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Congestion charge equals just more regulation

Over the past month the head of Infrastructure Australia, Rod Eddington, and the ACCC, Rod Sims, have raised the prospect of congestion charges. According to comments in the *Weekend Financial Review*, Sims believes that the issue needs a "national push".

Ignoring the fact that the commonwealth has no role in managing urban roads, the campaign for congestion charges makes certain assumptions about the role of markets.

Despite familiar language such as "market signals" and "efficiency", are congested roads really a market in the sense that we would normally understand one? Is the time we travel an appropriate target for regulation or influence by government?

Congestion charging is merely the latest example of the government seeking to create a market where none exists. But it is part of a trend in recent years, of the state artificially creating markets in order to influence behaviour or achieve some other policy objective.

Because we are familiar with the language of markets, there has been little examination of these. Critically, such state-created markets are unlike others in several important ways. This is particularly true of roads and the call for congestion charges.

The main objective of these markets created by government is often simply to ration use. This is usually cloaked in language of influencing behaviour through market signals, but the basic aim is to ration. This is particularly true where the government also controls the provision of a good.

In relation to congestion charging, it is the limited capacity of roads and public transport capacity and location, as public transport is the most accessible substitute good.

One of the most important differences these markets exhibit from regular product or service markets is that the state is often both the beneficiary of the charge levied as well as the regulator of the market and potential competitors.

To return to the issue of roads, the government will be the direct beneficiary of any taxes or charges collected and it will regulate the charge applied.

Even more importantly, government also controls how many roads are built and where, as well as the provision of the main substitute good, public transport.

For those who argue that private competitors may provide these, I encourage them to attempt to build a competing train line or road in one of our major cities and see how far they get. The state effectively controls the provision of alternatives and no proposal for congestion charging has proposed opening up this urban transport market.

So while the argument for congestion charging relies on our familiarity with markets, these state-created markets are profoundly flawed. Without the ability for substitutes to be developed and supplied, and with the beneficiary of the new tax also controlling the supply, the state is in a uniquely powerful position.

It will have an incentive to limit outlays on new roads or transport options and continually increase charges in what is a predictably inelastic market. Even if the long-term incentive differs, as increased capacity may lead to increased revenue, a short-term incentive to defer large capital expenditure remains.

This represents dominance that would not be tolerated in any other market, as competition is nobbled from the outset.

It also reflects the broader problems of the state creating markets, particularly for the purpose of simply rationing use.

Unlike other markets, where competitors can enter and increase supply of directly competing goods or substitutes, these rationing devices limit the dynamic market developing alternatives.

The models also seek to justify this approach on the grounds of improving efficiency, in this case the costs to the broader economy from congestion. But these models have not been sufficiently examined. Often they fail to take into account the individual benefit people enjoy from travelling at their preferred time while they assign broader economic costs to the time taken to do so.

Such models are often merely a rationale for the proposal.

While the models assign a value to the time people and goods spend in congested traffic, we should seriously question whether the use of our own time is something the government should have a role in determining or even influencing through taxes.

In the end, a congestion charge becomes just another tax increase or state-imposed rationing mechanism. Only this time it is justified on different grounds and uses the language of markets with which we are familiar.

We should remain sceptical of markets created purely by regulation. They can too easily be a veil to increase taxes and regulation under the veil of the language of markets.

■ *Senator Scott Ryan is opposition parliamentary secretary for small business and fair competition.*

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