

London to Adopt Road Pricing

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With the twin objectives of reducing traffic jams and funding public transport initiatives, London will introduce a "congestion charge" in 2003.

London is one of the world's oldest, most historic and populous cities. Modern London traces its roots to two cities - The City of London and the City of Westminster. The City of London was established as a Roman trading post in A.D. 43 on the flat land beside the River Thames.

Approximately 1,000 years later and two miles west of the City of London, the City of Westminster was established as a home for England's rulers. Now the two cities form part of a ten-square mile area commonly known as Central London. (Next time you visit, look on the street signs to see if you are in the City of London or the City of Westminster).

London is home to over seven million people. With its narrow, winding streets, squares and numerous bridges across the Thames, London was not designed with cars, trucks and buses in mind. However, London is no stranger to innovation in transportation; Londoners built the world's first underground passenger-train system in 1863.

Like many other cities and towns, London is experiencing tremendous problems with traffic

flow. People complain about the length of commuting time, the excessive use of fuel, and the consequent air and noise pollution.

In an attempt to reduce congestion, the city authorities will impose a "congestion charge" of 5 pounds (approximately \$7.25) on every car and light truck entering Central London on weekdays between 7am and 7pm.

Heavy vehicles will be charged 15 pounds (\$21.74). Local residents will be eligible for a 90% discount, while motorcyclists, disabled drivers, and public transport vehicles will be exempt from the charge. At the same time, bus fares will be reduced by 30%.

The congestion charge will be enforced by using digital cameras to check license plates. Drivers will be able to pay the congestion charge by phone, mail, Internet or at selected retail stores.

The proceeds of the congestion charge will be used to upgrade the public transport system. Planners aim to increase the system's capacity by 40% over the next decade.

London's experiment with the congestion charge is being closely watched by cities around



the world. Singapore uses a similar system, but London will represent the first time that the idea has been tried in an unplanned city.

From the Georgist viewpoint, the congestion charge is a payment for the use of a public resource.

We'll watch the developments in London very closely.

For decades, economists have tried to work out the theoretical implications and practical applications of what has variously been called *price discrimination*, *variable rate tolls* or *port pricing*. Given that most streets and highways are public property, and given that congestion and

gasoline consumption have been increasing over the last fifty years, the motive behind the idea has been to recover some of the social costs created by increased wear and tear on the streets and the increased air and noise

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pollution.

The *Palgrave Dictionary of Economics* nicely sums up some of the socio-economic thrust behind the idea:

The best policy to deal with urban road congestion is likely to be some form of road pricing. However, road pricing is the exception rather than the rule. Most governments have simply stood idly by as the wastes of congestion mount. When the traffic jams become quite unacceptable, the normal procedure is to impose regulations to ration the use of the streets. In Lagos, Africa, for example, odd-numbered license plates were allowed on odd days and even numbers on even days. The most ubiquitous policy is to discourage the private motorist and to promote mass transit by rail or bus. Various priority systems with special bus lanes and impediments for cars have been the usual policy. A proper application of road pricing has been practiced in only one case - Singapore. There the private motorist pays a daily

or a monthly fee to enter the restricted area of downtown Singapore during the morning rush hours. The scheme was instituted in 1975 and has been judged by both the government and independent observers as a considerable success on economic and political criteria (according to the World Bank, 1985). Rather similar schemes have been considered for London, Washington, DC, and many other cities, but political considerations have prevented their implementation. The development of information technology has made feasible many sophisticated systems of computer controlled pricing. The technical objections to road pricing have been largely overcome, but the distributional, vested interests and political hurdles have yet to be surmounted.

In addition to his teaching duties at HGS, Billy Fitzgerald is also on the School's Board of Trustees.

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