



A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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Vol. 36, No. 1

UK Housing Economics in the 21st Century	3
What Price Congestion?	13
Britain! – and Overseas?	17
International Politics and Expatriates – An Opportunity in Need of a Solution	20
The Strange Death of Moral Britain	22
Congestion Charging – Some Second Thoughts	28
Letters	32

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UK HOUSING ECONOMICS IN THE 21st CENTURY

A talk given by Ms Kate Barker, member of the Bank of England Monetary Policy Committee, to members of the Economic Research Council on Monday 30th January 2006.

One of the disconcerting things about being a member of the Monetary Policy Committee over the past five years or so is that we are widely praised. The general opinion is that establishing the MPC was the right move, and that the MPC's subsequent decisions have been judicious and a major factor behind the UK's relatively good macroeconomic performance. The reason this is disconcerting is that we are well aware that we cannot guarantee that the favourable outcomes will always continue, even though we do believe that a credible inflation-targeting regime, combined with sensible fiscal policy, offers the best chance of a stable economy.

So perhaps I should not complain, even though I disagree with this line of attack, when the MPC and some other central banks are criticised for the sharp rise in many asset prices in the recent past. Those who consider monetary policy has been at fault in this respect often link this argument with the prediction that at some point there will be a sharp downward movement in asset prices, including housing, which will then produce a period of sub-trend growth.

This evening, I am mainly going to discuss housing from a different, and generally more micro, angle. But this is not possible without making some reference to the wider picture, and indeed one of the reasons for concern about housing is its impact on the macro economy.

A couple of quotations:

More and more public money is going into subsidising housing, yet homelessness is increasing, poor housing conditions remain a major problem, and housing is becoming more expensive.¹

New construction has plummeted and housing prices have soared in a small, but increasing number of places. These changes do not appear to be the result of a declining availability of land, but rather ... of a changing regulatory regime that has made large-scale development increasingly difficult ...²

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- 1 'Housing and Social Inequality', Jenny Morris and Martin Winn: pub Hilary Slipman, 1990.
 - 2 'Why have house prices gone up?', Edward Glaeser, Joseph Gyourko and Raven E Saks: NBER Working paper 11129, February 2005.

These both sound like descriptions of the present situation in the UK. In fact the first, although it is about the UK, is from 1990, and similar remarks were around at earlier dates. The second is recent, but surprisingly is about the United States, a country we often think of as having too much space for planning to be a problem – indeed, that is cited as one of the reasons for the higher level of US productivity. So not only is housing policy a long-running problem in the UK, but today we are far from being the only country where the planning regime seems to have become the battleground for a serious dispute between those supporting, and those opposing, new housing development.

The ‘Barker’ Review of March 2004³

In the spring of 2003, I was asked to lead an independent review of housing supply in the UK, on behalf of the Government. The review produced an interim report in December, and the final conclusions were published in March 2004.

The Pre-Budget Report (PBR) of December 2005

The Government response was positive, and subsequently there has been policy follow-up, most noticeably in the additional social housing commitments in the 2004 spending review, and in the extensive full response produced with the Pre-Budget Report last month. I know the response was extensive as, including the supporting research, the package weighed 4¹/₄lbs! However, in the public more generally the response was more mixed – not surprising as the review had a slightly polemic tone. In these remarks I will restate the case for increasing the supply of new housing, reflect on some of the controversies about the Review’s conclusions, and describe how far the PBR documents gave life to the vision the review set out – and also discuss briefly some related policy issues.

The Case for Increasing the Supply of New Housing

Why was there considered to be a need for a close look at housing supply? A number of facts about the UK were thought to be striking, and were commented on in the Treasury’s documents about the euro decision in

3 The Barker Review of Housing Policy. Delivering Stability: Securing our Future Housing Needs.

June 2003. First, house prices here, over a long time period, have tended to rise more rapidly than incomes; whereas this had not been the case in many other EU countries (including those which are relatively densely populated). Second, house prices have been volatile, and this has tended to exacerbate volatility in the wider economy. Third, the new supply of market (unsubsidised) housing had changed little despite the reduction in the supply of public housing since the late 1970s. Fourth, attention had been drawn to these long-term issues as, since the late 1990s house prices had risen very sharply for a number of years, but the rate of supply of new market housing had barely risen, and there were concerns about the affordability of housing for those on low incomes in many parts of the UK.

Clearly, there are a number of factors behind the rise in UK house prices which started in the late 1990s. These include lower nominal mortgage interest rates, which lower the up-front costs of owner-occupation, and lower long-term real interest rates, which have increased the relative attraction of housing as an investment vehicle. And the sustained rise in real incomes and greater security of employment may have led households to be prepared to take on a higher level of debt, and also stimulated demand as housing is income elastic.

Further, a complication in analysing the housing market is that houses are bought for investment purposes as well as for dwellings, and there is some evidence that this role has increased. But there is still a relationship between underlying demand and prices – buy-to-let purchases are not going to prove profitable in the long-term if it is clear that there is going to be a weak prospect of rental income. In the recent past anecdote suggests there have been instances of flats in particular being bought and not rented out as the buyer was looking simply for capital appreciation, but this is unlikely to prove a long-term proposition. And the fundamentals of demand and supply, not just today but as they are expected to be going forward, will therefore have an impact on the present price level.

The key contention of the interim review was that England in particular had seen a period of undersupply, with new build running at an annual rate below that which was considered to be the desired rate of household formation. (It is worth remarking that in recent years the addition to housing units through conversions has been broadly offset by demolitions.) However, this is not easy to assess, as household formation clearly has to respond to housing supply. A period of undersupply would tend to show up as a combination of concealed households, numbers of homeless, and numbers in temporary accommodation. On the first of these, the 2001

census, at the time I was trying to answer this question, did not reveal much information on concealed households. Although there were many anecdotes about individuals or couples wishing to establish independent homes, this could not really fill the gap. However, there is data suggesting that at present more than 2% of households in England live in overcrowded conditions, and that there are more than 100,000 households in temporary accommodation. Many of these households may be unable to sustain homeownership, so that these latter indicators are suggestive of an inadequate supply of social housing.

But although these facts give a human face to the problem, the real description of the issue is the more economic argument that the artificial restraint of supply can be described as a form of inefficiency, as it makes it more difficult for people to purchase the amount of housing which they would like, and could afford taking into account simply construction costs and a reasonable charge for externalities. This has an adverse impact on groups yet to buy, and is felt most acutely by those who also have no prospect of inheriting any housing equity.

The diagnosis of the review was that a major problem had arisen with regard to the English planning system, such that not enough flow of implementable planning permissions was getting through the process. Straightforwardly – there was not enough land readily available to build on. This implicitly means that in my view the value the planning system places on undeveloped land is (often unwittingly) too high. In addition, the incentives faced by many players – local authorities, existing homeowners, the development industry – were such that they add up to encouraging undersupply, at the expense of the first-time buyer and others effectively outsiders to the housing market. And the whole process of planning can be extremely protracted – for a large site five years from the initial application for outline planning permission to starting construction is not exceptional, even if it has been allocated for housing in the local plan.

