



TAXI REGULATION AND THE QUEBEC EXPERIENCE

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To Regulate or Not To Regulate

Why regulate taxi transportation? How are the taxi industry's services any different from other services available in the private market, such as those provided by grocery stores, restaurants, or hair salons? There are two schools of thought on this question. According to the first, local authorities or governments play no role in the private sector's supply of services, and market forces are left to balance themselves on the basis of supply and demand. The second school believes government authorities are obliged to intervene because of what economists call "market imperfections," which prevent the market from achieving a balance between supply and demand (1).

There are three varieties of market imperfections: outside forces, the public interest, and consumer incompetence. In the case of taxi services, examples of outside forces are traffic congestion, air pollution, taxi stand crowding, and the city's image. The public interest encompasses availability of service, public safety, and service in low-profit areas. And consumer incompetence includes inability to compare quality of service and fares in order to make an informed decision before hiring a cab, inability to bargain on fares, and vulnerability of foreign consumers.

It is a fact that taxicabs are a vital public service. They are an essential complement to the smooth operation of public transit services, whether urban or interurban. For some groups of people, such as the disabled and rural dwellers,

they are the only available means of transportation. Taxis are also a backup service for unplanned travel, such as for business or emergencies. As a result, authorities bear responsibility for ensuring the availability and proper operation of this service. Indeed, few government authorities are willing to allow full deregulation of taxi transportation. Even the most radical deregulators continue to uphold requirements for vehicle safety or driver competence (2).

Traditional Objectives of Taxi Regulation

Taxi regulation has a long history in all large Western cities. The following are the major objectives traditionally targeted by government authorities through taxi regulation, in order of importance.

Public safety. In pursuing this objective, authorities ensure that vehicles are in good mechanical repair and that the health and character of their drivers are acceptable. Also included under this objective are requirements concerning the operator's insurance coverage for compensating accident victims.

Consumer protection. This objective involves setting fares to prevent abuse when clients are unable to negotiate the cost of service and making taximeters mandatory to ensure compliance with these fares. The driver's name and vehicle number must also be posted in plain view so that clients can complain of violations.

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Availability of service. Taxi operators have certain public-service obligations. These include making the service available at all times and in all areas.

Service quality. Achieving this objective involves monitoring the vehicle's quality (size and cleanliness) and the driver's ability (knowledge of area, social skills). Local authorities are particularly sensitive to the link between the quality of taxi service and the city's image and reputation. Poor treatment of tourists by taxi drivers can tarnish a city's reputation (3). It was organizations with a direct or indirect tie to the tourism industry that persuaded authorities to reestablish taxi regulations in Atlanta and Seattle and to implement the taxi license buy-back plan in Montreal (discussed further below).

Reasonable profitability of service. Authorities are concerned about preventing excessive competition within the same markets from diminishing profitability and thereby lowering the quality and safety of service. This objective requires setting fares and limiting the number of taxis. The latter, highly controversial, measure is discussed in more detail in the following section.

Reduced traffic and pollution. A city with traffic or pollution problems will wish to avoid an excessive number of vehicles on the road. To do so, it might prohibit hawking, establish taxi stands, or even limit the number of taxis.

Limiting Taxi Licenses

Limiting the number of taxi licenses is a common measure in Western cities. Doing so (a) reduces crowding and pollution problems related to heavy traffic; (b) ensures a degree of profitability for operators; (c) avoids ruinous competition; (d) reduces taxi waiting time; and (e) facilitates public-safety controls, consumer protection, and service quality. Failure to limit the number of licenses, particularly if combined with a lack of operator selection criteria, can lead to a massive influx of new operators, reduced profits in general, lower taxi occupancy rates, higher fares, degraded service quality, and heavy traffic problems in downtown neighborhoods.

