



11 STUCK IN BRUSSELS: SHOULD TRANSPORT POLICY BE DETERMINED AT EU LEVEL?

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Introduction

EU policy has a substantial impact on the transport sectors of member states. While transport policy debates are typically framed at national level, in reality the choices available to policymakers are tightly constrained by decisions made within EU institutions. Strategic objectives are increasingly determined by the European Commission's Directorate-General for Mobility and Transport,¹ the Directorate-General for Regional and Urban Policy and other Commission bodies, before being approved or rejected by the European Parliament and the Council of Europe.

The exact process is more complex, with the Commission consulting with interested parties and representatives of member states before adopting a particular policy. The Parliament and Council may also suggest changes to legislation. Moreover, EU transport policy intersects with various international agreements involving non-EU parties, for example, the 'Open Skies' arrangement with the US, and free-trade treaties more generally. Member states also have a degree of flexibility in their implementation of EU requirements. Policy processes within the EU therefore appear to exhibit a significant degree of pluralism, together

1 For an introduction, see http://ec.europa.eu/transport/about-us/index_en.htm (accessed 7 September 2015).





with checks and balances. However, as Vaubel (2009, and Chapter 3 of this volume) has pointed out, it is clear that the European institutions have a vested interest in the greater centralisation of powers because this enhances their power and prestige. This tendency is evident in transport, as in other sectors. Indeed, the policy process in general is heavily politicised and clearly very far removed from a classical liberal approach, under which resource allocation and other decisions would typically be made by non-state actors engaging in voluntary exchange within a framework of general rules.

This chapter summarises the key policies imposed across the Union and examines their economic impact. The final section considers the extent to which transport policy should be determined by supranational bodies rather than smaller administrative units.

The aims of EU transport policy

The main objectives of EU transport policy can be placed into two broad categories.² The first aim is to increase economic and social cohesion by improving transport links in order to reduce barriers to trade and address the locational disadvantages of relatively poor and peripheral regions. A further aspect of the cohesion strategy is the harmonisation of regulation, with the stated aim of making it easier for firms to operate and compete in different member states. An implicit objective of such policies may be to cement the Union by artificially deepening social and economic links between member states beyond the level that would arise in a market setting, thereby enhancing the power of EU institutions, breeding mutual dependency and raising the potential costs of exit.

² A third important area would be safety, although such regulation also forms part of the harmonisation agenda.





The second broad objective is to reduce the impact of the transport sector on the environment. The EU has made a commitment to reduce by 2020 overall greenhouse gas emissions by 20 per cent compared with 1990 levels (EC 2014). Looking further ahead, the European Commission proposes that the EU sets a target of reducing emissions to 40 per cent below 1990 levels by 2030, with 80–95 per cent under consideration for 2050 (ibid.). Given that the transport sector is currently responsible for approximately one-fifth of the bloc's greenhouse gas emissions, the impact of such targets is likely to be substantial. Furthermore, environmental concerns are not limited to climate change. Restrictions are gradually being tightened on the emissions of a range of pollutants that negatively affect urban air quality.

Key policy initiatives

The ambitious objectives of EU policy translate into concrete policies that are already having far-reaching effects on the transport sectors of member states. While it is not possible to list every measure, the key implications are listed below.

Developing trans-European networks

The EU will continue to spend large sums funding infrastructure such as new high-speed railways, motorways and airports in Southern and Central Europe. Smaller amounts have also been spent on schemes in depressed old industrial areas in Northern Europe. Transport has been allocated around €26 billion under the Connecting Europe Facility (CEF), the financing instrument to be used in the EU's 2014–20 budget period to invest in transport, energy and ICT infrastructures (EC 2013a: 16). This is a relatively small amount compared with spending on transport infrastructure by member states, although the skewed geography of the projects means it is highly significant for certain regions.





