

How Cronyism Created New York City's Taxi Medallion Bubble

If one wanted to study the difference between an industry that exists in a very free market and its exact counterpart in a system of extreme government regulation, then you don't need to look further than the New York City taxi industry. New York City yellow cabs entered government regulation in [1937](#) when city officials decided that something needed to be done about those enterprising people who were buying automobiles and then driving on city streets, charging passengers fares for where they wanted to go.

During that year, the existing taxi drivers were allowed to apply for medallions, licenses from the city that allowed only them to legally operate their single cars as taxicabs. With financing and interest costs plus vehicle maintenance, it is very possible for it to take at least 30 years to make a profit on a car with a medallion.

In that year, 13,585 medallions were created and issued by the city. In the more than 80 years since that event, with a city population increase of more than one million residents, the City of New York now has 13,587 medallions, a grand addition of [two](#).

In 1937, a medallion cost \$10, but 13 years later they were selling for [\\$5,000](#) each because many owners began to view them as a scarce asset. Individual drivers made up the majority of medallion owners in the beginning, but that number began to decrease as small fleets built up their numbers to become medium-sized. Today, very few drivers own the medallions of the cars they drive, with [most leasing](#) them from large fleets for \$100 per 12-hour shift.

The History of Taxi Medallions

In the 2000s, the small fleets merged into larger fleets, and taxi medallions became a highly sought-after asset since there was only a fixed amount of them. In 2013, medallions were selling for as high as [\\$1.3 million](#) at auctions. If someone was able to purchase a medallion in cash, then it would take almost 18 years to make that money back, assuming you were renting the car for \$100 per 12-hour shift twice a day and that the car worked every single day at full capacity during that period.

With financing and interest costs plus vehicle maintenance, it is very possible for it to take at least 30 years to make a profit on a car with a medallion. Most business people see this as a losing idea, but others, like [Gene “The Taxi King” Friedman](#), were drawn to it because having a medallion made you part of a very exclusive and in-demand service. [Only licensed yellow cabs](#) are allowed to pick up the passengers who flag them on the street. For everyone else, it’s illegal. The only other automobile transportation competition for the yellow cabs in Manhattan were black car services, which cost more to use and needed an appointment for booking.

Many drivers prefer Uber and Lyft over the yellow cab system because they can set their own schedule instead of a 12-hour shift.

A taxi medallion was a scarce object that had a history of only increasing over time. And as the medallion owners became wealthier, they became [cozy with local politicians](#) through donations and, “coincidentally,” the subject of issuing new medallions to increase the existing number to satisfy demand never became a big issue in New York. This system existed for more than 70 years, and at its height, it didn’t seem like there would ever be any serious challenge to it.

Medallion owners were blindsided in the 2010s when [innovations](#)

[in technology](#) made their monopoly irrelevant. Cellphone apps like Uber and Lyft made it possible for passengers to use their phones to easily book taxi rides with enterprising drivers using their own cars. Many people prefer Uber and Lyft over the yellow cabs because the cars are nicer, the prices are usually better, and it's often faster to get a car as opposed to standing on the corner and trying to hail a taxi. Many drivers prefer Uber and Lyft over the yellow cab system because they can set their own schedule instead of a 12-hour shift, and in the long-term, having your own car is more cost-efficient than renting a taxi.

Innovation Disrupts

Not surprisingly, this technological innovation in the public transportation market proved to be very disruptive to the taxi industry. In the years following 2013, the asking price for taxi medallion plummeted by more than one million dollars to [now less than \\$250,000](#). Passengers for yellow cabs have also declined because many customers prefer the new alternatives.

This new situation has been a win for consumers and a loss for those who thought the taxi medallion would give them a monopoly on public automobile transportation. As Americans, it's often (and a lot of the times, wrongly) drilled into our heads by progressive educators and politicians that monopolies are bad and hurt consumers. Therefore, it should have been a safe bet that the progressive leaders of New York City would have embraced this new playing field. But unfortunately for consumers, the taxi industry is much closer to the politicians than the constituents are.

The purposeful constriction of supply to increase demand artificially increases the prices for the service at the expense of consumers.

In 2018, New York City put a [temporary freeze](#) on the registration of new ride-hail vehicles with the primary stated

purpose of increasing the de facto wages for the drivers. This purposeful constriction of supply to increase demand ignores the fact that many drivers sign up for these gigs willingly and often choose this line of work because they don't have a better immediate option. It also artificially increases the prices for the service at the expense of consumers. This temporary freeze was extended for 2019, and if past performance in regard to medallion increases since 1937 can be used as future indicators of when this "temporary program" will be halted, then one should not expect it to happen in the near future.

To be fair to the city, another reason they claim to be halting the program is to [limit congestion](#) on New York's often heavily trafficked streets. And while that is a very legitimate concern, these same politicians are [constricting and narrowing existing roads](#) to make bike paths and are also closing down portions of streets to create pedestrian plazas, so if one were really concerned about traffic caused by too many cars and not enough roads, then one would want to stop reducing the number of roads.

Cronyism Is Alive and Well

Congresswoman Alexandria Ocasio-Cortez, the self-proclaimed socialist with an economics degree from the very expensive Boston University, recently [declared](#) that debt-ridden medallion owners deserved a bailout and that their situation is "manufactured financial indentured servitude." AOC, along with eight of her congressional colleagues from New York, is currently calling for "much needed monetary assistance for indebted medallion owner-drivers." What AOC declines to mention is that owner-drivers represent a minority of taxi medallion owners ([less than 20 percent](#)). Nor should one assume it was the independent driver with his own yellow cab who was paying more than a million dollars for medallions so he could slowly pay it back for over 30 years with almost nothing to

show for his efforts.

The vast majority of those who find themselves underwater financially because of the burst of the taxi medallion bubble are the people who created that bubble in the first place. While the value of medallions has plummeted, yellow cab revenues have decreased by only five percent since the introduction of Uber and Lyft.

Large fleet owners like [Gene Friedman](#) (who was also business partners with the notorious Michael Cohen) took over his father's medium-sized taxi fleet of 60 medallions in 1996 at a time when the company was making an annual profit of \$2.5 million. By 2012, he increased that fleet to over 800 medallions and had a profit of \$120 million. In 2015, he bragged about having more than 1,100 medallions. Many of those medallions were bought with loans that used the other medallions as collateral. In 2015, Friedman's business accomplished another milestone when he filed for bankruptcy on a \$46 million loan with Citibank.

Friedman is the face of the taxi medallion bubble, and while his business is hurting, it's still there and still brings in cash. While the value of medallions has plummeted, yellow cab revenues have decreased by [only five percent](#) since the introduction of Uber and Lyft. But Friedman believes that he and the other medallion owners who bet big deserve a government bailout because their medallion asset was supposed to be a government guarantee against outside competition. While the general public might have little sympathy toward that position, New York City politicians seem to have an open ear and understanding, proving that in New York, cronyism is alive and well.

—

This article was originally published on [FEE.org](#). Read the [original article](#).

[image Credit: Pixabay] 