

**“Assume We Have a Can Opener,” Or, When
Simple Economics Meets Complex Policy and
Politics: The Big Apple’s Flirtation With
Congestion Pricing**

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A rhetorical introduction

The first part of the title of this paper comes from a well known joke that pokes fun at economists.¹ The point is that the elegant simplicity of economic assumptions often is not especially useful or at least inadequate in many complex public policy environments. In the world of public policy and management, this elementary observation is generally well known and has been articulated, *in principle*, by all but the most dogmatic (and clueless) economists who have found their way to schools of public policy. The observation is hardly new and, indeed, graduate public policy programs are built on the assumption that economic analysis alone is not synonymous with policy analysis. While there is often due diligence to non-economic factors that impact policy outcomes, sometimes a “Say’s Law” exists—where “cheap” analysis drives out “dear” analysis (dear analysis being the sort that actually integrates, as appropriate, multiple conceptual and disciplinary perspectives, especially in the policy design part of the analysis). Having observed the tension between economists and non-economists in the profession for well over three decades this writer believes that, except for the rare policy program or policy school, economics (the queen of policy analysis) and everything else live in uneasy coexistence—and occasionally in outright hostility to one another. Debates over “hard” skills versus “soft” skills, quantitative versus qualitative methods, management versus policy analysis all come down to the professed theoretical, analytical and even substantive superiority of economics compared to political science, management, sociology or psychology. This should hardly be surprising when one

considers the breath of topics studied by economists including marriage and divorce, crime, sports, the economic value of beauty, the impact of one's given name on labor force success—and the list goes on and on. Basic competency in economics is essential for students to be effective policy analysts, policy advocates and managers. Yet, for many real world policy challenges, the mix of economics and politics (to choose only one of the non-economics parts of the public policy curriculum) is such that the economics is often the easy part of the equation. Politics, in contrast, is complicated and intractable. This is not because politics is irrational and therefore unpredictable (unlike the “tidiness” of economics). Rather, it is due to the complexity of politics which is subject to its own logic, a logic that, like economics, is often grounded in self-interest—multiple self-interests to be more precise—that make policy success difficult to achieve. Students of public policy would do well to learn this basic point early in their careers not simply to stave off frustration but, more importantly, to deepen their policy analytical skills and not simply deal with it through a final part of the policy analysis exercise that reads “implementation challenges.”

David Weimer has done the profession a great service by characterizing policy analysis education as the teaching and mastery of craft skills (Weimer, 2012: 1-8). Weimer makes the observation that, like all crafts, policy analysis requires instruction and practice. (This is why policy programs offer internships and do various kinds of projects for real or simulated clients.) When learning and applying skills to develop one's craft, Weimer comments that there is usually a blend of universal knowledge and skills and those that are particular to a given context (2012: 2-3). Much of the former are associated with economics whereas politics and ethics are examples of the latter. Developing one's policy analytic craft requires a deft integration of the two.

The setting

The observations above are explicated by drawing on an example of a market-based approach to public policy from the State of New York-- the attempt by Michael F. Bloomberg, Mayor of the City of New York, to enact his plan to reduce traffic congestion through the implementation of a “congestion pricing” scheme. The objective of the paper is not to present a detailed case study of the failed attempt at congestion pricing in the Big Apple. The paper is also not a critique of congestion pricing, nor does it question market oriented approaches to governance more broadly (see Howlet, 2011). Rather, the failure to successfully launch congestion pricing in the City of New York illustrates an important aspect of policy analysis: the economics was easy but the politics was hard.

Lest the above seem unnecessarily rhetorical, indeed even harsh toward our economist friends in policy schools, let me take a more “positive” (in the social science use of the term) approach to the issue. If we consider the challenge not one of disciplinary advantage but, rather, the design of an “optimal policy mix” to a pressing public issue (traffic congestion to be precise), we can approach the case of congestion pricing in the City of New York not as the triumph of politics over economics but in a different way. We can frame the issue in terms of creating the correct incentives for major stakeholders and then the negotiations necessary to arrive at a collective outcome that is a net gain for the commons. While there will be losers, the New York City case required a minimum winning coalition to secure political victory for the initiative’s proponents. By framing the issue in this way the search for an optimal policy mix is one that successfully integrates the economic and political dimensions of the situation so seamlessly that one would be hard pressed to distinguish politics from economics in the

construction of the policy in question. In the next section the simple economics of congestion pricing is summarized.

