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FEDERAL TRADE COMMISSION

COMMISSION APPROVED

Seattle Regional Office
2806 Federal Building
915 Second Avenue
Seattle, Washington 98174
(206) 442-4655

February 18, 1986

Representative Johne Binkley
Pouch V
Juneau, Alaska 99811

Re: House Bill No. 376

Dear Mr. Binkley:

Thank you for requesting our comments on House Bill 376, "An Act relating to municipal regulation of vehicles for hire," which would give broad authorization to municipalities in Alaska to regulate taxicabs and other vehicles for hire. Municipalities would, among other things, be authorized to regulate entry and establish rates. The comments that follow discuss primarily the effects of regulating taxicabs, an area in which the Federal Trade Commission has long been involved.

This letter represents the views of the Seattle Regional Office and the Bureaus of Competition, Economics, and Consumer Protection of the Federal Trade Commission. The views expressed here are not necessarily those of the Commission or of any individual Commissioner, although the Commission has authorized their submission.

The Federal Trade Commission's past involvement with taxicab regulation has included staff comments and testimony on proposed legislation in a number of jurisdictions, an economic study, and antitrust enforcement actions against two municipalities. All of these actions are consistent with the Commission's goals of promoting competition and protecting consumers.

As long ago as 1978, the Commission's Seattle office submitted comments in support of deregulating taxicabs in the City of Seattle. More recently, the Commission staff submitted its views on proposed legislation relating to taxicab regulation in the cities of Anchorage, Seattle, Chicago, San Francisco, and Washington, D.C., as well as in the State of Colorado. In 1984, the Commission issued complaints against the municipal governments of Minneapolis and New Orleans for engaging in regulatory activities that the Commission had reason to believe

limited the number of taxicab licenses and lessened competition, thus harming consumers.1/

Under current law, municipalities are free to regulate taxicab operations. However, this freedom is tempered by the possibility of suits for injunctive relief if the regulatory program conflicts with the federal antitrust laws.2/ State legislation can, under the state action doctrine, reduce the possibility of antitrust suits if it directly authorizes an anticompetitive regulatory program.3/

Whenever market failures exist that warrant regulation, state or local authorized regulation can potentially benefit consumers. On the other hand, consumers can be injured by regulation that restricts entry and increases prices. Our experience indicates that taxicab regulation that restricts entry and controls fares frequently has the effect of supplanting competition and increasing prices paid by consumers. Accordingly, enactment of House Bill 376 in its present form may adversely affect consumers in Alaska.

Entry Restrictions

The Commission's 1984 complaints against Minneapolis and New Orleans alleged that the two cities, in concert with local taxicab companies, had violated the antitrust laws by restricting entry into the market without adequate state legislative authorization. The State of Louisiana subsequently passed a law permitting its cities to regulate taxicab entry and fares. On the other hand, Minneapolis joined those cities that have chosen to permit more competition among taxicabs4/ by amending its ordinance to permit more entry. Following these actions, the Commission withdrew its complaints in both matters, without determining whether liability could have been established in either case.

1/ The Commission vote on issuing these complaints was 3-2, with Commissioners Bailey and Pertschuk dissenting.

2/ Local Government Antitrust Act of 1984, 15 U.S.C. § 34 *et seq*.

3/ *Town of Hallie v. City of Eau Claire*, 105 S. Ct. 1713 (1985).

4/ The FTC Bureau of Economics recently reported that in a five-year survey covering 103 U.S. cities, 16 had substantially relaxed entry restrictions and 17 had substantially relaxed fare controls. Frankena and Pautler, *An Economic Analysis of Taxicab Regulation*, (Bureau of Economics Staff Report) (May 1984) at 8.

In May 1984, the Commission released a 176-page report entitled "An Economic Analysis of Taxicab Regulation," prepared by its Bureau of Economics. Among the principal findings of this study was the conclusion that no persuasive economic rationale exists for restricting the total number of taxicab firms or vehicles. The study found that such restrictions waste resources, harm consumers, and impose a disproportionate burden on low-income people. On the other hand, the report notes that other kinds of taxicab regulations, such as those which concern quality (for instance, vehicle safety or liability insurance), may be justifiable to protect consumers. We understand that you already have a copy of the Bureau of Economics report.

