

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

July 26, 2002

Volume 2, Number 37

Entrepreneur Gets Green Light for New Cab Company

The Pennsylvania Public Utility Commission (PUC) recently awarded local entrepreneur John Wargo a license to operate a cab company in Pittsburgh and the surrounding suburbs. While this decision has gone largely unnoticed in the mainstream media, it is a decision that could be a tremendous benefit for the City. The PUC has opened the door to increasing the number of cabs that will be cruising the streets and could alleviate the City's well-publicized cab shortage.

As to be expected, the PUC's decision is being appealed by the City's taxicab monopoly. The incumbent companies, Yellow Cab, People's, and Checker (a subsidiary of Yellow Cab), claim that they are adequately meeting the demand for taxicab service. However, area restaurant owners, as well as the Allegheny Institute, testified before the PUC that there is sufficient demand for another company.

In fact, the Allegheny Institute published a report in 2001 (which was entered as evidence) that compared the demand for taxicab service in the Pittsburgh area with that of other areas.¹ Our study found that the average number of taxicab firms serving markets of similar size to Pittsburgh is 22. The Pittsburgh area has five companies with approximately 390 cabs (the bulk of these operated by Yellow Cab) in their combined fleet serving 1.25 million persons in the Pittsburgh area—about 30 cabs per 100,000 persons. By contrast, Buffalo has 20 cab companies and 109 cabs per 100,000 persons, while Cincinnati has 16 cab companies and about 120 cabs per 100,000 persons.

There is no doubt that the regulatory environment in Pennsylvania has contributed to this situation. PUC rules require any potential entrant into the taxicab market to provide ample evidence that the market is under-served and how they plan to fill the void. The burden of proof rests squarely on the shoulders of the entrant, who not only has to present his plan to the PUC, but to the incumbent cab companies as well. The incumbents then have the opportunity to show that the market is being adequately served or that they can expand service to fill the void. This system has created a government-protected monopoly. Breaking into this system is a daunting task that has dissuaded most potential taxicab owners.

¹ Available on our website, www.alleghenyinstitute.org/reports.php. Report number 01-01.

The attorney for Yellow Cab said, “(The Pittsburgh taxi market is) a difficult market. New operators are quick to find that out”. That may or may not be true, but the free market—not the government—should make that decision. If he decides to push ahead, Mr. Wargo may or may not be successful. He was obviously successful in persuading the PUC that there is room for another taxi company in the Pittsburgh market. Whether or not his proposed company will completely fill the void remains to be seen. For Pittsburgh, its citizens, and its tourists, an increase in taxi competition would be welcome news.

The PUC is to be commended for recognizing that the free market and competition offer a better way to provide consumer services—that’s the American way. It is a shame that Pennsylvania’s laws are so flagrantly anti-competitive. The legislature ought to do something useful and get rid of all the outmoded statutory relics of an earlier period.

Frank Gamrat, Ph.D. Senior Research Associate

Jake Haulk, Ph.D. President

Reminder, the next installment of the Allegheny Institute Report airs August 5th at 7:00 p.m. on 1410 KQV. The topic will be the problems facing the Pittsburgh City School District.

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd. * Suite 305 * Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
