

2008-03-26

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Recommended Citation

Power, T., (2008) "Motorists Will Have to Pay for the Cost of Congestion", Dublin, The Irish Times, 26 March, p.14 doi:10.21427/0rag-a631

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Power, T. Motorists will have to pay for the Cost of Congestion. Dublin, Irish Times newspaper, March 26th. 2008.

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Motorists will have to pay for the Cost of Congestion

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Key Words: *traffic congestion, congestion charges, public good, common resources, deadweight loss.*

Abstract: The available road space (the scarce resource) is currently allocated by one's willingness to sit in traffic jams. The costs incurred in sitting in traffic jams benefits no one – it is pure deadweight loss. The solution is to get the motorist to pay the social cost (marginal congestion cost). By pricing the cost of this traffic congestion in euro, this money could be collected and put to good use, perhaps on improving public transport.

An economics professor at UCD used tell us that the problem with economic theory is that people keep ignoring it.

Applying economic theory as a resolution to the problem of road congestion is a case in point. In 1776 Adam Smith published his classic, *An inquiry into the nature and causes of the wealth of nations*, which argued that individuals, left to follow their own self interest will do what is best for them and indirectly what's best for society.

The food we eat, the clothes we wear and the roofs over our heads don't simply appear because the food producers, tailors and builders are altruistic, kind, caring and thoughtful human beings. They appear because people are motivated to make profits.

However, in pursuing their own self-interests they unintentionally serve the public interest. It is as if they are guided by an "invisible hand" to promote (involuntarily) a public interest.

Adam Smith's idea of an invisible hand that connects private interests is at the heart of understanding political economy. Markets and market prices are more often than not the best way to organize economic activity and allocate scarce resources.

However, even Adam Smith would acknowledge that sometimes markets don't always promote the public interest and that governments need to intervene. One reason for market failure is what economists refer to as externalities – the effect that market activity has on the wellbeing of bystanders.

A factory that doesn't have to pay the cost of polluting the air is likely to produce too much and therefore pollute too much. The social costs of pollution are not included with the private costs (wages, rent, materials etc.) in the price of the product. In this case intervention is necessary to correct the market failure.

Similarly, motorists will make a decision whether to take a particular journey based on the benefits of the journey and the costs (time spent travelling, petrol etc.). What they don't consider is the additional costs they impose on others as a result of their decision to take that journey – they increased congestion.

The available road space (the scarce resource) is currently allocated by one's willingness to sit in traffic jams. The costs incurred in sitting in traffic jams benefits no one – it is pure deadweight loss. The solution is to get the motorist to pay the social cost (marginal congestion cost). By pricing the cost of this traffic congestion in euro, this money could be collected and put to good use, perhaps on improving public transport.

An argument put forward against road pricing is that roads are a public good and therefore considered "free". However, roads cease to be a public good once they become congested and instead become a common resource. When a road becomes congested, one person's use of the road reduces the available space for other users.

It is difficult to charge road users for the space that they use up. Receiving the benefits of something without paying for it (including the social costs) is an example in economics of the free-rider problem. The problem for policy makers is to decide how much should a common resource should be

used. Avoiding congestion would involve the co-operation of all motorists.

They could act together to reduce the number of cars on the road to a level that is efficient, i.e, to a level that would eliminate congestion. The problem is that each motorist does not have the incentive to co-operate because each individual motorist contributes only a small proportion of the congestion problem. In economics this is the classic case of the tragedy of the commons’.

To avoid this tragedy, policy makers could increase the price of complementary goods, e.g. petrol taxes. Petrol is considered a complementary good because cars cannot operate without petrol. By raising the price of petrol (via taxation) this reduces the demand for driving. But car ownership is, in economic jargon, a very inelastic good. Demand for driving is very insensitive to price. Therefore the fall in demand induced by petrol taxation is likely to be insignificant. In addition the problem is with peak demand. Congestion usually happens at peak times in the mornings and evenings. But this type of variation in demand is not a problem. Petrol tax cannot be used to solve congestion problems – buying petrol during off-peak times can be used during peak periods.

Urban planners and policymakers spend an inordinate amount of money, time and resources trying to find solutions to traffic congestion (top-down policies). Often without reference to how market pricing can be used to eliminate congestion.

Planners must surely realize that “supply-induced policies” (building more roads) has clearly failed to solve the twin problems of congestion and pollution. Building more roads simply leads to – drum roll – more cars. Knocking down all the buildings in Dublin and building roads would not eliminate traffic congestion.

Road pricing works in theory and practice. Singapore, the first city in the world to introduce road pricing has no congestion problems and no traffic-induced pollution

problems. London's experience has been a monumental success. There are fewer cars in the city, lower CO2 emissions and higher levels of business transactions. Fellow egalitarians who oppose road pricing on the basis that it is regressive and that the "right" to drive should be distributed equally and not just based on one's income should remember that road congestion is unfair to everybody not just to those who use the roads. However, since it is the case that higher income groups tend to drive more and use bigger cars than lower income groups, car owners could be given a driving permit that would give them a driving time each year. For those who drive less or decide not to travel into congested areas they could sell their balance to those who are willing and able to buy them – a distribution of income from rich to poor.