THE POTENTIAL OF ENTREPRENEURIAL URBAN PUBLIC **TRANSPORT IN TRANSITION ECONOMIES**

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Introduction

The growth of cities, "urban agglomerations" or "urban areas" is a global phenomenon. Throughout the world cities are growing in geographical area, population, and in the proportion of economic value added to gross domestic product (GDP). In turn GDP, economic growth, income per capita, and general well being depend on the economic performance of cities. Cities facilitate the specialization and division of labor, the exchange of goods and services, and provide the environment for the social, cultural and recreational opportunities people expect in the 21st Century.

Transport is a prerequisite for the production, exchange, and access to the goods and services and activities associated with urban living. Thus, transport is an essential input or "factor of production" in virtually every aspect of urban activity. As a result, an efficient urban economy depends on the efficient transportation of goods and people within the urban area, and to and from other urban areas--both within the host country and the word market.

Municipal governments have overall responsibility for the construction, maintenance and administration of urban transport systems, and for the provision of urban public transportation or "transit" for people. Providing for efficient and safe transit which preserves the environment and enhances the quality of urban life is a major challenge to local governments, especially those in the former Soviet Union (FSU).

In broad terms, "urban public transportation" consists of all forms of "for hire" transport for the movement of people in and around urban areas, regardless of whether the vehicle is owned by a private individual, a private firm, or a government entity. It incorporates: "conventional transit" operated or at least administered by municipal governments or regional authorities in the form of motor buses, trolley buses, street railways or "trams", subways, and commuter trains; and "paratransit" in the form of taxicabs, jitneys, minivans, airport limousines, and subscription services for commuters. For some purposes the definition is extended to include ridesharing arrangements such as carpools or vanpools.

Mass transit, especially conventional transit, was particularly important in the centrally-planned economies (CPE's). In keeping with the ideal of an egalitarian society, auto ownership was kept at low levels and transit was intended to provide equal opportunity and efficient and safe transportation. Mass transit continues to be a high priority in transition economies. As economies in the FSU become more market-oriented, cities increasingly become the centers of economic activity. Urban growth and economic viability depend on efficient, convenient, safe, and environmentally sound public transport. In this respect, the role of government today is even more important than under the CPE.

Public officals in the FSU are hard-pressed to complete the transition process (for example, to restructure their economic and social institutions, to meet a long list of backlog needs due to antiquated and deteriorating infrastructures, and to reduce corruption) and to meet the requirements for accession to the European Union. They face a daunting challenge to come up with public

revenues to finance public services such as education, transport, water, waste disposal, electricity, telephone, police and fire protection.

Public officials around the world face the same challenge, and are seeking strategies to make government more effective and efficient. In the most prosperous country in the world--the US--there has been a growing suspicion that there is a "performance deficit"--a discrepancy between what Americans *pay* for government and what they actually *receive* in services. [1] What has been described as a "crisis in governance" became an issue in the 1992 US Presidential campaign following the publication of a book that same year by David Osborne and Ted Gaebler titled *Reinventing Government: How the Entreprenuerial Spirit is Transforming the Pubic Sector*. [12]. Osborne and Gaebler argue that government should focus on what it is intended and best-equipped to do: determine goals and objectives, choose policies, plans and programs to achieve these ends, and then act as a catalyst and facilitator to accomplish the production and delivery of services. In-house production is only one alternative for service delivery and is necessary for only a few services, for example police protection and a judicial system. Government should separate *policy decisions* from *service delivery*. It should become *entrepreneurial* and use market mechanisms to improve the effectiveness of public services. In the early 1970s, E. S. Savas persuaded the City of New York to privatize its waste disposal program, and is regarded as the founding father of the privatization concept. He claims that this view of government is in keeping with the Greek word *kuberman*, which means "helmsman". [15]

Cities across the globe are adopting this philosophy. Many municipal governments have found that while the public sector is *responsible* for a service, it does not necessarily follow that local government must be the *direct provider* of the service. The private sector provides many services in cities all over the world. In some instances services are provided with only minimal involvement of local government (e.g., commuter bus and paratransit service), and in other instances with shared responsibility with municipal authorities (e.g., telephone service and trash removal). With regard to transit, experience has demonstrated that it is possible to maintain if not improve the level of service, lower costs (and sometimes fares) and reduce the financial burden on taxpayers and the administrative burden on local governments by increasing private sector participation. The term "entrepreneurial government" was suggested by Osborne and Gaebler to describe an approach whereby local governments shift their emphasis from the production and distribution of services to "governance" in order to ensure that services are provided by the most efficient means, whether by the public or the private sector. This paper explains how this concept can be applied to urban public transport, indicates the nature of the savings which can be achieved, and suggests how it can be implemented.

