

**Summary:**

# **Regulating the taxi industry: a literature survey with focus on Norway**

## **Background and problem**

In recent years, the taxi industry has undergone major changes. To a large extent, the changes have led to increased competition, particularly between the Dispatching Centrals. Furthermore, a number of other important changes have affected the framework conditions for the industry.

The taxi industry is also faced with great changes in the future. These are particularly associated with the licence regime and price regulation. In a report carried out for the Ministry of Transport and Communications, ECON (2002) recommends that the current entry regulation and price regulation should be revoked.

In this report, a literature study of the regulation of the taxi industry has been carried out. The literature study deals with the more theoretical aspects of regulation and deregulation, as well as practical experiences of changes in regulatory regimes. In order to put the Norwegian taxi industry into a larger picture, we have also compared the Norwegian taxi industry with a number of other European cities and countries. Based on the characteristics of the Norwegian industry, a comparison with other countries, and the literature survey, we have come up with four main challenges for the authorities and the industry with regard to good administration of the taxi industry. .

## **Characteristics of the current taxi industry**

### **Good taxi supply in Norway**

Taxi supply is not simply a result of the number of taxis. Utilisation of the taxis plays a very important role. Based on comparisons with a number of other large cities in Europe, we can see that both the number of taxis and their utilisation is good in Norway.

Of 13 cities in different countries, only Dublin has a higher number of taxis per inhabitant than Norway. With regard to the rest of the country, comparisons with the Swedish taxi industry show that the number of taxis is also good in the district areas (Berthelsen 2002 and ECON 2002).

Comparisons with other cities also show that the utilisation of taxis in Oslo is good. One of the reasons for the high degree of utilisation of the taxis is the

effective fleet-management and dispatching system which the major centrals have developed and utilised. In this area, Norway is in the premier league .

### **Taxi fares in Norway are no higher than in other countries**

Taxi fares in a number of large Norwegian urban areas were deregulated in 2000. In general, taxi fares increased after deregulation. Konkurransetilsynet (2001), however, felt that rescinding price regulation did not result in greater price increases than could have been expected. This was largely due to the arrears in costs as a result of earlier, tight regulation.

In the majority of other countries, taxi fares are regulated. Of the countries we have studied, only Sweden and to some extent Norway (in some large urban areas) have deregulated taxi fares. Our comparisons further show that the price level of taxis is not particularly high in Norway. A significant difference, however, is that the fares in Oslo are significantly more differentiated between night and day. This is a result of deregulation and may have given a better balance between availability and demand. However, economic considerations of the price level have not been carried out.

### **Norwegian taxi regulation is very fragmented**

A characteristic of the regulation of the Norwegian taxi industry is the fragmented responsibility. The county council deals with the market access through deciding the number of licences, licence conditions, licence areas etc. The Competition Authority regulates the fares. The police issue taxi drivers' licences and can rescind them. In addition to this, the Ministry of Transport and Communications play a major role with the overall responsibility for the regulatory framework. Thus, there are a very large number of players involved in setting the framework conditions for the taxi industry. This large number of different players can create problems for effective regulation of the taxi industry.

### **Recruitment to the taxi industry is important**

The taxi industry has major problems with recruitment. This means that many concessions are not fully utilised. Extending the number of concessions without an increase in recruitment of taxi-drivers will not lead to increased supply. It will however, result in more taxi owners and thus more taxis. Without more drivers, this will result in poor utilisation of the taxis. We therefore feel it is wrong to tackle the concession system until the problems surrounding recruitment for this type of work are evaluated.

### **Why are individual markets regulated?**

Economic theory puts forward two reasons for public intervention in a market. Firstly, regulation may be necessary to ensure that the market functions in an effective way. Secondly, regulation may be necessary if the players in the market do not take welfare and distribution into account.

An economic approach to a market means that all costs and benefits which society incurs must be evaluated. There is little point in discussing regulation or deregulation unless the starting-point is an economically optimal taxi market and how this appears with regard to availability, quality, fares, utilisation of taxis and organisation. This also means that users' preferences must be taken into account.

