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Musgrave, Ralph S.

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Pensioners' Travel Concessions – A Misallocation of Resources.

Ralph Musgrave.

For information about the author and contact details see last page (22)

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Abstract:

Everyone has a soft spot for pensioners. This probably explains most peoples' unquestioning approval of pensioners' travel concessions. However, it is argued here that concessions do not make sense because pensioners would be better off with the cash equivalent of their concessions. Subsidising pensioners' travel involves inefficiencies of which the following are the main ones.

First, there are good arguments for some subsidies (e.g. health and education). These arguments do not apply well to pensioner travel. For example in the case of health, many people in the absence of the National Health Service would face sudden large bills for medical treatment. In contrast, the bill for essential travel, like going to the shops, is a predictable and modest weekly expense of the same order as the weekly cost of food (for which pensioners are not given concessions).

Second, about three quarters of the money spent on concessions is wasted in that it goes on transporting those who could afford the full fare (at least for essential travel) or who are on non-essential journeys. In contrast, under a no concession scenario only about a quarter of the expenditure is wasted. Also, concessions are a poor means of supplying transport facilities to pensioners since about a third are not well served by public transport. In contrast, under a no concessions scenario, virtually all less well off pensioners get "transport subsidy money" since this money is contained in an increased state pension. Under a no concessions scenario, pensioners can spend their "subsidy money" on for example home delivery of groceries, taxi trips or subsidising relatives' car running costs where the latter do the shopping.

Fourth, social exclusion is often used to justify concessions. It is shown that abolishing concessions, far from increasing social exclusion, might even reduce it.

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Introduction

It is argued here that the case for pensioners’ travel concessions is weak, because pensioners would be better off with the cash equivalent. That is, concessions should be abolished, with the money saved (approaching £1bn a year in the UK) being used to raise the state pension. Most of the money could be channelled into the pockets of poorer pensioners, i.e. those who previously tended to use concessions, by various alterations to the tax and social security system, like reducing the over 65s’ income tax personal allowance.

As to why we have pensioners’ travel concessions, the political and psychological reasons are obvious, as is pointed out in section 18 below. As to the economic or logical rational, this is a bit of a mystery, in the sense that there do not seem to be any well researched, carefully argued expositions of the case for concessions. Academic journals devoted to transport, seem to have nothing much on the subject. Department of Transport publications are not too illuminating. Search engines are no better.

A document produced by the Commission for Equality in Northern Ireland expresses frustration at the lack of any precise objective for concessions (1, section 11). Two other works cast doubt on the value for money represented by concessions (2 & 3). Those involved in a recent case involving concessions in the European courts also seemed to have difficulty in coming up with the rationale for concessions (4.). The best they could do was "...the purpose of travel concessions was to facilitate access to public transport for a range of persons who tend to be less well off." This is typical of the justifications produced.

But this justification is suspicious. If people are insufficiently "well off", why not give them more money? And if the above justification is valid, how about shoe concessions, food concessions and a dozen other concessions so as to "facilitate access to shoes, food, and so on for the less well off"? These questions are examined below and the conclusion is that the above "suspicion" is well founded, that is, the above justification for concessions is very much the nonsense that it appears to be.

In view of the lack of good arguments for concessions, some of the material below may seem to consist of flogging dead horses.

The argument below starts by quickly disposing of three popular but feeble arguments for concessions. Then a more complex question is considered, namely whether subsidising travel is justified on the grounds that it is a merit good.

Pensioners tend to travel during non-peak periods, so give them concessions.

One popular argument for concessions is that pensioners tend to travel during off-peak periods: periods when buses and trains are running half empty, that is periods when the marginal cost per passenger is low. Therefore pensioners should pay a price for their travel which reflects this low cost.

But the answer to the above is that every other age group might as well have off-peak fare reductions as well: a policy already in effect in many cities round the World.

Advocates of pensioners' concessions might answer the above by claiming that these concessions increase usage of public transport during the off-peak even more than a flat off-peak reduction for everyone. The answer to this is that different incentives to travel at off-peak times for different groups of people will not maximise the total benefits derived from transport, for a given total amount spent on transport. The reasons for this will be intuitively obvious anyone up to GCSE in Economics, and these reasons are set out a footnote, since a lesson in basic economics here would interrupt the flow of the argument on travel concessions.

Concessions encourage the use of public transport.

A second popular argument for concessions is that they encourage the use of public transport rather than cars. The false logic here is much the same as above. That is, it is every category and traveller that needs to be encouraged to use public transport, not

just pensioners: that is why we have public transport subsidies, and substantial taxes on car usage.

Moreover, if anyone is going to be given an additional incentive to stand at bus stops in the cold, and/or lug their shopping home on the bus rather than use cars, it ought to be the relatively young and fit. The latter activities are not desperately suited to pensioners. That is, it is pensioners, where they have the option, that should have preferential access to cars.

Pensioners are poor, and deserve any form of assistance

A third, false argument for concessions is that pensioners are poor, thus any assistance is desirable. The flaw here lies in the word “any”, which is too sweeping. That is, it is easy to think of schemes to “help” pensioners which are nonsensical: for example handing out free cabbages to pensioners (or shoes).

This raises the question as to where to draw the line between effective and ineffective ways of helping pensioners. The answer, as it happens, comes from examining the next argument for these concessions, namely that travel is a merit good.

Merit goods.

The definition of “merit good” adopted here is the conventional one: something so fundamental to human well-being that we cannot have anyone go without it. Alternatively it can be defined as something which we think the market has undervalued. Healthcare and education are normally regarded as examples.

