CONGRESS BLOG
THE HILL'S FORUM FOR LAWMAKERS AND POLICY PROFESSIONALS

June 28, 2016, 08:01 am

The perks of a privatized Metro system

By Erika Grace Davies and Antony Davies

Something interesting happened following Metro's single-tracking and long-term shutdowns.

Lyft started offering discounted rides to Washington commuters. With these discounts, the ride sharing giant joins FedEx, Underwriters Laboratories, private schools, passport expeditors, and many other businesses to become one more private-sector company offering to fix the blunders of a public-sector enterprise. According to market skeptics, this isn't the way it's supposed to work – Lyft is a profit-seeking entity. And according to conventional wisdom, profit-seeking companies jump at opportunities to exploit in pursuit of the almighty dollar. With Metro on the ropes and thousands of commuters stranded, conditions are perfect for services like Lyft to charge the absolute maximum the market will bear. Why then are they cutting their price in half?

It turns out that market skeptics are partly right.

Private companies don't drive prices down and quality up. Just look at Comcast, whose prices only go up while every other price in the tech world keeps going down. According to its own customers, Comcast's customer service rivals that of the DMV. The private sector doesn't bestow a magical ability to deliver high quality at low prices. Market proponents and skeptics alike know that Comcast is more like the DMV than Netflix because Comcast faces little competition. Yet neither does competition bestow a magical ability to deliver high quality at low prices.

Metro is but one example. Metro faces all sorts of competition from walking to bikes to private cars to carpools to taxis, Uber, and Lyft. Yet Metro's service has become so poor as to become – quite literally – non-existent. It turns out that the magic formula is the *combination* of competition and private enterprise.

Corporations do seek the almighty dollar, but market skeptics go off the rails when they conclude that the correct response is to replace private sector profit-seekers with government. The quest for this almighty dollar is a powerful drive that can be harnessed for good – provided it is complimented by competition. In a competitive environment, the way profit-seeking companies make money is by providing what consumers want at the lowest possible price. This is why Lyft is dropping its prices 50 percent as Metro cuts service. Lyft is a profit-seeking company that faces stiff competition. By cutting its price, Lyft hopes to encourage Metro's customers to try Lyft. And if those people judge that Lyft delivers a price and quality that Metro can't, they'll stay with Lyft even after the metros stop catching fire.

The private sector is composed of sometimes selfish, sometimes altruistic, sometimes brilliant, always fallible humans – the same that comprise the public sector. Lyft might be run by heartless people who care only about making money. Or, Lyft might be run by principled people who care about providing a fair service at a fair price.

As with the public sector, the reality is likely somewhere in the middle. The folly in replacing private business with government enterprise is that the public sector only achieves the common good when, by happy accident, it is mostly composed of altruistic people. The beauty of a competitive free market is that it doesn't matter whether the people comprising the private sector are altruistic or selfish. Regardless of their motivations, competition forces Lyft's people to behave as if they care about providing a fair service at a fair price. Because the moment they stop, their customers will move on to Lyft's competitors.

Competition has gotten us halfway to solving the problem that is Metro. We'll get the rest of the way when we privatize it. Until we get that combination of competition and private enterprise, Metro will continue to fail.

Antony Davies is an associate professor of economics at Duquesne University in Pittsburgh. Erika Grace Davies is pursuing a masters' degree in economics at George Mason University.