

**TESTIMONY TO THE ADMINISTRATIVE LAW DIVISION,
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**SUBMITTED BY
ERIC MONTARTI, POLICY ANALYST
ALLEGHENY INSTITUTE FOR PUBLIC POLICY**

**305 MT. LEBANON BOULEVARD
SUITE 305
PITTSBURGH, PA 15234**

FEBRUARY 4, 2002

Good morning,

Thank you for the opportunity to address the commission on this issue.

My name is Eric Montarti and I am a Policy Analyst with the Allegheny Institute for Public Policy, a 501 C3 Pittsburgh-based think tank that conducts research on local and regional economic and policy issues in Southwestern Pennsylvania. Our mission is to encourage economic growth by expanding free enterprise, limiting the scope of government agencies, and promoting individual freedom and responsibility.

The subject that I would like to discuss today is the regulations that govern entry into the state's taxicab industry in places other than Philadelphia. This is an issue that the Allegheny Institute has followed with great interest. After all, the Pennsylvania Public Utility Commission and General Assembly have made great strides in replacing the traditional monopoly model of service delivery in the electric, natural gas, and local telephone industries with a model based on competition. Consumers reign supreme in the new model: they are free to hire and fire the company that supplies their utilities. This competition has led to lower prices, better service, and more options in the marketplace. The Allegheny Institute researched, testified on, and has monitored the developments in these markets very carefully.

Taxicab service should be next in line for a relaxation of state regulations. Taxicab regulations, as presently constituted, stifle innovation and improvement in service by forcing prospective entrants to prove there is a need that is not met by current carriers and that the commencement of that new service will not harm existing carriers. These requirements prevent unfettered entrance into the taxicab industry. Incumbents say that this process insures that only the financially fit enter the market. We suggest a track that allows open entrance, and exit, of cab companies.

Effects of Regulation on Taxicab Service

Regulation of taxicab service can take on many forms: there are health and safety guidelines, price regulations, and standards for service. The ultimate end of taxicab regulation, in Pittsburgh and in other cities in Pennsylvania and across the country, is aimed at limiting the supply of taxicabs in the system competing for customers. Supply of taxicabs can be choked off in a variety of ways: moratoriums on new licenses, caps on the number of companies, or an onerous application process.

The limitation on supply is usually done for the "public interest". In short, the public interest standard served by tightly regulating entrance into the taxicab business is bolstered by such claims as "regulation guarantees that all areas and customers are served", "regulation ensures the reduction of traffic congestion", "regulation creates the ability for franchised firms to plow profits back into their company", and "regulation raises the standard of living for incumbent drivers". As the experience with taxicab regulation has shown, these promises have not been delivered.

A 1984 study by the Federal Trade Commission found that there was "no persuasive economic rationale" for the majority of taxicab regulations governing entrance of new companies and, in fact, these regulations harmed the parties they intended to help. The commission's study concluded that under those regulations, consumers paid higher fares, waited longer for a cab, and received poor service. Another study by the Urban Mass Transit Administration found that low-income people, who spend a higher percentage of their income on taxis than wealthier consumers, were adversely affected by regulations on taxicabs, which ultimately "impose a disproportionate burden on low income riders."

In short, these regulations have had definable negative effects on taxicab service, such as:

- Fares that are often higher
- Lower quality vehicles
- Longer response times
- Little or no innovation in service

- Increased prices for licenses, which in turn causes higher fares to the customer
- The elimination of any hint of competition
- The substitution of market dynamics with regulatory oversight
- Regulatory action needed to approve expanded service in response to demand, such as the PUC actions of December to approve expanded service in Cambria and Luzerne counties

Effects of De-Regulation on Taxicab Service

On the other hand, de-regulation of taxicab service has a track record of delivering service to the public by removing the yoke of regulation and permitting an ease of entry into the taxicab business.

What happens when the chains are removed?

- Taxicab supply increases dramatically--Take the example of three separate cities that altered the regulations on taxicab companies; Denver, Cincinnati, and Indianapolis. After Denver loosened regulations following a lawsuit, Freedom Cab company became the first new carrier to open up in the city after 48 years of regulation. It employed 100 drivers in the late 1990s. After de-regulatory efforts took hold in Cincinnati, 237 new cabs began service. And de-regulation in Indianapolis led to the entrance of 158 new taxicabs. Accounting firm Price Waterhouse found that in de-regulated taxi markets from 1985 to 1992, capacity increased by 23 percent overall. This increase demonstrates the power of unmet demand in these taxicab markets.
- Market share held by the largest firms in a previously regulated city decreases substantially--Based on a sample of eight cities, which I will discuss shortly, concentration of the dominant taxi carriers was an average of 93 percent of the market share in cities with tight regulation versus 61 percent in cities with open entry.
- Economic opportunity increased--Since taxicabs represent a relatively simple form of entrepreneurship (operations commence with a driver and a car) more people have responded to market opportunities. In Indianapolis, the majority of cab companies are headed by former cab drivers of another company that wanted to start their own business. 75 percent of the new companies that began business after regulations were eased in Indianapolis were female or minority owned.

