

IPART Opal Submission February 2016

Hello, I am a five day a week train commuter.

I disagree with three aspects of your analysis and I have four comments.

Disagreements

1. I disagree with your view that the time-cost of traffic congestion constitutes an externality.

(And I am not the only one that disagrees with that – here’s a disquieting reference:

http://econlog.econlib.org/archives/2013/05/congestion_exte.html

).

I **agree** with IPART that the first-best solution to market failures (if any) in road traffic markets is to address them directly, and I **agree** that subsidising competing markets such as public transport may be an acceptable second best solution and I **agree** that road congestion is costly and I **agree** that only the unpriced component of the externality warrants policy intervention.

I **disagree** with IPART’s key, “\$2.4 billion per year per Sydney”, proposition that the time-cost of traffic congestion involves any unpriced externalities or market failure. The market for traffic congestion is in my view an efficient market. Road traffic congestion is, like, **Disneyland** for efficient market ideologues. Specifically:

- Time cost is not an externality, if the cost is correctly internalised. The textbook case is that of a polluting factory on a river. If (“Case A”) the intake pipe is upstream from the polluted waste exhaust pipe, then there is an unpriced negative externality. But if (“Case B”) you make them put the output pipe upstream from the intake pipe, you confront the polluter with the costs of pollution. They’re drinkin’ it! Traffic congestion is the same as “Case B”. The people who **cause** the congestion, are **sittin’ in it!**
- The time cost in the case of traffic congestion is **immediately priced** – congestion rises, contemporaneously and exponentially, as the volume of traffic rises.
- The time cost is, by and large, readily predictable. **There are no information imperfections or impediments.** If I drive down Sydney’s North Shore around rush hour, I can set my clock by how congested the roads are (after adjusting for school holidays etc obviously).
- **The time cost is correctly and accurately targetted** on the particular producers and consumers of congestion. The people who cause and consume the congestion, are directly confronted with and charged, an appropriate component of the total cost of that congestion. And conversely, congestion does not affect people who leave their cars in the garage during rush hour, and it does not affect ute drivers in Wagga Wagga.
- **The cost of time is finely, individually, and commensurately targetted and charged out.** The discussion in Section 4.3.1 of IPART’s December 2014 “Review of external benefits of public transport” is ham-fisted and irrelevant and bizarre. You don’t **need** to make a heroic assumption that the cost is “half the AWE”. The opportunity cost of each driver’s time, is, what it is. **Exactly**, what it is.
- The time cost is **proportionate** to the congestion – although the shape of that cost, as traffic numbers increase, is famously non-linear. As a result of that exponential aspect the charge

for causing congestion – whilst “fair” in an efficiency sense – is pretty damn aggressive. Congestion-causers and users get hammered by skyrocketing marginal prices. Don’t try and tell me, that they don’t really, really **want** this! If IPART are comfortable with Ramsey-pricing 10-trip a week rail commuters on the basis that “trips 9 and 10 are non-discretionary and demand-inelastic”, then they can damn well let the free market Ramsey-price the demand-inelastic road users.

Putting all that another way – you have the sign on the time cost of congestion the wrong way round, in Figure 5.1 in your paper “A New Methodology for Setting Fares”, September 2015. Sitting in traffic expending your valuable time should be a negative, below the line with the offsets, just like road user charges.

And IPART’s distinction between “existing” and “incremental” road users is also way off target. If I was discouraged by the absence of a subsidy on public transport and as a result didn’t spend money travelling on public transport it might happen that I use the freed-up money, not to travel by car and to clog the roads up and impose congestion costs on other drivers, but to go to the milk bar and to buy a milkshake. It’s exactly the same thing. In doing that, I push out the demand curve for milkshakes and I raise the price of milkshakes and existing milkshake buyers are in some sense worse off. But I would not consequently invoke an externality argument in the milkshake market to justify a subsidy for the train system.

2. You have incorrectly allowed marginal cost / benefit and pricing considerations to dominate your analysis. You have incorrectly failed to take into account the fixed / variable cost mix of trains in particular.

Here’s what you say:

“At the socially optimal number of journeys, the cost of providing the service to the last passenger is equal to the benefit of the service to that passenger and to the wider community. This last passenger is known as the ‘marginal’ passenger, and the costs and benefits associated with serving the marginal passenger are known as the ‘marginal costs’ and ‘marginal benefits’.”

That is wrong, in a market where the fixed costs are large as a proportion of total costs. **The really big question is, whether the heavy rail system exists or not in the first place.** It’s an “all or none” question. It’s a city-wide, **network**. You don’t start by building trainline between Westmead and Parramatta; and East Hills and Holsworthy; and Mortdale and Oatley; and see how that goes at the margin, and then make an assessment about a proposal to link Petersham and Lewisham.

- So – first up – IPART’s analysis is wrong **in principle**. Average costs and benefits matter a lot, not just marginal costs and benefits. It’s wrong to say (Section B.1.8, “More efficient, more integrated Opal fares”, Dec 2015) that

“... there is no longer a case for deep discounts for frequent users, as was previously the case with the paper ticketing arrangements. Under paper ticketing, there were significant cost savings for purchasing periodical and multi trip tickets (eg, weekly or annual passes and Travel Tens) that arose from reduced queuing at ticket machines, faster boarding on buses and lower administrative costs.”

