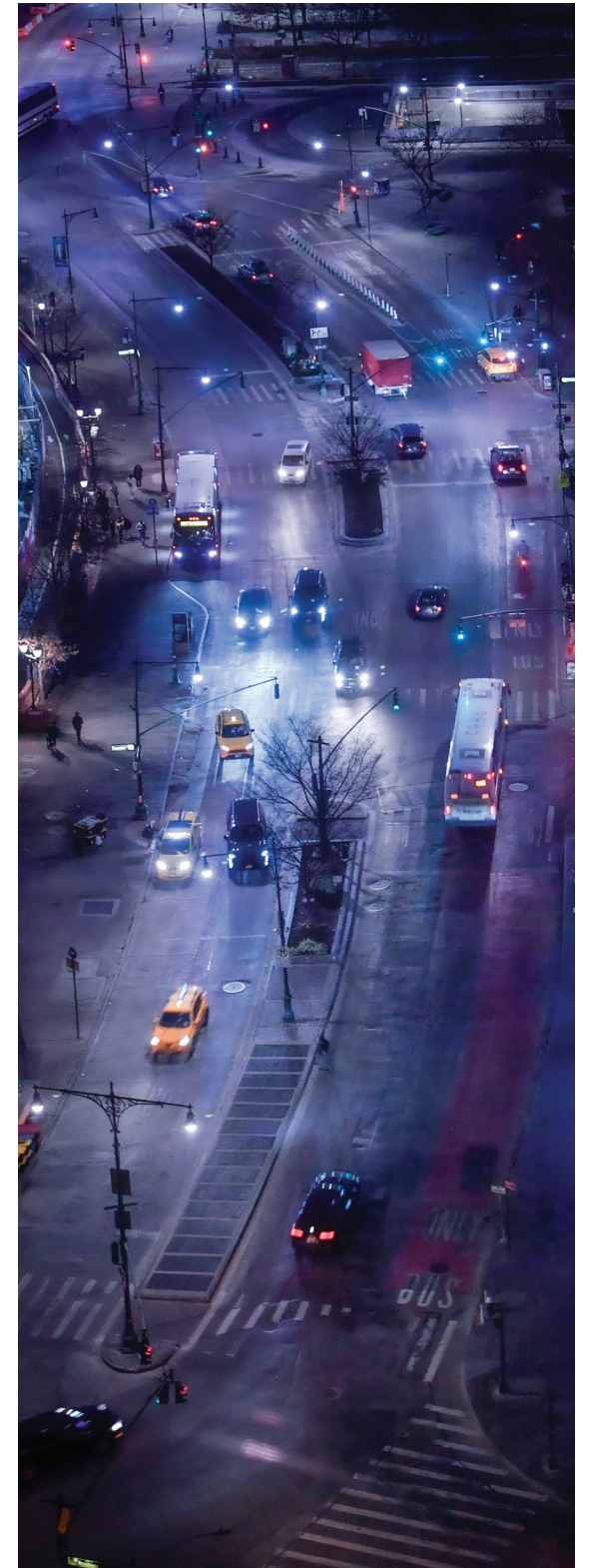


The “Marvel” of Prices on Display in New York City’s Streets

By Paul Best

Long rated one of the most congested cities in the world, officials tried for decades to speed up travel times for the millions of New Yorkers, commuters, and tourists who navigate the streets of the Big Apple every day. But years of wildly expensive subway expansions, bike lane deployments, and rideshare crackdowns only exposed the technocratic folly of city leaders while doing little to ease traffic.

Overconsumption is inevitable when consumers treat a scarce resource like road capacity as essentially “free.” This leads to largely hidden costs like time lost in traffic, pollution, wasted fuel, and the grating soundtrack of sirens and angry horns that vibrate through Manhattan. A simple solution to this seemingly intractable problem is the introduction of a price signal to steer the scarce resource of road capacity to higher value uses and trim the many unseen costs associated with congestion.



These side-by-side images of a street in New York City’s Financial District during rush hour are just one example of how traffic has reduced in the city. The picture on the left was taken on October 26, 2023, at 5:49 p.m. The picture on the right was taken on January 27 of this year at 5:43 p.m., after congestion pricing went into effect. (Photos by Marc Hermann/Metropolitan Transportation Authority)

“Price controls feed us comforting lies about a product’s true scarcity—whether that product is rental housing or road space,’ explains Ryan Bourne. ‘By holding prices below their market levels, we trick tenants and drivers into believing these resources are cheaper or more abundant than they are.’”

When the president tried to squash New York City’s congestion pricing experiment last month, the White House put the move in characteristically Trumpian terms. “CONGESTION PRICING IS DEAD,” the administration declared on social media. “Manhattan, and all of New York, is SAVED. LONG LIVE THE KING!”

The rhetoric may be business as usual for Trump, but the president has no reason to fear his hometown’s adoption of congestion pricing—in fact, the new administration should embrace the power of prices to solve Manhattan’s notorious gridlock.

Under the congestion pricing program, which began on January 5, drivers of passenger vehicles must pay \$9 between 5:00 a.m. and 9:00 p.m. to enter the Congestion Relief Zone (CRZ), an area at or below 60th Street in Manhattan, while trucks and buses pay slightly higher fees.

