

The problem of acceptability of pricing schemes. How to overcome resistance

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INTRODUCTION

- ❑ ***Transport is a vital support for trade and for lifestyle***
 - Patterns on both domains have evolved counting on availability of good, reliable and relatively cheap transport supply
 - Demand has grown steadily above GDP growth rates
 - Congestion problems not solved simply by expansion of supply
 - In spite of technical progress, environmental aggression still strong
- ❑ Charging adequate prices for transport activity seems an elegant way to manage demand without being explicitly restrictive
- ❑ ***Nobody dares speak about restrictions to trade or personal mobility but only about aggregate consequences***
 - But looking in detail, we understand that tough adaptations of behaviour might be needed by those who won't be able to pay

TRANSPORT PRICES AND THEIR INFLUENCE ON SHORT AND LONG TERM OPTIONS (I)

- ❑ Overall cost of displacement has a direct influence on short-term travelling decisions (whether, when, where, which mode)
 - Price changes will indeed force changes of transport flows

- ❑ But ***many long-term decisions*** (physical locations) by firms and by families are also ***directly influenced by expectation of transport availability and prices***
 - Reversion of these decisions is always taken with reluctance
 - high sunk costs, frequently escalating real-estate prices, creation of new relationships
 - ***The State and municipalities are the main responsible parties*** in producing the signals that affect these decisions
 - any significant change forcing reconsideration of those decisions is not accepted lightly

TRANSPORT PRICES AND THEIR INFLUENCE ON SHORT AND LONG TERM OPTIONS (II)

- ***Evidence of “internalisation” of regular congestion delays in lifestyle and business practice***
 - apparent reduction of value of time “lost” as long as it is predictable
 - preference for
 - regular commuting delay that preserves flexibility during the day
 - short-term aggravation instead of long-term relocation
- ***Different judgement of Government behaviour*** regarding congestion and transport price increases
 - Congestion is felt as caused by everyone, accompanied by inability or incompetence by Government in handling the problem,
 - Significant price increases may be felt as “treason”, since they are felt to pose major risks to business or lifestyle stability

THE BASIC CONDITIONS FOR ACCEPTANCE OF PRICE CHANGES

- Given the social role of transport and traditions of price management in the sector, accepting transport price hikes requires
 - Understanding Why
 - Expecting Improvements
 - Perceiving Fairness
 - Of incidence (equity)
 - Of use of revenues
 - Of representation of positions (within and across sectors)
 - Easy Adaptation to Transactions
 - Perceiving Transparency and Accountability of handling agencies
 - Perceiving Resistance to Fraud
 - Perceiving low risk of Invasion of Privacy

EQUITY DIMENSIONS

- ❑ **Territorial Equity:** related to the right of mobility and to similar levels of access to the main items of balanced social life
- ❑ **Horizontal Equity:** related to the principles of equal opportunities, and user-pays
- ❑ **Vertical Equity:** related to the principle of distributive differences, in order to protect those less well endowed
- ❑ **Longitudinal Equity:** related to individual expectations of preservation of entitlements (acquired rights)

- ❑ These four dimensions frequently lead to conflicting views, especially when we start from a biased (but consolidated) position

WEAKNESSES OF THE MSCP APPROACH (1)

- ❑ Basic internal inconsistencies
 - for some cost items (noise, accidents), strict application of theory is inconsistent (cost curve is not convex)
- ❑ In many situations, full cost recovery is impossible
 - in wider settings of dense societies this may be possible in theory, but would involve massive cross-subsidisation
 - empirical evidence (2nd Tagus bridge in Lisbon) suggests this may be untenable, even after it was written in contract
- ❑ Risk of generation of unstable solutions in case where part of production costs are generated by demand volumes
- ❑ Ignoring transaction costs for rigorous application

WEAKNESSES OF THE MSCP APPROACH (2)

And also

- ❑ Ignoring difficulty to explain
 - among many examples, higher charges on local roads than on motorways
- ❑ Ignoring other instruments besides prices, driving for efficiency only
- ❑ Ignoring what happens to those who cannot afford
- ❑ So, ***other pricing approaches are necessary***

DECISION PROCESSES IN MODERN DEMOCRACIES

- ❑ Traditionally, decisions taken by an authority on a rational, sequential process (establish goals, build alternatives, evaluate them, choose alternative of best utility)
 - this assumes unitary decision, ignores differences of objectives of different social groups

- ❑ ***Policy definition and implementation in modern democracy is much more complicated***
 - multiple perspectives on problem definition
 - develop and present multiple arguments taking into account those different points of view
 - educate public opinion
 - establish compromises with multiple social groups and stakeholders in order to achieve main public goals and avoid serious damage to interests of any of those groups.

A DISCURSIVE APPROACH FOR DECISION MAKING (I)

- ❑ ***Policies and their implementation processes are results of a discussion process*** with a number of relevant actors
- ❑ There are complex issues of interactions between multiple levels of public administration, as well as variations of political energy driving the advance on the process
- ❑ Evaluation is a process that reflects the sets of values agreed upon, thus different value sets generate different evaluation results
 - possibly, different evaluation methods in different steps of the process
- ❑ Evaluation must be seen as a tool for education and intervention of all participants, and must be carried out at all stages

A DISCURSIVE APPROACH FOR DECISION MAKING (II)

- ❑ The number of social groups affected by pricing decisions in transport is quite large
 - **a communication strategy** must be developed to allow efficient interaction with those groups during the whole process
 - this should help improve pricing decisions and increase their acceptability, through wider knowledge of reasons, objectives and arguments for the change
- ❑ In all processes of radical change of transport prices we observe that **significant time needs to be spent between first announcements and hard decisions** (even in cases of “straight” decision models)
 - **social “soaking”** with discussion is necessary to let arguments develop and mature
 - favourable political decision is taken at **“window of opportunity”** associated with momentary collusion of interests of significant stakeholders

KEY RECOMMENDATIONS FOR ACCEPTABILITY (I)

- ❑ ***Main justification for price changes should be Quality***
 - A system that works well, people pay to ensure quality of service
 - Improved quality of the system for those who accept to pay
 - Solutions of acceptable quality for those who are “downgraded” as they cannot or will not pay

- ❑ ***Prices are a tool to be used in conjunction with Engineering (Supply) and Regulation (other forms of demand management)***

- ❑ ***Careful consideration of positive discriminations*** in the name of vertical and longitudinal equity
 - sometimes, discounted prices for targeted groups (borne by the agencies protecting those groups)
 - limited rations of free consumption or gradual prices increases

KEY RECOMMENDATIONS FOR ACCEPTABILITY (II)

- ❑ Application of *revenues as an instrument for improvement of all system components*
 - for those who pay and stay, as well as for those who cannot pay and are downgraded
- ❑ ***Financial and contractual binding***
 - introduction of payment linked to contracts for improvements to be financed by revenues
- ❑ ***Stakeholder participation***
 - in phase of recognition that charges are needed to manage demand and improve quality (normally, in parallel with other measures)
 - in design of schemes (helps check against bias and loopholes)
- ❑ ***Transparency and accountability*** in collection and administration of revenues