both employers' and the union's advantage. Next consider the automobile industry, where high relative wages won by the United Automobile Workers in the 1970s undoubtedly reflected the fact that in that decade the largest four U.S. auto companies dominated auto sales in this country' (Freeman and Medoff 1984: 52).

4.1.12 Non-competitive Product Markets. In an imperfect market a firm faces a downward-sloping demand curve for its product. As they hire more labour they face diminishing marginal productivity, but also a lower price for their product. This means that the marginal revenue is always less than the price, and the marginal revenue product must always be less than the value of the marginal product. In the short term this would result in lower labour-demand elasticities than in competitive firms that have the same product function.

Hamermesh and Rees (1998: 136) question whether real-world price setters are typically profit maximisers in the short-run. They may be under a variety of political and public relations pressures to stabilise employment, to restrict profits to a reasonable amount, to restrain increases in product prices, and not to enlarge their share of the product market unduly. They go on to argue that as a result of the possibility of such government interference, the management of a firm with some market power – they do not say how much – could choose to devote some of the supra normal profits to paying higher wages than the labour market required, or use more labour – featherbedding - than a profit maximising firm would use. Here the existence of supra normal profits – which could result in government intervention – could be used to make the workforce more contented – better paid? – or keep unions from organising the workforce. According to Hamermesh and Rees (1998: 137) there is some evidence that firms that produce in markets characterised by little competition do pay higher wages than equivalent firms in competitive markets.

In 2.4.6 we demonstrated that the effect of the introduction of competition into the Hereford trial area was that the National Bus Company had to renegotiate its agreements locally with its trade unions as a direct result of increased competition. This would tend to confirm the premise that the more competitive the market the less opportunity there is for a union to gain or maintain 'rent' for its members. This is due to the inability of the employer to generate supra-normal profits and pay wages significantly above the competitive equilibrium.

4.1.13 Trade Union Wage Mark-up in the UK. According to Adnet (1989: 18) more problematic to the neo-classical theory is how to model a market where the labour force is organised. Trade unions must face a downward-sloping demand curve for their members' labour. However, if trade unions are able to exert any influence on an employer during wage negotiations, then this should be reflected in higher wages for their members compared to their non-union colleagues, although there may be some spillover effect to non-organised labour. So at least in part the differential between the wages of unionised and non-unionised employees can be viewed as the result of trade union power. According to Smith (1994: 122) the simple proposition is the more powerful the union the greater the wage mark-up. But if this union wage mark-up is dependent upon the firm's product market power, then in a competitive market it is assumed that the union mark-up will disappear. If a market or industry becomes more competitive we could then expect to see a reduction in the union wage mark-up, assuming that one existed in the first place. However, changes in the quality

of labour would also have to be taken into account. According to Smith (1994: 122) in the UK the 'union mark-up' increased during the 1970s but, contrary to all the other indicators of trade union power, their ability to maintain wage differentials in favour of their members has not been undermined during the 1980s. So it would seem that it is not just a firm's product market power which allows trade unions to obtain rent for its members. Smith (1994: 122) goes on to say that 'Empirical studies tend to support the notion that union wage bargaining does have a significant impact on the structure of wages in the economy.'

It has also been argued that the principal factor determining the union wage effect on demographic groups doing similar jobs is the standard rate policies of unions. These policies require firms to give "equal pay for equal work" to workers within a firm and across firms, denying management the right to set pay on an individual-by-individual basis. By equating pay across workers within a market, standard rate policies raise the pay of otherwise lower-paid workers more than that of otherwise higher-paid workers – see Freeman and Medoff 1984: 48. However the union wage effect varies across industries and they argue (p 50) that the principal factor determining the magnitude of the union wage effect in different industries is the monopoly power held by the union. This power is related to the wage sensitivity of the demand for organised labour – that is, to the change in employment induced by a given change in wages. The smaller the decline in the level of employment as a result of an increase in the wage rate the greater the ability of the union to raise wages without incurring any significant loss of membership. In those areas where employment is relatively unresponsive to changes in wages we could expect to see sizeable union wage gains. In other sectors of the economy where employment is relatively responsive to changes in wages only 'modest' union wage gains could be expected.

4.2. The Effects of Changes in the Bargaining Structure and Union Density in the Bus and Coach Industry

4.2.0 Introduction. In the previous section we have critically examined the changes that have taken place in inequality, union density and real wages in the economy as a whole. In this section and the following section, we will analyse the changes that have taken place in inequality in earnings, union density, and union coverage within the industries concerned in this study. This is to see if these are different from the previous result, and if they are, what may have been the possible reasons for these differences. Specifically we will be examining

the propositions put forward at the start of this chapter.

We will also examine the bargaining structures that existed in the bus and coach industry and try to determine if the outcome is similar to the all manual male real average wage, and if they are not, what could be the causes of these differences. We will then go on to consider some of the effects of privatisation and deregulation, particularly the case of London Buses, and the inability of the T&G to respond effectively to the challenge, especially in regard to the introduction of competition through competitive tendering. Problems with staff retention due to competitive tendering are considered using CentreWest Ltd as an example.

4.2.1 Changes in Inequality. From Table 4.9 we can see that unlike all male inequality, all male manual bus and coach drivers inequality decreased between 1984 and 1998 except for the Highest Decile/ Medium ratio, this increased by 1.1 per cent. The greatest reduction in inequality was in the Lowest Quartile/Medium group, which decreased by 2.5 per cent over the same period.

Inequality overall decreased between 1984 and 1998, with the Lowest Quartile/ Medium ratio showing the largest decrease overall of 2.5 per cent. However, between 1984 and 1990 the decrease in inequality was 4.9 per cent, while it increased by 2.2 per cent between 1990 and 1998. Also the variance of the inequality was considerably less for bus and coach drivers than for all male manuals. This might suggest that the unions were able to limit the increases in inequality, compared to the economy in general by maintaining the principle of the 'rate for the job'.

Year	Lowest Decile/ Medium	Lowest Quartile/ Medium	Highest Quartile/ Medium	Highest Decile/ Medium	Highest Decile/ Lowest Decile
1984	70.7	81.5	117.3	133.6	189.0
1990	71.0	85.5	116.3	134.1	188.8
1998	72.2	83.6	115.9	135.1	187.1
		Percentage Change			
1984/90	0.4	4.9	-0.8	0.4	-0.1
1990/98	1.7	-2.2	-0.3	0.7	-0.9
1984/98	2.1	2.5	-1.2	1.1	-1.1

Table 4.9. Change in male inequality in the Bus and Coach Industry 1984-1998.
Source New Earnings Survey Relevant Years

Year	All male Manual	Bus & Coach Drivers
1984/90	241.5	189.0
1990/98	260.0	188.8
1984/98	260.1	187.1
% Change	7.7	-1.0

Table 4.10 Ratio for the highest decile/ lowest decile for all male manuals, and bus and coach drivers.

Table 4.10 gives the ratio for the Highest Decile/ Lowest Decile for all male manuals and bus and coach drivers, from this we can see that the variance increased over the period for all male manuals by 7.7 per cent.

4.2.2 Aggregate Trade Union Density. Using data calculated from the 1984, 1990 and 1998 WIRS[18] for the road passenger transport sector, shows a similar picture of declining aggregate trade union density - see Table 4.11 - to that of the rest of the UK, albeit from a higher starting percentage.

	1984	1990	1998
Private	92.2	60.2	79.8
Public	99.3	95.8	60.9
All	98.2	75.8	74.6

Table 4.11 Aggregate Trade Union Density for Scheduled Road Passenger Transport 1984-1998

By 1998 the overall aggregate density in the private sector of passenger road transport had declined by 13.4 per cent to 79.8 per cent from 92.2 per cent. It reached its lowest level in 1990 when it declined by 35 per cent from 92.2 per cent to 60.2 per cent. However, the publics sector density during this period remained fairly constant at 95.8 per cent, a reduction of 3½ per cent from 99.3 per cent.

Between 1990 and 1998 only the public sector of road passenger transport emulated what happened overall within the UK. The density declined from 95.8 per cent to 60.9 per cent, a decline of 36 per cent. During the same period the private sector aggregate union density had

[18] These figures have to be treated with caution as the sample number are below the level of observations needed to produce statistically reliable estimates.

increased by 33 per cent from 60.2 per cent to 79.8 per cent. This increase in aggregate density for the private sector may be explained by the increasing concentration of the industry, which took place during the 1990s. The large bus groups - of which there are four - have recognised the trade unions in all areas of negotiations, except for national wage bargaining.

The bus industry is a service industry, and having a high level of union density means that it does not conform to some of the perceived wisdom about union density. According to Green (1992: 445) there is a generally agreed broad consensus that 'union density tends to be higher...in manufacturing than in service industries'. But the high level of public ownership prior to privatisation and deregulation may in part explain the high level of union density. High union density is normally associated with public ownership - see Green 1992: 445 - it also tends to exist in industries where ownership is concentrated.

4.2.3. Mean Trade Union Density. The mean of private sector union density between 1984 and 1990 declined to 39.2 per cent from 87.4 per cent a reduction of 55 per cent - see Table 4.12. The private sector 1990 mean of 39.2 per cent indicates a fragment sector, while the mean density of 95.7 per cent for the public sector still reflected a highly concentrated sector.

	1984	1990	1998
Private	87.4	39.2	77.1
Public	99.3	95.7	62.1
All	94.4	46.7	74.7

Table 4.12 Mean trade union density for scheduled road passenger transport 1984-1998

The mean union density of the public sector declined by 4 per cent from 99.3 per cent to 95.7 per cent between 1984 and 1990. While the mean union density for the whole of road passenger transport decline by 51 per cent from 94.4 per cent to 46.7 per cent during this period.

Between 1990 and 1998 the private sector density increased by 98 per cent from 39.2 per cent to 77.6 per cent. This increase, like the increase in aggregate density, went against the national trend that was still declining. However, the public sector density of passenger road transport declined from 95.7 per cent to 62.1 per cent.

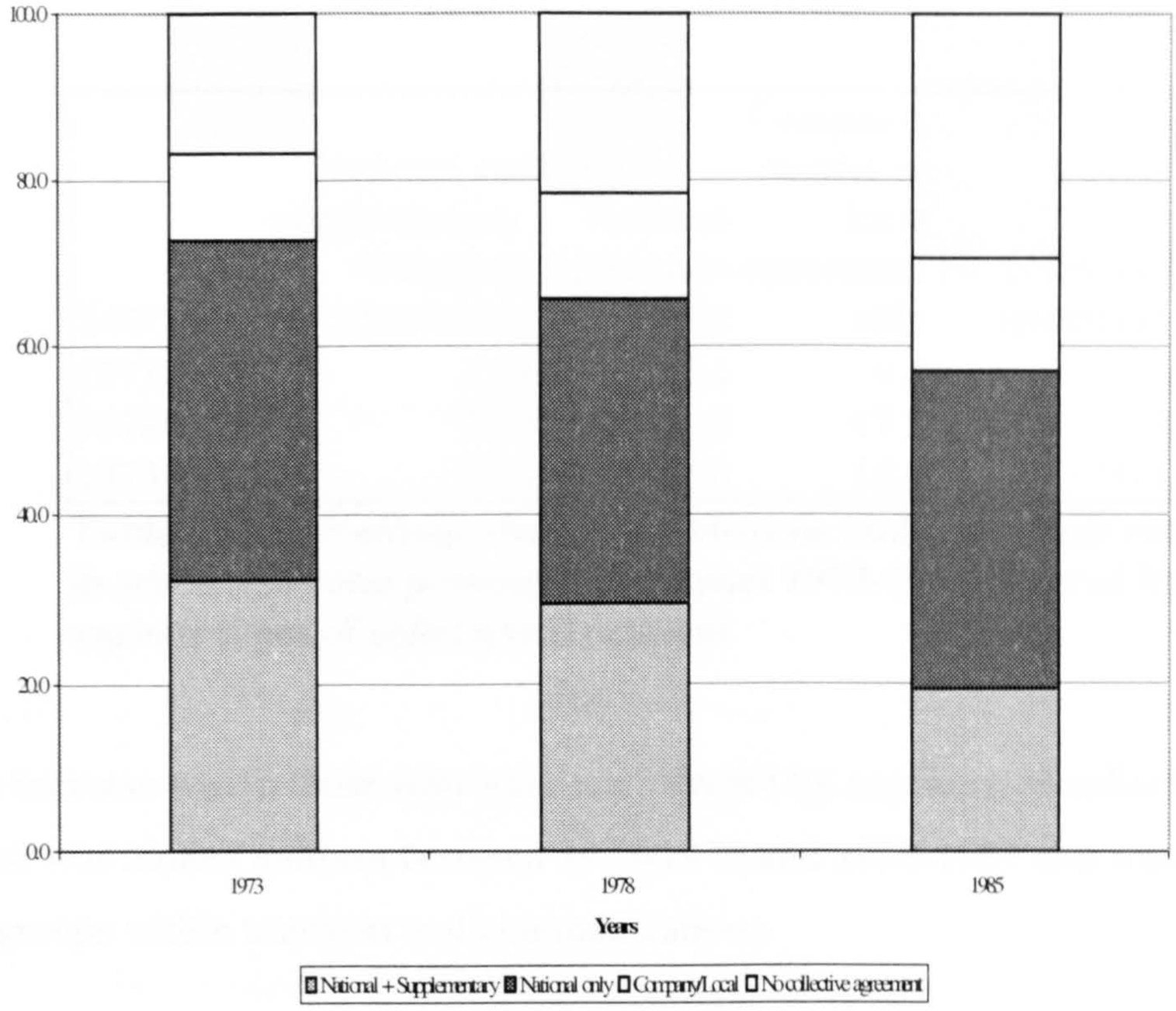

Figure 4.4 Change in coverage for full-time males in scheduled road passenger transport 1973-1985

4.2.4 Change in Trade Union Coverage. For the Bus and Coach Industry examination of Table 4.14 shows that National and Supplementary/Company and other agreements declined from 42.8 per cent to 34.6 per cent a decrease of 27.6 per cent between 1973 and 1985. Whilst coverage by 'National Agreement only' remained static between 1973 and 1985, although there were large variations between 1973 and 1978, and 1978 and 1985. Coverage declined during 1973 and 1978 from 37.4 per cent to 25.2 per cent. However, from 1978 to 1985 coverage increased to 34.6 per cent, resulting in an decrease of 1.1 per cent between 1973 and 1985.

Coverage by Company, district or local agreement increased from 9.8 per cent to 18.2 per cent an increase of 86.7 per cent between 1973 and 1985. The main increase was between 1973 and 1978, from 9.8 per cent to 17.2 per cent an increase of some 75%. This change could be in part due the recommendations by the Donovan Commission on the move to localised collective bargaining. Also in 1967 a Report by the National Board for Prices and Incomes resulted in the various Councils setting minimum terms and conditions of employment. These minimum terms and conditions were enhanced through local productivity

bargaining conducted within a framework laid down by the NJICs and NJCs.

Year	National and supplementary / company agreements	National agreement only	Company, district or local agreement only	No collective agreement
1973-1978	42.8	37.4	9.8	5.0
1978-1985	50.3	25.2	17.2	7.3
1973-1985	34.6	37.0	18.2	10.1

Table 4.13 Percentage change in full-time males on adult rates in scheduled road passenger transport 1973-1985 covered by various types of collective treatment

The largest increase was in those who were not affected by any form of collective agreement. The increase was almost uniform between 1973-1978 and 1978-1985 and was the largest for any of the groups within transport and communications.

4.2.5 Change in the Composition of the Workforce in the Bus and Coach Industry. As in the previous sections we will now examine what has happened to the composition of the workforce due to the privatisation of the bus industry, and the subsequent consolidation of the industry. Table 4.14 gives the results of the shift-share analysis. Consolidation of the industry that took place in the 1990s has resulted in large changes between 1990 and 1998, and this has resulted in figures that are difficult to explain using shift-share analysis. Therefore we will disregard these results and concentrate on the 1984-1990 and 1984-1998 results in this instance.

	1984-1990	1990-1998	1984-1998
% of change due to within-group changes in union density between private and public sector	11	405	16
% of change due to change in the composition of the workforce between private and public sector	43	314	144

Note: The percentages do not sum to 100, owing to the interactive term

Table 4.14 Compositional change of the Bus and Coach Industry between the public and private sectors

Between 1984 and 1990 there was a 45 per cent increase in union density due to within-group changes between private and public sector - see Table 4.14. During the same period there was 235 per cent change in the composition of the workforce between private and public sector.

Overall between 1984 and 1998 there was a 144 per cent change due to the change in the composition of the workforce. Unlike other sectors of the economy, trade union density in the private sector of the bus and coach industry increased from 42 per cent to 80 per cent. This was due to the transfer of highly unionised firms from the public sector to the private sector. However, over the same time period, the public sector density declined by 38.3 per cent from 99 per cent to 61 per cent[19]. Private sector employment also increased during this period from 21 per cent to 73 per cent an increase of 347.6 per cent, compared to a 65.8 per cent decline in public sector employment from 79 per cent to 27 per cent.

Table 4.15 summarises the results for all manuals, transport, and bus and coach. From the table we can see that the change in the composition of the workforce overall has the greatest effect for the bus and coach sector and was considerably greater than for the economy as a whole.

	1984-1990	1990-1998	1984-1998
	Within Group effect		
All manual	25	6	15
Bus and Coach	11	405	16
	Compositional Effect		
	1984-1990	1990-1998	1984-1998
All manual	76	95	87
Bus and Coach	43	314	144

Table 4.15 Summary of within group and compositional effect between 1984 and 1998

Overall the within group effect due to changes in union had little effect on the bus and coach sector.

4.2.6 Real Average Earnings in the Bus and Coach Industry. Even though non-unionism was increasing between 1973 and 1985, the real average wage for all industries during this period rose by 13.1% - see Table 4.16. Also during this period real earnings for Road Passenger Transport rose by 17.9 per cent.

The size of the increase in real wages for Passenger Transport was even more impressive when we remember that it was gained while the product market was declining. From 1973 to 1986, local bus passenger journeys fell by 2,131 million from 7,866m to 5,635m, a decrease

[19] Due to the small number involved in the WIRS surveys these figures have to be treated with caution.

of 27.9 per cent. The increase in real wages, which was above the manufacturing average, did not escape the eye of some economists. 'Other businesses to show an increase in real earnings over this period in excess of the manufacturing average were Electricity, the National Bus Company, British Airways, Postal Services, Telecommunications and the British Steel Corporation' (Redwood and Hatch 1982: 15). The ability to increase the real wage of its members in the context of a declining product market may be evidence of trade union power, indicated by the high level of union density.

SIC	1973-1978	1978-1985	1973-1985
All	0.3	12.8	13.1
Road Passenger Transport	5.6	11.6	17.9

Table 4. 16 Percentage Change in Real Average Earnings for various SIC Groups between 1973-85

4.2.7 Negotiating Machinery for the Bus and Coach Industry. There were three main negotiating sectors in the Bus and Coach Industry prior to deregulation and privatisation.

1. The Private Sector - tours, private hire and contract work which consisted of mostly small firms: 'in 1976 almost three-quarters had under six vehicles - many are family businesses or partnerships also running road haulage, vehicle repair or car-hire services, and they rely heavily on part-time, seasonal or casual drivers' (ACAS 1980: p204)

2. The Municipal Sector - stage carriage service consisted of the Passenger Transport Executives (PTE), and some 50 other local authorities that also ran bus services.

3. London Transport Executive - stage carriage service.

The agreements were similar - both in coverage, and in actual terms and conditions of employment - to those set for local authorities by the NJIC and NJC. According to Heseltine and Silcock (1990: 244-245) this cumbersome national machinery made it difficult to change structures and working practices, and sustained previously complex working practices in the public sector - particularly those governing crew scheduling. These practices proved to be costly to administer in terms of both wages and productivity. In contrast, independent operators in the private sector had very few codified agreements.

National bargaining ended in the private and municipal sectors when the industry was deregulated in 1987. London Transport continued area bargaining until 1989 when LBL was being prepared for privatisation - see 4.3.3.

