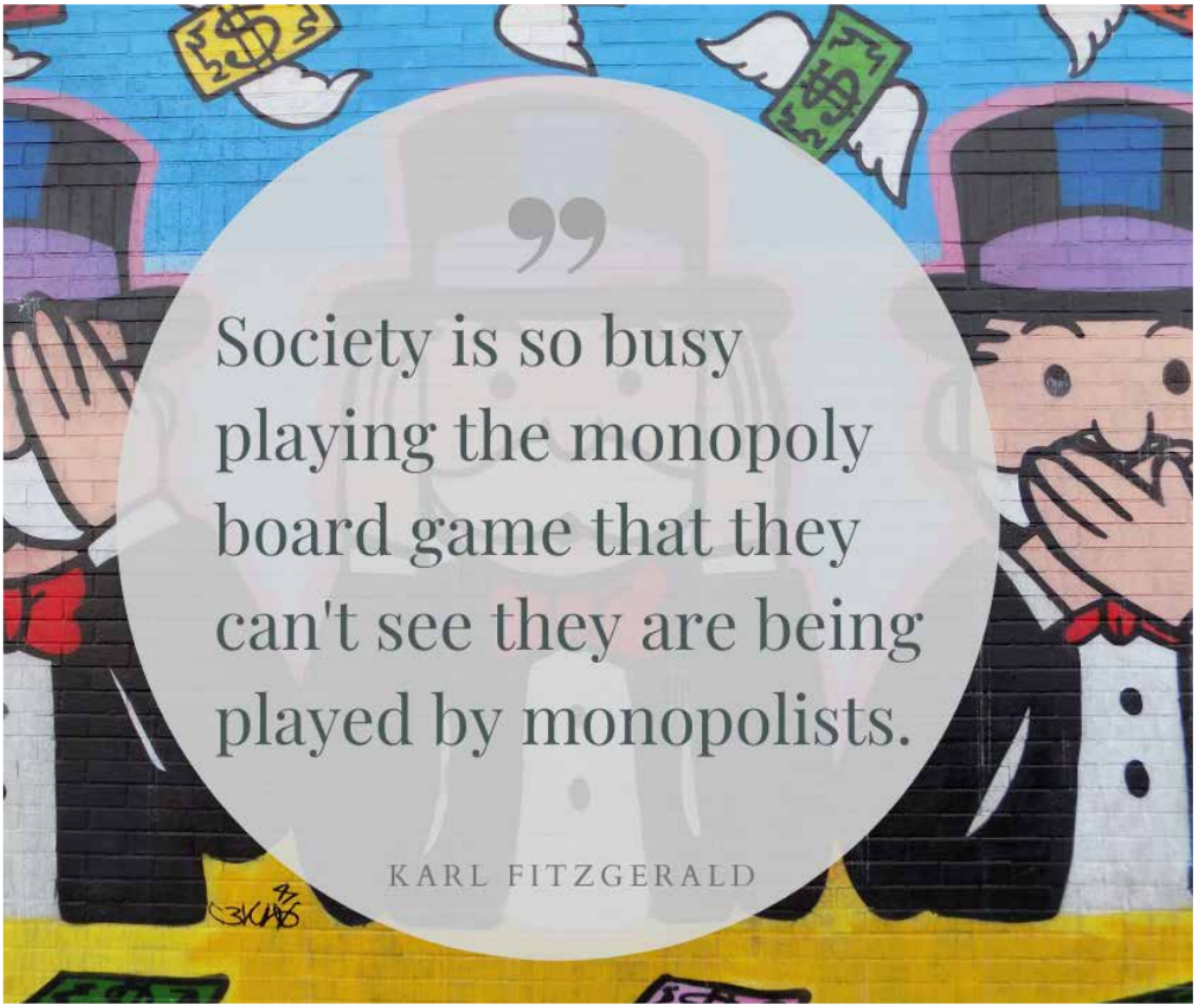
Monopoly in the Covid Period

by Karl Fitzgerald



Society has grown up playing the monopoly board game, without realising they spend their entire life being played by monopolists. The covid-19 era reiterates this trend. Industries are on their knees but little is being done to look further up the tree to ensure all are 'sharing in the pain.' Instead of getting it right, policy busy-ness has presided over burden sharing.

With the economy slamming shut as pandemic pressures arose, the airline industry was under immediate pressure with passenger numbers dropping 95% in a matter of days. Virgin Airlines is now in receivership. The company engaged in a bold, last minute survival campaign on keeping 'the air fair'.[1] A full page advert stated "A monopoly in Australian skies will be good for no one." It didn't mention what was happening on the ground, but surely it was a factor.