ENTREPRENEURIAL URBAN PUBLIC TRANSPORT

The Entrepreneur

An entrepreneur is an enterpriser, an individual who is involved in an enterprise or business because he seeks to make a profit. [9] He may risk the resources of others as well as his own land, labor, and capital in order to produce and sell a good or service. In competition with other businesses, he attempts to increase his revenues by changing his level of output, entering new markets, introducing new goods or services, or modifying existing products in order to differentiate them in the eyes of consumers. At the same time he seeks to reduce his costs by improving efficiency. While he may succeed in earning a rate of return above the competitive rate and thereby enjoy above average or "excess" profits, he simultaneously runs the risk of earning less than the average rate and incurring a loss, and of even going bankrupt. To succeed, he must be customer oriented and be sensitive to changes in demand and supply which might affect his business. Thus, he must be flexible in order to respond to changes in his market environment.

Entrepreneurial Urban Public Transport

Redefining the Role of Government

A "public service" is any service available to the public, whether provided by the public sector (e.g., the judicial system) or by the private sector (e.g., haircuts and most other consumer services). [13] In both market economies and CPEs, governments routinely produce and distribute certain collective goods and services which are available to the public. Some of these services are known as *social goods*, for example national defense, the services of the judicial system, and fire and police protection. For this type of service, the *exclusion principle* breaks down: people enjoy the benefits of the services whether they pay for them or not, and the services are available in more or less equal amounts to everyone. Because the market system does not provide these services, they are produced by the public sector and paid for with general tax revenues.

There are other collective goods, which can be produced and distributed through the private sector, but for, historical or policy reasons are frequently produced by state-owned enterprises (SOEs). They are owned, operated, administered. These are sometimes referred to as *merit goods*. Natural gas, electricity, telephone, airports, education some medical and health care services, and urban public transport are examples. In such cases, the government has a choice: it can serve as the producer and supplier of the service; or it can be a facilitator to ensure that the service is provided by the most efficient means, whether by the public sector, the private sector, or as a public-private partnership.

For urban public transport and other merit goods, the issue is not <u>whether</u> government should be involved, but rather <u>what can it do best</u>, or how can it be most effective. An alternative to the SOE is for government to assume the role of an entrepreneur and seek the most efficient means of providing transit and other services. In some instances changes in the market environment, for example the easing of economic regulations, may be sufficient to enable the private sector to provide the service without government subsidy. Or other strategies may be employed, for example, employing a competitive process to award a contract to provide a specified service. Both public and private agencies may be invited to bid for the contract to provide the service. The municipality assumes the role of an *entrepreneur* and seeks the most efficient means to produce and deliver the service. It focuses on *results*, particularly costs and consumer satisfaction, and on the *future*, i.e., how to respond to likely future scenarios. Or in more colloquial terms, the government *steers* rather than *rows*!

Experience has shown that a competitive—or "contestable"—market environment is the key to the efficient provision of urban transport services and other merit goods. The private sector generally provides urban transport and other merit goods more efficiently than government because competition forces producers to be efficient in order to survive. Where public sector performance matches that of the private sector, it is the result of privatization, for example through divestiture of SOEs by selling them to the users, or through the competitive tendering of services. Monopoly power, whether wielded by private firms or SOEs, is not consistent with efficient performance. Since the public sector must devote large amounts of administrative and financial resources to produce and deliver SOE services, the government role is a significant policy issue—particularly in third world and transition economies. [1, 4, 5, 6, 7, 8, 13, 15, 21, 22]

2. Redefining Transit

The concept of urban public transport must be enlarged to include other services besides those provided by conventional transit. The terms "urban mass transportation", "urban public transport", and "transit" usually are understood to mean *conventional* transit, i.e., subways (metros), streetcars (trams), autobuses, trolleybuses, and in some cases, commuter railroads. These services operate on fixed routes, fixed schedules, and often have fixed fares. Surpluses (revenues in excess of costs) on some routes or during certain hours are used to cross-subsidize losses on other routes or time periods.

Whether service is provided directly by local government or by a private firm, the operation resembles a public utility. It is viewed as a "natural monopoly", competition is discouraged or outlawed, and usually there is little innovation. [1, 4, 6, 13]

A more inclusive definition of transit would include *paratransit*, or private-sector services such as: carpools or ridesharing in private automobiles during the journey-to-work, taxicabs, minibuses and vans with up to 15-17 seats; small buses with up to 25 seats; and sometimes school buses and standard full-size transit buses. Automobiles, vans and minibuses provide most paratransit services, a distinguishing characteristic of this type of service is its flexibility. While routes may be fixed, this is not inevitable. Schedules may also vary, with more frequent services during periods with the highest demand. Most of the firms are small, family enterprises, often with no more than 1-2 vehicles per owner, and many vehicles are owner-operated. Paratransit services are providing an increasing proportion of public transport services in many cities. They supplement the services provided by conventional transit, and offer services in areas or on routes and at times not available on the public system. They frequently charge lower fares, and by absorbing some of the demand for transport (especially during peak hours), paratransit services reduce the costs and the deficits of public transport systems. In some cities they even transport more passengers than the public system. [6, 8, 13, 21]

Entrepreneurial Urban Public Transport

Entrepreneurial urban public transport (EUPT) applies the philosophy of entrepreneurial government to urban transport. It focuses on:

Transport policy. Rather than defining its role in terms of planning, constructing, operating, administering, and financing a transport system, EUPT focuses on transport policy: what are the community's broad goals and more specific objectives with respect to public transport? How does transport comport with other municipal policies, including service to outlying areas, to the disadvantaged, to urban development, and to fiscal goals? Transport policy and regulation are separated from operation of the transit system.

