Report for Workshop 4:
MANAGEMENT, INSTITUTIONAL STRUCTURES,
THE TRANSPORTATION PLANNING PROCESS
AND THE FUTURE OF PASSENGER TRANSPORT
Doug Lee,
USA
Peter Faller,
Austria

The initial subjects of this workshop were so eclectic is to be equally well described by the title “Topics Not Included Elsewhere” as by the title given. In the course of discussion, however, a coherent set of themes evolved. The overall orientation was to view passenger transport “liberalization” from the perspective of institutional considerations, meaning such things as the need for and methods of public sector planning, organizational impediments to decentralized or privatized decisionmaking, and incentives to counteract these impediments.

This led to a spectrum of problem areas arrayed from largely political problems of choosing whether and how to liberalize, to primarily technical questions concerning the knowledge needed to guide policymaking and implementation. This spectrum was divided into the five topics outlined below.

Workshop 4 heard six formal presentations and an additional two informal ones. Each presentation was made in half an hour or less, with five completed in the first afternoon, along with considerable discussion. Thus the bulk of the time available to the workshop was devoted to critical discussion of the points raised, elicitation of examples and counterexamples from the various parts of the world that were represented by workshop members, and synthesis of the knowledge distilled from this discussion into practical guidelines and recommendations. Our report, then, is very much a statement of the workshop’s conclusions and very little a summary of the papers presented. Authors whose papers stimulated particular points of discussion are noted, but the conclusions offered are those of the workshop as a whole.

1. Choosing to Deregulate

The public decision process regarding whether, how, and how fast to liberalize is of vital concern if the potential gains are to be realized, and much can be learned from studying this political process.

Conflicting Interest Groups. As typified by the European Community (EC) decision to move toward an increased influence of market forces in transport provision and consumption, the political process can be characterized as a balance among conflicting interest groups (Kilvington). In this instance, the result is close to a stalemate at present, and progress is being made only in the less threatening area of normalization or standardization. Thus, although there may be net gains available to all interests combined from deregulation, the outcome will be obstructed until a dominant set of groups perceives greater gains from deregulation than the status quo. It is illuminating to learn the reasons why those transportation, producer, and consumer interests in the EC who stand to gain from deregulation are, nonetheless, not active advocates.

Deficits as a Political Stimulus. There was little disagreement that financial pressures were the most powerful incentives currently working for privatization and its associated policies (notably, reduction of subsidies).

Gradualism versus “Cold Turkey.” Experience so far suggests that extensive planning is desirable prior to major transport privatization, and that deregulation/privatization can be accomplished more effectively if carried out in several phases rather than executed all at once. An example is the British bus industry, in which deregulation, privatization, and substantial reduction in overall subsidy were undertaken concurrently — with mixed results and perhaps unnecessary disruption. The “prototype” phases in the process from government provision to privatization are described as:

| Corporatization | Restructuring of a public transport enterprise to create subunits that function in response to market supply and demand. An example is the Japanese National Railway (Sasaki). |
| Social Service | Separation of transit service that is provided to markets that cannot be expected to support the service out of the farebox, as distinct from service that is potentially self-supporting (Beesley). |
| Tendering | Government contracts to private service providers (White). Other workshops considered many case studies of a variety of alternative strategies for tendering. |
| Privatization | Allowing private providers to set their own output levels, invest as they see fit, and probably set their own prices. |
Deregulation  Removal of route and price regulation, and the general reduction of other kinds of regulation (safety, accounting).

It was recognized by the conference as a whole that the optimum position along this spectrum is not necessarily at the lowest (most deregulated) end, and the best balance will depend upon the characteristics of the market.

Sequence of Actions. Although the ordering listed above is a natural one proceeding from government provision to private provision, the ideal phasing of the liberalization process may not adhere to that order. In particular, the reduction of subsidies overall and to specific groups can occur at any point in the process. Although it is desirable to separate this decision from other actions -- so as to reduce confusion about what actions caused what effects -- the question of “social service” is often a politically charged issue and not amenable to rational debate.

2. Transport and Land Use Planning Problems

A number of problems in resolving public-private conflicts in land use and transportation planning were presented and discussed, in which greater privatization would seem to lead to worse coordination and lower social benefit.

Case Examples of Planning Failures. A variety of examples of poor results from planning, or the lack of it, were presented to the workshop, some in considerable detail. The examples were treated as illustrative of the following types of problems:

Public/Private Land Use-Transportation Negotiations

Examples from Britain in which the resolution of private development interests, on the one hand, and public sector planning and land use regulations, on the other, were in conflict. The ability of the negotiation process to secure outcomes that served the broad public interest were questioned, particularly as to the capability of the public sector to serve both efficiency and equity under deregulation (Truelove).

