Cab Scam

Even taxis are controlled by Chicago's corrupt political machine. Now pressure is building to dismantle the city-supported cab monopoly.

By Daniel John Sobieski

Since Charles I ordered the licensing of hackneys in London and Westminster in 1635, governments have tried again and again to control first hackneys, then cabriolets, and today taxis. Until recently, almost nothing was quite so sure as death, taxes, and cab regulation.

Perhaps nowhere are the fruits of such regulation more obnoxious than in Chicago. For more than half a century, two interlocking companies have shared a near-monopoly over the taxi business in the Windy City, limiting the number of cabs on the streets, locking out potential competitors, and deciding who gets to work in the business and who doesn't. But a $320-million antitrust lawsuit could change all that by shattering the dominance of the Checker and Yellow fleets over Chicago's taxi industry. The result could be more cabs on the streets, better service for low-income areas, employment for licensed cab drivers who can't now find work, and an opening for new companies to enter the market.

It would all be part of a growing nationwide trend to deregulate municipal taxi businesses. There is already a steadily expanding list of cities with at least partial taxi deregulation. It includes all of Arizona's cities and towns; San Diego and Santa Barbara, California; Seattle and Spokane, Washington; Honolulu; the District of Columbia; and Kansas City, Missouri, among others. Indeed, a survey of 103 American cities found that during the past five years, 16 cities have substantially relaxed market-entry controls, while 17 substantially relaxed fare regulations. This trend was further stimulated in 1982 by the Supreme Court's *Boulder* decision, which held that cities can be sued in some cases on antitrust grounds for restraining competition. Three Chicago taxi drivers saw the opportunity to file suit in federal court against the Checker and Yellow cab companies. They had conspired with the city of Chicago, charged the suit, to monopolize the city's taxi industry via limits on the number of taxi licenses.

It is interesting that such a suit should be filed in Chicago, partly because the modern taxicab industry got its start there. John D. Hertz, best known today for the car-rental business he also started, launched the Yellow Cab Company in Chicago, and it was the emerging taxi industry that prompted the first installation of traffic lights along Michigan Avenue.

Joseph L. Bast of the Heartland Institute has noted that from 1915 to 1930 the taxicab industry of Chicago flourished in an environment relatively free of regulations. The industry earned a reputation for professionalism, safety, and innovative service. Hertz pioneered such developments as telephone dispatching, no charges for deadhead mileage to or from a pick-up point, uniformly low fares, and training programs for drivers.

Entry into the trade was virtually unrestricted by local government. Marcus Alexis, a Northwestern University economics professor and a student of Chicago's taxicab industry, recounts that in the 1920s, as more and more Chicagoans were able to afford their own cars, many simply put "TAXI" signs on the sides of their cars and thus entered the market as cab drivers. And since no firm held a monopoly via licenses, anyone who could earn the public's confidence could stay in business.

According to Alexis, the larger cab companies were displeased with the competition they faced. By the late 1920s, Yellow and Checker had managed to buy out several smaller companies and had consolidated dominant positions in the Chicago taxicab industry. In 1929, using the flimsy pretext of protecting the consumer from "price gouging," they got the city government to impose entry restrictions.

The legal barriers against entry into the industry were dropped temporarily in 1931, but no new licenses were issued despite applications. Entry controls were reimposed in 1934 by a regulation providing that licenses would be issued only after a showing that they were required by the "public convenience and necessity." During this period, Yellow and Checker bought out other remaining competitors and secured their near-monopoly. And in 1934, minimum-fare controls were imposed by the city to eliminate price competition—and make taxicab operations more profitable.

Chicago limited the number of licenses to 4,108 in 1934, reduced the number to 3,000 in 1937, and then in 1963 permanently established a 4,600 ceiling by city ordinance. The ordinance formalized an agreement personally brokered by the late Mayor Richard J. Daley, in which Checker and Yellow were guaranteed 80 percent of them (the language of the ordinance froze market shares at 1963 levels). Later, these licenses were also made nontransferable.

Not only do Checker and Yellow nearly monopolize the Chicago market, but they even have interlocking ownership. Checker owns 44 percent of the stock in Checker Motor Company, a New York corporation that in turn owns all the stock in Yellow.

