



TAXI  
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Holden



# Taxi mess an old, stubborn failure of government

It will take brave governments to deregulate Australia's taxi markets, writes **Richard Allsop**. But doing so will be worth the struggle.

**T**he complaints are endless. The taxi driver didn't know the way; the taxi driver did not speak English; the taxi was dirty; the fare was too high: and, if it was after the office Christmas party on a Friday night in December, there was no cab at all.

So why don't we have geographically aware, English-speaking drivers, piloting clean, ever-available taxis around our cities at reasonable fares?

In large part, it is the fault of successive governments, who for decades have put the interests of rent-seeking taxi industry incumbents ahead of taxi customers.

There is no doubt taxi customers are unhappy. Writing in the *Daily Telegraph* in late 2007, Miranda Devine captured the particular problems of taxis in Sydney:

The December taxi drought now extends into October or any day when there are more than two events in Sydney. Promises by the industry to stagger the 3pm changeover time, which causes the post-lunch taxi drought, have come to nothing, as taxis disappear from 2pm to 4pm.

In Melbourne, train performance was seen as a key factor in the defeat of the Labor Government in last November's Victorian Election, yet surveys conducted by Victoria's Department of Transport have consistently shown a greater degree of customer dissatisfaction with taxis than with the much maligned trains.

So, given that improving the trains was seen as a key performance indicator for the new Victorian government, it was perhaps surprising that, when it came to taxis, nobody seemed to be applying much pressure to governments to fix

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the problems. Given the situation, it was pleasing to see that the Baillieu Government clearly recognised there is a major taxi problem, by setting up an inquiry, headed by the former ACCC head Allan Fels, to undertake a review of all aspects of the industry.

And when Fels looks at the taxi industry, he will see that the issues with taxis are just as much a problem of poor government policy, as are the problems that afflict public transport systems around the country. This might seem an odd statement, given that taxis have always been provided by the private sector, and rail services are usually a government responsibility, but it is decades of bad public policy which have created a taxi industry monster. It will now take a brave government to slay it.

When it comes to brave governments, Jeff Kennett's 1990s Victorian Government is close to top of the class. Kennett recognised that the taxi industry was failing to deliver for locals and creating a very poor impression for tourists. He took a keen interest in the industry, insisting that all taxis be painted yellow and that drivers wear a uniform. However, these mandated reforms were, in many ways, treating the symptoms of the problem rather than the root causes.

The root of most of the evil is the system of taxi licensing which evolved in each Australian jurisdiction, and indeed in most places in the Western world, in the middle decades of the twentieth century, which restricted the right of new entrants into the industry. Combined with regulations around industry structure, the types of services taxis can provide and the price they can charge, the licensing system has created a deadly policy cocktail.

A typical example of how the Australian taxi industry developed is provided by Swan Taxis in Perth.

Founded in 1928, it was initially one of a number of competing taxi companies, but by 1960 it had become the sole operator in Perth, and later in Fremantle also. No problem there, except that, when the Western Australian Government set up the Taxi Control Board in 1964, it gave Swan Taxis a seat at the table to, in the company's own words, allow the industry to 'control its own destiny'. Preventing the development

“decades of bad public policy have created the taxi industry monster”

of any competition might be a more accurate description.

People tend to forget just how restrictive transport regulation was in the Australian economy in the 1950s and 1960s. Gradually, most of the silly restrictions on how many interstate airlines there could be, how far you could cart bread from the bakery which produced it, or which items could only be carried by rail were removed, but the restrictions on taxis have remained.

As with any artificially restricted product, the cost of taxi licenses soared unnaturally high and became a tradable commodity. These days, licenses are often held by passive investors, impressed by the capital growth and steady annual returns. License values vary around the nation,

with the highest being \$650,000 on the Gold Coast, while Melbourne tops the capital city values at around \$530,000. While there are still plenty of owner-operators in the industry (usually employing a driver or two to do the night shift), many operators now hold licenses assigned to them by passive investors. In Melbourne, licenses are currently assigned for about \$38,000 per annum, not a bad return on the license holder's secure investment. In most cases, the operators assigned the licenses of the passive investors are fleet operators who then hire drivers.