Harmonising regulation and industry structures

Transport industries will be integrated further at EU scale through regulatory mechanisms such as open access rules. For example, owners of rail infrastructure will be forced to allow different operators to use their tracks, and full vertical integration will be prohibited. Rules will be standardised across the whole bloc, with EU institutions taking a much larger role in the development of new regulation. Similar steps have been taken in the aviation and shipping industries.

Modal shift from road to public transport

EU policymakers propose to meet environmental targets by encouraging a major modal shift from road to other modes of transport. By 2050, the aim is for more than 50 per cent of all medium-distance passenger and freight transport to go by rail and waterborne transport. To help achieve this, the length of the EU's existing high-speed rail network should be trebled by 2030 (EC 2014: 19). Within cities, the plan is to halve the use of petrol and diesel cars by 2030 and ban them completely by 2050. Vehicle emissions regulations will continue to be tightened, while legislation will encourage greater use of low-carbon fuels.

Economic impact

Some of the EU transport policies outlined above have clearly imposed very heavy costs on both taxpayers and consumers, and this burden is likely to increase over time as radical environmental targets are pursued.³ The benefits are perhaps harder to quantify, but they may include efficiency savings from harmonisation and cross-EU competition, together with enhanced infrastructure in

3 For examples, and some cost estimates, see Gaskell and Persson (2010).





peripheral regions and improvements in environmental goods such as air quality. Any empirical analysis of the impact of EU policy is hampered by the absence of relevant counterfactuals: it is not possible to determine which policies alternative institutions would have adopted. Nevertheless, economic analysis does enable broad conclusions to be made about the success or failure of EU policy, both in terms of its own objectives and its wider economic effects.

New infrastructure

The development of new infrastructure in the bloc appears to have been a particularly stark policy failure. This profoundly politicised process, which has prioritised ‘cohesion’ over maximising economic returns, has meant significant resources have been diverted to poor value schemes, where the costs have almost certainly outweighed the benefits.⁴ Even where returns have been positive – and projects have encouraged growth by lowering the costs of trade – in many instances, the opportunity costs have still been substantial, i.e. the funds may well have delivered much greater returns if invested elsewhere.

A series of ‘white elephants’ have been constructed, such as heavily loss-making high-speed railways and barely used airports in peripheral regions. Typically, member-state governments have contributed a large share of the funding for EU-backed schemes, imposing significant costs on taxpayers in some of the bloc’s poorest areas. In the context of high government debt, the deadweight losses from the tax burden are likely to be particularly high (see Feldstein 1995). Indeed, wasteful spending on loss-making infrastructure – which, in turn, requires ongoing state subsidies – has arguably made a

⁴ For detailed analyses of schemes, see, for example, Nicolaidis (2014), Kriström (2012) and De Rus and Inglada (1997).





significant contribution to the current fiscal crisis in countries such as Greece and Italy.

By contrast, private sector entrepreneurs would invest where they expected to maximise their profits. Similarly, a public sector infrastructure programme that maximised value for money for taxpayers would engender a very different pattern of investment to current EU policy.

Cooperation in transport infrastructure projects already exceeds the EU's boundaries, with non-EU members participating in individual projects selectively. As far as cross-border infrastructure projects are concerned, what the ideal relationship between the UK and the EU should be is very much a secondary question.

Indeed, the 'core network corridors' (EC 2013b) being developed are pan-European rather than pan-EU. EEA member Norway is a participant in the creation of the 'Scandinavian-Mediterranean Corridor', while EFTA member Switzerland is a participant in the creation of the 'Rhine-Alpine Corridor'. The UK forms part of the 'North Sea-Mediterranean Corridor', which stretches from Ireland to Southern France. We cannot assess here how economically sensible the UK's participation is, but this question is not directly related to the questions over the UK's exact future relationship with the EU. On its own, a 'Brexit' would probably have no impact in this regard, simply because 'international cooperation' is not the same as 'EU integration'.

