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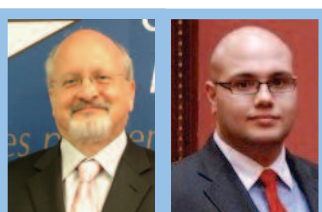
The Taxi Industry: On the Road to Reform

Supply management policies, aimed at limiting production of a good so as to inflate its price, are familiar in Canada, due in particular to the existence of agricultural quotas. It is less well known, however, that the taxi industry is also regulated in this way, with similar consequences for consumers. Just as Australia and New Zealand eliminated supply management in agriculture, a number of cities (including Kansas City, Milwaukee, Phoenix, Raleigh and San Diego in the United States) and several countries (including Ireland, New Zealand and Sweden) have done the same in the taxi sector.[1]



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The taxi industry in Quebec and elsewhere

Since the birth of the taxi industry, soon after cars were invented, many cities decided to regulate it. New York's municipal council decided in 1937 to freeze the number of taxis operating in the city at the existing number of 13,595.[2] Many other American cities, including Boston, Chicago, Philadelphia and Baltimore, did the same. In most of these cities, no new taxi permits were issued for more than 50 years. In New York, because of the non-renewal of some permits over the years, the number of taxis in operation in 2006 was lower than in 1937, at just 12,779 permits.[3]

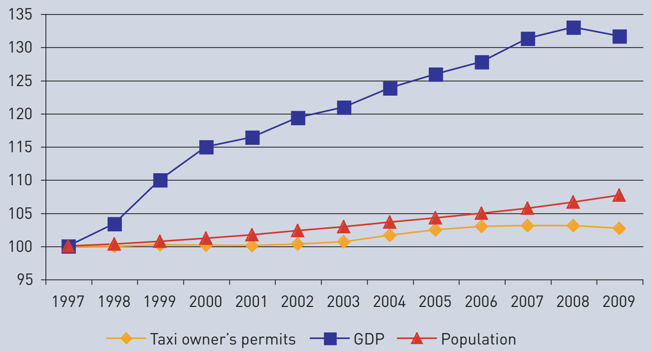
In Montreal, a limit on the number of taxi permits was instituted during the Second World War.[4] In 1973, the Quebec government took management of the taxi industry away from the cities. At the time of the reform, taxi drivers who had permits issued by the municipal authorities received owner's permits at no charge.[5] From 1985 to 1990, the Quebec Department of Transport instituted a plan for buying back 1,287 permits in Montreal and removing them from circulation. Whereas there had been 4,978 taxis on the island of Montreal in 1952, there are no more than 4,445 today, despite substantial increases in population and income. Nowadays, getting a permit generally requires buying one from someone who decides to leave the industry. In 2009, there were a total of 8,254 taxi vehicles operating in Quebec.[6] The very few new permits added since November 2000 (about 200 for all of the province) are valid for a maximum of five years and cannot be transferred.[7]

Regulation of the industry is quite restrictive.[8] To become a taxi driver, one must obtain a driver's licence, undergo a health examination, take courses on driving a taxi, get a taxi driver's permit, and then buy an owner's permit, valid only for a given territory. A driver must also conduct a series of checks before the start of each shift, in particular regarding the condition of the vehicle. In addition, a fare schedule is set by the Commission des transports du Québec, which ensures compliance with the maximum number of taxi owner's permits for each urban area. For example, there is a maximum of 4,445 taxis on the

1. See: OECD, *Taxi Services: Competition and Regulation*, 2007.
2. Schaller Consulting, *The New York City Taxicab Fact Book*, March 2006, p. 22.
3. *Id.*, p. 30.
4. Michel Trudel, *The Fundamentals of Taxi Regulation and the Quebec Experience*, presentation at the 7th Congress of the European Taxi Confederation, February 1995.
5. Michel Trudel, *De nouvelles avenues pour le taxi*, Ministère des Transports du Québec, 1982, pp. 4-7.
6. Société de l'assurance automobile du Québec, *Statistical Report – 2009 Record*, p. 22.
7. Ministère des Transports du Québec, *Rapport sur la Loi concernant les services de transport par taxi*, October 2005, p. 12.
8. See: Commission des transports du Québec, *Réglementation du taxi au Québec*, http://www.ctq.gouv.qc.ca/taxi.html.

