

The politics of public transport funding

a case study of the legislative process
of the 2009 subsidy act in Chile

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In 2009, Transantiago had a huge deficit of around USD 500 million/year

- The government had already used all the possible sources to fund this shortfall; even a constitutional additional emergency fund
- Financial instability could leave 6-million-people city without public transport
- One way out was to double the Transantiago fare, which would obviously not be acceptable for the public. Users were outrage since some severe quality problems persisted
- Opposition coalition was taking advantage of this situation through fiercely criticizing the government, while enthusiastically anticipating the presidential and legislative elections held in a year and half later



Content

1. Introduction
2. Public and private interests in regulation
3. Chilean legislature in 2009 and the subsidy bill process
4. Final comments

Introduction



Introduction

Aim

- Explain how the Chilean public transport market became subsidized in 2009; analysing to what extent public and private interests shaped the subsidy bill during the legislative process.
-

Debate

- What drives politicians to take decisions to adopt legislation that will subsidize markets. Some economic theorists argue that public interests are what drives them, while others argue for private interests (Chicago School).
-

Question

- Why did legislators finally approve this subsidy bill? Was a genuine interest in maximizing the social welfare, or, on the contrary, gaining more political support in their district by favouring interests groups?



Introduction

Method

- single in-depth case study of Chile from 2007-2015 involving a complex set of public actors
-

Data & information

- official Congressional records - discussion and votes
 - interviews with some actors that participated in crucial events
 - data of transport features in legislator's electoral districts.
 - book written by the Minister
 - field observation
-

Motivation

- contribute to the research seeking to identify the variables by which politics shapes transport policy .

Public and private interests in regulation



Public interest

Pigou (1936)*

Private interest

Chicago School (1970s)

Government

Max Social Welfare

Max Political Support

Legislature

Max Social Welfare

Max Political Support

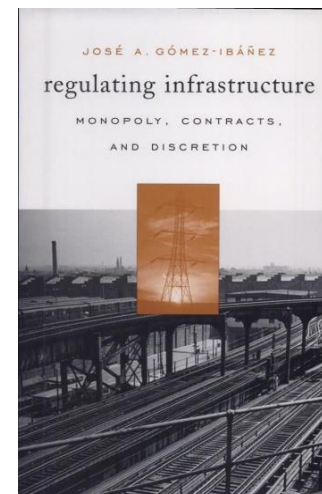
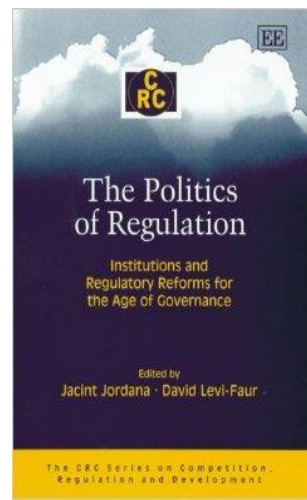
Industry

Max Profits

Consumers

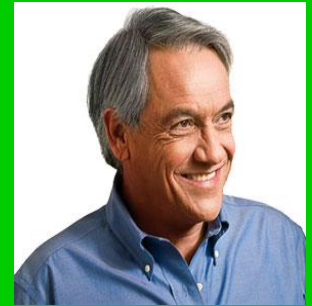
Max Consumer Surplus

Transport
policy
examples



**The Chilean legislature in 2009
and the subsidy bill process**

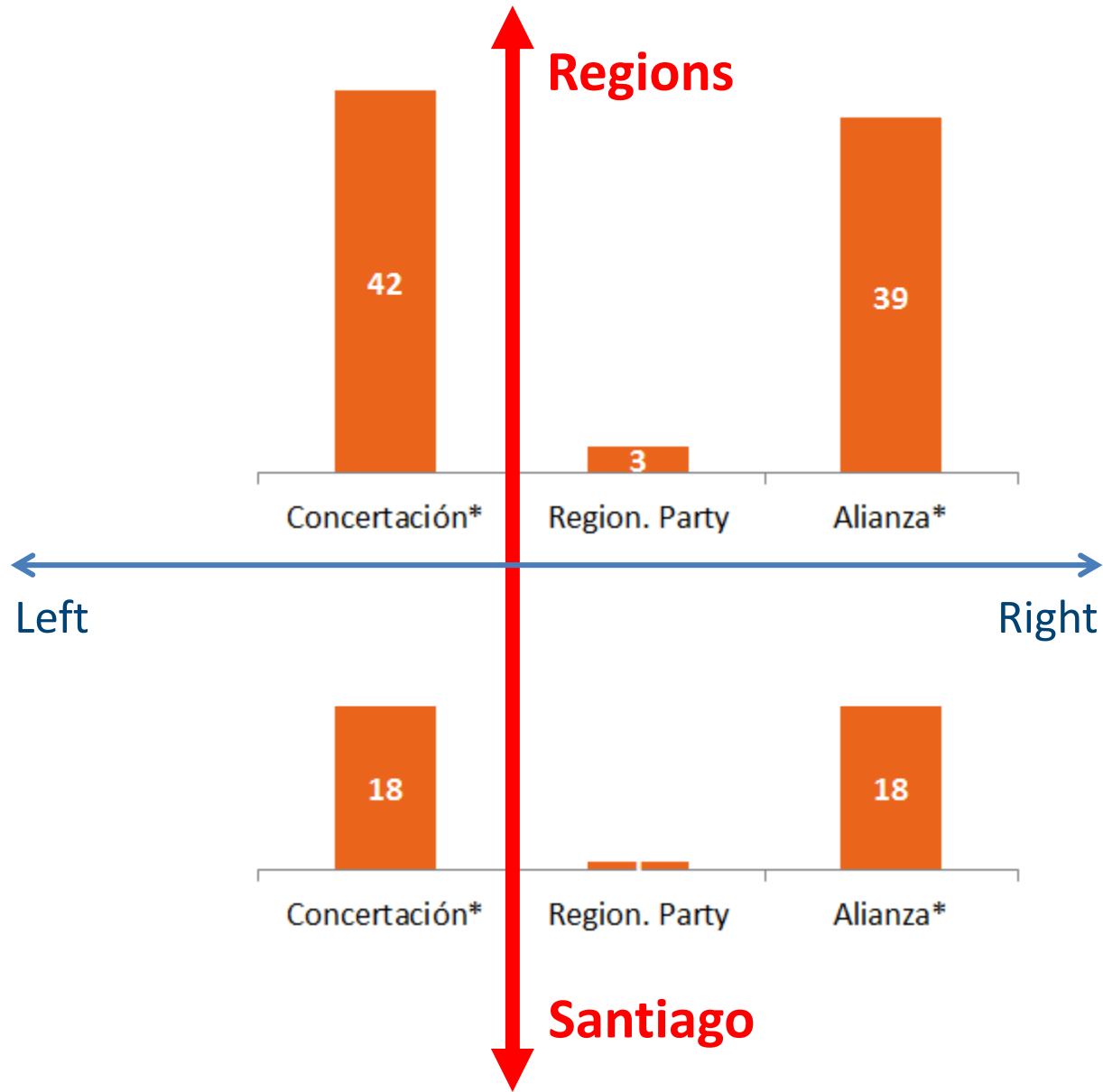
Setting the scene – Pitch, rules of the game, and players





Chamber of Deputies

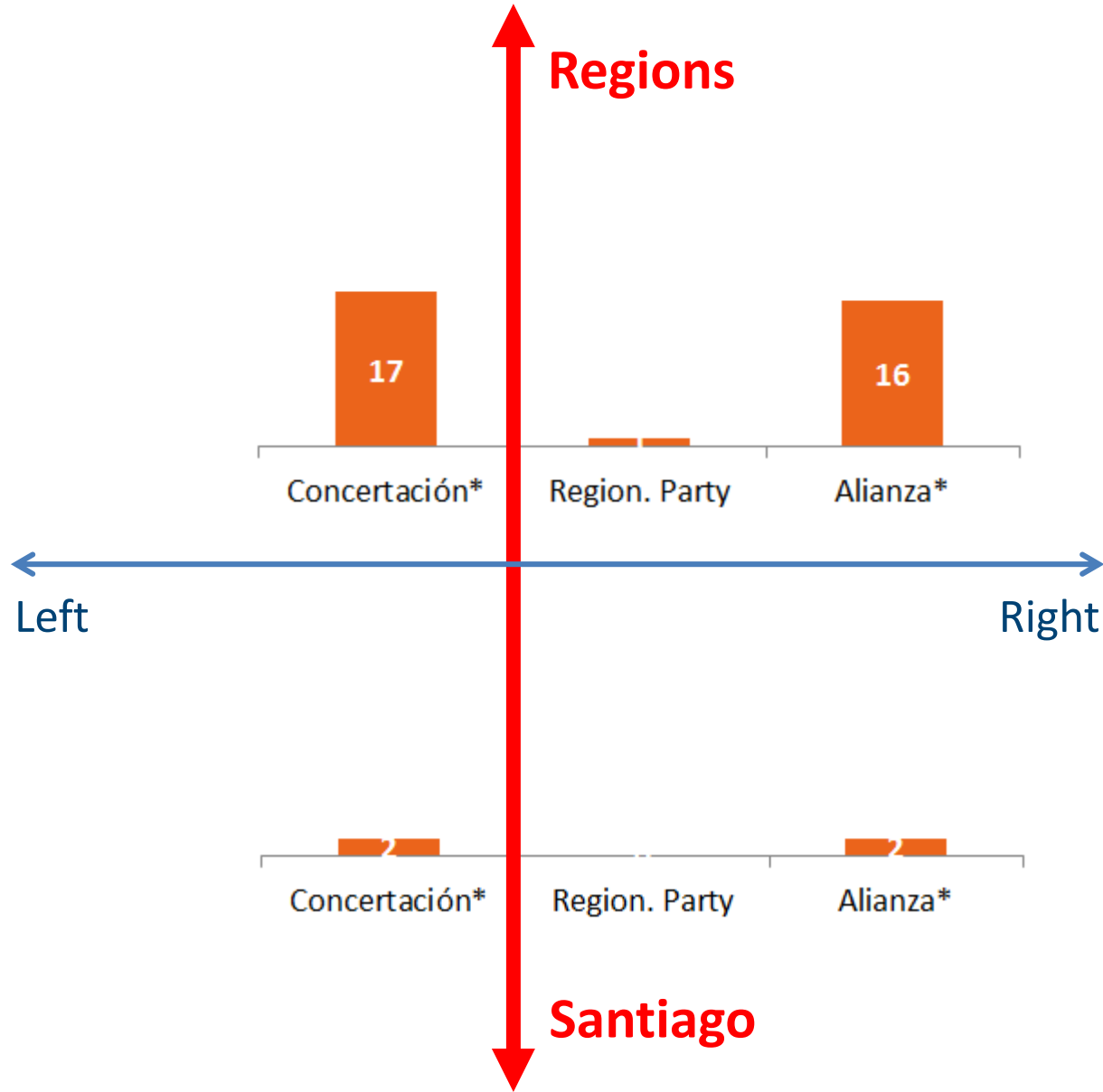
60 Concertación, 57 Alianza, and 4 Regionalist Party





