



# Intelligence MEMOS

From: Benjamin Dachis  
To: Canadian Transit Watchers  
Date: April 22, 2021  
Re: **TRIPPED UP: THE PANDEMIC EFFECT ON PUBLIC TRANSIT**

COVID-19 has fundamentally changed lives across Canada. This change may be most pronounced in Canada's major cities. Many of the things that make city life so vibrant – restaurants, entertainment, or learning from great colleagues at the office – have vanished.

Post-pandemic, as more Canadians work from home, transit operators will face the challenge of bringing us back together to enjoy urban life even as they face a gloomy financial outlook.

There are many benefits of urban living, many flowing from large job and employee markets and access to a wide range of services and infrastructure. Public transit is the essential enabling component. These wider economic benefits –economists call them agglomeration – are a key element of why cities exist in the first place. As more people can connect in person, the higher their incomes.

Canadian governments systematically undervalue transportation investments – both in annual operating value, and on the returns on new investments – if they ignore its critical role in making cities vibrant.

One way to think about transit's economic value is with a simple thought experiment: What would happen to the value of the wider economic benefits of living in a city if everyone who took transit stopped taking it? How much less would we learn in person? How many unique and innovative restaurants would fail by not having people come from across town and could only cater to those who can walk, drive or bike?

Using this thought experiment, my recent C.D. Howe Institute [paper](#) estimates the annual economic value of the Toronto Transit Commission (TTC). This single transit system enables \$1.8 billion in wider economic benefits, even if we assume that some travel on the TTC would still happen, but on other modes.

Sadly, something remarkably close to this thought experiment is being experienced.

And we think the economic cost is \$1.7 billion for the Toronto region as low TTC ridership reduces agglomeration benefits.

Future service enhancements – ranging from simple investments like dedicated lanes for buses to new train lines – might enable broader urban agglomeration economies. Faster travel enables riders to get access to a wider set of job opportunities. They can access more services, such as restaurants or other businesses. We estimate the agglomeration wider economic benefits of the TTC's five-year service plan improvements to be \$377 million per year, which would add on to the agglomeration benefits of the existing system.

Transit authorities in Canada rely on farebox revenues from paying passengers as their largest source of revenue. As costs rise, such as the need to increase staff wages, transit operators must decide between increasing fares, finding efficiencies, or seeking a greater subsidy from governments. Fare increases have the effect of discouraging some users from travelling and create a wider economic cost. The economic costs of people choosing not to travel because of higher fares – not going to a new restaurant, or not taking on a new and better job – can be substantial. However, governments should weigh the alternative of the economic harm of raising taxes to pay for subsidies. Depending on the kind of tax a government relies on, the economic harm of higher taxes may be worse than the economic cost of fewer fare-price-sensitive travellers.

How does incorporating wider economic benefits into the economics of transit affect all public transit operators looking beyond the pandemic to a new normal of work and commuting? A return to a partial (one or two days a week) work-from-home model for many workers once the pandemic subsides is a likely outcome. The ability to partially work from home will likely recapture most of the lost agglomeration benefits we have seen the last year.

However, reduced travel will leave a fare revenue gap that transit operators will need to fill to maintain service levels. Senior governments that collect income tax revenues – and see a bottom-line income tax benefit from wider economic benefits – can temporarily provide operating subsidies to transit operators. Such operating subsidies should only last until transit networks can re-orient their services to permanent post-pandemic demand trends.

By removing many of the things so many Canadians love about cities, the pandemic has shown us the value of urban life that many of us take for granted. There is a wider economic value of preserving travel options and public transit service that all Canadian governments should recognize.

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*A version of this Memo first appeared in [The Hill Times](#).*