

# Privatisation of Urban Transport in Delhi

Shailly Arora

One of the subjects of my study is the stereotypical Delhi commuter and his plight. Getting to the workplace on time itself is a herculean task. Even the middle class executives who are fortunate enough to possess an air-conditioned car find the journey depressing and a negative influence on their productivity. Not to mention the plight of lower income groups who have to depend entirely on the public transport system. It is easy to conceptualise the whole exercise as a video game. One solitary fighter and a whole host of obstacles to prevent him from reaching his destination in time. The difference is just that you cannot quit when you are fed up. In the game of life that option is absent. One has to fight day after day against obstacles that are only increasing in magnitude and in number. The issues of rash driving by bus drivers, over speeding, traffic congestion, and environmental pollution are of major concern these days. So what is our government doing about it? Would imposing more rules and regulations make the situation better or rather worse?

This paper seeks to analyse the present situation of the bus transport system in Delhi and addresses the question of how privatising bus transport system in Delhi would make the present scenario of Delhi roads much better. And I support my argument by citing the outcomes of total deregulation and privatisation of the bus transport system in Britain and presenting a perspective of certain difficulties arising out of it.

## Present situation of Bus Transport in Delhi

The current road transport policy was introduced in 1972 and has been in effect since then. There are basically three kinds of bus services in Delhi:

- 1) Inter-city
- 2) Intra-city
- 3) All India private tourist services

The Inter city bus fleet is constituted only by buses owned and operated by the Delhi Transport Corporation (DTC) as private operators are not given the permits to ply their buses until both the state governments concede to it.

The Intra city bus service is further divided into the stage carriage system and the contract carriage system.

## Stage carriage system

Stage carriages are the fleet of buses, which hold a permit to stop at the stages (bus stops), on the route they ply on. Contracts for operating these buses could be allotted to people under any of the following schemes:

- 1) Graduate scheme: unemployed graduates could operate bus services by obtaining a permit.
- 2) SC/ST scheme: permits are granted to people in the SC/ST category.
- 3) Ex-service men scheme: retired people are granted the permits under this category.
- 4) Suvidha scheme

Total number of private buses, which have been granted stage carriage permits in Delhi as on July 4, 2002, are 1,946.<sup>1</sup> The Delhi Transport Corporation (DTC) has a fleet of 2,140 CNG (Compressed Natural Gas) buses at present, which ply under the stage carriage system.

### Contract carriage system

Contract carriages are the fleet of buses, which ply from point to point and are not allowed to stop at stages (bus stops). Owned and maintained by the private operators, they ply their buses in contract with specific organisations. They operate as chartered buses, school buses etc. Total number of buses which have been granted contract carriage permits in Delhi are 1,969 as on July 4, 2002.<sup>2</sup>

Presently, also plying on Delhi roads are mini buses, better known as RTV (Rural Transport Vehicle) or *hari bhari*, which are CNG buses with a seating capacity of 15-25 people. RTVs or *hari bhari* are also owned by the private operators and come under the contract carriage system. Till date there are 2,837 such buses plying on Delhi roads.<sup>3</sup>

### Regulatory Authority in Delhi

So who regulates the bus transport system in Delhi? Who dictates the fares and the routes for the bus operators? Who lays down the rules and regulations for them? The State Transport Authority (STA), a state government body, is the regulating authority in the National Capital Territory of Delhi. No motor vehicle can ply on the road without a permit issued by STA. Every application for a permit in respect of a bus transport vehicle shall be addressed to the secretary, STA, Delhi, and be in one of the forms<sup>4</sup> prescribed for different categories of vehicles as under:

Category of transport vehicle	Form prescribed
Particular stage Carriage	P.St.A.
Reserve of Stage Carriage	P.R.S.A.
Contract Carriage	P.C.A.

The State Transport Authority issues the stage carriage and contract carriage permits for a period of five years. The cost of the permit is Rs 1,100 in both cases. The permit for stage carriages has to be renewed every six months after the verification of their respective payments to DTC and road tax. Private bus operators holding a stage carriage permit have to pay an amount of Rs 2,500 per month to the DTC for stopping at the bus stands and an amount of Rs 5,000 for parking their buses at the depots which are owned and maintained by the DTC.

