

some extent the inefficiency differentials among companies can be due to differences in the commercial speed levels. These latter contribute to determine what Gagnepain & Ivaldi (1998) called intrinsic inefficiency of a network and can seriously undermine the efficacy of incentive regulatory policies. In view of the evidence found for the operators facing very low commercial speed levels, if the exogenous operating conditions become too unfavorable, then fixed-price subsidization mechanisms are less successful instruments for recovering efficiency.

These findings provide useful guidelines for the policy interventions concerning local mobility. Significant reductions of x-inefficiency can be achieved by introducing fixed-price schemes of subsidization, and the ongoing reform correctly moves towards this direction. A proper definition of quality and cost standards is requested, so that the service contract between local authority and LPT operator gives the manager the incentives to optimize the allocation of productive resources. Our results also underline the impact of network characteristics and confirm the importance of local traffic regulation, already stressed by Fraquelli et al. (2001b). In fact, a more flowing mobility for LPT vehicles would have positive effects on both the technology (higher commercial speeds lower the minimum-cost frontier) and the x-efficiency levels (higher commercial speeds move firm performances closer to the best-practice behavior). This could be pursued, for instance, by acting on factors such as the re-allocation of existing road space away from private vehicles towards public passenger transport (e.g., reserved lanes for trams and buses, restrictions on parking and traffic of cars and taxis), or the provision of incentives for the use of public modes (e.g., good intra- and inter-modal timetable coordination, introduction of multi-modal travelcards).

In conclusion, there is a scope for transport policy to increase cost efficiency of Italian LPT companies. Efforts have to be intensified in the twofold direction of replacing cost-plus subsidization mechanisms with high-powered incentive schemes as well as improving exogenous operating conditions of the network. Indeed, a peculiarity of our study is to highlight the complementarity between the effects exerted by these two instruments. Local authorities will have to define the proper mix of interventions according to the specific regulatory framework and environmental factors faced by single LPT firms.