Public Services—
To Charge or Not to Charge?

There is increased interest in the potential of imposing or raising prices for public services. Using leisure services as an illustration, this article discusses the many facets to be considered in public-sector pricing decisions.

SINCE PROPOSITION 13 was passed in California, it has become symbolic of a broad cross-section of national public opinion on taxation at federal, state, and local levels. At the time of the Proposition 13 victory, a lead editorial in The Wall Street Journal commented, “sentiment is suddenly crystallizing that taxes are too high and that the services government delivers are a poor bargain.”

Awareness of this growing sentiment has spurred government agencies at all levels to seek sources of revenue other than tax funds. In particular, public agencies have been reexamining the potential for imposing or substantially increasing prices for their services. The extent to which users should pay directly for public services has long been a controversial issue. This article explores the opportunities and problems associated with user pricing of public leisure services.

Leisure services are a particularly interesting example of public-sector pricing because the diversity of recreation programs requires a variety of objectives and prices. The opportunities and problems confronting a public recreational-services agency in its pricing decisions are related to its pricing objectives—the results an agency expects for the prices it charges.

In some cases, the price adopted for a particular program may reflect several conflicting objectives. For example, if the major goal is to ensure maximum opportunity for participation in a particular program, a relatively low user price should probably be charged. However, this policy may also discourage the commercial sector from developing a similar service. Hence, in the long run, a low user price may serve to reduce leisure opportunities available in the community. The price finally adopted will probably depend on the agency's priorities and will represent the best compromise between objectives.
This article discusses and evaluates seven pricing objectives frequently used by leisure-service delivery agencies: economic equity, social equity, maximum opportunity for participation, maximizing revenue, rationing, positive user attitudes, and commercial-sector encouragement.

**Economic Equity**

Economic equity seeks to price each service at a level that is economically fair and equitable to both participants and nonparticipants. Much of the debate about equitable pricing revolves around whether a particular program exhibits the characteristics of private, merit, or public services. The differences between these categories are summarized in Exhibit 1.

If a program exhibits the characteristics of a private service, its benefits are received exclusively by participating individuals rather than by the rest of society. It is technically possible to exclude persons who are not willing to pay for the programs or services provided. Golf courses, marinas, tennis courts, or recreation centers are examples of facilities that may exhibit private-service characteristics. The case for financing services through direct charges to users is clear-cut when they are perceived to be private. If benefits from the services are not likely to spill over to other citizens, it is reasonable to expect an agency to adopt a price that requires users of the facilities to pay for their full costs.

In contrast, and at the other end of the continuum (Exhibit 1), a public service in its pure form is equally available to all. Often this is because there are no feasible ways of excluding any individuals from enjoying benefits of the service. In these cases, a pricing system is not practical. Public parks are examples of leisure facilities that usually exhibit public-service characteristics.

Alternatively, activities such as tennis or golf, for which it is feasible to levy a user price, may on occasions be offered as public services if these activities are perceived by society to contribute to the physical health, mental health, cultural knowledge, or welfare of citizens—an investment in human capital from which everyone in society benefits. This may be particularly applicable to citizens with lower incomes who do not have the private means for satisfying particular recreational wants. Hence, it is sometimes argued that imposing user prices may not be desirable, even when technically possible, if less affluent people will be excluded from participating. For example, the National Park Service charges an admission price to most of its facilities, but it does not charge for admission to the Gateway Recreation Areas in New York City or San Francisco because these facilities are intended to be easily accessible to low-income urban populations. Similarly, it may be argued that certain leisure amenities such as parks improve the physical quality of a townscape or make it a more desirable place to live. Charging a price for the use of such amenities may be considered unreasonable because they increase the value of everybody’s property.

Merit services are a less clear-cut category; they lie somewhere on the continuum between public and private services. They are considered meritorious because, although part of the benefit accrues to the individual (as it also does in private services), there are spillover benefits that accrue to the whole community. Consequently, although user prices may be charged for merit services, it is not reasonable to expect that the revenue from such pricing should cover all costs. Participants should be subsidized to the extent to which benefits are perceived to accrue to the whole of society.