The principle of comparative advantage is employed to make best use of the inherent capabilities of both the private and the public sectors. Local government is concerned with governing, with looking after the general welfare, and with evaluating, choosing and implementing mechanisms to accomplish social goals. It has the responsibility to determine what services and levels of service to provide, and the most cost-effective way to deliver the services. The environment of private transport providers is the competitive marketplace, and they are intimately familiar with the demands for transport services and the costs of alternative ways of providing the services. By orientation, training and experience, public employees are not as well prepared as private entrepreneurs to produce services in the market.

Results. In general, how well is the transit service meeting the needs and expectations of the community, and the specific objectives set for the service? Specifically, how evaluate performance with respect: schedules and levels of service (e.g., quality of seats and heating and air conditioning); attitudes of drivers, condition of vehicles, and customer satisfaction and complaints; operating costs and cost increases relative to the rate of inflation; and performance of individual contractors with respect to the terms of the contract?

Future. How well is the service contributing to the attainment of community goals and objectives, particularly environmental quality? How might more riders be attracted from automobiles? What new types of services might be provided (e.g., express buses operating on exclusive or priority lanes)? What problems have been discovered and how should they be addressed? What changes should be considered with respect to areas to be served, fare levels, the needs of special groups (for example, school children and the disadvantaged), and economic regulations (particularly barriers to entry)? [1]

EXAMPLES OF ENTREPRENEURIAL URBAN PUBLIC TRANSPORT

With EUPT, the focus is on the market and the dynamics of competition to provide transit services. EUPT include: entrepreneurial services; and competitive contracting.

Entrepreneurial services

Private operators provide a wide range of entrepreneurial public transport services without subsidy in cities across the globe. These include: (i) conventional fixed route, fixed schedule transit (which may include supplemental peak-hour services); and (ii) paratransit services, which for our purposes consists of the continuum of motor vehicle services between the single-occupant motor vehicle and the conventional transit bus, and includes ridesharing or carpools, taxicabs, minibuses operating on fixed routes (but in some cases deviating from these routes), and airport access and "shuttle" services performed by buses of all sizes.

In a recent study of 29 cities, Halcrow Fox found that in 13 cities some or all conventional bus services were provided by private operators without subsidy. Usually a license is required to certify that the vehicle meets safety and environmental standards, and sometimes a limit or "cap" is placed on the number of vehicles permitted to provide services. Cities in this category include Accra, Bangkok, Bogota, Buenos Aires, Curitiba (Brazil), New Delhi, Hong Kong, Kuala Lumpur, Manchester, Manila, Mexico City, Nairobi, Pusan, and Santiago (Chile). [8] Peter Midgley reported that 8,000 buses organized by 90 groups or private companies operating under municipal franchises serve Seoul quite efficiently without subsidy. In Pusan, 65 companies operate as an association with 2,300 buses on a route-franchise basis. [11] Gabriel Roth found that in cities in the US as well as in Asia (for example, Singapore), private buses supplement peak-hour services provided by the public sector. [13] In many cities of the FSU, paratransit services have emerged to fill the void left by the demise of the SOE public systems. [6]

Paratransit is ubiquitous and provides the bulk of public transport in some cities. The World Bank has summarized the range of paratransit services as follows:

- o Feeder services linking housing areas to main transport routes
- o Local distribution in areas which are not well served by conventional transit
- o Trunk services complementing or competing with conventional services on major routes
- o Direct long distances service on routes where service by the formal sector is slow or infrequent
- o Duplication of conventional transit service [21, p. 94]

In 1993, Black-owned minibuses served 42 percent of the Black commuters in South Africa: approximately 105,000 15-19-passenger vehicles provided service in major metropolitan areas. In the US, approximately 400 unsubsidized vans in Miami carried almost 50,000 riders per weekday in 1993, about the same number of passengers carried by Miami's billion dollar heavily-subsidized rail system. In New York City, 2,400 vans offer passengers more direct and frequent services than the municipal transit system. In both Miami and New York, transit authorities have attempted to eliminate these entrepreneurial services through regulatory and legal strategies, and by charging lower fares on competitive routes. [1] In Bangkok paratransit vehicles carry 1.3 million passengers per day, and in Manila the "jeepneys" carry 2.3 million passengers per day. While it frequently complements conventional transit and provides differentiated services in identified market niches, it sometimes competes head on with conventional transit. [6, 13] The World Bank reports that private minibuses complement and compete with the formal public sector buses in many countries in the FSU, including Russia, Kyrgyzhstan, Kazakhstan, Latvia, and Uzbekistan. [6] In some cities operators have formed associations, sometimes encouraged by municipalities. In Bishkek the municipality encouraged the development of a single association called "Liga" to bring the independents under a single management, to organize schedules, and to include them in the tax net. [21]

Competitive Contracting of Bus Services

Competitive contracting (or "competitive franchising") is becoming popular worldwide as a means of procuring transit services at competitive rates. Competition may be limited to private operators or may include both public and private providers.

