

Summary:

“Competition the Norwegian way”

The effects of public transport tendering on service levels, costs and working conditions

This report provides an overview and analyses of the effects of competitive tendering and increased operational independence on public companies in local public transport, rail and regional aviation. The main emphasis, since this is where we have the most valid data, is on local bus transport.

Theoretically, arguments for cost savings due to the introduction of competitive tendering are based on public choice theories, arguing that competitive tendering provides better incentives for public officials, or auction theory, which postulates that CT increases competitive pressures when properly designed. On the other hand, transaction costs economics implies that competitive tendering may lead to increased transactions cost dependent on such variables as the frequency of the transaction, uncertainty, and the perceived need to insure against opportunistic behavior. Hence such increased transaction costs may outweigh the cost savings made in the production of services. Theories anchored in political science, such as the hypothesis on “the fragmented state”, argue that increased operational independence for public companies and competitive tendering may lead to a state broken up in a over-complex decision making system with unclear divisions of responsibility between different governmental levels and incompatible governing principles. Also theories of industrial relations, focusing on the wider set of employer-employee relations, argue that competitive tendering may lead to deterioration in employment conditions; competitive tendering implies transfer payments from workers to managers or public authorities.

In this report we use the theory of industrial relations in another sense, to broaden the understanding of the regulatory regime in a given sector. One dimension of regulatory regime refer to how public services are produced, e.g by in-house production or procurement and whether the contracts are negotiated or tendered. The other dimension refers to the industrial relations, i.e. how employer-employee relations are regulated through laws and agreements. Our assumption is that changes on the first dimension, i.e. by introduction of organizational independence and tendering, not only alter the industrial relations but are constrained and shaped by them.

Empirically, this report shows that today half of Norwegian counties have made use of competitive tendering, in most cases also establishing a procurement body responsible for planning and marketing, and the use of gross cost contracts. The introduction of competitive tendering in local bus transport has led to a reduction in both costs and subsidies. It also shows that the introduction of competitive tendering in general has not reduced service levels, but we can observe higher priority of patronage in counties using competitive tendering.

In this sector, the increase in administrative costs are small, because we are mainly observing a transfer of administrative costs from the operators to authorities. Such an improvement of competencies among public authorities, are likely to lead to improved conditions for prioritizing between public transport and other modes as well as improved coordination between different policy areas such as public transport, spatial planning and parking policy. Hence, neither the hypothesis that competitive tendering lead to increased transaction costs that outweigh savings nor that it will lead to increased fragmentation has support in the case of local bus transport.

As to the effects for bus drivers, no negative effect of competitive tendering on wages can be observed. One effect is increased uncertainty about getting a job at the winning operator, but empirical research show that this in most cases is not a problem. Competitive tendering leads to increased work intensity. Evidence on the effects of these changes on work absenteeism is, however, scarce and inconclusive. In other words, the effects of competitive tendering on wages and working conditions are marginal, mainly because national regulation demands that at the minimum, national agreements are followed. Also the centralized tariff structure and a high membership rate in the trade unions work in the same direction.

The general conclusion then, is that the introduction of competitive tendering in local bus transport does not hamper any of the key goals for public transport. It has improved efficiency and reduced public costs, and has not had any significant side-effect in terms of redistribution between different groups. Our main explanation is that these effects are a result of the traditional Norwegian model of employment relations.

Also, when analyzing operative personnel in other sectors, such as engine drivers, conductors, pilots, stewards/stewardesses on planes, we find little evidence that their working conditions have been weakened due to increased operational independence or competitive tendering. On the contrary, for engine drivers, we can observe a relative improvement in wages in the last decade, due to a change of tariff agreement and not least that more and more operators compete for a scarce number of drivers.

When it comes to effects of competitive tendering in regional aviation, where they make use of net cost contracts and a high degree of specification of services, we find that there has been larger problems establishing a well functioning competition. Hence, the evidence on reduced costs for public authorities are inconclusive, whereas it is clear that the services in general have been at the least at the same level as before competitive tendering was introduced.

Also in the rail sector, the level of services for customers has been maintained after increased operational independence for NSB and at the Gjøvikbanen, where tendering was introduced. As for the development of costs, evidence is inconclusive. In this area, however, the report concludes that a thorough analysis of this sector should include the general changes in relation between freight and passenger transport, as well as the relation between infrastructure and operations. Such an analysis should include changes in transaction costs in the general system as well as changed performance in terms of services and costs in the rail freight market.