TREATING EQUALS EQUALLY:
Common Abuses in Pricing Public Services
by John L. Crompton

The first requirement of any public recreation and park agency in establishing prices for its services is that the prices should be fair. A dimension of fairness is what economists call "horizontal equity"—that equals should be treated equally.

This article describes three contexts in which this rule calling for fair treatment is frequently broken. These contexts are offering of season and multi-use discount passes; discounts for senior citizens; and the fee structure for youth recreation activities.

Season and multi-use discount passes are used in swimming pools, golf courses, and performing arts centers, among other facilities. In essence, these passes are what the private sector would term "quantity discounts." When commercial businesses offer quantity discounts, specific benefits accrue to both the seller and the buyer of the service or product. A business might realize:

- Saving in production costs, because larger orders may result in lower cost production runs.
- Improved cash flow, because a relatively large cash payment is made.
- Reduced costs associated with transportation, because there may be fewer orders to process, ship, and invoice.
- Reduced inventory and storage costs, because the costs of storage and inventory and the risk of not reselling the item are transferred from seller to buyer.
- Reduced selling expenses. Many expenses such as billing, order-filling, and salaries are about the same whether the seller receives an order totalling $10 or $500.

Thus, the seller shares such expense savings with the purchaser of large quantities.

- Incentive to a buyer to purchase only from a given seller rather than buying from multiple sources.
- An inducement for clients to purchase more of a good or service than they would otherwise have done.

In contrast to the use of quantity discounts by commercial enterprises, in most instances where quantity discounts are offered by park and recreation agencies it appears that benefits accrue predominantly to service users rather than to the agency. In such cases, direct users gain at the expense of all other citizens.

Recreation and park agencies are stewards of resources entrusted to them by the citizenry. Therefore, before season or multi-use discount passes are issued, an agency must be able to identify the benefits that it or the general citizenry receives from such an arrangement in addition to the benefits received by clients. There appear to be four situations in which these benefits may be realized.

First, for situations in which there are competitive services, the quantity discount ticket may be an incentive for a client to purchase the service exclusively from the agency. This is particularly important if this commitment implies a link to other services. For example, a discount ticket holder at a golf course is likely to rent golf carts and make purchases at the golf shop, concessions, and food areas.

Second, a multi-use or season pass may induce clients
to purchase more of a service than they would otherwise. A primary reason that arts patrons buy a season ticket is because it makes them more certain to attend each performance.

Third, if a service is operated through an enterprise fund, then it may be useful to have a guaranteed cash flow at the start of a season. It is then possible to plan ahead and develop strategies for resolving likely budget shortfalls over the rest of the season, which reduces the risk of not achieving revenue goals.

Fourth, there may be positive promotional impact. Committed multi-users of a service may be effective word-of-mouth promoters in the community.

There are many instances, however, in which multi-use discounts may not be appropriate. The first requirement of any agency’s policy is that it should be equitable to every citizen, and offering quantity discounts may lead to inequities.

Consider the case of a public swimming pool that operates at an annual loss of $50,000. Two questions arise. First, why should the taxpayer who swims only occasionally be required to pay more (the full admission price) for each swim than the taxpayer who swims frequently and takes advantage of the multi-use discount?

The major beneficiary of the $50,000 subsidy is the frequent swimmer because he or she makes most use of the pool. If it is assumed that every visit to the pool is subsidized by the taxpayers by one dollar, then the second question becomes: Is it fair that frequent swimmers should receive a discounted admission price and receive the greatest benefit from the subsidy?

Indeed, a not altogether facetious case can be made that the frequent swimmer should pay a higher price than the occasional swimmer, not a lower price. Sewerage charges are frequently based on the volume of waste delivered, with high volume users paying most, because the city has to provide and pay for facilities to get rid of the waste. The same rationale may be applied to the provision of pools. The primary pressure for building and operating them probably comes from heavy users who will be the main beneficiaries. Because they are the primary source of the operating deficits, it may be argued they should pay more per visit not less.

The only reason a multi-user purchases a discount pass is because he or she believes that there is a financial advantage to this practice. When an agency operates the only swimming pools available to the general public and avoids direct competition, the case for quantity discounts is difficult to sustain. In such situations the most equitable and efficient price structure requires that all users pay the same per-visit price and that no multi-use discount passes be offered.

Sometimes it is argued that some users do not take full advantage of the discount passes they purchase; then the agency gains income it would otherwise not receive. The issue then becomes: Is it fair that people should pay for visits they don’t use?

