



Modi Sarkar's Reforms In The Passenger Transport Sector

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Public Transport via bus has been a government monopoly since the nationalization fad of the 1950s, enabled by a combination of laws ranging from Road Transport Corporations Act (1950) to the Motor Vehicles Act (1988). The similarities of this sector with the pre-deregulation era aviation sector is huge. This includes government monopolies making thousands of crores in losses, non-availability of routes, entrenched labor unions, non-availability of routes and badly maintained infrastructure, and needlessly high fares on luxury, high quality services.

Why Deregulation?

While even scheduled bus transport was almost completely a government monopoly before 1988, the passage of the Motor Vehicles Act enabled private entrepreneurs to enter this space and provide competition to state government-run state Road Transport Corporations. Unscheduled road transport via bus which includes most intra-city transport like BMTC, BEST and DTC as well as inter city transport which are the fiefdoms of the State Road Transport Corporations (SRTCs) mostly remains a government monopoly.

Finance Minister Arun Jaitley has sought to change that in Budget 2016 with an announcement that the Motor Vehicles Act, 1988, will be suitably amended to enable private entrepreneurs to enter this sector and said that the “abolition of permit-raj will be our medium term goal”. Apparently, states will be given a choice on whether they want to adopt this new legal framework in the spirit of cooperative federalism. The minister further said that “entrepreneurs will be able to operate buses on various routes, subject to certain efficiency and safety norms”.

This is a huge step towards increased labor mobility in urban areas as well as broadening the coverage of bus transport. It will have wide ranging ramifications, all of which are positive. This despite the fact that not many state governments are likely to readily give up their networks of political patronage enabled by state ownership of these companies and adopt the new legal framework. The finance minister had announced that the framework will contain ‘efficiency norms’ which will most probably be used to restrict competition through creative interpretation.

Deregulation: Examples From Around The World

In 1985, the Thatcher government in Britain passed the Transport Act which effectively deregulated the sector by replacing the licensing regime with one which involved prior registration. This had a remarkable effect on the cost structure of the industry as costs fell by an average of 26 percent in the three years following the deregulation. As a World Bank report pointed out, the deregulation “was associated with greater concentration of buses on the main routes and a wider range of services being offered”.

The same report also describes what happened in Chile which implemented deregulation in the 1970s. The bus fares fell after an initial increase in these fares as competition increased and in the end the fares were only slightly above the pre-deregulation fares. This was accompanied by more services, development of private bus stations and increased quality and frequency of bus services in existing routes. The industry is profitable and the bus network has become extensive. Compare this with our government bus companies (State Road Transport Corporations/Undertakings *i.e.* SRTCs or SRTUs) which make enormous losses and have barely been able to expand and upgrade their fleet sizes.

Germany, where restrictive regulation had been in place since the 1930s, deregulated the industry in 2011 and Japan did the same way back in 2002. In fact, France deregulated the industry in 2015. Germany witnessed a 180 percent increase in the number of bus passengers within one year of deregulation. Operators in France have already announced an increase in fleet size as well as number of routes. Similar reform was done in Sri Lanka in 1977. We definitely could benefit from something of that sort in India where car ownership is a lot lower and the rail network is less extensive.

The Current State Of Urban Transport In India

To give an example of the massive supply shortfall in Indian cities due to the existence of a government monopoly and restrictive regulations, one can take a look at the story of ZipGo, an app-based bus aggregator. The company, which operates a few buses in Bengaluru’s IT corridor during peak hours, was shown the rule book by the Transport Department and five of its buses were seized. The app was downloaded a whopping 30,000 times in one month. An important innovation in the transport sector was sadly stifled in a city which is at the heart of India’s start-up boom.

In an earlier episode of the government high-handedness, this time in Rajasthan’s Nathdwara-Choti Sadri bus route when the State Government published a notification under relevant legislation which effectively made this route a monopoly of the Rajasthan State Road Transport Corporation (RSRTC). RSRTC however did not ply any buses in this route giving the reason of shortage of buses. When one of the private operators filed a case against this notification, RSRTC temporarily operated a few buses and stopped when the public outrage cycle moved on. As a Government of India report points out, “This saw the area going without an active operator, resulting in the mushrooming of illegal transportation, characterised by poorly-serviced trucks and vehicles where commuters are bundled in discomfort, in complete disregard to safety, resulting in accidents.”

What Will Be The Impact Of Deregulation On The Transport Industry?