FIGURE 1

Growth in taxi supply, GDP and population in Quebec (1997-2009)



Sources: Société de l'assurance automobile du Québec, *Statistic Report – 2009 Record* (and previous reports), p. 22; Statistics Canada, CANSIM tables 379-0025 and 051-0001 and calculations by the authors.

island of Montreal (2.4 per 1,000 inhabitants), 629 in Quebec City (1.2 per 1,000 inhabitants) and 84 in Sherbrooke (0.6 per 1,000 inhabitants).[9]

The problem with restricting the number of taxi permits

Since 1997, the number of taxi owner's permits in Quebec has barely grown (see Figure 1). However, demand for trips by taxi has risen sharply in that time due to increases in incomes and population and to road congestion. The scarcity this has created leads inevitably to the following result: longer waiting times for customers and/or higher prices for trips. Whereas the price of air travel (a sector that has gone through relative deregulation[10]) has decreased in constant dollars in the last 15 years in North America,[11] Montreal taxi fares in constant dollars have gone up by about 15% during the same period and by more than 30% from 1986 to 2010.[12]

These fare hikes, combined with a high number of trips per car, have helped raise taxi drivers' incomes, pushing up demand for owner's permits exchanged on the market and their prices. As a result, the price of acquiring a taxi owner's permit has become enormous in some cities (see Figure 2) and represents, in addition to the costs of acquiring a vehicle and the accompanying insurance, a huge barrier for anybody who wants to get into the market.

The limited number of taxi owner's permits creates a major barrier that prevents the market from operating efficiently. Otherwise, the costs of entering the market would be minimal. The regulatory costs of the steps leading up to acquisition of an owner's permit are $500, excluding training courses, according to the Quebec Department of Transport. To this must be added the cost of acquiring a vehicle and taking out an insurance policy.[13] In themselves, these are not substantial obstacles, since a taxi driver could use his personal vehicle to provide service and could extend his insurance policy. However, the high cost of an owner's permit completely changes the industry dynamics.

The main beneficiaries from this situation are taxi owners who got into the industry early and who did not have to assume enormous costs to practise the trade. They benefit nonetheless from high fares that are regulated and that competition cannot reduce, and from a relative abundance of customers (with few drivers attempting to satisfy them), assuring them of high and stable incomes. The losers fall into two groups: new owners and consumers.

New owners have to fork out over $200,000 for a permit, in addition to other regulation-related expenses and the purchase of a car. This puts them heavily into debt. A debt of this size leads to thousands of dollars a year in interest payments. The new owner must thus assume a fixed cost linked to regulation, and this absorbs much of his income. He ends up barely making ends meet: the high income resulting from regulated fares and the relative abundance of clients are offset by high costs.

The system's impact on consumers is even greater. The absence of competition affects consumers in several ways. First, waiting times may be longer, because there are fewer taxis. The quality of service tends to decline because, even if a client is dissatisfied, there is always someone else waiting for

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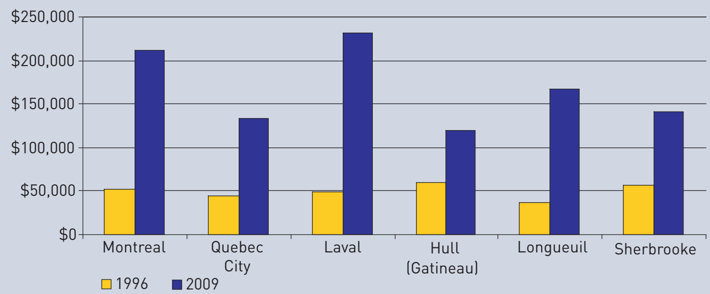
9. Commission des transports du Québec, *Taxi – Agglomérations*, http://www.ctq.gouv.qc.ca/taxi/agglomerations.html.
10. See Pierre Jeanniot, *Towards open skies for airlines in Canada*, Montreal Economic Institute, May 2005.
11. Bureau of Transportation Statistics, *Average Air Fares* and calculations by the authors.
12. Calculations by the authors based on the fare schedule provided by the Commission des transports du Québec.
13. Ministère des Transports du Québec, *Taxi Driver's Handbook*, 2010.

