



RETHINKING TAXI REGULATIONS The Case for Fundamental Reform

New technology can cause significant changes in an industry, potentially improving both consumer welfare and governance. The initial reaction of many regulators to the advent of “ridesharing” platforms such as Uber and Lyft was either to outlaw them or to burden them with the same level of regulations as taxis. But policymakers are now beginning to take a new approach. They are aiming to achieve regulatory parity between ridesharing platforms and taxis by deregulating taxis.

In a new study, “[Rethinking Taxi Regulations: The Case for Fundamental Reform](#),” Mercatus research fellows [Michael Farren](#) and [Christopher Koopman](#) and senior research fellow [Matthew Mitchell](#) determine that taxi regulation is outdated in light of the transformative technology changes and business innovations of the last few years. Now is an opportune time for fundamental reform of the entire regulatory regime to create a fair, open, and competitive transportation market.

BACKGROUND: CURRENT APPROACH TO TAXI REGULATION

Most US cities, including the District of Columbia, extensively regulate the taxicab industry. These regulations are often defended on the theory that customers lack sufficient information to make good decisions about taxi drivers, companies, prices, and proper routes. The purpose of detailed regulation of the companies, their drivers, and their cars is to solve this alleged problem of informational disparity in the market. The District of Columbia for-hire industry, while less regulated than that of other cities such as New York, still shoulders a considerable burden, amounting to 33 regulatory procedures and up to \$2,643 in costs to drive a single car as a taxi.

- *Regulations impacting drivers.* Drivers must submit multiple forms, including a medical history, letters of recommendation, a criminal background history, a driving record, and proof of tickets paid. Further, they must pay hundreds of dollars in fees to drive.

For more information, contact
Kyle Precourt, 703-993-8196, kprecourt@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

- *Regulations impacting vehicles.* Before a car can be driven as a taxi in DC, it must have several additions installed, including a taximeter (costing \$150), an approved dome light (costing as much as \$700), and—in some cases—a vehicle condition monitoring device (costing between \$100 and \$169). The vehicle must also get a standard paint job (costing between \$400 and \$600) to comply with coloring and marking regulations, submit to annual inspections, and comply with vehicle retirement rules. Additionally, taxi companies must pay a licensing fee of \$275 per vehicle.
- *Regulations for operation.* The District also sets rates and fees for customers, imposes procedures for collecting and remitting surcharges, and requires drivers to offer printed receipts. The regulations further mandate that drivers carry sufficient cash, display taxi-related signs and identification, maintain a record of all trips, carry insurance, and follow requirements regarding where and how passengers can be picked up.

COSTS OF REGULATION VS. BENEFITS OF NEW TECHNOLOGY

Taxi Regulations Impose Significant Costs and Harm Consumers

Taxi regulations undermine personal choice, voluntary exchange, and free and open entry. These regulations are often defended on the grounds that they protect consumers, but economists have demonstrated that protective regulations can undermine consumer welfare.

- The taxicab industry has “captured” the regulatory process so that regulations serve the interests of established taxi firms rather than the interests of consumers and newcomers.
- Many of the regulatory requirements, such as price controls, licensing fees, and mandated business practices, have undermined competition and growth in the industry to the detriment of consumers.

New Technology Is Changing the Industry

Ridesharing firms such as Uber and Lyft operate outside of the taxicab regulatory process and employ new technology to interact with consumers.

- Between 2014 and 2016, business travelers increased their use of ridesharing firms from 8 percent to 46 percent, while they decreased their use of taxicabs from 37 percent to 14 percent.
- There are many benefits to the new ridesharing technology. It allows consumers to give feedback on their drivers and vice versa. This capacity for instant feedback ensures consistent, high-quality service because future consumers and drivers can understand more about each other before entering into a transaction.
- Ridesharing technology also decreases costs for consumers. In the District of Columbia, taxi fare estimates were 80 percent to 310 percent higher than UberX fare estimates, based on a sampling of some popular DC routes. These data demonstrate that consumers can benefit from the new technologies.

CONCLUSION

Taxi regulations limit competition, thereby yielding higher prices, lower quality, and antiquated technologies and practices. Now is an opportune time to rethink the entire structure of taxi regulations. Policymakers should start with a blank slate, identifying the systemic market failure that the regulations aim to address and then proposing alternative solutions with their expected benefits and costs. These alternatives should include the option of no regulation. Only then can ride-sharing regulatory policies best serve consumers.