The main recommendations in the final review were firstly directed at reforming the planning system – not to throw away any of the good practice on design of homes and communities, but to add to this a consideration of what market information (by which I largely mean prices) is indicating about the level and nature of demand across different regions. There were also recommendations aimed at reducing existing financial disincentives for local authorities to grow their housing numbers, and at encouraging the development industry to become more focused on delivering good product and less pre-occupied with issues around land. It was proposed that the

increasingly complex Section 106 negotiations needed to be simplified, and should be replaced by a charge, set at a relatively low level, on the development uplift on land values. Finally, I recommended a considerable increase in the supply of social housing.

PBR – Inspired Controversies and Progress

So what were the main points of controversy raised by the review, and how has the Government responded? In discussing the criticisms I hope not to sound too defensive. Good points have been made, and the policy response has been improved as a result. But it is clear that there are still some fundamental points at issue.

Taking some general criticisms first – a perfectly sensible point is that, in a relatively crowded country, it might be appropriate for the real price of housing to rise over time in order to encourage the land area available to be used to best effect. But of course that does not automatically imply that today's high land prices are at the right level. This is clearly an issue not just for economists to decide, but for politicians. How we would prefer to be housed has to be balanced against environmental pressures, and also reflect our ability to pay. I strongly believe that all should have the opportunity to live independently in a decent home, but there are policies which can lessen pressure on the environment – around location, or the size of the house and of any garden, or how soon young people might expect to be able to leave home. But if we are going to consider limiting choice in this way, then it is important to be clear about how big the environmental benefits might be. That is why, in the review, I proposed that there should be a study of the environmental impact of a higher rate of housebuilding.

As part of the PBR documents, a study was published from a number of consultants which followed this up and looked at the costs of increased housebuilding at three different rates, and with three different regional distributions. There is a clear problem in conducting this analysis, which is that some costs (eg building on flood plains, or increased congestion) are very site specific, so that some general assumptions about urban form were necessary. One conclusion that emerged was that the bulk of the environmental costs often attributed to extra housing actually arise from additional population. This is hardly surprising at a macro level, though of course at local level the complaints of existing residents have more force. And the work did not look at the question of whether better housing might

increase population, either through a higher birth rate or increased inward migration.

Just as a matter of fact, using assumptions about the use of brownfield land and density of housing broadly consistent with current policy, the following major environmental impacts were identified (these are for the impact by 2031 of the highest scenario, building an additional one million houses over and above current plans over the next ten years):

- The size of urban land would increase by 1.9%,
- Domestic CO₂ emissions would be 1.3% higher,
- Domestic waste would increase by 4.3%,
- Water usage would rise by 0.9%, and
- An additional 1.2 billion miles per year would be driven.⁴

These are not insignificant, but neither are they obviously overwhelming – particularly given the opportunity, if steps are taken early, to mitigate the impact of all except the land use. Part of the Government’s response was to outline steps to seek to achieve this mitigation.

Land use is a more difficult issue. At present planning policies related to new build housing encourage higher densities (and by implication smaller gardens, and often smaller floor areas, than the existing UK housing stock – indeed, EU data indicates that our new build has the smallest floor area in the EU); in addition there are targets aimed at ensuring that 60% of new building is on previously-developed land. These policies have been questioned: at issue is whether as a population we really see smaller houses in more compact towns as a price worth paying for the preservation of openness and character of rural areas. A recent survey of consumer preferences revealed a high level of concern about the lack of space and storage in much recently-built housing.⁵ A change in these policies would of course alter the landtake estimates I have just quoted. But one concern might be that this issue is rarely debated publicly in these terms, and it is doubtful that those affected by it have much idea of what trade-off is being struck on their behalf.

So the public debate contains both complaints about the ‘packed-in’ nature of new developments and comments such as the one from the

4 All data is for increases from the level prevailing at the present time.

5 ‘What home buyers want: Attitudes and decision making among consumers’ CABE 2005

Council for the Preservation of Rural England recently, which identified housebuilding as one of the major threats to the landscape that meant ‘England could lose most of its real countryside within a single generation’.⁶ The latter comment, on the basis of the data given above, is clearly incorrect – although the rising population with a desire to visit the countryside does certainly make it harder to find solitude when you get there.

The case for some increased rate of new building seems to me pretty clear. Today there is a large number of households in the UK which are inadequately housed, and over the past few years there has been an increase in the number of those who require some form of subsidy to access housing. Latest projections for household formation in England are that, if the housing is provided, around 190,000 new households will form each year over the period to 2021. Recent new build rates have averaged around 150,000. Consequently, the Government has announced that it will aim to increase the rate of new build to 200,000 per year over the next decade, in order to avoid a situation in which subsidies for poorer households would tend to rise, while more people would find themselves simply unable to access the type of housing they would regard as satisfactory. This rate is around the middle of the three scenarios I originally put forward (it is by the way rather lower than the scenario which would give rise to the environmental costs listed above).

What is the effect likely to be if this goal is achieved? Well, obviously what actually happens to simple measures of affordability such as house price to earnings ratios will depend on what happens to the other underlying factors of higher prices, including both short and long-term interest rates. But *ceteris paribus*, and recognising that this is the central estimate in a wide range of uncertainty, if this higher rate of new supply is achieved reasonably quickly then housing would probably become a little more affordable – just as important to the debate is the conclusion that continuing at the present rate of new supply would bring an inexorable worsening of present difficulties over forthcoming cycles. (It is likely that part of the present problems reflect the unusually low long-term interest rates – to the extent that this is true there might be a period when the present acute tensions in the market would ease, but the underlying position would still be worsening.)

This form of argument is often dismissed out of hand as being ‘a return to predict and provide’. In planning parlance, ‘predict and provide’ was

6 CPRE news release September 2005.

replaced in 2000 by ‘plan, monitor and manage’. The distinction between these two is not immediately obvious to non-planners from the words used – planning is likely to involve predicting, and managing to involve some concern with provision. However, take it that in this debate ‘predict and provide’ implies meeting all of demand, regardless of environmental consequences, and also that having established a prediction, this is then fulfilled regardless.

In that case, the approach to planning which is originally proposed, and which has been skilfully developed into the recent draft planning policy statement 3, is much closer to the sentiment of ‘plan, monitor and manage’. First, the work on environmental impacts has informed the outcome in terms of thinking about plans for new supply, weighted against the economic and social benefits expected to flow from having easier access to housing. Secondly, a major aim of the proposed reforms is to make housing delivery more responsive to changing market conditions. It is vital to recognise that sometimes this will mean culling back on the original plans, either countrywide, or in a particular region.

Other concerns include the argument that the strong focus on central targets (in particular, the proposal that Government should ensure that the supply/demand balance works to keep housing at an appropriate level of affordability) is to the detriment of local democracy. The most obvious problem with this line of argument is that there are spillovers from one local authority to another – if a predominantly rural area is rightly reluctant to allow significant development a neighbouring authority containing more urban areas will need to pick up the slack. Conversely, local authorities around cities in need of urban regeneration will need to contain their new supply in order to avoid damaging the regeneration work. It is partly for these reasons, but also due to the need to plan for infrastructure provision, that the recent consultation puts weight on the sub-region for deciding the allocation of housing.