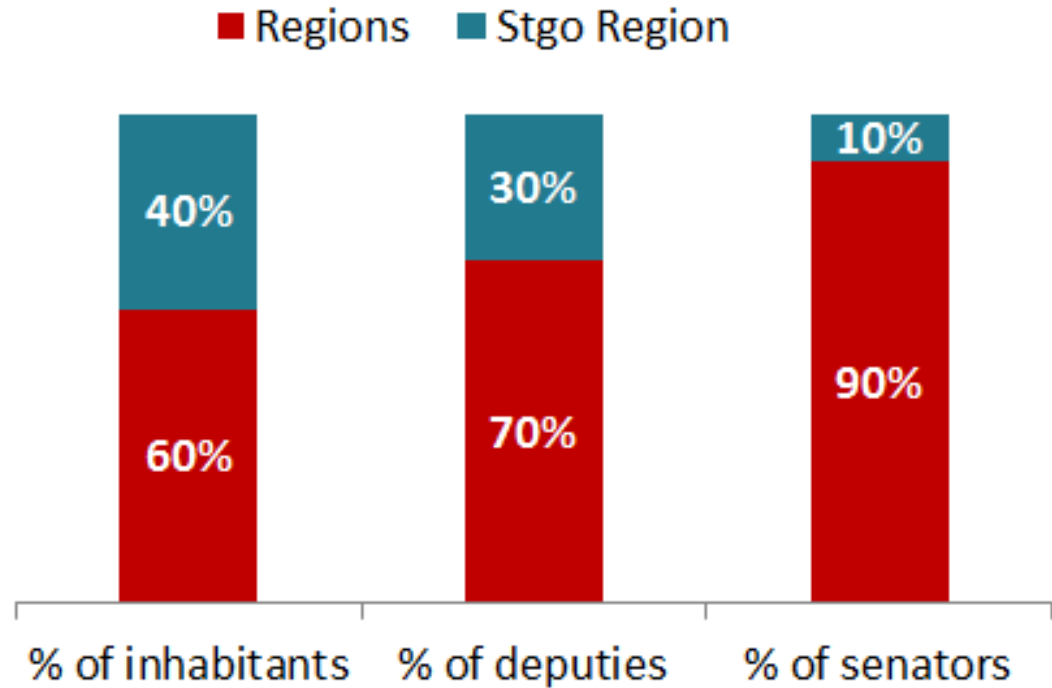
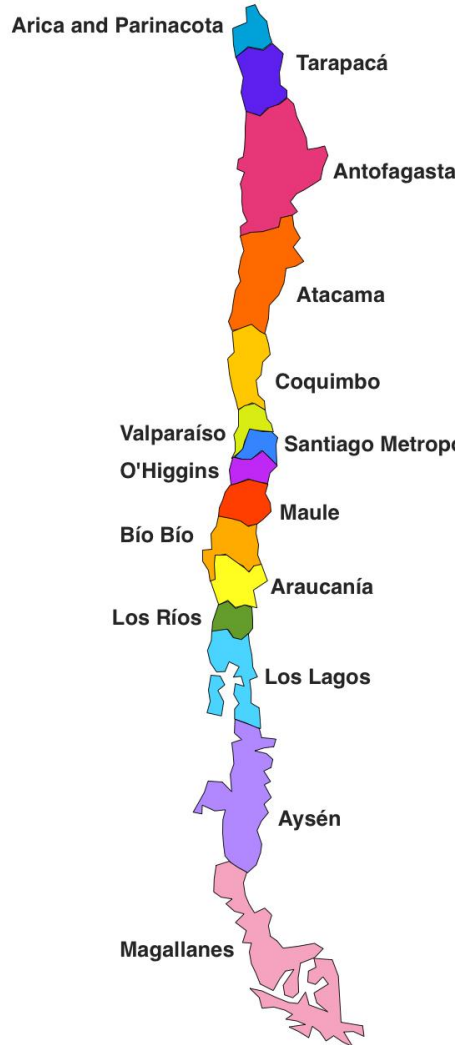
Senate

19 Concertacion, 18 Alianza, and 1 Regionalist Party





Unbalanced representation - 90% of senators from regions representing 60% of population from regions





Prior events



Feb-07

Crisis



Apr-07



May-08

Bill

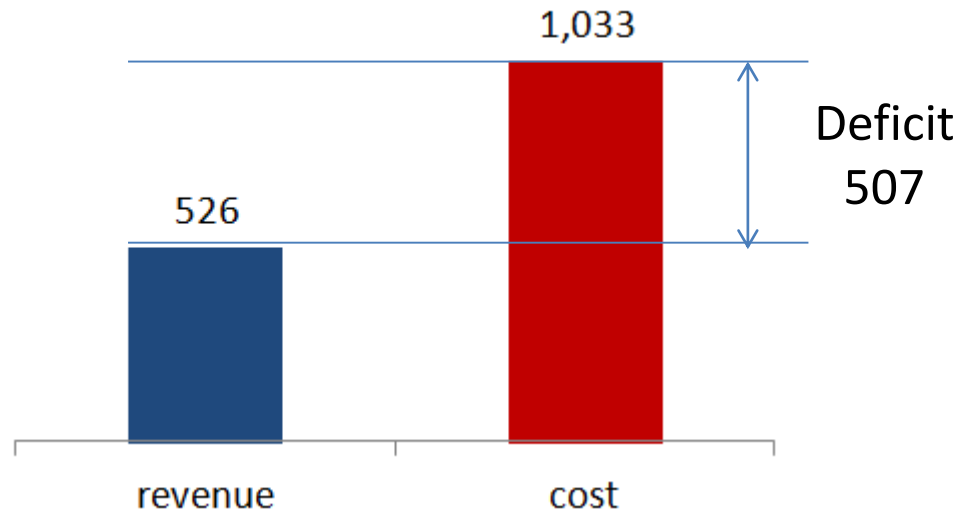
No
government
politics





Not only a social crisis, but also a financial one

Revenue and cost of Transantiago, 2009
(in million USD, Aug-15)





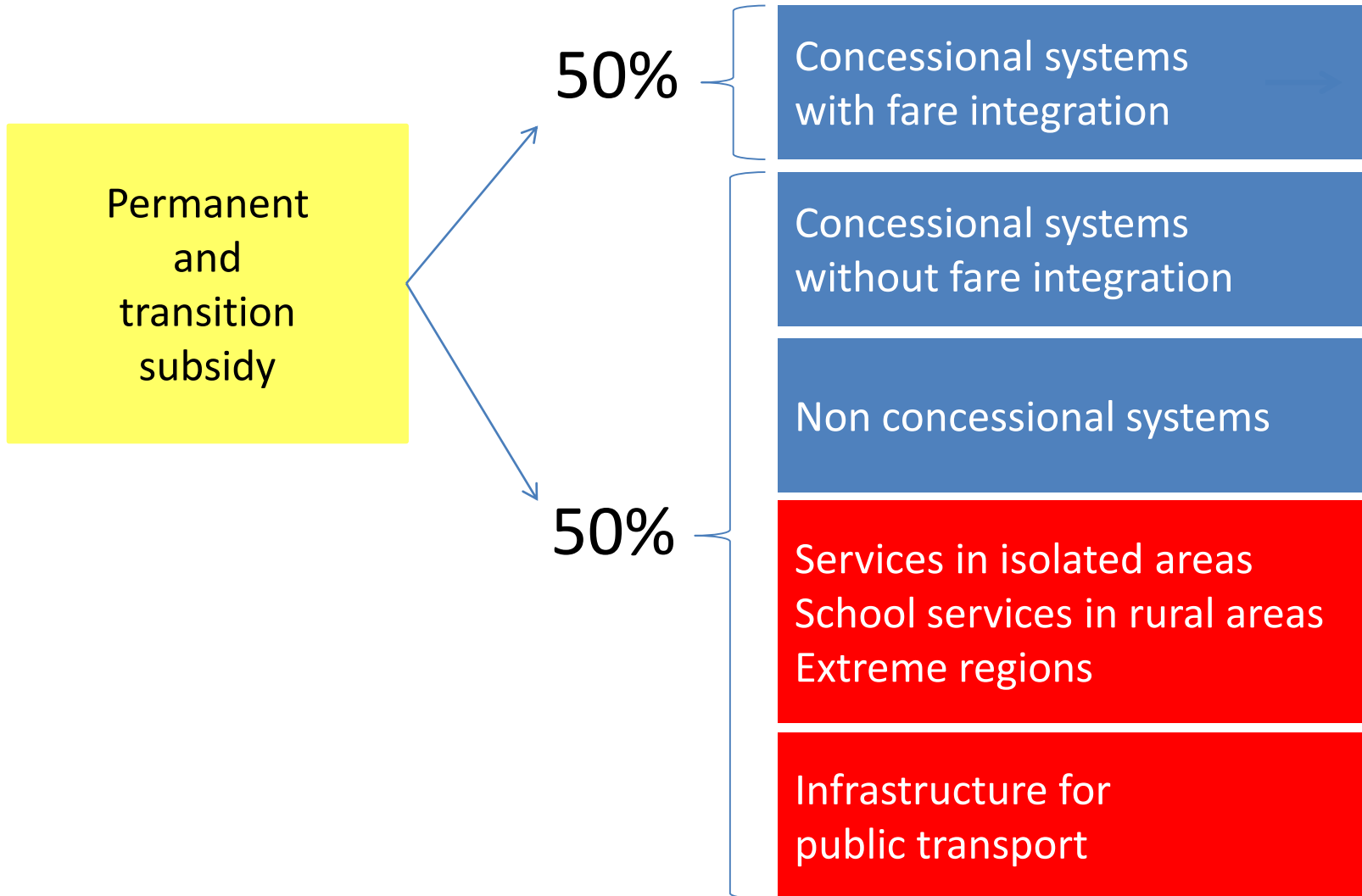
Rationales for the subsidy bill



- **Rationale No. 1: Unthinkable a fare increase in the middle of the crisis**
- **Rationale No. 2: Funding student fare in public transport (long term policy)**
 - If students paid one third of the adult fare, State did not subsidize this difference, the public transport firms had to increase adult fare, working as a disincentive for using public transport and an incentive for using car.
 - Adults that were really paying the lower student fare were low and middle income people.



