

POLICY SERIES

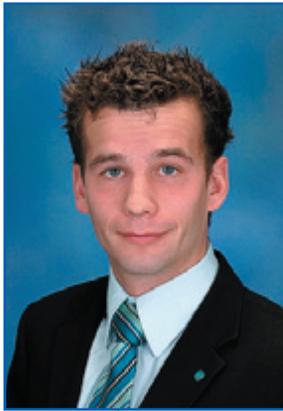


Who Owns Taxi Licences?

Exclusive Taxi Licences and Transparency

The need for greater transparency when
producers are given exclusive access
to markets

By David Seymour



About the Author

David Seymour Directs of the Centre's Saskatchewan office. He holds degrees in Electrical Engineering and Philosophy from the University of Auckland, where he also taught Economics. After working as an engineer in New Zealand he is applying his passion for sound policy analysis to policy issues on the Prairies. In his first two years working for the Frontier Centre, David has carried out extensive media work, presenting policy analysis through local and national television, newspapers, and radio. His policy columns have been published in newspapers in every province as well as the *Globe and Mail* and the *National Post*. David has produced policy research papers on telecommunications privatization, education, environmental policy, fiscal policy, poverty, and taxi deregulation. However his major project with the Frontier Centre is the annual Local Government Performance Index (LGPI). The inaugural LGPI was released in November 2007 and comes at a time when municipal accounting standards in Canada must improve if the municipal government sector is to reach its potential as an economic growth engine for Canada.

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Executive Summary

- Taxi regulation, which limits the number of available cabs and the price owners and/or operators can charge in a jurisdiction, is a rare act of government wherein the regulators control the price and quantity of the service supplied to the market rather than just the quality and safety.
- Taxi regulation has some unusual effects on the market. Limiting the number of taxis creates the possibility of monopoly rents. For the licence holders, it means that licences can be leased out for significant fees and that they have a government-created, above-market tradable value of their own.
- One of the cornerstone conventions of Western democracy is that governments are expected to govern with the informed consent of their people. In the case of taxi regulation, it is difficult for voters to understand the regulator's activities without understanding what the regulator actually does and what secondary effects result, including the creation of monopoly rents.
- Because the potential beneficiaries of limits to the taxi supply are small in number and the members of the public (who might benefit from an expansion in cab numbers) are greater in number, taxi-regulation decisions are subject to a phenomenon that public choice economists call "concentrated benefits and dispersed costs." This distorts the political dynamic toward favouring a smaller number of licences because the benefits of political action around taxi regulation are more likely to exceed its costs for licence holders than for regular voters.
- Current public disclosure of taxi regulation varies and is often abysmal. Visitors to the web sites of some of the country's largest cities find no indication that the city regulates the taxi industry, or any implications of such regulation.
- Municipalities devoted to transparency in taxi-industry regulation should ensure they periodically make the following information available, so voters are in a better position to assess the policies enacted on their behalf: the number of licences in circulation, the identities of licence holders, the value of licences when transferred and revenue made by licence holders from leasing out their licences.
- These reporting requirements are necessary, as significant licence values result from a publicly endowed privilege. The reporting requirements should reveal only information that could be gained through a typical freedom of information act. There are no legitimate objections to publishing any of this information on a periodic basis; in fact, it would be in the public interest to do so.

“Current public disclosure of taxi regulation varies and is often abysmal...”

Introduction

The taxi industry is subject to a licensing regime that is almost unique in the Canadian economy. While governments often license and regulate producers in an industry for the quality and safety of their products, in the taxi industry, municipal governments often regulate the price and quantity supplied to the market.

This regulatory approach involves giving certain producers the exclusive right to offer taxi services in a geographical area, and setting the prices they charge. The number of producers who are awarded licences¹ is usually limited.²

The arguments for and against this regulation are complex and were covered in a previous paper in this series.³ Regardless of one's position on the issue of taxi market regulation, several facts cannot be avoided:

- Taxi market regulation, as described above and practised by most Canadian municipalities, is an act of government.
- Governments in Canada are expected to act with the informed consent of their people, so governments should provide as much information about their activities as is practically possible.⁴
- Taxi market regulators must reconcile conflicting interests when they decide on the number of licences to issue or whether to limit numbers at all. Incumbent operators benefit from limited licence numbers and the limits to competition that they bring, while consumers and potential new producers may desire greater supply and entry to the market, respectively.

Despite these facts, there is worryingly little transparency surrounding the

regulatory processes for taxi licensing. A survey of web sites of municipalities responsible for taxi licensing shows that voters cannot easily find out about their city's activities with regard to taxi licensing. The web pages often include information about the process of getting a licence but rarely do they reveal the number of licences in existence or the prices at which holders buy and sell them.

Such information occasionally becomes known but usually only through investigative journalism⁵ or special reports.⁶ These pieces generally reveal that taxi licence numbers in a jurisdiction tend to stay static for decades in spite of dramatic economic and population growth and that taxi licences can often be bought and sold for hundreds of thousands of dollars.⁷



The difficulty of accessing information at the local level is a serious impediment to a well-functioning democracy. If municipal governments are to continue intervening in taxi markets, at the very least, they must be transparent about the effects of their intervention, and cities must reduce the difficulty that voters face in accessing information about the taxi market.

This could be achieved by periodic publication on city web sites of the following information:

- The number of licences in circulation;
- The identities of licence holders;
- Any transfers of licences over the reporting period and the price of these transfers;
- Any rental activity where an owner leases a licence to a driver as well as the financial value of the arrangement;
- Changes in the number of licences available within the jurisdiction.

