Transportation: making the world go round

Dr James Peoples discusses his longstanding interest in the economics of transportation services and the research it developed into, including airline economics, transportation labour issues and African-American employment in the US

How did you become interested in airline economics, and how has your background shaped the way you work?

My interest in airline economics is part of my overall interest in transportation services. This interest was sparked by my childhood experience growing up in Los Angeles, which is one of the largest transportation hubs in the US, and particularly interesting to me was the creation of jobs and wealth associated with airline operations at LA international airport. However, it was my first flight that solidified my interest in the economics of the airline industry. The notion of transporting people and freight over long distances in a relatively short amount of time intrigued me.

What is your current research focus and could you outline its chief goals?

At present, my research focuses on the factors contributing to productivity growth in transportation industries. For instance, I recently completed a co-authored project that identifies network size as a key contributor to productivity gains in the industry. My current work looks closely at the productivity effects of wages, fuel prices and equipment prices on airline productivity, comparing productivity effect for legacy and low-cost carriers. My other research emphasis examines the effect of foreign truck driver employment on the wages of domestic truck drivers. This latter line of work contributes to the heated debate in the US on immigration law reform.

How does your research into transportation economics relate to your studies on regulatory reform of labour markets?

Regulatory reform in the latter part of the 20th Century facilitated a major shift in the business environment for transportation companies. Such reform was global in its application as some countries, such as the US, deregulated their transportation sector and allowed greater market

influence when setting transport prices. Other countries, such as those in the EU and Asia moved away from government-owned transportation services towards a privatization model. While several studies examine the effect of regulatory reform on prices, quality of service and technological innovation, much less research examines the labour market effect. However, industries experiencing regulatory reform provide a large number of well-paying jobs - consider the pay of airline pilots and train engineers, for example. Indeed, truck drivers in the US were very well paid prior to regulatory reform. Examining the labour effects of regulatory reform, therefore, was a natural extension of my research into transportation economics.

You served as an expert witness in the White House and have a high standing in the research community as a series editor of Advances in Airline Economics and an Associate Editor of the Review of Black Political Economy. In what ways has your standing in academia impacted the business world and economic policy?

I have gained exposure through my editorial responsibilities for the Advances in Airline Economics book series, which has contributed to requests from policy makers to explain the relevance of transportation to economic growth. For instance, while serving as a subject matter expert, I explained the long-term benefits of infrastructure investment in public transit to the members of the US president's staff of economists and advisors. I argued that such investment would create long-term employment for transit operators as well as maintenance workers.

In addition, my editorial responsibilities as Associate Editor of the Review of Black Political Economy have contributed to requests from the White House as a subject matter expert on the creation of jobs for African Americans in the US. My presentation for that meeting focused on African Americans' disproportionate employment share of public sector jobs, arguing that such employment distribution makes them vulnerable to government budget cuts.

Has your work as part of the Transportation and Public Utilities Group (TPUG) helped you to achieve your research aims?

I have benefited greatly from working with members of the TPUG. The objective of this organization is to further our knowledge of the influence of transportation and public utility operations on the welfare of society. In fact, many of the members are editorial board members for Advances in Airline Economics, where they review manuscripts, contribute chapters and provide advice on the development of the book series. All of TPUG's members are experts on the economics of network industries, of whom I have often called on for research advice.

Rules and regulations

Research carried out at the **University of Wisconsin-Milwaukee** is delving into the economics of the transportation sector to help understand how these crucial services are influencing societal welfare

THE FORTUNES OF capitalist societies such as the US or the UK are intrinsically linked to the freedoms and restrictions that are placed upon the movement of goods and peoples around the world, bringing with them the ideas, innovations and the capital necessary for a thriving economy. Companies providing transportation services and the policies that govern them, therefore have a pivotal part to play in shaping the welfare of the societies in which they operate, both as service providers and as employers.

Dr James Peoples has spent a significant portion of his esteemed career studying the influence of transportation services on societal welfare. A Professor of Economics at the University of Wisconsin-Milwaukee (UWM), Peoples is internationally recognized as a major contributor in his field, notable for his research into transportation labour issues, cost analyses of transportation services and studies into the short- and long-term impacts of regulatory reform in the transportation sector. Serving as editor and editorial board member for several publications, Peoples' standing in the field is further reflected in his commitment as a panellist for both the Ford Foundation and the National Science Foundation (NSF).

By obtaining detailed data on companies' transportation operations, Peoples hopes to further existing understanding of the influence that transportation services have on societal welfare.