The conclusions of the Commission's Bureau of Economics study are not unique. Another recent study, commissioned by the U.S. Department of Transportation, concluded that restraints on entry of new cabs and regulations preventing fare discounting together cost consumers nationwide nearly $800 million annually in higher fares, and result in 38,000 fewer jobs in the taxi industry.5/

Residents of Seattle, Washington, have been enjoying the benefits of taxi deregulation since 1978. During that time, over 200 new jobs for taxi drivers have been created. Waiting times have dropped because of the greater number of taxis on the streets. Fares have risen more slowly than transit prices generally. Taxi fares in Seattle are currently more than 15 percent lower than what we estimate they would have been under continued regulation.6/ Despite efforts to reintroduce entry and fare regulations, the City of Seattle has thus far rejected proposals to reestablish an anticompetitive regulatory scheme. Other cities that have benefitted from reform of taxicab regulations to permit more entry include Milwaukee and Madison, Wisconsin; Jacksonville, Florida; Spokane, Washington; San Diego, Oakland, Berkeley, and Sacramento, California; and Phoenix and Tucson, Arizona.

An additional problem with restricted entry is that it disproportionately affects those consumers who are most dependent on cabs for transportation: the handicapped, the poor, and the elderly. The members of these groups typically spend a larger proportion of their incomes on taxi rides than other segments of the population. In many areas, low income consumers make more

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5/ H.C. Wainwright & Co. Economics, Regulatory Impediments to Private Sector Urban Transit, Volume II (March 1984), at 85.

6/ Zerbe, Seattle Taxis: Deregulation Hits a Pothole, Regulation (November/December 1983), at 43 (copy attached).

use of taxicabs than those with higher incomes.7/ For these reasons, increased fares and waiting times have the largest impact on those least able to bear them.

The principal beneficiaries of new entry limitations would be those who already hold taxicab permits, since they would be protected from competition. Limitations on the number of permits can enable holders of existing taxicab permits to earn supracompetitive profits. For example, we understand that the City of Anchorage charges $750 per year for a permit. Owners of those permits typically resell them for as much as $45,000. This high price for a permit is the capitalized value of the supracompetitive profits. At current interest rates, investing $45,000 in a taxicab license is equivalent to making a daily payment of $12.50 to rent a license.8/ The fact that people are willing to pay $45,000 for a taxi permit indicates that they expect taxi fares to exceed the costs of owning and operating a taxicab -- and of making a normal profit -- by $12.50 per day. That is, consumers will pay daily fares that are $12.50 per day above the cost of purchasing and leasing a vehicle, the cost of gasoline and insurance, a take home wage for the driver, and a competitive profit for the owner of the permit. This $12.50 per day does not cover any of the real costs of providing service, nor is it a tax to maintain the streets. It is simply a cash transfer from consumers to permit holders.

Recent experience in Anchorage provides additional evidence that free entry would result in lower, not higher, fares. An increase in the supply of any commodity or service will tend to drive the price lower. In Anchorage, Checker and Yellow Cab tried to charge $2.00 per mile at the same time that Alaska Cab, which entered in response to partial deregulation since rescinded, was charging $1.40 per mile.9/ Alaska Cab's market share increased from approximately 12 percent to 70 percent in just four months, according to estimates by the Alaska Attorney General's office. Ultimately, Yellow and Checker reduced their fares to $1.40 as

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7/ A recent study indicated that financially disadvantaged consumers make up 25 percent of total taxicab ridership in Seattle. P. Gelb, Taxi Regulatory Revision in Seattle (DOT commissioned study) (September 1980), at 102.

8/ At an annual interest rate of 10 percent, $45,000 represents the capitalized value of a perpetual stream of profits of $4,500 per year. For a cab in operation 360 days each year, $12.50 must be collected each day to equal $4,500 in one year.