We will now examine the changes that took place due to the introduction of tendering and then the privatisation of London Buses.

4.3. Tendering and Privatisation of London Buses.

4.3.0 Introduction. This section critically examines the effects of tendering and privatisation on the membership of the main trade union representing bus drivers and conductors employed by London Buses Limited (LBL), the T&G. A major source of the material for this section is an internal report prepared by the then Passenger Services Group National Secretary of the union in 1993 for the Union's General Secretary.

4.3.1 Background to Tendering of London Buses Ltd. The first route contracts were put out to tender in 1985 and were tendered on a gross cost basis. This meant that London Transport (LT) retained all the income from the fares and awarded contracts on the basis of the lowest gross cost the operator was prepared to quote to provide the service. With this system once the contract was awarded the operator was insulated from commercial risk, since their income from individual route or routes covered by the tendering system were fixed. They were also protected from entry competition because once the contract was awarded, they became the monopoly provider on that route. This system has been described as the limited competition model - see Preston 2001: 41 - based on minimum cost tenders at route level. The importance of this model and how it affected the T&G by ending direct wage bargaining with LBL will be explained later in this section.

One of the main stated objectives of deregulation was to promote competition and thereby increase the efficiency of the operation and match services more closely to passenger demands. Although the tendering of bus services had introduced competition amongst operators in London, LBL was still the dominant firm in the market. It was believed that if a high level of competition was to be achieved LBL had to be subdivided into a number of companies which could be sold off and which could then compete against one another. This

process was completely different from what had taken place in the rest of the UK bus industry.

During the financial year 1986/87 contracts for 9 per cent (15 million miles) of the total annual bus mileage operated were offered for tender by London Regional Transport (LRT). Of the 56 routes tendered, LBL won 40 per cent and other operators 60 per cent. According to LRT the average cost per bus mile on an annual basis of the routes operating under tendered contracts on 31st March 1987 was £1.54 per mile. This compared with £1.99 per mile when operated by LBL prior to tendering, a reduction in real terms of 22 per cent (see London Transport Report 1986/87: 14).

Although LBL retained bargaining for the majority of its platform staff, some of its staff were transferred to two subsidiary companies, Kingston Buses and Stanwell Buses. These companies were set up by LBL to win tenders in their areas. When platform staff were transferred to these subsidiary companies, new and less favorable terms and conditions of employment were imposed. The T&G challenged the legality of the tendering system in the High Court, but failed to win the case.

The creation of these companies coincided with long-term management plans to restructure LBL. This restructuring raised concerns amongst the platform staff that it would result in wage cuts and longer hours for the crews. The concern about "Kingston-type pay and conditions" resulted in London buses being off the road for two hours while 18,000 drivers and conductors attended union meetings in their garages – see Financial Times 1987b.

4.3.2 The Extension of Tendering. In 1989 the prospect of widespread disruption to public transport in London became likely when the leaders of the bus workers rejected a 7 per cent pay offer. The rise in inflation prompted workers to seek a large settlement. The T&G officials' strategy was to ballot its membership on taking a series of 24-hour strikes. When the ballot was counted, the bus workers, who had tabled a 14 per cent claim, voted by five-to-one to take strike action over the offer.

As a result of the ballot, London Regional Transport said it would increase its offer on overall earnings. At that time a bus conductor earned about £186 pounds a week, and driver/operators £220 – see Gapper 1989: 4. The bus pay offer covered all platform staff,

except for those on four-tendered route networks where pay and conditions had already been varied by LRT.

After a one-day strike on the 16th May LBL improved its 7.1 per cent pay offer. But as the bus workers had lodged a 14 per cent claim and voted by five-to-one in a ballot to take strike action over the offer, they planned to repeat their 24-hour strikes every fortnight. The improved offer from London Buses was 7.5 per cent on the basic rate but with other improvements was worth 8.1 per cent (Thompson 1989b: 15).

'In early July the union leaders representing 13,500 London Buses drivers and conductors recommended the acceptance of a 9 per cent offer. A ballot will be held on the offer, comprising 8 per cent on basic pay and 1 per cent in cash, on July 14' (Financial Times 1989b).

From this it can be seen that the union was still undertaking collective bargaining on behalf of its members, even though about a quarter of the network had been put out to tender. Where tendering was used it restricted competition to the tendering process. Once the contract was issued a de facto monopoly was created on the tendered route, unlike the Herefordshire trial area where there was freer competition, which was only subject to entry or exit notice along with the industry wide quality [safety] conditions. While central negotiations with LBL continued and because the majority of the network was not put out to tender, the unions were able to obtain substantial wage increases on behalf of their members. However, as we shall see, once the network was put out to tender, the unions were no longer able to maintain the earnings of its membership working in the London bus companies.

4.3.3 End of Central Negotiations. LBL negotiated centrally for the last time in 1989. They announced its intention to decentralise its bargaining from March 1990, and individual companies would become responsible for negotiating their own terms and conditions of employment. Later that year LBL was split into a number of subsidiaries in preparation for privatisation.

In October London Transport announced plans to put a further large portion of its bus network out to tender. At that time about 23 per cent of the LBL network had already been

put out to tender. Private-sector operators ran most of these tendered services, although LBL, which operated the rest of the network, had won some tendered routes.

According to Mr Nick Newton, manager of LRT's tendered bus unit, 'such [tendered] services had been proved more reliable and about 15 per cent cheaper than the services they replaced. "This has encouraged us to quicken the pace of putting out services to tender"' (Brown 1989: 12). The routes put out to tender represented about 10 per cent of the LRT network, or about 18m bus miles.

LRT was in the process of splitting up LBL into 13 units to prepare for the extension of bus deregulation to London when the T&G gave a warning that deregulation and privatisation might be leading to the end of 50 years of relative industrial peace on the buses. 'Mr Graham Stevenson, the union's passenger services national secretary-designate said that widespread discontent was building up among bus workers'...'Given that it is an extremely labour-intensive activity (around three-quarters of operating costs) it is not surprising that wages would be the first area where savings would be made...'Mr Stevenson said 'In effect, the bus worker has been forced to subsidise the taxpayer by virtue of a massive reduction in public subsidies, alongside the squeezing of wages and conditions' (Brown 1989: 12).

4.3.4 Company Bargaining in London. Company negotiations began with the LBL subsidiary companies when they were established in 1989. At the same time the government announced that the block grant would be apportioned on a basis of contracts awarded to the subsidiary. This announcement had a dramatic effect on wages and conditions of employment for those employed in the subsidiary companies. LBL drew up a timetable giving the date by which agreement had to be made, between 4th-19th January 1993. It also set a ceiling of £250 per week on average earnings - see Stevenson 1993: 1[20]. This effectively meant a reduction in weekly earnings of between £30 and £60, and an increase of the working week of between three and five hours to 42½ hours. According to the T&G adding these two factors together meant a reduction in earnings of some 30 per cent in real terms

[20] This raises questions about the previous earnings of LBL employees; did their earnings include an element of rent? Also what would be the effect if the new rate were below the market equilibrium rate? These issues will be discussed in a following section.

According to London Regional Transport (1993:15) 'Towards the end of the year, staff on all routes which had not previously been tendered were paid substantial compensation in exchange for reduced rostered earnings and increased working hours. 99 per cent unconditionally accepted the revised conditions which are necessary if the subsidiary companies are to compete successfully with the private sector. Staff turnover was very low reflecting market conditions...Reduced pay and more competitive conditions were introduced on block grant routes, bringing pay and conditions more in line with those offered by the private sector' (London Regional Transport 1993:16).

In February 1993 about 12,000 LBL staff were balloted by the T&G on taking industrial action over the changes to pay and conditions, including pay cuts of between £30 and £60 a week. The union said that any action would probably be a series of one-day stoppages.

However, LBL did offer a "sweetener" to its employees to accept this reduction of earnings. This caused the union to accuse the 10 subsidiaries of LBL of 'blackmail', saying the companies had threatened to withdraw compensation for loss of earnings if staff did not accept the package within varying periods of time. Some of the companies had told their staff they would have to waive their right to take action, including legal action, as a condition of receiving compensation. According to a T&G internal report 'Members were told that if they did not sign the acceptance forms by a certain date they would not receive a compensation payment and that refusal to sign at all would mean that they would be out of a job. Some of the letters even went as far as to say that staff dismissed in this fashion would be unable to claim Unemployment Benefit and that, by signing to accept, they were waiving any right to take legal action against the company!' (Stevenson 1993: 2).

The compensation was worth about two years lost earnings, on average about £3,000. Driver-operators earned about £280 a week before overtime. In the case of London United they offered a one-off payment of £3,800 to buy out current working practices in return for a longer working week and lower wages. There were also concerns about the company's refusal to give assurances on the future of staff pensions. The cost of the 'buyout' would have been between £37m and £47m, but there is no identifiable cost within the 1992/93 annual report and accounts. The total cost of the cost reduction schemes to LBL that year was £65.0m - see London Regional Transport 1993: 40.

The initial advice of the union to its members was that nobody should sign new contracts. If this position had been held, it could have aborted, or at least delayed, the whole process, unless the employers had been willing to give notice to all the staff concerned. However, the membership did begin to sign new contracts in sufficient numbers to raise concern within the union. After taking internal legal advice, the union encouraged members to sign the new contract, but at the same time hand in a disclaimer letter and vote "Yes" in the industrial action ballot - see Stevenson 1993: 2.

Company	Fore	Against	Percentage Fore
CentreWest			Rejected industrial action
East London			Action short of strike only
Leaside[1]	366	274	57.2
London Northern	309	297	51.0
London United	544	163	76.9
London Central[2]	394	344	53.4
London General	912	285	76.2
Metroline	354	183	65.9
Selkent	377	229	62.2
South London	364	216	62.8
Total	3,620	1,991	64.5

Table 4.17 Voting Returns of London Garages: Source Stevenson 1993 p 4
[1] Clapton Garage was ruled out due to irregularities
[2] The fact that the Peckham Garage was to close effected this result

Table 4.17 gives the voting figures for the LBL subsidiaries that voted in favour of taking industrial action. The overall average voting in favour of industrial action was 63.2 per cent. Of the 5,611 people who voted, 64.5 per cent voted for full industrial action. The lowest percentage in favour was 51 per cent at London Northern, while the highest percentage in favour of action was London United at 76.9 per cent.

What is somewhat surprising is that the one-day stoppage still took place in protest over the introduction of the new terms and conditions of employment. Yet according to London Buses 99 per cent of employees affected had signed new contracts. In their 1993/94 Annual report they described the industrial action thus 'At the beginning of the year there was some industrial unrest following the introduction of revised operating staff rates and conditions of service' (London Regional Transport 1994: 14). Also Mr Ollie Jackson, a T&G union official, said his members had signed new contracts and indicated that a prolonged dispute was unlikely. They were also unlikely to attract much public sympathy for their cause. The action

was being taken against a background of declining labour militancy. '...the number of strikes in January was even lower than last year, a record for the time' (Financial Times 1993a: 15).

'About two thirds of red London buses are expected to be off the roads...' (Summers 1993: 16). So why did the strikes go ahead? Certainly it would appear to go against some of the conventional thinking about why strikes happen - see for example Bosworth et al 1996: 354 - who has argued that the conceptual framework that tends to be favoured by modern economists is the asymmetric information approach. It is difficult to believe that there was asymmetry of information in this particular case. The most likely explanation is that although the members may have felt that they had no alternative but to accept the imposition of the new structure, it was not accepted willingly, and they wanted to express their displeasure at the imposition, supporting the call for limited strike action.

Another reason why the ballot for strike action was supported was that the union had linked the change in the terms and conditions of employment with the pension issue. The union had recognized that this was the one issue which would unite all of the LBL bus workers. Garages like Potters Bar, who were not affected by the block grant removal, supported the ballot for industrial action simply because of the pensions issue. It was an attractive strategy for the union to be able to link the pay and pensions issues. As it unified the membership across LBL with a common cause, a situation they had not been able to create for four years. Previously the problem for the union had been that wage bargaining had been carried out at a local level, while pensions was still the responsibility of LBL.

4.3.5 An analysis of the Labour Supply and Tendering System in London. A neo-classical analysis would indicate that a level of wages above the equilibrium level would tend to indicate some form of market failure. In the case of LBL we would have expected that the trade unions had raised the level of earnings above the market equilibrium i.e. rent sharing. The effect of tendering was to reduce the bargaining wage, and this was due to the market having only one customer, London Transport, who in the first round of tendering had set the wage level. This was not an 'oligopsonist (i.e. a firm that buys a substantial proportion of the labour supplied in the market, but which exists alongside a few other comparable firms in the market) facing a kinked supply curve' (Bosworth et al 1996: 15) in the true sense. In the first instance, London Transport set the maximum average wage under the tendering process at £250 per week. The question is, at what level was the wage set compared to the equilibrium

wage? The empirical evidence suggests that the level of wages was below the equilibrium wage level due to the continuing high turnover of labour. For example CentreWest reduced the rate of pay for all but three grades of employees in 1993 - see Table 4.18.

Grade	Average weekly pay £ prior to tendering	Average weekly pay £ after tendering	Gain (loss) £ per week	Percentage Change
OPO	276.01	246.88	(29.13)	-10.6
OPO to midi	276.01	236.67	(39.34)	-14.3
OPO nights	298.54	279.85	(18.69)	-6.3
Standard midi	236.6	236.67	0.07	0.0
Tendered midi	208.54	208.96	0.42	0.2
Crew driver	250.61	230.82	(19.79)	-7.9
Conductor (old)	245.46	204.97	(40.49)	-16.5
Conductor (new)	202.51	205.62	3.11	1.5

Table 4.18 Pay rates at CentreWest in 1993. Source TGWU 1999: 11

If the hypothesis that we have put forward is correct, this would have increased the pressure on the LBL privatised subsidiaries to retain labour. According to the NES in 1989, the average weekly wage for a male manual employed by LBL was £239.9. If we update that figure for inflation in 1993 it would have been £305.55.

Grade	1989 Basic	1993 Real	1993 Actual	Difference	Percentage Change
Driver\operator	179.74	230.43	212.74	-17.69	-7.7
Driver	158.52	203.22	192.00	-11.22	-5.5
Midibus	143.15	183.52	170.44	-13.08	-7.1
Conductor	155.09	198.83	188.01	-10.82	-5.4

Table 4.19 Change in Pay Rates at CentreWest 1989-1993

Table 4.19 shows the change in basic rates between four groups of employees. The 1989 figures relate to weekly pay rates at London Bus and the 1993 figures relate to basic pay rates at CentreWest. From this table we can see that the range of the percentage decrease in real terms is between 7.7 per cent and 5.4 per cent and the mean is 6.4 per cent.

4.3.6 CentreWest. To analyse the effects the tendering has had on the earnings of former employers of LBL we examine briefly the case of CentreWest, where there was an ACAS independent arbitration settlement for the 1999 pay agreement. In his comments on this the arbitrator highlighted the effects of the tendering process on wage determination. The arbitration process came about due to continued industrial action and a strike that took place on the 17th November 1999. Also it must be remembered that CentreWest was the only group

which rejected the call for industrial action in 1993 in opposition to the introduction of new rates of pay and working practices.

The T&G's original claim stated that the union's goal was to achieve a rate of £9 an hour for London bus drivers and a rate of £7.50 for London bus conductors. This T&G policy was passed by the Union's National Passenger Services Conference in 1998. In its evidence to the independent arbitrator - Professor William Brown - the union used data from the 1989 NES to show that the average earnings of drivers and conductors for LBL was £239.90 - T&G 1999: 14 - 10.1% above the national average for male manual earnings. If that differential were to be maintained in 1999, the average earnings for London bus drivers and conductors would be £368.80, far above the rates found at CentreWest. For average earnings at CentreWest to regain the 1989 position relative to the national average, a 26% pay rise would be required.

The union also identified the grading structure as another problem area. Prior to privatisation there were 6 grades for drivers and two for conductors. By 1999 there were 14 grades for drivers and two for conductors. This increase in grades resulted in the union commenting that 'CentreWest currently operates a grading structure that can only be described as highly complex, difficult to understand and unfair in its operation (TGWU 1999: 5). The Union was also concerned at the unfairness of the current system, which did not allow all drivers to progress to the highest grades (TGWU 1999: 6). In effect there was a 'glass ceiling' for drivers employed by the company after privatisation. Only drivers who were employed by the company prior to privatisation could be on the highest-grade rate.

The combination of low pay and the complex grading structure resulted in major problems for the company in recruiting and retaining staff. In Fig 4.5 we show the turnover for drivers at CentreWest garages in 1999. This was between 46 per cent at Uxbridge while 16 per cent at Acton Tram, with an average of 31 per cent. In the Arbitrator's Report and Award it identified that:

> 'The roots of this dispute lie in the short-term perspective of the tendering system operated by London Transport. The need to manage within tight financial and operational constraints, and with relatively short contracts, militates against a stable industrial relations policy. Bus operators are offered little scope to compete other than by worsening the terms and conditions of employment. This will have serious long-term implications for the quality, attitudes and skills of the workforce. A failure to address this underlying

problem of market regulation is likely to lead to increasing numbers of disputes arising from disorderly pay structures and a declining sense of employee commitment to public transport as a service' (Brown 2000: 5).

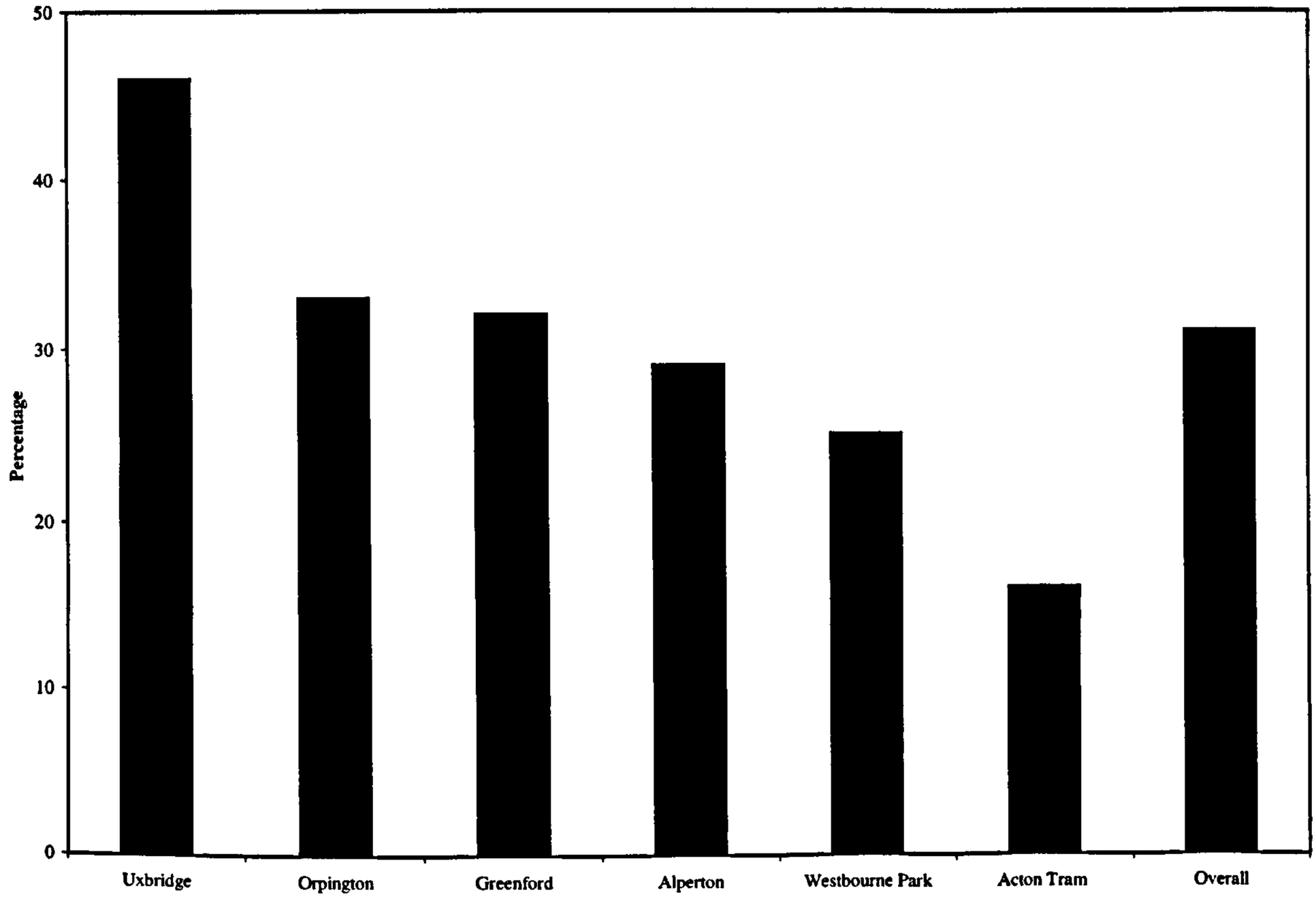

Figure 4.5 Driver turnover at CentreWest garages in 1999.
Source TGWU 1999: 6

4.3.7 Summary of Tendering in London. The tendering system in London ended the traditional bargaining model where a union negotiated with individual companies. The level of wages is to all intents and purposes set by the tendering regime put in place by LRT, and the union had little or no influence over this process. The former LBL subsidiaries could only compete with private sector operators by reducing the terms and conditions of employment of their employees. Even with the introduction of this limited competition, as with Hereford, it was fatal for area collective bargaining, as wanted by the architects of the liberalisation programme.

