

## Road Socialism

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**Abstract.** Road socialists maintain that government is the best manager for the nation's vehicular transportation arteries. Contrary to their views, the present author maintains that the managerial role can best be fulfilled by private entrepreneurs. Under highway privatization, he claims, traffic fatalities and automobile congestion will be sharply reduced.

**Key words:** managerial economics, highways, deaths, entrepreneurship, privatization, omitted variables

### Introduction

What are the best institutional arrangements for roads, streets, highways, sidewalks and other such thoroughfares for human and vehicular traffic? The economics profession can be divided into two camps with regard to this issue.

On the one hand are the road socialists<sup>1</sup>. They dominate<sup>2</sup>. In their view, it is an unquestioned, and unquestionable fact that roads must inevitably and necessarily be managed by government. It is never explicit, but is rather implied by their mode of analysis. They believe that roads are a 'public good.' Privatizing them is quickly brushed aside as preposterous. A private enterprise highway and street industry is viewed in much the same manner as was free market agriculture by the planners during the heyday of Soviet collectivized agriculture – as inconceivable.

What is the job of the economic analyst under such assumptions? It is to serve as a sort of managerial consultant, much in the same manner that the economist in the U.S.S.R. would advise the Minister of Agriculture about crop rotation, fertilizers, etc.<sup>3</sup> Only now the analysis concerns itself with such matters as road safety, congestion, planning for new clover leaves, etc.

On the other hand there are the road capitalists<sup>4</sup>, or privatizers.<sup>5</sup> In their view, streets and roads are no more a necessary part of the state apparatus than

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are cars, railroads, subways, baseball bats, lima beans or rubber bands. The former set of products can and should be analyzed along the lines everyone agrees are appropriate for the latter.

The purpose of this present paper is to do just that, and to focus on one aspect of the overall analysis: that having to do with highway fatalities.

### Two analogies to traffic safety

Suppose that a gunman shot a person with a rifle. Hauled into court, his 'defense' was that the bullet killed the victim, not he, the defendant. True, this man would concede, he aimed the gun and pulled the trigger, but he was 200 hundred yards away from the victim when he died, so he couldn't have been responsible for his death.

Our reaction to this 'defense' would properly be one of dismissal, on the ground that the murderer was confusing proximate with ultimate cause. We would mete out to this murderer whatever penalties were accorded such behavior. The bullet was the proximate cause of the death. But the gunman, in aiming at the victim and pulling the trigger, was ultimately responsible for his demise, and therefore should pay for this crime to the full extent of the law.

Now consider the case where a restaurant goes out of business. The *proximate* causes are badly cooked and cold food, surly service, dirty conditions, lack of personal safety, poor decor, etc. But the *ultimate* responsibility, surely, lies with *management*. It and it alone failed to hire good cooks, to ensure that the waitresses, busboys, cleaners, bouncers, interior decorators, exterior architects, etc., did their assigned tasks in a satisfactory way. A competent manager would either get his employees to change their behavior, or he would fire them, and hire proficient ones in their places. This all stems from the fact that the good *manager* can recognize talent, and has the motivation to insist upon it.

### Road socialism

What is the point of all this discussion of restaurant failures and exclude making killers? What does it have to do with road safety under socialism?

Simply this. The way the most economists approach this issue is akin to the 'defense' of the murderer, or the advice of the restaurant consultant who ignores the manager. Instead of focussing on the real cause of traffic fatalities – government ownership and management of the nation's highway network – many economists have instead concentrated on a plethora of proximate

causes, preeminently vehicle speed, driver alcoholism, safety regulations and inspections.

The theoretical analysis of highway safety rests on some principles which are quite elementary, indeed distressingly so. They are so obvious that one would feel the greatest reluctance to repeat them on the pages of a professional journal were it not that a great public policy (road socialism) has been erected upon either ignorance or a repudiation of them.<sup>6</sup>

It is in order to rectify this great oversight that we must examine how neo-classical economists have been dealing with road fatalities.

### Mainstream analysis

Consider first Crandall, et al. (1986, pp. 1–2). These authors intensively analyze automobile regulations for over 200 pages. They state at the outset:

It is now possible to look back over nearly two decades of experience to evaluate this strategy of regulating the undesirable by-products of the automobile and to determine whether some of the regulatory programs should be redesigned. This book is designed to provide a comprehensive examination. . .

Although they do indeed subject a whole host of restrictions to great scrutiny, they never once mention the chief constraint on the market: public ownership and management<sup>7</sup>. Thus, the concept of privatization completely eludes them.

