

Linking to Shared Growth

SGRA Shared Growth Seminar #12

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UA&P

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Outline

- Focus: EDSA Public Bus Transport
- Topics
 - Current Status
 - History
 - General Experience
 - Philippine Experience
 - Possible Solutions
 - Linking to Shared Growth

Current Status

- Case Study: EDSA
 - Based on JICA (2006) study
- Basic findings
 - #1: An unexpectedly large number of buses
 - Survey: 6,078 buses operating (weekday)
 - LTFRB records: 3,500 buses
 - #2: Load factors are much lower than capacity
 - Survey: 57% (weekday), 49% (weekend)
 - #3: Bus fares are higher than that of public rail
 - MRT3 fares relatively stagnant; bus fares ↑ 2 or 3x
 - #4: The condition seems not to be improving

Current Status

- Implied state of the market
 - Monopolistic competition
 - Many firms
 - Offering services which are (imperfect) substitutes
 - Competition is based on product differentiation
 - Each firm has some market power
 - Ability to set price (> perfectly competitive market price)
 - Excess capacity
 - increases with price

Philippine Experience

- Philippines
 - 1970s: Manila Transit Corporation
 - However, government softened in the implementation and opted to consolidate more than 150 bus operators into 14 bus consortia
 - Accompanied by efforts for route rationalization and allocation to each consortium
 - 1988: Consortia program was scuttled to induce bus operators to buy refurbished buses which the DOTC procured from China.
 - 1991: consortia program together with the Chinese-made buses became extinct
 - 2005: Organized Bus Route Scheme implemented by the MMDA along EDSA
 - See Current Status

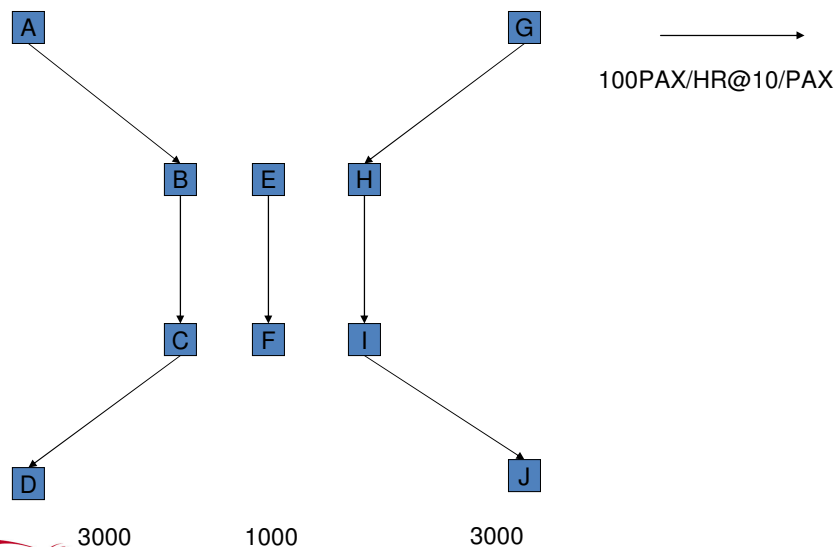
General Experience

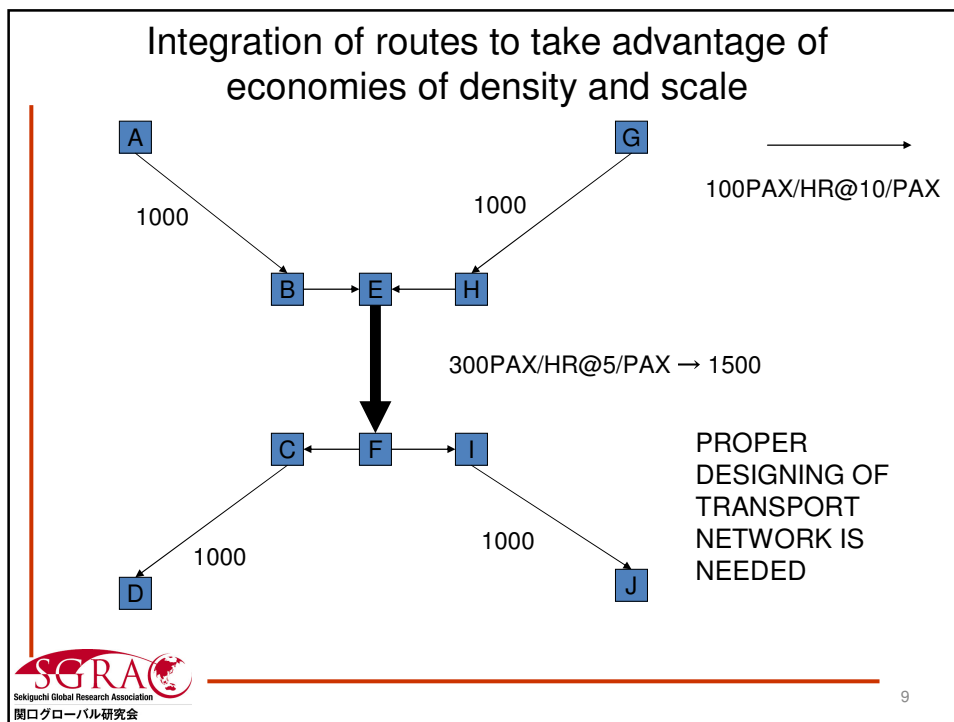
- Other Countries
 - 1970s: Public Monopoly
 - Fiscal deficit
 - Shortage and low quality of services
 - 1980s: Deregulation
 - Increase of services to the point of excess
 - Not successful in curbing market power (fares outpaced increases in costs)
 - 1990s: Hybrid (Government + Market)