The most obvious problem created by restricting the ability of new entrants to enter the market is stagnation in the number of taxis. While no Australian city matches the situation of New York, where there were 1400 fewer cabs in 2004 than in 1937, for lengthy periods, Australian taxi numbers have failed to keep pace with population growth. For instance, Perth managed to avoid increasing taxi numbers for 14 years between 1989 and 2003. Logically, growth in taxi numbers should have exceeded population growth as prosperity has increased and more people should be able to afford taxis.

Imagine if, for the past few decades, coffee shops had been licensed like taxis. There would only be a few more now than there were in the 1970s, they would all charge the same for a cup of coffee, none would be allowed to offer any premium service, they would largely employ staff with no knowledge of coffee and they would charge a ten per cent surcharge on credit card payments.

Which brings us to Cabcharge, the company founded in 1976, with the laudable aim of providing a way for the taxi industry to handle non-cash fares. The founder of the company, Reg Kermodie, is still in charge of what is now a listed company which



A taxi is left parked in Flinders St during a protest by taxi drivers | © Newspix

is big enough to appear in the ASX 200. In an excellent 2010 paper, looking at the effect of taxi regulation in Sydney, economist Peter Abelson explained that:

The Cabcharge, Premier and Legion taxi radio networks control over 90 per cent of the taxi operators and taxis in Sydney, with the latter two networks having a strong allegiance to Cabcharge. This virtual monopoly is made possible because the government regulates that all operators must affiliate with an established network.

It is not just in Sydney that Cabcharge has a dominant position, as it is a major shareholder in taxi businesses

in other Australian cities as well. Governments around the country have entrenched the position of Cabcharge by issuing cards for users of the multi-purpose taxi schemes that only work on Cabcharge machines. This is one of many ways in which governments have not assisted the creation of more competitive taxi markets.

As part of its attempt to operate in the Sydney taxi market with its Lime Taxis, Macquarie Bank spent millions creating a new payment system, Live, as an alternative to Cabcharge. Lime was based on providing disabled access cabs, but soon after Lime launched, one of the taxi companies in the Cabcharge stable, Taxis Combined, responded by adding 60 wheelchair-accessible Taragos. In response,

the competition-averse NSW state government stop issuing disabled registration plates, effectively killing at birth any potential competition between Cabcharge and Lime.

Last year, the Federal Court ordered Cabcharge to pay \$15 million in penalties and costs for contraventions of section 46 of the *Trade Practices Act*. Yet, it is the successive governments that have established the regulatory regime under which Cabcharge has operated for decades.

While customers are the big losers in the current taxi industry arrangements, non-owner drivers are also doing poorly. Drivers in the taxi industry have rarely been employees. Traditionally, the industry model was



Taxi rank in Brisbane | Creative Commons | Daniele Sartori

that there would be a 50:50 split of the revenue between the operator and the driver, but that has changed in recent years. The emerging model is that drivers lease a cab from the operator, providing a bailment payment which is more than half the average annual cab revenue. The driver then also has to pay for fuel, repairs, insurance etc. The net effect of this model has been that driver incomes have halved, leaving them earning often little more than \$5 per hour.

Customers critical of a driver's lack of geographical knowledge or English should reflect on what they really expect for \$5 per hour, especially given that driving a taxi at night is the most dangerous occupation there is, outside street prostitution. Driving taxis really is an entry level job, literally in the case of many drivers, especially in Melbourne. While other states insist that drivers must have held an Australian driver's license for

12 months before acquiring a taxi driver's license, in Victoria the holding of an international driver's license satisfies the requirement. Not only have taxi operators employed large numbers of Indian students, the large taxi depots in recent years have taken to sending staff on overseas recruiting drives. Sourcing drivers from India has become harder for operators in recent months as numbers coming to Australia have crashed.

Of course, there is nothing wrong with immigrant taxi drivers. What is wrong is that there is little incentive for a driver to do well and earn enough to become an owner operator. Instead, to earn the full right to operate you need over half a million dollars. In recent years, the Victorian Government, along with a number of other state governments, issued some extra licenses, often with time restrictions.

