Workshop 3 Report: Institutional and operational reforms within different socio-economic and cultural contexts

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ABSTRACT

The discussion and conclusions of Thredbo’s Workshop 3 are summarized. History and the socio-economic environment is a condition that should be considered as a most important fact when moving into planning public transportation. Contradictory targets should be identified and avoided a priori. Income distribution and spatial segregation should be taken into account, together with the necessary transparency and responsibility of parties involved.

Keywords: Public transport planning. Social aspects, Regulation, Equity and efficiency, Contracts

1. Introduction

The participants of this Workshop had a clear objective which is motivated by more than thirty years of worldwide reforms in many directions to increase efficiency and control costs. Public transport markets present a variety of arrangements regarding operations, control and ownership that are amenable to improvement. Therefore, in this workshop we examined the contextual economic, political, cultural and social factors behind the many different cases that can be observed around the world. Factors such as income distribution, habits and traditions, institutional arrangements, entrepreneurial behaviour or non-declared goals, emerged as quite relevant for public transport planning. Through a better understanding of such factors, we studied the options regarding competition and ownership for regulated (public) transport markets, taking full account of local contextual factors.

In this report we describe the way the workshop was organized, we highlight the specific issues addressed in the presentations that fed the discussion and we synthesize the agreements and recommendations reached on the many aspects that emerged.

2. Organization and brief overview of the content of the workshop

The discussion of the nineteen participants from ten countries was developed in two steps. First, thirteen papers were presented and discussed in detail. As a result of the substantial diversity of modes, cultures and aspects analyzed in each paper, we organized the presentations around four main topics and subsequently clustered into four sessions. Second, we integrated all issues and the findings of each topic into a general discussion aiming at consensus on what were considered the most relevant points and potential solutions/recommendation.

The four topics identified were reforms in public transport in different socio-economic contexts, normative views regarding reforms, organization of the industry and institutional issues. The following paragraphs provide a brief summary of the content and main points present in those four topic sessions.

2.1. Session 1. Analyzing reforms in different socio-economic contexts

This session was kicked off by Jackie Walter’s presentation on the role and responsibilities of government in support of public transport services in South Africa. He particularly focused on the...
South African bus contracting systems and their effects in time and also discussed the role of organized labour (tendering seen as privatization) in great detail. One of the key findings of his paper is that difficulties with global public transport reform are not only caused by cultural aspects but often also a result of financial issues and unwillingness of provinces and regional/local government bodies to take on an active public transport authority role. Particularly in South Africa affordability and complexity appear to be the key reasons for the reform not being more successful so far. Sotaro Yukawa then took the discussion to a totally new level given cultural background, by looking at what occurred when the government recognized the responsibility for regional public transport in Malaysia and comparing the experience with Japan. A key concern of his paper, and something that we agreed on later to be similar with a lot of cases globally, is the problems resulting from fragmentation in administration and funding in public transport. Seidel and Vakkuri found similar issues when applying institutional theory (large variety of models, such as contracting in, contracting out, competitive tendering) and transaction cost economics (cost of running and administrating transit) with a focus on bounded rationality in their comparison of public transport reform in three pairs of cities in Finland and Germany. While all these cities were very specific in their characteristics (e.g., Wuppertal and its suspension railway), which may be an excuse for in-house provision, their study found two commonalities across the six different cases. One is that in all cases the reforms replaced old problems with new ones, and the second and more encouraging one is that in all cases customer orientation has improved, which is usually seen as an important outcome. In the final paper of the first session Paget-Seekins et al. took the discussion again to a different cultural environment by revisiting the regulatory reform of bus operations in Latin America (with cases from Santiago, Bogota and Mexico City). A key finding of this descriptive analysis of pre-post reform states is that there appears to be, despite all socio-economic and cultural differences (for example family business driven bus operations in Santiago with two buses per operator not being unusual pre-reform, or a key characteristic of Mexico city’s reform being to accommodate for the fact that their users hated transfers) across Latin America (and we would say even globally) a reoccurring regulatory cycle (primarily from public provision to competition in the market to competition for the market).

2.2. Session 2. Analyzing reforms: normative views

The first paper in this session by Gschwender et al. focused on the normative question of whether feeder-trunk or direct lines would be more appropriate when determining the optimal structure of transit services. For their case example in Santiago, Chile, they were able to show that feeder-trunk is inappropriate for the levels and structure of demand experienced in that type of city. While the feeder-trunk system benefits from economies of density and high frequencies on the big avenues, it is associated with the problem of mandatory transfers and not offering many direct trips, which affects negatively users’ cost. Holmgren’s paper then looked beyond network design and discussed strategies for increasing public transport market share with examples from Sweden. Interestingly, the key finding of this paper is that Swedish transport policy did not implement a model that would have maximized social welfare. Holmgren’s model offers an alternative normative model and illustrates what a welfare maximizing policy would look like in terms of fare and supply levels (vehicle-km) in regional public transport and the impacts on patronage. Specifically he showed that by increasing or reducing public transport fares in different counties patronage would grow significantly and additional subsidies would be needed.

