



Second Chances

Regulation and Deregulation of Taxi and For-Hire Ride Services

BRUCE SCHALLER

The author is Principal, Schaller Consulting, New York. He is former Deputy Commissioner for Traffic and Planning at the New York City Department of Transportation.

The wave of transportation deregulation had little lasting effect on the taxi industry—but transportation network companies (TNCs) are poised to change that. mid sectors of the American economy swept by the wave of deregulation four decades ago, taxicabs stand apart. Nearly two dozen cities experimented with eliminating or relaxing controls on taxicab entry, fares, and services in the 1970s and early 1980s, but most soon returned to extensive regulatory systems. Deregulation, therefore, left little imprint on the taxi industry. Taxi service still is highly regulated, usually by city or county governments that oversee relatively small taxi fleets and, often, large pools of independent owner–operators.

The exploding popularity of app-based ride services like Uber and Lyft, however, has introduced a new cycle of open entry and minimal regulation that is transforming the for-hire sector in virtually every city across the United States. Users welcome these rapidly growing services as a boon to mobility, but the growth of ride hailing also begets unresolved questions about how to best realize the benefits of open, competitive markets and ensure a safe, equitable, and environmentally sustainable transportation system.





Taxicab medallions, required in some cities to operate a cab, are sold by local governments to constrain the number of taxis operating within a city.



Origins of Taxi Regulation

The current cycle of deregulation is undoing regulatory controls on entry, fares, and service that date from the 1920s and 1930s. These controls were set as a response to problems that arose from an oversupply of drivers and vehicles in a few cities in the 1920s, when vehicle manufacturers unloaded lower-cost sedans to replace expensive, custom-built cabs. Oversupply became pervasive during the Great Depression as unemployed workers flocked to the taxi industry. The results of too many drivers chasing too little business included rate wars, overcharging of passengers, uninsured vehicles, and even physical violence at taxi stands as drivers vied for business.

In response, major cities froze the issuance of new taxi licenses and imposed uniform fares. When demand for taxi service rebounded after World War II, cities continued capping the number of taxicabs under industry pressure to protect profits. These caps led to medallion systems, in which taxi licenses were tradable assets that fluctuated in value, in New York, Chicago, Boston, Philadelphia, and other cities. Controls on entry, industry size, and fares also were adopted in nonmedallion cities such as Los Angeles, San Diego, Houston, Las Vegas, Denver, St. Louis, Atlanta, and many smaller cities.

First Cycle of Deregulation and Re-Regulation

The above regulatory controls remained in place until the 1970s. From then until the early 1980s, 19 cities lifted entry restrictions and allowed greater latitude on rate-setting, among them San Diego, Seattle, Atlanta, Phoenix, Cincinnati, Indianapolis, Kansas City, and Sacramento.

Officials hoped that open entry and competition would yield shorter taxi waits, lower fares, and innovative new services like shared rides. Deterred by high capital costs and a stagnant market for taxi rides, however, few new fleets entered the market. Instead, sharp influxes of individual owner– operators focused on downtown and airport taxi stands—even though these locations were already well served.

As in the 1930s, the proliferation of drivers led to inflated fares and aggressive solicitation of passengers. Airports experienced price gouging, unkempt drivers, and unsafe cabs. Prearranged cab service also was adversely affected, as long waits for passengers at taxi stands undercut the revenues of drivers who served both dispatch trips and taxi stands.

By the mid-1980s, seeing few of the hoped-for



Taxis wait for passengers at San Francisco International airport. Taxi deregulation meant to lower fares and increase availability instead resulted in more owner– operators flocking to high-concentration areas like airports. benefits and many unanticipated costs, most of the cities that had deregulated reimposed entry and fare controls. Notably, a few cities with predominantly dispatch trips—the largest of which was Phoenix—retained fully deregulated systems.

As large U.S. cities revitalized in the 1980s and 1990s, they faced renewed pressure to expand their taxi industries to meet growth in taxi demand. Despite stiff industry resistance, New York, Chicago, Boston, Los Angeles, Minneapolis, Atlanta, San Francisco, Las Vegas, Seattle, and other cities added substantially more cab licenses and saw improved cab availability as a result. Acute shortfalls remained in some cities, however—most fatefully in San Francisco, where a 2013 study found that only 49 percent of residents calling for a cab were picked up within 15 minutes and that 18 percent waited for more than 30 minutes or were not picked up at all (1).

Rise of App-Based Ride Services

This shortfall created fertile opportunities for fledgling companies to experiment with using smartphones to arrange and dispatch trips. Companies like Sidecar, Lyft, and Uber began to offer taxilike, exclusive-ride, curb-to-curb service in San Francisco using part-time, nonprofessional drivers who lacked cab driver licenses and commercial auto insurance coverage. These companies expanded aggressively, at times disregarding cease-and-desist orders initiated by local taxi regulators.