1. Among private operators only. A municipality may decide to invite private companies to submit bids for particular services, for example: a route or routes, or an entire system; for maintenance; for elderly and handicapped transport; for management of the system; or for some combination of the preceding. The basis for competition and award of a contract to provide the specified service can be can be gross cost (lowest bid for total costs, where the city collects the fares and pays the operators) or net cost (lowest bid for the subsidy required, with the operator collecting the fares). [8, 21]

In 1986 the United Kingdom deregulated bus service outside London. Today more than 75 percent of public bus services outside London are operated commercially, and some cities have sold their bus companies to private operators. In order to maintain service deemed socially necessary, some communities have awarded contracts to private operators. [1, 21]

In Curitiba, Brazil, 16 independent companies were awarded contracts to provide conventional transit service. Operators perform according to detailed service specifications issued by the City, and are reimbursed on a per-kilometer basis. Annual ridership is 320 million on 227 bus routes. Fares pay all of the operating costs. A system of high-capacity buses on limited-stop schedules provides an additional level of service. Curitiba has broken new ground in designing and operating an express bus system which rivals rail transit in speed and level of service, but whose capital and operating costs are only a fraction of rail transit. [1, 17]

2. Public-Private Competition. Both private operators and municipal transit agencies are invited to submit bids, and the contract for the specified service is awarded to the lowest bidder. London is perhaps the best example. Transport for London (formerly London Transport) manages the largest bust system in the world. A fleet of 6,000 vehicles serves a population of 7 million people. In 1983, after costs had increased at nearly twice the rate of inflation for 13 years, Parliament established a new system in which policy was separated from operations. In its Annual Report, LT announced:

> LT's policy is to use (public-private competition) for the provision of goods and services where similar or greater efficiency can be obtained at lower cost without compromising safety. Internal departments, in some cases, are allowed to bid for this work. [1, p. 8]

The 1984 London Transport Act privatized bus services in London and buses contracts are now awarded competitively on the basis of gross costs, with Transport London setting fares, routes, and frequency. By 2,000 London bus service was completely privatized with all routes competitively tendered. [22] As Table 1 indicates, the results were dramatic: costs per vehicle mile were reduced by 51 percent from 1985-2000; service was extended by 32 percent; productivity improved by 103 percent; operating and capital expenditures were reduced by 35 percent; and savings of 5 billion British Pounds (8.4 billion Euros) were achieved.

In the US, similar results from public-private competition were obtained in several cities, including Cobb County, Georgia, and Miami. In San Diego costs per mile declined more than 20 percent and the percent of operating expenses covered by fares rose from 31 to 53 percent during the period 1979-83. Los Angeles showed the most dramatic improvements: while overall ridership declined in the Los Angeles area, it increased 150 percent on the contracted routes. Savings on some routes were as high as 69 percent, schedule reliability improved over 300 percent, and passenger complaints fell by 75 percent. [1]

The recent international survey of competitive tendering by Wendell Cox and Brice Duthion (Table 2) as well as the World Bank studies cited earlier indicate that cities across the globe are achieving

substantial savings as a result of competitive tendering. Although countries of the FSU have been more reluctant to abandon their SOEs, the trend towards competitive tendering is a world-wide phenomenon.

Table 1. London Results

Period	1985-1999
Converted to Competition	100.0%
Total Expenditures	-34.9%
Change in Service Level	32.2%
Change in Unit Costs	-50.8%
Change in Productivity	103.1%
Annual	4.8%

Productivity measured in service level per constant currency (inflation adjusted)

Source: Cox, W., and B. Duthion, "Competition and Urban Public Transport: A World View." [22, p. 13]

Table 2. Summary of Productivity Trends

Urban Area	Years	Annual Productivity Improvement
Copenhagen	10	2.8%
Denver	11	1.4%
Las Vegas	1	4.9%
London	15	4.8%
San Diego	21	1.7%
Stockholm	8	2.8%
Average Excluding Las Vegas	13	2.7%
Exhibit: US Public Transport	27	-3.7%

Productivity: Vehicle kilometers per constant currency unit (inflation adjusted).

