THE ECONOMIC REASONS FOR PRICE AND ENTRY REGULATION OF TAXICABS

By Chanoch Shreiber*

THE RELATION BETWEEN THE PRICE OF RIDES AND AVAILABILITY OF CABS UNDER FREE MARKET CONDITIONS

The availability of taxicabs depends on both the number of cabs and the rate of occupancy. The larger the number of cabs covering a certain area, the better the availability. Also, since cabs are available for hire when they are unoccupied, the lower the rate of cab occupancy the shorter will be the average passenger waiting time. The relation between availability and fares arises because both the number of cabs and their rate of occupancy depend on the price of rides. As long as the elasticity of demand is below unity, higher fares will result in both an increase in the number of cabs and a reduction in their rate of occupancy, and therefore in better availability. When the elasticity of demand is above unity, the relation between the price of rides and availability is not always inverse. Although higher fares will result always in reduction of cab occupancy, when the elasticity is above unity they will bring about a reduction in the number of cabs. Since empirical evidence indicates that the elasticity of demand in the relevant range of cab fares is inelastic, or anyway does not exceed unity, we will analyse only situations where the elasticity does not exceed unity, and assume throughout this paper an inverse relation between the price of rides and availability.

In order to explain the relation between the price of rides and the availability of cabs we will make the following assumptions. First, although taxicab rides differ in time duration and distance, for analytical purposes we will assume that all rides are uniform and equal to the average ride. This assumption will enable us to define a demand for taxicab rides per period of time. We will also assume that demand does not fluctuate from period to period, and that all operators have the same costs.

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1Professor R. G. D. Allen estimated the elasticity of demand for cabs in London to be "around or rather below unity" (Report of the Committee on the Taxicab Services (Cmd. 8804, 1953); appendix V to the report). Examination of the effect on revenue of fare hikes granted over the years in New York City and other large cities in the United States revealed that the elasticity of demand in all of them was below unity.
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For a cab to stay in business, its total revenue must at least be equal to its total cost. The costs of cab operation are more or less the same, whether it operates empty or with passengers. Revenue per cab is equal to the price multiplied by the number of rides made (R). All the combinations of rides and prices that bring revenue per cab equal to the total cost can be described by a breakeven isorevenue curve (Figure 1).

\[ r - \text{Number of rides to be made by all cabs.} \]
\[ R - \text{Number of rides to be made by one cab only.} \]

The scale used for \( r \) is smaller than that used for \( R \). The use of two different scales enables the market demand curve and the isorevenue curve to be shown on the same diagram.

\[ \text{FIGURE 1} \]

If we plot this isorevenue curve and the market demand for taxicab rides on the same diagram, we can determine the number of rides that each cab will make and the total number of cabs that will be in operation (assuming free entry) at each price. The contention is that the number of rides per cab at any given price will be the one that can be read from the breakeven isorevenue (e.g., if the price is \( P_0 \), the rides per cab will be \( R_0 \)).

If the number of rides per cab at a given price is larger than the number which corresponds to the price on the isorevenue, each cab will have abnormal profits, more cabs will enter and the number of rides per cab will fall. On the other hand, if each cab makes fewer rides than the number read from the isorevenue, each cab will be
making a loss, and cabs will keep leaving the industry until the number of rides per cab increases to the point where revenue equals cost.

The total number of cabs, where there are neither abnormal profits nor losses, has to be equal to the total industry revenue divided by the cost of operating one cab. Since the cost of operating a cab is more or less independent of the number of rides, the total number of cabs is directly dependent on total industry revenue. When the elasticity of demand is less than unity, higher prices will increase total revenue and therefore will increase the number of cabs. When the elasticity is more than unity, higher prices will reduce total revenue and therefore also the number of cabs.

THE RELATION BETWEEN THE NUMBER OF RIDES PER CAB AND AVAILABILITY

Of course there is a certain maximum number of rides that a cab can make during a given period—let's call it $R_2$. The inverse relation between price and the number of rides is valid only up to this maximum. If therefore the price should be fixed below $P_2$ (the price that will prompt $R_2$), cabs will leave the business and no service will be offered at this price. It is also reasonable to assume that as the number of rides per cab decreases a point will be reached (call it $R_1$) where fewer rides per cab will not increase cab availability. In other words, when cabs are making less than $R_1$ rides, the ratio between empty cabs seeking riders and the number of passengers who seek a cab will be so high that the average waiting time will be reduced to a level approaching zero. Therefore, if the number of rides per cab falls below $R_1$ it will not improve availability.