Market structures

The economic impact of EU regulation has also been mixed, partly depending on the sector to which it has been applied. For example, in the case of rail, EU open access rules have effectively prohibited genuine private ownership of the infrastructure by removing the right to exclude. And while some member states have gone further than the requirements of the directive in imposing





particular structures on the rail industry, the EU approach has encouraged fragmentation of the sector, undermining traditions of vertical integration that had emerged through a market discovery process during the nineteenth century. One consequence has been an increase in transaction costs in the industry, due to the need for complex contractual arrangements between separate firms. This has translated into higher taxpayer subsidies in the UK (Wellings 2014). Ideally, the degree of vertical integration would be determined by market processes, such as mergers and demergers, that reflected the costs and benefits of different organisational structures.

EU aviation policy, with similar objectives to the interventions in the rail market, has arguably been far more successful in terms of delivering economic benefits. This perhaps partly reflects the nature of aviation markets, with the EU approach more in tune with 'natural' market structures than is the case on the railways. The sector was also historically highly protectionist, with both airports and airlines typically under state ownership and the latter often heavily subsidised by member-state governments and viewed as 'national champions'. EU rules on state aid have helped reduce, though not eliminate, these market distortions. Indeed, the single market appears to have enhanced competition and improved efficiency, with, for example, low-cost airlines free to operate across the bloc. To what extent this would have happened without EU intervention is an open question.

One of the ironies of EU integration is that while the EU has taken on a host of responsibilities that would be better borne at the national, regional or local level, it has been slow in areas where the efficiency gains from international cooperation have been obvious. Air traffic control is one such area. European air space is still fragmented along national borders, which is wholly inappropriate for air travel. Thus, while US air space is governed by one single air traffic management organisation, governance of the European air space is shared among 38 different ones





(Langner and Schwenke 2011). Fragmentation raises costs in various ways, the most obvious one being the cost of air traffic management itself – the average American flight controller handles twice as many flights as the average European flight controller. It also leads to unnecessarily long flight paths.

The total cost of fragmentation is not precisely known, but the comparison of domestic with otherwise similar international flights, or of European cross-border flights with American cross-state-border flights gives an indication. According to one estimate, fragmentation costs are in the area of €3.4 billion per year. The EU has recently sped up the process of moving to a single European airspace. A first step is the creation of nine so-called functional airspace blocks (FABs), which are airspaces jointly managed by between two and nine countries. FAB boundaries are meant to be closer approximations of traffic routes than national boundaries.

This is an area where there is a strong rationale for international cooperation. However, while EU policy appears to be delivering economic benefits, it is not clear that the EU is a necessary institution for such agreements. Non-EU members such as Norway and Iceland form part of the Northern FAB, for example, together with Denmark, Sweden, Finland and Estonia. Switzerland is part of the central European FAB, together with France, Germany and the Benelux countries, while Bosnia-Herzegovina is part of an Eastern European FAB. It is quite conceivable that the Single European Sky will expand further in the future, ceasing to be a truly ‘European’ arrangement. So again, on its own, a ‘Brexit’ would be unlikely to make much difference in this policy area. As in the case of cross-border road infrastructure projects, ‘international cooperation’ and ‘EU integration’ are two very different subjects.

While beyond the scope of the current political debate, it is in principle well worth exploring to what extent governments need to be involved in air traffic control at all. In the US context, the chairman of the House Transportation and Infrastructure





Committee (Congressman Bill Shuster) has recently proposed a privatisation of air traffic control.⁵ If such a solution were adopted in Europe, it is very unlikely that it would be organised along national boundaries, or indeed EU boundaries.

Environmental policies

The long-term costs of the environmental component of EU transport policy probably far outweigh the burdens imposed by the funding of new infrastructure and intervention on industry structures. Many of these costs are hidden, however, and are not readily appreciated by taxpayers and consumers, who may face higher prices but fail to comprehend their connection to EU policy. Key additional costs include increased public transport subsidies resulting from modal shift, more expensive vehicles as a result of environmental standards, and higher fuel costs because of biofuels requirements and the Emissions Trading Scheme (ETS).

