# Substitutes or complements?: Taxis v Uber

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## Resumen

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## Texto completo

WHAT black cabs are to London, yellow **taxis** are to New York. From the charming checker cabs (pictured) of the 1950s and 60s to the workhorse-like Crown Victorias of the 1990s and 2000s, yellow cabs have been a fixture of the cityas streets, and a surefire way to inform viewers in the early scenes of a film that it is set in the Big Apple. But ever since **Uber**, the near-ubiquitous car-hailing app, arrived on the scene in 2011, the **taxi** fleetas days have seemed numbered. Catching a cab requires standing on the street until an available one happens to drive by, giving the driver directions in case of an unfamiliar destination and rummaging around for cash or wrangling with a finicky credit-card machine at the end. In contrast, **Uber** lets passengers summon a vehicle from a smartphone, informs them when it is outside, feeds the destination into the driveras navigation software and lets the rider walk out immediately upon arrival.

There is ample circumstantial evidence of the damage **Uber** has wrought on New Yorkas yellow-cab industry. The average price of one of the cityas 13,771 medallions (licenses to drive **taxis**) has fallen from an average of $1m during the summer of 2014 to $690,000 over the past three months, an aggregate loss of some $4 billion of value. Earlier this year city officials tried to come to traditional taxisa aid, by threatening to cap the growth of afor-hirea cars (the category that includes **Uber** vehicles) on the grounds that they were exacerbating congestionathough the government temporarily backed down after **Uber** launched an aggressive public-relations campaign against it, and agreed to delay the proposed limits until the completion of a traffic study in November.

Nonetheless, hard proof that **Uber** is the primary cause of yellow taxisa woes has been hard to come by. Not all **Uber** passengers would otherwise have hopped in a cab for a given rideasome might have taken the subway or bus, walked, biked or stayed at home. Moreover, **Uber** is not the only new source of competition for **taxis**. In 2013 the city both expanded the fleet to include apple-green aboro taxisa, which mainly serve areas outside downtown Manhattan, and launched the Citi Bike bicycle-sharing programme, which is now the largest of its kind in America.

Only now has the picture begun to clear up. In response to the cityas now-postponed plan to limit its growth, **Uber** recently published six weeksa worth of data on its service in New York, revealing the number of active drivers and rides at each time of day. And on August 5th the **Taxi** and Limousine Commission (TLC), the industryas regulator, released figures on every yellow-**taxi** journey from 2014 to June 2015 (the totals for 2013 had already been distributed). The new statistics allow for a preliminary answer to the hotly debated question of whether **Uber** is merely filling the gap in an artificially under-served market, as the company claims, or whether its army of part-time drivers is displacing full-time incumbents, as the **taxi** industry contends.

The data will provide strong talking points for both sides. The best news for the **Uber** camp is that the advent of its service has coincided with a significant increase in the total number of rides in New York. Although **Uber** has not shared statistics for 2013, a leak to Business Insider last year revealed an average of 140,000 **Uber** trips per week in the city during December 2013. Assuming a steady compound growth rate during the past two years, that suggests that there were 333,000 **Uber** rides in June 2013. Adding that to the 14.4m yellow-cab trips that month yields a total of 14.7m. In contrast, by the same month of this year, the combined sum for **Uber** plus traditional **taxis** was 15.8m. This 7.5% increase in two years makes clear that the market is not zero-sum, and that the benefits enjoyed by **Uber** and its customers and drivers have not come entirely at yellow cabsa expense.

However, the figures also suggest that the majority of Uberas growth has come from substituting for **taxis** rather than from complementing them. While **Uber** expanded approximately tenfold over the past two years, from a bit over an estimated 300,000 rides in June 2013 to 3.5m in June 2015, yellow cabsa hail volume has fallen by 2.1m during the same period. As a first approximation, this implies that just 35% of the growth in **Uber** rides during this 24-month period has been in addition to the preexisting market demand, leaving 65% that has replaced trips that would otherwise have gone to **taxis**. (A complete analysis would need to account for the growth trend in the industry before **Uber** arrived, any expected changes in demand from the overall state of the municipal economy and the impact of Citi Bike and boro **taxis**, among other factors, and could yield a substantially different ratio.) A further indication that **Uber** bears significant responsibility for the drop in cab hails is that the decline is most pronounced in the middle of the night, when passengers place the greatest value on Uberas advantages in convenience and comfort. **Taxi** rides between 11pm to 5am have fallen by 22% since June 2013, whereas trips at all other times are only off by 12%.

On the surface, a 30% crash in medallion prices over a one-year period might seem like an overreaction by investors to a 14% decline in ridership. But given the industryas high fixed costsaeven when cabs are stuck without passengers, their owners and drivers still have to pay for fuel and the amortised price of buying and maintaining the carathat drop in revenue probably comes almost entirely off the bottom line, representing a much bigger decline in profits. Moreover, medallion prices are forward-looking just like shares of companies are, and presumably reflect expectations that the bite **Uber** has taken out of **taxi** earnings is likely to grow. And the industryas economics could get even tougher if Lyft, Uberas smaller rival that recently set up shop in New York, decides to set off a price war in the Big Apple, as it previously did in San Francisco. Even if the city government does wind up imposing limits on for-hire cars, medallion prices probably have plenty of additional room to fall.