

Written evidence submitted by the Adam Smith Institute (EVP0107)

1 Introduction

1.1 This is a submission on behalf of the Adam Smith Institute. The submission was written by Sam Dumitriu (Fellow, Adam Smith Institute). We are grateful to the Transport Select Committee for providing us with the opportunity to submit evidence on road pricing.

1.2 The Adam Smith Institute is one of the world's leading think tanks, ranked 1st in the world among Independent Think Tanks by the University of Pennsylvania. Independent, non-profit and non-partisan, we work to promote neoliberal and free market ideas through research, publishing, media commentary, and educational programmes. The Institute is today at the forefront of making the case for free markets and a free society in the United Kingdom.

1.3 Sam Dumitriu is a Fellow at the Adam Smith Institute, and was previously Head of Research until 2018. He currently works for The Entrepreneurs Network, where he focuses on all aspects of entrepreneurship policy. He has also written the report Tax Reform for the APPG for Entrepreneurship.

1.4 The Adam Smith Institute has consistently supported road pricing since as early as 1982, publishing reports such as Charging Ahead: Making Road User Charging Work in the UK, Tomorrow's Way: Managing Roads in a Free Society, and Roads and the Private Sector. The Institute has also been at the forefront of understanding the significance of zero-emissions vehicles. In 1990, the Institute published Green Machines, which set out a system of reform for the taxation of electric company cars that became policy in 2020.

2 Zero Emission Vehicles: The opportunity for reform

2.1 The shift to zero emission vehicles (ZEVs) will require us to rethink how roads are currently funded. The Treasury collects ~£40bn per year from Fuel Duty and Vehicle Excise Duty. ZEVs pay neither, and it is difficult to see how Fuel Duty, at least, could be applied to them in its current form.

2.2 This represents a major challenge as people switch to ZEVs, but also a massive opportunity to tackle problems such as congestion and air pollution, and to improve the way road infrastructure projects are selected and funded. This can

be done by shifting the burden of tax to road use, rather than fuel use, as petrol vehicles are phased out.

2.3 This should be done in a way that puts the motorist's welfare first. And motorists are the biggest victims of congestion: traffic experts Inrix estimate that congestion cost the UK economy £6.9bn in 2019 - an average of £894 per driver for the 119 hours they, on average, spend stuck in traffic.¹

2.4 But the true cost of congestion is likely to be even higher than this, because of the second-order effects that traffic congestion has on labour markets and where people choose to live. Long journey times caused by congestion limit the size of urban labour markets by reducing the distances people can travel for work. This reduces the number of job opportunities people can have, weakens their ability to negotiate with employers, creates less scope for Adam Smith's division of labour, which enables workers to specialise and get richer by working together, and creates additional pressure on inner-city housing demand.

2.5 In most countries, larger cities are more productive than smaller cities. However, this relationship breaks down in the UK. One recent analysis found that unreliable and long travel times limit the size of Birmingham's labour market and explain a significant proportion of the productivity gap between UK large cities and their European equivalents.² **In other words, congestion reduces productivity in towns and cities outside of London and the South East, which lack access to reliable commuter rail networks. Reducing congestion through a shift to road pricing would help the Government achieve its aim of levelling up.**

2.6 Traffic also exacerbates problems such as air pollution, estimated to contribute to 40,000 deaths each year, as well as increasing carbon emissions in the case of internal combustion vehicles.³

2.7 The pandemic has also seemingly reduced willingness to travel via public transport. The RAC's Report on Motoring shows only 43% agree they would use their cars less in a post pandemic world if there was better public transport - a fall from 57% in 2019.⁴ Additionally, bus transport is severely affected by traffic jams - people are far more willing to use a bus service if they are confident that it will take them to their destination on time.

3 **The politics of road pricing**

3.1 Past attempts to move towards road pricing and congestion charging in the UK were met with substantial political resistance. In part, this is because motorists see the policy as a tax grab rather than as something that will benefit them by cutting travel times.

3.2 The move away from Fuel Duty presents a chance to avoid this, and a key principle for any reform should be revenue neutrality. Road pricing should be seen as a replacement for existing taxes such as Fuel Duty and VED, not as an additional revenue raiser.

3.3 While road pricing revenues should be used to fill the hole caused by falling Fuel Duty and VED revenues, any additional revenue raised through road pricing should be ringfenced for spending on road maintenance and construction. In theory, road pricing should allow policymakers to identify the areas where demand for additional road construction is the highest and ensure funding is directed there. **Road pricing should lead to a direct and noticeable improvement in roads and traffic for motorists.**

3.4 In order to build support among motorists, rhetoric should focus on congestion and increasing average road speeds for the 68 percent of Britons who drive to work. The Department for Transport should measure road speeds and set target speeds for all major arterial roads and use pricing to meet the target. At the end of the year, motorists should be given an annual statement which highlights the time savings they will have made. It could mirror services such as Spotify's Year in Review.

3.5 Under the new system of road pricing, the net tax burden on most motorists should decline and the median motorist should end up paying less each year. The Year in Review letter should highlight any cost savings that a motorist will have made as a result of the new system.

3.6 Key winners from the new system will be rural motorists who make a small contribution to congestion, and commuters who currently spend most of their journeys stuck in traffic. Many of these people will get an extra half hour in bed, and an extra half hour to see their kids in the evening, every day. Those most likely to spend more per driven mile will be those in areas with high frequency public transport alternatives, but they will gain from the improved public transport that road pricing enables and will no longer suffer high 'flat rate' charges for a

short trip partly within a congestion charge zone, as suburban drivers who must cross London do at present.

