



## Transportation Research Forum

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Book Review: [Street Smart—Competition, Entrepreneurship and the Future of Roads](#)

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*Roth, Gabriel, ed. Street Smart--Competition, Entrepreneurship and the Future of Roads. Oakland, CA, & Somerset, NY, Independent Institute and Transaction Publishers, 2006. ISBN 0-7658-0304-6*

# Street Smart

by Porter K. Wheeler

## INTRODUCTION

This collection will be useful to both theorists and practitioners of road transportation. In one rhetorical question, the author's promotional catch line tells much about the theme of this collection of essays: "Are Roads Too Important to be Left to Governments?" And make no mistake, the collection demonstrates a strong case for more reliance on private providers responding to market forces. It contains many bold statements on the efficacy of highway privatization toward meeting the public interest in more effective and efficient road transportation. Certainly, efficiency must be improved, both in the allocation of resources and in their application. These authors, for the most part, make a firm case that turning to the private sector is a significant part of the solution.

## CENTRAL THEMES OF THE COLLECTION

The collection gets off to a good start on a valid premise: **effective road transportation is crucial to economic and social well-being**. Increasingly, our road systems are suffering from problems including congestion, high costs, waste and pork, and poor maintenance. Our urban and many not-so-urban roads are clogged, with throughput far below capacity. Both time and energy are being wasted in a dead loss situation. Huge process-oriented delays have been built into project development, albeit often related to desirable environmental safeguards, community representation, long-range planning requirements, etc., which private providers must also address.

Governmental provision has been the predominant road delivery mechanism, in many situations with unhappy consequences. One professional testified to the National Surface Transportation Policy and Revenue Study Commission that political decision-making has displaced the recommendations of policy and engineering experts, certainly much more so than 50 years ago when the Interstate System was constructed.

Roth was an early analyst of traffic congestion and has been a consistent believer in the efficacy of market-driven solutions for roads, more so than most economists. In support of the private market premise, Roth correctly notes here that:

- There are costs associated with the political control of road provision
- Cost-shifting and/or cross subsidies seem prevalent
- Performance and life-cycle issues are traceable to insufficient maintenance, because of unbalanced capital matching, project earmarking, and excessive ribbon cutting for its own sake
- Congestion costs and other external costs that limit or offset mobility benefits are not addressed.

## WHAT IS FOUND HERE?

This collection of essays examines a variety of private, market-based alternatives for road services ranging from regulatory to franchising and private ownership solutions. The Foreword by Mary Peters, recently confirmed as Secretary of Transportation, is correct to say that there is a serious mismatch between supply and demand and market forces would work to resolve such gaps when

allowed to do so. Pricing and investment principles can certainly be applied more broadly to the roadway sector and this collection should advance that application.

Roth identifies several promising roles for private sector activity, including:

- Testing and licensing of vehicles and drivers
- Management of government-owned facilities (under contract)
- Franchising of facilities and services (by long term lease or contract)
- Outright private ownership, *or at least strong commercialization*

There are 20 chapters ranging broadly over theory and practice, including examples from historical approaches (e.g., a Vanderbilt tollway on Long Island) to modern day examples (e.g., Singapore urban pricing and HOT lanes). These essays serve as reminders not only of the present unsatisfactory situation but of alternative paths that might be taken. The reminders are useful because the paths are not often taken.

The collection is coherently organized into five parts including Roth's introduction and the following topical sections:

- Theory, Arguments, and Ideas
- Improving the Pricing of Roads
- History of Privately Provided Roads
- Roads to Privatization: Getting From Here to There

Out of practicality, my focus in this review is the overall collection, but a few examples of the individual contributions will be illustrative:

In Chapter 4, Levenson points out that many elements of road delivery are already private, just not the roadways themselves. And there are many disparate roadway users, making it more practical to use a flat rate gas tax, ad valorem local tax, or other simplified fee approaches. It is also likely that a complex fee change will bring forth too many losers who would not be compensated. So expect resistance to change even if their losses are more perception than reality.

In Chapter 14, Calvo and Ivarsson present an interesting case study of Swedish Private Road Associations (PRAs), under which local property owners take responsibility for road maintenance and improvements. The result is maintenance and improvements are often accomplished at less than half the cost, and with prompt intervention, and more appropriate, cost-effective rehabilitation patterns. The Swedes have produced impressive results from private ownership via PRAs. However, the Swedes benefit from a well-structured institutional framework for private ownership of roads, derived from several centuries of experience. And tellingly, their experience demonstrates "*the pivotal importance of political will and skill.*"

The collection has much else to offer, including good information on the UK's Private Finance Initiative (PFI), on the above-mentioned Swedish PRAs, on 19<sup>th</sup> century toll roads, private streets in St. Louis and Rossmore, CA, (community associations, gated adult community) and elsewhere, along with several discussions of the nature of public goods and the "free rider" concept. The material shakes the conventional wisdom that streets must be regarded as public goods; by providing clear examples of how a private firm or association can control the street space and charge a variety of "rentals," including use, traffic services, utility easements, security services, property drainage, and so on.

At one point, Roth even turns the tables on the vexing Lexus Lanes assertion often made against congestion pricing. Roth concludes that the poor would benefit substantially from better road pricing because public transit would gain ridership and enjoy reduced unit costs. Roth concludes that their political clout is too weak to obtain this result (see footnote on p. 21).

## COMMENTARY

Economists will find much familiar in this collection. The key question is: Will it help policy makers understand the issues better? And will they adopt the suggestions herein for more reliance on private market forces? I would give a qualified yes.

Based on its premise (or promise) that this volume was written to help “explain the need for change” (Roth, p. 19), on the whole it is successful, whether that change ultimately takes the form of privatization, better governmental management, or commercialization of “inherently commercial” transactions. Governmental decision makers will ultimately determine, through revisions to highway program frameworks, the role for the private sector and the information here will help them do so more effectively.

The *benefits* of governmental supervision do not get equal attention. For example, the establishment of highway and transportation trust funds dedicated to transport improvements and operations can offer many of the benefits sought for road users. Indeed, on page 15, Roth points out that “dedicated road funds can offer other solutions.” The main drawback is indeed that these funds can and have been subject to “the ability of governments to ‘raid’ them for other purposes.” Will those same governmental decision makers effectively reformulate the ground rules for private participation?

There are at least several organizational alternatives which should be considered including quasi-independent regional road authorities, commercialization, private sector contract management, and public-private partnerships. Much comes down to performance standards and measurements, which are easier to discuss than to implement.

Private ownership could be another later stage, if issues of ultimate legal liability can be resolved. Bottom line: there are many road sector aspects that can be run like a business, or at least more like a business.

## IN CLOSING

“There are no free roads” is a favorite slogan of the toll road groups. Yet, excessive demand growth has been largely based on the “free road” illusion. That is, no direct (facility-based) user charges are encountered, but plenty of indirect user charges are already paid, and most are dedicated to use somewhere on the transport system.

Congestion, sprawl, and a complex morass of governmental bells and whistles have virtually taken away the open-road feel cherished by an earlier generation, and it will not soon return. Significant and continuing economic growth has made it hard to catch up to demands on the roadway system, and it gets harder still when program funds are applied to meet many other non-transport needs.

So, competition, entrepreneurship, and commercialization can help. We must let go carefully and not throw our transport child out into the cold and often cruel world without inserting appropriate incentives and contractual structures to support commercialization while providing safeguards for the public interest.

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