FARE DEAL?

Do regulations serve the public interest? CHRISTOPHER J. COYNE and RACHEL L. COYNE contend that many proposed regulations - which supposedly advance the public interest - actually undermine the well-being of private citizens…

As Uber, an app which connects riders with private drivers, has spread throughout Europe, it has been met with a backlash from taxi drivers and regulators.

For example, a recent headline in *The Telegraph* read, "Uber faces massive crackdown in London" and went on to note that, "[a] Transport for London consultation proposes new regulations that would ban some of the minicab-hailing app's key features."[1]

Among the proposed regulations are a five-minute mandatory waiting time between a rider ordering a car via their phone and the car arriving to pick them up.

Other proposals would include preventing apps from showing the user the cars that are available for hire and the banning of ride sharing, a service that Uber has introduced in some US markets.

The call for new regulations

on Uber offers the opportunity to consider two very different views of regulation.

The public interest view…

The public interest view of regulation holds that government regulators will implement rules which improve the welfare of private consumers. From this perspective, regulations are meant to protect consumers from harm resulting from irresponsible, greedy, or fraudulent producers.

The public interest view is nicely captured by Garrett Emmerson, the chief operating officer for surface transport of Transport for London (TfL).

He noted that "[in] recent years the private hire industry has grown exponentially and technology has also developed rapidly", hence the need for a consultation regarding new potential regulations.

He went on to say that "[the] consultation sets out a number of ways that standards across the industry could be raised, ensuring Londoners can continue to benefit from the service provided by licensed private hire vehicles."[2]

In other words, the purpose of the proposed regulations is to ensure that the benefits of private citizens are maximised.

Something, however, does not seem quite right. If the goal of regulations is to protect consumers, why would there be a mandatory waiting time of five minutes between ordering a car and its arrival?

The current average wait time for an Uber rider is three minutes, which is clearly preferable to the private citizen whose time is valuable.[3]

Similarly, why would private citizens desire a regulation that prevented them from seeing what cars were available for hire or from sharing the cost of their trip with other riders?

In the absence of regulations, being able to see what cars are available for hire would provide private citizens with more information. Allowing for ridesharing would reduce the cost of transportation through voluntary exchange (and reduce congestion for other Londoners).

The fact that these proposed regulations do not offer any clear benefits to Londoners suggests that the public interest view is incomplete.

IF THE GOAL OF REGULATIONS IS TO PROTECT CONSUMERS, WHY WOULD THERE BE A MANDATORY WAITING TIME OF FIVE MINUTES BETWEEN ORDERING A CAR AND ITS ARRIVAL?

The political economy view…

An alternative view of regulations was provided by economist George Stigler in a 1971 article. He emphasised that regulation is not designed and implemented in a vacuum. Instead, regulations emerge in a political environment populated by self-interested (public and private) actors.

Regulators possess power to coerce private citizens to do as they say, and this power has significant value to those who can influence and control it.

The result, Stigler noted, is that the same private interests who are the target of regulations will often have the strongest interest in attempting to manipulate laws for their own benefits.

When narrow private interests are able to influence and control the content of regulations, they will produce benefits for special interests instead of the general public.

Of course these special interests are never explicit about their intentions and couch their activities in the desire to protect consumers as per the public interest view.

The logic of the political economy view, which is the exact opposite of the public interest view, explains the proposed regulations on Uber. They are not intended to protect private consumers but, rather, are meant to protect black cab drivers who are threatened by the competition introduced by Uber and who have tried to bring London to a standstill with their protests.

Uber tends to be much cheaper (*see figure1*) but also provides a variety of service levels. Entrenched interests are attempting to influence the regulatory body tasked with protecting consumers to protect them from the forces of market competition. But, in doing so, they are making consumers worse off.

They are reducing the information and options available to consumers while

[1]www.telegraph.co.uk/technology/news/11899018/Uber-faces-massive-crackdown-in-London.html
[2]www.theguardian.com/technology/2015/sep/29/transport-for-london-tfl-could-crack-down-uber-taxi-consultation
[3]www.telegraph.co.uk/technology/news/11899018/Uber-faces-massive-crackdown-in-London.html

Figure1

Destination	Cost of trip from central London – black cab	Cost of trip from central London – Uber
Heathrow airport	£65	£37
Gatwick airport	£99	£62
Stansted airport	£110	£52-£69

artificially raising the price – both in monetary terms and in terms of time – of transportation for Londoners.

The regulation reality

Many people equate regulation with benefits for private citizens who are otherwise at the mercy of producers.

Meanwhile, those who question or oppose regulation are often labelled as dogmatic ideologues with an unwavering faith in markets. In reality, the opposite is true.

Those who unquestioningly accept more regulation as necessarily good are taking on faith that regulations are designed with the public interest in mind. This neglects the realities of politics and the nature of government.

The introduction of government regulators creates a new source of power for those who can influence and control the regulatory process and its final output. This power attracts an array of interest groups who seek to shape regulation for their own good at the expense of the general interest. This makes consumers worse off in a number of ways.

The result is generally that competition is reduced and costs increase. An indirect, but crucially important, effect is decreased innovation: regulations raise the costs and risks attached to entrepreneurs developing new and better ways to serve consumers.

We have discussed the politics of regulation in the context of the ongoing situation with Uber. However, the underlying logic is widely applicable.

For example, it helps shed light on why financial regulation is often ineffective in achieving the stated ends. Large, politically-connected banks have the incentive and resources to influence regulators to further their own interests at the expense of the interests of citizens. In the US, cotton subsidies are demanded by a powerful interest group against the general interests of taxpayers.

The central point is that citizens should not automatically assume that proposed and existing regulations are designed to further the public interest.

Instead, they should question the interests and incentives facing the main parties involved in campaigning for and implementing the regulations which affect their daily lives.

However, while large firms and entrenched interests have power, so too do private consumers. Building on Stigler's theory of regulation, Sam Peltzman (1976) noted that regulators not only consider the influence of powerful firms, but also of voters. Where voters are likely to strongly reject a proposed regulation, it will be less likely to pass.

The problem is that the costs of regulation are normally widely disbursed amongst the population who each lose out by a small amount.

In the case of Uber, the benefits are concentrated amongst about 20,000 black cab drivers who have a much stronger incentive to campaign than the losers.

However, within a few days of TfL's announcement, 125,000 people had signed an online petition protesting against the proposals.

When it comes to the economics of regulation, one interesting development is that the costs to the widely dispersed "losers" from new regulation of organising a response have fallen.

Perhaps the interest groups supporting new regulation will not always have the upper-hand in the future●

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