9/ For a story on the related price-fixing settlement, see Anchorage Times (January 23, 1985), at A-1, A-12.

well.10/ Reports of the benefits of competition come also from Jacksonville, Madison, Milwaukee, and Seattle, to name a few. Special senior citizen discounts became available in Madison, Sacramento, and Tucson following deregulation.

It has also been suggested that open entry reduces the quality of vehicles, drivers, and service, but there is no reason to expect that result. Allowing free entry will not prevent a municipality from regulating the quality of taxi service. On the contrary, municipalities can consider such things as safety, driver skill, and liability insurance coverage because consumers have greater difficulty evaluating these aspects of taxi service. Rather than diminishing safety or quality of service, open entry means giving licensees who are qualified the chance to compete, and giving consumers lower fares. Moreover, open entry does not mean that service will decline. Many cities report that service has improved under deregulation. In Jacksonville, Oakland, and San Diego, for example, open entry led to an increase in fleet maintenance and a reduction in vehicle age as new fleets entered the market. Moreover, in San Diego and Seattle, taxi competition reduced the average waiting time for a cab.

Finally, open entry does not mean that all taxicab operators will fail financially. As with most businesses, those who can offer higher quality service at lower prices will prosper, while less competitive operators will not. This is precisely what happened in Anchorage, and that experience illustrates how taxicab consumers respond to competition. This is also precisely what makes a competitive market the most efficient kind of market for allocating resources and maximizing consumer welfare.

Fare Restrictions

The regulation of taxi fares by municipalities supplants competitive forces that will otherwise operate in the marketplace. Our experience indicates that minimum and uniform fare restrictions injure consumers. In particular, they raise at least some prices to consumers, and they eliminate the ability of innovative discounters to obtain the reward of increased market shares for bringing lower prices to consumers. As we noted above, higher fares disproportionately injure those who need

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10/ The $45,000 cost for a permit in Anchorage suggests that even this fare level may exceed the level that would be found with unrestricted entry. That people are willing to pay such a high price for the right to drive a cab is evidence that they expect to be able to charge fares above the competitive level.

taxis the most -- poor, handicapped, and elderly consumers -- and who spend a larger proportion of their incomes on transportation than other segments of the population.

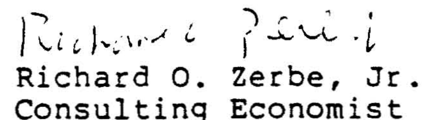
A different situation may exist with regard to fare ceilings. In some instances -- such as airport or railroad station taxi lines, where consumers may find it difficult to comparison shop for low fares -- a limited degree of maximum price regulation may be preferable to complete deregulation. A study done by Professor Zerbe on the effects of taxi deregulation in Seattle, which was not written under the auspices of the Federal Trade Commission, examined this question.11/ The study indicated that maximum fares may help to prevent clearly uninformed consumers, such as travelers at airport and railroad station queues, from paying exorbitant prices. Thus, the Legislature may wish to consider allowing municipalities to set maximum taxi fares in certain limited circumstances.

Conclusion

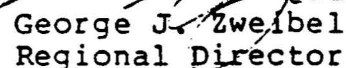
The Federal Trade Commission staff has long had an interest in the effects of taxicab regulation upon competition and consumers. We have concluded that regulations of the taxicab industry that restrict the number of cabs or fix fares generally hurt rather than help consumers and competition, and especially harm certain disadvantaged groups that rely on taxicab service. In sum, we believe that municipalities should not impose restrictions on taxicab entry and minimum fares. Any municipal regulation of taxicabs should be limited primarily to ensuring that service is safe and competent and that sufficient liability insurance is maintained. It may also be appropriate to allow municipalities to establish fare ceilings in some limited circumstances. The ability to regulate in this fashion would allow municipalities to fully respond to legitimate public problems and concerns.

We are grateful for this opportunity to present our views on House Bill 376 and hope they will be of assistance to the Legislature.

Sincerely yours,



Richard O. Zerbe, Jr.
Consulting Economist



George J. Zweibel
Regional Director

11/ See Zerbe, supra note 6, at 46-48.