Given the economic climate in 1992, the union's members either had to accept the revised terms or face the prospect of losing their jobs. Some 15 members did lose their jobs because they refused to accept the new terms and conditions of employment offered by LBL.

However, it would appear that the tendering process has reduced the wages of London bus driver and conductors below the equilibrium level, and this has caused serious problems over recruitment and retention of staff, especially when the labour market is tight in London.

4.3.8 Changing Earnings in the Bus Industry. We will now examine critically what has happened to earnings for bus and coach drivers between 1974 and 1998 - see Fig 4.13. Real average earnings reached their second highest level in 1986, the year prior to the start of privatisation and deregulation in 1987. In 1987 there was a steep decline in earnings from which they have never recovered.

The data used in Figure 4.10 would appear to support the hypothesis that the average wage will be lower after privatisation. Unfortunately the NES data does not distinguish between different types of ownership, but a large proportion of the industry was transferred to the private sector, so it would appear reasonable to conclude that privatisation has had some effect on reducing the level of average wages. 'These effects will be reinforced by those emanating from competition, as firms attempt to match the cost structure of lower-cost....This outcome might be secured by a range of measures including compositional changes in the workforce in favour of low-wage employees, and relatively smaller increases in earnings over time.... At the level of the industry, restructuring has clearly had an adverse effect on wages. New Earnings Survey data indicates that bus drivers' adverse[21] wages have fallen in the period since deregulation from about 5 per cent above male average male manual earnings to nearly 15 per cent below' (Pendleton 1999: 782). The data used for Fig 4.10 shows that the real wage fell by 12.7 per cent between 1986 and 1998.

Pendleton (1999: 783) has suggested 'that the impact of privatisation on wage levels may be experienced mainly in the early stages of private ownership (i.e. before our observations). Thereafter a process of "catching up" occurs'. However, the data output for Figure 4.10 does not suggest any 'catching up' occurring. From 1986 to 1991, apart from 1988 a consistent decline in real earnings occurred. From 1992 onwards there have been both increases and decreases in the real wage, although in the last four years.

[21] We assume this is a typographical error and should read average

However, Pendleton's analysis may be more relevant when he later argues 'that the *possibility* of product market competition may be instrumental in bringing about lower wage levels in privatized firms, even though variation in the actual degree of competition between firms does not appear to be a powerful determinant of relative wage levels. Privatised firms operating in a contestable market may be under more pressure to secure economies in the wage bill than public sector firms, and we would therefore expect these firms to make more use of the various innovations to reduce labour costs that appeared in the industry from the mid-1980s.... However, privatised firms are more likely to make use of a combination of lower pay rates for minibus and lower "starter" rates of pay' (Pendleton 1999: 783). He would appear to be suggesting that it is the threat of introducing competition into the market, rather than the existing competition, that puts greater downward pressure on wages. 'In short, privatised [bus] firms appear to secure higher levels of profitability from a lower level of sales per employee by squeezing wages. Looking at it from the other direction, public sector firms have a lower level of profitability for a higher level of sales' (Pendleton 1999: 785).

This may indicate that it is the type of ownership that is important in the distribution of 'rent'. In a privatised firm the 'majority' of the rent may be distributed as profit to satisfy the 'capital markets'. While in a public sector bus firm, the workforce through their union and with the agreement of the owner, a larger degree of the rent goes to the workforce in the form of higher wages. Also the publicly owned firm does not have to satisfy the demands of the capital markets by making the same level of profits, it can make less profit and still meet the requirements of capital replacement, at the same time still meeting the wage demand of the trade unions.

'The higher level of average wages found in these [public sector] firms suggests that the benefits of higher sales activity per employee are in part being captured by the workforce and their unions. As we saw earlier, pay determination and related issues were significantly more likely to be settled jointly with unions in the public sector firms' (Pendleton 1999: 785).

The worst case outcome for both capital and labour would appear to be the London tendering situation, where through the tendering system the ability for the firm to satisfy the requirements of the capital markets is limited. The conventional wisdom in the industry is that firms need to make a profit of 15 per cent, and this has proved difficult to achieve in London under the tendering system, and this rate of profitability is considered to be excessive

by London Buses. It is also recognised by the major companies in the capital that wages are below the competitive equilibrium, with one senior manager saying that the rate for a bus driver should be £10 per hour - see Transit Nov 2000: 1. '[Leon] Daniels, managing director of London bus operator First Capital and First CentreWest said there had been a "complete meltdown" in the staffing in the city. He blamed the cost-conscious tendering system for putting pressure on operators to suppress driver's wage claim in order to win contracts' (Transit Nov 2000: 1).

However, if the firm is dominant in a market outside of London, according to Pendleton (1999: 785) they 'are able to achieve a higher level of sales per employee, with the benefits of this shared between owners and workers. This rather different set of results for competition suggests that active competition does not always reinforce the effects of privatization in the way that it is often predicted in the literature'.

4.3.9 Overview of Effects of Privatisation and Deregulation on Wages. In 4.3.8 we suggested that the privatisation and deregulation of the bus and coach industry has had an adverse effect on the wages of bus and coach drivers. If privatisation and deregulation and/or competition was responsible for this adverse effect, 'we would expect average wages to be lower in privatized firms and /or those experiencing high levels of competition' (Pendleton 1999: 783).

Year	Privatisation	Competition	Privatized/high competition
1	Y**	Y	Y*
2	Y***	Y	Y***
3	Y***	Y	Y**
4	Y***	Y*	Y**
5	Y	Y**	Y

Notes: Y=relationship is as predicted by the main hypotheses
*= t-value significant at 0.05; **= t-value significant at 0.01;
***= t-value significant at 0.001

Table 4.20 Average remuneration per employee.
Source: Pendleton 1999: 783.

As Table 4.20 shows, 'average levels of remuneration are consistently lower in privatized firms throughout the period, and significantly so in four out of the five years. Competition is also associated with lower average levels of remuneration but the differences are significant in just two years. The measure of the combined privatization/competition effect suggests that

competition does not have any additional effects to those of ownership' (Pendleton 1999: 783). These results are in line with the prediction that remuneration will be lower in privatised firms.

4.3.10 Review of Bus and Coach Industry Section. At the start of this chapter we set out the four main propositions we were going to critically examine. In this section on the bus and coach industry we have identified the changes that have taken place in regard to these propositions. We can summarise these results as:

1. In the case of the bus and coach industry we cannot support the proposition that privatisation and deregulation will result in an increase in inequality, although this is qualified.
2. We agree that privatisation and deregulation has resulted in changes to the bargaining structure, especially in London due to the tendering process. Changes have occurred outside London but national bargaining occurs with all the 'Big 4' bus groups, except for wage bargaining, and the reason for this not taking place nationally is in part due to the unions own agenda.
3. The proposition that there will be a reduction in the main index of trade union power, union density, is not supported. Although there has been a reduction in this it has not been to the same extent as other sectors. Exceptionally, trade union density actually increased in the private sector due to the transfer of a highly unionised workforce to the private sector.
4. The proposition that privatisation and deregulation will result in a reduction in average earnings in the bus and coach industry is supported.

The reasons why not all of the propositions are supported may be in part due to the factor that unlike a number of other privatisations the bus and coach industry was not a natural monopoly, and this may have had a bearing on the results. Because there was no natural monopoly, and as there was already competition in the market albeit limited, we would not see the whole of the market being exposed to market forces for the first time. Also not all the market was put into the private sector. Some of the municipal companies still remained de facto owned by local authorities. These factors may have diluted the affects of privatisation and deregulation.

In the next section we will use the same tools of analyses to examine what happened in the port industry and see if the results are similar. If they are not we will try to identify what may have produced these different results.

4.4 The Effect of Changes in the Bargaining Structure and Union Density in the Port Industry

4.4.0 Introduction. In the previous section on the bus and coach industry we critically examined the changes that have taken place in inequality, trade union density, bargaining structures and the composition of employment. We will use similar techniques for this section as we did in the previous sections when examining the changes that have taken place in the port industry. The same hypothesis will also be tested, however, in the section when dealing with changes in employment. We will briefly discuss the Walton Economic Forecasting Associates (WEFA) report, which predicted an increased in employment if the NDLS was abolished. We will then go on and examine whether the predicted increase in employment occurred and if it did not, why not.

4.4.1 Change in Inequality. As in the previous sections we will now examine the changes that have taken place in equality between 1984 and 1998 and compare the results to the changes that have taken place in the other sectors of the economy examined in this chapter.

Year	Lowest Decile/ Median	Lowest Quartile/ Median	Highest Quartile/ Median	Highest Decile/ Median	Highest Decile/ Lowest Decile
1984	67.8	78.2	125.6	167.0	246.5
1990	64.2	77.9	126.2	161.3	251.3
1998	66.6	81.3	127.7	154.1	231.5
			Percentage Change		
1984/90	-5.3	-0.4	0.5	-3.4	2.0
1990/98	3.7	4.4	1.2	-4.5	-7.9
1984/98	-1.7	4.0	1.7	-7.7	-6.1

Table 4.21 Change in Inequality in Male Manual Earnings Between 1984- 1998 in the Port Industry

As with the bus and coach industry, we have a dominant union in a highly unionised industry, suggesting that inequality should be lower than the national average, due in part to the 'rate

for the job' principle. With the privatisation and deregulation programme we would expect that inequality would increase and especially at the lower end of the earnings distribution. Overall there is evidence that inequality increased slightly - Table 4.21- between 1984 and 1998.

Years	All male manual	Port Industry
1984/90	241.5	246.5
1990/98	260.0	251.3
1984/98	260.1	231.5
% Change	7.7	-6.1

Table 4.22 Change in Highest Decile/Lowest Decile Ratio

However, between 1984 and 1990 there was a 6.1 per cent decrease in inequality in the Highest Decile/ Lowest Decile ratio - see table 4.22 - while all male manual inequality increased by 7.7 per cent.

During this time inequality increased in all but one of the ratios, the Highest Decile/Median. The overall decline in inequality, except for the Highest Quartile/ Median ratio, would appear to indicate that the unions may have been able to apply the 'rate for the job' principle. However, this at best can only be a generalization, as many other external factors in the wider economy could be effecting these ratios.

4.4.2 Aggregate Trade Union Density. As in the previous sections we have calculated the aggregate trade union density using data from the 1984, 1990 and 1998 WIRS - see Table 4.23. This shows a similar picture of declining aggregate trade union density to that of the scheduled road passenger transport.

	1984	1990	1998
Private	91.3	88.4	N/A
Public	100.0	54.8	44.3
All	91.1	79.3	44.3

Table 4.23 Aggregate Trade Union Density for the Port Industry

By 1990 overall aggregate union density had declined to 79.3 per cent from 91.1 per cent a decline of 13 per cent - compared with 22 per cent for scheduled road passenger transport. The change in the private sector was considerably less, declining by 3.2 per cent to 88.4 per

cent. There was however a major decline in overall density from 79.3 per cent to 44.3 per cent between 1990 and 1998, this would coincide with the abolition of the NDLS and the increasing number of small stevedoring firms in the industry.

4.4.3 Average Trade Union Density. From table 4.24 we can see that the decline in average trade union density overall had been more dramatic, falling by 80 per cent to 18.9 per cent in 1998 from 92.4 per cent in 1994. In the public sector it fell by 81.1 per cent to 18.9 per cent in 1998 from being a 100 per cent in 1984.

	1984	1990	1998
Private	89.4	83.6	N/A
Public	100.0	53.0	18.9
All	92.4	75.9	18.9

Table 4.24 Mean Trade Union Density for the Port Industry

The reason for this decline in the mean trade union density may be explained again by the increase in the number of small firms within the port industry, especially those providing stevedoring services, after the abolition of the NDLS.

4.4.4 Change in Trade Union Coverage. The port transport industry is concerned with the loading and unloading of cargo discharged from sea transport, and with associated work such as storage and warehousing. By 1980 the port transport industry employed about 56,000 people of whom just half were dock workers, and the great majority of these were registered dock workers.

Year	National and supplementary/ company etc agreements	National agreement only	Company, district or local agreement only	No collective agreement
1973-78	5.2	-32.6	75.5	46.0
1978-85	-31.2	46.8	6.4	38.4
1973-85	-27.6	-1.1	86.7	102.0

Table 4.25 Percentage change in full-time males on adult rates in the Port Industry 1973-1985 covered by various types of collective agreement

From Figure 4.6 we can see that the number of people who were not covered by a collective

agreement was considerably less than any other of the sectors that we have previously examined. However, the percentage growth between 1973 and 1985 of people not covered by any form of bargaining agreement was greater than the bus and coach industry. It increased 102.0 per cent over the whole period, the largest increase occurring between 1973 and 1978, the same as the bus and coach industry - see Table 4.25.

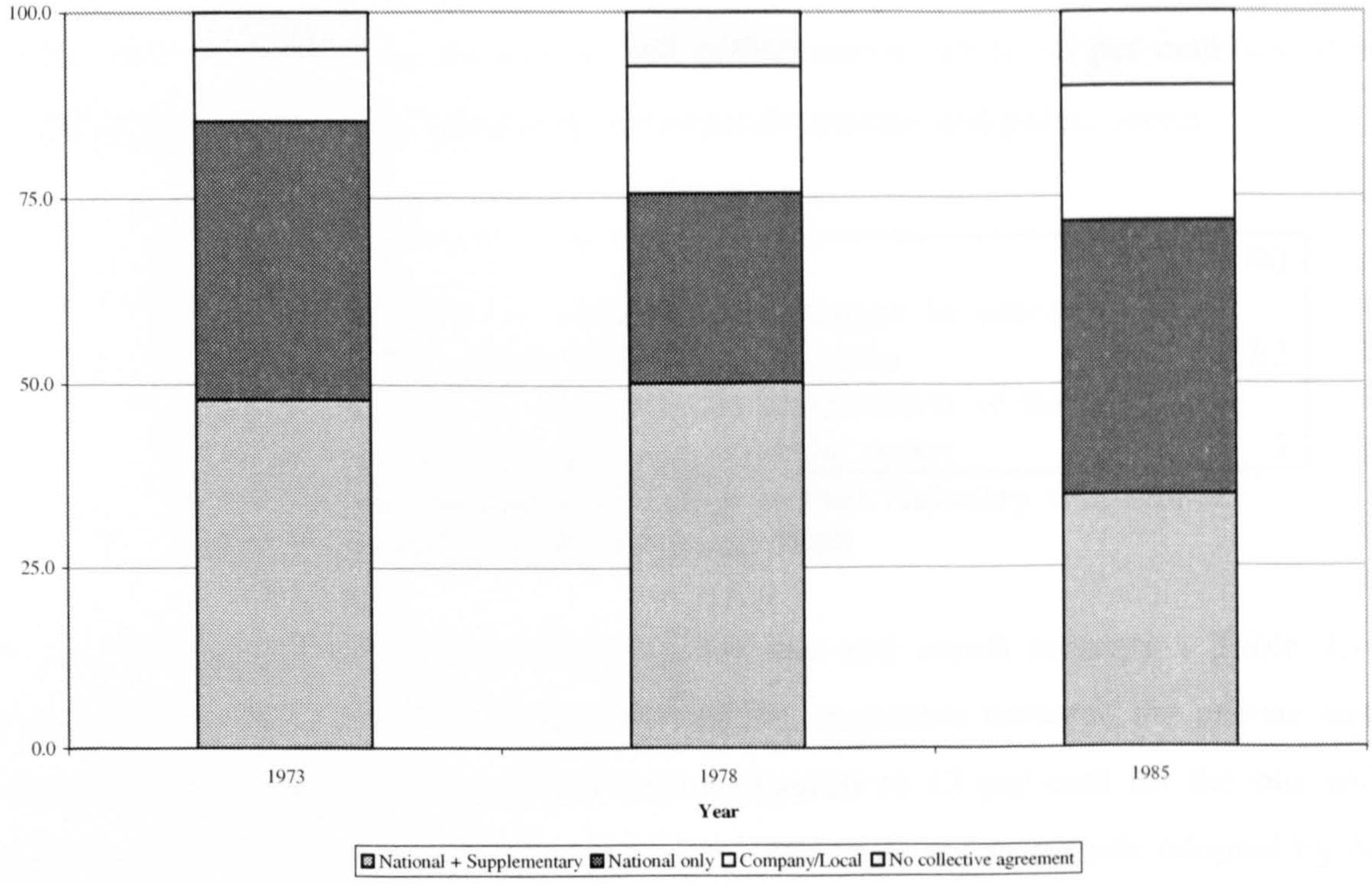

Figure 4.6 Change in coverage of full-time male manuals in port industry

Figure 4.6 shows the change that had taken place in coverage between 1973 and 1985. During these years the number of people who were covered by a national plus supplementary agreement declined by 27.6 per cent. Those covered by the national agreement only declined from 37.4 per cent to 25.2 per cent in 1978. By 1985 coverage had increased to 37.0 per cent, an increase of 46.8 per cent. Overall coverage by national agreement declined by 1.1 per cent to 37.0 per cent.

Further examination of Table 4.25 shows that there was a considerable decline in those covered by National and supplementary/Company agreements between 1978 and 1985. National and supplementary/Company agreements declined by 27.6 per cent between 1973 and 1985 from 47.8 per cent to 34.6 per cent. During the same period those covered only by a company, district or local agreement increased by 86.7 per cent from 9.8 per cent to 18.3 per cent. The growth in local agreements in the port sector was greater than that of the bus and

coach industry. This increase in local agreements is paradoxical when put alongside the instability of earnings, which may have been one of the causes of the multitude of strikes in the port industry - see 4.4.9 below.

4.4.5 Compositional Effect. Due to the lack of data it is only possible to calculate the compositional effect for the port industry between 1984 and 1990. From Table 4.26 we can see that the 80 per cent of the change in union density was due to the fall in the composition of the workforce between the private and public sector, while 30 per cent was due to the within-group changes in union density between the private and public sector.

	1984-1990
% of change due to within-group changes in union density between the private and public sector	82
% of change due to change in the composition of the workforce between the private and public sector	5

Table 4.26 Compositional Change in Port Industry Workforce 1984-1990. Source WIRS 1984 and 1990

If we compare these results to those for the bus and coach industry - Table 4.14 - the percentage change due to the composition of the workforce between the private and public sector is considerably greater, 82 per cent compared to 13 per cent for the bus and coach industry. This could be explained in part by the anti trade union attitude adopted by ABP and other major employers, evidenced by the abolition of the NDLS in 1989.

