

Canada's Taxi Markets: Market Failure or Regulatory Failure?

Restrictions on the number of taxis and the price they charge is a regulatory practice imposed by most Canadian cities. Ostensibly, the rationale behind these regulations is to correct a number of market failures that some economists predict will occur in taxi markets. While the existence and extent of these market failures can be challenged theoretically and empirically, it is also possible that the cure of regulation is worse than the disease of market failure.

While regulation can theoretically solve problems of market failure, evidence from the Canadian taxi markets suggests that regulatory capture has taken place. Regulatory capture occurs when the regulatory process is disproportionately influenced by a small but motivated group at the expense of a larger but less interested group. In the case of taxi regulations, incumbent license holders may benefit from having access to a market that is protected from new competition, however the public suffers from a shortage of taxis. There has been evidence of active lobbying by license holders including taxi drivers recently attending a Council Meetings en masse.

When New Zealand deregulated taxis in 1989 and when Ireland deregulated in 2000, taxi market growth was beyond expectations based on population and economic growth. However it is worth asking, how many taxis would a city have if license numbers had increased at the rate of population or employment growth?

These charts suggest that the three markets examined have many fewer taxis than we might expect based on population and employment growth in the past two decades.

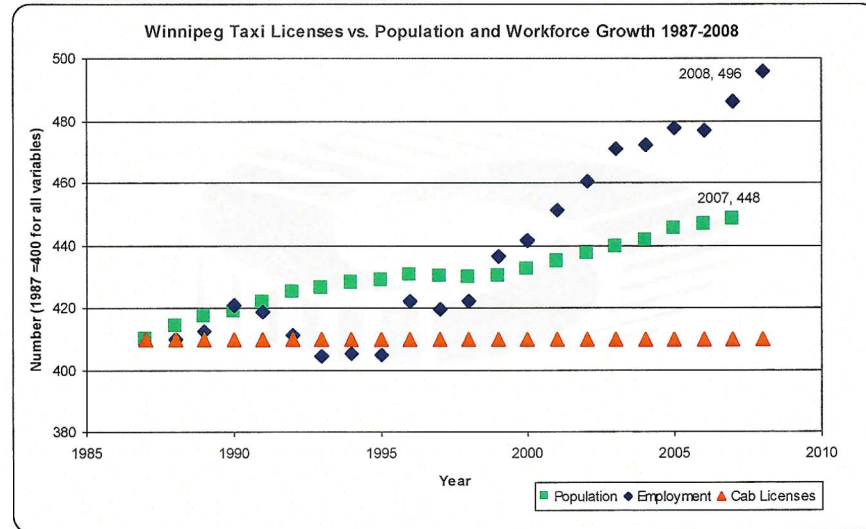
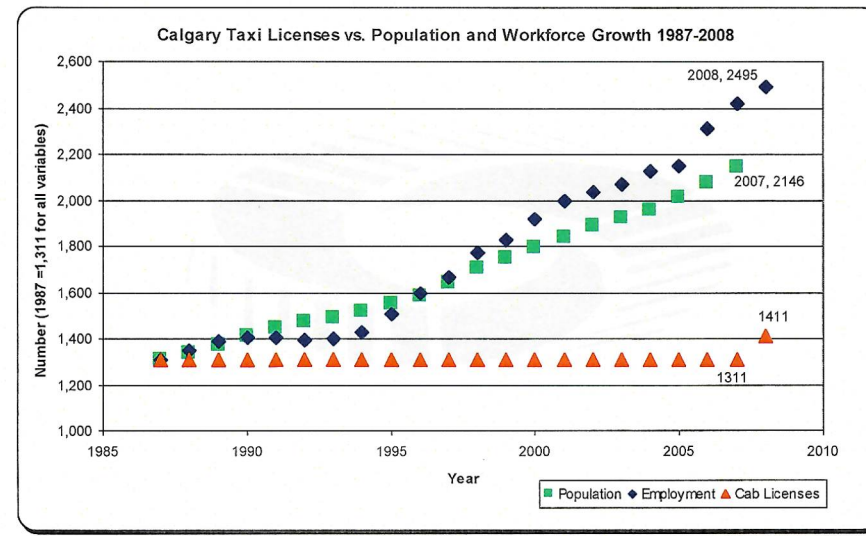
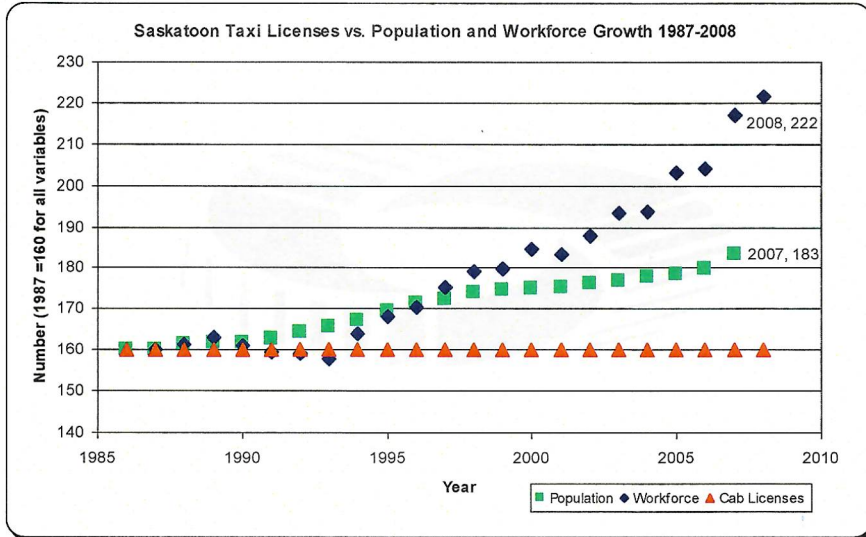
Last time Calgary issued new licenses in 1986 there were 1,311. With the exception of 100 new specialized licenses, the number is still the same. However if we adjust the number of licenses in proportion of population growth there should now be 2,146. Adjusted for general employment growth, there should be almost twice as many as in reality, 2,495.

In Saskatoon there have been 160 licenses since 1987, however if the numbers had grown in proportion to population there would now be 183, or 222 to keep up with the number of people working in the city.

Despite slower growth, Winnipeg's number of regular all year licenses has also lagged behind employment and population growth. The current number of 410 has been adjusted marginally from time to time but would be around 20% more had it tracked city growth.

It is theoretically possible that these numbers are actually quite healthy. It could be that there was an oversupply of cabs in all three cities in 1987 and demand just happens to have caught up perfectly since.

Aside from the immense coincidence that would require, there are several pieces of evidence to suggest these figures represent taxi shortages. The experience of deregulation in New Zealand and Ireland has been rapid and unexpected growth, suggesting that the dynamics of regulation had unnaturally suppressed taxi numbers. Also, license prices in Canadian markets have reached levels many times higher than the price of a car (around \$250,000 in Winnipeg in 2008), suggesting license prices have become a serious barrier to entry for taxi markets.



Source: Statistics Canada CANSIM population and employment tables, and communications with taxi regulators.