

The power of price

Auckland Council has asked for public input on two options to plug a \$12 billion funding gap for land transport.ⁱ The options they have put forward for public discussion are:

- increases to rates and fuel taxes, or
- a user charge for the existing motorway network.

Rates and fuel tax rises are largely revenue gathering tools and would do little to reduce the excessive volumes of cars on the road. They also provide no location-specific signalling at all to alleviate particular bottlenecks.

The user charge option is better for the public interest. Pricing – through its daily salience – will make people question why the projects to be funded are being done in the first place. Yes, people don't want to pay for roads that they have already paid for. But they already do that every day when they pay a lot of tax to fill up their petrol tank to use existing roads. The problem is that taxes are more out of sight, out of mind.

Pricing:

1. when well-designed,ⁱⁱ dials down the heat on a network that's boiling over, making the network more functional, and reducing environmental harm
2. would likely cause Aucklanders to cast a more critical eye on whether the planned megaprojects over the coming decades are worth itⁱⁱⁱ
3. will lead to fewer cars on the road, thus potentially delaying the need for billions of dollars of spending by some years, which is a benefit because of the 'time value of money'
4. provides better signals than planning rules alone on where and how to develop in the decades to come, possibly reducing sprawl and reducing the risk of future congestion and expensive upgrades.^{iv}

Auckland Council's analysis identifies the user charging option as having three times as many benefits (at \$1.6 billion, present value) as the rates and fuel tax option (at \$510 million). But Auckland Council have only assessed the first of the four sources of benefits above, which relate to easing congestion.

If the remaining three factors were accounted for, the benefits of pricing to Aucklanders and New Zealand as a whole could be many multiple times greater still.

We think the pricing option can help close the supposed 'funding gap' – not so much because it raises cash^v – but because it will reduce funding needs by helping ensure that the right investment decisions and plans are made in the first place.

Having total buy-in by government is critical; not least because it owns the state highway network, trumps councils on transport funding, and can change legislation. Central government officials have the needed expertise and government should be accountable for the pricing regime's administration. Associating central government's investment decisions with the revenue produced will help ensure the same level of public scrutiny of project selection as for Auckland Council.

As politicians know, in-your-face pricing gets people out of bed and engaging better than almost any other thing. More scrutiny by the public and better demand management could save New Zealand Inc potentially billions of dollars in the decades to come, ultimately lowering the costs of living and raising prosperity.

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- ⁱ shapeauckland.co.nz/consultations/aucklands-transport-funding, released on 29 October 2014. Public submissions close 28 February 2015. We note that the two options provided are to facilitate public consultation. Transport funding could be raised in more ways than the two options Auckland Council has presented.
- ⁱⁱ There are lots of different ways to set up the charging regime, and some are much better than others. (Some options might divert traffic to arterial roads, worsening congestion.) NZIER advised upon these issues for the Ministry of Transport's Auckland Road Pricing Evaluation Study in mid-late 2000s. We assume all this would be worked out in detail as needs be.
- ⁱⁱⁱ This, and the remaining benefit categories, underpins much of the Electricity Authority's reasoning as it attempts to reform how Transpower charges for the national electricity grid (the [Transmission Pricing Methodology](#)).
- ^{iv} NZIER [public good research](#) on appraising transport strategies that induce land use change highlighted that congestion externality costs caused by induced economic development could be avoided if they were priced efficiently to begin with. NZIER's review of the Auckland draft City Centre Masterplan also advised that well designed pricing across Auckland's transport network could, over decades, incentivise people to live closer rather than farther away, promoting more intensification around public transport corridors and employment areas.
- ^v The more that pricing curtails use, the lower the revenue received. Tools can be designed as revenue instruments or behaviour incentive instruments but it is hard to do both well. Whether \$2 is the right price is something NZIER cannot comment on without more consideration.