Seattle Taxis: Deregulation Hits a Pothole

Richard O. Zerbe, Jr.

ALL TOO OFTEN, we talk vaguely about regulating or deregulating "the market" for some good or service, while forgetting that most sizable markets are not uniform entities: they consist of a collection of submarkets, often quite different from one another. Policies that work well for competitive parts of the market may work badly in the noncompetitive pockets, and vice versa. Regulation itself may represent a mix of "public-interest" and self-interest effects and motives, so the effects of deregulation may also be mixed. In general, deregulation as well as regulation may have unexpected side effects. The case of taxicab deregulation in Seattle shows why regulatory reformers should keep this complexity in mind —and what can happen when they do not.

Taxis came to be regulated in Seattle in much the same way as in other U.S. cities. First the powerful transit union correctly perceived taxis as a threat to buses and trolleys and called for a halt to the "ruinous competition" of cabs. The city, which itself had an economic stake in the matter as owner of the transit system, responded in 1930 with a tough ordinance that fixed uniform taxi fares and restricted the number of taxis to one for every 2,500 residents (a number apparently pulled from the air but that lasted for about forty years). Subsequently, King County, in which Seattle is located, established very similar price and entry controls, as did the Port Authority that operates the Seattle-Tacoma (Sea-Tac) airport. Later, the port moved to an exclusive franchise arrangement.

Richard O. Zerbe, Jr., is a professor in the Graduate School of Public Affairs, University of Washington, and a consulting economist for the Federal Trade Commission's regional office in Seattle. The views expressed here are his own.

This regime was ended in 1979 when all three jurisdictions—the county and port in May, and the city in June—adopted similar rules allowing open entry and permitting individual taxi firms to change fares as often as every three months by simply filing new rates. It was a sweeping act of deregulation intended to reduce fares, increase jobs in the industry, and eliminate the administrative burden of taxi regulation. All this it has done. But it has produced some adverse consequences as well, and these have led to a partial reregulation and to some public demand for further regulation. It is a case where more careful analysis of the market at the beginning might have avoided subsequent difficulties.

How the Reformers Won

Taxicab deregulation in the Seattle area resulted from a somewhat unique confluence of ideological and practical factors: an activist, consumer-oriented regulatory reform movement within city government; a forceful, procompetitive member of the city council; a series of requests for fare hikes, brought on by rapidly

increasing gasoline prices, that made continued regulation a burden on the city council; and a poorly organized taxicab industry.

On the ideological side, the most important factor was Councilman Randy Revelle's personal commitment to decontrol (and his success in persuading the Port Authority and King County to go along). He was backed up by economists from the city's Department of Licensing and Consumer Affairs, which had responsibility for taxi regulation, and from the Federal Trade Commission's Seattle office. These economists agreed on the need for a market solution to the taxi problem, including at least an end to entry and minimum-fare regulation. (Some of them wanted to retain maximum-fare regulation.)

On the practical side, the most important factor was probably the city council's growing experience with the inherent economic and political difficulties of setting rates. In the several years before 1979, owners' costs were rising rapidly, and the council, which had to approve or deny all requests for rate changes, was swamped with work. It grew unhappy with the quality and quantity of the financial and operating data that taxi operators supplied to support their requests, while the operators complained about the hassle of compiling it. Rate hearings became long and bitter. In the end the council, not sure what rates would be economically or politically "right," held off on allowing increases—and moved toward decontrol.

Whatever the relative importance of different factors in bringing about deregulation—interviews with council members and staff suggest that the council's dissatisfaction was second in importance only to Revelle's persistence—it is beyond question that the impetus for reform came mainly from within the city council. There was never an organized consumer movement for deregulation. The taxi industry spent several hundred dollars per cab fighting the idea, but failed nonetheless.