4.4.6 Earnings. Although the port industry had the lowest level of people not covered by any form of collective agreement, the growth in real earnings was less than for transport as a whole, as well as all industries and services - see Table 4.27. Unlike road passenger transport, which grew consistently between 1973 and 1985 - see Table 4.16 - there was considerable variation in the growth of real earnings for people employed in the ports.

SIC	1973-1978	1978-1985	1973-1985
All	0.3	12.8	13.1
Transport	-1.4	19.3	17.6
Ports	-6.4	19.4	11.8

Table 4.27 Percentage Change in Real Average Earnings for various SIC Groups between 1973-85

Between 1973 and 1978 there was a decline of 6.4 per cent in real terms of average earnings,. while the passenger road transport group had a real increase of 5.6 per cent. However,

between 1978 and 1985 the port sector had a real increase of 19.4 per cent. While the passenger road transport sector over the same period had a real increase of 11.6 per cent. Overall the ports had the lowest increase in real earnings of all the groups. The increase was 11.8 per cent compared to 17.9 per cent for road passenger transport and 13.1 per cent for all industries and services. This substantial variation of earnings may have been the cause of some of the labour problems within the port industry and this is discussed in more detail in 4.4.9.

This variation in earnings also has to be set against the background of steadily increasing non-oil tonnage going through the ports - see Fig 4.7 -, unlike, as we pointed out earlier, road passenger transport which had a declining product market.

Figure 4.7 Non-oil tonnage through UK Ports 1973-85

4.4.7 Negotiating Machinery in the Ports. National joint negotiations in the port industry was first established in 1920, when the National Council of Port Employers and the National Transport Workers' Federation reached an agreement that established the National Joint Council for Dock Labour. Subsequent amendments of the functions and scope of the body culminated in an agreement in 1944 under which a written constitution was adopted and the title changed to the National Joint Council for the Port Transport Industry. The NJC consisted of representatives of the National Association of Port Employers (NAPE), the T&G, National Union of General and Municipal Workers, the Scottish Transport and General Workers' Union, and the Watermen, Lightermen, Tug and Bargemen's Union

Rates of pay and conditions of service of the dock workers were determined by the JNC while the NDLS provided for guaranteed payments, at rates determined by the NJC, to be made to registered dock workers in respect to periods of under-employment. To receive the guaranteed payment for under-employment a dock worker had to prove their attendance at one of the Board's call stand or control point for each shift when no work was available.

The JNC principal responsibilities were:

a) the settlement of national terms and conditions of employment, including minimum wage and guaranteed week, grade differential rates, attendance money, overtime rates, holiday pay

b) the functioning of the industry's conciliation machinery

c) the expression of collective views on matters affecting the industry

d) the nomination of eight members of the NDLB

Type of employer	Number	%	Registered Workers	%
Port Authorities	31	16.4	11,133	48.2
BTDB	15	8.0	4,834	21.0
British Steel Corporation	4	2.0	210	0.9
British Waterways Board	3	1.6	147	0.6
Sealink (UK) Ltd	1	0.5	37	0.2
National Coal Board	1	0.5	24	0.1
Other Employers	134	71.0	6,684	29.0
Total	189	100.0	23,069	100.0

Table 4.28 Employers of full-time registered dock workers in 1980.
Source National Dock Labour Board Report and Accounts 1980 p 2

The 1960s and 1970s saw considerable rationalisation in the number of private cargo handling companies and registered employers. In 1964 there were 1,514 registered employers in the 82 ports included in the NDLS and most of these were small companies with no investment in port facilities and little commitment to the industry. By 1980 the number of licensed employers had declined to 189, of which 46 were port authorities who employed over 70% of the total registered labour force (Thompson 1994: 137) - see Table 4.28.

By the mid 1970s port level collective bargaining had become the most significant level of negotiations in respect of pay rates for registered dock workers. These negotiations were conducted through Port Joint Committees (PJC) which had different tiles in different ports.

Port agreements covered such matters as rates of pay, overtime and bonus or piecework rates. They also had established machinery for settling disputes within the individual ports. This machinery often included a board or panel to arbitrate over a particular disputed cargo and usually had a final stage involving the PJC or its executive body, with reference to the NJC as a last resort. 'By 1975 the only wage issue dealt with by the National Joint Council for the Port Transport Industry was the weekly guarantee, which was finally abandoned in favour of a port-based guarantee in 1980-81' (Turnbull 1993: 202). The abandonment of the national minima in January 981 'reflected a further diminution of the union's national bargaining role' (Turnbull et al 1992: 106). According to Finney (1990: 12) 'Curiously, the power of the TGWU began to wane in the early 1980s, not so much because of the present government's trade union laws, but because the union lost the initiative in national bargaining. Pay, even the minimum rate, was devolved to each port in 1981 and attempts to bring about national trade policies - such as control of shipping - were never supported by the men themselves. The scheme was growing old and tired, and with it the men (average age 46 in 1983) and the union movement behind it.'

In addition to port-level agreements, some ports or employers had special arrangements covering shift work and pay on terminals handling containerised cargo or employing other methods of mechanised cargo handling. Disputes, which were not settled in an individual port or at employer level, could be referred to the relevant PJC.

It is important to remember that the NDLS regulated the number of people who worked in the ports covered by the scheme. It had nothing to do with the collective bargaining arrangements. However, we could not deny that it must have had a substantial effect on those ports covered by the scheme, if the management's many comments about it are to be believed. Wage bargaining took place at the local level, although the National Dock Labour Board reported on the average earnings of people employed under the scheme.

As a direct result of the Governments removal of the NDLS from the statute book in 1989, the employers completely dismantled 'all the national bargaining and port bargaining agreements in the docks industry' (Finney 1990: 10).

For dockworkers in non-scheme ports, there was no national negotiating structure. The T&G had some company-level agreements with the larger port authorities and employers.

4.4.8 The Problem of Casualisation. The port industry before 1940 had the problem of the casual nature of the employment available, for more detailed discussion on this see Phillips and Whiteside 1985. For many years endeavours were made to decasualise dock employment as much as possible by the introduction of voluntary registration schemes designed to control entry into this work. However well meaning these schemes it still resulted in an era of underemployment for those employed in the ports. 'Underemployment [casualisation] was certainly an enduring feature of the port transport industry' (Phillips and Whiteside 1985: 20).

According to Phillips and Whiteside (1985: 235) 'The Second World War witnessed large and lasting changes in the condition of the dock labourer.... It saw the end of endemic poverty on the waterfront.... These improvements in living conditions were, in part at least, the result of Government policies designed to raise the efficiency of the docks.... The economic demands of the war effort and the appointment of Ernest Bevin[22] as Minister of labour and National Service in 1940 reawakened political interest' in ending casualisation in the docks. The compulsory registration and maintenance of dock labour was first introduced on a local basis in 1940.

After the war the ports faced serious problems which needed to be tackled quickly if Britain's overseas trade were not to suffer. Investment was needed to repair war damage and to modernise handling equipment and transit sheds, as well as road and rail access. The process of decasualising dock labour needed to be accelerated and completed. It was not until 1947 that the statutory National Dock Labour Scheme (NDLS) was established. An essential but controversial feature of the scheme - especially for employers - was dual control. The management of the labour force in the whole industry, with minor exceptions was entrusted to one body - the National Dock Labour Board - on which both sides of industry were equally represented. The introduction of the NDSL coincided with the establishment of the BTDB.

The NDLS was intended to give the dock worker financial security and regular employment. By the 1960s the dock worker was amongst the highest paid of all wage earners. 'In terms of his economic status the port labourer had become part of the élite of the British working

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[22] Ernest Bevin was the General Secretary of the Transport & General Workers Unions, which represented the majority of manual workers, employed in the port industry.

class. As entry to his occupation became more difficult for outsiders, its privileged aspect was accentuated' Phillips and Whiteside 1985: 235.

Analytically, the function of trade unions is to reduce the dependence of the employees on their employer and thereby increasing their bargaining power. For a trade union the ideal situation would be where they had ownership rights over available jobs, i.e. a monopoly trade union. In this situation 'the union would enjoy the power to "invest the labour" of the membership. This is comparable to the owners of capital to invest their resource but by no means equivalent, for capital remains a far more flexible and transformable resources than labour. In practice, however, this dream of what is usually called "job property rights" has only rarely come true' (Keenoy 1985: 238). For many Conservative MPs the belief was that NDLS gave the dock worker these job property rights. By the 1980s the Scheme had become unpopular with Conservative MPs and questions were asked of the Secretary of State for Employment about its future. In a written answer the then Employment Secretary - John Gummer - replied that 'The government have no present plans for altering the national dock labour scheme but I shall continue to remind those concerned with its management that it must be seen to work effectively and to serve the wider interest of the port industry' (Hansard 6 December 1983: 119). The scheme had to be seen to work in the interests of the industry as a whole and not the narrow interest of a section of the workforce (Groom 1984: 10).

However, the writing was on the wall for the NDLS when in April 1984, Nicholas Ridley, made the Government's first comprehensive statement of its policy on the ports industry. 'Mr Ridley said the ports were no longer seen as part of the country's infrastructure, requiring central planning and control. Instead, like any other industry, they should and could compete among themselves' (Brindle 1984a: 44). But the real pressure for the abolition of the scheme and national bargaining was from the National Association of Port Employers, (NAPE) although they referred to it as being superseded. Previously NAPE had only talked of reforming the scheme, but its chairman, Mr Donald Stringer, said: "Prolonging its existence can only increasingly inhibit the competitiveness of the UK ports" (Brindle 1984b: 44).

Ridley was careful not to pose an immediate threat to the dock labour scheme, which was seen as the basis of the dockers' special employment rights, and which was commonly but incorrectly described as a job for life guarantee. The scheme gave the dock unions joint representation with employers on the national and local labour boards that controlled the size

of the workforce. It was perceived at the time that the last thing the Government wanted was a major industrial confrontation on a second industrial front. The other front referred to was the miners.

On the 2 July 1984 in another written reply John Gummer replied to a request to bring forward proposals to abolish the scheme. His reply was ' Whilst the operation of the dock labour scheme continues to be questioned, there are no plans to abolish it at present. We shall continue to keep a careful watch on developments (Hansard 2 July 1984: 42). Later that month there was a national dock strike over a breach of the scheme by the British Steel Confederation at Immingham and the use of non-registered labour. The T&G wanted a guarantee that there would be no future breaches of Clause 10 of the scheme, which allowed employers to use non-registered labour only if they got prior approval from the National Dock Labour Board.

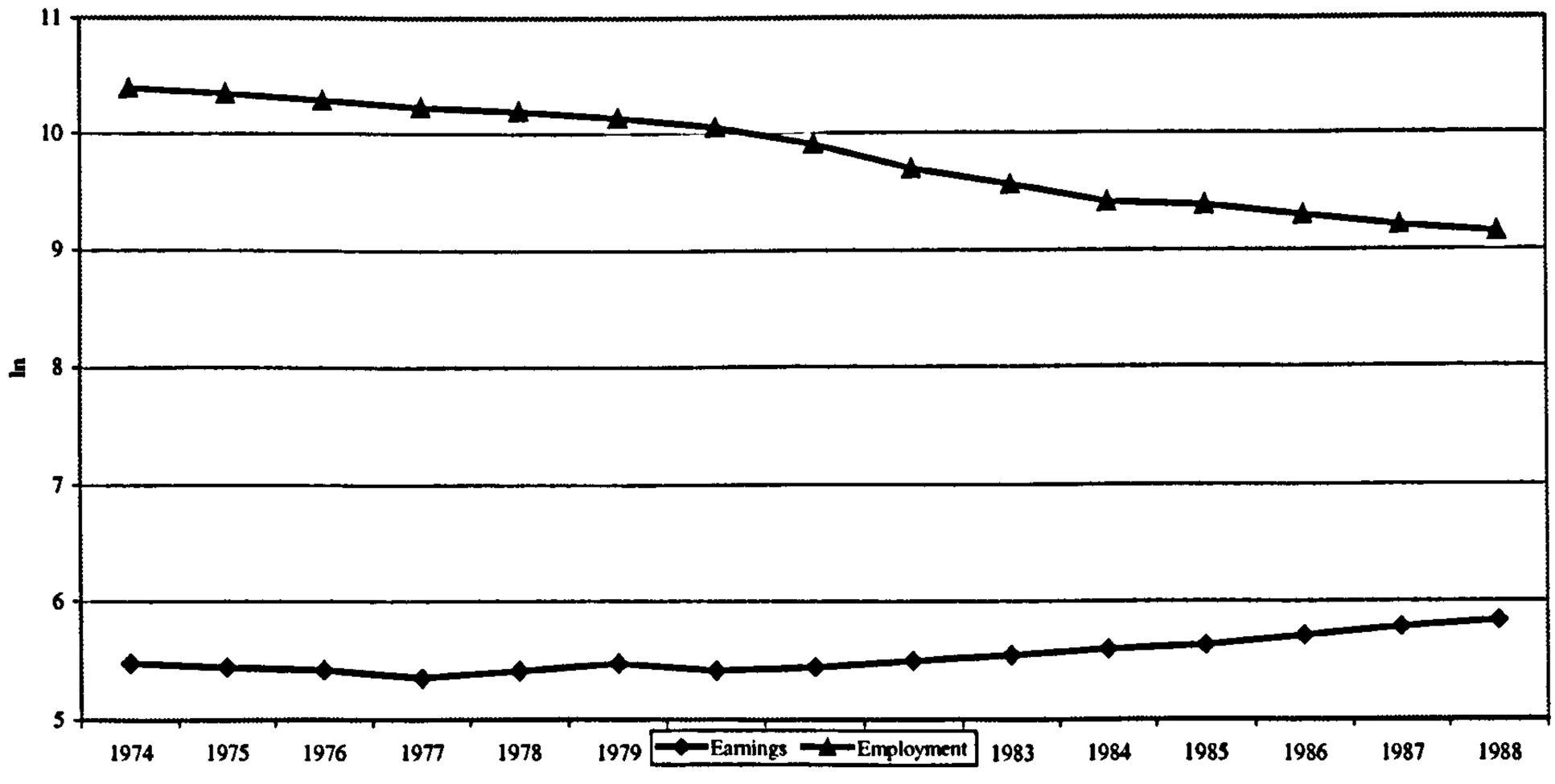

Figure 4.8 Average earnings of NDLS permanent and supplementary workers and employment in Scheme Ports 1974-1988

Contrary to the popular myth of the time the scheme did not give job property rights because it did not stop compulsory redundancies, although it had been a major factor in preventing them. Also, the 1972 Aldington-Jones report brought about another crucial but non-statutory

factor in the 'jobs for life' myth[23]. The agreement introduced the system where if a port employer went out of business, the redundant dockers were transferred to other employers in the port. 'Among the many other points were a commitment that there would be no compulsory redundancy and the provision of a voluntary severance scheme offering up to £4,000 to older dockers who wished to leave the industry. It was the best voluntary redundancy scheme in any industry at the time' (Jones 1986: 252).

In Figure 4.8 we show the natural log real wage for people employed under the NDLS from 1974 until 1988, the last year this data was reported. Against this we show the level of employment again in natural logs for the same period, and this is to show the relative change between the two data sets. Examination of the graphs tends to suggest that there was a trade-off between earnings and employment. Using SPSS we have calculated the Pearson Correlation for the data set. The results are given in Table 4.29 and this shows a significant negative correlation between earnings and employment in ports covered by the NDLS.

		EMPLOY
WAGE	Pearson Correlation	-.809**
	Sig. (2-tailed)	.000
	N	15

** Correlation is significant at the 0.01 level (2-tailed)

Table 4.29 Correlation between wages and employment

In figure 4.9 we show the employment in scheme and non-scheme ports between 1983 and 1992.

According to Keenoy (1985: 238) 'This scheme has provided an orderly means of running down the labour force at a time when due, amongst other things, the containerisation of cargo, there has been a continued reduction in the demand for dock labour. The dockers' job property right lapses on retirement or if it has been bought out with a redundancy payment.

As a negotiated economic resource the Dock Labour Scheme - which does not cover all dockers - has functioned primarily as a means of securing continuous income during a period of falling demand for labour'.

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[23] According to Bradley et al (2000: 2) 'the word "myth" in its standard usage has a deeper meaning: it goes

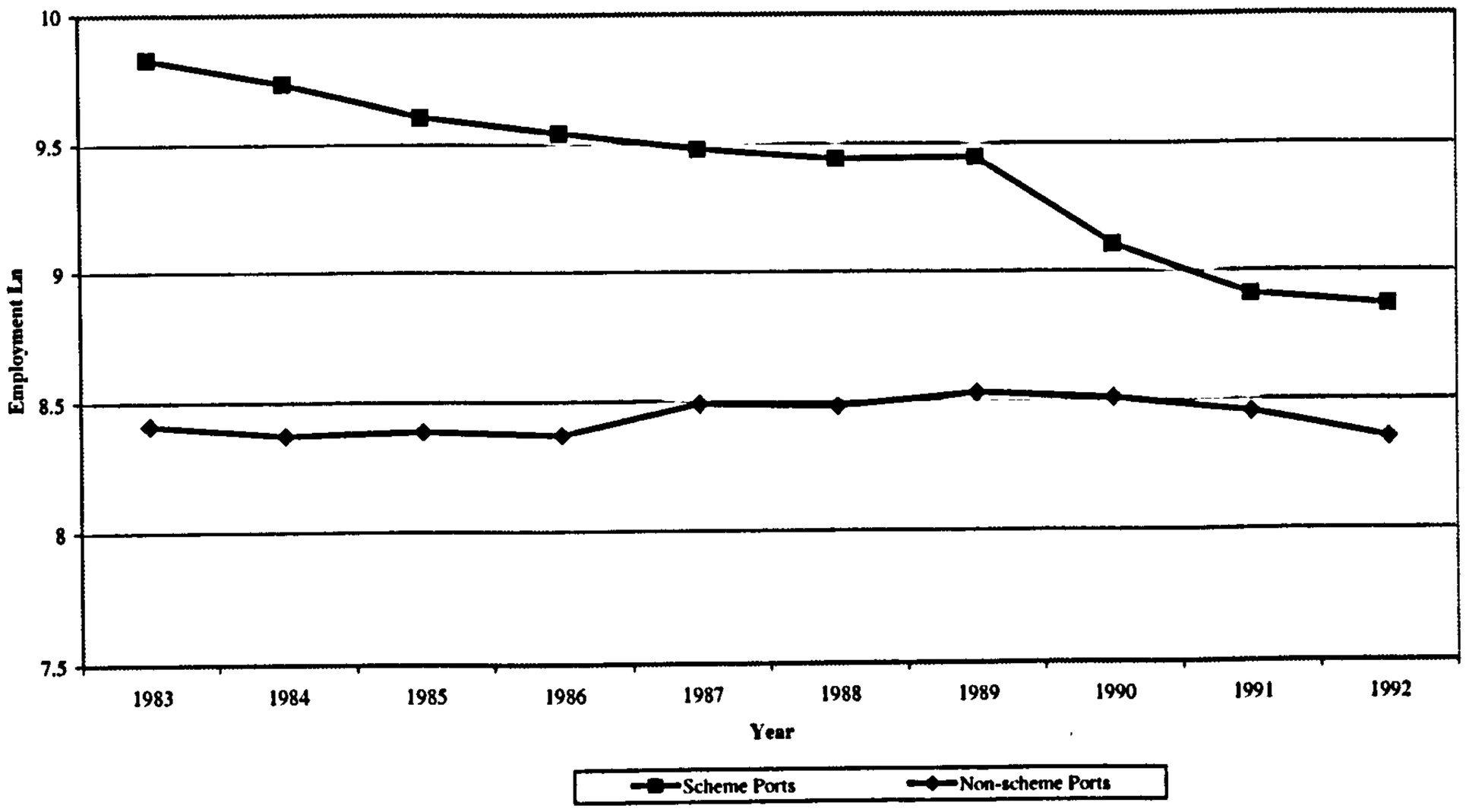

Fig 4.9 Employment in scheme and non-scheme ports 1983-1992.
Source Evans 1993: 18.

