

The transport policy between regulation and liberalisation

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An active academic debate on whether the state should interfere on the transport market and influence the development of transport has been going on in the developed countries for quite a long time now. On one side, there are the advocates of the idea that the transport market has to be regulated, on the other, there are the promoters of its liberalisation (deregulation). In the practice of these countries so far the transport sector has been an area in which the state interferes to a smaller or larger extent. The debate on the basic dilemma of the transport policy is today especially heated in the so-called transition countries, which abandoned the socialist paradigm and oriented themselves to developing a market oriented economy. The facts the creators of the transport policy in the Western Balkan countries, the transition countries, must not ignore are that, firstly, the transport market in the European Union area is liberated to a large extent, and, secondly, due to the insufficient development of economy in the Balkan countries, it is not easy to create and implement the transport policy that would be in harmony with the philosophy of transport development in the developed European countries, the EU members.

1. Introduction

Traditionally, regulation as a method of transport policy came into force with the beginnings of the modern transport system. At the beginning, it was the control of the railways monopoly. Then, during the 1930's economic crisis, a more comprehensive protectionist system at the transport market was established. A dramatic fall in demand and a fierce competition among the transport companies proved to be a serious threat to the existence of an efficient transport system, therefore the governments of the majority of countries decided to act as "guardian angels".

The state control was still evident in the years after the Second World War. No really serious debates on the liberalisation in the transport sector had emerged until the mid sixties. A conclusion can be drawn that in the post war period, a model of controlled competition was implemented in the transport sector.

The debate on the role of the state in regulating the transport market became vigorous in the last two decades of the 20th century, however, its beginnings date back to the 19th century [Dante Flore, V., Economics of Maritime Transport and State Intervention in the Maritime business, Institute of Economics, Zagreb, 1966, p. 83].

The authors that maintain that it is necessary that the transport be regulated by the state support their thesis by the fact that transport is one of the most important factors of socio-economic development. It has a direct impact on the possibilities of using natural resources, on the positioning of manufacturing plants, on employment and on the distribution of the population in a country. In a nutshell, transport plays the central role in achieving socio-economic goals and the decisions concerning this matter are too important to be entirely left to those operating in the transport sector.

In the last years, however, there has been a growing number of theoreticians who approach the issue of transport not from socio-political, but from commercial aspects. An attitude prevails that transport is not best integrated into the market economy in a majority of countries. The advocates of this view maintain that it is impossible to structure an efficient transport system without a more consistent liberalisation of transport market.

2. Regulation

The advocates of transport market regulation claim that an abrupt turn from the policy of regulation to that of liberalisation may have a negative impact upon the transport sector, the overall economy and the development of the society in general.

In an analysis of the works of these authors H. Baum has come to a conclusion that the most relevant arguments proving the necessity of regulating the transport market may be listed as follows: 1) a long-term effective competition, with a large number of competitors would present a threat to many transport companies; a tendency towards concentration would change the market structure in favour of oligopolies and incite a trust-type behaviour; 2) without the market protection the railways system would be destroyed; 3) a constant pressure upon the prices would challenge the legitimacy of investments into innovation, which would in turn reduce the opportunity to be competitive as regards the level and the quality of services; 4) without subsidies, the financial basis for sustaining the transport of the consumers whose material status is poor would disintegrate; 5) the services in non-developed and distant regions, especially rural ones, would fail to be provided; 6) the inflation would increase, aided by additional effects of the prices in the transport sector, which will be subject to frequent and significant changes in the absence of regulation; 7) the safety of transport would decrease, due to greater competition [Baum, H., Possibilities and

Limits of Regulation in Transport policy, ECMT, Paris, 1983, p. 90].

Regulation of transport market is generally explained by the following arguments: (1) the character of the very market structure; (2) external effects; and (3) state interest.

The transport market is characterised by some specific features, for example, a constant surplus of capacities, lack of flexibility of the production factors, high fixed costs, technical unity of production, a remarkable fluctuation of demand due to short-term economic trends, etc. Regardless of whether these factors do justify the state regulation or do not, the supporters of interventionism maintain that these, at least, still remain open questions and issues of economic and political debates.

