COST RECOVERY PRICING AND URBAN MANAGEMENT

Peter A MURPHY

Faculty of the Built Environment, The University of New South Wales, Sydney, Australia, 2052. Email: p.murphy@unsw.edu.au

Abstract

Fundamental challenges faced by governments tasked with managing growth and change in large urbanized regions arise from under-pricing of urban infrastructure and environmental assets. This paper argues that a generalized failure by governments, and urban planning officials who advise them, to understand the economic basis of cities deprives them of insight into the most effective tools needed for management. The paper is in three parts. First, social costs arising from consumption and production activities in cities and the implications of under-priced urban services are considered. Second, recognizing that pricing solutions to urban problems may have socially regressive outcomes, ways and means for these to be addressed are discussed. Third, approaches to overcoming implementation constraints are addressed. Illustrative examples, reflecting the author’s experience, relate to Australian cities but the arguments are universal.

Keywords

urban management, cost recovery pricing, externality pricing

INTRODUCTION

The management of growth and change in large urbanized regions is one of the great global challenges of the 21st Century. Cities are the engine rooms of national economic growth therefore maximizing their efficient operation is in the national interest: in this context efficiency means the absence of externalities and cost recovery pricing of infrastructure. But cities are complex systems and growth and change brings with them socially unacceptable by-products such as traffic congestion, poor air and water quality, the destruction of natural and agricultural lands, and unaffordable housing. In order to deal with such by-products, governments establish metropolitan planning frameworks to coordinate private and public sector decision-making. In the case of horizontal coordination, a central planning agency seeks to influence the scale and location of infrastructure investment so that it conforms to a metropolitan spatial plan. In the case of vertical coordination, central governments seek to influence decision-making by local government authorities so that they conform to a desired metropolitan outcome (e.g. Murphy 2007).

An effective coordinating framework, backed by political support and well-trained bureaucrats, is a sine qua non for creating order in cities as they grow and change. The tool kit deployed by urban managers includes public policies, laws and regulations, and infrastructure investment. Weakly developed in the tool kit are pricing measures, such as pricing roads to eliminate traffic congestion (Murphy, 2007). Yet pricing should be the foundation of urban management with other tools having important but subsidiary roles. This position derives logically from conceiving of the metropolis as a set of inter-meshed, micro-economic sub-systems. These systems are spatially expressed in the forms of cities. Once established, urban form itself