

# CITY TOLL

## URBAN CONGESTION PRICING – ECONOMISTS AND PRACTITIONERS JOIN HANDS

TILMANN RAVE\*

This issue of *DICE Report* was inspired by the renewed interest in congestion pricing, especially (but not exclusively) in Europe. Several scholars and practitioners were invited to take stock after several decades of research and advocacy for, as well as resistance against, congestion pricing, and to report from recent real-life experiences. While economists' pleas for congestion pricing have fallen on deaf ears for a long time (at least since the early 1960s), it is interesting to note that there now seems to be a shift in perspective with a merging of theoretical and practical reasoning. This change in perspective and some of its nuances can be witnessed throughout the articles assembled here.

*Richard Arnott* from Boston College, one of the world's leading urban and transport economists, opens the scene with his overview article "City Tolls – One Element of an Effective Policy Cocktail". He not only recalls the economic rationale for marginal cost-based pricing, but distinguishes several phases in the discussion which have slowly transformed the narrow views of both ardent supporters and opponents of road pricing. In contrast to some of his economist colleagues he gives a cautionary note saying that welfare gains put forward in the textbook version of auto congestion pricing may not be as large after all, given some real-life complexities (like other distortions in the economy) and implementation problems. He also encourages other economists to look beyond auto congestion pricing in the narrow sense and analyse some outside-the-box policies to alleviate urban traffic congestion (like parking policy or bicycling).

While Arnott calls for careful reasoning, the three following articles demonstrate that congestion pricing schemes can indeed be implemented and have a substantial impact on the transport system. *Kian-Keong Chin*, chief engineer in the Singapore Land Transport Authority, reports from one of the oldest and often cited experience with road pricing worldwide. Not only does he provide a detailed picture on how the Singapore scheme works on the ground, he also illustrates, covering a period of 30 years, how the scheme evolved over time giving rise to strategic and technological refinement and learning.

This insight seems to be interesting given the more recent experience with congestion pricing in the city of London, which is dealt with in the article from *Todd Litman*, a policy-oriented transport economist from the Canadian Victoria Transport Policy Institute. Despite some drawbacks in the way the scheme was designed (e.g. no time-variability) it has turned out to be more successful than originally predicted. Litman also highlights that London has sent out a political signal showing that congestion pricing is feasible and effective, and that it is possible to overcome the political and institutional resistance to such pricing.

*Catharina Sikow-Magny* and *Marcel Rommerts*, working for the European Commission, put this signal into a wider European perspective. They not only remind us that the European Commission has advocated the reform of transport pricing for over a decade, they also emphasize the importance of informal and formal networking to make these reform efforts successful. Informal networks, created in successive research projects, seem to have created rather stable policy communities which share similar values and interact continuously and creatively. Formal network activities under the EU Framework Programmes have established a kind of two-way process, with research results being fed into the policy implementation process and relevant policy questions being picked up by researchers.

Given this rather enlightening experience some readers may now feel more positive about the prospects for real-life congestion pricing. Others, howev-



\* Tilmann Rave is a researcher at the Ifo Institute for Economic Research, Munich. rave@ifo.de.

er, may object that congestion pricing policy and technology are not standardised across cities, which prevents low-cost and easy-to-implement solutions. Thus, different policies and technologies may be appropriate for cities of different size and with different budgetary resources and planning capacities. *Ronnie Schöb*, Professor for Public Finance at the University of Magdeburg, draws on Arnott's plea for complementary policies beyond "pure" congestion pricing and develops a simple policy that might be particularly appropriate for medium-sized cities. The policy entails charging cars that enter the city-centre a toll equal to the public transit fare. Schöb's "multi-mode ticket" reduces the opportunity costs of travelling downtown by public transport and improves the revenue situation of public transport authorities.

Overall, this issue of DICE Report demonstrates that road pricing is high on the agenda of policy makers and practitioners, given some of the unresolved transport problems in densely populated urban areas. Yet, other than some economists implicitly assume there is no cure-all to urban transportation problems in general and traffic congestion in particular.