Clearly some travel is a merit good: the transport that pensioners need to do shopping or get to the doctor. This will be called “basic” travel, transport, etc in the paragraphs below. In contrast, travelling fifteen miles to a restaurant or theatre comes into the non-essential category. This is not to say pensioners should not enjoy non-essentials. The point is that there is a distinction between essentials and non-essentials, and the reasons for interfering with consumers’ freedom of choice are normally very different in the two scenarios. The reason for intervening in the case of an essential (like health or education) is normally to ensure that those in need of the essential are supplied with it. In contrast, about the only reason for intervening in the market for non-essentials is to mitigate some harm, which is why we have a large tax on alcohol. Given these differences, essential and non-essential travel are treated separately below, and we start with the former.

The first justification for a subsidy: its absence is a disaster

As suggested above, there are good reasons for intervening in the case of health and education. One justification is that the consequence of inadequate education or health care would be serious: illiteracy and disease. In fact the consequences are sufficiently serious that not only are some elements of health and education subsidised, they are

compulsory (e.g. compulsory jabs, and compulsory education for children). That is, part of the reason for the subsidy is to make the compulsion more palatable.

Travel is in a totally different league. There is no likelihood that anyone with adequate income is going to voluntarily abstain from travelling to the shops and starve as a result.

As distinct from compulsory education and healthcare, there is also a large element of consumer choice: only rarely is anyone forced to see their doctor, and as to university education, this is voluntary as well. The reason for subsidies here is more to do with the fact that we think the market has undervalued the relevant products than that an absence of the products would be a disaster. However the possibility that the market has undervalued travel is considered several paragraphs hence, so this point will be shelved for now.

The second justification for a subsidy: the subsidy hits the target.

A second requirement when allocating a commodity at below cost to any group, all of whose members allegedly need the commodity, is that a large proportion of the group actually gets the commodity. Free state health care and education meet this criterion. That is, virtually every adult knows where their doctor's surgery is, and how to get there, and that the treatment is free. And as to education, much the same applies. (Of course, a proportion of the population go private for their health/education, but that is their business. Likewise, the fact that some people travel in private jets has little to do with the merits or de-merits of travel concessions.)

Now the contrast between health and education on the one hand, and public transport on the other is stark. According to a study done in Wales, (5, p. 30) around 35% of those who normally use buses find that buses do not meet their needs for shopping. And there is no question but that shopping is a basic necessity, as opposed to a luxury. A Department for Transport study (6, p.34) produced similar evidence: 56% of those surveyed (all ages) said that going shopping by bus would be "difficult". As to rural areas for the UK as a whole, 75% of rural parishes have no bus service (7, p.18). As to bus trips to hospitals, the situation is worse than in the case of shopping: the above Welsh study found that only 35% of those who normally use buses said buses met their needs for getting to hospital (as out-patients or visitors).

Apart from the fact that buses just do not meet the needs of a sizeable proportion of pensioners for shopping trips, there is the question as to whether lugging shopping around on buses, and waiting at bus stops is an activity particularly suited to pensioners. Of the above mentioned 56% who said that shopping by bus would be difficult, 20% of these said this was because travel by bus would be impossible, and 80% mentioned difficulty in carrying shopping. (Respondents could give a variety of reasons, thus the fact that the above 20 and 80 add up to 100 is coincidental).

If the above sizeable proportion of people of all ages think carrying shopping on buses is difficult, how about pensioners? The obvious difficulty pensioners have lugging shopping around on buses points to the desirability the option of using their "subsidy money" to subsidise one of the alternative method of "grocery deliveries". First there

are taxis, a second possibility is home delivery, and a third possibility is contributing to relatives' vehicle costs where relatives do the shopping.

The conclusion is that public transport is very different to health/education. The NHS and state education cater for virtually 100% of those who want these services. In the case of public transport, the proportion of the population who are adequately served for shopping trips would seem from the above figures, and at a rough guess, to be in the 60% to 80% range, with the equivalent percentages in the case of trips to hospital being significantly worse.

The third justification for a subsidy: large variations in costs.

In the case of health and education, costs vary dramatically as between different individuals. Also, costs vary dramatically for a given individual over time. In the absence of the NHS many people would face sudden and large bills for medical treatment. Youths go to university, the cost of which can exceed ten thousand a year. This all requires state funding, or at least state intervention of some sort, e.g. making private health care insurance compulsory.

In contrast, basic travel facilities for a large majority of pensioners will at a maximum be something like two or three 5 mile return journeys per week. (The average length of shopping trips for those without cars is one mile, and four miles for those with cars (16, p. 24)).

The above short journey to the shops is a predictable weekly expense. Also the variation in cost as between one pensioner to another (up to five miles of bus journey) is small compared to the variations that occur with health or education. The variations in spending that occur will be no more than the variations that occur in respect of clothes or food, which are also merit goods.

Indeed, food is far more of a merit good than health, education or transport. People are almost bound to die without the former much sooner than without the three latter. But we do not subsidise pensioners' food. This is because, amongst other reasons, food is a predictable weekly expense.

Of course some pensioners need to travel much further than the above mentioned five miles: those in outlying suburbs or in the country. The advocates of travel concessions might argue that therein lies the merit of concessions, namely that concessions pay for these longer journeys. Unfortunately it is precisely the pensioners who need to travel large distances, that is, those in rural areas, who are least likely to have public transport.

