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Taken For A Ride:

How the Taxi Cartel and the State Are Disserving Denver's Economy

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Sorry, Competitors Needn't Apply

Denver has one of the most restricted taxicab markets in the United States.[1] This is in contrast to the hundreds of choices Denverites enjoy in nearly every other segment of the marketplace.

And it is in contrast to the dozens of taxicab companies in existence in such cities as Washington, DC, San Diego, Seattle, Sacramento, Kansas City, Oakland, Fresno, Charlotte, Phoenix and Tucson which allow entry into the taxi market. Denver since Harry Truman's time has had only three cab companies.

Despite numerous applications, the Colorado Public Utilities Commission has denied all requests to start new taxicab companies in Denver for the past 46 years. Such restricted entry necessarily reduces employment and entrepreneurial opportunities.

Furthermore, by definition, the most pressing employment and entrepreneurial needs are among the disadvantaged, who because of their position at or near the bottom of the economic ladder, need opportunities more desperately than the rest of society. Since entry into the taxi business requires

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In Brief

- *The Colorado Public Utilities Commission has blocked new competitors from entering Denver's three-firm taxicab market for nearly half a century. Job creation and entrepreneurship, especially for low income people, are hurt by this policy.*
- *The restriction on taxi startups, dating from Depression-era rules meant to protect existing operators, survived a recent legislative challenge but now faces a federal judge.*
- *Evidence from Denver's poorer neighborhoods suggests there is unmet demand for more cabs as well as a willingness to provide them.*
- *Easing entry restrictions in other cities has increased the number of cabs by 33-127%, with a significant decrease in waiting times for service. But likely fare trends are harder to predict.*
- *Upon examination there is little merit in the arguments for continued entry restrictions, including congestion and pollution, diseconomies of smaller operators, consumer protection and maintenance of a wage floor.*
- *Since free entry into the taxicab market would yield substantial public benefits, PUC regulation of taxis should be limited to requiring safe drivers, safe vehicles, and proper insurance.*

[1] Peter Blake's column, *The Rocky Mountain News*, January 27, 1993, p. 7, and author's interview with Chip Mellor, Institute for Justice, Washington, DC.

minimal training (little more than learning to drive a car), and minimal capital (the cost of a used car and related signs and equipment), it follows that restricting the taxicab market not only reduces employment and entrepreneurial opportunities, but does this where it hurts most: among the disadvantaged.

This issue paper will argue that there is no evidence of clear public benefit from restricting the number of taxi companies, and that such restrictions should therefore be lifted. However, the paper readily accepts restrictions such as driver licensing, vehicle safety and insurance requirements. Such restrictions are beyond the scope of this discussion.

History of Restrictions in the Number of Taxis

Between 1929 and 1937, many American cities imposed restrictions on entry into the taxi business. A Federal Trade Commission study states:

> While some commentators have suggested that this movement was a response to conditions during the Depression, it appears to have begun during the late 1920's, following taxi fare reductions and a number of fare wars. However, the trend accelerated during the early 1930's, when both car prices and wages dropped. Many unemployed workers entered the taxi industry using rented cars, and as a result taxi fares, occupancy rates and revenues per cab declined. Pressure for restrictions on the taxi industry came from the American Transit Association, public transit firms, the National Association of Taxicab Owners (which passed a resolution favoring entry and minimum fare controls), and the established taxi fleets.[2]

Typifying the attitudes of this period is a 1933 article frankly admitting that the new regulatory setup was designed "to drive many cut-throat cabs, operating without authority, from the streets."[3] Further, the restrictions "enable[d] the organized cab fleets and transit companies to increase their profits.[4]

Little has changed in 60 years. Only last month, when a bill to permit new firms' entry into the taxi market was introduced in the Colorado legislature, Colorado taxi industry spokesmen testified--not that it would help or hurt the public good--but that it would put them out of business.[5] A year ago when Quick Pick Cab Company, the fledging venture of four African-Americans including three recent immigrants, applied to open for business in Denver, the taxi industry immediately filed 250 pages of objections to the request.[6] The PUC denied Quick Pick a permit.

In contrast to these pleas for protection from the taxi industry, it is interesting to note the unusually favorable press comment on a lawsuit filed on behalf of Quick Pick's owners, alleging that their 14th Amendment rights to equal protection under the law had been violated. Both the Denver dailies ran editorials critical of the denial,[7] as did the Wall Street Journal[8] and nationally syndicated columnist George Will.[9] These

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[2] Frankena, M. and Paulter, P., "An Economic Analysis of Taxicab Regulation," Bureau of Economics, Federal Trade Commission, 1984, p. 75.

[3] *Transit Journal*, 77, March 1933, P. 84.

[4] op. cit., Frankena, p. 79.

[5] "Taxi industry fights bill to loosen rules," *Denver Post*, February 10, 1993, p. 4B.

[6] PUC docket number 92A-366CP.

[7] "Slaying the taxi monopoly," *The Rocky Mountain News*, February 1, 1993, p 58.; "Break the stranglehold on taxi entrepreneurs," *The Denver Post*, February 7, 1993, p. 2D.

