

# The Merit and Sustainability of the \$2 Scheme

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Some legislators, past government officials and economists commented recently that the \$2 Scheme is not sustainable. This topic is drawing attention, even argument.

The \$2 Scheme, first introduced in 2012, allows elderly people (initially for above 65, later for above 60 as well) and disabled people to take public transportation at \$2 a trip. The HK government commissioned a very comprehensive review of the first 6 years (2012-2018) experience of running of the \$2 Scheme [1]. The report contains all kinds of facts and recommendations to improve it. It is worth a read by anyone who wish to discuss this issue.

## Merit of the \$2 Scheme

First, there is broad agreement that the \$2 Scheme is a good policy by encouraging the elderly to be more active. The report [1] lists the benefits in more detail, and cites how similar policies are implemented elsewhere. Some people question that in comparison to other programs under the Social Welfare Department (SWD) budget, the \$2 Scheme is not spending money on the needy people. This is rather narrow minded. A society needs to take care not only people who have become dependent (in health), but also help people prolong their healthy life span. This is the whole idea of using Healthy Life Expectancy (HLE) as another goal for government in addition to only maximizing Life Expectancy (LE). The \$2 Scheme can be viewed as a policy for improving HLE, which not only helps people live happier, but also help reduce the need for social services in later years when people become dependent.

But the issue of sustainability is also a very legitimate concern. As the proportion of senior people is expected to grow, and the fare price may steadily go up with inflation, the expenses on the \$2 Scheme will certainly grow. According to page 20 of [1], the expense (as a percentage of the recurrent social welfare budget estimated assuming certain GDP growth) is projected to grow from 1.6% in 2018 to 2.9% in 2031. This is before factoring in the impact of adding the 60-64 group to the scheme.

If we accept both of the above points, then the discussion should be on how to make the \$2 Scheme more sustainable, while continuing the scheme with least changes. This is what we will discuss below.

## The way to improve sustainability

The key idea is in how to put unused capacity to good use. Most of the Public Transport Operators (PTO) are either partly owned (e.g. MTR) or regulated (e.g. Bus, Minibus, Ferry) by the government. So let us consider the combined job of how to run the public transport utility in Hong Kong to support the \$2 Scheme with minimal incremental cost.

From experience, we all know there is rush-hours and non-rush-hours for these

resources. The difference (in cost) is at rush hour, additional traffic can/will cause addition capacity to be added to accommodate the extra demand, hence increasing cost; whereas at non-rush-hour, additional traffic is just absorbed by unused capacity that is otherwise “wasted”, hence incurring no additional costs. Following this logic, if all the additional traffic induced by the \$2 Scheme occur during non-rush-hours, then the true additional cost to our public transport utilities is negligible. In reality, some of the \$2 Scheme traffic will occur during rush-hours as well. Only this part should be compensated according to full fare. Of course, part of the traffic benefiting from the \$2 Scheme would be there even without the \$2 Scheme incentive, which the PTOs charge with full fare as well. While computing all these may be somewhat complicated, but it should be possible as the government has most of the data needed. For example, on page 9 of [1], the growth of trips with the \$2 scheme relative to the overall is between 20-30%, though it is not clear whether this can be used for estimating the additional traffic given the \$2 Scheme as incentive. The details of such computation deserves further study and discussion.

Actually, pricing a service according to the true cost is not a new concept at all. We all notice that some restaurants have discounted prices if you eat your lunch either before or after the peak hour; airlines charge lower fares during off-seasons; even cinemas may charge less for odd hours compared to weekends. The logic is the same. These services try to make use of their capacity when it is not fully used, and the cost for the same service is lower during non-peak hours.

In summary, currently the government is over-compensating the PTOs for the \$2 Scheme. Based on statistics in [1], this part may be quite substantial since the additional \$2 Scheme users tend to avoid rush-hours. If we accept this way of viewing the cost incurred by the \$2 Scheme, its annual expense rate may not be so alarming, and may already be considered sustainable in the near future.

Note, we are not necessarily suggesting the government to renegotiate the way to compensate the PTOs, which may be quite difficult and impractical. Any over-compensation to PTOs will likely help them maintain a better public service and slow fare increases. We are only suggesting the government to change the way to account the expenditure on the \$2 Scheme. For example, the over-compensated part can be considered expense related to public transport (that benefits the whole population), rather than coming from social welfare.

If it is still considered necessary to cut fare compensation to some extent, then I suggest only cutting some benefit for trips during rush-hours. For example, increase user portion from \$2 to \$3, or even half of true fare during rush hours. This gives the incentive to move more traffic to non-rush-hour periods, hence making the overall system more efficient.

[1] <https://www.legco.gov.hk/yr20-21/english/panels/ws/papers/wscb2-651-1-e.pdf>