



BUREAU OF COMPETITION

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

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UNAUTHORIZED

December 11, 1986

The Honorable Andrew Stein
President, City Council of the
City of New York
City Hall
New York, New York 10007

Attn: Yvonne Gonzalez, Esq.
Assistant Counsel

Dear Mr. Stein:

The staff of the Federal Trade Commission^{1/} is pleased to comment on Bill No. 700, a proposal to increase the number of licensed taxicabs in New York City. We support the goal of the proposal, because we conclude that regulation that restricts the number of taxi medallions harms the public through higher fares, longer waiting times for cabs, inadequate taxi service for disfavored neighborhoods, and reduced employment and entrepreneurial opportunities for would-be cab drivers and owners. The burdens of taxi regulation fall most heavily on the poor, the elderly and the handicapped, many of whom are more reliant on (and expend a greater share of income for) taxi service than other members of the population. For all of these reasons, we urge that regulation of taxi medallion supply be terminated at the earliest possible time.

^{1/} This letter presents the comments of the New York Regional Office and the Bureaus of Competition, Economics and Consumer Protection of the Federal Trade Commission. The views expressed are not necessarily those of the Commission nor of any individual Commissioner, although the Commission has authorized their presentation.

means the virtual absence of legal "for hail" service.^{5/} Further, the high cost and low availability of medallion taxi service relegate the City's transportation disadvantaged -- the poor, the elderly, the handicapped -- to gypsy taxicabs. Because gypsy cabs operate unlawfully, these customers "oftentimes unknowingly, are exposed to the dangers of riding uninsured vehicles operated by drivers of questionable ability, training, or credentials."^{6/}

Whereas fewer than 12,000 medallion vehicles operate in the City of New York, gypsy cabs number roughly 14,000.^{7/} This gypsy market is an indicator of the lawful employment options foreclosed by entry restrictions in the "for hail" segment of the taxicab market. In the District of Columbia, there is "open entry" into the "for hail" market. Not surprisingly, taxicab availability is very good, and ease of entry in the District of Columbia has expanded employment and entrepreneurial opportunities for minority groups.^{8/}

^{5/} Roughly four out of every five medallion taxicab fare trips originate and terminate within the borough of Manhattan. Id. at 4.11. A survey conducted by Urbitran Associates (November 1983), reported in the Draft EIS at 4.68, disclosed that 25 percent of respondents then using medallion or other taxicab service in the five boroughs, excluding Manhattan south of 96th Street, would increase taxicab usage if street hail availability were increased. Thirty-three percent of similarly situated non-user respondents indicated that they would use taxicab service if street hail availability were increased. The numbers for the borough of Queens were particularly stark: 51 percent of taxicab users and 45 percent of non-users indicated that they would respond to increased street hail availability.

^{6/} Draft EIS at 4.7.

^{7/} Id.

^{8/} Professor Walter E. Williams has noted that: "While blacks own few taxis in most major cities with large black populations, they own more than 70% of the taxis in Washington. This is no accident [I]n Washington there is virtually no entry regulation" The Wall Street Journal, June 11, 1984, at 24. See also W. Williams, The State Against Blacks, Ch. 6 (1982).

Regulation of entry should be employed only when essential to deal with some sort of market failure, a condition that is not met in the case of the taxi industry. In 1984 the Commission's Bureau of Economics prepared a report entitled "An Economic Analysis of Taxicab Regulation."^{9/} Based on careful study of taxicab regulation in cities throughout the country, the authors found no persuasive rationale for restrictions on the total number of taxicabs or for absolute prohibitions on fare competition. The authors concluded that, in appropriate situations, other kinds of taxicab regulation -- such as driver qualification, vehicle safety, liability insurance, and fare posting -- could adequately protect consumer interests.

Some argue that a host of adverse consequences -- reduced safety, increased service refusals, and worsened congestion and pollution -- will result if free entry is allowed into "for hail" service. We strongly disagree.

First, the easing of entry restrictions should not reduce safety. Regulations relating to safety will remain wholly intact. Indeed, to the extent that safety-regulated medallion taxicabs displace unregulated gypsy cabs, the safety of the public may well be enhanced.

Second, the easing of entry restrictions should not result in increased service refusals. Rather, increasing the number of cabs will likely increase the probability that persons bound to or from the outer boroughs will be able to obtain medallion taxi service.

Third, the easing of entry restrictions may not result in greater traffic congestion and decreased air quality.^{10/} Allowing more "for hail" taxicabs will likely displace some private vehicles and gypsy cabs. Further, since emission control standards applicable to taxicabs are more stringent than those

^{9/} M. Frankena and P. Pautler, An Economic Analysis of Taxicab Regulation, Bureau of Economics Staff Report (Federal Trade Commission; May 1984), a copy of which is attached for your information).

^{10/} Id. at 38-43.

applicable to other automobiles, offsetting reductions in automotive pollution may be realized.^{11/}

Bill No. 700 would authorize the Taxi and Limousine Commission ("TLC") to issue additional taxicab licenses, provided that the additional licenses are nontransferable and do not exceed 1800 in number. Insofar as Bill No. 700 is designed to increase entry into the "for hail" segment of the taxicab market, we applaud that goal. However, the bill limits the number of new medallions and is encumbered by unnecessary regulatory requirements.

For example, prior to the issuance of additional licenses, the TLC will have to determine "that the public convenience, welfare and necessity require the operation of the additional taxicabs" ^{12/} Further, the TLC must prescribe "such restrictions on the operation of vehicles licensed pursuant to this section as the commission may deem appropriate including, but not limited to, the areas in which and the times during which such vehicles may be operated" ^{13/} The marketplace is the truest arbiter of public convenience and welfare, and will allocate taxicab resources most efficiently. Unnecessary regulatory requirements will forestall realization of the public benefits otherwise available from unfettered competition in taxicab markets. Accordingly, we urge that the TLC be directed to issue additional medallions without imposing any conditions on their use.

Both economic analysis and the experience of other cities throughout the country strongly support the elimination of restrictions on entry into the "for hail" segment of New York City's taxicab market. Deregulation, coupled with the maintenance of reasonable safety and consumer protection requirements, would yield large benefits with no significant adverse effects.^{14/}

^{11/} The Draft EIS, at 7.11-7.13 and 7.19, recommends various possible options to improve traffic flow and air quality.

^{12/} Bill No. 700, proposed § 19-504.1a.

^{13/} Bill No. 700, proposed § 19-504.1b(iii).

^{14/} We believe that deregulation of minimum fares as well as elimination of entry barriers are necessary to maximize consumer welfare. The bill does not address the former issue, even though the Mayor's Committee on Taxi Regulatory Issues, chaired by Richard B. Smith, recommended that the medallion meter fare be converted over time from a fixed to a maximum fare. Committee on Taxi Regulatory Issues, "Recommendations" at 9 (March 29, 1982). There is no reason to prohibit cabs from charging lower rates to compete for business.

The Honorable Andrew Stein

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We hope these comments are of assistance to you. Please do not hesitate to contact us if you have any questions or would like further information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jeffrey I. Zuckerman".

Jeffrey I. Zuckerman
Director
Bureau of Competition

Enclosure