



## Episode 416: How Uber and Other Innovations Undermine the State

Guest: Jacob Huebert

**WOODS:** Let's talk about some of these ways in which new technologies are usurping powers that the state had, for so long, claimed for itself, and the social functions that the state had claimed, that without it, where would we be? Everybody would be feeding us a poisoned sandwich in some dive somewhere, some terrible diner. We'd never come out alive, that sort of thing. It's interesting to see how technologies are just very quietly taking over a lot of these functions. And we always knew as libertarians that we didn't need the state for these various things, but now we're just seeing it right in front of our faces.

Let's start with something like Uber, which is a key example. And of course we've seen the state's response in so many jurisdictions to Uber. Most people, I think at this point, know what Uber is, but why don't you begin by giving us an overview of what the service is and what makes it preferable to, say, a traditional taxi service?

**HUEBERT:** Well, Uber is an app for your phone, where you can push a button, and in a few minutes, a car will show up to take you to wherever you might want to go, if you live in one of the many cities where it operates across the country. And before the car gets there, you can track it on a map that will show you how close it is to where you are. It will show you a picture of the driver, his license plate number, and what kind of car it is, so you know exactly who you're dealing with in advance, and you have a pretty good idea of when they'll be there. And typically, it is cheaper than a taxi cab, as well.

And of course it's better, because anyone who's ever called to have a taxi cab come pick them up likely knows they likely won't show up as soon as you would like; they might not show up at all if they see somebody else they'd rather pick up. And if you have a problem with them, if the service is poor, there is really not much you can do about it. There's no -- the city you live in probably has some number you could call and leave a message where you complain, but of course, we all know that doesn't amount to anything in almost all cases. And in contrast, with Uber, after you take a ride, you get to rate your driver. And drivers who fall beneath a certain threshold, which is actually very high, get kicked out of the system. So they basically have to offer perfect service on a consistent basis, or they won't be allowed to drive at all.

So that's a wonderful thing for consumers. It's also a wonderful thing for the people who do the driving, because anybody can do it in their own personal vehicle. Uber provides you with an iPhone with their app installed, and you can just be in business immediately, giving people rides -- if you pass a simple criminal background check and that sort of thing. So it provides a great opportunity for people who can't work a 9-5 for some reason, people who need to earn extra money. It's just been a great thing for consumers and drivers who want to give people rides, alike.

Now, you can imagine that this was not well received by many city governments, who thought they had permanently prohibited that sort of thing from happening with their laws surrounding taxicabs. Since around the 1930s or so, major cities in the U.S. have restricted entry into the taxicab business, often through a medallion system like they have here in Chicago and in New York City, where you can only operate a taxicab if you get a medallion from the city government. And the city governments don't issue very many of them, which means that the people who own them can earn profits well above what they could get in the free market.

And it also means that those medallions, which can be bought and sold, have historically been very valuable. In Chicago in the past decade or so, for example, they sold for more than \$300,000 a piece. In New York City a couple of years ago, they were going for more than \$1 million. And what they are is essentially the right to have the government privilege to operate a taxicab. And that's obviously bad for consumers, because it restricts the supply of taxicabs available. It makes them hard to get; it makes prices higher than they otherwise would be.

It's also bad for the cab drivers, in general, because they're not the people who own these medallions. The people who own the medallions are big taxicab companies or sometimes investors, who just buy them as an investment and personally have nothing to do with the taxicab business. And then the drivers have to pay to rent these medallions from their owners, and a huge chunk of the money that they take in through fares, they have to turn over as rent for their medallion. And that often takes a substantial portion of their income. There was a study done in Chicago recently that showed that taxicab drivers, after they pay for their medallions, make less than \$5 an hour. Or in the rare case where a taxi driver decided to take out a loan and buy his own medallion, by the time they make their payment on that, they're making less than \$1 an hour. So the medallion system is a really bad deal for everybody involved -- except, of course, the handful of people who enjoy this government privilege.

