

Which problems do light railways solve?

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Light railways are often presented as the technological answer to many problems in urban transportation, but most urban transportation problems have better technical solutions. Yet light rail attracts wide interest, especially within public administration.

One explanation to this discrepancy is that rail systems usually exhibit rigid single-use technology and high sunk costs. Those characteristics make rail investments attractive to public administration because such investments simplify planning, influence land use and land values, and provide continuation of activities of public organizations. The investments may signal a commitment to develop a particular area. However, the investments also offer many opportunities for exploiting agent-principal, free-rider, and moral hazard risks, which make them less advantageous for the taxpayer.

Finance-wise, the single-use technology and high sunk costs make rail investments risky and non-liquid, and therefore generally not attractive. Such investments would be financially attractive only when they provided market power over adjacent land use, which would generally not be the case for private financiers.

Requirements for more efficient public sector services and the need for private financing may change the current administrative interest in rail. Private financing would favor technologies with lighter sunk costs and multi-use technology. For such technology to be adapted, laws should allow pricing free rides in urban transportation, require larger transparency and adequate cost accounting from public organizations, favor Public-Private-Partnerships (PPP), and introduce curb rights.