



TESTIMONY

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THE INTRODUCTION OF TAXI REGULATIONS AT THE LAKE OF THE OZARKS

By Joseph Miller

Testimony before the Lake Ozark Board of Aldermen

To the Honorable Members of the Lake Ozark Board of Aldermen:

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 the possible effects of local and state for-hire vehicle regulations, as well as the creation of additional licensing laws in general.

If Lake Ozark adds Chapter 630: Taxicabs to Section 1 of the municipal code, the city would only allow vehicles with valid permits to provide taxicab service. The requirements

for that permit are also set out by proposed Chapter 630. Prospective taxi service providers must submit an application and a \$50 permit fee annually. A submission can be rejected if:

...an applicant has been convicted of a felony within the past ten (10) years or any misdemeanor involving theft or the sale of or possession of illegal drugs or sexual abuse within the past five (5) years or any municipal ordinance violation of leaving the scene of an accident or failure to report an accident, driving on a suspended or revoked license or any alcohol related driving violation.

While operating a taxi in Lake Ozark, a driver must meet minimum insurance requirements, post a fare schedule that is visible and legible outside every

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cab, bear markings of certain sizes that identify the vehicle as a taxi, be able to communicate in English, and possess a Missouri class E permit, among other requirements.

When considering taxicab regulations, Lake Ozark should review the possibility that what starts as simple registration and basic safety and operation regulations may become more potent over time. As one economist stated,

When pleas are made to legislatures for new licensing statutes or for amendments that raise the standards (costs) of qualifying, they are almost invariably made by practitioners of those trades, not by consumers of their services; and standards are established and examinations conducted by boards of examiners composed of practitioners.¹

In other cities, existing taxi operators, who benefit from greater entry restrictions, have used taxi regulations to prevent small operators from entering the market.² They often lobby for the strengthening of initial regulations. Note that in Lake Ozark the main proponents of adding the proposed taxi regulation ordinance appear to be existing taxi operators.³

To see how far these regulations can go, look no further than Kansas City and Saint Louis. Missouri's largest metropolitan areas have extensive regulations for their for-hire vehicle markets, through the St. Louis Metropolitan Taxi Commission (MTC) and the Kansas City Regulated Industries Division. Common to

most large American cities, consumer protection is the primary justification for these regulations.⁴ 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 riders might not know about. Significantly, riders often do not know the reputation of the driver, nor can they relay their information on the driver to future potential customers.⁵

Missouri's for-hire vehicle regulatory bodies, however, have not confined themselves to making sure that riders can depend on choosing a safe taxi with a transparent price. Both Saint Louis and Kansas City have instituted market regulations that raise significant entry barriers and control for-hire vehicle business practices like pricing.

As an example of supply limitations, Kansas City's regulations in 2014 capped taxi permits to 500.⁶ In Saint Louis, there is no statutory cab limit. However, only companies that obtain certificates of convenience and necessity (CCNs) may apply for taxi permits. To obtain a CCN, a company must prove that there is demand for its services, which the MTC has the discretion to accept or reject. Before Uber and Lyft attempted to enter the Saint Louis market in 2014, the MTC was not issuing any new CCNs for cabs while it planned a study of Saint Louis taxi demand, essentially eliminating market entry.⁷

In addition to these absolute entry barriers, both Saint Louis and Kansas City have regulations that raise the costs of taxi operations and that effectively limit competition and innovation. Both cities require taxis to charge certain prices, drive certain cars, and retain 24/7 dispatch services in the designated localities.⁸

While there are no specific studies on the effects of these regulations on Kansas City and 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 be theoretically justified for a central body to set efficient taxi supply and pricing, regulatory bodies do not have the expertise or incentives to determine those efficient levels. The authors concluded that local taxi regulations often causes an undersupply of cabs, low levels of service (long wait times), and high prices, resulting in the under-utilization of taxi services.⁹ The beneficiaries of these regulations are not the day-to-day drivers, who often lease their vehicles, but the large taxi companies that own the taxi permits.¹⁰

To its credit, Lake Ozark does not envisage these sorts of economic controls over its local for-hire vehicle market. However, parts of the proposed Chapter 360 are unwarranted and would needlessly keep out innovation. For instance, Section 630.100 would require:

Fare schedules shall be clearly visible and legible outside of every cab and in the passenger compartment.

