Letter from Australia

In a new series we present correspondence from readers and HGF supporters around the globe. Here **Dr Gavin Putland** takes a look at Australia's taxi plates

The Henry report, being the final report of the Treasury's review on "Australia's Future Tax System", was delivered to the Government on December 24, suppressed until May 2, then released together with the Government's response, which buried almost all of the report's 138 recommendations. The most celebrated exception was the onshore resource rent tax, which the Government foolishly rebranded the "resource super profits tax" (RSPT). And the most emphatically rejected recommendation was a land value tax with (eventually) no exemptions, and a threshold specified in terms of the value per unit area.

But, having waded into the compensation controversy in my recent presentation at the IU Global Conference, perhaps I should exhume recommendation 66, whose last sentence is: "Quantity limits on taxi licences should be phased out."

All Australian jurisdictions except the Northern Territory raise revenue by selling taxi "plates" (licences) in artificially limited numbers. The plates are analogous to sites, except that their supply is limited by governments rather than by natural laws, so that the sale proceeds amount to a tax. High prices of plates, and high rents charged by non-driving plate owners (absentee landlords), cause taxi fares to be up to 25% higher than they would be with unrestricted numbers of plates (analogous to unlimited land, if that were possible). The burden falls disproportionately on those who spend the highest percentages of their income on taxi fares, namely the poor and disabled.

I quote from Section E3-4 of the report: "Abolishing the tax would mean retaining only those restrictions on taxi licences that relate to safety and service. This would see the value of plates fall nearly to zero…Some of the financial return plate holders earn reflects the risk that current arrangements may change, so whether they should be compensated at all is an open question."

Cop that, Herbert Spencer. But then the report immediately adds: "There is no doubt, however, that it would be far better for society to cash plate holders out using revenue from other taxes rather than to retain the highly inefficient taxi tax."

Cash for what? When the Northern Territory opened up its taxi industry in 1999, holders of existing plates were compensated at current market value. The Henry report says more vaguely that plates could be "bought back", and floats the idea of uncompensated gradual implementation "by imposing a price ceiling on the price of new taxi licence plates that reduces over time, triggering the automatic release of new plates." It does not explicitly consider compensation for the cost of acquisition.

A 1999 paper by the Productivity Commission [www.pc.gov.au/research/commissionresearch/taxiregulation] had no such inhibition, concluding that: "Governments could also consider the merit of capping compensation payments based on…the net present value of the stream of income given by the current lease rate; or…the purchase price of plates (indexed to the consumer price index)." That paper referred to a 1994 report by the Industry Commission, which rejected compensation for the purchase price only, on the curious grounds that it was too complicated and that all plate holders suffer the same loss regardless of when (and hence at what price) they bought their plates. This finding contradicted the submission by the Northern Territory, which said that "compensation should be restricted to those licensees who have recently entered the industry…This will avoid a windfall gain to those plate holders who have been in the industry for some time and have covered the cost of their plate many times over." But the same jurisdiction, with the same party in government, went on to deliver that same windfall gain.

Dr. Gavin R. Putland
Director, Land Values Research Group
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