These two firms' historic dominance of the market was part of the Chicago political structure in which clout and influence prevailed. The system of the regulated and the regulators scratching each other's backs fit in nicely with the politics of the Daley machine. But after Daley's death on December 20, 1976, all the king's horses and all the king's men were in disarray.

In an attempt to continue the status quo, the machine's power brokers settled on Alderman Michael Bilandic as Daley's successor. Bilandic was selected as acting mayor and subsequently elected to fill out Daley's term on June 7, 1977. He was from Daley's historically powerful 11th Ward and had been schooled in the fine art of Chicago politics by Daley himself.

From the start, regulation was a brilliant ploy of the big two cab companies working in collusion with a corrupt political machine.

Among Bilandic's first acts as mayor was a secret meeting with Checker Taxi president Jerry Feldman at Midway Airport on June 8, 1977. It was destined to change forever the face of Chicago politics. Jane Byrne would charge that at this meeting, Mayor Bilandic approved an unwarranted taxi-fare increase as a personal favor to long-time friends of the Democratic machine.

And who was Jane Byrne? At the time, she was just another high-level functionary of the Democratic machine. Although she was not considered part of the inner circle that was calling the shots in Chicago when the dust settled after Daley's death, she had always been a party loyalist and had risen swiftly through the ranks. Ten years before, Daley had appointed her commissioner of consumer sales, weights, and measures. And one of his last official acts was to pass an ordinance giving her office authority over taxi leasing contracts. Thus was she present at the Midway Airport meeting, details of which are contained in a now-famous memo (originally written for her files, she said later, "to protect myself").

In the memo, she charged that Bilandic "greased" the way for the city council's approval of an 11.7-percent fare hike. She said that the city's "entire action" in granting the fare increase was "fraudulent and conspiratorial."

As Byrne described the meeting with Checker president Jerry Feldman: "The Mayor looked at him and said, '...I can call an emergency City Council meeting the following week. Oh, we won't make the rate increase the reason for the Council meeting. We'll blow up some other matter to look important and quietly tack the increase on in unfinished business.' He looked at everybody and said, 'That's how it's done.' "

What Bilandic "negotiated," she said later, "was a taxicab fare increase that is a soak Chicago, soak the sick, old people taking short cab rides...soak the Loop businessman...soak the cab driver." She had witnessed, she said, "the shameful spectacle of the mayor of Chicago belittling the poor, the uneducated black and white driver and advising the taxi corporations that as soon as the fare increase went through to raise the [leasing] rates on them, which they did."

As a city official, Byrne had earlier asked an accounting firm to audit the records of Checker and Yellow. The firm's report showed the two companies were making huge profits from their leasing operations and were in such good financial shape as to be undeserving of a fare increase. She brought this up at the Midway Airport meeting, to no avail.

Always loyal to her mentor, Richard Daley, she said later that such secret meetings did not occur when Daley was mayor. She decided to release her memo four months after it was written, in response to a demand by one of the aldermen that the power to regulate cabs be taken from Byrne and transferred to more-loyal machine supporters.

The controversy heated up. Byrne took a lie-detector test, even though such tests are notoriously unreliable. The testers rated as "truthful" her answers to questions pertaining to the Midway meeting and the memo. Byrne was fired by Bilandic in November 1977, but she got revenge. In 1979, she ran for mayor against Bilandic and won a stunning upset.

Little did anyone guess back then that the days of the regulated taxi industry in America might be numbered, but wheels were beginning to turn. An August 1977 report, prepared by the Chicago office of the Federal Trade Commission after a four-year investigation, called the Checker Motor combine a monopoly and urged that it be broken up. The report charged that cab officials falsely inflated their expenses to justify fare increases and conspired in making governmental policy decisions affecting the entire taxi industry in Chicago.

At the local level, Byrne ranted about an "evil cabal" of political hacks, but she soon learned as mayor to go along to get along. It remained for the administration of Harold Washington, elected mayor in 1983, to accept the idea of taxicab deregulation.

