The Role of Pricing in the Delivery of Community Services

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The passing of Proposition 13 in the State of California in June 1978, which substantially reduced the revenues that public agencies could collect from property taxes, was symbolic of a broad cross-section of national dissatisfaction with the level of taxation at federal, state and local levels in the United States. Since Proposition 13 was passed, this tax revolt has reverberated across the United States. The result has been reduced availability of tax dollars for public services particularly at local levels of government. This has caused local jurisdictions to reduce the quality and range of community services offered and/or to seek alternate revenue sources to finance these services.

The primary alternate source of revenue to the property tax is user pricing. However, pricing is multifaceted. It may perform several roles in addition to that of revenue production, some of which may be antithetical. This paper identifies and discusses these roles.

There are four primary roles which pricing may perform in the delivery of community services. They are equity, revenue production, efficiency and income redistribution. Equity is concerned with the allocation of burdens. Concern is with ensuring that those who benefit from a service pay the cost of that service. Revenue production recognizes that most public service agencies do not have sufficient funds to deliver all of the services their client groups desire. User pricing generates funds which may be used to supplement other revenue sources. User pricing promotes efficiency by offering a mechanism for optimizing the dispersal of scarce resources. It may do this by serving as a method for rationing the output of services; providing insights into client group demands; encouraging the private sector to deliver services; fostering positive user attitudes; providing incentives to achieve societal goals, and regaining stronger accountability for the use of scarce resources. Finally, pricing may be used as a means of redistributing income. Many argue, from a conceptual perspective, that redistribution should not be a function of pricing. Nevertheless, it is frequently a concern of decision-makers and thus merits inclusion in this discussion. These objectives or functions, and some of the possible outcomes or results which public service managers may seek from following a pricing strategy guided by them, are summarized in Figure 1.

THE EQUITY ROLE

Equity requires that each community service should be priced at a level which is fair and equitable to both users and non-users. This necessitates identifying who pays and who benefits from a service. Much of the debate about equity revolves around the question of whether a particular community programme exhibits the characteristics of private, merit, or public services. The differences between these categories are summarized in Figure 2.

If a programme exhibits the characteristics of a private service, benefits from the programme are received exclusively by participating individuals rather than by the rest of the community. It is usually technically possible to exclude persons who are not willing to pay for the services provided. Exclusion is the key factor which

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Fig. 1
The four primary functions of pricing and some of their implications

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**Differences between services exhibiting public, merit and private characteristics**

**PUBLIC SERVICE**
- Benefits go to all in community
- Costs are paid by individual users
- Suitable for activities that benefit wide public
- Examples: education, public health

**MERIT SERVICE**
- Benefits go to those who pay
- Costs are paid by individual users
- Suitable for activities that benefit individual users
- Examples: libraries, museums

**PRIVATE SERVICE**
- Benefits only to those who pay
- Costs are paid by individual users
- Suitable for activities that benefit specific users
- Examples: cable TV, gym memberships

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pay for it. If the benefits from these services are not perceived to spill over to other citizens in the community, then it is reasonable to expect users to pay all of the costs.

In contrast, at the other end of the continuum (Figure 2), a public service, in its pure form, is equally available to all citizens in the community. Often this is because there are no feasible ways of excluding any individuals from enjoying the benefits of the service. Because individuals cannot be excluded, it is not possible to implement a user pricing system unless such a system relies upon users voluntarily paying. Unfortunately, so long as payment is voluntary, there are likely to be some individuals who become "free-riders" and take advantage of whatever is freely available without paying. To keep this situation from occurring, public types of services are financed by a system of compulsory payments through the taxation system. Air pollution, police protection, and urban parks are frequently cited as examples of services which exhibit public service characteristics.

