

SCARED YELLOW:
AN ANALYSIS OF TAXICAB
COMPETITION IN ALLEGHENY
COUNTY

*Eric Montarti, Research Associate
Allegheny Institute for Public Policy*

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TABLE OF CONTENTS

KEY FINDINGS	2
INTRODUCTION	3
TAXICAB REGULATIONS	4
PROCESS OF COMPETITIVE ENTRY	7
MARKET CONCENTRATION IN THE PITTSBURGH AREA	8
ECONOMIC EFFECTS OF CONCENTRATION	10
THE INFORMAL ECONOMY	12
ACHIEVING COMPETITION IN CAB SERVICE	14
REFERENCES	15

KEY FINDINGS

- Pittsburgh and the surrounding communities in Allegheny County are, by and large, not referred to or thought of as "cab towns". There are several reasons for this characterization, one of which may be regulations that stifle competition and thus inhibit new entrants into the taxicab business.
- Taxis are regulated by the Public Utility Commission (PUC). The PUC inspects cabs on both a random and an annual basis to ensure that they are in proper working order, meet safety standards, and that the meters conform to stipulations in the company's tariff.
- The process of competitive entry into the legal taxicab market is overly slanted toward protecting incumbent companies. Competitors must show a "proof of need" in order to commence operations.
- Regulations keep cab companies from competing head-to-head on the more lucrative routes. These regulations produce similarities in the fares that cab companies charge regardless of the area of operation, and economic disparities between the large and small incumbent companies in the legal cab market.
- The barriers to legal entry has proliferated the "jitney" market in certain areas around Pittsburgh. This market, albeit highly dangerous and illegal, is the free-market response to a strong demand for transportation in an underserved area.
- The PUC and the Pennsylvania General Assembly should amend the regulation of the taxicab industry so that entrepreneurs that want to start a cab company can do so with minimal government restrictions.

INTRODUCTION

The recent flap over New York City taxicab drivers refusing to pick up actor Danny Glover as he waited for a ride highlighted an important fact that most citizens in the Pittsburgh area know all too well: taxis are not responsive for some groups.¹ Although the issue with Glover delves deeper into race issues, almost anyone who has tried to call a cab--regardless of race--has a horror story. Whether calling for a cab from home only to have the request ignored, relying on a cab when the patron has automobile trouble, or being bypassed when hailing one on a busy street, the tales often reach mythical proportions.

Pittsburgh and the surrounding communities in Allegheny County, by and large, are not "cab towns". Typical explanations of this characterization include the fact that downtown is relatively easy to transit by walking and many neighborhoods are close enough to town that a cab is not required. Another line of reasoning is that cabs stay around the downtown hotels and at the airport and are not around the spots where populations and potential patrons congregate.

On the other hand, there is a significant population that relies on passenger service to get them from home to the store and back. This population, usually low-income and heavily African-American, has come to rely on a Pittsburgh institution; the jitney. This mode of transportation is quick, inexpensive but often dangerous and always illegal. It is the rational response of the free-market to a need that is not being served by regulated companies that grab the most profitable routes, most notably the one that runs from Pittsburgh International Airport to downtown and back.

The purpose of this paper is to illustrate the fact that regulatory guidelines and a burdensome approval process are hindering taxicab competition in the Pittsburgh area, perpetuating a lack of cab usage and the growth of an "underground" network of jitney drivers. Eliminating the current regulations that shield incumbent companies and prevent new entrepreneurs from entering the cab business will bring benefits to consumers in the Pittsburgh area in the way of improved service, lower rates, and the potential for greater usage of this often overlooked service.

¹ Lou Ransom "Taxicab Redlining a City Tradition". Pittsburgh Tribune-Review, November 20, 1999.

TAXI REGULATIONS

Taxicab operations are governed by two main sources. One source is rather general and describes the role of the taxicab as a regulated carrier of passengers. The second source is more specific as it prescribes the day-to-day operations and regulations a cab company and its drivers must follow.