RANDOM PRICE DETERMINATION UNDER FREE MARKET CONDITIONS

Unlike other atomistic markets, a taxicab market in which cruising is the main method of operation will seldom give rise to price competition. In most industries sellers are at a fixed location, and customers have the ability to shop around for price and return to the seller offering the best terms. A seller can thus, by reducing his price, expect to gain more business, since some customers shopping for price will switch to him from his competitors. Not so in the case of taxicabs. An individual cab operator, acting independently, cannot gain more passengers if he alone reduces his price below the going market rate. No passenger can be expected to turn down a passing cab in favour of a lower fare cab if there is only one lower fare cab—or even a few of them. The probability of meeting the lower fare cab or cabs is too small to justify it. Price reduction therefore cannot be used by individual or small operators to obtain additional business. Therefore, in the absence of large operators or of an agreement among many small operators, reduction in price is unlikely. Even where there are large operators, price competition will still be rare. Normally buyers that shop for price acquire information that can be used in future purchases. Not so in the case of cabs. A passenger who turns down a more expensive cab and waits for a lower-priced cab does not gain any useful information that will help him in the
future. This limited gain reduces the incentive of passengers to shop around for lower-priced cabs—in technical terms, it makes the price elasticity of the demand curve that confronts each taxicab operator very small and makes reduction in price unlikely.

There is only one situation in which competition in price is likely to develop. When cabs are so abundant that empty cabs pass passengers in groups rather than one by one, there will be an incentive to compete in price.

When empty cabs are so abundant that they pass passengers in groups the waiting time must be close to \(O\). This situation corresponds to the section of the demand curve above the price of \(P_1\)—the range where the relation between price and availability ceases. It is reasonable to assume that the price cannot be above \(P_1\), but whenever it falls below \(P_1\) there will be no market forces to drive it further down.

While any reduction in price as a result of competition is unlikely however high the price (as long as it is below \(P_1\)), a rise in price is likely if the price is low enough to cause passengers’ waiting time to be relatively long. Every time a passenger turns down an available cab he doubles, on average, his waiting time. If waiting time is relatively long we would expect that most passengers will take the first available cab. An individual cab, therefore, that raises its price above the going rate is not likely to be turned down by many passengers. As more cabs raise their rates the probability of finding a lower-rate cab decreases, and passengers who reject high-rate cabs will more than double their waiting time in every instance. This will reinforce the upward pressure on the price.

In a free taxicab market the combined effects of the lack of competitive forces to drive the price down and the existence of market forces to drive it up make it much more probable that the price will be relatively high and cab occupancy low.

THE CASE FOR REGULATING THE PRICE OF RIDES
As explained previously, within the price range of \(P_2-P_1\) there is an inverse relation between the price of rides and cab availability. Different combinations of price/cab availability are possible. Since, in a competitive taxicab market, the price has a tendency to creep upward, the actual price/availability combination that will emerge is unlikely to be a desirable one according to any criterion. Thus, even if all passengers would prefer cab availability to be lower than it is for the sake of a lower price, this would not come about in a competitive taxicab market, since there are no forces to drive the price down (even in this extreme situation).

Price regulation is therefore needed to achieve a satisfactory price/availability combination. By fixing the price the regulatory agency would automatically determine cab occupancy and cab availability. The most desirable price/availability combination would depend on what the agency seeks to achieve. One possible goal might be to minimise passenger cost per ride—the cost per ride consisting of the price of a ride plus the total value of passenger waiting time. This would be attainable only if all passengers had the same value of waiting time. Since they have not, there is no one combination optimal for all. Those with higher value of waiting time would prefer a higher price than those whose waiting time has less value. Still, in practice, a compromise solution that will satisfy most can be achieved.
Another slightly different goal might be to minimise the cost of rides of all passengers taken as a group. Whatever the goal of regulation, it can certainly, if properly administered, bring about better resource allocation and passenger satisfaction than an arbitrary price, which in most cases would be high, accompanied by low cab occupancy.

PRICES, CAB OCCUPANCY AND THE NEW YORK CITY EXPERIENCE IN ITS FREE MARKET PERIOD

The taxicab industry in New York City was unregulated until the enactment of the Haas Law in 1937. This law provided for the regulation of taxicab fares and restricted entry into the industry. A very comprehensive coverage of the industry in the *New York Times*, and reports of four different public committees appointed to study the industry, enables us to examine it during the period from around 1920 to the present.

