

Good example of  
essay on should the  
taxi system be  
liberalised to allow  
firms lik...

[Business](#), [Marketing](#)



## **Taxi is an important part of public transportation in all the major economies of the world.**

The taxi market is highly regulated by the governments; the regulation can take many forms in different countries. Taxi services range from private hires like Uber, which are mostly previously booked to taxis which can be boarded from the street. It has been widely debated if there is a need to deregulate the taxi market to increase the competition in this sector. But many pro regulation economists believe that regulations are important to remove market failures in this market segment for its smooth functioning.

## **One of the major aspects that have to be understood about the taxi market is the underlying**

market failure in the system which requires government interference (Biggar 2011). The consumers in the taxi market decide the type of service they want to use on the basis of the amount of waiting time, price charged and quality of the service provided. The customers in the market are usually restless and are not willing to wait for more than 15 minutes for service. In the case of taxi rank and taxi hail segment, regulations are required because

of market failure

arising out of imperfect and asymmetric information whereas in the pre booked market because

of the potential of monopolistic behavior due to high economies of scale as they have a higher

control over the prices they charge (Bekken n. d.). Critics of deregulation argue that in case of

deregulation taxi drivers can charge whatever price they want from customers who have less

knowledge about the going rates or tourists, therefore regulations are important when one party

has more information as compared to the other party. Regulations can be of three types direct

barriers to entry, indirect barriers to entry and fare regulations (Bekken and Longva, 2014).

### **Some countries have a limit over the number of operators that can be present in the market, while**

in the other cases there is limit on the number on the number of taxis per operator. Under indirect

barriers to entry, controls are imposed over the quality of the cars and driver. Drivers need have

certain proficiency level to be able to be hired by the operators. Also regulations are put over the

minimum and maximum price charged by the taxi drivers. Through putting these controls over

the taxi operators, the regulators make sure that the service providers are not able to extend reach beyond a certain limit and thus ensure restriction of monopolistic behavior. Regulators believe that controls over taxi market would prevent congestion due to increase in the amount of taxis on the road and will also maintain a certain quality standard for the taxi market.

### **The proponents of deregulation have given several reasons as to why liberalization might be**

beneficial for the taxi market. According to Frankena and Pautner, deregulation would lead to lower prices of the taxis as there will be greater supply. Also competition would lead to incentives which would decrease the costs of operating. The competition will also result in quality improvements as cab services will try to attract customers by giving them varying incentives (Moore and Balaker, 2014). However, in practice it has been found that that several countries like Sweden, several US cities, and New Zealand which have liberalized the taxi market up to a certain extent, there have been increase in the number of taxi operators but there have not been a significant change in the value of taxi fares, especially in places like airports

(Organization for Economic Cooperation and Development (OECD), 2001). In the case of US deregulation of the taxi market it was seen that the service provided by taxis only improved marginally whereas trip refusals, low quality of vehicle became common. On the other hand full deregulation in Sweden led to improved quality standards.

### **Uber is a San Francisco based taxi provider service which is much different from the**

traditional cab service providers. Uber was founded in 2009, and it does not have its own set of drivers instead it has developed a mobile app which can be downloaded by the consumers and connects them to the nearby taxi drivers. These taxi drivers have agreed to provide their services

### **Through this way the Uber app matches the needs of the customers with of the taxi drivers. This**

app has been welcomed by people as it greatly reduces the waiting time, provides good service at lower prices. The popularity of Uber can be seen from the fact that in 2014 Uber's valuation was \$17 billion (Golovin, 2014). However Uber has faced criticism by the other taxi

operators as it poses a threat to their revenues. Taxi services face a serious competition

### **Uber has been banned, like a court in Brussels has banned Uber and has imposed a fine of Euro**

10, 000 per ride (The Wall Street Journal, 2014). Uber is facing several legal actions because it because many governments regulated the taxi market through licenses. These licenses were treated like assets and protected taxi market from competition. But with coming of Uber licenses are no longer needed as any inactive driver can provide cab facility through this app. Also even in the presence of licenses, there is no protection from competition now (Golovin, 2014).