With regard to the thousands of people slaughtered on the nation's highways each year, they (1986, p. 155) adopt a rather cavalier and Pollyana-ish perspective:

This program. . . (of federal automobile regulations) . . . has been the best planned and administered and the most successful in achieving its goals. Our estimates indicate that highway fatalities would be about 40% greater were it not for the safety features adopted since the beginning of this program.

It cannot be denied that road fatalities have decreased somewhat over the last decade or so. But their assessment is overly optimistic, for it compares vehicular deaths on public highways not with those on private ones, but with fatalities on public roads in previous years when there were fewer safety regulations in effect. The public managers may be improving on their dismal record of a decade or two ago, but this is hardly relevant to a public-private comparison. To extend the socialism analogy, it is as if Stalin were bragging

that crop yields from his present five year plan are greatly in excess of the results of collectivized agriculture from several years back when there were fewer 'incentive' features in effect.

Loeb and Gilad (1984, p. 145) criticize previous studies of the contribution of governmental vehicle inspection to safety, and promise to overcome the difficulties besetting them:

(They) have mostly been plagued with statistical or methodological problems which have made their conclusions far from definite.

Only relatively recently has regression analysis been used, and then only on the basis of cross-sectional data. Thus there have so far been no state-specific studies which have used econometric techniques to test the efficacy of inspection.

The present study employs, for the first time, a time series analysis of the efficacy of inspection in reducing fatalities, injuries and accidents. . .

And what is the conclusion of their analysis? According to Loeb and Gilad (1984, p. 162), it

indicates that vehicle inspection in New Jersey reduces highway fatalities by 304 deaths per year. This result is obtained *when other changes that also might affect fatalities are taken into account in the analysis* (emphasis added).

And indeed they are thorough in taking into account numerous other such variables. These include number of motor vehicle registrations, number of drivers licensed, vehicle mileage, personal income, number of drunk driving revocations, population and gasoline consumption. All in all, a very careful job of eliminating alternative hypotheses to their own, except for one small detail, the one analyzed in the present paper.

Loeb (1987, p. 279) is even more specific about the possible exclusion of variables. He singles out Sommers (1985)<sup>8</sup> in this regard, charging that 'if the model used by Sommers omits an important variable, biased estimates may result for the coefficients of the remaining variables.' And what are the specifics? Loeb (1987) uses 'personal income, education, fuel consumption, density of population, precipitation, highway mileage, consumption of distilled spirits, and the age composition of the population.' But this is surely a case of the pot calling the kettle black, for Loeb (1987) himself omits an important variable, with a causal effect potentially greater than all of the variables he cites put together, if only because this one is responsible for affecting (virtually all of) the others.

In Loeb (1988, p. 33) this author again worries about the 'omission of variables.' This time out he employs 'specification error tests' in an attempt

to root out this scourge. Again he (1988, p. 34) criticizes Sommers (1985), asserting that in contrast to that author, his 'models do not omit the potentially important socio-economic and driving related variables as in Sommers' work.' Needless to say, he is again guilty of the same error, since he omits the crucial 'socio-economic' variable of public or private sector ownership management and control<sup>9</sup>. As for his 'specification error tests' they employ (1988, p. 40) the usual litany of drinking age<sup>10</sup>, alcohol consumption, speed<sup>11</sup>, vehicle inspection<sup>12</sup>, per capita fuel consumption, age of the population, but nary a mention of road socialism is made.

Callahan (1970, p. 7) employs no fewer than 16 different highway safety program standards, and opines that

auto officials and others assert that the nation is merely 'holding its own' in the battle against highway accidents, and that this stagnation must be due to the failure to improve the drivers and roads since the cars have been substantially improved.

That's it. It is either the cars or the drivers. Since automobiles are implicitly of optimally (high) quality, the cause of all the fatalities must be the man behind the wheel. It does not seem to have occurred to him that there might be a better explanation.

Lave and Weber (1970, 265) offer what at first glance seems to be a radical analysis of traffic fatalities. They state:

Government intervention is certainly one way to decrease the number of automobile accidents, but this accident reduction is not an economic justification for government intervention. Any sort of interference with the market has a cost which must be weighed against the possible benefits. The economic justification for government intervention is a substantial market failure. There is not sufficient evidence to conclude that various safety features ought to be mandatory. The judgment that government ought to require particular features, therefore, is a non-economic one based on an individual's ideas about consumer sovereignty, the importance of particular market failures, and the social cost of injury and death.

Here, at last, it might be supposed that we have analysts who, even though they reject the market, at least *mention* it as a possibility. Since, on this interpretation, these authors are the only ones cited so far to do so, they appear to earn high marks in this regard.

