



**Lessons from the U.S.
Transportation Deregulation
Experience for Privatization**



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Motivation

- **Performance of most public transport systems and infrastructure has been declining**
- **It is too expensive for any country, even the US, to spend its way out of the problems**
- **Growing interest in institutional change—expanding role of private sector—but policymakers need guidance on possible effects**

Overview

- **I will draw on the US intercity transport deregulation experience to offer perspective on privatization**
- **Adjustment to deregulation has been time consuming because of regulatory bequeathed inefficiencies and government policies**
- **Privatization presents a far more difficult challenge because of public sector provision**

Assessing US Deregulation

- **Intercity system (rail, truck, air, and bus) was partially deregulated**
- **Assessments of deregulation's economic effects are based on counterfactuals**
- **Important to distinguish between short run (partial deregulation) and long run (full deregulation and optimal adjustment by firms to this environment)**

Short Run Effects: Constraints

- **Suboptimal airport and ATC operations and counterproductive threats of re-regulation**
- **Rent seeking disputes**
- **Maximum rail rate guidelines**
- **Suboptimal highway operations**

Short Run Effects: Results

- **Lower prices**
- **Improved service**
- **Annual benefits \$XX billions**
- **Improved safety**

Process of Adjustment

- Entry by incumbents and new entrants
- Basic operations were improved
- Innovation and technological advance—
process still evolving

Criticisms of Deregulation

- **Consumer benefits are narrowly distributed**
- **Gains are at the expense of labor**
- **Financial crises**
- **Service meltdowns**

Long Run Effects

- **Gains from deregulation increase as firms are no longer saddled by:**
- **Suboptimal public infrastructure**
- **Counterproductive residual regulations**
- **Inefficient practices and investments developed during regulation**

Implications for Privatization

- Very long term process of adjustment
- New private firms must overcome inefficiencies built up for decades by public sector providers and compete with little experience
- There will be mistakes by privatized firms and the public will be inconvenienced

Implications continued

- **The greatest benefits are likely to come from innovations and technical change that are difficult to envision**
- **Government must not undermine the process of adjustment as it did with deregulation**
- **Constructive interventions should not be opposed on ideological grounds**