Strategic Planning versus Incremental Decisionmaking

Examples from the Midlands and the Docklands areas were presented to demonstrate the possible failures of coordination, and the resulting waste and shortsightedness, with respect to the provision of major transit capital infrastructure (Truelove).

Impacts of “Piecemeal Deregulation”

The context of the US transit industry was used to argue that incremental deregulation and privatization will have and have had negative impacts on transit service, such as two distinct classes of service: limited high quality service for affluent commuters and low quality service for subsidized riders (Stopher and Spivak).

These contentions received a good deal of attention in the workshop, with the results outlined below.

Long Term Investment in Rail. It is widely asserted that long-range planning is more important for rail systems than for bus, because bus routes are not fixed by an expensive guideway system for forty years or more. Certainly it is true that bus operations can be started up, altered, and abandoned more easily than rail systems, but there are other reasons as well to distinguish rail transit. A reasonably stable market is required, not one that is pushed one way then another by public policy. Most important, however, is the need for supporting transportation and land use policies that ensure that the potential benefits of rail are realized (This has been US DOT/UMTA policy for about ten years). The reason it is so important is that rail systems (especially new ones) are almost always placed in land use environments that are based on low transportation prices and hence low density. Overcoming this market prejudice against rail systems demands strenuous supporting actions.

Land Use Constraints versus Market Forces. The claim was made that, in general, land use planning and zoning controls designed to increase densification cannot successfully go against the market incentives for low density created by underpriced transport, especially roads (Lee). The example of Toronto was cited as demonstration of how much can be achieved with a consensus in support of transit investment instead of highway investment, and supporting land use policies. It is also a demonstration of the limits on that strategy, in that the development patterns of most of metropolitan Toronto look much like the suburban areas of US cities.

Transportation System Management. Strategies for reducing congestion, increasing vehicle occupancy, reducing vehicle miles of travel, and encouraging transit usage have been widely applied in the US. These include TSM, transportation demand management (TDM), transportation management associations (TMAs), high occupancy vehicle (HOV) facilities, impact fees, transportation management ordinances (TMOs), transportation control measures (TCMs), ridesharing, transit subsidies, and many others. As with land use controls, regulations which attempt to substitute for market choices are largely ineffective (3-5% reduction in VMT below trend), while those that create market incentives (parking pricing, parking caps, road congestion pricing) have much greater potential.

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**Where Intervention is Needed.** Four functional areas were cited where normal market processes have difficulty producing efficient solutions: strategic planning, coordination, modal interchanges, and correction of externalities. The first three do not inherently require government intervention, and many examples can be offered where the interests of private developers, transportation providers, and travelers were consistent with the public good. The public sector role in such circumstances may be to clear away institutional obstacles and ensure that private incentives are not artificially distorted.

In the case of negative externalities, however, public intervention is required in some form, if nothing more than to define property rights (clean air, water, sunlight, noise) so they may be made tradeable. The objective is to internalize the negative impacts so they are properly valued in the decision process, and to require compensation when that is suitable.

**Large Fixed Facilities.** Competition is generally recognized as an essential ingredient in successful privatization or deregulation, and the need for major capital investment is an obstacle to competition. Examples in passenger transport include subway tunnels, stations and terminals, guideway networks, and maintenance garages. While it may be necessary to create government mechanisms to deal with particular instances of problems resulting from the need for major fixed facilities, that need does not automatically imply public provision of service. Networks may be owned by a regulated monopoly and rented to private vehicle owners. Tendering agreements may include buy-back clauses if tenders are not renewed within the life of the facility. Creative negotiation is needed on the part of the public partner, but such efforts may yield higher reward than attempts to politically manage large public enterprises.

**Land Assembly.** The coercive power to condemn real property for public purposes is commonly regarded as a requirement for the construction of new transportation infrastructure, but enough examples can be found to indicate that this power is not always necessary. US highway agencies and the French TGV builders avoid condemnation proceedings by offering owners a price greater than market value; the threat of condemnation, however, probably remains a strong stimulus to agreement. The Washington, DC, rail transit system has acquired whole blocks by offering owners a good price if they will negotiate as a single group. Highway rights-of-way have been assembled in Washington and Houston, TX, by offering landowners highway access if they donate or sell land. When it is in the interest of all parties to accomplish a transaction, holdouts are less of a problem than is often believed.

**Contracted-Out Planning.** While the function of transport planning may entail some inherently public sector responsibilities, it is possible to contract out the technical aspects under suitable conditions. The example of Sussex, England, was cited as a case where transit planning is carried out by a private firm, dealing directly with the policymaking body of the jurisdiction. The transit service itself is provided by other private contractors.