There are some services for which it is possible to exclude people and levy a user price, but which, nevertheless, are offered as public services. This course of action implies that these services are perceived by the community as contributing to the physical health, mental health, cultural knowledge, or welfare of all citizens in the community. (Such action may also be taken if a primary role of pricing is to redistribute income. This role is discussed later in the paper.) Indeed, much of the growth of government has resulted from decisions to provide private services at public expense. The rationale has been, implicitly more often than explicitly, that everyone benefits by having no one starve, for example; by assuming that anyone can get medical attention when it is needed; and by requiring that everyone receive at least a minimal amount of schooling. Such contributions may be viewed as an investment in human capital from which everyone in the community benefits.

The view of public and private types of services as opposite poles along a continuum is helpful in understanding the essential differences between them, but most community services lie somewhere between the two poles. Such services are called merit services. Merit services have been defined in several ways but fundamentally they are private services that have been endowed with the public interest. Part of the benefit is received by the individual consumer and part of the benefit is received by persons external to the individual or by the public in general. Although it is possible to levy user prices for merit services, it is not reasonable to expect users to cover all costs because there are also spillover benefits which accrue to the whole community. Users should be subsidized to the extent that benefits to the whole community are perceived to accrue. Because a service is partially subsidized, the individual probably receives more of it than he or she would have purchased on his or her own.

Most public services for which a user price is charged are not totally self-supporting. Most are also supported by tax funds. This suggests that these services are perceived as merit rather than private types of services. Tax subsidy can only be justified if collective benefits are accruing to the majority of the community which is subsidizing the programme.

An important point in understanding this public-merit-private classification is that the particular location of a service along the continuum shown in Figure 2 depends upon whom the agency and its publics perceive as accruing benefits from it. The citizens of a community define what is public and what is private. Regardless of theorizing on the nature of public and private services, it is what people expect of their local political system that limits the decision-makers' choice of services for user pricing. Decision-makers can influence these expectations; they do not have to passively accept them, but they must recognize these expectations exist.  

Thus, the classification of any given activity will vary between areas. For example, in a high income neighbourhood, a tennis facility may be perceived as having the characteristics of a private service from which only the participant accrues benefits. Hence, all costs incurred should be covered by user prices. In a low income neighbourhood, an identical tennis facility may be perceived to be a pure public facility, or at least perceived to be a merit facility. In this case, the whole community is seen to receive some gain by providing wholesome activity for its citizens; improving the living environment which increases the value of everybody’s property; or from the psychological satisfaction of knowing that the less wealthy are being provided with recreational opportunities which they could not otherwise afford to purchase.

Figure 3 indicates that user groups in a community typically seek to shift perceptions of their activity of interest as far as possible away from the private end of the continuum toward the public end, in order to persuade the agency and the community to pay more of the costs out of taxation revenues and reduce user prices. These user groups are likely to be vociferous and politically active in their efforts to preserve their benefits. In the past, reductions in general taxes brought about by the revenues accruing from any specific user price were so small that the average benefiting citizen was disinterested. Hence, user groups frequently prevailed in retaining the status quo. Increasingly, the general public appears to be recognizing that an entire package of user prices can contribute significantly to reducing general tax burdens. Hence, they are more frequently seeking to shift services away from the general public end toward the private end to make participants pay for the benefits they derive from the services that they use. The actual point on the continuum at which a particular service is located will depend upon the relative size and political strength of these groups.

![Fig. 3](image)

The conflicting thrusts of different publics which seek to influence pricing decisions

Unfortunately, there are likely to be many people in a community who do not clearly belong either to the user group or the general public group. Rather they belong to both groups at different times. That is, they are in favour of tax reductions, but are not in favour of the subsequent lower quality offering, price increases, or elimination of the particular services they use which result from the tax reductions.

The role of the commercial businessman delivering similar services in this conflict is likely to vary according to the particular situation. In situations where entrepreneurs are in competition with the public agency, support will be with the general taxpayer who is seeking to make users pay a larger share of the costs of the facility. On the other hand, because the public marina will enable private boats to be more competitive, entrepreneurs are likely to support the public marina. However, in other situations where competition entrepreneurial support will probably decline. Lower prices may mean a larger number of commercial services. For example, probably oppose increases in the admission fees, and thereby fewer visitors using the concession.