There is a good reason for the Washington administration to work for a more open taxi industry: the antitrust suit by the cab drivers against the city and the two big cab companies, known as *Campbell* v. *Chicago.* Last year, Washington's corporation counsel, James Montgomery, devised a settlement. He proposed that the city would make 400 new taxi licenses available in the summer of 1984, another 500 on January 1, 1985, and an unlimited number beginning January 1, 1986. Moreover, the 1963 ordinance that froze market shares—the Daley brainchild—would be voided. In exchange for these reforms, he wanted the plaintiffs in *Campbell* to drop the city from their litigation (technically, this may have left the two cab companies as defendants).

It all sounded wonderful. The taxi industry would be opened up, the cab drivers would be victorious, and the city's officials would no longer have the specter of a multi-million-dollar damage suit hanging over them. But there was a snag—the city council. The proposed settlement required that the council pass an enabling ordinance. At this writing, however, that ordinance is tightly bottled up in the Local Transportation Committee, chaired by Washington's arch-enemy, Alderman Vito Marzullo. And because the ordinance will probably go nowhere, the Montgomery settlement is expected to come to naught.

Alderman Ed Burke, chair of the council's Finance Committee, argues that the proposed ordinance would result in higher fares. But Montgomery and Washington's Consumer Services commissioner, Jesse Madison, counter that fares will be reduced through competition by opening the marketplace to more independent operators.

Checker president Jerry Feldman, whose grip on a market that handles an estimated 60 million riders yearly is threatened, contends that deregulation would flood Chicago streets with unqualified drivers. But records in the city Department of Consumer Services show that 9,434 men and women were certified in 1983 alone to drive taxis in Chicago—more than double the number of available license medallions.

A driver who doesn't own a medallion currently has two options. He may lease a cab and medallion on a daily or weekly basis from one of the major companies, paying $55-$58 a day for the vehicle, medallion, and insurance. Gas is extra. Or he may lease only the medallion on a weekly basis and drive his own car. In that case, the title to his car must remain in the name of Checker or Yellow, yet he must pay his own maintenance bills.

Drivers pay anywhere from $165 to $187 a week for the right to use the medallion, for which the cab companies pay the city only $200 a *year.* And indication of the market value of the medallions came in 1982, when Yellow and Checker sold 18 of their licenses to independent drivers for more than $13,000 each. The companies also received more than $1 million worth of bids on 80 other medallions before the city council prohibited further sales.

Few taxi drivers can afford to pay $13,000 for a medallion, even if the major companies would and could sell. Studies have shown that most taxi drivers in Chicago make less than $10,000 a year after expenses. Most of them work 12 hours a day, six or seven days a week. That means that on the average, they end up earning less than the minimum wage.

The same laws that indirectly exact such a heavy price from the average taxi driver are at the same time artificially protecting the taxi companies already in the field and long ago destroyed the competition that previously determined the optimum number of cabs in Chicago. Moreover, by fixing rates and otherwise legislating matters previously left to individual firms, the regulations virtually remove any incentive for companies to improve the quality of their service.

Should the taxi industry in Chicago be opened up to competition? Marcus Alexis of Northwestern University, who served on the federal government's Interstate Commerce Commission for three years, is convinced that it should.

Deregulation, he notes, would open up the number of licenses, thus reducing their cost. "People who like to be entrepreneurs in the industry would be able to do so at a reasonable cost." The effect for consumers? "The experience of other cities...has been that the effect is to provide more cab services for those who use them."

Alexis agrees with estimates made by Consumer Services commissioner Jesse Madison that a free market would raise the number of taxis in Chicago by 40 percent. Chicago currently has one cab for every 653 people. In a study sponsored by the Federal Trade Commission and released in May 1984, it was noted that an open-entry city such as Atlanta had nearly 3.5 times the number of cabs per 1,000 population as a restricted-entry city such as San Francisco. The average fare in Atlanta was a full dollar less for a three-mile trip.

In addition, Alexis notes, increasing

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he number of cabs would increase their availability in low-income areas, which traditionally have poor service in cities such as Chicago. The study by the FTC supports the contention that poorer neighborhoods are hit hardest by the shortage of cabs. "Restrictions on the total number of firms and vehicles," it concluded, "impose a disproportionate burden on low-income people."