There are numerous economic objections to the imposition of environmental targets, including methodological problems in calculating the 'social cost' of carbon, but the discussion of these is beyond the scope of this chapter (see, for example, Niemietz 2012: 132–39; Whyte 2013). However, if the objective of reducing CO₂ emissions is taken as given, then tools that replicate market mechanisms – such as a carbon tax or a cap-and-trade system – are more cost-effective than a piecemeal approach. The government decides on the volume of emission reductions but leaves it up to firms and households to work out the least painful way of implementing them. What that 'least painful way' is varies from firm to firm, and from household to household, depending on

5 *Wall Street Journal* (2015) Rep. Bill Shuster releases 'principles' for bill to privatize U.S. air-traffic control, 15 June. <http://www.wsj.com/articles/rep-bill-shuster-releases-principles-for-bill-to-privatize-u-s-air-traffic-control-1434398386> (accessed 7 September 2015).





individual preferences and circumstances. In addition, the optimal mix of carbon abatement strategies cannot be known in advance; it has to be found out through trial-and-error processes. Market-oriented systems allow for experimentation, and they ensure that the knowledge thus created diffuses more quickly than under alternative systems.

With this in mind, the European Emissions Trading System (ETS) is a workable, if far from perfect, solution.⁶ Once an overall carbon cap is specified, there is no case for doing anything else on this front. However, the EU is pursuing a multi-pronged approach to carbon abatement, particularly in transport, and the different components of its strategy blatantly contradict each other. The whole point of the ETS is to allow each individual household and firm to work out their own carbon abatement plan, rather than impose any one plan on the whole population. Yet the EU's approach can be described as setting an overall target first, and then still dictating detailed plans for particular sectors, including transport.

In 2009, the EU introduced mandatory emission standards for new vehicles. Until 2015, the average CO₂ emission level of new passenger cars was to be cut from about 160 g/km to 130 g, with separate targets for other vehicle types (ICCT 2014). Average emission levels of new cars were already showing a downward trend at the time, but they fell by no more than 1 per cent per annum, so the EU targets required substantial additional investment in carbon abatement. In 2013–14, the EU set more stringent follow-up targets for 2020, with the most important one being a 95 g/km target for passenger cars. The problem with this policy is not necessarily that the targets are too stringent, but that the approach is extremely prescriptive and inflexible. It is not limited to setting overall targets for the industry as a whole: rather, each individual vehicles manufacturer has its own individual set of targets. Those

6 Emissions are discussed further in Chapter 14 of this book.





manufacturer-specific targets are set according to the composition of their car fleet, with manufacturers of heavier vehicles being allowed a higher level of emissions. This is why Daimler and BMW, which produce relatively large and heavy cars, were given target levels of 140 and 139 g/km for 2015 (101 and 100 g/km for 2020), while Toyota and Fiat, which produce relatively small and light cars, were given targets of 128 and 123 g/km (92 and 89 g/km for 2020). The policy is already producing the inefficiencies that one would expect. Unsurprisingly, some manufacturers found it much easier to meet their targets⁷ than others: in 2012, Peugeot-Citroën, Toyota and BMW had already overfulfilled their targets, while others had yet to get there (ibid.).

Compare this to a hypothetical policy of a ‘sub-ETS’ applied only to the car industry. Such a policy would have been illogical – why should a unit of carbon emitted by a car be treated any differently from a unit of carbon emitted by an airplane or a factory? – but less illogical than the policy actually in place. Under this hypothetical ‘cars-only ETS’, the most likely outcome would have been that the overachievers would have cut their emissions even more, and sold the permits thereby freed up to those carmakers who faced the greatest difficulties in reducing emissions. The total volume of emission reductions would have been the same, but it would have been implemented by those manufacturers who had the means to achieve those reductions at the lowest cost.