One other dimension of equity which is often discussed occurs when people residing outside a community in part by members of the community who live and pay taxes outside of the community services they use. This policy is particularly when a range of services are offered, or less meet the wants of a local community.

THE REVENUE PRODUCTION

The recent renewed interest in the provision of alternate source of revenue to the public service has increased the pressure on all levels of government, but to reduce their reliance on general tax revenues. Restrictions on new taxes may be removed if the new offering is seen as necessary to raise income. Furthermore, capital costs are increasing more palatable to taxpayers and therefore generate sufficient revenues to pay for the services.

In some cases there has been an increase in revenues which was achieved by the agency’s revenue support from taxes. The appropriate strategy by decision-makers, however, is to reduce the amount of revenue from the public service to improve efficiency and reduce costs. In the future. In addition, the agency can also be aided by the new pricing.

When a price is charged for a new service, there is frequently a group of people who are angry about the new pricing. They may protest because they believe that they must pay taxes and a charge for services. However, the obvious is that the prices are higher in the absence of the service.

THE EFFICIENCY ROLE

User pricing encourages efficient use of resources and improved efficiency in six different ways.

Congestion and Excessive Demand

Price may be used to reduce inelastic demand at particular times or in
who is seeking to make users pay a higher price. Higher prices provide more opportunities for the entrepreneur to compete. For example, increasing user prices at a public marina will enable private marinas in the area to compete more effectively. However, in other situations where the service offered is complementary rather than competitive entrepreneurial support is likely to be with the user interest groups. Lower prices may mean a larger number of participants who may require particular commercial services. For example, a concessionaire operator in a public park would probably oppose increases in the admission price to the park because it may lead to fewer visitors using the concession.

One other dimension of equity which pricing can address is the inequity which occurs when people residing outside of a community use facilities which are subsidized in part by members of the community. User pricing is the only way of making people who live and pay taxes outside of the community contribute toward the cost of the services they use. This policy is particularly appropriate in situations where a broader range of services are offered, or larger facilities are developed, than are required to meet the wants of a local community’s resident population.

THE REVENUE PRODUCTION ROLE

The recent renewed interest in user pricing has emerged because it offers an alternate source of revenue which may help to compensate for reductions in tax revenues. Pressure has increased for agencies to expand their expenditures on services, but to reduce their reliance on property taxes as the main source of locally raised revenues. Restrictions on new programmes stemming from financial constraints may be removed if the new offerings are planned to be self-financed out of user price income. Furthermore, capital costs on community development projects may be more palatable to taxpayers and their elected representatives if facilities at least generate sufficient revenues to pay their operating expenses.

In some cases there has been a reluctance to increase user prices because any increase in revenues which was achieved, resulted in decision-makers reducing the agency’s revenue support from taxes by an equivalent amount. This may be an appropriate strategy by decision-makers if they perceive it as benefiting the taxpayer. However, it serves as a major disincentive to the agency which finds that, instead of having additional revenues to improve the delivery of its services, its only reward is the equivalent loss of a source of financial support which may be difficult to regain in the future. In addition, the agency may lose political support from user groups who are angered by the new pricing policy.

When a price is charged for what had previously been an entirely tax supported programme, there is frequently a cry of anguish from individuals who complain that they must pay taxes and a charge for the service. This has been called “double taxation.” However, the obvious counter argument is that taxes would be even higher in the absence of the service charge.

THE EFFICIENCY ROLE

User pricing encourages efficient use of available resources. It may achieve this improved efficiency in six different ways, which are discussed in the following paragraphs.