**WOODS:** Well, let me just explain. With the medallion system, what's happening is the reason that they're so expensive is that the medallion has -- and this would just be basic economic analysis -- has capitalized into it the flow of returns, the flow of income that will accrue to the taxi company in perpetuity -- capitalized in perpetuity. So that you're getting a higher than normal rate of return, because it is a semi-monopolistic system. There's no free entry into the taxi system. And so you're getting more than you would otherwise get, and all of that dough that you're going to get in the future then gets capitalized into the medallion system. It becomes very hard for people to compete; obviously no individual entrepreneur can come up with that kind

of dough, and that's the system that they have, as you say, in places like New York and Chicago.

But what would you say to a taxi company that comes back and says, it's not fair that Uber can operate without that, because -- look, maybe you don't like the system set up in New York, but those were the rules we had to deal with, and our only crime was establishing a system of getting people from A to B. We haven't really done anything bad or wrong, and now these people get to come along and reap all these profits, and yet we're the ones who had to expend all the resources? It doesn't seem right. Is there anything to that kind of claim, morally?

**HUEBERT:** Not really. What's unfair, of course, is that they had these privileges in the first place, and that they've been able to earn monopolistic profits as a result of that. They've already gotten more benefits than they deserve from having these medallions. And of course, they urged this system to be put in place in the first place, and they want it to stay in place, because it allows them to earn those unfair, excessive, monopolistic profits. So for them to come along and say, well, we expected this to be around forever, so you have to keep it around forever, doesn't make much sense. And the market doesn't guarantee that everybody gets to keep making the same kind of profits they've always made. You have to do that by serving consumers, not by getting a special governmental privilege. So if some competitor comes along and makes those medallions worth less, that's their problem. It's like anything else you invest in in a business -- it could lose value. Except it's not like anything else, inasmuch as it's a special government privilege that you shouldn't have had in the first place.

**WOODS:** Let me say a little something about my own experiences with Uber, because I've used it probably five or six times, and for the most part, I've been very happy with it. There was one time, I was in New York City, and it warned me that under current conditions, it was operating on a "double the fare" basis -- so you have to understand that, given the pressure on the resources right now, the fare is going to be doubled, and if you consent to that, then go ahead and do it. So I thought, ah, how bad could it be? It was pretty high.

But for the most part, it's extremely inexpensive; it's extremely efficient. They're there very quickly. They're in contact with you. The app makes it very efficient, and they know exactly where you need to go, and it's a very comfortable car. And because I'm so interested in this stuff, I talk to the driver, and I want to know what it's like working in this system and how much he enjoys it, and I get a lot of former taxicab drivers who have shifted into this. And I have nobody say a single word against it. They're all very, very happy with it.

And the way it works is it's basically built in to your PayPal account, so that even the payment of money is just automatic -- which is a little tricky, unless I'm not understanding how the system works. It's not clear how to leave a tip. And I suppose you could do that in one way or another, or maybe it's baked into the price somehow, but I always feel bad about that, especially because the fare -- except that one time -- is always, in my experience, considerably lower than a traditional taxi fare, where I'm

waiting for the taxi much longer. In New York City there are taxis everywhere, I suppose, most of the time. But in other cases, like in Houston -- where you're not just standing on the street, and there are 500 taxis going by -- you're always waiting a lot longer for the traditional taxi than for the Uber car. So I do want to compensate them; I do want to leave a tip, so I'll often just hand them money in cash. But I've benefitted from it tremendously. Has that been your experience? Have you made a lot of use of it?

**HUEBERT:** Absolutely, I've used it countless times and always had good experiences, and the drivers always tell me they're thrilled with it. You know, you'll read some attack from the Left -- Salon.com or somewhere like that -- where they'll try to act like Uber drivers are exploited, but if that's the case, they're pretty good at faking a great deal of enthusiasm for their jobs every time I talk to them.