Note also that the targets refer to the average emissions, not to the total emissions, of a carmakers’ fleet. In a cars-only ETS, one possible response would have been to simply produce fewer cars, rather than to change their engineering drastically. Especially for an upmarket producer, focused more on margins than volume, this might well have been the preferable alternative. But it is an alternative that the EU approach does not recognise. A

7 The Volkswagen scandal has unearthed evidence that some manufacturers have systematically misled regulators and the public about the real emissions performance of the vehicles they produce.





manufacturer who reduces his or her production volume will still have to achieve the same reduction in average emissions on the remaining car fleet, while, conversely, a manufacturer who increases his or her production volume will not have to keep total emissions constant through sharper cuts in average emissions.

There are various other distortions in the EU carbon standards. The term ‘average emissions’ is somewhat misleading, because it is not the actual emissions that will be compared against the target level. It is a hypothetical value, which is calculated using a politically determined formula that gives special weights to features the EU wants to encourage. For example, if a company produces two cars emitting 45 g of CO₂ per km and one car emitting 90 g, its ‘average emissions’ in this sense will not be 60 g/km, but 52 g/km, since the EU awards so-called super-credits to cars that emit less than 50 g of CO₂ per km. This introduces additional distortions, as reducing emissions from 50 g/km to 49 g/km counts for more than reducing emissions from, e.g. 60 g/km to 59 g/km. Manufacturers can also obtain credits for using so-called eco-innovations, i.e. politically favoured technologies.

In short, the whole approach is dirigisme taken to the extremes. And a similar criticism also applies to the Fuel Quality Directive (2009/30/EC), the Renewables Directive (2009/28/EC) and the Biofuels Directive (European Parliament and Council 2009a; 2009b; 2003). These directives define targets for a reduction of the greenhouse gas intensity of fuels, and for the inclusion of bio- and other renewable fuels in the fuel portfolio. By contrast, a relatively cost-effective ETS-only approach to carbon abatement could be summarised as ‘a unit of carbon is a unit of carbon is a unit of carbon’.

Centralisation versus competition and discovery

The shortcomings of EU transport policy outlined above raise serious questions about current institutional structures, and





whether alternative arrangements could improve economic outcomes. Indeed, economic theory suggests that the present approach will result in the misallocation of resources due to knowledge problems, perverse incentive structures, politicisation and the disproportionate influence of special interests over the decision-making process.⁸

A key aspect of this centralised approach to transport policy is the imposition of one-size-fits-all regulations on the whole of the Union. Businesses may derive benefits from uniform rules because the same products and services can be traded across a vast region. For example, bespoke production lines catering to the regulatory requirements of different countries are unnecessary, bringing economies of scale. The costs associated with monitoring compliance may also be reduced. Having said this, in many cases such economies will be limited because, say, variations in language and cultural tastes mean goods and services must be tailored to specific markets in any case. And, clearly, potential economies of scale will vary by sector, depending on production methods, etc.

Unfortunately, a one-size-fits-all approach cannot take into account local time- and place-specific circumstances, leading to large inefficiencies. Take the example of vehicle standards. The benefits of air pollutant controls on vehicles may be concentrated in large cities where pollution levels are said to have a negative impact on health. Yet drivers in rural areas, where any benefits are negligible, will face substantial costs meeting standards imposed across the entire EU. In such circumstances, a dispersed approach to regulation is more appropriate, with local institutions making decisions based on the costs and benefits in their location. Ideally, these local institutions would include 'proprietary communities' based on voluntary agreements, which would

⁸ On knowledge problems, see, for example, Hayek (1945); on incentive structures and special interests, see Olson (1965).





have strong incentives to reflect the subjective preferences of their customers, unlike local governments (Beito et al. 2004).