Subsidy bill in a nutshell

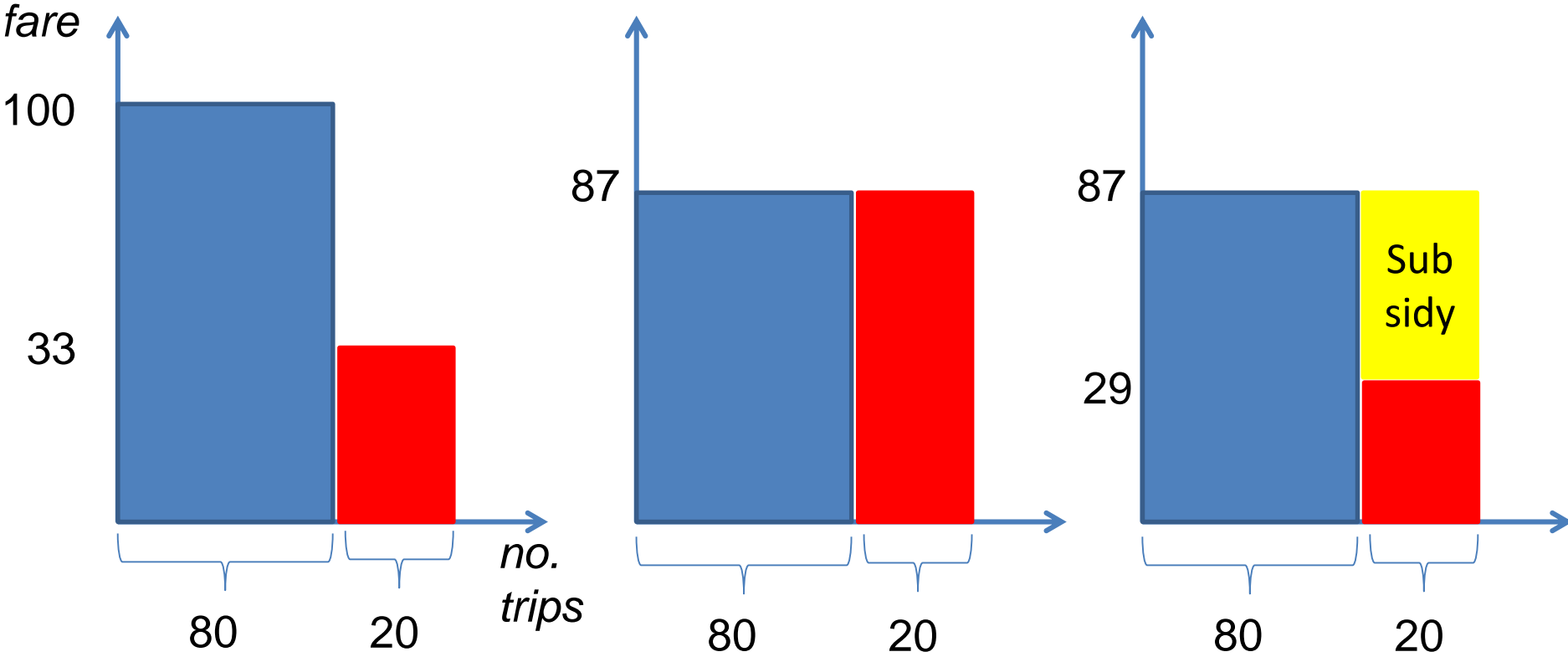




Current situation

Both pay the same

With subsidy



■ Revenue from adult fare

■ Revenue from student fare



Central Episode



Political campaign

Presidential and Legislative Elections

Chamber of Deputies

Senate

Chamber of Deputies

May-08

Sep-09

Dec-09

Jan-10

Bill approved for just 1 vote

Bill approved with high margin

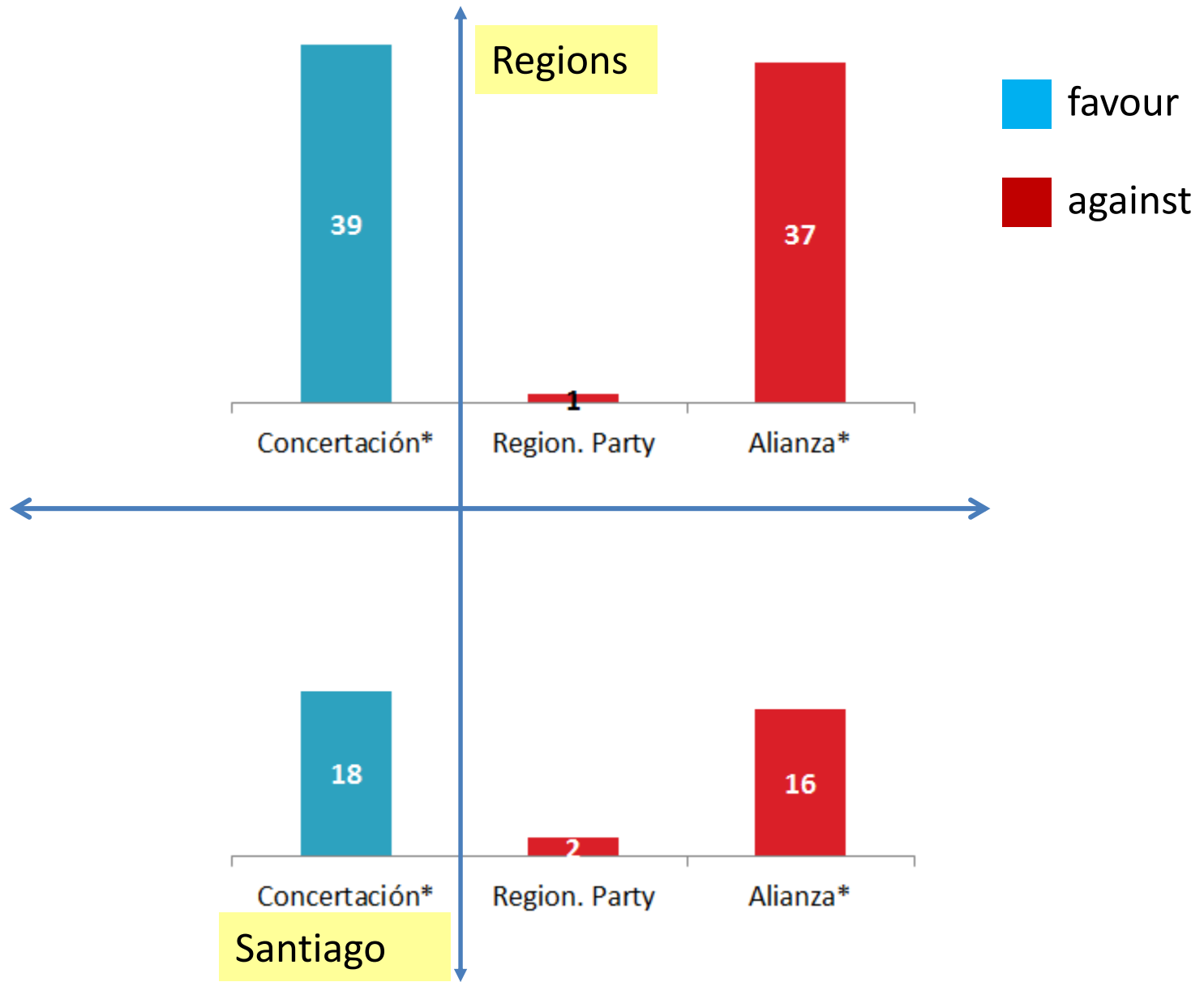
Bill approved with high margin

interest groups were heard





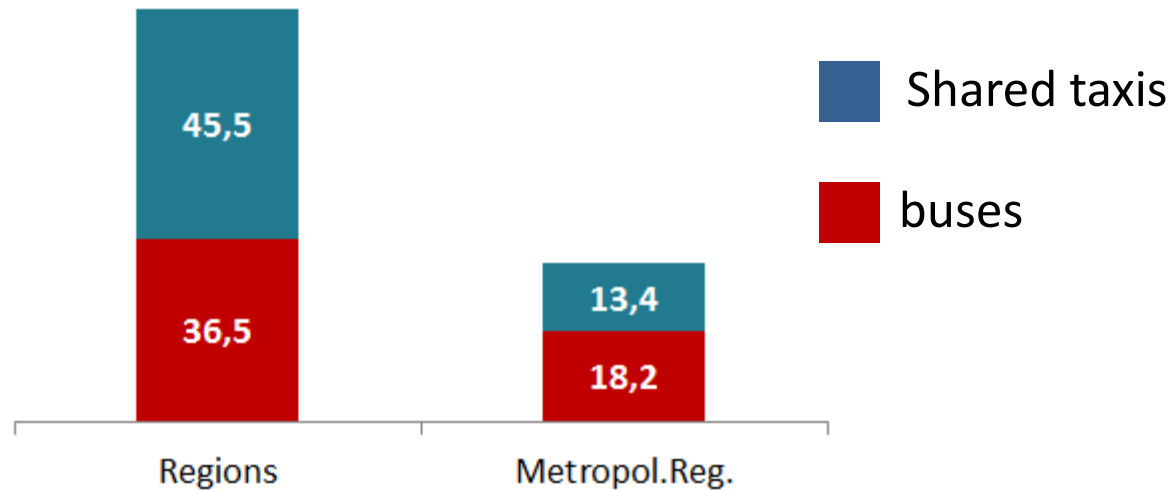
1st stage – Chamber of Deputies





Shared taxis is a strong interest group in regions

Number of shared taxis in regions,
2009 (in thousands)





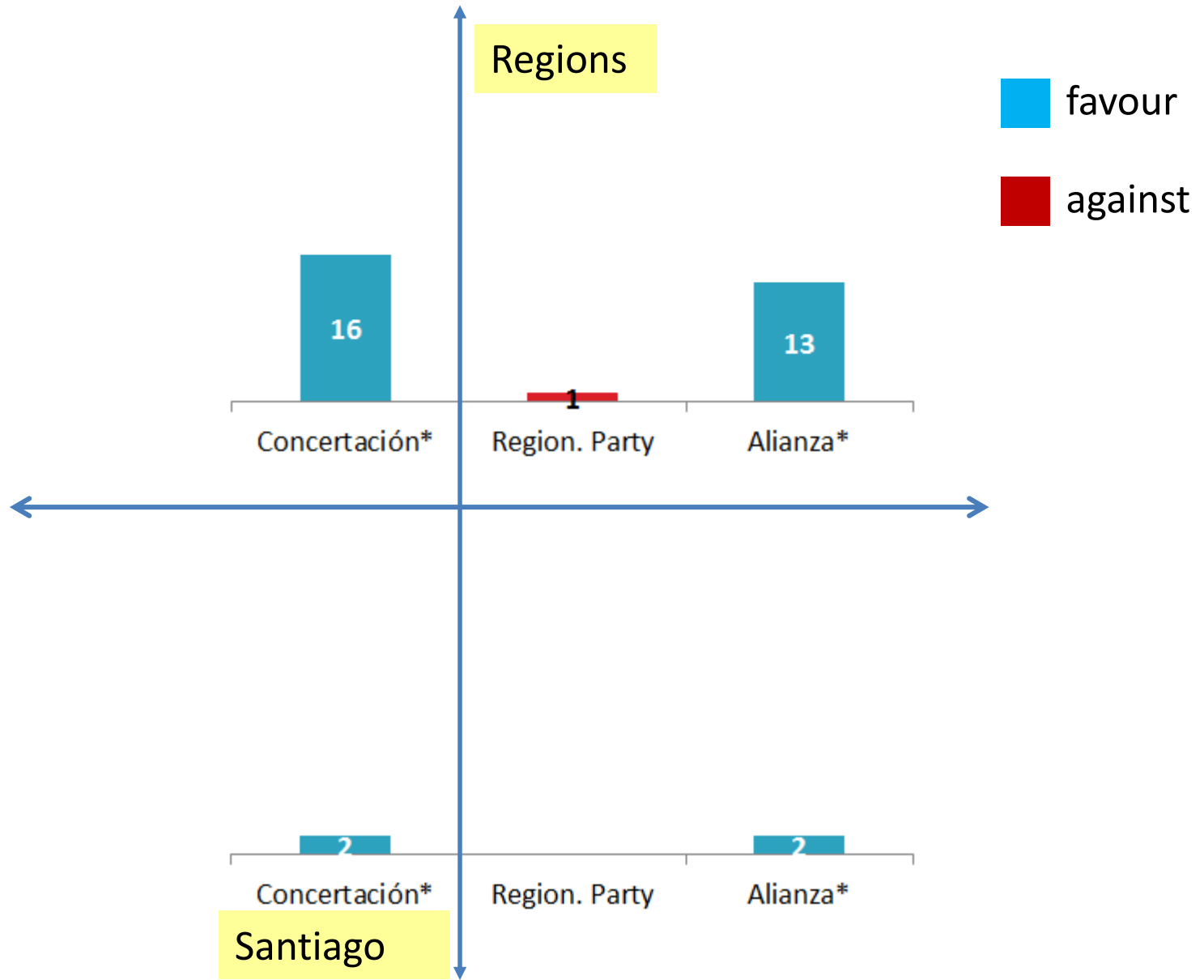
Agreement between Transport Minister and Alianza's presidential candidate



- Increase of subsidy in 20%. Temporal subsidy extended from 2011 to 2014.
- Shared taxis excluded of subsidy
- Subsidy to reduce student fare from 50% to 33% in all bus services operating in unregulated areas.
- Creation of a politically independent panel of experts to periodically control the level of deficit and order fare increases.
- Creation of a new department within the Transport Ministry to manage the subsidy distribution.
- The requirement of technical studies to justify the regulation of public transport systems.