The remainder of this paper expands on the need and justifications for such transparency and challenges in legislation on the same.



The Anatomy of Taxi Regulation

Most Canadian municipalities regulate taxi markets for quality, price and quantity. The effects of this regulation can be divided into primary effects—the direct consequences of regulation that are set out in bylaws and regulations—and secondary effects—changes in the market that occur as indirect consequences of the regulations.

Primary Effects

These regulations normally result from the enabling legislation from provincial governments that sets the parameters of what cities may or may not do. For example, the *Alberta Municipal Government Act* gives municipalities the power to “pass bylaws for municipal purposes respecting ... transport and transportation systems,” to “deal with any development, activity, industry, business or thing in different ways, divide each of them into classes and deal with each class in different ways,” to “provide for a system of licences, permits or approvals, including ... providing for the duration of licences, permits and approvals and their suspension or cancellation for failure to comply with a term or condition or the bylaw or for any other reason specified in the bylaw” and to “establish and specify the fees, rates, fares, tariffs or charges that may be charged for the hire of taxis or limousines.”⁸

The regulation of quality usually involves stipulations that concern the character of drivers and the state of their vehicles. For example, a City of Regina bylaw states, “while in charge of any vehicle licensed under this Bylaw, [a driver must] be neat,

clean and tidy in his or her person and dress and shall be civil and courteous toward all passengers and prospective passengers.”⁹ As well, licence holders must be prepared to “submit the taxicab for an inspection by a qualified mechanic appointed by Vehicle Standards and Inspection of Saskatchewan Government Insurance if requested to do so by the License Inspector or the Chief of Police.”¹⁰ The Manitoba Taxicab Board even regulates the finer points of auto electrics: “All wiring joints shall be soldered or joined by equally sufficient connectors.”¹¹

Price regulations involve periodic setting of the fare structure for taxi operators by the municipal council in a jurisdiction. Usually this process results in several prices:

- A deadhead charge, a fee that is charged to begin a ride;
- A per-unit fee for distance covered;
- A wait-time fee for the time a vehicle is stationary during a ride;
- Miscellaneous charges such as charges for carrying groceries.

The setting of these fees is the subject of periodic political disputes between politicians who attempt to mediate the competing interests of the industry, which would generally like higher fees, and the public, which would generally like lower fares.¹²

Quantity regulations usually involve a cap on the number of cabs allowed to operate within a given jurisdiction. For example:

- The City of Regina mandates, “The maximum number of regular taxicab owner’s licenses issued for the City of Regina shall not exceed 120”;¹³
- The City of Saskatoon mandates, “The number of taxicabs to be licensed within the City of Saskatoon is limited to 160 vehicles”;¹⁴

- The City of Calgary mandates, “Unless otherwise approved by Council, The City shall not issue more than 1,311 TPLs [Taxi Plate Licences]”;¹⁵
- The City of Edmonton states, “The formula for determining the appropriate number of Taxis and Accessible Taxis is 17.0 taxis per 10,000 population”;¹⁶
- Winnipeg taxis are regulated by the provincial government’s Manitoba Taxicab Board under the *Taxicab Act*, which states,

In issuing licenses the board shall consider the public convenience and necessity in respect of the number of taxicabs required in The City of Winnipeg; and to that end it may limit the number that may be operated under its authority at any one time, but may issue temporary permits permitting an additional number of taxicabs to be operated during stated seasons, during stated days, or for special occasions.¹⁷

In practice, the Board has maintained approximately 400 licences since 1947 and currently allows 410 regular licences.

It is worth noting that, while *quality* regulations apply to most industries, the regulations applied to *price* and *quantity* in the taxi market are quite unlike almost any other regulatory regime in Canada.¹⁸ As such, these regulations also have unusual secondary effects.

“**... Politicians ...**
attempt to mediate
the competing interests
of the industry ...
and the public””