Congestion and Excessive Demand

Price may be used to reduce inefficiencies created by congestion or excessive demand at particular times or in particular places. Typically, many community
services are used intensively during a relatively brief period of time, and moderately or even lightly at other times. Charging different prices could serve to ration use at peak times. For instance, higher prices could be charged during the hours or days of heaviest use as an inducement to secure a more even time pattern of use. Similarly, higher prices could be charged at heavily used facilities than at lighter used ones, as a means of distributing use more evenly at available facilities. Price used in this way may bring about more efficient use of services by influencing clients to choose certain times, locations or facilities.

For some client groups time, rather than money, may be the price participants pay for the benefits they derive from a service. Hence, many community services that are offered at no charge, or are only nominally priced, are nevertheless rationed. The rationing mechanism is the amount of time which users are prepared to wait in order to use the service.

**Demand Indicator**

Price may serve as an indicator of client group demand. Without price, there is no readily available objective means of assessing which community services should be given priority. Providing services “free” out of general tax revenues is likely to result in either one or both of two inefficient conditions. Either there will be a serious shortage of the service with congestion resulting, or relatively too many resources will be allocated to expanding the service to alleviate the perceived shortage.

Price helps to ration and allocate scarce resources efficiently. It assists public decision-makers in deciding on both quality and quantity of a service which should be delivered and when increased investment in a particular service is justified.

The lack of a direct link between tax financing and service delivery may mean that service delivery occurs without satisfactory information about demand or user preference. When consumers pay for community services through the price system, their individual actions can signal shifts in demand more quickly and flexibly than can the inherently cumbersome and inflexible political mechanism. This should lead to a more rapid alteration in service delivery priorities than would otherwise occur.

Community services can easily be overfinanced or underfinanced, if they are not priced, because decision-makers may have higher or lower preferences for particular services than the citizens they serve. Thus they may allocate more tax monies to these services than the citizens being served would allocate if they had an effective voice in the process, or vice versa. Price gives them this “effective voice.”

The absence of appropriate user prices leads inevitably to increased pressure through the political process from benefiting groups for more of such services. Because there is always competition for government services by different beneficiary groups, some demand or preference indicator which can be used for efficiently allocating the limited available resources is essential. Pricing provides “discipline” against excessive claims of beneficiaries and keeps their competing claims in check.

If a service is offered without the user having to pay a direct price at the time the service is used, there is likely to be a perceived shortage of the service. Without price, people may demand an unreasonably high supply of the service because those who benefit from the service correctly perceive that increased supply occurs at little or no direct cost to themselves. The results of this process can best be illustrated by an analogy:

Suppose that a city decides to finance all steak consumption through general taxes rather than to allow butcher shops or supermarkets to operate in the private market. Individuals would try to secure as many as possible. This would create a serious “shortage”. If the government supplied more steaks, far too much investment relative to its alternative.

**Positive User Attitudes**

Charging a price may lead to a more informed use of community services. For example, some nominal charge for what was previously a free service will raise the recipient's consciousness and their respect for the resources that are required. The individual will not abuse the service in a way that abuses such as graffiti, littering and vandalism pay little or nothing for the privilege of anything at zero price to the economic, value. Some sense of personal responsibility is instilled.

**Encouraging Private Sector Delivery**

Realistic pricing of community services makes the possibility of delivering competitive service an attractive proposition for the private sector. The private sector can be motivated to enter the field by offering a subsidy. For example, the Wall Street Journal illustrates how subside can be used to encourage private sector delivery. Gore Mountain Ski Centre, a public corporation, was given an annual tax subsidy of $50,000 a year. It applied for $246,000 in federal grants for an extension that involved installing snow-making equipment. The balance of the capital was raised by the private sector. Gore Mountain charged $400 for a lift ticket, while the federal government charged an average of $51,125, less than the private sector capital plus interest on their investment. Thus, the public sector operates out of business.

Gresham's law of competition, we hear, the private sector tends to drive out private enterprises that are not competitive.