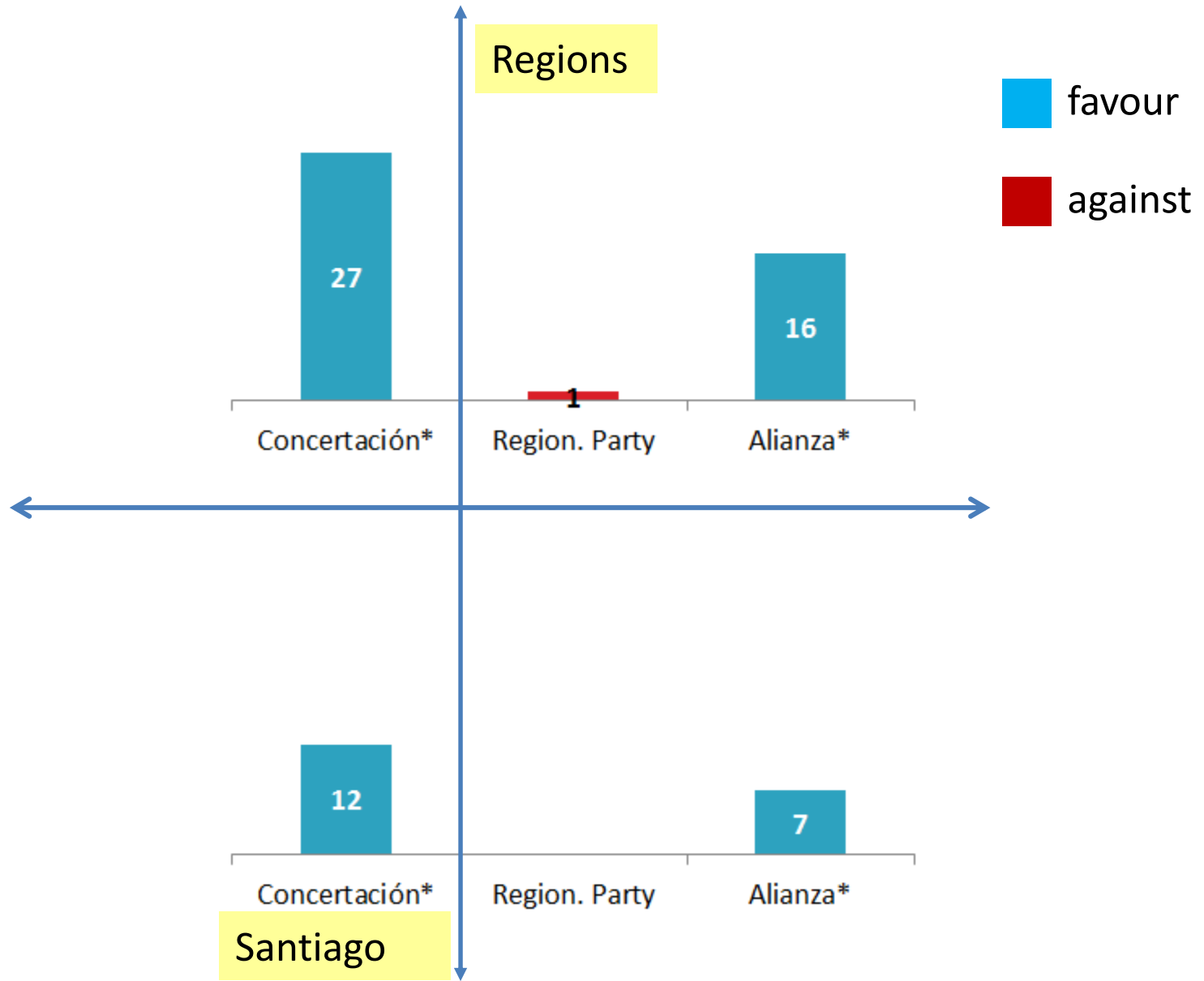


2nd stage - Senate





3rd stage – Chamber of Deputies





Why did legislators finally approve this bill?

Genuine interest in max social welfare, or, on the contrary, gaining more political support by favouring interests groups?

Public interest



Rational for the subsidy bill:

Funding student fare in public transport: Efficiency and equity

Agreement between Transport Minister and Alianza's presidential candidate:

shared taxis excluded of the bill.

Private interest





Later events

Alianza government

Concertacion + PC government

New
subsidy
act

New
subsidy
act

New
subsidy
act

Mar-10

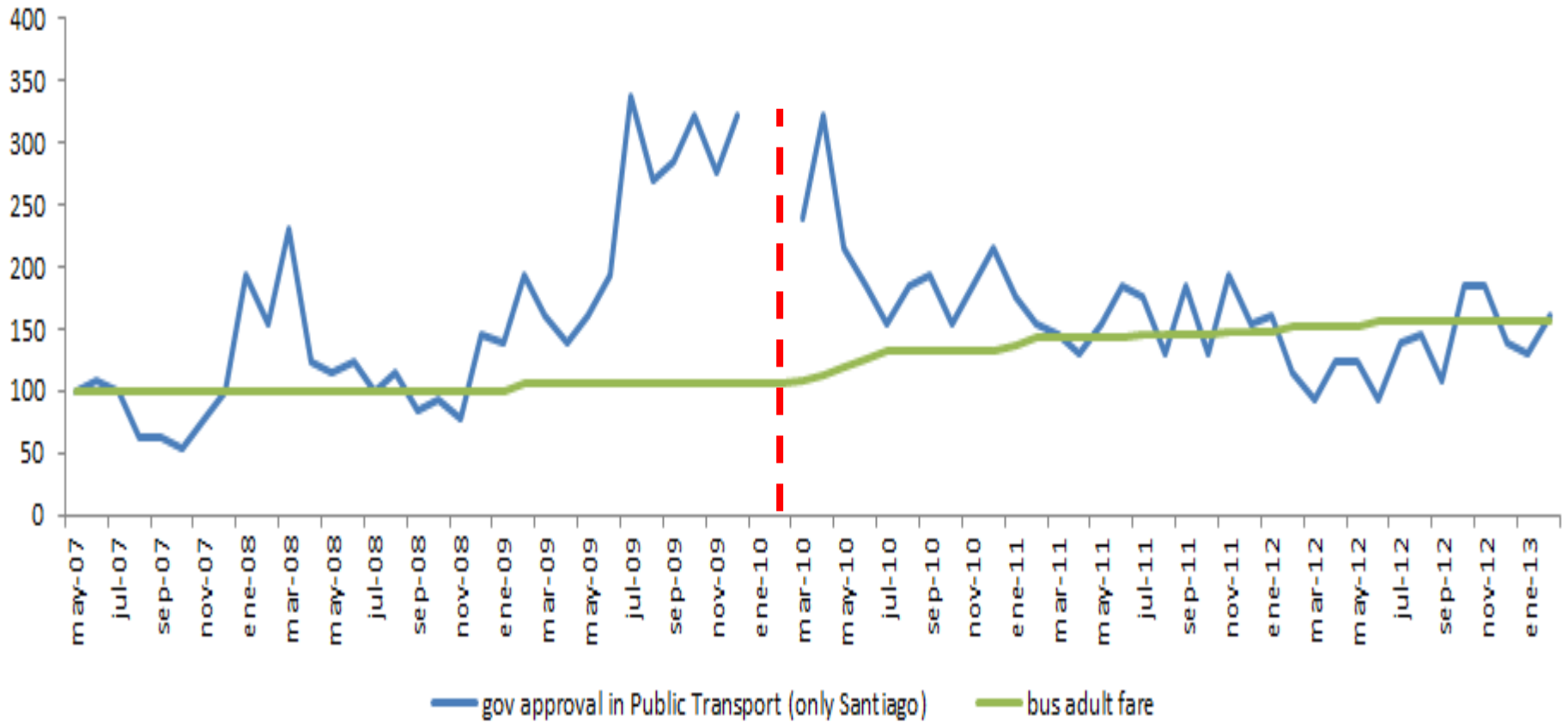
Mar-14

Apr-15

More subsidy
Subsidy for shared taxis
Investment in projects not related to public
transport

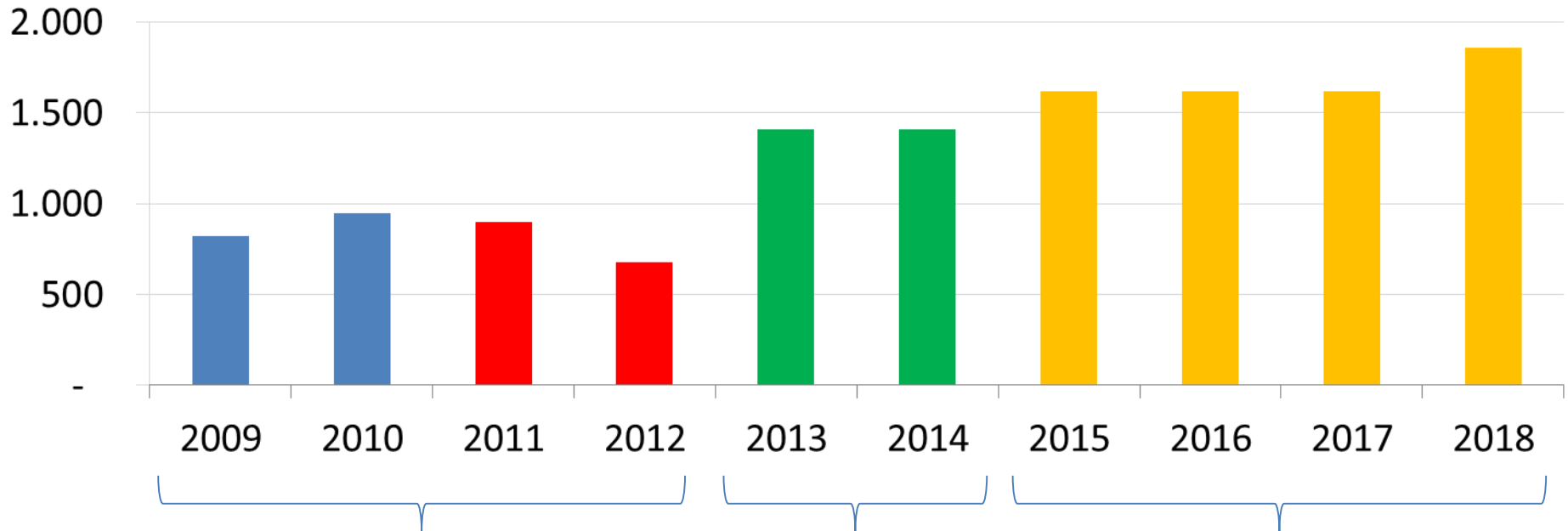


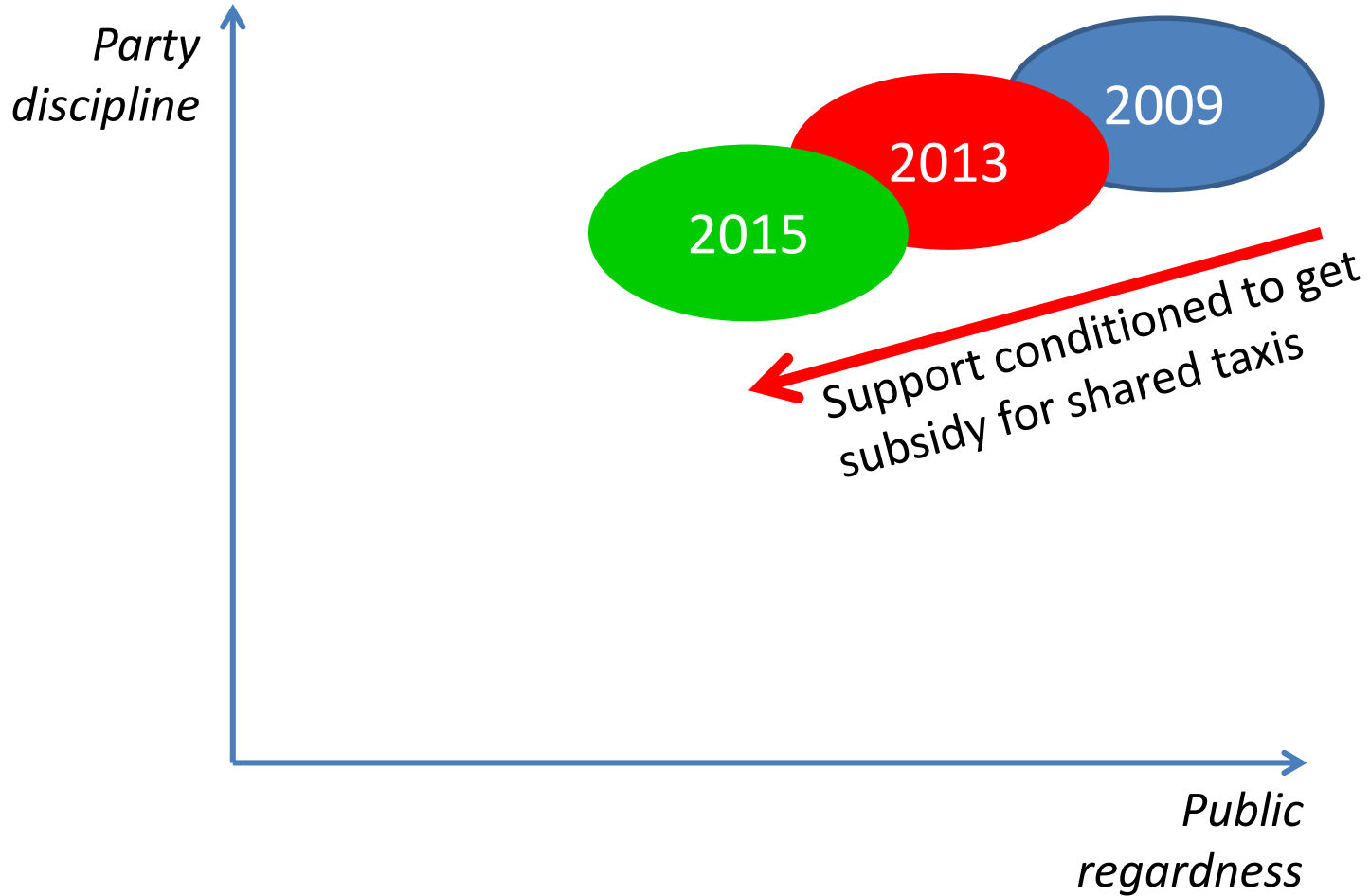
Adult bus fare increase and government approval in public transport (only Santiago)