According to Evans et al (1993: 18) over the period, the number of dock workers more than halved but, within this total picture, the pre- and post-abolition periods show quite different behaviour. In the period before abolition, employment reductions were confined to the scheme ports, where the number of dock workers fell by almost one-third. Over the same period, employment in the non-scheme ports increased by 13 per cent. By contrast, post-abolition the rate of employment decline increased for scheme ports, and non-scheme ports also experienced a loss of employment.

As previously stated the effects of the abolition of the scheme were not limited to the ex-scheme ports, 'there were also consequential impacts on the non-scheme ports. These were faced with more effective competition from the ex-scheme ports and, in consequence, had to cut back their labour force to improve efficiency and protect their market share' (Evans et al 1993: 19). This would appear to imply that management in ports not covered by the NDLS, despite their apparent success in gaining market share by breaking the stranglehold exercised in the post-war height by the scheme ports, were not as efficient as they could have been. In 1965, 92 per cent of all Britain's non-oil trade passed through scheme ports, measured by

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beyond mere description to explanation: not just *how* things are changing but *why* they are changing.'

volume, the proportion was down to 70 per cent in 1989. In value terms, trade through scheme ports was less than 50 per cent in that year.

4.4.9 Strike Prone Industry. Even with its sophisticated negotiating machinery the industry was perceived to be strike prone - see Table 4.30. and there have been many attempts to explain why this was so. Some ascribed it to the influence of a small number of politically inspired trade unionists. But the explanation that has tended to be viewed as the most credible was the one in which the docker was seen as rootless and lacking permanent employment - see for example Phillips and Whiteside 1985: 238. Although the legislation of 1947 had given the docker a measure of economic security it had not strengthened the relationship between the employer and the employed.

Number of Strikes per 100,000 Employees in the Docks		Number of Days Lost per 1000,000 Employees in the Docks	
1970-75	1976-1980	1970-75	1976-1980
168.4	115.9	4,187	1,065

Table 4.30 Strike in the docks 1970-1980 Source: Bain 1983: 222

According to Bain it is better to concentrate on 'specific features of the four most strike prone industries of the late 1950s and 1960s, namely coal, docks, cars and shipbuilding. These industries shared two characteristics fragmented bargaining and fluctuating earnings, which marked them off from other industries.... Fragmented bargaining for Clegg creates the possibility of frequent bargaining pressure, while uncertainty of earnings provides the impetus to exploit this possibility: "there can be few more frustrating experiences for wage-earners than to suffer wide fluctuations in their earnings" (Edwards 1983: 223).

4.4.10 Changing Earnings in the Port Industry. In the previous section we argued that a wide fluctuation in earnings could impact on the level of strike activity in an industry. We will now look in detail at the average earnings for the port industry between 1974 and 1998.

From figure 4.10 we can see that real average wages remained fairly stable from 1974 until 1981, when they started to rise and peaked in 1988, the year prior to the abolition of the NDLS. It may be purely coincidental, but if we look at Figure 4.10, which also shows the real wage for bus and coach drivers, we see that their earnings peaked in real terms the year prior to privatisation and deregulation in 1987. Also during this period ABP was privatised. Therefore it might be reasonable to assume that the privatisation process itself had little or no

effect on earnings. However, between 1984 and 1985 there was a decline in earnings, which in part may be explained by the coal industry dispute and the associated national dock strike. In 1989 there was a the start of a trend in decreasing earnings, the largest decrease occurring between 1994 and 1995, when they declined by 21.7 per cent from £254.6 to 199.4. By 1998 the real wage was almost at the same level as it was in 1974.

4.4.11 WEFA Report. One of the reasons why the NDLS was abolished was the claim that it restricted the growth of employment both within the docks and associated areas. One report (WEFA 1987) claimed that an additional increase of employment of 48,918[24] would take place in the scheme ports travel to work areas if the scheme was abolished. This report [WEFA 1987] was commissioned by NAPE, and was to examine the impact of the abolition of the NDLS, with particular reference to the effect on UK employment levels. The report compared the growth rate in non-scheme travel-to-work areas (TTWA) to those in scheme TTWA. The report claimed that employment growth had been higher in the non-scheme TTWA than in scheme TTWA between 1984 and 1987.

	WEFA Forecast	WEFA Normal Rate	Actual Employment
1987 Employment	3,481,024	3,481,024	3,481,024
Employment Growth	206,773	157,690	72,697
1993 Employment	3,687,797	3,638,714	3,553,721

Table 4.31 Employment Growth in Scheme Port Travel-to-Work Areas 1987-93

The WEFA report used a standardising formula where they forecast that if the scheme ports TTWA grew at the same rate as the non-scheme ports between 1987 and 1993 then a further 48,918 jobs would be created. From Table 4.31 we can see that the actual employment increase was below that predicted by the WEFA report. This was due in part to the growth in UK employment not reaching their prediction of 3.4 per cent between 1987 and 1993. In fact UK employment growth was effectively static between these two dates. However, if we adjust the 1987 employment figures by removing the overall UK employment growth element and multiply it by the revised non-scheme forecast rate of 0.0141[25], this gives a forecast of non-scheme employment of 3,530,106 in 1993, resulting in an increase in employment of 23,615 or 0.7 per cent in scheme port TTWA employment. Of the 72,697

[24] Page 31 of the report gave the increase of employment 48,919 this along with a number of other errors in the report brings the conclusions of the report into question. For a detailed discussion of some of the other errors in the report see Sealey 1991.

[25] Of the 0.06 increase forecasted at the non-scheme rate 0.05 was due UK employment growth and 0.01 or 23.7 per cent due to the effects of the scheme see Appendix V of the WEFA report.

increase in employment, the model would calculate that 32.5 per cent was due to the abolition of the scheme. However, the remaining 67.5 per cent was unexplained by the model.

The report also claimed that 'In addition, the Scheme port areas tend to have higher unemployment, so that the potential for growth may be somewhat higher' (WEFA 1988: 33). They calculated the unemployment rate by dividing the total unemployed in the relevant TTWA area by the total employment in the relevant TTWA - see Table 4.32.

	Scheme Port TTWA	Non-Scheme Port TTWA
No of Areas	37	27
Total Unemployed	501,177	113,060
Total Employment	3,481,024	926,099
Unemployment Rate	14.4%	12.2%

Table 4.32 Unemployment rates in scheme and non-scheme TTWA

Rather than use this calculation, we will compare the means of the unemployment rates using the output from the independent t-Test using SPSS. The SPSS output contains two tables, the first table gives the summary statistics for the two TTWA. From this table (Table 4.33) we can see that the mean unemployment percentage rate for the scheme TTWA was 12.3 per cent, compared with 13.5 per cent for the non-scheme TTWA. This would indicate that unemployment was actually less than the non-scheme TTWA. But we have to ask the question whether there was a significant difference between the two means, to do this we use the Levene test, which is calculated by SPSS.

TTWA	N	Mean	Std. Deviation	Std. Error Mean
Scheme	37	12.265	3.719	0.611
Non-scheme	27	13.496	4.179	0.804

Table 4.33 T-Test for TTWA Unemployment Rate Means 1987

The second SPSS output table - see table 4.34 - contains the main test statistics, including the Levene's Test for equality of variances which shows whether the variance between the means are different enough to cause concern. This test 'is similar to a t-test in that it tests the hypothesis that the variances in the two groups are equal (i.e. the difference between the variances are zero. Therefore if the Levene's test is significant at $p \leq 0.05$ then we can conclude that the null hypothesis is incorrect and that the variances are significant different - therefore, the assumption of homogeneity of variance has been violated). If, however,

Levene's test is non-significant (i.e. $p \geq 0.05$) then we must accept the null hypothesis that the differences between the variances is zero - the variances are roughly equal and the assumption is tenable' (Field 2000: 238).

	Levene's Test for Equality of Variances		t-test for equality of Means	
	F	Sig	t	Sig (2-tailed)
Equal Variance	0.318	0.575	-1.242	0.219

Table 4.34 Leven's and t-Test for Equality of 1987 TTWA Means

For the 1987 TTWA data, Levene's test is non-significant (because p= 0.575, which is greater than 0.05). Because of this we assume equal variance. Having established that the assumption of homogeneity of variance has been met, we can now look at the results of the t-test itself. Table 4.50 gives both the Leven's and t-Test for Equality of 1987 TTWA means. SPSS produces the exact significance value of t, and we are interested in whether this value is less than or greater than 0.05. In this case the two-tailed value of p is 0.219, which is greater than 0.05, and so we would have to conclude that there was no significant difference between the means of the scheme and non-scheme TTWA means.

If, as the results of the independent t-Test indicate, there was no significant difference between the TTWA unemployment rates, this means that a main assumption of the WEFA report i.e., that employment growth was greater in the non-scheme TTWA than the scheme port TTWA is open to challenged. Also the question could be asked as to why such a standard statistical test was not used by the report's authors?

4.4.12 Conclusion of Port Section. At the start of this chapter we set out the four main propositions we were going to critically examine. In this section on the port industry we have examined these propositions. We can summarise these results as:

1. In the case of the port industry we cannot support the proposition that privatisation and deregulation will result in an increase in inequality. The overall decline in inequality, except for the Highest Quartile/ Median ratio, would appear to indicate that the unions have been able to apply the 'rate for the job' principle in these industries. However, many other factors could have influenced this outcome.
2. We agree that privatisation and deregulation has resulted in changes to the bargaining structure. All national bargaining in the ports officially ended with the abolition of the

NDLS in 1989, although it had been effectively ended as early as 1981, due to the increasing importance of port bargaining. As well as this the abolition of the NDLS ended the unique situation of codetermination in the industry.

3. The proposition that there will be a reduction in the main index of trade union power, union density, due to the changing composition of the workforce, is supported.
4. The proposition that privatisation and deregulation will result in a reduction in average earnings in the port industry is not proven. The reason for this is that the major privatisation of the port industry (i.e. ABP took place in 1983) and it did not appear to have any significant downward effect on the real average wage. However, it would appear that the abolition of the NDLS, which was both a deregulatory and institutional change, had a significant impact on the reduction in the real average wage.

In the next and final section of this chapter we will attempt to draw some tentative conclusions from the evidence previously produced.

4.5. Conclusion of Chapter

4.5.0 Introduction. In this chapter we have examined at various levels within the UK economy how these four propositions may have impacted on the wage setting mechanism. It is now possible to bring these various analyses together and to examine them to see if it is possible to draw any general hypothesis from them.

Year	All Male Manuals	Transport and Communications	Bus And Coach	Ports
1984	241.5	206.9	189.0	246.5
1990	260.0	220.8	188.8	251.3
1998	260.1	232.8	187.1	231.5
		Percentage Change		
1984/90	7.7	6.7	-0.1	1.9
1990/98	0.1	5.4	-0.9	-7.9
1984/98	7.7	12.5	-1.1	-6.1

Table 4. 35 Change in Highest Decile/ Lowest Decile Ratios

4.5.1 Inequality. Will privatisation and deregulation result in an increase in inequality? During the 1980s and 1990s inequality increased in the UK as it did in the USA. It is possible that this increase may be associated with the policies of deregulation, especially those relating to labour market institutions such as trade unions. But we have to recognise that many other factors may also be at play here. There was a decrease in the Highest Decile/ Lowest Decile ratios in both the bus and coach industry and the port industry, although in 1984 inequality was at its greatest in the ports - see Table 4.35.

4.5.2 Changes in Bargaining Structures. Will privatisation and deregulation result in changes to the bargaining relationship between the employers and the union? In both the bus and coach industry and the port industry wide national negotiations have ended. In the case of the bus and coach industry the end of national negotiations coincided with the privatisation of the major firm within the industry. So it is possible to directly link these changes to both the privatisation and deregulation of the product market.

For the port industry the major firm was privatised first and then, sometime afterwards the virtually defunct national bargaining structure was ended, along with the abolition of the controversial NDLS.

4.5.3 Change in Workforce Composition and Union Density. To what extent will the change in the composition of the workforce due to privatisation and deregulation will result in the reduction in union density that is considered by many to be the main index of trade union power?

Between 1984 and 1998 all the sectors had declining trade union density. The sector that had the largest decline was the port industry. The group that managed to maintain the highest level of union density was the bus and coach sector. Traditionally both the bus and coach sector, especially NBC and local authority owned companies had high levels of density, as well as the port industry. So why was the T&G able to maintain such a high level of density in the bus and coach industry compared to the port industry? Part of the answer may lie in the consolidation of the industry, as we pointed out in 4.2.2 aggregate trade union density in the private sector increased between 1990 and 1998 at the same time that the consolidation of ownership was taking place.

4.5.4 Reduction in Average Earnings. Will privatisation and deregulation result in a reduction of real average earnings? From Figure 4.10 we see that all male manual real average earnings have increased, but there has been a real decline in average earnings for both the bus and coach industry and the port industry[26]. By 1998 real average earnings in the port industry had declined to the all-manual average. In the case of the bus and coach industry the reduction in earnings has taken them below the manual average. This decline in real average earnings is closely associated with both privatisation and deregulation. While in the port industry the decline in the real wage is only associated with the deregulation of the labour market.

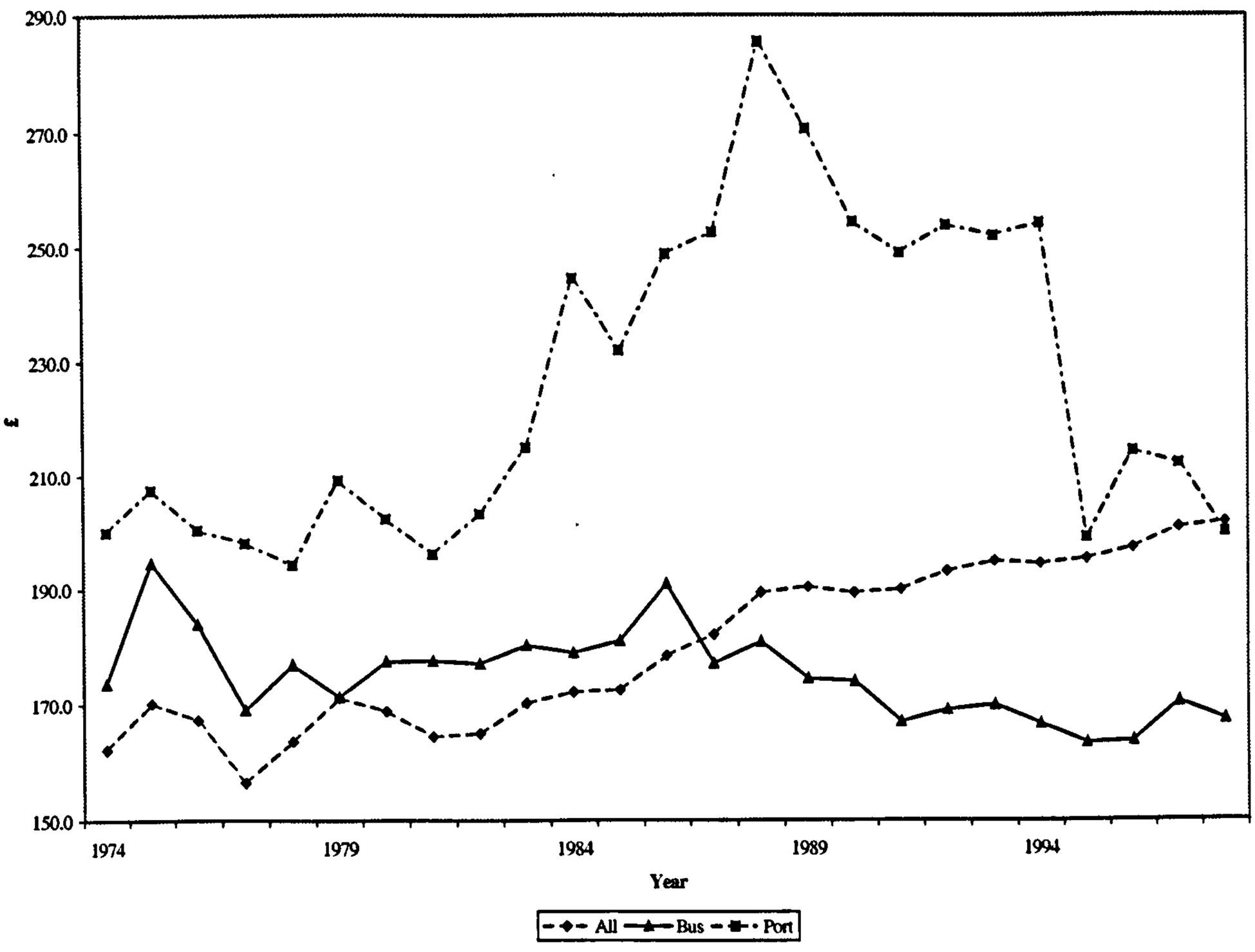

Figure 4.10 Real Male Manual Average Earnings All Sectors 1974-1998

4.5.5 The Product Market. In the case of the product market we have opposite outcomes. For the bus and coach industry the market was in decline and has continued to decline since privatisation and deregulation. While the port industry product market was increasing at the time of deregulation and it continued to increase, so the product market effect would appear to be ambiguous.

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[26] Originally we used a regression analysis with a dummy variable to assess the privatisation effect. Howver, due to the small number of observations the results were not statistically significant.

4.5.6 Conclusion. None of the propositions considered in this chapter would appear to match all the individual circumstances of the sectors considered in this chapter. This may be because the policy itself [privatisation and deregulation] was not consistent policy and had different objectives at different times. This will be considered in the next and final chapter of this study.

5 Objectives, Tools of Analysis, Main Conclusions, Problems Encountered and Future Research

5.1 Introduction

5.1.0 Introduction. In this concluding chapter we will restate the objectives of this dissertation, undertake a review of the main findings, and discuss the appropriateness of the original objectives and the tools of analysis used. We will then go on to describe some of the problems encountered while undertaking the research, and then suggest some further areas of research, before making a final comment.

5.2. Objectives

5.2.1 Objectives. In Chapter 1 we set out the key objectives of this dissertation, and these were:

(1) That privatisation and deregulation will result in changes in the structure, conduct and performance of those industries.

(2) To analyse the earnings and employment in these industries prior to deregulation and/or privatisation, and to examine what has happened to them after these changes.

(3) To investigate any changes that have occurred in trade union density in these industries and to compare these with what has happened in the rest of the economy.

(4) To assess the existence of rent sharing and non-competitive wage determination prior to privatisation and deregulation. If there was rent sharing, did it continue after privatisation and deregulation, or was it substantially reduced or eliminated?

5.3 A Review of the Findings.

5.3.1 Objectives. In this section we will undertake a critical review of some of the main findings of this dissertation.

5.3.1.1 Objective 1. To show that privatisation and deregulation will result in changes in the structure, conduct and performance of these industries.

In order to review the finding of this objective we will first have to discuss the privatisation and deregulation. Once completed, any changes that have taken place in the structure, conduct and performance of these industries will be discussed.

5.3.1.1.1 Privatisation. It has been argued that the most important elements expected in a change of ownership type from public to private sector concerns are:

1 a shift to profit seeking behaviour by the industries' management; and
2 changes in the scope to pursue profit, having been relieved of political objectives, and explicit changes in the rules concerning what the industry could do.

The argument has been put forward that there is a universal effect of privatisation, associated with the superiority of private over public ownership, has been advanced from the perspective of the principal-agent theory.

The proponents of privatisation and deregulation claimed that it would increase the efficiency of the industries concerned, and make them more responsive to consumer demand. This increase in efficiency would also be achieved by exposing previously publicly owned companies to the discipline of the capital markets, rather than the perceived 'cosy' relationships between those companies or councils and the trade unions. This cosy relationship, it was claimed, resulted in inefficient working practices and higher wages that were paid for by the taxpayer.

5.3.1.1.2 Profit Seeking Behaviour. In regard to 5.3.1.1.1 above, whether there was initially a shift to profit seeking behaviour by both of the industries management is questioned by this dissertation.

