The Washington Post
Democracy Dies in Darkness

Taxi medallions have been the best investment in America for years. Now Uber may be changing that.

By Emily Badger

June 20, 2014 at 4:22 p.m. EDT

CHICAGO — A taxicab is a car remade by government, modified dozens of ways by edicts within subsections of articles of the city's taxi code.

"Everywhere on this car has been regulated," John Henry Assabill says. "Look at it!"

He throws up his arms in the direction of his gold-colored 2012 Ford Transit Connect. The car's medallion number — 813 — is painted in black plain gothic figures (must be *black plain gothic figures*) on the driver's-side hood, on both passenger doors and, for good measure, on the rear. Inside, there is a camera mounted over the rear-view mirror, a dispatch radio bolted to the console, a credit-card reader snapped to the passenger headrest.

From the back of Assabill's seat hangs a sign — lamination required — spelling out the city's fare structure: $3.25 for the base rate, $2 for the airport departure/arrival tax, $50 vomit cleanup fee. Everywhere, there are mandatory stickers. "That one costs a dollar," Assabill says of a window decal reminding passengers to LOOK! before opening the door into the possible path of cyclists and pedestrians. "The fine for not having it is $100."

Then there are the holes. Several have been drilled into the roof to mount the top light that distinguishes cabs from other cars at a distance. Another has been punched right into the hood, bolting down the palm-size metal plate — the "medallion" itself — that gives Assabill the right to operate this cab, one of 6,904 in Chicago.

Every one of these requirements is a point of contention in the escalating battle between the cab industry and tech start-ups such as Uber and Lyft, which threaten to upend a pact that has long existed in Chicago and other cities: In exchange for all of this regulation, taxis have for decades held a government-backed monopoly. At the center of that bargain — and the debate over what form of transportation best serves the public — is the medallion.

Assabill, a 62-year-old immigrant from Ghana, and his wife own four. Each one grants him a license, which he's free to sell, to operate a single cab among the limited supply in the city. As of last summer, a medallion in Chicago fetched around $350,000, a sum that would buy a comfortable condo overlooking Lake Michigan — and one that buyers often finance as they would a mortgage.

In New York, taxi medallions have topped $1 million. In Boston, $700,000. In Philadelphia, $400,000. In Miami, $300,000. Where medallions exist, they have outperformed even the Standard & Poor's 500-stock index. In Chicago, their value has doubled since 2009.

Now, however, a market built on restricted supply is showing cracks with the arrival of start-ups that turn anyone with a car into a driver for hire. In Chicago, those cracks have triggered fears that medallion values are tottering. They have given rise to a high-stakes lawsuit, tentative new regulation and a glimpse of how this same clash between old power and new technology could play out in other cities.

Throw open the market — to amateurs, part-timers and the underemployed (and whatever they drive) — and medallions lose their exclusivity. Without which, they lose their value, too.

"As soon as you do away with limited access, over a period of years, the taxi industry will wither away and die," says Michael Shakman, a Chicago attorney who is suing the city on behalf of investors and companies whose business would not exist without medallions. "You will be left with whatever the free market generates by way of transportation."

That, Uber says, is precisely the point. The five-year-old San Francisco tech company — and the envy of Silicon Valley — has rapidly and strategically infiltrated taxi strongholds by enabling consumers to hail rides electronically from their smartphones.

Uber and companies like it argue that regulations intended for taxis don't apply to a service no one could have envisioned when the laws were written. And consumers don't seem to care what those laws say. They are piling in and leaving cities to chase after a fast-expanding business.

The taxi industry warns that without medallions, cities will lose their control over an essential public service. Uber counters that medallions have created a cartel that operates for its own benefit — and not in the best interests of the public.

"If we actually cared all that much about what the consumer experience was, is this the system we would have built? Absolutely not," says Corey Owens, Uber's head of global public policy. "People talk about Uber as this revolutionary thing. The technology is very sophisticated. It's really cool. But I think what's truly disruptive about Uber has to do with economic incentives."

