

# **Last Exit: Privatization and Deregulation of the US Transportation System**

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## **Motivation**

- **Performance of most public infrastructure—airports, highways, waterways, and public railways—has been declining—symptoms are deficits, delays, safety issues.**
- **The US cannot spend its way out of the problems**
- **Inefficient public policies and lack of innovation are at the heart of the problem and reform is intractable**
- **Glimpses of private sector involvement in infrastructure throughout the world.**
- **More guidance and motivation to spur privatization**

## Inefficient Pricing: Unrelated to Costs

- **Airports: weight-based landing fees**
- **Roads: gasoline tax for cars and trucks**
- **Ports: fees often unrelated to congestion**
- **Deficits financed by taxpayers**

## Inefficient Investment and Production: Costs are Inflated

- **Airports: runway costs and delays**
- **Roads: suboptimal capacity and durability**
- **Ports: excess capacity**
- **Generally, there is X-inefficiency from regulations that inflate labor and capital costs**

## Inefficient Spending: Funds are Wasted

- **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**
- **Earmarked funds**

## Lack of Innovation and Technical Advance: We are not at the Frontier

- **Roads**
  - Improved navigational aids and signals
  - Improved methods of construction
  - Automated highways
- **Airports**
  - Slow adoption of satellite-based ATC technology

## Why Do All the Inefficiencies Exist?

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- **Agency limitations—slow and bureaucratic**
- **Engineering (spending) mentality**
- **Regulations**
- **Political forces and status quo bias**
- **Government accomplishes reform by exiting**

## Privatization: Theory

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- **Incentives for cost reduction**
- **Incentives for innovation to reduce dynamic X-inefficiency that has developed**
- **Engagement with customers**
- **Market power and associated inefficiencies**

## Privatization: Evidence from Deregulation and Simulations

- Deregulation
  - Bequeathed inefficiencies
  - Contract equilibria
- International Evidence: US behind
- Highway simulations
- Airport Simulations
- Expected effects: accurate predictions are difficult, otherwise they could possibly be obtained by regulation

## Privatization In Practice

- Very long term process of adjustment
- New private firms must overcome inefficiencies built up for decades by public sector providers while having little experience competing intensely
- Mistakes will be made by privatized firms and the public will be inconvenienced
- The longer term gains will come from reducing the dynamic X-inefficiencies that have built up under public ownership.
- The gains will also come from innovations spurred by “young firms.” Such firms are often the main sources of growth.

## Experiments

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- 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