Looking at this issue more or less from an economist’s perspective, however, the big surprise has been the strong reaction against the proposal that market information, essentially price trends in different areas, or for different types of house, should be taken into account in reaching these decisions. This certainly does not mean that the market should always be slavishly followed – the discussion above about environmental trade-offs in general, and allocations within regions makes it clear that other factors will continue to play a key role. But we know that market trends contain much information about preferences, revealing how and where people want

to live. At the very least, planners need to be aware of this, and to be continually asking if the benefits of directing development away from these market preferences outweighs the costs. In too many instances at present this is not the way in which decisions are taken: either with regard to individual applications, or at the national level. Examples certainly exist where permissions are refused because the existing plans for provision are already being met.

In terms of the overall approach to numbers, and to planning decisions I welcome the policy steps being taken, which clearly move in a sensible direction. But there are other issues where the review may well not be the end of the road.

Beyond the Review

The first of these is how to tackle the tax issues around development. At the PBR, a consultation was started on the recommendation that the increasingly complex system of Section 106 agreements should be replaced in part by a charge related to the increase in the value of land consequent on the granting of planning permissions. The reasoning behind this is straightforward: from a practical perspective the goal is to simplify the negotiations which take place between the planning authority and the developer (contributing towards reducing the time taken before an implementable permission is obtained) and to give the developer some greater certainty about the scale of contribution which is to be expected. From an economic perspective – the aim is to tax the pure windfall gain which may arise when a permission is granted. From a public finance perspective, this charge should yield a stream of revenue to support the related, necessary major infrastructure investments.

Whether this is the right way to go, or what the details should look like, may be partly determined by the answers to some practical questions. In particular, is the negotiation about land value uplift likely to prove an easier one than that over what the developer can afford to finance? And can sufficient confidence be provided to planning authorities that the bulk of the money will flow back to them, so that their already weak incentives to give planning permissions are not reduced further? This makes the proposed charge sound problematic, but there may be no perfect answer here, and so looking at the alternatives is important. For example, the other potential approach being considered is to have a tariff related on the costs associated with the development, in order to avoid the problems which surround

assessing land values. But a tariff would risk being inflexible, and it could bear more heavily on developer profits as land values fell.

The story about policy in this area is far from complete even after the Government's response to my review. Over the next year, Sir Michael Lyons is considering the role and financing of local government, and inevitably as this review looks at how best to raise money for local government, the question of how to tax property is also likely to get an airing. Just last week, the National Institute proposed a property tax which arguably would reduce the demand for housing, and encourage a more efficient use of the stock which we have.

My ambition is that the UK will move in the 21st century towards a housing market which is more responsive to demand, where decision-making is better and perhaps quicker, where development gains are taxed logically, and where environmental costs are properly assessed alongside consideration of whether they can be tackled in better ways than simply constraining development. In addition, it would be good to see continued improvements in social housing, and a rigorous approach to subsidies for sub-market home ownership.

A Conclusion

In reality, given that we start from a position where the low rates of new supply since the mid-1990s have resulted in evidence of a backlog, the delay before new supply rises to a more appropriate level may well increase tensions in the short-term, although any conclusions here are vulnerable to the uncertainties about the further path of real long-term interest rates. And getting towards the goal of a better-functioning market will also require better understanding of the underlying pressures from those involved in decision-making – this includes local authorities, house-buyers, and policymakers. But on a topic where personal interests are often felt very acutely, it would be optimistic indeed to expect to reach total rationality.

WHAT PRICE CONGESTION?

Extracts from a talk given by Stephen Glaister C.B.E., Professor of Transport and Infrastructure at Imperial College, London and Board member of Transport for London since 2000, to members of the Economic Research Council on Tuesday 27th September 2005.

Economists have always argued that pricing is a sensible way to deal with congestion as a way of internalising external costs and thus getting away from the difficulties caused when something is provided for no cost at the point of use. If something is free but valuable then of course it will be overused and result in an undesirable outcome. In that context economists have argued for many years that we should introduce road user charging.

I think that it was as long ago as 1945 that Milton Friedman suggested that radioactive material could be put into the paint which is used to mark the centre of the road and cars could carry Geiger counters to log up their road use – the right idea but the wrong technology I suspect. In 1961 Sir Alan Walters published a very famous article setting out the theory as we know it today and then, in 1964 the government-appointed Smeed Committee concluded that road charging was feasible and should be introduced.

Despite all this theory nothing happened because of several fundamental problems – problems that we are still struggling with today. First of all there is the problem of convincing the general public that there would be benefits. Persuading people that price is a way of allocating resources more sensibly – as we see in aviation at the moment – requires a leap of faith, some vision and belief. In practice this means that those initially made worse off by having to pay the charge need to realise that both they and others gain through reduced congestion much more than the payments made.

A quite different problem involves the Treasury which has been implacably opposed to road user charging because, to make it work, one has to promise some form of compensation which means a degree of hypothecation of what the Treasury sees as just another tax revenue. Treasury micro-economists understand the arguments for pricing and compensating but Treasury macroeconomists have been dead against it because it causes them to lose control of an important source of tax revenue. There was deadlock over this until John Prescott, in the context of the 1999 GLA Act creating the GLO, insisted that road user charging in London must be dedicated to transport purposes. This applies to devolved

government up and down the country – a rare example of the Treasury losing a hypothecation battle.

Thirdly, a problem existed because all that we had was theory with no working example to demonstrate the value of pricing road use – but now we have the success of the London Congestion Charging Scheme. The people out there can *see* a difference and the figures show that it is easier to get about central London than it used to be. The buses are faster and more reliable – as are the taxis. Public opinion would now, it seems, oppose its removal and when Steve Norris stood on a ticket of removing congestion charging he got nowhere with that argument. So now we see politicians, even the Prime Minister, talking about road user charging in the future on a national scale as a policy to be debated. Two or three years ago this would have been unthinkable.

The ‘accidental’ introduction of the London scheme

So how did the London scheme come about? Was it because the Mayor ‘read a bit of micro economics, saw a good idea in principle, and decided to go for it?’ Absolutely not. A series of steps happened by complete accident and it is very important to understand this because it tells us something about the difficulties of introducing charging on a bigger scale either in London or nationally.

Long before Ken Livingstone was on the scene, the draft legislation for the GLA envisaged a directly elected mayor along American lines who would have the power to introduce road user charging. The government office for London (to their eternal credit) realised that if this was going to mean anything it would have to have a *real* scheme worked up in advance. They set up a review which is known as ‘Rocal’ (Road Charging Options for London) which spent two years in hard technical work properly researching all the options and producing a report about what would be a good way to do it.

Now in the April 2000 election for Mayor the official party candidates were not in favour of introducing congestion charging. Although the Blair government had given legislative powers for congestion charging, when it came to the election for Mayor the official Labour policy was that this was not a good thing to do.

The London public however were very cross about the way that the GLC had been wound up in 1986 and were always going to express their unhappiness by voting for Ken Livingstone even though he had fallen out

with the Labour Party and had to stand as an independent. When elected Ken Livingstone wanted something radical to do. He realised that he would need a source of income and he also wanted to be able to say he would do something radical about traffic in London. So he picked up the idea of congestion charging, and, lo and behold, there existed this properly worked out scheme ‘the road course scheme’ which he was able to put in his manifesto. Thus, once elected, he had a mandate which even two judicial reviews failed to dislodge.