First, Title 66 of the Pennsylvania consolidated statutes, the Public Utilities Code, defines the term "common carrier".² In essence, a common carrier provides "transportation services to the general public in return for compensation, and are required to serve everyone who is able to pay. Common carriers are often held to service standards and are accorded protection from competition through restrictive licensing criteria". This restrictive licensing criteria shields established companies from new entrants and allows cabs to operate as regulated monopolies.³

Second, taxicab operations are governed by regulatory guidelines established in Title 52, Chapter 29 of the Pennsylvania Code. These guidelines involve record-keeping responsibilities, inspection requirements, and general rules of operation.

Taxicabs provide what is classified as "call or demand" service. This type of service is defined as

"Local common carrier service for passengers, rendered on either an exclusive or non-exclusive basis, where the service is characterized by the fact that passengers normally hire the vehicle and its driver either by telephone call or by hail, or both".⁴

Continuity of Service

Regulations governing the continuity of service and any deviation from such continuity are outlined in Sections 61 and 62 of Chapter 29. Taxicab companies have a rather short period (thirty days) from the time the franchise is granted to the time service must commence. If the company does not begin service within this period, the franchise is terminated unless the PUC rules otherwise. Any interruption of service must be reported to the commission; if service is discontinued for five consecutive days within prior notice, the franchise is terminated.⁵

Cabs cannot travel the route of a fixed time passenger carrier, such as a bus, when looking to pick up a fare on a non-exclusive basis when the route is in operation. In other words, call and demand service cannot interfere with scheduled time service.⁶

² Pennsylvania Consolidated Statutes, Title 66. (1993 Edition). Commonwealth of Pennsylvania, Legislative Reference Bureau, Harrisburg, PA.

³ Boroski, John W. and Gerard C.S. Mildner: "An Economic Analysis of Taxicab Regulation in Portland, Oregon". Cascade Policy Institute, Policy Perspective 1007. (www.cascadepolicy.org).

⁴ Pennsylvania Code, Title 52, Chapter 29, Section 13.

⁵ Pennsylvania Code, Title 52, Chapter 29, Sections 61 and 62.

⁶ Pennsylvania Code, Title 52, Chapter 29, Section 312.

Inspections

The regulations entail inspections by the Public Utility Commission (PUC) of the cab on both random and annual instances, the investigation of complaints against taxi companies and their drivers, and ensuring that meter rates (flag-drops and mile intervals) are in line with the company's tariff. The PUC must monitor the cab company to make sure that the driver of the cab is an employee of the company, that drivers maintain daily log sheets that detail times and places of origin, number of passengers, readings of meters, and the like, unless this requirement is substituted by some other method approved by the PUC. The cab company must also report gross operating revenue from service provided under their certified authority.⁷

Items to be Contained in the Daily Log Sheet of a Cab Driver

- The date
- Time the shift commenced and ceased
- Vehicle ID Number
- Times and places of origin and destination of each trip including the mileage at both points
- Number of passengers and the fare collected on each trip
- Each trip on which packages were delivered and the charge
- Meter readings at beginning and end of shift
- Name and number of the driver
- Signature of the driver attesting to the accuracy of the data⁸

Vehicular Requirements

Vehicle and equipment requirements are quite restrictive as well. Only vehicles with seating capacities of eight passengers or less, excluding the driver, can qualify for call or demand service. Meters are required for vehicles operating in a municipality with over 20,000 residents. The meter must be installed in the front of the vehicle so that it is in clear view of the passenger and the cost for installing the meter is borne by the company. Vehicles must comply with standards set forth by the Department of Transportation: all door hinges and latches must be in working order; all advertisements must be clearly fastened and not obstruct the view of the driver; clean and sanitary condition must be maintained in the seats and in the trunk of the car; and vehicles must have snow tires or all-weather tires from October 1 to April 1 of the following year.⁹

These regulations take a great degree of flexibility away from the companies that do enter into the legal taxicab market while at the same time drive prospective competitors away. The safety requirements are perfectly understandable. Cabs should meet the same level of standards as other vehicles in the Commonwealth. Since passengers are involved, a higher degree of cleanliness for the vehicle should also be achieved.

