



DO GOVERNMENTS IMPEDE TRANSPORTATION INNOVATION?

Government barriers often slow the adoption of new technologies. For example, the entrepreneurs who have started ride-sharing businesses such as Uber and Lyft are facing significant challenges from entrenched taxicab regulatory systems. A century ago, “jitneys”—cars or small buses that transported people short distances for a fee—faced similar challenges, in this case political lobbying by the railroad monopolies with which they competed.

In a new study for the Mercatus Center at George Mason University, economist Robert Krol demonstrates that governments are more likely to set up barriers to new technology when the performance advantage of the new technology is small or incremental and lobbying costs are low. Incumbent businesses threatened by a new technology may use the government to block businesses using the new technology from entering the market. Ultimately, government protection of incumbent businesses reduces consumer well-being.

To read the study in its entirety, see [“Do Governments Impede Transportation Innovation?”](#)

ECONOMIC THEORY: TECHNOLOGICAL PROGRESS AND LOBBYING

The study uses an economic model that relates the performance advantage of a new technology and political lobbying costs to the chances that a new technology will be adopted in the transportation sector of the economy. Governments are less likely to impede transportation innovation when the performance advantage of the new technology is large and the costs of lobbying are high. On the other hand, if the performance advantage is small or incremental—which is often the case early in the development of a new technology—then it is easier for incumbent businesses to lobby the government to block the new technology.

KEY FINDING: TECHNOLOGY IMPROVES TRANSPORTATION

The same technology-impeding lobbying from incumbent businesses, such as taxicab companies, can be seen today as new transportation technology seeks a foothold in the economy.

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

Wireless Communication Has Given Rise to Ride-Sharing Businesses That Compete with Traditional Taxicabs

- New transportation firms such as Uber and Lyft seek to provide flexible, cheap services that are attractive to consumers. But incumbent taxicab firms continue to lobby for government regulations and use the legal system to raise entrance costs in order to reduce competition from ride-sharing services.
- Ride-sharing companies can make local transportation less costly and attract customers away from traditional service providers, such as taxis. Ride-sharing companies also provide flexible employment opportunities. Unfortunately, many governments around the world are protecting the monopoly positions of taxicab companies at the expense of consumers.
- This opposition to ride-sharing companies echoes past regulatory policies limiting competition from jitney services. Jitneys emerged in the early 20th century in response to high fares for short-distance travel. Incumbent businesses, such as electric street railways, successfully lobbied city officials to block the expansion of jitney services. Jitneys mostly benefited a small group of residents, primarily businessmen and younger people living downtown. Railroads already held a monopoly and helped subsidize cities, making lobbying costs relatively low.

GPS Technology Has Led Businesses Involved in Vehicle Manufacturing and High Technology to Develop Driverless Cars

- While they are now only in the development stages, driverless cars will likely reduce traffic accidents, increase mobility for the young, old, and handicapped, and improve highway efficiency.
- Once on the road, driverless cars have the potential to negatively impact the profitability of a wide range of institutions, including auto body shops, long-haul trucking unions, and insurance companies.
- Industries that are harmed by the development of driverless-car technology may try to slow the adoption of driverless cars despite their welfare-improving possibilities.

CONCLUSION

Rather than regulating ride-sharing businesses in the same manner as traditional taxicabs, governments should deregulate existing taxicab companies. This will allow them to compete on the same playing field as the new entrants and adopt new technologies that benefit consumers. For driverless cars, policymakers should apply a light regulatory hand and allow the technology to evolve in the market. Heavy regulation in the early stages of a new transportation technology is likely to slow its development, which can harm consumers.