How much of a difference?

A review of previous research shows that there is a difference between a city that heavily regulates taxicab service and one that does not. But how much of a difference? I examined eight cities, four that control entry (Fort Worth, TX; Milwaukee, WI; Portland, OR; and Albuquerque, NM) into the taxicab business, and four that allow for open entry (San Jose, CA; Indianapolis, IN; San Francisco, CA, and Kansas City, MO.).

Closed Entry

City	1994 Population	Legal taxicabs	Population per Taxicab	Top Three company Market Share (%)	Cost for city Trip (\$)	Cost for Long Distance Trip (\$)
Fort Worth	452,000	170	2,660	100	4.90	15.30
Milwaukee	617,000	321	1,920	79.44	5.75	18.75
Portland	451,000	317	1,420	94.01	6.60	19.68
Albuquerque	412,000	133	3,100	100	6.30	20.15
<i>Average</i>	<i>483,000</i>	<i>235</i>	<i>2,270</i>	<i>93.3</i>	<i>5.88</i>	<i>18.47</i>

Open Entry

City	1994 Population	Legal taxicabs	Population per Taxicab	Top Three company Market Share (%)	Cost for city Trip (\$)	Cost for Long Distance Trip (\$)
San Jose	817,000	525	1,560	78.10	5.40	24.90
Indianapolis	752,000	398	1,890	49.7	5.36	21.83
Kansas City	444,000	360	1,230	67.78	5.00	16.42
San Francisco	735,000	995	740	48.84	7.50	25.70
<i>Average</i>	<i>687,000</i>	<i>569</i>	<i>1,350</i>	<i>61</i>	<i>5.81</i>	<i>22.21</i>

The three most noticeable effects of a system of open entry into the taxicab business is the variance in supply of taxicabs in closed entry cities to open entry cities (nearly double), that the market share of the three dominant firms in de-regulated cities was smaller, and the population per taxicab was lower in cities with open entry than cities that close, or regulate entrance into the market. This is true even though the cities with open entry, on average, had a higher city population than cities with closed entry. And though the prices for long distance trips are higher on average in cities with open entry than they are in closed entry cities, the higher prices will encourage other entrepreneurs to enter the market to capture some of the market share.

Should Proof of Need and Effects on Established Companies Be Abolished?

If regulations governing entrance into the taxicab business in Pennsylvania are relaxed, the benefits realized in other cities that have charted a similar course may materialize here, or they may not. The point is that the taxicab industry is more responsive to demand, offers greater chances for economic opportunity, and creates a more competitive landscape overall in places where there is an ease of entry into the business rather than in places where entrance is tightly regulated.

Since we are in Pittsburgh, it is important to relate all of this research to our city. Taxicab usage is not very dramatic in Pittsburgh, and the current regulations that govern the industry may be partly at fault. With the population of the city of Pittsburgh and Allegheny County hovering around 1,250,000, a significant portion working in downtown Pittsburgh, the current legal fleet of 386 cabs means there is one cab per 3,200 persons, which is higher than the sample of cities described above, whether entry is open or closed. When counting only the city population of approximately 369,000, the ratio is one cab for every 955 persons.

An Allegheny Institute study on demand for taxicabs demonstrated that the existing fleet of taxicabs in the Pittsburgh area was below the average of a 10 city survey on the following variables: number of firms, number of trips per hour per cab, number of trips per day per cab, number of total cabs per city, number of daily trips per 1000 people, and average distance per trip. In short, there may be an untapped demand for taxicab service in Pittsburgh that exists in other cities, but is unrealized here because of inadequate supply and poor response time.

And the incumbent taxicab companies and local policymakers in Pittsburgh realize the necessity of accessible, responsive, and safe taxicab service as part and parcel of an overall strategy of revitalization in Pittsburgh. After all, taxicab stands were re-activated in downtown Pittsburgh and in the Strip district after a long hiatus and a new customer service orientation, Pittsburgh Relies on Cabbies, was put together for drivers. But as

much as the players who "fostered" these two separate efforts would like to take credit for it, the reason they came about was because of another reason: the threat of competition.

A local restaurant owner was unhappy with the lack of responsive cab service for his patrons, particularly those that wanted a quick cab ride home from his place of business. His frustration was similar to other restaurant owners, many of whom saw their business affected by inadequate service. He decided to start a new cab company that would focus on short trips around the City, with Chrysler PT Cruisers and an emphasis on friendly customer service. Initial plans were to have a fleet of 40 cabs up and running; with some 386 cabs authorized to operate within the City limits currently, those plans would add an additional 10 percent capacity to the number of legal operating cabs.

