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Replacing Ridesharing Red Tape with a Red Carpet

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Key Points

- Ridesharing solves a transportation service coordination problem by efficiently matching passengers and drivers at the point of demand.
- Burdensome local regulations pursued in the name of public safety erode efficiency gains and provide little if any actual benefit to public safety.
- Local regulations differ from place to place, hindering the development of a deeper, more competitive market.
- The Texas Legislature should prohibit any municipal ridesharing or taxi regulations except those related to public safety concerning drivers.

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Executive Summary

Ridesharing solves a coordination problem by matching drivers and passengers at the moment of demand. It does so more efficiently than traditional taxi services by closely aligning the incentives of transportation network companies (TNCs) and passengers (Thierer, et al., 35-36). Texas cities have regulated ridesharing in an attempt to assure the safety of drivers, passengers, and third parties. However, many of these regulations erode away efficiency gains, are duplicative of already existing systems, and protect incumbent firms at the expense of innovative new entrants. Furthermore, the inconsistent, patchwork nature of local regulations hinders the development of a more competitive market. Accordingly, the Texas Legislature should step in to prevent municipal regulations of the transportation service sector that are unrelated to legitimate public safety concerns concerning transportation service drivers. In this way, the Legislature will foster an environment that avoids anti-competitive "legislative lock" that favors one specific business model over another.

Issue

TNCs use online platforms to connect passengers with drivers who use their personal vehicles (Kunz, 1). The use of online platforms aligns the incentives of TNCs and passengers by providing instant feedback on drivers and passengers. The entry of TNCs into the market has increased competition and thereby demonstrably improved consumer welfare (Farren, et al., 14). However, its introduction has also challenged the status quo of vehicle-for-hire services in many communities, resulting in efforts to impose tighter regulations and greater oversight.

The main avenues for local regulation of TNCs are driver screening and vehicle inspections. Cities often contend that they must regulate driver screening because for-profit companies lack the incentive to screen drivers adequately. Additionally, it is alleged that ridesharing vehicle inspections are needed to avoid harms to drivers, passengers, and third parties. Upon closer examination, though, the evidence in support of these requirements on public safety grounds is weak or nonexistent. Instead, the main function of the requirements has been to reduce competition by driving out TNC companies. In fact, in some cases the introduction of these ostensible public safety regulations has harmed public safety by removing safe options for travelers.

The city of Austin provides a good case study in this regard. In 2014, Austin introduced a temporary ordinance that allowed TNCs to operate legally in the city. Prior to the introduction of TNCs, Austin's vehicle-for-hire market was highly restricted and concentrated among a few firms. According to a 2010 report, in 2009 Austin only issued 669 permits to the three companies seeking to operate taxis—and two-thirds of those were to Yellow Cab (Texas RioGrande Legal Aid, 10). The availability of TNCs not only increased the supply of vehicles for hire, but provided a new source of competitive pressure for improved cost and service.

By all accounts the regulation worked well, and Austin saw a 12 percent decline in DWI collisions after the introduction of TNCs. When the ordinance came up for renewal, however, the city enacted substantial revisions, including mandatory fingerprinting of drivers. As a result, the two largest TNC companies (Uber and Lyft) ceased operations in the city (Godwin).

While the Austin example has received national attention, it is not the only case where Texas cities have imposed burdensome regu-

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lations on TNCs. Uber and Lyft left Corpus Christi after a fingerprinting requirement was imposed there (Mekelburg). Lyft ceased operations in Houston after it mandated fingerprinting and vehicle inspections for rideshare vehicles (Stinson; City of Houston Code of Ordinances). And other cities are considering or have enacted similar ordinances.

Some Texas cities have taken a more free-market approach. Fort Worth, for example, permits ridesharing companies to conduct their own background checks and imposes no city requirement for vehicle inspections (Baker). In San Antonio, after a failed experiment with mandatory fingerprinting, the city has worked out a voluntary fingerprinting program that allows TNCs the freedom to operate (Flahive). Still, the quality of local regulation of TNCs varies considerably and has created a patchwork of differing regulations (Quintero).