Travel times on bridges and tunnels leading into Manhattan were 10 to 30 percent faster after congestion pricing was implemented than they were in January of last year, according to TRANSCOM data released by the Metropolitan Transit Authority (MTA). Part of this may be due to commuters ditching their cars for the bus or subway, as express bus ridership jumped 5.8 percent during the week and 21.2 percent on weekends in January compared to the same time last year, while subway ridership grew 7.3 percent during the week and 12 percent on weekends, according to the MTA.

There is also evidence that traffic flows are smoother throughout the day as some drivers adjust their schedules to avoid the toll. When broken down into 10-minute increments,

entries into the CRZ spike just before the \$9 toll goes into effect, between 4:40 a.m. and 5:00 a.m.; fall once the clock hits 5:00 a.m.; and pick back up again around 5:20 a.m. A similar trend plays out around 9:00 p.m., when congestion pricing is no longer in effect.

“When faced with a price on their actions, people re-weigh their own priorities and get creative,” said Ryan Bourne, the R. Evan Scharf Chair for the Public Understanding of Economics at Cato and editor of *The War on Prices*. “Some businesses pivoted to nighttime deliveries or dropped goods at the edge of the zone. Hair salons ran midday ‘Toll-on-Us’ specials to keep customers flooding in.

Everyone, from commuter groups to scrappy bike couriers, adjusted in ways no central planner could predict, responding to their own needs. It was a vivid display of the raw adaptive power of a market economy and how prices harmonize our activity.”

Other sources not affiliated with the city government have shown similar effects. Two college-aged brothers, Brown University senior Benjamin Moshes and Northeastern University freshman Joshua Moshes, created a public data tracker by collecting Google Maps traffic data every 15 minutes for 13 routes leading into the CRZ and three routes within the CRZ.



Pedestrians walk at the intersection of 61st Street and 2nd Avenue in Manhattan, the border of the Congestion Relief Zone that drivers must pay \$9 to enter. (Photo by Selcuk Acar/Anadolu via Getty Images)

Travel times on some tunnels and bridges leading into the city halved or even decreased threefold during rush hour following the implementation of congestion pricing, while routes within the CRZ fell by 5 to 10 percent, according to the brothers' data.

Benjamin, who studies applied mathematics and economics, provides a fairly simple explanation for the adjustments that millions of New Yorkers are making.

"When you put a price on congestion, so you say it's now more expensive to take a car, for some people for whom the value of going into the city is not \$9, they won't pay that price, and they'll go take public transportation, or they won't drive it at all," Benjamin told *Free Society*.

While New York City is the first American metro area to implement congestion pricing, other large cities around the world such as London and Stockholm have set up similar programs with great results.

Swedes were vociferously opposed to congestion pricing when Stockholm ran a trial in 2006, but traffic fell by 20 percent on average in the first year, with about half of the "disappearing" drivers opting for other forms of transportation and the rest changing their departure times or making other adjustments, according to a case study by Royal Institute of Technology professor Jonas Eliasson. Encouraged by the positive results, Sweden voted to make congestion pricing permanent the following year.

London, which has long been one of the most congested cities in the world, implemented congestion pricing in 2003

and saw congestion drop 30 percent in the first year. Transport for London noted that "drivers adjusted rapidly to the introduction of charging" by establishing "new patterns of travel"—half of the disappearing drivers opted for public transportation, while about a third diverted around the charging zone, and the rest made other adjustments, such as changing the timing of their trips. Despite the initial success, London has seen an increase in congestion in recent years, which some observers have attributed to a reduction in road space to make room for the installation of new bus and cycling lanes.

Congestion pricing in New York City, London, and Stockholm demonstrates how price signals can allocate resources much more efficiently than any central planner could imagine. But transportation is just one sector that can benefit from embracing prices—other industries, such as health care and housing, similarly suffer from misallocations of resources due to heavy-handed government interventions that often exacerbate the very problems they're intended to solve.

Nearly a million New York City apartments, roughly half of all units, are "stabilized" under the city's Rent Stabilization Law, artificially lowering supply as developers are discouraged from investing in new construction and incentivized to convert rentable housing to other uses. Housing quality also declines as market incentives to maintain and improve properties are distorted.

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space," says Bourne. "By holding prices below their market levels, we trick tenants and drivers into believing these resources are cheaper or more abundant than they are. The inevitable result is the same—housing shortages or jam-packed roads."

Transportation Secretary Sean Duffy explained in a letter to New York Gov. Kathy Hochul that the Trump administration withdrew congestion pricing's authorization because drivers are "burdened with a price that is set to raise certain amounts of revenue for MTA capital projects rather than a price that is necessary to have an impact on congestion." He later told CBS News that the Trump administration might be open

to a \$3 or \$5 fee specifically geared toward reducing congestion.

To be sure, the static \$9 fee *administered* by New York City officials is likely imperfect. Dynamic prices that vary with real-time feedback on congestion almost surely would lead to even more efficient outcomes. These *market* prices could rise and fall based on live traffic flows, surging when streets are particularly crowded and dropping when road space is plentiful, regardless of the time of day.

New York City's experience with congestion pricing, even if imperfectly structured, is a testament to spontaneous order—a real-world experiment showing the "marvel" of prices, as F. A. Hayek described it.

"The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly," Hayek wrote in *The Use of Knowledge in Society*.

The Trump administration, New York City officials, and other policymakers should let this truth temper their command-and-control impulses and embrace the power of prices to unleash efficiencies across the economy. ♦

ABOUT THE AUTHOR

Paul Best is a senior writer and managing editor for *Free Society*. Before joining the Cato Institute, he worked as a news reporter and television producer.