Another "variation in cost" argument that advocates of concessions might cite is that some pensioners live within walking distance of shops and perhaps other amenities, whereas others do not. Hence concessions are a fairer way of allocating "travel money" to pensioners, since the result is that the two latter groups both get to the shops for free.

Certainly the latter argument would have some force in a poor country or society which was desperate to ensure everyone had at least the basic essentials (in particular the ability to get to the shops for food). But this is not the society we live in. On the contrary, we live in a society where the average pensioner does a lot more travel than just the travel needed to get to the shops

This calls for a quantification of four phenomena touched on above: first there is the extent to which a concessions and a “no concessions” scenario meet basic travel needs of pensioners. Second there is the question as to what extent the two scenarios result in non-essential travel being subsidised. A quantification exercise of this sort is attempted below.

To summarise, subsidising health and education can be justified first, because an absence of the subsidy has serious consequences. Second, large unpredictable variations in spending occur. And third, health and education subsidies hit their target accurately. The extent to which pensioners’ travel concessions meet these three criteria ranges from the “hopeless” to the “not too impressive”.

Returning for a moment to the above mentioned second definition of merit goods, namely that they are goods the market has undervalued, it is very questionable as to whether the market has undervalued transport. Almost certainly the reverse obtains, in view of the forthcoming environmental disaster caused by carbon dioxide emissions, for which transport bears much of the blame.

Another possible argument for concessions in this connection is that where the market has undervalued the objective of a particular set of journeys, as say in the case of education, then the concessions could be justified. This may well be a valid point, which is why this paper does not argue against concessions for students. However pensioners travel for exactly the same wide variety of reasons as the rest of the population, with the obvious and big exception that few pensioners travel to work. And it is almost nonsensical to claim that the market has undervalued all the objectives for which people travel, because this includes just about every conceivable human activity. But if by any chance the market has undervalued all these activities, then this is a case for subsidising all travel for the entire population !

Finally, having argued that the case for intervening in essential travel is weak in the extreme, there remains the question as to whether intervening in non-essential travel is justified. There is normally little reason to interfere with anyone’s decision to consume a non-essential unless there are serious side effects involved (as in the case of alcohol). As to what the serious side effects of travel are that we are not already aware of and dealing with (e.g. accidents, carbon dioxide emissions, etc), this is a mystery. In any case, travel concessions encourage the consumption of the relevant non-essential. And where is the logic in encouraging the consumption of a non-essential? This is another mystery. People can and should be left to their own devices when choosing between non-essentials. Conclusion: there is little reason to interfere with pensioners’ freedom of choice when it comes to travel, essential or non essential.

The problems with unjustified subsidies: unfairness, bureaucracy and reduced GNP

Subsidising something for no good reason has three drawbacks: unfairness, excessive bureaucracy and the reduced national income that derives from distorted prices.

Unfairness. Some pensioners travel by public transport several times a day, and others scarcely ever. To take a fairly extreme scenario, but one which is probably repeated a few thousand times over the country, if a pensioner gets totally free travel, and does four £2.00 bus trips a day, that effectively equals £56.00 a week of extra pension, or put another way, a 65% increase in the State Pension for a single person. In contrast, other pensioners who happen not to use public transport get nothing.

Bureaucracy. Issuing bus passes absorbs the time of pensioners and bureaucrats, as does policing the system. The Audit Commission estimates the administration costs of concessionary fares outside London at 5% (11, Para 22). In contrast, if “travel money” is included in the state pension, the additional bureaucratic costs are minimal. All that is required is to alter a few numbers on pensioners’ direct debts and so on, a change that occurs once a year anyway. And the bureaucratic costs to central government of paying out pensions as a percentage of the total paid out are much better than the above 5%.

Price distortions. The third problem with unjustified subsidies is strictly economic. It is widely accepted in economics that national income is maximised where prices are approximately equal to costs (unless there are good social reasons for thinking otherwise). An unjustified subsidy distorts the market and reduces national income.

Waste and reaching the needy: concessions versus no concessions.

There is a big difference between on the one hand, long distance rail and coach travel, and on the other, bus and urban rail. The large majority of pensioner trips on the former two are for leisure purposes. Thus this form of travel cannot be counted as a merit good, thus the case for concessions here is hopeless.

As to bus and urban rail, a much larger proportion of trips are for essential purposes of which shopping is much the most significant. Shopping accounts for about 35% of all trips for the over 65s on all forms of transport, the biggest single reason for travel (12, p.28). Moreover, as pointed out above, while the arguments for treating travel as a merit good are nowhere near as strong as in the case of health or education, the arguments are not completely hopeless: that is, there is a case, as pointed out above, for quantifying the extent to which the concessions and no concessions scenarios meet the needs of pensioners, and the extent to which both scenarios waste resources.

The calculations below concentrate on buses. Obviously urban rail should be included, but statistics on urban rail seem to be hard to come by. In any case buses carry far more passengers than urban rail, plus pensioners tend to travel by bus rather than urban rail even when they have the choice.

The method used below to compare concession with no concession scenarios for buses is far from perfect. But if this acts as a challenge to some else to do better, then this article will not have been entirely pointless. (Or perhaps someone else has already done better, in which case the author will have egg on his face)

The conclusion arrived at, after about 2,000 words of references to sources of information and calculations below is that about three quarters of the expenditure on concessions is wasted in the sense that it goes on subsidising the travel of those who could have afforded the full fare (at least for essential travel) or who are on leisure trips. In contrast, wastage in a no-concessions scenario would be about a quarter (this consists of “travel money” going into the pockets of people living within walking distance of shops). As to ability to reach the needy, a no concessions scenario also fares better. Concessions at best reach about two thirds of those in need, while under a no concessions scenario almost all those in need are reached. In short, there is no contest: the case for concessions is hopeless.