In Chicago, city-imposed limits on the number of cabs has meant that the relatively few taxis that are on the streets are found disproportionately in the affluent Near North Side, the Loop business district, and O'Hare International Airport, while vast areas of the poorer West Side and South Side are underserved or not served at all by taxis. And because Checker and Yellow are protected from competition, they need not worry about operating their full fleet so that they can serve the entire city adequately.

On the contrary, a scandalously large number of taxis remain idle in company lots across Chicago. In a four-day period last year, for instance, *Chicago Tribune* reporters found a daily average of 652 licensed cabs sitting idle at eight storage lots run by Yellow and Checker.

City ordinances require that "every taxi be operated regularly" to ensure public convenience. Failure to do so is supposed to result in revocation of a taxi medallion. "But we have to prove that the cabs were not used for 10 consecutive days for us to be able to take any action," says Chris Kelly, of the city's Department of Consumer Services.

Checker president Feldman claimed recently that only four percent of the company's fleet is idle daily, with another seven percent down for maintenance. He said the idle cabs discovered by the *Tribune* reporters may have been old vehicles kept for parts. When he was told they had medallions, Feldman said a lack of drivers may have kept them off the streets. But, as we have seen, there is no shortage of drivers.

The arguments regularly used by opponents of taxi deregulation in Chicago are undermined by the experience of other cities like Washington, D.C. In his book *The State against Blacks*, economist Walter Williams discussed the effects of an unencumbered taxi market there.

"The free market in Washington produces benefits for a large group of people," he noted. "First it produces business ownership or work opportunities for many semi-skilled workers, college students and others wishing to supplement their regular earnings. It provides higher quality services to consumers at lower prices. It also refutes the disorderly market, 'dog-eat-dog,' and congestion types of arguments used as justification for strict regulation in other cities."

Local restrictions on the taxi market "impose a disproportionate burden on low-income people," FTC investigators charged.

He notes that Washington, D.C., has the largest number of taxis per 1,000 population, which suggests that Washington taxi riders not only receive higher-quality service but that they get it at prices that are among the lowest in the nation. In 1976, his data show, Washington had 12 taxis per 1,000 population, compared to 2.5 in New York and 1.5 in Chicago.

With open entry, the Washington taxi industry consists of mostly self-employed people who work and conduct their business as they see fit. It is estimated that at least 50 percent of the taxi owners are part-time operators who work around their regular non-taxi employment. In addition, a number of taxi owners lease their vehicles to other individuals on either a full- or part-time basis.

Williams noted that as of 1979, there were about 8,400 taxi vehicles that operated in the District of Columbia, 90 percent of them owner-operated and 75 percent minority-owned. And according to a report by the House Committee on the District of Columbia, the results have been good.

"Passengers get a better and safer ride because of the driver's personal interest in his own taxicab," it pointed out. "This is not true in other large cities where meters are required and the operation of the taxi system is controlled by fleets. Because he is an independent businessman...the owner-operator has better equipment and exercises greater care than a driver who is not an owner. It is the independent cab drivers in Washington, D.C., who have given the city the best taxi service of any city in the United States."

Best or not, it is certainly better than service under the taxi monopolies prevalent elsewhere. Other cities can testify to that as well. One is San Diego, where the ceiling on the number of taxi permits was removed in 1979 and the city began issuing a fixed number of additional licenses each month. Regulations that controlled the fare structure were replaced by a fare ceiling so high that it was of little importance for most firms, who were freely discounting and bargaining on fares.

The Federal Trade Commission study last year noted that between 1979 and 1983, the number of licensed cabs in San Diego more than doubled, jumping from 409 to 915; the number of companies increased from 68 to 310; and the market share held by the largest firm fell from 68 percent to 31 percent. Average response time for radio-dispatched cabs fell from 10 minutes in 1978 to 8 minutes in 1980. The percentage of taxi riders who rated taxi service good or excellent increased from 75 percent (residents) and 86 percent (visitors) to 82 and 92 percent respectively between 1978 and 1980.