As Uber and Lyft gained popularity with frustrated cab riders, authorities were forced to find a way to authorize the new companies and their novel business model. The California Public Utilities Commission (CPUC) led the way in 2012, creating the lightly regulated category "Transportation Network Companies (TNCs)," which was separate



FIGURE 1 Taxi, TNC, and Local Bus Ridership in the United States. SOURCE: Schaller Consulting, "Estimating Uber and Lyft Ridership in the United States," May 2018.

from CPUC regulations for sedan companies and from municipal taxi regulations. Unlike sedan and taxi operators, TNCs were allowed to conduct their own driver background and vehicle checks and to rely primarily on drivers' personal auto insurance coverage.

Over the next several years, most states followed suit, creating a lightly regulated TNC category that sometimes preempted more restrictive city regulations. By early 2017, statewide regulation was the norm, with only a few cities regulating TNCs among them New York, Chicago, Seattle, Portland, Minneapolis, and Washington, D.C.

New York City streets, dominated by taxis in 2006 (*left*) now are dominated by TNC vehicles (*right*).









Smartphone apps for TNCs eliminate the expense of dispatchers and allow users not only to request a driver but also to pay automatically and to know how long the wait will be and the cost of the trip upfront.

Uber and Lyft Gain Preeminence

Offering fast and reliable service, low fares, comfort, and ease of payment, TNCs were a revolution in urban mobility for many users. Rapid TNC growth propelled the for-hire sector (including TNCs and taxis) to become a major provider of urban transportation service that is projected to exceed ridership on local buses in the United States by the end of 2018 (see Figure 1, page 45). By attracting patrons away from taxis, buses, subways, and personally driven autos, TNCs' popularity also drove down revenues for taxi owners and drivers, transit operators, downtown and airport garage owners, and airport rental car concessions (2–5).

The success of TNCs owes much to a favorable regulatory environment, innovations in technology and business models, and deep wells of venture capital. TNCs are allowed to operate across city and county boundaries, bring on vehicles and drivers quickly, and set their own fares. Smartphone apps allow users to request a ride at the push of a button, map how long the wait will be, and automatically pay

The Self-Driving Car Future

The arrival of self-driving vehicles in coming years is of paramount importance to the longer-term development of TNCs and TNC regulation. The earliest use of self-driving vehicles will likely be in fleets that mix human-driven TNC vehicles and shared autonomous vehicles (SAVs) in dense urban centers with high trip volumes. These fleets will continue to offer exclusive-ride, curb-to-curb service—as taxis and TNCs do today—but at lower fares. They also will seek to build substantial shared-ride businesses modeled on current pooled services like UberPool and Lyft Line and on jitney-style microtransit services operated by Chariot and Via in San Francisco; New York; Chicago; Washington, D.C.; and a few other cities.

The role of regulation likely will differ across various geographies and travel markets. In markets with dispersed trip volumes, SAV fleets might be able to replace or supplement low-ridership bus routes with on-demand services using smaller vehicles (sedans, vans, or minibuses), thus increasing frequency and reliability at the same or lower subsidies. Government oversight could be achieved through contract processes—assuming these services need continued subsidies. Cities such as Los Angeles and Arlington, Texas, which are experimenting with using microtransit to provide public transit services, and other cities using TNCs to provide paratransit trips, may offer models.

In large urban centers, the prospect of mushrooming growth of low-cost SAV travel probably will heighten concerns about adding vehicles to crowded streets and siphoning riders from bus and rail services. Here, too, the policy response might attempt to harmonize traditional transit services and SAVs through con-



Low-ridership bus routes may be replaced with SAVs modeled on microtransit operations.

tracting processes, to satisfy customer preferences within an efficient, flexible transportation system.

Alternatively, policy makers could look to taxes, fees, and regulatory mandates to generate revenues for transit and to incentivize the use of larger vehicles and fewer empty seats. They might cap the number of vehicles or drivers—mirroring traditional taxi regulation—as currently proposed in New York City. Municipalities might also exercise their franchise powers, once used to regulate streetcars, to control the extent of SAV operations. by credit card. Venture capital pay for promotional discounts to attract passengers. Use of part-time drivers and a combination of driver financial incentives and surge pricing help ensure that drivers are available for peaks in demand, particularly at rush hour and when bars close late at night. Smartphone apps eliminate the expense of human call-takers and dispatchers. Treating drivers as independent contractors eliminates the cost of paid leave and health and disability insurance. Requiring that drivers buy and maintain their vehicles and use their personal auto insurance policies also saves costs.

