

New York City Taxi Medallions / By Lee Hachadoorian

In many large American cities that regulate the number of taxi cabs allowed to operate commercially on their streets, taxi cab permits take the form of a medallion bolted to the hood of the taxi. New York City instituted its taxi medallion system in 1937, after a period during the Great Depression when there were too many taxis pursuing too few customers. The medallions were sold by NYC to taxi operators, and could be resold in the secondary market. For much of the 20th century, the number of permits in NYC remained constant at about 11,000. The purchase price increased over this period, but from about the mid-90s to the early-00s the price of a medallion stayed pretty stable at about \$200 to \$250 thousand.

Some of the New York City taxi medallions are owned by the drivers, but many are owned by corporate owned fleets. In the 1990s, the city, for the first time in six decades, auctioned a limited number of new medallions. In 2004, the city began auctioning off even more medallions as a source of revenue. Between 2004 and 2014, NYC collected revenue in the amount of \$855 million from the sale of taxi medallions. According to a series of articles published in the New York Times, this period also corresponds to a run-up in medallion prices. At the peak of the market, medallions were selling for over \$1 million each. Then, in late 2014, the market plummeted. A 2019 auction of sixteen medallions saw three of them sell for under \$140,000, and 13 of them were not bid on.

Who purchased a medallion for \$1 million? Many of the purchasers, both at auction and on the secondary market, were taxi drivers who took out loans to purchase the medallions. The loans were variously obtained from credit unions, a lending company that specialized in medallion loans, large banks, and large taxi fleet owners. According to the Times, a small number of credit unions specialized in medallion loans. The loans were treated as business loans and did not benefit from the regulatory protections that apply to consumer loans. The credit unions specifically had regulatory carve-outs that let them operate very permissively; all of these credit unions were closed by Federal regulators following the collapse of the medallion market.

During the housing bubble that peaked in early 2006, many homeowners were encouraged to refinance, and take cash out of their home equity to use for other purposes. Similarly, as the price of taxi medallions increased, medallion owners were encouraged by lenders to refinance. Some owners used the cash to purchase homes or pay for their children's college tuition.

There are many ways in which the medallion loans mimicked the worst practices of the subprime lending that led to the 2007-2008 mortgage crisis. Common features included interest-only loans, hidden fees, low or no down payment, and little to no verification of borrowers' ability to repay the loans. The New York Times reported that some

borrowers may have been encouraged to lie on their loan applications, and the paper quoted a Harvard Law School instructor as saying “I don’t think I could concoct a more predatory scheme if I tried.”

Taxi drivers in New York City are overwhelmingly immigrants to the United States. Some borrowers, due to their limited English comprehension, may have not understood what they were signing. In some cases, borrowers may not have even been aware that they were signing a loan, or aware of how much they were promising to repay.

A number of people blame the taxi medallion market collapse on the competition of the ride-share services Uber and Lyft. The New York Times lends some credence to this explanation. But the paper also focuses on the actions of the city in making money off of the taxi medallion auctions, as well as on the fact that some fleet owners may have manipulated the market (one owner claimed to have overbid on medallions in order to increase the price of his other medallions), and on predatory lending practices. There are currently on-going federal and city investigations of lending practices, and one notorious debt collector has been arrested. The city has so far resisted calls for a bailout of the drivers who owe more than their medallions are worth.

While the New York Times investigation goes far in documenting predatory lending practices, this predatory lending was itself made possible by the city’s decision to offer medallions for sale in the way it did. That is, while the Times looks askance at the city’s choice to derive revenue from the medallion auctions, it still accepts the premise that the city should derive revenue from regulating certain kinds of activities. The problem is not in the revenue obtained; it is treating the medallion as an ownership right rather than a rent.

Economists define “land,” as a factor of production, as anything that is in fixed supply. This includes literal land, as in a parcel representing the right to use a particular location on the Earth, but also things like the broadcast spectrum. Broadcasters piling onto a particular radio band will interfere with each other’s signals; thus, while it doesn’t represent a location in space, it is a limited resource. By regulating the broadcast spectrum and stipulating that only one broadcaster can use the “address” of a particular radio band, the state creates a right with monetary value in the form of rent.

