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TESTIMONY OF  
JOHN M. PETERSON  
ACTING DIRECTOR  
CHICAGO REGIONAL OFFICE  
FEDERAL TRADE COMMISSION  
BEFORE THE  
CHICAGO CITY COUNCIL  
COMMITTEE ON LOCAL TRANSPORTATION

It is a privilege to be here today to testify on the proposed ordinance regarding the regulation of taxicabs. The testimony I will present is that of the Federal Trade Commission's Chicago Regional Office and the Bureaus of Competition, Consumer Protection, and Economics. The views presented in this testimony are not necessarily those of the Commission itself or any individual Commissioner, although they have authorized the presentation of these comments. We hope that our views will be of assistance to the Chicago City Council in its consideration of this proposed legislation.

The Federal Trade Commission is charged by the United States Congress with maintaining competition and protecting consumers from restraints of trade.<sup>1</sup> In accordance with this role, the Commission and its staff submit written comments or provide testimony upon request to federal, state, and local legislative bodies or administrative agencies to advocate competition-based approaches to various policy issues. Our goal is to assist decision-makers by identifying how various legislative proposals may affect competition and consumers.

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1 See 15 U.S.C. § 41 et seq.

The principal provision in the proposed reform of Chicago's taxi ordinance provides for the maximum number of taxicab licenses in Chicago to be increased to 5,000 from 4,600 upon passage of the ordinance. The 5,000 limit would be increased to 5,500 on January 1, 1987, and to 6,000 on January 1, 1988. As of January 1, 1989, the limit would be eliminated entirely. As discussed below, we strongly support the passage of this ordinance. Freer entry into the taxicab market will benefit Chicago residents and visitors by increasing the number of taxicabs, thus reducing waiting times for taxis, providing service to more neighborhoods, creating employment opportunities, and keeping fares at levels lower than they would be in a non-competitive market. The proposal further calls for the elimination of minimum fares, the legalization of jitney services and package deliveries, and an easing of restrictions on shared rides. We also believe that adoption of these provisions will benefit consumers in many of the same ways.

As you may know, the Chicago Regional Office of the Federal Trade Commission has been interested in the reform of taxicab regulation in Chicago for some time. In 1984, when there was another proposal before this Council to gradually lift the limit on taxicab licenses, we filed written comments supporting open entry.

In addition, the Federal Trade Commission staff has been interested in issues affecting taxicab regulation in other cities. The Commission's staff has submitted comments relating

to taxicab regulation to the city governments of Seattle, San Francisco, and the District of Columbia as well as to the Alaska and Colorado state legislatures; and the Commission issued administrative complaints against the cities of New Orleans and Minneapolis, challenging entry restrictions and price restraints.<sup>2</sup>

In 1984, the Commission's Bureau of Economics completed a study of taxicab regulations entitled "An Economic Analysis of Taxicab Regulation." Based on a careful analysis of taxicab regulation in cities throughout the country, the authors found no persuasive economic rationale for restrictions on the total number of taxicabs, for absolute prohibitions on fare competition, or for restrictions on shared ride or jitney service. The study concluded that such restrictions harm consumers and impose a disproportionate burden on low income people, including the elderly and handicapped, many of whom are more reliant on and expend a greater share of their income for taxi service than do members of other segments of the population. As a consequence of these restrictions, these consumers either pay more for taxicab service than they would in

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<sup>2</sup> The complaints indicated that the Commission had reason to believe that each city, acting in concert with local cab companies, had violated the antitrust laws by restricting entry into taxicab markets and adopting uniform fares without authorization by the state legislature to so restrain competition. The complaints were withdrawn following the State of Louisiana's enactment of a law permitting its cities to regulate taxicabs in an anticompetitive manner, on the one hand, and Minneapolis' amendment of its City Code to permit more competition among taxicabs, on the other.

a competitive environment or go without service or are forced to utilize unregulated "gypsy" cabs. Thus, low income riders, often unknowingly, are exposed to the dangers of riding uninsured, unlicensed vehicles operated by drivers of questionable ability, training, or credentials.