What Happened under Deregulation

Elementary economic analysis predicts that the combination of price and entry restrictions should lead to higher fares, lower taxi usage in general but more intensive use of each cab, slower responses to customer calls for service, and positive license (or medallion) values. Fares should be higher because restricted entry raises the market-clearing price and because, under uniform price controls, regulators will tend to set fares above market-clearing levels. In consequence, the license to operate a taxi, known as a "medallion," will carry a positive value: new entrants will be willing to pay to buy one. The medallion price should approach the present value of the stream of future fare income that an owner expects to receive, over and above the costs of operation, and that can be attributed to the artificial scarcity of cabs. (See "New York City Looks at Taxi Regulation," Perspectives, *Regulation,* September/October 1982.)

Deregulation would, of course, reverse the effects of regulation. Thus, it could be expected to attract more cabs into the market, which would lead to lower fares, higher industry employment, faster response times, and falling license values. All this did in fact occur.

- The number of city-licensed cabs rose by around 21 percent, from 421 just before deregulation to 511 by August 1981, and the number of taxi companies rose nearly 50 percent, from 57 to 85. The number of airport-licensed taxis increased from about 35 under the previous exclusive franchise to 263 by December 1979. (Currently there are about 208 such taxis, even though the license fee has risen substantially.) Thus employment in the industry clearly rose, a significant item to be added to deregulation's side of the ledger. Moreover, although the available data are scanty, it appears that response times are much faster under deregulation.

- The effect on fares is more difficult to assess, for two reasons: the period was one of rapid general inflation, and the city council, busy planning deregulation, had let rates fall to abnormally low real levels by 1978. Thus, from mid-1979 to April 1982, fares of radio-dispatched cabs (mainly fleets) increased about 6 percent in nominal terms, while fares of airport cabs increased by 25 percent and those of cabs not radio-dispatched (mainly independents) increased by about 30 percent. However, several comparisons suggest that deregulation helped keep fares down and, indeed, that fares fell in real terms.

The "average taxi trip" I used for purposes of comparison was 3.4 miles long and was weighted by type of taxi (airport, radio, other). After calculating the fare for such a trip for

each of the years 1967–81, I compared the results with both the Bureau of Labor Statistics' index of private transportation costs for the Seattle-Everett SMSA* and the consumer price index (see table). First, I found that over the period from 1967 to mid-1979, fares for the average trip were 11 percent higher than the cost index for private transportation, whereas in the two-and-a-half years after mid-1979, they were about level with that index. These figures suggest that fares would have been about 11 percent higher had controls continued: a 3.4-mile trip would have cost $5.55 in 1981 rather than $5.00. Second, I found that fares averaged 99 percent of the national CPI in the twelve-and-a-half years before deregulation, compared with just 92 percent afterwards.** The decline in real fares for radio cabs has been especially dramatic: the largest firm has not hiked its rates since 1979.

COST OF AN AVERAGE TAXI TRIP IN SEATTLE, 1967–81

Year	Taxi Fare for 3.4-Mile Trip		BLS Private Transportation Cost Index, Seattle-Everett (1967=100)	Ratio of Fare Index to Private Transportation Index	Ratio of Fare Index to CPI, All Items (national)
	In dollars	Indexed (1967=100)			
1967	1.91	1.00	1.00	1.00	1.00
1968	1.91	1.00	1.02	0.98	0.96
1969	2.50	1.30	1.03	1.26	1.18
1970	2.50	1.30	1.05	1.24	1.12
1971	2.50	1.30	1.07	1.21	1.07
1972	2.50	1.30	1.10	1.18	1.02
1973	2.50	1.30	1.14	1.14	0.94
1974	2.98	1.56	1.28	1.22	1.00
1975	2.98	1.56	1.40	1.11	0.97
1976	3.20	1.68	1.51	1.11	0.99
1977	3.20	1.68	1.63	1.03	0.90
1978	3.20	1.68	1.75	0.96	0.83
1979					
Jan.-June	3.20	1.68	2.04	0.82	0.73
July-Dec.	4.20	2.26	2.04	1.08	0.96
1980	4.40	2.30	2.37	0.97	0.89
1981	5.00	2.62	2.67	0.98	0.93

Note: Taxi fares are averages for the periods.

The decline in real fares for radio cabs has been especially dramatic: the largest firm has not hiked its rates since 1979.

