*More Money or Less Regulation?*

# Revitalizing Urban Transit

Robert Cervero

AIRLINES, RAILROADS, trucking, and intercity buses have all been deregulated in recent years, with bipartisan support and generally good results. Government is getting out of the friendly skies and off the busy roadways of this nation so that market forces can prevail. But although the cross-country rider now benefits from lively competition, the cross-town rider unfortunately does not. In most of our big cities, public transit users must deal with entrenched monopolies offering unresponsive services at standardized regulated fares. There is no reason why this should have to be so. Applying the principles of deregulation to urban settings could help solve some of the worst transportation problems plaguing our cities.

*Robert Cervero is an assistant professor with the Department of City and Regional Planning at the University of California, Berkeley.*

## The Urban Transit Mess

Those problems are all too familiar to most Americans. Traffic jams are daily rituals in many places. Moreover, roads and bridges are approaching the end of their design lives and falling apart, in large part because maintenance and rehabilitation have been routinely deferred. Public transit shares these upkeep and crowding problems. Several older subways are rapidly decaying, and in most large cities buses carry crush-loads in the rush hour but run half-empty the rest of the time. Transit has crippling financial problems as well. Few of our municipal bus systems recoup more than 40 percent of their operating costs from fares, saddling governments with most of the bill. Federal subsidies to public transit alone have grown from $132 million in 1970 (mostly small capital grants) to over $3.2 billion in 1982, a

2,400 percent rise. Meanwhile, federal expenditures on highways increased only 93 percent, from $4.4 billion to $8.5 billion, with much of the gain eaten up by inflation. This shift in national policy reflected the view, shared by Republicans and Democrats alike, that public transit was "good for cities."

Despite this massive infusion of government aid, there has been little payoff to brag about. Nationwide, transit ridership has remained fairly stagnant at about 6 billion passengers a year since 1970. By comparison, urban highway travel has risen from 570 billion miles a year to nearly 1 trillion. The availability of subsidy dollars for public transit, many argue, has typically resulted in lax management, overly generous wage settlements, and the unbusinesslike expansion of services into low-density suburban markets. Public transit's outright legal monopoly in some cities, along with the large subsidies it receives, has tended to squelch competition from taxis, private commuter buses, and other alternative services of generally higher quality.

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In all likelihood, deregulation would do more to improve the quality of urban transportation and reduce the fiscal shortfall, in both the highway and transit sectors, than any other policy strategy. Perhaps the greatest appeal of deregulation lies in its potential for spawning a richer mix of services. When traveling in cities today, many Americans have at best only two alternatives to the private automobile—buses or taxis. The past decade, however, has taught us that fixed route, uniform-quality services—buses and subways—will not lure significant numbers out of their cars. Studies consistently show that commuters are far more sensitive to the *quality* of transportation than to its *price* and will give up their cars only if they can, say, dramatically reduce travel time or improve comfort. Factors such as door-to-door travel time, reliability of schedules, certainty of getting a seat, and temperature control are important determinants of what modes travelers choose. Travelers particularly hate to spend time walking to a bus stop, waiting, and transferring.

What is needed, then, is a wider assortment of urban transportation services targeted to the needs and travel desires of a fairly diverse urban America. Regulatory reform could bring this about by injecting a much-needed dose of competition into urban transportation, just as it has already done with the nation's airlines, railroads, and roadways.

### Deregulating Taxi, Dial-a-Ride, and Jitney Services

The term "paratransit" is used to describe urban transport services that fall between those of the private automobile and the conventional bus. Taxis, dial-a-ride vans, and jitneys, which comprise one class of paratransit services, respond immediately to travel requests made by phone or curbside hail, and for this they charge a premium. By comparison, vanpools and commuter buses are typically prearranged and operate only between given points. Allowing all types of paratransit to operate freely is a necessary first step toward effectively dealing with today's urban transportation problems.