As we pointed out in 3.3.3.4 the paradox of privatisation is the view that its contribution to economic efficiency is derived from the belief that private sector managers are subject to incentives and disciplines different from, and more demanding than those which apply to their public sector counterparts. However, as Nove (Thatcher 1998: 145) has pointed out, there are limitations to the principal-agent model in the case of the shareholder and the manager. It is not the shareholder who writes the contract defineing the managerial compensation, and they do not hire and fire managers. To a large degree managers select

themselves, designing their own contracts. The control of the 'contract' linking shareholders to managers lies with the managers, and not the shareholders, and this will be the case especially when there is diffused share ownership. This is particularly relevant to the case of ABP.

5.3.1.1.3 The Impetus to Privatise. In the early days of privatisation of these industries the impetus to 'privatise' had come from the mangers. But without the consent, or at least the acquiescence, of some managers, privatisation of any sort would have been a difficult and protracted business – see 3.3.3.4. The clear theme to emerge from this study is that by far the most effective and influential of the various interest groups in the privatisation process was the senior management, but their commitment to privatisation would appear to be qualified. Their positive interest in privatisation was, in part their wish to be rid of what was seen as the burdensome Treasury control.

Kay and Thompson in 1986 described privatisation as a policy in search of a rationale. This was in part based on the suggestion that 'measures of liberalisation, or deconcentration, associated with privatisation - those which offer most in terms of potential gains in efficiency are also those on which major concessions have been made to win management support for the political process of privatisation' (Kay and Thompson 1986: 18).

5.3.1.1.4 Scope to Make Profits. As a result of privatisation there is clear evidence that in both industries privatised firms have had scope to pursue profit, due to being relieved of political, and in some cases social objectives, and also having been freed from rules about what they could do. There was also a concurrent interest, which we discuss further in 5.3.1.1.10.

Firms have expanded in their own industries, both in the UK and abroad. However, expansion in the UK may have been limited by concerns of competition issues. They have also diversified vertically into new markets e.g. ABP into logistics, or contiguously into related markets, e.g. buses into railways and airports.

As we pointed out there is a certain irony in that, prior to nationalisation, the buses were owned by the railway companies. Now, after privatisation, the railway companies are owned by the bus companies.

5.3.1.1.5 The Privatisation Process. The privatisation processes in these industries have been very similar, but in neither was there a statutory monopoly involved, although they were large public corporations who were dominant firms in their markets.

The first stage was to privatise the large public corporation set up by the post war nationalisation programme, this was followed by the privatisation of smaller units in the industry, often owned by local authorities.

In both cases the privatisation process has changed the structure of these industries from those dominated by large publicly owned corporations to those dominated by large privately owned companies. The major difference being that one was transferred as a single entity, while the other was broken up in to smaller units.

As we pointed out in 2.5.1 Fisher (1986) argued that there was no particular reason to split up the NBC if other organisations were not to have the same treatment. This may indicate that privatisation was not as coherent a policy as has been claimed, but a process which was subject to Ministerial whim - see 2.5.1.

5.3.1.1.6 Change in Labour Market Policy. In the UK Thatcherism in the workplace was based on market forces, changes in the legal framework and greater employee involvement. This contrasted with the approach in the 1970s which emphasized joint regulation of the effort bargain between trade unions and employers.

In both the bus and coach industry and the ports the inflexibility of the labour market was believed to be due to the presence of strong trade unions who were perceived as an impediment to achieving efficient industries.

5.3.1.1.7 Deregulation an Overview. In this dissertation we have examined two types of deregulation., the first being the product market, specifically the bus and coach industry, and the second the labour market. However, as we have demonstrated, the two came together to bring about a weakening of a trade union's ability to obtain rent for its members in the bus and coach industry.

However, the specific labour market deregulation for the port industry, the abolition of the National Dock Labour Scheme, was over and above the reforms that had already taken place in the rest of the UK labour market by the then Conservative Government.

5.3.1.1.8 Product Market Deregulation in the Bus Industry. What this dissertation has illustrated is perhaps the most striking aspect of the deregulation of the bus market, in particular how quickly and pervasively it impacted on the ability of the trade unions to claim rent for their members. In 2.4.6 we established that even in the limited Hereford trial area the introduction of competition impacted on Midland Red West's collective bargaining arrangements. As a result the Company improved its productivity by some 25 per cent, some of which came from the break-up of the old Midland Red West Company rather than the introduction of competition.

5.3.1.1.9 A Final Comment on Privatisation and Deregulation. As we have demonstrated in this dissertation the underlying success for the Conservative Government of the policy of deregulation and privatisation was in reducing what Hayek described as the coercive power of trade unions, for they are rent seekers. The 'classic role [of the unions], after all, is to raise their members' income' (Richardson 1996: 224).

Privatisation in the UK has come in many forms, but a contemporary description by John Kay briefly describes some of its tenets and might appropriately end this critical discussion of the outcomes of privatisation and deregulation:

> 'Privatisation is often seen as an ideologically based programme, devised and driven by a powerful leader, motivated by a combination of intellectual conviction of the benefit of free markets and hatred of the power of organised labour' (Kay 2002: 22).

5.3.1.1.10. Changes in Structure, Conduct and Performance. Having discussed privatisation and deregulation we will now critically discuss the changes that took place in the structure, conduct and performance of these industries.

5.3.1.1.10.1 Change in the Bus Industry Structure. The change in the structure of the bus and coach industry has in the main been one of ownership. Prior to privatisation and deregulation

it was dominated by large public sector firms, accounting for 75 per cent of the market's turnover in 1985, changing to a market dominated by three privately owned groups, accounting for 52.2 per cent of the markets turnover by 1998 - see Table 2.17.

So why did the industry consolidate so quickly after the privatisation of the NBC? The answer may be part due to the nature of the industry. Was it, as was claimed by the T&G, a natural monopoly? By definition a natural monopoly is a situation where economies of scale are so significant that cost are only minimised when the entire output of an industry is supplied by a single producer, supply costs being lower under a monopoly than under the conditions of perfect competition and oligopoly. But we have argued in 2.2.1 that the pre-privatised bus industry was not a natural monopoly. Although the NBC was an oligopolist, it was regulated, and operating a form of franchising system. Prior to deregulation, quantity regulation was the source of exclusive ownership. Therefor, with the dissipation of this exclusive ownership, was there a need to break-up the NBC?

Given the amount of market activity, it would appear that "market forces" have dictated that the privatised bus firms possess a degree of market power. This then raises the question whether that market power should be publicly or privately owned and controlled. The answer to this is outside the scope of this dissertation.

5.3.1.1.10.2 Change in the Structure of the Port Industry. As with the bus and coach industry, the port industry has had a major change in its structure, from being predominately publicly owned, to predominately privately owned – see Table 3.12. When ABP was privatised in 1983, it owned and operated 19 ports and had a market share of 19.6 per cent. By 1991 its market share had reached 22.9 per cent – see 3.3.3.1. But in contrast to the bus and coach industry, the port industry was still defused in structure – see Table 3.13 – although there has been a slight increase in concentration – see Table 3.14.

5.3.1.1.10.3 Maintaining the Status Quo or Self Interest? What would appear to be more important was the management's concurrent interest, which was to ensure that privatisation was achieved without changes to the existing organisational structures, and without creating a more competitive environment. In the case of ABP, the management achieved these objectives.

The question is why did then they want this change of ownership? Being rid of Treasury control, as we stated earlier, must have been welcome, but we cannot also rule out that they [ABP management] saw the opportunity to make large personal financial gains for themselves. In the end it may be that the 'self-interest' of management was the overriding driving force for the privatisation of ABP.

This would also explain the management's interest in ensuring that existing organisational structures were maintained without making the environment more competitive. 'In the case of the UK ports at least, it is extremely difficult to conclude that ownership constitutes a significant factor in port performance and efficiency. Instead, factors such as geographical and [labour market] deregulation seem to have a greater influence on efficiency' (Cullinane and Song 2002: 72).

The initial situation for the NBC was similar to that of ABP. A management led buy out of the company was being canvassed, particularly by its chief executive, Robert Brook. But the situation changed with the new Secretary of State, Nicholas Ridley. He believed that the proposal for privatising the NBC *en bloc,* which might have been acceptable in a regulated environment, was not consistent with deregulation. This would appear to be at odds with the situation for ABP, where it was privatised *en bloc* in a deregulated environment.

The company [NBC] was however perceived to be at the time too large and would start from too strong a financial base in the new deregulated environment. However, as we pointed out in 2.5.1 Fisher (1986) had argued that there was no particular reason to split up the NBC if other organisations were not to have the same treatment.

5.3.1.1.11 A Modification in Policy? So this may be evidence of modification in policy, by people like Littlechild, who originally argued for the introduction of Austrian theories, to one which focused on the starting structure for the private company. They argued that the starting structure of the privatised bus industry was considered to be important because, in the absence of competition, it was not possible to know in advance precisely which industry structure wouldl prove most efficient. But this new policy was a polar opposite position to the Austrian view which was that where there is a high level of market concentration this would not be a cause for concern, unless there was exclusive ownership of the resource. But

as we pointed out in 5.3.1.1.9.1 exclusive ownership in the bus industry ended with deregulation.

However, the new views of Beesley and Littlechild and others had won the day. But, these views ignored the history of this particular industry – see 2.5.8. The privatisation process was not supposed to fix the pattern of the future growth of the industry, so the NBC was atomised. This atomisation went against the historic nature of the industry – see 2.5.3. Also coinciding with privatisation the deregulation of the industry created an unstable economic environment – see 2.5.2.

There is a certain paradox in that the return of the industry to its historic structure had begun even before the privatisation of the NBC had been completed – see 2.5.2. So the final pattern of ownership of the industry has been determined by market forces, subject to competition rules. 'In the newly competitive period following deregulation and privatization of the British bus industry, the major firms emerged almost solely through external rather than organic growth' (Cowie 2002: 156), and this went against the aims of the 1984 White Paper, which wanted to reverse or at least halt the decline in passenger numbers.

As a result of this analysis we then have to answer two questions posed by Beesley and Littlechild – see 5.3.1.1.4. The first is whether splitting up the NBC involved sacrificing economies of scale or scope. The answer to this would appear to be no. In the bus industry economies of scale are limited – see 2.6.3, therefore confirming it was not a natural monopoly. The second question is whether the increase in fares offset the gains from increased competition? Again the answer to this would appear to be no. Since the mid 1990s the industry had consolidated and become oligopolistic, and as a result of this road competition has declined, and since privatisation the real fare indice has increased by 28.7 per cent – see 2.7.2 – and ridership has continued to fall – see 2.7.3.1.

5.3.1.1.12 Conduct. Having discussed changes in the structure of the industries we now discuss changes in their conduct.

5.3.1.1.12.1 Peak loading on Buses. In Chapter 2 we described the pricing policy in the bus industry at that time as being fairly conservative in its attitude. There was uniform pricing

structure throughout large sectors of an operator's network, and any variation would normally come about with the distance the consumer travelled.

However, the industry has a peak loading problem being that the demand levels vary over time, and output cannot be stored, therefore capacity should be enough to meet the peak periods. But the problem for a firm under the discipline of the capital market is that the cost of providing a bus service varies according to demand as well as the physical characteristics of the routes and the relevant population densities, and the cost of producing peak period bus services are greater than they are for off-peak services.

According to Hibbs – see 2.4.10 - all forms of transport are characterised by the extreme perishability of the product. Seat miles produced and not sold perish in the moment of production; they cannot be stored, and it is this that makes the problem of peak demand so difficult to handle. It is also complicated by the fact that peak demand is almost always in one direction.

We argued in 2.4.10 that there have been few attempts made by the bus industry to reflect the higher marginal costs of peak travel in higher prices, with the aim of covering the long-run marginal cost of meeting peak demand from peak revenue.

Another unanswered question is why the bus companies have not introduced pricing structures like the railway companies, who operate peak pricing policies, especially on commuter routes into London.

However, The answer to the question may be that to meet demand at these periods, and in the absence of part-time manning, the level of peak operations will determine the number of full-time crews employed. Given the overall shortage of labour in the industry, it would be reasonable to assume that we would have seen an increase in part-time working, but this has not occurred. In part, this has been due to the reluctance of full-time employees to accept working along side part-time employees who would be perceived as having more family-friendly-shifts. Full-time employees would have to work elements of the very early morning shifts, non-peak-day shifts, night shifts and weekend shifts. By their very nature part-time staff employed to cover peak periods would not be involved in these more anti-social shift

patterns. Also it may be indicative that the trade unions still have the ability to influence the management's agenda.

5.3.1.1.12.2 Ports and Peak Loading. In the ports there has been a major change in the way the port owner conduct their business, due in part to the their problem of peak loading caused by tidal patterns. Very few of the UK ports had quays that can take large sea going vessels 24 hours a day.

This resulted in two types of labour strategy, the first being core labour, which is well trained and works with high value capital equipment, found mainly in container area of ports. They have full-time employment, although they can work long shift patterns.

The second, more flexible group, is low skilled, mainly agency labour used in loading and off- loading goods such as cars, only being called in when required.

In both cases the main objective is to get the ship loaded or off-loaded as quickly as possible and this also has to coincide with the tidal pattern in the particular port. If the ship fails to meet the required tide, it may have to wait another 8 to 10 hours before it can leave the harbour, and while it is waiting for the next tide it is costing it owner money.

5.3.1.1.13 Performance. Having discussed some of the issues surrounding the conduct of the industries concerned we will now discuss the performance of these industries.

5.3.1.1.13.1 Performance of Bus Industry. In 2.4.10 we pointed out that Nash (1993: 1043) also believed that the use of cross subsidies had hastened the decline of the industry because of these higher fares, and low service levels on the densely used routes that formed the core business of the industry. He believed that this favoured the better off rural and suburban dweller at the expense of the poorer inner city dweller. Yet the empirical evidence since privatisation indicates that the only growth area has been London, and only since 1994 when fares started to be subsidised.

In 2.7.3.2 we undertook a review of the financial ratios of 12 former NBC subsidiaries between 1984 and 1998. This analysis revealed that the major impact on these ratios occurred between 1984 and 1990. Average employment declined by nearly 25 per cent, wages as a

percentage of total costs declined by 2.7 per cent. Profitability increased by 33.1 per cent and pre-tax profit per employee by 130 per cent – see Table 2.24. The only ratio whose change was less than the 1990/98 performance was the real average wage. This declined by 4.8 per cent compared with a decline of 6.6 per cent between 1990 and 1998. But Pendleton also suggests 'that the *possibility* of product market competition may be instrumental in bringing about lower wage levels in privatised firms...'

Although the type of ownership in the bus industry may an have impact on profitability there is little or no evidence that the structure has a similar impact. In this dissertation the change in performance of the 12 former NBC subsidiaries between 1990 and 1998 was analysed. This was the period when the main re-oligopolisation of the industry took place. Between 1990 and 1998 pre-tax profits declined from 33.1 per cent to 18.3 per cent, while pre-tax profit per employee remained constant at £2,200. The rate in the reduction of employment was also reduced from nearly 25 per cent between 1984 and 1990 to 10.6 per cent between 1990 and 1998. The only exception was that real average wages declined by 6.6 per cent between 1990 and 1998, compared with 4.8 per cent between 1984 and 1990.

5.3.1.1.13.2 Performance of Port Industry. In assessing the performance of the port industry we have critically examined the individual sectors.

In this dissertation we argued that the post-privatisation performance of ABP could be judged in a number of ways, e.g. how it performed in relation to its tonnage compared with the UK as a whole. As we can see from Figure 3.3 the tonnage that went through ABPs ports has not mirrored the overall growth of that through the UK ports. Furthermore, it should be remembered that ABP acquired a number of ports after privatisation and if those ports' tonnage were deducted from the ABP total, the performance results would be even lower.

Another way of assessing ABP performance is to look at its real revenue. As we pointed out in 3.3.3.3, since the port markets in the UK are fairly competitive, it is reasonable to assume that port charges are more or less in line with costs, and therefore reflect the true level of output.

The poor post-privatisation performance of ABP can be confirmed by examination of Figure 3.4, which shows the logs of the real GDP and ABP's real revenue from 1963 to 1998. From

Figure 3.4 we can see that the period of greatest growth occurred when it was in public ownership, the largest occurring between 1963 and 1978. Real revenue peaked in 1976 at £415m. Since it was privatised in 1983 the real revenue has declined from £306m to £254m, a decrease of 17 per cent.

These results would appear to go against one of the main tenets of privatisation, that firms would be better managed under private sector management. However, we have to accept that part of the erratic nature of the data can be explained by the changes in the UK economy, and the fortunes of the port sector mirror the changes in gross domestic product.

But it was not until 1992 that ABP came under pressure from financial analysts in the City of London because of its under-performance. This pressure resulted in a management shake-up, and, it would be reasonable to ask why it took so long for the market to put pressure on ABP's performance. This may link up to the problems of the principal-agent model discussed in 5.3.1.1.2. We have argued that it is not in the interests of individuals to invest large resources in monitoring management, especially if they possess too few votes to effect the decision. This is known as the collective action problem. Therefore management may not be effectively monitored and disciplined by the capital markets, as is claimed by the proponents of privatisation, especially in a situation where share ownership is highly diffused.

Since privatisation, the former trust ports have experienced improvements in their financial position rather than marked increases in their non-oil market share. In this dissertation we have argued that this may indicate that there have been two different effects happening at different times within the industry. The first was the abolition of the National Dock Labour Scheme. If supernormal profits were being made before abolition, and abolition reduced the relative share going to labour, this is an issue of distribution. But as we have demonstrated, profitability increased after privatisation, some three years after the abolition of the NDLS.

The second effect, efficiency, would appear to have come into effect after the privatisation of the trust ports. This, it could be argued, is evidence of the principal-agent effect. If this were the case it would appear that the efficiency effect has a greater influence on the performance of the privatised trust ports than the distribution effect of the change in rent sharing with the trade unions.

Having critically discussed the finding of Objective 1 we will discuss Objective 2 in the same manner.

5.3.2 Objective 2. To analyse the earnings and employment in these industries prior to deregulation and/or privatisation, and to examine what has happened to them after these changes.

5.3.2.1 Reduction in Real Average Earnings. The underlying assumption of the second proposition was that privatisation and deregulation would result in a reduction of real average earnings in these industries. As we established in 4.5.4 between 1974 and 1998 all male manual real average earnings increased, and it is against this background that we have to examine what happened to real wages in the bus and coach industry and the ports.

5.3.2.1.1 Change in Real Wages in the Bus Industry. One of the main conclusions of this dissertation confirms the view that 'On bus costs, the straightforward implication of deregulation is a demise of union influence in many import areas. That deregulation is fatal to labour constraints is quite clear not only from analogy abroad, but from experience in London's own backyard – as witness the remarkable decline of union influence in the taxi trade in the last thirty years' (Beesley 1997: 169).

This is confirmed later in the dissertation – see 4.3.8 – where Pendleton (1999: 78) suggested 'that the impact of privatisation on wage levels [in the bus industry] may be experienced mainly in the early stages of private ownership. However our findings do not support his suggestion that thereafter a process of "catching up" occurs. Only in the period between 1995 and 1998 has there been any sign of a rising trend - see Figure 4.10 – in real earnings of bus drivers.

5.3.2.1.2 Tendering in London. The tendering system in London was then examined in detail showing that it ended the traditional bargaining model where a union negotiates with individual companies. The level of wages is now effectively set by the tendering regime put in place by LRT, and the union had little or no influence over this process. We have argued that the tendering process has reduced the wages of London bus drivers and conductors below the equilibrium level, and this has caused serious problems over recruitment and retention of staff, especially when the labour market is tight.

5.3.2.1.3 Change in Real Wages in the Port Industry. From figure 4.10 we can see that real average wages in the port industry remained fairly stable from 1974 until 1981 when they started to rise, peaking in 1988, the year prior to the abolition of the NDLS. As we pointed out in 3.5.12 it may be purely coincidental, but if we look at Figure 4.10, which also shows the real wage for bus and coach drivers, we see that their earnings peaked in real terms the year prior to privatisation and deregulation in 1987. Also during this period ABP was privatised.

