Lessons for Policy Makers

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I have been studying deregulation and regulatory reform and the U.S. taxi industry for a number of years. Currently I am studying the role of the taxi in a deregulated mode in a variety of cities, with funding from the Mike Hogg Endowment for Urban Governance. As part of that work, I am also studying taxi contract services.

One of the things that strikes me about taxi deregulation is that quite often it is brought to cities with a sort of missionary appeal. People show up and set up tents on the outskirts of the city, preaching free enterprise and deregulation. Then when the local community is stirred up, the preachers go away and leave it to city officials and planners to figure out how to bring deregulation about and if, in fact, it is worth bringing about.

I would like to suggest that that kind of religious fervor is probably misplaced; I think it leads us into a situation in which, when all promised benefits don’t materialize—and there are substantial economic and political costs—disgruntled officials tend to throw the baby out with the bath water. That is, having been promised so much, local policy makers are unwilling to consider more modest regulatory changes that could bring small but measurable improvements.

I would like to discuss seven important lessons for policy makers looking at municipal experiences with taxi deregulation. After that discussion, I would like to review three or four things that planners, analysts, and even advocates must do for local policy makers if they are interested in considering or implementing some reform measures.

I base my observations on discussions with city council members and their staffs, county commissioners and their staffs, and other relevant actors both before and after regulatory revision in most of the cities discussed by the other panelists. I think that it is important to watch a regulatory experience “age” because you find that memories change over the years. It’s important to remember that people’s memories, and the history of a project, can alter as subsequent events unfold.

Above all, it is my view that most policy makers, if thinking clearly, would find the religious fervor on the part of economist advocates to be a little off-center. The economic argument that a publicly established monopoly brings a misallocation of societal resources is not relevant for local officials who care little about the proper distribution of resources throughout society.

Instead of being concerned with the economic arguments, I think that most policy makers would have the following real questions or concerns about the regulatory efforts that have been discussed at this session and in the literature.

First, most policy makers would see a relatively small positive impact in terms of fares, level of service, and quality of service. In fact, they may even see negative impacts in one or more of these important dimensions.

Even if the impact is positive, I stress the fact that it is often relatively small, that is, relative to what the local population has been led to expect. Advocates appear to offer 300 percent more taxicabs and saturation service on all the streets. Either all the poor people in town are going to have jobs as taxi drivers or they are going to be riding around town in suddenly cheap taxis. Relative to these kinds of promises, the results appear very small indeed.

Moreover, the positive impacts that exist are often the kind not immediately obvious to policy makers. I personally believe that the single most positive impact of almost all of the regulatory reforms that I have seen is what Barbara and Roger were talking about: the increased ability of taxi and other paratransit operators to enter into contractual relationships with public bodies.

Many of these contractual arrangements are for services for the elderly and handicapped, although in Tucson the transit companies are contracting with taxi operators for provision of late-night and low-density services for the general public. It has often been held that some of the taxi contracts that San Diego Transit has in low-density suburban areas were made possible by regulatory reform in San Diego.

So I believe that increased contractual arrangements with taxi operators are a really positive impact of reform, but not the kind of impact that is very obvious to a policy maker, even after it has happened.

Second, even when there are positive impacts, they often take a long time to become visible. In some deregulation efforts, new providers need to find a new service area, like the army base in San Diego. Finding profitable service areas may take a couple of years; policy makers may not see the change or necessarily see it as a sharp enough difference from the situation before.

Third, in spite of the anecdotal nature of airport taxi experiences, when policy makers look at deregulation, they see terrible and not anecdotal problems at the airport. The problems are often so terrible that even people who were proponents of regulatory reform—tourist bureaus and convention and hotel people—as in Atlanta, turn around and put substantial pressure on city councils or county commissioners to reregulate the industry.

I’d like to point out, parenthetically, that there are other ways to deal with the problems at the airport than reregulating. But I am describing the political reality facing a decision maker who is looking at a zoo at the airport after reform and is searching for the easiest way to fix the situation and not for a “let’s tinker around with this” type of solution.