The economics of congestion pricing

Congestion pricing is an uncomplicated idea built on straightforward economic assumptions. Most motorists in big cities have experienced traffic jams and some drivers experience chronic congestion in their daily commute to work. In testimony before the Joint Economic Committee of the United States Congress, former Director of the Congressional Budget Office Douglas Holtz-Eakin laid out the economics of traffic congestion. He pointed out that congestion is actually a negative externality since it causes delay for the motorist directly and incurs a cost on other motorists by increasing the congestion on the road at a given time of day (Holtz-Eakin, 2003). However, since drivers do not internalize these costs, motorists will continue to overuse the roads and thereby worsen congestion and pollution. The reason why the road is overused is straightforward: everyone is trying to get to work at roughly the same time so the demand for the road or highway during peak hours exceeds the supply, which is the available road space during the peak periods. The solution is to use the price mechanism to allocate the scarce resource which will then reveal the “willingness to pay” by drivers who use the roads during peak times. The price mechanism is the tool to ameliorate road and highway congestion. The way this would happen is that the price at the peak period (say 07:00 to 09:30 Monday through Friday) would encourage some drivers to alter their work times and shift away from the peak because they do not want (or cannot afford) the peak load charge. Others might share rides (car pool) and still other commuters will shift to mass transit if it is indeed available. The whole point is to get drivers to internalize the cost of congestion and thereby shift their behavior accordingly. This, in essence, is the

economics of congestion pricing. Students in public policy programs are required to take microeconomics with applications to the public sector (almost always a core required course that does not presume prior study in economics) and they should readily appreciate the principles underlying congestion pricing after this standard microeconomics course.

The theoretical conceptualization of congestion pricing is usually attributed to William Vickrey, the Columbia University Nobel prize—winning economist who wrote a series of articles in the 1960s and 1970s in urban transportation economics that laid the foundation for the concept (see Arnott, 1997). The analytics actually go back much further in the sense that economists pointed out that motorists intuitively sub optimize by looking only at their average cost (their driving time) when confronted with congestion rather than the marginal (or social) cost imposed by their travel during peak periods (Kockelman and Kalmanje, 2005: 671). As Arnott noted, there was much skepticism about congestion pricing when Vickrey first proposed the idea and it was generally thought to be both technologically and politically impractical. However, there is now ample evidence that variations of the concept of congestion pricing such as differential pricing based on peak periods, express lane charging, and discounts for shared ridership have achieved a reasonable level of political acceptance (DeCorla-Souza and Whitehead, 2003). This does not mean that congestion pricing is not without its conceptual and practical challenges. Like other efficiency-driven economic concepts, congestion pricing has non-trivial equity implications. These include the distributional impact on income, the differential impact on neighborhoods within a metropolitan area and how the revenues from congestion pricing will be used (see Taylor, Kalauskas, Iseki, 2010 for a

discussion of equity in congestion pricing). These issues all surfaced during New York City's brief flirtation with the idea and they quickly became embroiled in politics.

International dimensions of congestion pricing

To say that congestion pricing illustrates simple economics but hard politics does not mean that it has not been adopted. Singapore, Stockholm and London are notable examples of successful congestion pricing schemes. Box 1 summarizes the core features of congestion pricing in Singapore and London.

Box 1

Congestion Pricing in London and Singapore

London: The scheme was enacted in early 2003, and the zone expanded into West London in 2007.

Technology: The system uses closed circuit TV cameras to monitor and record vehicles coming in and out of the congestion zone. Automatic number plate recognition is used (by the cameras) to record plate numbers. Those numbers are then put through a computer that charges drivers automatically each night.

Charges: Monday – Friday, non-exempt vehicles are charged £7 and fleet vehicles are charged £8 between 7AM and 6PM. No fees are charges on public holidays and a period of time around Christmas.

Exemptions: Buses, taxis, emergency vehicles, small 3-wheel vehicles, motorcycles, and alternative fuel vehicles are exempt from charges.

Singapore: Singapore first implemented congestion pricing in 1975. It was the first successful congestion pricing system in the world.

Old System: Began as an Area Licensing Scheme (ALS). Large gantries were constructed over roads entering the central business district and some expressways. They were monitored by police officers manually checking vehicles travelling through the gantries. Drivers had to purchase a license that cost about \$3 US dollars a day to drive in the zones. The paper license was displayed inside the vehicle where it was easily viewed by the officers. Hefty fines, upwards of \$70 dollars, were given to drivers who did not have a proper license. Cars with four people or more, buses, taxis, public transport and service vehicles were exempt from charges.