**Taxis.** All U.S. cities regulate taxis to some degree. While few observers question the propriety of regulating driver "fitness," the same cannot be said for controlling the number of taxis that operate in a city, the types of services they provide, and the rates they charge. Most cities restrict entry by fixing the number of licenses (medallions) granted, often on the basis of cabs per capita, but a handful of cities, notably Los Angeles and Chicago, achieve the same result by granting exclusive franchises to one or a few companies. Because of these restrictive practices, large fleets offering services of fairly uniform quality have become the norm in most big cities. Medallion and franchise cities more often than not have higher fares than cities that allow virtually unrestricted entry into the taxi market. In Washington, D.C., an unrestricted city that boasts more than thirteen cabs for every 1,000 residents (by far the highest ratio in the country), the fare for a typical four-mile

trip is only about $2.75. By comparison, in New York City, where notoriously restrictive entry regulations hold the ratio to 1.7 cabs per 1,000 residents, the same trip would cost about $4.75. With high fares translating into high taxi medallion values ($65,000 or more in New York City), it is clear that the costs of monopoly privileges are being passed on to consumers.

Studies have found travelers to be more sensitive to the ready availability of taxis than to speed, comfort, or virtually any other service feature. Not only do cities with open cab entry have more than three times more cabs per capita than regulated ones, but services are often more closely integrated with local bus and rail services as well. Taxis have also proven their strength in low-density residential areas where public transit is highly unprofitable or uncompetitive. And in cities where individual owner-operators of cabs are allowed to ply their trade, marginal markets abandoned by large fleets and franchises are again being served.

Experiments with entry and fare deregulation in twenty-two U.S. cities over the past five years have proven quite successful. According to a recent Federal Trade Commission report, the number of firms and cab service hours have risen markedly since deregulation (*An Economic Analysis of Taxicab Deregulation*, May 1984). Moreover, fares have essentially remained unchanged (in inflation-adjusted dollars) and service quality has generally improved (in particular, shorter waits, fewer nonresponses to phone requests, and cleaner vehicles). Deregulation has been a particular boon to small taxi companies and to private individuals who were previously denied entrepreneurial freedom. Significantly, it has also increased employment opportunities for some urban residents, particularly among low-income and minority populations where joblessness is the highest.

**Shared-Ride Services.** In recent years, governments have been quite solicitous of carpools but have generally been reluctant to extend the ride-sharing concept to taxis by allowing them to pick up more than one party. Shared-ride taxis flourished in Washington, D.C., during World War II, when cab drivers displayed destination signs in their front windows and folks along the route would hail the cabs going their way. Riders got a break in fares, and scarce wartime resources were efficiently used. In 1974, Washington again adopted a version of ride-sharing, primarily in response to gasoline shortages.

To protect passengers against being overcharged when drivers deviate from a route to drop off other customers, a shared-ride system requires zoned fares rather than distance-metered ones. But for the system to work well, it is not necessary that all cabs operate on a shared-ride basis. Since some passengers would prefer to avoid even the modest delays caused when the cab picks up other fares, a mix of exclusive-ride and shared-ride taxis is the best way to satisfy the riding public's preferences.

Many cities already have public ride-sharing, in the form of governmentally subsidized dial-a-ride vans that provide curb-to-curb services for the elderly and handicapped. But demonstration projects in El Cajon, California, Davenport, Iowa, and some twenty other cities reveal that shared-ride taxis can provide the same sort of service at a much lower cost per passenger than these vans, largely because their drivers earn less (even though they carry more customers). In most of these places, a travel voucher program gives senior citizens, disabled persons, and poorer persons a choice of whether to travel by bus, shared-ride taxi, or dial-a-van. These user subsidies have proven to be an efficient way to underwrite the travel expenses of disadvantaged persons while also promoting healthy competition among different service-providers.

Perhaps surprisingly, shared-ride taxis have also turned out to be a blessing to local bus systems. Not only do they serve to feed passengers to bus lines and rail stations, they also siphon off some of the peak demand. This "peak-load shedding," as it is called, can result in real cost savings to public transit. Past studies consistently show that it costs two to three times more to run buses during rush hours than at other times, largely because restrictive union work rules require that drivers be paid time-and-a-half if they work during both the morning and evening peak. In Singapore, the program that limits the numbers and types of vehicles entering the downtown area during the daytime relies heavily on shared-ride taxis to absorb many of the displaced auto passengers, thus holding the public transit system to a

much more manageable scale. In short, by supplementing bus runs at peak hours and serving senior citizens and disabled persons at other hours, a system of shared-ride taxis makes it possible to use vehicles more efficiently throughout the entire day.

