Paying for the Ride

By PAUL KNIGHT

THE MARKET MECHANISM as operated through the competitive price system will lead to an efficient allocation of resources between competing needs. While reflecting personal desires and choices, the market ensures that when demand accumulates and profits rise, additional investment is brought forward to increase production and re-establish the equilibrium.

In many sectors of the economy today, however, monopolies, distortions, grants, subsidies and political patronage, have made the market a myth. Where a truly competitive market has been lost, the nation is the poorer in two respects: first, the freedom of individual choice and decision making has been limited; secondly, an effective system of measuring demand and investment has been lost. Nowhere is this more adequately illustrated than in the state of Britain's road transport system. In a new I.E.A. Research Monograph*, G. J. Roth puts the revolutionary case for returning to strict market principles as far as the maintenance and provision of roads are concerned.

Mr. Roth's belief that road improvements should be made on the basis of market-like decisions has led him to consider in detail the various ways in which this could be achieved. Examining first the present system of "arbitrary pricing," he concludes that roads in Britain today are a "welfare service" under which expenditures are fixed arbitrarily and indiscriminately at the whim of administrators and politicians. No account is taken of the failings of the present road system on financial grounds, and few investment decisions are taken on the basis of economic benefits from road improvements. Revenues are equally unrelated to specific costs arising from the use of different types of road. This state of affairs, says Mr. Roth, can be corrected only by a commercial approach to revenue raising and the investment of surpluses in accordance with economic principles that govern the optimum use of resources.

Looking for a method of charging for road space, Mr. Roth first rejects "average cost pricing" on the grounds that to spread costs evenly without discriminating between users of high cost and low cost facilities leaves no ceiling on demand for road space in congested areas. It would be like the Electricity Boards dividing their costs between all their consumers without regard to the units actually consumed by each customer.

Charging on the basis of the cost of additional units only, or "marginal cost pricing," is discounted by Mr. Roth for a number of reasons—the probable low yield; the fact that such a system does not take account of costs borne by third parties, e.g., congestion costs; and the fact that marginal costs can fluctuate widely, e.g., a small road widening compared with a motorway extension.

Ideally it would seem that a true "market in roads" should be aimed at, but this is not possible because of the monopoly characteristic of roads and the waste that would result from duplication. Roads can, however, be put on a market basis by adopting a system of "user cost pricing."

Under this system the true costs of road provision and up-keep (including returns on capital and the payment of rent for the use of land) can be linked with a rent-like charge to ensure that the highest use is made of scarce road space. In this way all true costs are carried by road space users, the comparative alternative costs of other transport systems can be clearly seen, and roads would tend to be improved only where high revenues justified high expenditure.

Mr. Roth's studies have led him to the conclusion that under a system of user cost pricing the 1964 road revenues could have been:

Fuel tax (suggested 10d per gallon) ..	£163 m.
Licence duties	£32 m.
Congestion taxes (a vehicle meter system) ..	£624 m.
Ratepayers (contributions for pedestrians, service roads, etc.) ..	£205 m.
Payments by public utilities	£18 m.
	£1,042 m.

The result would have been a surplus over costs of £604 million, which would have been available for re-investment. In reality, in 1964, a national surplus of £407 million was made from road revenues, £211 million of which was appropriated to other than road expenditures. Unfortunately the 1964 revenues were raised in a manner which did not reflect the true costs caused by the road users themselves. Mr. Roth's system, with income based largely on congestion costs, would introduce a sliding price scale for the use of scarce space.

There are obvious administrative and technical difficulties to be overcome if user cost pricing is to be considered seriously, but the suggested reform has some merit. As Mr. Roth explains, people who book hotel rooms in August have to pay high prices and put up with discomfort—yet they still do it. There are indications, however, that if such a pricing system was applied to roads, a much more rational use would be made of them.

An interesting side comment is the suggestion that the accounts should include a payment of land rent foregone from alternative uses. Under a land tax system these rent payments for road space would flow back to the community at a rate of £40 million a year.

Space is too limited to give detailed consideration to the economic concepts involved, but this book will be particularly interesting to those who believe that road costs should be met by the consumer and that toll systems are the only way of raising revenues fairly.

* *A Self Financing Road System* by G. J. Roth. Research Monograph 3. The Institute of Economic Affairs Ltd. 10s. 6d.