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A Sensible Solution to Thin Traffic, and One for Easing Concerns About Fairness

by Robert H. Frank

Mayor Michael R. Bloomberg recently proposed charging a fee to motorists who enter Manhattan south of 86th Street on weekdays. Drivers of cars would face a daily charge of $8 from 6 a.m. to 6 p.m., while the fee would be $21 for driving commercial trucks.

Although critics have attacked the plan, experience suggests that the economic benefits of what is known as "congestion pricing" are substantial. For example, after a daily fee of $14 was imposed on cars entering central London in February 2003, downtown traffic fell by a third and travel times on some bus lines fell by half. Londoners also saw carbon dioxide emissions fall by 20 percent, and there were substantial declines as well in emissions of particulates and nitrogen oxides, the main components of smog.

But if the benefits of congestion pricing are so compelling, why is it so rarely adopted in this country? Perhaps the most important hurdle has been concern about hardships on low-income residents. For congestion fees to achieve their intended effects, they must be high enough to cause large numbers of people to alter their behavior. But fees that high would inevitably be burdensome for at least some people.

When this concern is not adequately addressed, proposals to change behavior by relying more heavily on market incentives are seldom accepted. Although studies have shown, for example, that daily and seasonal variations in electric rates would substantially reduce the average consumer's utility bills, proposals to adopt such rate plans are typically rejected because of concerns about low-income users who may lack the flexibility to alter their consumption patterns.

That such concerns so often block economically efficient programs is one of the enduring mysteries of modern political economy. An economically efficient program is, by definition, one whose benefit exceeds its cost. That means there must be ways of redistributing the gains so that every citizen, rich and poor, comes out ahead. Failure to adopt an efficient program thus raises the question of why we couldn't figure out how to accomplish the necessary transfers. Why are we leaving cash on the table?

It is already clear that concerns about the effect of congestion fees on poor motorists underlie much of the gathering opposition to the mayor's plan. Lewis A. Fidler, a New York City councilman, for example, has called the plan "outrageous, because they're saying rich people can come into Manhattan and poor people may not, and that is just wrong, wrong, wrong." Unless such concerns can be satisfactorily addressed, they are likely to sink the mayor's proposal.

Mayor Bloomberg may thus do well to study the New York State Public Service Commission's attempt to impose fees for directory assistance in the mid-1970s. That experience illustrates not only the decisive importance of equity concerns in public policy decisions, but also how easy it often is to address them.

In a reform effort begun by Joseph C. Swidler, then the chairman, and completed by his successor, Alfred E. Kahn, the agency that regulates New York's public utilities took aim at the now quaint-seeming practice of providing directory assistance free. The commission argued that a 10-cent charge for directory assistance calls would give consumers an incentive to look up telephone numbers on their own whenever convenient, which would free up operators and equipment for more valuable tasks.

Although the commission's proposal promised net benefits for the average telephone subscriber, it was greeted by a firestorm of protest. And when social scientists testified gravely, albeit absurdly, that it threatened to disrupt vital networks of communication in the community, its defeat appeared certain.

Commission officials then introduced a simple amendment that saved it. In addition to charging 10 cents for each directory assistance call, they proposed a 30-cent credit on each consumer's monthly phone bill, a reduction made possible by the additional revenue from the charge and the savings from reduced volumes of directory assistance calls. Because this amendment promised to reduce the monthly bill of customers willing to use their phone books, political opposition vanished overnight.

No one who witnessed this episode came away without a deep appreciation of how the strongly the fate of public policy proposals is tied to concerns about how they will affect the poor. After all, those concerns nearly defeated an otherwise unimpeachable proposal, even though a 10-cent charge for directory assistance calls would have had essentially no impact on even the poorest family's standard of living.

If Mayor Bloomberg wants New Yorkers to reap the considerable benefits promised by congestion pricing, he should follow the Public Service Commission's example. Although most people who currently commute by car into Manhattan are not poor, some are, and for these drivers, paying $8 each day would be difficult. It is an iron law of politics that those who stand to lose from a change in policy lobby much more intensively than those who stand to benefit. Rather than allow concern for poor drivers to doom congestion fees, the city should adopt a simple variant of the phone bill rebate.

For example, every worker in Manhattan could be given transferable vouchers that could be used to defray some portion of the new fees. This would protect low-income people who sometimes have no choice but to drive into the city during peak hours. Those who could avoid such trips could sell some or all of their vouchers to others. All New Yorkers could thus enjoy the benefits of cleaner air and reduced traffic congestion without imposing a burden on low-income families.

Can the city afford to address concerns about low-income motorists in this way? With New York's rapidly growing population making congestion more severe each year, a better question may be whether it can afford not to.

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