

ON BUYING A JOB
The Regulation of Taxicabs
in Canberra



ON BUYING A JOB
The Regulation of Taxicabs
in Canberra

Peter L. Swan

Department of Economics
Faculty of Economics

Australian National University



THE CENTRE FOR INDEPENDENT STUDIES

1979

First published December 1979
by
The Centre for Independent Studies
All rights reserved.

National Library of Australia
Cataloguing in Publication Data

Swan, Peter L.

On buying a job.

(CIS policy monographs; 1)

Bibliography

ISBN 0 9596485 5 0

1. Taxicabs – Australian Capital Territory. I. Title.
(Series: Centre for Independent Studies. CIS policy
monographs; 1 ISSN 0158-1260)

338.3'21'09947

CONTENTS

THE AUTHORS	2
INTRODUCTION	
<i>Ross Parish</i>	3
ON BUYING A JOB: THE REGULATION OF TAXICABS IN CANBERRA	5
<i>Peter L. Swan</i>	
Restriction on entry	6
Allocation of plates	11
Service quality	14
Bus subsidy	16
Jitneys	18
FURTHER READING	19

THE AUTHORS

PETER L. SWAN is Senior Lecturer in Economics within the Faculty of Economics at the Australian National University. He was educated at the Australian National University and at Monash University.

He has worked with the Tariff Board (now the Industries Assistance Commission) and has also taught at the University of Chicago Business School, and at the University of Hawaii where he was Visiting Professor during 1979.

He has published a number of articles on economic theory and policy related subjects in journals such as the *American Economic Review*, the *Economic Record*, the *Journal of Political Economy*, the *Review of Economic Studies*, the *Australian Journal of Management* and *Quadrant*.

ROSS PARISH is Professor of Economics at Monash University. He has taught also at The University of Sydney and the University of New England. He has held visiting appointments at Stanford University and at Oxford and served with the World Bank.

He has written extensively on agricultural economics, consumer protection and rent control.

Acknowledgments

I wish to thank officers of the Transport Section of the Department of Capital Territory whose unfailing co-operation made this study possible. Thanks also go to Aerial Taxi Cabs and individual owners and drivers in the industry. I also wish to thank Ted Sieper for drawing my attention to the way in which the seniority plate allocation system appears to reconcile the interests of owners and drivers but in fact only assists owners. I also thank H. Lawrence Miller for comments.

P.L.S.

INTRODUCTION

Ross Parish

Throughout the world, the taxi industry attracts government regulation. Government agencies determine what vehicles may be used, who is eligible to receive a driver's or an owner's licence, where and how taxis may operate, and what fares may be charged. They also regulate the number of taxis that may operate in any area. Almost without exception, the licensing power is used to restrict the number of taxis to fewer than would operate in a free market. As a result, taxi licences (or plates, or medallions) acquire a scarcity value—a value which—unlike, say, the value of conveniently-sited land—does not reflect the niggardliness of nature, but is entirely artificial. It is not inappropriate that Canberra, the bureaucratic capital of Australia, should follow the most restrictive taxi-licensing policy of all the capital cities, as is indicated by the fact that Canberra licences fetch the highest prices.¹

The near-universality of the premium attaching to taxi licences is impressive evidence in favour of the “capture” theory of regulation, which asserts that, whatever their public interest rationale, government regulatory agencies tend

¹ By contrast, Washington, D.C. follows the least restrictive policy of major American cities. Taxi licences can be obtained for a nominal fee of less than \$US.200.

The price of a Canberra licence of about \$40,000 is comparable with prices prevailing in 1978 in a number of foreign cities, e.g. New York, \$US.50,000; Boston, \$US.40,000; Hong Kong, \$HK.310,000 (= \$A.57,000).

to become the creatures of the industries they are intended to regulate. But, in a sense, the evidence is *too* impressive, since many examples of regulatory behaviour do not fit the capture theory. One is therefore led to ask whether other factors may also be at work. And one does not have to look far: the governments that regulate the taxi industry usually also operate, and heavily subsidize, public transport systems.

Fewer taxis, operating within a regulatory straight-jacket, means less competition for buses, trains, and trams. When one considers, further, that public transport operations are dominated by powerful unions anxious to preserve their jobs and privileges, the restrictions on the taxi industry can be seen to be the most natural thing in the world. The one "producer" pressure-group likely to benefit from an expansion of the taxi industry, viz. non-owner drivers, has, as Dr. Swan points out, been appeased, and given a stake in the restrictive status quo, by the device of allocating new licences to non-owner drivers, on a seniority basis.

