One objective of this conference was to identify major issues in the regulation of urban public transportation. This objective is an important one because the transition to public from private ownership has created an environment in which regulation of urban public transportation no longer serves its original objective—the determination of reasonable fares and profits for private operators. When the public transit operator has assumed control, traditional regulation of private enterprise through a public utility commission has generally been replaced with an urban planning framework of decision making. This transition raises a significant issue as to whether the problems of urban transportation can usefully be addressed in the framework of economic regulation and, if so, to what extent changes in the regulatory environment can be expected to contribute to improved urban public transportation.

To a surprising degree, the participants in this conference found that achieving a consensus on issues in the regulation of urban public transportation was much more difficult than had been supposed. The differences in objectives, commitments to alternative institutional approaches, and perception of the facts among the participants were very great. Rather than produce agreement among the participants, the conference served to define just how far apart were the different perspectives on the problem. This dissension reflected in part the fact that problems of urban public transportation are rarely perceived in a regulatory framework. In short, regulation was identified as a much more important issue than had been anticipated.

Regulation, though in a different form from traditional public utility regulation, has become another focus for the resolution of conflicting viewpoints on urban transportation. This emergence of regulation as a technique for resolving differences in viewpoints regarding urban transportation policy alternatives was reflected in the following fact: There was a common plea from all interest groups—publicly owned common carriers, labor, public utility commissions, private operators, consumers, and so forth—to reduce burdensome regulations, often while they defended the constraints imposed by regulation on the other affected interests. Although every party could suggest changes they found desirable, most groups strongly defended existing regulations designed to advance objectives they found desirable.

MORE VERSUS LESS REGULATION AND THE ROLE OF ALTERNATIVE INSTITUTIONAL APPROACHES

A fundamental difference emerged regarding the potential of competition as an alternative to regulation and planning as an incentive in our institutions for decision making in urban transportation. Greater use of competition among alternative suppliers was frequently mentioned by some participants as a means of increasing the scope of consumer choice and providing incentives to transit management. Advocates of greater competition generally deny that urban transportation meets the requirements of a natural monopoly or conventional public utility, in which case competition is infeasible. Proposals to change the institutional framework of urban transportation decision making, such as the brokerage concept, provide examples of this viewpoint.

Diametrically opposed were the views of those who had argued for more planning and better regulation as the desired approach. These views were consonant with moving away from competition toward more integrated, better planned systems that avoid wasteful competition. Consistent with this philosophy were suggestions to correct jurisdictional problems of conflicting regulatory spheres of influence by different regulatory bodies and to impose more detailed standards of performance and accountability on common carriers.

Differences concerning the preferred institutional structure of decision making reflected fundamental differences in the confidence of the participants in the desirability and feasibility of the competitive process. It is not likely that additional information will resolve these differences. In its extreme form, the choice is between integrated, planned monopolistic systems and competitive, less-regulated systems that depend on economic incentives and individual initiative. Although there may be agreement on the appropriate solution in actual situations, the philosophical differences in these institutional approaches are great. Interestingly, both sides of the debate cited evidence that their institutional approaches were gaining ascendency. Advocates of planned systems cited the movement toward public ownership and integration of transit systems and increased use of metro-
politan area wide solutions to urban problems. Advocates
of competition cited the inability of large, capital-
 intensive, regulated systems to meet the competition of
smaller units of organization (private and for hire) that
use more flexible technology and service (both in the
intercity and urban transportation markets and in other
regulated industries).

PROVISIONS FOR ENTRY AND EXIT
FROM URBAN TRANSPORTATION
MARKETS

The issue of entry and exit in the provision of urban
transportation service is closely related to the issue
of the desirability of competition. It received much more
attention than the other traditional regulatory issues—
fares and service. Although fares and service continue
to be an issue, the transition of the transit industry from
a profitable private enterprise to a subsidized public
operation has intensified the incentive to seek unconven-
tional alternatives to the public enterprise as it is cur-
cently operated.