Source: Cox, W., and B. Duthion, "Competition and Urban Public Transport: A World View." [22, p. 26]

Competitive Contracting of Management Services

Management contracting is particularly well suited to small and medium-sized public transport agencies and has proven quite successful in the US. As explained by the World Bank:

> Management contracting involves operator responsibility for the management and operation of a system, possibly including service specification, within agreed parameters. Operational assets are usually owned by the customer authority, though the operator may be responsible for their procurement and maintenance, as well as negotiating labor wages and conditions. Inter-modal coordination is relatively easy to achieve with this device, and so long as the payments are well structured there is a high incentive to provide high quality of service to attract customers. The weakness is that the competitive pressure may be fairy weak, trade union power relatively strong and costs relatively high. [21, pp. 88-89]

ADVANTAGES OF ENTREPRENEURIAL URBAN PUBLIC TRANSPORT

The advantages of EUPT include the following:

1. Exploiting the comparative advantage of both public and private sectors The public sector is better suited to govern, to set policy, to establish public goals and objectives, and to evaluate programs, while the private sector is better equipped to produce services in the market.[1]

2. Saving money As shown in examples cited above, in some cases the market will provide transit services without any subsidy. Where demand is not sufficient to sustain private services, competitive contracting results in substantial savings. The World Bank reports that costs per passenger kilometer differ by 100 percent between public and private fleets in a Accra, Ankara, Calcutta, and Jakarta. The introduction of competition has reduced operating costs per mile by over 30 percent in several European countries. [4] Where SOEs compete with private providers for contracts, they tend to become more efficient, and through a "ripple effect" the entire SOE may seek to reduce costs. Finally the net costs of providing transit will be reduced as increased private participation generates additional revenues in the form of taxes, licenses and fees.

3. Reducing municipal administrative burden Worldwide, the populations of urban areas are growing in both absolute and relative terms. Local governments in transition economies are especially challenged to meet the multiple demands for services and develop the institutions necessary for viable urban economies and accession to the European Union. Shedding some of the administrative burden by privatization of transit and other municipal services will release human and financial resources so that they may be employed in more productive uses.

4. Stimulating the private sector Experience has shown that the private sector responds to opportunities to provide services which previously were the domain of SOEs. Most cities in the FSU have high unemployment, and the skills required to operate and maintain vehicles are acquired in a few weeks time. Transport has proven to be an effective training ground for learning entrepreneurship, and it offers viable opportunities for small- and medium-sized enterprises. [13, 14]

5. Stimulating the urban economy Transport is a factor of production in both a market and a centrally-planned economy. Access to jobs is particularly important in FSU cities, where low incomes and high unemployment rates retard economic growth. EUPT generates a variety of efficient services in response to demands for access to jobs, social services, educational, cultural, and recreational opportunities, and at the lowest rates which can be obtained. If certain services are judged particularly important (e.g., below-market prices for the journey to work), they can be procured through competitive contracting. Finally, EUPT can contribute to increased political tolerance for the profit motive and for the market system as the most efficient way to produce public as well as private services. In the US as well as in the FSU, people are accustomed to government providing certain services at prices below market levels. They frequently object to private providers charging competitive market prices and “making money at our expense!” [6]

[1] An exception, of course, would be when a public agency wins a contract to provide service as a result of competition with private operators. In such cases, the public agency operates more or less independently of local government, and “plays the game” according to the same rules as private operators.

TRANSITION TO ENTREPRENEURIAL URBAN PUBLIC TRANSPORT

Commercialization the Key

The key to bringing about EUPT is to *commercialize* transit services. The requires that municipal governments incorporate entrepreneurially-provided services as well as conventional or formal public-sector services under contract.

Entrepreneurial services would be provided without subsidy by either private or public organizations. The locations and types of services could be left entirely to market forces, prescribed by local government, or by some combination of the two. Public authorities could also set safety, environmental and service standards, and determine maximum fares and entry requirements.

Contract or franchised services would be provided as a result of a competitive process involving both public and private providers.

New Zealand 's 1989 Transport Act is a model of how EUPT can be promulgated. Under the terms of the act, the municipal agency responsible for transit policy prescribes minimum service and maximum fare levels throughout the urban area. It would invite public and private organizations to provide portions of the specified services without subsidy of any kind. The government would then issue detailed requests for proposals (RFP) for services that are not provided by market forces, and invite public and private providers to submit bids for particular routes. Contracts would be awarded on the basis of how well potential suppliers meet the cost and service criteria specified in the RFPs. [1] Unfortunately, this particular section of the law was not implemented and was subsequently repealed.

Annex I summarizes how successful transition from state monopoly to competitively-tendered contracts was accomplished in Uzbekistan.

Prerequisites for Entrepreneurial Urban Public Transport

Competitive Market Environment

EUPT requires a competitive market environment. There must be a range of economic actors interested in providing services in a well-functioning market. Buyers must be aware of the alternative services, their characteristics and their prices, and potential buyers and sellers must be able to communicate easily with one another. Labor and other essential resources required for producing trips—vehicles, replacement parts and petroleum products—must be readily available at affordable prices. Capital must be available in order that operators can purchase vehicles, or it must be possible to obtain vehicles through leasing arrangements. Barriers to entry must be low in order to foster competition, but some degree of economic regulation may be required to prevent destructive competition or the formation of cartels.

