

books reviewed

Economic Analysis and Public Enterprises. By RALPH TURVEY.
Totowa, N.J.: Rowman & Littlefield, 1972. Pp. 150. \$8.75.

This little volume contains a very mixed bag of pieces of considerable interest to those concerned with the structure of prices and the making of investment decisions in utility and other publicly operated enterprises. Perhaps the best part of the book consists of the last six chapters, excerpted from reports of the National Board for Prices and Incomes, on which Turvey served as deputy chairman up to the time of its dissolution in 1971. These chapters illustrate the application of the principles developed somewhat sketchily in the earlier section of the book to such practical problems as urban transport, shipping services to the islands north of Scotland, and the supply of coal and gas.

While Turvey, quite rightly, in my opinion, emphasizes the need for eschewing analytical niceties in favor of reasonable estimates and rough judgments of a sort that will be useful to practical decision makers, it would seem, at the risk of being captious, that in many cases he stops somewhat short of providing adequate consideration or even mention of elements in the situation which would be of significance for the decisions to be made. The proposals advanced, though highly suggestive and in many cases clearly going in the right direction, thus fall somewhat short of being as persuasive as they might be. This is perhaps too easy a criticism to make in an area where the possibilities for elaboration of niceties is almost boundless, and one can sympathize with a reluctance to get too involved in complications which will seem to hopelessly confuse the issue to the relatively unsophisticated; but one could wish that some of the more significant complicating factors had at least been mentioned.

The suggestion is made, for example, that charges for freight shipments to and from the Shetlands and Orkneys be reduced to marginal cost, which consists, during off-peak periods, largely of loading and unloading costs, and that the resulting deficit be made up by charges on the local (property tax) rates. However, this proposal appears to ignore an important second-best aspect of the situation in that the proposed surcharges on the rates would constitute an added deterrent to investment in property affected by these rates in a situation which marginal private cost is already considerably in excess of marginal social cost. Unless some alternative mode of finance can be found, such as a special rate based on land values, that would not have this effect at the margin, optimal adjustment would call for freight rates to be set somewhat above marginal cost, though probably

considerably closer to marginal cost than the present charges, with a correspondingly smaller surcharge on local rates.

At another point, data are adduced indicating that the cost of carrying additional passengers in the peak hour over the peak mile of a bus route can be as much as 25 *p.* compared with fares of 2.5 *p.*, but then a policy of peak pricing at this level is backed away from on the ground that the impact on private car traffic might be such as to wipe out any benefits. Questions might be raised as to the validity of the marginal cost figure, in that it leaves out of account possibilities for taking care of the peak by short-routing of buses as well as the benefits to passengers on the outlying segments due to increased space or frequency. But even taking the cost figures at face value, the reader is left with no guide for decision in the event that data on modal split were available so that losses from increased auto traffic could be compared with estimates of gains from diversion of traffic to other times, to walking, or by rerouting to avoid the peak segment, and the like. Nor is there any mention of any of the several very real technological possibilities for imposing charges on peak-hour street traffic in a highly sophisticated and flexible manner developed over the past 10 years or so by the Road Research Laboratory at Harmondsworth. It is perhaps understandable that this hot political potato should have been omitted from the report on the fares for London Transport, but regrettable that this vital element in the solution of the problem should find no echo in a volume addressed to a less sensitive audience.

Perhaps the most interesting chapter in the earlier, analytical section of the book is the one in which Turvey attacks the rather intractable problem of determining the optimum quality of the service to be provided. In the case of transportation service one important aspect of quality is frequency, and in order to optimize in this dimension we obviously need to know something about the value to customers of increased frequency. Gilbert Ponsonby's proposed rule of thumb that one should aim to select that quality that maximizes the volume of traffic when fares are adjusted to cover costs is not only difficult to implement but leads to non-optimal results, especially if there is a substantial class of customers who value quality but have no feasible alternative regardless of quality and thus have no way to make their preferences impinge on a decision made by this rule. Turvey concludes that "no amount of feasible experiment could give any clue as to the magnitude of [the value of increased frequency to the users]." Actually many cost-benefit studies have proceeded on the basis of assigning a value to waiting time, and thus to the reduction in waiting time produced by a given increase in service frequency, based on studies of choice of mode or route, or by using a more or less arbitrary fraction of the wage rate as a basis. And while the following experiment may be somewhere near the fringe of feasibility, it at least could serve as a basis for discussion. Let alternate buses on a route be designated red and green buses, respectively, and alternate bus stops similarly designated red and green. Then if the normal fare is *p*, then for the duration of the experiment passengers

boarding a bus of the color matching that of the stop would pay a fare of $p - a$, while those boarding nonmatching buses would be required to pay a fare of $p + b$. By varying a and b , and observing how many passengers at each fare-differential level wait for the following bus rather than pay the higher fare, one would obtain direct evidence of the value of waiting time. If the headways are long or the stops infrequent, the experiment would obviously involve a considerable cost in terms of reduced efficiency of utilization, in addition to whatever costs the dual fare structure imposes. In short-headway service, on the other hand, the number of stops made by each bus would be reduced somewhat if a substantial number of passengers confined their riding to the matching colors, and the result might be a sufficient speeding up of the service to partially offset the loss due to the longer waits. Here one might have to control in some way for whether prospective passengers could see the second bus approaching when deciding on whether to take the first.

Most of the analytical results, indeed, are disappointing. An analysis aimed at determining when the introduction of a new variety or quality is desirable comes up with nothing better than the rather trite result that if competing qualities are being sold at prices equal to marginal cost, a new quality is warranted if it can be sold at a price to cover its total costs, but not necessarily conversely. Several pages of analysis of traffic queues come up finally with the intuitively rather obvious result that the addition of another vehicle to the traffic flow increases total vehicle hours of delay in the queue by an amount equal to the lapse of time between the time the added car joins the queue and the time the queue is entirely worked off. One hoped for more.

Nevertheless, the state of the art in this area is still so much in need of material that even this rather spotty vein is well worth mining.

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The British Prices and Incomes Board. By ALLAN FELS.

New York: Cambridge University Press, 1972. Pp. xii+298. \$13.50 (cloth); \$5.75 (paper).

How to Run an Incomes Policy and Why We Made Such a Mess of the Last One. By HUGH CLEGG.

London: Heinemann Educational Books, 1971. Pp. 88.

During the postwar period the United Kingdom has experimented with official incomes policies more persistently than any Western country save the Netherlands. The present volumes provide complementary postmortems on the policies of the Labour government during 1965-70 from two perspectives. Fels, an Australian economist, provides a visitor's assessment of the operations of the National Board for Prices and Incomes (NBPI),

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