

THE AUSTRALIAN

Baillieu's chance to be hailed as a taxi reformer

HENRY ERGAS THE AUSTRALIAN DECEMBER 10, 2012 12:00AM

THIS Wednesday is Ted Baillieu's moment of truth. He must respond to the independent inquiry into taxi services. Does he have the ticker to tackle entrenched interest groups?

Or will his government retreat into more of the fiddling at the edges that has made taxi services an excuse for state-sanctioned theft?

It is not only outcomes for Victorians that are at stake. If the Baillieu government adopts the inquiry's recommendations, it will put great pressure on NSW and the ACT, where taxi services are a disgrace. And it would reaffirm Victoria's role in spearheading micro-economic reform.

Not "reform" Julia Gillard style, token gestures undertaken to claim costless glory; but real change for real gain that shows the courage to confront powerful vested interests.

And no one should underestimate just how powerful those interests are, nor their will to fight. For they have a lot to lose. Since entry restrictions were introduced in the 1930s, taxi licensing has become a way of transferring monopoly profits to licence holders.

The report shows that the nominal annual return on a licence purchased in 1980 has been in the order of 22 per cent, nearly double a conservative estimate of the cost of capital and far more than is available on any comparable asset.

With returns so high, licences are naturally extremely valuable. Had licences been valued in line with a normal, inflation-adjusted, return, they would now be worth \$60,000; in fact, they trade for \$500,000.

Underlying those valuations are hidden taxes on consumers. Their extent is chilling: on my estimates, the accumulated transfer from 1985 to today is equivalent to taking \$1000 from each of Melbourne's 4,130,000 inhabitants and giving it to the 3500 owners of taxi licences.

That transfer occurs through taxi fares that are about 20 per cent higher than they would be without artificial restrictions on taxi numbers.

But the rip-off does not involve fares alone. Consumers are also hit by persistently poor service, with delays adding another 20 per cent to the real cost of using taxis.

Dispatch companies take no responsibility for when cabs arrive or whether they arrive at all; nor do they even bother to accurately measure service quality, with one provider admitting it simply shuts its phone lines once bookings reach capacity, so that it doesn't know how many consumers it turns away.

No wonder, for it scarcely matters. After all, consumers have no choice. And disabled consumers, who have the least choice of all, suffer most.

Generous Victorian government subsidies for elderly and disabled passengers provide 10 per cent of the industry's revenues; but one wheelchair-dependent consumer in three reported occasions in the last six months when a wheelchair-capable taxi simply failed to turn up.

With waiting times for disabled consumers twice the average, even trivial trips can become nightmares, frightening those consumers, who risk being stuck without any way of getting home, and aggravating their isolation.

None of that goes to the benefit of drivers. On the contrary, the report estimates they earn barely \$13 an hour, \$3 less than the minimum wage.

The result is chronically high turnover, with over half of all active metropolitan drivers having less than three years' experience, while one in four are in their first year.

Additionally, with wages so low, drivers have few incentives to invest in keeping their job, making it even more difficult to ensure attentive and efficient service.

To make things worse, the regulated pricing structure makes it unattractive for drivers to accept short fares. Not only do drivers routinely turn down short trips but each day up to 20 per cent of Melbourne's taxis sit empty at the airport, waiting for longer fares to materialise. In the meantime, elderly and disabled consumers, whose trips

are often local, struggle to find a cab.

The costs all this imposes on consumers are obvious. Less obvious, but no less important, are the forgone opportunities.

Mobile apps and other smart technologies create immense scope to use taxis as a highly flexible complement to public transport, increasing infrastructure efficiency. For example, in less regulated taxi markets, demand responsive transit provides door-to-door bookable share rides, with fares far below those for conventional service.

But contrast that with what happened when Riviera Taxis last year trialled a Share a Fare service along an under-served bus route between Paynesville and Bairnsdale in country Victoria.

The service was enthusiastically welcomed by the community as well as by the bus company, which had no interest in increasing the frequency of its services; but it was shut down as breaching the state's bus and taxi regulations.

The inquiry's sweeping reforms would address those inefficiencies. They would greatly ease entry restrictions, without removing them altogether; strengthen quality regulation and introduce effective consumer protection; establish remuneration arrangements that would make this an industry worth working in; create new options for disabled consumers; curtail Cabcharge's market power; and encourage market-driven innovation in how taxi services are provided.

As one would expect from an inquiry conducted by Allan Fels and David Cousins, two of Australia's most distinguished public servants, the reform package is finely balanced. Licence values would decline by about 50 per cent, still leaving them above the competitive level; and fares would still be higher than in a fully liberalised market, in part to cover the costs of higher driver remuneration and better quality service.

Consumers would certainly benefit through materially lower fares, reduced waiting times and better motivated drivers; but in an ideal world, it would have been desirable to go even further.

The best, however, is too readily the enemy of the good, and this package would make a real difference. That is why the Victorian government is under enormous pressure to subtly scale it back, compromising, if not eliminating, the gains it would bring.

The licence owners are past champions at that game, having buried more liberalisation attempts than they have had hot dinners.

Crying hardship, they front the lobbying but the real puppet-masters are Cabcharge - whose monopoly allows it to clip the ticket on every part of the industry - and the two deep-pocketed taxi dispatch systems, one of which Cabcharge owns.

The question is whether they have at last met their match. That is the question Ted Baillieu must answer on Wednesday; all of Australia will be watching.