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**Jitneys.** Jitneys extend the shared-ride concept by carrying up to a dozen passengers, usually in a station wagon, over a semi-fixed route on a fairly regular basis. Typically the operator picks up customers until the vehicle is full and makes only slight detours from a major street. Popular early in this century, jitneys were banned in most cities around World War I, victims of the trolley-operators' charge of "cream skimming" and unfair competition. Though jitneys may well have threatened city transit systems in 1920, a time when those systems were in their infancy and struggling to survive, they would actually benefit urban transit systems today by providing, as shared-ride taxis do, a much-needed supplement to peak-period capacity.

In many Latin American, Asian, and Middle Eastern cities, jitneys are the chief mode of urban transportation. It has been estimated, for instance, that they accommodate over half of the daily travelers in Caracas, Buenos Aires, and Istanbul. They are also enjoying a comeback of sorts in this country. Jitneys now operate legally in San Francisco, Atlantic City, and most recently San Diego, although local ordinances hold their numbers below 500 even in these places. And in Chicago, Pittsburgh, Baton Rouge, Miami, Chattanooga, and probably other cities as well, jitney services are in such great demand that drivers operate illegally. In Chattanooga alone, over eighty-five illegal jitneys serve 20 million willing customers a year. These clandestine operations generally thrive in low-income, minority communities where there is a demand for a hybrid service—half taxi, half bus. Authorities have tended to look the other way when confronting these illegal, yet sucessful, operations.

**Recent Experiments with Taxi and Jitney Deregulation.** Seattle, San Diego, and Portland (Oregon) virtually eliminated their restrictions on taxis and shared-ride services in 1979. All three either removed the ceiling on taxi permits or raised it significantly and, in addition, permitted ride-sharing in taxis and allowed exclusive-ride fares to vary. (The shared-ride services were priced on a zoned basis, except in Seattle, which retained metered rates with adjustments to prevent cabbies from penalizing customers when picking up extra fares.) San Diego legalized jitneys as well. Although taxi operators and the transit interests fought to preserve their entrenched positions in all three cities, strong city council and public support for reform ultimately prevailed.

By late 1983, the total number of taxi permits had increased by 128 percent in San Diego, 30 percent in Seattle, and around 12 percent in Portland. In all cities, there are now many more small cab companies and private owner-operators than before. In Seattle, for instance, the number of small fleets (those with four to thirteen cabs) rose from nine to twenty-three, whereas the share of cabs held by the three largest firms declined from 70 to 54 percent. More cabs have meant more service. Total weekly service in San Diego, for example, measured by cab hours of service, has increased 26 percent since deregulation. Decontrol has also led to greater market specialization, with the smaller and newer operators concentrating on hail and long-haul business and the larger and older companies going after the phone-request and package delivery business. Passenger waits at major cabstands have virtually disappeared in all three places. Average waits for San Diego's radio-dispatched cabs, moreover, fell from 10 to 8 minutes in the first two years of deregulation. In Seattle, price decontrol has also led to a variety of fare structures, including off-peak discounts and cut rates for repeat, advanced-reservation customers.

The experience with legalized jitneys in San Diego has been equally impressive. By early 1983 fifteen jitney companies, owning a total of forty-eight licensed vehicles and serving

nearly 12,000 weekly customers, had entered the market. They operate on streets paralleling the new light-rail trolley system and main bus routes, concentrating mainly on commercial strips, military bases, and tourist spots, such as hotels and airports. San Diego's jitneys and shared-ride taxis can set any rates they want, up to a maximum, so long as they post them in two-inch lettering in the front window. Fares have proven to be a real bargain. A five-mile trip from the airport to downtown San Diego, for instance, today costs around $3 by jitney compared with $12 by exclusive-ride taxi.

In all three cities, the only major snag with deregulation to date has been isolated instances of price-gouging, especially at airports where tourists not accustomed to deregulated taxi fares were easy prey (on the Seattle case, see Richard Zerbe's article in *Regulation*, November/December 1983). All three responded by imposing fare ceilings on airport cabs. Also, last year San Diego, prompted largely by the bad press generated by the airport incidents, placed a one-year moratorium on new taxi permits to give the city council time to reassess the entire program. Overall, however, residents and visitors in all three cities have materially benefited from the specialization of services and the lower real prices made possible by deregulation.