New System: In 1998, Singapore upgraded to an Electronic Road Pricing System. The new technology used the old gantries, connecting sensors and cameras to record vehicles and their plate numbers. Drivers travelling into congestion zones must have an In-vehicle Unit (IU) device that stores a pre-paid Cash Card. When driving into the zone, this device connects with the sensors on the gantries and deducts the fees automatically from the Card. The cost of an IU is \$150.

Charging: The fees for entering congestion zones vary based on time of day and location, the peak times costing more. EXAMPLE: A trip at peak times through five gantries will cost around \$15, whereas the same trip taken off-peak will be closer to \$2. Trucks are charged more than automobiles, and if a vehicle does not have an IU or insufficient funds on the Cash Card, a photo is taken of the plate number and the driver is billed.

Mayor Bloomberg's plan retained the core economic principles that were first articulated years ago and it had many features of London's approach to congestion pricing. Table 1 compares the New York City plan with London, Singapore and Stockholm.

Table 1

Congestion Pricing Compared: New York, London, Singapore, Stockholm

	<u>Year</u>	<u>Charges</u>	<u>Vehicle Exemptions</u>	<u>Time of Day</u>	<u>Technology</u>	<u>Billing System</u>
NYC	2007	\$8 for cars, \$21 for commercial vehicles	Taxis, mass-transit buses, emergency, handicapped licensed	Charges constant from 6AM to 6PM, weekdays	Existing EZ-Pass lanes with license plate recognition cameras	Monthly EZ-Pass statement or payment by phone, internet, text, in-store
London	2003, expanded 2007	£7 for non-exempt vehicles and £8 for fleet vehicles	Buses, taxis, emergency, small 3-wheel, motorcycles, alternative fuel	Charges constant from 7AM to 6PM, weekdays, excl. public holidays*	Closed Circuit TV cameras monitor, automatic plate recognition identifies, computer generated charges	Monthly and Annual Passes offered, or payment by internet, text, payment machines and in-store
Singapore	1975, Area Licensing Scheme, 1998, Electronic Road Pricing System	Charges vary by time of day, location, type of vehicle. Can range \$.50 to \$3.50 at gantries for cars and \$2.00 to \$6.00 for big buses	Emergency	Weekdays 24 hrs, Saturdays only some gantries operational	Users pay for IU cards (In-vehicle Unit) with pre-paid balances on an account, registered by sensors when driving through gantries, charges automatically deducted from IU card	Pre-Paid IU Cards, or billed according to plate number if without IU card
Stockholm	Trial in 2006, made permanent 2007	Tax varies by time of day, \$1.64, \$2.46, \$3.28 at most. Max amount a vehicle can be charged per day: \$9.85	Emergency, buses 14 tons or more, diplomatic cars, taxis, transportation service, motorcycles, foreign, handicapped licensed, alternative fuel**	6:30 AM to 6:29 PM, weekdays. Excl. public holidays and day before holidays	Vehicles passing through control points monitored and registered by automatic number plate recognition. System uses cameras and laser detectors.	Bills issued monthly, to be paid by next billing date. Payment may be made via internet, banks, and in-store. May also use onboard units affixed to windshield to automatically debit a bank account when passing through control points

*There is a period of time around Christmas where no fees are charged.

**Travel to and from the Island Lidingö is exempt from tax, given that the one route into Stockholm is within a tax-affected area.

Mayor Bloomberg's Plan

Bloomberg proposed a three-year pilot program; at the end of the three years a decision would be made whether or not to make it permanent. The congestion pricing zone was targeted as the area of Manhattan below 86th Street. The rationale was summarized in the following statement from PlaNYC2030:

On a given workday, the Manhattan CBD is home to nearly 2 million workers from around the region, hundreds of thousands of tourists, and several hundred thousand residents. Cars compete for the road with buses, trucks pedestrians, cyclists and taxis. Vehicles trapped in traffic spew pollution into the air, putting the health of those living near congested roads at risk; and the resulting jams cost the region more than \$13 billion dollars every year. As our population grows by another 900,000 people, we add more than 20 million visitors annually and 750,000 new jobs—many concentrated in the CBD—the consequences of congestion will become ever more severe (PlaNYC 2030, 2007: 88).