Subsidy available for Santiago and Regions (in millions of USD january 2018)

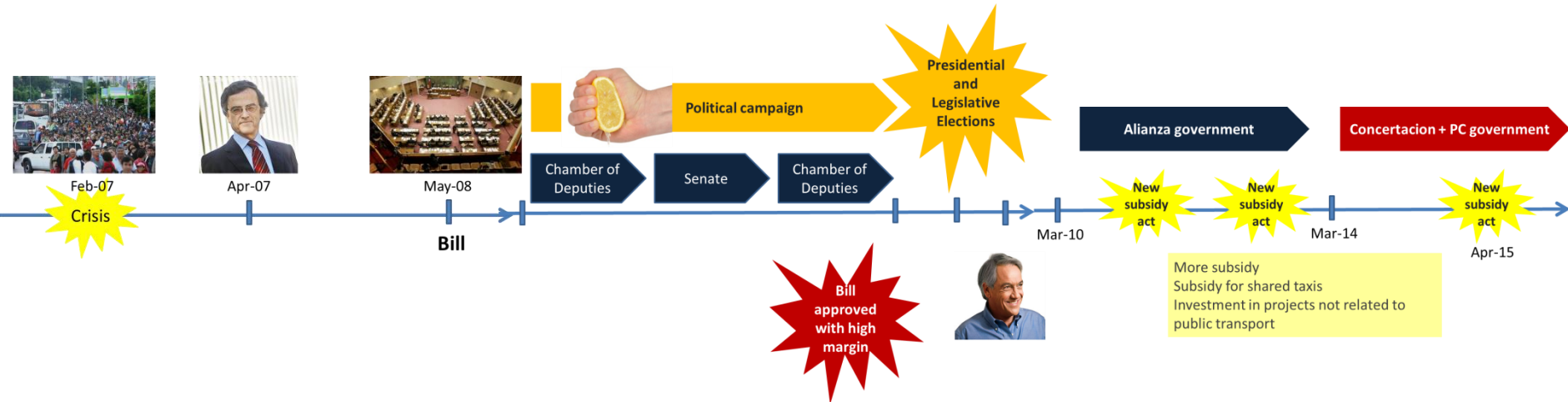




Final comments

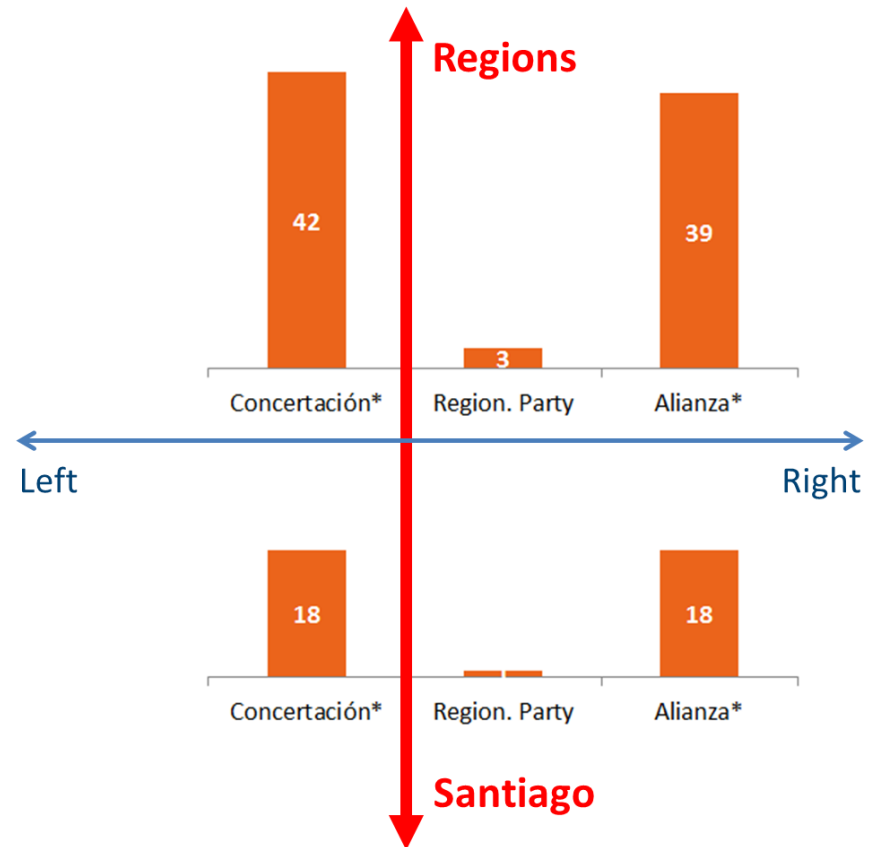
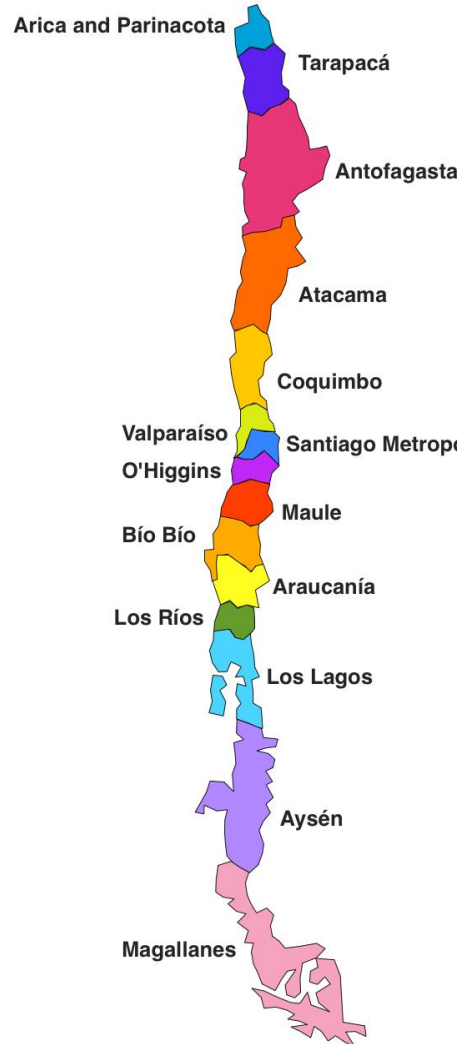


The very story





The importance of the spatial issue dimension





Prior events



Feb-07



Apr-07



May-08

Crisis

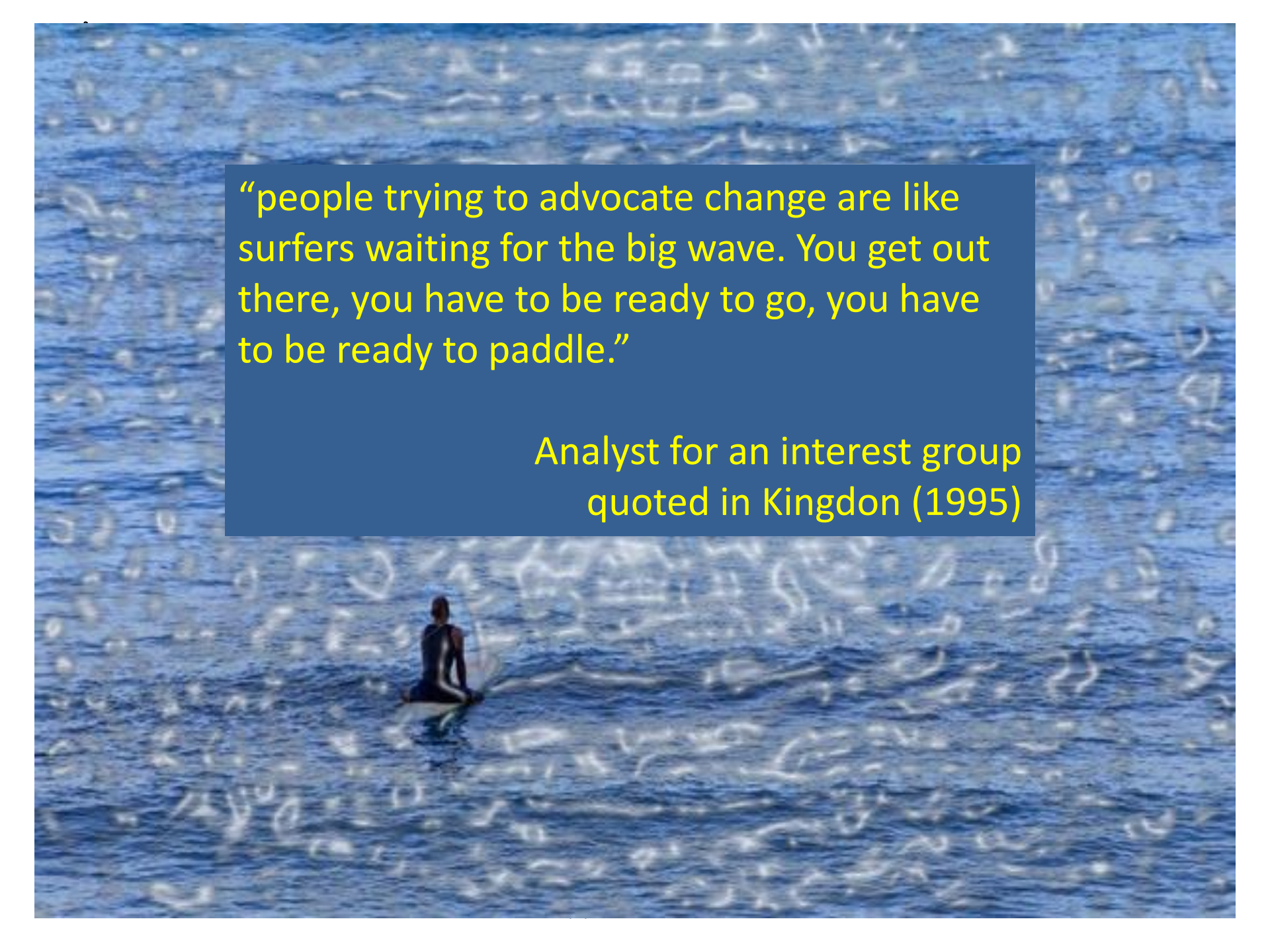
Policy

Leadership

Before the crisis

Were we prepared for a public transport subsidy policy?

Technopol – Combines technical knowledge with political knowledge

A person in a dark wetsuit is sitting on a surfboard in the middle of the ocean. The water is a deep blue with white foam from waves. The person is facing away from the camera, looking out towards the horizon. The overall scene is serene and captures the essence of surfing.