As well as restricting the number of taxis, regulation has stifled the development of innovations in taxi and taxi-like operations. Only one type of service, of relatively high quality (except sometimes with respect to availability) is offered. But, as any visitor to Asian cities can observe, a variety of services utilizing vehicles ranging from mini-cars to mini-buses is possible. These include mini-cabs, multiple-hiring taxis, and jitneys; the services they provide are intermediate in quality and cost between taxis and buses. The most noteworthy characteristics of these transport modes are their flexibility, adaptability, responsiveness to market demands, and competitiveness—features which are closely related to dispersed ownership, owner-operation, the possibility of part-time operation, and the absence of unionization. They are—or rather, would be, if permitted—the spontaneous creations of the market economy, and would provide potent competition for arteriosclerotic State-operated systems.

Dr. Swan's examination of taxi regulation in Canberra is fired by indignation and graced with humour. It will surely stimulate thought and discussion concerning regulation and urban transport issues generally. Not the least of its contributions is to remind us how much the "urban transportation problem" is of our own making.

ON BUYING A JOB

The Regulation of Taxicabs in Canberra

Peter L. Swan

The price of an item in short supply, other things being equal, will be high. Since jobs are scarce in Canberra it is not surprising that the price of a job, particularly one needing no complex skills, is high. But surely workers are paid for doing a job and are not expected to outlay vast sums to purchase a job, especially when representatives of job holders paint a gloomy picture of long hours for very little return. Would you outlay in the vicinity of \$40,000 for a piece of stamped metal sheet costing about 50 cents to produce which entitles you to spend another \$7,000 to \$10,000 and work up to 18 hours a day seven days a week for a return reputed (by industry sources) to be very little more than that received by a "pick and shovel" labourer?

Of course, you will be your own boss. You can choose when to work and when not to work. But it may be hard to relax with the boys knowing that the \$40,000 outlay, without regard to additional capital requirements, means that you must earn \$4,800 annually before you make a penny for yourself, assuming that you actually borrowed the money at 12% p.a., or could have invested your own money elsewhere at a similar rate. With this interest burden you will probably organize sub-contract workers to take over your responsibilities when you are relaxing or asleep. You incur the added burden of being a boss in your own right.

Your worries do not end here, however, because, having purchased the stamped metal plate, you may find it completely worthless the next day, leaving you \$40,000 out of pocket. After all, these plates can be mass produced cheaply. There are no guarantees and probably no compensation. Nor is there recourse to the Trade Practices Tribunal for misrepresentation in such an eventuality since the person issuing the now worthless plates is immune from prosecution under the Act. On a more optimistic note these plates can also appreciate in value and have done so to the tune of \$10,000 over the last few years.

By now you will be convinced that the job market described is a figment of an over-active imagination. Do we not live in a mini welfare state where the government takes care of the needs of anyone sufficiently desperate to be tempted by such an unappealing offer? Well, you are wrong: the Canberra taxi market is alive and well, with sales of taxi-plates occurring in the unofficial market at about the indicated price. The number of taxi-plates issued by the Department of Capital Territory (DCT) limits the number of taxicabs allowed to operate in the A.C.T. This is only one of a number of devices used by DCT to regulate virtually all aspects of the industry—from setting the flag fall and per kilometre charge to tough three-monthly road worthiness inspections at which a cigarette burn on the upholstery may be sufficient for rejection. (If we ordinary motorists are frustrated by annual inspections just imagine what an ordeal it must be for taxi proprietors).

Restriction on Entry

But why should a taxi plate be so scarce as to fetch such a high price? To understand this it is helpful to go back into the past—in fact, to 1956 when the taxi service was first introduced in the A.C.T. Up until that time only public hire cars were permitted. These operated only from public ranks and were required to charge 15 cents (1/6d) per mile but in effect the charge averaged a staggering 30 cents a mile (in 1956/57 average male earnings were about \$40 per week) since the hirer paid for the journey made by the hire car from its rank to the hirer's place of departure, then to his destination and finally back to the nearest rank. At that time there were 27 public hire cars in the A.C.T. (including Jervis Bay) and the owners all chose to convert to taxis with taxi meters installed and fares set by the Department.