### Deregulating Vanpools and Commuter Buses

Vanpools and commuter buses—the paratransit modes that provide prearranged or book-in-advance commuting—have also been stifled by regulation, though perhaps to a lesser extent than taxis and jitneys. In the seventies, when vanpools first became popular, a number of state courts ruled that they were public carriers and thus subject to various certification requirements. Some even interpreted vanpools as illegal bus lines. More recently, several state legislatures, notably California's and Tennessee's, have exempted employer-sponsored vehicles that carry fifteen or fewer passengers from state regulation. All states permit voluntary, share-the-expense carpools, while most prohibit van services that are not related to employment and operate for profit.

Commuter buses are providing increasing numbers of subscribers with comfortable express service between their home communities and offices in a number of cities. Typically, however, commuter bus operators must prove their services are necessary and in the public interest before they may begin service. Even in the Los Angeles area, where the country's largest fleet of subscription buses carries over 5,000 daily commuters to work in comfort, transit authorities have succeeded in holding the number of runs below market demand. A recent study by the Southern California Association of Governments found that the Los Angeles area could save over $5 million a year by allowing subscription buses, which operate at about one-half the cost of public transit, to replace twenty-two local bus routes. Yet transit authorities have filed protests against a number of commuter bus applications.

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In 1982 Tennessee passed a law that could provide a useful model for relaxing controls on private bus operations. Within certain counties designated as "citizen transportation areas," Tennessee's public service commission now permits ordinary private vehicles to offer passenger services. Church and other special purpose buses are doubling as commuter vehicles in these counties. These reforms have provided vital travel alternatives to residents of small communities that have recently lost inter-city bus services.

### Deregulating Parking

Another way to improve urban transportation conditions would be to relax zoning ordinances that require developers of new buildings to provide off-street parking. Typically, these ordinances mandate a minimum number of parking spaces per dwelling unit or per square foot of office space, the purpose being to ensure that traffic coming to a particular site can be adequately handled. The assumption seems to be that a certain number of workers "need" to travel by auto. Therefore, ample space must be provided.

But parking ordinances present a number of problems. First, since they are in effect a tax on the quantity of floor space in a new building, they distort land markets. Indeed, this distortion may be increasing. Parking demand has declined with the rise in fuel costs and the switch to smaller cars—so that now, according to the Urban Land Institute, most shopping center developers will settle for up to 18 percent fewer spaces than heretofore. Yet most cities have been slow to modify their zoning ordinances in recognition of these factors.

Moreover, there is a somewhat disquieting "rule-of-thumb" air about many of these ordinances: some require much more parking than the private market would provide on its own, while others require less. One study, for instance, found that in California minimum parking-space requirements for a 10,000 square-foot office building vary from ten in Long Beach to eighty in Placentia. Moreover, local planning departments often bargain for more than the minimum number of spaces in negotiating with private developers, resulting in even greater variation in the supply of parking for comparable types of buildings and developments.

Third, by making parking artificially abundant, the ordinances have made it harder for public transit to compete for customers. Past evidence has generally proven that parking supply influences the travel modes people choose more than reductions in transit fares or increases in the frequency of bus service. In fact, it has become a standard axiom among urban transportation professionals that auto *disincentives*, such as parking bans, will relieve traffic congestion far more effectively than any assortment of public transit *incentives*. Furthermore, parking regulations may shift new development away from the built-up areas where public transit is competitive and toward lower-density areas where land for parking lots can be bought more cheaply. Thus, allowing developers to reduce on-site parking would strengthen transit systems in a second way: new development would be closer in as well as denser.

Recently, Seattle, San Francisco, and Portland (Oregon) have all lifted minimum parking requirements for new downtown developments. The total number of parking spaces has dropped by 2 percent in downtown Seattle since the late seventies, even as thirteen major new projects were being built. Other cities are reducing or eliminating off-street parking requirements for developers who agree to support transit or ride-sharing programs for their tenants. In both Los Angeles and Palo Alto, California, builders provide "effective alternatives to auto access," such as vanpool leasing and cash payments to transit agencies, again in return for less stringent parking requirements.

