

Last year, Transport for London (TfL) revoked Uber's licence to operate in London – a decision Uber is appealing.

This was exactly the wrong response to disruption of taxi markets caused by the smartphone-enabled ride hiring platforms, such as Uber.

Instead, TfL should recognize that this new technology calls into question the need for any regulation of the taxi business at all.

Like most state interventions into markets, the regulation of taxis was prompted by good intentions and plausible arguments

about passenger welfare.

Before the advent of GPS and mobile apps, passengers hailing a cab couldn't easily compare offers and bargain with drivers. Imperfect information about driver qualifications and intentions meant that an unregulated market might have resulted in a large share of customers being routinely fleeced.

Since repeat purchases were unlikely, it could pay for drivers to defraud passengers, which in turn would have attracted all sorts of undesirable characters into the business.

Thus it was believed that

maximum prices, minimum vehicle standards and driver qualifications, and other features of taxi markets, must be fixed by statute.

Regulation didn't entirely eliminate the potential for fraud – indeed, in some countries taxi drivers are (not wholly undeservedly) regarded as unscrupulous racketeers – but it did arguably ensure that the market didn't unravel, as markets with large informational asymmetries are liable to do.

Yet, even if regulation was well-meaning and warranted, it quickly turned from an

# POWER STEERING!

It's time for regulators to take the brakes off taxi drivers, says **DIEGO ZULUAGA**



attempt to protect the welfare of passengers into an instrument to shield taxi drivers from competition.

Consider licensing, which puts a cap on the total number of taxis that can operate in a market.

While they are a common feature of many taxi markets in Europe and North America – and about a third of the UK's local authorities – quantity restrictions don't in fact serve the welfare of passengers in any obvious way.

In fact, they probably damage consumers' welfare, since a cap on taxi numbers means it is more difficult to find a ride.

Nor are drivers particularly well-served, since they must pay hefty sums to purchase a licence, and this figure will be equivalent to the profits they can extract from being the privileged few in an uncompetitive market.

In New York City, a medallion required to drive a yellow cab could fetch up to \$1 million before the advent of Uber. Licence prices have, predictably, plummeted since the arrival of ride-sharing apps, and those who speculated in medallions have found themselves in the red.

How about technical restrictions, which don't directly cap numbers but make entry more difficult?

According to specialist taxi websites "the Knowledge" of London takes 3.5 years to acquire. Add to that expenditures on lessons, a motorbike and other necessities for acquiring a licence, and the price prospective black cabbies face is steep. No wonder they have so fiercely opposed competition from those without the Knowledge – first pre-booked minicabs and

now mobile apps.

But the fact remains that the Knowledge, which may have been necessary in the past, is now a luxury.

Thanks to GPS, drivers have been liberated from memorising the streets of London. Add to that the ability to locate drivers and passengers on one's phone



## THE FACT REMAINS THAT 'THE KNOWLEDGE' IS NOW A LUXURY

in real time, to know their car make and licence plate, and to find out about the driver's credentials via past user reviews, and the scope for statutory regulation to provide anything valuable has been dramatically shrunk by innovation.

This doesn't mean that regulation itself is shrinking. In fact, there is a great deal of private regulation undertaken via platforms such as Uber.

Only drivers with a high enough rating are allowed to use the app; there are standards as to which type of car may be used for Uber's different services; prices are set by the app and vary according to supply and demand, with Uber taking a fixed share of all transactions.

It is in the interest of platforms to have sensible regulation which keeps passengers safe, because otherwise their reputation would sink and users on both sides – drivers and passengers – would swiftly move to another platform.

To thrive in a changed environment, London black cabs need to become their

own 'platform', meaning a distinctive brand which sets its own standards, much like Uber does, and makes the most of its comparative advantages such as the Knowledge and the iconic status of London taxis.

Black cabs could work together via the London Taxi Drivers' Association – the

sector's main trade body – to jointly set prices, vehicle standards, driver numbers, and so on. They would thereby be jointly responsible for the reputation of their trade and its future prospects.

That would enable a considerable scaling back of statutory regulation, with the problems of rent-seeking and stagnation which it often brings, and its replacement by a variety of market-tested regulatory frameworks that would evolve according to changing tastes and technologies.

A greater variety of suppliers and services has been the experience in other jurisdictions which deregulated taxis, such as New Zealand.

It is time for TfL to hand back the levers of regulation to passengers and drivers, who know best what is good for them and are now able to achieve it with the help of technology ■

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