The regulation is also justified by the negative external effects of the transport (noise, pollution, safety risks, etc). The neutralization of these external, non-market impacts by way of regulation measures (taxi, subsidies, regulations or prohibitions) may help restore the efficiency of market coordination.

The advocates of interventionism maintain that the regulation policy is necessary for the reasons of the so-called "state interest" too. The state interest is achieved by achieving certain political goals. There is a broad range of political goals, to mention only a few: the goals of the regional (development of undeveloped regions) and agricultural policy, railway system protection, improving safety on the roads and many others.

According to Bass, one of the basic arguments the advocates of regulation offer is an inevitable rise of monopolies or oligopolies in all routes, except on those where the transport is busiest. Achieving socio-political goals is also an important reason for the transport market regulation or for a specific interference of the state into some sectors of transport or some companies [Bass, T., C., Passenger Transport, ECMT, Berlin, 1985, p. 234].

A large number of economists understand regulation as an indirect method of achieving high technical and safety standards, which is a valid hypothesis and can be supported by evidence.

3. Liberalization

The views on the necessity of liberalization in the field of transport market are becoming more and more evident in the modern economic practice [On economy liberalization trend, see: Bajec, J., Joksimović, Lj., Modern Economic Systems, Faculty of Economy, Belgrade, 2006, pp. 117-119].

These views are supported, on one hand, by the suboptimal functioning of transport system and the disfunction of the existing transport market, and, on the other

hand, by the positive results of liberalization measures introduced by a majority of countries with highly developed market economy.

A large scale and often inadequate impact of the state upon the transport sector was subject to criticism by numerous prominent authors in the field of transport economy in the last two decades of the 20th century and at the beginning of this century. For example, in mid 1980's, Aberle warns that there is a strong and direct interest of some transport companies to prevent the emergence of any competition, which would be in accord with the rules of market economy and which suits to other sectors of economy. Interest groups always manage to prevent the creation of such a transport policy that would be competition oriented to a greater extent. In that way the state and certain special institutions of control become a sort of a guardian to the positions various lobbies acquired, as well as an instrument in preventing competition [Aberle, G., An Overview of European Transport Policy – Objectives and Measures, ECMT, Berlin, 1985, p. 29].

The arguments in favour of deregulation are based on the criticism of the market regulation results as well as on the positive effects of liberalisation measures experienced by many countries. Generally, Baum considers the claims for further liberalisation well founded for a number of reasons [Baum, H., Possibilities and Limits of Regulation in Transport Policy, op.cit., pp. 103-104]:

- 1) The basic principle of transport policy should be the efficiency of transport. The growth in the transports of goods means intensifying of competition and creating conditions for a larger scope of transport.
- 2) The role of the state is not to define nor to protect the revenues and part of the market in some transport routes and companies. Performance should be evaluated the way it is done in other economic fields – under the conditions of competition. This enhances the flexibility of transport companies in the structural change process and ensures economic and technical progress.
- 3) By the depoliticisation of the conditions of competition the transport companies are given a chance to approach the commercial management in a more serious way. The state's discretionary intervention in order that it should secure the citizens' votes or for the purpose of budgetary policy should be abandoned. With the stabilization of work conditions, transport companies would no longer be in a position to carry the main burden of opposing goals of economic policy.
- 4) The basic problem in the debates on liberalisation is the railways system. Opinions differ as regards the dilemma whether the far-reaching rationalisation measures should precede liberalisation or whether the liberalisation itself would allow for the rationalisation of railways. Waiting for rationalisation to come means blocking the progress that would follow deregulation for an indefinite period of time. The preceding liberalisation requires the railways to start an offensive policy, as well as the "intervention and concentration" strategy on the



market, where the railways system has an advantage in providing services.

5) Politicians would have to abandon the idea that the objectives of economic policy are to be achieved only through regulation, since such policy has already proved rather ineffective. A much more effective approach is intensifying competition. If some carriers are to perform special services not possible in the conditions of competition, then the state should pay for these services “political prices” – in the form of specific and adequate reimbursement.