The basic purposes of quantity discounts are to stimulate additional demand and to reduce the costs of meeting that level of demand. If these two conditions are not met, then an agency probably should reconsider its use of season and multi-use discount passes.

Discounting prices for senior citizens is a common practice in the parks and recreation field. Indeed, in its 1979 survey of 188 local park and recreation departments across the country, Economics Research Associates reported that as a matter of policy 66 percent of respondents offered reduced prices for senior citizens and an additional 16 percent admitted senior citizens free to programs for which there was a fee.

The rationale for this senior citizen discount is the assumption that senior citizens are a low-income sector of the population that cannot afford to pay regular prices. The image of an elderly person struggling to survive on a fixed pension, perhaps supplemented by a meager interest income from modest savings, is a disturbing one. Although such an image reflected reality for a large proportion of the elderly 20 years ago, it is misleading today. There is still a poverty problem in the United States, but people over 65 years of age are now on average no more likely to be poor than people below 65.

The data in Table 1 trace the remarkable change since

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<th>Year</th>
<th>All Persons</th>
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</tr>
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<td>1982</td>
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1959 in the economic status of people 65 and over. The proportion of elderly below the poverty level dropped from 35.2 percent in 1959 to 25.3 percent in 1969, an average of one percentage point per year. In the next five years, the impact of antipoverty programs directed at elderly citizens was most forcefully felt as the poverty rate for members of this group declined two percentage points per year to 14 percent in 1974. Since then, it has remained virtually static, fluctuating between 14 percent and 16 percent. However, in 1982 the proportion of population over 65 below the poverty level was less than the proportion of the population under 65 years of age.

The 1980 Census reported that the national average household income, per person after taxes, was $5,964, while for households headed by people over 65, it was $6,299. The improvement in the economic status of older persons is all the more remarkable because these statistics include only cash income—that is, they do not include the very important health benefits that Medicare provides.

Senior citizens have several other financial advantages. They pay less in personal taxes than others at the same income level because they are entitled to a personal exemption of $2,000 a year, which is double the exemption available to other taxpayers. In general they own more assets than non-senior citizens at the same income level; they are, for example, more likely to own their homes. They usually do not have child-rearing expenses nor work-related expenses, such as commuting costs.

The improved economic status of older people can be attributed to legislated increases in Social Security benefits in the late 1960s and the indexation of benefits in 1974. Introduction in 1974 of Supplementary Security Income, an indexed negative income tax for senior citizens, also has had a bearing on economic status.

It is easy to sympathize with a reduced price policy for senior citizens. All of us aspire to reach this position and would ultimately benefit from such a policy. All the available evidence, however, suggests that at this time senior citizens are as well off economically as the rest of the population.

Therefore, to offer price discounts to the older population is to be unfair to the rest of the population. We are requiring that younger people reach into their wallets to enable senior citizens to save money. There is no equitable economic reason to support this requirement. Now that senior citizens are economically equal to the rest of the population, they should be treated equally in agency price structures.

The United States still has a poverty problem, but it is found in all age groups and is not concentrated among senior citizens. There are many seniors whose income is marginally above the poverty level, but there are also many non-seniors who may be similarly classified.

The following personal experience illustrates the fairness issues raised in pricing youth recreation activities. My nine-year-old daughter is a member of the local swim club, a nonprofit organization offering the

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only opportunities for advanced swimming instruction in the community. All active members are children.

Parents administer the club. They handle hiring and paying the coaches; conduct extensive fund-raising activities; organize meets and serve as meet officials; and provide transportation for children who wish to compete in out-of-town meets.

The swim club is given the use of several lanes at one of the city pools throughout the year at times of the day that cause minimum inconvenience to other pool users. For the use of the pool, my daughter is charged $90 each year. I have no quarrel with this charge; it is reasonable. However, I sense injustice and inequity when I observe that no charges are imposed on other youth recreation activities by the city.

Little League, junior soccer, and junior softball, like the swim club, are operated by nonprofit organizations. Unlike the swim club, however, these groups are permitted to use city facilities without charge. The purpose of Little League baseball is "to provide an outlet of healthful activity and a training under good leadership in the atmosphere of wholesome community participation." This purpose is the same as the purpose of the swim club.

My daughter's friend who is the same age and lives next door plays junior soccer and junior softball. Another friend across the street plays Little League baseball and junior soccer. Neither of them is required to pay anything to the city for use of the fields. Why is my daughter charged and the other children not charged?