Another study, commissioned by the U.S. Department of Transportation, confirms the principal conclusions of the Bureau of Economics report. This study concluded that regulations restricting entry of new cabs and preventing discounting of fares cost consumers nearly \$800 million annually. Moreover, the study predicts that the removal of these restrictions would create 38,000 new jobs in the taxi industry.

An example of the success of open entry is provided by the District of Columbia, where ease of entry has expanded employment and entrepreneurial opportunities -- a matter of particular importance to urban minority communities. As Professor Walter E. Williams has noted: "While blacks own few taxis in most major cities with large black populations, they own more than 70 percent of the taxis in Washington. This is no accident. . . . [I]n Washington there is virtually no entry regulation. . . ."3

These general conclusions are applicable to the Chicago taxicab market according to several economic studies. In 1958, the Transportation Center of Northwestern University prepared an independent research report entitled "The Operation and

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<sup>3</sup> The Wall Street Journal, June 11, 1984, p. 24.

Regulation of Taxicabs in The City of Chicago." That report, which was introduced in City Council hearings at that time, concluded that the best interests of the public would be served by unrestricted entry into the taxicab business in Chicago and the elimination of mandatory fares. Thirteen years later, Professor Edmund Kitch and his colleagues at the University of Chicago Law School wrote a study entitled "The Regulation of Taxicabs in Chicago," which concluded that the introduction of competition would reduce fares and increase services. In a 1984 article entitled "The Fight Over Cab Deregulation in Chicago," Heartland Institute's Joseph L. Bast stated that the granting of monopoly status, as under the current ordinance, to taxicab companies hurts service to low income neighborhoods, raises fares, reduces the supply of taxis, and undermines the health of the entire taxicab industry. The arguments for open entry that have been voiced in these halls for nearly four decades have even stronger support today.

Who gains from restricted taxicab entry such as that endorsed by Chicago's present taxi ordinance? Not the drivers, not the poor, not minorities, and not the general public, all of whom suffer the economic effects of these entry restrictions. The primary beneficiaries of the current system are the long-time holders of the licenses.

It is clear from the history of Chicago taxi regulation that the Chicago taxicab companies have been strong advocates of entry restrictions. Beginning in the late 1920's, Checker Taxi Co. and

Yellow Cab Co. representatives argued for entry limitations to curb competition caused by the cabs then licensed. In the 1930's, Checker and Yellow jointly sought a reduction in the number of licenses then outstanding, and the City acquiesced -- under the threat of a taxi strike. In the 1940's, Yellow and Checker vigorously objected to an ordinance authorizing an increase from 3,000 to 5,500 taxicabs. They sued the City for its attempt to increase competition, while in another court they were defending United States Justice Department charges that they had conspired to monopolize the taxicab business in Chicago. The United States lost its case, primarily on a jurisdictional issue. Chicago remained in court defending itself from Yellow and Checker's lawsuits until 1963, when the city enacted the current ordinance which reaffirmed a license limit of 4,600 and granted Checker and Yellow 80 percent of the market.

Economists see Chicago as a city where the ceiling on the number of licenses has given the major taxicab companies market power. Like a typical cartel, the companies reportedly have been able to cut back the number of cabs and collect monopoly profits. In the past, Checker and Yellow have acknowledged that 20 percent of their cars typically are out of service -- for maintenance. In his article, Professor Kitch estimated that there were more idle cabs than those in repair shops. Even today, we continue to hear reports of cabs sitting empty in company lots.<sup>4</sup>

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<sup>4</sup> Chicago Tribune, May 25, 1986 at Sec. 1, p. 18.