Most leisure services in the public sector for which user prices are charged are not totally self-supporting; most are also supported by tax funds. This suggests that such services are perceived as merit rather than private services. Therefore, the public service can only be justified if collective benefits accrue to the whole community subsidizing the program. In some communities there is support for this philosophy. For example:

"In Oakland there appears to be a basic belief that recreational activities are wholesome, worthwhile, and character building, and consequently should be (partially) subsidized from the general revenue sources of the city." [5]

There is considerable sympathy for the contention that a price should not be charged for the opportunity to view and enjoy the natural beauty of the nation’s national parks, or that to charge for visits to historical sites, such as the Statue of Liberty, would be in poor taste. Consequently, the U.S. Congress, in some of the legislation enacted to establish federal recreation and park areas, has mandated that no prices should be charged for using those areas. It has been suggested that benefits to society, as well as to the individual, may accrue from activities such as visits to various kinds of historical sites, major scenic or scientific areas, or from participation in interpretive programs offered by some recreational agencies. [5]

At the same time, it appears to be more difficult to classify picnic areas, campgrounds, and beaches as merit services. The extent to which leisure services contribute to an intellectually and emotionally healthy population is not firmly and clearly established. For example, one study states:

"We suspect there are as many emotionally ill-adjusted wandering through the woods or lying on the beaches as there are cooped up in apartments before TV sets. Conversely, there may well be as many well adjusted who never go near (a public recreation program or facility) as who do." [6]

An important point in understanding this classification is that the particular location of a program on the public/merit/private continuum shown in Exhibit 1 is dependent on whom the agency and its publics perceive as benefiting from that program. For example, the classification of any given activity may vary between geographical areas. In a high-income neighborhood, a golf facility may be perceived as a private service from which only the participant accrues benefits. Hence, all costs incurred should be covered by user prices. In a low-income neighborhood, an identical golf-course facility may be considered the “poor man’s country club,” a pure public facility charging no user price. In this case, the whole community may be perceived to gain from opportunities for the wholesome activity for all citizens; through improvement of the living environment, which increases the value of everybody’s property; or from the psychological satisfaction of knowing that the less wealthy have recreational opportunities that they could not otherwise afford.

Exhibit 2 indicates that users of a community service typically seek to shift perceptions of their activity as far as possible away from the private end of the continuum toward the public end, in order to persuade the agency and the community that more of the costs
Exhibit 1: Differences between services with public, merit, and private characteristics

Type of program or service continuum

PUBLIC SERVICE

MERIT SERVICE

PRIVATE SERVICE

Who benefits?

All people in the community

Individuals who participate and all others in the community

Individual who participates

Economic desirability or technical feasibility of pricing

Not feasible; individuals cannot be priced and/or it is undesirable that they should be priced

Feasible and desirable; individuals can be priced

Feasible and desirable; individuals can be priced

Who pays?

The community through the tax system; no user charges

Individual users pay partial costs

Individual users pay full costs
should be paid from tax revenues, with user prices kept to a minimum. On the other hand, the general public increasingly seeks to shift community services away from the public and toward the private end of the continuum, to make participants pay more for the benefits they receive.

The role of the commercial operator in this conflict is likely to vary. Those entrepreneurs who regard themselves as competing with the public-agency service will likely support the general taxpayer who is seeking to make users pay a higher price. For example, private campground operators continually lobby for increases in the much lower fees charged at campgrounds operated by public agencies. Higher prices provide more opportunities for entrepreneurs to compete successfully. However, in situations where the service offered is complementary rather than competitive, entrepreneurial support is likely to be with user interest groups. Lower prices may mean more participants, who may then require a particular commercial service. For example, concessionaires operating in public facilities seek to increase the amount of traffic passing through their concession. The actual point on the continuum at which a particular activity is located will probably depend on the relative size and political strength of the various groups.

One other dimension of economic equity that needs to be addressed is the inequity occurring when people from outside a community use facilities that are subsidized in part by community members. User pricing is the only way to make people who live and pay taxes outside of the community contribute toward the cost of the services they use. For example, some states such as Idaho, Maine, New Hampshire, and Vermont charge higher prices to nonresidents for camping in state parks. This policy is particularly appropriate in situations where a broader range of services are offered, or larger facilities are developed than are required to meet the wants of a resident population.