One distinguishing feature of taxi transportation is the relatively low cost of entering the market: an automobile and a driver's license are about all it takes, and this investment is within everyone's reach. In the absence of regulations limiting the number of drivers, independent drivers would flood the market, crowd the streets, and lower the quality and reliability of service. This is exactly what happened in many North American cities during the Great Depression of the 1930s, prompting authorities to regulate taxi services, particularly by limiting the number of licenses. Interestingly,

during the same period in the United States, public transit organizations approved of limiting the number of taxis and prohibiting them from offering public transportation services, particularly by means of the jitney (4).

Various methods are employed to establish the number of taxis authorized to serve a given area. The following criteria, ranked from the most to the least severe, are used to limit the number of licenses:

- Arbitrary ceiling, set by freezing the number of licenses to meet local needs.

- Use of a ratio, generally based on the population of the area served. In Toronto, a more sophisticated ratio is used, based not only on the local population, but also on the number of commuters, air passengers, and convention goers (5).

- Proof of need for the service required from the applicant before issuance of a new license.

- Franchise system, whereby the authority awards the right to operate a certain number of vehicles on a contract basis and subject to charges.

- Minimal criteria, with access to the market being conditional on the operator's compliance with criteria established by the authority in such areas as vehicles, insurance, professional training and the driver's knowledge, availability of service, and number of taxis per company. Some of these criteria can be quite stringent and constitute a formidable barrier to entering the profession. Such is the case in London, where the skills of professional drivers are subject to strict testing.

Regulations that limit the number of licenses can, however, have insidious effects. The limit can prevent the creation of new taxi services of use to the public. In addition, a market value is created for licenses, and the cost of buying a license can become a heavy financial burden for operators just entering the market. Setting limits on taxi licenses also leads to practices that may be legally dubious, occasionally bordering on usury. Operators are sometimes more concerned with protecting the market value of their license than providing quality service to the public. And authorities find it extremely difficult if not impossible to institute a fair means of issuing new licenses when it becomes apparent that some services are not being offered.

On the other hand, there are those who claim that the high market value of licenses has certain benefits. The entrepreneurs who invest in taxis are serious business people. They are concerned with the industry's growth and the profitability of their business, and they will not risk losing their licenses by operating their service in a manner contrary to the public interest. The market value of the license



TAXIBUS in Rimouski, Quebec, provides collective transportation by taxi.

creates a type of contract agreement between the operator and the authority, which can revoke the license in the event that contract is violated. This latter argument is used even by economists (6).

Limiting the number of licenses is not a regulatory solution for every problem associated with taxi services. However, establishing such limits is a simple measure that can be introduced quickly and produces short-term effects. At the same time, a cautionary note is in order. Measures to limit the number of taxis should favor the service providers. Yet in many cities that have enacted such measures, regulations also permit taxis to be leased. In such cases, the limiting measures favor the taxi license holders, but not necessarily the drivers. As a result, quality of service suffers (7).

Considering the many objectives outlined above, measures to limit or even reduce the number of licenses where an obvious imbalance exists must be combined with other measures designed to improve the quality of service, open new markets, and enhance driver skills. Such measures are, however, difficult to implement and produce results only in the mid- to long term.

Quebec's Taxi License Buyback Plan

A plan to buy back taxi licenses was launched in Montreal between 1985 and 1990 (8). Implementation of this plan led to the elimination of 1,287 licenses—a 25 percent decrease. The total cost of purchasing these licenses was approximately \$21 million, which was funded entirely by license holders.

The glut of taxi licenses in Montreal dates back to the post-World War II period. At that time, concern about creating jobs for veterans and public complaints about a shortage of taxis led to elimination of the license limit (765 at the time) introduced during the war. This action triggered rapid growth in the number of taxis: between 1946 and 1952, the figure rose to 4,978 for all of Montreal Island.

The primary objective of the buyback plan was to reduce the number of licenses in the city of Montreal in order to improve the effectiveness and profitability of the taxi industry without diminishing the quality of service. It was agreed that the buyback cost would be absorbed by license holders who decided to remain in or enter the business because they would be the ones to benefit from the increased profitability of taxi operations and the added value of licenses.