The Economics of Supply Constraints

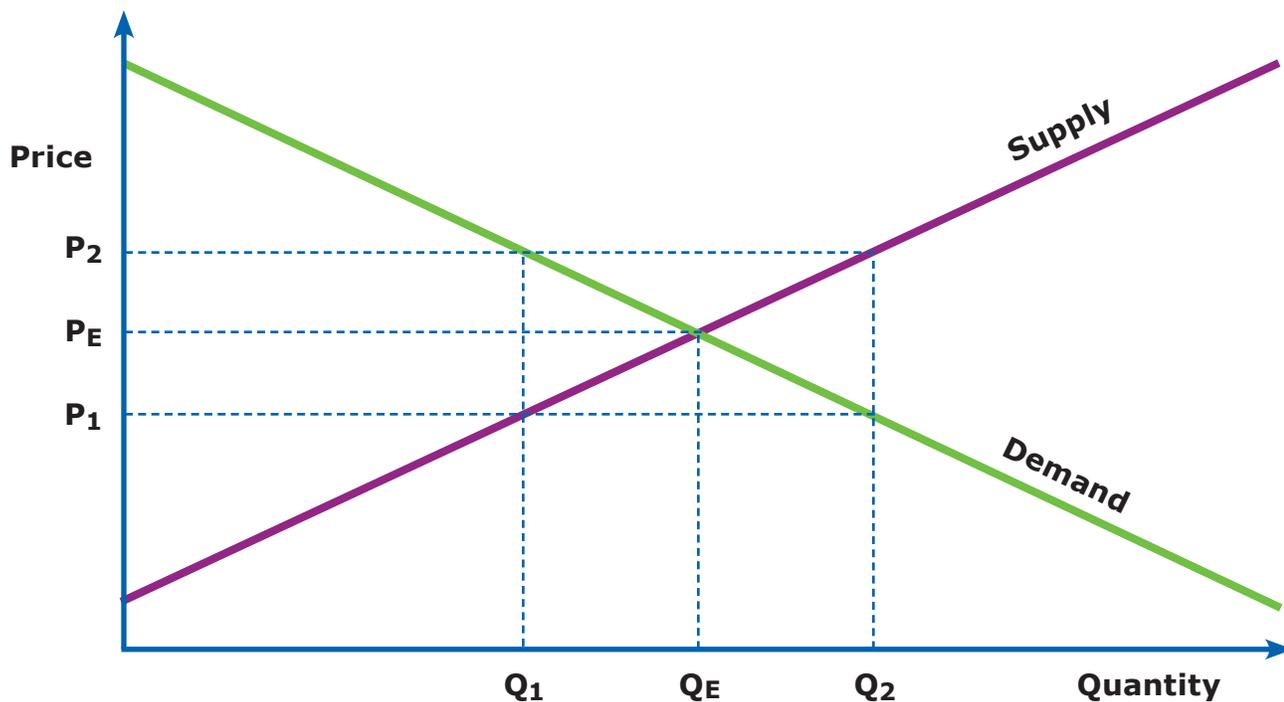


Figure 1.

Secondary Effects

The effect of limiting entry to the taxi market by capping the number of cabs able to operate legally in a jurisdiction depends on whether the number of licences issued is above or below the market equilibrium.

Figure 1 (above) is the basic economic representation of a market. Supply and demand are schedules of the quantities that producers will supply and consumers will demand at different prices. They are the result of summing many producers' and consumers' preferences for producing and consuming a good. As the price increases, suppliers will provide greater quantities of the market's product and consumers will demand less of it.

The market equilibrium where P_E and Q_E intersect is the natural market occurrence where producers and consumers "agree" on the quantity to be produced and consumed

in a market. The aim of taxi regulators is to set the price of taxi services and the number of cabs offering them as close to the natural equilibrium as possible, and in this way the preferences of individuals in the market are met perfectly.

Because taxi markets represent the ever-changing preferences of hundreds of thousands of people and the number of licences issued in a city is often constant in a jurisdiction for decades at a time, it is likely that the quantity set by regulators is either above or below the market equilibrium at any given time.¹⁹

In the case where the quantity is set above Q_E (e.g., Q_2), the demand price is less than the supply price, and drivers will likely supply less service or exit the market until demand and supply match.

However, if the quantity is capped below Q_E (e.g., Q_1), the quantity supplied to the market will not be able to rise to meet the equilibrium quantity. In this case, the market is stuck at a point where consumers are prepared to pay higher prices than producers would expect to charge for that quantity.

The gap $P_2 - P_1$ is the monopoly rent that producers in the market are able to collect by virtue of restricting competition. Caps on cab numbers create this transfer of wealth from consumers to producers.

The price of licences indicates which of the two possibilities, Q_1 or Q_2 , is in place. If the cap is between Q_2 and Q_E , we expect the value of licences to be zero. This occurs because the price on offer from consumers is less than what suppliers are naturally prepared to pay as well as drivers wanting to get out of the market rather than into it.

However, in Q_1 scenarios, the demand price is greater than the price at which operators are prepared to serve the market. In effect, it is the price they are prepared to sell at, plus monopoly rents. Evidence suggests that the quantity supplied in Prairie markets is below equilibrium.

One inconclusive piece of evidence is that the caps on taxi numbers have been static for a long time. Calgary has had 1,311 cabs for 23 years, during which, its workforce has grown by 90 per cent; Saskatoon has had 160 cabs for 22 years, during which, its workforce has grown by 39 per cent. Winnipeg has had approximately 400 cabs since 1947, yet its workforce has grown 9 per cent since 1986²⁰ and Regina has had 120 cabs since 1994. However, it is plausible that demand for taxi service simply has not grown as would be expected given the increase in workforce activity. It is also possible that the various starting points were well above equilibrium and the demand is still catching up.

A more conclusive piece of evidence, however, is the price drivers are prepared to pay to rent licences. Without the quantity restriction, more drivers would enter the market until it reached equilibrium. Because more drivers would like to enter the market than are able to, there must be an alternative form of rationing. In this case, it is the price of buying a licence from an existing licence holder. Licences gain a price equivalent to the additional value that drivers in the market are able to take because of quantity restrictions.

Reports from Saskatoon suggest that licences worth an average of \$80,000 are rented by drivers at \$9,100²¹ per annum. A Regina report finds licences worth \$135,000 are rented at \$1,000 per month.²² The value of these plates is approximately 10 times the annual return, a rate similar to other long-term investment opportunities.²³

This suggests that licence holders are capturing monopoly rents through a Q_1 scenario.²⁴ The nature of taxi regulation is to impose constraints on the market quite unlike those imposed on almost any other industry. The practical result is the possibility and, in many cases, the reality of monopoly rents due to limited competition in the market. This paper will argue that these secondary effects, particularly the value of licences, should be more publicly visible than they are currently, so the public can assess whether taxi regulations are serving their interest.