Between the hours of 6:00 AM and 6:00 PM, automobiles entering the zone would be charged \$8 and commercial vehicles \$21. Cars staying completely within the zone would be charged \$4 and trucks \$5.50. These charges would apply on weekdays only. Taxis and for-hire vehicles, mass-transit buses, emergency vehicles, and any vehicle with a handicapped license plate would be exempt from charges (PlaNYC Report, 2007: 89). New York's congestion pricing scheme and payment systems would use similar technology as London and Stockholm. The proposed infrastructure for charging and monitoring vehicles was an EZ-Pass system, already used by 70% of New York area drivers, which allows for continuous traffic movement. The EZ-Pass technology would also be coupled with license plate recognition cameras. EZ-Pass is an electronic toll collection system, utilizing radio frequency identification (RFID) transponders. Users place transponders on the inside of the windshield of a vehicle, and use the designated EZ-Pass lanes when travelling through toll plazas. The transponder is picked up by sensors in the toll lanes, and the toll charge(s) are automatically billed to the driver each

month. Those travelers with existing EZ-Pass accounts would be able to pay congestion fees through their current system. Other travelers would be given a 48 hour period to pay their fees in a number of different ways; via the internet, phone, text messaging, or with cash at various participating stores (PlaNYC 2030, 2007: 89). To summarize: the economics was straightforward and the technology was readily available. All that was missing was political acceptance. As it turned out, this was the hard part as the next several paragraphs outline.

Several pieces of the plan required approval by the New York State Legislature. Home Rule laws in New York State, intended to give localities some control over their governance, have been limited by state courts since their inception. There are some specific restrictions that pertain to the City of New York particularly the city's authority to raise revenue and issue debt. The city also needed state legislative action for the allocation of funds for the plan including potential federal funds that would have to be appropriated by the state legislature. Approval would also be required to set (and increase) congestion pricing rates, and to acquire land for building necessary infrastructure. The Bloomberg scheme also called for a new financing authority, the Sustainable Mobility and Regional Transportation (SMART). The SMART authority was to consist of board members appointed by both the city and State to oversee further reforms. The authority would also be the collector of congestion pricing revenue, all of it allocated to funding new transportation projects. City officials estimated that revenues would reach about \$380 million annually.

Funding for the three-year pilot project was to come from the city, state, and federal sources. New York applied for federal funding through the United States Department of Transportation's (USDOT) Urban Partnership Program, a grant of \$354

million. City officials estimated that it would cost \$223 million to install the computerized system for charging vehicles, and the city was seeking \$179 million from the US DOT. Only \$10 million was awarded, however, and these funds were contingent on the plan receiving legislative approval. In other words, the legal and intergovernmental dimensions of NYC's proposed congestion pricing plan were complicated. If one were actually mapping the decision, there are several places where the plan could be delayed or terminated—and we have not yet come to the raw politics of the proposal. While there were some alternatives available to the city, there was no way that all of the intergovernmental dimensions of the case could have been substantially simplified. Since the state government, meaning primarily the state legislature, would necessarily be a key actor in the drama, Bloomberg's straightforward economics would have to make it over what turned out to be a high political hurdle.

Proponents and opponents

The first hurdle the Mayor's plan needed to clear was to muster legislative support to apply for the federal funding in July 2007. The New York City 17 member Traffic Congestion Mitigation Commission, which was created by the New York State legislature, was charged with analyzing different traffic reduction plans, including Bloomberg's congestion pricing scheme. With the Commission in place, the State of New York became eligible for \$354 million from the federal government's Urban Partnership Program for various transportation projects.

In the beginning of 2008, the Commission and the City Council (NYC's elected legislative body) both voted to approve Bloomberg's plan, with three changes to the original proposal (Cardwell, 2008). The zone was reduced to include all streets below

60th Street thereby reducing the size of the zone. Charges would be eliminated for vehicles that stayed within the zone, and discounts were proposed for low-emission trucks. These changes, while minor in the grand scheme of things, and signaled the need to compromise to head off growing opposition to the mayor's proposal which began soon after it was announced.

Interest groups both for and against the plan were vocal in pressing their respective positions. This was predictable and unremarkable. The initiative gained early support from the *Campaign for New York's Future*, a coalition of over 100 environmental, public health, labor, and civic organizations including AARP and Environmental Defense (www.newyorksfuture.org). These groups pointed to reductions in air pollution and congestion, along with increased revenue for mass transit projects as the primary reasons why congestion pricing would make good public policy, and they offered substantial analysis to support these assumptions.

