



How the Transportation System Can Improve Growth and Development



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Motivation

- **Transportation Expenditures by consumers, firms, and government amount to roughly \$2.5 trillion or 16% of GDP**
- **In addition, the time that travelers and shippers expend on transport amounts to another \$2.5 trillion.**
- **Given those huge expenditures in money and time, are we getting all that we can out of the system?**
- **The issue is critical for growth because transport affects labor markets, urban economies, international trade, and industry competition**

My Perspective Based on the Empirical Evidence

- **The system is compromised by vast inefficiencies**
- **Bureaucratic and political constraints make reform by the public sector intractable**
- **Privatization and deregulation have the potential to improve efficiency that would spur growth**
- **Experiments are critical because of uncertainties that surround the policy**

The Questionable Justification for Government Intervention

- Private components of the entire transport system existed before the government took over much of the infrastructure and regulated intercity operations
- Private failures occurred. But government regulations contributed as did a lack of assistance during crises (e.g., the Depression)
- In the 1970s, the pendulum began to swing back with intercity deregulation
- But government still has a large role in much of the system and has contributed to significant inefficiencies

Inefficient Pricing

- **Airports: weight-based landing fees**
- **Transit: outright subsidies**
- **Roads: gasoline tax for cars and trucks**
- **Ports: fees often unrelated to congestion**

Implications:

- **Lengthy delays incurred by travelers/shippers**
- **Road damage**
- **Large deficits financed by taxpayers**

Inefficient Investment and Production

- **Airports: runway costs and delays**
- **Roads: suboptimal capacity and durability**
- **Ports: excess capacity**
- **Transit: low load factors**
- **Generally, labor and capital costs are inflated**

Inefficient Spending

- **Public funds are not allocated on the basis of cost benefit analysis**
- **Airports: Misallocation of funds in Airport Improvement Program**
- **Roads: Misallocation of Highway Trust Fund and cost overruns**
- **Transit: Costs are higher than expected and ridership is lower than expected**
- **Earmarked funds**

Lack of Innovation and Technical Advance

- Roads

 - Improved navigational aids and signals

 - Improved methods of construction

 - Automated highways

- Airports

 - Slow adoption of satellite-based ATC technology

- Transit

 - Slow adoption of new technology

Intercity Deregulation: Preview for Urban System and Infrastructure

- **New sources of entry and intense competition**
- **Incentives for cost reduction**
- **Incentives for innovation to reduce inefficiencies and improve operations**
- **Engage with customers and offer new services**

- **Concerns with market power and associated inefficiencies**
- **Those concerns have not generally materialized**

Building the Case for Privatization and Deregulation

- International Evidence—some is positive
- Effects on labor markets—job matching and employment
- Effects on urban economies—improve land use and synergies
- Effects on international trade and industry—reducing trade barriers and costs and improving product variety and competition

- The key is to spur sources of competition
- Recognize that the gains will come from innovations by young firms—a major source of growth

The Importance of Experiments

- Conduct carefully planned privatization experiments for selected cities
- Obtain evidence of benefits to strengthen case to the public
- Government must not undermine the process of adjustment
- Constructive interventions should not be opposed on ideological grounds