Any great shift in economic incentives, then, would ripple beyond the passenger at the curb or the driver in a car. The medallion stakeholders are many. Assabill is just one kind: the immigrant owner-operator whose retirement is tied up in this slim piece of metal. But he's in a minority. Deep pockets run this market. The system in Chicago and elsewhere is dominated by large investors who rely on brokers to sell medallions, specialty banks to finance them and middle men to manage and lease them to drivers who own nothing at all.

Together, they're fighting to protect an asset that was worth about $2.4 billion in Chicago last year.

"The medallion owners seem to be of the opinion that they are entitled to indefinite appreciation of their asset," Owens says. "The taxi medallion in the U.S. was the best investment you could have made in the last 30 years. Will it go up forever? No. And if they expected that it would, that was their mistake."

For its part, Uber, still a relative upstart, stunned the financial world this month with a fundraising round that valued the company at $18.2 billion — five times its value a year ago.

The moguls of medallions

The "customer parking" signs outside the Yellow Cab garage in northwest Chicago are one of the few indications of the unseen economic structure of the city's taxicab industry. These spots are not meant for passengers but for drivers who step inside to cash out their credit card receipts, or to pick up stickers verifying their insurance.

step inside to cash out their credit card receipts, or to pick up stickers verifying their insurance.

In Chicago, drivers are the customers of medallion owners and affiliation companies like Yellow Cab that provide insurance, branding and dispatch services. Passengers are the customers of drivers.

Most medallion owners never interact with the public. Their cash flow doesn't come from passenger fares; it comes from lease fees that drivers pay to access medallions and the vehicles they are attached to. This means that a medallion owner's bottom line is largely unchanged whether a driver leasing his medallion gives 20 rides this week or 200.

This is not how the industry has always been structured. And it's not how taxis operate in Washington, a freewheeling market without medallions where more than 100 companies operate, or in Baltimore, a city with limited cab licenses but no property right attached to them.

Medallions — part policy tool, part financial asset — date to the early 20th century. Then, the industry was marked by a vast oversupply of vehicles, reckless driving in competition for passengers and wildly fluctuating fares. Cab drivers were broadly synonymous with criminals, known in Chicago and New York to steer passengers to prostitutes and illegal liquor. "A lot of shady characters," as historian Graham Hodges puts it.

A New York Times article in 1923 described the fleet on city streets as a "yellow peril." But it presciently imagined the great value that could come from creating an expensive and limited number of taxi permits. For an owner, the Times speculated, a license "might become as valuable in his family, relatively speaking, as a seat on the Stock Exchange in the family of a broker."

City officials, though, who wouldn't begin to limit the number of cabs until the 1930s, never foresaw that they were creating such a powerful asset. In many cases, the limits they set stayed in place for decades — further driving up the value of each license as populations and demand grew and prompting a question that would frustrate consumers for decades: How is a bureaucrat supposed to know the right number of cabs for a city?

The industry shifted in two major ways in the second half of the 20th century: Cab companies turned drivers into independent contractors, and cities allowed medallions to be leased to cabbies for a fee. Today, medallion managers serve much the same function as property managers in the residential rental industry: A hands-off investor with many medallions can hire a management company to find drivers to lease them.

In New York today, there are four drivers for every medallion, all but ensuring that an investor who owns one can find drivers to lease it 100 percent of the time.

"These are basic economic principles: When demand exceeds supply, it's a very valuable asset," says Rich Antonacci, the chief operating officer of Signature Financial, a New York company that finances medallions, among other businesses.

In Chicago, lease fees can run as high as $74 for a 12-hour shift, $707 for a week. But the value of medallions can rise even when that cash flow doesn't, if medallions still look more promising than other investments. Since the recession, alternative investments have grown less attractive, fueling an urban legend that's actually true: Medallions have become a better investment than gold.

