I n recent days the issue of transit fares and operating subsidies has once again loomed large in Toronto. Faced with increased costs of operation, the Toronto Transit Commission has appealed to governments for an addition to its operating subsidy: currently about 18 per cent of the TTC's total operating revenue. The operating subsidy paid to the commission is in addition to substantial capital subsidies for the purchase of rolling stock, guideways and accessory equipment. In the absence of a larger operating subsidy the commission faces the prospect of a fare increase, route cuts and lowered levels of service on surviving routes.

Supporting the commission's appeal are many well-intentioned individuals. Advocates include those who see a transit-oriented city as good for the environment, good for energy conservation, good for the efficiency of commercial activity and good for congestion relief. Advocates also include those who see public transit as an important public service for the less privileged and as a key to promoting equality of opportunity. As a public transit rider myself, I am quick to agree that I have personally benefited from the substantial financial support given by government to the TTC, over the years.

Around the globe, cities are wrestling with the question of how to achieve and maintain a healthy transit sector. Toronto is not unique in its circumstances. Strategies have varied widely: from operating subsidies that are typically as much as 40 per cent of the total income through privatization and competition with zero subsidy. Large-scale operating subsidies became commonplace in the 1960s and 1970s across cities in the developed world. However, fiscal restraint and more conservative approaches to governance have whittled away at transit operating subsidies. Again, Toronto's experience here is fairly typical.

Over the last decade governments have also put more emphasis on issues related to global warming and the Kyoto Protocol seeks to reduce carbon emissions. An important source of carbon emissions is the transportation sector. Transit advocates have long argued that public transit is less polluting than automobiles and that governments should encourage car drivers to switch to transit. However, this misses the point that we need to eliminate all unnecessary (in an economist's terms, under-priced) trips, be they by auto or public transit. This is a two-edged sword. On the one hand, trip pricing means the introduction of road and congestion tolling so that automobile users pay the full marginal social (including environmental) costs of their trips. The introduction of automated tolling on Highway 407 shows that the technology is available. On the other hand, trip pricing also means that subsidies for public transit should be eliminated and that public transit users should pay the full marginal cost of each trip. Since the cost of a transit trip varies with its length as well as with the time of day (peak versus off-peak), transit fares should be related to distance travelled and to the congestion level. A further implication is that monthly passes, such as the TTC Metropass, with its zero cost for a marginal trip, should be eliminated.

Above, I argued that advocates of public transit subsidies are "well intentioned." The implication here is that I think that they are misguided when they support policies such as subsidies, flat fares and passes that induce unnecessary trips. They are also misguided in the sense that while wanting to "do right" by transit (to the applause of self-interested riders like me), they ignore the mass of empirical evidence that there is a better way to do transit.

The empirical evidence can be grouped into two parts. The first part of the evidence concerns the price elasticity of demand for public transit. In general, evidence from cities around the globe suggests that the elasticity is about 0.3, which means that ridership falls by three per cent when the fare is raised 10 per cent. Economists call such a demand "inelastic" because the implication is that fare-box revenue rises when the fare is increased. Put differently, because demand is price inelastic, transit can be cost-recoverable, even profitable, if only the fare is set sufficiently high. The reason why demand is relatively price inelastic is commonly thought to be because the demand for transit is more sensitive to level of service than to fare.

The second part of the evidence concerns the experience of cities in Britain and elsewhere with transit deregulation. Through the 1970s and early 1980s the trend in many cities was towards the Toronto model wherein a public utility (the TTC) had a monopoly on the provision of public transit services within its boundaries. Starting with Britain in the late 1980s, local transit was deregulated: monopolies (like that of the TTC in Toronto) were eliminated and competition was encouraged. The result of this policy in general has been to lead to markedly higher fares and lower ridership. However, this leads to a much different kind of "public" transit, one oriented to the higher-income commuters who are willing to pay the extra required to provide an attractive (fast, convenient) level of service. In the context of Toronto, the TTC would have to move to something more like the model of GO Transit in terms of pricing and level of service. In cities that have deregulated, transit providers have, for example, switched from the large bus coaches (like those used by the TTC) to minivans. For the same capital outlay as for one large coach, transit providers might find, for example, that they can purchase five minivans, on a route that the large coach could run every 20 minutes (which means that customers could wait as long as 20 minutes for the next vehicle), the minivans by their sheer numbers could reduce that maximum wait time to just four minutes. Transit advocates might argue (correctly) that it is less costly to maintain a fleet of durable (if initially expensive) coaches compared with a fleet of less-sturdy (initially inexpensive) minivans. My counter-argument, however, is that riders are more attracted by the level of service that could be provided by minivans than they are discouraged by the higher fare such vehicles make necessary.

The TTC has its supporters in the community, many of whom want to see a city that is more oriented to transit. I endorse their objective but do not share their enthusiasm for a continuation or expansion of the current level of operating subsidies. I see it as a means to reawake our initiative to combat global warming on the altar of increased public transit ridership. Some proponents might argue that I would abandon those less privileged in the community for whom public transit presently is the only inexpensive way to travel. This is an argument easily refuted. Since the price elasticity of demand is so low, it requires a large subsidy to bring about even a small increase in ridership. This implies that the subsidy per net new rider is substantial. Put differently, if our objective is to improve accessibility for the less privileged, there are more cost-effective ways of doing this: e.g., trip vouchers or income supplements.

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