Alas, however, such an interpretation cannot be sustained. For what they mean by the *market*, amazingly enough, is the present situation where *government* owns and manages the roads, but refrains from mandating any safety devices! If *that* is the market, there is no doubt that it contains many fail-

ures indeed. But this, of course, is not the case. A true market in highway transportation would consist of *private* ownership and control not only of the vehicles, but of the actual traffic arteries as well.

Road socialism, unfortunately, has seeped out from the professional writings of economists to the textbooks, a sure sign of its widespread acceptance. Heyne (1991, pp. 1–3) is a case in point. This is a text supposedly devoted to the idea that private property rights are an important linchpin of economics. Yet it starts out with rush hour traffic as an example of ‘social cooperation.’ He claims, rather heroically, that ‘The dominant characteristic of rush hour traffic is not jam but movement.’ Maybe in rural Idaho, but not on the streets in the typical metropolitan district<sup>13</sup>.

### Theoretical innovation

It cannot be denied that there is some innovation in the mainstream literature on this subject. In large part, it is due to the work of Lave (1985). In that paper he explored the possibility that it is not really speed, *per se*, which is statistically associated with roadway deaths but rather the variance in speed<sup>14</sup>. If true, the highway authorities should concentrate not necessarily on slowing things down as much as reducing the tails of the speed distribution, whether at the high end or the low. In Lave’s (1985, p. 1159) opinion, ‘Variance kills, not speed.’

This point was sharply criticized by Levy and Asch (1989), Fowles and Loeb (1989), Snyder (1989), and replied to by Lave (1989). But in none of this exchange was there ever any mention of omitted variable bias as it applied to private roads.<sup>15</sup>

Also included in the same volume with the others in this exchange was Graves, et al. (1989) who introduced the concept of accident externalities. Even more important, they bemoan ‘the absence of a controlled experiment’ (1989, p. 932), one thing that is practically guaranteed to emerge from a private road system. This is because if each owner is able to set his own rules, concerning not only speed averages but speed variances<sup>16</sup>, controlled experiments would be much easier to come by.

Unfortunately, all of this intellectual innovation is beside the point. No matter how clever<sup>17</sup>, it is akin to rearranging the deck chairs on the titanic in new ways; it is a useless effort to ward off the disaster of the iceberg. In similar manner, if the disaster of government road ownership is ignored, then no matter how imaginative and ingenious the discussion of how to solve the fatality problem, it is doomed to irrelevance.

### Objections

Let us now consider some possible objections<sup>18</sup> to our thesis.

1. This paper, thus far, takes it as axiomatic that privately provided highways would be safer than our existing highways.

There are two ways to test such an assertion or hypothesis. The first is to utilize actual empirical evidence. Unfortunately, there are no extant cases of roadways fully under private control, with which to contrast those in the public sector. Historically, of course, many turnpikes were privately built, maintained, owned and managed<sup>19</sup>. But there are no studies of those epochs available, to the knowledge of the present author, which compared the safety records attained under the two very different institutional arrangements.

What about the possibility of comparing ‘toll roads with comparable public roads,’ or ‘East Coast toll roads with California freeways,’ or ‘French and Italian toll roads with public freeways in the same countries?’ This, unfortunately, is not of relevance here, for *all* of these transportation arteries are under public sector control. In *none* of these cases are the roads managed by private profit (and loss) making business concerns. Just because government in some cases charges a fee (toll) for road use does not convert such an operation into a fully private one.

The second alternative is to cite theoretical reasons. Fortunately, here, we are on firmer ground. Why might we expect firms to be more assiduous in satisfying customers than we find civil servants and politicians to serve voters and taxpayers? To ask this question is practically to answer it, at least given the insights furnished us by the Public Choice School of thought (Buchanan, 1964, 1975, 1979, 1990; Buchanan and Tullock, 1971; Buchanan, Tollison and Tullock, 1980). Simply, the market is more responsive to consumer wishes than is the government to the desire of the citizenry. The dollar vote occurs every day, the ballot box vote only every two or four years. The former may be applied narrowly, to a single product (e.g., the Edsel) while the latter is a ‘package deal,’ an all or none proposition for one candidate or the other. That is, there was no way to register approval of Bush’s policies in areas 1, 3, 5 and 7, and for Clinton in 2, 4, 6, and 8. People were limited to choosing one or the other in the last presidential election. Further, there is rational ignorance in the political sphere, given the unlikeliness of one’s vote being a tie breaker. In contrast, in the private sector, the uninformed consumer is at a disadvantage. The bottom line is that private suppliers of any good or service face the prospect of loss of profits, and eventual bankruptcy, if they fail to satisfy customers. It cannot be maintained that public providers face *no* negative repercussions for poor service; neither can it be reasonably be

denied that these sanctions are of far less import. Otherwise, how can we explain the continued existence of such entities as the post office, the motor vehicle licensing bureau, the passport service, which are notorious for lack of service to their clientele?

