

Comment on Chris Nash: Regulatory reform in rail transport—the UK experience

Sören Wibe*

Let me first of all declare that I am not an expert on UK Rail. But I have no reason to believe other than that the story told by Chris Nash is what actually happened in the deregulation process. As such, it is a very lively and interesting description.

As I understand it, the first wave of deregulation was begun with great enthusiasm, leaving only charges, track access, safety and some environmental factors to be regulated. Then, the problems emerged; poor quality, insufficient investment, financial difficulties and, last but not least, a safety problem. As a result, some re-regulation took place: new rules, new regulating bodies etc.

The paper by Nash is mainly an empirical description of what actually happened, and not being an expert, I have few comments. In fact, I have only found one sentence that can be questioned from a theoretical point of view, namely that it is desirable to increase rail traffic because of the large (negative) external effects of road traffic. But I do not think it is right to subsidise a substitute if you have a market with a negative external effect. If road traffic causes negative external effects, then we should impose a tax amounting to the value of the effect, and simply accept what follows in terms of increasing demand for the substitute etc. I do not think it is advisable to intervene in connecting markets, simply because we do not know exactly which these are. The fundamental rule in fighting negative external effects is that you should attack problems where they are.

This case is, by the way, highly relevant for the economic debate in Sweden. For instance, it is discussed whether we should start subsidising ecologically produced food, because of the negative environmental effects caused by normal agricultural production.

As I said earlier, this small point is the only theoretically questionable one I have found in the paper. But I have another, and much

** Sören Wibe is professor of Forest Economics at the Swedish University of Agricultural Sciences and member of the Swedish Parliament.*

more important, issue concerning the whole idea behind deregulation. The paper concludes rather optimistically that it seems as if most of the important problems of deregulation have been addressed in the "second wave" and from my reading of today's Swedish newspapers, I notice that many Swedish economists share this view: Naturally, deregulation (in general) has not been without problems, but with a little regulation of the deregulation, things will be just fine.

Perhaps, but I am not wholly convinced that what we now see is the final act of the deregulation process. The main reason for my scepticism is that I do not find the empirical evidence of the benefits of deregulation too impressive. Naturally, there are success stories, deregulated markets that perform much better than under the regulation era, but there is also evidence of another kind: the financial crash in the late 1980s, the Enron case, electricity in California and so on. And when I read Nash's story of the problems with safety, track access, charges etc, I ask myself how we know that this is better than a simple state monopoly. I am not at all convinced that the sum of the deregulation process since the 1980s is entirely positive.

What I know for a fact is that economic growth (measured as the percentage growth of GDP per capita) has been falling constantly since the 1980s in (almost) all western countries. Growth in the 1980s was lower than in the 1970s, and the record for the 1990s is still worse. Naturally, there are all kinds of explanations to these figures: oil crisis, exceptional conditions, war etc. But the facts remain. Since the 1980s, economic growth is falling almost everywhere in the western world. And since the 1980s, almost every country has also undertaken a more or less ambitious program of deregulation of railways, electricity, the financial sector and so forth.

I am not saying that deregulation is the cause of the decline in economic growth. But I suspect that especially US economists exaggerate the economic benefits of the whole process. In fact, I do believe that if we had not started deregulating 20 years ago, our societies would look very much the same as they do today. Deregulation is not the only path to prosperity for a society.