2.3. Session 3. Organization of the industry

Merkert and Hensher’s paper on open access for railways and transaction cost economics examined whether the European approach is appropriate for all of Australia’s train operations. It shows that it is important for public transport provision and regulation to focus not only on the regional context but also on the structure of the relevant industry, in their case railways. A key finding of their paper is that one has to examine the entire transport value chain in order to make efficient decisions on how to organize and regulate freight and passenger transport. For regional or dedicated lines (such as iron ore lines in Australia) that are not connected to the main network or any public transport operation, a federal regulatory system of open access is perceived (by senior rail management) as counterproductive albeit those lines being very different to the rest of the network both in terms of value chain organization and operations. Santa found similar issues when looking at the last twelve years of rail reform in Italy. While his paper highlighted a number of achievements, the key problems were related to institutional arrangements and the fact that regional rail operators are not connected to main lines, and hence only governed by regional laws but not by EU directives. Aarhau’s paper then took the discussion to a mode that had not been discussed so far: taxi operations. In his detailed study of taxi service reform in Norway (including a comparison with Sweden and Denmark) he established that competitive tendering seems to be working in large cities (where prices have dropped and level of service increased as a result of introducing competitive tendering) but in regional areas it has not, largely because competitive tendering is less efficient in entry regulated markets. In that sense Dementiev’s paper offered a complementary perspective by discussing the Political economy of ownership change in suburban railway transport in Russia. His game theoretical analysis of Russian Railways as a regulated monopoly and public transport authorities potentially entering public private partnerships for the provision of suburban railway services, offers both sides an option for more transparency (paid by a share in the venture).

2.4. Session 4. Institutional issues

In his second paper Dementiev discussed the relationship between social capital (including trust) and public transport based on the example of Moscow students, and hence focused on the case of an economy in transition, where competition is assumed to be imperfect. De Sousa and Orrico’s paper took the discussion on imperfect competition further by analyzing the Brazilian bus transportation networks. Their findings suggest that bus contracts in Brazil are currently too large and long (10–20 years) and that more competition, particularly in the operation of a corridor would be beneficial. Their preferred model would be the introduction of on street competition on common corridors (two franchises/lines that somewhere overlap on a common corridor), which in our view may bring complications in addition to the presented benefits. In the final paper of our session, Spandou and Macario presented a detailed description and institutional analysis of urban public transport systems with a focus on the case of New York City. They highlight that it is not only relationships but also financial flows between the involved institutions that matter. Besides the main authors of each paper, participants included CEOs and directors from public transport corporations and authorities in South Africa, senior transport consultants from Europe as well as senior academics from Oxford University (TSU), Tampere University (Finland) and the Federal University of Rio Grande do Norte (Brazil).
3. Discussion and conclusions

Two structured discussions on the specific papers were held after sessions 1 and 2 and after sessions 3 and 4 with the participation of all members of the workshop. After all elements emerged, the participants collectively and individually constructed statements that were enriched, corrected and/or amended in an open discussion until convergence was achieved. Given the very positive result obtained it is worth summarizing the “Algorithm for Convergence”:

1 Proposal of statements;
2 Arguments in favour and against;
3 Reformulation of the statement;
4 Back to 2 (iteration)
5 Consensus

After this process of arguing and counter-arguing using the elements, cases and examples presented, we concluded the following, regardless of cultural and socio-economic differences:

- **We do witness contradictory or unclear targets** which make it very difficult to do actual planning, implementation and operation of public transport. For instance maximize social welfare together with avoiding subsidies by imposing self-financing policies (as in Transantiago, Chile) or defining unclear pricing objectives (Sweden).
- **The fact that regulation in public transport behaves similar to a pendulum** constrains the achievement of long term objectives.
- **Socio economic characteristics such as income distribution or spatial segregation** and behavioural issues (e.g., security) are essential elements but usually forgotten or insufficiently prioritized in transport planning, as exemplified by the cases of South Africa, Malaysia and South America.
- **In many parts of the world, public transport is important** for economic development. As wider economic impacts now are a key part in Cost Benefit Analysis, **inequalities between regional/peripheral/underdeveloped and metropolitan/centre areas should be taken into account**.
- **When contracting out or tendering**, it is essential to take into account the content of the contract (measures behind goals), contract length, type of ownership and enforceable instruments (a lesson from the Santiago case).
- **When providing public transport services internally** (as an administration or vertically integrated), there is a similar if not increased **need for transparency, rules and responsibility**, as illustrated by Norwegian and some other railways.
- **When open access to public transport infrastructure is deemed useful**, coordination and view of entire supply/value chain are important (Brazil, Australia).
- **Competitive Tendering or Negotiated Contracts** can be an opportunity when neither the in-house nor the fully deregulated option do the job well, but can be inappropriate if introduced for exogenous reasons only (e.g., financial burden results in lack of city planning; Brazil).
- **Even vertically separated train operations** can exhibit economies of scale in terms of user cost (not necessarily in operating cost), which is why we have franchises, etc.
- **Some degree of competitive pressure** (for example in combination with benchmarking) is always healthy, as illustrated by some examples in Brazilian corridors.
- **In order to be able to set optimal prices in public transport, subsidization is needed which can reduce over time if appropriate target setting is in place**.
- **Proposed institutional arrangements must consider the desired objectives**, but we should be aware of history (path dependence) as it shapes the way institutions have evolved as well as the way people look at/ perceive public transport.
- **Involved parties should participate and also be made responsible** for public transport actions.
- **The way public transport is planned and implemented shapes** (among other things) the way society perceives democracy and political systems. There are substantial differences across the world (e.g., Russia).
- **Sometimes public transport does not get enough priority in the political decision making process unless there is a “sexy” project, and then it gets built for the sexy factor rather than project appraisal** (e.g., cable cars).
- **Public transport is undervalued in terms of building social capital in terms of equity, education, social cohesion, wellbeing and happiness** (e.g., Republic of South Africa, Russia).

4. Final remarks

Although a number of issues emerged from the presentations and subsequent discussion, there are some general aspects that appear as key elements in any attempt at building institutional and/or operational reforms in different socio-economic environments. History and the socio-economic environment is a condition that should be considered as a most important fact when moving into planning public transportation. This factor indeed influences feasibility and induces some conditions when contracts have to be designed either to call for a competitive tendering process or to negotiate between a private operator and the state or local entities.

No factor should be left aside because of dogmatism: sometimes subsidies should be considered from the start, but the appropriate tools to verify the fulfilment of obligations have to be present as well. The pendulum from full regulation to full deregulation and vice-versa seems damaging.

The success of the right level of regulation depends on the a) targets, b) planning (technical, local context), c) instruments and d) time required for implementation. The discussions in the workshop have shown that there are many parts of the puzzle and that in most cases the local context matters substantially which includes the habits of operators, public transport authorities and also of users. Interestingly, relationships appear to matter regardless of the region/jurisdiction under consideration as contracts/instruments are only one part (and trust and good relationships the other) of making (public) transport systems work.

Future research in this topic has to accept a basic premise: socio-economic environments differ greatly across countries and there seems to be a lack of a systematic account of what happens in poor, middle income and rich countries, regarding their experience with the many different policies in the transport sector. The world can be considered a “living laboratory” where a variety of different options have been taken in the medium run with results that can be observed and studied. Within the developed world it is a fact that urban transit in European cities is — in general — viewed and treated differently from what is done in the U.S.A. Also, transit patronage is much larger in Latin American, Asian or African cities. So the people in charge of urban development in places where transit riders are a large majority, can see, study and assess the courses of action taken in the northern hemisphere before embarking into loans to finance investments in the transport sector or into new managerial schemes. Smartly designed contracts, optimal pricing-subsidies schemes, and the design of the main characteristics of transit systems should be conceived and implemented taking into
account those socio-economic, institutional and behavioural differences.

**List of papers presented**

Aarhaug, J. *Competitive tendering in an entry regulated market — An accident waiting to happen?*

Dementiev, A. *Political economy of ownership change in suburban railway transport in Russia.*

Dementiev, A. *Public transport and social capital: The case of an economy in transition.*

Gschwender, A., Jara-Díaz, S., & Bravo, C. *Feeder-trunk or direct lines? The determinants of the optimal structure of transit services.*

Holmgren, J. *A strategy for increasing public transport market share — An investigation of an alternative development.*

Merkert, R., & Hensher, D. *Open access for railways and transaction cost economics — Is the European approach appropriate for all of Australia’s train operations?*

Paget-Seekins, L., Flores, O., & Muñoz, J. C. *Revisiting regulatory reform for bus operations in Latin America.*

Seidel, T., & Vakkuri, J. *Understanding market-oriented reforms in local public transport — Results from Finland and Germany.*

de Sousa, M., & Orsico, R. *Theoretical essay about the imperfect competition in Brazilian bus transportation networks.*

Spandou, M., & Macario, R. *Institutional analysis of urban public transport systems: The case of New York City.*

Stanta, F. *Twelve years of rail reform in Italy. Achievements and problems.*

Walters, J. *The role and responsibilities of government in support of public transport services in South Africa.*

Yukawa, S. *What occurred when the government recognized the responsibility for regional public transport? Case study in Malaysia.*