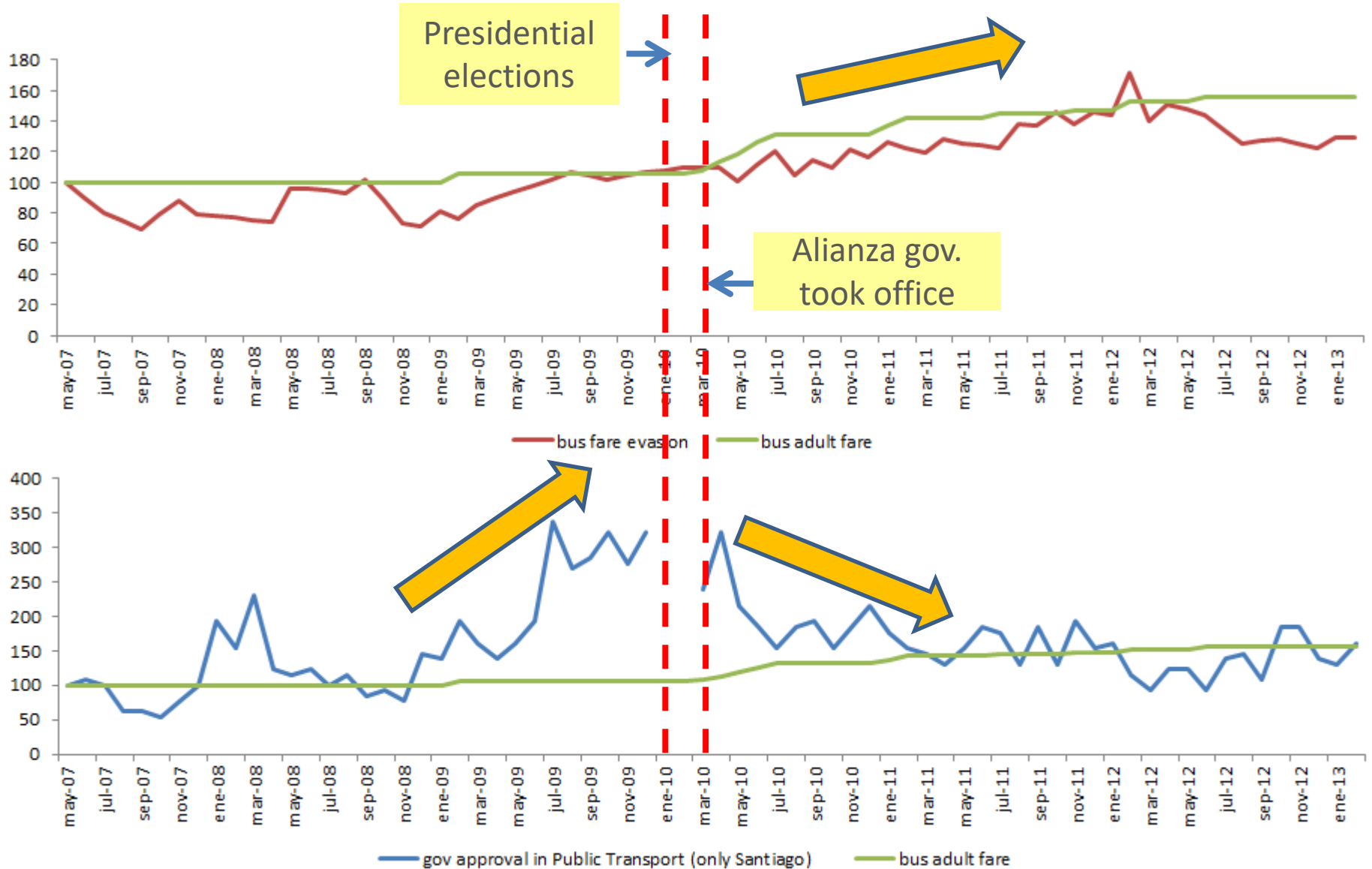
“people trying to advocate change are like surfers waiting for the big wave. You get out there, you have to be ready to go, you have to be ready to paddle.”

Analyst for an interest group
quoted in Kingdon (1995)

END



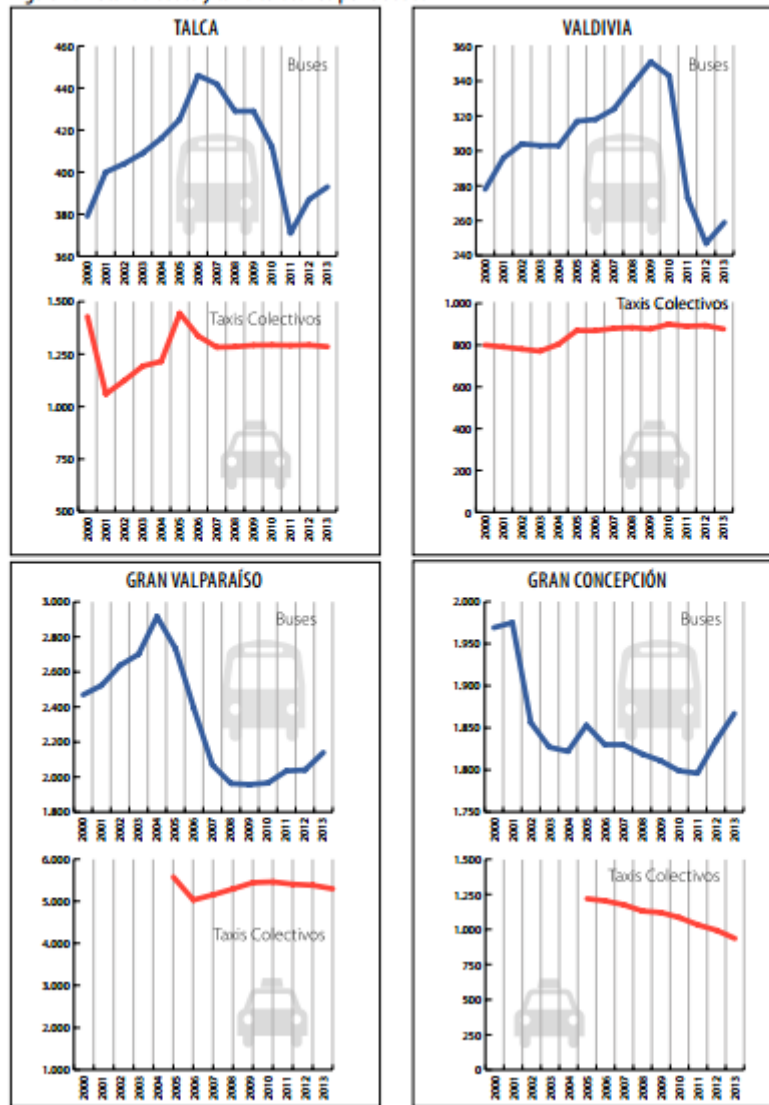
Adult bus fare increase and its effects on gov. approval in public transport policy (only Santiago), and evasion





Shared taxis has had a negative impact on bus industry in Chilean regions

Figura 2: Flota de buses y taxis colectivos por ciudad.



Información sobre flota de Taxis Colectivos disponible a partir del año 2005.

Información sobre flota de Taxis Colectivos disponible a partir del año 2005.



ADDITIONAL SLIDES



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- “I want to express to opposition deputies [...] that my intention is not offending you but convince you and invite you to act with just reason as Aristotle said. [...] **I understand political and electoral interests because we will have a presidential election in a year and half [...]**” (H.D. Hales, Concertacion)



- “This project is not going to mean a modernization of public transport in our country. We are not going to see improvements neither in labour conditions nor service quality for users. [...] A State subsidy bill must be implemented together with substantial reforms of public transport. [...] Basically, **this bill establishes giving money to operators of public transport in exchange for reducing fares.** [...] I must recognize that this is an important step forward, but we would have liked much more. This task is pending. I understand that this is a consequence of the Transantiago disaster. We have said thousand times. **To get the approval of the Congress for resources required (for Transantiago), it was necessary give subsidy in all Chile.** [...] I am going to make a confidence act towards the government and vote for this bill. I am going to believe that the government will effectively control that transport operators **comply labour regulation**, and also that government will develop a program to **benefit minor public transport (shared taxis).**” (H.D. Marcelo Díaz, Concertación)



- “Do not use regions anymore. Yes, do not use the regions to justify or repair mistakes of the worst and more humiliate public policy implemented in last decades in the Metropolitan Region: Transantiago.
- It is a joke what the government is offering us to get support for this bill. Its approval will mean a permanent bleeding of fiscal resources [...] independently of what could happen in our economy. **It is a joke because fares in Transantiago will decrease in CLP 200 while in regions, just CLP 30 to 50. What discrimination!**
- **Also, interurban transport is excluded.**
- We have many shortcomings. We need social centres; there are isolated cities because of lack of roads [...] and severe problems in health, education, energy, etc. But all of this does not matter. We have to finance this little luxury of the Government, blaming the opposition parties if fares increase.” (H.D. Hernández, Alianza)



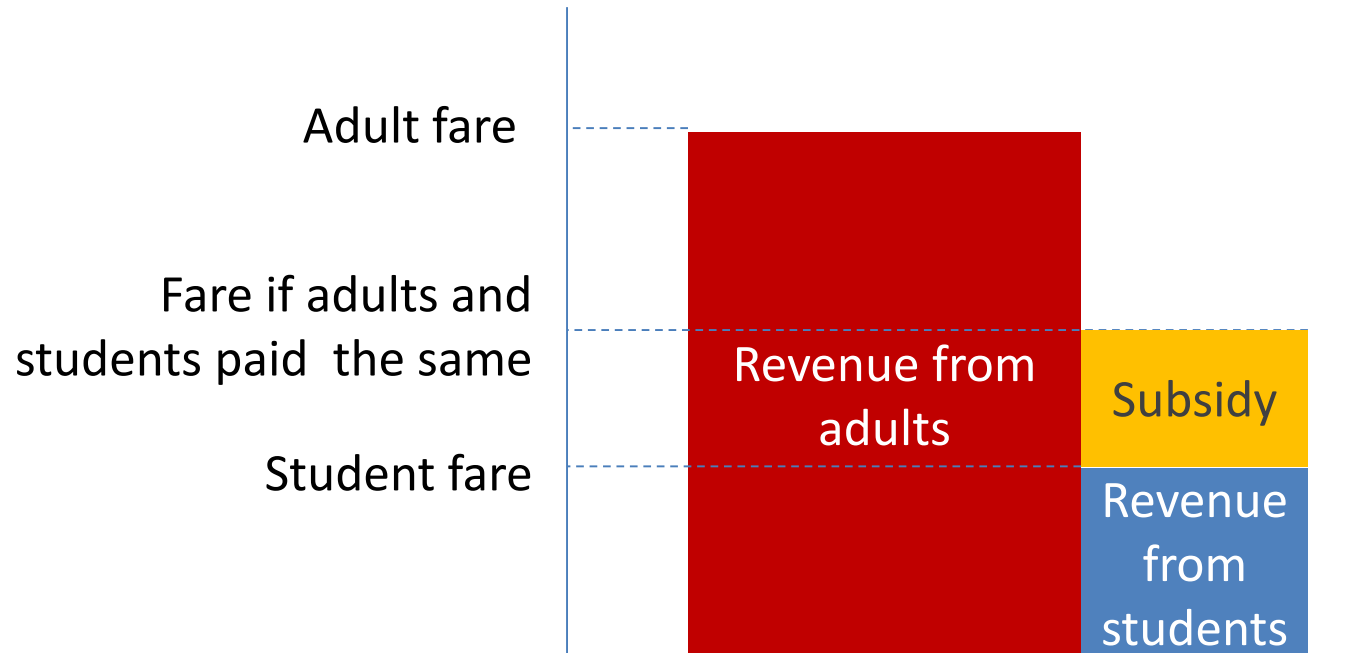
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- **While public transport users from Santiago will continue paying just \$380 CLP, users from Cauquenes, Parral and Longaví will continue paying \$1,500 CLP. [...]**
 - **Currently, people travel in shared taxis rather than buses. However, this legislative proposal does not include any benefit from that mode**
 - **Why are some people still arguing that Santiago is Chile? Resources for regions and Santiago are the same amount, but Santiago is not half of the population of Chile.” (H.D. Urrutia, Alianza)**