Dispersed, bottom-up regulation has a number of additional advantages compared with the centralised, top-down regulation imposed at a supranational level. In particular, it creates competition between competing jurisdictions, which has several benefits. If regulations (or indeed taxes) are especially burdensome in one location, then businesses and consumers may have the opportunity to move elsewhere to reduce costs. Indeed, the possibility of exit is of immense importance in the preservation of economic and other freedoms more generally (see, for example, Scott 2009), and it may also act as a constraint on predatory politicians. In the context of jurisdictional competition, governments imposing heavy regulatory and tax burdens risk a vicious circle of business exit, falling growth and lower revenues.

Competing regulatory jurisdictions also enable a discovery process to take place. Different administrations may adopt different rules and structures, which leaves scope for some innovation and experimentation. Successful models may then be copied in other locations, and failed models abandoned. Through this process of evolution and emulation, the economic efficiency of institutions is likely to increase over time. Indeed, it has been hypothesised that Europe's former economic pre-eminence partly resulted from the dynamic effects of its division into numerous competing units (Raico 1992; Diamond 1997).

Regulatory scale as market discovery process

It can be seen that one-size-fits-all policies suffocate competition and undermine the discovery process that may bring economic benefits via a process of evolution and emulation. The exit option is also significantly undermined. At the same time, such centralisation produces losses when policies do not take account of time- and place-specific conditions. Yet, clearly, for some economic





activities there may be substantial efficiency gains from standardisation across a large geographical area.

This raises the question of how the optimal geographical scale of regulation and other policies should be determined. In other words, there are both economies and diseconomies of scale. If the economies of scale outweigh the diseconomies of scale, there will be efficiency gains from increasing the scale of regulation, or vice versa. Yet, given that such trade-offs are dynamic, varying over time and space and by economic sector (see above), it seems highly improbable that the EU would form the optimal unit. Similar limitations also apply to member states, although their boundaries at least sometimes reflect linguistic and cultural divisions – or, indeed, natural boundaries such as the English Channel⁹ – that may be relevant to the trade-off in some sectors.

The main point, however, is that politicians and central planners face insurmountable problems if they attempt to determine the optimal geographical scale at which regulation and other policies should be decided and imposed. This reflects the problems outlined above, such as knowledge limitations and poor incentive structures. Fortunately, there is an approach to regulation that is far more effective at adapting to highly varied, ever-changing trade-offs, and utilising dispersed, subjective knowledge specific to particular times and places.

In contrast to a top-down, highly centralised and politicised process, rules systems can be developed by market institutions themselves. Indeed, there are numerous historical examples of successful private regulation, such as the evolution of ‘merchant law’ (*lex mercatoria*) – a system of courts and regulation for traders across medieval Europe (Benson 1990). Similarly, major financial markets, including the London Stock Exchange, operated under private regulation for most of their history, with intrusive statutory

9 In some instances, the transaction costs associated with such natural boundaries (e.g. high shipping costs) may make certain exchanges uneconomic.





controls a relatively recent phenomenon (Arthur and Booth 2010). Such arrangements can address alleged market failures, such as information asymmetries and externalities, while competition between different rules systems facilitates a discovery process that encourages efficiency gains. One element of this market process is discovering the optimal *scale* of regulation, from local to transnational. Under this model, firms and individuals are free to exit one rules system and join another (or none at all), which means that there are strong incentives for private institutions to evolve rules that reflect the preferences of market participants.

Operating outside established rules systems would typically have significant costs, such as making it more difficult to gain the trust of potential customers. Major European car manufacturers could, for example, join a private regulatory body that assured certain vehicle safety standards. Smaller firms, perhaps new market entrants, might decide not to participate in such a framework (or indeed set up a competing standards body with less stringent requirements). They would seek a competitive advantage by selling vehicles more cheaply by not implementing stringent safety rules, but they would also risk deterring those customers who sought the reassurance of an established regulatory body. Ultimately, the decision would rest with consumers, with such market segmentation potentially delivering significant welfare gains for drivers who valued lower prices (and alternative spending options) over high safety levels.