The value of these plates is approximately 10 times the annual return...

Governing with Consent and the People's Right to Know

Much of all public policy debate centers on the role of government: what should be subject to government decisions that bind all individuals to a certain way of doing (or not doing) things and what should be left to voluntary interaction amongst individuals and the groups they form. For example, there is currently a debate in Canada about whether Human Rights Commissions should have a role in policing speech.

Regardless of one's opinion on the role of government, most people would agree that government works better when its activities are clear to voters. The principle that governments must govern with the informed consent of the majority of voters is a cornerstone of Western democracy. It has been developed over hundreds of years, and it appears frequently in discourse about developing political systems:

"Give me liberty to know, to utter, and to argue freely according to conscience, above all liberties."

- Milton, *Tractate of Education*, 1644

"You manifestly wrong even the poorest ploughman, if you demand not his free consent."

- Charles I, 1600-49, *The King's Reasons for declining the jurisdiction of the High Court of Justice*, 21 January 1649 ²⁵

"I know of no safe depository of the ultimate powers of the society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion."

- Thomas Jefferson, Letter to William Charles Jarvis, September 28, 1820

When governments choose to impose regulations on a sector like the taxi industry, the concept of governing with informed consent means that governments should give out as much information as possible. Only with this information is it possible for voters to be informed and to make informed choices.

Taxi licence values can also be connected to Canadian law around campaign contributions and transparency. Given the following conditions:

- Licences are often worth over \$100,000;
- Some holders have multiple licences;
- The price of licences could be dramatically affected by regulatory decisions.

Municipal politicians may be required to make regulatory decisions that affect some people's holdings by millions of dollars. Municipal politicians in most jurisdictions are required to report the sources of their campaign contributions so that the public can detect any surreptitious influences on their policy decisions. As a logical extension of this principle, the public should also be able to be aware of the specific public policy interest that any licence holder who makes campaign contributions may have.

Moreover, public choice economics brings further observations to the field of taxi regulation. It suggests that the specific characteristics of taxi regulation make it especially important for governments to provide certain information about their activities and the effects thereof.

Public Choice Economics and Conflicting Interests in Taxi Regulation

Public choice economics, also known as political economy, is a field at the intersection of political science and economics that treats people engaged in political processes as rational economic actors who seek to maximize their welfare while constrained by the information and resources at their disposal. Applied to taxi regulation, it finds that elected officials mediate the conflicting interests of the industry and the consumers and that these two groups have quite different chances of influencing policy outcomes.

Public choice is a departure from the traditional view of economics and politics where political processes are isolated from market forces and are designed to intervene in markets for the public good. Public choice economics examines the different incentives that are necessary for participation in political processes by voters, interest groups and elected officials. It concludes that political processes do not necessarily serve the public good but rather the parties whose rewards from favourable political decisions outweigh the cost of lobbying for those decisions.

Voters have a limited incentive to become involved in political processes. Becoming politically informed involves time. Voters must filter conflicting views to establish which politicians are likely to implement policies that will truly benefit them, and they must do so for a wide range of policy areas. However, the effort they spend on informing themselves is not directly rewarded with better policies. The great strength of the one-person, one-vote political system is also its greatest weakness: It offers no reward for becoming more informed; the most-informed voter and the least-informed voter have the same number of votes.

Despite this lack of reward, voters do inform themselves to some extent, perhaps out of a sense of duty or because political participation helps gain social acceptance.

Nevertheless, it is important to realize that there are limited incentives for voters to become politically informed. Rational voters will inform themselves just enough to satisfy their desire for social acceptance or to fulfill their sense of duty and then use the rest of their time for activities that do give a proportional return. In line with the objective of governing with informed consent, governments should minimize the cost to voters of finding information about their activities.

Political interest groups are those that have a common interest in a policy area. One well-known interest group is the defense industry and its alleged influence on defense policy through the so-called military industrial complex. Unlike ordinary voters, who gain minimal reward from influencing defense policy, the defense industry has a very strong incentive to influence defense-purchasing decisions whenever the benefits it derives from a political decision made in its favour outweighs the costs of influencing that decision.

Interest groups and regular voters combine to create a perverse set of incentives for politicians. Politicians who do not have re-election as their primary aim struggle to compete against those who do, so the primary focus of politicians is usually to convince a critical number of regular voters to vote for them. However, interest groups and ordinary voters have different incentives to influence a politician's chance of re-election.

When a policy transfers wealth from the public to an interest group, the collective cost borne by the public is identical to the collective benefit derived by the interest group. However, when the interest group is very small compared to the public, the individuals in the interest group derive a benefit that is very large compared to the cost paid by each member of the public. This means that members of the public are much less likely to participate in the political process around taxi regulation than are licence holders.

As a practical example of this, council meetings concerning taxi regulation are often flooded with industry members, whereas regular voters are absent.

Taxi regulation can be seen as a set of political decisions made by elected officials that mediate the conflicting interests of an interest group and the public. Political decisions about limiting the number of licences can lead to significant scarcity values for the available licences. The licence holders typically number in the dozens or hundreds in cities populated by hundreds of thousands or millions of people. The high licence values reflect the monopoly rents that licence holders are able to extract by operating in an environment with artificially limited competition. These represent the concentrated benefits visited on relatively small numbers of people.