Throughout the free market period the structure of the New York taxicab industry conformed very closely to the structural conditions prescribed by the theory of perfect competition. In most of the period around 50 per cent of the total number of cabs were owned by their drivers, while the rest were divided among numerous fleets. The division of taxicab ownership which prevailed in 1930 (shown in Table 2) is typical of this entire period. In addition to the very low concentration, there was no price agreement among the numerous operators and there were no industry-wide associations.

Throughout the free market period there was a large surplus of cabs. The four public committees, various city officials and numerous *New York Times* editorials all expressed the opinion that the number of cabs was far larger than what was required to meet public demand. In the beginning of 1922, the New York City Traffic Commissioner was quoted as saying that out of the 14,000 cabs at that time, 10,000 would

### Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Cabs</th>
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<tbody>
<tr>
<td>1923</td>
<td>15,000</td>
</tr>
<tr>
<td>1924</td>
<td>16,000</td>
</tr>
<tr>
<td>1926</td>
<td>13,632</td>
</tr>
<tr>
<td>1927</td>
<td>16,917</td>
</tr>
<tr>
<td>1928</td>
<td>18,297</td>
</tr>
<tr>
<td>1929</td>
<td>20,617</td>
</tr>
<tr>
<td>1930</td>
<td>19,337</td>
</tr>
<tr>
<td>1933</td>
<td>15,500</td>
</tr>
<tr>
<td>1937</td>
<td>13,595</td>
</tr>
</tbody>
</table>

have been sufficient to meet public demand.\textsuperscript{2} The \textit{New York Times}, a year later, contained the following colourful description of the excessive number of cabs:\textsuperscript{3}

"These taxicabs come so close to the curb that the buttons are almost taken from your coat. They are so numerous that when you signal a bus, several taxicabs stop and hinder you from getting on the bus."

A special committee of six members, appointed by the Mayor to study the cab situation in April 1923, expressed the opinion that there was a surplus of cabs and recommended reducing the number of cabs by ordinance to 12,000 from the 15,000 cabs that were in New York City at that time.\textsuperscript{4} Despite the surplus of cabs, the industry continued to expand from 15,000 in 1923 to 16,000 in mid-1924.\textsuperscript{5}

A temporary halt to this expansion came when a price war in July 1924 resulted in about a 27 per cent reduction in taxicab rates. The expansion in the number of cabs was resumed between 1927 and 1929 and stopped as a result of the great depression. The surplus of cabs continued to be a problem through all these years, and in 1930 another public committee was appointed by the mayor to study the cab situation. This committee expressed the opinion that 14,000 cabs, out of about 20,000 that were in operation at the beginning of 1930, were sufficient to meet public demand. Also this committee recommended limitations on the number of cabs.\textsuperscript{6}

\begin{table}[h]
\centering
\caption{The Division of Taxicab Ownership on 6 May 1930}
\begin{tabular}{llll}
\hline
\textbf{Fleet Size} & \textbf{Owners} & \textbf{Licensed Taxicabs} \\
 & \textbf{Number} & \textbf{Number} & \textbf{\%} \\
\hline
250 cabs and over & 5 & 4,268 & 21.9 \\
100 cabs and over & 6 & 925 & 4.7 \\
50 to 99 & 16 & 1,048 & 5.4 \\
25 to 49 & 27 & 930 & 4.8 \\
11 to 24 & 90 & 1,453 & 7.4 \\
6 to 10 & 102 & 769 & 3.9 \\
2 to 5 & 288 & 857 & 4.4 \\
\hline
Total number of fleets & 534 & 10,250 & 52.5 \\
Number of single cabs & 9,257 & 9,257 & 47.5 \\
\hline
Grand Total & 9,791 & 19,507 & 100 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{2} \textit{New York Times}, 19 February 1922.
\textsuperscript{3} \textit{New York Times}, 18 February 1923.
\textsuperscript{4} \textit{Report of the Mayor’s Committee on Survey of Licensing and Traffic} (New York City: 16 April 1923).
\textsuperscript{5} \textit{New York Times}, 3 August 1924.
\textsuperscript{6} \textit{Report of the Mayor’s Commission on Taxicabs} (New York City: 23 September 1930).
The surplus became even more severe during the depression. The two public
taxicab committees, one appointed by Mayor LaGuardia in 1934 and the other by the
State Legislature, echoed the same conclusion, namely that there were too many
cabs in New York City.7

We made some estimation of the percentage of cab live (working) time in different
periods. These estimates were based on data on revenue per shift as reported by the

The percentage of live time up to 1930 was somewhere around 30 per cent, and it
sank to less than 20 per cent during the depression. In comparison, in 1961, when
cab availability was still considered satisfactory, live time was around 57 per cent.

