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TESTIMONY

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REFORMING REGULATIONS CONCERNING TRANSPORTATION NETWORK COMPANIES IN SAINT LOUIS

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Testimony Before the Metropolitan Taxicab Commission

My name is Joseph Miller, and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. This testimony is intended to summarize research that analysts for the Show-Me Institute have conducted and reviewed regarding transportation network companies (TNCs) and possible reforms to local for-hire vehicle regulations.

As the Metropolitan Taxicab Commission (MTC) considers altering its for-hire vehicle code to allow the entry of low-price TNC services, such as UberX and Lyft, it should consider the benefits these companies can bring to Saint Louis City and County (hereafter simply "Saint Louis"). These companies already have proven themselves to be popular in hundreds of cities in the United States and around the world. Saint Louis could follow the examples of these cities, now including Kansas City,[1] in reducing regulations to allow broad TNC market entry.

The introduction of ridesharing in general and TNCs in particular present opportunities for Saint Louis. The national expansion of Uber and Lyft is evidence of significant latent demand for transportation network companies, both as an opportunity for transportation and as a source of employment. In San Francisco, where the largest TNCs originated, Uber alone has added an estimated 11,000 for-hire vehicle drivers to the city.[2] This estimate far exceeds the preexisting San Francisco taxicab stock (1,812) and rivals the number of taxi drivers in New York City. The impact of TNCs is not confined to the Bay Area.

Other cities with more than 500 TNC driver-partners include Los Angeles, Memphis, Austin, Houston, Atlanta, Minneapolis, Chicago, Detroit, and Phoenix.[3] On a national level, in December 2014, Uber alone had 162,037 driver-partners that completed four or more trips, meaning the TNC provided more than 648,000 rides, likely many more.[4] When we consider that other TNCs, especially Lyft, also have many drivers nationwide, the magnitude of TNCs' impact on cities is likely considerable. The speed with which TNCs have spread should also be noted. Uber launched UberX, its low-price ridesharing service, in 2012, and Lyft only began a national expansion in early 2014.[5] [6]

From an economic perspective, ridesharing through peer-to-peer networks presents an opportunity for economic growth by lowering the cost of high-speed, high-quality transportation and making more efficient use of the nation's motor vehicle capital stock.

Recent evidence suggests that the popularity of TNCs rests largely on speed and convenience, when compared to taxis and especially public transportation. Evidence from San Francisco shows that 92 percent of Uber and Lyft users waited 10 minutes or less for a weeknight ride, while only 16 percent of those who called for a taxi waited less than 10 minutes.[7] Perhaps even more telling, 37 percent of those who called for cabs waited more than 20 minutes or the cab never showed.[8] That happened to only 1 percent of TNC users.[9] While much of that speed is based on the use of information technology, innovations in pricing is part of TNCs' ability to provide speedy service. Uber, for instance, charges variable rates that are higher during peak demand hours. Higher prices incentivize potential riders whose time-opportunity costs are low to wait for non-peak periods, and simultaneously incentivizes Uber's mostly part-time workforce to provide additional capacity.[10] The inability to adjust pricing to demand reportedly contributed to a shortage of cabs on New Year's Eve 2014, which eventually led to the creation of a "night cabs" for-hire vehicle classification.[11] Aside from speed, TNCs provide convenience and reportedly high levels of service. App-based payment via smart phones is a feature that is very popular among users and is common to all TNCs, while traditional taxis often struggle to integrate credit cards as a method of payment.[12] [13]

The enhanced mobility TNCs and other new services, such as Enterprise's CarShare, provide has the potential to benefit Saint Louis by making it an easier place to get around. In Saint Louis, population density is low compared to other major cities, and destinations are spread across a wide geographic area.[14] Low population density, dispersed employment, and population clusters make it difficult for public transportation agencies to provide service that is a feasible alternative to personal vehicles.[15] TNCs take advantage of automobile-oriented environments and provide on-demand service, which may allow them to more effectively compete with personal cars and complement urban transit systems. Such an advantage can be critical for urban entertainment districts, because customers may only choose to patron those areas if a convenient and cheap alternative to personal vehicles exists.[16] Furthermore, with increased non-personal vehicle mobility, dense urban environments may become a more appealing place to live or set up a business.

TNCs not only provide services that enhance mobility, they can also revolutionize the supply of for-hire vehicles and drivers. Traditional cab companies maintain a separate fleet of commercial vehicles. In contrast, TNC services, by definition, partner with drivers using their own personal vehicles. In essence, TNC drivers are using their existing assets to earn income and provide mobility, making use of an asset that might otherwise sit depreciating in a garage or parking lot. This is an important opportunity for Saint Louis, where latest census numbers show that almost 60 percent of households have access to two or more personal vehicles.[17]

The supply of drivers is likely to increase as well, as TNCs open the door to part-time drivers, which is often not economical in the traditional taxi industry. According to the Bureau of Labor Statistics, only a quarter of traditional cab drivers work part time and only one in seven has a variable schedule.[18] The story is different with TNCs. For example, 81 percent of Uber drivers work part time (less than 35 hours a week); TNC drivers choose when and if they work.[19]

Creating more for-hire vehicle demand and making better use of existing capital may create new employment opportunities for Saint Louis. Some critics claim that ridesharing will destroy the ability to earn income from driving taxis. However, although TNCs may drive down demand for traditional taxi service and hence taxi drivers, TNCs create more employment opportunities for the for-hire vehicle driver labor pool in general. Evidence from other cities indicates that Uber drivers may be paid even more than traditional cab drivers on an hourly basis, meaning these new opportunities do not represent worse quality jobs. In Chicago, for instance, part-time drivers can make as much as $15.60 per hour, while the hourly wage of a normal taxi driver is $11.87.[20] The average cost of operating the vehicle may mean that TNC drivers make less per hour than a cab driver, but the wages are likely comparable.[21] If TNCs induce more for-hire vehicle demand, then there would be more jobs at an hourly wage comparable to what cab drivers make today, to the benefit of those looking to work as for-hire vehicle drivers in general.