The number of plates on issue in years in which plates were issued, together with the number of plates per 10,000

people, is shown in Table 1.

TABLE 1 Taxis in the A.C.T.		
Year (December)	No. of Taxis	Taxis per 10,000 people
1956	27	7.5
1959	31	6.2
1961	37	6.3
1962	43	6.5
1963	49	6.7
1964	57	7.1
1965	69	7.8
1970	79	6.0
1973	89	5.3
1974	98	5.5
1975 (March)	104	5.5
1979	104	4.7

Source: Records of the DCT.

The number of plates on issue in the 1950's and 60's fluctuated relative to the population reaching a maximum of 7.8 cabs per 10,000 people in 1965. The last plate was issued in 1975, (TX105) making a total of 104 (TX13 was never issued). The number of taxis per 10,000 people has now reached an all time low of 4.7 per 10,000, a 39.7% fall from the peak ratio. As another sign of the shortage there now appear to be at least five "hotplaters" who are competing with taxis but are operating without the benefit of the appropriate licence.¹ It is the restriction on entry (in particular the falling per capita number of taxis due to the failure of DCT to issue any more plates in the previous four years) combined with the worsening of the unemployment situation which has helped to boost the price of a plate in recent years. By contrast, across the border in Queanbeyan, there are 7.1 cabs per 10,000 persons and the price of a plate is about \$28,000. In fact it is not surprising that there is a clear association between cab density and the price of a plate. In London, where there is no restriction on cab numbers and hence the plate value is zero, there are 12.5 cabs per 10,000

1. The "hotplaters," like the owners of legal hire-car plates, cannot make use of taxi-ranks and nor can they advertise by means of signs on their car.

persons. Moreover, drivers need to undertake 12-15 months of full time work in order to pass a "knowledge of London" test.²

Perhaps the most surprising thing of all is that one has to search high and low to find any reasonable explanation as to why the restriction on cab numbers was imposed in the first place and is maintained even more rigidly today. Is it regulation purely for the sake of regulation? Is it to protect the public against the threat of monopoly? The DCT may have some such fears since it restricts the number of cabs any individual proprietor can own to two. However, such a proposition cannot be taken seriously since monopoly depends on an ability to restrict entry. Unrestricted sale of taxi plates over the counter at some nominal price (say \$50.00) would be the antithesis of monopoly creation. The DCT policy of restricting entry naturally generates conditions akin to monopoly supply. From a public relations viewpoint it is unfortunate for the Transport Branch of DCT that the monopoly profits generated by the supply restriction are capitalized into something as visible as the price of a plate.

Although regulators in the DCT see their task as serving the "public interest", their close proximity to their "clients" the taxi proprietors, and a fear of what they would regard as "excessive entry" driving down returns of existing owners should entry barriers be relaxed, leads to policies protective of the interests of owners at the expense of consumers. Protective policies are often clothed in the rhetoric of the "public interest". A very comprehensive study of the industry by the Department in 1966 concluded that "maintenance of industry income at the present level will ensure the current replacement rate of vehicles, the high standard of vehicle maintenance, a feature of the Canberra taxi industry; and provide the highest standard of safety and passenger comfort". In truth these acknowledged features of the industry are due to such features of regulation as the tough three-monthly inspections and a natural desire by any profit-orientated industry to maintain a good image as regards safety and comfort. They have very little to do with increasing the severity of entry restriction which enhances the income of the *existing* owner largely by the fact that higher earnings per cab are capitalized into a higher price of the plate. In this way the owner receives a windfall capital

2. See the article by Beesley listed in the bibliography for all the information on London. In Honolulu, Hawaii, where until recently there were no restrictions on cab numbers, the density is even higher at 16.1 (including the average number of visitors). Tourism clearly boosts cab demand in London and Honolulu but then Canberra has its fair share of tourists as well. Perhaps a three or four fold increase in cab numbers in Canberra with a relaxation of controls is unlikely but not entirely impossible.

gain. The effective income, however, of a *new* owner is not enhanced in the same way since he has a higher implicit or explicit interest commitment to meet on the now higher purchase price of the plate.