Social Equity

Public agencies frequently contend that pricing imposes a hardship on poor people. This position was demonstrated in a statement made by the executive director of the California Park and Recreation Society in response to Proposition 13, which sharply reduced property taxes in the state:

"The poor and the minorities will suffer the most as a result of Proposition 13. They are the ones who rely most heavily on California's recreation facilities and programs. The rich and the upper middle-class can afford to go to Lake Tahoe, to Carmel by the Sea and to San Francisco for their recreation. The poor cannot. They need our parks, our swimming pools and our programs."

There are at least three responses to this line of argument.8

First, property taxes, the primary source of tax revenues for most local community services, tend to bear much more heavily on low-income groups than on higher income groups. This is because property taxes generally represent a larger proportion of a poor family's total income than of a wealthier family's total income. It has been suggested that the burden on low-income groups would be less if user prices were charged for public services because poor families may now pay more in rent as a consequence of general property taxation than they would under some alternative pricing arrangement.9 It is argued that the poor may be better off if they are charged user prices and given the option of not participating in the service (therefore avoiding payment for it), rather than being mandated to pay for services they do not want through the property tax system. Support from disadvantaged groups for more user pricing of leisure services was reported in a nationwide pricing survey completed for the U.S. Heritage Conservation and Recreation Service. The study concluded:

"The greatest support for user fees came from the elderly, the low income, and rural residents. Often these characteristics corresponded to persons with low rates of participation (non-users). Lesser support for user fees (although supporters are still a majority in all cases) came from the young, high income, and college educated groups. Often, these characteristics corresponded to persons with high rates of participation (users)."10

A second view holds that if a community does wish to subsidize low-income individuals' use of public services, then it may be better to provide reduced or zero-priced charges to them, rather than to offer subsidized services to all regardless of income. The administrative method commonly used to implement this policy is to give the less affluent a card that must be presented when a particular service is used. Prerequisites for successful implementation of differential pricing are that such pricing should not cause resentment
Often, subsidized services may be justified because they are targeted directly at low-income groups. However, it has also been pointed out that if the objective is to make opportunities more equal, that could be accomplished better by making direct cash payments to low-income groups rather than by providing services that may not want. Recipients could then use the cash in accordance with their own preferences and pay for whatever services they prefer to purchase. Too often it appears that the decision to provide public or merit services can be interpreted as an imposition of the preferences of elected or appointed decision makers on an inarticulate clientele. In such cases, a product orientation rather than a marketing orientation is being adopted, since decision makers provide services they think a clientele needs, rather than services that the client group indicates it wants.

Financing leisure services from revenues received from user pricing releases those citizens who do not wish to participate or use a service having to pay its cost. A substantial proportion of low-income people do not use certain kinds of services. Hence, it is socially inequitable that they should be required to pay for those services through the tax system.

Maximum Opportunity

The objective of maximum opportunity for participation is concerned with adopting a price that will encourage relatively large numbers of potential clients to participate. To achieve this, the monetary price is likely to be very small or zero. If adopted when a new service is being offered, it may help make the program “visible” quickly and provide it with initial momentum. However, the initial price probably will become the reference point for future pricing of the service. Establishing a low price initially is likely to limit the size of subsequent price increases.

Price may also be a communicator of a service’s quality. For example, an attractive indoor swimming pool in a metropolitan area was frequently overcrowded on weekends. The manager decided to use pricing as a rationing measure to reduce congestion. Accordingly, the price for weekend admission to the pool was substantially increased. This led to more people traveling to the pool from much farther distances than before and to increased use. Apparently the clientele rationalized that because the price was so much higher at this pool than any other in the area, and higher during weekends than on weekdays, then the experience available at this pool on weekends must be superior.

The rationale for low or zero pricing of leisure services frequently includes a suggestion that these services meet a need felt by all citizens in the community. For this reason, it is argued that such services should be regarded as pure public services and their cost should be fully met from tax revenues. But the suggestion that all people “need” recreation and that it should be provided free often has been challenged. For example, one authority states:

“For some reason recreation professionals seem to implicitly assume that the population’s need for recreation must be fully satisfied. This would seem to be a very heroic assumption and completely inconsistent with the way we view other goods and services in our economy—even food.”

