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High-speed vanity projects unfit for an austere age

By John Kay

You have missed the consultation deadline for High Speed Two, a projected rail link between London and Birmingham. (There are vague possibilities of extending the line to Heathrow, Leeds and Manchester and ultimately Scotland.) The new train would in 2025 complete the 100-mile journey in 50 minutes.

The published economic case for HS2 displays knowledge of the far future in astonishing detail. It predicts postcode by postcode which station in London passengers will use in 2043 to begin their journey and which of two – not yet built – Birmingham destinations they will use to alight. And rail use for most of the century. We learn that by 2040 demand for the existing rail service would have more than doubled, and be growing steadily.

It is not clear why a static population would be seized by this urge to visit Birmingham by train. But if it were, packed trains would resemble the commuter services of Mumbai. The new line is compared with a "do minimum" case which assumes that rail services will continue as they are in 2011. It is hardly surprising there would be huge gains in comfort and reliability from relieving this congestion with a new rail link. And considerable time savings, valued at £48.62 an hour. I am reminded of an accountant who once worked for me (briefly): asked for any figure, he would take days to provide an answer calculated to the nearest penny but frequently thousands of pounds wrong.

The use of cost-benefit analysis in assessing transport projects in Britain dates from a pioneering study of London's Victoria line in the 1960s. The majority of potential users of the underground line were already captive customers of London Transport, and most of the benefits of the line – reduced congestion on the surface and on other underground routes – would accrue to people who did not use the Victoria line. The gains from the project would not be captured in revenues for London Transport.

Two economists, Christopher Foster and Michael Beesley, provided illustrative calculations that showed the potential gains from the construction. Cost-benefit assessments of accident and time savings are now routinely used to prioritise road improvements that yield no direct revenue.

A high-speed rail link is very different. The benefits of greater speed, comfort and reliability are real. But these benefits overwhelmingly accrue to the people who use the link. There is detriment, not benefit, in seeing a train pass your garden at 150 miles an hour, and the effect in relieving the overloaded motorways from London is negligible – on the optimistic estimates of the planners, such traffic would fall by less than 1 per cent. And if you were concerned about the effect on carbon emissions, that is also too small to notice.

The right way to think about this scheme begins as one would with any commercial project. Estimate the costs, look at prospective fare structures and revenues, and consider the competitive response of existing transport operators to the introduction of a new service. The way you usually calculate the benefits of a new product in a market economy is to ask how much people would pay for them.

Despite the fantastic detail underpinning the so-called economic case, there are no answers to the questions any investor would pose to the most modest of start-ups – even though taxpayers are asked to commit up to £30bn for this project. The experience of other countries – or Britain's unhappy financial history with the Channel tunnel and its rail link – are not explored.

At a time when public expenditure cuts are focused excessively on capital expenditure, we are in danger of directing too much investment to vanity projects – like the Olympics, high-speed broadband, high-speed rail – whose returns are political excitement rather than tangible.

The right response to the HS2 consultation is the one any Financial Times reader would give to an enthusiastic young entrepreneur who produced similar documents. Come back when you have formulated a proper business plan.

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