



Council Committee Meeting

Submission by Peter McCaffrey – 5 September 2014

Good afternoon councilors and thank you for receiving my submission today.

My name is Peter McCaffrey, I work at the Manning Foundation where I direct our Municipal Governance Research program.

As you can probably tell from my accent I am originally from New Zealand where the taxi market is deregulated and I am used to leaving a bar at peak hours and there are taxis waiting.

So the regulated taxi markets that exist in many Canadian cities has been a particular interest and source of frustration for me since moving to Canada a few years ago, because I know the problems can be fixed.

I believe this report offered a unique opportunity for the council to get out in front of the rapidly changing taxi industry and provide Calgary with a modern private transportation market.

Instead, however, the report recommends making only minor adjustments that will not be sufficient to address the issues that the already available, and upcoming technological advancements will create in this industry.

In this presentation I will outline the problems with the report and recommend alternative solutions that the council should adopt.

Omitted in oral submission

***Before I begin, however, I think it is important to note that this meeting is a perfect example concentrated benefits versus diffuse costs.*

***This economic principle is the idea that bad public policy is often perpetuated for far too long because of the way that the costs and benefits of the policy fall on different groups.*

***For taxi regulation the costs of this bad public policy are spread out over the entire population of Calgary, while the benefits of the policy go to a small number of taxi plate holders and limousine operators.*

***Taxi plate and limousine owners, therefore, because they gain the concentrated benefits, stand to gain a great deal from the maintenance of the policy, or lose from the elimination of the program, have a strong incentive to lobby to monitor the news,*

contact their councilor, take time off work to turn up in-force to public meetings and to speak to council and otherwise work to maintain the existing status quo.

***Meanwhile, the average member of the public, who is getting hurt by the policy, is nevertheless sharing that hurt with the entire population of the city, which means they have less incentive to get involved in the public debate.*

***The general public, meanwhile, have less incentive to get involved in the political process because the costs are shared out amongst the public.*

***The fact that we have seen so much support from the public for change, despite this economic theory, is proof of just how bad the problem is. Even though the costs of this policy are spread out over the entire population, people STILL feel it is affecting them significantly enough for them to act.*

End of omitted section

Moving on to the report itself.

First, the report recommends increasing the number of taxi plates available.

While this is certainly an improvement over the status quo, it goes nowhere near far enough in addressing the serious issues that are affecting the taxi industry and will only delay the inevitable.

Council should have no role in restricting the number of taxis and council should not set restrictions on the times these taxis can operate.

This committee and the wider council need to take a realistic look at the wider taxi market.

Existing technologies have already upended transportation markets in other cities, and the next series of software advances that are coming soon will be able to bypass any regulations you attempt to impose anyway.

Ensuring the safety of passengers is a legitimate role of the council but this should not be confused with mandating exactly with regulating the number and type of transportation options that are available.

If, as this report claims, the proliferation of unlicensed operations is the city's chief concern, why doesn't the council focus on basic licensing and insurance requirements for new entrants, instead of limiting the supply and setting minimum prices.

It is not council's job to strike a balance between supply of taxis and ensuring a living wage for taxi drivers, as this report claims.

We don't need a council committee to regulate the supply of restaurants to ensure restaurant owners make enough money.

We don't need a council committee to regulate the supply of gas stations to ensure restaurant owners make enough money.

We don't need a council committee to regulate the supply of coffee shops to ensure restaurant owners make enough money.

The market is perfectly capable of striking the balance between supply and demand in every single other industry in the city, while the council sticks to basic safety standards.

If the supply of taxis gets too low, more drivers will be attracted to the industry and prices will fall (another benefit this report ignored).

If the supply of taxis gets too high and is pushing wages down, then fewer drivers will be attracted to the industry and wages will rise again.

This principle also applies to peak vs off-peak supply.

The old business model of the taxi industry, where cars must be operated a large percentage of the time to turn a profit, makes it inefficient to operate taxis only at peak hour.

This used to mean, given the city's regulatory mechanisms, that increasing the supply of taxis permitted at peak times would have create an over-supply of taxis at off-peak times.

The council's solution has been to try to permit some taxi plates to operate only at peak times.

But this is unnecessary as technology has (in the absence of council interference) greatly reduced the barriers to entry to the taxi market.

Ridesharing and other technology based applications allow riders to use their own existing cars as taxis, meaning supply can be greatly increased at peak hours, and return to normal at off-peak times, all without centralized planning by the council.

Every other industry is able to find an appropriate equilibrium in their market without council interference and the taxi industry will be no different.

Second, the report recommends increasing the taximeter rate and adjusting the fixed fees for taxis and limos from and to certain destinations.