Australia has four of the top ten most profitable airports in the world.[2] Three of the top five.

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1 V Kelly, Virgin Australia Kicks Off Campaign Against Monopoly in the Skies, https://mumbrella.com.au/virgin-australia-kicks-off-campaign-against-monopoly-in-australian-skies-623773

2 P Hatch, Perth Airport Takes Qantas to Court Over $11m in Unpaid Fines, https://www.smh.com.au/business/companies/perth-airport-takes-qantas-to-court-over-11m-in-unpaid-runway-fees-20181217-p50msn.html

Perth is one of the more aggressive. When Virgin's demise accelerated as covid-19 spread, airport management quickly surrounded a number of grounded Virgin airplanes to ensure they paid outstanding fees. A Qantas spokesman stated:

"Protecting your interests is one thing but parking a bulldozer in front of an aircraft while saying you're 'working to secure an agreement' is ridiculous," a statement from the head of external communications Luke Enright said. "It's no way to treat a customer of 20 years."[3]

Qantas too is frustrated at the financial pressure our privatised airports are placing on their services. A long-running feud between Qantas and Perth Airport over landing fees has reached the courts - twice.[4] The largest Perth Airport shareholder is Utilities of Australia, a specialist in infrastructure investment and a major beneficiary from the privatisation of natural monopolies. They hold stakes in the recently privatised NSW Land Registry, TransGrid - the nation's largest transmission network, and Melbourne Airport. This suggests they are strategic experts in the exertion of monopoly power.

Across all airports, landing slots (take-off and landing charges) have risen 26 percent in real terms over the last decade, whilst ticket prices have fallen by 40 percent.[5]

This suggests profits have been directed away from productive enterprise and toward those who own property rights - as all good monopolists demand.

If Virgin's administrators cannot find a suitor, higher ticket prices will result.

We should note that Ansett airlines fell into liquidation in 2001, following the 1997 privatisation of Melbourne, Brisbane and Perth airports. Monopolistic pricing pressures were likely to have played a significant role, where it was reported that airport profits ramped up post-privatisation.

"Aeronautical performance data reported by Melbourne Airport in its GPFR show that there has been steady year on year growth in this revenue stream over the period surveyed and that over the entire period 1997-2013, aeronautical revenues grew by 344% while passenger numbers grew more modestly at 119% and aircraft movements by 41%."[6]

Brisbane airport revealed similar rent-seeking. The nature of such predatory behaviour soon motivated the ACCC to produce a yearly report on the profitability of airports.

Contrary to the advice given on the benefits of privatisations, tax revenues from these former statutory bodies plummeted soon after privatisation and have remained that way.

Rupert Murdoch once said "Monopoly is a terrible thing until you get one. If I owned it I wouldn't sell it, but if you're silly enough to sell, I'll buy."

Prosper's submission to the Productivity Councils Economic Regulation of Airports review (2019) highlighted these shortcomings.[7] The PC's issue paper found EBITDA (Earnings Before Interest, Depreciation, Taxation and Amortisation) profit margins up by 46% for aeronautical, and up to 70% for car parking operations (2016-17). In comparison, a business operating in the open market can expect greater volatility on lower margins.[8]

The squeezing of margins by both falling prices and rising airport access fees placed Virgin under increasing pressure.

Tellingly, government applied no pressure on airport owners to reduce their fee structure. Australia's airport owners have been wise enough to

3 B Gubana, Perth Airport Moves to Seize Airplanes Over Debt, https://www.abc.net.au/news/2020-04-24/perth-airport-moves-to-sieze-virgin-australia-planes-over-debt/12183344

4 H Hastie, Qantas and Perth Airport Continue to Clash as Aviation Sector Nosedives, https://www.smh.com.au/business/companies/qantas-and-perth-airport-continue-to-clash-as-aviation-sector-nosedives-20200507-p54qsb.html

5 J Freed, Airlines Take Aim at Australia's Airport Privatization Model, https://www.reuters.com/article/us-airlines-iata-airports-idUSKCN1IX43Q

6 Aulish C, Airport Privatisation in Australia: A Tale of Three Cities (2014) http://www.redfame.com/journal/index.php/afa/article/view/614/597

7 Hermans J, Prosper Australia's submission to the Economic Regulation of Airports (2019), https://www.pc.gov.au/__data/assets/pdf_file/0010/231121/sub019-airports.pdf

8 ABS Business Indicators (5676, Mar 2020)

keep a low profile, unlike India's private airport operators, who attempted to impose a coronavirus surcharge, and faced a public backlash.[9]

A further advantage airport owners enjoy is an exemption from land tax, as airports are located on Commonwealth land. Savvy business insiders such as Lindsay Fox have purchased sites like Essendon Airport and turned them into large retail centres. Without the land tax burden, land price growth rates are likely to be higher, encouraging additional rental growth rates.

