

# **Transport Economics Lecture 7**

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## **The Ownership and regulation of Transportation Networks**

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“The existence of market failures may provide a rationale for public ownership of transportation networks under certain circumstances”

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“In practice, both market failure and government failure have influenced the nature of ownership arrangements in the provision of transportation”.

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“There is evidence that countries trade votes among each other in international institutions on a wide range of economic issues, including (migration) and trade.”

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“Vote-trading has been criticized as being a form of corruption, undue influence, and coercion.”

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“Every government is susceptible to political pressures from special interests trying to use the political process for their own advantage. If your firm is not economically competitive in its market, maybe you can get your elected representatives to change the rules in your favor! Seeking economic advantage in the political realm is known as "rent-seeking."

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“Countless special interests lobby Congress for economic advantages such as import restrictions that keep out foreign competitors, special tax breaks, etc. The overall economic costs of such provisions usually outweigh the benefits realized by the special interest group”

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- Public ownership of transportation networks has been more prevalent in **certain locations** and at **certain times** during history.
- A common rationale: **market failure & positive externality** argument.
- While it might have been possible for some such roads to be **financed and built privately**, there was concern that the desired network **would not develop quickly enough**.

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- **E.g. lower-priority roads** linking parts of **rural areas**  
 – *leaving rural areas with poor lines of communication*
- Some road and rail networks may exhibit **economies of scale**,

leading to more **efficient provision** by fewer firms with high levels of output.

strong economies of scale may indicate the presence of **a natural monopoly**

it becomes more efficient for **a single provider** to provide a service.

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- Private firms might **undersupply** a public good if there is not sufficient **motivation** (i.e. profit) for them to do so.

### Government Failure

a countervailing argument

- situation where **government intervention** causes a more **inefficient allocation of resources** than would occur in the absence of the intervention.

### Types of government failure in the context of transportation services

Logrolling

Pork barrel spending

Rent-seeking.

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### Logrolling

A term applied to **political allocation processes** to describe the act of **vote-trading** among members of a political body.

Logrolling occurs when each of **two people** agree to vote for the **other's project** to ensure that both are passed.

Logrolling may generate an **inefficient allocation** of resources.

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**An example**, the maintenance of local roads by **a group of rural farmers**. The vote trading among the participants allows for agreements that ensure the maintenance of all roads.

**The cost of this bargaining** is shown to be **an aggregate overinvestment of resources**,

since each farmer must pay for the maintenance of all other local roads in order to ensure the maintenance of the road that serves his property.

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## Pork barrel Spending

The term refers to **the process of elected officials** securing spending on **projects or economic programs** for the primary benefit of **members of their home district**.

In this practice, **government appropriations** are directed to specific projects, often without **any form of evaluation** to determine the project's **social desirability**, to bring more money to a specific representative's district.

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## Rent-seeking.

Involves the manipulation of the **economic environment** by private individuals or groups in order to **extract economic rents**.

Governments are a primary target of **rent-seekers**

→ Since they may offer **special privileges** in the form of budget allocations or regulatory treatment, and are susceptible to interest group lobbying.

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Thank you

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