There are, however, some practical problems with moving towards systems of private regulation. In certain sectors, markets are non-existent or heavily distorted because of government ownership or the nature of 'public goods'.

Prime examples of the former include road networks and state control over land use. Private regulation of roads would deal with issues such as the potential externalities from unsafe vehicles (Knipping and Wellings 2012). Similarly, private rules for both roads and land use could address local externalities such as





noise and urban air pollution (see Beito et al. 2004). For example, vehicles not meeting certain quality standards could be excluded from a private neighbourhood. Yet, government controls effectively prohibit these and similar solutions based on private property and voluntary agreements. Indeed, the imposition of EU measures – often in addition to pre-existing state intervention – may further crowd out private regulatory options.

Policies of deregulation and privatisation at various administrative levels would facilitate the development of non-government systems of rules. However, in the absence of such an approach, a workable second-best option might be a light-touch approach to regulation that genuinely devolved limited powers to small political units, such as local authorities. This would at least facilitate some degree of competition and tailoring of rules to place specific conditions, though unfortunately local governments are still subject to the problems associated with special interest influence and politicisation.

Another set of problems relates to externalities potentially affecting large geographical areas, such as sulphur dioxide (acid rain) and CO₂ emissions (global warming). Given the pathologies of government regulation, including insurmountable economic calculation problems, there is clearly a high risk that the costs of intervention will outweigh the benefits. Nevertheless, there may be a theoretical case for transnational regulation of certain activities in an environment where voluntary, market-based alternatives are suppressed. It is, however, difficult to identify externalities for which EU regulation represents the most appropriate geographical scale. In the case of global warming, for example, effective measures might have to incorporate major emitters such as China, India and the US, to avoid ‘carbon leakage’.¹⁰

10 Carbon leakage is the phenomenon whereby mitigation measures in one region lead to an increase in emissions in another region that does not impose similar measures, for example through energy intensive industries relocating from the EU to China.





Conclusion

The EU is playing an increasingly important role in transport policy across the region. The economic impact has been mixed, with very heavy costs imposed on businesses and consumers but also some benefits from the removal of pre-existing interventions by member states. While it is extremely difficult to estimate these costs and benefits, it is clear that in economic terms EU policy has been very far from optimal. This reflects calculation and incentive problems inherent to centralised planning and one-size-fits-all policymaking, and it suggests the EU is typically not an appropriate institution for the development and implementation of transport policy.

There are, therefore, strong arguments for allowing regulations and investment decisions, together with institutional scale, to be determined by market processes rather than political and bureaucratic mechanisms. A radical programme of deregulation would help facilitate this. Where remaining state intervention makes this difficult, there should be a bias towards political decentralisation to make better use of local knowledge, reflect local preferences and facilitate competition between jurisdictions. Transnational agreements may bring significant economic benefits in some areas, but the optimal scales of regulatory institutions vary markedly from sector to sector. In this context, there is a strong case for moving away from an EU-centric approach and towards a patchwork of voluntary cooperation between private rulemaking bodies, infrastructure entrepreneurs and the institutions of local governance.

This would not, of course, preclude transregional and transnational cooperation, but it would be in a more decentralised setting, with such cooperation clustering around specific areas, and its relative merits assessed on a case-by-case basis. 'Ever-closer union' would not be an aim in itself, and there would be no set of institutions with an open-ended remit and a vested interest in their own growth.





Indeed, in the areas where there is a case for large-scale international cooperation, it is very unlikely that the EU itself is the right scale. In those areas, such cooperation is already established or emerging, and it already exceeds the boundaries of the EU. When it comes to emissions trading, air traffic control or cross-border transport projects, the distinction between the EU, the EEA and the EFTA is relatively unimportant. Some of these schemes even extend to countries that are not part of any of these arrangements. In this sense, transport is a policy area that already illustrates the distinction between project-based cooperation, which is a matter of cost-benefit analysis, and political integration, which is a matter of political preferences.

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