

# The Cost of Fare-Free Public Transit in COVID Economy

## Looking into the Case of the EDSA Carousel Bus System in the Philippines

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### Abstract

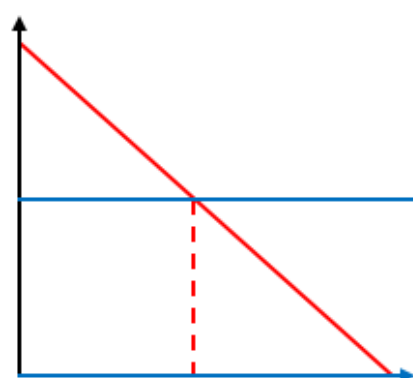
This paper analyzes the contributory effect of a Fare-Free Public Transit (FFPT) in the Philippine economy through a cost-benefit analysis. As most of the stations throughout the bus line are found in major business districts across the region, it has incentivized workers who heavily depend on public transit. It has also increased the level of mobility throughout the area, thus increasing the household consumption made. However, it has affected other public transit in the area, such as the Metro Rail Transit (MRT-3), whose operation also relies on government expenditures. Other factors weigh in towards the effectivity of implementing a FFPT in Metro Manila, such as the state of infrastructure, the modal choice of passengers, and the gasoline prices in the region. This paper argues that a FFPT is only a short-term solution at increasing the economic activity in the region amidst the coronavirus pandemic, as the BRT system is heavily controlled in accordance with the health protocols that are being implemented throughout the country. More passengers would mean more buses in the BRT; and more people waiting in each station would require lesser travel time if possible. This is not to mention the hazard it may bring as physical distancing measures are not being met due to the limited space of each station throughout the BRT system. This paper contends that if the government wishes to continue this scheme after the pandemic, it would require additional infrastructure to support the increasing demand in the system, while addressing the mobility needs of vulnerable sectors in the community.

### Research Objectives

In this study, the researcher wishes to answer the following questions: **(1)** How does the government's Service Contracting Program directly contribute to the Philippine economy? **(2)** What are the economic costs and benefits of implementing a fare-free public transit policy in the country? **(3)** Do bus firms gain from the government's fare-free public transit policy amidst the Coronavirus Pandemic in the Philippines? And **(4)** What are the challenges facing the implementation of free public transit in the light of the health crisis?

### Theoretical Models

**Figure 1** shows that the supply curve reaches the axis as soon as ticket prices fall from  $P'$  to  $P''$ , while the number of passengers increases from  $Q'$  to  $Q''$  along the demand line. This however varies as elasticity of the demand in every city where free public transportation exists are different from one another.



Since the utility of every individual increases due to the adoption of a free public transportation, the consumer surplus also increases. Using Vliet (2009), the change in consumer surplus can be defined by:

$$\Delta CS = Q'(P' - P'') + \frac{(Q - Q')(P'' - P')}{2}$$

As transportation is considered as a derived demand (Blauwens et al., 2006), any significant change in ticket prices may affect the demand of both the transit, being an intermediate service, and other goods individuals will consume in the short-run. Moreover, since the price has reached to the axis, the willingness of some, if not all, individuals to pay for the service is now larger than in a scenario before a FFPT is introduced. Combining all of this willingness would provide the total consumer surplus under the demand curve (Rosen, 2005).

### Results and Discussion

The Benefit-Cost Ratio (BCR) for a FFPT along the EDSA Carousel Bus System is smaller for shorter distance travelled along the route, meaning that the cost has outweighed the benefits. For bus operators and drivers, they would opt instead to return to their usual operations rather than enrolling in the government's Service Contracting Program as it would cover both the operational and corresponding costs. Further, results suggests that the current pay-out given to bus operators and drivers weekly through the program are not enough to sustain the actual costs of its operation, if operating in full-scale.

FFPT also significantly affects the consumer price index (CPI) for food and non-alcoholic beverages in Metro Manila. This means that the prices for food and non-alcoholic beverages has significantly changed since the FFPT has initiated as more people have the capacity to travel in shopping centers to buy for basic necessities especially in a time of pandemic. However, the FFPT does not affect the inflation rate in Metro Manila nor the over-all household consumption expenditure in the country.

### Conclusion

As not all people are availing the FFPT, the least best thing its users can do is to make the most out of it. That is, to use this as an opportunity to contribute to the economy by consuming more if possible. But this would not be possible however if the people to begin with have no financial capacity to do so.