Buying and installing equipment had then to be accomplished within three years so that it would have been working for a year by the time of the next Mayoral election. So he chose simple proven technology which is clunky, very expensive (consuming half the revenues in costs of administration), and not really the best way of doing it. This is not a situation one could tolerate on a national scale, but it works – and to an extent it does the trick.

Onwards to a national scheme

So the London success was important in convincing the government that charging was something worth looking at more positively and at the same time ministers were getting very concerned about growing traffic congestion. Building some extra roads won’t solve the problem and a sufficient increase in fuel duty would be politically difficult. This all led to Alastair Darling setting up a policy review in 2003 on national scale options and the publication of the Transport White Paper in 2004 – which said that the government will try to introduce road pricing in some form. That I think is a major step forward.

We now need a debate on just what this will mean. When I talk about ‘road pricing’ I *don’t* just mean pricing for congestion. I mean pricing for all the damage that road users do to each other and to others. It’s pricing external accident costs, which are important; it’s pricing for local air pollution; it’s pricing for global emissions. We need a debate on what the correct price is – in principle the costs motorists impose on others.

Some big issues

(i) Discounts

Immediately a scheme is announced everybody will be looking for a discount or concession. We’ve already heard the road haulage industry saying ‘lorries

shouldn't pay because they're business'. Ken Livingstone made a partial concession on that in the case of the London scheme. The disabled would want discounts; special workers will want discounts; residents would want discounts. Until we define who, if anyone, is going to get concessions we cannot have a debate about who gains and who loses.

(ii) Revenue neutrality

For a national scheme the revenues involved are vast. Fuel duty at the moment yields something like £30bn and vehicle tax disks a further £5bn. To the extent that we would be replacing a large part of that with a charge for road usage there is the issue of what happens to those revenues.

Politicians seem to think that they can spend the money several times over! First they say they will make it 'revenue neutral' by reducing some road taxes by the extent of the road use charges. This is a fine selling point but in the next breath they say they must spend the money on improved public transport and then the Treasury will say that the money is needed for other worthy purposes. There is a good case for keeping some of this revenue – for example on local expenditure or global emission grounds.

(iii) Redistribution town to country and the South East to other regions

If we made a national scheme 'revenue neutral', perhaps by reducing fuel duty to the same extent as road charge revenues in congestion circumstances there would be quite a dramatic effect on traffic patterns around the country. It would be seriously cheaper to move around the country areas but it would suck a lot of money out of London and the South East where congestion is a big problem. We have constructed a map showing the areas where there would be lower charges – which happen to coincide to a large extent with Conservative held constituencies and areas which would need very high charges to overcome congestion – which happen to coincide to a large extent with Labour held constituencies – in London, the Midlands and Birmingham for example. All this is politically difficult – but if you are worried about social exclusion in country areas and so on, you might regard that as a good thing.

(iv) Governance

We are talking about tens of billions of pounds. At present such revenues go simply to the Treasury but those paying road charges will want to know

what they get in return. Who is going to be accountable for this money? Who is going to set the charges? Who is going to decide exactly where and when it is spent?

In London these issues were explicitly dealt with. It is clear who is accountable and who decides – and if we don't like it we can vote him out.

But at the national level there are further questions including the role of local government. Should all this lead to dramatic changes in other arrangements for local government finance?

The Case for 'London only'

If you look at all the maps showing congestion and pollution, my impression is that a very large proportion of the national problem is actually just in and around London. My view is that rather than messing around with a national scheme we would be better advised to get on with it in London, the suburbs rather than the centre because of increasing car ownership and the near impossibility of sufficiently expanding local public transport. At a rough estimate road charging revenues covering Greater London might be £2¹/₂bn a year which would enable borrowing of perhaps £12bn to £18bn – the kind of money that would really enable us to do something about the London transport infrastructure, including crossrail.

Revenue neutral or not, all this can bring great net improvements. We've got an awfully long way to go, but I think that it is very exciting.

BRITAIN! – AND OVERSEAS?

By Damon de Laszlo

Over the last ten years we have seen a British Government that has gone from having some good ideas and honest political intent, to one of extraordinary arrogance where the public announcement of usually ill thought out initiatives, framed in sound bites, don't materialise as actual deliverable policy. Over the last few years Government action has amounted to serial meddling with every instrument of state, reducing the health service to a shambles, the education system to chaos, and the social security system

that supports the poorest and most disadvantaged in the land to a complete farce.

The Chancellor has, over the years, made the tax system so complex that it is now almost impossible for any individual or company to comply with the rules. At any time the tax authorities can haul a company over the coals for breaches in the now endlessly complex waivers, calculations and allowances that even the best accountants don't understand, let alone the revenue officers themselves. Non-compliance is called fraud, and the numbers of so-called cases of fraud have skyrocketed.

As a digression, arriving back from Singapore the other day and after a long flight confronting the chaos of London Airport, when they couldn't get the jetty to the aeroplane, the hostess announced 'Welcome to the Third World' – a frighteningly true statement!

While starting the year feeling optimistic, it is difficult to maintain this optimism as the day to day experience of running a company in Britain and Europe gets more and more difficult owing to the legislative overload that continues to pile up. Having said that, business opportunities around the world continue to improve. China, Japan and the rest of Asia continue to grow steadily and the underlying strength in the US economy continues to confound the pessimists.

The USA, as every newspaper keeps reminding us, is facing major economic imbalances. A lot of these imbalances, however, are not as critical as they would first appear. US personal savings rates are down and property prices have risen substantially in the last few years. However, the statistics on savings are very misleading and do not show the true increase in personal assets accumulated over the last year or so. For instance contributions to Pension Funds and 401Ks are not recorded as savings in the statistics – just two areas where the numbers are misleading.

The balance of trade is also an over simplification of a complex issue. US imports are growing and, in crude terms, are out of balance with exports, but the accumulation of foreign assets by US business investment should be regarded as an improvement in the balance sheet of the US. This to some extent compensates for the loss on P & L account and makes the picture less black than the headlines would have us think. That is not to say that the situation is sustainable in the long term, but there is no need to anticipate a crisis in the next few years.

Outside the US and Europe we have Russia, a highly directed economy consolidating its energy industry, its aircraft and its motor industries. China

on the other hand, seems to be working towards opening up its markets and gradually adopting Western, professed, economic and management policies. The slowness of progress in China is largely due to the lack of infrastructure that can cope with free enterprise.

A good example here is the measured Chinese introduction of flexibility into its foreign exchange markets. Giving the banking system, which was primarily centrally directed and as a result incredibly inefficient, freedoms in the foreign exchange market, would be guaranteed to create bureaucratic speculative disaster if it was pushed forward before the expertise and management abilities, that are assumed in the West, were in place.

Political infighting a hundred years ago was much less of a problem as by and large countries got on with the business of commerce and creating prosperity without government interference. When the size of government is restricted to 10% of GDP the politics is less important, with the exception of when leaders go to war. Today where government expenditure for US is 36% of GDP and Europe is in the high 40%, governments' inability to direct resources efficiently is critical. Europe in particular seems to be incessantly mired in ridiculous squabbles about subsidies, which not only damage domestic economies but also the rest of the world, and a fascination with applying ever more complex rules to the shrinking productive sector is alarming for long term growth.