However, the meticulous record keeping and continuity of service requirements place significant stipulations on the freelancing entrepreneur that may want to target call or demand service to particular times or events. A vehicle that holds more than seven

⁷ Pennsylvania Code, Title 52, Chapter 29, Section 101

⁸ Pennsylvania Code, Title 52, Chapter 29, Section 313

⁹ Pennsylvania Code, Title 52, Chapter 29, Section 314, 402-3

passengers is disqualified from entering into call or demand service. This distinguishes call or demand service from group or party service, but it also removes the flexibility of cab service from large events or groups of people who do not pre-arrange the service. These regulations curtail innovations that can lead to new and improved services from the taxi companies.

PROCESS OF COMPETITIVE ENTRY¹⁰

If the PUC regulations appear to leave the back door open for abuse (or mistakes), the process by which a prospective cab company establishes itself slams that door shut. This process places competition into the hands of fate and is a major reason for the current state of taxi service.

A prospective cab company applies for a franchise by filing a \$350 fee along with an application that describes the territory the company wishes to serve and a commitment to serve the stated area. The company must demonstrate that there is a need for service in the area, thus placing it in the position of determining that the incumbent cab company or companies are not responsive. In short, the burden of proof lies with the newcomer.

The application is published in the Pennsylvania Bulletin (a PUC publication) and is subject to a 15-working day period in which the application can be contested. When the application is contested, it is often an incumbent cab company challenging the new company's "fitness" or ability to serve the area and will argue that they, the incumbent, will adjust and commence service there. The contesting parties are sent to a mediator within the office of the Administrative Law Judge (ALJ) in order to solve the dispute without litigation. If mediation does not work, the Judge will hear the case.

The end result of the ALJ proceedings is an opinion and order that may resolve the dispute. If there is a disagreement by either party, an exception to the order is filed. The opinion and order is then delivered to the Public Utility Commissioners who deliver a commission order that adopts, slightly modifies, or changes entirely the ALJ opinion and order.

It is plain to see that the process of competitive entry is slanted toward the incumbent providers because the competitor and the incumbent engage in a game of "one-upmanship" in which the new company must prove that there is a service failure on the part of the established company. Obviously, the cab companies that were franchised first have no quarrel with this process for the fact that when they were franchised, more areas "needed" service. Now the process has become twisted: instead of the new company responding to a market demand and commencing cab service, they are forced to "accuse" the company that has "failed". Since this regulated monopoly model favors incumbents, they are given the benefit of the doubt that they can serve "neglected" areas.

¹⁰ Interviews with Denise Cohen and Tim Ziegler, Pennsylvania Public Utility Commission, Bureau of Transportation and Safety.

MARKET CONCENTRATION IN THE PITTSBURGH AREA

Imagine a private business limiting the size of the pool from which it could draw customers in exchange for shutting similar businesses out of competing with them. This business would experience significant economic hardship should that pool of customers ever dissipate. This is exactly how the taxicab industry operates: in return for providing service in a specific geographic area, the company is shielded from competition.¹¹ The difference is that the territorial reach of most cab companies is large enough to prevent its demise.

Territorial Assignment

Regulations specify geographic areas of service and, as a result, head-to-head taxicab competition in the Pittsburgh area is largely non-existent. Companies may overlap the communities they serve in some instances, but that is the exception rather than the norm. In these instances, the competitive effect is nullified because of the differences in size of the carriers.

Take the example of Pittsburgh: the three cab companies with the oldest franchises all serve within the city limits. One of these three, People's Cab, has operating authority for a 10-mile radius outside the city limits. Yellow Cab enjoys this range as well; the difference here is that Yellow Cab has 248 more cabs than this competitor. The operating authority similarity is quickly dissipated when one considers the lopsided market share of the franchised companies.¹²

Keeping New Companies Out

Entrance into the cab business by new companies has been stifled as well: the last time a cab company received a franchise from the PUC was in 1995 for a carrier with three cabs in its fleet. This carrier, Legg Transportation, along with S&S Taxi, which was franchised in 1982, have been shut out from competing within the city limits. Instead, they cover portions of eastern and southern Allegheny County, respectively.¹³

The entrenchment of the established companies allows for expansion while discouraging new entrants into the business. For example, in November of 1998 an amendment was made to Yellow Cab's operating authority to include several communities in the northeast corner of the county, where their service had not previously extended. The company's authority was also extended to Findlay Township, the present site of Pittsburgh International Airport. This type of regulated expansion demonstrates the fact that regulations ensure that service needs normally are solved by extension of established authority rather than encouraging new business start-ups as in private industry.¹⁴

¹¹ Sam Staley "How Cities Put the Breaks on Taxicabs". The Freeman, March, 1998.