**WOODS:** Exactly. It does not seem like this is some company policy, you know, that's enforced from the top.

**HUEBERT:** No. And you mentioned the prices going up, and that maybe being a sort of drawback. But of course, it's a great thing that prices can go up, because that means that when there's more demand, the supply can come in to meet that demand.

**WOODS:** Oh yeah, I agree completely. Absolutely, I'm not in any way against that; it's just that, nevertheless, as an individual consumer, I was a little bit stung by what the fare wound up being. But it's not like they didn't warn me.

**HUEBERT:** Right, and the government imposes price controls on taxis. It sets the rates, which means that the rates are often too low, and there aren't enough taxis around.

**WOODS:** Right, I'd rather have a high rate and actually be able to get to where I need to go, yes.

**HUEBERT:** Right, we'd rather have the free market. So with this taxi medallion system, it was in place for decades, and people really couldn't figure out how to break through it. It's one of those government schemes, where a small group benefits a lot from the privilege, and then the costs are dispersed among the population, which maybe doesn't really appreciate how much this scheme is costing them, because it's not necessarily obvious to most people who don't know about taxi medallions and don't understand economics. Some people tried to challenge these schemes in court. I've done some work along those lines. And that can chip around the edges a little bit, but courts have basically said that these medallion schemes are okay.

And so it wasn't clear how anybody could ever do anything about this, until Uber came along, and just did it. It would seem that what they do is providing a taxi service of a sort, that you think would be illegal under cities' laws that give taxis these monopoly privileges. But Uber just didn't worry about that. They just blew into city after city and started doing it -- started signing up drivers who wanted to make money doing this, and became very popular, very quickly. So by the time the government figured

out what was going on, there was already a huge percentage of the population that knew about the service and loved it and didn't want to have it taken away.

So here in Chicago, for example, the taxi lobby ran to the city government, of course, and probably expected that the City Council would do its bidding as it always had. But they held hearings on this thing, and you found Chicago City Council, who are normally the worst sort of statist, defending Uber and basically making free market arguments about how competition is good and important and provides us with newer and better things. And the reason they were doing it was not because they've become free market ideologues, but because they're hearing from their constituents that they had better not touch this service that they like so much. And of course, these City Council members probably also take advantage of this service themselves and know how good it is and don't want to lose it. And so the taxi lobby was really pushed back rather hard and rather quickly here in Chicago.

So then what they did was ran to the state government and tried to get the state government to crush Uber for them. And it's kind of a smart strategy, because here in Illinois, of course, in Chicago you have Uber, but then in the rest of the state, which is mostly rural, you did not. And so you figure the legislators out there don't know about the service; their constituents don't care about it, so that maybe would be a winning strategy. Fortunately, Uber and others, including our office, were able to push that back and make Uber basically legal in the state. It's not an ideal situation; there are regulations that are not necessary at all or justified at all, but nonetheless, it wasn't completely crushed, and the taxi monopoly is suffering as a result.

**WOODS:** Well, I've got two other things I want to raise with you about this, though. Number one, haven't I heard about some jurisdictions where they have restricted Uber? It seems like it would be hard to run a company, when at any moment, you could be completely shut down in one of your markets. And secondly, I've heard that there is hanging over the head of Uber, some kind of insurance and liability issue, in terms of people in the car getting in an accident and being physically harmed, and that there's some kind of problem that that could pose for Uber. Have you heard anything about that, and is there any way to resolve that?

**HUEBERT:** Yeah, Uber has been shut down in some places. The one that stands out in my mind is the state, where you are, of Kansas, where I understand that they've pulled out completely, because the state wasn't going to have free enough rules for them to operate in the way they want to operate.

**WOODS:** Right, the governor wanted to keep Uber and leave it alone. It's the resentful leftists who hate the governor. And the governor's not perfect -- Brownback, I would not want him as president. He would have a terrible foreign policy; he'd be terrible on everything a president can do. But in terms of the things a governor can do, he actually has not been that bad. I'm going to get some feedback from people on that, but -- anyway, I don't want to get sidetracked into Brownback. But yeah, this was entirely envious leftists. That was entirely what it was.

