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Taxis, ride-share apps: Cities Need to be Courageous and Innovative

Despite the rather ironic notion of a regulator calling to let market regulation in the private transportation sector to be loosened to include ride sharing (e.g. Uber and Lyft), Mr. Pecman, Canada's Commissioner of Competition, while right in urging regulators to let innovation enter the market, has left the case short.

Courage and Innovation

The real issue is the nimbleness of the cities to, in this case, be courageous to not only let competition enter a market that they tightly control, but to do so while innovating their own roles. This courage should be mustered for the following reasons: (1) competition is healthy for this sector and will bring innovation (better service, lower prices, etc.); (2) consumers who they represent demand it; and (3) lost revenue can be replaced in other ways. Cities need to recognize that not only do they have a conflict of interest - by being both the regulator and an income generator (licencing fees, etc.) - but they are the problem. This does not have to be the case.

I am pleased Mr. Pecman chose the media industry for his analogy (DVD's hypothetically being banned by regulators to protect the VHS industry). However, I find it interesting that in a world where two-way communication is prevalent today (VOD, streaming video, etc.), that he chose to look back 15+ years to the birth of DVD's. This is telling. It may have been more relevant today to make the analogy of digital video impacting DVD/Blu-ray's.

Media as a Guide

There is no better example of an industry like media that has, until more recently, largely been subject to market regulation. This goes back to the days of the 1600's when broadsheets began. With no form of competition, market regulation was imposed on the newspaper barons as a substitute to competition.

Fast forward over 400-plus years: why has the media industry largely been relieved from this market regulation? In markets where sufficient competition has developed, regulators typically back off and let market forces prevail. By doing so, competition replaces the market regulator. As radio developed in the 1920's, newspapers experienced less market regulation. As TV was introduced in the 1950's, market regulation was further reduced on radio and newspapers. Remarkably despite a new era of streaming media, Canadian platform ownership restrictions still exist today in radio and TV. This harkens to past regulation that, in the name of innovation and even relevance, deserves to be reviewed and eliminated where no longer necessary.

Deregulating Regulators

We all agree with Mr. Pecman that the private transportation sector could use additional competition and innovation. However, how do you get the cities to cede control to the market knowing this will cut into their operating budget, and possibly put their regulators out of a job? This is the root cause preventing liberalization and with it the desired effects of competition and innovation.

In Canada we see this legacy market regulation in all sorts of other sectors: telecommunications, electricity transmission and especially securities regulation. With 13 provincial regulators enforcing 13 different securities acts in capital markets that continue to converge, how can the formation and flow of capital be efficient? Simply put, it is not. It took courage for the federal government in recent years to establish and encourage its vision of harmonization. However, this is advancing at a glacial pace. While most agree (all but the regulators themselves) that harmonization is the correct destination, the journey is being held up by the securities regulators protecting their fiefdoms.

In the case of the cities who regulate a relative monopoly and therefore play the virtual role of a competitor, the cities, like the securities' regulators, are the very VHS industry in Mr. Pecman's antiquated analogy. They are simply protecting their turf.

Regulators Please Stand up and Be Dismissed

In markets where competition exists or is forming, market regulators need to stand up, recognize this and support the evolution to prevailing free markets – even if, and especially if this means they are no longer needed. The federal government agrees: "if private-sector competition develops an industry that was once dominated by a government-owned monopoly, the federal government may question its role in competing against the private sector."[1] Market regulators therefore need to know when to tap themselves on the shoulder and their role is done.

It will take courage for cities to liberalize market regulation in order to encourage competition and innovation. I am willing to bet the costs saved in reducing market regulation for the cities will be more than covered by a modest take on every ride (taxi, limo, ride-share, etc.). This is not only a courageous cost elimination concept; it is also an innovative "less-of-more" approach.

Our cities need to be more courageous and innovative around their own roles – not only stepping in but also stepping out of the way and partnering where it makes sense. Ironically, instead of injunctions against Uber and Lyft, our cities need to embrace the sharing economy and be more like these innovators. Let's hope our elected city officials have the courage to recognize the opportunities and benefits of liberalizing private transportation outweigh the challenges very soon. Otherwise they may ultimately just be waking up only to get run over by the next innovation, driverless cars.

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This thought leadership commentary was a response to: *Competition Commissioner: Taxis, ride-share apps and consumers deserve a level playing field*, published in *The Globe and Mail,* November 26, 2015.

[1] Allison Padova, Federal Commercialization in Canada, Library of Parliament, 20 December 2005: http://www.parl.gc.ca/Content/LOP/ResearchPublications/prb0545-e.html; accessed November 27, 2015