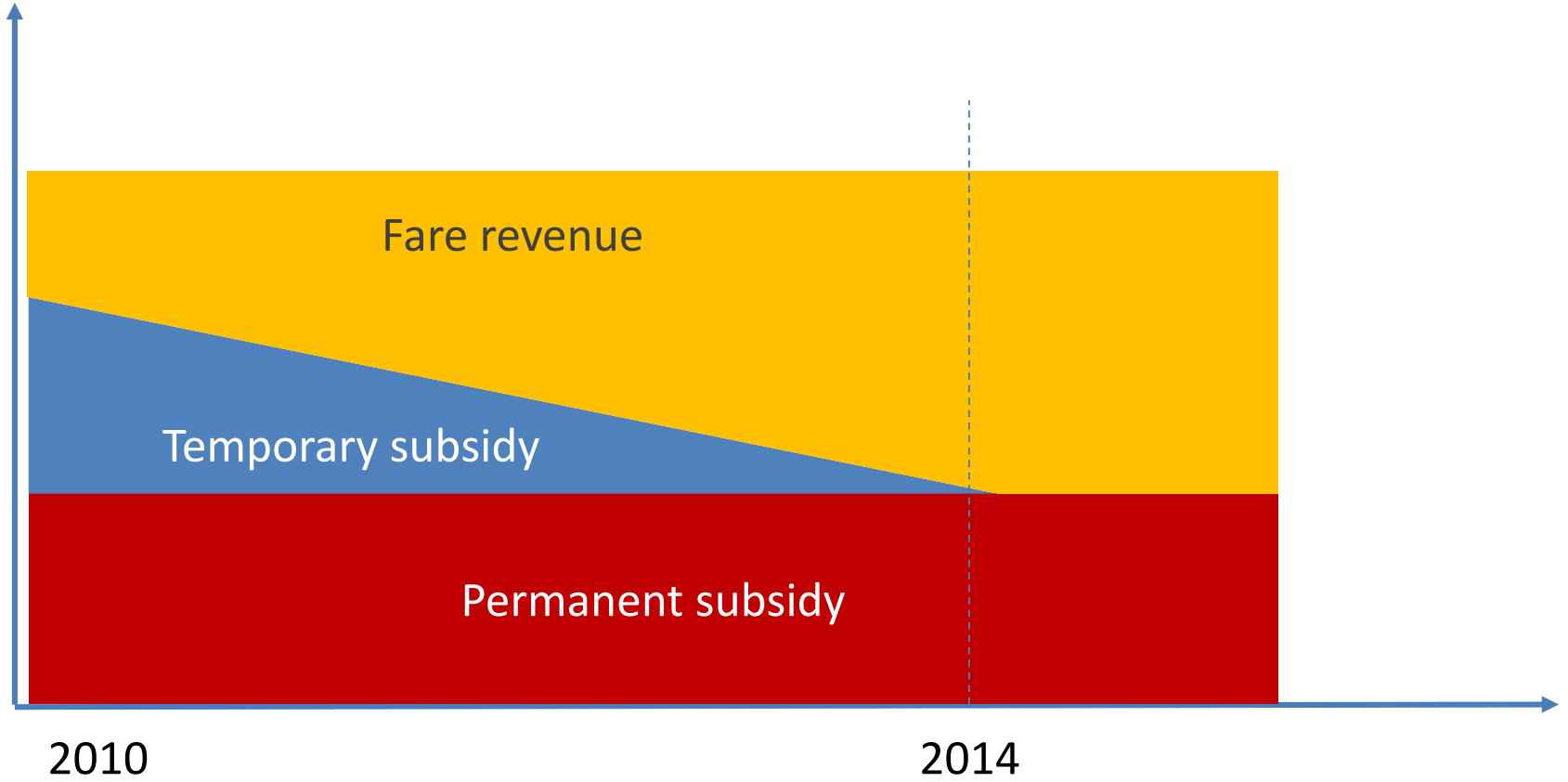


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- “I represent five rural boroughs. However, I will vote in favour of this bill because this gives important benefits to regions. [...] This is the best example of how political interest, in its worst form, is imposing over public interest, represented for all those public transport users. [...] It is contradictory that deputies that call themselves as regionalists do not support a subsidy bill to compensate the bus industry because of the lower fares of students. The Urban bus industry has insistently asked for this compensation. [...] It is false saying that this bill will not have benefits to regions.” (H.D. Rossi, Concertacion)



Subsidy for regions – compensate current cross subsidy from adults to students



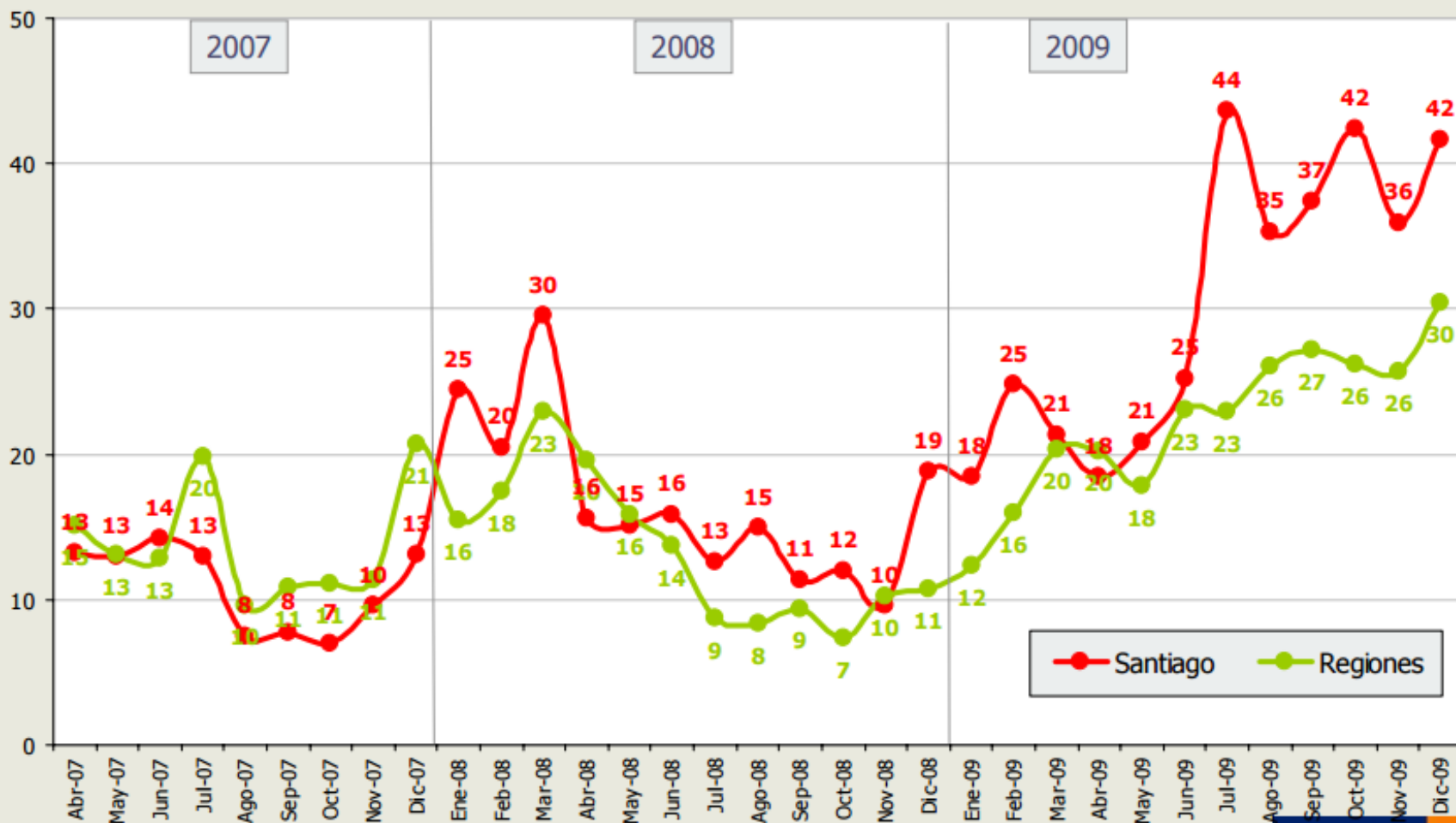


¿Usted aprueba o desaprueba la forma como Michelle Bachelet y su equipo de gobierno está manejando El Transantiago?



% Aprueba

30



Adimark GfK



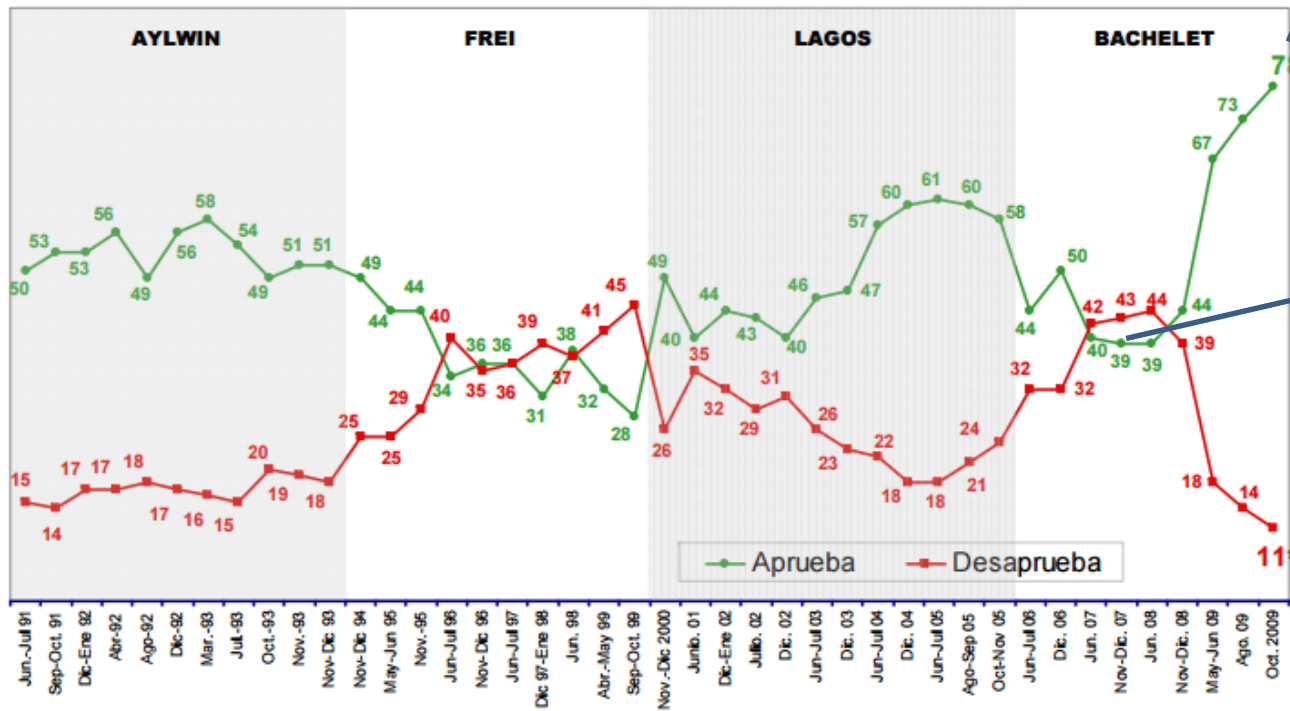
Despite of Transantiago crisis, President Bachelet finished her period with the highest rate of approval since 1990

CEP, Encuesta Nacional de Opinión Pública, Octubre 2009

www.cepchile.cl

Evolución de aprobación de gobiernos de Patricio Aylwin, Eduardo Frei, Ricardo Lagos y Michelle Bachelet (Sólo sectores urbanos)

(Evolución) (% Aprueba y % Desaprueba) (Sectores urbanos) (87% de la muestra)



Almost 80% of approval

Transantiago crisis, lowest levels of approval within her mandate

Nota: Se ha usado la información obtenida de la submuestra urbana de las encuestas de nov-dic 94 y posteriores.
* Diferencia significativa desde un punto de vista estadístico entre las mediciones de Agosto 2009 y Octubre 2009.

Fuente: Encuestas CEP.