Along with Campaign for New York's Future, several influential figures within state and city government lent their support to the initiative. Manhattan Borough President Scott Stringer endorsed the plan. The Governor at the time, Eliot Spitzer, and presidential candidate Barack Obama also expressed support for the initiative, though Governor Spitzer wanted revenue from the charges to go to the Metropolitan Transit Authority (MTA) as opposed to a new SMART authority. The Secretary of the United States Department of Transportation, Mary Peters, was also sympathetic to Bloomberg's plan (Neuman, 2007).

Meanwhile, in the New York State Senate (controlled by Republicans), Majority Leader Joseph Bruno was positive about congestion pricing but he refrained from actually endorsing it because of straightforward partisan political reasons. Specifically,

several Republican state senators from the boroughs and the suburbs of Manhattan, where opposition to Bloomberg's plan was strong, were vulnerable to challenges from Democrat opponents. If Bruno had pushed the Republican caucus in the state senate to approve Bloomberg's plan, those Republican senators would have faced the wrath of angry constituents (Hakim, 2008). Given that the Republican majority in the state senate was thin, the majority leader could not risk any voter backlash. To put it more starkly, political self-interest dominated any notion of an "optimal" policy to alleviate congestion and pollution in the City of New York.

Congressman Joseph Crowley, who represented parts of Queens and the Bronx, also chairman of the Queens Democratic Party, was thought to have played an important role in his support of congestion pricing. When Crowley announced his support of the plan in June 2007, some hoped that his influence would serve as a counterweight to the resistance that quickly mounted in the boroughs of New York outside of Manhattan.

Public opinion also seemed to be on the mayor's side. In March 2008, a Quinnipiac University poll reported that statewide supported congestion pricing 60 to 30 percent if the funds collected were used to improve mass transit. New York City respondents supported the plan 67 to 27 percent. Other subsets of the poll showed fairly broad support for Bloomberg's congestion pricing; however, as with most polls a deeper analysis also showed that 50 percent of the respondents also felt that it was unlikely that funds from congestion pricing would in fact go towards mass transit.

Arguments of the Opposition

The supporters turned out to be no match for the opponents of Bloomberg's congestion pricing scheme. *Keep NYS Congestion Tax Free*, a coalition of about 80

organizations included some powerful groups that voiced opposition to the plan. The coalition included the Automobile Association of America (AAA), the New York State Restaurant Association, and the Queens Civic Congress. In general, business organizations were opposed and assumed that the congestion charge would negatively impact them by increasing their costs for transportation and decreasing business to stores and restaurants within the congestion zone.

The strongest opposition, and surely the opposition that ultimately led to the plan's defeat, were the legislators from the outer boroughs and the suburbs of Manhattan. While their opposition included several arguments, they essentially boiled down to one big point: their constituents would unfairly bear the brunt of congestion pricing for two reasons. First, many of their constituents drove to work because alternatives were limited. Second, it was assumed that motorists deterred by the charges would drive to locations in Queens, the Bronx and Brooklyn, leave cars there and take mass-transit into the zone. Many argued that this effect would turn neighborhoods into parking lots, and expose residents to increased air pollution and related health problems. Similar arguments were made by representatives of neighborhoods like Harlem, which, compared to national averages, already suffer from high instances of asthma. Moreover, these vociferous critics were not persuaded by the argument that fees from congestion pricing would improve mass transit to these outlying areas since it takes years for large scale mass transit infrastructure projects to go from design to full implementation. Curiously, these arguments against congestion pricing are also based on modest economic assumptions about commuting behavior. While they were susceptible to analysis, efforts to counter these assertions did not seem to deter the opponents who were not only vocal but politically well placed.

New York State Assembly Speaker Sheldon Silver was perhaps the most influential person in the opposition. While Silver cited many arguments against Bloomberg's plan, one of the most resonant was the regressive tax issue. Many politicians followed suit with Silver, believing that congestion pricing placed a regressive tax on the middle and lower class. Assemblyman Richard Brodsky from Westchester was quoted as saying, "This will stop the Chevrolets from coming in, not the BMWs." The regressive tax issue resonated with many Democrats representing areas outside Manhattan, and the force of their opposition became too much for Bloomberg and his supporters to overcome. What is interesting about this argument is that the use of pricing to deter behavior often does indeed have regressive effects. (Think about tobacco and alcohol taxes, for example.) The issue of regressivity is frequently included in public pricing decisions but is only one of several criteria that analysts will invoke to argue for or against a pricing-based policy objective. But, in NYC's failed congestion pricing scheme, it simply provided additional political ammunition for the plan's opponents. Table 2 summarizes the basic arguments of the proponents and the opponents of the Bloomberg plan.