2. Perhaps the present public road providers have more incentive to offer an optimal level of safety. In fact, we know that there are many law suits against state and local highway providers alleging that a particular road was inherently unsafe, and we know that juries award big damages in such suits because of the deep pockets of the public highway providers. Isn't it possible that the public providers have responded by constructing roads that are too safe? For example, public providers have placed safety rails or railroad crossing bars in situations where the cost per life saved is (excessive).

True, actual and threatened law suits provide some incentive for good behavior on the part of bureaucrats. The problem is, however, even if they are forced to pay damages, these monies do not come out of their own pockets. Rather, they are taken from general tax revenues. The incentive effects are thus greatly attenuated.

In contrast, lawsuits could play<sup>20</sup> an analogous role in a fully private highway industry. Only here, the benefits would be far more salutary. For if a law suit was lost under such assumptions, the people ultimately responsible for poor highway management – the owners of the road – would pay out of their own pockets.

But lawsuits are only of marginal concern. The reason McDonalds and Heinz and Toyota and Apple and Stradivarius and Moodys give us good products and services is not out of fear of litigation but due to the salutary effects of competition. There is no reason to conclude that the weeding out of the inefficient firms which works so well in all these other industries would somehow be inoperable in the case of transportation networks alone.

Compare fatalities with regard to airlines and traffic arteries. When U.S. Air suffers from a greater rate of loss of life per passenger mile than its rivals, its entire existence is placed in jeopardy, due to the risk of its customers deserting it for alternatives. The same sanctions hardly apply to two different parallel roads, to take the easiest conceptual case for roads, where one has a better safety record than the other. *Both* are typically operated by the same authorities. Even if they are in different states, and motorists desert the one for the other, the financial implications for the abandoned one are so attenuated that they might as well not even exist.

On the other hand, there is one sound point in this objection. It is entirely possible, given the absence of profit and loss incentives, for public managers

to render short stretches of road safe at excessive costs that would not be undertaken by their private counterparts. Thus, we may be faced with the paradox that the public thoroughfares – different ones of them – are both overoptimally safe and overoptimally unsafe.

3. Might there be underkill? Assume if only for the sake of argument that the foregoing is correct: private roads will be safer than governmentally managed ones. It is then possible that a private road builder might provide too high a level of safety? For example, imagine a private toll freeway that parallels a 2-lane road with 5 stop signs and traffic lights per mile. Imagine that the toll road sets a speed limit of 35 mph, and strictly polices those who go less than 30 or more than 40 mph. It *would* be safer. People would use it, because even a 35 mph road beats the constant stop and go of the parallel socialist road. But the high degree of safety on the toll road is suboptimal in the sense that most people would rather trade a little less safety for a lot more time savings.

Let us take even more of an exaggerated case. Suppose one private owner insisted upon a 3 mph speed limit, with traffic lights every 15 feet. Is there any doubt that a competing parallel road would compete away all the customers of such a foolish firm?

To return to an earlier example, the analogous situation would be if a restaurant supplied a waitress, cook, busboy, bouncer, to each separate patron, and all of these employees got in each other's way. The aphorism 'too many cooks spoil the broth' applies in all contexts.

The bottom line is that the market tends to obviate *both* over and under optimal allocations of resources, whether in terms of safety, or weight, or quality, or any other dimension.

But what of the charge that our present<sup>21</sup> number of highway fatalities 41,462, and nonfatal highway accidents 2,210,000, is really either underoptimal, or optimal. On the face of it, this is difficult to accept. The claim can be seriously offered, I maintain, only because, like death and taxes, highway fatalities seem inevitable. This, I claim, emanates from the mind set which sees road socialism as the only possible alternative. To place this in context, imagine that carnage of these proportions were to occur in any *private* industry: mining, air travel, sports, whatever. Under these conditions a hue and cry of vast proportions would arise. Senator Ted Kennedy would hold outraged hearings, determined to get to the bottom of how we can allow the selfish greedy pursuit of the unholy buck to kill and maim so many people. The *New York Times* would call for the nationalization of such an enterprise.

In point of fact, however, this mutilation of the innocents occurs on public property. It is time, it is past time, to think in terms of privatization.

