

City Transport: A Taxing Matter

Keith Rankin, 31 October 2014

This week the prospect of paying tolls on Auckland motorways became a hot topic. (See Mathew Dearnaley: [Motorway tolling could hit some hard](#), *NZ Herald*, 30 Oct 2014.) As we might expect, the kneejerk response has been quite negative. But, as with most such matters, the issues around the problem are heavily nuanced, and the proposed solution (or something like it) may be a good idea if the circumstances are right.

So, what is the problem? It's presented as a purely financial matter. Auckland must have projects x,y,z and the financial shortfall must be funded somehow by Aucklanders. In reality these projects are a mix of near-necessities and outright un-necessities. We dithered for 30 years on completing the western ring-road – a clear necessity – and may well dither on the two future projects that Auckland really does need.

In my view, Auckland needs the city rail loop, and it needs a second Harbour crossing, given the age of the present bridge clip-ons. The "holiday highway" from Wellsford to Boohai (Puhoi) is also an important project for the people of Northland, and should be funded as a national project, not as an Auckland project.

Other city roading projects are not needed, and that probably also applies for the next twenty years to other rail projects. So let's just focus on these two: **Rail Loop, Harbour Crossing**. (Other possible motorways are more likely to be 'needed' only if Government housing policy creates further ridiculous urban sprawl. Kaukapakapa – or Puhoi – could, I guess, become the new Botany!)

These two projects are public goods that benefit all Aucklanders, including those who will not use them. Thus they should be funded by a mixture of rates and taxes, spread out over the projected lives of these projects by Government and Council borrowing, and constructed during periods that would otherwise be recessions. Both of these projects should be 'shovel-ready' by 2018, about the time that the next bust in private sector construction is likely to occur. It's not rocket-economics.

Congestion and Lifestyle

However, Auckland traffic has a very real problem, right now. It's the congestion that occurs regularly in motorway system, and in suburban roads (especially roads close to motorway on-ramps). Economics 101 has a simple means of managing this problem, it's called a congestion tax.

Congestion taxes should be introduced as soon as possible, but at a low rate (eg \$2) initially, and only between 7:30 and 9am, in the Spaghetti Junction area, in the Harbour Bridge city-bound lanes, in the Northwestern motorway citybound from St Lukes, and in the Southern Motorway citybound from Greenlane. (I would exempt unambiguous business traffic in vehicles such as busses, trucks, vans and utes; not company cars.)

The principal purpose of the tax is to change people's lifestyle in both the short and the long term. As a strictly secondary purpose, revenue raised can contribute to the two projects identified, offsetting the need to borrow. (The Green Party has the right idea on congestion taxes, but should not seek to rely on taxing 'bads' for revenue. Taxing alcohol for revenue means that we have to nurture the alcohol industry.)

The first lifestyle change that such taxes facilitate is to remind commuters that there are public transport alternatives, and that the roads are there principally for business transport, not for commuting. The second lifestyle change is that such taxes encourage car-pooling. The third change is that employers – who we know are very fond of 'flexibility' – may facilitate in-bound commuting at other times of the day. Further, genuinely flexible employers will share any extra commuting costs incurred by employees who must come to work via these routes during the morning commuter peak.

Longer term lifestyle changes being signalled will be for the development of housing types that dovetail

with public transport. Thus the issues of Auckland housing and Auckland transport are really a single issue.

Sadly, the housing issue is usually framed in terms of helping people onto the 'property ladder', rather than in terms of ensuring that people are securely and healthily housed in places that do not require excessive commuting. (The present government incessantly frames the housing issue as if houses were principally a financial asset, with the concept of an actual dwelling being a mere afterthought. The government should have no view about whether owner-occupation ghettos 'up the boohai' are or are not better than more practically located rented accommodation.)

A critically important part of resolving Auckland's traffic issues is to facilitate the choice to live closer to work. And, it's about recognising that cities like Auckland have (or should have) a young and mobile working population. (Today's teenagers do not aspire to live independently in the suburbs and drive 9-5 to work. They don't even aspire to own cars in the way that previous generations of young people did.)

So, in my view, both the Auckland Council and the Government should be promoting the concept of congestion tolls, set initially at low levels, but set to rise as alternative transport options improve and as alternative housing options emerge, in large part from the market forces created.

City Housing

My principal **transport** policy is, however, for Council and Government to reform the private sector urban **rental housing** market.

This reform means creating a mixture of carrots and sticks to ensure that houses and other dwellings within the Auckland isthmus are neither unoccupied nor under-occupied. (I would love to hear – in the 'comments' below – anecdotes about houses recently purchased for megabucks that are presently empty, or are occupied by significantly fewer people than they were designed to house.) Housing supply is not just about building houses; it is also about making proper use of the stock that we already have. We have comprehensive statistics about labour supply; we likewise need good statistics about what happens to houses that are purchased more as financial assets than as dwellings.

The second part of this reform is to establish a warrant of fitness for all rental housing, and other housing that ought to be part of the private rental stock. Such warrant of fitness testing should be subsidised.

The third part of the reform is for Labour to replace the 'capital gains tax' idea with a 'property speculation tax' similar to that introduced by the Third Labour Government in its 1973 Budget.

Adjacent to a property-speculation tax would be legislation to require landlords to declare to tenants if there is a *prospect* of a rented house having to be vacated in the next 12 months, regardless of the maturity of tenancy. (For example a 12-month tenancy should be presumed to be a roll-over tenancy unless the tenant gives, on signing, notice of intended vacation at the end of the tenancy.) Thus tenants could negotiate lower rents in exchange for heightened insecurity. Landlords who decide to sell at short notice without prior warning would be required to compensate their tenants. The cost of rented housing escalates significantly when the landlord is an active property speculator.

Conclusion

Auckland is an emerging world-city, with many employment opportunities not present in other parts of the country. The externalities around both transport and housing can be resolved in orthodox ways that make full use of the price-mechanism that is at the core of economics.

Do we want a proper world city, or an overgrown country town? We need more young people living and working near to their places of employment – walking, cycling, bussing, training or ferrying to work – engaged with their communities through an efficient rental housing market. That's capitalism the way I like it. Congestion pricing facilitates 'good' capitalism; Green capitalism.