The dispersed costs, however, are paid by taxi users who might benefit from a greater supply of taxi services and would-be taxi drivers who might enter the market were there not limits on the number of taxis operating. To give an example from Regina with 180,000 residents and 120 licences with a reported value of \$135,000 each:²⁶

$$\begin{aligned} & \frac{(\$135,000 \text{ per licence}) \times (120 \text{ licences})}{=} \\ & \quad = \$16,200,000 \\ & \frac{= (\$90 \text{ cost per resident})}{=} \\ & \quad \times (180,000 \text{ residents}) \end{aligned}$$

The political decision to issue additional licences or to remove the licensing regime would have the following effects:

- Each additional licence would reduce the scarcity value of existing licences, which would eventually approach zero when there is no longer any limit;
- Each additional licence would increase the supply of taxis, which would reduce the cost of the policy to residents to zero when the limits are removed.

From of a licence holder's point of view, the benefit of lobbying to retain limits is up to \$135,000 while the maximum potential benefit to any voter of more licences being issued is \$90.

For this reason, it is much more likely that licence holders will become engaged in the political decision making process over taxi regulations than will regular voters. It is, of course, possible that the cost of influencing the policy outcome is less than \$90, so they will act, but it is less likely than if their loss from not acting were \$135,000.²⁷

The political mechanism governing taxi regulation can be improved by reducing the information costs to voters for monitoring taxi regulation and by increasing the chance that being informed will be worth their while. As noted in a later section, *The Current Status of Taxi Regulation Transparency in Canada's Largest Cities*, accessing information regarding taxi regulation is not as easy as it could be for regular voters.

“Meetings concerning taxi regulation are often flooded with industry members...”

The Criteria for Useful Reporting

Municipalities responsible for taxi regulation should publish regular (perhaps quarterly or annual) reports of key facts relating to the economic implications of taxi regulation. Licences are not the property of licencees but rather a privilege that is granted by government on behalf of the public. In turn, the public has a right to be informed about the use of these licences. This information should include:

The number of licences in circulation

Aside from the occasional publication of licence numbers as a result of investigative journalism, it is not clear that the public even knows that licence numbers are limited. This public policy has implications for the quantity of supply the public is able to access, and as a public policy, it should be readily available to the public and to journalists who report to them. Ideally, the reporting requirement should contain a time series of licence numbers and give a historical overview of licence numbers that dates back to at least the last change in licence numbers. This way, the current number appears in a context given that demand for taxi service can reasonably be expected to change over time.

The identities of licence holders

While identifying licence holders may seem like an unnecessary invasion of privacy, it is in line with the current norms of public disclosure²⁸ and serves two purposes in the public interest. First, it identifies any licence holders who may be engaged in the political process—e.g., those giving donations to local politicians—so the public can identify them and their interests. Second, it identifies the structure of the industry, in particular the fact that licences are often not held by drivers, as is often perceived, but by “licence magnates” who have multiple licences

and lease them at a significant cost to others.

Transfers of licences over the reporting period and the price of these transfers

This reporting requirement helps the public realize the financial value of licences, which, as has been argued in an earlier section, is a reflection of the monopoly rents gained at the public expense. Without this information, it is almost impossible for members of the public to appreciate the economics of taxi-regulation regimes.

Rental activity where the owner leases a licence to a driver and the financial value of the arrangement

The public should be able to easily see how government restrictions on the number of taxi licences lead to a benefit to the owners of such licences and not to those who drive the vehicles.

Taxi regulation is an act of government ostensibly carried out in the public interest. Nevertheless, a public choice evaluation of current taxi regulation finds that regular voters, interest groups and elected officials interact in a way that may not serve the public interest due to the different incentives and the costs of being informed about the effects of taxi regulation.

In the spirit of serving the public interest, governments could go a long way toward improving their service to the public. Taxi regulation could be made more transparent with published reports on governmental regulatory activities and the way the licences they issue are used. It is likely this proposal would encounter strenuous opposition, and one possible set of objections relates to the legality of such disclosure. (See final section)

The Current Status of Taxi Regulation Transparency in Canada's Largest Cities

Chart 1 (next page) is a survey of current municipal disclosures regarding taxi regulation. The survey consisted of visiting the official website of each municipality, browsing for information under the permits and licensing section and then using the site's search function to search for the word "taxi." This method is not guaranteed to find all the "taxi" information on a city's web site, but it does represent a reasonable effort, and highlights the minimum difficulty that journalists and members of the public have in finding taxi regulation information.

The cities selected were the 10 most-populous Canadian municipalities with full English language web sites²⁹ and cities for which licence and transfer price information could be found in the 2007 Hara Associates report to the City of Edmonton³⁰ plus major cities on the Prairies.

The web sites were tested for the following features:

- The presence of a page dedicated to taxi regulation;
- The availability of information for applicants who would like to work in the taxi industry;
- An overview for the public of the city's activities in taxi regulation, including the facts that cab numbers are limited and prices are set by the city;
- The number of licences issued;
- Recent transfer prices for licences;
- The identities of licence holders.

The results show that this reasonable level of searching reveals little information about the activities of local governments in taxi licensing. Five out of 14 municipalities have

no web pages devoted to taxi issues. Of those that do, only four out of 14 provide enough information for members of the public to gain some understanding of the city's activities in regulating the taxi industry. Given that smaller municipalities generally provide less information, it seems likely a wider review would have delivered worse results.

Putting aside the failure of many municipalities to provide even basic information about their activities in regulating the taxi industry, there is also a complete lack of reporting on the secondary effects of their regulatory activities. There is almost no information on the value of licence transfers, the prices for which non-holders lease their licences from holders or the identities of the licence holders.

