

*FIN*ON THE DRY SIDE 232

TRANSPORT AND THE ECONOMY

John Hyde

To trade we must deliver something which some buyer wants more than he wants anything else he has not got. The buyer is interested only in the low price and high quality in his hands.

Australians can become competitive by demanding lower real wages and profits. We have done that over the past year and will do more of it over the next. But competitive-and-poor is not our goal so we must look for opportunities to increase productivity. No industry should escape scrutiny.

Transport costs impinge heavily on mining, agriculture and tourism. If transport cost less major industries would boom and the balance of payments crisis would start to melt away. Potential rewards are big; certainly bigger than those to gained from lecturing the United States Congress and the EEC Council of Ministers.

The Australian, (May 5th) published a table showing that Australian ports have the worst record of delays of any place in the world---far worse than any country except Britain. Is this because we have the most militant unions and if so; why? And why transport; other parts of the economy are not quite the industrial wasteland.

The same sort of questions must be asked about transport managements. Are they particularly careless about lost time and high costs and if so why?

Most of the transport sector has attributes which should encourage us to anticipate the economic waste we see. Nearly all of it is provided by statutory monopolies or by private firms operating under statutes which regulate their behaviour and prevent new competition.

Where barriers to entry prevail, economic theory tells us workers and owners will take rewards which are higher than they could get elsewhere---these margins are called economic rents and may be taken in cash or conditions. Where entry barriers are high improvements in technical efficiency will not be passed to customers but captured by owners and workers.

We all want rents but without help from the government they are hard to hold. Without a regulation to prevent it, super normal profits or conditions are competed away.

Rents become dead weight costs. If hostesses were seen earning thousands of dollars per week the barriers to entry the regulators impose would break down so hostesses dissipate their rents in overmanning, leave, go slows,

rosters and flash hotels they value less than the cash they can't get. Passengers lose far more than the hostesses gain.

Regulatory authorities pool the costs of high and low cost ports, lines, terminals, airports, air routes etc. and charge the average, or some part of it. This practice means that farmers do not use the least cost grain sidings; travellers who would go by car if they had to pay the full cost of some air routes nonetheless fly; back loads are charged at the same rate as forward; night traffic the same as day; and ridiculously expensive services are retained because almost no-one knows what they cost.

Professor John Taplin argued in a paper written for the Parliamentary Library that if economic regulation of transport were abolished altogether the gains would far outweigh any losses. If, after deregulation, a monopoly should develop only then should the government impose only those regulations necessary to ensure it does not overcharge or undersupply. Governments should never exclude potential competitors.

What governments have done they can undo but not without pain. Nevertheless, transport reform offers them a way to make the economy competitive which is quicker and less politically painful than most other desirable options such as reform of labour market monopolies and budget cuts.

These are only some of the opportunities:
Repeal the two-airline agreement and alter the independent air fares' committee's guidelines to give airlines more opportunity to price to distinguish between peak and off-peak periods.

Sell Australian Airlines to the public by floating share capital on the stock exchanges---its funny how ideas become respectable when Mr Keating has taken an interest in them.

Although sale of Qantas is not yet on the political agenda there is no good reason why the government should own it and it could be sold. Allow international carriers to carry traffic between Australian destinations. Admit further foreign airlines.

The Government is privatising terminals but whole airports are suitable for private ownership, as in the UK and USA. Of course, unlike in those countries, they should be denied monopoly rights.

The IAC estimates the cost of crewing an Australian vessel is about 3.6 times the cost of crewing a British and nearly twice the cost of a Scandinavian one. It costs nearly twice as much to ship steel from Port Kembla to Fremantle as from

Japan. Part IV of the navigation act should be repealed and ANL sold to break the coastal trade monopoly.

The Liner Shipping Report recommendations should be implemented with a bias in favour of competition. Competition between wharves, grain, sugar and container terminals and other port facilities could be greatly enhanced.

Transport modes and services should compete on equal terms; the cross subsidies engineered through the tax system favouring LPG over petrol and trucks over cars and taxpayers subsidy of rail should be eliminated.

The need to deregulate State railways, busses and taxis is obvious.

We don't know how much better the the monopolised services could become but conventional theory suggests that the gains from deregulation would be considerable. The only way of balancing the foreign account is to become competitive again, and the easiest way to begin that is not by taking on the unions, but by deregulation. Transport is in greater need of deregulation than most sectors and there is no prima face reason to stop competitors entering any transport market.