Table 2

Proponents vs. Opponents
NYC Congestion Pricing

<u>Proponents</u>	<u>Arguments</u>	<u>Opponents</u>	<u>Arguments</u>
Environmental Defense	E	AAA New York	IC, NC
AARP	IPH	American Trucking Association	IC
American Cancer Society	IPH	Queens Chamber of Commerce	RPH
Manhattan Chamber of Commerce	MTI, RC	Queens Civic Congress	PL, RT, RPH
NYC Central Labor Council	MTI, RC, IPH	Queens Coalition for Parks and Green Spaces	PL, RPH
American Planning Association	RC, MTI	Small Business Congress of NYC	LB, IC
Barack Obama, Presidential Candidate	E, MTI, RC	NYS Restaurant Association	LB, IC
Eliot Spitzer, Governor	E, MTI, RC	Sheldon Silver, Assembly Speaker	RT, PL, BT
David Patterson, Governor	E, MTI, RC	Richard Brodsky, Assemblyman, Westchester	RT
Joe Bruno, Sen. Majority Leader	MTI, RC	Rory Lanceman, Assemblyman, Queens	PL, PT
Scott Stringer, Manhattan Borough President	MTI, IPH		
Joseph Crowley, Rep. (D) Queens, Bronx	MTI, IPH		
Christine Quinn, City Council Speaker	MTI		

Key

<u>Pro Arguments</u>		<u>Con Arguments</u>	
Environmental Improvements	E	Increased Costs	IC
Improved Public Health	IPH	Regressive Tax	RT
Mass Transit Improvements	MTI	Parking Lot Effect	PL
Reduce Congestion	RC	Redistributed Public Health Problems	RPH
		New Congestion	NC
		Tax on Boroughs, neighboring areas	BT
		Loss of Business	LB
		Strain on Public Transportation	PT

The Failure of Congestion Pricing in the Big Apple

The deadline for the approval of Bloomberg’s congestion pricing scheme came on April 7, 2008. NYS Assembly Speaker Silver announced on that day that the Assembly would not hold a vote on Bloomberg’s modified plan and, with that decision, congestion pricing died (Confessore, 2008).

Its death had political ripple effects. Problems within the Metropolitan Transit Authority (MTA) worsened because of the plan’s failure. Facing the need for an increase in the transit fare, the MTA anticipated that funds from congestion pricing would help to finance improvements in public transportation. In August of 2008, the looming budget crisis at the MTA revived talks of congestion pricing as a means to alleviate their

financial issues. While city and state officials argued for cutting spending, the MTA formed a commission, headed by former MTA chairman Richard Ravitch, to look for alternative means of revenue, including congestion pricing but, by this time, the idea had no political traction (at least for the foreseeable future).

Post-mortem

The economics behind congestion pricing was straightforward. Furthermore, the technical analyses of traffic flows, done by planners at the New York Metropolitan Transportation Council, were professional, non-partisan and well respected. Evidence from Singapore, London and Stockholm showed that congestion pricing can work. Drivers in all three cities recognized that they were paying for a true benefit—reduced traffic congestion for their journey to work. (This is not to minimize continual refinements in the systems and some natural disgruntlement as well.) To put it differently, the basic economics of congestion pricing elaborated by William Vickrey over a half century ago worked not only in theory but in practice.

Nevertheless, the New York City experience shows that appreciating the economics of policy is necessary but not sufficient. For starters, the threatened loss of \$354 million of federal government USDOT funds if congestion pricing was not adopted had little impact on the deliberations. It neither softened opposition nor was it an effective carrot to nudge legislators who either viewed congestion pricing as either flawed or dangerous to their instincts for political self-preservation. Meanwhile, the most salient opponents of the plan from the beginning never moved from their initial position and were certainly not swayed by policy analytic claims about the benefits of Bloomberg's proposal. There was no shortage of studies, nor were some of the contentious issues about the distributive impact of the scheme or its alleged regressivity

left unaddressed. But analysis did not move the needle, so to speak. Opponents at the beginning of the debate remained so to the end. .