This year it is likely to cost my city around $30,000 to maintain, irrigate, and operate the new Little League complex, with floodlights, recently constructed at a cost of $400,000. Since there are approximately 500 children in the Little League program, the city is subsidizing each child in the program to the extent of approximately $60.

The swimming pool, was built for general public use, and the swim team is given lowest priority. The sports fields were constructed exclusively for the use of the Lit-
There is still a poverty problem in the United States, but people over 65 years of age are now on average no more likely to be poor than people below 65.

In areas consisting of predominantly low-income households, the "no charge for all youth recreation" option may be the best strategy. In situations in which youth recreation teams are sponsored by local businesses, an alternative may be to include the facility use fee as part of the sponsors' costs. Another solution may be to call the user fee a "donation," as a means of enabling low-income families who cannot afford the charge to avoid it.

To offer youth recreation activities free when a relatively small proportion of users are from low-income families may be expedient. However, this approach is increasingly perceived to be unsatisfactory by many agencies because of its adverse impact on revenues.

Consider the implications of pursuing this policy for my city. Suppose the swim club is given free use of the pool. To be equitable and treat equals equally, the city must also offer free use of pools to all children who are not members of the swim club. Clearly, it is inequitable to give club members free admission and exclusive use of some lanes, while other children who do not have these privileges are required to pay. Because the primary swimming pool users are children whose admission represent a substantial source of revenue, cities are reluctant to initiate such a policy.

There is an "opportunity cost" associated with revenues the city foregoes by not imposing a price. The revenues that would accrue from this source could be used to provide additional recreation opportunities for young people. Assume that the city has a fixed number of dollars to spend and that the recreation department has programs it cannot offer because it lacks funds. The absence of these revenues means that additional youth recreation opportunities will not be scheduled.

A further problem with free use for youth is that families with children in youth recreation programs are unable to demonstrate a willingness to contribute toward the cost of the programs. If parents are not prepared to demonstrate their support by at least partially offsetting the program's costs, it is unreasonable of them to expect people without children in the program to recognize it as worthy of subsidy through the tax system.

It is sometimes argued that because society fully subsidizes other types of education through the public school
system, then youth recreation programs that contribute toward leisure literacy should also be offered free and fully subsidized. This analogy has two weaknesses. First, whereas all children are required to participate in education offered by the schools, only a select group of children elect to participate in programs offered by the recreation department. If only a select group of children receive benefits, it is difficult to make the case that they should be fully tax-supported by other citizens.

The inequity becomes even more pronounced if the select group are from middle- or high-income families rather than from low-income families, which is often the case in activities such as Little League, soccer, and softball. In this situation, poor people are being required to subsidize a program, usually through property or sales taxes, even though their children do not benefit from it. These taxes are regressive and hurt poor people most.

The second weakness with the education analogy is that schools already offer basic instruction in the recreation activities and the programs offered by the recreation department are for more advanced practice of those skills and competitive opportunities. The only acceptable option is to charge all children who use any city facility an equitable price. Thus, children who play Little League, soccer, and softball would pay a user fee that is consistent on some selected criteria to that charged children who use other facilities.

There is one other common abuse of the requirement to treat equals equally that occurs in a variety of contexts. It is applicable of the "Robin Hood" principle. The Robin Hood principle is implemented when an agency charges users of one service a higher price than it costs to deliver this service and then uses the surplus income to subsidize other users of that service or of other services. For example, it may be possible to generate surplus revenues from golf facilities that may then be used to offset the deficits associated with an aquatic facility.

This strategy is inequitable. Equals are not being treated equitably. Why should golfers be singled out to subsidize swimmers? If swimmers should be subsidized, then the full cost of the subsidy should be shared by the whole community. It is unfair to select golfers to carry this compensatory burden solely because they happen to be users of a particular facility.

Pricing is one of the most technically difficult and politically sensitive areas in which recreation and park managers have to make decisions. Pricing decisions are influenced by myriad ideological, political, economic, and professional arguments. However, the debate accompanying this diversity of perspectives should be focused upon sound principles.

In the past, when only nominal prices were charged, the underlying rationale of a price structure was not as likely to be challenged. As prices increase, traditional structures need to be carefully examined to see if they are fair and equitable. The three price discount structures explored in this article have long been accepted by many as being appropriate. However, when their rationale is investigated, it appears there are some instances in which inequities are being perpetuated.