This rule essentially makes it illegal to use more complex variable pricing models for cab service, which cannot put up a simplified fare schedule on the side of a car. This type of variable pricing is common with Uber and Lyft, who charge more at peak hours to make sure cab supply meets the demand.¹¹ The pricing policy is transparent, in that it is available to anyone with the phone app, but it is not printed on the side of a car. Many states have eliminated price-posting requirements in recognition of technological changes; Lake Ozark should not be needlessly adopting them.

Furthermore, in Section 630.110, the ordinance would require:

All taxicabs shall bear on the outside of the vehicle on each side in letters at least six inches in size the name of the company, the business phone number and the word “taxi” or “cab.”

This signage law is unnecessary for a small city like Lake Ozark, which could benefit from drivers using personal vehicles to work part-time. In a small taxi market, there is evidence that most for-hire vehicle service is dispatched, not hailed off the street.¹² Highly visible markings and posted fare schedules on the vehicles do not deliver new information in this scenario, but they do restrict business practices and raise barriers, albeit small ones, to market entry.

Given the potential direct costs of taxi regulation, and the possibility that it opens the door for more damaging controls down the road, what benefits can Lake Ozark expect? According to the proposed language, the purpose of the bill is “to protect the public health, safety, and welfare of the inhabitants and visitors.” However, there is scant evidence that the system as it exists today causes any health, safety, or welfare problems that need correction. Existing taxi operators, who have been the main proponents of new regulation, complain that their unregulated taxi competition is breaking existing state law when it comes to licensure and insurance. If that is the case, local police already have the authority to enforce those state statutes without need to pass additional regulations. Furthermore, a search of news reports and Missouri traffic incidents data does not give any evidence that unregulated taxis have caused traffic accidents in the city or endangered costumers. However, there is documentation of traffic accidents related to alcohol in the county.¹³ The problem of drunk driving would be exacerbated, not helped, by removing options for taxi service.

The proposed taxi regulations for Lake Ozark are not strict when compared with other large cities in Missouri. Given the potential damage that these, or strengthened regulations down the road, could cause, there would have to be a compelling case for such regulation. But there is little compelling data that unregulated cabs are endangering public welfare or harming customers. If the only concern is that unlicensed taxi drivers are breaking existing state laws, then

local police should more vigorously enforce those rules; new local regulations are not required. With new technology revolutionizing the taxi market nationwide, Lake Ozark may not benefit from adopting already dated regulatory models.

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NOTES

¹ Simon Rottenberg, “The Economics of Occupational Licensing,” 4.

² Megan McArdle, “Why You Can’t Get a Taxi,” <http://www.theatlantic.com/magazine/archive/2012/05/why-you-cant-get-a-taxi/308942/>.

³ Annie White, “Lake Area taxi owners support a ‘Gold Standard,’” http://lakeexpo.com/news/lake_news/lake-area-taxi-owners-support-a-gold-standard/article_36a06692-75b6-11e4-81ab-6f27e6c8fa83.html.

⁴ St. Louis Metropolitan Taxicab Commission, “Mission,” <http://www.stl-taxi.com/>.

⁵ Adrian T. Moore and Ted Balaker, “Do Economists Reach a Conclusion on Taxi Deregulation?” 113-14.

⁶ Joseph Miller, “Useless Taxi Regulation in Kansas City,” (Blog, Show-Me Daily, 2014), <http://www.showmedaily.org/2014/05/useless-taxi-regulation-in-kansas-city.html>.

⁷ Miller, “Useless Taxi Regulation in Saint Louis.”

⁸ Metropolitan Taxicab Commission, “St. Louis, Missouri Vehicle For Hire Code,” <http://www.stl-taxi.com/documents/14-0909VHC83WITHDIRECTORSRULESandallcurrentupdates3.pdf>.

⁹ Mark W. Frankena and Paul A. Pautler, “An Economic Analysis of Taxicab Regulation,” (Federal Trade Commission, 1984), 6-7.

¹⁰ Paul Krugman, Robin Wells, and Martha

Olney, *Essentials of Economics* (New York: Worth, 2007), 96.

¹¹ James Surowiecki, “In Praise of Efficient Price Gouging,” <http://www.technologyreview.com/review/529961/in-praise-of-efficient-price-gouging/>.

¹² Agneta Marella and Kerstin Westin, “The Effects of Taxicab Deregulation in Rural Areas of Sweden,” *Journal of Transport Geography* 10, No. 2 (June 2002): 135-44.

¹³ DWI Check Point Results, February 18, 2012, http://www.camdencountymosherriff.org/press_view.php?id=71.



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