The word waste as used above must be treated with caution: it refers essentially to money going round in circles. This is not the same as waste in the sense of money totally down the drain. Waste in the “totally down the drain” sense is calculated below as being around £25 a year for each pensioner. This is the amount by which pensioners would be better off in real terms if concessions were abandoned.

Readers wishing to skip the calculations can go straight to “Taxi Tokens”.

The waste caused by concessions

One form of waste with concessions is concessionary travel by pensioners who could afford the full fare (at least for essential travel).

We as a society have specified a level of income below which it is considered that people cannot afford the basic necessities including, presumably, basic travel facilities (plus whatever luxuries we decide to allow to the very poorest). In the case of pensioners, this level of income was determined by the “Minimum Income Guarantee”, superseded by Pension Credits in 2002/3. Minimum Income Guarantee (MIG) will form the basis of the calculations below, rather than Pension Credit, because MIG is simpler: it specifies an exact level of income below which no one is supposed to fall.

There do not seem to be any surveys that asked pensioners on buses whether they were on MIG. This is possibly not surprising because of the personal nature of the question that would have to be asked. However we can get some idea of the proportion of pensioners on buses who were entitled to MIG from a survey of bus pass holders in Scotland (9). This survey, unfortunately, did not concentrate on pensioners: it included the disabled. However the number of people in the UK on Incapacity Benefit is only around a third the number of pensioners. Also the travelling habits of the disabled do not seem to be much different from pensioners according to another Scottish survey (10, table, 9). The former survey (9, table 3.14) divided respondents into household income quintiles shown in the first column below.

As might be expected, those in the lower income groups did more bus trips per week, shown in the second column. The number of respondents in each quintile is shown in the third column. And the fourth column shows the total number of trips done by respondents in each quintile (second column multiplied by the third).

Income quintile in £/month	Bus trips/person/week	No. people in each quintile	2 nd Col x 3 rd (total trips per quintile)
Under 500	7	200	1400
500-750	5.4	153	820
705-1000	4.7	90	420
1000-1500	3.5	82	287
Over 1500	3.5	63	220

Now for the question as to how many trips were done by those above and below the MIG threshold. This is a difficult question to answer in that MIG for single pensioners was obviously different to MIG for married pensioners and the above survey did not distinguish between the two. However this can be got round by working out the average MIG household income of all pensioners, counting the MIG of each married pensioner as being the household income for a couple of pensioners. The reason for the latter is that when a married pensioner is asked what his or her household income is, obviously they will answer with a figure that equals the income of both members of the “family”.

The MIG threshold in 2002/3 for single pensioners was £421 a month and £645 a month for couples. There were 2.6m pensioner couples (i.e. 5.2m married pensioners) and 4m single pensioners in the UK. This means that the average MIG household threshold income of all pensioners was £548/month $((5.2 \times 645) + (4 \times 421) / (5.2 + 4) = 548)$.

Clearly all members of the lowest quintile are below the MIG threshold. As to the proportion of the second lowest quintile below this threshold, this will be something like $(548 - 500) / (750 - 500) = 0.19$. Total number of trips done by this quintile is 820, thus the number of below MIG trips is $0.19 \times 820 = 156$. The latter added to the trips done by the lowest quintile, 1400, comes to 1556. As a proportion of the total number of trips done by all quintiles (total of fourth column) this is $1556 / 3147 = 49\%$. Thus wastage caused by pensioners on buses who are above the MIG threshold is 51%.

There will also be some waste caused by the 49% of pensioners on buses who are entitled to MIG, but who are travelling for non essential purposes. Unfortunately there does not seem to be any research into the purposes for which pensioners of different income groups travel on buses. However about 30% of pensioner journeys on all

forms of transport are for non-essential purposes (12, p.28). It would be not unreasonable to suppose that the proportion of low income groups' travel which is for essential purposes would be higher than the equivalent proportion for wealthier travellers. However, this does not seem to be the case (10, table 9). Thus, taking the above figures, 30% of 49% is around 15% .

Leisure journeys are around twice the length of shopping journeys, on the other hand fares are not directly proportional to distance travelled. So instead of doubling the latter 15% let us multiply it by 1.5. This makes 22.5%. Call it 22%. Total figures for wastage is thus $51 + 22 = 73\%$

There are any number of refinements that could be used to improve the above calculations. For example, as already mentioned, the above calculations are based on a survey which consisted mainly of pensioners, but included a significant number of disabled concession holders. This raises the question as to what proportion of each group is below the MIG level. According to a New Policy Institute publication (18) the proportion of disabled who are below 60% of the median income is over double the equivalent proportion for pensioners.

This means a significant proportion of apparently sub MIG pensioners in the above table will in fact be disabled people. Taking this into account would push the above 73% up a bit.

Another possible qualification to the above figure concerns the somewhat crude assumption that the number of shopping trips equals the number of "essential trips". As pointed out above, shopping is much the most important type of essential trip. But of course there are others: visits to the doctor for example. On the other hand not all shopping trips are for essentials. Hopefully these two false assumptions more or less cancel each other out.