The international literature concerning regulation of the taxi industry largely focuses on achieving effective competition rather than optimal taxi supply. The most important obstacles to effective competition are:

- Queuing arrangements. The literature primarily deals with the problems associated with the formal or informal rule that the first taxi in the queue will make the first trip. Clearly, this prevents competition between taxis. Also, queuing means that both parties can incur costs through waiting times.
- The spatial nature of the taxi market. One of the major differences between the taxi market and other markets is that the seller does not have a fixed base. This creates a number of problems regarding evaluating price and quality.
- Problems in comparing the products. The problems this creates are connected with the fact that a factor other than price is involved in evaluating the goods. In the taxi market, quality is a good example of such a dimension.
- Economies of scale. Among the DCs, there are very clear economies of scale. These are connected with large investment costs and minor costs of a new affiliated taxi. The result is a tendency towards fewer but larger DCs.
- Incomplete information about alternatives (imperfect information) or different information about the product (asymmetric information). These are two main reasons for market failure. For the taxis, the problem is particularly important with regard to price and quality.
- Welfare problems. One of the problems with the theory of free competition is that it does not solve any welfare problems or ensure a "fair" distribution of resources. The theory ensures effective utilisation of resources within the existing distribution of resources in society.

## **Experiences with deregulation**

In this report, we consider a number of central experiences of changes in regulating regimes. The international experiences of deregulation largely come from the USA, where a number of cities deregulated the taxi industry in the 1970s and 1980s. In addition, we look at some important changes in Europe. This applies to changes in the regulatory regimes in Sweden, Great Britain, Ireland and The Netherlands. Based on the literature study, we can summarise the experiences of changes in regulating regimes as follows:

- ✓ Deregulating access to the market will generally result in a significant increase in the number of taxis. However, this increase will largely be directed at the spot market.
- ✓ In the majority of cases, fares have increased as a result of fare deregulation. This applies in particular to the spot markets.

- ✓ The quality of taxi services has a tendency to become worse. However, there are some contradictory experiences here.
- ✓ Drivers' income will be significantly reduced. The result is that drivers work longer days.
- ✓ Few new services have been noted. The same applies to technological innovations
- ✓ The majority of cities which have deregulated have later had to reregulate some aspects of the industry.

## **Challenges for the Norwegian taxi industry**

Based on the literature study and the characteristics of the Norwegian taxi industry, we have identified four major challenges facing the Norwegian taxi industry. These problems need to be assessed more closely before changes in the industry are introduced.

### **An important challenge which lies ahead is to increase the status of taxi drivers and thereby assure recruitment**

One of the major problems facing the Norwegian taxi industry at present is the lack of drivers. This prevents the existing licences being utilised in a good way while the same time the pressure on existing drivers is large. Expanding the number of licences will not produce a better service if recruitment is not improved.

The status of the job is important for how attractive the work will be. Before making changes in regulation, we feel the situation for drivers should be evaluated more closely. If a change in regulation results in poorer recruitment, many of the possible positive effects will disappear.

### **What is an economically optimal taxi supply?**

A great deal of literature about the taxi industry is concerned with achieving effective competition. The greatest attention is paid to achieving the lowest price, rather than establishing what is an economically "optimal" supply. This means that customers' evaluation of waiting time, quality, safety and other important aspects of the taxi industry are not dealt with. We feel that greater focus should be placed on finding an optimal taxi supply.

Experiences have also shown that deregulation has not led to larger taxi companies. Rather, those who were previously taxi drivers have set up their own taxi business and can thus organise their own working day to a greater extent. We are therefore sceptical with regard to ECON's conclusion that deregulation will result in larger, better run taxi companies. There will certainly be some larger units, but the same time there may also be more smaller ventures. The major centralisation will probably come at the Dispatching Centrals, as Sweden has experienced.

### **Different forms of regulation need to be seen in context**

The current form of regulation means that “too many cooks spoil the broth”. A simplification of the regulation with fewer players may result in a more unified grip on the industry. However, it is also important to remember that taxis are primarily a local public transport service and that the taxis do not play an important role between the regions.

We therefore feel that an overhaul of the taxi industry should also consider the number of players and the relationship between them. In this way, it can be ensured that incursions in the taxi industry in the future will be done in a more unified way. This will better ensure effective regulation and stable framework conditions.

### **The effects of changes in the districts should be assessed more closely**

Norway stands out significantly from a number of other countries. ECON and Berthelsen’s comparison with Sweden shows that the provision in these two countries is relatively similar. However, Sweden is significantly more centralised within the different regions.

We feel that an optimal regulation of the taxi industry will probably be different in the districts compared to larger urban areas. There are two main reasons for this. Firstly, taxis in the district areas are often the only form of public transport. It can therefore be welfare reasons to retain a minimum level of supply, even though such a service, taken in isolation, may not make good business sense. Secondly, taxis in the district areas are usually booked over the phone and thus differ from taxis in more urban areas.

We feel that independent evaluations of what is actually the optimal taxi service in rural areas, compared with the larger urban areas, should be carried out. This type of study may indicate something about the actual need for different policies.