APPROPRIATE RATES

Over thirty years ago, major changes began sweeping the US transportation sector with the implementation of pro-competitive policies. The considerable gains in productivity and cost reductions in rail and trucking services that followed deregulation would suggest that the policy changes were instrumental in enhancing the industry's efficiency, as evidenced by the operations of coal shippers in the US. Between 1979 and 1999, real average coal transportation rates in rail and trucking fell by around 30 per cent.

A big decision for coal shippers is choosing the right mode of transport. Research has shown that when transportation was misallocated prior to the policy shift, part of the reason was down to the pricing behaviour of carriers. So, with inter- and intra-modal competitiveness firmly in place for more than three decades, are market prices a suitable rate for determining the most efficient allocation

of transport modes today? Bringing in flexible cost-estimation procedures for the first time, Peoples has studied the combinations of trucks, rails and barges used by coal shippers to see whether their choices amount to the most efficient method of hauling freight.

While truck, rail and barge services are all available, it seems that market prices are an appropriate rate to use, with coal shippers employing an efficient mix of transport modes. However, when the waterways are removed from the equation, allocative efficiency plummets and trucking becomes the preferred choice. Given that the attributes of rail services are better suited to moving bulk freight, this trend indicates that when the options are limited, transportation prices fail to accurately reflect the full and hidden costs of shipping coal.

The US Open Skies agreements aim to enhance the operating efficiency of airline carriers and promote international competition but Peoples is concerned the agreements aren't doing enough

ENHANCING EFFICIENCY

One consequence of the promotion of inter- and intra-modal competition intended by deregulation was that businesses were encouraged to make decisions motivated by productivity gains. Investment in cost-saving technologies and the development of efficient network systems becomes a necessity when trying to outflank one's competitors. Although these intended cost-saving behaviours became a reality post-deregulation, Peoples is interested in whether market forces have promoted efficiency gains in the long-term as well as the short-term.

Following deregulation, the business decisions of airlines and trucking firms were primarily rooted in technological change as enhancements to load factors and shipment lengths helped to improve efficiency. The railroads, on the other hand, didn't need to make these types of changes. Stymied by conditions in place prior to the change in policy, deregulation freed up the railroads to finally capitalize on a potential it already possessed. Significantly, the US railroad infrastructure is almost entirely supported through private capital investment, while airports, traffic control systems and the federal highway system are largely dependent on public financing. As such, rail carriers are arguably better positioned to address the demands of rising congestion. Peoples' research supports the notion that the long-term gains produced by deregulation can be maintained, but to do so requires a continued investment in technical innovation and infrastructure development.

OPEN SKIES

Through bilateral and multilateral accords, the US has reached Open Skies agreements with over a hundred partners around the world. By liberalizing international aviation, the agreements aim to enhance the operating efficiency of airline carriers and promote international competition. Peoples is concerned, however, that the agreements aren't doing enough to enhance the efficiency of airline carriers based outside of the US. For instance, when the second phase of the EU-US Air Transport Agreement was signed in 2010, US airlines were granted permission to run intra-EU flights but European carriers were still not allowed to go from one US destination to another without returning to Europe first.

According to Peoples, these and further restrictions regarding third party involvement, flight routes and foreign acquisition serve as an antidote to competition and gains in efficiency for non-US airlines. By stifling competition, the US misses out on the cost advantages that come when the density, scale and scope of an operation are increased. For example, existing restrictions limiting the number of carriers that can serve various routes won't attract the entry of cost competitive non-US airlines. Allied with foreign companies, however, airlines would be able to reconfigure their networks to include more hub airports and combine traffic, allowing the spread of fixed costs over more passengers.

DATA ACQUISITION

Unlike the barriers to innovation that crop up in his research on deregulation, Peoples' interest in transportation services is unrestricted. Next in line, Peoples aims to focus on the impacts of technological advancement to see how it impacts the quality and price of transportation services, as well as the jobs of transportation employees.

For researchers like Peoples, it's crucial that companies allow access to detailed data on their transportation operations. Through using such sensitive information he has been able to glean important insights into the impacts of these services on societal welfare and analyse the effects of the policies governing them. Detailed information can be a difficult thing to acquire but in compliance with company confidentiality conditions, the acquisition of high-quality data is helping to understand how we are all affected by the rules and regulations of our transportation services.

ADVANCING AIRLINE ECONOMICS

RESEARCH INTERESTS

- Economics
- Transportation sector
- Societal Welfare
- Labour issues

KEY COLLABORATORS

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