

## *NOTES AND COMMENTS*

### LABOUR COSTS AND TAXI SUPPLY IN MELBOURNE

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Intuitively, the taxicab industry would appear to qualify for inclusion in the lagging productivity sector of a Baumol type growth model (Baumol, 1967). On that basis we would expect that drivers' wages would increase at approximately the same rate as wages in other industries, but that these wage increases would cause the price of taxi service to be relatively higher than prices in more progressive industries, because the taxi industry would find it difficult to offset wage increases with productivity increases. Unless there were an inelastic demand for taxi service, the industry would be likely to diminish and perhaps ultimately to vanish.

Whether the taxicab industry can provide a partial solution to our urban transport problems will depend critically on its long-term cost and operating characteristics and the effect on demand of increasing real incomes. In an earlier paper Beesley (1979) noted that the London taxi trade had apparently been able to keep real costs down by adjusting labour supply. However, the flexible labour contracts that Beesley outlines give us little clue to the magnitude or effect of these changes in labour supply. This paper attempts to extend Beesley's account of the effect of changes in labour supply on the price of taxi service, using an Australian example.

#### CHANGES IN THE QUALITY OF LABOUR

Since the introduction of leasing to the Melbourne taxicab industry in the late 1920s, the proportion of total revenue accruing to labour has risen from 33% in 1927 to 40% in 1954, 45% in 1965, and since 1970 to 50%. In contrast, evidence presented elsewhere for Melbourne (Williams, 1978) and the United States (Wells, 1972) has shown that taxi fares have generally followed closely the growth in the Consumer Price Index, while public transport fares have increased at a relatively faster rate. An unbalanced growth model would have led us to anticipate a rate of increase in taxi fares greater than in the Consumer Price Index and at least as great as that of public transport fares—especially because it would appear, unions aside, that rail and tramcar operators are better able than owners of taxis to substitute capital for labour as wages increase.

One way in which a non-progressive sector can maintain constant prices is by lowering the wages that it pays relative to the progressive sector; this would mean a

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widening differential between taxi drivers' wages and all other wages, an implication not allowed for in Baumol's model. A comparison of taxi drivers' earnings with average wages for other workers in the period 1940 to 1971 has revealed a significant drift in the earnings of taxi drivers (Williams, 1978, p. 158). In 1941 the taxi drivers' award wage represented 93% of the average wage for all workers, but by 1971 a taxi driver earned only 56% of the average earned by "all workers". While the relative position of a taxi driver had improved by 1976, so that taxi drivers' earnings were now 68% of the average wage, it was now clear that to earn the average weekly wage of approximately \$175 a taxi driver would have to work for 60 hours per week (*Melbourne Age*, 22 April 1976, p. 10). If adequate data were available to compare the movement of taxi drivers' wages with all other wages over a greater period of time, there is some evidence that the movement in wage differentials would have been still greater.<sup>1</sup>

The limited overseas data available would appear to confirm that wage differentials have moved against the taxi driver. In Tokyo, for example, in 1956 the average taxi driver's yearly salary was 702 thousand yen, and the average wage of a Tokyo blue-collar worker was 636 thousand yen. In June 1967 the average wages of the two groups were equal; by 1970 the average blue-collar worker earned 1.2 million yen and a taxi driver 1.1 million, and in 1975 the average blue-collar worker earned 2.8 million yen and the taxi driver 2.4 million yen per annum.

The first apparent effect of the widening wage differential is that taxi companies experience increasing difficulty in attracting sufficient drivers and in keeping turnover low. At a 1953 Transport Regulation Board inquiry the manager of Melbourne's largest taxi company reported: "I have never advertised in my life as manager of Silver Top for any personnel" (Transport Regulation Board, 1954). Today, advertisements to recruit drivers for the same company appear almost weekly in the daily newspapers. The Yellow Cab Company has been running advertisements directed at tertiary students, while others promise southern European migrants that they can save enough as taxi drivers to finance a trip to their homeland.<sup>2</sup>