Effective, Entrepreneurial Government

Effective Government

While entrepreneurial government offers greater efficiency and savings, it must be more effective if it is to achieve these savings. It requires:

- The ability to "govern", i.e., to administer and to provide the leadership required for a municipal government to fulfill its role

- A reputation for integrity and the respect of the citizenry and the economic actors

- o A sound legal system to ensure the enforcement of laws, especially those concerning contracts and property rights

- o Transparency and openness

- o The necessary human resources, i.e., staff with the knowledge, skills and abilities needed to develop, promulgate and enforce regulations, to effectively deal with both the public and the private sectors (especially in the procuring of services), and to resolve conflicts.

Entrepreneurial Government

Local government must adopt an entrepreneurial philosophy, i.e., it must be committed to ensuring that public services are delivered in the most effective and economical manner. When choosing between public vs. private sector production, the question should always be: can a service be purchased for less in the competitive market, assuming the same quality and quantity? Is government paying higher prices than necessary for transit service? If the answer is "yes", then the activity should be purchased in a competitive market.

Entrepreneurial government requires that policy and regulation be separated from operations. To avoid conflict of interest and the natural tendency to expand government authority and control, there must be "arm's length" dealing between political and regulatory authorities on the one hand, and operating units on the other. Put another way, there must be a "level playing field" that permits private and public operators to compete according to the same set of rules.

Finally, entrepreneurial government implies privatization, the divestiture of government activities that can be provided equally well or better by the private sector. As Gwilliam and Scurfield explain, SOEs usually are saddled with low fares and with labor agreements which result in over-staffing and over-generous wage bills. The result is excessive demand for labor and poor cost recovery. The continued existence of SOEs frequently discourages new entry, especially since governments almost inevitably attempt to protect SOEs from unwelcome or "illegal" competition. [4]

In *Cities on the Move*, the World Bank summarizes the institutional requirements for effective competition as follows:

1. Political supervision of public transport separated from professional management
2. Service planning separated from service provision, and adequately staffed and skilled
3. For contracting and franchising, new procurement skills
4. Operations privatized, or at the very least commercialized
5. Public company operation units restructured in a form conducive to competition, or subject to strong external competition [21, p. 92]

Measures to Achieve Entrepreneurial Urban Public Transport

The following measures are suggested to increase private sector participation:

Adopt Entrepreneurial Government Policy

Municipal governments can adopt the policy recommended in the paper: carefully examine municipal services to determine which can be supplied better—or at least equally well—by the private sector, and develop a plan to "privatize", or at least increase private sector participation, in these sectors. Urban public transport is a prime candidate.

Reduce Barriers to Entry

Economic regulations which prohibit potential operators from providing service or which impose burdensome restrictions with respect to fares, routes, and schedules should be reduced or eliminated. They should be retained only if they are tailored to meet the goal of providing safe, convenient, and efficient services.

Economic regulations are not the only entry barriers facing potential service providers in many cities. Lengthy delays in obtaining permits, high registration and license fees and "red tape" can also discourage potential providers, especially small operators with only one vehicle and very limited resources.

Grant Tax Concessions

Taxes and fees can be reduced or waived for "start up" enterprises local governments want to encourage.

Divestiture of State Owned Enterprises

Karl Marx advocated the "withering away of the state". It is ironic that 150 years after the publication of Das Kapital, his prescription should apply with greater force to former socialist or communist countries. [20] Countries in the FSU have been actively selling public enterprises to private firms. While it may prove difficult to find buyers for entire transit systems, particularly given their present conditions and their deficits, it should be possible to find specific routes or areas of a metropolitan area which generate sufficient revenues to make them attractive to private buyers.

Facilitate Employee Ownership of Transit Agencies

Employees can be made part or complete owners of private firms. Employee Stock Ownership Plans or "ESOPs" have succeeded in the US and other countries because employees are able to preserve their jobs and have a stake in the success of the firm. In some cases the employees obtain loans, purchase, and operate the enterprise. In the United Kingdom at least one bus company was purchased by the employees with the aid of a loan from a bank. In many Russian cities, including Tosna and Kurushy, privatization has been achieved through the transfer of assets to employees. In Kyrgyzstan the transfer was accomplished by auction of coupons. [6, 15]

Seek to Create Alternatives

In keeping with the above, particularly the first suggestion concerning government policy, municipal government can adopt a "public/private/partnership" philosophy and take a pro-active stance to encourage innovation and seek alternative means to achieve greater private sector participation. For example, local government might initiate a dialogue with the private and encourage suggestions and concrete proposals. Groups such as universities, Non Governmental Organizations (NG0s) including Chambers Commerce, the Center for International Private Enterprise, research organizations and "think tanks" can be employed as forums for meetings and discussions. Promising ideas might be given both public and private support as demonstration projects to test their potential. "Sister City" arrangements with cities in other countries are sometimes used to introduce innovations. [10, 21] These have the advantage of testing solutions which have succeeded elsewhere, and getting technical support for their planning and implementation.

