1. Introduction

In discussing how to address its title--Externalities: Public Interest and Private Good, Workshop No. 3 concluded that it should not just be looking at externalities in the narrow definition of economists (e.g., congestion, environment and safety) but at all public interest concerns related to the privatization and deregulation of passenger transportation. The discussion was directed at urban bus operations. Public interest concerns included: (1) instability in service provision, information, investment and ownership, (2) labor impacts related to employment levels, work practices, wages and social costs, (3) subsidy justification and impacts, and (4) congestion, environment and safety. The Workshop concluded that there were greater public interest concerns from deregulation than from privatization and competitive tendering (discussed below) of urban bus operations.

Public interest concerns vary with the institutional arrangements of urban bus operations. Institutional arrangements include: (1) privatized, deregulated service as in the United Kingdom (UK); (2) private-operator, regulated service as in New South Wales, Australia; (3) competitively tendered service as in the UK; (4) public-operator (i.e., government-owned), contracted-out service as in the United States (US); and (5) public-operator, regulated service as in the US. The UK 1985 Transport Act provided for the deregulation (allowing for free entry or more liberalized entry of new operators), privatization (the sale of government-owned companies or assets to the private sector) and competitive tendering of urban bus service (a service required by a public authority is provided by a private operator through a competitively awarded contract). Contracted-out service in the US is service whereby a public operator and a private operator enter into a contract granting the private operator the exclusive right to provide a service formerly provided by (or which could have been public and the private operator, the public operator maintains control over the service. Tendered service in the UK is similar to US contracted-out service except the service is not under the control of a UK public operator, since the tendering is done by a public authority rather than a public operator.

2. Instability

The Workshop concluded that service instability following deregulation is to be expected and thus is an expected cost of deregulation. For example, frequent service changes have followed deregulation of bus operations in the UK. This service instability has become a public interest concern. Another concern is the impact of deregulation on service for the disabled, elderly and children. For instance, there is concern that bus service will not be provided for the disabled in a deregulated market, or alternatively, it is feared that interest-group politics might lead to the provision of expensive scheduled service rather than the provision of less expensive, non-scheduled specialized service for the disabled. Both in the US and the UK, operators have sought to provide the latter (by means of specialized small-bus service) rather than the former service for the disabled.

As opposed to deregulation, regulation and competitive tendering (or contracting out) provide for greater stability in operator ownership (and thus in provision of bus service). In the regulated (private monopoly) environment in New South Wales, Australia, the granting of bus operator authority requires that certain public interest criteria be satisfied by the owner operator. Commercial contracts are granted for five years, requiring minimum levels of service. At the end of five years, the mean age of the operator’s bus fleet must be less than twelve years. Further, the operator must have a “designated manager,” i.e., a day-to-day manager that has been certified (as through a course of instruction) to understand the obligations of a bus manager. The operator must also satisfy certain financial requirements (certified by a letter, for example, from a banker) and certain requirements for garaging facilities.

A public interest concern following bus deregulation in the UK is instability in service information. Surprisingly, operators providing deregulated bus service in some instances do not provide passenger timetable information or if provided, the information is not real time (i.e., up-to-date). The Workshop hypothesized that this occurrence may be due to uncertainty in the deregulated bus market. An operator anticipating not being in the market in the future does not have the incentive to provide real-time information. Alternatively, operators
whether there will be sufficient infrastructure available in the future when bus replacement orders are on the rise.

Anticipating being in the market have an incentive to provide such information, since it may be used as a barrier to entry (as has been done in deregulated airline markets). Also, the Workshop hypothesized that the cost may exceed the expected revenue from providing real-time information. If so, government may have to intervene by levying an information charge on operators to finance the cost of printing system-wide bus timetables to be made available to the public.

Uncertainty in deregulated bus markets may also contribute to instability in the bus construction industry. In the deregulated UK bus market, the average age of operator buses is increasing. Competitive-tendered contracts are for periods that are substantially less than the asset life of buses. Consequently, bus sales by the UK bus construction industry have declined, thus having a negative financial impact on this industry. Public interest concerns include the deterioration of the bus construction infrastructure and, if deterioration occurs, whether there will be sufficient infrastructure available in the future when bus replacement orders are on the rise. Also, there is concern about the availability of bus replacement parts.