Were it possible to identify a Departmental view on restriction of entry it would be that it does no harm to the consumer. The Department makes no allowance for the value of the plate when it sets the regulated fare to allow the taxi proprietor to recover virtually all costs, except the opportunity costs associated with the scarcity value of the plate. If done with sufficient accuracy the plate would be devoid of value since there would be no residual "rents" to be capitalized into the value of the plate. Patently the current fare structure (as of June 1979), consisting of a 25c radio fee, 50c flag fall and 32c per km. charge (37c per km between 7.00 p.m. and 7.00 a.m.), has sufficient fat left in it after the owner has imputed the value of his own time and effort to justify the high price of a plate.

On the basis of a radio booking made during the day and an average trip length of about 6.25 kms, the average fare amounts to about 44c per km. If we take the value of a plate at \$40,000 (slightly on the high side since the last plate to change hands sold for about \$38,500)³ and the relevant interest rate at (say) 12% p.a., then the annual cost to the owner of the plate is \$4,800. With a conservative estimate of 80,000 paid kms p.a. travelled by each cab on average, the cost per km due to scarcity of plates is about six cents per km. Thus if entry barriers were removed, the per km charge for an average trip could be expected to fall by as much as 13.6% (from 44c to 38c per km). Any attempt by the DCT to lower fares without freeing entry is doomed to failure since the association of taxi proprietors could simply threaten to withdraw cabs from service. Even if a "strike" did not eventuate, waiting times would rise, particularly at peak times, since lower fares attract additional demand.

The 1966 study, mentioned previously, gives a relatively accurate and detailed cost and revenue breakdown for the average taxi at a time when the price of a plate was roughly at an all-time low of \$10,000. Table 1 reveals the unsurprising fact that the number of taxis, relative to the population, was also around the all-time high. (In 1963 the price of a plate was in the vicinity of \$16,000 and it had recovered to that price by 1970.)

3. The figure of \$38,500 is from industry sources and would include radio, meter and possibly worn-out cab. The Transport Section of DCT was told a figure of \$35,000 but suggest that it could be on the low side.

TABLE 2
Proprietor Income 1966

Average revenue per car per annum	\$10,827
Total car costs	4,068
Net revenue	6,759
Annual commission to driver (average hourly earning of 69c)	(50 weeks) 1,737
Gross income of owner	5,022
Interest at 10% on value of plate	- 1,000
Owner's net income before tax (weekly income of \$77.3 driving 58.49 hours/week or \$1.32 per hour)	4,022

According to Table 2, a new owner paying \$10,000 for his plate did relatively well in 1966, since on average he earned \$1.32 per hour after all expenses except tax. The basic wage for a 40-hour week was only 82.5c per hour. Drivers earning a commission of about 75c for every \$2 take did relatively poorly obtaining only about 69c per hour. Owner-drivers in their capacity as drivers would appear to have been doing considerably better than this so it is not surprising that the price of a plate subsequently rose substantially.

It is interesting to note the fascinating parallels between the taxi industry and trucking, and, in particular, the demands made by owner-drivers in the trucking industry during their recent blockade of the nation's highways. The truckies held up the restrictive licensing provisions of the taxi industry as the ideal on which to base their own claims for a prohibition of new entry into the trucking industry. Because of the enormous "windfall profits" which befall those in on the ground floor when exclusive licences (plates) are first issued, there are overwhelming incentives for every means of persuasion to be used, from political lobbying at one end of the spectrum to organized violence and civil insurrection at the other, to achieve aims contrary to that of the "public interest". It is an unfortunate fact of life that there is little in it for later arrivals who must buy their way into the industry, but, having done so, must fight alongside those who have done well out of the system in order to protect their investment.

Allocation of Plates

A taxi plate is a valuable asset with the current value of plates already on issue amounting to about \$4m. Since the Department (officially the Minister) has always pursued a policy of giving plates away as a gift it has obviously needed to face up to the problem of whom among the many deserving should be recipients. Until 1974 plates were issued largely by open ballot (in the early years separate ballots were held for ex-servicemen). The ballot was in effect a lottery with valuable prizes, but with the unusual feature that tickets were free. It comes as no great surprise to learn that hundreds of people participated in the ballot with the lucky winners becoming the proud owners of the new plates. Virtually anyone was eligible for the ballot so long as they did not already own a hire car plate or two taxi plates.

Up until 1973, when Kep Enderby became Minister, all plates issued were transferable after a three-year qualifying period and thus could be sold for a consideration. The 25 plates issued since August 1973 are officially non-transferable so that only the first 79 plates issued can be bought and sold.