Conventional wisdom often suggests that competition leads to duplication of effort which is inefficient. However, in the case of services is a necessary condition for the success of all of the attendant incentive and competition in the market system. It is this competition that ensures that a large number of services are required to perform in the best manner possible both in the sense of quality and in the sense of minimizing costs in doing so.

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private market. Individuals would consider steaks to be "free"; they would try to secure as many as possible. The result would be the immediate appearance of a serious "shortage". If the government tries to respond to this "shortage" by supplying more steaks, far too many resources will be drawn into this line of investment relative to its alternatives.4

Positive User Attitudes

Charging a price may lead to a more responsible, and hence more efficient, use of community services. For example, social-work agencies have found that even a nominal charge for what was previously a free service enhances both the self-respect of recipients and their respect for the usefulness of the service. It is often suggested that abuses such as graffiti, littering and vandalism occur in facilities because participants pay little or nothing for the privilege of using them. It is argued by some that provision of anything at zero price tends to diminish its psychological, as well as economic, value.5 Some sense of personal contribution or support may enhance the user's feelings of responsibility towards, and esteem of, the service.

Encouraging Private Sector Delivery

Realistic pricing of community services encourages the private sector to explore the possibility of delivering competitive services. Efficiency is achieved if the public agency is able to partially withdraw and reallocate some of those resources to another service or return them to the tax-payers. It has been said that "we cannot give away cake and expect people to rush into the bakery business at the same time." If user prices are heavily subsidized, then in effect the agency is following a policy of excluding the private sector from offering a similar public service. A lead editorial in the Wall Street Journal illustrates how subsidized services preclude private service delivery. Gore Mountain Ski Centre, a public facility operated by New York State, received an annual tax subsidy of $50,000 a year and was constructed with tax-free bonds. It applied for $246,000 in federal grants to help in funding a $2.87 million capital extension that involved installing snow-making machinery and other equipment. The balance of the capital was raised by issuing tax-free bonds. With these advantages Gore Mountain charged $100 for a family season pass. Commercial resorts in the area charged an average of $112.5, because they had to pay commercial prices for investment capital without any assistance from federal grants, and to show a return on their investment. Thus, the publicly operated state project gradually forced the commercial operations out of business. The editorial commented: "By a sort of Gresham's law of competition, we have noticed that state enterprises in the mixed economy tend to drive out private enterprise."6

Conventional wisdom often suggests that provision of similar services by others leads to duplication of effort which is wasteful and inefficient. However, duplication of services is a necessary condition for competition in the private sector and is the basis for all of the attendant incentives for efficiency that are inherent in the private sector market system. It is this competitive pressure that offers prospects for the best performance both in the sense of being responsive to user demands and in the sense of minimizing costs in doing so.7

In a competitive market economy the price system encourages economic efficiency by yielding rewards to, or by imposing losses upon, those who cater to the demands of individuals. User prices could have a similar effect on community service delivery if public managers were competitively challenged by producers of substitute services. Thus, the absence of a competitive challenge from private sector substitute services prevents user prices from fully performing their function of allocating community resources most efficiently.

It is often possible and advantageous for agencies to raise their prices for services to a level which will encourage private enterprise to assist in producing a wide variety of programmes for constituents. Traditionally, community service delivery often has implied a monopoly position for public agencies. Private enterprises can significantly improve the efficiency of the public sector by providing competitive pressures, if public sector agencies raise prices sufficiently to permit private enterprises to yield a return on the capital they invest.

**Incentive Pricing**

The basic purpose in using price as an incentive is to encourage a change in behaviour, tastes, or habits, which will result in scarce resources being used more efficiently by society. Such price incentives may be used to discourage activities which make inefficient use of scarce resources and thus are considered undesirable to society. For example, river pollution may be reduced if a substantial price is charged for the right to dump effluents into the water.

