



John Glazebrook

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13 June 2008.

Mr Michael Cunningham
Manager Industry Sectors
Essential Services Commission
Level 2
35 Spring Street
Melbourne VIC 3000

Dear Mr Cunningham

Reference: Taxi consultations. Review of taxi fares, draft report June 2008

Please find enclosed a copy of my response as a stakeholder to the ESC's above report. I had a telephone conversation with you during which I expressed my disappointment with the standard and recommendations it contained.

My attached submission contains details of my concerns about the ESC's draft report. Copies of my concerns about the ESC's report along with my submission have been forwarded to several members of State parliament with a request that the ESC be replaced by an authority with the capacity for independence – not ideological prejudice.

Sincerely

John Glazebrook

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13 June 2008

Hon. Lynne Kosky
Minister for Public Transport
Central Square Shopping Centre
Shop 3
Cnr Central Ave & Merton St
Altona Meadows 3028

Dear Ms Kosky

Reference: Draft Report Taxi Fare Review June 2008

I write in reference to the recently released review of taxi fare structures by the Essential Services Commission.

The ESC is supposed to be an "independent economic regulator". However, page 198 of its draft report shows evidence of bias and that the draft report has been prejudiced by ideology and preconceived ideas about the taxi industry.

For example, "the Commission has previously expressed support for the principles of previous reforms which have advocated industry deregulation" (p.198) and "the Commission is of the view that a gradual process of pro-competitive reforms towards deregulation of the taxi market would be appropriate" (p.198).

Moreover, important information has not been presented for public scrutiny. The ESC's recommendations are predicated on claims about consumer dissatisfaction with taxi industry standards and waiting times. It refers to surveys undertaken by the Department of Infrastructure but these surveys have not been reproduced for verification and interpretation in the appendix.

In addition, the ESC's report contains errors and omissions regarding taxi tariffs, see page 208. Queensland taxi tariffs currently have a \$5.80 nightly flagfall charge which applies from midnight to 5am, except ANZAC day. This applies to Brisbane, the Gold Coast and the Sunshine Coast. The late night surcharge in Sydney, of 20% on top of the distance/kilometre rate; applies during the hours of 10pm and 6am daily. In WA the correct distance/kilometre charge is \$1.39 and higher on tariff 3.

It is disappointing to note that the ESC's draft report does not contain any new evidence of any independent research undertaken to measure efficiency and consumer satisfaction standards. For instance, sample interviews could have been undertaken, on a systemic level, of consumers, taxi drivers, and stakeholders in the industry; instead the report is based on unattached Department of Infrastructure surveys, ABS statistics, anecdotes and econometric models. The ESC has not conducted any systemic interviews or made any effort to test its own assumptions and hypotheses. The ESC's report and methodology is not scientific or objective.

Econometric models are unreliable and unscientific as they are based on assumptions about competition and consumer behaviour. At present there is evidence that consumer confidence, as measured by the Westpac Consumer Confidence Index, is at its lowest since the recession of 1992. Econometric models are also blind to the context in which taxis operate. The City of Melbourne and the State government are changing the environment of Melbourne by reducing road capacity and crowding out cars and taxis. Megatram stops, longer traffic red light cycles, and significantly reduced roads for car carrying capacity now dominate Melbourne and some inner suburbs. These developments have impacted significantly on congestion and taxis. The Melbourne City Council and the State government want commuters to use trams, buses and trains, not private cars or taxis. Due to traffic turning restrictions, traffic congestion problems, created by reduced road capacities, and the policy preference for trams buses and trains, it is difficult for taxis to access part of the city and inner suburbs, particularly at peak times. Increasing the number of taxis on the road will not improve or change consumer waiting times in a city that is being designed to discourage cars. The ESC recommendation to increase taxi licences by 330 is in conflict with policies to marginalise cars and allow the CBD to be dominated by trams, buses and pedestrian malls. In other words, the taxi market is being reduced by the growth in the tram, bus and train markets. The biggest winners from the introduction of a further 330 taxi licences will be the state government. The taxes from leasing taxi licences, stamp duty taxes, motor reg. and TAC taxes, in addition to GST taxes will yield the state at least 3 million dollars in 1 year.

The ESC is recommending a reduction in taxi flagfall rates from \$3.20 to \$2.60 and an increase in the booking charge from \$1.40 to \$2.60. In other words, a net change of \$0.60 per fare but only for telephone bookings that the ESC "estimates" to amount to 50% of taxi work. This is an income reduction for many taxi drivers, not an increase! Cheaper taxi fares will be available by hailing cabs off ranks and the street to avoid the optional booking fee. The \$0.60 change should only be included in the general flagfall rate changing it from \$3.20 to \$3.80 thus making short taxi fares more rewarding for drivers. The ESC has not investigated the fact that a significant percentage of telephone bookings turn out to be "no jobs" due to errors, computer problems, or misuse of the taxi booking system by members of the public. The ESC has ignored the fact that many complaints in the taxi industry are due to driver reluctance to accept short fares.

Deregulation. In his book *Railroading Economics* Michael Perelman (Monthly Review Press, NY 2006) reveals that deregulation in the United States resulted in bankruptcies for one third of the operators in the railroad industry. In Melbourne, the liquor licensing, nightclubs, and motor insurance industries have been deregulated with catastrophic results. The Melbourne media has regularly documented the increased levels of violence and binge drinking around alcohol and entertainment venues on weekends. Insurance industry agents currently estimate that as many as one in three motorists are likely to be driving without third party property damage or comprehensive insurance cover. Members of the public and their property are exposed to significant risks, through negligence by uninsured drivers. In many countries motor vehicle insurance, for property damage, as well as personal injury, is compulsory.

In summary, the draft report by the ESC on restructuring taxi fares in Victoria should be unequivocally rejected, as it does not address many of the issues impacting on the industry. The Essential Services Commission should be sacked because (1) it is biased in favour of deregulation and therefore cannot undertake objective or independent assessments of the taxi industry and (2) is imprisoned by an econometric ideological straightjacket which prevents it from identifying important performance issues impacting on the taxi industry, in the CBD, the inner suburbs and

the wider economy. Evidence of the ESC's incompetence is apparent by its ignorance of the way in which Melbourne is being redesigned to give centrality to trams, buses and bicycles over cars by reducing road capacity. Yet the ESC is recommending that an additional 330 taxi licences be released to service consumer demand. Perhaps they will be special taxis that can fly.

Economists like John Maynard Keynes, John Kenneth Galbraith and Joan Robinson rejected econometrics as a technique for providing any useful insight into human behaviour and economic activity: economic modelling can blind policymakers to important developments changing the environment and macro economic influences impacting on the performance of an industry; such as the taxi industry in Melbourne. Budgetary policies, interest rates, corporate policies on overtime and cabcharge dockets, the supply and availability of taxi drivers, traffic congestion, government subsidy programs, the price of fuel and the cost of living as well as preferred public modes of transport and road capacities all impact on the performance of the taxi industry. Not, however, according to the Essential Services Commission. The performance of the taxi industry in their view is determined currently by one factor: the supply of cabs. In my view this is reductionist: problems in the taxi industry are a reflection of complex changes in the economy impacting on taxis and the changing urban and city environment in which they operate today. The draft report of the ESC will no doubt be endorsed by the H R Nicolls society and friends, but it cannot claim to be scientific: its objectivity has been hampered by an ideology that belongs to the world of Adam Smith, not the 21st century!

Sincerely

John Glazebrook.

cc.

The Hon John Brumby

The Hon Tim Pallas

Mr Michael Cunningham, Manager Industry Sector & Special Services ESC

Mr Greg Wilson Chairman ESC