He goes on to ask, “Why should the public sector subsidize recreation facilities?” He argues that participants should be required to pay reasonable user prices for leisure services, just as they do for most other goods and services, even if it means that some of this need goes unsatisfied.

Traditionally, many public leisure-service agencies have adopted a maximum-opportunity pricing objective, since it has been assumed that if many participate, then the agency is best serving society. However, because the majority of people probably do not participate in the agency’s programs, such an assumption does appear to be challenged.

Maximizing Revenue

Many leisure-service agencies have experienced a reduction in tax-revenue support in recent years. User pricing offers an alternate source of funds that may help compensate. Restrictions on a new program stemming from financial constraints may be removed if the new offering is self-financed out of user-price revenues. The key to maximizing these revenues is in estimating price elasticity of demand. If the purpose of the price
increase is to increase total revenue, then prices can only be raised in those recreational programs or services for which demand is relatively inelastic.

A small amount of research work has been reported on the price elasticity of demand for public leisure services. This research provides some insights into the impact of price on participation. Results from an analysis of the 1972 nationwide outdoor-recreation survey suggest that the demand for these services is inelastic:

“Overall roughly a 5 percent increase in price would result in a 1 percent decrease in the quantity demanded. In other words, a 5 percent increase in the sum of the monetary travel costs plus the admission charges would result in only 1 percent decrease in the total number of activity days consumed at a given recreation site.”

These findings were supported by a study completed for the U.S. Heritage Conservation and Recreation Service. This study showed that participants would be willing to pay substantially higher user prices at public outdoor-recreation areas for all of the activities considered in the study. Many managers surveyed reported that there was often initial resistance to new or increased prices, manifested by a reduction in the number of participants; however, most managers commented that this effect disappeared within two or three years. This was also the experience of private campground operators who reported that reduced activity levels after a price increase were temporary in many cases.

Inelastic demand at state and national recreation and park areas results because an increased entrance price usually represents only a small percentage of the total cost of visiting such areas. Once the monetary and time costs of traveling to and from the site have been included, relatively large percentage increases in price are likely to have relatively little effect on attendance:

“A $1 increase to a recreantist must surely seem less than monumental after having already purchased thousands of dollars worth of equipment and spent perhaps over a hundred dollars in traveling enroute and return.”

In contrast, a relatively small increase in price may result in a substantial decrease in participation at facilities located close to population areas because the user price represents a relatively large percentage of the total cost of the visit to such a facility. A decrease in participants is particularly likely to occur if other programs are available that could serve as a substitute, or if children or disadvantaged groups formed a substantial proportion of the clientele. For example, a study of price elasticity at selected swimming pools in England concluded that “juveniles react much more—by staying away—to price increases than adults. The optimum admission price for juveniles (that is, the one which generates most total revenue) is approximately half that of adults.”

In contrast, Brunswick Corporation (which operates ten-pin bowling centers in urban areas) reported, “it has been our experience that increasing prices does not adversely affect usage.” This may be accounted for by ten-pin bowling being perceived by users as an activity for which there is no obvious substitute.

Two studies of museums offer some clues into the impact of price changes on demand for leisure services. Researchers found little change in the composition of the visitor population to the Royal Museum in Toronto after the institution of a modest $2.25 fee. The only significant change was a relative increase in the proportion of first-time visitors.

The experience of the Natural History Museum in San Diego suggests that it may be important to distinguish short- and long-term effects of charging a price for the first time. After institution of a $5.50 entry fee, attendance dropped by 50% in the first year; but after two years of “education,” attendance had risen to the level achieved before the user price was charged.

Rationing

User pricing as a rationing device may serve two different functions. First, it may indicate which services are most desired by client groups. Second, it may be used to reduce overcrowding. User pricing performs a rationing function by excluding those potential users of a service who are not willing to pay as much as other potential users. It thereby allocates the service to those willing to make greater sacrifices. This is important because providing services at no cost often leads to very heavy use. If a service provided free or at an unrealistically low price triggers excess demand, “cries of alarm” often suggest that more provision is needed. Yet there may be little information about the value of the service and the relative legitimacy of its claims on resources.