By comparison China and India have, to a greater or lesser extent, governments that can think strategically and at least have a vision beyond the next publicity event. Are we in the 21st century embarking on a competition between methods of government? Democracy came out on top in the struggles of the last century between totalitarian regimes and democracy, but given no current competition the democratic states seem to become mired in petty politics, while failing to address the major issues of our time and ignoring the focused but relatively benign governments of China and India with their fast growing economies.

INTERNATIONAL POLITICS AND EXPATRIATES – AN OPPORTUNITY IN NEED OF A SOLUTION

By Brian Lewis

Politicians in democratic countries like to affirm their devotion to a universal idea of democracy. Many who have never lived abroad rather like the idea that ‘we the people’ control our destinies and the future of our countries through periodic voting and through a measure of control over what our politicians do. The whole idea of democracy rests on individual nation-states and tends to ignore what happens in other places, far away. In many ways, democracy in the USA and Europe seems to work quite well and their political systems – if not perfect – are open to change.

The world has changed over the last fifty years. One is reminded of the saying by Henry Wotton that ‘an ambassador is an honest man sent to lie abroad for the good of his country’. Those valiant individuals of past centuries were often alone and indeed sought the betterment of their country’s position by lying if necessary. Today, however, the world has become a village: millions are on the move. The word ‘globalisation’ is bandied about as if powerful politicians might bring it to a halt. The underlying cause of ‘globalisation’ is a fact beyond anyone’s control, namely that modern communications allow ideas to be transmitted instantaneously around the world, followed closely by large numbers of people who have cut their ties with home and flown away.

We have then a situation whereby democracy rules – with all its limitations – at home, but in the wider world international politics is a secret occupation beyond the ken of the domestic voter. If we ask questions about who gets the best international jobs, how they get appointed, and what are they paid – if we ask how senior political figures move out of domestic politics to become unaccountably well-paid international civil servants – if we ask to whom does the World Bank, the IMF, the Brussels bureaucracy report – if we ask why the United Nations provides so many lucrative jobs to people from developing countries: people of political influence but little vision or integrity – we see that whatever else it may be, the international system is not democratic and is not working well.

In Sir Henry Wotton’s time, this could not have mattered. It was clear that ambassadors had to be close to the fount of power (the king) and act on his behalf – or at least act on behalf of the few dozen people surrounding the king. Such men were powerful in their own right and perhaps

represented the most talented and educated people of their time. At the same time, ambassadors – unlike today – had the power of decision, and had to act often many months before any message could be exchanged with the government at home.

All this has now changed. In the last fifty years a new diaspora of international travellers has grown up and continues to grow. Politicians at home have not yet recognised these people and indeed do not know what to do about them. Are they friends or foes? Do they have any democratic rights or are they outlaws?

Many international businessmen – executives, technologists, bankers, and financiers – have spent more time overseas than any modern ambassador. Business-people of my acquaintance have spent as much as forty years of their careers overseas. Yet, many ambassadors discount or ignore this new expertise all around them and still behave as if the world is entirely hostile; the embassy being a safe enclave from which it is generally dangerous to emerge except into high society, which apes the West. International businessmen on the other hand have often been thrown into the hurly-burly of international society, culture, and politics at a young age, allowing them to penetrate national society at grass root levels where the new political ideas and revolutions of the future initially take root.

It is sometimes remarked by the Press – in the politest way possible, for we are dealing here with dangerous, amoral and powerful national politicians – that many domestic politicians in modern times are ignoramuses where the outside real world is concerned and ill-at-ease in dealing with foreigners they have never seen before. This may be the root of many international misunderstandings and unfortunate events.

If we take Iraq as an example, we hear that the many American and British politicians responsible had no personal experience of the Middle East and were ill-equipped to make decisions about Arab culture; indeed that many Western politicians had never lived outside their own countries at all. Three hundred years ago the only source of information would have been diplomatic representatives and intrepid ambassadors, and perhaps a few admirals of the British Navy. Yet, in 2005, it is said that around 100,000 American and British citizens actually live in the Middle East, many of them for ten years or more. Many of the British are even prevented by law from voting in the United Kingdom, effectively disenfranchised from any political activity at all.

It seems to me that we are operating a 18th century international diplomatic system for handling international affairs which puts power into

the hands of domestic politicians, who do not understand the real world and may not wish to understand. At the same time we protest that democracy is the only real way ahead for politics worldwide, we are creating an international system that is at the beck and call of domestic politicians bent on creating a career system for themselves which is decidedly not democratic at all. This is most unfortunate when for the first time we have very large numbers of people around the world who have a very great deal of experience of other nations, global cultures, businesses, alien politics and societies.

This is not a situation that is going to go away. More and more of us are becoming international citizens as millions are on the move. Governments of nation states are not paying enough attention to this new phenomenon that combines the movement of populations with global communications and economic development. We are building up trouble for the future if our only response is that ‘sovereignty’ is the only answer and those outside the nation state are pariahs. In the long run, it is not a battle – whether academic or real – that the nation state can win against an exploding number of international citizens, who know the world better than the ‘stay-at-home’ politicians.

THE STRANGE DEATH OF MORAL BRITAIN

By Christie Davies

Transaction Publishers, 2004, Price £30.95

Reviewed by Patricia Morgan

The biggest story to be told about British social history over the last couple of hundred years is the one about the building, stability and then the wholesale disintegration, of social mores and standards. While the incidence of recorded crime by the 1890s was only about 60% of what it had been in the 1850s, the number recorded at the end of the twentieth century was more than sixty times greater than at its beginning. Moreover, theft, violence and drug taking are ways to pursue sensation and have an entertaining time. Law breaking is no longer the surreptitious, individual act, but group centred and flagrant. If you do it, flaunt it. Tear and share. What were once characterised as the ‘subterranean values’ manifest in delinquency – or

aggression, thrill seeking, and risk taking machismo – have gone mainstream. What were once the ‘roughs’ from whom the respectable working class were anxious to distance themselves, are now role models. In 1937, there were 10,500 prisoners in England and Wales, of whom 850 were serving sentences of over three years. In 1997, this was 64,000 and 24,000, and the jails are now reserved for the serious offenders. Similar transitions occurred with drug and alcohol abuse; while illegitimacy soared from being 4% to 40% of births over the latter half of the twentieth century.

More pervasive even is the wholesale dissolution of the manners and conventions that make everyday social interaction possible, even pleasant, instead of miserable, even fearful. On the tube, a smartly dressed young woman loudly eats and brags into her mobile about her business deals, then exits, leaving behind a heap of debris. A large young man automatically expects a small, older, laden woman to make way for him on a narrow pavement. That quintessential British habit of queueing is no more, as groups now charge buses and the quickest and strongest get in. Over the last few years, I have been at the receiving end of four petty (I think the legal term is ‘common’), unprovoked physical assaults on public transport and in a store.

Few scholars have wanted to acknowledge, let alone account for, these trends. Instead, there has been a big academic industry devoted to explaining them away. Crime did not really rise in mid twentieth century, we are repeatedly told, we just notice it more. Perhaps the media has unleashed a ‘moral panic’, or capitalism wants to hide its impending crisis and establish a police state to pre-empt its overthrow. I am forever amazed how people putting forward these loony theses get professorships, while anyone talking of a Second Coming would be immediately binned. Otherwise, crime can only be (usefully) recognised if it can be cast as an anguished response to deprivation. When Tony Blair traced the crime climb back to the 1960s, right-on philosopher Professor A.C. Grayling insisted it ‘does not square with the facts’ (*The Times* 24.07.04). The rise apparently ‘occurred in the Thatcher years, when there was no such thing as society’, and unemployment grew along with the gap between rich and poor. With her out of the way, ‘the rates have fallen sharply’ as presumably, their protest over, the burglars, rapists and muggers have taken a well earned retirement or become social workers.