Partial exceptions include the City of Montreal, which gives a breakdown of holders based on the number of licences they hold, and the Manitoba Taxicab Board, which reports the brokerages with which the cabs are affiliated.

As a result, members of the public have little to no knowledge of the governments' activities on taxi regulation. In particular, the lack of licence-transfer price information means they cannot assess any barriers to entry or monopoly rents generated by artificial limits on the market. They cannot identify the market structure or identify holders of multiple licences who make exceptional gains from owning scarce assets.

In order to be transparent and accountable, all cities should aim to improve disclosure of their activities in regulating the taxi industry.

**Chart 1.
Survey of
Current Municipal
Disclosures
Regarding Taxi
Regulation**

	Page Dedicated to Taxis	Information on Applying for Permits	Explanation of Licensing Regime	Number of Licences in Circulation	Prices of Recent Transfers	Identities of Licence Holders	Total / 6 Tests	Known Licence Cap	Highest Reported Transfer Prices ³¹
Toronto (Ont.)	y	y	y	y	n	n	4	3,450	\$ 114,400
Montréal (Que.)	y	y	y	y	n	partial	4 ½	4,445	\$ 220,000
Calgary (Alta.)	y	y	n	n	n	n	2	1,411	\$ 80,000
Ottawa (Ont.)	y	n	n	n	n	n	1	1,066	\$ 185,000
Edmonton (Alta.)	y	y	y	y	n	n	4	1,185	\$ 55,000
Mississauga (Ont.)	y	n	n	n	n	n	1	623	\$ 150,000
Winnipeg (Man.)	y	y	y	y	n	partial	4 ½	410	\$ 280,000
Vancouver (B.C.)	n	n	n	n	n	n	0	475	\$ 500,000
Hamilton (Ont.)	n	y	n	n	n	n	1		
Brampton (Ont.)	y	y	n	n	n	n	2		
Halifax (N.S.)	n	n	n	n	n	n	0	1,000	
Windsor (Ont.)	n	y	n	n	n	n	1	211	\$ 80,000
Saskatoon (Sask.)	n	n	n	n	n	n	0	160	\$ 90,000
Regina (Sask.)	y	y	n	n	n	n	2	120	\$ 135,000
TOTALS /14 Cities	9	9	4	4	0	0			

Challenges for Creating Transparency

The creation of transparency in taxi regulation faces two possible challenges. First, licence holders might misrepresent their activities in order to give a favourable impression when statistics are reported, and, second, the level of disclosure called for might be seen as an invasion of privacy or the release of commercially sensitive information.

With respect to the first challenge, it is possible licence holders would seek to under-report the benefits of licence holdership. However, beyond normal compliance enforcement, this is not something that municipalities can control. What municipalities can control is whether they will publicly disclose any information. Provinces and municipalities involved in taxi regulation should make their reporting requirements robust; they should not let this challenge discourage them from requiring and disclosing the best information possible.

With respect to the second challenge, municipalities should not be concerned that they might breach the confidentiality of licencees' affairs. The holding of a licence is not a private matter but a publicly endowed privilege. For example, the Alberta Municipal Government Act states that municipalities are responsible for:

- (iv) providing that terms and conditions may be imposed on any licence, permit or approval, the nature of the terms and conditions and who may impose them;
- (v) setting out the conditions that must be met before a licence, permit or approval is granted or renewed, the nature of the conditions and who may impose them;
- (vi) providing for the duration of licences, permits and approvals and their

suspension or cancellation for failure to comply with a term or condition or the bylaw or for any other reason specified in the bylaw.³²

According to a framework such as this, licences are a privilege given by the municipality according to the municipality's terms and conditions.

Furthermore, at least one province's freedom of information act states that licences are exempt from the usual defense against providing information that would compromise personal privacy or privileged business information. According to Saskatchewan's *Local Authority Freedom of Information and Protection of Privacy Act*, there are exemptions where information deemed personal is not required to be available to the public. However, this "[p]ersonal information" does not include ... details of a licence, permit or other similar discretionary benefit granted to an individual by a local authority.³³

With regard to commercial sensitivity, there are some exemptions from freedom of information requests if "a record that contains:

- (a) trade secrets of a third party; ... information, the disclosure of which could reasonably be expected to:
 - (i) result in financial loss or gain to;
 - (ii) prejudice the competitive position of; or
 - (iii) interfere with the contractual or other negotiations of; a third party."³⁴

However, "a head may give access to a record that contains information described in clauses (1)(b) to (d) if: ...

the public interest in disclosure could reasonably be expected to clearly

outweigh in importance any:

- (i) financial loss or gain to;
- (ii) prejudice to the competitive position of; or
- (iii) interference with contractual or other negotiations of; a third party.”

In other words, the design of a Saskatchewan’s *Freedom of Information and Protection of Privacy Act* already provides a reasonable case for the information prescribed in this paper to be acquired by any member of the public. Obviously, Saskatchewan is only one example;

legislation and legal interpretations may vary across provinces. However, it should be clear that the disclosure advocated in this paper is compatible with current legal norms.

From a practical viewpoint, it is worth noting that taxi regulators usually require annual licence renewal and the payment of a licence registration fee, which puts in place some of the infrastructure necessary for collecting the data. For example, the Manitoba Taxicab Board annually collects information on the financial operations of licence holders.