Therefore we have argued that it might be reasonable to assume that the privatisation process itself had little or no effect on earnings in the port industry. However, between 1984 and 1985 there was a decline in earnings, which in part may be explained by the coal industry dispute and the associated national dock strike. In 1989, which coincided with the abolition of the NDLS, there was the start of a trend in decreasing earnings, the largest occurring between 1994 and 1995, when they declined by 21.7 per cent from £254.6 to £199.4. By 1998 the real wage was almost at the same level as it was in 1974.

So, in the case of the port industry it was labour market deregulation rather than privatisation which would appear to have affected the real wages in this industry.

We will now discuss Objective 3 in a similar manner.

5.3.3 Objective 3. To investigate any changes that have occurred in trade union density in these industries and to compare these with what has happened in the rest of the economy.

5.3.3.1 Changes in Union Density in the Bus Industry. It may be coincidental, but the re-oligopilisation of the bus industry may have actually prevented the decline of trade union density in this industry. If the industry had remained atomised it is likely that union membership would most likely have continued to decline.

However, another reason for union density not declining might be explained by the decrease in the real wage. In the wider economy the rising real wage had been found to discourage union membership. Therefore the decrease in the real wage may have resulted in people rejoining or retaining their membership of the union in an attempt to protect their wages as much as possible from being eroded even more.

If like other sectors of the economy the real wage had increased, then union density may have decreased. Evidence of this decline may occur if and when the real wage returns nearer to the equilibrium level, and at this point we may see a decline of density in the industry. Oddly enough, this may mean that in certain circumstances, for privatisation to be effective in reducing trade union density, the real wage may have to be increased or at least maintained.

5.3.3.2 Changes in Union Density in the Port Industry In contrast the port industry had a decline in trade union density over the period. In 4.4.10 we pointed out that real earnings in the ports remained fairly stable from 1974 until 1981, when they started to rise and peaked in 1988, the year prior to the abolition of the NDLS. It may, as we said, be purely coincidental, but the real wage for bus and coach drivers peaked the year prior to privatisation and deregulation in 1987. In 1989 there was the start of a trend in decreasing real earnings, and by 1998 the real wage was almost at the same level as it was in 1974 – see Figure 4.13 – but it had also declined to the all-manual average wage level.

A clear pattern emerges from this part of the study that difficulties arise for trade unions to organise effectively in an industry which is atomised. So privatisation by itself will not necessarily be effective in reducing the trade union density. It is more likely to be effective if accompanied with the atomising of the particular industry. If the industry remains oligopolistic it is likely that the union density will continue to be higher than the national average, albeit at a lower level than pre-privatisation.

We will go on to discuss the final Objective in a similar vein to the other objectives.

5.3.4 Objective 4. To assess the existence of rent sharing and non-competitive wage determination prior to privatisation and deregulation. If there was rent sharing, did it continue after privatisation and deregulation, or was it substantially reduced or eliminated?

5.3.4.1 Rent Sharing. In 4.1.11 we argued that there are many theories in economics about trade unions and their ability to raise the earnings of their members above the market-clearing rate. One of the widely held beliefs is that trade unions through their rent-seeking activities reduce the amount of profits available to firms. This could reduce or even eliminate potential supra-normal profits available to capital.

We went on to argue that understanding rent sharing is essential to analysing government regulation. Regulatory protectionism can create rents over which workers and firms may negotiate, regulatory profit constraints may distort firms' labour inputs or alter firms' relative bargaining strengths vis-à-vis unions, regulatory barriers to entry may enhance unions' power, and the political nature of regulatory agencies can expand the scope of potential games between firms and workers. Regulation of an industry may have important effects on industry wages: failing to account for these effects may lead to underestimates of regulatory rents and distortions.

5.3.4.2 Non-competitive Product Markets. In 4.1.12 we argued that an imperfect market would result in lower labour-demand elasticities than in competitive firms that have the same product function. But we pointed out that firms may be under a variety of political and public relations pressures to stabilise employment, to restrict profits to a reasonable amount, to restrain increases in product prices, and not to enlarge their share of the product market unduly. There is some evidence that firms that produce in markets characterised by little competition do pay higher wages than equivalent firms in competitive markets.

5.3.4.3 Rent Sharing and Non-competitive Product Markets in the Bus Industry. In 2.4.6 we demonstrated that the effect of the introduction of competition into the Hereford trial area resulted in the National Bus Company renegotiating its agreements locally with its trade unions as a direct result of increased competition. This would tend to confirm the premise that the more competitive the market the less opportunity there is for a union to gain or maintain 'rent' for its members. This is due to the inability of the employer to generate supra-normal profits and pay wages significantly above the competitive equilibrium.

5.3.4.3 Rent Sharing and Non-competitive Product Markets in the Port Industry. In 3.3.2.5 we stated that the market conditions prior to privatisation of ABP differed from the bus market . The market in which ABP operated was competitive and expanding. While the bus market at that time was non-competitive and declining.

In the case of the port industry, the ability to claim rent came in part from the political and public pressures to stabilise employment through the NDLB, even though it was a competitive product market.

5.4 Appropriateness of Objectives

5.4.1 Appropriateness of Objectives. In this section we will critically discuss the appropriateness of the main objectives of this dissertation. This is in order to establish if our findings substantiate these objectives, and if they do to what degree.

5.4.1.1 Objective 1. That privatisation and deregulation will result in changes in the structure, conduct and performance of those industries.

5.4.1.1.1 Structure. Prior to the privatisation and deregulation of both industries examined in this dissertation had dominate firms i.e ABP and the NBC. As a result of the privatisation programme ABP market share has risen, in 1982 this was 19.6 per cent – see 3.3.3.1 – and by 1998 it was around 23 per cent.

In 1983 the NBC accounted for 23.6 per cent of all passenger journeys, although the Passenger Transport Executives had a greater total market share of 28.3 – see table 2.11. By 1998 the 4 major groups accounted for 46.2 per cent of the market by turnover – see Table 2.17.

In regard to structure Objective 1 has not occurred. There has been no real change in the structure of these industries, only the ownership type has changed. They have changed from being predominately publicly owned industries, to predominately privately owned.

5.4.1.1.2 Conduct. In 3.5.12.2 we argued that the UK port industry was already competitive, and because of this we have not seen any major changes in the conduct of the industry. Also the disciplining effect of a market which is dominated by the consumer has resulted in a stable market. This stability was been assisted by the fact that the market was expanding and was profitable.

In the case of the bus industry the main emphasis of a change in conduct was the lowering of fares. In the 1984 White Paper the Government argued that one of the factors that had contributed to the decline in public transport use had been the upward trend in real fares.

In Table 2.19 we showed the percentage change in real operating costs pence per kilometre between 1986/87 and 1997/98. From that table we can see that there has been a wide difference in the reduction of costs. This reduction in costs, it might be reasonable to assume, should have been beneficial to the consumer. However, since deregulation the result of cost savings have been wholly swallowed up by subsidy cuts and mileage increases with nothing left over for reductions in fares. Indeed, as we have shown, real fares increased substantially – see Table 2.18.

In regard to conduct we can see that there has been no change in the port industry, and in the case of the bus and coach industry no improvement in conduct has been observed. Given that the main emphasis of a change in conduct was the lowering of fares, we can conclude in this objective that it has failed. Therefore we have to conclude that as a result of privatisation and deregulation there has been no change in conduct.

5.4.1.1.3 Performance. In this dissertation we have argued that the post-privatisation performance of ABP has been poor. From Figure 3.4 we can see that the period of greatest growth occurred when it was in public ownership, between 1963 and 1978, with real revenue peaking in 1976 at £415m. Since it was privatised in 1983 the real revenue has declined from £306m to £254m, a decrease of 17 per cent. This would appear to go against one of the main tenets of privatisation, that firms would be better managed under private sector management.

Since privatisation the former trust ports have experienced improvements in their financial position, rather than marked increases in their non-oil market share. But, as we have demonstrated, profitability increased after privatisation, and some three years after the abolition of the NDLS.

The second effect, efficiency, would appear to have come into effect after the privatisation of the trust ports. This, it could be argued, is evidence of the principal-agent effect. If this were the case it would appear that the efficiency effect has a greater influence on the performance of the former trust ports rather than privatisation per se.

In regard to the bus industry the thinking behind the 1985 White Paper and the desired outcome of all the measures proposed by the Government would be to slow or halt the seemingly inevitable decline in service to the travelling public. They believed that the total

market for public transport should expand. Table 2.22 gives the changes in passenger journeys by area between 1985/86 and 1996/97. From this table we can see that overall in Great Britain local bus passenger journeys declined by 22.8 per cent. Given that preventing this was one of the main objectives of privatisation and deregulation we have to conclude that the performance of the bus industry has not improved.

Therefore, in regard to conduct we have to conclude that the results are ambiguous. With the port industry having mixed results, while in the case of the bus industry we can conclude there has been no improvement in conduct.

5.4.2 Objective 2. To analyse the earnings and employment in these industries prior to deregulation and/or privatisation, and to examine what has happened to them after these changes.

The underlying assumption of Objective 2 is that there would be a reduction both in the earnings and employment after deregulation and/or privatisation.

In regard to the port industry there is no evidence that privatisation had an effect on earning. However, there is clear evidence that earning declined after the abolition of the NDLS.

Employment was affected by privatisation in regard to ABP as the company changed and became a landlord only, and did not offer any of the traditional port services. There was also a major shakeout of labour when the NDLS was abolished. In the non-core employment areas casual or agency working has become the norm.

In the bus industry the deregulation and/or privatisation affect has been quite clear. Both a reduction in wages and employment happened with deregulation and privatisation. Although most of the labour reductions came from either administration or maintenance areas, between 1987 and 1998 the number of platform staff has actually increased.

Therefore we can conclude that the goals of Objective 2 have been achieved.

5.4.3 Objective 3. To investigate any changes that have occurred in trade union density in these industries and to compare these with what has happened in the rest of the economy.

The underlying assumption of Objective 3 is that deregulation and privatisation would weaken the power of the trade unions in these industries, and as a result the trade union density would decline.

Trade union density in the port industry has declined at a comparable rate to the rest of the economy. While in the bus industry it has declined marginally, and in the large bus companies it is still well over 90 per cent.

From this analysis we can conclude that in the case of the port industry Objective 3 has been achieved, but in the case of the bus industry Objective 3 has not been achieved.

5.4.4 Objective 4. To assess the existence of rent sharing and non-competitive wage determination prior to privatisation and deregulation. If there was rent sharing, did it continue after privatisation and deregulation, or was it substantially reduced or eliminated?

In both industries there was evidence of rent sharing and non-competitive wage determination prior to privatisation and deregulation. In the port industry since privatisation and deregulation in the main both rent sharing and non-competitive wage determination appear to have been eliminated. However, the one exception to this would be the containerisation areas where there is some evidence of both sharing and non-competitive wage determination continuing.

In the bus industry both sharing and non-competitive wage determination have been eliminated, and to such an extent that wages are now below the equilibrium level.

From this analysis we can conclude that in both cases Objective 4 has been achieved.

5.4.5 Summary of Objective Results. To summarise the results of the objectives we can conclude that overall the port industry has met the majority of the objectives. Conversely the bus and coach industry has failed to meet the majority of the objectives. These results are summarised in Table 5.1.

OBJECTIVE	BUS & COACH	PORT INDUSTRY
Objective 1		
Structure	No	No
Conduct	No	Ambiguous
Performance	Yes	Yes
Objective 2	No	Yes
Objective 3	No	Yes
Objective 4	Yes	Yes

Table 5.1 Summary of Objective Results

5.5 Tools of Analysis

5.5.1.0 Introduction. In this section we critically question the use and relevance of the tools of analysis used in this dissertation.

5.5.1.1 Objective 1 Structure, Conduct and Performance. In our analysis of the aims of Objective 1 the main tools of analysis were the SCP paradigm and the theory of contestable markets.

5.5.1.1.1 Use of the SCP Paradigm. In part, one of the underlying justifications for using the elements of the SCP paradigm in this dissertation is that the more closely an economic theory comes to neoclassical theory or practice, the more easily it manages to conform to credible institutions and rhetorical conventions of mainstream economics.

If a given paradigm, as with the SCP paradigm, is applied to the interpretation of a particular situation, especially in the social sciences - the following conditions should be fulfilled:

1. the laws, theories and methodology used command the support of a significant group of scholars

2. have generated further theoretical developments following their preliminary articulation

3. and have in some form or another been applied to practical activity eg policy formulation

and the SCP paradigm fulfils these criteria e.g . Lipczynski and Wilson 2001; Martin 1993; Tirole 1993.

5.5.1.1.2 Problems with the SCP Approach. According to Lipczynski and Wilson (2001: 171) 'The empirical work that has tested the Structure-Conduct-Performance (SCP) approach tends to find that there is a positive relationship between the three dimensions. However, this relationship is often very weak. Much of the research reviewed examined the relationship between industry structure and performance, while assuming that a certain type of firm behaviour is given. For example, in industries where only a few large firms dominate, collusion was assumed to take place.'

The SCP approach draws on microeconomic theory from which to examine the empirical behaviour of the firm(s) and/or industries. But, economic theory does not always give us the exact relationship between structure, conduct and performance. The SCP approach is rooted in oligopoly theory, but this theory can be seen as largely indeterminate, and not generating any clear, unambiguous deductions.

The SCP approach has also been criticised for being for being too concerned with static short-run equilibrium. No explanation is offered as to the evolution of the structural variables, or how conduct and performance influences any future change. At best the SCP approach gives us a snapshot of the current state of the industry.

When using the SCP approach we have to recognise the limitations of the measurements used. Structure can be measured by a variety of indicators, but mainly tends to be concentration. This is primarily because the data is easy to find, but there is a danger of overemphasising the importance of concentration. There are also difficulties in measuring many of the other variables. 'For example, how would one measure profitability, entry barriers or the rate of entry? How do we measure the extent of vertical integration? (Lipczynski and Wilson 2001: 172)

It is also often difficult to decide which variable belongs to which element of the paradigm. Lipczynski and Wilson (2001: 172) use the 'extent of advertising, vertical integration diversification gives us useful information as to the structure of the industry; however, these are also strategies which firms can choose to follow....What exactly do we mean by

performance? Performance is some measure of the degree of success in achieving desired goals. Is it possible to have a set of uniform performance indicators? Differences in firm objectives may make the SCP relationship tenuous.'

In 1.4.10 we also discussed the conceptual problem of endogeneity and we argued that the assumed chain of causation, which runs from structure to conduct to performance, is too simple, in the long run, almost all, if not all structural variables are external.

5.5.1.1.3 Market Structures. The neo-classical approach is based the assumption that a perfect market would result in economic efficiency, and. inferior performance is expected in markets that do not match the model of perfect competition. According to Sturt (1984:240) 'Great importance is attached to the theoretical "perfect" market on which the whole edifice [classical economics] is founded, and much effort has been expended on trying to determine how close to "perfection" particular markets are'. Yet Lydall 1998: 52 has articulated ... 'it is necessary to point out that at no time in the history of capitalism has perfect competition been the dominant market pattern. Indeed, it is arguable whether it has ever existed at all.'

5.5.2.1. Objective 2 Average Earnings. To understand the changes in average earnings we need to look at what has happened to real earnings. This is because of the erosion of money income brought about by rising prices. However, any analysis based average incomes will underestimate the impact of rising prices on low income earners, and visa-versa for higher income groups.

The data source used for the changes in average earnings is the New Earnings Survey, which covers a random sample of employees in employment on the date of the survey. The data refers to pay in a particular pay period and may not represent the annual earnings of the employees concerned. No attempt is made to 'normalise' earnings i.e. to smooth out temporary fluctuations by comparing them with their previous earnings. Therefore, although the results appear as weekly equivalents of earnings, it is not advisable to gross up these weekly earnings to give an annual figure.

5.5.3.1 Objective 3 Union Density. Union density is assumed to be a more reliable indicator of union power than simply its total membership. Yet perhaps the power of a union to influence labour market outcomes depends more on its willingness to back up demands for

better pay and working conditions with industrial action. Therefore strikes, which are perceived to be the ultimate form of industrial action by organised labour, may be a better proxy indicator of union power than union density.

5.5.4.1 Objective 4 Rent Sharing and Non Competitive Wage Determination. The assumption behind 'rent sharing' is that trade unions will exert their influence on employers during wage negotiations, and this is reflected in higher wages for union members than non-union members.

However, the claims about union mark-up have to be counterbalanced against the quality of labour. A higher quality of local labour is likely to inflate the differences in earnings between local and national collective bargaining. Therefore the estimates of the size of 'union rent' are likely to be exaggerated.

In theory if non-competitive wage bargaining existed in its purest form, then we would have to question the profit maximising theory of the firm, and in the absence of external market forces, there would be no external influences that would directly affect wages, hiring, training or labour deployment within a firm.

Therefore the consequences of pure non-competitive markets would be:

1. Imperfect information
2. The complexity of the internal wage structure which would reduce the firm's ability to respond to market forces
3. Exchange relationships between the employer and the employee would become lopsided. By this we mean if both sides have the ability to deviate from the labour contract with impunity, and if despite this the other party has limited opportunity to cancel the contract.

If a lopsided situation existed it would tend to favour the employer. The employer could alter the terms of the contract unilaterally, and the workers' ability to prevent this through individual or collective bargaining would be limited. The power relationship would be biased in favour of the employer. This would allow the employer to shape both the labour contract and the wage structure to improve his positioning in the exchange relationship and to strengthen his power base. 'The firm uses wages to devalue lower skilled grades and to

divide workers; it institutionalises promotion by seniority to create an internal hierarchy whose occupants are sympathetic to its leadership; uses access to training to favour sympathetic and amenable workers; and uses relativities to undermine union solidarity' (Joll et al 1983: 120). This implies that the allocation of labour, without market forces, would reflect the power structure within the firm, and in particular, the firm's strategy to maintain dominance.

From this discussion it can be seen that non-competitive wage bargaining in its pure form is a theoretical concept, and any application of it to the real world would be a matter of degrees. It would be more relevant in some firms to a greater extent than others. But we believe it would be of greater importance in firms with little or no trade union membership.

5.6 Problems Encountered

5.6.0 Introduction. In this section we will discuss some of the problems encountered while undertaking the research for this dissertation. Two main areas are discussed, these are time series data, and the use of generic large scale surveys.

5.6.1 Time Series Data. It became increasingly clear that because of the short time period covered by this dissertation - 1987 to 1998, the use of time series would have to be accompanied with a 'health warning'. This was due to the normal number of observations required for any robust regression analysis.

5.6.2 Generic Large Scale Surveys. The NES and WIRS hold the same problem for researchers operating at the micro level of the economy. This means that as soon as you start disaggregating these data sets you come up against the problem of sample sizes that are so small they are either not reported, as is the case for the NES, or you cannot use them because they are not statistically robust, as is the case for the WIRS series.

Major problems were also encountered when trying to analyse the 1984 WIRS data, as this was supplied in machine code language, and considerable time was expended in converting it into a workable format. At the end of this process there was little reward because of the small numbers involved, when the data was broken down into its various SIC classifications.

Originally it had been intended to compare research which had already been undertaken in the USA with results obtained in the UK using the available data sets. In the USA much of the research around union rent sharing has been based on data from the micro data sets of Current Population Surveys - see Rose 1987: 1140. Data sets like this in the UK did not become available until the mid 1990s, when the Labour Force Survey started asking questions about trade union membership. A better understanding of availability and non-availability of data sets would have been of assistance in the early stages of the research.

5.7 Future Research

5.7.0 Introduction. This section will indicate future areas of possible research around the issues raised in this dissertation. This dissertation covers, in the main, the period when the Conservative Party came in to office in 1979 until replaced in May 1997 by a New Labour administration.