In 1974 the ballot system was altered so as to divide the ballot in two. One section continued to be open but the other section was restricted to non-owner drivers.

In the following year, the open ballot was entirely abandoned. Plates were then allocated to full-time non-owner drivers who had been in the industry the longest, i.e. on the basis of seniority.

These fundamental changes can be better understood by analysing similar changes which took place in N.S.W. Plates issued in N.S.W. after 1945 were initially non-transferable but lobbying by owners led to limited transferability in 1955. (A person who had been an owner in excess of ten years became eligible to sell his plate.) In 1964 the N.S.W. Government tried to renege on this concession by a rule that post 1945 plates could be transferred only once. A public campaign by owners forced the Government to revert to its 1955 agreement. At the same time it was decided that newly-issued plates would be non-transferable, would be issued only to financial members of the Transport Workers Union (TWU) and would be allocated to drivers on the basis of seniority.

Several issues need to be discussed here. The alleged reason for "non-transferability" was to prevent so-called "speculators" from profiting from the purchase and sale of

plates. This explanation is not convincing since the value of a plate has little to do with its transferability. Its value derives fundamentally from the associated restriction of supply. A policy of non-transferability simply disguises the fact that the plate is a valuable asset, by making it more difficult for members of the public to determine its true scarcity value. This public-relations aspect of the problem provides a more plausible explanation of why the Government wished to make as many plates as possible non-transferable.

Compulsory membership of the TWU as a condition for receiving a plate grew out of moves by the TWU to enrol taxi drivers as "deemed employees" under an award in 1962 and, in particular, for them to be granted three weeks annual paid leave. A legal battle between the cab companies and the Union ensued, the Union losing in the Privy Council in 1965. Hence the allocation procedure could be seen as an attempt by the N.S.W. Labor Government to bring in unionism by the back door and provide drivers with an incentive to join the TWU. Non-transferability and support for unionism must be seen as a minor price paid for the industry's great triumph on seniority.

The allocation of new plates to drivers on the basis of seniority, a result of highly successful lobbying by the industry, was seen as a boost to morale and as a way to keep experienced drivers in the industry. This view suffers somewhat from naivety. A slightly more sophisticated explanation might take cognizance of the fact that an existing owner of a plate is in possession of a valuable asset only so long as the supply of plates is restricted. Should new plates be issued in response to increased demand for taxis, existing owners would obviously like the new plates to be given to them, rather than have the gift go to any Tom, Dick, or Harry via an open ballot. Politically, no government could be seen to be giving more such favours to an already favoured group. But the same result is achieved in a far more subtle way if plates are allocated to drivers on the basis of seniority. In effect the plate becomes the pot of gold at the end of the rainbow (years of service) for the prospective driver who thus is willing to work for a lower current wage in return for the prospect of a (tax-free) "gift". The driver not only earns the so-called "gift" by working for a lower return than he would otherwise command, but the benefit goes to the existing taxi owner whose returns are higher because of his lower labour cost.

There is an even more subtle point to this allocation system which helps to explain how two distinct groups,

owner-drivers and non-owner drivers, are able to present the regulators with a united front in opposition to the growth in the number of plates on issue. Owner-drivers in their capacity as owners clearly wish to limit competition by a restriction on cab numbers. Non-owner drivers, on the other hand, have an entirely contrary interest in an expansion of the number of taxis on the road. More drivers are required to operate a larger fleet of cabs: the number of jobs open to them would thus be increased and demand for their labour raised. So long as a higher return is required to attract new drivers into the industry, earnings of existing drivers would also be bid up.

A plausible-sounding counter-argument points out that drivers are not paid a straight wage at all. Owners naturally wish to provide drivers with adequate incentive to go and search for passengers. A pure wage contract unrelated to performance fails to provide this incentive. Generally speaking, drivers are paid a percentage of gross takings which is currently of the order of 45 per cent. An increase in cab numbers would tend to reduce the takings of each cab and, for a given percentage of the gross, would clearly reduce driver earnings. But the percentage of the gross is not immutably fixed. Rather it is determined by the need to keep existing drivers in the industry and, in the case of an expansion in cab numbers, attract new ones in as well. Thus the driver's share of takings should rise in response to the increase in cab numbers.