• License values also fell, as expected. In Seattle, the taxi license is attached to the vehicle itself, so that the sale price of a taxi will have a physical and a license-value component. I estimated license values (with assistance from Tim Feetham) by comparing bill-of-sale data for cab sales with "blue book" values for the cabs and radios. The difference is the value attributed to the license. In the twelve years before deregulation, licenses in Seattle fluctuated in value—depending on taxi costs, fares, the volume of business, and the probability of deregulation—from $12,000 to about $2,500. As deregulation approached, the value fell toward zero.

Taking a figure in the middle-to-low part of this range, $5,000, we can estimate the total value of Seattle-area cab licenses at about $2 million. This gives us another way to estimate the amount by which the regulated fares exceeded the market-clearing fares. The yearly flow of income corresponding to that lump sum is about $200,000. Divided by the 3.5 million passenger miles that Seattle cabs drove per year, that amounts to a price premium of six cents per mile or about 5 percent. Indications are that the demand elasticity for taxi service is about −1; that is, a fare increase would result in a directly proportional reduction in passenger miles. This means that the reduction in passenger miles owing to regulation would also be about 5 percent.

In sum, the evidence from the transportation cost index, the consumer price index, and medallion values suggests that deregulation has lowered fares as expected. It is curious that, before deregulation, city officials believed fares were artificially high, but they apparently did not believe that licenses had significant market value—which is one reason why they were willing to deregulate. In fact, if license values had been zero, there would have been no point in

*This index includes the costs that are most germane to taxi operation, except for labor.

**The fare reduction under deregulation is somewhat less if one combines the transportation cost index with an index for labor costs in the service industries. The amount of the reduction depends on the relative weights given to the two indices: giving them equal weight yields an implied fare reduction of 1 or 2 percent, while assuming a smaller labor component yields a larger reduction (but in no case larger than 10 percent).

deregulation: fares would already have been at the competitive level.

The Split Taxi Market

For the major submarket of taxicab services, that of radio-dispatched cabs, deregulation fulfilled, and continues to fulfill, the intended goals of lower fares and better response time. This market, which included about 60 percent of the operating taxis in 1982, encompasses the major fleets. But deregulation has not been so successful in the other 40 percent of the market where cabs wait in a line for passengers. This market is made up mostly of independent operators. While the new entry and pricing freedoms did improve the availability of cabs here, they also produced a number of unexpected problems—and, as a result, widespread consumer complaints.

The troubles at the King Street railroad station were representative of, though a bit more extreme than, those at cab stands in the city. Before deregulation, Amtrak awarded the right to serve the railroad station to a single franchisee. It agreed to switch to open entry in 1979, mostly because of pressure from independent operators—who quickly took advantage of the new opportunity. Long taxi lines developed, taxis spilled out of the assigned areas, some drivers left their cabs (blocking access for Amtrak employees and passengers, as well as fellow cabbies), and some loitered in the station aggressively seeking passengers. Amtrak personnel attributed these problems almost entirely to the independent cabs. Independent drivers clashed with drivers of the lower-priced "major" cab fleets. On one occasion independents delayed a major from leaving the station with a passenger, on another they ripped off the station wall a direct-line telephone that passengers could use to call one of the majors. There were reports of physical intimidation, of drivers who lied about the availability of bus service, who were slovenly, vulgar, and rude—and so on. Amtrak officials and tourist-related businesses naturally began to worry that all this was making a bad impression on visitors to the city.

The Sea-Tac airport has had even worse problems in its cab lines, largely because it has mostly kept the system for assigning cabs it used in the days of uniform fares. Taxis are called up into the loading area one by one, strictly according to their place in the line. It is a system that impedes price competition, because it puts drivers in a stronger position than customers. A cab that refuses, or is refused by, a customer goes not to the end of the line but to a holding area, so that it soon returns to the head of the line. Moreover, airport customers are unlikely to dicker with or refuse a cab that seems to be assigned to them, especially when they do not know local fares or know that legal fares may vary, or when they are on expense accounts and not much concerned about costs. Until changes were made in early 1981, taxis operating solely at the airport were able to set their fares as high as they wished so long as they could find enough customers to pay. In contrast, cabs that also picked up passengers away from the airport, in areas where there is more price competition, were more reluctant to raise their fares to the level profitable for airport taxis. As a result, fares were not only higher than before, but also varied substantially: a consumer might, for example, pay $25 for a ride from the airport to downtown Seattle and only $16 for the return trip. Interestingly, consumers have protested more about the fare *discrepancies* than about the *amount* of the fare, which suggests they would pay a premium to have uniform rates.