The low cab occupancy in the free market period was a direct result of the con-
sistently high taxicab fares. The price for a trip of 2.4 miles and 3 minutes' waiting
time was $1.15 until 1922, 90¢ thereafter until July 1924, 66¢ from July 1924 to
October 1933 and 71¢ from then till 1952. In 1952 the price was raised to 90¢, and this
rate remained in effect till 1964. Thus the price in 1924 was the same as in 1964,
though the general price level more than doubled between these years, and the price
in 1933 was the same as in 1952.

Also notable in this period was the infrequency of changes in price. Prices were
changed as a result of competition only twice in the whole period: in 1922, when the
price went down by 20 per cent, and in 1924, when the price was reduced by about
27 per cent. We have no information on how the first price reduction was brought
about. The second reduction came suddenly in what was described by the New York
Times as a “price war”.8 One large operator reduced the price sharply and others
followed suit. Prices otherwise remained stable, despite a persistently low cab occu-
pancy during this period.

The experience of New York during the free market period illustrates the tendency
of the free market system toward high prices and low occupancy. Price competition
occurred very rarely and seems to have been a result of an extreme condition of very
low cab occupancy, which probably brought average waiting time in many areas
close to zero.

REGULATIONS LIMITING ENTRY

Taxicabs impose various external costs. Mainly, they increase traffic congestion and
raise the level of air pollution. These external costs are imposed by cabs whether they
are occupied or driving empty cruising for passengers. The price of a ride in a system
of free entry will cover only the private cost. The social cost per ride, which includes
the externalities, will necessarily exceed the price.

Economic efficiency requires that the social marginal cost of cab rides be equal to
the price. If the price is below the marginal cost, that will result in both excessive
cruising and excessive use of taxicabs. To restrict both usage of taxicabs and cruising

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York State Joint Legislative Committee on Taxicab Operation and Fares (Albany: 2 March 1936).
8New York Times, 24 July 1924.

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to somewhere near what would be the optimal in the absence of externalities, it is necessary to raise the price and reduce the number of cabs. This can be achieved by the combination of both price and entry regulation.

Another problem that restriction on entry can solve is the effect of taxicab service on the demand for mass transit. Cabs, especially if their fares are relatively low, constitute a close substitute for mass transit. The price on most mass transit systems exceeds the marginal cost of a ride there. Economic efficiency requires that the price differential between taxicab rides and mass transit rides shall equal the marginal cost differential. If the price of both services does not exceed the marginal cost by the same amount, cab passengers will pay less than the extra social cost for the benefits of using cabs instead of bus or subway. This, in turn, will encourage passengers to use cabs instead of mass transit, even where they consider the additional benefits to be worth less to them than the difference in the social cost, but more than the difference in the prices that they themselves have to pay. As long as the price of mass transit exceeds the marginal cost, the price of cab rides should also exceed the marginal cost by the same amount, in order to avoid over-use of cabs and under-use of subways and buses. This result can be achieved by raising cab fares and restricting entry.

Since, in order to achieve economic efficiency, the price of cab rides has to exceed the private cost per ride, each cab will have economic rent per ride equal to the difference between the price and the private cost. If the licence to operate a cab is marketable, its price will reflect the capitalised value of this rent. This result may be undesirable for two reasons. Firstly, if the regulatory agency does not charge for the licences, the persons to whom the licences were originally issued will have a windfall gain. Secondly, the fact that the licences have value and that many operators have paid for their licences might impose a constraint on any future decisions making changes either in the price of rides or in the number of cabs, especially when such changes could result in reduction of the value of existing licences. A moral, if not legal, obligation will require the regulatory agencies to take possible losses in licence value into account in any future decisions.

A way to get round the problem of high licence values is to impose an annual fee, equal to economic rent accrued during the year, on each licence. The fee should vary from year to year in accordance with variations in the actual economic rent. This should prevent the private appropriation of scarcity rents in licence values.