Fourth, I think that local policy makers would come away from some of the fights between and among those of us in this type of forum and conclude that deregulation is an all-or-nothing affair. When regulatory reform doesn’t work (as it didn’t in Portland, for example), some proponents argue that measures there simply didn’t “go far enough.” They argue that
Portland, or City X, didn’t take off enough fare restrictions, or didn’t take off enough restrictions on service levels, or didn’t let taxis compete with transit operators.

The lesson that policy makers get from this kind of discussion is that reform is all or nothing. You can’t try it in stages, see how it works, and then try something different because the first efforts weren’t successful. I’d like to suggest that it is really important for both proponents and planners to think about identifying some sort of staged implementation of regulatory reform in ways that will allow cities to experiment without incurring too great a financial or political cost.

A fifth message that policy makers get when looking at the result of regulatory reform efforts is that, related to earlier points, the public impact of positive results is often very small. To put it another way, the positive impacts that do come from deregulation are not politically and publicly salient, whereas the negative impacts are definitely so.

For example, I don’t think that the public in San Diego or Tucson realizes that more elderly and handicapped people can be transported, perhaps at a lower cost, because of deregulation. It’s just something that no one is ever going to see. A subset of the population in San Diego, those at the military base, perhaps realize that they are getting better service, but in general, the positive results of deregulation are diffuse.

Thus even if positive results do exist, even if they can be justified from an economic perspective, and even if the regulatory reform is justified, politicians often don’t get the political benefits they need to offset their risks. It is the classic pork barrel syndrome: a politician who would rather go home and dedicate a dam or a rail system than a social service agency where the results are so diffuse. A politician needs something to point to and say to constituents, “See what I did for you?” The results of deregulation, which often have high political risks, often don’t have that kind of political payback to decision makers.

A sixth issue facing local decision makers listening to advocates and preachers is that a city often incurs a number of expenses with deregulation that it didn’t have before. For example, if you wanted to deal with the airport problem ahead of time you could build special holding tanks at the terminals. Seattle did so, and they believe that they are getting all construction costs back from the drivers by charging them a fee. However, in most cases there has to be a significant outlay of public funds to build facilities to handle the congestion at the airport.

Other aspects of deregulation cost money too. You have heard about the problem of enforcing remaining regulations; almost every city is spending more money than it did before to find independents, to regulate their vehicles and insurance, and to deal with the kinds of restrictions that remain. The costs to do so are not insignificant.

Finally, in examining the existing experiences with municipal regulatory reform, decision makers would see that there is often political conflict after the implementation that did not exist before. In many cities that experienced some type of regulatory reform, the only meaningful opposition was from enfranchised taxi operators—hardly trivial but not widespread. The regulatory reforms did not themselves engender much public interest or opposition.

But after reform, city council members started getting calls about gypsy cabs, which, of course, were no longer gypsy cabs. They started getting calls about price gouging at the airport. There is the anecdotal Seattle story about some man—who was either the mayor of Anchorage, a tourist from Sweden, or somebody from Florida (depending on who’s telling the story)—who was charged hundreds of dollars for the trip from the airport to downtown.

Even though the story is anecdotal, there is undoubtedly some basic in fact; it is these incidents that start politicians’ phones ringing off the hook. At the same time there are few senior citizens calling politicians up to thank them for deregulating taxis because their fare has gone down on subsidized service. This is the kind of political reality faced by decision makers considering taxi regulatory reform.

In addition to the seven lessons that local politicians and policy makers can glean from the existing history of taxi deregulation, there are lessons that planners and even advocates can learn as well. First, it is very clear that if benefits are to be achieved from any kind of regulatory reform, you must know what both the supply and demand sides of the market look like. You have to know the structure of the companies, the percentages of franchise and individual drivers, and, as Roger suggested, you have to know the likelihood of increasing the market. Allowing more entrants into a market that cannot increase is asking for trouble. It is also, according to classic economic theory, inefficient as well, if productivity goes down.

One of the first things that anyone interested in local revision should do is to give policy makers a clear idea of the supply and demand sides of the market and what kind of regulatory reforms could bring positive impacts given those market conditions. I think our FTC speakers started by pointing out very carefully that there are different markets, and different things work in different markets. These more complex issues are not the sort that people think about in the first blush of religious fervor, but they are central in planning and operational issues.