London. The above figures showing the fairly heavy concentration of lower income groups on buses in Scotland is probably not repeated in London. Cars come into their own in rural or semi-rural areas. In London, the parking problems and traffic jams will be an incentive for all income groups to use public transport. Indeed take up of concessionary passes is around 80% in London compared to 30% in rural areas. The above suggested effect of this on the income distribution of London bus passengers seems to be born out by a survey done in London (15, p.15), which found that the total weekly spend of people going to shopping centres by bus was the same as those going by car.

This London Survey is relevant here for another reason as follows. The above 73% figure for waste is based heavily on Wales which, while it does have large conurbations like Cardiff, is fairly rural. That a significant proportion of bus users find buses of little use for shopping in Wales is not surprising, given that it tends to be rural areas that have poor public transport. No doubt the proportion of Londoners who find buses of use for shopping will be higher than in Wales, which will result in less waste in London. On the other hand, the proportion of bus passengers who are in the higher income groups will doubtless be higher in London than Wales, thus waste from this source will presumably be higher in London.

How well do concessions reach the needy?

It is difficult to calculate with any precision what proportion of pensioners' basic travel needs are met by public transport, because there is no obvious dividing line between meeting anyone's transport needs and failing to do so. Fortunately this inaccuracy does not matter too much because a no concession scenario meets needs vastly better than a concessions scenario.

In trying to estimate whether needs are met, one possibility is to ask bus passengers and potential passengers whether their needs are met. In the case of the above mentioned study in Wales, of those who normally use buses, around 35% said buses failed to meet their needs for shopping (5, p. 30). The latter survey was not specifically targeted at pensioners, but presumably the figure for pensioners is not vastly different from the rest of population.

Another answer of a sort is given by the fact that 80% of the journeys done by over 60 year olds with concessions were, despite the concessions, done by car (12, p.41, table 5.8b) ($496/(496 + 128) = 80$). From this it might be concluded that public transport fails to meet needs in the case of 80% of potential public transport trips by pensioners (a bit different to the above 35% figure). Possibly the reason for this discrepancy lies in the fact that the above figures relate to all journeys, not just shopping.

Another answer of a sort is given by asking what distance is it reasonable to expect pensioners to walk to a bus stop which buses pass with more than some minimum frequency. 82% of the population live within 6 minutes walk of a bus stop with a service frequency of at least one bus an hour (6, p.61). Expecting able bodied pensioners to do a 6 minute walk seems reasonable. Expecting them to hang around for up to an hour if they miss the bus for the return journey seems unreasonable. So let us go for a half hour frequency instead. According to the above source, the figure for those within a service of at least one per half hour is 66%.

On this basis it could be concluded that buses meet the needs of about 66% of pensioners for shopping purposes, which ties up, roughly speaking, with the above study in Wales.

But even this 66% figure is optimistic: standing at bus stops and lugging the shopping home is not an activity suited to less agile pensioners. To repeat, they could do with the option of using "travel subsidy money" to help with home delivery, taxis, etc.

Conclusion: at best, travel concessions cater for 66% of shopping trips by pensioners.

The waste in a no concession scenario

Pensioners living within walking distance of shops would be a form of waste under a no concessions scenario, because their “travel subsidy money” is contained in their state pension, and they would not make much use of it for basic travel purposes. Unfortunately there do not seem to be any surveys that give details of pensioners’ “walking to the shops” habits. However the proportion of shopping trips that are walked for all ages is 26% (13, table 12.2). It will be assumed this 26% also applies to pensioners.

This 26% is not strictly comparable with the above 73% in the case of wastage under a concessions scenario for the following reasons. The 26% represents money inadvertently going into the pockets of pensioners who happen to live near shops. This will presumably be a fairly representative cross section of pensioners, though probably there will be a bias towards the less well off, since better off pensioners live in leafy suburban estates some distance from the shops.

In contrast, the 73% represents money inadvertently going into the pockets of a selection of better off pensioners. Money which inadvertently goes into the pockets of the better off is clearly more of a waste per pound than money inadvertently going into the pockets of the less well off. This point could be used to bump up the 73%.

How well does a no concession scenario reach the needy?

In a no concession scenario, as pointed out at the outset, money saved from abolishing concessions is channelled into the pockets of those losing their concessions, first by raising the state pension.

The extent to which the money flows into the pockets of better off pensioners can be controlled, first, by reducing the over 65s income tax personal allowance. Other refinements would not be difficult, for example making alterations to the means tested benefit pensioners are entitled to, “Pension credit”. Another desirable refinement, with a view to reducing the “travel subsidy money” flowing into the pockets of those with no prospect of travelling, would be to reduce the benefits specifically aimed at the totally housebound and those in old peoples’ homes. And whatever way the latter benefits are tinkered with, the end result cannot possibly be as chaotic and unfair as the system prior to 2000 when pensioners in some areas got free transport while pensioners in other areas paid the full fare.

Conclusion: the degree of failure to reach those in need under a no concessions scenario would be negligible.

To summarise the above four sections, wastage in the case of concessions at 73% is higher than in the case of the no-concessions scenario – 26%. As to reaching the needy, under a concessions scenario 20% of those in need are not reached, though the percentage could be significantly larger, whereas under a no-concessions scenario, virtually all those in need are reached.

The conclusion is that on the basis of the above figures the case for concessions looks feeble. But even if the concession scenario fares a bit better than the no concession scenario on both the waste and “reaching the needy” criteria, the total benefits of the concession scenario still have to outweigh the costs of the bureaucracy they involve and the loss in national income due to price distortions.