### **If the government completely bans ridesharing companies like Uber, the customers who**

find this app beneficial will be at great loss. But without any regulation, the taxi operators will suffer huge losses and go out of operation. There is a need to find the middle path and evolve with the evolution in technology. Uber uses internet and smart phone technology to help the customers meet service providers; therefore it reduces asymmetric information issue and

increases transparency. Government needs to follow a process of step by step deregulation up till

a certain level, which maintains taxi regulations so that competition in the industry continues but

at the same time ensure that customers can get the full advantage of the technological progress.

### **In the future with help of innovations like Uber, the taxi market starts functioning like a perfect**

competition market, which makes the government regulations unnecessary.

### **References**

The Wall Street Journal. 2014. Brussels Not Uber Alles. [online] Available at: <http://online.wsj.com/articles/SB10001424052702304279904579515320106327390>.

[Accessed 03 December 14].

Golovin, S. (2014). The economics of Uber. Bruegel. [online] Available at:

<http://www.bruegel.org/nc/blog/detail/article/1445-the-economics-of-uber/>

[Accessed 3 Dec.

2014].

Moore, A. and Balaker, T. (2006). Do Economists Reach a Conclusion. 3rd volume. [ebook]

Econ Journal Watch, p. 112. Available at: <http://www.emmanuelcombe.org/moor.pdf>

[Accessed 3 Dec. 2014].

Bekken, J. and Longva, F. (2003). Impact of Taxi Market Regulation. [online]

<https://assignbuster.com/good-example-of-essay-on-should-the-taxi-system-be-liberalised-to-allow-firms-like-uber-to-operate-freely/>

Oslo: Office of

Fair Trading, UK. Available at:

[https://www.toi.no/getfile.](https://www.toi.no/getfile)

[php/Publikasjoner/T%C3%98I%20rapporter/2003/658-2003/658-2003-el.pdf](https://www.toi.no/getfile.php/Publikasjoner/T%C3%98I%20rapporter/2003/658-2003/658-2003-el.pdf) [Accessed 3 Dec. 2014].

Organization for Economic Cooperation and Development (OECD), (2001). Competition Issues

in Road Transport 2000. Organisation for Economic Co-operation and Development.

Bekken, J. (n. d.). Experiences With Regulatory Changes Of Taxi Industry. [online] Thredbo.

Available at: [http://www.thredbo-conference-](http://www.thredbo-conference-series.org/downloads/thredbo9_papers/thredbo9-workshopD-Bekken.pdf)

[series.org/downloads/thredbo9\\_papers/thredbo9-workshopD-Bekken.pdf](http://www.thredbo-conference-series.org/downloads/thredbo9_papers/thredbo9-workshopD-Bekken.pdf) [Accessed 3 Dec.

2014].

Biggar, D. (2011). Why and how should we regulate taxis?. [online] Victorian Taxi Industry

Inquiry. Available at:

[http://www.taxiindustryinquiry.vic.gov.](http://www.taxiindustryinquiry.vic.gov)

[au/\\_data/assets/pdf\\_file/0007/57733/Darryl-Biggar-roundtable-paper.pdf](http://www.taxiindustryinquiry.vic.gov.au/_data/assets/pdf_file/0007/57733/Darryl-Biggar-roundtable-paper.pdf) [Accessed 3 Dec. 2014].

Frankena, Mark and Paul Pautler, 1986, " Economic Analysis of Taxicab Regulation", [book]

Transportation Research Record, 1103, 1986, 2-5 [Accessed 3 Dec. 2014]

<https://assignbuster.com/good-example-of-essay-on-should-the-taxi-system-be-liberalised-to-allow-firms-like-uber-to-operate-freely/>