"The reason for that is there's a ready market for them," says Pat Corrigan, a former cabdriver who, with a partner, now owns 50 medallions in Chicago, as well as four local cab affiliations and a medallion financing company. "There's always cash flow. There's always financing available. There's a liquid market — until Uber came along."

When Uber was founded, it offered only upscale town-car rides through a smartphone app. It soon expanded to allow users to book traditional taxicabs.

The real disruption came from Uber's next service, UberX. "Ridesharing," as Uber and its competitors Lyft and Sidecar call the service, enables people driving a private car to find and book passengers for a fee that's calculated, similar to a taxi fare, based on time and distance.

The threat to medallion owners isn't that they'll lose passengers to these services. It's that they'll lose drivers — who have been aggressively courted by Uber. A taxi driver who doesn't own a cab and medallion can earn comparable fares driving UberX passengers in his private car, without paying a lease fee.

"Without the drivers, we're dead," Corrigan says. "We have no money."

And with lease fees uncertain, financiers are retrenching in Chicago. "This is going to be a self-fulfilling prophesy," Corrigan says. "The less liquidity, the less activity; the less activity, the less liquidity. It's a horror show. And it's all because we're losing drivers."

Medallion interests grew really skittish last fall, when Chicago announced an auction of 50 new medallions to raise revenue. The city set the minimum bid at $360,000, just above what most owners considered the market price. The auction was widely publicized — and apparently no one came.

In the taxi community, it is assumed that the city's price drew no buyers. The city publicly records all medallion sales and transfers. But it never announced the results of the auction. Eight months later, a spokeswoman declined to comment on what became of it, saying "it is not finalized yet."

For investors, the episode was ominous.

"At that point," says Shakman, the attorney, "it became apparent to everybody — if it hadn't been apparent before — that something fundamental had changed in the marketplace."

In February, he sued the city on behalf of medallion owners, brokers, managers, financiers and cab affiliations. The suit argues that the city has violated their rights by allowing new companies to provide an essentially identical transportation service without complying with existing regulation. By eliminating the exclusive right of medallion owners to provide that service, the suit argues, the city has taken away the thing that gives medallions their value as property under Illinois law.

"If you think it's an improvement to change the rules, maybe you can do that," says Edward Feldman, a partner with Shakman. "But you have to provide compensation for the property rights you're destroying. And that's the Constitution."

Medallions represent a promise, he says. And on that promise, medallion owners took out mortgage-size loans. If the city backs out of that promise, it must make them whole.

The suit warns that the public will be hurt, too. Dismantle the medallion system, the industry argues, and the taxi market will go back to the chaos of the 1920s. Fares will fluctuate. Anyone with a clunker will get into the business. Disabled passengers, the poor and minority neighborhoods will be left behind as a flood of part-time drivers cherry-picks downtown rides at rush hour and fares to the airports.

Shakman and Feldman say more drivers will mean worse service — and that if anyone can do this job part-time, no one will make a full-time living at it. There is some precedent for this warning. In the 1970s and ’80s, a wave of mostly Sunbelt cities deregulated their taxi industries. In those cities, fares went up, the quality of service went down, congestion increased and driver income declined — all suggesting that taxicabs evade the principles of free-market competition.

Of course, there was no Uber or Lyft in the ’80s, no digital marketplace capable of linking in real time people who want rides to those selling them.

The new breed of drivers

Dan Burgess cues up his phones: the iPhone 4 sent to him by Uber that he mounts on the windshield to the left of his steering wheel, and his personal Android running Lyft and Sidecar, attached to an air vent on his right. Often, in search of a fare, he runs all three apps simultaneously.

“You could drop me in any city in the world, and I could do this,” Burgess, 46, says as he navigates through downtown to collect a Lyft passenger. “You don’t need an encyclopedic knowledge of the city any more. All you need is Waze or Google Maps.”