More commonly price incentives are used to encourage a clientele to engage in activities which are deemed to be desirable to the community. To achieve this, the monetary price charged for the service is likely to be very small or even zero. If adopted when a new service is being offered, it may help to make the programme “visible” quickly and provide it with initial momentum. For example, urban mass transit systems initially might adopt prices which are below cost for an introductory period in which they seek to encourage motorists to forsake their automobiles and to educate them on the advantages offered by public transport.

Adopting a low incentive price at the outset to try and change habit patterns may cause problems later. The initial offering price may become the reference point for future pricing of the service. Establishing a low price initially is likely to limit the magnitude of any subsequent increases in price which may be desired. For example, if a price of 25 cents is charged initially, this may become established or referenced in users’ minds as the “fair” price for the service. There is likely to be resistance from users to raising this price to $1.25 at some future date. Alternatively, if an initial price of $1.00 is charged, this may become the users’ reference price. A subsequent increase to $1.25 is likely to be much more acceptable to these users since it represents a much smaller increase than from 25 cents.

**THE INCOME REDISTRIBUTION ROLE**

Decision-makers sometimes elect to subsidize services out of taxation revenues, rather than charge a direct price, because they see this as a means of redistributing wealth from higher income groups to lower income groups. Public housing, food stamps, and medical care are examples of services which are provided for individuals without charge or at a subsidized price for purposes of income redistribution. Decision-makers adopt this policy because it is politically easier to obtain redistribution covertly by offering free or heavily subsidized services to lower income groups than it is to undertake an explicit redistribution of income.

There is no doubt that income redistribution can be more efficiently attained if cash transfers were made in line with the wealth transfers to lower income groups. If income taxation, is likely to be a very effective mechanism for redistributing community services for lower income groups, without generating as much political controversy.

Although political realities dictate that these be provided through the service subsidy, conceptually, this is not a distributive activity. Redistribution of resources under a public assistance service is more analogous to a central government. Money is distributed, but not in such a way as to necessitate movement, and serious by the activity may be imposed.”

The cost of services should be as much a part of medical services. The payment levels should be high enough to pay for all the costs of medical services. The payment levels should be high enough to pay for all the costs of medical services.

**CONCLUSIONS**

It would be unusual to find an agency that is not applicable to all programmes. Different programmes have different needs. It is desired that whatever it is intended to accomplish, there must be a single programme that can reflect a consistent pricing method. For example, an objective that is to allow or encourage lower cost for a service, this suggests that a relatively low price is required. However, this may stimulate more use of the service, this may stimulate more use of the service. The price that is ultimately adopted may be the one that is in the interest of the user and represents the best use of resources.

Three of pricing’s potential roles are usually relatively compatible. It is important to note that the role of pricing is usually incompatible. Unfortunately, cost recovery is seen as being uppermost in the minds of public agencies often at the expense of the poor people. There are at least three.

First, property taxes, which are often levied by local government, are often levied by local government. Property taxes are often levied by local government to provide for the services of education, health, and police. Property taxes are often levied by local government.

Second, the provision of certain services, such as education and health care, are often considered to be a public good. The public good nature of these services is often considered to be a public good. The public good nature of these services is often considered to be a public good.

Third, the provision of certain services, such as education and health care, are often considered to be a public good. The public good nature of these services is often considered to be a public good.

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There is no doubt that income redistribution would be more effectively and efficiently attained if cash transfers were made and the recipients allowed to use the cash in line with their own preferences. However, issuing substantially increased welfare checks to lower income groups, or developing some general form of negative income taxation, is likely to be a volatile political issue. Often, it is hoped that subsidizing community services for these same people will achieve similar ends without generating as much political controversy.