In the first place, my blink reaction is that that is a ridiculous comment. *“The supplier has become more efficient in delivering the product, and the costs have come down, so therefore the consumer needs to pay more?”* Seriously. And in any case the costs of finding a 7-11 that’s open at 6 a.m. and is within about 2 kilometres of the staffless deserted station and that sells tickets have not disappeared, they have just been outsourced to the consumer. But that’s not my point. My point is, I reject the claim that I was getting “10 journeys for the price of 8 to reward me for buying a weekly ticket and saving City Rail ticket selling costs”. As a reliable predictable every-day commuter, ***I was getting a discount for being an anchor baseload source of demand that underwrote the existence of the whole shebang*** – i.e. marginal **and** average, and variable **and** fixed costs – in the first place. The opportunistic, price-sensitive carpet-bagging casual occasional users, who you are trying to reward by skinny marginal-cost pricing, are absolute vegetables in the system in contrast. If it were not for the commuter base, there would not **be** a rail network for them to hop on and off at the near-zero marginal cost.

- So – secondly – IPART’s perverted obsessive partial-analysis based on marginal costs, is wrong ***in practice***. You need to ask, where will these newly introduced proposed perverse incentives take us, in future? Your elasticity analysis is wrong. Ramsey pricing daily commuters by charging them for Fridays when they were “going to travel anyway” not only devalues their support of the system, but it’s also myopic on IPART’s part. You can cynically Ramsey price me ***in the short run***, but my “inelastic” demand curve will soon (within days) flatten like a flat thing that has been flattened by an automatic flattening machine. As a baseload commuter, I do not ***need*** the train system at all, if you are going to get nasty and half-baked economically rational about pricing. I can drive to Wollstonecraft, park for free, take my bike out of the boot, ride across the bridge for free, park my bike in the office for free, and feel good about dodging a 35% price-rise gouge.

Moreover, here you are pretending to be horrified by the “pointless trips at lunchtime” which was a design feature of your own system in the process. But – under this new proposed system – you will just replace mindless redundant additional short bus trips at lunchtime, as commuters try to dull the edge of the first raft of huge price rises, with mindless redundant additional short car trips before breakfast, as commuters try to dull the edge of the second raft of huge price rises. We will click on at the now very significant arbitragable 40% “offpeak” discount. You drive to the station at 6 a.m., swipe your card, drive home, eat breakfast, then walk to the station in the usual way at 8.00 (no need to swipe) and then swipe off at 8.30 in the heart of the crowd at Wynyard, for 40% less.

3. I disagree with your omission of the costs of ticket collection/checking, newly imposed on the commuter, from your analysis.

If you have outsourced the cost of inspecting tickets and “swiping on and off” from paid ticket collectors to unpaid consumer/commuters, and if you have made it compulsory to swipe on / swipe off, well, you need to install barriers. When we walk to the station, we are not thinking about “swipe swipe swipe swipe” all the time. I forget at least once or twice a week. My mind is just, like, elsewhere. It is unreasonable, that that has suddenly become highly priced and criminal behaviour.

My four comments are:

1. You should include the true prices on the ticket or transaction history listing. If you believe that people are only paying 23% or whatever of the total cost well – estimate and record that “true total cost” on the Opal trip history. You don’t have to charge them that. You are just making the point that, even though Opal is costing everyone about 35% more than the pre-Opal system, they are still in that sense getting a good deal.

2. There are unintended costs of distending the off-peak discount from 30% to 40%. I nearly killed someone the other morning, to save \$1.26. I was just driving up to the station to swipe at the offpeak rate, when a cyclist drove under my wheels. (Cyclists never give way to “traffic already in the roundabout”, if the roundabout is at the bottom of a hill. “Road rules don’t apply to them”). When the difference between 6.59 and 7.02 is that large, stuff happens. And you’re doing this primarily for venal and corrupt reasons as well. You want to claim that *“Under our draft decisions, we are making fares fairer and more cost reflective by reducing the fares for most multi-mode journeys by 20-50%, increasing the off peak discount and **reducing fares by an average of 8% for single mode journeys.**”* (“Frequency discounting and weekly caps - Information Paper 3”). That is like claiming that “we are retaining 51% of the electricity network in public hands” – when what you are really doing is retaining 49% of the electricity network in public hands, plus 100% of Mootwingee Power. That “averaging” calculation is of no help to salt-of-the-earth weekly commuters who are paying 35% more at a stroke (by paying for Fridays which is +25% and by losing the discount you can earn by making unnecessary lunchtime trips).

3. You should substantiate your controversial view that the time cost of traffic congestion embodies a market failure and constitutes an unpriced externality.

4. You should dollar-cost the extent to which you are recommending a reduction in the contribution I make to funding public transport in my capacity as a general tax-payer, and a commensurate increase in the contribution I make via farebox. I am not against the switch. But I need to keep my local MP honest so that that does not just become a tax-grab. IPART needs to be explicit about the dollar amount of the **tax reduction** I should expect and demand, on the flip side of this lower taxes-for- higher fares swap.

Thank you for considering my submission about why your analysis is wrong.

February 5, 2016