Those apps are rigged to whisper driving directions into his Bluetooth earpiece. The orchestrated effect of all this technology is brilliantly deceptive. When a passenger gets in his car, Burgess asks for an address. He repeats it aloud, as if making sure he’s caught the details correctly. In fact, he is sharing it with Victoria, the British voice in his ear who tells him where to go as he chats with passengers.

So it seems as though Burgess has an encyclopedic knowledge of the city. This illusion raises unnerving questions for cabdrivers: How much professional expertise is really required once technology takes over the navigation, once Google Maps steers drivers away from traffic jams?

“The Bluetooth headset changes the world. I never put this to my cheek,” Burgess says, gesturing to his Android.

By all other appearances, his is clearly not a professional operation. Burgess drives a 2005 Hyundai Elantra hatchback, a stick shift with scratch-off lottery tickets in the cup holders and burned death-metal CDs in the dash. His odometer: 144,600 miles.

He has shaggy hair and is wearing a Cubs T-shirt and light-wash jeans. He has the bearing more of an affable bartender than a stoic chauffeur, as befits his other business: Burgess organizes trivia games in suburban bars. He drives about 10 hours a week for the extra money to maintain his car, and for the chance to tell people about his trivia games.

A certain segment of the riding public — you can imagine well-heeled women leaving the Symphony Center — may not jump in with him. But this new breed of driver has found that new passengers are emerging, too.

Burgess’s first fare of the evening is Mariella Monterrubio, a 31-year-old who wants a ride home to Humboldt Park. She rides Lyft twice a day, to and from work. This is her commute, at anywhere from $9 to $20 each way. The cost sounds impractical for a paralegal millennial. But it’s less costly than gas, insurance and monthly payments on a car. Monterrubio got rid of hers a few months ago, and paying strangers for a ride is faster than taking a bus to the train. It’s cheaper than taking a taxi — if she could even find one in her neighborhood.

Lyft, like all of these services, removes the awkward element of commerce from a transaction that’s supposed to feel like a ride given between friends. Burgess quotes her no price. Monterrubio never pulls out her wallet. Burgess ends the ride on his app once he drops her off, and Lyft calculates a fare — $10, plus a $4 tip — that’s automatically paid the ride on his app once he drops her off, and Lyft calculates a fare — $10, plus a $4 tip — that's automatically paid from her credit card.

Burgess drove her 6.7 miles into a west side neighborhood largely home to Mexican, Puerto Rican and Salvadoran immigrants. At about six in the evening, there are no cabs in this part of the city.

For many consumers using Lyft or Uber, these services are not merely an alternative to the taxi industry; they're the solution to a problem exacerbated by it.

The lease fees a taxi driver pays in Chicago create certain incentives. He must take the most profitable trips: the short, plentiful fares around downtown, or the big payoffs to the airport. He doesn't want credit card fares — required by law in Chicago — because the processing fees eat into his revenue. He refuses rides to the South Side or pickups in Humboldt Park — a practice forbidden by law — because drivers loathe long-distance "dead-heading," or one-way trips into a part of town where there's little guarantee of a return fare.

"If in fact the taxis were doing what they were required to do with providing universal service, why would Uber, Lyft and Sidecar exist?" says David Estrada, Lyft's vice president of government relations. "The only reason we exist is because current regulations and the current system is not serving people."

Once Monterrubio got in Burgess's car downtown and gave her address, the Lyft app gave Burgess no option to back out of the ride. Once he got to Humboldt Park, he had every reason to look for another fare there — and a tool for doing so.

The taxi industry criticizes these apps as elitist, serving only consumers with credit cards and smartphones. But its own record in providing universal service — including to low-income and far-flung neighborhoods — appears patchy in public records.

About 12,000 complaints about taxi service are filed with the city every year. Between Jan. 1, 2012, and mid-April of this year, city data show that 1,688 of those complaints were about cabdrivers who refused a pickup because the trip was too short, or too long, or going to the wrong part of town.

Regularly, the city still fields complaints like this one: "Driver said he did not go to black neighborhoods."

