

***Economics: A Christian Worldview. Article:
“Monopolies Are Good When Governments Create Them?”***

TEACHER INSTRUCTIONS/KEY

Time

15-20 minutes

Instructions

1. Print Pages 2 & 3 (front to back if possible) and hand out to students.
2. Instruct students to read the article and answer the Questions for Review. (Take 8-10 minutes.)
3. Discuss in pairs/groups first (if time), then together as a class. (Key is below.)

Key

1. Why did government regulators claim that they enforced a taxi monopoly in France? What can we learn from this claim?
The government claimed it was to protect customers from being overcharged. Governments often use the excuse of “protecting the consumer” when they intervene in the economy.
2. How can Uber customers easily protect themselves? What does this show?
They can map out the most direct route on their phones and read Uber driver reviews! They don’t need the government to “protect” them from taxi drivers.
3. How does this situation mirror another one in the early 20th century?
Railroad owners petitioned the government to restrict competition from automobile drivers. They saddled these “jitneys” with excessive regulations and fees until they went out of business.
4. What insane rules did France’s government place on Uber? Why do politicians do this kind of thing?
Uber drivers were ordered to wait 15 minutes before they left to pick up a customer, ordered them to return to the garage before they picked up another customer, and prevented them from showing customers where their nearest cars were! Politicians are concerned mainly with one thing: getting reelected. When they realize that they can be voted out by those harmed by companies like Uber, they pass ridiculously anti-freedom laws like these.
5. What overall lesson about governments and monopolies does this article point out?
Governments, which claim to want to “protect the public against monopolies,” have the power to use force to create and maintain monopolies to empower and enrich themselves and their cronies.

Monopolies Are Good When Government Creates Them?

Robert Krol

July 9, 2015

Taxi drivers in Paris rioted recently in protest of the presence of the ride-sharing company Uber in France. Similar taxi protests have occurred in Sao Paulo, Brazil, and other cities around the world. Government regulations historically enforced rules that created taxi monopolies in most cities, justifying these rules as a way to protect customers from being overcharged for trips. However, 21st century technology has overtaken 20th century regulations. It's time to deregulate city taxi markets and let the competitive process work, which benefits consumers.

Ridesharing technology protects taxi customers from being overcharged or receiving poor quality service. Users pay using a credit card, can view the most direct route to their destination on their smartphone, and read reviews of the driver's service record before accepting the ride. Consumers love the ride-sharing companies because they provide fast, low cost, and quality service that is often better than traditional taxi service. Taxi companies are asking governments to impose rules on the ride-sharing companies in order to protect themselves from this new and better service.

This isn't the first time governments have been asked to protect an incumbent industry from innovation and competition from new businesses. High-cost industries lobby governments for import tariffs to protect themselves from more efficient foreign competitors. State governments pass regulations that protect doctors from competition, hampering innovation, by preventing nurse practitioners from providing the basic medical procedures they are trained to provide. Antitrust complaints often come from firms that face competition from new innovative firms, not consumers. All of these regulations harm consumers and slow innovation.

What is taking place today in the taxi industry is a replay of a very similar challenge in urban transportation a century ago in the United States. At the beginning of the 20th century, electric street railways were the primary mode of city transportation. These railways had monopoly positions in each city, but the development of affordable automobiles resulted in an alternative transportation option. Car owners began competing with the railroads for short distance customers. Called "jitneys," they charged the same fare as the railroads. However, the jitneys provided a better more flexible service, and railroads quickly began to lose business.

The railroads asked for and received protection from city governments. City governments benefitted from the railroad relationship because they provided road maintenance, often financed street lighting, and paid taxes. Politicians feared it might be more difficult to extract these subsidies from the less organized jitneys.

Cities reacted by requiring jitney owners to pay taxes and purchase liability bonds greater than those paid by the railroads. They also prevented jitneys from operating in densely populated (the most profitable) neighborhoods. The regulations were designed to eliminate the advantages jitneys had over the railroads. After about 10 years, the jitneys were regulated out of business.

We see the same type of government actions occurring today to handicap the ride-sharing companies. In France, for example, government regulators insisted that Uber drivers wait 15 minutes before picking up a customer. This requirement was later overruled by the courts. In response to this ruling, French legislators stepped in to pass additional rules targeted at Uber. Regulations were passed that prohibited any company other than traditional taxis from showing the current location of the cars online. They also required Uber drivers to return to their garage between customers. These rules are designed to eliminate Uber's advantages in the transportation market.

Why would governments implement policies that reduce competition and stymie innovation? Elected officials are most concerned about re-election. These types of policies capture campaign funds and votes from the industries being protected. Of course, politicians may lose votes if they prevent a new technology from being adopted in the market place. If the advantages of the new service or technology are small, or if the service is used by only a small group that is not likely to vote, politicians are more likely to ally themselves with existing firms and take steps to protect the status quo. Also, incumbent businesses have an established relationship with government officials, so the costs of lobbying government are low, making policies that favor incumbent firms more likely.

In the Uber case, many taxi businesses have a close relationship with elected officials. With any new technology, adoption takes time. Younger customers are often the biggest consumers of these new services, and that demographic group is less likely to vote. As a result, officials don't get a lot of political pushback if they erect barriers that hurt the ride-sharing companies.

Innovation often moves faster than regulators. Rather than imposing 20th century regulations on a 21st century technology, governments should instead remove the regulations that have protected the taxi industry for so long. They are no longer needed. Instead, let the taxis adopt the new technologies and compete directly with Uber and other ride-sharing businesses. While these types of reforms can be disruptive, they will result in a more efficient and higher quality urban transportation system.

Robert Krol is a professor of economics at California State University, Northridge, and the author of recent research published by the Mercatus Center at George Mason University on “Do Governments Impede Transportation Innovation?”

Questions for Review:

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2. How can Uber customers easily protect themselves? What does this show?
3. How does this situation mirror another one in the early 20th century?
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5. What overall lesson about governments and monopolies does this article point out?

This article may be found here: https://www.realclearmarkets.com/articles/2015/07/09/monopolies_are_good_when_government_creates_them_101738.html