In addition to the externalities and the need to preserve a price differential between cabs and mass transit equal to the difference in the marginal cost, cyclical fluctuations in the number of cabs and the demand for them is another justification for restriction on entry. In the absence of legal restrictions, the number of cabs most probably will vary in the opposite direction to general business conditions. Very little skill is required to be a cab driver, and not much money is needed to buy or rent a car that can be used as a cab. The absence of barriers to entry makes cab operation the natural occupation to turn to for those that are unemployed. The disadvantage of such fluctuations is that they will bring about a larger supply of cabs

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when there is less demand for them (i.e. in times of recession) and a smaller supply of cabs when the demand for them rises (in times of prosperity). Moreover, cyclical fluctuation will tend to hurt those who make cab driving their permanent job—their income will necessarily decline sharply in times of recession. Restrictions are needed to provide some income stability for these drivers, who will anyway suffer in times of recession because of the decrease in demand.

THE NEW YORK CITY SYSTEM OF RESTRICTIONS

Price and entry regulations started in New York City in March 1937, with the enactment of the Haas law. At that time the number of cabs in operation was 13,595, of which 5,312 were individually owned and 8,383 were owned by fleets. The Haas law permitted transfer of medallions (licences to operate a cab), providing that individual medallions could be transferred only to other individuals and fleet medallions could be transferred only among fleets. Individual medallions could only be used by operators of a single cab.

The number of medallions was reduced, through surrender, to about 11,800 in 1941 and has remained constant to this day. Although the Haas law provided for the issuance of additional medallions by the Hack Bureau of the Police Department whenever public necessity and convenience required it, no more were ever issued. In addition, the Haas law fixed uniform rates for all cabs. Changes in these rates after 1937 required legislative action by the City Council. The combination of restriction on entry and price regulation resulted in a long trend of continuing decline of both the real price of cab rides and the percentage of dead time (time spent cruising). This trend continued until 1968.

As a result of higher cab occupancy, and despite the decline in the real price of rides, the value of cab medallions went up continuously until 1964.

Table 3

*New York City Rates of Taxicabs in Current and Constant Prices*  
1937–1972 and Comparison with Public Transit Fares

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Transit Fares</th>
<th>Taxicab Fare for ride of 2.4 miles and 3 mins. waiting time</th>
<th>Constant Dollar Price of 2.4 mile taxicab ride in fixed prices of 1967 (Based on Consumer Price Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>$0.05</td>
<td>$0.71</td>
<td>$1.65</td>
</tr>
<tr>
<td>1947</td>
<td>$0.05</td>
<td>$0.71</td>
<td>$1.06</td>
</tr>
<tr>
<td>1957</td>
<td>$0.15</td>
<td>$0.90</td>
<td>$1.07</td>
</tr>
<tr>
<td>1967</td>
<td>$0.20</td>
<td>$1.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>1970</td>
<td>$0.30</td>
<td>$1.35</td>
<td>$1.16</td>
</tr>
<tr>
<td>1972</td>
<td>$0.35</td>
<td>$2.00</td>
<td>$1.57</td>
</tr>
</tbody>
</table>

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Regulation of the cab industry in New York solved the problem of surplus cabs that had existed in the free market period. Cab occupancy rose over the years, but cab availability nevertheless was considered satisfactory until about 1963.

From about 1963 New York City started to experience a shortage of cabs. The level of cab availability was reduced to such a low point that it caused widespread discontent among cab riders. The reasons for the shortage were the increase in the demand for cabs as the city population grew and income rose, the decline in the real price of cab rides, and the freeze on the number of cabs.

The shortage of cabs in New York City during 1963–1970 prompted the development of what became known as the gypsy cab industry. The Haas law restricted entry into the cab business, but these restrictions did not cover livery cars. (Livery cars are cars for hire for which the service is arranged in advance, usually by telephone.) Livery cars are not allowed to answer hails or cruise for passengers. Entry into the livery car business remains unrestricted. Until about 1963 there were only a few hundred livery cars in New York City, but from around that time their number began to grow. At the same time they began to solicit passengers illegally by way of cruising, mostly in ghetto areas, where the shortage of medallion cabs was especially acute. (Medallion cabs avoided these areas because of cab robberies.) The illegal cruising was the reason why the livery cars were called “gypsy” cabs. Most of the gypsy cab drivers were and are black or hispanic. The number of gypsy cabs in 1972 was estimated at around 15,000, but not all of them operated full time.

Although cruising by gypsy cabs was obviously illegal, their operation was tolerated by weak law enforcement. There were two main reasons for the city's tolerant attitude: the fact that medallion cabs were not sufficient in number to give satisfactory service at the existing rates of fare; and the racial aspect.