### Delhi Transport Corporation

The DTC provides 10% of the total public transport in Delhi. It has about 800 buses plying on inter-state routes and 2,200 CNG buses for city operations. The repair and maintenance wing has two central workshops. DTC has about 31,412 employees comprising drivers, conductors, traffic supervisory, repair, maintenance and administration staff. The corporation has 32 depots with sufficient parking capacity for buses. These depots are involved in operation and maintenance of buses. A Depot Manager, who has subordinate officers in mechanical, traffic, and account wings, to

<sup>1</sup> P C Jain, Secretary, State Transport Authority, New Delhi.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> See Appendix.

assist him in depot functioning, heads each depot. There are six regions for the DTC, each headed by a Regional Manager, who has 5-6 depots under his administrative control.

In addition to the above, the DTC has its own departments in the following fields:

- Public Relations Department including Publicity Department
- Traffic Department: responsible for making policies of traffic matters e.g. concessional/ free passes, fares, tickets, special hire, schedule and planning of city routes, private bus operations, special arrangement for various national/religious functions, permits for city/ interstate operation, bus stops/ bus queue shelters, located at Scindia House.
- Training School
- Stores & Purchase Department for procurement of materials
- Mechanical wing for repair and maintenance of buses
- Central workshops at Okhla and Banda Bahadur Marg complex for repairing and maintenance of buses
- Civil Engineering Department
- Printing Press
- Accounts & Internal Audit
- Personnel and Administration
- Research and Development
- Legal Section
- Pension and Provident Fund Trust
- Labour and Sports Cell
- Central Control Room at Pragati Maidan, which comprises an Accident Cell as well as a Central Complaint Cell
- Enquiry Officers in all regions for conducting departmental enquiries
- Offices of Medical Practitioner (Doctors) in all regions
- Central Lost Property Section at Scindia House. Apart from that there are Lost Property Sections in all the regions.

With mammoth paraphernalia, the corporation has been sustaining continuous losses and is financially one of the worst public utilities in Delhi. Its losses have increased from Rs 202 crore in 1996 to Rs 850 crore in 2001. Besides the corporation has borrowed about Rs 720 crore from the state government but has not repaid even a single installment of this loan in the last five years. Inefficiency and overstaff are largely responsible for the organization's downslide. To manage a fleet of 2,200 buses, the corporation has a staff of 31,202, particularly more in the repair and maintenance wing.

The Delhi Government plans to privatise DTC, the city's sole public transport utility.

### Delhi Government Privatisation Plan

Under the newly approved plan of the Delhi government, the private sector would own and operate 80 per cent of the city buses. Under the new system, the Capital has been divided into five zones—North, South, East, West, and Central—each managed by separate companies. While the Delhi Transport Corporation, has been given the Central Zone, the rest would be handed over to the private companies. The role of the individual bus operators would be reduced over a period of time and phased out slowly. Of these two-third would ply on inter-zonal routes, while one-third would ply within the zone.

### Criticism

The monopoly of the private company in one zone would predictably result in a decline in ridership instead of a better transport system. People would have no other option but to travel in the only buses available, owned and operated by a single company facing no competition, a monopoly! Definitely it is not the best of ways to privatise the bus transport system. To support my argument, I

am presenting the outcomes of deregulation and privatisation of transport in Britain during the 1980s.

During the 1980s, in one of the most significant events ever in transportation policymaking, Britain privatised and deregulated almost all bus services except those in London. Before deregulation, opponents focused on integrated planning, coordinated systems, and economies of density in arguing for the retention of some level of central planning. Supporters of deregulation refuted these arguments and put their trust in basic market principles, maintaining that free enterprise would be better for bus transport. The deregulated bus transport has experienced reduced load factors, little fare competition, little on the road competition, and considerable market concentration.

### Background to deregulation and privatisation in Britain

Britain had a competitive and expanding private bus industry until 1930, when the government passed the Road Traffic Act, imposing a system of regulations that converted the bus industry into segmented local monopolies. By the early 1980s buses carried one-fifth the share of travelers they had carried at their peak. The government realised that public spending on transport had to be reduced drastically and in 1984 it published a white paper calling for privatisation and competition.