### Other Candidates for Reform

A number of other regulations hamper progress in the urban transportation sector as well. Most American communities, for example, place a lid on the allowable density of various types of land uses, the purpose being to comply with regional land-use goals and to ensure that excessive demands are not placed on local sewer, water, and road facilities. In addition, suburban governments generally encourage the provision of ample roadway capacity and off-street parking, often as a precondition to approving a new subdivision. Local planners also tend to recommend that a planned subdivision be made less dense whenever studies suggest the project will generate more traffic than the nearby roads and intersections can handle.

The problem with this low-density bias is that it precludes the development of the customer base needed to support public transit and ride-sharing alternatives to the automobile. Modifying local ordinances to allow public officials greater flexibility in setting residential densities could prove to be a tremendous inducement to better transit over the long run.

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Finally, controls having perverse effects on urban transportation have also come from the federal level. In particular, the federal government has directly contributed to transit's financial dilemma through various requirements (often tied to subsidy programs) that effec-

tively increase the costs of local transit services. Most notably, section 13(c) of the amended Urban Mass Transportation Act of 1964 provides that transit employees must not be adversely affected by any program involving federal grants. This stipulation has been blamed for encouraging overly generous wage settlements by giving labor a virtual veto power over federal transit grants. Section 13(c) has also helped unions secure contract clauses that guarantee workers forty hours a week pay even if they actually work less and that prohibit the hiring of part-time employees. Moreover, 13(c) has been used to keep public transit's competitors out of the market. In Norfolk, Virginia, for instance, unions sued under 13(c) when the local transit agency turned unproductive routes over to a private dial-a-ride operator.

Similarly, the Davis-Bacon Act, which requires that the prevailing wage level (in practice, union wages) be paid on federally funded construction projects, has also increased costs. Two of the best-known recent instances of this are the new rapid rail systems of Washington, D.C., and Atlanta. With labor expenses accounting for roughly 70 percent of the cost of operating most U.S. transit systems, the fiscal consequences of these laws have been substantial.

**Overcoming Resistance**

Regulations governing urban transportation have been built up, layer by layer, to the point where they are now a major barrier to innovation. Reform is needed to create a freely competitive transportation marketplace in our cities.

Admittedly, however, deregulation could have some adverse effects. For one, certain groups might suffer, particularly if public transit services were replaced by paratransit on a wholesale scale. A shift toward higher quality services priced at premium fares might be expected to increase travel options for affluent residents while perhaps diminishing them for poorer city residents. It is also possible that some carriers might pursue exclusionary practices and some cabbies might refuse to serve minority neighborhoods. To date, however, there is no evidence that that is happening in cities where taxis have been deregulated. Moreover, the fare reductions that result from taxi deregulation can be expected to benefit the poor most, because they spend a larger share of their income on taxis than other groups. User subsidies could also be introduced to help cover the travel costs of low-income persons. Overall, it would seem more likely that a deregulated environment would offer all Americans, regardless of income, a richer assortment of travel options than they now have.

The relaxation of entry restrictions on taxis and shared-ride services would also impose some inequities on medallion owners, some of whom have paid as much as $65,000 for their licenses. A municipality might buy back all medallions at their purchase price, although that would require a substantial cash outlay. Still, it would make sense to provide some compensation for those who paid the prevailing medallion prices under the previous regime of limited entry.

Decontrol of entry might also undermine transit services along corridors where a natural monopoly exists. However, past research has consistently shown that, with the exception of electrically powered operations (trains and trolleys), most transit services operate under conditions of constant returns to scale. Thus, the natural monopoly argument for regulating entry would seem to have limited application. Surely the benefits of deregulation would on balance far offset any detrimental effects a few transit systems might experience from heavy competition.

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In sum, there seem to be very few reasons for imposing price and supply controls on taxis, jitneys, club buses, and parking, and quite a few reasons not to. What is needed, today more than ever, is a freely competitive transportation environment in which the traveling public can enjoy a mix of service and price options. No assortment of technological fixes could do as much as deregulation to relieve congestion, strengthen existing public transit systems, and improve the quality of life in America's central cities. ■