Waste in the “down the drain” sense

As pointed out above, the word waste in the sense of subsidising leisure trips is not all money down the drain. This raises the question as to how we arrive at a figure for “money down the drain”. As it happens, economics has a well known and widely accepted set of ideas for answering this question, called “welfare economics”. This has nothing to do with welfare in the “welfare state” sense of the word: indeed the sense is almost the opposite the “welfare state” sense. That is, the welfare state could be said to be about first, ignoring consumer preferences, second, taking money by force off consumers, and third, spending the money on health, education, etc.

In contrast, welfare economics concentrates on consumer preference. This is fair enough where there are no reasons for interfering with consumer choice, as would seem to be the case when it comes to pensioner trips on public transport. Welfare economics is highly democratic: it relies on consumers’ own estimation of what everything is worth – not on the opinion of politicians, do-gooders, and so on.

Welfare economics concentrates on simple supply and demand, and when a subsidy is introduced for no good reason, welfare economics has a well known way of calculating the total loss of “benefit” / “utility” / “wealth” / “income” or whatever you like to call it. The total loss of “benefit”, “wealth” or whatever word is used, is equal to the area of the triangle bounded by 1, the demand line for the commodity, 2, the new supply line (the one that appears upon introducing the subsidy), and 3, a vertical line drawn through the intersection of the demand line and the old supply line. On the slightly crude assumption that all these lines are straight, the loss in “benefit” or “wealth” works out at half of that portion of the subsidy that actually results in increased demand (as distinct from the portion that goes straight into the pockets of those who would have bought the relevant product anyway). Incidentally the Department of Transport also assumes “straight lines” in one of the rules of thumb it uses to work out the effect of transport subsidies, its “rule of half” (see 19).

Now for a “back of the envelope” calculation as to the actual amount of money down the drain in the case of travel concessions. Elasticity of demand for bus travel seems to around -0.4 (footnote 2), which means that a 100% reduction in fares will result in a 40% increase in demand. Incidentally this assumes complete elasticity of supply, which is a realistic assumption: transport operators have to carry any pensioner appearing at bus stops free of charge. Thus money down the drain will be 20% of the total spent on concessions. Plus there is the 5% spent on administration. That makes $25\% \times \text{£}900\text{m} = \text{£}225\text{m}$. Divided up amongst 9 million pensioners, that means every pensioner would be better off by £25 a year without concessions. A further saving resulting from abolishing concessions is that about half the money for concessions currently comes from local authorities, whereas given the change proposed here, all

money for “travel subsidy” would come from central government. And central government collects tax more efficiently than local government.

Taxi Tokens

The fact that concessions are of little use to a significant proportion of pensioners has induced some local authorities to make taxi tokens available. But tokens have their problems. For example if pensioners want to spend part of their “travel subsidy money” on taxis and part on public transport – a perfectly reasonable request – how can this be done? The relevant pensioners cannot be allowed to have the full normal concession plus tokens: that way they would be collaring more than their share of transport subsidy money. The problem could be solved by a “restricted use” concession, but this seems a bureaucratic nightmare.

One solution would be to give pensioners travel tokens that are equally valid on taxi and public transport. But this would amount to a big increase in flexibility inherent in tokens. This raises the question, why not go even further and give pensioners an even more flexible token: money?

In practice, local authorities have a variety of rather crude solutions to the above sort of problems. For example most local authorities allow taxi tokens for the disabled, but not for those who are poorly served by public transport.

Also tokens can be and are sold to taxi drivers for cash. And unlike concessions which are not widely used by wealthier pensioners, the latter make significant use of tokens, so it would seem. “Tokens are widely used for occasional taxi trips by relatively affluent pensioners” according to a Leicestershire County Council document (8).

The bureaucratic costs of taxi tokens are higher than in the case of bus concessions. The typical value of tokens that can be purchased per year per person seems to be in the £25 to £50 range, which does not buy a huge amount of taxi mileage.

Social Exclusion.

It is almost impossible to read anything about travel concessions (or anything else nowadays) without constant references to social exclusion. The latter is often given as a justification for travel concessions.

The definition of this phrase adopted here are the two that appear in two online dictionaries, which are thus.

1. This is a term to describe marginalisation from employment, income, social networks such as family, neighbourhood and community, decision making and from an adequate quality of life.
2. The various ways in which people are excluded (economically, politically, socially, culturally) from the accepted norms within a society.

The fundamental reason why social exclusion is irrelevant to the change proposed here is that the change, far from reducing the total funds available to pensioners to spend on travel, would actually increase such funds: as pointed out above, the change would raise national income plus various bureaucratic costs would no longer have to be born. Assuming all these newly available funds were allocated to pensioners, the latter would be better off, with the rest of the country being no worse off.

However, in view of the importance attached to the phrase social exclusion, it is doubtless necessary to run through the definitions to see if any of the items therein are of particular relevance to travel.

The various activities given in the above definitions from which the socially excluded are denied full access will be taken in turn starting with the first definition.

Employment. The latter is of little relevance to pensioners, since a pensioner is almost by definition someone not in employment.

Income. For pensioners who chose to have their pension paid by means of direct debit, travel is irrelevant. For those who claim it at the nearest post office, travel is of relevance if the post office is beyond walking distance. But the change proposed here has little overall effect overall on pensioner's ability to travel to the post office or anywhere else.

Social networks. It is patronising and paternalistic to assume that all pensioners want to spend their money on "travel facilitated" socialising. They might prefer to spend the money on a range of other goods. Indeed some of the other goods include non "travel facilitated" socialising, e.g. phoning a relative on the other side of the World once a week. Another example is getting or upgrading a computer, so as to be able to communicate with others in the various ways that can be done via computers.