**HUEBERT:** Yeah, so they've run into that. But most places -- of course, Chicago politics, Illinois politics have been dominated by the Left, and Chicago City Council is all to the extreme left, from our perspective. But nonetheless, when there's a sufficient percentage of the population that's demanding it, it seems like, pretty consistently, Uber has been able to get its way.

And of course, unfortunately, they have had to hire lobbyists, hire political consultants and do all that sort of thing, which you can't really blame them for, because they are trying to run a business; they need to survive, and they need to, now that the government has noticed them, negotiate something where they can keep doing what they want to do. And that presents new problems, because what you have are situations like here in Illinois, where, yes, Uber is legal, and ride-sharing services like Uber are legal, if they are just like Uber. But if you come along and innovate a little more, then you're going to fall outside of the framework that's been enacted to allow Uber, and you're going to be back at square one.

But you know, we could just see that cycle repeat, where somebody comes and blows in with something new and better, and the government has to accommodate that. And I think we're going to see this in many other areas -- which we can't necessarily predict yet, because we're not entrepreneurs -- where people are just going to start offering things, and government is just going to have to deal with it.

Another example of that sort of things is AirBnb, which is the website that lets people rent out a vacation home or a room in their house or an apartment or whatever for one night at a time or several nights at a time, more or less like a hotel room. And it's another service that works very, very well. I've used it numerous times to get rooms in different cities, and they're always clean and comfortable, and it's just as smooth as it can be -- easier, really, than a hotel, because you don't have to check in and check out or deal with any of the inconveniences that the hotel process might involve.

And that's another thing where, if AirBnB had gone around to all the state and city governments and said, would it be okay if we did this; would you mind? Of course they would have said, well, no, all these houses have to be inspected by our hotel inspectors, and you have to comply with all these other regulations on businesses that are open to the public, and it wouldn't have gotten off the ground. But instead, they just start doing it, and then you have governments just trying to figure out how they can sort of get a little something out of it without shutting it down, because nobody wants them to shut it down. And so they'll tell AirBnb, okay, well you've got to collect tax on the rooms. But other than that, they're just going to look the other way and tolerate this. So that's another example.

**WOODS:** Well, I like the example we talked about just before we went on, because it's an app we all use. And I like to think of myself as somebody who is always finding the libertarian angle in various things, and somehow, I totally missed it on Yelp -- and it's so obvious, in terms of quality control, and, in fact, let me let you handle that, because you explained it so beautifully before we went on, I thought, how blind could I be that I missed the most beautiful aspect of Yelp?

**HUEBERT:** Well, you know, the free market is pretty good at preventing fraud, preventing consumers from being ripped off, because a business that rips off consumers won't be able to attract them for very long. But there are some exceptions to that. There might be certain types of businesses that cater to people who just pass through town -- tourist-oriented businesses or restaurants on highways or that sort of thing -- where they might be able to get away with giving inferior service or ripping people off. And historically, there wasn't much anybody could do about it, because you're not able to communicate to the next person who comes along that this business does bad things.

But now with Yelp, we don't have that problem anymore. Before you go in to any business, you can know what other people have said about that, and whether there are any problems with that business. And after you go to that business, you have the opportunity to rate it for the whole rest of the world to know whether it's good or whether there are problems with it. And in this way, Yelp is going to -- has already, I think -- increased the quality of service that you get at places, because they know that they're going to get a bad reputation very quickly as result of this.

And it really has some rather radical implications, because historically, that's like the whole justification for government -- that, we need to protect you from fraud. We need to keep you safe, because, otherwise, it's just not going to happen. For the most part, of course, that was just always wrong, because the market did a better job anyway. But now, here, any argument for that goes away, because we have services like Yelp -- and, of course, many other competing products like that -- that tell us everything we need to know to steer clear of businesses that would do us harm.

