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Putting caps on BC ridesharing could hurt industry: Professor



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When it comes to looking at the future of ridesharing in BC, one economist says lessons on how to implement certain aspects of operations can be found by looking to the past – specifically when it comes to the issue of price caps.



In an interview with Daily Hive, SFU Economics Professor Hendrik Wolff said that the concept of price caps in North America can be traced back to the Great Depression in the US.

During that period, “drivers suddenly didn’t make money anymore; before that it had been a relatively free market,” he said. “Then someone at the government suggested that if there were so many taxi drivers not making money, that licenses should start being issued – later called medallions.”

In the case of New York’s taxi industry for example, “the initial price was around \$10, and that basically weeded out the good drivers from the less productive drivers and everything was fine for awhile.”

Fine, that is, until the economy recovered.

“Taxi drivers could make money again, and decided to buy one of the licenses, which were tradable, and the price went up from there and continued to go up – ultimately hitting the \$1-million mark before things like Uber came along and the prices dwindled back down very rapidly.”



This rapid devaluation of the medallions caused problems for those who had made their living driving taxis.

“Imagine you’re a 65-year-old taxi driver in New York, you’ve driven maybe three taxis in your life, and that was your retirement or investment money,” said Wolff. “Suddenly, the million-dollar value of those medallions goes down – that is basically what happened. So as economists, we say that every limitation, or cap on economic activity produces a so-called shadow value – essentially the price of the medallion.”

If the same sort of process is employed when it comes to ride-hailing in BC, “it will create basically the same dynamics.”

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Last year, BC’s transportation minister Claire Trevena **announced the provincial government** would allow ride-hailing companies to enter the BC market, but not until fall of 2019 – and with “checks in place to make sure their ride is a safe one.”

If passed, the Passenger Transportation Amendment Act will enable ICBC to develop a modern insurance product for ride-hailing for fall of 2019.

The approval process will include what the government called a “data-driven approach” to improve taxi service and ride-hailing opportunities, particularly at high-demand locations and peak times, by strengthening the Passenger Transportation Board’s authority to determine fares, vehicle supply, and operating areas.”

When it studies applications from rideshare companies, the PTB considers if they are “capable” of delivering the service, if there is a “public need” and whether the service would promote “sound economic conditions” for the transportation business in BC.



If an application is approved, the PTB then sets terms and conditions on the license, which can include setting the number or supply of passenger-directed vehicles and the area in which they are authorized to operate. There are concerns that too many rideshare vehicles on the road will contribute to congestion in the region.

The PTB will also determine and set the rate a licensee may charge passengers.

“If you put a cap in now, how do you really know how that market will develop?” said Wolff.

He noted “the caps may not be tradeable, so one doesn’t see that money; that’s still a loss in shadow value that sits in the society in some form or another.”

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This, he said, is why “most economists are against a strict price cap.”

In what he called a “dynamic market environment,” Wolff said he believes it would be very risky for the government to put in caps now, because “we don’t know where it’s going.”

Uber has said that the proposed legislations for BC ridesharing as they stand now have too many restrictions. Specifically, the rideshare giant is concerned about the province restricting the number of Ubers on the road at any given time — or setting pricing levels for passengers.

The results of those restrictions could include higher wait times and prices for people using the service, it maintains.



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