The high value of medallions is supposed to deter license-holders from violating the law — punishment for which would mean losing a $350,000 asset. But since 2006, according to city records, Chicago has revoked only five of them.

What best serves the public?

The tension in Chicago derives from two pinch points: a legal debate about property rights and a policy debate about which industry models best serve the public.

In so many other industries — phones, cars, computers, software — the chance that new technology might devour a company's market share is built into the risk of operating it.

"When it's purely private, we have no trouble with the idea that a technological change, an innovation, an advancement can destroy billions of dollars of value," says Jerold Kayden, a lawyer and professor of urban planning at the Harvard Kennedy School and the Harvard Graduate School of Design. "We simply attribute that to operating in the private marketplace. So what's the difference here? Government is involved."

If medallions lose their value, the government would arguably be taking away something that existed only because the government created it in the first place. Shakman and Feldman say this bolsters their case. But this scenario is not quite eminent domain. It is not perfectly akin to government taking land for a public benefit, say, to build a highway, the more classic case demanding compensation under the Constitution.

This legal argument suggests that government must compensate businesses harmed by new regulation — a clear deterrent to ever changing the law, as Chicago is now trying to do.

The city's position has been to create space to at least see what happens next. "There's a lot of innovative elements to ridesharing," says Michael Negron, the chief of policy in the mayor's office. "And I'm sure that taxis and black car services will incorporate elements of it. But we don't have enough data to really know whether ridesharing represents the future of transportation."

The taxi industry and its competitors also fundamentally disagree on why current regulation exists — why Assabill's medallion number must be painted just so or why his car must be newer than four years old.

Assabill describes these regulations as stifling. Corrigan says they ensure a level of safety that the public should demand of Uber, too.

Lyft's Estrada describes these regulations as a "weapon." The more rules that exist, the higher the barriers to entry for new competitors. The more deeply the regulation is embedded, the harder it is to change it.

"At the heart of our economic system is the idea of change, and that government can't be in the business of protecting old models," says Lee McGrath, an attorney with the libertarian-leaning Institute for Justice that has jumped into the lawsuit, representing drivers like Burgess. "If there were medallions associated with the buggy whip, we probably would still have them today."

Uber and Lyft say they want to strip away regulation that's primarily anti-competitive and instead focus regulation on the things that matter, like safety and universal service. Medallions were created to do just that; they were a means, not the end.

But what if cities no longer need to restrict supply or create a financial asset to produce those other outcomes?

"Regulating by proxy is really an idea whose time has run out," Owens says. If cities want to ensure vehicle safety, they should require inspections, not a maximum vehicle age. If they want to protect passengers, then require rideshare companies to carry commercial liability insurance.

Technology at the same time could change not only how people get around, but also how cities monitor companies that provide that service. Uber's chief product isn't really rides; it's data. Uber keeps a GPS trace of every ride in every neighborhood, of every driver and passenger.

If a driver on call repeatedly ignores certain pickups, Uber knows that in a way that Yellow Cab does not. If a neighborhood perpetually has passenger demand but no driver supply, Uber's data reveal those patterns, too.

Uber, Owens says, doesn't want to hand over bulk data that would violate its users' privacy or allow competitors to reverse-engineer its software. But Chicago will soon be asking for more targeted, anonymized data: the number of customers who receive wheelchair-accessible rides; the number of rides requested and accepted in certain parts of the city; the number of hours and miles drivers operate in Chicago.

In theory, the data that allow Uber to create a new kind of open market for transportation should allow cities to learn if that open market is good for the public.

“This is where we’re finally aligning the financial incentives,” Owens says. “My goal here is to make sure drivers can earn as much money as possible. If drivers are earning lots of money, that means passengers are getting lots of service. If drivers aren’t earning lots of money, then I don’t do well as a company.”