After having matched the proper kind of regulatory reform to local conditions, planners must give decision makers a very good idea of exactly what benefits they are going to get. Are they really going to get more taxis? Are they going to get lower fares? In addition, decision makers need to know if different market segments will be affected, if they can expect to see differentiated services and distinct market niches, and if they will see group riding. The answers should be based much more on empirical evidence than on classic economic theory; for example, in Arizona there were more entrants and fares did not go down.

The next thing that planners need to tell decision makers is who the actual and potential opponents of the proposed reform are. I know that every time I go to see one of my elected representatives about some local issue, somewhere in the first 5 min they ask me, “Who is in opposition? Who doesn’t like it? Who’s going to show up and bring 400 people to a public hearing?” And I think that those are fair questions.

Those are exactly the things local decision makers would want to know about taxi regulation and the answer is not simply existing taxi operators. Opposition could come from tourism associations, hotel and convention bureaus, the transit operator, and so on. (And support might come from suburban or other taxi companies who want to get into the local market.)
The third major lesson for planners and advocates is based on the fact that you can achieve the same result with several different policies. Every speaker, in one way or another, has mentioned that some of the problems with regulatory reform could be or could have been fixed, not by scrapping relaxed regulations but by changing something else around. Therefore planners in each city ought to lay out exactly what the problems are likely to be, what the potential solutions will be, and what the solutions will cost, so that decision makers can see the bottom line.

For example, I believe that it is true that the problems at the airport could be fixed without scrapping regulatory reforms. You could build holding areas and take other measures. The question for planners is to identify all of those measures and their associated costs. Can you add it all up and say that the cost—political and financial—of achieving these kinds of regulatory reforms in this city gives you greater benefits than simply tinkering around with the current system?

I think that if planners and policy makers had seriously asked that question in some of the cities we are discussing, they never would have implemented regulatory reform. In other cases, San Diego for one, I think that they would have gone ahead. I think that even in San Diego things would have been done differently if that question had been asked ahead of time, but I think that the benefits would still be seen as outweighing the costs.

By asserting that you have to ask questions about the costs and benefits of taxi deregulation, I don’t in any way mean to imply that looking at the down side will necessarily bring you to decide against regulatory reform. But these are questions that decision makers want and need to know about.

The last thing that planners and advocates should do for local decision makers is something I discussed earlier and that arises logically from my last three points. If those interested in regulatory reform as a concept could put together some staged packages, some staged implementation strategies, it would be a significant help. The package would say, “Do this much, which costs you this much to achieve X; if the expected things happen, try step two, which will cost you so much,” and so forth.

I think that such a strategy would help us to avoid throwing the baby out with the bath water by either giving up regulatory reform in cities where it has run into snags or preventing its consideration in cities where limited efforts might be successful and worthwhile.

I think that there are some positive aspects of regulatory reform when it is applied properly. The job for planners and advocates is to look at the needs of the city and of decision makers, see what they need to know before they can intelligently implement these kinds of strategies, and tell them.

**COMMENTS**

**MR. TEAL:**

I wanted to ask Sandi why she linked contract services per se with regulatory reform. I don’t see a per se linkage. I see perhaps a linkage in terms of the rates for contract services, but I haven’t seen anything to indicate that you get more service contracting with public agencies as a result of deregulation. It certainly wasn’t the case in Arizona. The contract services were there already. The ones that have been developed subsequently would have been developed irrespective of the regulatory changes.

**MS. ROSENBLOOM:**

It seems sort of intuitively obvious that if you are trying to expand your market, you are going to go after services you never went after before. The growth of the elderly and handicapped market is an exogenous impact, I think. There are lot more elderly and handicapped services every year, and I think that this was the result of two forces: demand and, of course, federal requirements for more elderly and handicapped services. At the same time, in some cases there was regulatory reform in the industry. I think the companies were just going after an expanding market niche. I saw it in San Diego and in my interviews with the cab companies in Arizona. A local official claimed that in Phoenix a major operator went after that market because he was afraid of the impact of deregulation.

**PARTICIPANT:**

In any of these cities does the press or anyone become the advocate of the public and publish rate comparisons once a month or so?