Heavy use does not necessarily indicate satisfaction with a leisure experience. For example, if a low admission is charged to a municipal swimming pool, it may become a free baby-sitter service. Attendance does not measure satisfaction or clients’ evaluation of the service; it merely records individuals’ use of the amenity. Higher prices provide decision makers with valuable information about the extent of satisfaction or benefit that users perceive a service to provide. Prices offer some basis for comparison between programs and a rare opportunity to force the public to reveal preferences.

User pricing may be used to reduce crowding at particular times in particular areas. The resources required for some leisure services may not be expanded easily to meet additional demand. For example, a tennis court, boat marina, or softball diamond can only accommodate a fixed number of participants at any one time. Hence, some mechanism is needed to determine who should have priority. Price is one way of resolving the problem.

Typically, a leisure facility is used intensively during a relatively brief period of time, moderately at other times, and is wholly unused for much greater periods of time.

Charging different prices could ration use at peak times. Prices could be charged on days or in seasons of heaviest use, but not at other times, as one inducement to a more nearly uniform pattern of use. For example, prices could be charged in heavily used, but not in lightly used, camping areas as a means of spreading use geographically. Alternatively, several price levels could be employed to influence users to choose certain times.
areas, and/or activities. Such charges could not be effective unless they were high enough to be a real burden to the users who paid them and a real savings to those who avoided them. 29

Price is usually thought of as the amount of money that must be sacrificed to acquire a service. However, price should be conceived more broadly than this, for money is only one way that people pay for services. Sometimes, time costs are more influential than monetary costs in determining whether or not an individual will participate in a program. Time costs may involve more personal sacrifice than money for some client groups, and they may arise in a variety of ways. For example, a golfer may make an exhaustive effort to find out about available golf courses and their operating policies. When a course has been selected, time is required to travel to and from the facility. Finally, time loss may occur through waiting in line at peak times to play a game, or through having to contend with overcrowding and congestion that slows down play on the course. Hence, waiting time may be an alternative to monetary price for reducing overcrowding. This may make it possible for a manager to offer client groups a choice of rationing devices.

Time involves very different costs for various groups in the population. 30 The value of time is related to its opportunity cost in terms of the value of the earnings or alternative experiences that would have been gained during the time of the wait. For example, for the young and the retired, waiting time frequently has a lower cost than it does for the busy executive. The relatively poor and the wealthy also value time and money differently. Consequently, each type of client group could be permitted to pay in that coin least expensive to its members:

"Some consumers will prefer faster service and higher money prices; others slower service and lower money prices; still others, mode rates and moderate time costs. Those constituents who prefer paying in money to buy time can do so, but those who do not prefer to pay in money will be able to avoid doing so." 31

If this principle were applied to a racquetball complex, it would mean that those prepared to pay a high monetary price would be permitted to make reservations a month ahead. Those prepared to pay a moderate monetary price could make reservations one week ahead and risk either having to play at an off-peak time or being placed on a waiting list for a court at peak time. Finally, those prepared to visit the facility without a reservation in the hope that courts may become available might pay a relatively low monetary price, but would risk paying a substantial time price.

Positive User Attitudes

Some have suggested that abuses such as graffiti, littering, and vandalism occur because participants pay little or nothing for the privilege of using facilities. One author says:

"It is argued by some that provision of anything at zero price tends to diminish its psychological, as well as economic, value. Some sense of personal contribution or support may enhance the visitor's feelings of responsibility towards, and esteem of, the facility. The impact of such psychological value on possible acts of vandalism is obvious." 32

However, others believe that when a price is charged, users may feel they have more right to "tear up" a facility. U.S. Forest Service data indicate that costs for vandalism and littering in the national forests were greater per user in areas where prices were charged. 33 However, reasons other than the fee itself may explain this difference. Indeed, the U.S. Forest Service also reported that less vandalism and better security in campgrounds that charge users a price have led to greater use of these campgrounds by the elderly and families with children. 34

Commercial Encouragement

If leisure services are heavily subsidized, then, in effect, the public agency is following a policy of excluding the commercial sector from offering a similar service. It has been said that "we cannot give away bread and expect people to rush into the bakery business at the same time." 35 Pricing that offers incentives for private investment would relieve crowding pressures by increasing the supply.