Conclusion

Regardless on one’s view on the desirability of price and entry controls in taxi markets, most people would agree that governments should act with the maximum possible transparency.

Municipal governments should acknowledge that their actions, including taxi regulation, are only legitimate when made with the informed consent of the people under their jurisdiction. They should also acknowledge that they are potentially reconciling conflicting interests when they limit the number of taxis in a jurisdiction.

Of particular interest are the monopoly rents that can be generated when the quantity of taxi service is set below the market equilibrium quantity and the market structure where the people who benefit from these monopoly rents may not be individual taxi drivers, as is commonly believed, but individual holders of multiple licences.

Improving the level of public disclosure over taxi regulation should be an urgent priority for municipal and provincial policy makers who have jurisdiction over taxi regulation and are committed to transparent government.

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- Province of Manitoba (1991) *The Taxicab Act*
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- The StarPhoenix (Saskatoon) "Cabs command a pretty penny," p A1, January 10, 2009.

Appendix A:

Concentrated Benefits and Dispersed Costs

The dynamic of largely uninterested voters, highly motivated interest groups and vote-seeking politicians in a political system leads to a phenomenon that political economists call "concentrated benefits and dispersed costs." To maximize their votes, politicians do well to ensure their policies serve the interests of these groups, because these groups have more of an incentive to influence the political process than do regular voters to assess whether it truly serves their interests.

The problem for the public interest theory of government is that the rewards for interest groups may come at an expense to the public that is equal to or greater than

the costs to the public. In other words:

$$\frac{\text{(benefit per interest group member)} \times \text{(number of beneficiaries)}}{\text{(cost per regular voter)} \times \text{(number of regular voters)}}$$

Under this scenario, societal wealth is transferred from the public to the interest group even though this may not be in the public's interest. For this to happen:

$$MB_i \geq MC_i \text{ and } MB_V \leq MC_V$$

The marginal benefit of influencing a political decision is less than or equal to the marginal cost for individual members of an interest group (i), while for individual

voters (v), this dynamic is reversed. For this reason, we would expect members of the interest group to find it worthwhile

to participate in influencing the political decision, while regular voters would expend no effort whatsoever.

Appendix B:

Collective Action and the Prisoner's Dilemma

An old saying maintains that the organized minority will defeat the disorganized majority. In taxi regulation, an additional complication that is known in game theory as the prisoner's dilemma favours incumbent licence holders in influencing the political process. The prisoner's dilemma is the classic co-ordination problem where people act against their own best interests because they cannot or will not trust others to act with them.

The original prisoner's dilemma involves two prisoners being interrogated about a crime they committed, but which the interrogator has no proof of. The interrogator offers each prisoner the option of a reduced sentence if he confesses and implicates the other prisoner. If both prisoners deny committing the crime, they will be released, but if either denies the crime and is implicated by the other, each will face a full sentence. Because they know the other prisoner is facing the same situation, neither can be sure that his counterpart will deny the crime. The typical result is that they incriminate each other and both go to jail simply because they could not trust each other.

Regular voters and interest group members who are considering investing in acquiring political information and influencing the political process, in this case taxi regulation, face a prisoner's dilemma of their own. Their political investment by itself may not be sufficient to bring any results. For their investment to be worthwhile, they must trust others to act the same way.

From the point of view of a regular voter, the prisoner's dilemma is especially problematic. The voter's investment, one vote amongst hundreds of thousands, will have negligible effect if he or she cannot rely on others to vote the same way. From the point of view of the interest group member, the prisoner's dilemma is problematic, but much less so for three reasons:

- The member has a much smaller number of people to co-ordinate;
- The members have an industry in common so it is easier to organize;
- In the case of multiple holdings, the holders are actually just one person.

In the public choice view, it is almost impossible for elected officials to find a political market for regulating taxis in a way that serves the public interest.³⁷

Appendix C:

Web Sites used for Disclosure Review

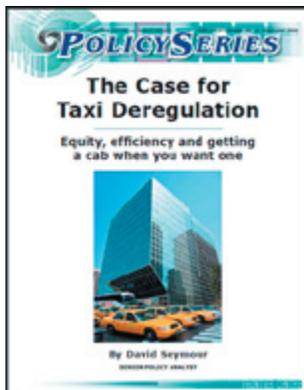
City	URL
Toronto (Ont.)	http://www.toronto.ca/council/taxi_index.htm
Montréal (Que.)	http://ville.montreal.qc.ca/portal/page?_pageid=2760,3093787&_dad=portal&_schema=PORTAL
Calgary	http://www.calgary.ca/portal/server.pt/gateway/PTARGS_0_0_104_0_0_35/http;/content.calgary.ca/CCA/City+Hall/Business+Units/Development+and+Building+Approvals+and+Land+Use+Planning+and+Policy/Livery+Transport+Services/Livery+Transport+Services.htm
Ottawa (Ont.)	http://www.ottawa.ca/residents/permits/taxi/index_en.html
Edmonton (Alta.)	http://edmonton.ca/bylaws_licences/licences_permits/plate-transfers.aspx
Mississauga (Ont.)	http://www.mississauga.ca/portal/home?paf_gear_id=9700018&itemId=1300009
Winnipeg (Man.)	http://www.gov.mb.ca/mit/taxicab/
Vancouver (B.C.)	http://vancouver.ca/bylaws/6066c.PDF
Hamilton	http://www.myhamilton.ca/myhamilton/CityandGovernment/CityDepartments/PlanningEcDev/MunicipalLawEnforcement/Licenses/MobileLicense/
Brampton (Ont.)	http://brampton.ca/enforcement/mobile.tml
Halifax (N.S.)	http://www.halifax.ca
Windsor (Ont.)	http://www.citywindsor.ca/001698.asp?license=taxicabvehicle#taxicabvehicle
Saskatoon (Sask.)	www.saskatoon.ca
Regina (Sask.)	http://www.regina.ca/Page448.aspx