Groping toward a new system

UberX, Lyft and Sidecar have strategically entered some cities and not others, either on the gamble that officials will go along with their arguments or on the explicit warning that they will not. New York has kept “ridesharing” at bay. The state of Colorado has been receptive; the state of Virginia has sent cease-and-desist letters. Miami-Dade County regulators have declared “ridesharing” illegal, but both Uber and Lyft are tiptoeing into town anyway. Officers promptly launched sting operations to impound Lyft vehicles.

Early this year, Chicago signaled that it wanted to fill this “regulatory vacuum,” recognizing “transportation network providers,” even as state lawmakers wrestled with their own legislation. In May, Chicago’s City Council approved the new ordinance. Companies whose drivers average less than 20 hours a week will have to conduct city-approved driver background checks, vehicle inspections and random drug tests. They’ll have to provide commercial liability insurance up to $1 million.

If transportation network companies tip over that 20-hour-a-week threshold — as seems unlikely — their drivers will face more stringent rules. Either scenario, though, effectively sanctions a transportation market now open to an unlimited number of drivers and vehicles.

The city ordinance, opposed by the taxi industry, only heightened uncertainty in the medallion market. The new rules aren’t scheduled to take effect for several months. In the meantime, a state bill that would preempt parts of Chicago’s law and is more favorable to the taxi industry is awaiting the governor’s signature.

For now, new credit in the city’s medallion market has largely disappeared. Signature Financial says it has “paused” its financing in Chicago. Owners like Assabill are growing more nervous. Small-time investors, he says, can’t handle any jitters in the market.

Assabill is worried, too, because he manages a small cab affiliation created a decade ago by several dozen Ghanaian immigrants who had acquired their own medallions. Assabill himself was awarded his first one by the city in 2004, a prize for outstanding service that year. Overnight, he was handed an asset then valued at $50,000. He borrowed against that first medallion to buy three more.

Now a generation of Ghanaian cabdrivers in Chicago is approaching retirement. Assabill is a leader of this community. In the past two years, he helped broker an agreement for 40 young Ghanaian men — mostly in their 20s, none of whom has a home mortgage — to buy their own medallions with little or no money down.

“I recruited them,” Assabill says. “I told them, ‘If you are a young man at this age and you have a medallion, you are young and you have a lot of energy to work more hours. By the time you get weak, your medallion is paid for. And then you can retire on it.’ ”

Many of these men now fear that they owe more than the medallions are worth. They want to know if they should walk away from them. “We didn’t know it was going to be like this,” Assabill says.

An investor like Corrigan has both more and less at stake: His investment in the industry is much larger, but his ability to withstand what's happening is greater, too.

"I suspect the medallion will find its own level," Corrigan says. "It will not be $380,000, but some other number. And so long as there's a number that's steady, that can be relied on, the industry may have a chance to come back."

In that scenario, cabs and Uber co-exist, one with street hails, the other e-hails, one catering to the businessman who doesn't want to get into Dan Burgess's car, the other gaining market share among millennials. Maybe Uber forces cabs to modernize — and cities to free them to do that. Maybe a savvier taxi industry elbows Uber back into a niche, as the cost of regulation eats into a business model that's so far been built on avoiding it.

Or maybe Uber is right, and ultimately the public will choose a simpler marketplace of two parties: passengers and drivers.

Amid these unknowns, Assabill foresees one certainty: Small-time medallion owners will leave, changing the makeup of the industry yet again.

"Once the prices stabilize, a lot of us will sell everything we have and try to get out of the business," he says. And as for the young men just getting into it? "For now," he said, "they are waiting for me to tell them something."

Christopher Ingraham and Alice Crites contributed to this report.

Related stories:
Investors think Uber is worth $17 billion. Why that's not entirely crazy.
Why 'trust and safety' are no longer free on UberX and Lyft
Why Uber is joining the race to dominate urban logistics

By Emily Badger

Emily Badger was a reporter for Wonkblog covering urban policy. She left The Washington Post in September 2016.

Twitter