These conflicting aims would appear to be reconciled by allocating plates on the basis of seniority, thus promising drivers who remain in the industry long enough a valuable asset as a reward. Should drivers successfully lobby for a large number of plates to be issued, then by depressing the price of a plate, the eventual "gift" will not be as valuable. The seniority system can thus be seen in its true light as a highly ingenious method of ensuring that the net returns of existing owner-drivers are not diluted by entry of new taxis, while at the same time appearing to give drivers an identity of interests with the owners.

Under a seniority allocation system we might expect some pressure from a section of the industry for cab numbers to keep pace with population growth. Surely drivers at the head of the seniority list must lobby for new plates to be issued! Yet in Canberra, there have been hardly any new plates issued since the seniority allocation was instituted and none for the four years prior to 1979.

The main difference between what took place in N.S.W.

in 1964 and changes undertaken in the A.C.T. nine years later was that in the latter case there was no insistence on membership of the TWU and, perhaps having learnt a lesson from the N.S.W. experience, there was no attempt to make existing plates non-transferable by retrospective action. In N.S.W. owners of plates issued after 1964 were successful in partially lifting the ban on transferability after a change of government. In the A.C.T. there has been, and continues to be, an extensive campaign to make the last twenty-five plates issued since 1973 transferable. In the meantime, owners wishing to transfer plates but being unable to do so legally, have found a sensible (but only partial) solution in lease arrangements. Plates are leased for sums in excess of \$90 a week, allowing *de facto* retirement from the industry for the nominal owner of the plate. Fortunately, the DCT turns a blind eye to such mutually-beneficial agreements.

A proposal for a system of "over the counter" sale of taxi plates has also been mooted by officers in DCT but so far there has been no ministerial approval. Such a scheme would have two advantages over the present situation: (1) Plates would no longer be given away so that Canberra's rate payers could benefit from the additional revenue. (2) By offering to sell an unlimited number of plates at a fixed price the Department would no longer have to decide on criteria for the issue of plates. The industry would in effect achieve "self regulation" as a new plate would only be purchased once the prospective owner thought it a paying proposition. A figure of \$20,000 has been mentioned as one sufficient to discourage "frivolous applications"!

Service Quality

The DCT has always taken pride in a high standard of cab maintenance, passenger safety, and comfort. While these factors are important they represent only a limited aspect of the overall quality and effectiveness of the taxi system. If you are trapped on a cold, rainy, windswept, winter's evening during peak hour, when perhaps bus drivers are on strike or are making threatening moves, and no cab can be had for love nor money without a long wait, then no amount of passenger comfort will be of assistance to you since no cab is available. Time is money and the implicit value that the prospective customer places on his time while waiting for a cab is as much part of the cost to him as the actual fare itself.

The DCT is certainly aware of the problem of waiting time but in recent years more stress has been laid on waiting time at off-peak hours rather than during periods of peak

demand. One memo by an officer in the Department developed this theme in a rather cavalier fashion: "People are strange characters, they are prepared to wait for a bus, plane or train but when they decide to travel by taxi the taxi must be available immediately. There is no answer to this syndrome."

There are two basic factors which determine this aspect of the quality of the taxi service: (1) the size of the fleet as represented by the number of plates on issue, and (2) the scale of charges laid down by the Department. Of course other elements such as the efficiency of the radio and dispatching system also come into it but these may be set to one side. Tight control on both the number of plates issued and the fare that can be charged may lead to a service that is *technically* efficient in that even in off-peak times cabs will not be idle. The ratio of time spent carrying passengers to time spent waiting at ranks or searching for passengers will be high. But so long as the regulated fare does not increase in periods of peak demand, waiting time could be considerable at such times. Such an outcome could be *economically* inefficient in that the welfare cost of time wasted waiting for a cab could exceed any gain to consumers via the low regulated fare. With a fixed number of cabs, relaxation of restraint on fares would, by choking back demand, improve quality by lowering waiting times.