Possible Solution: Hybrid (WB Study)


- Integration of routes to take advantage of economies of density/scale
- Control of entry and pricing
- Breaking the link between profit-maximizing and number of passengers
- Technical improvement of vehicles

Integration of routes to take advantage of economies of density and scale





Control of entry and pricing

- Entry of operators into the market should be controlled so as to avoid over supply
- Price ceilings should be imposed to control the market power of operators
- Proper design of (social) contracts is needed so as to overcome information asymmetry problems between regulator and operators 


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Breaking the link between profit-maximizing and number of passengers

- Individual bus operators tend to compete fiercely for passengers
- Creates various problems
 - Safety
 - Traffic Jams (bus swarming)
 - Hard to implement bus stops
 - Headrunning (running just ahead competitors)
- Proper design of ownership structure is needed to achieve social efficiency while overcoming information asymmetry between bus owner and driver

Technical improvement of vehicles

- Should be able to exploit the economies of density/scale
- Should be fuel efficient (environmentally friendly)
- Should depend to a large degree on local engineering and manufacturing 

Linking to Shared Growth

- #1: Rural-Suburban-Urban Link
 - Urban growth is shared with rural/suburban areas
 - Also helps decongestion of urban sector
 - Metro Manila is one of the most congested cities in the world 
 - Has a big urban poor problem
 - ADB 2001 report: about 35% of population resides in informal shantytowns or slums

Linking to Shared Growth

- #2: Government-Industry Partnership
 - Industry seeks to maximize profits
 - Government seeks to maximize social benefits
 - Firms
 - Consumers
 - Government only can lead to undesirable sharing (equity at the expense of efficiency)
 - Industry only can lead to undesirable competition (efficiency at the expense of equity)

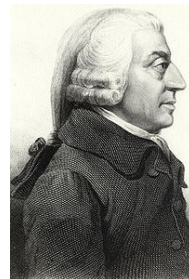
Linking to Shared Growth

- #3 “Trybrid”
 - Based on past experience of Philippines (SGRA 2008 study)
 - Hybrid + involvement of Civil Society may be necessary to overcome institutional limitations
- Involvement of Civil Society
 - Stimulate government social responsibility
 - Stimulate corporate social responsibility
 - Stimulate consumer social responsibility
- CSO as keeper of social contracts

IN CONCLUSION

Adam Smith (1723-90)

- Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. ...he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.
 - The Wealth of Nations, Book IV Chapter II
- It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.
 - The Wealth of Nations, Book I Chapter II

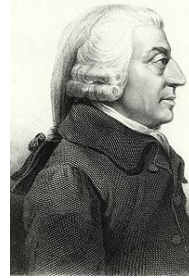


BE SELFISH!

IN CONCLUSION

Adam Smith (1723-90)

- No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.
 - The Wealth of Nations, Book I Chapter VIII
- To feel much for others and little for ourselves; to restrain our selfishness and exercise our benevolent affections, constitute the perfection of human nature.
 - The Theory of Moral Sentiments, Chapter V



BE SELFLESS!

TIME TO RE-
EXAMINE OUR
PROFIT-
MAXIMIZING
MODELS →
SHARED
GROWTH
MAXIMIZING

Major References

- JICA (2006) “EDSA Bus Route Revalidation Survey”, January 2006
- Estache, A. and A. Gomez-Lobo (2003) “The Limits to Competition in Urban Bus Services in Developing Countries”, March 2003
- Hirakawa, H., Peter Lee U, and F.C. Maquito (2008) “Towards a Roadmap for Shared Growth Through the Philippine Automotive Industry” August 2008

Table 5. THE 20 LARGEST WORLD METROPOLITAN AREAS, 2003: DATA FOR FORSTALL DEFINITIONS
(Populations in thousands estimated for 1 July 2003. Ranks below 20 not shown.)

