SWEDISH ECONOMIC POLICY REVIEW 9 (2002) 255-256

Comment on Jan-Eric Nilsson: Restructuring Sweden's railways: The unintentional deregulation

Stefan Lundgren*

This paper provides an informative and interesting overview of the restructuring of Swedish railways since the 1980s and the gradual movement towards increased competition and procurement of services. As Jan-Eric Nilsson points out, only long-distance passenger services still operate under monopoly privileges, and they are continually called into question.

There have been similar developments in other countries. The European Union has recently adopted a directive regulating the pricing of the use of railway infrastructure and the allocation of track capacity in order to promote competition in railway services. But the paper lacks a comparative analysis of Swedish reforms in relation to the experiences of other European countries. What has worked and what has not worked? Such an analysis would have been of particular interest since railway reform has not been without problems. We have, for instance, seen the rise and fall of Railtrack in Britain and the back track of reform efforts in the Netherlands.

What are the experiences of Swedish railway reform? As I read the paper, we have some scattered evidence on productivity and efficiency developments, price developments and the financial situation of the railway sector. But there does not exist a systematically collected set of data that permits a thorough analysis of the economic development of the railway sector. This is disturbing, in particular in the light of Figure 2 of the paper, which reveals that the cost of the public sector for support to the railway industry has increased substantially from about SEK 3 billion in 1987 to SEK 9 billion in 1997. This is mainly the result of increased investment in new tracks. Tripled public sector costs point to the need of knowing what is going on.

The evidence that does exist indicates lower subsidies to local and regional transport, following an increased use of procurement of such services. The production of passenger and freight services have not

* *Stefan Lundgren is CEO of the Center for Business and Policy Studies (SNS).*

increased remarkably, except for an increase in passenger services in the latter half of the 1990s. Freight prices have been falling, but perhaps more as a result of increased inter-modal competition rather than from the deregulation of freight operation. There is no indication of a fall in the prices of passenger services, rather the contrary. And there is no evidence of a deterioration in the quality provided. If anything, passenger services seem to be timelier today than before the reform.

Nilsson proposes that the charges for rail track services should be set according to the marginal cost, including congestion fees on heavily trafficked tracks. At the same time, he calls into question at least some of the recent investments in new tracks, which often seem based on rather opaque cost-benefit assessments. He also criticises the failure to close down clearly unprofitable tracks.

Nilsson's criticism of track investments is a valid one. There are strong political pressures to build new tracks or extend the capacity of existing tracks. These pressures come from political parties—often as part of a "green" agenda—as well as from regional interests. Obviously, a necessary condition for more rational investment decisions is that a transparent cost-benefit analysis is used to seriously guide the decision-making.

But one also has to consider how the institutional framework affects investment incentives. It is important that the institutional framework ensures intertemporal efficiency. Rail track investments involve substantial fixed costs, with little alternative use once the tracks have been built. As a result, pricing according to marginal cost will often lead to financial deficits. When there is an institutional separation between track owners on the one hand and rail operators on the other, financial deficits simply mean that rail operators do not pay fully for rail track investments. This tends to lead to excess demand for track capacity. Combine such incentives with regional pressures to have rail connections to promote regional development, and we have an institutional framework that easily breeds too much investment in tracks and too little disincentives. Against this background, I think one should question the wisdom of separating infrastructure from operations, in particular in combination with marginal cost pricing.