If the regulatory authority allowed more cabs to compete with existing cabs at a set fare then total demand could be expected to rise. The quality of service would be increased through reduced waiting time and greater cab availability. There is a presumption that if market forces were allowed to determine both the number of cabs on the road and the fare structure, then the resultant fares and waiting time would come close to the ideal of minimizing the sum of the value of waiting time plus actual fare cost to destination; and will at least do considerably better than existing laws which have the effect, if not the intention, of protecting existing plate owners at the expense of the public at large. Such a market-orientated outcome would resemble taxi systems familiar to Australian tourists in a number of Asian cities like Bangkok where the mutually agreed on fare between cabbie and prospective passenger can vary minute by minute depending on traffic congestion. A market orientated outcome is unlikely in Canberra because it would (1) be strongly opposed by existing cab owners; and (2) leave regulators with nothing to regulate. Many owners have paid large sums for their plate. They might rightly fear that only

partial or no compensation would be paid following a catastrophic decline in the value of existing plates should plates in unlimited numbers become available over the counter at some nominal charge.

While the DCT might consider compensation in such an eventuality, it has been most particular in giving no grounds for successful claims to be made. It has always allocated plates for no charge and has never issued any formal statements or guarantees concerning restrictions on the future availability of plates. Prospective buyers of plates should have been under no illusions regarding the risks they were accepting in purchasing plates. Payment of compensation would set a precedent for claims in similar circumstances in future cases. Taking the major element of risk out of the purchase of a plate would raise plate prices even higher, and lead to even greater gains to special interest groups capable of inducing governments to implement similar schemes. It would increase the likelihood of the use of threats or standover tactics by sectional interest groups.

Bus Subsidy

It is difficult to examine the Canberra taxi system in isolation without at the same time considering other methods of transport such as the bus system and how it relates to the taxi industry. It is particularly instructive to investigate the bus system since it is also run by the DCT.

In 1977-78 there were an estimated 15m passenger journeys and, with an average length of journey around about 7.5 kms, this implies that about one hundred and twelve million passenger kms were undertaken by bus. Since buses travelled 10.2m kms in total, the average number of passengers per bus trip is very low at about 11. It means that high occupancy rates at peak times particularly on the links between the various interchanges, are offset by low usage of the suburban routes, especially outside the peak periods and on weekends. The bus fleet consists of about 360 buses of which 245 are used on a daily basis. There are currently in excess of 470 bus drivers employed at about \$13,000 each per annum, making a wage bill for drivers alone of about \$6.15m.

By comparison the much smaller taxi fleet of 104 cabs carries passengers for in excess of 8.3m vehicle kms or about 82 per cent of the corresponding figure for buses. Moreover the hourly labour cost component for taxis is far lower than for buses.

Total revenue generated by bus fares in 1977-78 amounted to only \$2.3m so that clearly considerable losses

were made. The A.C.T. Schools Authority paid the DCT a subsidy of \$1.8m for concessions to children travelling on school buses but this still left a deficit paid out of Consolidated Revenue of \$6.27m. This figure takes no account of the fact that funds to purchase buses are provided by the taxpayer free of interest. Suppose we take the average value of a bus to be \$45,000 (a new standard bus is \$80,000) and multiply by the number of buses, we obtain an estimated current market value of \$16.2m. If the service were run as a private business it would need to pay an interest rate of at least 12 per cent on capital, giving an annual capital component charge of \$1.94m. This brings the annual subsidy up to a figure of about \$10m. This figure is in fact an understatement since it makes no allowance for the interest burden due to capital construction (the Woden and Belconnen interchanges, a very costly depot, exclusive bus lanes etc.). Nor does it allow for import duties, registration charges and taxes that would confront a privately-owned bus service.

The \$10m subsidy represents \$46.3 for every man, woman and child in the A.C.T. in 1978 or about \$421 per regular bus user (10 to 12% of the population use the bus on a daily basis but up to 20% use it within a week). Clearly the subsidy is quite considerable. On average every dollar spent on fares attracts a subsidy in excess of \$4.35.⁴ One could imagine the outcry if a decision was made to meet the deficit out of local rates instead of it being a burden on all Commonwealth tax-payers as it is at present. If Canberra's travellers were to be confronted with the true cost of the bus system, many more would switch to other modes of transport such as taxis.

Suppose the DCT had a charter like the A.B.C. which is required to give even-handed treatment to different political parties. The Department would then face censure for discrimination in favour of bus passengers (and bus drivers who are members of the powerful TWU) and against taxi passengers. (The rigid restriction on the number of taxi plates acts as an implicit tax on cab passengers.) It would be interesting to know how the Department (or Minister) justifies such discriminatory policies.