It goes almost without saying that the denial of modern crime complements the received picture of nineteenth century Britain as one where, by courtesy of Grayling again, ‘crime was vastly worse ... streets

swarmed with child prostitutes, and few places were safe to walk through at night'. What most people actually observed at the time was that crime had fallen, that fewer youngsters were going into it, and that drunkenness and drunken violence were diminishing. This and rising living standards, the increase of mass and luxury consumption goods, the paved and lit streets, transport for the masses, the end of plagues as much as famines, medical advances, clean water, and the absence of major warfare after Waterloo led to the accolade of 'the Wonderful Century'. Interestingly, it was the Marxists who then insisted that crime was rising – along with the workers' misery and discontent – because their theory said it must.

Christie Davies's *The Strange Death of Moral Britain* is a rare attempt to account for the realities of the U curve of deviance over the last two centuries. The perverse history of denial awaits another volume. With a subject so vast, with so many dimensions, the account can only be partial. This makes for dissatisfaction, both because of what might have been omitted, and because what is so informative and thought provoking makes one wants to hear more.

At ground level, Davies attributes much of the rise and fall of respectability to the fortunes of religious organisations, like the Sunday Schools, which provided children with moral training. This attempt at social control based on age, not class, might be seen as one among the multitude of ways in which the classic Victorian reformer, great or small, endeavoured to snuff out any opportunity for youth to gather outside of adult surveillance and instruction. I was sent to Sunday School back in the 1940s/50s, to occupy the empty hours of Sunday and 'make me good', as were most children. My parents combined a cynicism about religious belief and ardent churchgoing, with a touching, superstitious attachment to basic Christian teaching and hymns. Their attitudes are an indication of the way that the church movements help create a social transformation without any corresponding growth in piety.

Religious movements may have reached the limits of what they could achieve and then faltered but, by the late 1950s they were facing competition from a media more immediately gratifying and comfortable than a draughty church hall. Into the role of the mass media in the loss of respectability Davies does not stray. Yet, it is likely to lie behind the general decline in all manner of organisations and associations to which adults, as much as children belonged – from communal hymn singing to ballroom dancing, to trade union meetings and to whist drives. 'Youth culture', with which Bernice Martin deals so well in her account of the transformation of working

class culture, appealed directly to adolescents over the heads of adults. These no longer inducted young people into the world, and separate venues segregated the age groups.

Moreover, the religious concern to moralize and civilise not only faced exciting competitors, but a confident enemy, in the rapid ascendancy of 'progressive' child rearing and education. The church movements did not die naturally so much as they stood condemned by what Christopher Lasch characterised as the post war 'mental health movement'. In its terms, notions of good and bad, right and wrong, prohibitions and taboos, crippled children's exquisitely sensitive psyches and destroyed their potential. Policemen, judges, priests, teachers and parents were producing sick people faster than the therapists could mop them up. The birth boom to young parents – which was always going to pose a social control problem – occurred at the same time as the rapid adoption of a creed from 'experts', which amounted to the abandonment of socialisation, constraint and cultural transmission. The hope was perfectly healthy, creative, expressive people, achieved by parents not making the 'mistakes' of the past, which included sending children to those repressive Sunday schools. If the natural child grew up anywhere, it was in his peer group. It was the perfect recipe for the explosion of delinquency that followed.

Like the fading smile of the Cheshire Cat, the cod psychoanalysis that passed for expert wisdom seemingly lives on in, for example, the reasoning (or lack of it) behind the removal of restrictions on alcohol availability. Ill effects are imagined to be the result of restrictions, so the more that something is permitted, the less of a problem it will be. The same applies to attempts to push down the rate of teenage pregnancies and sexually transmitted diseases by facilitating more and more sex, earlier and earlier sex, and more dangerous sexual variations.

The permissive parent need fear no embarrassment at the behaviour of their brats. In the post war world they were no longer watched over by the fellow members of the friendly societies and other fraternal, voluntary bodies with whom they would have once insured themselves and their families against the unfortunate exigencies of life. All but the bottom ten per cent of the working population (the residuum or lumpenproletariat), were drawn into the mutual aid respectability net by 1900. Otherwise, workhouses provided a disagreeable safety net for the destitute, below that attainable by the poorest labourer and at the price of social disgrace. Possession of a 'character' was the best guarantee of a man being a good worker, since it was the assurance that he was a good man and dependable

father; industrious, honest, sober, reliable and responsible. As F.M.L. Thompson detailed, the respectable worker became a key Victorian figure. Setting great store by a regular job and living on his own resources, his example of independence and self respect inspired all his class.

In the twentieth century, considerations of character have been taken from the marketplace. They might lead to charges of discrimination. Voluntary welfare provision has been replaced by bureaucratic systems, where conduct is irrelevant. Here it might have been constructive to elaborate, although James Bartholomew has recently done a good job here. Had not Beveridge warned that: 'If money is paid on any condition, it tends to bring that condition about; if it is paid or given on degrading conditions, sooner or later it degrades'? His system of universal coverage in the 1940s had the unintended consequences of crowding out mutual aid, and removed its character building role. Despite his warning about selective benefits and their dreadful track record in the 1790s–1820s and the 1930s, by the 1970s policies again began to 'target the needy', and thus to positively incentivise the conditions welfare is meant to relieve. Employment no longer ended reliance on benefits and social security became an instrument of housing policy. As families began to become more welfare dependent, the main clientele of means tested transfers became lone parents. It is now 'less eligible' to be a couple family, who qualify for far lower levels of help. Because the majority of lone parents receive welfare, they are subject to marriage penalties. The less that fathers support their children, the more the state will provide.

Bureaucratic systems are not interested in morality and Davies gives the 'causalist' mentality which they carry a major role in the death of moral Britain at state level. This shift from moralism to causality, and from desert to harm reduction, was a shift in the thinking and rhetoric of elite groups. Here there is a lacuna waiting to be filled, for how do elite assumptions and legislation relate to popular morality and behaviour? In the case of capital punishment, one of the examples of legal change Davies analyses, this could only survive on the basis of moral claims about retribution and desert. As both sides appealed to causalist arguments, or to matters of deterrence, it was doomed. To execute murderers, not for their own act and culpability, but to prevent someone else's unknown and unknowable crime, or to reduce some hypothetical risk, seemed far fetched and the case fell. In turn, the decriminalization of homosexual behaviour proceeded on the grounds that the law badly harmed individual homosexuals.

I wonder if a bigger wolf of determinism does not hide behind the

mongrel of causality. Divorce reform – another instance Davies cites – was advanced not simply by claims about the harm done to people who might otherwise legitimise their ‘hole in the corner unions’ if they were allowed to bury their ‘dead marriages’. Churches bought into ‘no-fault’ divorce reform in the late 1960s by believing that there were finite numbers of these ‘hollow shell’ marriages. Reform could not lead to higher divorce rates, since divorce laws were powerless to influence behaviour; they simply formally disposed of marriages that had died. It is well to remember that, at much the same time, notions triumphed that offenders could not even be deterred since crime was the compulsive outcome or ‘symptom’ of defects in upbringing or circumstances. The 1969 Children and Young Persons Act, along with other measures, aimed to provide ‘treatment’ for this and other social ills.