This difficulty in recruitment will undoubtedly also have put pressure on the Transport Regulation Board to get more people through the driver entrance tests. Twice in the past decade the T.R.B. has made these tests substantially easier; a police department driving test has been abolished, and in a street and location knowledge test applicants are now permitted to use street directories.<sup>3</sup> Simultaneously, the Victorian Taxi Association has been a strong lobbyist in encouraging the Federal

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<sup>1</sup> A 1924 copy of the Yellow Cab Company's drivers' handbook shows that wages were \$9 per week. In addition, a bonus was paid to each driver in the form of a percentage of any takings in excess of \$36 per week. This bonus ranged from 20%, for weekly takings between \$36 and \$40, to 30% for takings in excess of \$52 per week. In the same year the average nominal weekly wage for all workers was \$9.43, while the average nominal weekly wage in the "land transport" industries was \$8.93 (McManus, 1976; Commonwealth Bureau of Census and Statistics, 1927).

<sup>2</sup> *Melbourne Age*, 22 April 1976; see also Transport Regulation Board (1974), p. 8. The problem of labour supply is not restricted to Australia; for similar U.S. experience see Kirby *et al.*, 1974, pp. 87-88, and Webster *et al.*, 1974, pp. 2-5.

<sup>3</sup> Time is money to the taxi user, and the ignorant taxi driver who stops frequently to check his street directory increases the cost of the trip. It is also unlikely that the driver will be able to rely on the rider for advice, since evidence from the Maxwell Stamp Committee has shown that only 25% of riders can be said to have a knowledge of the route to be taken (Great Britain, 1970).

government to direct more registered unemployed to work as taxi cab drivers (*Melbourne Age*, 22 April 1976, and *Melbourne Herald*, 8 April 1976). Despite these measures, turnover of drivers is high. Since the T.R.B. began regulation of the industry in 1952, over 100,000 taxi drivers' licences have been issued for taxicabs now numbering approximately 3,500.

The second product of the widening wage differential has been the increasing numbers of part-time drivers employed. Before 1950 many taxi companies refused to employ part-time drivers, and any owners suspected of doing so received terse examination by union counsel at the T.R.B.'s inquiry in 1953. The part-time driver was virtually unknown in the days of regulation by the Melbourne City Council, before 1952; the council refused to issue "hackney carriage" licences to part-time drivers.

By 1974 approximately half the drivers in Victoria were working part-time, and the remainder were split more or less equally between owner-drivers and full-time drivers.<sup>4</sup> This trend may be self-reinforcing. While it has been accepted that consumption or income target behaviour on the part of labour will result in a backward-bending supply of labour schedule, it has more recently been shown that for multiple job-holders this will occur only under restrictive conditions (Perlman, 1969, p. 11). Many part-time taxi drivers work for lower hourly wage rates than they receive in their primary source of employment. The part-time driver is further helped by the fact that for tax purposes a taxi driver is self-employed.<sup>5</sup> This means that the driver himself must declare his own earnings and pay additional tax, including provisional tax. In an industry where owners often keep incomplete records, the earnings of any one driver can be difficult to determine, and many drivers will openly admit that they pay no tax.<sup>6</sup> Evasion of taxation for the part-time driver is the more readily available because he can so easily disperse his additional income on consumption goods, the amount spent on which is difficult to trace.

So the taxicab industry has experienced, and is experiencing, a decline in the quality of its drivers. This implication was supported by interviews with owners and drivers who were engaged in the industry before 1950 and who participated in a historical survey of the industry conducted for another study. Many pointed to the decline in standards of dress, to the number of migrants entering the industry, and to the numbers of part-time drivers, and some to the lack of courtesy given by current day drivers in opening the doors of cabs, etc. Certainly it is not difficult to appreciate that the early taxi driver had something of a prestigious job; he dressed in a braided uniform, wore leggings, hat and gloves, and drove a machine which was luxurious and unfamiliar to most of the public. He may, in those early years, have been regarded by many in the same way as we now view the aeroplane pilot.

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<sup>4</sup> For a more accurate picture of the proportions in Victoria and all other states see Australian Department of Labour and Immigration, 1975, pp. 36-38. The trend to part-time workers in unprogressive sectors of the economy has been predicted elsewhere (Scitovsky *et al.*, 1959, p. 99) and noted with reference to the taxi industry in the U.S. in Webster *et al.*, 1974.