Although political realities dictate that income redistribution be attempted through service subsidy, conceptually, distribution considerations should be the prerogative of central government. Musgrave and Musgrave note that: “Unless this is done, distributional adjustments at the state level may come to be nullified by interstate movement, and serious barriers to an optimum location of economic activity may be imposed.” The cost of paying for what society deems to be necessary services should be as much a part of cost-of-living budgets as the price of food or medical services. The payment levels to welfare recipients, and pensions to the aged, should be high enough to pay for all necessary services. All such services should be part of the measured “needs” in the budget of poor families that require additional resources under a public assistance standard. It would then be possible to price community services, even those directed at low income groups at a level adequate to meet the cost of delivering those services.

CONCLUSIONS

It would be unusual to find an agency that has one overall pricing objective which is applicable to all programmes. Different pricing roles are likely to be appropriate for the different kinds of services that are offered. The role of price should be tailored to whatever it is intended to accomplish. In some cases, the price adopted for a single programme may reflect a compromise which attempts to reconcile several conflicting pricing objectives. For example, if the major role is income redistribution, that is to allow or encourage lower income citizens to participate in a particular service, this suggests that a relatively low, or even zero, price should be charged. However, this may stimulate more use than the agency can accommodate. Hence a lower user price may be inefficient in that it is unable to perform a rationing function. The price that is ultimately adopted will depend upon which objectives are uppermost in priority and will represent the best compromise among conflicting objectives.

Three of pricing’s potential roles, equity, revenue production and efficiency are usually relatively compatible. It is the income redistribution role which is most incompatible. Unfortunately, community decision-makers frequently view this objective as being uppermost in priority. Hence, the pricing objective policy statements of public agencies often contend that pricing imposes hardship upon poor people. There are at least three responses to this line of argument. First, property taxes, which are the primary source of tax revenues for most local community services often tend to bear much more heavily on low income groups than upon higher income groups. This is because property taxes frequently represent a larger proportion of a poor family’s total income than a wealthier family’s total income. It has been suggested that the burden on low income groups would

be less if user prices were charged for community services, since poor families may now pay more in rent as a consequence of general property taxation than they would under some alternative pricing arrangement. It is argued that the poor may be better off if they are charged user prices and given the option of not participating in the service, and therefore avoiding payment for it, rather than being mandated to pay for services they do not want through the property tax system.

Second, if a community does wish to subsidize low income individuals' use of public services, then it may be better to provide reduced or zero priced charges to them rather than offering subsidized services to all regardless of their income. The administrative method commonly used to implement this policy is to give the less affluent a card which is presented at the time of using a particular service. Pre-requisites for successful implementation of this differential pricing are that it should not cause resentment from any client group, and that it should avoid placing a stigma on persons receiving the low price privileges.

Finally, there is some evidence and opinion to support the view that the services offered by public agencies sometimes do not serve the low income population very well. Indeed, some argue that it is subsidized community services that impose hardships on poor people, not those for which reasonably high user prices are charged.

Services supported by taxes are not free, they represent a subsidy from non-users of the service to users. This subsidy may well be operating in a way contrary to that which might normally be expected. Often public services foster a "distorted price system." This is a system in which the richer elements in society are subsidized by workers at the lower end of the income scale. Such a system results, therefore, in a perverse income or benefit redistribution. For example, people who visit museums, zoos, or aquariums, or who use boat marinas, may have above average incomes. Yet they may be receiving a subsidy from the relatively poor if the cost of these facilities is partially met out of tax revenues. Even if some of the visitors are poor, the relatively wealthy receive the same dollar subsidy at a free facility as do the poor.

Financing community services from revenues received from user pricing releases those citizens who do not wish to participate or use a service from having to pay its cost. A substantial proportion of low income people do not use certain kinds of services. Hence, it is inequitable that they should be required to pay for those services.

Pricing decisions are often made with only the revenue production role of price in mind. This paper has attempted to point out that price has three other potential roles it may perform. In addition to producing more revenue, pricing of community services may lead to greater equity and efficiency. If decision-makers consider these two roles, and critically review the limited role of price in facilitating income redistribution, it may often lead them to establish substantially different pricing policies for community services than those they currently endorse.

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11. Mushkin, op cit, p. 441.