

Dr Peter Boxall, Chair, Independent Pricing and Regulatory Tribunal

Dear Dr Boxall

Review of Public Transport Fares from 1 July 2016

SUMMARY: Inner Sydney fares should rise; Outer Sydney and regional fares should fall.

Currently, Inner Sydney property-holders enjoy massive benefits from the Public Transport Subsidy to the detriment of Australia as a nation. Sydney's spatial fares and subsidies need change to add to Australia's productivity, innovation and international competitiveness.

The NSW Public Transport Subsidy may be much larger than the fare revenue. I encourage IPART to publish official estimates of the size and spatial benefit of the subsidy. Could IPART explore if the subsidy is passed on until it settles – typically on land following the classical economist David Ricardo?

Will agglomeration of businesses benefit Australia's future productivity and innovation? Central Sydney is important for finance and other leading industries. But is this simply for historical reasons? Will there be future benefits of face-to-face conversations and meetings that lead to innovation and ongoing productivity improvements that outweigh the costs of transport? Drs Sasan Bakhtiari and Robert Breunig gave a preliminary and incomplete paper on *Channels of Knowledge Spillover: An Australian Perspective* at the Australian Conference of Economists ACE 15 recently. Their preliminary findings suggested:

- Intensified competition within clusters, amounting to some benefit of agglomeration; but
- No additional spillovers – that is no intensified interaction.

There will be other externalities so I suggest IPART follow their research as it firms up, and indeed all research on this important area.

Sydney may be a brake on the Australian economy. Its high property prices constrain the Reserve Bank from letting official interest rates, and hence the \$A, from finding their natural levels to maximise national economic growth and employment. Is there a possibility that the Commonwealth could levy an emergency tax on Sydney land, or land and buildings, to allow the Reserve Bank greater flexibility? I suggest that NSW makes a special effort to ensure its fare subsidy and revenue operate jointly in the national interest; thereby reducing the risk of Commonwealth intervention.

I propose that the fare subsidy and revenue jointly drive the Sydney economy to be more dispersed. Firms would benefit as offices and factories and warehouses could be bought or rented at cheaper rates than in central locations. Workers and consumers would welcome shorter times spent commuting. Some of the heat may go from the inner property market.

Fares and subsidies could signal a disincentive to travel to inner Sydney along the lines of London.

- cordon pricing for motor vehicles; and
- full cost recovery pricing for commuter fares, which exploits almost-monopoly power market share.

If the NSW Government wishes to continue a large Public Transport Subsidy, then I propose that this be directed to residents of Outer Sydney and regional NSW. Net fares could be cheaper away from central Sydney and more expensive closer in.

Yours sincerely

Philip Norman
Director.