<sup>5</sup> The legal battle between taxi owners and the union over the status of drivers leasing cabs from their owners is one which is still not fully resolved, even though it first began in the late 1920s. A good summary is given in Curnow (1964), pp. 24-26.

<sup>6</sup> See also the comments in Curnow (1964), p. 26.

Allegations of falling standards have also been made by present day interests:

"Generally speaking, driver standards in the industry have not been kept up to the level in which our union believes shall reasonably be expected of professional drivers in the public transportation area. . . . Attempts by the union in past years to have advanced drivers testing required, both in the interests of better standards for drivers and the better protection of public, while once actually accepted and adopted by the T.R.B. in conjunction with a specialised police-testing squad, eventually suffered rejection and disbandment at the behest of the ownership sector" (Motor Transport and Chauffeurs' Association, in private correspondence, 6 October 1976. See also Victorian Taxi Association, 1974).

It seems reasonable to conclude that the less-than-anticipated rise in the price of taxicab services is due at least in part to a reduction in quality of labour.

This has been brought about or reinforced by the introduction of leasing in the 1920s, widening wage differentials, an easing of driver entry requirements, an influx of part-time drivers, and the pressures generated by unbalanced growth in productivity generally. However, changing quality of labour has not been the only determinant; another lies in the cost of capital inputs and in the level of operating costs other than labour.

The unbalanced growth model with which we began this note assumes industries with a single factor input, labour. If we relax this assumption it is possible to perceive other explanations of the subdued rise in taxicab prices. Elsewhere, we have examined the relationship between a variety of indices of taxicab operating costs and the Consumer Price Index without arriving at any definite qualification to an unbalanced growth model (Williams, 1978, p. 164). This does not apply to the prices of motor vehicles, which have risen at a significantly slower rate than the C.P.I. and in some years have fallen in real terms. This trend is shown more clearly in Table 1, which compares the real price of representative motor vehicles with movements in the C.P.I. and an implicit price index for new motor vehicles extracted from the National Accounts. Evidence presented elsewhere suggests that similar movements in real prices have occurred in taxi meters and radios (Williams, 1978, p. 167).

## CONCLUSION

The taxi owner, a proprietor in a non-progressive industry, has until now been able, for a number of reasons, to avoid the decline that we would expect by reference to an unqualified, unbalanced growth model. If wages in both sectors do not move together and if the products of a highly progressive industry are also used as intermediate capital goods in the non-progressive industry, then it may be possible to allay the pressures of unbalanced growth in productivity. If this is so, an extension of the taxicab industry as we now know it may indeed be expected to provide relatively cheap transport for a good many more people than it serves at present.

Further research on the relationship between labour costs and quality, and the effect on these of cost increases in other sectors or of unionisation of the taxi industry, will provide useful information for determining its future, as well as valuable information for regulators of other service industries.

TABLE 1  
*Comparison of C.P.I., Implicit New Motor Vehicle Index and the Real Price of Representative Motor Cars (Victoria)*

Year	Real Price <sup>a</sup>	C.P.I. <sup>b</sup>	Implicit Index <sup>c</sup>
1954	1576	72.3	93.2
1955	1594	73.8	89.4
1956	1515	78.4	92.7
1957	1396	80.3	99.1
1958	1428	81.4	99.4
1959	1524	82.9	97.4
1960	1455	86.0	96.7
1961	1345	88.2	99.6
1962	1304	88.0	96.2
1963	1267	88.4	94.6
1964	1277	90.5	93.8
1965	1236	94.1	95.1
1966	1163	96.9	97.3
1967	1053	100.0	100.0
1968	994	102.7	100.3
1969	971	105.6	105.6

\$ Constant 1966/67 prices      Base 1966/67 = 100.

Sources: <sup>a</sup> Presented in Curnow, 1964, p. 13. <sup>b</sup> Australian Bureau of Statistics. <sup>c</sup> R. H. Burke, private correspondence, 20 October 1975.

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