It might be argued, for example, that the bus system serves the "transport disadvantaged" whereas taxis are for the rich. But wealthy and poor alike use cabs and if cabs attracted a subsidy of (say) \$4.50 for every \$1 fare, a similar

4. If it were desired to cut the bus subsidy the most effective way would be to impose a peak-hour surcharge which would tend to even out the demand for bus services over the day, at the expense of some increase in automobile traffic congestion at peak times.

ratio to buses, then the price of their services would not be all that much higher than for the buses, with quality ever so much better. This would be especially so if multiple hiring of cabs is encouraged so as to lower the per passenger cost even more. Thus if subsidies are to continue to be given then it is not sufficient to argue that subsidies should be given to buses exclusively *because* their quality (waiting times and inconvenience) is generally so inferior to cabs. The poor can also benefit from a superior quality mode of travel.

Jitneys

Not a great deal is heard about jitneys in Australia although they are a force to be reckoned with in many other countries. Jitneys are privately owned and operated mini-buses or cars which ply for passengers along a particular route with some form of standard charge per passenger related to distance. Drivers are very responsive to passenger needs and may make detours to drop passengers closer to their destinations, etc. Thus it is a very flexible transport mode which is generally superior to buses. Quality of service may not be as high as for a standard cab, but fares could be expected to be considerably lower since in effect the jitney is offering a multiple-hire rate. The Department could well wish to encourage such services to take the place of far more expensive buses on many off-peak suburban routes. In this way the bus service deficit could be cut while at the same time patrons could have a far more effective feeder service into the various bus interchanges.

Freeing up the issue of taxi plates could be expected to lead automatically to jitney-type operations as long as owners are given the opportunity to institute their own multiple-hire rates so as to be able to lower the fare per passenger and encourage higher occupancy—almost a small-scale Freddie Laker-type operation in fact. If giving freedom of choice to cab owners to operate jitneys is not acceptable to the Department then it could easily institute a special class of jitney plate. Adopting either approach would mean the availability of many new private sector jobs and so help to relieve Canberra's spiralling unemployment problems.

In the U.S. Jimmy Carter's "open skies" policy has been a great success in lowering airfares world wide. I consider that it is about time the Minister gave serious consideration to deregulating the taxi industry in Canberra with adoption of an "open roads" policy. In doing so he may well find that he has become the father of a new industry—the jitney.

FURTHER READING

- BEESELEY, M.E.**, "Regulation of Taxis", *The Economic Journal*, Vol. 83 (1973), pp. 150-172.
- BEESELEY, M.E.**, "Competition and Supply in London Taxis", *Journal of Transport Economics and Policy*, Vol. XIII (1979), pp. 102-131.
- ECKERT, Ross D.**, "On the Incentives of Regulators: The Case of Taxicabs", *Public Choice*, Vol. 14 (1973).
- ECKERT, Ross D.**, "The Los Angeles Taxi Monopoly: An Economic Inquiry", *Southern California Law Review*, Vol. 43 (1970), pp. 407-453.
- ECKERT, Ross D. and HILTON, George W.**, "The Jitneys", *The Journal of Law and Economics*, Vol. XV (1972), pp. 293-325.
- KIRBY, R.F. et al.**, *Para-transit: Neglected Options for Urban Mobility*, The Urban Institute, Washington D.C., June 1974.
- KITCH, E.W., ISAACSON, M. and KASPER, D.**, "The Regulation of Taxicabs in Chicago", *The Journal of Law and Economics*, Vol. XIV (1971), pp. 285-350.
- TURVEY, Ralph**, "Some Economic Features of the London Cab Trade", *The Economic Journal*, Vol. 71 (1961), pp. 79-92.
- VICKREY, William**, "Current Issues in Transportation", in *Contemporary Economic Issues*, pp. 185-240. Edited by Neil W. Chamberlain. Irwin Series in Economics, Homewood, Illinois, 1969.
- WILLIAMS, D.** "Regulation of Taxicabs: The Victorian Case," M.Ec. dissertation, La Trobe University, 1978.

There are a number of articles which address the taxicab industry on a more theoretical plane, including:

- DE VANY, A.S.** "Capacity Utilization under Alternative Regulatory Restraints: An Analysis of Taxi Markets," *Journal of Political Economy*, 83 (February 1975), pp. 83-94.
- ORR, D.** "The 'Taxicab Problem': A Proposed Solution," *Journal of Political Economy*, 77 (January 1969), pp. 141-147.