- 3.7** Some groups will see a rise in the cost of driving, but if the scheme is designed well, it will be primarily delivery drivers, helping level the playing field with the high street and private hire drivers. Where possible, this should apply to all PHVs including Hackney Carriages.
- 3.8** Road pricing should be paired with other pro-motorist reforms such as raising the speed limit on motorways to 80mph and reducing the frequency of MOTs for new ZEVs, which are safer than older vehicles. These would primarily be to demonstrate to motorists that the government does not see them as the enemy, and sees road pricing as part of a suite of reforms designed to make their lives easier.
- 3.9** Road pricing should enable greater devolution, with funding flowing to where demand is highest. Metro mayors should be able to decide how road pricing revenue raised in their area will be spent on transport. They could also issue Road Pricing Bonds to fund new roads, where private buyers build roads in return for a stake in future road pricing revenues incurred on the new road.
- 3.10** Road pricing also complements alternatives to private car use, primarily buses. Fewer cars on the road at peak times will enable more frequent service with more predictable and faster journeys. **Many road users may be incentivised to switch, creating the opportunity to add new services and improve transport networks outside London.**

4 Road Pricing: Framework

- 4.1** Any system of road pricing should focus on ensuring road users pay for the four key external costs they impose on society.
- 4.2** First, they should be taxed on a per-mile basis for the wear-and-tear they cause on the roads. The price any motorist pays should be adjusted for axle weight to ensure the vehicles that cause the most damage to roads pay the highest costs.
- 4.3** Second, they should be taxed on their CO2 emissions. There are two ways for this to work. Either motorists could continue to pay at the pump, or a carbon factor could be added to the per-mile tax. The latter option would allow for the

visible abolition of fuel duty and should be preferred. Emissions from electric vehicles should be accounted for through broader carbon pricing in the domestic electricity market. This would ensure that switching to ZEVs is still encouraged by the tax system.

- 4.4** Third, it should account for local air pollution. This would effectively work as existing ULEZ do, but once a vehicle is within a zone, they would be charged based on the time spent travelling. The status quo is binary: either you pay the ULEZ charge or you don't. Under a superior road pricing system, motorists would have an incentive not to make further trips within a ULEZ. Additionally, they would not be charged the full fee for briefly entering a ULEZ. Unlike the existing ULEZ system, there is scope under road pricing for more personalised pricing based on emissions performance rather than the binary status quo, where a vehicle either pays or does not. This could increase incentives to adopt ZEVs.
- 4.5** Fourth, and most importantly, it should account for congestion. This would vary based on the time of day: for instance, a trip at 8am would be priced at a higher rate than a trip at 11am. Congestion should function as another modifier on distance travelled. Under the status quo, there is no incentive to limit trips into the congestion zone once the charge for the day has been paid. The road pricing system, by assessing distance travelled in high congestion areas, would incentivise drivers to take fewer trips or alternative routes.
- 4.6** Roads are a scarce resource and when scarce resources are not priced, they are overconsumed. Singapore fits 5.5m people into a city half as big as London. However, the average speed in rush hour on arterial roads is 20 miles per hour, more than twice as fast as the speed in London (7.4mph in 2015).⁵ Although London has a congestion charge, it is uniform, flat and set too low, creating only a weak incentive to shift trip times and routes, or switch to alternative transport options such as cycling, buses, or rail.
- 4.7** However, the system would not respond to demand in real time as is the case with Uber's Surge Pricing algorithm. Instead, predictability for motorists would be prioritised with pricing changes announced at least a month in advance and made available in an open data format so that journey planning apps can help motorists to minimise their bills.
- 4.8** In terms of technical specifications, there are multiple options. In Singapore, they use a system of radio receivers and smart cards, but widespread

use of smartphones may make such technologies obsolete for most motorists. One option would be two parallel systems, a low tech system where a simple mileage tracker is combined with automatic number plate recognition and a high tech system which uses GPS tracking in smartphones. Users could opt-in to the latter scheme, although some may choose not to due to initial privacy concerns. The low tech system could also be used as a fall back system if the smartphone fails to work for whatever reason.

4.9 Smartphone users can currently compare costs between different routes on map services such as Google Maps or Waze, and choose whether to optimise based on speed or cost. For instance, they might take a longer route around the congestion charge zone or avoid toll roads. Government should create an API to allow GPS apps to provide users with information on the relative cost of multiple routes, building on and replacing use of GPS to suggest routes that include or exclude toll roads in the UK. This would make it easier for users to identify savings and switch to less congested routes.

4.10 Anonymised road pricing data should be released as open data. Releasing other transport information has led to the creation of innovative businesses such as CityMapper, so we could potentially see new transport startups which use the data being created, or existing ridesharing apps (e.g. Uber, Bolt) using it to improve their offerings.

5 Conclusion

The shift to ZEVs creates a massive opportunity to develop a better system of road user charging. Under our proposed system of road pricing, road users would see a noticeable reduction in congestion while, on average, paying no more to use the roads. This reduction in congestion would increase productivity for two reasons. First, motorists and bus passengers would spend less time commuting and have better, more pleasurable commutes. Second, a reduction in congestion would enable greater agglomeration across the UK, unlocking new land for housing and helping to solve the UK's productivity problem.

This is a pro-motorist policy, not a cynical 'tax grab', and it should be sold as such. It should replace existing taxes on road use such as fuel duty and vehicle excise duty, not supplement them. **It can be a durable, long-term solution to a problem that affects all of us, especially those who do not enjoy the benefits of London and the South East's commuter rail networks.**

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Endnotes

¹ *Global Traffic Scorecard*, Inrix.

² Tom Forth, "Birmingham isn't a big city at peak times": How poor public transport explains the UK's productivity puzzle, CityMonitor.

³ *Every breath we take: the lifelong impact of air pollution*, Royal College of Physicians and Royal College of Paediatric Health.

⁴ *RAC Report on Motoring*, RAC

⁵ Singapore Land Transport Authority.