The governments (federal, state, and local) of the United States have tended to offer these rights, whether, for example, to broadcast spectrum and taxi medallions, as an ownership, like a property parcel. A buyer pays a fee simple, and has use of the property in perpetuity. As Henry George observed with respect to (literal) land: with economic progress these property rights will increase in value; at the same time, newcomers will have no choice but to pay rent to those who were there before them.

New York City, and other city governments, have a number of goals in providing taxi medallions. They want to make sure that there are not too many taxi cabs on the streets, both in order to manage traffic congestion in the city, as well as to make sure

that the drivers' earnings do not decline due to a disproportionate increase in competition for passengers. Additionally, they may want to bring in revenue. For six decades, New York City earned 'no revenue' from the medallions, because they had auctioned them for ownership. Any profit due to medallion resale accrued to the owners, not the city, until the city began auctioning additional medallions.

The city could accomplish all of these goals more effectively if the taxi medallions were leased rather than sold. The lease could be renewed annually or every few years. The number of cabs on the street could be regulated more responsively, with the number of medallions available increased or decreased on an annual basis. The city would derive a revenue stream from existing leases each year, rather than, as in previous decades, not receiving any revenue from the large number of taxi medallions that were sold. When New York City issued new taxi medallions, beginning in 2004 and then for the next decade, it received a large cash infusion. But the city seems to not have considered the future financial health of owner-operators. How much better would the city's finances have been if it had a revenue stream from taxi medallions leased during the previous six decades?

Moreover, how much clearer would the financial transaction have been to the taxi drivers if they were leasing a medallion annually, rather than taking out a loan to purchase a medallion? The New York Times describes the finances of one medallion buyer who had almost \$12,000 monthly revenue, but only \$1,400 in take home pay after more than \$5,500 in operating expenses (including vehicle maintenance and gas) and almost \$5,000 in loan repayment! Would this driver have been as enticed by the prospect of a medallion lease so as to purchase it for \$5,000? Would the city even charge \$5,000 per month for a medallion? And if the city did, wouldn't it be clearer to the driver that this was an operating cost, not a road to financial independence?

Many taxi drivers, like homebuyers during the housing bubble-turned-mortgage crisis, were trying to own a piece of the American Dream. They thought that owning this particular property, the taxi medallion was a means to accrue wealth. The drivers saw city advertisements emphasizing medallion price appreciation, and promising that with the purchase of a medallion they were on the way to a "worry-free" retirement. Analogous to what homebuyers thought about home values during the housing bubble, the drivers thought medallion prices had nowhere to go but up.

Cities certainly have a reason to regulate resource congestion, including land for housing, parking, business permits, and, yes, the number of vehicles for hire. This includes taxi medallions as well as ride-share services. Uber and Lyft certainly did not cause taxi industry woes, but it didn't help that a form of unregulated competition appeared when a heavily regulated industry saw its own regulators abdicating their responsibility and effectively elevating profit above other considerations.

Again, the fact that the city made money on these sales is not in and of itself troubling. Cities must get revenue from somewhere, and like a land value tax, a lease fee for a

congestion-causing product is not merely a valid choice, but a beneficial way to raise revenue, as it allows the city to use the price mechanism to achieve regulatory goals. In addition, while some drivers doubtless made money on medallion sales, as with housing, the market has winners and losers. In a market like this, the lenders and brokers seem to always win, while for the buyers and sellers it is like rolling dice in a casino. Offering medallion leases will make pricing clearer for drivers, eliminate excess profits for lenders and brokers, and raise needed revenue for the city itself.

For more information, see:

* [NYTimes: 'They Were Conned': How Reckless Loans Devastated a Generation of Taxi Drivers](<https://www.nytimes.com/2019/05/19/nyregion/nyc-taxis-medallions-suicides.html>)

* [NYTimes: As Thousands of Taxi Drivers Were Trapped in Loans, Top Officials Counted the Money](<https://www.nytimes.com/2019/05/19/nyregion/taxi-medallions.html>)

* [NYTimes: A \$1.7 Million Loan, \$30,000 in Income. Prosecutors Are Now Investigating.](<https://www.nytimes.com/2019/09/10/nyregion/nyc-taxi-medallion-investigation.html>)