I believe that profitable private conventional transit
operators were successful in convincing public utility
commissions that the public interest was served by pro-
tecting them from competitors. It was alleged that new
entrants would skin the cream, debilitate the perfor-
cated carrier financially, and require higher fares while
inflicting poorer service on the remaining patronage.
However, these arguments may be much less compelling
in the future, as public operations move into greater
deficit positions. (Indeed, if the public transit system
were completely free, the argument for suppressing
competition on the grounds of injury to the public enter-
prise would be substantially eliminated.) As the cream
to be skimmed disappears, the public as taxpayers may
be more willing to accept private enterprise competitors
if they can reduce the transit deficit. Evidence about the
effect of new entrants on the deficit of public operators
was not presented at the conference however.

The fundamental issue of entry and exit turned on the
rights and responsibilities of existing operators, both
public and private. As is consistent with established
concepts of public utility regulation, carriers who have
been granted certificates of public convenience and ne-
necessity argue that they should be protected from poten-
tial competitors who do not bear the public service re-
quirements imposed on them by regulation (off-peak
service, access to the elderly and handicapped). "Un-
fair" competitors, who use nonunion labor and unsafe
and uninsured vehicles and have no obligation to continue
service despite losses, should not be allowed to erode
the financial strength of existing carriers. According
to this point of view, the obligations of certificated car-
rriers to provide money-losing services entail a right
of protection against entry of new competitors. Adher-
ents of more competition criticize either the cross-
subsidy implied by this analysis or the assumption that
entry hurts the established carrier financially or both.

The concept of freedom of exit was discussed fre-
cently in the context of freedom of entry. If existing
carriers were injured financially by new entrants, some
provision must be available for exit from markets. Much
of the discussion groped for ways to permit the estab-
lished carrier to drop an unprofitable service so that it
could be picked up by a new competitor. Although this
type of arrangement was designed to create benefits to
both the old and new carrier, the representatives of the
established carriers were fearful that they would be
blamed for poor service that resulted and would be forced
to reintroduce the service if the new carrier failed.

Considerable discussion was concerned with the po-
tential of competitive alternatives to conventional fixed-
route transit systems. Ride-sharing systems, jitneys,
fee-paid car pooling, commuter bus operations, and
special paratransit services (for church groups, the
elderly, and so on) were considered. These new modes
did not fit well into the regulations to achieve traditional
employment in the industry, and appropriate regulatory
responses have not yet been developed. Participants
differed about the potential and desirability of these al-
ternatives to supplement existing systems. Some par-
ticipants seriously questioned the practicality of the new
alternative systems. Supporters of restrictions against
entry by private operators who use these modes argued
both that they are inconsequential and would never amount
to much as an alternative to existing conventional transit
operations and that free entry by these modes would
create chaos and damage the financial viability of exist-
ing carriers. An important related question was whether
appropriate pricing or other policies to reduce street
congestion are a necessary condition to relaxed entry by
new competitors. Participants could not agree whether
conditions existed in which entry by competitors would
be acceptable to established carriers.

The Reston commuter bus operation provided a clas-
sic example of the conflicts over operating rights in
urban transportation and the public authority's first-
chance right to provide a given service against the claims
of competitors. The increased market opportunity pre-
tened to private entrepreneurs who operate on a small
scale, the increased regulatory requirements imposed
on the public operator, and escalating subsidy require-
ments of public operations point to this issue as one that
will have increasing significance. No clear consensus
has emerged to indicate to what extent, if any, public
operators deserve the same protection against competi-
tors as their private predecessors.

The legal status of new entrants emerged as a signif-
ificant issue. If the common-carrier obligation is imposed
on a new carrier (such as an individual automobile driver
who solicits fee-paying riders for the work trip), sub-
stantial increases in insurance rates are the conse-
quence. Requirements to be certificated can also put
substantial administrative roadblocks in the way of such
competitors. Many regulatory commissions are not fully
aware of these consequences. Some participants in the
conference thought that elimination of regulatory con-
straint on financial incentives for new service against
existing carriers was desirable and emphasized the desirability of not
classifying casual entrepreneurs (such as car-pool oper-
ators) as common carriers.

