

NGI101x - Safe guarding public values

Welcome back to the course. In week 3 I talked about organizational fragmentation, unbundling, convergence and the multi-actor environment. This web lecture is about governance and public values.

1. When we privatize or liberalize public services in the world of transport, energy or telecom, it's common sense to emphasize that public values should be safeguarded.
2. A public value might be affordability - we should not make a public service too expensive, denying people access to this service. Quality, competition should not result in compromising quality. Or safety. Or accessibility. Or sustainability.
3. We can safeguard these values by regulation or by special conditions, laid down in a concession, or in a pms - and there are probably more instruments here, depending on the specifics of the context.
4. But before we start talking about the policy instruments to safeguard public values, there are four issues that have to be resolved.
5. First, in a specific situation we will of course identify the main public values.

So in the case of public transport, public values might be affordability (reasonable ticket prices), quality (clean modern busses, friendly and competent bus drivers), punctuality (no delays), and sustainability (the busses should be as green as possible).

Now the issue is that these public values will almost always be conflicting or competing. More quality and greener busses, will probably result in higher costs, higher ticket prices and in less affordability. So we always have to make a trade off between competing values.

6. Second, this trade off can change in the course of time because of the simple fact that our preferences can change.

So suppose a bus operator gets a concessions for 8 years to exploit a network of bus lines. At first, the government emphasis the public value of affordability - reasonable prices are key to the government, busses should be an attractive modality to everyone, including the low income groups.

But after a few years, the public value of sustainability might become important. A local government is faced with high pollution levels, is looking for alleviation, and wants the bus operator to introduce whispering, green electric busses. There are not only competing public values, requiring a trade off, this trade off might also be dynamic and change in the course of time.

7. Third, safeguarding public values always takes place in what we call a multi-actor context - there are many actors involved, with often diverging interests and opinions. So again, take the case of public transport. What are the actors involved here? There is the bus operator.

Or perhaps there are several bus operators. There is a government. There are user-organizations. There might be competing modalities, an metro operator, a train operator. There are the companies, selling green and electric busses. And there are their competitors, selling traditional busses.

8. All these actors have a stake in bus transport -and they all have an opinion on what the relevant public values are and what the trade off should be. Formally, a government offering a concessions will make the decisions on the public values and the trade off between these values. But this government of course depends upon the support of the other players. They might have expertise, the government needs - the bus operator, the producer of electric busses have knowledge, the government needs to define public values. They might have societal power - a user organization that does not agree with the trade off, can activate public resistance.

9. So the point here is, There are not only competing public values, requiring a trade off, this trade off might not only be dynamic and change in the course of time. But there are also different actors involved, with different opinions on what the relevant public values are, what the trade off should be and whose opinions might change over time.

10. Fourth and finally, there is a very simple observation here: the devil is in the detail. It is easy to define public values at a high level of abstraction. We will all agree with public values like affordability, quality, safety, accessibility, sustainability. These are all what we call 'feel good' concepts.

11. The question of course is how do we make these values specific. What exactly is affordability? What is a reasonable price for a ticket? What actually is quality? How do we define punctuality? Safeguarding public values might mean that you have to dive into the details. It is rather paradoxical. Privatization is aimed at using the power of the market, but will often result in heavy regulation, which is not the first connotation we have when we discussing the power of the market.

12. So safeguarding public values is not an easy thing, given these four issues.

13. There is one thing I would like to add to this. How will governments safeguard public values?

14. Suppose a bus operator will get a concession to exploit a network of lines. A trade off of public values will be made and each public value will be made specific, will be operationalized. For example, punctuality means that each bus should arrive and leave on schedule. If the bus arrives or leaves more than three minutes later, the performance is not punctual. So punctuality is defined as a bus arriving and leaving less than three minutes later than the scheduled time.

15. How will a government safeguard this public value? By imposing a penalty. When at the end of the year, say, 5% of the busses had a more than three minutes delay, the bus

operator will get a penalty - which will of course depend on the percentage of delayed busses.

16. This is called a high impact PMS. You have to perform, if you don't perform well, you will get a penalty. The idea is that you will do everything you can, to perform well.

17. However. A high impact system might lead to another type of behavior. If you simply can't meet the performance criteria, if only 5% delays is too ambitious a figure, a high impact system might also result in perverse behavior. How to meet the 5% norm? Well, you might change the time table, simply take more time for the rides - and you will easily meet the 5% criterion.

18. Another example of perverse effects of PMS. A bus driver has to leave from the station at 10 o'clock. He knows that another bus will arrive at 5 past ten - this bus is a bit delayed. In this other bus are several passengers that want to change at the bus station and that want to take the bus of our driver. The driver, however, is so much focused on leaving on time, that he leaves at 10-03 - and that he is not willing to wait for two extra minutes, to serve the passenger that want to change. Again: on paper this is a well performing bus driver, but everyone will understand - in the real world, this behavior is not good.

19. How to prevent this perverse effects? One of the main lessons in the literature is that in this case government and bus operator should negotiated about the PMS. When you negotiate, you can discuss possible perverse effects en try to design a system that prevents these effects. We might go one step further - in a multi-actor world, it might be wise to involve other actors in this process of negotiation.

20. This completes the picture of Safeguarding Public Values -

- competing public values require a trade off

- this trade off is dynamic

- different actors might have different opinions on public values

- public values have to be made specific

- this process of making the specific requires cooperation between at least the principal - the government - and the agent - the bus operator - to prevent perverse effects. Whatever the policy instrument to safeguard public values is, it will almost always be a negotiated instrument.