The bottom line on TNCs is that they can increase mobility, likely create jobs, and make cities easier places to live, work, and play. What's more, they do it through consumer choice and private investment.

Unfortunately, Saint Louisans have not been able to enjoy the full benefits of TNCs. Saint Louis is a not a city with thousands of new Uber and Lyft drivers. A major, if not deciding, factor for this state of affairs is outdated and restrictive local for-hire vehicle regulation.

Saint Louis has extensive regulations for its for-hire vehicle market, through the MTC. Common to most large American cities, consumer protection is the primary justification for this regulation.[22] Proponents of regulation have argued in the past that the taxi market has information asymmetries that favor the driver over the rider. Drivers know their way around the city, while riders might not. Drivers also can attempt to "rip off" riders by rigging meters and by tacking on expenses that the rider might not know about. Significantly, because the taxi ride is a one-off interaction, riders cannot know the reputation of the driver or relay their information on the driver to future potential consumers.[23]

But the MTC has not confined itself to making sure that riders have transparency when it comes to the safety provisions and pricing models of for-hire vehicle companies. The MTC has instituted market regulations that raise significant entry barriers and controls for-hire vehicle business practices like pricing.

As an example of supply limitations, in Saint Louis only companies that obtain certificates of convenience and necessity (CCNs) can apply for taxi (or any other type of for-hire vehicle) permits. To obtain a CCN, a company has to prove that there is demand for their services, which MTC can reject at will. Before Uber and Lyft attempted to enter the Saint Louis market in 2014, the MTC was not issuing any new CCNs for cabs while they planned a study of Saint Louis taxi demand, essentially eliminating market entry.[24]

In addition to these absolute entry barriers, the MTC has regulations that raise the costs of taxi operations that effectively limit competition and innovation. The commission requires taxis to charge certain prices, drive certain cars, and retain 24/7 dispatch services in the designated localities.[25]

While there are no specific studies on the effects of this regulation on Saint Louis, data from others cities back up basic economic principles: Limiting the supply and restricting the business practices of the cab industry can lead to higher prices and lower levels of service. A Federal Trade Commission report found that, while it might have been theoretically justified for a central body to set efficient taxi supply and pricing, regulatory bodies did not have the expertise or incentives to determine those efficient levels. The authors concluded that local taxi regulations often cause an undersupply of cabs, low levels of service (long wait times), and high prices, resulting in the underutilization of taxi services.[26] This is especially the case when regulatory bodies are significantly influenced by incumbent taxicab companies, as is the case in Saint Louis. Four of the nine commissioners on the MTC must represent the existing for-hire vehicle industry by state statute.[27] The beneficiaries of this regulation are not the day-to-day drivers, who often lease their vehicles, but the large taxi companies that own the taxi permits and can extract oligopolistic rent from metropolitan areas.[28]

In the past, the negative impact of taxi regulation may have been justified by instances of market failure in the for-hire vehicle market, although it is possible that the costs of regulation outweighed its benefits. However, new technologies (and especially TNCs) mitigate the market failures that underlie the justification of extensive for-hire vehicle regulation. With TNCs, customers now have access to a wealth of information on drivers and can choose their rides accordingly. In fact, customers rate TNC drivers, and those who receive low scores are kicked off the system. Customers have ready access to the types of background checks, vehicle inspections, and additional insurance that TNCs provide. In terms of the price of the ride, TNC users have access to maps on their phones, and drivers that attempt to make more money by taking indirect routes are readily identified and kicked off the system.[29] This resource reduces the driver-rider information asymmetry, which weakens the case for strict regulation over for-hire vehicle supply and pricing.

Unfortunately, regulatory regimes are slow to adjust to these technological opportunities; the MTC's regulations do not even have the language to deal with ridesharing. The regulations as written at best put ridesharing in a regulatory gray area and at worst functionally prohibit TNCs. The MTC, far from being proactive in altering regulations, has been slow to make substantive change and has only allowed Uber's expensive black car service to enter the market in a tightly controlled manner.[30] Saint Louis is now the largest metropolitan area in the United States that does not allow UberX, Uber's low-price service, to operate.[31]

A large part of the difficulty for local regulatory bodies may be that their heavily regulated taxi companies are unlikely to be competitive with less-restrained TNCs. That leaves them with three choices: bar or blunt the entry of TNCs, allow TNCs to freely operate and possibly harm the traditional cab market, or greatly reduce the economic regulation of the for-hire vehicle market altogether, including traditional taxicabs.

Because of large potential benefits of TNCs for Saint Louis, it is appropriate that the MTC should look to reform its for-hire vehicle code so that new business models like TNCs can operate. It could best do that by limiting regulations to reasonable protections of consumer safety, i.e., proper insurance, vehicle inspections, background checks, and fare transparency, while eliminating economic regulation. There are many examples of model legislation for the MTC to choose from, including state regulations in Illinois and California and city regulations in Austin.

TNCs provide an opportunity for increased mobility and greater transportation choice in Saint Louis. The MTC would best serve residents if it reevaluated the commission's for-hire vehicle code and eliminated regulations that are out-of-date or inappropriate. Common sense requirements for fare transparency as well as safety requirements are still an area where some regulation may be warranted, but the commission should take a skeptical eye toward any regulation that would bar TNCs from operating and ask whether those regulations are truly necessary.

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NOTES

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