Recall that the legislative opponents on Bloomberg's plan were from the outer neighborhoods of Queens and Brooklyn and they believed that their constituents would bear the burden of congestion pricing disproportionately for three reasons: 1) they rely on automobiles more than residents of Manhattan, 2) mass transit is much less available to them and 3) some of their neighborhoods would become "parking lots" as suburban commuters drive to the closest areas outside of Manhattan and park to avoid the congestion charge. To the legislators representing these neighborhoods, congestion pricing was regressive and elitist (benefiting wealthy Manhattan residents and upper income suburbanites who would be undeterred by a congestion charge) at the expense of their constituents. When it became clear that the revenues from congestion pricing would be used to finance mass transit, this actually made the situation worse for some legislators who saw this as essentially an income transfer from their constituents who rarely use mass transit but would end up further subsidizing it. (They already subsidized mass transit through state and local taxes.) That congestion pricing was a scheme advanced by a billionaire mayor from Manhattan did not help its cause.

Why is NYC's flirtation with congestion pricing instructive for students of public policy? First, it shows that economics analysis and political analysis are inextricably intertwined. This statement, at first blush, is hardly original. But think about how policy analysis is often taught in schools of public policy. The queen of the social sciences leads, indeed dominates, policy analysis. We then typically add something about political constraints. In other words, we present the policy issue—in this case congestion pricing—sequentially so that politics explains and is often blamed for failure. The NYC

experience suggests a different reality. Economic and political rationality are intertwined and due diligence needs to be given to both **simultaneously**. Again, this may seem straightforward but actual practice suggests otherwise. Analysts involved in the process would argue that the sequence must unfold this way because democratic politics means that it is the elected officials that are responsible for deciding whether to move a political issue or not. The analyst must only apply so-called “objective” criteria unencumbered by political considerations. This is indeed the mantra in budget offices where there is a “firewall” between analysis and politics which is considered elsewhere (the chief executive and his or her staff). But consider the following point: when a legislator claims that congestion pricing is regressive because BMW drivers will be able to afford the charge but Chevrolet drivers will not, is this notion of fairness simply rhetorical? Of course it could be but the NYC experience shows that opposition to the Mayor’s plan came from those state legislators who felt that their constituents would be unfairly impacted. Fairness is embedded in policy analysis but to respond to fairness claims the analyst needs to fuse both economic and political elements in the policy equation. In NYC’s congestion pricing case, efforts to counter the unfairness charge were tepid and made no headway in changing positions. What would have?

Bruce Schaller, a NYC Deputy Commissioner of Transportation, offered an intriguing assessment in a paper delivered at the 2009 research conference of the Association of Policy Analysis and Management. He contrasts arguments in favor of congestion pricing that are based on societal benefits (like clean air) with individual level benefits (like shorter commuting times). Appeals to societal benefits only, in Schaller’s view, will not be persuasive and it provides no counterweight to opponents who will try to block the initiative through the political process. This is essentially what happened in

NYC since legislators in eastern Queens and southern Brooklyn viewed the Mayor's plan as disproportionately impacting their districts. In Schaller's view, the benefits to drivers (individual level claims) were not clearly articulated by the proponents; therefore, the proponents did not artfully connect straightforward willingness-to-pay analysis, a cornerstone of any public pricing decision, in the building of a political coalition in support of the proposal. Willingness-to-pay is a necessary ingredient in congestion pricing but it will not guarantee political success.

Politics or economics? The answer, of course, is that it is both; therefore, analysis needs to incorporate both *at the same time*. Again, this may seem obvious but it does not reflect the way we organize and teach public policy analysis in our programs and schools. Think again of the NYC congestion pricing scheme. Following the economists' logic, the broad goal is to develop a scheme to create an efficient allocation of a good—the availability of roads at a given time of day—to maximize societal benefit. The charge is the mechanism to get the motorist to internalize all costs, as was pointed out early in the paper. The case illustrates how quickly this way of formulating the issue was reframed to include who would suffer the most. Herein lies the politics that has its own logic. So, it was not a matter of who had superior data to support a particular point of view about the Mayor's plan. NYC's flirtation ultimately came down to trying to convince the skeptics. And this did not happen.

A New York Times post-mortem is instructive about some of the political dimensions of the issue, particularly the mayor's interaction with the NYS Assembly Democrats. When he threatened to provide financial support for candidates who would run against incumbents who opposed his congestion pricing scheme, this threat was received in the following way: "I'd be very happy running for re-election letting

everybody know that I was an advocate against congestion pricing” said Queens Democrat, Assemblyman Randy I. Lanceman. Some legislators more sympathetic to the plan mused that the mayor simply ignored the legislature, especially the Democrat controlled Assembly until it was too late. Manhattan Assemblyman Micah Z. Kellner, a supporter of congestion pricing was quoted in the Times article as follows: “All politics is relationships, and if he hasn’t built the relationships over time he can’t suddenly create those relationships with 48 hours to go in the process...It just shows that six and a half years into his term, the mayor does not know how to approach the legislature.” Finally, the article points out that the plan failed to produce a real champion in the Assembly which compounded the mayor’s political problems.