Assertions that trends in divorce, marriage, and unwed births, are immune to legal signals, as well as incentives, disincentives, opportunities and suggestion, are made each time the question is raised of whether or not they are being encouraged or facilitated by prevailing policies. Those who positively seek family disintegration slip easily and opportunistically between deterministic and voluntaristic discourses, and this was much in evidence at the time of reform of the divorce and sodomy laws. Davies would probably disagree with me on the degree to which changes in these laws at the death of moral Britain were part of a conspiracy, to which I am more inclined than he. The ideas, and even some of the conspirators, had done the rounds before in the 1890s. The counter cultural outburst was squashed then, but not in the 1960s. Now it had more channels of communication with media growth; more vehicles of dissemination, given the expansion of higher education and more bureaucratic apparatuses in which to bed itself – consider the rise of the generic social work profession with the Seebomh reorganisation. All this needed money, and there was plenty coming on tap to finance the empire building of the social ‘experts’.

The plot that Davies does buy into is the one that now imposes a cage of rights on Britain, alien to its history and tradition, which threatens to destroy Britain itself. What is at stake in the twenty-first century is not moral Britain, that has vanished, but any power of the British people to make their own decisions. The willingness of the British government to relinquish sovereignty over what are still essentially moral issues to the European Court of Human Rights, is matched by the willingness to hand over political and economic decision making to the European Union – the ultimate bureaucracy that will swallow all.

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CONGESTION CHARGING – SOME SECOND THOUGHTS

By Jim Bourlet

When listening to Stephen Glaister's talk I was carried along by the self evident economic rationale for congestion charging and his enthusiasm for its expansion. But since then additional issues have come to mind which lead me to the conclusion that, whatever the political difficulties, higher fuel duties still present the better option when taken in the context of ever tighter speed and access restrictions.

A first issue concerns what one might call the hidden economic costs associated with underused infrastructure resources. This is akin to the value not obtained when a government building is left empty or otherwise used to a value lower than that which a private profit seeking landlord would obtain. Such losses are never estimated or published but we are all the poorer for it.

The London Congestion Charge is demonstrating massive such losses. Take, for example, Kennington Road which runs between Oval and Lambeth North underground stations. This wide road always used to carry busy traffic without serious congestion or excessive speed. Now, during much of the day, it is largely empty and its race-track nature can only be curbed by the threat of speed traps. The Congestion Charge may have improved the use of this road during rush hours but for the rest of the day the costs in the value of journeys foregone remains a hidden and unaccounted loss. In the study of transport economics there is a well known concept of 'maximum flow' below which there is unused capacity and above which congestion leads to reduced flow. Even in central London

there are many stretches of road now operating during much of the day at well below 'maximum flow' so that, like a partially used building, there are hidden social costs.

If we go back to the early work by the transport economists, they recognised that for road use charging to bring full benefits charges would need to be varied road by road and hour by hour. Friedman's radioactive white lines and cars with Geiger counters demonstrated the detail required. Such perfection can indeed be justified in principle but the London Congestion Charge falls far too far short of this to be unquestionably beneficial.

A second issue is what one might call the 'lessons of the Enclosure Movement'. We may recall that two centuries ago, the ordinary people had free use of what was called 'common land' the use of which provided a substantial part of their means of subsistence. It wasn't the greatest example of the efficient use of land but it was an integral and vital part of the social and economic fabric of the time. Then, using the force of Acts of Parliament, local Lords proceeded to fence off these lands and farm them commercially. No doubt efficiency rose but many relatively free and independent peasants became cheaply hired farm labourers – or worse, driven by poverty into migration. It was a miserable social and political result, resented by many of those migrants' descendents to this day. And the economic gains were largely transient: cheap food imports changing the situation just a few decades later. To this day the owner beneficiaries of this land grab need subsidies – through the CAP.

Just as two centuries ago many humble folk made a simple living through being able to use the commons – for free – so today there are countless small businesses, self employed tradesmen, minicab drivers and countless other humble income earners who use, not the land to produce food but the roads to move from task to task – for free. That is an important part of what makes their way of life viable. One might call it a 'public subsidy' or one might call it a land 'birth right'. In my own case, my father was killed in the war fighting, he believed, so that his young son and others might inherit this country rather than face slavery under Nazi tyranny. But all around I find 'private property' on which 'trespassers will be prosecuted'. In fact, all I 'own' in common with my fellow Britons is a right to use public roads and a few parks – and that is at least, very valuable to me.

Two centuries ago the establishment saw personal gain dressed up in arguments about economic efficiency as reason enough to take ownership of the commons. Now one cannot help suspecting 'tax and spend and buy

votes' governments of eyeing road use charging as a means of enclosing these common facilities. Revenues in the £billions! Irresistible! And yet technology and lifestyles will move on. Could it be that in a few decades we will wonder if it was ever necessary to have cameras and booths and fines and aggravation and costs for a questionable economic gain?

A third issue is a democratic concern. Our political compact under which those whose opinions are overruled by those in authority granted by election victory rests on an unspoken assumption that at some level and in some demonstrable ways (certainly *not* in terms of wealth or education) we are of equal worth with common advantages. An Englishman's right is to voice his opinion, however unfashionable that may be, over a pint in the pub. There we are comfortably just one human being with another and we can, if we wish (as we generally do wish) ignore the petty hierarchies of social life.

One has a similar feeling about being in a car on the road – especially in a traffic jam. There is something quietly satisfying about sitting in a motionless car annoyed perhaps by the hold-up but seeing the red-faced plutocrat in the back seat of his chauffeur-driven Rolls in no better position than oneself. 'Tough – but that's life mate!'

'Ah no' he thinks 'I want this road space – and I'll introduce road charging which you can't afford and I can pay without thinking.'

Even the small scale local little London Congestion Charge is evoking feelings which we would be unwise to ignore. Out of sheer bloodymindedness drivers crawl daily around the perimeter roads, not because they (mostly) 'cannot' afford the congestion charge but because they instinctively resent being asked to pay it. They don't even know quite what that instinct is but they and many others I have spoken to simply say (with venom) that they *bate* the Congestion Charge. They have not, for the most part, read George Orwell, but he would have had little difficulty in comprehending their feelings. Anyway, I don't much want to live under a regime which is indifferent to such things.

So I am concerned about road charging. It will be costly, it almost certainly cannot be conducted in a way which satisfies any economic theory for optimal gains, it takes away common privileges and it may undermine the 'kindly spirit of Democracy'. Thus objecting, I am obliged to say something of alternative ways to overcome congestion and excessive pollution. If most of us are uneasy about Congestion Charging but not (yet) annoyed enough to vote for Steve Norris and if perhaps only 10% of us feel estranged and a further 10% who are poor feel seriously

disadvantaged, then what are the alternatives?