**MS. ROSENBLOOM:**

I don’t know the answer to that. I know that San Diego is the only city in which I found that the newspaper had run a number of editorials against regulatory reform before it occurred. But I think your question is whether somebody is following taxis to see what they are doing. I don’t have any evidence on that; I have not seen any, and no one has mentioned it to me. Barbara, can you comment on what has happened in San Diego?

**MS. LUPRO:**

There were no periodic updates of what the status of the industry was. The press became active when the problems at the airport caught public attention. I wanted to comment on the question about the contracts. I think it was very clear in San Diego that the users themselves have benefited greatly, as well as the funder of elderly and handicapped services. Both the competition itself, because the users have a variety of services to choose from, and the prices with competition, where discounts are freely offered, have brought the city costs down for providing those services and also brought costs down for the users and provided them with higher-quality service than before.

**PARTICIPANT:**

You mentioned that there are other ways to solve the airport problems than deregulating. I tend to agree, but I would be interested in, first of all, your comments on the first-in, first-out
queue market, which doesn’t follow conventional rules for consumer choice.

MS. ROSENBLOOM:

Yes, there are ways to deal with that but not without cost. One of the ways to deal with it is to provide four or five lanes in the holding area, so that there are five drivers at the head of each queue, with telephones at the head of all those lines to the terminals. A passenger can walk up and call a cab, and in fact that is really almost a variant of what is happening in Seattle now. If passengers know, or come in and see signs and are given proper information, they can be aware that they don’t have to take the first cab in line. Passengers see a line of green, pink, yellow, and purple telephones and they can call up each one of these cab companies and ask what the fare would be. What also happens in Seattle is that passengers can call the telephone-dispatched cabs, which are cheaper but for which you have to wait. You can still do that in other cities.

To summarize, either you could call the five drivers that are waiting in the five lines or you could call the local telephone-dispatched cab and wait for it in a certain holding area. You can deal with assuring a competitive fare if you want to do it. Airport management in these areas already knows this. The speakers here today, if no one else, has said to them, “Here is what you can do; here is what you can’t do.” Airport management doesn’t want to do these things because they are administratively complex and because it is always easier to deal with a simple regulated situation than a market.

Once you have problems at the airport, and the mayor calls up and tells you about this guy from Pittsburgh who was cheated, and the newspapers are complaining, that’s not the time to start with little changes and pink telephones and green telephones. If you have to make changes in physical facilities, such as adding separate holding areas, that is not accomplished overnight. So the offered solutions are also problematic. But you should analyze before you implement, you should identify significant problems ahead of time—there are a number of bright suggestions for solutions and it has been determined what they will cost. Are you willing to pay the price for the benefits you get?

MR. KIRBY:

I would just add to that that the San Diego airport authority has been exposed continually to these various solutions.

MS. ROSENBLOOM:

But after there was a problem.

MR. KIRBY:

After there was a problem but still not too late to correct it. It could be corrected very easily, if they were interested. From their viewpoint, taxicabs are a minor consideration, and the temptation is to adopt a very simple measure like price controls or limited entry. It is much easier for them to control their problems that way than it is to adopt these measures of telephone requests, installing special phones, and so forth. Some of the benefits and costs associated with this are not seen by the airport. We have a lot of cases like this with externalities and that is one of the real problems that we are dealing with here. When you look at what people are doing, they are behaving logically from their viewpoint, and it is going to be very difficult to change their minds under current arrangements.

MS. ROSENBLOOM:

Let me add something else. It is not as if there were major benefits to anybody in the system and very few to those at the airport. Because if there were, those getting the major benefits would trade something off with those at the airport. In fact, as I have suggested, the benefits are diffused throughout the whole system. There are not a lot of advocates of a competitive airport market. There are not a lot of reasons to make those political tradeoffs, to make the airport do those kinds of things.

MR. REINKE:

I just wanted to pick up on what Ron Kirby is saying and offer some comments on the airport problem. A lot has been said about the airport because it is the visitor’s first contact with the city. At the San Diego airport, the attitude has been that it was deregulation by the city that created the problem in the first place, and the airport authorities just want the problem to go away. So they try to make it go away by limiting permits. They do tell you that cabs charge different rates of fare, and if you can read the signs, you know it. They have only tried to control cab rates by controlling the number of cabs with permits serving the airport. Recently they have gone to an odd/even system.