5.7.1 The Bus and Coach Industry. The UK bus industry has undergone considerable change since deregulation and privatisation. Further research could be undertaken as to the effectiveness of the new Labour Government's policy towards increasing bus use, including the use of quality contracts.

5.7.2 The Port Industry. In view of the performance of ABP, further research could be undertaken to test the hypothesis that the capital markets will obtain better performance from managers. Another area that could be examined, when dissipated share ownership exists, is whether shareholders can effectively monitor the performance of managers.

5.7.3 Transport Generally. Other privatised transport industries in the UK could also be studied. But possibly the most rewarding at present would be the airline industry. This industry has also been affected by European Union deregulation policies and a comparative study of their pre and post privatisation performances would be of interest. Also the industry is undergoing significant change due to the emergence of the low cost carriers.

5.7.4 The Role of Think-Tanks. A final suggestion for future research is the role of think-tanks in the process of economic policy formation, especially in regard to transport. In the UK there are many think-tanks both on the left and right of the political spectrum. During the

1980s and 1990s the right-wing think-tanks had the ear of the Conservative Government. Since 1997 their influence may have waned somewhat, but they are still influential, if only in the wider economic debate.

An example of their influence was the intellectual economic challenges taken up by the new right, which resulted in the dominance of the idea about the distortionary effect of either 'natural' or 'generated' monopoly. In the UK the most enthusiastic reaction to this thesis came from those trying to develop a regulatory framework for the privatised industries. Transport, especially the bus industry, was one obvious area. Ian Savage, who reviewed the Hereford trial area experiment - see Foster 1992: 121 - believed that there was a far greater role for academics in advising on bus deregulation than on other areas of deregulation and privatization. This 'reflects the establishment over many years of a strong academic tradition in transport economics - in Britain stronger than in any other brand of microeconomics, except labour economics' (Foster 1992: 139).

Any research in this area should take into account that during the 1990s the effectiveness of the market – through the General Competitive Equilibrium (GCE) theory – had started to be challenged by leading economists, some of whom were originally supporters of the market theory – see Arrow 1994: 13 – and who have now questioned the effectiveness of market mechanism, especially in non-competitive situations.

However, Paul Ormerod (1994: 12) has argued that 'The more intelligent free marketers recognise that the game is up with this central model of economic theory. An imaginative response is to claim that the fashionable concept of non-linear systems and chaos theory can be used to re-establish the primacy of free markets, as in a recent IEA pamphlet by David Parker and Ralph Stacey.'

5.8 Concluding Comment

5.8.0 A Concluding Comment. In all the productive economies, except the USA, Governments have taken the commanding heights of the economy under their control. However, according to Kay (2003:360): 'It was never clear what constitutes the commanding heights but similar instincts seem to have prevailed in most countries. Utilities – gas,

electricity, water and telecommunications – are almost always commanding heights. Some industries – such as airlines – are thought to have special importance...'

Yet, Parker and Stacey (1994: 83) argue that 'the long-term future cannot be reliably planned.' The economy therefore cannot be controlled in any meaningful way by governments. Free and competitive markets should therefore be left to their own devices.

But Kay (2003:360) goes on to argue that 'There is not much evidence that privately owned firms are more efficient than public if competition is not possible or achieved. Popular discussion frequently conflates the introduction of competition with change of ownership'.

So the debate between various schools of thought carries on, but we can be sure of one thing, no matter what economic theory is in ascendancy 'Transport will remain a crucial battleground in the years to come between those who want more private enterprise and those who want more nationalisation' Redwood 2002: 178.

APPENDICES

APPENDIX 1

Year	Municipal	NBC	SBC	Private	Total
1974	1	16	0	41	58
1975	0	18	1	39	58
1976	0	15	1	41	58
1977	1	12	1	36	50
1978	1	10	0	33	44
1979	1	9	1	33	44
1980	1	9	0	29	39
1981*	0	8	1	6	15
1982	0	12	1	5	18
1983	1	12	1	4	17
1984	0	12	2	4	17

Table 1 Express Coach Passenger Journeys by Operator 1974-1984 Millions
Source: Transport Statistics for various years.

*From 6 October 1980 the definition of the types of service changed. As a result of these changes many services previously classified as express and some previously classified as contract became licensed as stage services.

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	74.1	65.7	90.2	94.2	N/A	81.7
86/87	76.2	80.6	91.9	94.5	N/A	87.0
87/88	76.8	84.2	92.9	94.5	N/A	88.4
88/89	80.4	84.5	92.1	92.7	N/A	88.4
89/90	82.2	84.8	92.6	90.4	N/A	88.6
90/91	82.7	85.9	93.1	88.7	N/A	88.9
91/92	86.4	91.6	95.7	91.2	N/A	92.4
92/93	90.2	94.9	96.9	94.5	96.9	94.7
93/94	95.8	97.9	98.1	96.2	98.8	97.3
94/95	98.7	98.9	99.5	99.4	99.9	99.2
95/96	100.4	100.8	100.4	100.1	100.0	100.5
96/97	102.2	103.7	102.8	104.7	101.2	103.4
97/98	102.6	106.3	104.6	109.3	103.3	105.9
% Change	38.5	61.8	16.0	16.1	6.6	28.7

Table 2 Local Bus Services: Real Fare Indices by Area 1985/86-97/98
Source: Focus on Public Transport: 1999 page 59 - 1995=100

Year	Local Bus Fares	Rail Fares	Motoring Costs	Other travel costs
85/86	81.7	80.4	101.7	105.7
86/87	87.0	82.7	97.4	104.2
87/88	88.4	84.1	99.5	104.0
88/89	88.4	85.4	98.4	102.5
89/90	88.6	85.7	95.9	100.0
90/91	88.9	86.3	93.3	98.5
91/92	92.4	89.9	96.4	99.7
92/93	94.7	93.5	98.3	101.2
93/94	97.3	97.6	101.6	103.9
94/95	99.2	99.2	101.3	101.9
95/96	100.5	100.4	99.7	99.3
96/97	103.1	101.1	101.4	100.1
97/98	105.1	100.6	102.7	N/a
% Change	30.7	32.7	-5.2	-28.9

Table 3 Passenger Transport Price Indices at Constant Prices 1995=100
Source: Focus on Public Transport 1999: 58

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	355	523	847	294	92	2,113
86/87	358	525	821	284	83	2,070
87/88	348	544	816	273	81	2,062
88/89	359	535	806	264	85	2,050
89/90	361	513	791	249	80	1,993
90/91	359	484	750	236	72	1,901
91/92	358	497	727	244	69	1,895
92/93	368	490	716	244	66	1,884
93/94	389	499	742	250	72	1,951
94/95	402	491	750	256	72	1,971
95/96	432	477	731	247	72	1,959
96/97	460	480	767	233	72	2,011
% Change	29.5	-8.3	-9.5	-20.9	-21.9	-4.8

Table 4 Local Bus Services: real passenger receipts £million by area, excluding concessionary fares
Source: Bus and Coach Statistics Great Britain: 1995/96 Table 4.2 - 1995=100

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	103	165	100	58	9	434
86/87	100	167	94	57	9	427
87/88	103	180	96	61	9	448
88/89	97	181	99	52	8	437
89/90	107	193	99	51	8	457
90/91	104	193	102	51	8	458
91/92	101	183	101	44	8	437
92/93	95	181	102	42	9	429
93/94	99	178	101	44	8	431
94/95	103	182	102	46	8	440
95/96	102	176	101	44	9	432
96/97	103	172	99	48	9	431
% Change	0.0	4.0	-0.8	-15.9	-4.0	-0.9

Table 5 Local Bus Services: real concessionary fares reimbursement scheme £ million by area
Source: Bus and Coach Statistics Great Britain: 1996/97 Table 5.3 - 1995=100

Year	London	Metro	Shire	Scotland	Wales	GB
86/87	262	170	116	132	114	150
87/88	247	138	105	118	102	131
88/89	244	128	99	112	89	124
89/90	229	123	96	101	87	118
90/91	218	120	91	99	79	115
91/92	210	115	93	90	75	112
92/93	196	106	91	88	72	107
93/94	180	101	84	86	71	101
94/95	161	97	83	86	73	97
95/96	149	97	80	85	75	94
96/97	159	97	76	74	71	89
97/98	152	90	76	74	71	89
% Change	-42.0	-47.9	-34.5	-43.9	-37.7	-40.7

Table 6 Percentage change in Real Operating Costs Pence Per Vehicle Kilometre by Area 1986/87-1997/98 - Including Depreciation
Source: Bus and Coach Statistics Great Britain: 1995/96
Table 6.2 - 1995=100

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	235	363	152	44	20	814
86/87	183	294	128	52	15	671
87/88	164	194	109	33	12	513
88/89	165	162	113	30	10	480
89/90	113	135	114	22	12	395
90/91	141	123	114	15	12	405
91/92	187	129	116	23	12	467
92/93	189	123	105	23	11	452
93/94	65	111	95	24	10	305
94/95	60	108	94	24	9	295
95/96	32	106	92	26	10	264
96/97	12	109	85	30	10	246
97/98	1	98	86	28	9	222
% Change	-99.6	-73.0	-43.4	-36.4	-55.0	-72.7

Table 7 Local Bus Services: real public transport support £ million by area at 1997/98 prices. Source: Focus on Public Transport 1999: 70

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	1,152	2,068	1,588	671	163	5,641
86/87	1,164	1,810	1,571	644	152	5,341
87/88	1,207	1,732	1,550	647	156	5,292
88/89	1,211	1,695	1,501	647	161	5,215
89/90	1,188	1,648	1,474	613	151	5,074
90/91	1,178	1,547	1,396	585	145	4,850
91/92	1,149	1,478	1,333	571	133	4,665
92/93	1,129	1,383	1,307	532	129	4,480
93/94	1,117	1,337	1,274	525	133	4,385
94/95	1,167	1,331	1,277	513	132	4,420
95/96	1,205	1,292	1,265	494	127	4,383
96/97	1,242	1,247	1,269	467	130	4,355
% Change	7.8	-39.7	-20.1	-30.4	-20.2	-22.8

Table 8 Local Bus Services: passenger journeys by area - millions
Source: Table 2.1 Bus and Coach Statistics Great Britain 1996/97

Year	London	Metropolitan Areas	Shire Counties	Scotland	Wales	Great Britain
85/86	273	574	849	285	95	2,077
86/87	278	557	929	302	94	2,160
87/88	276	616	1,015	329	105	2,342
88/89	285	634	1,027	325	118	2,390
89/90	292	654	1,041	336	119	2,442
90/91	304	650	1,035	336	123	2,448
91/92	316	662	1,035	355	122	2,448
92/93	330	679	1,040	347	119	2,515
93/94	343	693	1,058	361	130	2,585
94/95	356	720	1,080	368	125	2,649
95/96	353	695	1,102	350	123	2,623
96/97	342	692	1,169	368	120	2,638
97/98	362	700	1,085	368	117	2,632
% Change	32.6	21.9	27.8	29.1	23.2	26.7

Table 9 Local Bus Services: vehicle kilometres by area - millions
Source: Bus and Coach Statistics Great Britain: 1995/96 Table 1.1

APPENDIX 2 Ownership of BTDB and ABP ports 1982 and 1997

British Transport Docks Board ports as of 1st March 1982		Associated British Ports Holding ports in 1997	
BTDB Port	Category	ABP	Category
Ayr & Troon	Small	Ayr & Troon	Small
Barrow & Silloth	Small	Barrow & Silloth	Small
Barry	Large	Barry	Large
Cardiff	Large	Cardiff	Large
Fleetwood	Small	Colchester Dock Transit Company Purchased in 1988*	Small
Garston	Small	Fleetwood	Small
Grimsby and Immingham	Large	Garston	Small
Goole	Large	Grimsby and Immingham	Large
Hull	Large	Goole	Large
Kings Lynn	Small	Hull	Large
Lowestoft	Small	Ipswich Port Ltd Purchased in 1997*	Small
Newport	Large	Kings Lynn	Small
Plymouth	Small	Lowestoft	Small
Southampton	Large	Newport	Large
Swansea & Port Talbot	Large	Plymouth	Small
		Southampton	Large
		Swansea & Port Talbot	Large
		Teignmouth Quay Company Purchased in 1988*	Small
		Whitby Port Services purchased in 1989*	Small

Source British Transport Docks Board 1982

*Source APB 1998 pp 17-18

APPENDIX 3 List of the Port Authorities of Great Britain by Type of Ownership. Authorities making statistical returns to the National Ports Council arranged geographically within each type.

1. NATIONALISED PORTS

(i) British Transport Docks Board

Southampton

Plymouth (Millbay)

Lydney

Newport

Cardiff

Penarth

Barry

Port Talbot

Swansea

Garston

Fleetwood

Barrow-in-Furness

Silloth

Ayr

Troon

Methil

Burntisland

Grangemouth

Hartlepools

Middlesbrough

Hull

Goole

Immingham

Grimsby

King's Lynn

Lowestoft

(ii) **British Railways Board**

Folkestone

Newhaven

Fishguard

Holyhead

Heysham

Stranraer

Harwich (Parkeston Quay and Train Ferry Terminal)

(iii) **British Waterways Board**

Sharpness

Weston Point

(iv) **The Admiralty**

Invergordon

2. PUBLIC TRUST PORTS

Port of London Authority

Medway Conservancy Board

Faversham Navigation Commissioners

Sandwich Port and Haven Commissioners

Dover Harbour Board

Shoreham Harbour Trustees

Littlehampton Harbour Board

Southampton Harbour Board

Poole Harbour Commissioners

Dartmouth Harbour Commissioners

Cattewater Harbour Commissioners, Plymouth

Fowey Harbour Commissioners

Falmouth Harbour Commissioners

Newlyn Pier & Harbour Commissioners

Padstow Harbour Commissioners

Newport (Mon.) Harbour Commissioners

Milford Haven Conservancy Board

Caernarvon Harbour Trust

Mersey Docks and Harbour Board

Lancaster Port Commissioners

Whitehaven Harbour Commissioners

Clyde Port Authority

Stornoway Pier and Harbour Commission

Trustees of the Harbour of Inverness

Fraserburgh Harbour Commissioners

Peterhead Harbour Trustees

Aberdeen Harbour Commissioners

Dundee Harbour Trust

Leith Harbour & Dock Commissioners

Warkworth Harbour Commissioners

Blyth Harbour Commission

Tyne Improvement Commission

River Wear Commissioners

Tees Conservancy Commissioners

Bridlington Harbour Commissioners

King's Lynn Conservancy Board

Great Yarmouth Port & Haven Commissioners

Ipswich Dock Commission

3. LOCAL AUTHORITY PORTS

Ramsgate Corporation

Portsmouth City Council

Newport Isle of Wight Borough Council

Corporation of Weymouth & Melcombe Regis

Exeter City Council

Truro City Council

Penzance Corporation

Bideford Corporation

Bridgwater Port & Navigation

Port of Bristol Authority

Port of Preston Authority

Paisley (Cart Navigation)

Perth Town Council

Council of the Royal Burgh of Kirkcaldy

Corporation of Newcastle- upon-Tyne

The Port of Whitby

Scarborough Corporation

Port of Boston Authority

Port of Wisbech Authority

Colchester Borough Council

4. PRIVATE AND OTHER PORTS

Sheerness Harbour Co.

Ridham Dock [Bowaters United Kingdom Pulp & Paper Mills Ltd. (Kemsley Mill)]

Exmouth Dock Co.

Teignmouth Quay Co Ltd.

Sutton Harbour Improvement Co., Plymouth

Port of Par Ltd.

Charlestown Estate Ltd.

Falmouth Dock & Engineering Co.

Hayle (Messrs. Harvey & Co. Ltd.)

Milford Docks Co.

Penmaenmawr (Kingston Minerals Ltd.)

Mostyn Docks & Trading Co.

Bromborough Dock (Unilever Merseyside Ltd.)

Manchester Ship Canal Co.

The Millorn Hematite Iron Co. Ltd.

The Workington Harbour & Dock Co. Ltd.

Irvine Harbour Co.

Ardrossan Harbour Co.

Finnart [B.P. Refinery (Grangemouth) Ltd.]

Lossiemouth (Elgin & Lossiemouth Harbour Company)

Newburgh (Fife) [Bell Bros. (Newburgh) Ltd.]

Granton Harbour Ltd.

Seaham Harbour Dock Co.

Felixstowe Dock & Railway Co.

Source: Digest of Port Statistics 1966 pp2-3

APPENDIX 4 Financial Statistics for British Transports Docks Board 1963-1981

Year	Revenue 000	Net Surplus 000	Tonnage	Personnel	Remuneration £m
1963	22,620	710	66,117	12,101	10.3
1964	23,316	715	67,948	11,576	10.7
1965	24,552	682	67,490	11,123	12.0
1966	26,629	886	69,896	10,183	12.7
1967	28,568	914	72,343	13,098	14.4
1968	28,329	830	75,486	12,132	13.2
1969	29,611	(440)	78,733	11,394	14.4
1970	33,536	(1,630)	86,159	11,075	16.4
1971	40,415	409	79,422	10,874	18.3
1972	48,843	1,399	83,606	12,178	28.1
1973	55,648	1,693	89,742	11,658	30.7
1974	63,214	702	84,785	11,941	35.6
1975	77,028	814	77,252	11,353	42.7
1976	97,951	6,193	83,489	11,656	48.1
1977	108,813	7,285	77,170	11,544	52.0
1978	117,694	6,981	78,908	11,609	57.3
1979	131,152	6,806	82,242	11,533	68.7
1980	136,913	8,006	71,672	11,272	80.4
1981	128,245	(8,784)	75,235	9,977	81.8

Source: British Transport Docks Board Report and Accounts 1963-1981

APPENDIX 5 ABP real Port Turnover and Real GDP in Ln

Year	LN Real Port Revenue	Ln Real GDP
1963	5.7004	12.9275
1964	5.6849	12.9684
1965	5.6880	12.9899
1966	5.7286	13.0072
1967	5.7699	13.0355
1968	5.7135	13.0695
1969	5.7061	13.0881
1970	5.7516	13.1136
1971	5.8446	13.1384
1972	5.9613	13.1877
1973	6.0230	13.2253
1974	5.9705	13.2227
1975	5.9435	13.2178
1976	6.0565	13.2457
1977	6.0335	13.2693
1978	6.0076	13.2993
1979	5.9606	13.3276
1980	5.8360	13.2903
1981	5.6798	13.2922
1982	5.7801	13.3134
1983	5.7534	13.3528
1984	5.5918	13.3723
1985	5.5387	13.4119
1986	5.5943	13.4473
1987	5.5888	13.4998
1988	5.5221	13.5409
1989	5.4699	13.5619
1990	5.4881	13.5577
1991	5.4743	13.5525

1992	5.3833	13.5543
1993	5.3244	13.5901
1994	5.3388	13.632
1995	5.3713	13.658
1996	5.3875	13.6852
1997	5.5463	13.7191
1998	5.6720	13.7445

Sources

Real GDP (£m) from http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/GDP_Deflators/data_gdp_fig.cfm?

BTDB and ABP port revenue from Annual Reports and Accounts

Appendix 6 Financial Statistics of the Major Trust Ports 1992-1998

Year	Tees	Clydeport	Forth	Medway	Tilbury
1992		10585	32423	26025	33553
1993	39097	11847	33092	27345	38646
1994	41140	15886	35734	26514	40263
1995	42466	18177	47305	25226	38735
1996	44364	17445	84727	6114	39407
1997	47785	20551	95060	6619	39483
1998	84926	26042	108043	6678	39810

Table 1 Turnover £000 Source: Fame database

		Profit £000			
Year	Tees	Clydeport	Forth	Medway	Tilbury
1992		1,633	10,899	26025	33553
1993	39,097	2,454	9,616	27345	38646
1994	41,140	5,617	13,744	26514	40263
1995	17,846	5,324	15,348	25226	38735
1996	20,377	5,311	22,167	6114	39407
1997	22,705	7,852	24,434	6619	39483
1998	29,582	11,023	30,959	6678	39810

Source: Fame database

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