This is yet another ridiculous example of the mess the taxi industry is in.

It is not the role of the council to be setting prices for private businesses.

Does the council intend to start dictating what prices my local Vietnamese restaurant, or other businesses in the city may charge for their products and services in Calgary?

That suggestion might sound ridiculous to you.

But I assure you that that is exactly how ridiculous it sounds to the general public that the council should be setting Taxi prices and clearly has nothing to do with safety.

Third, the report recommends the encouragement of safe and accessible smartphone technology options to meet increased peak period demand.

To start with, the point of smartphone apps are not to address increased peak period demand.

Smart-phone apps provide a new method of putting drivers in touch with passengers.

Will that help with peak period demand, yes, but that is not the sole purpose of the technology?

Smart phone apps do not in and of themselves provide all of the benefits; they are simply tools that facilitate services.

The report mentions issues and concerns that have occurred in other cities with no real analysis of the actual prevalence of these incidents and their relevance to Calgary

This is the equivalent of commissioning a reporting in to housing in Calgary, and concluding that because an unlicensed roofer worked once in Atlanta, an apartment leaked in New York, and someone broke in to a condominium in San Francisco, that Calgary should not construct any new residential buildings at all.

This is exactly the kind of illogical conclusions that are arrived at when challenges are cherry picked and benefits are ignored.

Upcoming technology is going to make the current taxi model obsolete.

This is not to say taxi companies won't exist, but they cannot continue to stay stuck in the past and they should not be allowed to prevent competition in this industry.

The existing taxi and limousine operator's claim that they welcome competition, they claim that all they want is a level playing field.

Well, level playing fields can be level at a high or low level.
The existing industry regulations are outdated and inefficient.

New technological innovations allow businesses to provide the same or even better services at lower cost.

Saying that you support competition, but only if everyone has to abide by all the old regulations is a kind Orwellian double speak.

It's like a computer company saying they're all for competition as long as the government regulations the computer industry to prevent anyone releasing a faster or cheaper computer.

The technological changes we have seen so far are nothing compared to what is coming along the pipeline:

1) Ridesharing

Just this month, two of the larger American smart-phone app based operators announced new features that allow strangers to share rides that they order from their phone.

This is analogous to shuttle rides at airports, but the GPS technology allows routes to be determined dynamically as ride requests come in, allowing the companies to operate from and to multiple varying locations, rather than airport shuttles which all start or finish in the same place.

In many cases, this will make rides price competitive with public transportation.

2) Decentralized apps

The large businesses in this market so far make money by taking cuts of ride prices. They are large businesses with significant investments that makes them risk averse, and more likely to follow regulations and rules that are imposed on them.

However, there is nothing stopping anyone from creating an app that puts drivers and passengers directly in contact with each other, with no middle man to regulate – perhaps a kid is working on this in their basement right now.

Unless the council has plans to monitor every app on every Calgary residents phone, or has developed some way to distinguish someone receiving a ride with a friend from someone paying \$10 upon arrival, this will be completely impossible to regulate.

3) Price Bidding

While no-one has publicly announced this feature yet, I have no doubt that all of the competing companies are currently working on this in the background.

Once rides are booked via the customer and drivers smartphone, there is no reason that a company must dispatch the nearest driver.

When a ride is requested, all drivers within a certain distance could receive a notification on their phone, and could bid a particular price to fulfill that ride.

The passenger could then browse through a list of bids and make their decision based on price, time until pickup, ratings of the drivers, even the model of car that they would be riding in.

I need to get somewhere quick, so I'll pay \$20 to be picked up in 2 minutes, or I don't need to leave yet, so I'll accept the \$10 bid to be picked up in 25 minutes. Or I'm going on a date with my girlfriend, so I'll pay \$30 to be picked up in a luxury car.

4) Driverless cars

Driverless cars are not as far away as many people believe.

Imagine car trips being cheaper than public transport.

Imagine not needing to own a car at all.

Or imagine being driven to work in the morning, then, instead of your car sitting in the parking lot, allowing it to drive itself to other people to be rented out all day, and then driving itself back to your office in time for you to head home.

These are just some of the technologies we already know are coming, who knows what else may be invented in the future.

Calgary must be willing to adapt, or the taxi industry will be rendered entirely irrelevant by what is coming.

Again, ensuring the safety of passengers is a legitimate role of the council but this should not be confused with mandating exactly with regulating the number and type of transportation options that are available.

If, as this report claims, the proliferation of unlicensed operations is the city's chief concern, why doesn't the council focus on basic licensing and insurance requirements for new entrants, instead of limiting the supply and setting minimum prices.

I encourage the council to focus on this role.