## Conclusion

The present paper has criticized numerous analysts of highway safety as 'road socialists.' This is a charge that will amaze these authors. When they set out to do their work, ideology was, perhaps, the furthest thing from their minds. Yet, for all of that, it cannot be denied that the 'shoe fits.' Their analysis presumes governmental ownership and control of transportation arteries; while it calls into question every other variable which might conceivably affect traffic safety, and even some which do not, it takes for granted these institutional arrangements. If that is not 'socialism,' it will do very well until something better comes along.

## Notes

1. At first glance it might seem harsh to characterize such a position as 'road socialism.' For none of the people criticized below as falling into this category would embrace such an appellation. Given that we are used to considering people as socialists only if they purposefully adopt such a viewpoint, and that the 'road socialists' slide into their stance seemingly oblivious to the fact that this is precisely what their position amounts to, perhaps they should instead be called 'inadvertent road socialists.' But this will not do, either. For these are professional scholars, for the most part sophisticated economists of the first order. To make excuses for them in this manner would therefore amount to a condescending paternalism. They have made their bed, let them lie in it. I shall therefore continue to characterize them as in the title of this paper above.
2. See Loeb and Gilad (1984) for a survey of this literature.
3. The analogy is a reasonably good one. For just as the Soviet agricultural planners knew that farming had once been conducted on a private basis, negating all arguments concerning the necessity of public ownership, so are their modern counterparts acquainted with the fact that initially roads were owned by private turnpike companies (Block, 1979; Gunderson, 1989; Jackman, 1916; Klein, 1990; Klein et al., 1993a, 1993b; Klein and Fielding, 1992). In each case, however, these historical antecedents play (played) no role in their analysis.
4. Actually, the situation is somewhat more complicated as there is at least one commentator, Roth (1966, 1967, 1987) who is a road capitalist with regard to limited access highways, and a road socialist with regard to all else.
5. Block (1979, 1980, 1983a, 1983b), Rothbard (1973), Woolridge (1970), Klein and Fielding (1993a, 1993b).
6. The words comprising this paragraph are taken from Grampp (1950, pp. 425–426). He mentioned them with regard to rent control; I have fashioned them so as to apply to the topic now under discussion.
7. Public *ownership* is really the key, not management. For suppose that the politicians or bureaucrats hired 'private' managers. The minute they did so these managers would cease to be private. On the contrary, they would be public employees, as far removed from the vicissitudes of profit and loss as every other civil servant. See on this Mises (1969), Hoppe (1989, 1993).
8. This author (Sommers, 1985, p. 43) mentions 'public concern over the staggering number of deaths and injuries caused each year by drunken drivers and speed violators,' a paradigm case of the confusion between proximate and underlying causes.

9. Snyder (1989, p. 922) also discusses the issue of omitted variables in the same unsatisfactory manner.
10. Other studies which focus on this variable include Cook and Tauchen (1984), Asch and Levy (1987), Williams et al. (1975), Williams et al. (1983).
11. Other studies which focus on this variable include Kamerud (1983), Castle (1976), Egmore and Egmore (1986), Forest et al. (1984), Hoskin (1986), Jondrow (1983), Solomon (1964).
12. Other studies which focus on this variable include Buxbaum and Colton (1966), Crain (1980), Duda (1977), Fuchs and Leveson (1967) and Loeb (1985).
13. For an analysis of traffic congestion as due to a lack of peak load pricing, and *this, in turn*, as a result of road socialism, see Block (1980).
14. Others who have written on this include Schelling (1978), Gaber and Gadirau (1988), Hauer (1971), and Block (1979).
15. There were some points made, however, that are worthy of note. Fowles and Loeb (1989, p. 917) are amongst the few researchers to incorporate a hospital access variable (closeness to medical care, operationally defined as hospitals per square mile) into their analysis; they also took account of the type of driver behind the wheel, professional vs. amateur (1989, p. 924).
16. See Block (1979) for a discussion of the limitations in how sharply the rules of different road entrepreneurs could diverge from each other.
17. The strongest candidate for the cleverness sweepstakes is Peltzman (1975), who probes the case for unintended negative consequences of safety regulation. Needless to say, privatization forms no part of his analysis, however.
18. The author wishes to thank the anonymous referee for inspiring him to write this section of the paper. The specific objections arose from this source, as did a goodly part of the analysis. All otherwise uncited direct quotes are from this referee's report.
19. See endnote 4, *supra*.
20. They need not do so, however. For under the market doctrines of strict liability and caveat emptor (Rothbard, 1982), the customer would enter this facility at his own risk.
21. *Statistical Abstract of the U.S.*, 1993, table 1030, p. 622, for the year 1991.

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