[8] "Hailing the American Dream," *The Wall Street Journal*, February 1, 1993, p. A14.

comments suggest that public opinion is running against this sort of special protection of certain companies.

Opportunities for More Employment and Entrepreneurialism

The evidence is strong that if entry restrictions to Denver's taxicab market were lifted, the number of cabs would increase. Table 1 lists the dramatic percentage increase in the number of cabs in seven American cities that deregulated their taxi industries prior to 1985.[10]

Change in Size of Taxi Industry since Deregulation

City	*Increase in Number of Taxis*
	%
Seattle	33
San Diego	127
Sacramento	56
Kansas City	18
Phoenix	83
Tucson	33
Oakland	38

Further evidence is found in the recent application to the PUC for a taxi permit mentioned above. The applicant included 19 hand-written letters, mostly from northeast Denver (a largely disadvantaged neighborhood) complaining of poor, slow or non-existent taxi service. Two samples follow:

> "There has (sic) been several occasions where I needed and ordered cab service, and either they never showed up or they arrived extremely late causing me to miss out on important medical appointments, and even work."

> "There has (sic) been times that I called for a cab and it never came. I once waited for a cab at the grocery store for 40 minutes, only to have the driver tell me[,] wait in the car while he went shopping. I opted to walk 2 1/2 miles home rather than suffer further indignation at the hands of [the cab company]."[11]

Further, Rev. Oscar Tillman of the Colorado-Wyoming division of the NAACP testified before the Colorado Legislature that northeast Denver people have trouble getting taxis, even to church services.[12]

This suggests that if entry restrictions to Denver's taxi market were lifted, this unmet demand would be met by new entries into the business. If the problem is that the three existing companies consider certain neighborhoods too dangerous, this is all the more reason to believe that new independent cabs, perhaps driven by residents of such neighborhoods, would find a ready market for their services. These new entries would increase employment, much of it among the disadvantaged.

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[9] Will, G.F., "Drivers stalled in legal traffic," *The Rocky Mountain News*, February 7, 1993, p. 124.
[10] Teal, R.F., and Berglund, M., "The Impacts of Taxicab Deregulation in the USA," *Journal of Transport Economics and Policy*, January 1, 1987, p. 41.
[11] op. cit., PUC.
[12] op. cit., Denver Post, February 10, 1993, p. 4B.

Likely Impact on Levels of Service

Intuitively, it would appear that if more cabs were permitted to operate on Denver streets, waiting times would be reduced. This is borne out by the experience of San Diego, which after allowing free entry, experienced a reduction in average waiting time from 10 to 8 minutes, a 20 percent improvement.[13] There is also evidence of reductions of waiting time in both Seattle and Oakland after entry restrictions were eased.[14] There appears to be no evidence in the literature of increased waiting times after allowing free entry.

These improvements are in the telephone order taxi market, which uses radios to direct cab movements. Because of the centralized nature of this segment of the taxi market, data collection becomes relatively easy.

The other major portion of most taxi markets (including Denver's), is the cabstand segment, consisting of queues at airports and major hotels. Such a market can be served by a car without a radio, making it the most likely market to be entered by new independent cabs, which often cannot afford radios.

By filling the queues, these new entries can free up radio equipped cabs to concentrate on the telephone segment of the market, which they serve best. Unfortunately, because of the decentralized nature of these operations, data verifying improvements in service in this segment of the market are scarce.

Likely Impacts on Fares

Among the intuitive results of more cabs on the road should be a reduction in fares due to increased competition. However, the available data sometimes do not bear this out. This counterintuitive result seems to be due to two factors:

- Often, deregulation frees both market entry and fares from regulation. Since many of these fares had been held at below market rates, the increases seem to be due, in part, to this overdue adjustment, rather than the increase in cabs.[15]

- During the period before and after deregulation, "gasoline price increases, severe inflationary pressures, and the transition to driver leasing in the taxi industry"[16] drove up prices independent of any regulatory change.

Fares did drop in both Sacramento[17] and Seattle[18], but they increased in other cities after deregulation.[19] The fact that the data are mixed, along with the fact that the PUC sets fares quite arbitrarily[20] further complicates the question and makes it difficult to predict the impact on fares in Denver if more taxi firms are permitted.

Indeed, a regulatory scheme that sometimes holds fare levels below the market rate would explain poor service, since the expected return on the investment in more cabs isn't high enough to persuade the existing companies to buy them. In contrast, the

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13 op. cit., Teal, p. 42.
14 op. cit., Frankena, p. 117-118.
15 ibid., p. 115-116.
16 op. cit., Teal, p. 43.
17 ibid., p. 44.
18 op. cit., Frankena, p. 116.
19 op. cit. Teal, p. 43
20 Colorado Revised Statutes, 40-11-105 (3).

new companies, those denied entry into Denver's market, are willing -- as evidenced by their repeated applications to the PUC -- to make this investment, presumably because they are willing to accept a smaller return on their investment.

THE RATIONALES FOR RESTRICTING MARKET ENTRY: HOW VALID ?