As fares at the airport rose, they attracted new entrants and the taxi lines became much longer. But since each cab was making fewer trips, the drivers were no better off. Many of them refused short-haul customers because they had invested so much time getting their place in line. Also, cab operators say that tension among drivers increased, exacerbated by instances when customers chose a cab other than the first in line.

Finally, at the airport, as at the cab lines downtown, the quality of the ride deteriorated. Drivers were less knowledgeable, cabs dirtier. Some deterioration in quality results from open entry: new entrants are likely to know less about the area. And some is to be expected when prices drop in a deregulated market. As the airline case demonstrated, price and entry regulation leads to greater competition on the basis of quality. In cab lines, however, the deterioration in quality also occurs because there can be little competition on the basis of either quality or price.

The Response

The troubles in the cab lines—large increases in fares, substantial variation in fares among taxis, much longer taxi lines, refusals by drivers to carry passengers short distances, and minor violence—convinced area officials, hotels, and the tourist industry that this market was not suited to full-scale decontrol. The different jurisdictions responded in different ways.

Early on, the city council addressed the problem at cab stands by passing an ordinance requiring cabbies operating in the city to post their fares on the outside of the vehicles. It is unclear whether drivers would have done this anyway. In any event, rate-posting seems to have benefited customers by helping them shop around among taxis, though the evidence is anecdotal and difficult to quantify.

More recently, some members of the city council began to agitate for full reregulation of city cabs, and two hearings were held. The effort collapsed, however, when the city's lawyers noted that the U.S. Supreme Court's decision in *Community Communications Co.* v. *City of Boulder* (1982) "could expose the City to liability for antitrust violations for returning to taxi cab regulation." Pressure to reregulate thereupon shifted to the state level, where antitrust immunity operates more strongly.

Amtrak officials, having put up with the troubles at the station for over three years, decided in mid-1983 to re-franchise taxicabs. Meantime, some hotels had already moved on their own to reduce fare uncertainty for their guests: they have been guaranteeing fixed fares from the hotel to key locations, something they can do by using only the lower-priced radio-dispatched cabs (in a kind of informal franchising arrangement).

The Sea-Tac Port Authority, which has responsibility for regulating airport taxis, began considering some changes in late 1980. Among them were four suggested by the Seattle regional office of the Federal Trade Commission: develop a way of bringing the cheapest cab to the front of the line, make more information available to customers, limit entry to the cab companies that "bid" with the lowest fares, or regulate entry or fees. The port rejected the first option as too costly to implement, the second as having already failed in a limited experiment, and the third for reasons not stated (my guess is the port feared a hostile reaction from the drivers).

To their almost immediate embarrassment, port officials decided on a version of the fourth option: they established maximum rates, setting them equal to the average of rates registered with King County. It did not take long for a group of enterprising cab owners to torpedo the plan by getting one driver, who did not expect to operate in King County, to file a rate of $500 a "drop" and $100 a mile within the county. These ludicrous numbers raised the average rate far above the level that prevailed even among the highest priced airport taxis.

Although the taxi drivers won round one, the port struck back within a month. In February 1981, it adopted a maximum-rate scheme based not on the average rate but on the median rate, which cannot be so easily manipulated. That put an effective lid on fares charged by cabs at the airport, and seems to have eliminated most of the obvious problems. The price differences between non-radio-dispatched cabs and radio-dispatched cabs have narrowed. Consumer complaints have also decreased: the city reported in 1982 that it had received only one complaint in the last half of 1981 as against twenty-three in the same period of 1980. Cab lines at the airport remain long, but the problem of short-haul customers has been solved by creating, at the drivers' suggestion, a special line to serve only customers going shorter distances. Finally, passengers have become more familiar with deregulation, which—coupled with rate-posting—has brought some competition to the taxistand market.