Where there is greater certainty and stability as in regulated markets, the bus construction industry is more likely to adopt new technologies (e.g., motors that produce less pollutants and thus are less damaging to the environment). In the regulated environment in New South Wales, Australia, natural gas buses have been introduced that are kinder to the environment than petrol and diesel buses, but at the same time require large capital investments in refueling depots.

3. Labor

Prior to 1960, the typical transit firm in the US was privately owned, regulated (operating under an exclusive franchise) and financially sound. Beginning in the early 1960s, this situation changed. By the early 1980s, the vast majority of US transit firms (with 50 or more vehicles) were publicly (i.e., government) owned and receiving significant operating and capital subsidies from various levels of government. A resource paper by Shughart (1991) presented at the Workshop suggests that the origins of US publicly-owned transit systems were the lobbying efforts of two interest groups, transit labor and passengers, seeking higher wages and lower fares. Under public ownership and the weaker incentive for management to keep costs down, transit labor and passengers are more likely to influence the adoption of transit policies that are in their interest. The resulting higher wages and lower fares served to redistribute wealth from the owners of private transit firms (and the taxpayers) to transit labor and passengers of these publicly-owned firms.

The interest-group argument suggests that public ownership will benefit labor. If the argument is symmetrical, it further suggests that privatization and deregulation will not be in the interest of labor. A resource paper by Heseltine (1991) presented at the Workshop concludes wages of the UK bus industry following passage of the 1985 Transport Act have declined both in real and money terms. Further, working conditions in the industry have eroded and the decline in employment in the industry has accelerated. With the abolition in 1986 of national wage councils, wages are now locally negotiated. Consolidated wage agreements have been introduced resulting in the reduction in overtime pay, bonuses and premium pay for weekend work. Further, wage tier structures (where wages vary with length of service) have been introduced. Drivers are being asked to work a greater proportion of their paid time; unpaid meal breaks and less generous sick pay schemes have been introduced.

A public interest concern is the increased stress felt by UK bus drivers. In some cases, drivers have become redundant and then rehired by new firms at lower wages and worse working conditions. The Workshop concluded that further research is needed to investigate the impact (and thus the cost) of privatization and deregulation on labor. In addition to the costs of lower wages and worse working conditions, there are also social costs such as retraining and unemployment compensation (or welfare payment) costs.

4. Subsidies

Following the privatization and deregulation of bus service, there may be political pressure to maintain and thus subsidize nonprofitable (or noncommercial) bus service. The UK 1985 Transport Act, for example, provided for the subsidization of noncommercial bus service. A number of questions arise in regard to this issue. Is there a case to be made for subsidizing noncommercial bus service? If so, should it be directed to the operator or the consumer? What should be the priorities in the allocation of subsidies among operators?

In a resource paper by Bristow, Hopkinson, Nash and Wardman (1991) presented at the Workshop, it was concluded that non-use benefits of bus service may exist that provide rationale for subsidizing bus service. These include such benefits arising form the provision of service to friends and relatives, option values and altruistic benefits from the provision of bus service for the community at large. Based upon surveys in the UK, the paper concludes that priorities for bus service with respect to journey purpose are to be given to work journeys followed by shops, schools and medical facilities; in terms of time of day, priority is to be given to weekday peak.
and in terms of priority groups, pensioners are to be given priority.

The Workshop concluded that any mechanism adopted for allocating subsidies among operators should be so designed to avoid inappropriate distortions that might arise from subsidization. The literature suggests (e.g., see Pucher, Markstedt and Hirschman, 1983) that transit operating subsidies have inflated transit costs and wages (i.e., inappropriate distortions) in the US.

5. Congestion, Environment and Safety

The Workshop concluded that neither public provision in the US nor privatization and deregulation in the UK of bus service have contributed to the solution of the traditional urban transportation externalities of congestion, environment and safety. The rationale being that bus service's share of the urban transportation market is relatively small. Further, deregulation is not conducive to solving these problems.

In the UK, there is no evidence of an increase in bus accidents following deregulation. The concern was that service provided by small, new entrants would be less safe than service provided prior to deregulation and by incumbents under deregulation. There has been reports of minibus safety problems in the UK--passengers tripping or falling in vehicles. However, these problems are likely due to the size of the vehicle and/or the inexperience of operators.

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References