**Equity.** Reductions in spending on programs whose benefits are received primarily by the poor, by definition, worsen equity in the sense of increasing the disparity of income. General subsidies to transit, however, are not particularly progressive, and reducing highway subsidies (through congestion pricing) would be more progressive than increasing transit subsidies. Separating service into subsidized versus self-supporting may lead to different qualities of service for each, but that is more likely to improve equity than worsen it (affluent users can be charged the full cost of their service).

3. **Public versus Private Ownership**

Although there is no a priori reason to assert that public ownership is inherently worse than private (or the opposite), there is a clear tendency for public agencies to underperform. The problem is fundamentally one of incentives: if an organization can be placed in a context in which its goals are consistent with social objectives, then the organization may be able to overcome its tendencies toward stagnation and unproductive internal politics. If the social goals can be translated into economic incentives, then private enterprises may be given the task of accomplishing the goals. For public enterprises, the levers for generating productive incentives are much weaker.

**Operating Costs.** A careful comparison of transit operators in Finland and Sweden — both between comparable properties at the same time and the same properties at different times — shows that public operations are 20-50% more costly per vehicle hour than private operators (Himanen). The precise sources of these cost differences are much harder to discern. Some candidates are work rules on operators, higher fringe benefits, more administration, political mandates and constraints, management quality, inefficient management structure or excessive layers of management, and lower maintenance in the private sector.

**Condition and Performance.** Study of USSR bus and “pool” transit reveals that the condition of the equipment is very poor, the service very inefficient, and corruption is frequent. Pool transit is provided by vans and cars and operated as communal transit by employers, by residential sectors, or by independent (non-market)
enterprises. Incentives for productivity or responsive service are absent.

**Performance Rewards.** Examples of alternative incentive arrangements were provided from Australian cities (Milthorpe). In Melbourne, fares and service are specified, fares are passed through to the public treasury; in Sydney, private contractors are given bounded service areas; in Brisbane, private operators subsidized on a per-passenger formula basis.

**Contract Specifications.** In tendering, the terms of the contract can be extremely important in establishing desirable incentives. The length of the contract, for example, can be too short (no investment) or too long (no threat of competition). Breaking contracts into separate (monopolistic) service areas rather than trying to generate head-to-head competition on the same routes may ultimately be more effective.

**Implementation.** There may be a disconnect between planning and implementation, as seems to be the case with London Transport, in which the quality of the planning is good yet the service provision is erratic.

4. **Technical Obstacles to Improved Performance**

A number of technical topics emerged as areas in which the levels of professional knowledge in applied in practice fall well below the knowledge that is available and relevant.

**Costing.** The technical ability to quantify the relationships between incremental changes in service levels, quality, type, etc., and the associated cost is often inadequate to inform managers and policymakers of the impacts of alternatives. This pertains to both short run and long run costs, as well as the ability to properly distinguish between them (Stopher and Spivak).

**Evaluation.** Similarly, the ability to provide information relevant to the choices at hand is often weak. The normal framework for evaluating choices in the public sector is benefit-cost analysis, but few agency analysts or consultants are skilled in the use of this tool.

**Performance Measurement.** An ability to measure performance is needed in the selection among alternative providers prior to letting contracts for service, in the evaluation of contractor performance after a period of operation and before renewing or competing subsequent contracts, and for policy evaluation purposes, e.g., in assessing how well a privatization or deregulation program is succeeding.

**Economies of Scope.** Considerable debate has occurred in the past on the existence of scale economies in transit provision. Although the optimal scale is thought to be in the range of 300-500 buses, the potential reductions in unit cost are not large enough to justify the elimination of competition among smaller providers. Economies of scope, however, are significant to the extent that tendering should explicitly take them into account (Berechman). Examples include network effects, transfer coordination, and charter service.

5. **Contributions to Positive Knowledge**

Some conclusions were presented to the workshop that are positive rather than normative, in themselves, but which provide important background context to the question of privatization and deregulation in passenger transport.

**Intercity Rail.** It was proposed that in the markets in which passenger rail is most suitable, the primary competition is from the private automobile rather than air travel. To the extent, then, that highway travel is underpriced in such corridors, the market for passenger rail is reduced and the level of subsidy required is increased. This was demonstrated in Europe (Faller) and thought to be true in Japan as well (Sasaki).

**Efficient Transportation System.** It was asserted that if all transportation in the US -- and highways in particular -- were priced at full cost (both marginal and long run) and investment scaled accordingly, that the highway network would be much smaller and would have higher user charges. In addition, vehicle occupancy would be higher, transit market share would be higher in congested corridors, and land use patterns would be more compact (Lee).

**References**