While this is better than nothing, what is needed is deregulation.

Someone should be able to become a taxi operator for the cost of a vehicle, with as-of-right registration, subject to some basic checks.

Deregulation has occurred in a number of places around the world, including Ireland, New Zealand, the Netherlands and several US cities, and has generally delivered a significantly improved service to users. In 2006, Adrian T. Moore and Ted Balaker published a review of the substantial scholarly literature examining the merits of deregulation and found that 'most economic studies of taxi deregulation find it to be on net beneficial'. Most of the arguments used in favour of restrictions have been shown to be fallacious. A 2007 OECD report concluded that not only did entry restrictions not improve capacity utilisation, but 'on the contrary the case could be made that increased entry and associated economies of density, as well as shorter

passenger waiting times, warranted subsidies for entry’.

Deregulation became a live issue in Australia for a few years after the introduction of National Competition Policy (NCP) in 1995, as states had to review the blatant restrictions on competition in their existing arrangements. In the end,

is my investment?’: ‘Queensland Governments have always supported regulation of the taxi industry in this state.

The 1999 Productivity Commission Report on ‘Regulation of the Taxi industry’ provided an excellent discussion of the issues involved in compensation and, in

were making excellent returns.

However, the conversation took a bizarre turn when one caller argued that the system where fat cat license owners make big profits, at the expense of the humble drivers, was an example of the faults of economic rationalism. Not only did the host not correct the caller and point out that economic

## “Taxi deregulation has occurred around the world, and has delivered significantly improved service to users”

the Northern Territory was the only jurisdiction which deregulated, with the new open regime commencing on 1 January, 1999. It led to an immediate increase in taxi numbers and a clear improvement in waiting times for customers. The Western Australian Government’s review also recommended reform. The Court Liberal Government ignored the recommendation, but the Labor Government elected in 2001 supported it for a while before, unfortunately, they then bottled it, caving in the day before the taxi industry was to have a big rally at Parliament House.

Of course, if Australian governments did go down the deregulation route and stare down the likely big rallies of the vested interests, they would still be left with the vexed issue of whether or not to compensate the aggrieved. Licenses are sold to investors with assurances that they are as safe as houses. If one wanted evidence about how confidently taxi companies present, then the website of Toowoomba based taxi company, Garden City Cabs, provides it in answering its own rhetorical question, ‘How secure

particular, whether a government issued license can have property right status. They cited various examples which argued both ways. However, whichever view one takes of the legal position, ultimately, any government going down the de-regulation route will probably need to find some sort of compromise between full compensation (which Australia-wide would cost taxpayers several billion dollars) and no compensation which may be somewhat harsh on investors.

And, while there appears to be a growing number of voices pushing for deregulation of Australian taxi markets, it is not just the compensation issue which presents a hurdle for the brave politician.

The reaction to a demonstration of taxi drivers in Melbourne a couple of years ago illustrates the point. While the main concern of those protesting was driver safety, the demonstration also triggered a more wide-ranging discussion about the economics of the taxi industry. Quite reasonably, the host and talkback callers on one Melbourne talk radio station were expressing concern that drivers were earning a pittance (and getting bashed), while owners of taxi licenses

rationalists actually oppose licensing systems such as the ones that restrict the numbers of taxis, but he managed to find an economist who accepted that the plight of taxi drivers was an example of ‘market failure’!

The conclusion of all involved in the discussion seemed to be that more regulation was needed to stop owners making such big profits and to ensure drivers secure a reasonable income. How typical is it that, even when regulation so manifestly fails, the instinctive reaction of talkback callers, media types, and even some economists, is to look for a solution that involves more regulation, rather than acknowledging the blindingly obvious point that deregulation is more likely to achieve the desired objectives.

A deregulated taxi industry will not mean that taxis are always available and always clean, or that the driver will always know the way, or speak English well, but it will greatly enhance the chances of some of these outcomes occurring. The alternative is clearly not working for anyone, except a small collection of vested interests.

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