Current trends point to a for-hire industry dominated by a few large, lightly regulated TNCs overseen primarily by state public utility and transportation agencies. A shrunken, more extensively regulated taxi industry will serve telephone orders and flag and cab stand trips. As customers continue to shift from taxis to TNCs and as some taxi regulators loosen regulations to create a more level playing field, the overall level of regulation likely will contract.



Pressures for New Regulatory Action

Pushing back against current trends, however, are a variety of pressures that may lead to regulatory or broader public policy action. These pressures range Lyft and other TNCs became popular by pairing passengers with nonprofessional drivers who were not bound by taxi regulations.

Implications of Shared-Service Models

Regulatory needs will depend largely on which service and business models prove feasible. If SAVs convert a large number of riders from public transit to pooled or microtransit services, this will have momentous implications for regulation. This is by no means certain; despite heavy promotion, Uber and Lyft have had limited success with their pooled services, which account for perhaps 10 percent of TNC ridership in the United States.

Chariot and Via, on the other hand, have grown rapidly by routing vehicles along the fastest and generally shortest route

with the trade-off that passengers must walk a short distance to pickup points. SAV operations modeled on microtransit might prove highly attractive to bus and rail riders in major urban centers, accelerating the shift from large public transit vehicles to smaller vehicles that is already occurring with TNCs. If this shift occurs at a large scale, it would have profound implications for traffic congestion and transit operations and would demand strong public policy intervention.

Discussions of SAVs have also focused on replacing private car ownership with "mobility as a service," similar to pooled

TNC services. TNC ridership is quite low in car-oriented areas, however, and few trips are pooled. Experience with TNCs, therefore, casts doubt on whether shared autonomous vehicles will attract many people from the convenience and flexibility of their own cars. Moreover, SAVs potentially could increase



All levels of government are trying to balance new regulations for SAVs with the ability of technology companies to innovate.

vehicle mileage because of "dead-head" miles to each passenger's pickup location.

Regardless of how shared self-driving services evolve, government policy will be subject to many conflicting pressures. Large, well-capitalized companies from GM and Ford to Uber, Lyft, Waymo, and Tesla, will seek to claim market share for shared autonomous services in a highly competitive and rapidly evolving marketplace. Unlike deregulatory processes in which the federal government played a leading role, all three levels of government will be integrally involved, each with their own

> policy focuses, regulatory tools, and political imperatives. Also unlike deregulation of other industries, the starting point is the lightly regulated TNC industry and a general environment of broad political support for allowing companies maximum latitude to innovate with technology and services although this is shadowed by growing public doubts about the wisdom of allowing big tech companies unbridled power.

> Like when other industries were deregulated, the evolution of for-hire services will be fundamentally customer-driven. Competing companies will seek to gain customers through varied permutations of price,

selection, and quality. Decisions about regulation will face the challenge of harnessing the individual benefits of intensive competition and customer choice to serve societal goals for mobility, safety, sustainability, and equity as well.



Regulations on TNCs may increase as travelers shift away from transit use and traffic congestion increases.



from the exclusion of wheelchair users and people without smartphones to TNCs' impacts on traffic, emissions, and public transit—issues that are likely to be magnified by the next wave of technology: self-driving cars.

Some of these pressures are evident already. Several cities and states have required TNCs to provide wheelchair-accessible service. Governments also have taken steps to make TNCs available to people without smartphones and to unbanked households, usually through partnerships with transit agencies or cities that subsidize rides for seniors and others with limited transportation options, and to provide call-takers to relay trip requests to contracted TNCs.

Rising concerns about impacts on worker rights and welfare are generating tentative steps toward driver representation (as in a Seattle law currently tied up in litigation) and calls for caps on working hours and the number of drivers or vehicles on the street and for minimum wages. These pressures are likely to intensify the next time the economy contracts and unemployed workers flock once again into the industry.

In big cities like New York and San Francisco, growing traffic congestion and declines in transit ridership are raising concerns about the shift of travelers from public transit to TNCs. Responses recently adopted in several cities include fees on TNC trips, with the proceeds channeled to transit agencies, and regulations on where TNCs pick up and drop off passengers. There are other signs of support for greater regulatory oversight of TNCs as well. TNCs have been found in violation of requirements for driver background checks in several states, leading to proposals for a greater governmental role in reviewing driver qualifications. An administrative law judge recently proposed that Uber be regulated like sedan services in California and that it meet the same requirements as black car and limo operators.

Regulators almost certainly will continue to consider steps to address these issues. The long, slow accretion of regulation that occurred with taxicabs in the 20th century might come to be mirrored with TNCs. More likely, however, is that the task of addressing these issues becomes subsumed within the next big advance in technology: self-driving vehicles (see sidebar, page 46).

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