Does everyone need a bailout?

Requests for support in the commercial radio sector raised alarm bells on the pressure monopolists were exerting throughout the economy. Commercial Radio Australia requested immediate relief from spectrum licence fees for two years, alongside a greater share of government advertising. Spectrum fees were quickly waived by the Federal government,[10] but there has been no mention of sharing the pain between broadcasters with plummeting revenues and broadcast tower operators.

Some community radio stations pay over $100,000 to monopoly interests for aerial rights. There should be some pressure applied to recognise that the largely fixed costs of owning and maintaining a tower could be wound back without affecting the survival of the operator.

Prosper's monthly *Renegade Economists radio show* appears on the 3CR airwaves.

In a sign of foresight by 3CR's station's founders, the station not only owns its broadcast premises on Smith St, but also owns the broadcast tower at its Werribee land holdings. The station has therefore protected itself from monopoly rents, something they must be congratulated for.

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9 Airport operators seek to levy 'corona surcharge' https://timesofindia.indiatimes.com/business/india-business/airport-operators-seek-to-levy-corona-surcharge/articleshow/74620669.cms

10 http://www.commercialradio.com.au/content/mediareleases/2020/radio-welcomes-govt-relief-measures-but-more-actio

Privatisation and Profit

The privatisation of our road network is another area where government could be looking to reduce overall cost pressures on the productive sector. Bygone eras saw infrastructure as a major component to a nation's comparative advantage. By keeping such costs down, nations could outcompete others.[11]

However, governments have been convinced that privatising natural monopolies such as our road network are an effective tool to minimise public debt.

Macquarie Bank has been a central player in Australia's privatisation agenda. Between 2001 - 06, over half of the bank's profits were related to financing and management of infrastructure. Jefferis and Stilwell provide a fascinating analysis of the financialisation process inherent in the Macquarie infrastructure model.[12] They find that 'the bank's profits represent a rent charged for channelling superannuation through the financial sector rather than using taxation to directly finance infrastructure provision.'

Jefferis and Stilwell write:

"The Macquarie Infrastructure Group fund therefore acts as a financial version of drift net fishing, leveraging asset price inflation in the broader market to channel income to private investors.

Investors in Macquarie Bank funds are not deriving profit from 'value management' or innovation in a particular industry but from the broader conditions of the market i.e. creation of credit from asset price inflation via the infrastructure fund.

The infrastructure funds therefore share the central feature of a REIT that makes them unstable. Income is not derived from an internal source but from speculation and refinancing against future market conditions."

11 https://michael-hudson.com/2011/10/simon-patten-on-public-infrastructure-and-economic-rent-capture/

12 Jefferis & Stillwell, Private Finance for Public Infrastructure: The Case of Macquarie Bank (JAPE), https://128f2a8c-7e2b-db29-c5ed-c863dde6f97c.filesusr.com/ugd/b629ee_012121776c8eed0594bef95329846dbd.pdf

Edwin Hooper, Unsplash

It is not hard to see where Macquarie gets their nickname the 'millionaire's factory'.

The other major player in the nation's privatisation agenda has been Transurban. Their flagship project, Melbourne's CityLink tollway, cost $1.8bn. By the time their concession expires in 2045, they will have reaped some $30bn.[13] That's a handy return for a company borne out of a Public Private Partnership.

Jesse Hermans stated on our radio episode *"Monopoly Interests in the Pandemic"* that such PPP's represent a transfer of risk away from the private sector and onto the public. Voters have been convinced that a faster project completion timeline and lower public debt are worthy of the accompanying cost burden for the life of the project. Many commentators are concerned the pendulum has swung too far, particularly in this low interest rate environment.

Returning to our central theme, Transurban has stated they will not reduce the planned 4.25% p.a increase in tolls over the near future. They have however agreed to some fee waivers for the unemployed.[14] For a company that rarely pays taxes - even James Packer has expressed concern over the paucity of tax they pay[15] - government should ensure they do more to support society .

The privatisation of our roads sees costs transferred off the public balance sheet and onto the private sector, undermining the economy's competitive advantage. However, the Victorian government has finally indicated a turn away from costly PPP's with the North-East link to be built and funded by a public toll operator.

This is a welcome change to an infrastructure pipeline dominated by Transurban for close to thirty years. Like airports, the company has been granted a land tax exemption on the land under tollways such as CityLink and even its Richmond HQ.