Sources

1. In this paper, the word "licence" means the permission to operate one taxicab as opposed to permission to be a driver. Sometimes this is known as a "plate."
2. For example, the City of Calgary has issued the same number of regular taxi licences, 1,311, since 1986. Over the same period, the city's workforce has grown by 90 per cent.
3. See Seymour, D. (2009).
4. There are notable exceptions where it may be best for governments to carry out their role in secrecy: for example, witness protection programs.
5. The StarPhoenix (Saskatoon) (2009).
6. Hara Associates (2009) Section 3.1.2.
7. For example, the Winnipeg taxi study recently reported licence values as high as \$280,000.
8. Province of Alberta (1994).
9. City of Regina (1994) Section 6(6).
10. City of Regina (1994) Section 7(7).
11. Province of Manitoba (1991) Part I Section 51(2).
12. Note: It is at least theoretically possible that the industry would desire lower prices if it believed a higher volume would increase their profits in spite of lower prices. However, inflationary pressures mean that when a price increase is contemplated, the industry generally supports higher prices. It is also possible that the public would benefit from increased supply if it supported higher prices, but in practice, caps on cab numbers mean increased supply is unlikely to materialize.
13. City of Regina (1994) Section 8.
14. City of Saskatoon (2007) Section 40(A)1.
15. City of Calgary (2007) Section 89.
16. City of Edmonton (2008) Section 5.1.
17. Province of Manitoba (2009) Section 8.
18. The supply management of some agricultural products is the other notable example.
19. In this discussion, it is assumed that the prices set by the political jurisdiction are on the demand curve at the point of the quantity supplied. It suits neither the interests of the industry nor its customers to be above natural demand; prices set above natural demand would lead to underutilization of the service. However, given the lack of competition in a monopolistic market, it seems unlikely that the price set by municipal councils would fall far below the demand schedule.
20. Seymour, D., (2009) pp. 9-11.
21. The StarPhoenix (Saskatoon) (2009).
22. Hara Associates (2009) Section 3.2.
23. This 10 per cent return is roughly equivalent to the 30-year average of the Toronto Stock Exchange. See Seymour D., (2009) p. 11 for a broader discussion of monopoly rents and returns on licences.
24. Some commentators have argued that licence prices are inflated by demand from immigrants who use licence holder status as proof of legitimate employment for immigration purposes. Aside from the unseemly nature of an argument targeting immigrants, it does not stand up to inspection. Drivers who rent licenses do not derive the advantage of business ownership, they are only responding to the P₂-P₁ price gap in the market that makes it worthwhile to drive while paying for licences. Similarly, the price of licences in different cities and even between licences affiliated to different brokerages within cities (for example there is a variation of this type from \$150,000 to \$280,000 in Winnipeg) belie the argument that licence prices are a function of immigration. If they were we should expect correlations between licence prices and immigration for different cities, but no such correlations appear to exist.
25. *Oxford Dictionary of Phrase, Saying, and Quotation*, Oxford, Oxford University Press, 1997. Editor, Elizabeth Knowles.
26. Hara Associates (2009) Section 3.2.

27. See Appendix B: Collective Action and the Prisoner's Dilemma for a discussion of an additional difficulty that confounds voters when they are confronted by interest groups.
28. See the later section Challenges for Creating Transparency for an overview of the legal implications of identifying individuals.
29. Quebec City was excluded because only part of its web site is in English.
30. Hara Associates (2007) Appendix B.
31. These prices are from Hara Associates' 2007 report to the City of Edmonton, except in the cases of Saskatoon (The StarPhoenix, "Cabs command a pretty penny," p. A1, January 10, 2009) and Regina, which is from Hara Associates' 2009 Report to the Regina Airport Authority. They are informally reported to Hara Associates and do not indicate officially reported prices.
32. Province of Alberta (1994) Section 8 Powers under bylaws.
33. Province of Saskatchewan (1990-91) Section 23(2).
34. Province of Saskatchewan (1990-91) Section 18(1).
35. Province of Saskatchewan (1990-91) Section 18(3).
36. Province of Manitoba (1991) Section 55.
37. This is not to deny that some elected officials are conviction politicians, who will act against the prevailing political incentives for their own reasons, but in designing a political system it is unwise to assume that the character of the individuals involved will tend toward any particular cause in the long run and on average.

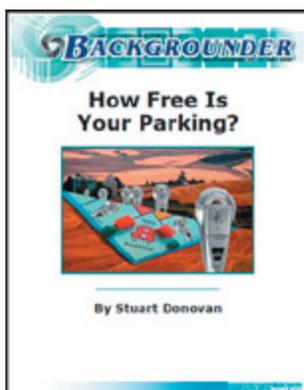
Further Reading



The Case for Taxi Deregulation

Equity, efficiency and getting a cab when you want one

http://www.fcpp.org/main/publication_detail.php?PubID=2615



The High Cost of Free Parking

http://www.fcpp.org/main/publication_detail.php?PubID=2839

For more see

www.fcpp.org

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