Decision making. Presumably what is meant here are the decision making processes, like local authority committee meetings. If pensioners happen to be on local authority committees, they get travel expenses, so this is of no relevance.

Writing a letter to the press is a way of taking part in the nation's decisions. This is much better done by e-mail than by a traditional hand-written letter. PCs again!

Also, making a useful contribution to any communal decision making process requires access to information. It requires "search". And what better way to do the two latter than a PC? And the proportion of pensioners who are computer literate will doubtless be rising sharply at the moment.

Quality of life. Like "social exclusion" itself, the phrase "quality of life" is vague. But if anything, pensioners' quality of life is enhanced by the change proposed here for the following reasons. In a concession scenario pensioners in effect have a portion of their income confiscated and turned into a bus pass (nice if they travel on buses, and useless if they do not). In contrast, in a no concession scenario, pensioners can choose for themselves what to spend the above portion of their income on. This improves their "quality of life". The second definition is now considered.

Economic exclusion. One of the main forms of economic activity is work, but this is precisely what pensioners tend not to do.

Another form of economic activity, of much more relevance to pensioners, is the purchase of goods and services. But shopping has been dealt with in detail above, particularly the need for pensioners to go shopping.

Political exclusion. This is largely synonymous with the phrase “decision making” in the first definition. This may be a statement of the obvious, but this article on travel concessions is political in nature, and was produced on a PC. And for a further statement of the obvious, producing this article required a large number of hours of search.

There are a whole range of items that improve one’s ability to take part in political activity, apart from the ability to travel. Access to a phone and a computer are just as important as travel.

Cultural exclusion. Obviously some cultural items cannot be accessed without travel, like a concert, on the other hand many cultural items do not require travel in order to be accessed: mail order of books or CDs, for example. Thus it is far from clear that an absence of concessions thwarts pensioners’ ability to access things cultural.

To summarise, far from travel concessions reducing social exclusion, it could well be argued that they increase social exclusion, thus there is no reason to think that abolishing concessions will increase involuntary social exclusion.

The Department for Transport’s flawed cost-benefit analysis.

One of the many strange arguments for concessions appears in a Department for Transport document (14). This argument takes the form of a cost-benefit analysis which aims to support the case for concessions. This analysis, it should be said, is not presented as part of some sort of pro-concession eulogy. The analysis appears in the middle of a typical Department of Transport document, that is fairly impartial, apolitical and non-committal. Nevertheless this flawed analysis needs demolishing. It contains three flaws.

Flaw 1: consumer surplus. Consumer surplus is a well established idea in economics. It refers to the difference between what a consumer actually pays for something and the maximum they would have been prepared to pay. In a sense, consumer surplus could be said to be the “profit” a consumer makes on any purchase.

Now when a subsidy is introduced for public transport (or anything else), this is clearly a windfall for all those who were in the habit of buying the relevant product anyway. That is, the consumer surplus per item purchased rises by the amount of the subsidy per item.

The Department for Transport’s cost benefit analysis counts this increased consumer surplus as a “benefit”. But this is nonsense since one could apply exactly the same

reasoning to a subsidy for brothels, fire-arms, dangerous drugs, you name it. If we subsidised brothels, no doubt the existing regular customers would be delighted with their increased “consumer surplus”. This is not an argument for subsidising brothels.

Flaw 2: the net change to consumer surplus. While it is true that subsidising anything increases consumer surplus in respect of the item subsidised, there is a problem: where does the money come from for the subsidy? If the money comes from taxes on other goods or services, this reduces consumer surplus on these goods or services, and by much the same amount as the above mentioned increase in consumer surplus. And if the tax takes the form of personal taxation, the effect is much the same. In short, consumer surplus is irrelevant to the merits or demerits of a subsidy.

Flaw 3: VAT Travel is zero rated for VAT purposes. As a result, much of the money that consumers save will then be spent on goods that do carry VAT. The net result will be increased VAT receipts, which in the above analysis is counted as a “benefit”. This is then added to the increased consumer surplus, and hey-presto, the total figure for benefits exceeds the total figure for costs.

The flaw in this “VAT” argument is that VAT, like any tax, is straightforward transfer of money from people and firms to governments. This is not in itself any sort of cost or benefit for the community as a whole: it all depends on what government does with the money. For example if government collects tax and spends it on a war in Iraq which reduces Iraq to level of chaos for the next ten years, a level of chaos worse than that under Saddam Hussein, where is the “benefit”?

The real reason for concessions: politics and psychology

Given the poor arguments for concessions, why do we have them? The real reasons are of course political and psychological and perhaps as follows.

First, everyone loves subsidies. Everyone can work out who benefits from a subsidy. In contrast, less than half the population likes to admit that someone somewhere pays for subsidies. Subsidies are always easy to implement and invariably difficult to remove.

Second, the word pensioner has an instant emotional effect: sympathy. Mention the word pensioner at election time and enough crocodile tears flow down politicians' cheeks to keep the Niagara Falls flowing.

Third, everyone can envisage the concept “travel”. No doubt even dogs and cats can envisage the concept “person moving from point A to point B”.

Now put items two and three together and you have the perfect storm: “helping pensioners to get around”. This has vastly more emotional appeal than the really important question which is “how do we maximise the benefits or utility from all goods and services including travel?”. If you are in the business of winning votes at election time it is complete no-brainer which of the latter two to go for. Even as regards the politicians who are half aware that concessions are a nonsense, and that is

probably less than half of them, they would be wasting their time delving into the matter. The words “bread” and “circuses” come to mind.

