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Taxi Regulation in Ireland: Will it be Different this Time?

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Introduction

The regulation of taxis in Ireland has changed dramatically since the onset of the Great Recession. Since 2010 there has been an indefinite prohibition on new taxi (and hackney)[2] licences, but not for wheelchair accessible vehicles (WAV).[3] Taxi licences can no longer be traded. Policy has favoured the full-time, as compared to the part-time, taxi driver.

Ireland has been here before. Between 1978 and 2000 the regulatory regime was also restrictive. However, in 2000 following a High Court ruling, many of these restrictions were removed. The number of taxi licences increased and a new independent regulator, the Commission for Taxi Regulation (CTR), was created.

As part of its programme of the evaluation of the competitive impacts of government intervention, the Organisation for Economic Co-operation and Development commissioned a paper on an ex post assessment of taxi regulation in Ireland. This assessment will inform the debate on whether the impact of the recently introduced restrictive regulatory regime will be different this time.

[1] Gorecki, Paul, (2014). Ex-Post Assessment of Government Intervention in the Taxi Market in Ireland: 1978-2014, OECD Working Party No. 2 on Competition and Regulation [DAF/COMP/WP2(2014)6]. Available online www.esri.ie/UserFiles/publications/BKMNEXT268/BKMNEXT268.pdf

[2] There is, however, a very limited exception, under certain circumstances, for a local area hackney licence. A taxi is defined as a vehicle that can carry up to eight passengers, use bus lanes, accept pre-booked fares and ply for trade on the street or at a taxi stand and is subject to maximum fare regulation. A hackney is more restricted than a taxi in that it can only accept pre-booked fares and cannot use bus lanes, but is not subject to maximum fare regulation.

[3] A WAV is a taxi or hackney that can be used by persons using their wheelchairs.

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The 1978-2010 Record

A careful review of the experience of taxi regulation between 1978 and 2010 suggests the following:

1. Limitations on the number of taxis between 1978 and 2000 meant that demand outstripped supply. With the abolition of the cap on taxi numbers in 2000, supply could better match demand. There were large increases in the number of taxis by 2002: in Dublin from 2,722 to 8,609; in Cork, 216 to 590; and, in Waterford, 41 to 147.

2. Since maximum taxi fares are regulated, a shortage of taxis manifests itself in longer passenger waiting times. In short, lengthening queues. In Dublin in 1997 77% of passenger waited more than 5 minutes for a taxi, but following the removal of the cap on taxi numbers, the corresponding percentage in 2001 in Dublin was 52.5.

3. Part-time taxi drivers are important in satisfying the pronounced peaks in demand: Fridays and Saturdays; and between 18:00 and 03:00. However, prior to 1998 taxi drivers had to be full-time. One of the reasons for the continuing drop in waiting times in the mid to late 2000s – in Dublin between 2005 and 2008, on average, from 8.3 minutes to 6.2 minutes - was the increasing importance of part-time taxi drivers.

4. An important indicator of the impact of the regulation induced scarcity of taxis is the value of a taxi licence. In Dublin, in constant 1980 prices, over the period 1980 to 2000 the value of a taxi licence in Dublin increased from €4,400 to €42,300. Post-liberalisation in 2000 the price collapsed.

Will it be Different this Time?

A priori, the reintroduction of restrictive regulation of taxis since 2010, should lead to consumers experiencing increasing waiting times, while the returns to taxi owners will increase. However, will it be different this time?

Two arguments have been put forward to justify current policy.

1. Intervention was necessary in the face of ***excess supply*** occasioned by the Great Recession, the worst contraction in the economy since the Great Depression of the 1930s, combined with a low rate of exit of taxis from the market. Research commissioned by the Department of Transport, Tourism and Sport in 2011 suggested oversupply of between 13 to 22 per cent.

These arguments need to be treated with a considerable degree of scepticism. First, we find in our analysis that the estimates of degree of excess supply in the commissioned report are biased upwards. Second, even if the estimates of oversupply were accepted, then excess capacity would have been eliminated by 2013/15 at the earliest and 2015/17 at the latest. However, the prohibition on issuing new taxi licences is not time limited. Third, notwithstanding the estimates of excess capacity, the market appears to have been adjusting well with price discounting and a drop in the number of taxis.

Fourth, it is not clear why the taxi market should be selected for capacity reduction measures; it does not share the characteristics of markets – bricks, synthetic fibres and petrochemicals - where the European Commission has allowed such arrangements. Fifth, given the difficulty of re-entering the taxi market under the current regulatory regime, many taxi owners may have decided to remain in the market but only provide limited services.

2. There are concerns that the taxi market is not delivering enough WAV vehicles. One option considered by the CTR was to allow only new WAV to be licensed, but for a strictly time limited period (i.e. a sunset clause). However, there are difficulties with this approach to improving access to persons in wheelchairs to taxi services. Indeed, it might do little, if anything, to provide more taxi services to wheelchair users.

First, WAVs have much have higher fixed and running costs than taxis. Hence a WAV will not enter the market until demand has tightened sufficiently that they can cover their higher costs. Second, with demand tight, the WAV owner has a much greater incentive to serve non-wheelchair users, since the returns are likely to be higher than serving a wheelchair user. Third, issuing new taxi licences after a time limited interval or when WAV account for (say) 10% of all taxis, will mean that the WAV will have difficulty meeting their higher costs as compared to a taxi. After liberalisation in 2000 the Taxi Hardship Panel was created. One of the hardship categories, accounting for 16% of all claims, was 'WAT Operators Claiming Higher Operating Costs.' In any event no target or time limit has been set for the number of WAVs.

In sum, there is no reason to assume that things will be different this time. It is almost as if collective amnesia descended on those responsible for making policy in this area.

Conclusion

If, as the economy picks up, incomes increase and consumer confidence returns, then the demand for taxis will rise. There is every reason to suppose that passengers, on present policies, can look forward to lengthening queues redolent of the 1990s. Reform will be that much harder to achieve, since the trading of taxi licences is not allowed and hence, in contrast to the 1990s, the value of a taxi licence will not be readily observable. Consumer groups and the regulator will be unable to use these values as evidence of the impact of supply restrictions.

The National Transport Authority (NTA) assumed responsibility for taxi regulation on 1 January 2013. The NTA needs to urgently specify precisely the purpose of the prohibition on new taxi (and hackney) licences, whether the purpose is likely to be met under current arrangements, the cost to consumers, what benchmarks can be used to measure success and when the prohibition on entry of taxis (and hackneys) will be removed. This is consistent with good regulatory practice, reduces regulatory risk and creates a stable framework within which the market can operate.