¹² Public Utility Commission, Bureau of Transportation and Safety

¹³ Ibid

¹⁴ Ibid

TAXICAB COMPANIES IN THE PITTSBURGH AREA¹⁵

Cab Company (Year Franchised)	# of Cabs in Fleet	% Concentration	Operating Authority Includes...
Yellow Cab (1946)	260	91%	City of Pittsburgh, and 10 mile outward radius, including Pittsburgh International Airport, and Tarentum, Brackenridge, Fawn, Harrison, Springdale
People's Cab (1951)	12	4%	City of Pittsburgh, 10 mile outward radius
Eagle Taxi (1981)	10	3%	City of Pittsburgh limits
Legg Transportation (1995)	3	1%	Chalfant, Churchill, East McKeesport, East Pittsburgh, Forest Hills, Monroeville, Oakmont, Pitcarin, Plum, Turtle Creek, Penn Hills
S&S Taxi (1982)	2	.6%	McKeesport, Duquesne, Glassport, Versailles, Clairton, Elizabeth

¹⁵ Ibid

ECONOMIC EFFECTS OF CONCENTRATION

Since taxicabs are a regulated industry, the PUC oversees rate applications and increase requests upon existing rates. A taxicab’s fare is based upon operating expenses of the company and the need to derive a profit from the operations. The profit, also known as a "rate of return", is taken into consideration when the company seeks PUC approval for a rate increase.

Given the fact that direct taxicab competition is non-existent, either because of fleet size or separate territories, the cab companies that do pass through the process of approval essentially operate as an effective monopoly. As a result, fares do not vary as they would under an open-entry system with multiple cab companies.

FARES FOR CAB COMPANIES IN THE PITTSBURGH AREA¹⁶

COMPANY	FLAG DROP	ADDITIONAL MILE	WAIT FEE
Yellow Cab	\$1.80 for first 1/7 mile or less	\$.20 per additional 1/7 mile	\$.20 per minute
People’s Cab	\$1.40 for first 1/7 mile or less	\$.20 per additional 1/7 mile	\$.20 per minute
Eagle Taxi	\$1.80 for first 1/7 mile or less	\$.20 per additional 1/7 mile	\$.20 per minute
Legg Transportation	\$1.50 for first 1/8 mile or less	N/A	N/A
S&S Taxi	\$1.50 for first 1/6 mile or less	\$.25 per additional 1/6 mile	\$.25 per minute

The similarity in rates for each of these cab companies demonstrate the fact that there is no real competitive effect on rates because regulations have kept the legal cab companies out of direct competition. Since the process of entry puts the burden of proof on the incoming cab company, any head-to-head competition would be discouraged because the incumbent will prevent the competition under the proof of need criterion. In other words, the established company will assume the responsibility for serving customers in an "under-served" area before they would allow a new company to take on such an opportunity.

The similarity is set apart when compared in relation to the reported revenue of these companies. It goes without saying that the more cabs a company owns and the more profitable routes the company possesses, the greater the profits. However, the disparity should send a signal to public officials that regulations are skewing profits for large incumbents at the expense of smaller incumbents in this industry and that a re-evaluation of competition is required.

¹⁶ Ibid

**1999 REPORTED REVENUES FOR COMPANIES
IN THE PITTSBURGH AREA¹⁷**

COMPANY	1999 REPORTED REVENUE
Yellow Cab Company	\$8,627,244
People's Cab	\$192,566
Eagle Taxi	\$0
Legg Transportation	N/A
S&S Taxi	\$491,492

The assignment of cab companies into distinct territories in which those companies have a market concentration has two revenue effects. One is a "non-effect" on fares in which consumers in each area of operation pay the same amount they would pay in another area. This situation would change if regulations promoted head-to-head competition by new companies in areas of service rather than guaranteeing territories of monopoly control to the established cab companies.