Source: *New York Times*, and a list of selling prices of medallions from August 1959 to 1967, obtained from the Taxi and Limousine Commission of New York City.
The shortage of cabs in New York was completely resolved after March 1971 by a 48 per cent increase in cab fares and the expansion of gypsy cab operation. Cab occupancy was reduced from about 63 per cent in 1967 to around 50 per cent at present. Today taxicabs are easily available, and the problem has reverted once again to too low cab occupancy.

Although the general enforcement against gypsy cabs is not vigorous, certain parts of New York City are still reserved for medallion cabs, and gypsy operation, while left unchecked in other parts of the city, is not permitted there. Gypsy cabs are excluded from most of Manhattan, except uptown, and from most of the business centres and airports. The practical result of the way the law is enforced now is to make restriction on entry effective only in some parts of the city—mostly those sections where externalities are more important.

Even though only medallion cabs are permitted in most of Manhattan, it is estimated that more than half the total vehicle mileage in downtown and midtown Manhattan is done by cabs. Half the present cab mileage is spent in cruising, and cabs are a major cause of both traffic congestion and air pollution. Recently the city transport authorities considered imposing a restriction on cab cruising as a way to reduce pollution and congestion.

If the present number of cabs in Manhattan is too large, it certainly will increase substantially if the present restriction on entry is removed. Individual medallions are now selling for about $25,000 and fleet medallions from $10,000. This indicates that medallion cabs still have a very substantial rent, and removal of the restriction on entry will result in expansion of cab operation in the more congested areas of the city until cab occupancy is reduced to such a level as to erase the economic rent. The partial restrictions on entry that still prevail in New York City are effective in preventing an increase in the number of cabs in those areas of the city plagued by the highest level of air pollution and traffic congestion.

All the cabs in New York City, medallion and gypsy, carry on average around one million passengers a day—approximately one-fifth as many passengers as the subways and buses. The mass transit system in New York City suffers from continuous decline in ridership and increases in cost. These two factors have forced sharp increases in the transit fare in recent years. Despite the increased fares the transit deficit is growing larger, and unless more sources of subsidy are found the fare will have to go up again, possibly by as much as 70 per cent. There is no doubt that complete abolition of the restriction on entry of taxicabs, with a simultaneous lowering of cab fares to avoid increases in cruising, will encourage many passengers to take cabs instead of subways or buses, especially for short trips. This will bring the transit system to an even worse plight.

The main deficiency of the New York system of price/entry regulation was the total lack of any planning. Neither the fares nor the number of medallions issued was determined on the basis of what was needed to achieve economic efficiency in city transport. No discretionary changes were ever made in the number of medallions. The changes in rates that have taken place from 1937 to the present were made not for regulating cab occupancy and availability, but rather for the purpose of raising cab drivers' earnings or the profitability of cab ownership. Cab occupancy was too low at certain times and too high at others. The shortage of cabs that started in 1963
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could have been avoided if either prices had been raised or the number of medallions had been increased. The city never based price decisions on cab availability; instead, all price rises were based on the financial needs of owners or drivers. The number of medallions was not increased because of resistance from the industry and because a moral obligation was felt to protect the value of existing medallions. The shortcomings of the New York City system of price/entry regulation is a result of poor administration, and not of any inherent deficiencies of a system of regulation.

SUMMARY

Taxicab fares determine the level of cab occupancy and availability. Regulation of fares is necessary in order to establish a satisfactory level of cab occupancy and availability. In the absence of price regulation the fares are likely to be too high and therefore to bring about an unsatisfactorily low level of occupancy. Examination of the New York City taxicab industry during the years in which it was unregulated proves this point. The fares in this period were too high, and cab occupancy was therefore very low.

Restriction on entry is necessary in order to reduce both cab usage and cruising. Reduction in use of cabs might be required because of externalities imposed by cabs and because of the need to establish a price differential between cabs and mass transit equal to the difference in the marginal costs. In addition, restriction on entry might be useful to avoid undesirable cyclical fluctuations in the number of cabs. In New York City, where taxicabs are the largest contributors to congestion and air pollution in downtown areas, elimination of the present restrictions on entry is bound to increase the number of cabs there and therefore to bring about further deterioration in the already heavy traffic congestion and high levels of air pollution.

Taxicabs in New York City already carry one-fifth as many passengers as mass transit. Elimination of entry restrictions will necessitate reduction in rates to avoid an increase in cruising, and will bring about a further increase in cab usage at the expense of buses and subways.