The above points would in practice make it difficult to abolish concessions. In order to have a rational and fair nation-wide policy towards pensioners, central government would have to ban pensioner travel concessions, and then incorporate the money saved in the old age pension. After a few years, local politicians would then start trying to ingratiate themselves with voters by re-introducing purely local concessions. Central government would have to try to stop such concessions. The latter local politicians would then be able to play “victim”, which would bring them even more votes. In short, the whole ridiculous pensioner travel concession business would probably start all over again.

Conclusion.

The case for pensioner travel concessions varies from the hopeless to the poor depending on which types of travel and which geographical areas are concerned. The case for concessions on long distance rail and coach is hopeless.

The case for such concessions in rural areas is also hopeless: there is little public transport there. As to urban areas, the case for concessions is better, but still feeble.

Finally there are two trends which have and will tend to make the abolition of concessions a logical move. First, bus usage has declined over recent decades and car usage has increased, a trend that will presumably continue. This will make concessions increasingly questionable.

Second, prior to 2000/1 there was no nation-wide uniformity in the provision of concessions: some local authorities had them and some did not. As from 2000/1, all local authorities had to provide at least a 50% fare reduction for pensioners. Then in his budget statement in March 2006, Gordon Brown said the government would introduce free concessionary travel in all areas. This move towards nationwide uniformity makes concessions more a matter for central rather than local government. This in turn makes it logical to compare concessions to the other systems administered by central government, like pensions and means tested benefits for pensioners. Though, to repeat, whether abolishing concessions is politically possible is a moot point.

Footnote 1

Suppose off-peak fares for pensioners are a fifth the full fare (0.2) and off-peak fares for everyone else are half the full fare (0.5). Now consider all the people, including pensioners, who think it is just worth making a journey during the off-peak rather than during the peak. Also assume the peak period fare for the journey is £1. The above mentioned pensioners clearly think the additional benefits of travelling during the peak would have been fractionally under £0.8 (£1 - £0.2). In contrast, the above mentioned younger travellers think the benefits of travelling during the peak would have been fractionally under £0.5 (£1 - £0.5).

Now given this scenario there is a very simple way of increasing the total benefits derived from transport without spending a single additional pound on transport: this is to fractionally raise the off peak fare for pensioners and reduce the off peak fare for everyone else. To keep things simple, say as a result of this fare change the only effect is that one pensioner decides to travel during the peak, and one younger person decides to travel during the off-peak. Also, to keep things simple, assume the total number of off-peak travellers is equal to the number of peak time travellers. The additional benefit the pensioner gets from the journey is £0.8 (or to be accurate, fractionally under £0.8). The reduction in benefit that the younger person derives from their journey they consider to be £0.5, (or to be accurate, fractionally thereunder). Result: the community as a whole has gained $£0.8 - £0.5 = £0.3$.

Note that as a result of the above change, total fare receipts by the transport operator remain unaltered, and the total costs of running the transport system also remain unaltered.

As will hopefully be obvious, the above gains can continue to be reaped until the ratio of peak to off-peak fares for pensioners and younger people is the same. In short, there is no sense in having the “peak to off-peak” ratio for one group of travellers any different to that of another group.

In answer to the above argument, it could be claimed that money is worth more to pensioners than non-pensioners, and that to obtain the above mentioned additional benefit, the above pensioner has had to sacrifice £0.3 in cash, while the non-pensioner gains £0.3 in cash. In short, money has allegedly been transferred from the poor to the rich which partially or wholly outweighs the above £0.3 benefit. However, this argument has two flaws, as follows.

First, it is questionable as whether pensioners are all that badly off nowadays. The proportion of pensioners with incomes below 60% of the median is now slightly lower than for the population at large (18).

Second, the fact that it is desirable to have a more equal distribution of income than would obtain in a totally free market is precisely why we devote astronomic sums to redistributing from the rich to the poor via the social security system. It is why we have another device called “income tax”, the purpose of which, amazing this, is to redistribute income. Indeed the latter systems are much fairer and more efficient for achieving the desired results than fiddling around with train or bus fares. Redistributing wealth by donating just to pensioners who happen to travel frequently makes about as much sense as handing out money to all poor people taller than 1.6m high. The decision as to how much wealth to redistribute is a decision taken at election time. It is not a decision for transport operators. That is, the latter, in making decisions about off-peak fares ought to ignore wealth redistribution.

Footnote 2

The Department for Transport gives -0.4 as being the national average elasticity (21). A Leeds Institute for Transport Studies work cites a 40-50% increase in bus travel by pensioners when London introduced its free travel concession. Some research in Scotland (9) indicates the increase was 20-30%. But the two latter were as a result of an increase from half fare concessions to free travel. On the basis of these studies elasticity would be significantly more than -0.4 .

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Author's name: Ralph Musgrave.

Author's email address: the above christian name in lower case followed by @fram.ndo.co.uk (That is an attempt, probably futile, to reduce the number of "spam-bots" getting my address)

I am not a professional economist or transport specialist, however I have taken an interest in economics for a long time and occasionally manage to get material on the subject published.

The reason for this paper is thus. I recently discovered that a pensioner friend was making large numbers of free leisure trips by bus around the North of England. He is reasonably well off: he runs a new car. This caused the words "misallocation" and "resource" to spring to mind. So I started writing and researching. I wrote to a couple of likely publishers (one think tank and one periodical) to see if they might be interested in publishing the above. But neither replied. So I put this article on the internet.