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De-railing the bad economics of immoral train subsidies

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Today's news will be filled with irate rail users, and not (just) because of the usual delays, cancellations, or prospect of strikes on the network.

No, today marks the publication of July's retail price index (RPI) figures. The annual July increase in this benchmark is how government decides to change regulated rail fares from January, including prices for season tickets. With the RPI expected to be well over three per cent, increasing faster than wages, today will likely prove a flashpoint for those who desire more government support for commuters.

Whether it's a push for more subsidy, capping prices lower, the renationalisation of the network, or the elimination of supposed "wasteful" profit margins, the case for more government funding or involvement is actually incredibly weak.

Taxpayers already dish out almost £5bn annually to the industry, despite the fact a relatively small number of people use the railways.

Office for National Statistics (ONS) figures show households on average spend just £3.60 per week on rail travel, compared with over £30 on the operation of personal transport.

Actually, support for rail users is incredibly regressive too. The bottom fifth of households by income spend on average just £1 per week on rail. This compares with £11.20 for the top decile. Little surprise then that ONS stats show that the bottom fifth of households obtain £26 in rail subsidies per year, on average, compared with £173 for the richest. It stands to reason that increasing taxpayer support would exacerbate this regressive effect, with measures such as freezing rail fares or limiting increases effectively taking from working taxpayers to give to the rich.

Nor does subsidising rail travel make much economic sense.

Capping rail fares or directly subsidising regular rail use encourages long distance commuting, a very energy-intensive activity. It also leads to inefficient travel patterns. We should not be surprised that the routes which see regulated rail fares are often characterised by severe overcrowding at peak times – evidence enough that the price is being held artificially low. There is a good case to be made that this support has negative third-party effects as well, whether on

the environment, or socially, due to less time being available to spend with other family members.

Despite its insignificance in average living costs and the regressive effects of support though, parts of the British left seem obsessed with rail travel. They paint a fairytale that says “if only the railways were publicly owned and not run for profit, fares would be dramatically lower and commuters would enjoy a much better service”.

Yet, with train operating companies’ average profit margins at just 2.9 per cent, it would be impossible to substantially reduce fares on the basis of “eliminating profit”. Even that assumes government ownership would maintain exactly the same levels of efficiency, something which history tells us is unlikely.

Realistically, if out-of-pocket fare reduction is a meaningful aim, the advocates of renationalisation are really talking about huge amounts of additional direct or indirect support for the sector, the burden of which will fall on average taxpayers in the regressive way outlined above.

Can anything be done? As my former colleague at the Institute of Economic Affairs Dr Richard Wellings has noted, a serious look at why rail use is so expensive in the UK would examine the history and geography of the railways (including the huge gravitational pull of London). It would reassess the industry structure imposed by the government which artificially separates the ownership of track and train. Perhaps more importantly, it would examine recent investment in uneconomic major infrastructure projects, which came as part of a deliberate attempt to shift more people from using private transport towards public transport.

The effects of price controls in leading to a less pleasant travelling experience for passengers would also be worthy of assessment. If train operating companies had more flexibility on pricing, then passenger travel schedules would likely be much smoother, eliminating the severe overcrowding often seen at peak times.

Sadly, as with other industries such as energy, politicians prefer to extol the easy-sounding answers of “support”, “price caps” and “renationalisation”, rather than engaging in the complex analysis required to facilitate a more efficient industry.

Rather than think of ways to improve the supply our elected representatives prefer to find ways to stoke up demand.

As hard-pressed as commuters may feel right now, throwing more support at the rail sector through subsidies, harsher price controls or renationalisation would do little to help. In fact, there is little economic or moral case for subsidies for this sector at all.

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