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**Summary:**

# **Economic inefficiency in the transport sector**

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*The transport network in Norway is fairly well developed. Even so, economic inefficiency in many different forms still exists. This report identifies thirteen policy areas where major economic gains wait to be reaped. Some of them have been the subject of major public debates, while others are largely ignored. Generally, the latter is true for pricing policies and policies for control, operation and regulation.*

The transport network in Norway is fairly well developed. The general picture is that all transport needs, both for personal travel and freight, can be met relatively quickly, easily and cheaply. But from an economic efficiency point of view, there is also much in the Norwegian transport sector that might have been organised more efficiently. This report is a quick survey of some of the areas where there is room for improvement.

Originally, this report was an invited contribution to the work of the Productivity Commission, appointed by the Norwegian Ministry of Finance. This does not mean that the issues taken up are ordered by how important they are for productivity improvements in Norway. Nor does it mean that no other issues exist that could not just as easily have been mentioned. But all of the issues raised are of considerable interest, so far as this author can judge.

The first issue is how investment projects are selected to the National Transport Plan. Do we select the right projects from an economic point of view? The answer to this question is no, by no means. The next questions are then if it is possible to change this practice, if it is something that really ought to be done, and how to do it. Chapter 2 discusses these issues and points to some of the relevant literature.

Chapter 3 treats the same issue in another context, namely in the context of urban transport planning and the currently dominating form of Norwegian urban transport plans. Chapter 4 raises the question if we have aimed to high with respect to the standard of Norwegian roads and other standards and quality recommendations in the transport sector.<sup>1</sup>

Chapter 5 asks if public-private partnerships (PPP) can increase the efficiency in the construction and operation of transport infrastructure, and how the PPP system should be designed to achieve this.

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<sup>1</sup> Readers with a knowledge of Norwegian roads may find this question strange or absurd, but really, the written quality norms and the actual state of the infrastructure are two different things.

Would it be economically efficient to increase the budgets for maintenance and rehabilitation, and would it pay to redistribute maintenance funds from superficial repair and short-term corrective measures to more lasting and substantial forms of reconstruction and rehabilitation? This is the subject of chapter 6, the conclusion of which is that the first priority must be to eliminate the maintenance backlog.

Chapter 7 takes a quick look at the daily management and regulation of the transport system. The probably most difficult task in this area, route planning and traffic management in rail transport systems, is hastily treated in only two sentences in this chapter, but is taken up again in chapter 10.

Chapters 8 and 9 treat optimal (or near optimal) pricing of the use of the transport system. Chapter 8 concerns pricing of the use of the road system, i.e. road pricing and tolling. Both from theory and practice we know that there are large gains to be reaped in this area, but we also know that they are not always easily realised in practice. In any case, pricing of the use of the road system must be seen in conjunction with car ownership taxes and more direct forms of regulation.

Chapter 9 treats fares and subsidies in public transport. Here too, there are efficiency gains to be reaped, both by setting prices right and by efficient forms of contracting with the public transport providers. Pricing and regulation in this areas must also be seen in the light of prices and charges on the use of cars. In fact, the literature in this field finds large synergies between road pricing and measures to improve public transport. This is not only true with respect to achieving the political objective in Norway that transport growth should be taken by public transport, walking and cycling, but to an even higher degree with respect to economic efficiency.

Chapter 11 treats a specifically Norwegian issue. A large network of local airports exists in Norway, and long distance travelling to and from remote areas is to a considerable degree performed by air. This network is financed by taxfree shops at the airports with international connections. Similarly, taxfree sales on ferry connection to Denmark, Sweden and Germany are what make most of these connections profitable for the operators. Does taxfree sales contribute to economic efficiency in the transport sector, and if so, are there not better ways of achieving this objective?

In Chapter 12, we widen the perspective and look at integrated land use and transport planning. To many, this is the key to sustainable urban development. But land use policies work slowly. There are reasons to look critically into some of the established truths that dominate thinking on land use/transport integration in Norway. One of these truths is that a key objective of Norwegian transport policy should be to expand the labour market regions (thus lengthening commuting distances). Obviously, such a policy may bring productivity gains in the production sector, but may also make it more difficult to achieve environmental and climate policy objectives.

Chapter 13 uses transport services for the disabled as a case to illustrate the question of efficiency losses in those forms of service provision where there are economies of scale. It also serves as a case where gains to providers are made by afflicting time losses and other inconveniences on customers or users. Finally, Chapter 14 is an answer to those that claim that Norwegian practice and guidance on transport cost benefit analysis fall behind foreign guidance, and that we

underrate the economic benefits of transport infrastructure investment. We advise planners and politicians to ask themselves habitually if the problem they intend to solve by large-scale infrastructure investment could not be solved simpler and cheaper by getting prices right.

The appendices discuss two central questions in transport policy. The first concerns the issue of to what degree the net benefits of a cost benefit analyses can also be taken as an indication that productivity has increased. The second concerns how to take climate gas reduction targets into consideration when we try to maximise net economic benefits. At the moment, these two objectives confront each other in an unmediated way, as the text says. We care for both, but only one at a time.