The maximum number of licenses to be bought back was set at 2,000 (there were 5,222 licenses on the market at the time). This ceiling was established primarily for financial reasons related to the purchasing power of the remaining license holders. However, it was agreed that the repurchase of 1,200 to 1,500 licenses would be acceptable.

A trustee was appointed to manage the buyback plan. He was instructed to proceed with the purchase of licenses offered for sale on a voluntary basis at their market value, determined to be \$10,000 initially, adjusted to \$18,000 in June 1987 and then to \$30,000 in April 1990. The trustee was also to collect annual fees from license holders (\$1,000 per license per year), as well as the transfer charges payable by those purchasing a license from a third party. The transfer charge was initially \$10,000, but had risen to \$20,000 by April 1987. As a result of the excellent financial condition of the operation, due particularly to the income generated by transfer charges, annual membership dues dropped from \$1,000 to \$500 in 1989 and were eliminated in 1990.

The buyback plan cost license holders a total of \$21 million. In exchange, the profitability of taxi licenses increased, along with their market value, which now stands at approximately \$55,000.

New Taxi Services in Quebec

The law governing taxi operations in Quebec includes measures related to public transit by taxi, transportation for the disabled, school transportation, limousine services, and taxi tourism services. The law also allows operators to enter into contracts to provide these and other services, particularly to set fares other than those prescribed. Rates can therefore be used as leverage in a strategy to develop new markets. The following are some of the specific taxi services now available.

Public transit by taxi. Some public transit organizations have replaced buses with taxis at certain times of the day, using the taxis to carry passengers to the main transportation lines. The city of Rimouski (population 35,000) established a public transit system—TAXIBUS—using only taxis. Clients who wish to use the service must call 1 hour in advance to reserve a car at a cost of \$2.25. TAXIBUS software simplifies management of this public transit system on demand.

Transportation for the disabled. Two-thirds of the 90 parapublic transit agencies in Quebec use taxis; taxis account for approximately 45 percent of all transportation used by these organizations.



Because taxis complement public transportation, they can use lanes reserved for public transit in Montreal.

Specially adapted vehicles provide transportation by taxi for the disabled in Montreal.



Total taxi expenditures under this program reached \$10 million in 1994. Despite the size of this market, however, few operators have taken the initiative to equip themselves with adapted vehicles.

School transportation. All school boards can use taxis to transport students. Transportation for disabled students has also expanded in recent years.

Limousine services. A taxi operator can specialize in limousine services. Some companies concentrate on airport services and intercity services for business people.

Sightseeing. A taxi license holder can provide sightseeing services for tourists.

Flat-rate rides. Many people are unfamiliar with taxi fares and tend to overestimate the cost of a ride. It can sometimes be advantageous for taxi services to offer and advertise a flat rate, particularly for frequent riders or over long distances.

Medical transportation. Taxis are used to transport hospital visitors, as well as to transfer patients from one institution to another. Some taxi service contracts provide transportation and patient accompaniment at an hourly rate.

Transportation for the elderly. The elderly are growing in number and have a variety of transportation needs. Taxis can offer them customized services.

Group transportation. Employers, social clubs, recreational centers, and others can reserve a taxi for a group of passengers.

Personalized delivery. Door-to-door grocery shopping services are offered by some supermarkets, whereby customers are provided transportation home with their purchases. The price is set in advance, and sometimes the grocery store pays a portion of the cost.

Parcel deliveries. Taxi companies in Sainte-Foy and Sherbrooke have created the TAXI-COLIS service. An advertising brochure is distributed to companies.

Car return service for intoxicated drivers. Society is increasingly intolerant of drunk drivers. To address this problem, taxis in Saguenay-Lac-Saint-Jean have created the TAX... HIC! service. Two drivers work out of the same taxicab. One takes the drunk driver home in his or her vehicle, and the other brings the first driver back. The cost of the ride is the normal fare increased by 50 percent.

Summary and Conclusions

The need to regulate taxi transportation arises because of the vital public service taxis provide, as well as a number of market imperfections. To avoid bias in the regulatory process, it is essential to formulate regulations in accordance with objectives of public safety, consumer protection, availability of service, service quality, reasonable profitability of service, and reduced traffic and pollution.

