

STUDY CALLS FOR DEREGULATION OF INTERCITY BUS TRANSPORTATION

Professor G.B. Reschenthaler of the University of Alberta Faculty of Commerce and Business Administration, in a study soon to be released by the federal Department of Consumer and Corporate Affairs, calls for a dismantling of much of the regulatory apparatus now applied by the Provinces to intercity bus transportation. He states:

"We suggest a program of deregulation in the industry. Our preference is to change the regulatory rules quickly by easing the conditions for granting of operating authorities. New entry should be automatic unless an intervenor can show by a preponderance of evidence that permitting the firm to compete is not consistent with the public convenience and necessity. The burden of proof should be shifted from the prospective competitor to the existing monopolist. We should create a presumption in favour of competition. In the case of proposed fare reductions, there should be a presumption in favour of reductions."

The study, entitled "Performance Under Regulation: The Canadian Intercity Bus Industry", depends largely upon data relating to the five Provinces west of Quebec. However, the author states he has no reason to believe the regulatory approaches are different in the other Provinces. He finds that, while the regulators and the operators are sensitive to consumer complaints, such complaints usually relate to frequency of service and types of equipment rather than to fares. Provided the operators meet these public demands, which they usually do, applications for competitive entry seldom succeed. He finds that a system with the following characteristics has evolved:

- Holders of franchises (operating authorities) usually have a monopoly and, even where there are two competing lines, price competition is not permitted.
- Applications for fare increases are usually only considered in terms of increases in system-wide costs and fare levels in other jurisdictions.
- Partly to forestall successful applications for entry by competitors, operators generally provide acceptable levels of service on all routes as long as something more than incremental costs are covered. Minimal acceptable service is usually once a day on full size coaches even though the traffic does not warrant it.
- Profits are high. The largest thirteen privately owned intercity bus lines had an average after tax return on equity of 31.6

percent during the years 1975, 1976 and 1977, well over double the rates then prevailing in most industries.

The author states:

"We suggest that in the bus industry there exists what amounts to a golden regulatory handshake. An understanding achieved between the regulated and the regulator: good service -- qualitatively -- is to be provided at a price which does not generate an embarrassment of riches.

"...It is what might be termed subtle capture; but we prefer the concept of a regulatory rapprochement -- an understanding is achieved in which the needs of the regulators are appreciated by firms being regulated; and the needs of the firms being regulated are appreciated by the regulators. Elected officials are not drawn into the process. The value of excluding them is appreciated by the regulators and the regulated firms. A fair fare deal for the consumer is not part of the contract."

The author considers that the under utilization of capacity and excess profits do not adequately reflect the full long term costs of regulation. He cites studies which have found that demand for intercity bus service would increase substantially if fares were lower. In other words, under competitive conditions, fares would be lowered by substantially more than the amounts indicated by the excess profits because traffic would increase substantially.

Some low density routes would be abandoned under competitive conditions. However, if it was public policy to maintain them, the author estimates that they could be subsidized at a fraction of the cost of the present regulatory system.

FOREIGN AND INTERNATIONAL

U.S. ATTORNEY GENERAL EXPLAINS ANTITRUST POLICY SHIFTS

An address by U.S. Attorney General William French Smith to the District of Columbia Bar on June 24, 1981 deals with the directions in which the Reagan administration plans to move antitrust policy. What seems to be in