Opponents of deregulation believed that a gradual approach, retaining some central planning, was better than a precipitous one. They argued that competitive contracting for bus services, creating competition for the market rather than in the market, would capture most of the benefits and none of the disorder of full deregulation. Retaining some central control would allow authorities to avoid undesirable outcomes and use bus services as a policy tool for various social goals. Supporters of deregulation contended that the supposed "disorder of deregulation" was simply the planner's angst over loss of control and that only full deregulation would permit the industry to cope with declining patronage and subsidies. They recognised that profound changes in the industry would be required, which would not likely come from continued central planning. They also pointed out that the regulator, lacking local knowledge, has great difficulty in identifying good and bad outcomes, whereas profits in a competitive market give entrepreneurs clear feedback on their decisions.

The 1985 Transport Act took two major steps for all bus markets, except in London. First, the act privatised; it reorganised public owned bus lines into private companies. Second, it deregulated, but deregulated in one of the possible manners. Specifically, the Act required operators to register the commencement of, or changes to, scheduled bus service at least forty-two days in advance of the change. Thus free wheeling jitneying was not permitted. Furthermore, the Act required that any operator be permitted to set up and register any schedule, making use of the bus stops regardless of the arrival and departure of other scheduled services.

### Outcomes of deregulation and privatisation

- Privatisation unequivocally lowered the operating costs of the industry. By 1993 the cost reduction per bus kilometer within the industry overall was about 40%. Companies realised reductions mainly by reducing wages and employment and increasing productivity. As a result, by 1994, the total employment in the industry had risen by 42%.
- The government support to the bus industry, by 1991, fell by more than 50%, almost 250 million pounds. Fares did increase by almost 17% between 1987 and 1994 but instead of low fares, companies chose to offer more frequent service than their competitors. Service levels as measured bus kilometers rose by 17% after deregulation.
- The companies, which were making profits, also introduced mini bus service, which enabled the companies to increase service levels, reduce operating costs, and increase productivity.

- There was no evidence of any significant congestion problems associated with buses. There was no decrease in industry safety despite increase in bus age and decrease in maintenance staff as the people against bus deregulation had prophesised.
- Schedule jockeying and route swamping

The British bus deregulation is another story of inefficient curb-rights. Under the reforms, registering a scheduled service does not secure a company a right to the passengers congregating at the curb. There will be no unscheduled services, but one company may encounter the scheduled service of the other company who register their own service to arrive just moments before the service of the first firm. This is called scheduled jockeying. Because the firm has no security from schedule of competitors, passengers waiting at the curb can be snapped by competitors offering comparable fares. To counter scheduled jockeying, firms indulge in route swamping. The incumbent firms schedule their bus services so frequently that the challengers cannot expect to get enough riders to make a go for it. This practice is known as Route Swamping. Route swamping has a two fold strategic quality; it not only drives out the current challenger, it also discourages future challenges.

The central failing of British bus deregulation is the difficulty that the bus companies have had in appropriating their investment in waiting passengers, which resulted in scheduled jockeying and route swamping. Under current rules, registering a schedule affords the firm no right other than to operate as registered. A competitor can use schedule jockeying to snatch away the waiting passengers that the incumbent firm's investment has brought to the curb. The resulting chaos in service schedules may drive off many riders. Deficiency of property rights framework in this case leads to a tendency towards monopoly. With some property rights protection for their investment, incumbent firms would no longer have the need or the ability to engage in route swamping. They would be able to recoup the value of any investment they make in drawing customers to the curb. This incentive would enable the bus industry to reverse the decline of rider ship. Jose Gomez-Ibanez and John Meyer have commented, "the clearest winners from the combined package of deregulation and subsidy cuts are British tax payers."

