

Road Pricing: Lessons from London

Georgina Santos and Gordon Fraser

Discussion: Neil Gandal

CEPR Economic Policy

October 2005

History

- Aristotle refers to tolls
- Tolls used in Europe in 14th & 15th century
- 1663- First turnpike road (traveler fees used for maintenance & improvements) "Great North Road" Hertfordshire
- First Major Toll Road in U.S. - Lancaster (Pennsylvania) Turnpike built in 1790s

(See Wikipedia - <http://en.wikipedia.org/wiki/Turnpike>)

Summary of Paper

- In the first year following the introduction of London Congestion Charging Scheme (LCSS):
 - Increase in average travel speed: from 14 to 17 kmh
 - Reduction of 18%-20% in number of vehicles
 - 14% increase in bus ridership
 - Virtually no effect on traffic speeds just outside of zone
 - No effect on business in charging zone
 - Spillover benefits - reduced pollution, fewer accidents
- All Indicators suggest a great success

Economic Analysis

- Careful and well executed
- Original congestion charge (5£) approximately equal to the weighted average congestion cost.
- Detailed calculations of welfare gains confirm the notion that initial scheme a success
- Unclear whether the increase in charge (July 2005) to 8£ is welfare improving.
- Elasticity along demand curve unknown
- Ex post calculations can be carried out

Is Economic Analysis Necessary?

- Plan introduced primarily due to political will of Mayor (plan originally opposed by many interest groups)
- Plan covers only 1.3% of greater London
- Plan problematic from economic standpoint:
 - it doesn't employ marginal cost pricing
 - Charge doesn't depend on distance
 - Charge doesn't depend on vehicle type
 - Charge doesn't depend on congestion at the time

Broad Policy Implications

- Congestion problems in most major urban areas
- Very few practical solutions will be close to first best
- Welfare can be increased by a very simple plan
- Expansion of charging zone under consideration - less opposition
- It may be possible to fine-tune LCCS
- Economic Calculations are helpful for other metropolitan areas
- Increase to 8£ is a great natural experiment