Because the two issues are closely related, the cleav-
age of views on entry and exit appeared to be similar to
that of competition versus regulation. Participants who
were predisposed toward competition as an incentive for
efficiency generally favored relaxed controls on both
entry and exit. Others defended the perspective of cer-
tificated carriers and the role of controls in protecting
the public from the chaos of free entry.

The issue of entry and exit will continue to be a press-
ing policy concern. Recent trends in the regulation of
public utilities and similar economic enterprises (tele-
phone, postal service, intercity freight) are similar to
those in urban transportation—increased competitive
pressures on the established enterprise in a regulatory
environment, which may lead to bankruptcy and public
ownership. New entrants, who may offer new technology
or service and are unconstrained by the burden of past
regulatory decisions, offer tempting alternatives to the
established carrier. An important policy issue is the
appropriate policy response to this potential.
CONSTRAINTS AND INCENTIVES EXPERIENCED BY EXISTING CARRIERS

The regulatory environment faced by the existing carriers was an important area of concern. Both public and private operators expressed the view that regulation unduly restricted the prerogatives of management and was unresponsive to public needs. The workability of traditional public utility concepts, such as the common-carrier obligation, in an environment of public ownership of transit and the lack of comparable regulation of the predominant mode—the private automobile—was questioned. Complaints were expressed, for example, about the high insurance costs of being classified as a common carrier in any mode.

Support was expressed by some participants for greater flexibility for existing operators, both transit and taxi, to experiment with changes in fares and service without being locked into the change. Many participants felt that transit management could not afford to innovate in the present regulatory environment, given the regulatory impediments to reversing mistakes. Another proposal consistent with this philosophy was to permit operators to engage in intermodal operations, in which they would receive from the passenger the best system regardless of the mode or service concept.

A further elaboration of this basic concept is the brokerage concept described by Frank Davis. Contrary to the present trend toward integrating regulation and operation into a single planning function under public ownership, "the brokerage concept" employs a separate regulatory body, which matches the demands of different groups with alternative suppliers, who are not awarded monopolies in perpetuity.

The brokerage concept raises several fundamental questions about regulatory policy. The first is whether regulation of the public enterprise should pursue a postal service model, in which the public authority functions as an operating agency and regulatory and policy decisions are made by a separate commission or agency. The alternative system is to retain the regulatory and policy-making agency within the operating authority. A second issue is the value of economic incentives to existing carriers. The school bus model, for example, was suggested by some as a means of inducing competition within a coordinated transit or taxi system. Individuals, like owner-operators in intercity trucking, could bid for the right to serve under the supervision of a certificated carrier.

Some participants expressed the view that, where public transit service was good, fares were not a big issue. Others observed that the desirability of holding down fares to achieve a distribution of income more favorable to lower income groups was an important issue. This divergence of views led some to observe that the dissatisfaction with regulation of urban public transportation is partly a matter of a failure to establish trade-offs between fares and service. If higher fares could be used to justify improved service, satisfaction with the process might be improved.

Although there was general dissatisfaction with the effects of the present regulatory environment, there was substantial disagreement regarding the appropriate remedies. These divisions of opinion followed the same lines as the other issues. The proposals for increased discretion by transit management in meeting service requirements and in experimenting were more widely accepted than were the proposals for more economic incentives through the competitive process.

PERSONAL OBSERVATIONS ON THE ISSUES

Early concepts of the regulation of urban public transportation were designed to prevent the private carrier from making too much money, in the words of one observer. As the transit operation has evolved from a profitable to an unprofitable operation, the gap between public expectations and experience has widened. Taxpayers now argue that their desires deserve increased consideration in view of the heavy subsidies they contribute. These pressures cause increased public involvement in transit operations and demands for public accountability of the system. Regulation therefore now concerns a range of economic and social objectives under public ownership.

The conflicts among the participants at the conference raise an important issue: The widespread dissatisfaction with the present regulatory system appears to reflect the inherent, irreconcilable contradictions of competing objectives by present participants in the regulatory process as well as the limitations of present institutional structures. Regulation faces tremendous odds as a policy tool in an environment in which the overwhelming portion of travel is exempt from economic regulation. The present demands on the regulatory system are excessive in terms of the system's ability to respond and resolve the differences, given the resources available to regulators.