A study completed for the U.S. Heritage Conservation and Recreation Service found that average user prices for camping at federal recreation areas where prices were charged were $1.94, with a range from $1.42 to $2.40. 36 In comparison, average private campground charges were reported by the National Campground Owners Association at $5.83, with a range from $4.00 to $7.75. Clearly, this discrepancy is likely to discourage commercial campground development near federal areas.

A lead editorial in The Wall Street Journal discussed this problem. Gore Mountain Ski Center, a public facility operated by New York State, received an annual tax subsidy of $50,000 a year and was constructed with tax-free bonds. It applied for $264,000 in federal grants to help fund a $2.87 million capital extension that involved installing snow-making machinery and other equipment. The balance of the capital was raised by issuing tax-free bonds. With these advantages, Gore Mountain charged $400 for a family season pass. Commercial resorts in the area charged an average of $1,125 because they had to pay commercial prices for investment capital, without any assistance from federal grants, and needed to show a return on their investment. 37 It appears that the publicly operated state project was gradually forcing the commercial operations out of business.

Factors Inhibiting User Pricing

There are at least three situations in which user pricing of public recreation services may not be appropriate. First, there may be legal or legislative restrictions on charging a price. For instance, such restrictions are found on many of the more recently legislated areas administered by the National Park Service. Examples include Gateway East, Gateway West, Cape Cod, and Indiana Dunes. In contrast to those national parks designated before 1961, many of the newer parks were not established on federal lands. Consequently, the National Park Service had to buy these lands. Despite arguments concerning social equity discussed earlier, it seemed incongruous to the Congress that large sums of taxpayers' money were appropriated to purchase the parks, taxpayers should have to pay to use them. For this reason, no admission prices are permitted at these parks.

In other parks, the express wish of
the donors of the park preclude user prices. For example, at the Lyndon B. Johnson National Historic Site, President and Mrs. Johnson expressed the firm view that admission to the park should always be free. President Johnson justified this by stating, "What wasn’t given is coming out of their pockets as tax monies." 38

Second, the technical difficulty of imposing a charge for use of an area, such as a public park to which access is not controlled, may preclude pricing. Presumably, access could be controlled by building a fence around the park and charging admission; however, this may lead to a third factor, namely, that the costs incurred to facilitate charging admission may exceed the revenues collected. In this case, it is uneconomical to collect the charges.

Often, in remote park facilities or at off-peak times in local facilities, the level of use may be so low that revenues from pricing do not cover the costs of collection. A decision to charge a price may entail high personnel and set-up costs. Constructing gatehouses at each entrance to a park and manning these gates involve initial capital outlays and significant payroll cost increases. 39 A variety of devices have been tried to overcome this problem, and some have been successful. Examples include using a permit system; paying for a ticket from an automatic vending machine and displaying it prominently (so it can be subjected to occasional spot checks); and using coin-operated gates.

Finally, in some cases there has been a reluctance to increase user prices because any increase in revenues caused decision makers to reduce the agency’s support from taxes by an equivalent amount. This may be an appropriate strategy by decision makers if they perceive it as benefiting the taxpayer. However, it serves as a disincentive to an agency that finds that instead of having additional revenues to improve the delivery of its services, its only reward is the equivalent loss of a source of financial support—a source that might be difficult to regain in the future. In addition, the agency may lose political support from user groups angered by the new pricing policy.

2. Ibid.
6. Ibid., p. 270.
17. Chappelle, "The ‘Need’ for Outdoor Recreation.
20. Ibid., p. 39.
22. Local Government Operational Research Unit, Planning and Management of Indoor Swimming Pools (Reading, England, Royal Institute of Public Administration, 1974).
29. Ibid., p. 274.
32. Becker, "Pricing of Educational-Recreational Facilities."