

The Perils and Pitfalls of Taxi Plate Ownership

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Its 3:00 am on a Sunday morning, do you know where your children are? If they are between the ages of 18-25 and currently residing in Perth, they are probably on the streets of Northbridge, waiting for a taxi.

The taxi industry fails to live up to Western Australians' ever-dwindling expectations of it. Waiting times continue to rise; passenger complaints are at record highs; and taxi ranks at peak periods are violent calamities waiting to happen. Street violence in popular nightspots around Perth occurs because police and nightclub security staff are unable to diffuse escalating situations by moving patrons out of problem areas, due to a shortage of taxis. Each year, 1 in 4 taxis receives a complaint from a passenger, according to the Department of Transport.

In response, the department announced a review into the industry late last year, and is holding a forum this week so that taxi drivers can voice their ideas and concerns over the state of the industry to the Transport Minister. While the forum allows for input from the front line, it is a band-aid for a gaping bullet-wound.

The real pitfall of the taxi industry lies in how it is regulated. The number of taxis permitted to operate is controlled by the State government, which claims it can control prices and enhance the safety of passengers by doing so.

But how could they? Who really knows what number of cabs would optimally satisfy 1.7 million Western Australians, and whoever they are, why are they not making millions predicting the share market instead of working for the Taxi Industry Board? What's more, the Australian Productivity Commission rejected taxi caps almost a decade ago, instead advocating for an open market. Yet the restrictions remain in place in most Australian states.

The over-inflated value of taxi plates is a clear indication that the Taxi Industry Board has not released enough plates. Such licenses had an average "grey market" value of \$217,871 in 2007-2008. Plate holders lease their plates out to taxi drivers (many are not actually owned by drivers) for around \$355 per week, or \$18,000 per year. If there were enough plates out there, people wouldn't have to pay hundreds of thousands for one and a large part of your taxi fare would not end up in plate holders' pockets.

There are 1,942 plates for Taxis in Western Australia. It's an offense to offer rides for a fee without one. Out of those 1,942, 1,115 are privately owned and the rest are leased to drivers by the government. In the case of privately owned plates, the system is a government privilege with private beneficiaries.

It's a pretty safe investment scheme, too. So long as the government continues to perpetuate a shortage of plates, the value will stay high. It's only made token releases in the past few years. Plus, as the dependence placed on limited taxi services becomes heavier due to Perth's bulging population, the value of plate ownership will continue to soar.

The burden of this regulatory loophole falls onto the drivers and passengers. Fares remain high, the quality of service continues to disappoint, and the limited number of taxis on the road fails to cope with the high demand.

It doesn't have to be this way. There are places where governments no longer control the number of cabs or the fares they charge. New Zealand abandoned quantitative control of the taxi market over 20 years ago. With the government leaving the number of cabs and the price they charge to the forces of supply and demand, entrepreneurs created new jobs, better service, and lower prices. A 2008 OECD study of seventeen countries found that the New Zealand experience is not unusual "Increasing numbers of OECD countries have removed or loosened supply restrictions on taxis. The results of these reforms have been strongly positive, with reduced waiting times, increased consumer satisfaction and, in many cases, falling prices being observed."

Western Australia is slowly progressing towards the New Zealand paradigm. The government ceased to sell licenses in 2004 and drivers are now able to lease licenses from the government directly instead of selling monopoly right to a few arbitrarily privileged individuals. And the government has also introduced peak period and restricted plates available for lease.

However, calls to tender government leases are happening far too infrequently, allowing license owners to continue to yield power. Until the government gives up trying to guess the "correct" number and opens up the industry entirely, people of Western Australia can expect the same issues that plague the industry to continue.

As the Perth population continues to grow rapidly, it is crucial that our services industries are equipped to cope. As we continue to reap the benefits of the boom, the Department of Transport has an opportunity to remove restrictions from the industry. As a side benefit, your children will get home quicker and safer.

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