Representation at the conference of each of the major interests in conflict, under these circumstances, precluded any agreement on recommendations. These inherent conflicts are not going to go away, and change will not take place unless mechanisms are developed to compensate the losers in any policy change.

Much of the disagreement about desirable institutional structures is based in part on significant differences in objectives for urban transportation. Regulatory commissions, authorities, and policy makers who wish to use transit as a tool to achieve social and economic objectives are aided by dealing with one or a few suppliers. The presence of many small suppliers would be chaotic from the perspective of the regulator and would call for a reduction in the number of competitors and increased monopolization of supply. New competitors do not fit into the existing regulatory process for achieving social and economic objectives, which usually demand regulatory intervention for the massing potential competition. Representatives of the conventional transit industry, who are increasingly being required to make their operations responsive to a wide range of policy objectives (e.g., access to the handicapped), find the proposals for more competition to be unrealistic. Proponents of increased competition are frequently dubious of the ability of transit to accomplish these goals.

New mechanisms must be developed to resolve the conflicts between certificated carriers and new entrants and for addressing the problem of how to regulate new modal alternatives (if at all). The new entrants can adopt operating procedures (such as hiring part-time employees) that meet a definite need in urban transportation services. But this potential will not be realized until regulatory institutions change. Mechanisms should be found to identify when new entry is beneficial and acceptable to existing operators.

Whether traditional regulatory incentives are sufficient to deal with the change from private to public ownership is open to serious question. Regulation is designed to prevent individuals from seeking their own interests. Regulatory institutions are poor substitutes for economic incentives to respond to changing demand conditions, new technology, and changing cost conditions.
Issues of Regulation Under Private and Public Ownership

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Public transportation services are an essential part of urbanized society today and will play an even greater role in the future. Transportation has a direct effect on community development, the survival of the cities, and economic prosperity. Transportation as a whole is a major source of employment for more than 3 million American citizens; it is the lifeline of travel and commerce. In the next two decades, the demand for transportation in this country will at least double.

Indeed, transportation's role is so vital to modern civilization that it has become more than a service function—it has become a partner of the government, commerce, and the society that it serves. Urban transportation systems are intended to bring people and things together. There has been a continual challenge to find better means of transportation that would save time and effort and provide greater convenience than walking—the use of mules and horses, sleds, wagons, stage coaches, horse-drawn cars on rails, streetcars, buses, rapid rail, and now various paratransit modes. Likewise there has been a challenge to improve on the archaic regulation process. Travel in major cities in peak periods has often been characterized as moving at a snail's pace. This also describes the speed often met in processing a request through the formal regulatory process. Travel in major cities in peak periods has often been characterized as moving at a snail's pace. This also describes the speed often met in processing a request through the formal regulatory process.

TRANITION FROM PRIVATE TO PUBLIC OWNERSHIP

There have been various changes that have directly affected transportation through the years. The most significant one affecting mass transit has been the transition from private to public ownership. For many years transit was, for the most part, an enterprise operated by private companies that had as their primary purpose the realization of profit from their operations. Since 1945, ridership has declined at an increasing rate and the financial operations have increasingly been in the red. Urban transit lost more than 50 percent of its riders between 1945 and 1955, while operating costs climbed sharply.

The persistent downward trend in passenger riding has been caused by a number of significant factors, including the availability of automobiles and increase in automobile registration; the federally financed highway program; shifts in the location of people, housing, and industry and in other land use (growth outside the central city has low density and is scattered rather than clustered); growth of shopping centers; advent of home television; and shorter work weeks, longer vacations, and more leisure time. In addition, it is estimated that, by 1985, 56 percent of all jobs will be located outside the central city. These elements have all had their impact on transit.

In the 1960s, local governments began to react to the financial crises of private transit companies that generally were not furnishing the transit services that were deemed essential to the metropolitan areas. There was a massive conversion during the 1960s from private to public ownership.

The federal government entered the field of public transit in 1964 with the passage of the Urban Mass Transportation Act. Gradually, mass transit began to...