6) “Concealed competition”, which sometimes involves illegal actions, would be revealed and would become public. Those in charge of trust control could use their set of instruments, on the basis of competition laws, to prevent its distortion. The concentration tendency would weaken and the possibilities for the companies to reach optimal size would increase.

7) The negative external effects (pollution, noise, road accidents) could be efficiently reduced implementing limitations, sanctions and criteria intensifying. Here, market coordination always proved to be either inadequate, or its impact was weak.

8) The solution to the problem of whether liberalisation should be implemented fast or slowly is in that a systematic effort must be made in a reasonable period of time,

without seeking solution in postponing things – devising various long-term programmes.

Rask maintains that disfunctionality is immanent to the regulation concept. It is more or less obvious that regulation may have a negative impact upon the costs and quality of transport [Rask, L., O., *International Goods Transport – Regulation*, ECMT, Berlin, 1985, p. 186].

The supporters of transport market liberalisation claim that competition is an especially efficient mechanism. Where it is efficient, it encourages carriers to be careful about the consumers’ preferences and thus an opportunity to increase their own efficiency. Competition allows for the use of various skills and trying different ideas, as well as identifying and filling the gaps on the market.

The transport industry is not less competitive than other industries, therefore there is no reason that it should be treated otherwise. Besides, transport is not the only industry in which one should be cautious as regards creating monopoly or oligopoly.

Thinking of transport as predominantly a public service and neglecting its commercial aspect cannot be justified. In case there are services that are of special inter-

est to the social community, but cannot be effected on the market, an efficient solution is found in subsidizing these services.

Furthermore, there is little evidence that the standards of services really fall where competition is allowed to exist. On the contrary, numerous examples prove that the situation is opposite.

The next, very conclusive argument does not stand in favour of regulating either the competition's entry into the market or the prices regulation. In fact, a motive to act efficiently and adapt the services to the market demand may be rather impaired by preventing competition in lower prices or setting barriers to the new competition to enter the market.

The advocates of the overall and prompt deregulation are convinced that it will allow for the competition to grow on the transport market and thus automatically decrease the importance of grey or black markets. Simultaneously, they expect the deregulation to contribute to the improvement of the service quality in accordance with the acceleration of technical progress, depolitisation of competition on the transport markets, administrative costs reduction and elimination of unnecessary bureaucracy.

4. Conclusion

The liberalisation trend, especially evident in the countries of developed market economy, cannot be explained solely by the victory of a superior idea or a powerful economic concept. It is largely a consequence of a level achieved in the development of a transport system and transport market, and, therefore, of a real pressure of transport companies. Conditions for a business and enterprising approach and the development of competitive competences of transport companies are today more favourable than ever.

The basic objective of the transport policy is to create conditions for the transport services to be provided to the community at the lowest prices possible. The classic regulation of transport market cannot be expected to produce the results desired, regardless of whether in measuring these results the stress is put on the efficiency (commercial quality) or righteousness (social quality); therefore deregulation should become the basic method of a modern transport policy. The quintessence of liberalisation lies in establishing competitive relations that cannot be cancelled by discretionary decisions.

We are rather certain in our predictions that the transport services market in Europe will become more and

more liberal. Therefore it is logical to ask what role the state will play in the conditions of inevitable liberalisation of transport market. State administrative bodies should participate in creating a development policy of investment into the traffic infrastructure, as well as in the harmonization of conditions of business operations, that is, in creating equal chances for competition on the transport market. Thus an appropriate context would be created for competition development, in which the basic criteria for selecting a means of transportation would be the service quality, adaptability to the consumer demand and enhanced productivity.

Božić and Novaković point out that modern concepts of transport policy in the developed countries are oriented towards two aims: a) participation of state administration in defining development programmes and allocation of a large portion of capital for building and modernization of primary transport infrastructure, including railway infrastructure, and b) developing and maintaining the railways business operations on economic principles, including the necessary modernisation and improvement of technical and technologic parametres, so that it should act in the transport market on as equal a footing as possible [Božić, V., Novaković, S., *Economy of Transport*, Faculty of Economy, Belgrade, 2006, pp. 362-365].

In creating the transport policy in European countries in transition we must not neglect the international aspect; in other words, the objective need to include these countries into coordinated activities undertaken within the European Union.

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