Name	Rank	Population	Average Annual Change, 2000-2003		Area (km2)	Population per km2
			Number	Percent		
Tokyo	1	32,450	213	0.66	8014	4049.2
Seoul	2	20,550	227	1.12	5076	4048.5
Mexico City	3	20,450	307	1.54	7346	2783.8
New York	4	19,750	120	0.61	17884	1104.3
Mumbai (Bombay)	5	19,200	472	2.53	2350	8170.2
Jakarta	6	18,900	225	1.21	5100	3705.9
Sao Paulo	7	18,850	289	1.57	8479	2223.1
Delhi-New Delhi	8	18,600	686	3.86	3182	5845.4
Osaka-Kobe-Kyoto	9	17,375	28	0.16	6930	2507.2
Shanghai	10	16,650	335	2.07	5177	3216.1
Manila	11	16,300	461	2.96	2521	6465.7
Hong Kong-Shenzhen	12	15,800	797	5.42	3051	5178.6
Los Angeles	13	15,250	205	1.38	10780	1414.7
Kolkata (Calcutta)	14	15,100	257	1.74	1785	8459.4
Moscow	15	15,000	103	0.69	14925	1005.0
Cairo	16	14,450	257	1.89	1600	9031.3
Buenos Aires	17	13,170	79	0.62	10888	1209.6
London	18	12,875	112	0.87	11391	1130.3
Beijing	19	12,500	301	2.49	6562	1904.9
Karachi	20	11,800	370	3.43	1100	10727.3

Source: Forestall, Greene, and Pick

Some contracts for regulating entry

- Tendering bus routes: competition *for* the market could be a good substitute for competition *in* the market
 - Santiago, Chile
 - Contracts tendered for 5-year period
 - Based on a multi-variable selection criterion, including the fare
 - England
 - Contracts tendered for 3-year period
 - Type 1: firm gets the revenues, and is given a subsidy to cover estimated shortfalls of revenue compared to cost
 - Type 2: firm does not get the revenues, and funds its operation entirely on transfers from the government

Some contracts for regulating entry

- Yardstick competition or benchmarking: performance is compared with that of peers
 - Norway: Standard Cost Contract
 - Contracts are negotiated annually
 - Transfers from the government is based on a standard cost criterion
 - Deviations of actual cost from the standard cost will not affect next year's transfers
 - $S = p y^e q - C[q]$
 - S = subsidy; p = average fare level set by regulator; y^e = expected number of passengers per km.; q = km covered; $C[q]$ = estimated cost to provide q
 - $C[q]$ acts like a yardstick and is estimated on the basis of the cost performance of a larger set of companies

Some contracts for regulating entry

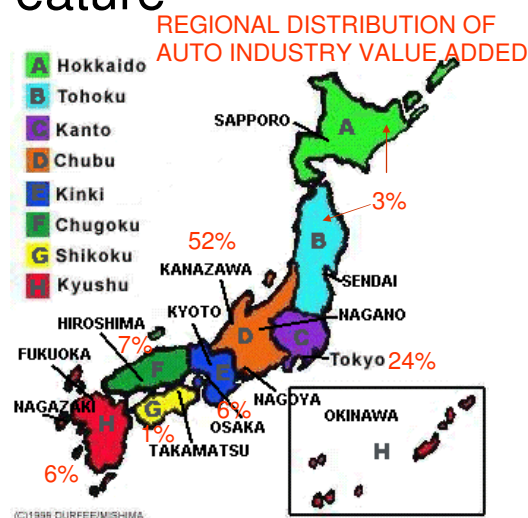
- Yardstick competition or benchmarking: performance is compared with that of peers
 - Norway: Subsidy Cap Contract
 - Government and companies agree on a reduction of government subsidies by X% per year
 - Over a 5-year period

World Business Satellite News Feature

- Some changes in the industrial structure brought about by the sale of EV (and hybrids) to ordinary buyers, starting January 2010 (Eco Car Zero Year)
 - Gasoline stations starting to raise their revenues from non-fuel services
 - Production
 - Shifting to EV: 70% of current auto parts (acctg. To 40% of car value) will be replaced with new parts
 - → possibility of a more balanced distribution of the production base

World Business Satellite News Feature

- Kinki
 - Daikin Kogyo
 - Sale of fluoro carbon products 500 million yen now → 10 billion yen in 2015
 - Nihon Densan
 - Will increase auto motors by 70% in 2012



World Business Satellite News Feature

- Mr. Tomosugu Mori, Fukuko Insurance
Senior Researcher
 - It is not a desirable state to have development concentrate in one region only
 - In terms of a nation's strength, an even (regional) development is a healthy approach