I will mention contrasts. In San Francisco, where they do have a regulated cab market of about 700 cabs, the airport management believes that they cannot deny anybody a permit to serve the airport who has a cab already. They have a holding area for only 85 cabs, and they don’t allow any other cabs to wait. They charge a cab $1.50 every time it leaves with passengers. It appears to work pretty well. There isn’t the long waiting time that you see in San Diego. On enforcement, there is another contrast between San Francisco and San Diego: San Diego has two enforcers for 900 cabs and San Francisco has six enforcers for 700 cabs.

Just another point on some innovations that have come since deregulation. Some cabbies have taken on their own marketing activities. In addition to building personal business, a group of cabbies have gone to hotels and said, “If you guarantee to call us, we will guarantee that your people will only get charged a certain rate of fare to the various places.” It appears to be working well.

MS. ROSENBLOOM:

I think those are all interesting points. I do want to point out that comparing San Francisco with other cities in the country might be misleading. Other cities have airports run by different authorities that generally allow all licensed cabs from all municipalities around to operate there. San Francisco has one of the most restricted taxi markets in the country, and even if
they allow other municipalities in, it is already restricted for them. The problem is not the same as in San Diego.

MR. REINKE:

But there is still a large number of cabs in San Francisco; it is roughly comparable with the number in San Diego. They appear to have managed it. San Diego's complaint was just the large number of cabs.

MS. ROSENBLOOM:

Other people have suggested that it might be a question of time, too—that as markets settle in, there will be less trouble at the airport. That is sort of what is happening in Seattle. There are operators who have gotten totally out of the airport business, whereas almost all independents are at the airport, and things have sort of settled down. So maybe it is just a time problem in San Diego.

An Industry Comment on Regulatory Change

ALFRED B. LAGASSE III

What is transportation? Is it taxis? I think the transportation market has been too narrowly defined. The transportation market is getting a person from point A to point B.

What are the major segments? First we have the miscellaneous category, which includes walking, cycling, and so on. The miscellaneous category accounts for about 3 percent of the total transportation market.

Next is paratransit. Let's define paratransit as the organized provision of transportation in sedans, vans, and minibuses. That would include taxicabs, rental cars, social service and nonprofit agency vehicles, limousines and delivery vehicles, carpools, vanpools, church vehicles, hotel courtesy vehicles, and jitneys. They are ranked in the order (I believe) most significant in terms of passengers carried. This entire market segment may be 3 to 4 percent of the entire transportation market. (Taxis are almost 1 percent of the entire market.)

Next is mass transit, which handles approximately 4 percent of the trips in this country. Mass transit may be important in some cities, but from an overall global aspect it is not terribly significant.

The number two carrier is school buses. There are obvious reasons for this, but it doesn't change the fact that school buses are the second largest carrier of the public in this country. What is the number one carrier? The automobile. Eighty-four percent of all trips are made in the private automobile.

Why have we segmented the transportation market? Why are we looking at taxis instead of other forms of paratransit? Why are we looking at taxis instead of the automobile, public transit, and so on?

Before I go into that, I should make a point. You may not believe that there is competition between taxis and subways, buses, private automobiles, and so on. I will give some examples to illustrate that competition exists. When I drove into Washington, D.C., this morning from the suburbs it was very cold, and there was a bitter wind. I also drove in yesterday, which was a fairly nice day, about 40 degrees. There were many more people at bus stops yesterday than today. People aren't willing to stand out in the cold and wait for the bus. I am sure that taxi business was very good this morning in Washington. Last week it snowed in this community. If you had called a cab, the odds are that you would have had an extended wait because cabs were inundated with demands for service. People simply did not wish to drive their own cars. They did not want to risk an accident. The summer is the low period of taxicab service. Taxis generally make lots of short trips, but in the summer they don't make nearly as many because walking is a competitor to taxicab service. Taxis are competing in this transportation market, and although this review may not be terribly analytical, there is legal precedent. In November 1984, there was a court decision in Honolulu, Hawaii. An exclusive taxicab franchise at the airport was called into question on antitrust grounds. The judge ruled in favor of the exclusive contract; it is a fascinating 35-page decision. One of the key elements was that the judge found taxis to be reasonably interchangeable with rental cars and the Airporter bus system.