But those plans, at least for the benefit of the entrepreneur who came up with the idea, have gone to the wayside. While that prospective cab company was proving his financial fitness and evidence that the established companies were not filling needs of cab customers, that application was open and laid bare for the established carriers to see. This has become too common an experience in the taxicab business. As William Mellor and John Kramer write, under tight regulation of competitive entrance "the entrenched companies can examine an aspiring entrepreneur's application, which identify new market niches. Thus, an old business can take that idea and provide the very service the applicant was using to gain market entry. With the standard filled, there is no need for a new company". Lo and behold, we now have taxi stands in high-density areas and customer friendly drivers in the city. While the Pittsburgh taxicab market may seem better off as a result of these changes, it is so at the expense of competition and free enterprise.

Imagine if this process governed other businesses. Your desire to start a hamburger shop would not only depend on your ingenuity, your ability to secure capital, and your ability to meet necessary safety and health regulations; you would have to prove that your business is necessary and won't jeopardize the business model of your competitors. Your proposal would have to survive a challenge from Wendy's, McDonald's, and Burger

King, who could argue before regulators that they could adjust their business to meet the demand. To compete under this model, a new competitor has to prove a lacking service quality at McDonald's and the other establishments. He/she would have to pledge that their business idea will capture a market need *but* won't be so harmful as to actually cause the other hamburger places any hardship. In other words, competition is permissible, so long as it is not too competitive.

There is clear evidence that the threat of competition has forced existing taxi carriers in Pittsburgh to rethink their business plans. But all that rethinking will not guarantee permanent improvement in customer service.

In closing, it is appropriate and responsible for the Public Utility Commission to retain regulations that govern the qualifications of the cab driver (age, driver's license, driving record), the general condition of his/her vehicle (such as the current policy of an annual state vehicle inspection and random PUC inspections), and insurance coverage, but those regulations should stop there. Pennsylvania currently has no guidelines concerning the age or mileage limit of taxicabs outside of Philadelphia. If the PUC enacts a vehicle age or mileage limit, those limits should be accompanied by a waiver that allows an older or high mileage vehicle to continue operations if the vehicle is deemed safe.

Moving to a competitive market for taxicabs by removing proof of need requirements and the consideration of the competitor's effects on franchised carriers is in line with the de-regulatory tradition that has been established in Pennsylvania over the past few years. It opens the door for entrepreneurial activity in an industry that has remained untouched by competitive forces for too long.

Taxicab de-regulation should mirror the success Pennsylvania has experienced with de-regulating other utilities. Closed entry will ensure that legal arguments and regulation persist as the barometers for measuring competition between carriers. Open entry into the taxicab business will move the industry toward competition on price and service quality.

After all, competition will work best when there is actual freedom of entry into a business.

Thank you for your time.

References

- Boroski, John W and Gerard C.S. Mildner. "An Economic Analysis of Taxicab Regulation in Portland, Oregon". Cascade Policy Institute, April 1998.
- Buckeye Institute for Public Policy Solutions. "Taxicab Regulation in Ohio's Largest Cities". Policy Report, December 1999.
- Eckhardt, Angela and Kurt Weber. "End Portland's War on Private Transit". The Oregonian, January 13, 1999.
- Fuoco, Michael. "All Hail: Taxi Stands to Sprout in City Next Month". Pittsburgh Post-Gazette, September 23, 2001.
- Heltzel, Bill. "Cabbies to Be Smiles Ahead". Pittsburgh Post-Gazette, September 25, 2001.
- International Taxicab and Livery Association. 2000 Fact Book. A publication of the ITLA, Taxicab Services Division.
- Mellor, William H. and John Kramer. "Open the Door to Portland's Taxi Entrepreneurs". Cascade Policy Institute, January 2000.
- Pennsylvania General Assembly, Legislative Budget and Finance Committee. Commonwealth Regulation of Taxicab and Limousine Services. December 2001.
- Pittsburgh Post-Gazette Editorial "Taxi Town". Pittsburgh Post-Gazette, September 24, 2001.
- Pennsylvania Public Utility Commission. "PUC Approves Expansion of Taxi Service in Plymouth, Luzerne County". PUC Press Release, December 20, 2001.
- Pennsylvania Public Utility Commission. "PUC Approves Emergency Temporary Service for Johnstown Yellow Cab in Cambria County". PUC Press Release, December 20, 2001.
- Pennsylvania Code, Section 29.
- Pennsylvania Public Utilities Code, Title 66.
- Reed, Lawrence. "Anti-Jitney Laws Take People for a Ride". Mackinac Center for Public Policy, November 1, 1999.
- Root, Eric. "Taxi War Dance". Carolina Journal, October/November 2000.

References, continued

- Schneider, Mark. "Getting Around". Pittsburgh Magazine, November 2001.
- Schooley, Tim. "Voodoo Taxicabs". Pittsburgh Business Times, November 24-30, 2000.
- Seate, Mike. "Lack of Cabs Brews Frustration for City Revelers". Pittsburgh Tribune Review, September 23, 2000.
- Staley, Sam. "How Cities put the Brakes on Taxicabs". The Freeman, March 1998.
- Wills, Rick. "Taxi Standoff". Pittsburgh Tribune Review, December 5, 2000.