### The Curb Right Theory

The system of curb rights guarantees some exclusivity to those who successfully cultivate passenger congregation and give play to unscheduled bus services or jitneys. Scheduled bus service has its curb zones within which it would set up bus stops. Curb zones or curb rights include the curb as well as the adjoining space on the sidewalk and road, i.e., a complete bus stop and some additional curb length. The bus company or some other private party would manage these curb zones as a private resource. They would be exclusive; jitneys or other buses would be prevented from picking up passengers within these curb zones. Scheduled service therefore would be protected from interloping, and the anchor of scheduled service would be preserved.

Along the same route, however the unscheduled services or private car-pools would be permitted to operate. Their pickup places would be at curb areas designated as commons. These areas would be laid out around the city in a manner as to let the operators form a logical bus route. The common areas would make possible market entry for all manner of transport service providers; unscheduled jitney services, car-pools, company fleets etc. The commons will create competition yet preserve the anchor of scheduled services.

### My Suggestions

Having undertaken and successfully completed a peripheral study of the current situation in Delhi and the pros and cons of privatisation of public transport system in Britain, I intend to make a few suggestions, which I sincerely believe have the potential to bring about some positive changes in the contemporary scenario of our city.

### 1) Deregulate Bus transit services:

The aspects of transit services that authorities are permitted to regulate should be limited. Authorities should only be required to make sure that transit service provider holds the vehicle registration papers, has the vehicle insured, and follows safety norms. If property rights framework exist then transit services develop trademarks, brand names, and identifiers which diminish the requirement of safety measures.

### 2) Create a system of curb rights:

The system of curb rights should be practiced in Delhi to get the benefits of competition and contestability thus resulting in better service, which are the characteristics of deregulated and privatised markets. The authorities could set out exclusive curb zones and put them for sale perhaps in the form of four-year leases. The leases could be sold at a set price or auctioned off. Auctioning off the curb rights would avoid the hazard of monopoly power that could arise from a misdistribution of initial rights. The holder of curbspace could then run its buses with stops in its leased zones. Reselling and subletting of curb rights should be allowed. The company might then wish to authorise other carriers to pick up in its curb space and require a monthly payment. This would lead to emergence of professional curb zone entrepreneurs who lease available zones from the city; sublet pickup rights to carriers and stage passengers and monitors the curb rights. Leaseholders could also profit by using the advertising opportunities on transit benches and shelters. In this system there would be the following participants: local officials, curb zone leaseholders, transit operators, and passengers. The rules governing the relation between these parties should follow the principles of explicit property rights and contracts, not government ownership or regulations.

There would also be some non-exclusive areas or commons. These commons would be owned and managed by the private owners association or a contracted firm. In implementing the theory of curb rights, the issue of a large firm buying up all zones and exercising monopoly power over the route would arise. Local authorities could guard against this in a variety of ways. Authorities could attempt to see to it that competing providers each have their own curb rights separated spatially. In all transit markets, services would have to compete with the automobile and other forms of travel. So a curb rights monopolist would have to arrange for services that offer terms attractive to the traveling public.

Curb rights solutions can be grafted on to existing transit routes, creating either bus stops that compete with current public services or privatising some of the present bus stops. Public bus stops are often unsafe and ill maintained. A curb rights regime would create private holders of curb site facilities. They would have the incentive and independent authority to provide the appropriate facilities and to police them to ensure good conduct and trustworthiness. A good transition policy may be to give scope for curb rights' developments alongside traditional services and to close down gradually the traditional services as the new, unsubsidised services develop. The use of curb rights promises to enable local authorities to achieve the best: reliable, scheduled service and real competition. Thus many problems of transit experiences— schedule jockeying, interloping—would be avoided. This system defines property rights rather than imposing regulation, it unleashes market forces, and minimises the pitfalls of government control. Curb rights are an antidote to the dismal political cycle of intervention, government takeover, and transit service deterioration.

The policy of curb rights, and total deregulation and privatisation of Delhi's bus transport would be the best solution to the major problems faced by the people and the state. The better bus transport system would surely result in people reverting from their private vehicles and would lead to an increase in bus ridership. This would definitely help in reducing traffic congestion and pollution problems.

References

1. Klein, Daniel B, Adrian T Moore and Binyam Reja, *Curb Rights*. Brookings Institution Press.
2. Delhi Motor Vehicles Act, 1993.