FIGURE 2

Average price of taxi owner's permits in Quebec's six biggest cities (1996 and 2009)



Note: For the Hull area, the latest transaction goes back to 2007, and so this is the amount used.
Source: Data provided upon request by the Commission des transports du Québec.

a taxi. We even see drivers refusing less lucrative trips and, unaccustomed to competition, protesting against the creation of a shuttle bus service between Montreal-Trudeau airport and downtown Montreal.[14] Second, fares are higher. Poorer people, without the means to buy and maintain a car, are more heavily affected by higher fares and have their mobility reduced, especially in the winter and in bad weather. Older people, for whom taking the metro or bus can be difficult, face the same problems.

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Foreign experiences in taxi industry deregulation

Is this type of regulation more efficient than a liberalized taxi market? The cases of Ireland, New Zealand, Sweden and a number of American cities (Kansas City, Milwaukee, Phoenix, Raleigh, San Diego, etc.) provide reason for doubt. These places have deregulated their taxi industries, and few people would return to the previous situation.

Let us look at the Irish case. In 1978, Ireland adopted a very rigid form of taxi regulation, heavily limiting market access.[15] From 1978 to 1991, the number of taxis in Dublin, the capital, was unchanged.[16] During this period, demand for trips by taxi rose sharply because of Ireland's rapid economic growth, tighter drunk driving laws, and increasing population. Despite a slight increase in the number of taxis in 1991, if their number had followed the rise in GDP, the taxi fleet would have reached 4,200 vehicles rather than the 1,974 that existed in 2000.[17] With supply stagnating, waiting times increased. One study found that 75% of people surveyed considered that taxis were hard to find at rush hour and 46% of calls led to waits of more than 20 minutes.[18] This scarcity was reflected in the price of permits, which went from 3,500 Irish pounds per taxi in 1980 to 90,000 in 2000.[19]

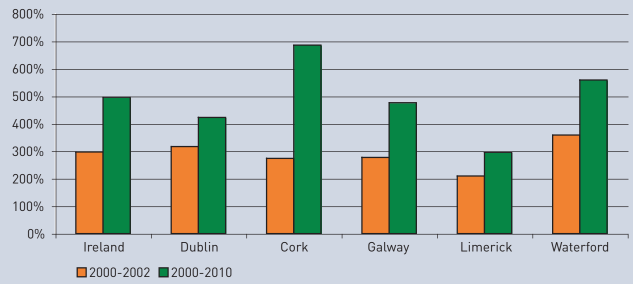
In 2000, following a court ruling, market entry was liberalized.[20] Restrictions on the number of taxis immediately disappeared. Figure 3 shows the rise in the number of taxis from 2000 up to 2002 and 2010: it tripled in two years and quintupled in 10 years. Waiting times fell dramatically: in Dublin, the proportion of clients waiting less than 10 minutes to take a taxi went from 58% in 1997 to 81% in 2008.[21] These reductions in waiting times represent about 300 million euros a year in savings for consumers in Dublin alone, or 780 million euros for Ireland as a whole.[22] In addition, customer satisfaction rose substantially.[23]

In addition to eliminating restrictions on the number of taxis, the reform liberalized the price of a trip. Since November 2008, a fare schedule (starting fare, fare per kilometre, price per minute of waiting time) determines the maximum amounts that can be charged at various times of day (peak hours, daytime, night).[24] Customers are free to negotiate a lower fare with the driver before the trip. At times of peak demand, in rainy weather, for instance, negotiated prices are higher. They are lower when demand is weak (on a school holiday, for example). Allowing prices to fluctuate helps ration service: waits should be no longer at rush hour than at any other time,

