As urbanization continues to accelerate, many urban areas in developing countries are becoming densely populated and choked with traffic and air pollution. This expanding urbanization coincides with the rise of a suburban middle class made up of professionals who commute into the urban core each day. This new class of workers, college educated and computer literate, has chosen to stay at home, instead of moving to North America or Europe for work. However, if developing countries cannot find a way to manage their traffic congestion, they risk losing out to those places that can.
One solution is congestion pricing. This scheme, implemented in various forms by cities such as London and Singapore, charges drivers a fee to enter a given area during peak traffic times. By implementing congestion pricing, developing countries could reduce fuel consumption and air pollution, decrease the economic loss due to wasted time spent in traffic, and raise revenue that could be used to develop infrastructure such as mass transit.

Congestion pricing has proven to be more than just a form of traffic mitigation; it has made cities more livable. Since setting up its “Area Licensing Scheme” in the 1970s, Singapore has been transformed. Traffic jams have virtually disappeared as the number of vehicles entering the congestion pricing area has declined by 76%. Since 2003 when London introduced its system, average commuting times have declined by 14%. At the same time, public transportation usage and bicycle ridership have increased sharply in both cities and air pollution has been dramatically reduced.

Congestion pricing advocates characterize what has happened in London and Singapore as a “virtuous cycle”—a positive feedback loop with beneficial externalities. When drivers are charged a fee, many of them will choose to take public transportation or to bicycle instead. This reduces the number of vehicles on the road. At the same time, those who decide that it is worth it to drive and pay the fee will spend less time in stop and go traffic. Car drivers and bus passengers experience the benefit of reduced commuting times and both cars and buses waste less fuel idling in stalled traffic. Meanwhile, the money raised can be used to fund the expansion of public transportation and improvement of infrastructure such as roads and bicycle paths. These improvements in turn reduce commuting times and make it more convenient to take public transportation.

Critics have argued that congestion pricing could actually have the opposite effect of that intended. Citing an economic principle known as “induced demand,” they contend that the congestion pricing could become a victim of its own success. As traffic eases, driving becomes a more desirable option, thus leading to the same traffic problems as before. However, these critics forget that “there’s no such thing as a free lunch.” Congestion pricing forces drivers to bear the true economic costs of their actions. While some may choose to continue driving, that choice now comes with a price tag and the money raised will benefit those who choose not to.