

The politics and economics of congestion pricing in NYC

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New York City straphangers just experienced what can best be described as the summer from hell. Video coverage from June showed riders stuck inside an overheating train, desperately trying to pry open fogged-up doors, reminiscent of a scene from a zombie movie. Plagued by overcrowding and frequent mechanical failures, our subway system is in desperate need of repair. The billion-dollar question is, how will it be funded? Governor Cuomo believes that congestion pricing is the solution; Mayor De Blasio says he “does not believe in it”¹. Indeed, congestion pricing has been implemented in many metropolitan cities across the globe to fund infrastructure improvements, and reduce congestion and pollution. But for decades, New York city has tried, unsuccessfully, to implement congestion pricing.

Congested roads are considered common-pool resources since they are rival and non-excludable. When goods are non-excludable, there is no way to charge for them since the provider cannot exclude people who have not paid... So, when goods are not private, public policy may be required to allocate them. In the case of roads, this allocation could be done through the use of congestion pricing policy. One of the main issues with traffic congestion is that motorists only consider their own private costs, such as fuel expenses and travel time, while ignoring externalities like congestion and pollution. Congestion pricing forces motorists to *internalize* these costs. The charge for each trip should at least equal the marginal social cost of the trip. Moreover, “because roads are most congested at peak driving times, the congestion externality is highest during those periods. Off peak times have no external effect because an additional driver on an empty road does not slow down other drivers. Thus, for improved (road) efficiency, a variable (not flat rate) toll should be charged”². From an economic perspective, variable congestion pricing could help to regulate demand (assuming elastic demand), and correct inefficiencies.

¹ <https://www.nytimes.com/2017/08/21/nyregion/de-blasio-congestion-pricing.html>

² <https://www.mercatus.org/system/files/Krol-Congestion-Pricing-v1.pdf>

While congestion pricing may produce efficient outcomes from an economic standpoint, as the case of Stockholm illustrates, it may be difficult to garner political support for such a policy. Stockholm's congestion pricing initiative resulted from shifting political majorities and alliances in the 2002 national elections. Then, the Social Democrats were able to form a government by attracting the support of the Environmentalist Party. In exchange for this support, the Social Democrats agreed to an experiment in congestion pricing. Together, the Environmentalists and the national Social Democrats convinced the Stockholm Social Democrats to implement the experiment for seven months. At the time the trial was approved, it was also decided that a referendum on the permanent implementation of the charges would be held in the city of Stockholm in conjunction with the general election in September 2006. The design of the system was simple – a zone was cordoned off, toll prices varied by time of day, some types of vehicles were exempt, and tracking was done electronically. The initiative was also supported by improvements to the city's public transportation system. The result was a 16% decline in traffic as well as a noticeable reduction in emissions during the trial period (H&Q, 860). Due to positive firsthand experience coupled with positive press, public acceptability of congestion pricing increased; the referendum ultimately passed with a vote of 52%. There were two salient learning points; firstly, people generally voted based upon their political affiliation. Secondly, self-interest prevailed - private benefits and costs (the time savings in commuting and the charges incurred by drivers) were integral to public acceptability. People who supported the Alliance party were more likely to vote against congestion pricing. Residents in the cordoned area overwhelmingly voted in favor. Voters in traffic zones where the average time savings were higher were more likely to support the congestion charge, while voters in zones where the average cost of a trip increased were less likely to favor congestion pricing

As the experience of Stockholm illuminates, an important pre-condition for the implementation of a road pricing system is public and political acceptability. New York City remains an example of how difficult it is to influence public opinion as well as elected officials who are critical to the passing of a congestion pricing proposal. For decades, the city has contemplated congestion pricing, starting in the 1960s with William S. Vickery. In 2008, a bid

by then mayor Michael Bloomberg to create a tolling system failed to garner enough support in the legislature to even get a vote. The city council supported congestion charging by a vote of 30-20, and while the Senate was expected to approve the plan, the Assembly was not supportive³. Most of the Assembly's opposition came from members representing the outer boroughs of the city who highlighted the financial impact on their people. Policies involving increasing taxes and charges are largely unpopular, and many elected officials fear the political backlash. State senator Marty Golden, a Brooklyn Republican who backed Bloomberg's congestion pricing plan stated that his support of the plan actually costed him political capital. As he said. "I took a bullet for that and got nothing...taxing people is not the way to go."⁴ This year, after declaring a state of emergency, and facing up to an estimated \$8B for subway repairs⁵, the idea of congestion pricing is being floated by Governor Cuomo. De Blasio, who instead favors a millionaire tax, sites opposition based on issues of equity. Like many, he voices concerns that congestion pricing is regressive and that low-income people would pay a higher portion of their income in tolls. But studies show that low-income individuals are more likely to use mass transit than drive cars⁶. Furthermore, if the revenue gained from congestion tolls is used for improvements to subway infrastructure, congestion pricing would have a positive net benefit for low-income individuals. There has also been much opposition from those in the restaurant industry who argue that tolls paid by their suppliers would be passed onto them. Proponents of congestion pricing point out that, conversely, congestion fees would improve traffic flow, speed deliveries and save businesses money⁷. As Stockholm demonstrates, getting people to understand how congestion pricing is in their self-interest is paramount. In the case of New York City, this could be accomplished by emphasizing that the revenues from congestion tolls would be used to fund subway repairs. But since De Blasio is up for election next month, and Cuomo and state legislators face voters next year, electoral considerations are

³ <http://thecityfix.com/blog/toward-car-free-cities-why-congestion-charging-failed-in-new-york-jacob-sacks/>

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<https://www.wsj.com/articles/nyc-mayor-says-gov-andrew-cuomos-congestion-pricing-plan-isnt-viable-1503354020>

⁵ <http://pix11.com/2017/07/25/fixing-the-subway-could-cost-9-billion-but-mta-head-says-no-new-fare-increases/>

⁶ <https://citylimits.org/2017/09/07/debate-fact-check-is-congestion-pricing-regressive/>

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<http://www.crainsnewyork.com/article/20170821/POLITICS/170819867/new-york-city-business-leaders-await-governor-andrew-cuomos-congestion-pricing-plan>

very much at play. So, while there are merits to congestion pricing, getting such a measure passed would be a steep uphill battle.

Congestion pricing is based on simple economic theory – to regulate consumption, drivers should pay a price equal to the marginal social cost of their driving. While theoretically simple, such a proposal is politically onerous. Nevertheless, our subway system is in desperate need of repair. Congestion pricing could provide the funding necessary, reduce both traffic and pollution, and increase overall welfare for New Yorkers.