From the perspective of TNCs, the regulatory environment can be the difference between success and failure. Ridesharing companies meet demand for transportation with less capital investment compared to taxi services (Kumar). They also reduce the high search costs that create uncertainty and inhibit use of transportation services (Taylor). However, regulations like fingerprint scans, vehicle inspections, and insurance requirements erode these efficiency gains by raising the cost of providing the service (Feeney, 2). The requirements can also discourage individuals from signing up as drivers (Godwin, 9). Since a large percentage of TNC drivers only drive part-time, increasing the hassle and burden of becoming a driver could have a major effect on a TNC company's success in a market. If the cost of providing rideshare services rises too high, then companies may believe it is not worth their while to enter the market.

Meanwhile, these local regulations provide little to no improvement regarding Texans' safety. For example, fingerprint scans don't provide a full case history of the applicant drivers (Feeney, 7). Around half of records in the FBI's fingerprinting database do not include complete information on the ultimate outcome of the case (Neighly & Emsellem). An individual can appear in the database even if they have been acquitted, had their conviction overturned on appeal, or even if the case was never pursued. Mechanisms exist to correct a faulty background check, but navigating the bureaucratic procedures can be complicated and bewildering, often putting the burden on individuals to prove a negative.

Similarly, recent studies indicate that vehicle inspections do not measurably improve road safety (Feeney, 8-9). Further, ridesharing companies like Uber and Lyft, while denying liability for accidents that happen while using their services, still purchase insurance protection for their drivers in order to remain attractive as employers (Feeney, 9-10).

Moreover, burdensome ridesharing regulations can harm public safety. A June 2016 study from Providence College indicates that when Uber enters a city, DUI rates decrease by 15-62 percent (Johnson). A recent news report shows that in the weeks after Uber and Lyft stopped providing services to Austin in May 2016, DUI arrest rates spiked by 7.5 percent (Liepman).

In sum, the current approach of patchwork local regulations on ridesharing companies erodes efficiency gains

Did you know?

In May 2016, Austinites were asked to decide the fate of Proposition 1, a pro-ridesharing ordinance that sought to overturn existing regulations that many criticized for being onerous and redundant. While voters ultimately rejected Proposition 1, city leaders were heavily criticized for the confusing, and perhaps misleading, way that the measure was put before voters. The proposition specifically asked:

Shall the City Code be amended to repeal City Ordinance No. 202151217-075 relating to Transportation Network Companies; and replace with an ordinance that would repeal and prohibit required fingerprinting, repeal the requirement to identify the vehicle with a distinctive emblem, repeal the prohibition against loading and unloading passengers in a travel lane, and require other regulations for Transportation Network Companies?

and protects an anti-competitive transportation market, with no clear gain to public safety. A liberalization of regulations on ridesharing companies alone would prompt a valid outcry from taxi services that they cannot compete on an unlevel playing field. The correct response is to level the playing field by partially deregulating the entire transportation service sector, including taxi services.

Recommendations

To that end, the Legislature should not allow economic regulation of these services, such as setting prices or limiting entry, by local governments. Further, the Legislature should ensure that municipal ridesharing and taxi regulations do not use public safety as a pretext for anti-competitive regulation of these services.

To achieve this, the state should step in to prevent localities from driving out companies through bureaucratic requirements like fingerprinting or vehicle inspections that do not improve public safety.

In the case of driver screening, the state should provide maximum flexibility to service providers and their customers in determining how to implement safety standards. The particular method companies use to screen their drivers should be left up to them as long as they and their customers are sure they can identify prohibited drivers. For example, companies might be required to ensure that drivers for transportation service providers not have a DUI on their records, or that applicant drivers cannot have been convicted of a felony in the five years prior to their drivers' application. Then the companies would determine how best to make this happen. A company that fails to eliminate such a driver could be subject to civil penalties.

In the case of vehicle safety inspections, the state already has a statewide program in place. There is no need to duplicate this at the local level. The state should prohibit additional vehicle inspections for ridesharing vehicles and taxis beyond the existing mandate for all passenger vehicles, given the compelling evidence that an inspection requirement does not lead to measurable improvements in road safety. Instead, the state should rely on the market mechanism of reputational feedback to ensure that service providers' vehicles are of adequate quality.

The purpose of this approach is to avoid favoring one business model over another. As the rideshare industry develops, we must resist attempts by growing companies to protect their new market position in the same way the taxi cartels did. Instead, the preservation of free markets will allow for new entrants to innovate in business models and compete on customer satisfaction. A robust market for transportation service providers with clear, consistent standards for drivers will enable companies, drivers, passengers, and the Texas economy to thrive. ✮

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