Edición gráfica: David Parra Arias



Alianza had high probability of winning the presidential election for first time after 50 years

CEP, Encuesta Nacional de Opinión Pública, Octubre 2009

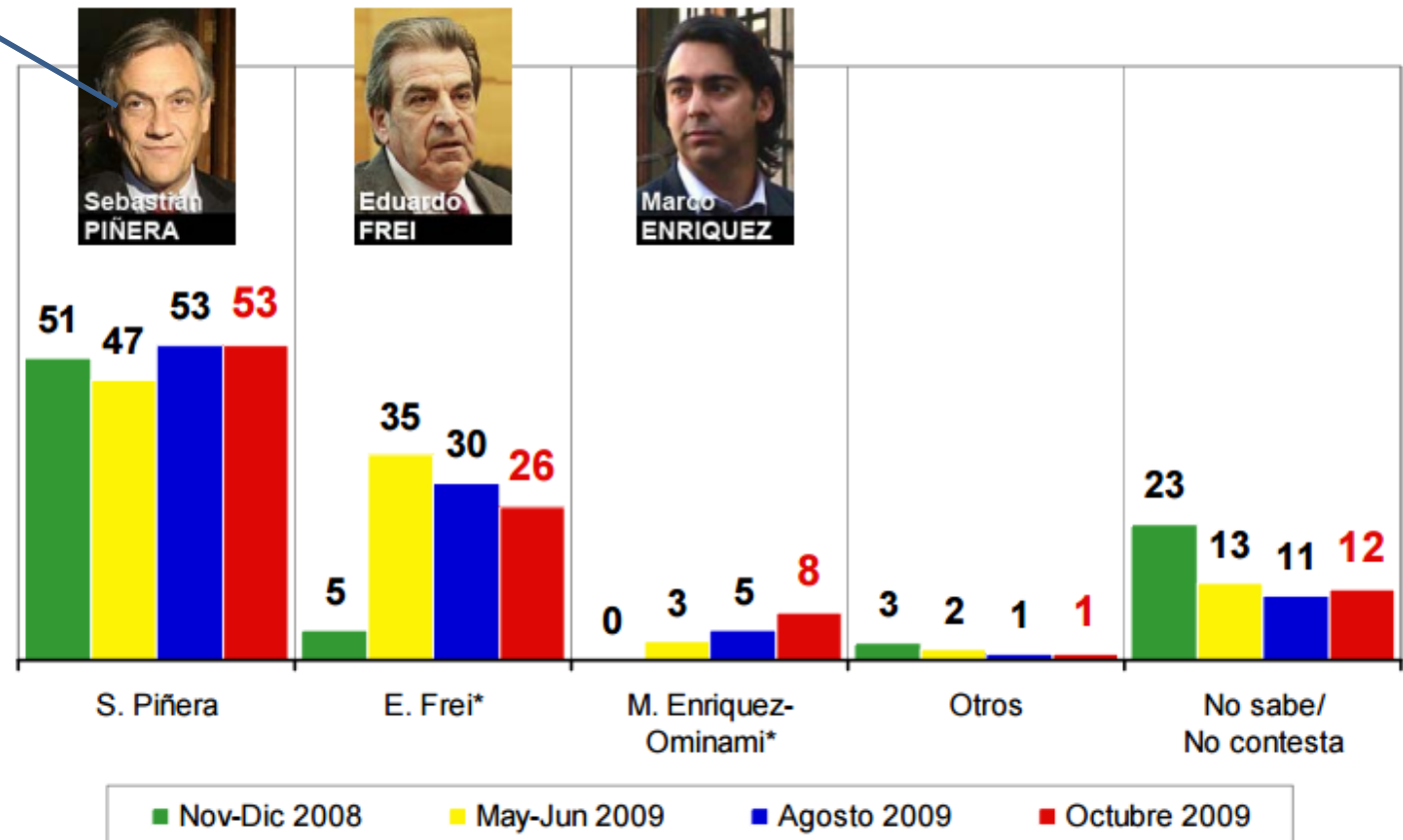
www.cepchile.cl

Independientemente de lo que Ud. prefiera, ¿quién cree Ud. que será el próximo presidente de Chile?

(Total muestra) (Pregunta Abierta) (Menciones sobre el 1%) (Evolución)

%

Sebastián Piñera, Alianza's presidential candidate

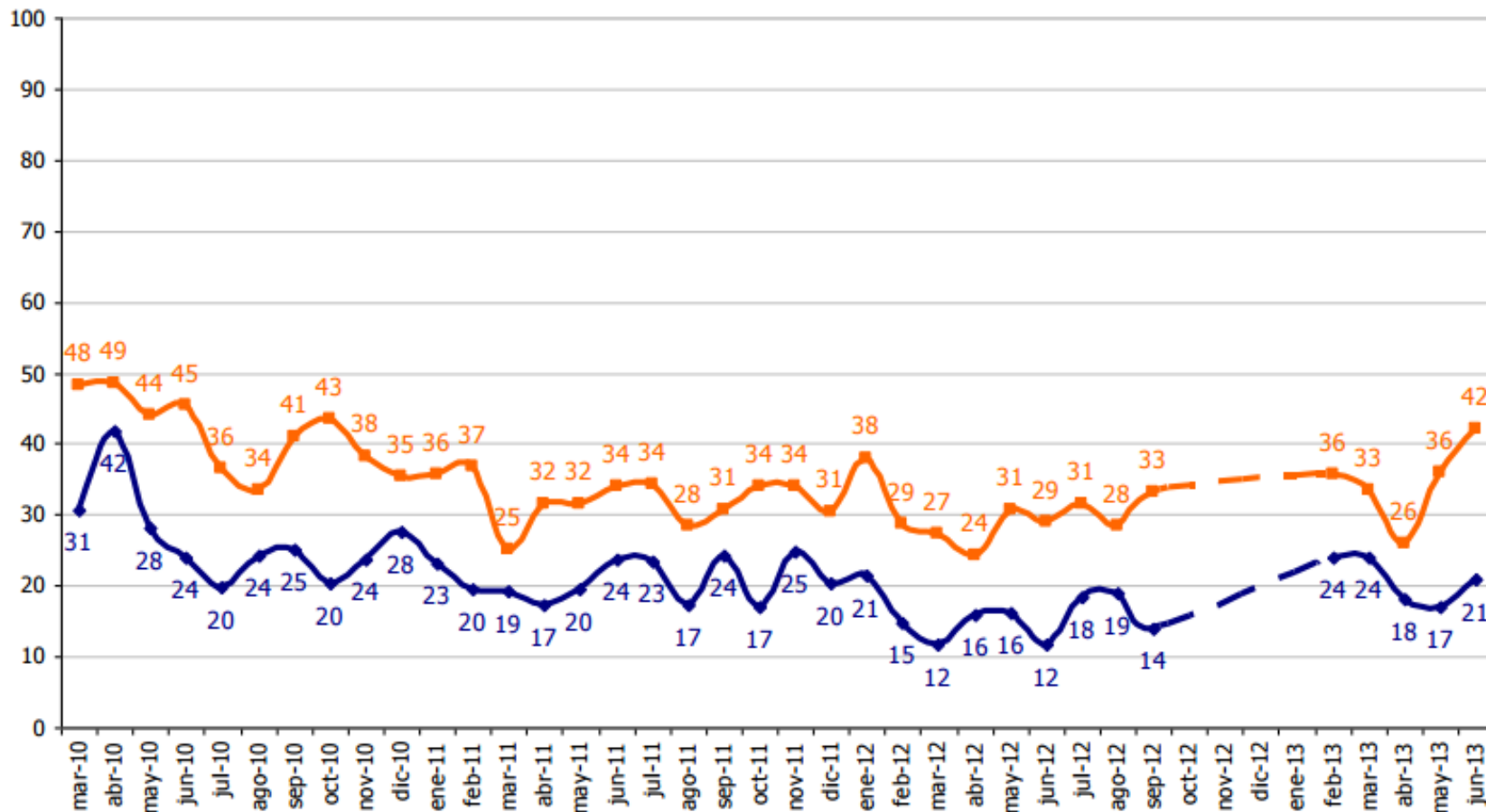


* Diferencia significativa desde un punto de vista estadístico entre las mediciones de Agosto 2009 y Octubre 2009.

Fuente: CEP, Encuestas Nacionales.

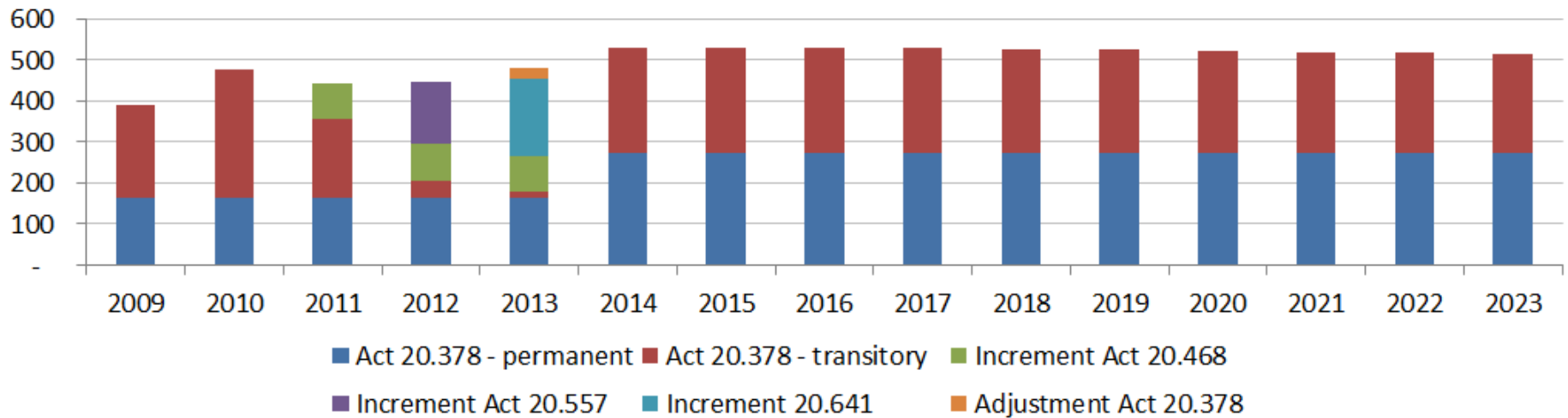
¿Usted aprueba o desaprueba como Sebastián Piñera y su equipo de gobierno están manejando el Transporte Público?

—●— % Aprobación Santiago —■— % Aprobación Regiones





Subsidy for Transantiago from different acts (million USD)



Same amount for regions





Two approaches to study the politics of transport policy

Kingdon's model of the agenda-setting process



Problem-Politics-Policy
Policy entrepreneurs
Policy window

Public and Private interest theories of regulation

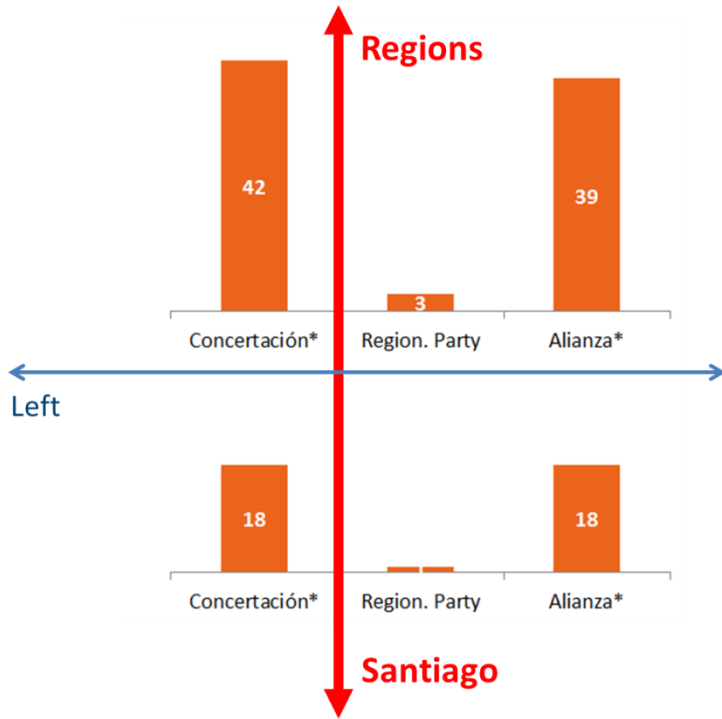


Button → coalition theory
Gómez-Ibáñez → Sri Lanka → capture
McLean → railways → public interest



Discussion

- Experience for cities that want to move from a local reform (BRT type) to a city wide reform
- Crisis → political momentum → status quo changed
- Public transport fare → highly sensitive issue → Sri Lanka Gómez-Ibañez → impact on president popularity
- Tension between the centre and regions → very different bill
- Public vs private interest theories → suboptimal → best solutions that we can aspire
- Interest groups and legislators → Paratransit



Number of shared taxis in regions, 2009 (in thousands)