Placing limits on the number of taxis is not an objective in itself. It is a simple means of achieving short-term objectives related to availability, profitability, and quality of service. If this measure must be used, it should be combined with other, more basic approaches, such as professional development for drivers and an openness to new markets as long as all existing needs are being met. Where supply obviously exceeds demand, a buyback plan may be needed to reduce the number of taxis. The cost of this operation must be paid by the taxi industry. It may also be noted that measures to limit the number of taxis should favor the service providers. Yet when regulations allow taxis to be leased, the taxi license holders are not necessarily the drivers. Therefore, the measure ceases to favor the service providers and can have a pernicious effect on service quality.

The future of taxi service depends on its ability to adapt to the transportation needs of various customers. Nature abhors a vacuum, and if taxis do not fill a need, others will. This may prove to be the case for vehicles adapted to transport the disabled. Offering services to meet customer needs and creating new markets requires regulatory flexibility, an openness to contract-based fares, and above all a new attitude among industry members. This new attitude must encompass entrepreneurship, leadership, group cohesion (the collective ability to react in consonance and to invest and take risks), receptiveness to new ideas (willingness to consider them as business opportunities), marketing of services offered, and a sense of public relations.

Professional development in the taxi industry makes it possible to achieve objectives of enhanced individual responsibility, cohesion among industry members, service quality standardization, group

ability to adapt, and a better trade image (if the public is informed of professional development efforts). In this respect, professional training does not concern only new drivers; it also targets experienced drivers. Mandatory professional retraining is necessary to maximize these positive returns for the industry and its members.

Finally, it is important to keep in mind that authorities do not regulate against the industry, but in the public interest. Yet some measures may upset the industry, which is why the authority having jurisdiction must be able to justify those measures. At the same time, the taxi industry's regulatory structure is a fragile, contrived creation on which many workers depend. Care must be exercised when regulatory actions are taken because measures introduced today will have long-term repercussions.

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NOTE: The opinions expressed in this article are those of the author and do not necessarily reflect those of the Ministère des Transports du Québec or the International Association of Transportation Regulators.

Professional Training Within a Taxi Marketing Strategy

As part of its marketing strategy, the taxi industry must assure its collective ability to provide high-quality services. One means of doing so is professional training for both new and experienced drivers.

Mandatory Training for New Drivers. Since May 1994, anyone applying for a taxi license in the major urban centers of Quebec has been required to take a professional training course. The course lasts approximately 60 hours and covers legal considerations, professional and ethical relations, health and safety, taxi and equipment, transporting the disabled, management concepts, and knowledge of the area. This basic course can be expanded upon by more detailed training on knowledge of the area prescribed by regional authorities. The Urban Community of Montreal, for example, added a 90-hour program on knowledge of its area and a few special features of its regulations. Implementation of this measure has significantly reduced the number of new taxi drivers entering the market. Moreover, compared with their more senior coworkers, the new generation of drivers are more familiar with the law, their industry's opportunities, and the importance of customer service.



Taxi school in Montreal provides professional training to taxi drivers.

Professional Development for Experienced Drivers. The taxi industry can target three major objectives through professional development for experienced drivers: ability to meet client expectations and adapt to changes in demand, increased business activity, and professional recognition. Three professional development courses for experienced taxi drivers have been developed:

- **Taxis Secours** is designed to inform drivers about their own safety and public safety in general. As responsible citizens, taxi drivers must help protect public safety by informing emergency services when they witness incidents related to public safety, such as accidents and fires.
- **Transporting Disabled Persons by Taxi** was designed to strengthen expertise in parapublic transportation and make taxi drivers aware of the realities of the disabled.
- **Taxi Ambassador** includes modules on client reception and service and on local and regional tourist attractions. Drivers who complete these two modules can call themselves "taxi ambassadors" and are well qualified to offer sightseeing tours in their region.