PROBLEMS IN IMPLEMENTING ENTREPRENEURIAL PUBLIC TRANSPORT

The Monopoly Tradition

It has long been an article of faith that urban public transport is a "natural monopoly". This has not always been the case. Following the introduction of horse-drawn streetcars in New York City in 1832, it was not unusual to find several companies competing for business in large cities. [13] However the application of electric power to street railways in the 1880s created large economies of scale and decreasing costs. Once the electrical generators to power the streetcars were installed, the incremental costs of expanding capacity and service by adding vehicles—and in some cases by laying additional tracks—were comparatively low, and unit costs declined as the size of the system increased. As with other communication and transport technologies requiring large initial investments in capacity, the initial costs were substantial. After the system was completed, there was sufficient—even excess—capacity relative to demand. There was neither need nor financial incentive for another structure to serve the same market, and monopoly was inevitable. By the end of the 19th Century, urban railroads—together with intercity railroads, canals, and telephone systems—were viewed as natural monopolies. An elaborate set of economic regulations, beginning first in the US but soon spreading to other countries, were promulgated to protect the public from the monopoly power of the companies. Fares, rates of return, and service characteristics were regulated in the public interest.

The advent of the internal combustion engine and the motor vehicle in the closing years of the 19th Century brought radical changes in the technology and the market structure of urban transit. When buses and taxicabs began carrying passengers, the monopoly position of the street railways ceased. The public sector provided and maintained the streets and roads, which became the rights-of-way for motor vehicles, and the latter provided access to any location that motor vehicles could negotiate. Moreover, the costs of purchasing and operating motor vehicles were much lower than the costs of railcars. Nevertheless the street railways and municipal governments clung to the monopoly philosophy, and by the turn of the century, economic regulations began to be employed to protect the street railway companies from competition from public transport vehicles powered by the internal combustion engine. As soon as bus companies obtained common carrier status, they also embraced the monopoly philosophy and succeeded in extending the economic regulations to protect their operations from "illegal" private operators. Today both rail and bus public transport enterprises in the US and most other countries demand that municipal governments vigorously enforce economic regulations to protect them from competition. Thus while the choice of transport mode was limited by technology in the 19th Century, it was limited by public policy in the 20th, and continues to be so limited in the 21st.

Elected officials and other political leaders probably will have to take the lead in improving the understanding of the economics of urban public transport. Experience in the US, the citadel of capitalism and *laissez faire*, has shown that the natural monopoly tradition is well entrenched among transit agencies, and that it is unrealistic to expect them to initiate action to increase private sector participation—particularly if such action would result in competition for riders. Enlightened officials, universities, international organizations such as the World Bank and the OECD, and non governmental organizations (NGOs) such as the Center for International Private Enterprise and the Institute for Transportation and Development Policy, and independent "think tanks" can provide leadership and technical assistance. Small conferences and workshops whose participants include transport experts, local transit officials, and labor representatives, can be a potent influence and catalyst.

"The Public Interest"

Transit is an essential public service. Like the judicial system, police and fire protection, it is sometimes considered to be too important to be provided by the private sector or to be "left to the market". Experience with electric, telephone, and other public services as well as transport have proven this argument to be fallacious. Successes and failures can be found in both the public and the private provision of services. As indicated above, there is nothing inherent in the nature of public transport that requires that transit systems be operated by government. Incentives to be efficient and innovative as well as evidence of cost savings and quality of service favor robust competition, whether between private providers, or between the private and public sectors.

Vested Interests

Transit agencies and their employees, particularly vehicle operators and maintenance workers, vigorously resist any changes which they perceive as a potential threat to the size of their agencies, their job security, their wage rates, and their benefits. Resistance is particularly strong in the US. Federal and state and well as local governments annually provide billions of dollars of subsidies to transit agencies, and interest groups such as the American Public Transit Association, the Transit Workers Union, and the Teamsters lobby legislatures to maintain or to increase transit subsidies.

While public sector support may be essential to provide transit services, the type of subsidy is crucial. "Block grants" give local governments the authority to allocate funds according to local priorities. These should be substituted for "categorical grants" which earmark state or federal funds for particular purposes and do not allow local governments freedom to spend the funds according to local priorities.

Labor's concerns can be partially allayed by allowing local transit agencies to compete with private providers for service contracts. This enables local transit to take advantage of its experience, and encourages it to become more efficient. Or if routes are "privatized" at the normal attrition rate of workers, transit employees can continue to enjoy job security. Finally, the creation of ESOPs is also a means of maintain jobs and gives employees a vested interest in improving efficiency.

