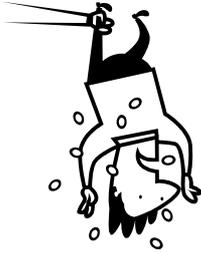

Why Business Must Oppose Congestion Charging



On the 11 August 2006, the Financial Times published an article by Robin Harding entitled “Why Business Must Back Congestion Charging”. This is not the first time that the FT has shown editorial support for such schemes. It argued that business people had a lot to gain from road user charging, despite the imperfections of the London scheme – as the author said “*the greatest step toward implementing road fees, but also the greatest step back.*” The following is your editor’s response:

Before the London Congestion Charge was introduced, many business people supported it. They saw the opportunity to obtain an advantage from their willingness to pay for reduced journey times – effectively they valued their time at higher than the Congestion Charge payment. Likewise some commercial vehicle operators imagined it would enable them to reduce costs from lower trip times and greater punctuality for deliveries. But what has been the outcome? Certainly not what was expected.

In reality the big nightmare is the cost incurred in paying the charge and the associated administration and enforcement system. The hassle of paying a one-off fee of £8 is high, with the result that it is easy to spend more time paying it than the time saving from reduced congestion. And even a trivial mistake can get you into the bureaucratic nightmare of dealing with the enforcement system operated on behalf of Transport for London (TfL). Plus some of the expected benefits from the London Congestion Charge have been illusory. For example, it was expected to cut air pollution whereas in fact pollution has gone up. No you should not believe those advertisements paid for by TfL that claim pollution has fallen which are based on “estimated” figures – the measurements of actual pollution taken at three points within the congestion charge zone clearly show pollution has risen, despite the improvement in vehicle technology and fewer highly polluting older cars on the roads since the charge was introduced.

Another claimed benefit from the Congestion Charge was going to be the large sums of money that it would generate to improve public transport. But what have we got? A system that is so inefficient in revenue collection terms that almost all of the income generated is spent on operating it. From the latest TfL report (the Fourth Annual Monitoring Report), it is apparent that the scheme operating costs are £90 million while the income (excluding penalty charges) is £120 million, ie. 75% of income goes on administration costs).

Although we have a lot more buses in London, most of the cost of these has been subsidised by general taxation on Londoners, not by the Congestion Charge scheme.

The figures look a bit better if penalty charge income is taken into account (assuming that it can be collected which proves notoriously difficult), but that simply reflects the atrociously poor compliance with the scheme, with more than 4,500 penalty notices still being issued each day.

Business people generally abhor unproductive expenses and hence they see the London Congestion Charge system as simply an inefficient bureaucracy. And when the charge was raised from £5 to £8 (which, as expected, had little impact on congestion levels), with more increases now being proposed, it soon became obvious that this was a mechanism to raise revenue (ie. a simple tax) rather than a way to tackle congestion.

So is a general road user pricing system going to be any better? Well surely business has the same concerns. If you study the proposed system it is clear that it will not only need complex and expensive technology to operate, but will similarly be administratively highly complex. In addition it will reduce transparency in the taxation system and introduce some peculiar incentives – for example it is likely to encourage more usage of rural roads as opposed to main roads which will hardly improve the road safety statistics, and unlike the existing fuel tax it will not discourage high fuel consumption.

Business people are used to living in an imperfect world, where the economics of a situation are unclear and the motives of the participants are muddled. Perhaps this is why they are so sceptical of the benefits of a general road pricing system. In a perfect world, with everyone acting for the common good, it might be a good idea. But in the bleak landscape of factional politics and Government financial juggling, it is much more likely to be exploited as a mechanism to extracting more cash from the road users than at present. Road users already pay substantially more to the exchequer than the cost of providing the road network, but at least the tax is collected in a very efficient way. In that sense it is not a wasteful system.

But introduce road user charging and not only will there be substantial implementation risks with uncertain outcomes (as with the London system where the outcome was not as expected), but it will almost certainly be a less efficient cash collection system.

Also business people tend to believe that a low cost infrastructure that is open to all is a major benefit to the stimulation of economic activity. But a road usage pricing system is a contrary proposal – it actually deters poorer people from accessing certain parts of the road system.

So sensible business people in the UK are likely to oppose any road user charging system because practical experience tells them that there is no simple low cost trick to cure road congestion.

Roger Lawson, BBRAG, August 2006