Another area of concern Jesse raised was the impact of privatisation on our utility cost base. NSW and Victoria have privatised electricity production, distribution and retail. His research found that the smaller states and Territories who still maintain public ownership have been much more proactive in recognising the burden of these monthly costs.

13 R Millar et al, Transurban: The Making of a Monster, https://www.theage.com.au/national/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html

14 J Thompson, Transurban Fights for Momentum inVirus Slowdown, https://www.afr.com/chanticleer/transurban-fights-for-momentum-in-virus-slowdown-20200401-p54fys

15 C Low, Crown a Role Model Australian Company, https://www.smh.com.au/business/crown-a-role-model-australian-company-says-gambling-tycoon-james-packer-20151021-gkenfs.html

In the ACT, small business owners with electricity usage below 100 megawatts per year will see rebates of $750 automatically applied to their next electricity bill. Victoria has done comparatively little to lean on internationally owned companies such as distributor PowerCor to reduce margins during these testing times.

Landholders

Across the nation, state governments were urged early in the pandemic shutdown to engage in assistance packages to ensure that landlords too 'share in the pain', as our Prime Minister so famously quipped.

The Victorian rental relief package saw $80m in direct potential relief for renters, with $420m for landlords who offered rental discounts.

With many investors paying just $875 land tax on a $550,000 land valuation - a 25% reduction is barely a few days rental discount.

Landlords in wealthier areas have a greater capacity to discount. A landholder with a land value of $1.55m would typically face a $7,375 land tax bill. That could see a saving of $1,844 passed onto the tenant, equating to 1-2 weeks rent on a $2.2m home (assuming a 3% yield at $5,500 pcm).

Further watering down of the package sees these meagre savings split between commercial and residential. With commercial land values often higher (CBD) the support for residential rental is likely to be minimal.

Whilst landlords can receive a 25% land tax discount, there has been little detail on potential thresholds landholders must offer to renters.

How far will the direct rental relief package, worth $80m, assist those in precarity?

The $80m in rent relief could help about 200,000 renters facing hardship for a short period, maybe a week or two at the current $390 weekly median rent. Considering there are about 600,000 Victorian renters, many will remain under duress.

Premier Daniel Andrews soon stated that the rental relief was limited to 30,000 renters. This

Raivis Razgals, Unsplash

equates to less than 5% of all Victorian renters, who may receive 1-2 months relief. To qualify, renters must have less than $5,000 in savings and be paying 30% or more of incomes on a place to call home.

NSW and Queensland have a similar 25% land tax deduction for landlords who enter into rental discounts with tenants.

These states have limited their land taxes to wealthier suburbs. Less than 14% of NSW investors are required to pay land tax, thanks to indexed land tax thresholds to land values.

In NSW, all investor owned land under $734,000 is exempt from land tax thanks to the land tax threshold. This $734,000 threshold is indexed to the Valuer General's median land price index. Thus as land prices increase, more land falls under the threshold, incentivising investment in once affordable regions. Queensland has adopted a similar system, with other states threatening to join them.

Like the absence of casualised workers from Jobseeker payments, those who really need the support - those in less amenable suburbs - will receive very little rental assistance. Neither NSW or Qld have offered any direct relief to renters.

Politics

We should point out that the state based support was limited by the absence of Federal assistance. Such behind-the-scenes sparring may have caused the month long delay in certainty for renters.

In the end renters must realise that neither state nor federal governments have done much to assist. Instead of government intervention, pure market forces have done more to assist renters. With 100,000 fewer migrants and some estimating 40,000 AirBnB properties re-entering the rental market, rents have dropped accordingly.

During this pandemic shutdown, Prosper has been delighted to see a flurry of momentum to replace stamp duty with land tax. One of the drivers to the reform agenda has been the understanding that productivity must increase to drive wage growth.

The visit with UK economist Josh Ryan-Collins to Canberra last December revealed this growing impetus for productivity incentives at the Federal level. Implicit behind this is the need for such wage growth to support even higher land prices.

As we know, too much has been spent on land for too long, reducing the ability of businesses to invest in productivity enhancing plant and equipment. Will the Federal government do its part to support this nation building reform?

Potential Pathways

Transurban could well face a Tollmaster's License fee. An annual charge based on the value of their assets could be implemented to ensure they contribute to the public. This simple, annual payment based on the annual valuation of location could be applied across all monopolies, such as broadcast towers (with their special zoning). Airports could also be targeted in this classic Georgist prescription.

Such revenues could be used to shift taxes off the productive sector, assisting competitiveness.

With your help, we can remind governments to prioritise the contributions natural monopolies can offer. Governments should lean on them as a quid pro quo for maintaining their social license.

Monopoly is a luxury society can no longer afford.