The first alternative to any proposed change is the status quo. Presently, there are certainly problems of exhaust pollution and of traffic jams. The contribution which marginally reduced vehicle use can make towards reducing pollution is surely trivial compared to the gains which are being made in any case through improved technology. Cleaner and better cars are being developed continuously and older high pollution commercial vehicles are being (and should be) taken off city streets. Congestion is the more relevant question, and this can only get worse. What will happen if nothing is done? Drivers will find alternative routes and alternative times to travel of course but in the main they will pay in 'waiting time' up to a cost where their journeys are only just worth making. In theory this is sub-optimum to congestion charging but in practice the difference in social values may be far less than one might imagine – for the simple reason that drivers will display a level of ingenuity that no imposed scheme could replicate.

Into this complex melange, other measures could be taken, each having an incremental effect towards the overall goal of enabling the highest possible number of worthwhile journeys to be undertaken. An obvious measure would be to reduce the road fund licence to a nominal amount (sufficient to cover the costs of vehicle registration for identification purposes and incidentally, low enough to allow bicycles to be included) whilst adding the sums involved to fuel duty. It obviously makes sense to raise the marginal, if not the overall cost, of motoring. Another measure, already in everyday use, is the development of bus lanes. Apart from the annoyance of these being available to empty taxis, most drivers now recognise the sense in giving priority to public transport and this can be greatly expanded. Of course a further issue is the quality of train, tram and bus transport. Under public ownership these industries for half a century were woefully run and hopelessly underinvested. These industries need to be given the freedom to charge at the market rate and invest accordingly. What other industry in the world apart from London's trains can have financial losses and far too many customers at the same time?

Is all this enough to deal with traffic bottlenecks both in the short and the long term? What about the delays and line-ups at rush hours for vehicles wishing to cross (say) London Bridge? The only answer is that the development of bus lanes, time-restrictions, road improvements and some delays may be a lesser price than imperfect congestion charging. Obviously choices have to be made but I find myself less and less inclined to opt for the congestion charge option.

LETTERS

A Response from Mr Stephen Baker to 'The Economic Basis of the Strange Death of Moral Britain' by Christie Davies (Britain and Overseas, Winter 2005),

Dear Sir

In his talk on Moral Britain Professor Davies says and I quote 'We cannot and should not trust information generated by, issued by or filtered by our government or its civil servants'. What an indictment! What a shocking thing to [have to] say! Perhaps it is part of our predicament that we can hear such things and not protest but simply shrug our shoulders as though we lived in a banana republic. Or do we now?

Jeremiah may not be the most popular choice of reading matter in our time but it so happens that at the time I was reading Professor Davies I was also reading Professor Brueggemann on Jeremiah, in particular on chapter 9:4-6 which directly touches on our concern. The propensity of government to lie is nothing new and Jeremiah was not only aware of that but, since he believed that he lived in a moral universe, what the outcome would surely be. That he escaped with his life was entirely due to the inability of his King (Zedekiah, a puppet of Babylon) to hold any opinion for himself and who sought to keep one foot firmly in both camps thus ensuring his ultimate fate.

Brueggemann comments 'The Poet centres on the loss of honest speech between neighbours. The dominant modes of communication are now slander and deception. *The Poet believes that no public community can function properly unless communication is conducted in good faith.* Such a poetic discernment may give us pause in our time when communication has largely become deft management of fraudulent symbols and images – in economic and religious life, in advertising and in public office ... the fabric of human community has collapsed because neighbour no longer counts except as an object of exploitation.' (Emphasis is mine)

Economics is founded on integrity as a core value. How should we, as a Council, respond to governmental practices which will lead us as a nation downhill and to eventual collapse and chaos? Maybe the present Government's legislative diarrhoea is a sign of such chaos.

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A Contribution on Congestion Charging (and Crediting) from Mr Dan Lewis

Sir,

With rising standards of living leading to greater vehicle ownership, roads in cities are becoming increasingly scarce resources. That's why in principle, road-pricing is far from a bad idea. Daily travel is a business transaction cost and any time spent in traffic is lost economic output. The overall aim of a road-pricing system should be not just to decrease congestion on the busy roads but to increase the volume of traffic throughout the city by day and night. The pricing of roads could even out the distribution of traffic geographically and chronologically, thus reducing journey times and raising punctuality. Such a system ought to lead to augmented business activity – not least in the more deprived areas – and an expanded city economy.

London's experience of congestion charging though has not been altogether satisfactory. It is simply too crude a mechanism charging a flat £8 for the day. Cities around the world are now looking at Stockholm, whose pioneering employment of vehicle transponders or tags have proven to be much more cost effective than London's number plate recognition system. Tags have reduced the cost of policy implementation to both government and consumer. In Stockholm, the price for taking your car into the city varies from 75p to £5 depending on the time of day and how often one goes in and out of the city.

There is however a further point where road-pricing should go; fiscal neutrality.

Credits could be offered to drivers to make journeys at quiet times and in quiet roads. These could be set off against expensive rush hour trips to the city centre for example. In the not too distant future, one may even get to the point where the archetypal white van delivery man tells his satnav computer not just where he wants to go, but how much he's prepared to spend on key roads and how long he wants the journey to take. The computer will then advise the best time and route to travel, lowering distribution costs to the whole economy.

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NEW MEMBERS

The Council, as always, needs new members so that it can continue to serve the purposes for which it was formed; meet its obligations to existing members; and extend the benefits of members to others.

Members may propose persons for membership at any time. The only requirement is that applicants should be sympathetic with the objects of the Council.

OBJECTS

- i) To promote education in the science of economics with particular reference to monetary practice.
- ii) To devote sympathetic and detailed study to presentations on monetary and economic subjects submitted by members and others, reporting thereon in the light of knowledge and experience.
- iii) To explore with other bodies the fields of monetary and economic thought in order progressively to secure a maximum of common ground for purposes of public enlightenment.
- iv) To take all necessary steps to increase the interest of the general public in the objects of the Council, by making known the results of study and research.
- v) To publish reports and other documents embodying the results of study and research.
- vi) To encourage the establishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.
- vii) To do such other things as may be incidental or conducive to the attainment of the aforesaid objects.

BENEFITS

Members are entitled to attend, with guests, normally 6 to 8 talks and discussions a year in London, at no additional cost, with the option of dining beforehand (for which a charge is made). Members receive the journal 'Britain and Overseas' and Occasional Papers. Members may submit papers for consideration with a view to issue as Occasional Papers. The Council runs study-lectures and publishes pamphlets, for both of which a small charge is made. From time to time the Council carries out research projects.

SUBSCRIPTION RATES

Individual members	£35 per year
Associate members	£20 per year (Associate members do not receive Occasional Papers or the journal 'Britain and Overseas').
Student members	£15 per year

APPLICATION

Prospective members should send application forms, supported by the proposing member or members to the Honorary Secretary. Applications are considered at each meeting of the Executive Committee.

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
7 St James's Square
LONDON SW1Y 4JU

Date

APPLICATION FOR MEMBERSHIP

I am/We are in sympathy with the objects of the Economic Research Council and hereby apply for membership.

This application is for Individual membership (£35 per year)
(delete those non-applicable) Associate membership (£20 per year)
Student membership (£15 per year)

NAME

ADDRESS

.....

..... TEL.

EMAIL

PROFESSION OR BUSINESS

REMITTANCE HEREWITH

SIGNATURE OF APPLICANT

NAME OF PROPOSER *(in block letters)*

SIGNATURE OF PROPOSER