A while back, when I was coming back to Bengaluru from Mysuru, I got a chance to ask a few queries to the tout near the city bus stand who enables cars to ‘illegally’ ferry passengers from Mysuru to Bengaluru. Since it is ‘illegal’, he needs to pay the local police station for protection. Earlier, the payments amounted to about Rs 1,20,000 per month to the police station for the above mentioned protection. Recently, the police area was split and the touts end up having to deal with two police stations.

This has caused the total payments to rise upto Rs 1,60,000. On average, such cars ferry about 50 to 60 passengers every hour at Rs 150 per passenger compared to the slow moving government bus of similar comfort levels, Rajahamsa which cost Rs 200 per passenger. He further told me that the cops frequently conduct ‘raids’ whenever they fall short of cash and/ or are in need of media attention. If Karnataka adopts the new legal framework which Jaitley has announced, most such harassment would come to a stop. Passengers will have greater choice of vehicles, cheaper fares and greater levels of comfort.

The scene isn’t that different in intra-city transport by cars and tempo travellers. I will use two examples to illustrate my point. The Banashankari to Yeshwanthpur route in Bengaluru has very few ‘legal’ government-run BMTC buses plying on it. The gap is filled by tempo travellers and cars. These vehicles are impounded by the Bangalore police many a times as they are in violation of the Contract Carriages Act by giving competition to the government-run bus service, *i.e.* BMTC. This greatly harms regular commuters who may have to miss work as there usually is no space in the rare BMTC bus that goes on that route. Otherwise, they take out their personal vehicles and end up increasing traffic congestion on an already congested route. Again, this too would mostly stop if the Karnataka government adopts the new legal framework.

The Gurugram to Dharuhera route in Haryana has a similar problem. The Haryana State Road Transport Corporation plies very few buses on the route. The gap is inevitably filled by illegal mini buses and cars. Unlike Bengaluru, they get to experience ‘light-touch’ police extortion and hence ferry passengers at Rs 40. Despite that, most mini buses don’t upgrade as it is an illegal business and hence the risk is relatively high. Passengers end up getting a thorough experience of the infamous Haryana roads. The lack of quality public transport ends up impacting the real estate market of Dharuhera as it depresses property value and keeps rental yields low. If Haryana adopts the new legal framework, all this is set to change.

One of the biggest reasons for car and bike owners to avoid taking public transport in India is overcrowding of buses. In a 2016 study done by a few researchers from IIT-Delhi, it was found that in a sample size of 23 bus routes of the state government owned Delhi Transport Corporation, only three had sufficient capacity. Most other bus routes had buses carrying near double the capacity. Other passenger concerns include bus punctuality and direct connectivity. The clearly apparent demand supply gap in a city with a pretty good metro would mean that any effort to close this gap through enabling increased supply will most probably have significantly high impact on urban transportation and road congestion.

Other Consequences

Another happy consequence of the proposed deregulation would be better labor market outcomes in terms of increased labor participation and higher standard of living for low income urbanites who would now be able to choose from a wider array of jobs than they earlier could. In my

estimation, localities newly connected by private entrepreneurs will most probably see a jump in their property values as low income urbanites empty out of extremely overcrowded city centres to more affordable localities. In short, Property Values in previously unconnected or badly connected suburban localities are going upwards.

I asked Randal O'Toole, Senior Fellow at Cato Institute working on urban growth, public land, and transportation issues; if such deregulation would be good for labor mobility in Indian cities renowned for their mile long traffic jams.

He replied:

... In many countries, private operators simply do everything with little government interference except perhaps to certify safe operations. San Juan, Puerto Rico has a system known as publicos in which private bus owners carry passengers on flexible routes. San Juan also has a public bus system and a metro, but the publicos carry more passengers than the public buses and metro combined. In my experience, transit does not reduce congestion. However, most of my experience is in cities with very high automobile ownership rates, so the situation may be different in India. However, auto ownership rates are rising in India, so any congestion relief would only be temporary. Transit simply cannot compete with the automobile for convenience. The best competition would come from Uber-like systems of automobiles providing low-cost door-to-door service. However, privatized transit could probably get most people to work better than public transit. Santiago, Chile once had a system like San Juan's publicos. The government decided to replace it with a public transit system. The new system resulted in poorer service.

One can only hope that the NDA government uses its influence among NDA states to get them to adopt this new legal framework when it is passed in the parliament. The government can also tie this reform as a condition to disbursement of 'Jawaharlal Nehru National Urban Rejuvenation Mission' or 'Housing For All by 2022' and use the same as a carrot to induce other states to adopt it.