Chicago taxicab licenses have sold for as much as \$28,500 each.<sup>5</sup> These high license prices are evidence that entry restrictions have raised the rate of return in the taxi industry significantly above the competitive rate in the rest of the economy. The high license prices are also evidence that entry restrictions have led to some combination of higher fares, longer waiting times, shortages of service, and reduced consumption of taxi rides, and therefore have caused a waste of resources. Further evidence of the above normal rate of return and social waste resulting from restrictions on the number of licenses is that in one year a single license can bring in more than \$6,000 rent. The weekly lease price of the license alone has been reported to be approximately \$120, excluding insurance. On a daily basis, these figures mean that cab drivers have to collect approximately \$20 on top of all other expenses before they can make any profit. This assessment against the taxi riders of the city is simply monopoly profit for the owner of the license. Opening entry would eliminate this monopoly profit.

One of the arguments most frequently advanced in opposition to open entry is that traffic congestion and chaos in the streets will inevitably result. Lifting the license limit, however, could actually help alleviate congestion problems. More cabs can mean fewer private automobiles. Taxis, by serving as a link-up,

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<sup>5</sup> Crain's Chicago Business, June 30, 1986, p. 2.

have the potential to increase the use of public transportation and decrease the number of those who drive to work. For example, many people in Chicago may bring their own cars downtown -- crowding expressways and filling parking lots -- simply because they have a midday trip and cannot count on finding a cab at that time. Thus, one taxicab in the Loop can do the work of many private cars. The Commission's 1984 Bureau of Economics' study concluded that the downtown congestion argument is refuted by the experience of cities such as Washington, D.C. and London, which have not restricted entry, as well as the other cities that recently opened entry.

Some cities that have eliminated restrictions on entry into the taxicab market have experienced taxi-related congestion at airports. These congestion problems have generally occurred when both maximum fares and entry have been deregulated simultaneously. Yet the solution to congestion problems lies not in restricting the number of taxis or maintaining fixed fare restrictions. Rather, as the FTC's Bureau of Economics' study concluded, revisions in the first-in-first-out queue system, improvements in fare posting requirements, increased cab line user fees, or lower fare ceilings provide workable solutions to congestion problems without simultaneously depriving consumers of the benefits of a competitive taxicab market.

There are approximately 1,000,000 cars, buses, and trucks registered in Chicago, but only 4,600 cabs. Only the number of cabs is restricted by law. There is no sound reason why the

number of taxicabs on the street should be limited in a manner different from private cars, trucks, and other commercial vehicles. Taxicabs can be required to pay their fair share of the costs of using the streets by paying license fees, gasoline taxes, and the other traditional charges. Limiting the number of taxicabs does not serve the purpose of minimizing congestion.

Will open entry diminish quality of service? The FTC's Bureau of Economics' study found no systematic evidence of quality deterioration following the lifting of entry restrictions in other cities. While data to measure the effects on waiting time is often not available, following deregulation in San Diego, the average waiting time in the radio-dispatched market declined 20 percent and the average waiting times at major cab stands became negligible. Furthermore, other regulations such as those dealing with driver qualifications and vehicle safety are specifically aimed at ensuring quality of service.

While our comments have focused on the more controversial open entry provisions of the proposed ordinance, we also support the elimination of minimum fares, as well as the proposals to allow regulated jitney service, package delivery and shared rides. Our economists' report found no economic justification for such restrictions. By contrast, the report found potential justifications for fare ceilings under certain circumstances and for regulations dealing with matters such as vehicle safety and liability insurance coverage.

In summary, we strongly believe that the removal of taxicab entry restrictions as well as the other anticompetitive provisions will provide substantial benefits to Chicago residents and visitors. Limiting the number of taxicab licenses has merely protected taxicab companies at the expense of consumers. As previously discussed, these regulations especially harm certain disadvantaged groups. We do not object, however, to appropriate regulations specifically designed and directly related to quality and safety standards, such as mandatory driver training classes and tougher penalties for ordinance violations.

In conclusion, we strongly support the efforts to eliminate anticompetitive effects of the current ordinance.

At this time, we stand ready to respond to any questions you might have.