And that's also true, going back to Uber and taxis. They used to justify this monopolistic scheme by appealing to safety: well, we have to know who's driving you around and so on, because they could be dangerous people. Now that justification has totally gone away, because people can rate their drivers, and Uber has the incentive to screen out bad drivers.

And so, more and more, I think people are going to realize, government isn't doing anything to make me safer. What's keeping me safer are these services that I use, which are typically free or cost very little, like Yelp, which costs absolutely nothing. And so people are going to start thinking about, why am I sending all of this money to the government, when I'm not really getting anything of value in return. And we can't know what context this is going to arise in, but I imagine there'll be other ways that people get more security out of new technological innovations, new security systems, new apps related to security, where people are just going to question everything. They're going to wonder, what is the government giving me in return for this money. And I think government's going to have to -- as it has in the taxi area -- it's going to have to step back and try to just cling to whatever it still can to have some power and some justification for itself, but it's going to be tough, and people aren't going to automatically accept that government is necessary to do these things for us.

**WOODS:** Before I let you go, Jacob, take one minute to tell us about your book from several years ago, called *Libertarianism Today*, that I think can help take somebody who's just getting started in all this and really ground that person in the origins of these ideas, and what the different ways libertarians deal with different issues are, and what the current controversies are, and so on. Say a little bit about that, if you would.

**HUEBERT:** Sure, so the book is an introduction to libertarianism. It sets out what the basic philosophy is, what the basic idea is -- that government shouldn't interfere with peaceful people as they go about their business. And then it applies that idea in a variety of contexts, from the economy to education to healthcare to drugs and war and foreign policy. It goes through each one of those issues; it shows how libertarian principles apply, and it shows how we've had libertarianism, more or less, in most of these areas in America's history, and things worked fine. The justifications for state interference in these areas were all basically trumped up, and the book gives you details on that. It explains how things were before government got involved, how government got itself involved in these things, and what libertarians are doing to try to get government back out of these areas. So it's good for newcomers, and I think it's also good for people who are basically familiar with libertarian ideas, but who'd like a little more depth on these different areas -- more on the history of the regulation of medicine in America, for examples, or education, or any of these other areas.

**WOODS:** Well, I want people to know that if they want that book, it will be linked on the show notes page, [TomWoods.com/416](http://TomWoods.com/416). So if you're driving around, you don't have to jot down author and title -- just jot down 416, [TomWoods.com/416](http://TomWoods.com/416) -- sorry to interrupt.

**HUEBERT:** That's okay; I was just going to suggest people, if they want it -- it's a little bit expensive on Amazon.com, but it's very cheap from the Mises Institute store. Last I looked, you could get the paperback there for just \$3.95, so really, you can't afford not to buy it if you think you have any interest in this at all.

**WOODS:** Oh wow, okay, yeah, then we'll definitely link there -- in fact, I'll jot that down right now, "Link on Mises store." Yeah, yeah, yeah, of course. Yeah, I mean, I want people to shop on Amazon through my Amazon widget, but not that much. I want them to be able to get your book inexpensively, so of course, we'll send them over there. And if they want to follow your work, is there a website or two that I should direct them to?

**HUEBERT:** Yeah, I have a personal website at [JHHuebert.com](http://JHHuebert.com), and you can also follow my day-to-day work at [LibertyJusticeCenter.org](http://LibertyJusticeCenter.org) -- that's the organization that I work for, doing legal work on behalf of liberty. And my work is also featured a lot at [IllinoisPolicy.org](http://IllinoisPolicy.org).

**WOODS:** Wow, okay, well I didn't know about the work you were doing today. I haven't seen you in quite some time, but it sounds great. I didn't know there was such a thing, and I'm glad to know there is. Well, thanks for chatting with us today. Obviously, given

the work you're doing, there are a variety of topics we could talk about, and so perhaps we can revisit this conversation in the future.

**HUEBERT:** Sounds good to me.