Another benefit of deregulation has been reported by Barbara Lupro of the city's Paratransit Administration. Average insurance rates for cabs have plummeted to about 20 percent below the national average, from more than $2,000 annually before deregulation to about $1,400 today—this despite the fact that San Diego requires significantly more insurance coverage for its cabs than most other American cities require for theirs.

Undoubtedly the lower rates are partly because of better auto maintenance and owner care spawned by competition. Probably, they are due partly also to the risk being more widely distributed. In any case, the San Diego experience belies a common antideregulation argument—that insurance would be unavailable or prohibitively expensive under decontrolled entry.

Of 103 cities the FTC studied from 1979 to 1984, 24 made major changes in their entry and fare regulations, with 16 relaxing entry restrictions, 17 relaxing fare restrictions, and some doing both. Some that have not joined the trend toward transportation deregulation, such as Minneapolis and New Orleans, have been faced with FTC lawsuits based on the *Boulder* doctrine—for good reason.

As the FTC study summarizes: "Experience with open entry and fare competition...has generally been favorable....The favorable aspects of open entry...include increases in the number of taxi firms and decreases in the market share of the largest firms, increases in the number of hours of cab service, reductions in fares and response times, and reductions in the amount of time city councils devote to licensing and fare setting."

In its litigation against Minneapolis and New Orleans, the FTC said that if these cities "did not have the challenged regulations, consumers would have more taxi service at less cost and with less waiting time." Timothy Muris, director of the FTC's Bureau of Competition, has quoted government estimates that taxicab deregulation nationwide would save consumers $790 million annually and create 38,000 new jobs.

Part of the mythology of government regulation is that it protects the average person—the consumer, the worker, the minority-group member who would not otherwise be able to fend off the depredations of the "big boys." Yet the entire history of taxi regulation in Chicago furnishes a powerful example of the falsity of this myth. From the start, regulation was a brilliant ploy of the big two cab companies (working in collusion with one of the most corrupt political machines in the country) who didn't want to be bothered with a free market. And the record is clear about who pays the price: taxi riders who pay inflated fares; the companies' own employees, whose wages are artificially depressed; blacks and Latinos living in the neighborhoods where legal taxi service is very rare; and out-of-luck entrepreneurs, often minorities themselves, who cannot afford to put up the money to buy a high-priced taxi license.

Perhaps the *Campbell* litigation or the Montgomery proposal, or even some combination of the two, will eventually break the monopoly. And if that happens, Chicagoans will learn what San Diegans and Washingtonians and residents of a score of other cities have learned: it's the free market, not regulation, that really gives the little guy a fighting chance. ®

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The American public is largely uninformed about guns and crime, because the American media largely ignore the facts and figures.

Calling the Shots

By William R. Tonso

The September 20, 1975, issue of the *Nation*, a left-liberal weekly opinion magazine, ran an article entitled "The Demography of Gun Control." Its author, University of Massachusetts sociologist James D. Wright, struck a rather urgent tone. According to the article, the United States has far and away the most heavily armed civilian population in history; as a result, the United States tops all other industrial nations in injury and death resulting from crime. Therefore, Wright argued, the United States badly needs tougher gun controls—controls that, according to public opinion polls, the vast majority of Americans, even a majority of those who own guns, favors.

So why hadn't gun controls routinely been enacted? Wright answered that the National Rifle Association—the powerful "gun lobby" representing the hard-core, anti-control minority among gun owners—had been able to thwart efforts to enact such measures. In arguing for controls, Wright warned that this relatively small, unrepresentative minority had to be kept from subverting democratic processes. "Those 23,000 people who will otherwise be accidentally shot next year, not to mention the 8,000 who will intentionally be shot to death, will no doubt be grateful," he wrote.

Wright's discussion of gun control in his 1975 *Nation* article still reflects the assumptions held by many today, particularly among the media. Those assumptions are: the US citizenry is heavily armed; this extreme degree of civilian armament accounts for the high rate of violent crime; gun controls will significantly reduce violent crime; a majority of Americans favors highly restrictive gun controls; and only a powerful "gun lobby" is blocking the enactment of controls.

Significantly, Wright himself no longer holds all of those views. The metamorphosis of his position on gun control and related issues is an unusual story—and it reveals how

Illustration by David Necker