Implementation and Administration

Just as the transition from SOE to the private sector in other areas of an economy, time is required for transit to change from public monopoly to EUPT. As the role of government changes from operations to governance, new managerial skills are required, particularly if services are to be contracted. Finding personnel with the necessary skills and experience to prepare, award, and administer contracts is likely to be more difficult in cities in the FSU than in countries with well-developed market economies. Fortunately there is a wealth of experience to draw upon, and private consulting firms as well as organizations such as the World Bank, the OECD, and NGOs are available to provide technical assistance.

Political Feasibility

Although the changes advocated in this paper offer improved services as well as savings to municipal governments and taxpayers, these changes are often outside the experience of the transit agencies and the community at large. Transit officials and local governments commonly meet the proposals with skepticism or outright hostility. It can be a major challenge to elected officials to introduce and promote the idea of entrepreneurial transit. They have strong incentives to do so, however, given the

rising costs of government, urban growth and increased automobile use, and the ever-increasing demands for public services.

Acceptance by the public, by local government, and by elected officials can be facilitated by citing examples of successful privatization of services, by visits to cities with well-functioning private sector transit services, by assistance from NGOs, and with help from a "sister city". Experts from London assisted in the privatization of bus services in Uzbekistan, and Zurich assisted Kunming, China in the development of a public transport master plan centered on the idea of "high-quality-and-low-cost" bus transit, featuring dedicated bus lanes. [10, 21] However, there is no substitute for elected officials with the vision, the leadership and the political will to introduce and implement entrepreneurial transit. Fortunately, the process can be approached incrementally.

Conclusions

Different levels of government bear responsibility for a range of public services which the market does not produce in sufficient quantity and/or quality to satisfy public demands. With regard to providing essential services such as transit, education, telecommunications and electricity, Gabriel Roth has stated the public policy question quite succinctly:

> . . . the crucial question is not *whether* governments should participate in the provision of services, but *what form* such activity should take. Private provision does not mean *no* role for government. Rather, government should put in place the 'ground rules establishing a framework in which private enterprise can operate effectively and in a manner responsive to the needs of society.' [13, p. 5]

This paper has attempted to show that public transport services are not a "natural monopoly", and that lower cost—and sometimes better quality—transit services can be obtained by an entrepreneurial government approach which makes maximum effective use of the private sector. In a favorable regulatory environment, some public transport services will be provided by private operators without any public subsidy (e.g., supplementary peak-hour service in high-density corridors). Other services which municipal government has determined to be necessary but which are not provided by the market (e.g., fixed-route, fixed-schedule services in low density areas) can be procured by means of a competitive process open to both public and private sector providers. The paper did not attempt to describe the full range of regulatory, franchise, and contractual arrangements which are currently employed in different cities, especially in the FSU and in developing countries. These options are outlined in some of the works cited in this paper. [4, 5, 6, 7, 8, 21] It must be recognized that there is no "general solution" which will satisfy the specific characteristics, the goals, and the institutional and financial constraints of different cities.

An entrepreneurial public transport policy is one dimension of "entrepreneurial government." Before this term became popular during the 1992 presidential election, the word "privatization" was used by E. S. Savas to describe the approach advocated in this paper. He asserted:

> The policy-making government body should separate the planning and procurement of services from their production and delivery; it can then divest itself of much of its operating responsibilities. [15, p. 289]

He claims:

> This view of government is in keeping with the very origins of the word *government.* Its Greek root means 'helmsman'. The role of government is to steer, not to man the oars. Privatization helps restore government to its fundamental purpose." [15, p. 290]

The public sector remains the most important actor. It must have the vision and assume the leadership if entrepreneurial government is to succeed. The challenge is substantial—and so are the rewards!

Annex I

Box 7.1 Introducing Competitively Tendered Franchises in Uzbekistan

Urban public transport services were traditionally supplied in Uzbekistan by State-owned enterprises that enjoyed area wide, sometimes city wide, monopolies. Beginning in late 1997, however, as part of the transformation of this former socialist economy into one that functions on market principles, the Uzbek Government has implemented radical changes in the organization and regulation of urban public bus transport services. Through a gradual and carefully planned process, which included experiments in a few cities, a study tour to London, and progressive scaling up to all secondary cities, responsibility has been given to the city administrations to organize all bus services on the basis of exclusive route franchises. These franchises are allocated through a competitive tendering process open freely to private companies and associations of small owner-operators as well as the State owned enterprises. Tendering is under the responsibility of a special commission in each city, chaired by a Deputy Mayor, operating under precise rules set by a transport regulatory agency in the Central Government. Bidder's discount, if any, from the passenger fare ceiling, proposed service frequency, and bus fleet characteristics are the main selection criteria. Franchise duration, initially set at six months, renewable once for another six month, is progressively being extended (now to one year).

These reforms, completed in two years, have resulted in impressive changes. Numerous private operators have entered the public transport market, many new jobs have been created in the emerging bus service sector, and a healthy competition has developed (particularly for the rapidly growing minibus services). Private operators now supply more than 50 percent of all urban transport services. A bus route franchising system is also now being implemented in Tashkent.

Source: J-C Crochet from World Bank project files. [21, p. 92]

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