14. Jean-Louis Fortin, "Navette vers l'aéroport : les chauffeurs de taxi sont consternés," Agence QMI, March 11, 2010. A similar situation has occurred in Quebec City: Pierre Pelchat, "Manif des taxis contre l'Écolobus," *Le Soleil*, April 22, 2010.
15. Jennifer Daly, "Taxi deregulation: Three Years On," *Student Economic Review*, Vol. 18 (2004), p. 227.
16. Sean D. Barrett, "Regulatory Capture, Property Rights and Taxi Deregulation: A Case Study," *Economic Affairs*, Vol. 23 (2003), No. 4, p. 34.
17. John Fingleton, John Evans and Oliver Hogan, *The Dublin Taxi Market: Re-regulate or Stay Queuing*, Trinity College (Dublin), 1997.
18. Oscar Faber, *Review of the Taxi and Hackney Services in the Dublin Area*, Goodbody Economic Consultants and Irish Marketing Surveys, June 1998.
19. Sean D. Barrett, *op. cit.*, footnote 16, p. 35. This is equivalent to an increase from 4,445 to 114,275 euros, at the exchange rate when the euro was created.
20. *Id.*, p. 34.
21. Goodbody Economic Consultants, *Economic Review of the Small Public Service Vehicle Industry*, Ireland's Commission for Taxi Regulation, March 2009, p. 49.
22. *Id.*, p. 75.
23. Sean D. Barrett, "The Sustained Impacts of Taxi Deregulation," *Economic Affairs*, Vol. 30 (2010), No. 1, p. 62.
24. Ireland's Commission for Taxi Regulation, *National Maximum Taxi Fare*, http://www.taxireg.ie/consumer/national-maximum-taxi-fare.html.

Figure 3

Increase in taxi supply in Ireland (2000-2002 and 2000-2010)



Sources: Sean D. Barrett, "Regulatory Capture, Property Rights and Taxi Deregulation : A Case Study," *Economic Affairs*, Vol. 23 (2003), No. 4, p. 35; Ireland's Commission for Taxi Regulation, *Latest Statistics*, April 30, 2010.

and taxi drivers should not be seen sleeping in their cars for lack of customers.

In New Zealand, a similar reform was instituted in the late 1980s, when the government liberalized access and pricing.[25] The fare per trip fell by 15% to 25% (in constant dollars) in large cities following the reform, with lesser effects in smaller cities.[26] Meanwhile, the number of taxis rose from 2,762 in 1989 to 7,181 five years later.[27] In the United States, 12% of cities have no quotas on taxi permits, and nearly one-third of them have totally deregulated fares.[28] "Jitneys," part-time taxis for peak periods, have also been started operating. Supply thus adjusts more easily to demand.

Conclusion

Foreign experiences have shown that it is possible and desirable to deregulate the taxi sector, to the benefit of consumers and of people wishing to join this industry. This does not interfere with maintaining regulations covering the quality of service (such as periodic vehicle inspections, or the obligation to hold a permit proving the driver's competence or absence of a criminal record).

Does deregulation through elimination of taxi permits and fare schedules run smoothly?[29] Following liberalization in Ireland, some drivers who went through the transition complained of financial hardships. Those who had paid a fortune for their permits found themselves in debt, in a new, highly competitive market. One possible solution can be found in Australia's milk market deregulation in 2000.[30] The Australian government eliminated milk production quotas and compensated producers. This policy could be used to reimburse taxi owners based on how much each of them paid for their permits.

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25. Jon Terje Bekken and Frode Longva, *Impact of Taxi Market Regulation: An International Comparison*, Institute of Transport Economics, May 2003, p. 36 and ss.
26. *Id.*, p. 40.
27. *Id.*, p. 39.
28. Peter Holle, *Let's Deregulate Taxis*, Frontier Centre for Public Policy, January 2007.
29. David Seymour, *The Case for Taxi Deregulation: Equity, efficiency and getting a cab when you want one*, Frontier Centre for Public Policy, February 2009.
30. Valentin Petkantchin, *Reforming dairy supply management in Canada: the Australian example*, Montreal Economic Institute, January 2006.