It has been argued that if more than some "ideal" number of cabs was permitted, as determined by the regulatory bureaucracy, in this case the PUC, that the extra cabs cruising city streets looking for fares would cause unnecessary congestion and air pollution.

However, unlike highly urbanized cities, Denver's market includes very little hailing from the street.[21] Thus cruising in Denver is unproductive and is unlikely to occur.

If, as seems likely, each taxi trip replaces a similar trip in a private or rented car, no additional congestion or air pollution will occur if ex[illegible] cabs are permitted on the streets.

One potential source of additional congestion and air pollution is cabstands. If more cabs are permitted, this may result in longer queues at airports and hotels. If this occurs, then, like any surplus--in this case a surplus of cabs at cabstands--the reason is that the price is too high.

Fares have often been set so high that it makes sense for drivers to waste large amounts of time waiting for a lucrative fare. The answer is not to limit cabs, but reduce fares, either by regulation or by allowing the free market to do it.[22] Lower fares would discourage drivers from waiting in queues.

It should be noted in passing that if the aim is to reduce congestion and air pollution, then other restrictions in the transit market should be lifted in order to avoid favoring owner-driven private vehicles or low-occupancy commercial vehicles. These restrictions include:

- shared ride services, where two fares can ride to the same destination and split the fare, and
- jitneys, that is, privately owned vans running on more or less fixed routes.

Both of these options are currently illegal in Denver.

Economies of Scale

It has been argued that economies of scale are sufficient to justify keeping "inefficient" independent cabs out of the market. That is, big cab fleets can presumably buy gasoline, oil and tires more cheaply, and direct their cabs more efficiently with radios, than can independents.

The very existence of independents in most markets where they are permitted[23] suggests that these operators feel they are efficient enough. Other evidence is offered by the New York City cab regulations, which include different medallions for fleet cabs and for independents. The free market resale price for a medallion for an independent

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21 op. cit., Teal, p. 40.
22 op. cit., Frankena, p. 42.
23 ibid., p. 54.

cab is about 20 percent higher than the resale price of a medallion for a fleet owned cab.[24]

It is theoretically possible that the price difference is due to plenty of fleet medallions being available, which would lower their price. Since the original-issue price for either is approximately $150,000,[25] clearly there is an extreme shortage of either sort of medallion.

The higher resale price for an independent medallion indicates that a prospective purchaser believes he or she can make more money operating an independent cab than a fleet cab, suggesting that, if anything, reverse economies of scale are at work.

Using only this evidence, it might actually be argued that large fleets should be *outlawed*, and only independents be allowed to operate. Of course, this paper argues that neither type of cab be restricted.

Consumer Protection Concerns

It has also been argued that keeping independents out of the market may be justified because a passenger may not be able to judge the safety or quality of an independent operator, while fleets can be more closely regulated so as to present the passenger with a greater certainty of acceptable service.

But this charge confuses the market entry issue with a straw-man specter of total deregulation. Let us make clear that this paper does *not* recommend lifting driver competency, vehicle safety, insurance and liability requirements from taxis in Denver. These rules have provided and will continue to provide adequate safety.

The fact remains, however, that quality of service is inherently difficult to regulate. This is evidenced by a rather bizarre proposal to set up a publicly funded "charm school" for Denver cabbies in 1989,[26] in an attempt to improve fleet cab service among the three protected companies. *Despite* being heavily regulated, their service was poor enough to stimulate such an idea. (It was never implemented.)

But the bottom line is plain: neither fleets nor independents are likely to be effectively regulated regarding quality of service.

Furthermore, taxi riders self-regulate levels of service by refusing to patronize dirty or unpleasant looking cabs, or with the implied threat to tip less if the service is not satisfactory.

Wage Levels of Cab Drivers

Finally, it has been argued that allowing more than the "ideal" number of cabs on the street causes the average earnings of taxi drivers to drop as more cabs are allowed into the market.[27] This is an accurate observation, but far from a reason to restrict entry, it is an argument to permit it.

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24 Gilbert, G., and Samuels, R.E., *The Taxicab: An Urban Transportation Survivor*, University of North Carolina Press, Chapel Hill, 1982, p. 92.

25 Randolph, A., "New York Taxi Policy Is a Lemon," *The Wall Street Journal*, March 17, 1992, p. A 14.

26 "$50,000 'Smile High Denver' charm school pushed for cabbies," *Denver Post*, November 28, 1989, p. 1.

27 op. cit. Teal, p. 46.

A person who is willing to work for a lower wage clearly is more in need of a job than a person who has the option of turning down such a job. Therefore, if public policy can open more low paying jobs at the expense of high paying ones, this is what public policy should do, so as to help those who are most disadvantaged. Opening the taxi business does exactly this.

Conclusion

This paper has examined the advantages and alleged disadvantages of opening Denver's taxi market to competition by new companies.

Apart from requiring safe drivers, safe vehicles, accident and liability insurance(requirements that are part of the existing law), there are no other reasons to restrict entry that withstand scrutiny.

In addition, allowing more competition would not only increase employment in Denver, it would probably increase it among the dis l -- those who need it most.

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