

Taxi! Tax Me!

By David Collyer

Citizens retreat confused when talk turns to Economic Rents.

The taxi industry is an excellent example of how assets granted by government create economic rents – at the expense of the wider community.

There are 5181 taxi licences in Victoria, of which the Department of Transport's Victorian Taxi Directorate leases about 1100 licences to operators each year, making more than \$11 million or around \$10,000 per license per year.

The state's remaining taxi licences are privately owned and pay an annual fee of \$500 for the right. Those licenses are extremely valuable. The taxi directorate advises on their website the average sale price of a Melbourne license last year was \$484,250.

That's right, a taxi license is more expensive than a house. The value is supported by scarcity as government resists letting license supply exceed taxi customer demand.

This valuable asset is the capitalized difference between fares collected and the cost of running a cab – wages, fuel, vehicle, insurance, the network service provider and government charges.

The 4,000-odd privately owned licenses are therefore worth some \$1.93 billion.

For a taxi license to sell on the open market for half a million dollars, it must be generating very substantial profits.

Generating top returns takes a level of skill and judgement managing staff, rosters and the vehicle. This, however, is a return to labor, not to the asset.

The annual value – the 'economic rent' – of licenses

can be determined from leasing costs. Indeed, 70 per cent of licenses are leased to operators for around \$30,000 per year, a price to earnings ratio of 16.

Nice. Especially nice as these assets were issued for free and carry a minimal annual charge.

So, a monopoly privilege granted by government is generating very substantial windfall gains for narrow private interests. Sadly, the Australian economy is riddled with economic rents like this one. They are the perfect base for government revenues – not taxing wages or wickedly expecting business to serve as un-paid government tax collectors.

The solution is quite simple, as the Taxi Industry Inquiry led by Professor Alan Fels is now considering: Raise the annual registration fee for taxi licenses to, say, \$25,000 a year, returning some \$118 million (\$129m less the existing \$11m state leases) to the Victorian Treasury to fund tax cuts elsewhere.

This would be tough for the licence holders, but they are free riding on the backs of long-suffering taxi users. Remember, those licenses were issued without charge and the government is absolutely entitled to change the rules around such a gift at any time.

The Australia's Future Tax System report has a smorgasbord of state-based regressive, behavior-distorting, expensive to collect and just plain mean taxes that ought to go. No doubt there are many opportunities to cut taxes on swinging voters in marginal seats.

Knock yourself out, Premier Baillieu!