The port's solution is not ideal from a purely economic viewpoint. The *maximum* rate has tended to become *the* rate (as the U.S. Supreme Court foresaw in the 1951 *Miefer-Stewart* case). Fares charged by taxis at the airport are 20 percent or more above the competitive price as judged by the fleet price in Seattle, and there still are large differences between the fare from the airport (now $23) and the fare from the hotel to the airport (still $16).

A Preferred Direction?

Partial reregulation has alleviated many of the problems that arose in the noncompetitive cabline market. Those that remain could be addressed in a number of ways. The problem of

driver and cab quality can be handled in part by direct regulation, and Randy Revelle, now the county executive, recently introduced a bill that tries to do this. Of course, this approach to quality improvement has its own costs—in inspectors, paperwork, and so on. The problems of fares and long lines are more tricky, and the proposed solutions more numerous. They include setting flat rates to and from the airport and certain key points, establishing a zone rate system, imposing a city-wide maximum-fare schedule, allowing only radio cabs or cabs that agree to abide by radio cab rates into the market, and refashioning the separate ceiling that now exists for airport fares.

The problems at the airport and similar locations have one basic cause. Because customers find it hard to shop efficiently for service, taxis can charge high fares. Consequently, a long line of cabs forms . . .

It is the last of these options that I would like to take up here. The problems at the airport and similar locations have one basic cause. Because customers find it hard to shop efficiently for service, taxis can charge high fares. Consequently, a long line of cabs forms at the airport—thus driving up costs of operation, dissipating the monopoly profits, and retrospectively justifying the high level of fares. The Port Authority has the responsibility for improving the operation of this market, for the simple reason that it is the one that controls the bottleneck of congestion through which taxis compete; it serves its customers poorly if it does not provide for the best use of its taxi stands.

There are two maximum-fare schemes that would ease the bottleneck problems. First, of course, the Port Authority could simply lower the existing ceiling so as to reduce congestion by any desired amount, while still letting into the cab lines all cabs whose fares are not above that ceiling. Alternatively, it could invite taxis to "bid," with the lowest fare schedules, for airport licenses. Of course, both schemes would require port officials to estimate the number of taxis needed to meet peak demand (the first implicitly, the second explicitly). This number, the officials say, is relatively easy to determine and is probably about eighty cabs—far fewer than are currently working the airport and undoubtedly closer to the competitive number. In any case, the port could adjust the fare in the first scheme or the number of cabs in the second, in order to maintain any desired level of probability that a customer would find a cab available at slow periods. Fares would be lower on average than they are now, since cab owners would save in congestion costs what they lost in lower fares.

It is an interesting question whether such a plan would violate what might be called the spirit of competition or the spirit of deregulation. I would argue that it does not. An airport is no more obliged to give away its taxi bottleneck to all comers than a restaurant is obliged to open its hat-check room to competing hat-check concessionaires. Precisely because their businesses are competitive, restaurant owners strive to provide for their customers the most attractive overall package of services.

Conclusion

Deregulation in Seattle varied notably in its results among different types of taxis and different places. It worked well in the market in which direct price competition is possible (among radio cabs). But in markets where price competition is difficult (at the airport and at cab stands downtown), it led to fare discrepancies, higher fares, and other problems that were a major source of consumer dissatisfaction. In hurting some groups and helping others, its overall effect on economic welfare is indeterminate. Probably the most important benefit has been additional employment.

The lessons of Seattle taxicab deregulation are more complicated than the simple one that deregulation works or does not work. First, a change in regulation—from more to less, just as from less to more—can have unexpected side effects. Second, reformers should realize that, in some markets, even institutional structures that at first sight appear to restrict entry—such as Amtrak's franchise operations—are compatible with a competitive (low-cost) solution. To view the choice of policies as a black-and-white dichotomy between regulation and deregulation is much too simple. ■