A more detailed case study would reveal more subtlety about the politics surrounding the defeat of NYC’s flirtation with congestion pricing than is presented in this paper. Furthermore, one could pose the following question: Are the reasons offered for the defeat *sui generis* or are there generalizable lessons, or what might be called “teaching moments”? The skeptical reader would probably offer the former—not every mayor is a multi-billionaire and NYC is invariably a special case from which little can be extracted. Still, there are some basic principles that emerge from this case that apply to most policy analytic environments. They include the following:

- 1) Politics has a simple logic and self-interest can go a long way in explaining behavior. Self-interest explains the coalition of legislative opponents that formed early in the story and their opposition did not waiver regardless of the “objective” analysis that was put forward. The perceived benefits to those who felt most aggrieved by the congestion pricing scheme, motorists in particular, were not articulated early and clearly. This allowed self-interest to prevail.

- 2) The principle of fairness, minimized in the economic analysis of congestion pricing, served as a way to solidify opponents irrespective of the objective analysis. Fairness is invariably a slippery concept not always susceptible to rigorous policy analysis. But this does not mean that it is unimportant.
- 3) Compromise in program design is to be expected but it offers no guarantee that even second-best solutions will be politically acceptable. Compromise is the essence of politics and Bloomberg's original plan was adjusted to gain more supporters but the compromises did little to garner additional supporters from those who were initially opposed to his scheme.
- 4) Leadership matters. Mayor Bloomberg was lauded for proposing a bold idea. But ideas are not the same as political strategy and several accounts of the reasons for the failure of NYC's flirtation with congestion pricing place some of the blame squarely on Bloomberg's shoulders.
- 5) Incorporate the formal distribution of governmental authority early in the analysis. Concepts like "lesson-drawing" and "policy transfer" appear, at first blush, to fit the congestion pricing case. In particular, there were early comparisons between London and New York City with the presumption that if London can enact congestion pricing surely it could happen in NYC also. Yet, perhaps the single most important difference between the two cities is that, while the City of London had the legal authority to impose congestion pricing NYC did not without approval from the state legislature. The economic case for congestion pricing, presented at the theoretical level, is largely free of the assignment of governmental authority. But this is not how the real world works. Students of public policy need to be reminded early and often that legal and governmental

contexts matter. To make this point even more forcefully, New York City is not Singapore. Yes, the economics would be essentially the same and the technological characteristics of congestion pricing in Singapore perhaps can be installed in New York. But the politics of Singapore and New York could not be more different—and the difference would reflect the limitations of policy transfer. The case of NYC’s failed effort to enact congestion pricing illustrates the synergy between economics and politics. One cannot say that the economics was flawed. The economic assumptions behind the idea were straightforward and not all that complicated. The politics was less obvious, less susceptible to naive models and less predictable—but it was not less important. Being able to see the politics in real time and estimating its impact, while not easy, is critical for effective policy analysis.

There is one more lesson that comes from the congestion pricing case. It is now quite common to invoke a policy “tools” framework (see Salamon, 2002) when analyzing policy design alternatives and the tools approach does indeed apply to the NYC flirtation with congestion pricing. After all, congestion pricing is a tool—a simple market-based mechanism to affect behavior. Logically, a city can use other tools—regulation quickly comes to mind—to achieve the policy goal of less congestion and pollution. When we look at the case through a design prism we see that the challenge is not one of sequencing decisions but, rather assessing the important issues that are likely to determine the outcome that operate simultaneously. There are three—political interests, law (specifically the assignment of responsibilities between the state and local government) and markets. So, the challenge to decision-makers is not to search for the optimal policy mix but, rather, to frame the challenge correctly in the first instance.

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¹The joke is as follows: Three people were stranded on a dessert island and had no food. One was a chemist, the second a physicist and the third an economist. A can of baked beans floated ashore. The chemist suggested that they rub two sticks together to start a fire which would then cause combustion to burst the can open. The physicist calculated a trajectory that would likely break the can open. The economist countered, "Assume we have a can opener."