The other is an effect on the gross revenues of entrenched companies. Of the five cab companies, the dominant carrier accumulated revenues nearly 17 times its next closest legal competitor this year. In other words, the cab company with the longest history of service, the most cabs, and the most profitable routes made the most money. Nothing is shocking in this revelation other than the fact that protective regulations have not only kept prospective entrepreneurs out of the cab business, those regulations serve to protect the large companies at the expense of their closest legal competitors.

¹⁷ Ibid

THE INFORMAL ECONOMY

Since tariffs dictate the areas in which the cab companies operate, a double bind occurs: incumbent cab companies take the most profitable routes at the expense of competition, and the tariffs eliminate the need for responsive service at a competitive price.

The attention to profitable routes comes at the expense of the prospective fare that may want to go a few blocks downtown, the broken-down motorist that needs help on Route 51, or the elderly citizen in the Hill District that wants to shop at the grocery store in South Side and return home. With the exception of the first two cases, the last example is increasingly served by a jitney driver.

The regulatory process also may hinder those who may want to explore new business opportunities for transporting customers to and from certain events as well as routine occasions.

Jitneys

The jitney driver is an illegal and often dangerous occupation. It is also the free-market solution to a need for transportation service for certain citizens in certain communities. At present, Pittsburgh reportedly has over 1,000 independent jitneys.

Encouraging the operation of jitneys in the legal cab market would bring legitimate competition to the established companies, forcing established companies to improve service and possibly lower their fares. It would also bring a revenue stream into the public coffers that had been avoided by these underground operations. Given the fact that even the most efficient of monopolies will become better through competition, this option should be explored.

However, not all jitney drivers would seek to enter the legitimate market, nor would their regular customers want them to. Entering the legal market may require significant alterations in the way jitneys conduct business, including, but not limited to the purchase of two-way radios, renting or leasing dispatch office space, or operating a 24 hour service. This option may not be conducive for all cab companies because of the large up front capital investment they require and the fares that would inevitably rise as costs were passed on to the consumer.

Creating Niche Markets

Allowing more cab companies to compete does not end the regulatory and oversight duties of the Public Utility Commission. All vehicles will still have to meet health and safety standards. All drivers will have to possess insurance and a valid driver's license. Perhaps all vehicles would have to be outfitted with a PUC identification number or a complaint hotline.

This deregulation could lead to the creation of new niche markets that could be served by entrepreneurs. Perhaps a small company would utilize three or four minivans to pick up senior citizens at the grocery store after they had completed a day of shopping and could return the shoppers home. Or maybe a fleet of cars would exclusively serve sporting events or entertainment venues. The possibilities of specialization are limitless, and are made possible by simply changing the standard of competition that presently governs taxicab service.

ACHIEVING COMPETITION IN CAB SERVICE

Pittsburgh and the communities in Allegheny County may not utilize taxicabs for a multitude of reasons, some of which were discussed at the outset of this piece. The point here is to suggest an alternative explanation, namely that regulations and the process of competitive entry may be driving prospective competitors away from entering the cab business. The legal obstacles have been supplemented by a rational marketplace response of an illegal network of jitney drivers. If regulations are relaxed and the process is made neutral, Pittsburgh's taxicab industry may become an entrepreneurial success.

Needless to say, the time has come for a thorough review of the regulations pertaining to the taxicab industry in this area. Change may come from the General Assembly to amend sections of Title 66 that pertain to common carrier designations. Or there could be an extension of the Medallion Act, which authorizes the sale of 1,600 taxi medallions in Philadelphia, to Allegheny County. The legislative change is the necessary first step in de-regulating the cab industry.

The Public Utility Commission itself needs to either build upon a legislative recommendation or initiate changes to the regulations themselves. Commission action needs to streamline taxicab operations and bring flexibility to the system. There are essentially three actions for the commission to take:

1. Alter the process so that the proof of need requirement is no longer in place
2. End the restrictions on territorial assignment
3. End size restrictions (number of people in a vehicle under call or demand service) and continuity of service stipulations

Regardless of the type of action that occurs, the end purpose is to make the process of starting a cab company easier. Whether the prospective entrepreneur has two cars in a fleet or two hundred, and as long as the cars pass inspections, conform to relevant health and or safety regulations (similar to a restaurant), and have an identifiable PUC number or a complaint hotline on the side of the car, the entrepreneur should be able to commence operations. This change will lead to tremendous innovations in taxicab service.

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